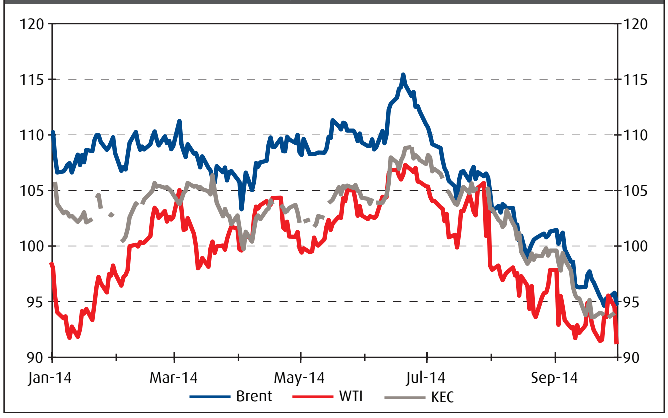
October 2014

Kuwait's budget surplus rises in FY13/14... KSE bounces back in 3Q14... Inflationary pressures ease further

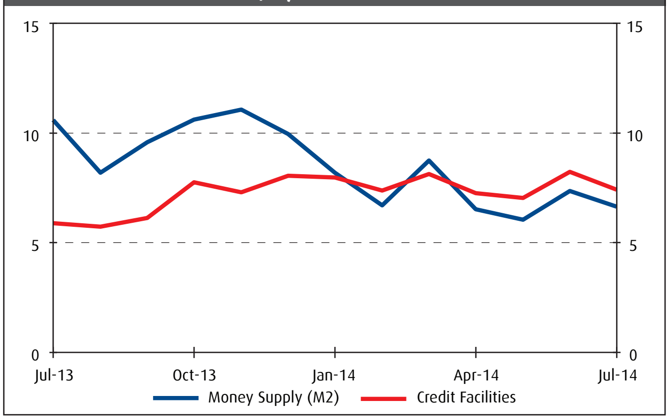
An update of recent developments in select sectors in Kuwait published by Economic Research at NBK

Kuwait **Economic** Brief

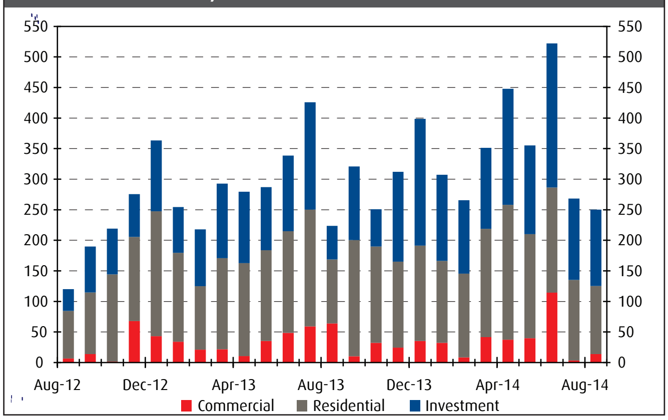
CRUDE OIL SPOT PRICES, $/BBL



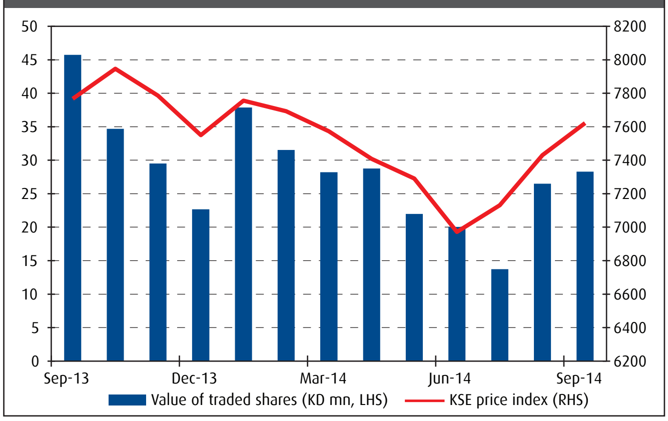
MONETARY INDICATORS, Y/Y PERCENT GROWTH



REAL ESTATE SALES, KD MN



KUWAIT STOCK EXCHANGE



Oil Markets

Oil prices remain below $100 on weaker demand and ample supply

- Oil prices continued to fall in September, with Brent and WTI dropping by more than 6.5% during the month to close at $94.8 per barrel (bbl) and $91.2/bbl, respectively.
- The IEA has once again revised down its estimate for world oil demand growth in 2014 and 2015, to 0.9 million barrels per day (mb/d) and 1.2 mb/d, respectively.
- Total OPEC crude output (including Iraq) dropped in August, led by a cut of 0.4 mb/d by swing-producer Saudi Arabia.
- The "call on OPEC crude and stock change" for 2015 has been lowered by 0.3 mb/d to reflect weaker projected oil demand growth and increased supply from non-OPEC countries.

Crude oil price movements

International oil prices declined further in September, with benchmark crudes Brent and West Texas Intermediate (WTI) dropping by the end of the month to $94.8/bbl and $91.2/bbl, respectively—declines of more than 6.5% m/m (month-on-month). Kuwait Export Crude (KEC) closed at $94.6/bbl, also down by a similar amount.

Since peaking in June at $115/bbl when the threat to Iraqi oil supplies from the IS insurgency seemed most acute, Brent has fallen by more than $20/bbl to a low last seen in July 2012. In the absence of a material impact on crude supplies by geopolitical events in Iraq and Ukraine, for example, the decline in oil prices has largely been attributed to weaker-than-expected demand in Europe and China coupled with excess supplies in the North Sea and Atlantic basin. These excess supplies are partly a result of increased Libyan output, an overhang of West African crude and burgeoning US production. Moreover, a strengthening US dollar has also exerted some downward pressure on oil and commodity markets more generally, which have dropped to their lowest level since the financial crisis. A stronger US dollar makes oil (which is priced in dollars) more expensive for buyers using other currencies. These signals have been picked up by investors as they rebalance their portfolios at the end of the quarter.

In the oil futures market, the price of ICE Brent crude remained in contango for the third straight month, with the spot price trading at a discount to the futures price. The price structure has stimulated oil market participants to shift greater quantities of crude into storage.

