

**The Opening Address of the Conference on
“The Contemporary Challenges Facing the Financial
Management of the Kuwaiti Household:
Impacts and Solutions ”**

It pleases me to address this honourable audience today. I would like initially to express my appreciation for this generous invitation from the Women’s Committee of the Society for Social Reform, which sponsors this conference. I also want to commend the choice of the conference subject, which is “The Contemporary Challenges Facing the Financial Management of the Kuwaiti Household: Impacts and Solutions”. You may agree with me that holding a conference on this subject is in itself a sincere expression of national responsibility and of keenness to strengthen the society of our beloved country.

The subject of society’s propensity to consume is known to have varied economic, social and educational dimensions. In addition to its specialized and sometimes complex aspects, it is related essentially to human behaviour, i.e. the way individuals in the society act, and the ensuing general economic and social effects. This conference seeks to define the role of individuals and institutions in the society with regard to ensuring a mature and rational approach toward dealing with the inclination to consume, and curbing any negative effects resulting from exaggerating that inclination.

This conference addresses several dimensions linked to the issue of the increasing propensity to consume in Kuwaiti society. The activities and sessions of this conference will be handled by specialists, whose opinions are quite valuable. Since the Central Bank of Kuwait (CBK) has a contribution in one of the conference sessions, I shall, therefore, not deal with this, or with the role of the CBK in rationalizing borrowing for consumption purposes, and restraining lenders from providing excessive credit facilities to finance the increasing tendency to consume. Rather, I would like to present

certain general dimensions which I believe are important to highlight, as they provide a common ground for discussion and assist in reaching a unified perception about borrowing to finance consumption.

The first of these dimensions is the realization that financing in particular, and financial intermediations in general, are essential and vital elements of modern societies, whereby banks and other financial institutions - such as investment companies - strive to attract and promote savings on the one hand, and to use them in financing the needs of society's sectors and individuals on the other. Consequently, financial intermediators - such as banks and investment companies - occupy an important position among the sectors of any country's economy, and play an influential role in the society, as they are linked to individuals and institutions from all economic sectors. The role of financial intermediation has nowadays become an integrated industry in developed countries, to the extent that the advancement of societies is measured by the extent of the development of their banking services, the diversification of financial services, and the instruments they make available.

It may be appropriate in this connection to highlight the diverse dimensions of the role of financial intermediation institutions.

Particularly, I wish to point out that the financing services provided by these institutions have in common their activities in attracting and promoting savings. Therefore, in addressing consumption and its financing through financial intermediation institutions, it is also necessary to address the issues of savings, growth of wealth and the role of these institutions in this regard.

The second dimension which I believe is important to highlight, as it complements the first dimension, concerns the conditions to be fulfilled so that financing and the financial intermediation sector in general play a positive role in fostering growth and progress in the society. In this regard, it is necessary to emphasize the importance of providing controls that regulate the extension of credit and rationalize

its use, so as to contribute to the protection of concerned parties such as savers, borrowers, banks or financial institutions.

Additionally, credit rationalization in support of economic advancement represents an essential goal that should be taken into consideration in establishing the controls regulating the extension of credit. It is therefore of particular importance to keep financing for consumption purposes from exceeding reasonable limits, and to prevent banking and financial institutions from unduly expanding their extension of such types of financing.

The third dimension to be highlighted is connected to the various dimensions of financing in general, and consumption finance in particular. Several economic, social and demographic factors must be taken into consideration within the context of monitoring the development of such financing, as well as the causes and results of its growth. Societies are a connected mix of habits, traditions, cultures and values. It is necessary for us to realize the impact of all these factors on the behaviour of individuals and institutions, if we wish to understand the phenomena that emerge in our society. The issue of borrowing to finance consumption, though appearing to be an economic or financial matter, is in fact more complex than that.

The fourth and last dimension, and perhaps the most relevant to the subject of this conference, concerns the determinants of the patterns of consumption spending in the society. In this regard, we must initially acknowledge that awareness, rationality, and moderation on the part of individuals represent the real line of defense which ensures that neither consumption nor borrowing to support it shall become excessive.

Based on the above, it should be emphasized that borrowing to finance consumption within the boundaries of reason and rationality should be no cause for concern, for it is acceptable as long as the present and expected rational financial obligations on the one hand are aligned with a corresponding income level on the other. However, when

borrowing becomes a means to satisfy an increasing consumption tendency which goes against all principles of sound financial planning, financing ceases to be a beneficial tool and becomes a financial drain on individuals and households, entailing substantial negative results on the social level.

Based on the preceding four dimensions, a review of available indicators clearly points to a growth in the propensity to consume in Kuwaiti society during recent years. The value of final private consumption rose from KD 3272.4 million during 1995 to KD 4308.9 million during 1998, i.e. an increase of KD 1036.5 million or 31.7%. Furthermore, the ratio of private final consumption to GDP (Gross Domestic Product) rose during the same period, from 41.3% in 1995 to 56.2% in 1998.

From another perspective, the outstanding balance of consumer loans and other installment loans extended by local banks and investment companies, in addition to the balance of consumer loans extended by the Kuwait Finance House, rose from KD 751 million at end of 1995 to KD 1256.8 million at end of 1999, i.e. an increase of KD 505 million or 67.2%. During the same period, the number of these loans and facilities rose from 241.3 thousand to 286.2 thousand, i.e. an increase of 18.6%.

