

State of Kuwait*

INTRODUCTION

General

<i>Capital/Other major city:</i>	Kuwait City/Ahmadi
<i>Area:</i>	17,820 km ²
<i>Population:</i>	2.42m
<i>Language:</i>	Arabic
<i>Currency:</i>	Kuwaiti dinar (KWD)
<i>Country telephone code:</i>	965
<i>Weekend:</i>	Thursday and Friday
<i>National holidays:</i>	
2nd half 2006 –	1, 9-12*, 31 Jan, 25-26 Feb, 11 Apr, 21 Aug, 23-25 Oct*, 31 Dec*.
2007 –	1-2*, 20 Jan, 25-26 Feb, 31 Mar, 28 Aug, 13-15 Oct*, 19-21 Dec*.
	* Since the Islamic calendar is lunar, these holidays depend upon the sighting of the moon and exact dates may vary from those listed above.
<i>Business hours:</i>	08:30–12:30 and 16:30–20:00 (Sun–Wed), 08:30–12:30 (Thur)
<i>Banking hours:</i>	08:00–13:00 (Sun–Thur)
<i>Stock exchange:</i>	Kuwait Stock Exchange (KSE)
<i>Leading index:</i>	KSE Market (KSEM) Index

Government

Legislature

- Constitutional monarchy with a unicameral National Assembly (Majlis al-Umma).
- National Assembly – 50 members directly elected for four-year terms.
- Kuwait is a member of the Gulf Co-operation Council (GCC).

Head of state

- Emir H.H. Sheikh Sabah al-Ahmad al-Jaber Al Sabah.

Prime Minister

- Nasser Muhammad al-Ahmad Al Sabah, appointed on 7 February 2006 by the Emir.

* Please note that rules and regulations and market practice are not necessarily documented and are subject to interpretation. In addition, they may change rapidly for economic, political, social and religious reasons. As a result, the de facto enforcement and interpretation of regulations and market practice may diverge from the formal regulatory framework described in this country report. If you are planning any business activity in the country, we would recommend that you seek independent advice on the latest market and regulatory developments as well as legal and tax advice.

Economy

	2000	2001	2002	2003	2004	2005			2006	
						Q3	Q4	YEAR	Q1	Q2
Exchange rate* (USD/KWD)	3.2600	3.2607	3.2906	3.3557	3.9333	3.4247	3.4247	3.4247	3.4247	3.4430
Interest rate* (lending rate**) (%)	8.87	7.88	6.48	5.42	5.64	7.46	8.19	7.50	8.35	8.60
Consumer inflation† (%)	+ 1.8	+ 1.3	+ 0.9	+ 1.0	+ 1.3	+ 4.2	+ 4.5	+ 4.1	+ 3.8	NA
Unemployment (%)	N/A	N/A	N/A	N/A	N/A	NA	NA	NA	NA	NA
GDP volume growth† (%)	+ 4.7	+ 0.7	+ 5.2	+ 13.4	+ 6.2	NA	NA	NA	NA	NA
GDP (KWDm)	11,312	10,446	11,585	13,768	16,420	-	-	NA	-	-
GDP (USDm)	36,877	34,061	38,123	46,201	64,585	-	-	NA	-	-
GDP per capita (USD)	16,537	14,556	15,624	18,334	24,009	-	-	NA	-	-
BoP (goods/services/ income) as % GDP	45.1	30.5	16.8	25.5	33.2	-	-	NA	-	-

* Period average. ** Weighted average of rates charged by local banks for KWD credit facilities to residents and non-residents.

† Year on year.

Source: *International Financial Statistics*, IMF August 2006.

Sectoral distribution of GDP (% of GDP)

- Agriculture 0.4%
- Industry 47.9%
- Services 51.6% (2005 estimate)

COUNTRY CREDIT RATING

Fitch Ratings rates Kuwait's issuer credit as:-

Term	Local Currency Rating	Foreign Currency Rating
Short	-	F1 +
Long	AA	AA -
Long term rating alert	Outlook Stable	

Source: www.fitchratings.com September 2006

LEGAL AND REGULATORY

Central bank

- The Central Bank of Kuwait began operating in April 1969 in accordance with Law No. 32 of 1968 concerning Currency, the Central Bank of Kuwait and the Organisation of Banking Business.

Bank supervision

- The Central Bank of Kuwait supervises the banking sector in the country.

Resident/Non-resident status

- A shareholding company, a holding company, or a limited liability company that is registered in Kuwait will hold the nationality of Kuwait, and its head office must be in Kuwait (Articles 68, 191 and 229 of the Commercial Companies Law No. 15 of 1960 'CCL').
- Commercial companies incorporated abroad may have agencies in Kuwait provided that the agent holds the nationality of Kuwait (Article 180 of the CCL).
- A commercial company that is incorporated in Kuwait shall be entered in the Register of Commerce, regardless of whether it has a head office, branch or agency in Kuwait (Articles 1, 6 and 9 of the Register of Commerce Decree No. 1 of 1959).