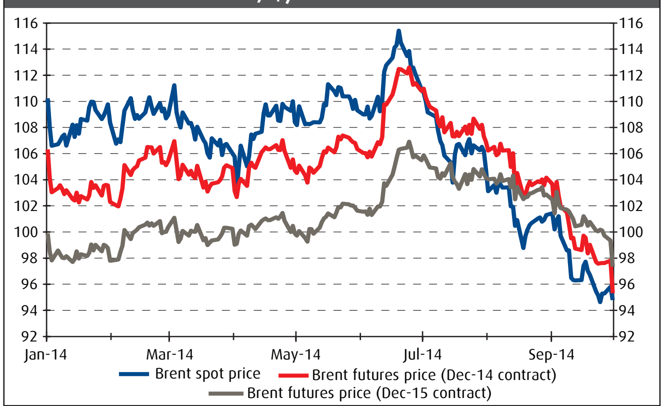
World oil demand outlook

The International Energy Agency (IEA) has once again revised down its estimate of global oil demand growth in 2014 and 2015, to 0.9 mb/d and 1.2 mb/d, respectively. Projected demand growth this year will be the weakest since 2011. Total global oil demand is thus set to rise to 92.6 mb/d in 2014 and 93.8 mb/d in 2015. Much of the impetus for the lower growth projection has come from weaker-than-expected oil delivery data in 2Q14 and from a reassessment of demand to the downside from the Eurozone and China. This situation sits in contrast with a rather more robust outlook for US oil demand. There, seasonally higher gasoline usage has supported oil demand in recent weeks. A more positive US macroeconomic environment could see demand pick up further in 2015 even if the IEA is forecasting an overall contraction of 0.1 mb/d in OECD demand next year. In contrast, the non-OECD economies are expected to account for all the projected increase in global demand next year.

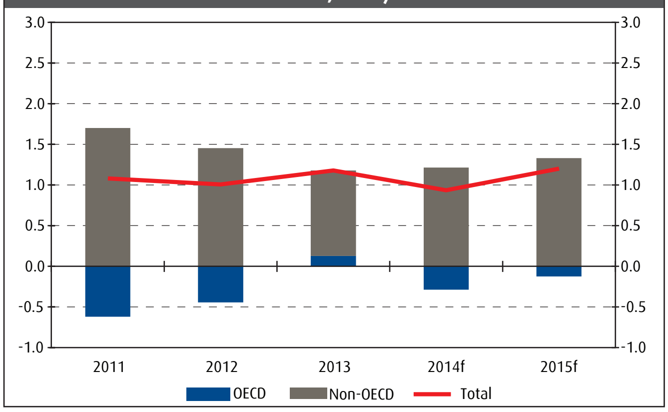
World oil supply outlook

Total OPEC crude output in August declined by 0.75 mb/d to 30.2 mb/d according to OPEC production data obtained through direct communication with national sources.* Saudi Arabia cut production by 0.41 mb/d to 9.6 mb/d during the month—the largest monthly drop in 20 months—as the OPEC swing producer responded to lower demand. Nevertheless, the move is being seen by many as the first of perhaps several cuts that OPEC may be contemplating in order to sustain international oil prices close to $100/bbl. Saudi Arabia also cut the official selling price of its benchmark Arab Light for its Asian customers by $1.7/bbl, apparently in a bid to protect market share in the face of increased competition from West African and North Sea crudes.

BRENT FUTURES PRICES, $/BBL



WORLD OIL DEMAND GROWTH, % Y/Y



While not enough to offset the cut in Saudi Arabian output, production increases were reported almost across the board, however, with Nigeria, Kuwait, the UAE and Iraq recording the largest output gains. Kuwait ramped up production by 30,000 b/d in August to 2.88 mb/d. The country has just secured additional oil sales of 170,000 b/d to China's Unipec over a ten year period and a new contract with Philippine refiner Petron in which it will supply 65,000 b/d of crude in 2015.

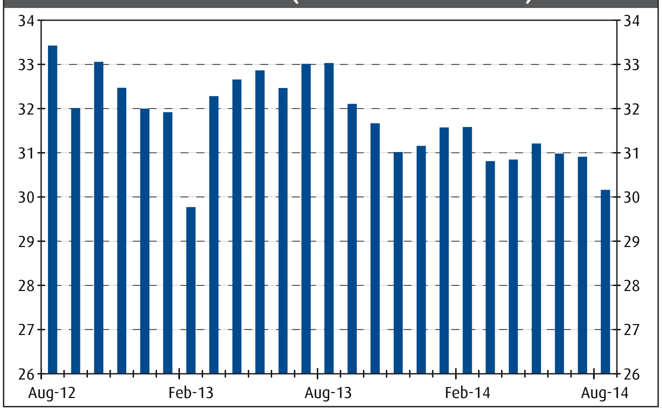
Iraqi production has remained consistently above 3.0 mb/d despite the conflict raging with IS in the north of the country. OPEC data from secondary sources also pointed to continued increases in Libyan output in August in spite of a highly volatile political and security situation.

Non-OPEC supply, meanwhile, fell by 0.27 mb/d in August to 56.2 mb/d according to the IEA. Planned summer maintenance in the North Sea and Alaska along with a decline in production in Malaysia was largely responsible for the overall drop. Preliminary estimates from JODI show total US crude production in July was steady at 8.5 mb/d for the second month in a row and up by more than 1.0 mb/d y/y on the back of surging output from shale/tight oil fields. Indeed, the US is expected to overtake Saudi Arabia in the next month or so as the world's leading petroleum liquids producer.

According to the IEA, total world supplies were down by 0.4 mb/d in August, but still up by 0.81 mb/d compared to last year largely due to increases in non-OPEC production. The IEA expects non-OPEC supply to expand by 1.3 mb/d in 2015 to reach 57.6 mb/d. This, coupled with an expected softening in world oil demand next year, has led to a reduction in the 'call on OPEC crude and stock change' by 0.3 mb/d to 29.6 mb/d in 2015.

**In the absence of crude output data for Venezuela based on direct communication, production data based on secondary sources has been used in aggregating total OPEC output this month. In actuality, total OPEC crude output for August is likely to be greater than stated above once Venezuelan crude production is reported from primary sources.*

OPEC CRUDE PRODUCTION (MN BARRELS PER DAY)



Consumer Price Inflation

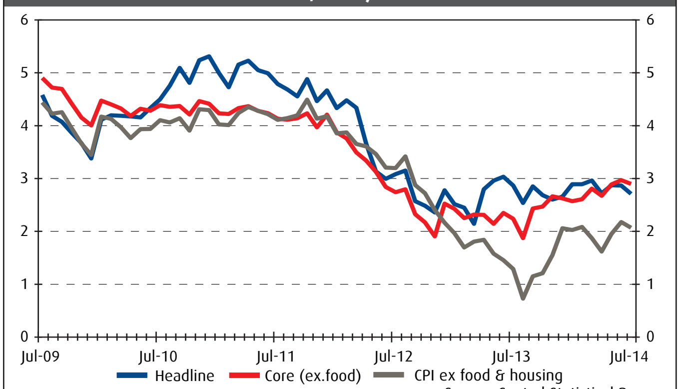
CPI inflation eases to 2.7% in July; little upward pressure
Inflation in the consumer price index (CPI) eased from 2.9% year-on-year in June, to 2.7% y/y in July, amid a slowdown across most sectors. Core inflation has outstripped the headline inflation rate for three months now on housing price pressures. Higher international food prices are expected to apply some upward pressure on the overall inflation rate later this year. However, the ongoing softening in some components, particularly in the clothing and furnishing sectors, will help keep any significant rises at bay. Headline inflation is projected to log in an average of 3.0% for this year.

