The Joint Economic Report:
Main Features and Basic Principles [(1)]

It gives me great pleasure to highlight major features of measures contained in the report of the Joint Economic Committee regarding the activation of economic momentum, particularly part lll of the report related to the enhancement of the effectiveness of the Difficult Credit Facilities Settlement Program.

Since the early eighties, the economic administration in Kuwait has adopted a series of measures and policies aimed at enhancing confidence in our economic conditions and protecting the economy from adverse internal and external effects, such as the recession in the Kuwaiti economy. It has acted both by the application of an internal public expenditure policy that is in line with recent local developments and variables which affect the volume of public revenues, and through continued application of the Central Bank's monetary policy to achieve stability in the money market relative stability in the KD exchange rate. In addition, the Bank's efforts devoted to banking supervision safeguard the banking system and maintain the monetary and financial system in general.

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Though the Kuwaiti economy’s performance rates have improved during the last three years due to several measures intended to enhance economic activity, that improvement has not been of the rate or quality anticipated by the economic administration.

To emphasize the importance of placing the economy on a sustainable growth path based on a realistic diagnosis of the current economic situation, while taking into account the economic directions desired for the course of the Kuwaiti economy and giving highest priority to public interests, His Highness the Crown Prince and Prime Minister called a meeting at Al-Shaab Palace on January 30, 1989, reflecting the Government’s concern and genuine desire to move towards achieving these goals.

The Joint Economic Committee’s Report represented the result of joint effort at constructive collaboration between the Government and the private sector. The report contained comprehensive recommendations regarding the suggested course and direction for the macroeconomy in the light of current economic situation, while taking into consideration past experience and future outlooks. The efforts of the Joint Committee during its meetings, held in the second half of November 1989 were centered on discussing and reviewing two reports: one submitted by the Government in

June 1989, and the other submitted by Kuwait's Chamber of Commerce and Industry and which was submitted to His Highness the Crown Prince and Prime Minister during the first half of November 1989. These two reports are detailed and comprehensive, having been in preparation since early 1989.

The Chamber's report was prepared with the help of other reports of working groups formed to review conditions in different economic sectors and activities. The Joint Committee noted the alignment of views between the Government and the Chamber, reflected in the recommendations contained in their respective reports, a fact which enabled the unified report to be prepared quickly. Moreover, the Joint Committee deemed it appropriate to formulate the Joint Report containing the main points of proposed recommendations without details of their implementation, as these are considered procedural actions carried out by executive authorities.

The Council of Ministers, in an extraordinary session held on December 5, 1989, discussed the report of the Joint Economic Committee, in the light of which a decision was taken by the Prime Minister concerning the formation of a committee to follow up the implementation of measures for activating the economic momentum according to the report of the Joint Economic Committee and in coordination with concerned authorities.

The full text of the report of the Joint Economic Committee was published in local newspapers on December 7, 1989. Since then, positive reactions have been expressed by different economists in the country, indicating acceptance and readiness among the economic circles in the country to work with optimism and confidence in the Kuwaiti economy's ability to realize sustainable growth rates and achieve its the potential for progress and prosperity.

Different reactions to the content of the Joint Report indicate that points to be elaborated regarding the Report's recommendations can be classified into three major subjects: <u>the first</u> represents queries about the developmental directions of these recommendations; <u>the second</u> relates to the proposals for enhancing the effectiveness of the Difficult Credit Facilities Settlement Program; and <u>the third</u>, which is the most important, emphasizes the necessity for implementing the Report's recommendations and proposals and converting its contents into executive steps.

First: Regarding the developmental directions of the Report's recommendations and proposals, it can be noticed that the Joint Report, entitled "Proposed Measures to Activate Economic Momentum", recommends working on several economic conditions, one of them being long-term development. The part on "Main Proposals and Recommendations" is a good indication of that, particularly as most of these recommendations concentrate on economic problems which have resulted from structural, institutional and legal impediments.

Recommendations for enlarging the role of the private sector in economic activity, include the privatization of certain activities, the development of the Kuwaiti individual, attending to the process of promotion and administrative development and to educational systems to meet the requirements of the labour market, and updating laws and legislation, as well as dealing with the deficit in the State's general budget. The Report, while discussing the main proposals and recommendations, states explicitly that these recommendations are to be in line with the State's economic directions and with the long-term development strategy and the study of the adjustment of the economic course. Further, these recommendations should be in harmony with the main recommendations contained in the report of the Committee for Activating the Economic Momentum in Kuwait, issued in February 1985. Moreover, the strategy of long-term development is clearly manifested by recommendations for activating the economic sectors, among which, for example, is the recommendation regarding the creation of industry in Kuwait, including the establishment of a public authority for industrialization and technology. Furthermore, many of the recommendations related to the activation of certain economic sectors, though considered as measures for upgrading the shortterm performance levels of these sectors, indicate a movement toward structural and behavioral features of the Kuwaiti economy.

