

Promoting private investment

INTERVIEW WITH HE BADER MUSHARI AL-HUMAIIDHI

MINISTER OF FINANCE, KUWAIT



BADER MUSHARI AL-HUMAIIDHI

has a BA in economics from Kuwait University and held various positions including that of Director-General of the Kuwait Fund for Arab Development before joining the Government. In addition, Al-Humaidhi is a member of the Board of Trustees of the Arab Planning Institute (API), Kuwait's deputy governor to the World Bank and International Fund for Agricultural Development (IFAD), as well as being a board member for a number of investment companies.

What are the key priorities of your ministry in relation to the management of Kuwait's economy?

The Kuwait government has three key objectives for the long-term development of the economy. First of all, we are aiming to diversify our financial resources. I recently presented a budget to the parliamentary assembly for 2007-2008. Of our estimated income, over 90 per cent currently derives from just one source, which is oil. So our first priority is to try and diversify this source of income.

The second objective is to promote and encourage private investment, both local and foreign. In recent years, Kuwait has lagged behind some other countries in terms of attracting new private investment. There are a number of different reasons for this, which I will come to later on.

The third objective is to increase job opportunities for young Kuwaitis. Kuwait's population is now over a million and every year we are producing more than 20,000 new graduates. Unfortunately, the public sector cannot absorb all of these as new recruits. This has to be tackled together with the private sector.

How are you encouraging diversification of the economy through regulatory reform?

A few years ago, Kuwait issued an investment code to give greater encouragement to foreign investors. We are currently drafting new laws, which need be approved by the Parliament, and others which need to be changed. The current taxation regime, which is at 55 per cent, poses a real barrier to foreign investment and I believe that this needs to be reduced. We have produced a report that has been approved by the Parliamentary Finance Committee for the General

Assembly which includes recommendations to lower this rate. So hopefully it will go through when it is discussed in Parliament.

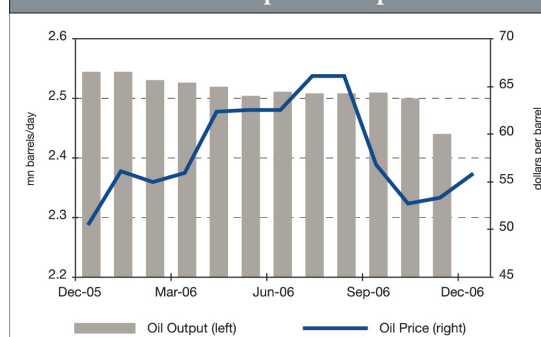
There are two other laws that we are presenting to the Parliament which I also hope can be approved in the near future. One is on privatisation. As you know, the government in Kuwait controls a number of industries which should really be run by the private sector. The other law we have proposed on Public Private Partnership (PPP) has been a hot topic for debate between the government and some of the members sitting in our Parliament. However, I believe that this law is very important for Kuwait because it will regulate the relationship between government and the private sector.

Which sectors are you singling out for the privatisation programme?

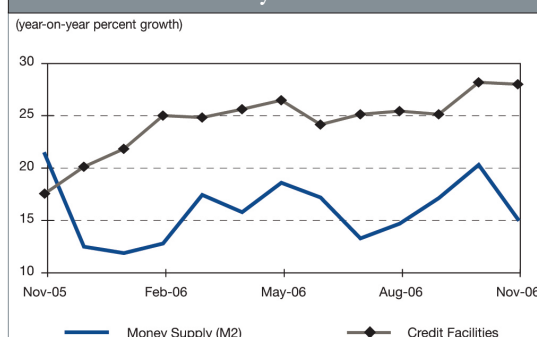
There are service industries in Kuwait which are still in the hands of government that can be better managed in the private sector. When the invasion of Kuwait happened, with the resultant stock market crisis, the government had to intervene and consequently has ended up holding majority shares in companies such as Kuwait Airways in the public transport sector, as well as some other services.

Therefore, we are initially targeting services such as transport and will then move on to other areas like health and education. To give you an idea, nowadays, government is subsidising the cost of providing utility services such as electricity to each Kuwaiti by KD1,000. If we privatised the power sector, or the telecommunications sector, we could significantly reduce this level of subsidy.

Kuwait's crude oil price and production



Monetary indicators



How does Kuwait balance its budget deficit against its longer term assets?

Since the price of oil often fluctuates sharply, it is very risky to depend directly on oil revenue as a single source of income. To give you an idea, recently we recorded the highest price for supplies of Kuwaiti oil at \$68 a barrel. However, as we speak, the price of oil is recorded at \$45, almost \$23 down.