Food price inflation maintained its downward trend in July, edging down from 2.5% y/y in June to 2.0% y/y in July. Food price inflation has so far logged in an average rate of 3.1% y/y, since the beginning of this year. This rate is comparatively lower than the 4.3% y/y average that was witnessed during the same period last year. The relatively lower international food prices played a significant role in keeping local food inflation more subdued this year. Stricter price controls during Ramadan (June – July), when prices typically jump, may have also played a role in keeping local food inflation down. However, local food price inflation is set to reverse its downward trend later this year, on the back of higher international food prices.

Inflation in housing services appears to be stabilizing. This will help keep core inflation and thereby headline inflation at ease. Changes in the housing component are only tallied once every three months. In the most recent update, inflation in housing services edged down slightly to 4.4% y/y. Apart from the short lived dip between December 2013 and February of this year, housing services inflation has remained range bound between 4% and 5% y/y since June 2013. It is projected to stabilize within this range at least until the end of this year.

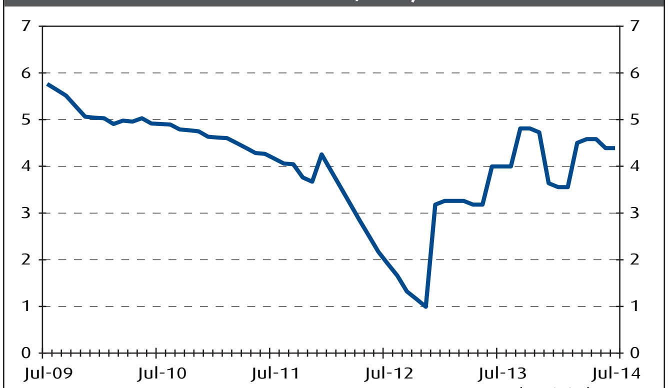
Stabilization in the housing component will keep upward pressures in the furnishings & household maintenance sector at bay. The furnishings component has logged in an average inflation rate of 5.0% y/y since the start of this year; this is double the rate that was seen during the same period last year. However, upward inflationary pressures from the furnishings sector appear to have subsided recently, amidst some stability in the housing services sector. Inflation in the furnishings sector continued to ease in July, and currently stands at 4.3% y/y. The clothing & footwear component also continued its downward trend, slowing down from 3.0% y/y in June to 2.2% y/y in July. Inflation in the restaurants and hotels segment remained at 2.5% little affected by Ramadan and the Eid holiday.

CONSUMER PRICE INFLATION, % Y/Y



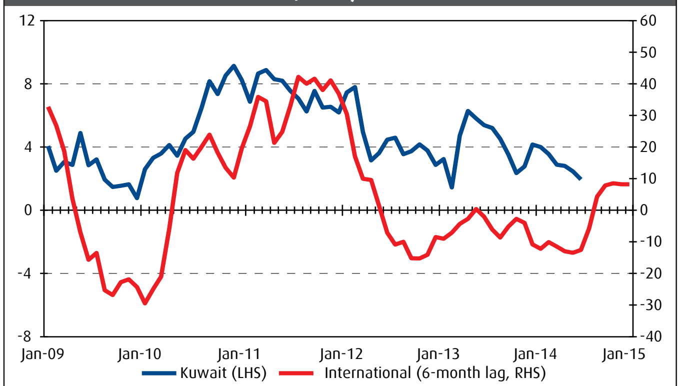
Source: Central Statistical Bureau

INFLATION IN HOUSING SERVICES, % Y/Y



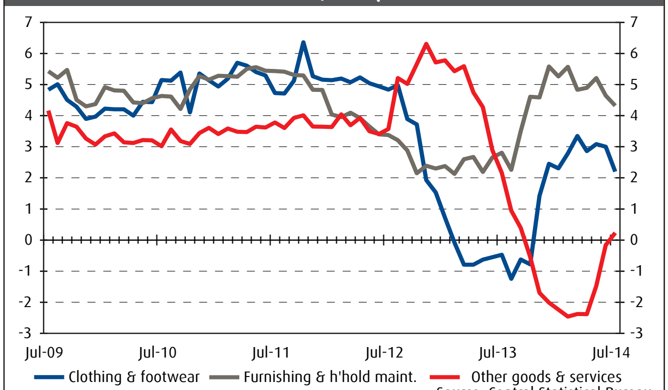
Source: Central Statistical Bureau

INFLATION IN FOOD PRICES, % Y/Y



Source: Central Statistical Bureau / Commodity Reseach Bureau

INFLATION IN OTHER SECTORS, % Y/Y



Source: Central Statistical Bureau

CONSUMER PRICE INFLATION, 2014

CPI basket (%)	weight	Month Change		Year-on-year		Annual Avg.	
	%	Jun-14	Jul-14	Jun-14	Jul-14	2012	2013
Food & beverages	18.4	-0.3	0.0	2.5	2.0	4.8	4.0
Tobacco & cigarettes	0.3	5.8	4.8	6.8	12.6	6.6	7.1
Clothing & footwear	9.3	0.2	-0.4	3.0	2.2	4.3	-0.1
Housing services	28.9	0.6	0.0	4.4	4.4	2.4	3.8
Furnishing & h'hold maint.	11.3	0.1	0.1	4.6	4.3	3.3	3.2
Health	1.6	0.0	0.0	-1.3	-1.2	3.4	1.2
Transport	7.9	0.2	0.2	1.5	1.6	2.6	1.3
Communication	4.0	0.0	-0.1	-0.9	-1.0	0.1	0.0
Recreation & culture	4.3	0.1	0.2	0.5	0.5	2.9	1.9
Education	3.0	0.8	0.0	4.2	4.2	1.6	0.8
Restaurants & hotels	3.3	0.3	0.0	2.5	2.5	2.9	0.5
Misc. goods & serv.	7.8	0.2	0.1	-0.2	0.2	4.5	2.3
Core*	**81.6**	**0.4**	**0.0**	**3.0**	**2.9**	**2.9**	**2.3**
General Index	**100.0**	**0.2**	**0.0**	**2.9**	**2.7**	**3.3**	**2.7**

Source: Central Statistical Bureau/NBK
*Excludes food & beverages

Public Finance

FY13/14 budget surplus rose to 26% of GDP; seen at 20% in FY14/15

The closing public finance figures for fiscal year 2013/14 revealed a bigger than expected decline in government spending. The decrease was visible in both current and capital spending. Declines, however, particularly in current spending, were primarily in categories which have little or no impact on the domestic economy. In fact, we estimate that demand-impacting spending was up around 2.1% during the fiscal year (i.e. spending that creates demand as opposed to transfer payments).