Bank accounts

- Foreign exchange accounts can be held by residents domestically and abroad. Accounts in domestic currency (KWD) are convertible into foreign currency.
- Non-resident bank accounts are permitted in Kuwait, denominated in either domestic or foreign currency. Non-resident accounts in domestic currency (KWD) are convertible into foreign currency.
- Interest and overdraft facilities can be offered.

Reporting

Reporting regulations

- All transactions between residents and non-residents have to be reported to the Central Bank of Kuwait on a periodical basis for credit control, money laundering and balance of payments purposes.

Reporting method

- Banks' periodical reports to the local regulator are based on the regulator's requirements, and the accuracy of all reported information is the bank's responsibility.

Anti-money laundering / Counter-terrorist financing*

- Kuwait has enacted anti-money laundering legislation (Law No. 35 of 2002). This is supplemented by several Central Bank of Kuwait (CBK) Instructions. Further amendments to Law No. 35 are under discussion.
- Kuwait is a member of the Gulf Co-operation Council (GCC) which is a member of the Financial Action Task Force (FATF). It is also a founding member of the Middle East & North Africa Financial Action Task Force (MENAFATF).
- Kuwait has established a financial intelligence unit (FIU), the Kuwaiti Financial Inquiries Unit (KFIU), which operates within the CBK.
- Financial institutions in the broadest sense must record and report all transactions for which there is a reasonable belief that money laundering has occurred to the Office of Public Prosecutions (OPP) which then refers them to the KFIU.
- Banks, credit and financial institutions have to identify and report clients for all cash transactions exceeding USD 10,000.
- Any individual who enters Kuwait with national or foreign currency, gold bullion, or any other precious materials exceeding KD 3,000 in value must inform the customs authorities.
- Account opening procedures require formal identification of the account holder.

- Banks must properly identify both regular account holders and occasional clients.
- For legal entities the following verification documents are required when opening an account: licenses issued by the Ministry of Commerce and Industry for individual institutions, along with the civil ID of the institution's proprietor, plus Articles of Incorporation and Corporation Charter endorsed by the relevant body.
- Customers acting on behalf of third parties are required to provide identification of themselves and the third party together with documentation reflecting the basis of their authority.
- Banks are required to keep all records of customer identification and all transactions for at least five years.

*Supplied by BCL Burton & Copeland (www.burtoncopeland.co.uk for background explanatory article). Data as at July 2006.

Exchange controls

- The Kuwaiti dinar (KWD) is Kuwait's official currency.
- The unitary exchange rate is a conventional pegged arrangement.
- The KWD exchange rate is pegged to the USD at a central rate of KWD 0.29963:USD 1, with the rate allowed to move within a 3.5% band.
- Official cover of operations within the forward exchange market extends to commercial transactions' forward contracts.
- Exchange controls are not applied in Kuwait.
- All trade with Israel is forbidden.
- The presence of foreign capital in resident companies requires prior approval from the Kuwaiti government.
- However, foreign investors are permitted to hold a 100% stake in Kuwaiti companies, albeit subject to terms stipulated by the Council of Ministers.

TAXATION

Resident/Non-resident

- Foreign corporate bodies carrying on a trade or business in Kuwait are liable to tax. The term 'corporate body' refers to an association that is formed and registered under the laws of any country or state and is recognised as having a legal existence entirely separate from that of its individual members. Partnerships fall within this definition. Foreign companies can operate in Kuwait either through an agent or as the minority shareholder in a locally registered company. There is no difference in principle in the method of calculating taxation in either instance. In the latter case, tax is levied on the foreign company's share of the profits, adjusted for tax, (whether or not this is distributed).

Tax year

- The normal tax and accounting period is the (Gregorian) calendar year, but the Director of Income Taxes may authorise a company to use a different period, not exceeding 18 calendar months.

Corporate taxation

- The profits, including capital gains, of foreign corporate bodies from their activities in Kuwait are subject to income tax. Kuwaiti owned businesses are not liable to tax. Income tax is levied at the rate relevant to the taxable income. Rates vary from zero to 50% plus 5% surtax.
- Since January 2004, under draft new tax laws the maximum company tax rate have been reduced from 55% to 25% and are applied at a single rate applicable to the relevant band.

Advance tax ruling availability

- These are not available in Kuwait.

Thin capitalisation

- There are no thin capitalisation rules.

Transfer pricing

- The Kuwait tax authorities deem the following profit margins for imported materials:
- Materials manufactured by affiliates: 10% to 15% of cost.
- Materials imported from unrelated parties: 5% to 10% of cost.
- Where the revenue relating to these is clearly identified (for example, in the contract) the tax department will apply the profit margins shown above.

