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***The Keynote Speech before the  
Kuwait-British Friendship Society***

I am pleased to have the opportunity to be part of this gathering of the Kuwait-British Friendship Society, and to speak on the current situation and prospects of the Kuwaiti economy. This gathering is a testimony to our shared desire to further strengthen cooperation and bilateral relationships between our two countries for the benefit of both. Meetings like this one represent a welcome occasion to exchange views with our friends, and become better acquainted with the existing investment climate and opportunities.

The last time I addressed this distinguished society was back in June 2001 in London, and in preparing my remarks for today I was struck by how much has happened since then. Today I will focus in my speech on two related areas: the developments and challenges in our economy in the context of the major changes in the region, and the efforts underway to face these continuing challenges and take advantage of available opportunities. Before I do that, allow me to make a brief note on trade relations between our two countries. The value of Kuwait's commodity trade with the United Kingdom is estimated to be a little less than one billion pounds sterling. Besides the merchandise trade, invisible trade in services like education, health care, and tourism between the UK and Kuwait is quite significant. While Kuwait is the United Kingdom's

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third largest market in the region, we think that our bilateral trade can and should grow. I am certain that gatherings such as this will open avenues for further economic and trade relations.

We all know that the relationship between our two countries goes back to the 18<sup>th</sup> century, but one can point to important milestones in the very recent past. In this regard, one cannot talk about the relations between our two countries without highlighting the leading role British forces played in liberating Kuwait from the Iraqi occupation in 1990/1991, and their current role in liberating Iraq from its previous regime, and their commitment to making Iraq a better country for the Iraqi people.

The toppling of the previous brutal Iraqi regime is a major milestone in the history of this region. As we are all aware, Iraq's former regime represented, among other things, a major source of threat and a hindrance to investment and economic growth in the region for many years. With the overthrow of that regime, the people of Iraq and indeed the people of the region are in a position, for the first time in decades, to concentrate on developing their economies, and further enhancing their welfare.

Kuwait, and indeed the entire region, finds itself today in a new environment with expanded opportunities and new challenges. No doubt, rebuilding Iraq will require allocating huge amounts of resources. The United Nations and the World

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Bank Joint Iraq Needs Assessment Report estimated the reconstruction needs to be on the order of US\$ 36 billion for the next three years. Clearly, there are plenty of opportunities for investors, and many of them are already in the Iraqi market. Many countries in the region, and particularly Kuwait, have an opportunity to participate in the rebuilding operations in Iraq. I wish to note that Kuwait has the required infrastructure, with a sound and modern banking and financial sector, and an advanced communication systems, which qualifies it to be utilized by foreign investors as the commercial gateway to Iraq.

Let me turn the focus of my remarks now to the economic scene in Kuwait. Over the past several years, Kuwait has pursued prudent fiscal and monetary policies, which, together with an open and free exchange and trade system, have allowed the maintenance of a strong macroeconomic position in a non-inflationary environment, despite the wide fluctuations in global oil prices. The quick end of the war in Iraq served as a powerful factor that supported economic expansion in Kuwait. It is estimated that during 2003 the Kuwaiti economy reached its fastest growth rate in a decade, driven by a robust expansion in both the oil and non-oil sectors.

Kuwait's external position is characterized by large current account surpluses which have averaged 25% of GDP since the year 2000. Over the past several years, surpluses have led to the accumulation of foreign assets, which provide a valuable shock absorber against potential external shocks. Data

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also indicate a widening of the trade surplus to about KD 1.5 billion during the first nine months of 2003, which was driven by a sharp increase in oil exports. In addition, the trade surplus was accompanied by a significant rise in both imports and non-oil exports, which came as a result of the logistic requirements of the military operations in Iraq and the reconstruction efforts that are underway there. This is a clear indication of the role Kuwait is playing as a gateway to Iraq, and that role is expected to increase as time passes.

The fiscal accounts have been characterized recently by substantial surpluses, which have averaged about 11 percent of GDP in the past three years. Closing Accounts of the State Budget for the last fiscal year, 2002/2003, show a surplus of KD 1.3 billion.