This 15th consecutive budget surplus for Kuwait came with revenues at 176% of budgeted while the state spent 90% of its budget in 2013/14.

Planned expenditure was to decline by 1.1% year-on-year (y/y) in FY13/14 (which ended in March 2014) according to the official budget, to KD 21.0 billion. However, actual expenditure fell by 2.1% y/y, to KD 18.9 billion, driven by declines in both current and capital spending.

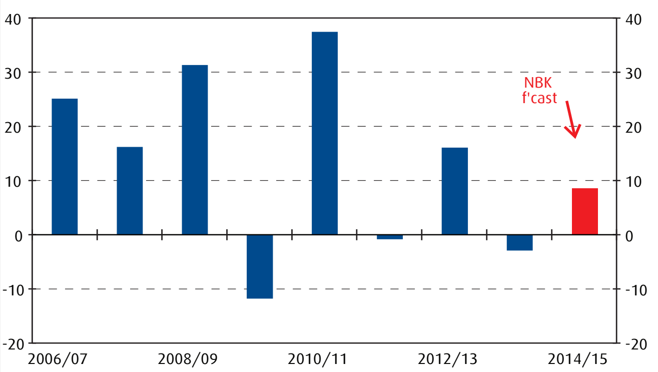
Current spending decreased by 1.9% y/y to KD 17.2 billion which was 87% of the budgeted amount. The fall was largely due to an 11.6% y/y decline in spending on goods and services (Chapter 2), as a result of lower fuel costs. Goods and services accounted for around 19% of current spending. The amount spent on "miscellaneous & transfers", which among other things is comprised of military salaries, transfers to the social security fund, fuel subsidies and transfers abroad, also witnessed a decline, decreasing by 1.3% y/y.

Wages and salaries expenditure continued to grow, but at a more moderate pace of 4.3% y/y. This is its slowest rate in over a decade. Wages and salaries account for 28% of current spending as a whole, and are deemed to have direct bearing on the macro economy as they help to support the consumer sector. A broader measure of wage-related expenditure (which includes miscellaneous subsidies and transfers) and makes up nearly half of total spending, came in little changed on the previous fiscal year at –0.3% y/y. As well as including the wages & salaries segment, this measure also includes transfers to the defence sector, Public Institution for Social Security (PIFSS) and for training.

On-budget capital expenditure continued to decline, decreasing by 3.9% y/y to KD 1.7 billion. The decline was mostly led by a 7.3% y/y fall in the projects, maintenance & land purchases segment (the bulk of the capital expenditure component). Transport and equipment expenditure, the other smaller segment of capital spending, rose by 32% y/y.

The decrease in the projects segment may partly be due to the slow progress seen on the government's previous development plan (FY10/11-13/14). We expect to see some improvement within the coming years as the new five-year

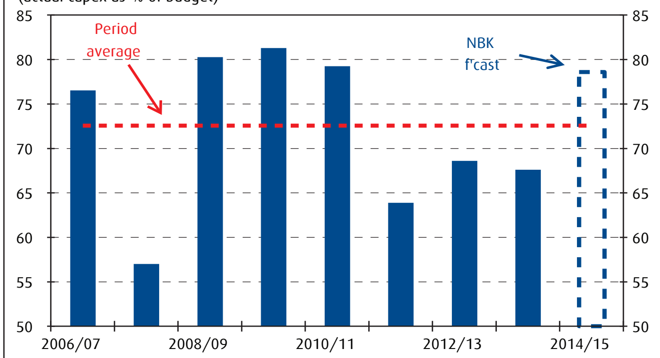
ACTUAL GOVT SPENDING, %Y/Y, EXC. TRANSFERS TO PIFSS



Source: MInistry of Finance / NBK

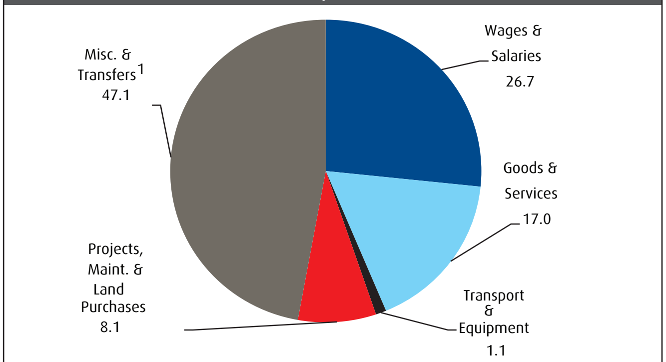
ACTUAL VS. TARGETED CAPITAL SPENDING

(actual capex as % of budget)



Source: Ministry of Finance / NBK

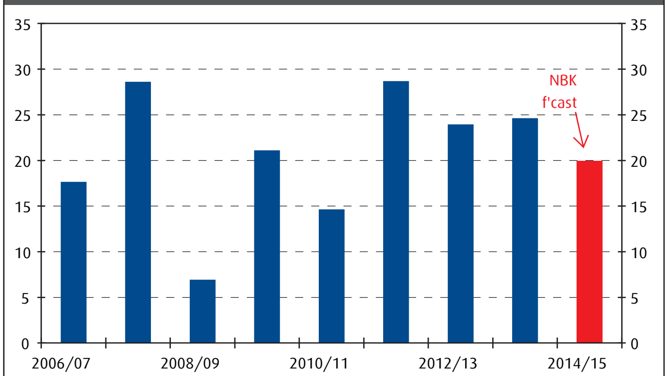
SPENDING BREAKDOWN FY13/14, % of TOTAL SPENDING



[1] Includes transfers to PIFSS, military salaries, fuel subsidies, transfers overseas and other items.

Source: Ministry of Finance/NBK

BUDGET BALANCE, % GDP



Source: Ministry of Finance / NBK

development plan for FY15/16-19/20 gets underway. Still, spending for many of the planned and recently awarded projects will appear off-budget, as those would be public-private partnerships (PPPs) or oil-related infrastructure (on the books of the autonomous oil state companies).

Government revenues declined by about 0.6% y/y to KD 31.8 billion following a very strong year. This was a result of lower oil revenues, which declined by 2.3% to KD 29.3 billion, which was in turn due to a lower average oil price during the year. Kuwait's crude price averaged $103 per barrel, down 3.0% from the prior year. By contrast, oil production remained largely unchanged at an average of 2.9 million barrels per day.

Non-oil revenues continued to see healthy growth supported by a growing economy and a vibrant real estate sector. Non-oil revenues rose by 24% y/y to KD 2.5 billion. The rise in non-oil revenues was predominantly driven by a sharp rebound in income tax revenues and visa registration fees. Significant gains were also seen in property fees (transfer of title fees), amid increased activity in the housing sector. Miscellaneous revenues and fees (which includes UNCC payments and non-cash revenues) also jumped during the year.

