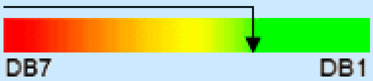
D&B Country RiskLine Report

KUWAIT

Region : Middle East
Edition : June 2012

D&B Country Risk Indicator

DB3d



This "DB" Rating Indicates:

Slight risk

Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Trend

Deteriorating

The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	3.0m
Surface area (sq km):	17,820
Capital:	Kuwait City
Timezone:	GMT +03:00
Official languages:	Arabic; English
Head of state:	Emir Sheikh SABAH al-Ahmad al-Jaber al-Sabah
GDP (USD):	147.8bn
GDP per capita (USD):	47,117
Life expectancy (years):	78
Literacy (% of adult pop.):	93.3

Country Overview:

Kuwait is located on the Arabian Peninsula at the head of the Persian Gulf, and borders Saudi Arabia and Iraq. It gained independence in 1961 and is a member of the Gulf Co-operation Council (GCC).

Kuwait has introduced a more democratic form of government following Iraq's invasion in 1990, but ultimately power still resides with the ruling dynasty, the al-Sabahs. However, increasing tensions since 2004 between the democratically elected parliament and the appointed government have resulted in unscheduled elections, cabinet reshuffles, and ministerial and governmental resignations.

The tensions have also slowed government attempts to liberalise and diversify the economy, which is heavily dependent on oil (57% of GDP, 93% of government revenues and 94% of total export earnings in 2008). Oil revenues have allowed the government to build up a considerable treasure chest of foreign assets, but the private sector remains weak, despite increasing autonomy from the state.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	LC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	Up to 90 days

Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-3 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

According to the World Bank's *Doing Business 2012* report, the conditions for conducting commercial operations in Kuwait have improved slightly compared with the previous year: Kuwait was ranked at an overall 67 out of 183 countries in terms of doing business, up from 71 in 2011. A strong improvement was seen in the 'resolving insolvency' category (up to 48 from 65). However, the report identified many areas of weakness, including 'starting a business' (ranked at 142), 'dealing with construction permits' (121), 'trading across borders' (112), and 'enforcing contracts' (117). Given this, together with heightened political risk, we continue to recommend caution when conducting business in Kuwait, especially with the public sector.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-5.0	3.3	4.5	4.2	3.8
Inflation, annual ave, %	4.0	4.0	4.8	5.0	4.8
Govt balance, % GDP	11.4	22.4	23.4	17.1	16.0
Oil price, USD/b	61.8	79.6	111.3	115.3	112.1
C/A balance, % GDP	24.3	29.6	34.7	34.6	31.4

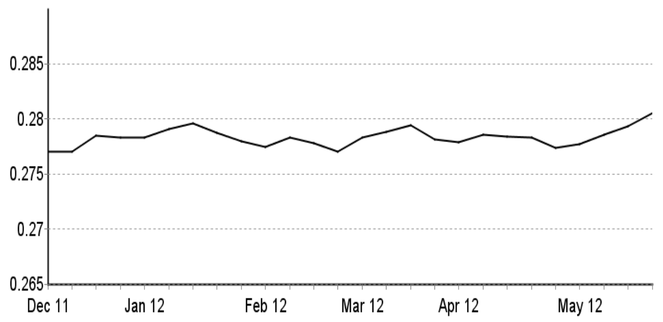
Economic Indicators: Real GDP growth, inflation, government balance and C/A balance refer to fiscal years (April-March).

Currency Information

Exchange Rates (London, 28 May 12)	
EUR	0.3509
GBP	0.4385
JPY*	0.3523
USD	0.2805
*(x 100)	

Local Currency

(Kuwaiti dinar [KWD]: USD)



Local Currency

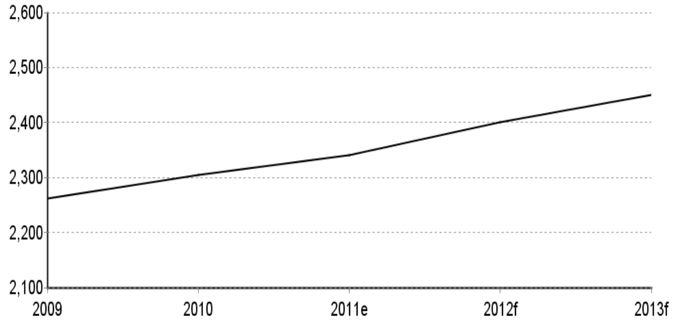
(Kuwaiti dinar [KWD]: USD)

	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12
Week 1	0.277	0.278	0.278	0.278	0.278	0.278
Week 2	0.277	0.279	0.278	0.279	0.279	0.279
Week 3	0.278	0.280	0.278	0.279	0.278	0.279
Week 4	0.278	0.279	0.277	0.278	0.278	0.280
Week 5		0.278			0.277	

Crude Oil Production

Crude Oil Production

(thousand barrels per day)



Data Table

2009	2010	2011e	2012f	2013f
2261.6	2304.0	2340.0	2400.0	2450.0

Risk Factor

The short-term outlook for the country's risk environment remains under broad downward pressure as a result of ongoing instability in the political sphere. In late May, the government decided to boycott parliamentary sessions in response to opposition attempts to question Minister of Finance, Mustapha al-Shamali, over accusations of the misuse of state funds. As at least one government minister has to be in attendance in the legislature in order for it to be able to sit, the boycott resulted in parliamentary proceedings being halted for two days. Meanwhile, al-Shamali resigned at the end of May. This latest episode is just one in a long-standing series of problems between the executive and parliament, which show no sign of easing. Indeed, the possibility of an early parliamentary election should not be ruled out.

Tensions between the government and parliament have not been helped by the executive's recent failed attempt to push ahead with its economic development plans. In late April, the National Assembly rejected proposals to implement a four-year, USD108bn development scheme. The plan, aimed at significantly strengthening the country's infrastructure capacity (in particular with regard to aviation, oil-refining and medical care) was rejected on the grounds that the government had made little progress on the work that would be required to make it more credible. Although it remains to be seen what the government will now do, it appears almost certain that any involvement by international companies will be delayed, over the short term at least. This aside, the authorities appear determined to improve the commercial environment for foreign firms considering entering the Kuwaiti market. For instance, in early May the government signalled that it planned to revise legislation relating to FDI in order, for example, to make it easier for overseas companies to secure operating licences and obtain land on which to build.

Finally, the IMF has expressed concern over the government's approach to fiscal policy. In particular, the Fund has stated that the government's continued granting of generous pay increases to public sector workers raises questions over the short- and medium-term sustainability of the budget finances. Not only do high state pay increases encourage similar settlements in the private sector, but they also risk higher inflation. Reflecting this, we have upwardly revised our projection for inflation this year to 5.0% from 4.5% previously. Over the longer term, a soft fiscal policy could also undermine efforts to provide for a population which is living longer. If world oil prices remain high, the fiscal pressures should be contained. However, this could change if an external shock results in the weakening of the global price of oil.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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