The banking and financial sector in Kuwait has been described by specialized international agencies as an efficient, structurally sound and well-supervised sector. At the end of December 2003, total assets of local banks reached KD 18.8 billion. The average capital adequacy ratio for local banks stood at 17.1 percent, exceeding by a wide margin the 8 percent minimum set by the Basel Committee.

The Central Bank of Kuwait, for its part, continues its efforts to implement a monetary policy that aims at maintaining monetary and financial stability that is conducive to the development efforts in the country. This is particularly evident in the relative stability in the exchange rate of the Kuwaiti dinar

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against the major currencies. In addition, the Central Bank of Kuwait tries to keep domestic interest rates aligned with developments in the domestic economy on the one hand, and interest rates on major currencies on the other. Also, the Central Bank plays a role in enhancing and strengthening the soundness of the banking and financial sector in Kuwait.

Within the context of its role in the supervision and oversight of the banking and financial system, the Central Bank of Kuwait continues its efforts to promote sound banking and financial practices. In this respect, the Central Bank of Kuwait follows the latest worldwide advances regarding the instruments and systems of banking supervision, and develops the supervisory programs and methods applied domestically, particularly in connection with prudent supervision, early warning systems, and risk management systems. More recently, efforts to combat money laundering and the financing of terrorism have gained additional momentum, and the Central Bank of Kuwait has assumed a leading role in this regard. As a matter of fact, we hosted a conference on these timely topics just last week here in Kuwait.

Now let me focus briefly on the efforts to further integrate the Kuwaiti economy into the global economy. Kuwait is pursuing a structural reform program to enhance the role of the private sector in economic activities and attract foreign investors, in its efforts to generate the needed acceleration in non-oil growth that would create employment opportunities.

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As you probably know, the current law regulating Foreign Direct Investment (FDI) in Kuwait, which was issued in April 2001, allows foreigners to own up to 100 percent of Kuwaiti companies, and the Foreign Investment Capital Office has been established to process foreign direct investment applications.

More recently, the National Assembly has passed amendments to the Central Bank Law to grant the Central Bank the authority to issue licenses for foreign banks to operate in Kuwait. I would like to emphasize that these amendments in the Central Bank Law represent a major step. Opening up the banking sector in Kuwait to foreign competition will increase the efficiency in the local market for financial services. With the increased competition, banks will have to pay more attention to their business strategies, as those that do not have a clear strategic focus will find it increasingly difficult to maintain their positions in the market.

More generally, Kuwait is working towards defining a framework for privatization, identifying areas and modes of privatization, and setting up pricing mechanisms and safeguards, in order to avoid creating monopolies and causing job losses among the national labour force. The government also established a Manpower Restructuring Program in July 2001 to implement the national labor law, and provide training and facilitate employment for Kuwaiti nationals in the private sector.

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I find it necessary to say a few words on the efforts being exerted by the GCC member countries regarding monetary developments. Effective January 2003, the GCC authorities initiated steps toward the establishment of a monetary union by 2010. That explained the Central Bank of Kuwait's step to tie the Kuwaiti dinar with the US dollar in January 2003 with a margin of  $\pm 3.5\%$ . With appropriate supporting macroeconomic policies, the monetary union will reinforce the beneficial effects of measures already taken to enhance integration and structural reforms presently under way. We believe that the monetary union will reduce the cost of financial transactions among member countries, and enhance growth prospects by contributing to the unification and development of the region's capital markets and improving the efficiency of financial services.

In conclusion, we can see that Kuwait is poised to make a significant contribution in the region, in the new climate of greater freedom and opportunity that has attended the change of regime in Iraq. Our stability, and our well-developed financial infrastructure, will enable investors and trade partners to take full and confident advantage of the opportunities now before them.

In closing, I want to emphasize the contribution this meeting will make to furthering our long-standing friendship. Again, my thanks to the Kuwait-British Friendship Society for hosting today's gathering, and for inviting me to meet with this distinguished group.