With spending down and revenues seeing only a slight decline, the budget saw its surplus widen to KD 12.9 billion. This is equivalent to a robust 26% of 2013 GDP. The budget surplus is expected to shrink to a still strong 20% in FY14/15 amidst projected growth of 7.8% y/y in total expenditure, and a 4.6% y/y decline in revenues.

GOVERNMENT REVENUES AND EXPENDITURES

	Actual			Forecasts FY14/15		
	FY12/13	FY13/14		Gov budget	NBK	
	KD bn	KD bn	% y/y	KD bn	KD bn	% y/y[2]
Revenues	**32.0**	**31.8**	**-0.6**	**20.1**	**30.3**	**-4.6**
Oil	30.0	29.3	-2.3	18.8	27.9	-4.8
Non-oil	2.0	2.5	23.6	1.3	2.5	-2.1
Expenditures	**19.3**	**18.9**	**-2.1**	**21.7**	**20.4**	**7.8**
Wages	4.8	5.0	4.3	5.6	5.3	5.3
Goods & services	3.6	3.2	-11.6	3.9	3.7	15.6
Vehicles & equipment	0.2	0.2	31.9	0.3	0.2	-3.2
Projects, maint. & land	1.7	1.5	-7.3	1.8	1.4	-8.1
Miscellaneious & tranfers	9.0	8.9	-1.3	10.1	9.7	9.3
Balance	**12.7**	**12.9**	**-**	**-1.6**	**10.0**	**-**
After RFFG	4.7	5.0	-	-6.6	2.4	-
Note:						
Current expenditures[1]	17.5	17.2	-1.9	19.6	18.8	9.3
Capital expenditures	1.8	1.7	-3.9	2.0	1.6	-7.5
Oil production (mbpd)	2.9	2.9	0.0	2.7	2.8	-2.0
Oil prices ($/bbl, KEC)	106.4	103.4	-3.0	75.0	100.0	-3.2

Source: Ministry of Finance / NBK

[1] Includes the wages & salaries, goods & services, and miscellaneous & transferes categories

[2] Change versus actual figures for FY13/14

Monetary Developments

Credit growth off on declines in securities and real estate lending

Credit growth weakened in July following a particularly strong showing the prior month. While household credit was weaker due to seasonal factors, credit to non-financial businesses was the main reason behind loan growth weakness. Still, we expect credit growth to strengthen during the remaining months of 2014, and clock in an average rate upwards of 8% for the year. Meanwhile, large seasonal sight deposit withdrawals saw the monetary supply contract. Interest rates remained stable.

Credit growth slowed in July as total credit shrank during the month. Year-on-year (y/y) growth slowed to 7.4% following a strong month in June. Credit dropped by KD 218 million during the month, the largest decline in over four years. Household credit growth was on the weaker side, but the weakness came largely from lending for the purchase of securities and the real estate sector.

Household debt was weaker than usual, though this may have been due to reduced activity in Ramadan and the Eid holidays. Personal facilities ex-securities were up only KD 59 million, as y/y growth easing to 12.7%. Some of the weakness is due to the settlement of Family Fund loans, which may be taking around two percentage points off y/y growth, and possibly compounded by seasonal factors.

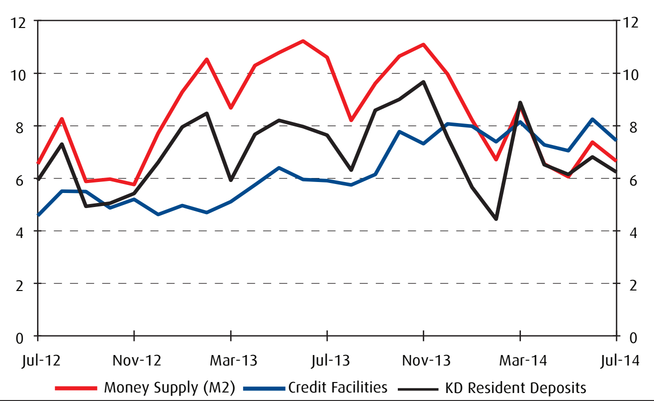
Credit to non-bank financials declined in July, with the sector continuing to see a cycle of deleveraging. Sector credit shrank by KD 30 million. The deleveraging has seen total credit drop by 15.6% over the last 12 months. We can expect non-banks financials to see further declines in credit in the coming year or so, particularly as investment companies reduce their debt levels further.

Most of the weakness in the month was in non-financial business credit. This fell by KD 247 million, with growth slowing to 7.3% y/y. The drop in credit was largely in loans for the purchase of securities (-KD 201 million), the real estate sector (-KD 46 million) and "other" sectors (-KD 56 million); some of these reversed large increases the month before. Trade, industry, construction and oil & gas all saw positive growth in July.

Money supply growth eased in July as private deposits saw large seasonal declines. M2 was off by KD 769 million, as July coincided with Ramadan and the Eid holidays this year, slowing growth to 6.6% y/y. KD site deposits decreased by KD 520 million and foreign currency deposits were off by KD 250 million. Growth in the narrower measure of money supply, M1, also eased to 17.7%. Government deposits were also down by KD 141 million in July.

Average customer deposit rates on dinar time deposits remained mostly unchanged in July. The average rate on the 12-month time deposits rose a basis point to 1.19%, while average rates on the 3-month, 6-month, and 9-month time deposits were unchanged at 0.59%, 0.78%, and 0.98%. KD interbank rates edged higher, with the 1-month KIBOR offer rate up by 2 points to reach 0.99%.

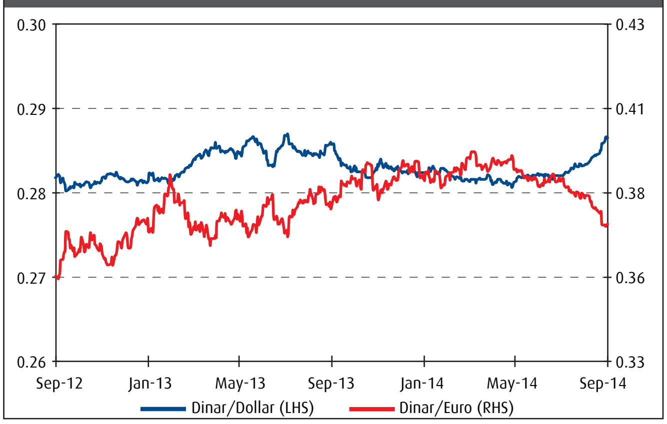
MONETARY INDICATORS, % Y/Y GROWTH



MONETARY HIGHLIGHTS, JULY 2014

	July 2014	Change mom	Change 3-mnth	Change yoy
	mn KD	%	%	%
Local Bank Assets	54,287	-1.1	0.1	9.8
of which:				
Claims on Government	1,563	0.0	0.5	7.2
Credit to Residents	30,015	-0.7	1.8	7.4
Foreign Assets	11,276	-1.2	0.3	15.2
Money Supply (M2)	33,651	-1.9	0.6	6.6
Private Deposits	31,643	-2.4	-1.0	5.3
KD Sight Deposits	7,565	-6.4	-3.5	14.3
KD Savings Deposits	4,972	0.0	3.4	6.0
KD Time Deposits & CDs	16,312	0.0	0.8	2.9
FC Deposits	2,794	-8.2	-11.3	-3.1