In the 70s, the government established the Kuwait Investment Authority to handle outside investments for the State of Kuwait, utilising our surplus oil revenues. This has proved to be a very successful strategy. For example during the 1990s, when Iraq invaded Kuwait, our only source of income was from these investments. For many years the price of oil was low and, again, we were able to cover the deficit in the budget out of these investments.

Nowadays, there are calls from some members of our Parliament to use these investment funds to cancel our debt, or to increase wages and salaries. We are resisting this kind of action because it would deplete these investments and with it our capacity to offset downturns in the oil market. At present, the total reserves of Kuwait stand at almost KD15 billion. This is a good cushion for us for the future, especially as the expectation for oil prices by 2008 is for some downward pressure which might put our budget into deficit once more.

What role is the banking sector playing in your plans to diversify industry?

The banking system in Kuwait is one of our strengths, and has extended its activities outside Kuwait into the Gulf and beyond. The National Bank of Kuwait is considered the best bank in the Middle East and they help both local and regional business a lot.

The banking system in Kuwait is totally in the private sector. About three years ago, we reformed our regulations concerning foreign banks. We already have four banks established with offices in Kuwait including Bank National de Paris, HSBC, Citi Group and the National Bank of Dubai and Abu Dhabi. So we have opened the system up for more competition, aside from the local players.

In the light of the recent devaluation of the dollar, there seems to be new impetus for the Gulf states to introduce a single currency for the region. Do you see this as a viable policy and what other practical initiatives is Kuwait pursuing to increase financial co-operation within the Gulf region?

Financial co-operation between the Gulf states actually started even before the

GCC. We, the Finance Ministers, meet twice a year as a committee to help co-ordinate and integrate our financial systems. One of the objectives, as you know, is the single currency between the countries. The target date for a single currency is still set for 2010 but there are many steps to be taken, in the meantime, in order to align our financial systems. This might take some time to realise as there is disagreement between some of the countries on the mechanisms which are needed. For instance, should we go straight for the creation of a single Central Bank or shall we move towards some form of exchange rate mechanism in the interim? ►

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The target date for a single currency is still set for 2010

Revenues and expenditure - Fiscal Year 2006-07								
(million KD)								
	Eight Month Interim Report		Prorated Budget		Change		Actual / Budget (%)	
	05/06	06/07	05/06	06/07	mn KD	%	05/06	06/07
Total Revenues	9,186	10,764	3,071	5,680	1,578	17	299	190
Oil Revenues	8,702	10,234	2,609	5,158	1,532	18	333	198
Non-Oil Revenues	483	530	462	522	46	10	105	101
Total Expenditures	2,946	4,496	4,821	7,950	1,549	53	61	57
Excluding Amiri Grant and Transfer to PIFSS	2,558	3,052	4,435	6,161	494	19	58	50
Wages and Salaries	863	796	1,295	2,050	-67	-8	67	39
Goods and Services	202	452	718	953	249	123	28	47
Vehicles and Equipment	13	16	60	88	3	22	21	18
Projects, Maintenance and Land Purchases	208	221	627	841	13	6	33	26
of which: Electricity & Water	74	75	173	263	1	2	43	29
Public Works	98	98	183	204	1	1	53	48
Misc. Exp. and Transfers	1,660	3,011	2,121	4,018	1,351	81	78	75
Miscellaneous Expenditures	600	629	748	718	29	5	80	88
of which: Min. of Defense	403	396	481	473	-7	-2	84	84
Military Procurement	123	104	167	107	-19	-15	74	98
Transfers to Public Institutions	750	1,671	857	2,350	921	123	87	71
of which: Social Security (PIFSS)	388	1,241	387	1,788	853	220	100	69
Other Transfers	310	711	516	950	401	129	60	75
of which: Loan Forgiveness	35	35	23	23	0	0	150	150
National Labor Support	31	53	40	46	22	71	77	116
Amiri Grant	0	203	0	0	203
Surplus (deficit)	6,239	6,268	-1,750	-2,270	29	0
After RFFG	4,862	4,654	-2,057	-2,838	-208	-4

Budget figures are prorated for the first eight months of the fiscal year.
RFFG: Reserve Fund for Future Generations

As you know, this process took some years to achieve in Europe and, even still, Britain is not part of the European single currency.

Finally, what is your vision for the economic and financial development of Kuwait over the next decade?

Kuwait, in the '60s, and even the 70's, used to be the financial centre of the region. Unfortunately, we

lost that position in the '80s and '90s. Our vision is to regain that position once again. Kuwait is more eligible than any other country to be the financial centre for the region, and we can build on the strength and success of our existing banking system. We have a committee, headed by the Central Bank governor, who has responsibility to propose initiatives which will meet this objective. **P**

Eamonn Daly, COO, FIRST/World Petroleum talks with HE Bader Mushari Al-Humaidhi, Minister of Finance, Kuwait