Capital gains tax

- Capital gains are treated as part of a company's income.

Stamp duty

- This is not applicable in Kuwait.

Wealth tax

- There is no religious wealth tax (Zakat) in Kuwait.

Withholding tax (subject to tax treaties)

- There are no withholding taxes; however, all government departments and all companies are required to withhold final payments of no less than 5% of the total amount due to foreign entities until such entities present a tax clearance from the Director of Income Taxes confirming that they have settled all their tax liabilities.

- Under the same new proposals as described above the withholding tax on contract payments will be increased from 5% to 10%. This will go into a trust account until the contractor's tax status is determined.

Tax treaties

- Kuwait has tax treaties with various countries.

Sales taxes/VAT (incl. financial services)

- There are no consumption taxes in Kuwait.
- There is a standard import levy of 5% on the value of imports. Some local industries are protected by higher rates of duty on competing imports. Also, exports are taxed at 5% unless they are imported items which have been exported.

Other business taxes

- One percent of profits distributed by listed companies in Kuwait are payable to the Kuwait Foundation for Scientific Research.

Payroll and social security taxes

- Employers and Kuwaiti employees are required to make monthly social security contributions, based on monthly salaries. Under the social security law the employer's contribution is 11% and the employee's contribution is 6%. The salary ceiling for the social security contribution is KWD 2,500 per month. The employee contribution is deducted directly from wages before transferring amounts to the employee's bank account. Social security contributions are limited to Kuwaiti employees only.

All tax information supplied by Deloitte & Touche (www.deloitte.com). Data as at 1 May 2006.

BANKING

Major banks

Bank	Total Assets (USDm) 31 Dec. 2005
National Bank of Kuwait	21,234
Kuwait Finance House	16,031
Gulf Bank	8,932
Commercial Bank of Kuwait	8,023
Al-Ahli Bank of Kuwait	6,876
Burgan Bank	6,472
Bank of Kuwait & the Middle East	5,520

Source: www.bankersalmanac.com

Overview

- The banking system in Kuwait consists of the Central Bank of Kuwait, ten domestic banks and five branches of foreign banks (HSBC Bank Middle East, BNP Paribas, Citibank, the National Bank of Abu Dhabi and Bank of Bahrain and Kuwait).
- In addition to the 13 commercial banks, there are two specialised banks in Kuwait, the Industrial Bank of Kuwait and Kuwait Real Estate Bank.
- The Kuwait Finance House and Boubyan Bank are the only licensed deposit-taking institutions offering a full range of Islamic banking products.
- In terms of both assets and capital, the market is dominated by the National Bank of Kuwait. The National Bank of Kuwait has the most extensive international banking presence, with subsidiaries and branch offices in Bahrain, Iran, Jordan, Lebanon, London, New York, Paris, Qatar, Geneva, Saudi Arabia, Singapore, Thailand and Vietnam, and acquired Credit Bank of Iraq in May 2005.
- Despite the government's effort to divest its ownership in the banking sector, a number of local banks continue to have substantial government ownership.
- At present there are five branches of different foreign banks operating in Kuwait and foreign investment in local banks is limited. The emergence of foreign banks and the acquisition by Bahrain's Ahli-United Bank of a 75% stake in the Bank of Kuwait & the Middle East appear to mark a move towards greater internationalisation of the Kuwaiti banking sector.

PAYMENT INSTRUMENTS

Credit transfers

- Credit transfers (in KWD) are mainly limited to interbank and corporate use.

Direct debits

- Direct debits are available in Kuwait.

Cheques

- The cheque is the dominant cashless payment instrument in Kuwait, in terms of both volume and value.

Card payments

- Payment card usage has increased rapidly in recent years.
- Visa and MasterCard are the principal credit card issuers in Kuwait.
- Each bank in Kuwait establishes its own individual clearing and settlement arrangements with the card issuers.

PAYMENT SYSTEMS

Type

- Implemented by the Central Bank of Kuwait, Kuwait's Automated Settlement System for Inter-participant Payments (KASSIP) is a national interbank RTGS system for large-value credit transfers which has been in operation since August 2004.
- All other payment instruments are processed on a bilateral basis between banks, with the Central Bank of Kuwait acting as the final settlement agent.
- With the exception of card payments and credit transfers, clearing is effected manually.

Participants

- The Central Bank of Kuwait, all the commercial banks and the Kuwait Finance House participate in the payment systems.

Operating hours

- The Central Bank of Kuwait operates as a settlement agent between 07:30 and 14:30 Arabia Standard Time (AST).

Clearing cycle details

- All transfers processed via KAPPIS are settled in real-time across participants' accounts held at the Central Bank.
- Local cheques meanwhile are typically cleared on a next day basis, while foreign bills can take up to 21 days.

