
*The Requirements for Developing the State of Kuwait
into a Regional Financial Center*

It pleases me to participate, along with this distinguished group, in this conference which addresses the future outlook of the Kuwait Stock Exchange. I wish first to thank the International Expert Center Company for Consultancy and Training for organizing this conference, which has provided me with the opportunity to meet this select group of leading executives from banking and financial institutions, and businessmen and experts, and to exchange with them ideas and views about issues of relevance to the topic of this conference.

Developing the State of Kuwait into a major regional financial center is a strategic development project which involves various inter-related aspects and issues. These aspects and issues must be studied as a step towards providing all requirements for the success of this project. These requirements include political stability, prime geographic location, openness of the economy, free flow of capital, and a diversified and highly efficient banking and financial system that possesses the various financial and investment instruments. All of these elements should be made available within a system of laws, bylaws and regulations that address with transparency the various rights and liabilities of involved parties, and adopt a sound financial and monetary policy.

Despite the huge challenges which the State of Kuwait has been confronted with in recent decades, it has succeeded, with God's grace, in making available many basic requirements which can be built on to establish an efficient regional financial center, including:

- A firmly established atmosphere of political stability and national harmony;
- A relatively open economy;
- The free flow of capital;
- The adoption of sound economic, financial and monetary policies, which contribute to the relative stability of the KD exchange rate, and low inflation rates;
- The expansion in the country's foreign assets, and the realization of sizeable surpluses in the country's external and internal balances;
- Sustained efforts at building a modern and developed banking and financial system.

Furthermore, the last few years have witnessed the issuance of certain legislations which will provide for a legal and regulatory environment favorable to the development of the State of Kuwait into a regional financial center. Most notable among these legislation have been:

- The law allowing non-Kuwaitis to own, and trade in, shares of companies listed on the Kuwait Stock Exchange;

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- The law regulating foreign direct investment in the State of Kuwait, which allows non-Kuwaitis to establish and fully own business projects in several sectors;
 - The amendment to the law concerning currency, the Central Bank of Kuwait and the organization of banking business, to allow the establishment of Islamic banks and the entry of foreign banks into the domestic market;
 - The law for combating money laundering and the financing of terrorism;
 - The removal of the State guarantee of the rights of local banks' depositors.

These efforts have been crowned by the awarding of high credit ratings to the State of Kuwait by international rating agencies. Also, several IMF reports have commended the efforts deployed in maintaining the firm bases of stability and soundness in the Kuwaiti banking and financial system, and the adoption of prudent and appropriate monetary and fiscal policies.

It should be emphasized that making available the above-mentioned basic requirements and elements for developing the State of Kuwait into a major regional financial center does not necessarily mean the instant realization of that project. In my opinion, there are other basic requirements and elements which call for further care and attention, to support an environment conducive to the establishment of an efficient regional financial

center in the State of Kuwait, and particularly to enhance the competitiveness of that center against others in the region. Within this context, it is important to make available an adequate macroeconomic environment. This requires addressing the major structural imbalances in the Kuwaiti economy, essentially exemplified in the structural imbalances of the State general budget, the limited contribution of the private sector to domestic economic activities, and the labor market imbalances. The extent of the risks associated with the continuance of these imbalances has become clear to all, particularly in the present era of globalization, economic openness, and the technology and communications revolution.

The above considerations highlight the importance of speedy application of the economic and financial reforms package, which focuses on the following three inter-connected elements:

- Redefining the role of the government in economic activity, so as to confine it to that of supervision and guidance;
- Restructuring the local labor market, so as to provide the private sector with the incentive to accommodate the growing number of nationals entering the labor market;
- Activating the role of the private sector in the expansion and development of domestic productive capacity, by eliminating the current distortion in market mechanisms, privatizing certain government activities, and laying down policies that provide incentives for developing the structural and institutional composition of private sector units.

Here it becomes important that there be timely endorsement of proposed amendments to the income tax law, so as to make it attractive to domestic and foreign investors, in addition to the issuance of the privatization law. Also, emphasis must be placed on the importance of applying all principles of good corporate governance.

In the same direction, legal and regulatory updating shall be completed, so as to provide for an environment favorable to business and aligned with current developments in world financial markets, and to make the local market more attractive to foreign investment. To achieve that purpose, there is a need to determine the areas of insufficiency in laws and regulatory by-laws which discourage foreign investment, and to suggest means for remediation and updating. This applies particularly to the laws concerning companies, labor, residency, insolvency and bankruptcy. Additionally, the means for the timely resolution of financial and trade disputes shall be studied, and suggestions made for improving the efficiency of litigation and establishing specialized judiciary services.

Turning the State of Kuwait into a major financial center will increase the country's integration into world financial markets, which will add to the burden of the Central Bank of Kuwait in regulating the banking and financial system units subject to its supervision and oversight. In light of the above, the role of the Central Bank of Kuwait in supervision and oversight shall be enhanced. In this regard, due consideration should be granted to introducing necessary legislative amend-

ments for a more independent role of the Central Bank of Kuwait, as the only authority supervising and overseeing the banking and financial system. Additionally, the Central Bank shall be provided with adequate financial resources for carrying out its role in setting forth and executing the monetary policy and fulfilling its function in supervision and oversight.

Furthermore, the strategy for developing the State of Kuwait into a major regional financial center shall include as one of its elements the study of means and policies aimed at sustaining, providing incentives to, and developing diversified support services, in the form of consultancy for issues of legality, accountancy, information technology, communications and transportation. The availability of these diversified services will contribute to the creation of an environment that attracts business in general, and foreign investment in particular.