

***Statement before the Board of Governors  
of the International Monetary Fund and the World Bank*** <sup>(1)</sup>

Last year, at this time, Kuwait was under the occupation of the brutal Iraqi regime that today continues to defy international law and remains a threat to the Iraqi people, neighbouring countries and the international community. No words can express the gratitude of the Kuwaiti people to the international community that stood united against the aggression and to the international coalition forces who risked and sacrificed their lives to see Kuwait free again.

As I speak, over 2,000 Kuwaiti men, women and children remain in Iraqi jails or missing. A cloud of smoke from the oil fires hovers over Kuwait, the Gulf and neighbouring countries, representing one of the world's worst environmental disasters. Thousands of families from different parts of the world remain displaced and suffer from the loss of their property. Many parts of Kuwait remain inaccessible because of mines and ammunition left behind by the Iraqi forces. As Kuwaitis begin to face the depth and magnitude of the economic, social and psychological damage caused by the Iraqi invasion,

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<sup>(1)</sup> Delivered on October 15, 1991 in Bangkok, Thailand, on the occasion of the joint annual meetings of the International Monetary Fund and the World Bank.

we join the international community in hoping that the reduction of international and regional tension will allow us all - the industrial and the developing countries - to reduce arms expenditure and devote more of our resources towards the betterment of mankind. Let me assure you of our strong commitment to the international community and the multilateral institutions that we have built together.

The reconstruction of Kuwait can be expected to take several years. Losses to our infrastructure and domestic assets are expected to be in tens of billions of dollars. In the oil sector, there was severe damage to the infrastructure, which substantially decreased our oil revenues. With respect to the oil-well fires, we expect all fires to be put out at the latest by the first quarter of next year.

Present crude production is 260,000 barrel/day. This will rise to 400,000 barrel/day by the end of 1991, and we hope to produce 800,000 barrel/day by June 1992, well below our previous capacity of 2 million barrel/day. Despite the damage, oil exports commenced in July and we will be working to re-establish our previous position in the international markets. The Kuwait Petroleum Corporation will also continue its investments in emerging markets, which recently included establishment of a network of service stations in our host country, Thailand and Hungary.

The restoration of oil production, storage, refining and export capabilities is critical to the restoration of oil revenues and to meeting reconstruction and development needs. Meanwhile, in addition to subsistence expenses for Kuwaitis during the occupation and immediate reconstruction requirements, we have so far managed to meet the \$23 billion commitment for the international coalition operations costs and for economic aid from investment reserves. Our investment policy remains one of long-term diversification in major capital markets and we will continue to hold our core investments. To meet our short-term financial needs, the Kuwaiti government will be borrowing foreign currencies in the international financial markets.

The borrowing instruments are expected to include syndicated loans, export credit and other credit instruments. Over the medium-term, the borrowing program will also be supplemented with actions to rationalize expenditure. The objective will remain to restructure the economy towards greater efficiency and a larger role for the private sector.

The role of the Central Bank of Kuwait and our financial institutions has been critical to the reconstruction of the economy. The banks, which continued during the occupation to honour their foreign obligations, were well prepared to reopen after liberation. Pursuant to an action plan prepared during this period, the currency notes previ-

ously in circulation, a large stock of which had been looted by the Iraqi occupation forces, were replaced by a new issue immediately after liberation. Temporary restrictions, aimed at counteracting an expected surge in inflation and allowing the banks to reorganize their services, were placed on withdrawals from the banks and on transfers into foreign currency with the exceptions of economic activities and humanitarian cases. By last August (1991) all restrictions were lifted.

The Central Bank's monetary policy during reconstruction continues to aim at controlling inflation and preparing the environment for stable growth. Toward this goal, the KD exchange rate after liberation has been based, as before the occupation, on a basket of the currencies of our major trade and financial partners. The interest rate on the KD is in line with international interest rates.

The Central Bank has also been addressing the problems facing our banking system as a result of the destruction and plunder of private sector assets. The Central Bank of Kuwait is studying a program aimed at cleaning up the balance sheets of the banks of their difficult loans. This is also expected to be an opportunity for restructuring and consolidating the banking system. The government continues to guarantee all the rights of depositors with Kuwaiti Banks.

The invasion of Kuwait precipitated a severe economic crisis in many countries. The international community responded quickly to President Bush's initiative to form the Gulf Crisis Financial Coordination Group, and the World Bank and the International Monetary Fund provided critical technical support and accelerated their programs of assistance to the countries affected by the crisis. Kuwait committed close to \$5 billion to seven countries most immediately impacted by the crisis. The multilateral institutions now need to address some longer-term structural changes in inter-regional trade and capital flows. As many Arab countries restructure their economies to adjust to the effects of the crisis and a rapidly- changing and competitive international environment, there is a unique opportunity for regional cooperation on resource flows, trade and private sector activity. In this respect, Kuwait has agreed to set up holding companies with a capitalization of \$500 million in Egypt and \$200 million in Syria for commercial investments.

Besides direct government assistance, the Kuwait Fund for Arab Economic Development continued its concessional aid program even during the occupation. Eleven loans and four technical assistance grants totalling the equivalent of \$405 million were extended during the period. Despite the difficulties of recreating its books from temporary headquarters, project evaluation, follow-ups, commitments and disbursements were on schedule. As part of H.H. the Amir's ini-

tiative to alleviate the debt burden of the developing countries, \$42 million of interest on Kuwait Fund loans was waived to benefit seven Arab countries, 24 African countries, and 12 Asian countries. We will also be looking at ways to alleviate the burden of repayment on the poorest countries on a case-by-case basis. In this respect, we welcome the recent G-7 agreement for additional relief to the poorest, most indebted countries beyond the Toronto terms.

The Kuwait Fund was instrumental during the crisis in responding to the needs of countries most immediately impacted with grass-roots oriented projects and quick disbursing loans. Total Fund commitments, since its formation, have reached a level of \$6 billion, benefiting 65 developing countries.

Kuwait participated in the Sixth Replenishment of the African Development Fund with an amount of \$100 million as pledged, which is equivalent to ten times our share. Kuwait also contributed \$20 million to the Special Program of Assistance to Africa. We also supported the capital increases in the World Bank and International Financing Association (IFC), and doubled our contribution to the International Development Association IDA-9. In this respect, we support an increase of IDA-10 to reflect the increasing needs of the least developed countries, and will continue through the Kuwait Fund to work closely with multilateral and bilateral development institutions.

Additionally, the government of Kuwait is supporting the Ninth Review of the IMF quota.

We would like to take this opportunity to convey our special gratitude to the financial authorities in the many countries that protected Kuwaiti investments from falling into the hands of the Iraqi regime and to the financial community that supported the Kuwaiti banking and financial institutions as they began operations from temporary headquarters outside Kuwait.