Besides its developmental directions, the Joint Economic Report also contains clear and specific proposals and recommendations concerning activation and upgrading of the performance of various economic sectors such as trade, contracting, real estate, the financial and securities market, and industry, as well as hotel activity and activities of other services sectors. There is obvious importance attached to upgrading performance in both the shares and real estate markets as two major sectors in the Kuwaiti economy, and to activating the trade sector as one of the traditional activities, and developing the industrial sector.

Second: In the light of the Joint Committee's conviction of the various positive results achieved by the Difficult Credit Facilities Settlement Program on the economic and social levels, some proposals are put forward to enhance the effectiveness of the program, giving it an impetus towards a speedy solution for the debt problem without any departure from its framework and its principles. The most important recommendations are surveyed here so as to explain issues taken into consideration while offering these proposals and also to explain some aspects of their functioning.

1- The recommendation related to handling client debts of up to KD 250 thousand came in the light of figures produced by the follow-up on the program's achievements. This revealed that the number of clients whose debt does not exceed this amount was 681, accounting for 54% of the total number of clients (1260) subject to the program as of mid-October 1989. At the same time, the total debt of these clients was about KD 55 million, constituting a slight percentage not exceeding 2.5% of the total debt of clients subject to the program at that date, amounting to KD 2200 million. Besides the relatively slight volume of this debt, about KD 15 million of which was against collateral, the balance of the debt that can be written off will be about KD 40 million. It can be noted that this debt belongs to all local banks, whether surplus or deficit banks, which means that banks are able to write it off easily through their existing provisions. Therefore, we have found that handling this portion of debt enhances the effectiveness of the Difficult Credit Facilities Settlement Program, especially in that resolving these debts will remove a heavy burden borne by banks in following up the positions of this number of clients, thereby giving banks more leeway to look after their main activities, and more concentration on their follow-up of major client debts.

The debts of these major clients will be handled in accordance with the program's framework and its basic principles, particularly with regard to investigating the financial positions of these clients and verifying their financial statements, which will be taken as a basis of concluding settlements. The regulations now set by the Central Bank for concluding these settlements have already been announced. Besides giving clients the option of entering into these settlement, the program gives clients whose debts exceed KD 250 thousand the right, if they so desire, to benefit from the conditions of these settlements, provided that they reduce their debts to a limit not exceeding KD 250 thousand, whether this reduction is made by paying the differential in cash, submitting other assets or by debiting this differential to the account of a solvent guarantor or guarantors.

2- As for immediate settlements for the rest of the program's clients, whose debts exceed KD 250 thousand, the Joint Report specifies that such settlements, which will be made later, shall be carried out according to rules and regulations set by the Central Bank. Among these are the investigation of clients' positions, the verification of data relating to their financial positions before entering into settlements, the available provisions at banks and other regulations that ensure that these settlements are actually concluded in conformity with the program's basic principles and framework. In contrast to the settlement of debts of up to KD 250 thousand, it can be noticed that the settlement of debts exceeding KD 250 thousand shall depend on a prior investigation of these clients' positions to verify the financial statements to be approved as a basis for the settlements, which is one of the program's basic regulations. Taking this into consideration, we see no reason for any concern or reservation that may be raised about how these settlements. Furthermore, the Joint Report has indicated that the commencement of immediate settlement of these debts shall be at a later stage, after banks finish the settlement of debts up to KD 250 thousand. These arrangements will relieve banks from the burden of following up small debts and allow them to concentrate on large debts. Of course, this will require considerable effort, especially in examining the financial positions of those clients and investigating any other assets held by them, inside the country or abroad.

3- Regarding the recommendation to allow debtors to trade in their collateral assets held by banks, the report states clearly that implementation of this recommendation shall be confined to clients who authenticate their settlements. We believe that this recommendation comes as a complementary measure to the program's development proposals, as clients who will not enter into immediate settlement can benefit from this recommendation. The report has clearly covered all reservations that may be raised about this recommendation, indicating that trading in these assets shall be in accordance with regulations set by the Central Bank, guaranteeing banks the right, as creditors, to that collateral. For further illustration, I can say that although creditors have rights to collateral assets, such rights do not entitle them to own these collateral assets. They can own them only through a judicial ruling or as per debtor's assignment of these assets to the creditor. Creditor banks do not own these assets; allowing debtors to trade in their collateral assets, according to regulations set by the Central Bank that would guarantee the creditors' rights and allow these debtors to trade in these assets and develop them, is a procedure that would benefit both banks and their clients. Further, this procedure can be expected to activate trading in both the real estate and shares markets, and in turn have a positive effect on the economy as a whole.

4- To increase the effectiveness of measures proposed for allowing debtors to trade in their collateral assets held by banks, the proposals related to the enhancement of the effectiveness of the Difficult Credit Facilities Settlement Program contained another recommendation related to the development of an incentive system for the program's clients that allows debtors to deduct 20% from net profits of their various projects, including the increase in the value of collateral assets resulting from trading, buying and selling assets, provided that the incentive ceiling does not exceed KD 120 thousand. And as the remaining percentage (80%) of the net profits and the increase in the value of assets will be used by banks in developing and promoting clients' assets, this proposal will increase the debtors' interest in promoting and developing their assets according to regulations set in this respect, which would benefit both banks and their clients. Therefore, this recommendation is supplementary to the preceding one.