EXCHANGE RATES



Real Estate

Real estate activity in August muted due to seasonal lull

Real estate sales declined for the second month in a row, to level at KD 250 million in August, a drop of 6.7% month-on-month (m/m). Real estate activity is traditionally muted in August when much of the country takes its annual summer vacation. The declines came after a record June, and August sales were still up by 12% year-on-year (y/y).

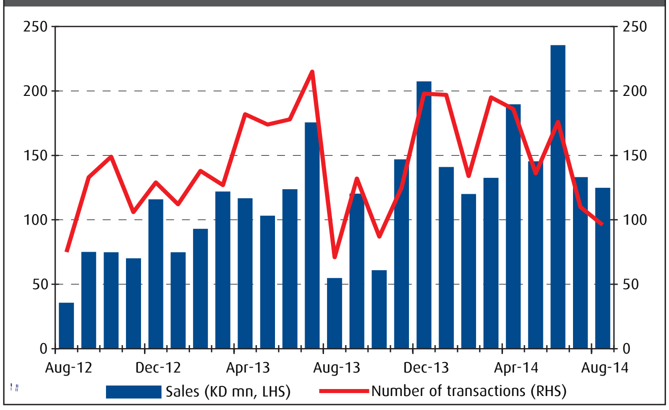
Sales in the residential sector totalled KD 112 million in August, an increase of 6.5% y/y. The number of transactions during the month dropped by 2% y/y, to 511. The average transaction size increased by 8% y/y to KD 218,000. However, it is interesting to note that for the last four consecutive months, the average transaction value (per m^2) for plots of land has shown a decline. This is not an indication of softer prices (the charts do not represent a price index) but rather a reflection of the fact that, in recent months, plot transactions have been heavily dominated by sales in the Sabah Al-Ahmad area (over 50% of August plot sales). In that area, prices are well below other regions and have thus pulled the overall average down over the last 3 months.

Residential activity was heaviest in the Ahmadi governorate, which, with 363 transactions, accounted for 71% of all residential transactions in Kuwait during August. The Mubarak Al-Kabeer and Hawalli governorates each accounted for 8% of all transactions, while the Jahra governorate witnessed 6%. In the residential sector, 74% of all transactions involved the purchase and sale of land or vacant plots.

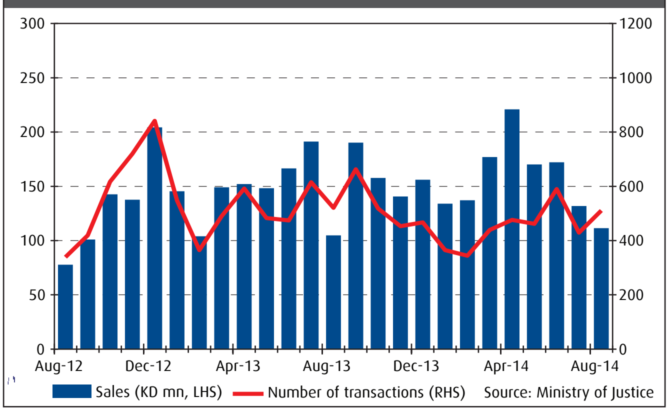
Meanwhile, sales in the investment sector stood at approximately KD 125 million in August, more than double the value of sales in August 2013. 96 transactions took place during the month, an increase of 35% y/y. The average transaction size also increased to KD 1.3 million.

In the investment sector, apartments accounted for 42% of all transactions. Whole buildings followed, comprising 26% of all transactions. The Ahmadi governorate once again recorded the bulk of activity. The largest transaction, however, involved the sale of a plot for KD 15 million in

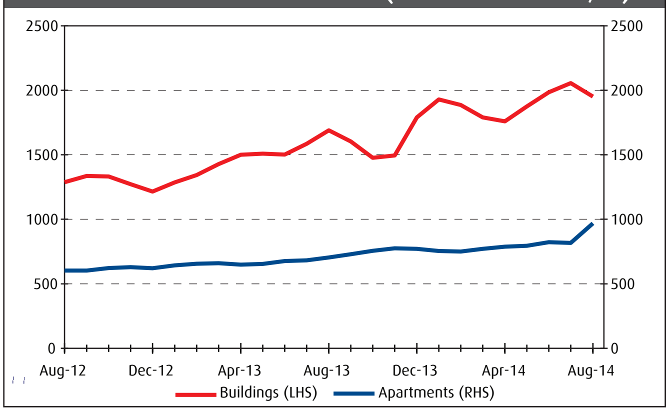
INVESTMENT REAL ESTATE



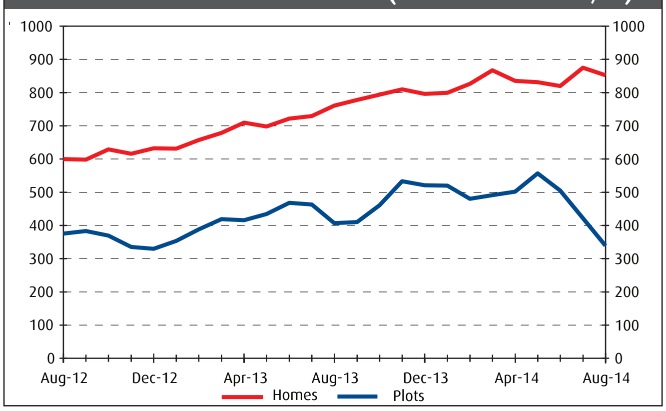
RESIDENTIAL REAL ESTATE



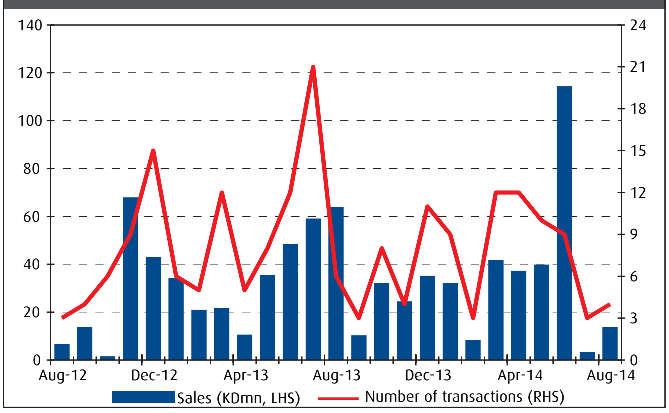
INVESTMENT TRANSACTION VALUES (3-MTH MOVING AVG. KD/M^2)