CASH MANAGEMENT

Domestic

Notional pooling

- Notional pooling is permitted but not widely offered in Kuwait, as there are some regulatory restrictions.

Cash concentration

- Banks offer cash concentration solutions.

Cross-border

- Cross-border cash concentration, though permitted, is not widely offered.

Lifting fees

- Banks do not generally apply different fees and value-dating to funds movements between residents and non-residents.

Short-term investments

- Interest facilities are available on bank accounts although they are not offered on the majority of current accounts.
- Demand and time deposits can be held in domestic currency (KWD) and major foreign currencies. Interest is usually paid on the maturity date for time deposits and on a periodical basis for other deposit accounts. Time deposits can have maturities ranging from one week up to five years.
- Money market funds are available with a minimum investment period of one week.
- Treasury bills are issued by the government with maturities of three to nine months.
- Commercial paper is offered by companies while certificates of deposit are offered by commercial banks. Both have maturities of up to one year.
- Repurchase agreements are also available as a method of short-term investment.

ELECTRONIC BANKING

- Electronic banking is increasing in popularity in Kuwait and usage is among the highest in the region.
- There is no bank-independent electronic banking standard in Kuwait. Each bank offers its own proprietary system for corporate banking purposes.
- Most systems provide companies with balance and transaction reporting and transaction initiation services.
- Internet banking is also becoming increasingly popular, particularly among retail users and small companies.

TRADE FINANCE

Trading partners

Import

- USA 14%, Germany 10.7%, Japan 8.3%, Saudi Arabia 6.1%, UK 5.6%, France 4.8%, China 4.4%.

Export

- Japan 19.7%, South Korea 15.5%, USA 11.9%, Taiwan 11.1%, Singapore 9.5%, Netherlands 4.7%.

Imports

Documents

- In order to import goods into Kuwait, a customs declaration is required to be filed. The commercial invoice must include a full description of the imported goods. A certificate of origin and bill of lading are also required.

Licences

- Licences are required for all imports except for fresh fruits and vegetables, wheat and flour.
- The importer must be over 50% domestically-owned.

Taxes/Tariffs and other fees

- Kuwait applies the GCC's uniform tariff structure.
- Minimum import tariffs of 5% apply to imports from outside the GCC.
- No import tariffs apply to imports from countries within the GCC.
- High tariffs apply to imports of industries where the domestic producers provide a minimum of 40% of the Kuwaiti market.
- The local value-added content of the goods imported determines the rate of tariff imposed.
- Protective duties of 15%, 20% and 25% apply to goods imported when the local value-added content of goods of Kuwaiti origin are at least 20%, 30% or 40% respectively.
- Protective duties are 5% lower for imports of consumer goods.
- Imports which compete with goods of Kuwaiti origin are subject to a maximum duty of 100%.
- Import duties do not apply to food items, raw materials and spare parts, in addition to certain types of machinery and equipment.

Prohibited imports

- A negative list (list of products that may not be imported) is in operation.
- It is prohibited to import certain commodities into Kuwait in order to protect the safety of fauna and flora, national security and property, and for moral or religious reasons.
- Importing certain foodstuffs, alcoholic beverages, tobacco and mobile phones is prohibited.
- Imports from Israel are prohibited.

Exports

Documents

- In order to export goods from Kuwait, a customs declaration is required to be filed including a certificate of origin and bill of lading.

Licences

- Licences are not needed for the majority of exports.
- In times of shortages or emergency, special licences are mandatory for exporting restricted quantities of certain agricultural products and cement.
- Licences are required for exporting armaments and ammunition.

Taxes/tariffs and other fees

- There are no taxes charged on exports from Kuwait.

Prohibited exports

- As with imports, there is a negative list for products that cannot be exported
- It is prohibited to export certain agricultural products when domestic demand outweighs supply.
- Exporting items to Israel is prohibited.
- Export scrap iron is temporarily prohibited.

Financing imports and exports

Imports

- There are no financing requirements for imports.

Exports

- There are no financing requirements for exports.

USEFUL CONTACTS

Central Bank of Kuwait		www.cbk.gov.kw
Leading banks	National Bank of Kuwait	www.nbk.com
	Kuwait Finance House	www.kfh.com
	Gulf Bank	www.e-gulfbank.com
Kuwait Financial Markets Association		www.kfma.org.kw
Ministry of Finance		www.mof.gov.kw
Kuwait Chamber of Commerce & Industry		www.kuwaitchamber.org.kw
Kuwait Investment Authority		www.kia.gov.kw
Kuwait Stock Exchange		www.kuwaitse.com

HSBC CONTACT DETAILS

Global Payments and Cash Management
HSBC Bank Middle East Limited
Dubai Internet City
312/45 Al-Suq Road
Bur Dubai
United Arab Emirates
Tel: +971 4 507 7251
Fax: +971 4 353 2878
Email: enquiriespcm@hsbc.com