5- The proposal relating to the provision of support funds once in a single payment to deficit banks, totalling not less than the value of net-worth certificates totally conforms with stipulations contained in the Difficult Credit Facilities Settlement Program regarding the rules and regulations for financial support that would enable banks to build up necessary provisions and distribute an appropriate percentage of profits to their shareholders. The Government, through the Central Bank, has actually been supporting the deficit banks since the beginning of the program's application. Thus, the provision of support funds in a single payment instead of annual installments aims at expediting the building up of required provisions through handling the profitability problems facing deficit banks. This procedure aims at adjusting the financial positions of these banks one and for all, placing them on the course of their ordinary operations, increasing competitiveness among them and giving the Central Bank the opportunity to focus its efforts on supervisory areas and to facilitate the application of different instruments in the field of monetary policy without conflicting with the profitability problem of these banks. Furthermore, the proposed merger of banks would enhance the effectiveness of the use of support funds, and would also strengthen the financial positions of these banks and increase their competitiveness in foreign markets, especially in the light of strong competition facing the regional banks after the coalition of major European countries in the beginning of 1993.

In light of the aforementioned considerations, the proposal of financial support aims at allowing the State to release itself from guaranteeing the rights of shareholders, as a preliminary step towards absolving itself from insuring depositors' rights after the establishment of an institution for deposit insurance. The banks will then be responsible for the results of their decisions during a new stage in which issues will be handled on the basis of a totally different perspective, along with the previous experience with its causes and results.

As I have indicated in many instances, the support funds to be provided to banks will be repaid in full when these banks have accrued the necessary provisions. Support funds to deficit banks, with which they would improve their management and develop their activities, should lead to increased performance rates and thereby expedite repayment of these funds.

The Joint Economic Report also included other recommendations pertaining to the enhancement of the effectiveness of the Difficult Credit Facilities Settlement Program. All recommendations contained in the Joint Report can be classified into three main dimensions. The first deals with the safeguarding and maintenance of the banking system as one of the vital sectors in the national economy. Moreover, the protection of the banking system is necessary to safeguard the State’s monetary and financial systems.

The second dimension of these recommendations has to do with expediting the solution of financial problems faced by the banks in order to help them resume their normal operations within a new stage, during which they will be responsible for the results of their transactions.

The third dimension, which is the final outcome of the Joint Report’s recommendations regarding the enhancement of the Settlement Program’s effectiveness, is based on the positive results that would result from the implementation of the proposals of the Joint Report, due to the expected increase in the interaction between banks and economic sectors and the resulting positive influence on the local economic situation as a whole.

Third: Regarding the implementation of the Joint Report's recommendations. His Highness the Crown Prince and Prime Minister made his concerns quite clear when he stressed the importance of having these recommendations implemented soon. These concerns were realized in his decision to form a follow-up committee, assuming the responsibility for implementing the measures for the activation of the economic momentum in the light of the Joint Economic Committee's Report. This will take place in coordination with the concerned parties, while the Committee will be authorized to contact competent authorities, undertake whatever measures are necessary for implementation, suggest solutions and measures that might be required in the course of implementing procedures for activating economic momentum, and in addition determine means of coordination and integration among all parties concerned. The government's determination to implement the recommendations contained in the Joint Economic Report was also emphasized during the meeting of His Highness the Crown Prince and Prime Minister with the members of the follow-up committee. His Highness was clear in his statements, giving emphasis to implementing these recommendations and pointing out the need to the need to improve and overcome any obstacles impeding the implementation procedures.

Based on His Highness's concern about immediate implementation of the Joint Report's recommendations, the follow-up committee began to set necessary arrangements that would expedite their implementation. During its meeting held at the Central Bank's premises on December 23, 1989, the Committee specified the parties entrusted with implementing the various recommendations included in the report of the Joint Economic Committee, and proposed the time–span needed to implement these recommendations, ranging from one to six months. In view of this, the Committee then forwarded messages to the concerned parties, urging them to expedite the implementation of their relevant recommendations within the proposed time-span.

Also, the Central Bank of Kuwait began to implement recommendations regarding the enhancement of the effectiveness of the Difficult Credit Facilities Settlement Program, specifically that concerning the settlement of client debts to banks which do not exceed KD 250 thousand, in accordance with regulations set in this connection and which were outlined in the local newspapers on December 24, 1989.

Though the recommendations contained in the Joint Economic Report reflect both the government's and the private sector's common and genuine desire to activate economic momentum in view of the current economic situation and to prepare the national economy for qualitative changes in long-term development, the accomplishment of the desired goals requires, in the first place, advancing with trust and confidence in the light of prudent procedures and policies adopted by the economic administration in the country for the interest of the public. There should also be much confidence in the economy's potential for growth.

Finally, I am optimistic about the potential for success for the Report's recommendations, because all local and foreign circumstances and conditions are now more appropriate than ever for the Kuwaiti economy to set forth.