

*Some Thoughts about Recent Challenges of
Monetary Policy in Kuwait⁽¹⁾*

I am delighted to have this opportunity to share with you our recent experience in the Central Bank of Kuwait after the liberation of Kuwait from the Iraqi occupation, which started on August 2, 1990 and lasted about seven months. The consequences of this unexpected occupation have put before us several drastic problems and challenges which caused great concern and required concerted efforts. Now that more than a year has elapsed since the liberation of Kuwait, I avail myself of this opportunity to elaborate on the main outcome of our monetary policy experience in Kuwait

During the occupation, damage inflicted on the Kuwaiti economy and its infrastructure was massive and caused our productive capacity and development capabilities to be severely handicapped. This negative impact of occupation has been comprehensive as manifested in arrested production in all domestic economic sectors, not to mention the hundreds of oil wells set ablaze or damaged and the oil industry plants and refineries that were dismantled.

(1) Delivered on June 11, 1992, in London, UK, on the occasion of the annual meeting of central bank governors, organized by the Bank of England.

The Central Bank of Kuwait played its role in exile during the invasion, with its attention given to reorganizing Kuwaiti banks abroad and to extending its full support to these banks in order to assist them in meeting their obligations to foreign banks, whether with regard to settlement of outstanding transactions or the payment of interest due on Kuwaiti bank liabilities. Also the bank had prepared a contingency plan for reviving the activities of the banking and financial system immediately after the liberation of Kuwait.

Meeting the economic challenge of reviving the domestic economy, and then putting it back on the development horizon, required massive efforts in more than one direction. We have seen commendable achievements in this respect in both the resumption of vital services in record time and in the controlling and extinguishing of hundreds of oil well fires in a mere seven months, a year and a half less than the most optimistic predictions of time needed for accomplishing this task. Actual oil production started in May 1991, while the capping of burning oil wells was in progress. Oil production gradually increased, reaching more than half a million barrels a day by the end of that year and about one million barrels per day in May 1992.

As regards monetary developments following the liberation of Kuwait, the banking system resumed its operations in less than a month, and the full range of banking services was restored a few months

later as soon as electricity, communications, and other relevant services became available.

The Central Bank of Kuwait has engaged tirelessly in solving problems of the banking system arising from the Iraqi occupation of Kuwait and has managed to restore public confidence in the local currency and Kuwaiti banks. Turning to specific efforts exerted by the Bank after the liberation in order to maintain monetary stability, let me share with you the following thoughts:

First: With respect to policies, the Bank announced on March 24, 1991, the day when the Kuwaiti banking system resumed its operations after the liberation of Kuwait, the KD exchange rate according to the same previous policy of pegging the dinar to a basket of currencies of Kuwait's major trade and financial partners. The KD exchange rate announced on that day was very close to its last pre-invasion level. We have found this policy quite effective in maintaining a distinct relative stability in the dinar exchange rate against currencies of Kuwait's trade partners. This policy has proved to be a bulwark against imported inflation, and together with the adoption of the domestic interest rates structure, in effect since December 1988, they restrained the outflow of funds.