RESIDENTIAL TRANSACTION VALUES (3-MTH MOVING AVG. KD/M^2)



COMMERCIAL REAL ESTATE



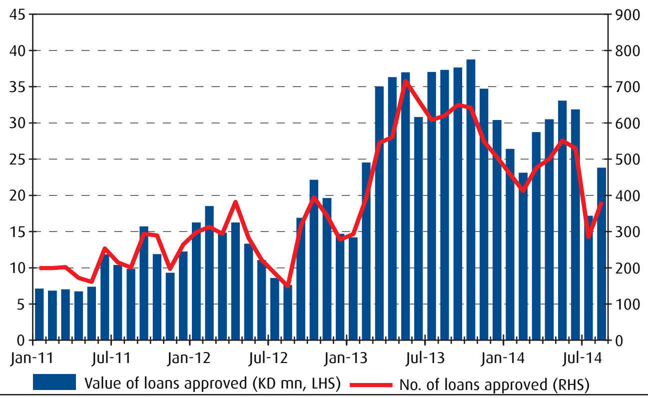
Kuwait City. Transactions involving vacant plots accounted for 25%.

Sales in the commercial sector were up to KD 14 million from KD 3.4 million in July. Sales were down by 78% y/y, however. Only four transactions were recorded during the month, two of which were over KD 4 million. Sales in this sector are fairly volatile from month to month.

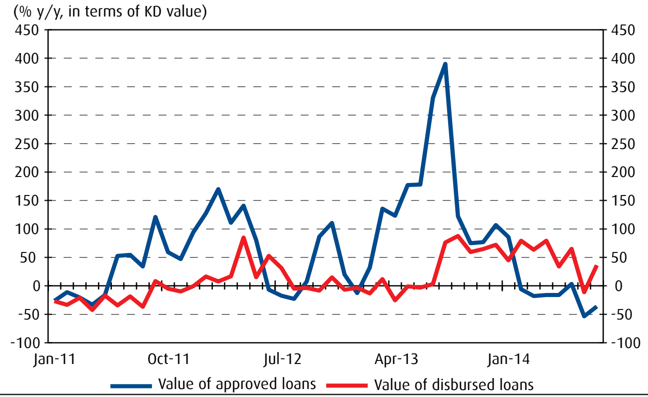
August also saw one 'Handcraft' transaction and one 'Showroom' transaction with a combined value of KD 2.2 million. Both properties were located in the Mubarak Al-Kabeer governorate. These transactions tend to be infrequent as they are uniquely classified and of high value.

The Kuwait Credit Bank (KCB) approved 382 loans worth approximately KD 23 million in August.

KUWAIT CREDIT BANK LOAN APPROVALS



KCB LOAN APPROVALS & DISBURSEMENTS



REAL ESTATE SALES & KCB HOUSING LOANS

Real estate sales	Monthly Avg. 2012	Monthly Avg. 2013	June 2014	July 2014	Aug 2014	m/m %	y/y %
Sales values (KD mn)	**261.6**	**308.8**	**522.2**	**268.3**	**250.3**	**-6.7**	**12.0**
Residential property	144.8	153.7	172.2	131.8	111.5	-15.4	6.5
Investment	95.8	118.4	235.6	133.1	124.9	-6.2	127.9
Commercial	21.0	36.7	114.4	3.4	13.9	309.5	-78.3
Number of transactions	**796**	**689**	**775**	**542**	**611**	**12.7**	**2.2**
Residential property	657	527	590	429	511	19.1	-1.9
Investment	133	147	176	110	96	-12.7	35.2
Commercial	6	15	9	3	4	33.3	-33.3
Average transaction value (000 KD)	**329.0**	**450.6**	**673.8**	**495.0**	**409.6**	**-17.2**	**9.6**
Residential property	223.6	293.5	291.9	307.2	218.2	-29.0	8.5
Investment	718.5	806.7	1338.9	1210.0	1318.4	-9.0	70.8
Commercial	3110.0	4,259.2	12706.3	1129.3	3468.8	207.2	-67.5

KCB housing loans	Monthly Avg. 2012	Monthly Avg. 2013	June 2014	July 2014	Aug 2014	m/m %	y/y %
Value of approved loans (KD mn)	**15.5**	**32.6**	**31.9**	**17.2**	**23.8**	**38.6**	**-36.2**
New construction	9.9	27.6	25.8	13.4	20.0	49.4	-37.8
Purchase of existing homes	4.0	3.6	5.1	2.4	2.6	5.8	-1.8
Additions & renovations	1.6	1.7	1.0	1.4	1.3	-8.0	-51.1
Number of approved loans	**297.8**	**544.4**	**530**	**285**	**382**	**34.0**	**-38.4**
New construction	146.8	400.5	377	193	293	51.8	-36.9
Purchase of existing homes	76.8	57.8	77	46	43	-6.5	-2.3
Additions & renovations	74.2	103.8	76	46	46	0	-58.9
Value of disbursed loans (KD mn)	**10.2**	**11.6**	**19.6**	**10.3**	**14.1**	**37.6**	**36.2**
New construction	5.3	7.8	14.7	6.6	11.3	71.5	102.4
Purchase of existing homes	3.2	2.5	3.5	2.8	2.5	-12.8	-17.8
Additions & renovations	1.8	1.5	1.4	0.8	0.3	-61.3	-81.9

Note: Coastal Line transactions have been excluded from table

Source: Ministry of Justice / Kuwait Credit Bank / NBK

Kuwait Stock Exchange

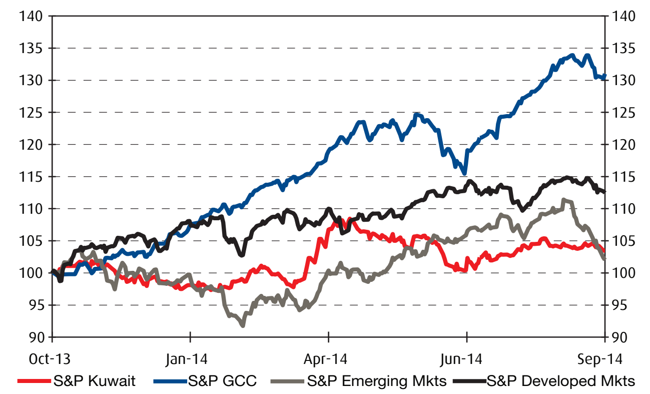
KSE gains in 3Q14, reversing 2Q14 weakness

Kuwait's bourse snapped back in 3Q14 as regional tensions receded, reported corporate results were healthier and the economic outlook remained positive. This followed a turbulent 2Q14 which saw the KSE and regional stock markets lose ground. The value-weighted KSE index increased by 5.3% during the quarter as the market saw investor confidence return. The price index rose by 9.3% reflecting the stronger showing by smaller cap stocks. Market capitalization added KD 1.8 billion in 3Q14, offsetting losses in the previous quarter, to reach KD 33 billion. Trading activity was also up during the quarter.