These indicators clearly show an increase in the propensity to consume in Kuwaiti society, and a rise in borrowing to finance this increased consumption. In order to place this phenomenon in its proper context, there is a need to stress certain premises, particularly the fact that consumption expenditure, whether aimed at acquiring necessities or luxuries, is not a problem at the macroeconomic level, as long as its annual rate does not exceed a limit which allows for realizing enough savings to ensure an increasing income flow. In other words, the increase in consumption calls for a corresponding increase in income; otherwise, this consumption turns into a practice that cannot be sustained without burdening both the individual and the society.

Consequently, borrowing to finance consumption is considered acceptable as long as it does not entail obligations that are inconsistent with the current or expected income of the borrower, and which would constitute a heavy burden that destabilizes the borrower's financial position, not to mention other accompanying negative results. Borrowing means essentially the spending of future income. There is no harm in this, as long as it does not entail financial obligations that are difficult to fulfill by drawing on that income. In this regard, available data indicate that the rise in the propensity to consume has been accompanied by a substantial decline in the ratio of savings to national income. After reaching 28.5% in 1995, the ratio of savings to DNI (disposable national income) declined to 19.3% in 1998.

Among the other premises, which should be stressed, is that appropriate levels of consumption expenditure depend on the economic structure of each country. Specifically, consumption expenditure plays a more positive role in economies with a more diversified production structure. In such economies the increase in consumption leads to an increase in the production of goods and services, hence leading to the creation of more job opportunities and the growth of incomes, which in turn helps to increase consumption. In countries with diversified sources of production and income, this cycle enhances the living standard of individuals in the society.

Consumption does not achieve these positive results, however, in a society that relies on imports to meet its needs for goods and services. In this case, the growth of consumption is accompanied by an increase in demand for imports, which represents an outflow of national income. Therefore, grasping the difference between both cases necessitates differentiating between consumption that contributes to the growth of wealth and consumption that reduces or abolishes wealth.

In addressing the issue of increasingly resorting to borrowing to finance consumption, and the relatively high consumption levels in

Kuwaiti society, it may be useful to point out certain causes which I believe have contributed to these developments, particularly the following:

1. The age structure of the Kuwaiti population, which plays an influential role in determining patterns of consumption in general, and the level of demand for consumption financing in particular. People in the middle-aged bracket are those with the highest propensity to consume and resort to borrowing to fund consumption. Kuwaitis in the twenty-to-fifty age bracket represent 37.5% of the total Kuwaiti population. This indicates a base that contributes to a sustained increase in consumption and the tendency to use borrowing to finance it.
2. The relative increase in individuals' real income levels, which is a main determinant of the rates of consumption expenditure. Most of the Kuwaiti labour force (about 95%) work in the government sector, where there is a relatively high level of job security and an almost continual increase in salaries. Salaries and wages paid by the government represent the most important portion of citizens' income. Additionally, the State provides a number of goods and services at subsidized prices. All this contributes to a rise in the levels of citizens' real income, along with causing increases in consumption levels and borrowing to finance consumption.
3. The relatively small size of the Kuwaiti society and its openness to the outside world, along with the tendency of citizens to travel abroad. As a result of imitation, these factors have diverse influences on patterns of economic behaviour, leading in turn to increased consumption and rising demand for credit to finance consumption.
4. The fact that extension of consumption credit is virtually riskless, with guaranteed deductions from salaries transferred to the banks or investment companies, which extended the

credit. This raises the net profits deriving from such credit facilities for the parties extending them, and provides an incentive for expanding the extension of such credit.

Accordingly, the CBK early realized the importance of applying regulations to control the extension of credit for consumption purposes, along with establishing sound banking practices to ensure compliance with professional standards. The CBK issued its instructions in this regard to local banks and investment companies as early as 1987, and amended them in 1993 and 1995. These regulations and instructions have played a significant role in limiting the extension of credit facilities for consumption purposes. This, in turn, has contributed to limiting the consequences of excessive borrowing to increase consumption.

I began by referring to the noble aim of this conference and commending the efforts of those who organized it, as these efforts are deemed to exemplify a sense of national responsibility and a keenness to reinforce the bases of social and economic stability in Kuwait. I shall close by pointing to what can be called the unregulated credit sector, which garners all the negative results of consumption financing.

Certain individuals cannot obtain further financing for consumption purposes from local banks and investment companies, due to their current income levels or their outstanding financial obligations and, therefore, their lack of credit worthiness. These individuals resort at times to unlicensed lenders, who are mostly individual proprietorship institutions that use devious means and apply unfair conditions in exploiting the needs of these individuals.

Usually, this type of transaction leads to substantial negative effects and diverse social repercussions on individuals and families, and results in problems that may affect social stability. This highlights the importance of being aware of these practices and the necessity of avoiding the lures and ploys prevalent in the unregulated credit sector.

Therefore, we seek to enhance society's awareness of the importance of showing good sense in dealing with consumption expenditure, along with rationalizing borrowing directed at financing increased consumption.