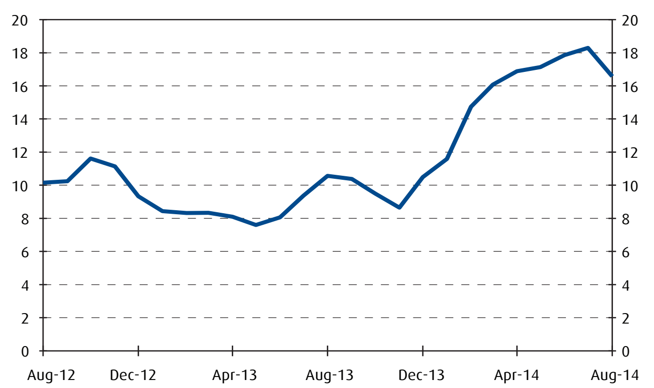
The stock market rebounded healthily during the third quarter, following its correction in June. A strong pick up in trading activity, encouraged by solid domestic and regional fundamentals, coupled with robust first half earnings, saw the weighted index rise to 494.4, registering year-on-year (y/y) growth of 6.8% and 9.2% year-to-date (ytd). Despite the strong performance of the price index, that better reflects smaller capitalization stocks, it was still down y/y by 1.9% and recorded a smaller 1% ytd gain.

Investor sentiment, which has benefited from a more positive outlook in 2014, was further bolstered by easing of geopolitical risks in 3Q14 and improved corporate earnings. The receding of uncertainty regarding Iraq's government and the international agreement on confronting the new security threats in Iraq and Syria, have calmed investors in the region, including in Kuwait. Meanwhile, Kuwait's growth is still expected to maintain a solid, even accelerating,

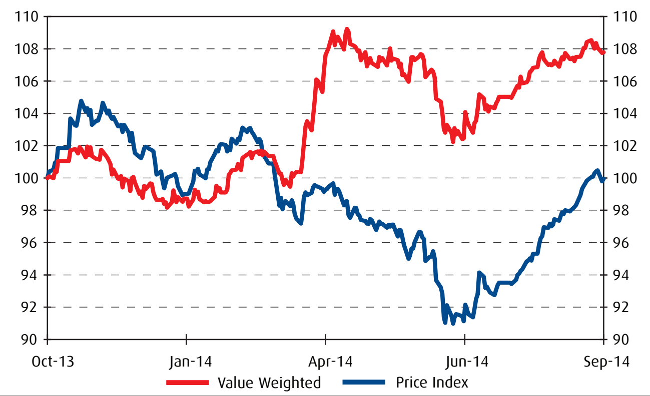
REGIONAL MARKETS REBASED PERFORMANCE



FOREIGN BUYERS, % Y/Y (3MMA)



KSE REBASED PERFORMANCE



KSE PERFORMANCE BY SECTOR, SEPTEMBER 2014

	Price-Index	Weighted Index	% Change Price Index		% Change Weighted Index		Market Cap. (million KD)	% of Market	Trading Activity (daily average)		Price to Earnings*
	30-Sept-14	30-Sept-14	m/m	YTD	m/m	YTD	30-Sept-14	m/m	mn shares	mn KD	30-Sept-14
KSE	**7,622**	**494**	**2.4**	**1.0**	**0.5**	**9.2**	**33,044**	**100.0**	**278.9**	**28.3**	**20.3**
Banks	1,131	570	1.8	5.5	0.3	11.4	16,003	48.4	20.9	6.4	22.1
Basic Materials	1,268	715	-1.3	9.3	-1.0	20.0	789	2.4	0.4	0.2	13.1
Consumer Goods	1,351	1,095	1.0	9.3	-1.8	23.0	1,345	4.1	3.0	0.4	22.8
Consumer Services	1,225	543	3.9	9.4	2.3	-1.2	889	2.7	3.3	0.5	16.8
Financial Services	1,074	639	3.8	-2.8	0.9	8.3	3,625	11.0	153.3	9.8	47.5
Healthcare	1,056	522	1.0	0.2	0.6	-3.4	202	0.6	0.1	0.0	24.9
Industrials	1,201	654	2.5	3.5	0.7	13.5	3,077	9.3	24.9	3.9	19.6
Insurance	1,218	606	0.6	7.8	0.0	10.2	356	1.1	0.4	0.0	11.8
Oil & Gas	1,247	561	-2.3	7.6	-1.6	8.6	442	1.3	4.7	0.5	12.6
Real Estate	1,297	653	2.3	-5.4	1.7	1.2	2,574	7.8	61.5	5.3	16.2
Technology	1,001	464	-0.1	-1.8	2.0	-4.7	62	0.2	2.6	0.2	-9.6
Telecommunications	775	470	1.2	-7.6	0.9	0.8	3,678	11.1	3.9	1.1	12.9
Parallel	1,326	493	1.1	0.6	1.0	-0.3	...	...	...	...	...
Investment Ins.	...	...	...	...	...	...	...	...	...	...	...
Utilities	...	...	...	...	...	...	...	...	...	...	...

Source: Kuwait Stock Exchange and Thomson Reuters
* PE is calculated using market cap as of month close and 12 months trailing earnings.

trend thanks to the government's spending plans and the implementation of the new 5-year development plan.

Increases were noticed across all sectors, but were particularly strong in financial services, real estate and oil & gas. Financial services stocks gained 14%, while oil and gas & real estate sectors each rose by around 9% during the quarter. Other strong gainers were industrials (+8.7%), consumer goods (+8.2%) and banks (+7.2%). Telecoms and technology companies were the two sectors with the weakest performance, though they too saw gains of 1.6% and 2.5%, respectively.

Though trading volumes were generally unchanged from 2Q14, they appeared to pick up during the last part of the quarter, with September recovering to pre-summer levels. The value of traded shares recorded a daily average of KD 22.8 million during the quarter, largely unchanged from the previous quarter. However, activity remains off by 33% from its level a year ago. A new CMA commissioner, whose appointment has been so far well received by investors, may help improve sentiment ahead.

Meanwhile, figures continue to show a notable increase in inflows of foreign money into the market, despite a small drop in August. The monthly volumes data reveals that the share of non-Kuwaiti buyers averaged 16% in the first eight months of the year compared to a 9% average in 2013. Data for September is not yet available.

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