150

Kuwait: From Reconstruction to Accumulation for Future Generations

÷,

D

1

1

é

2

ţ,

Nigel Andrew Chalk, Mohamed A. El-Erian, Susan J. Fennell, Alexei P. Kireyev, and John F. Wilson



INTERNATIONAL MONETARY FUND Washington DC April 1997



Contents

.

2

.

0

		Page
Prefa		vii
TTER	ice j	*11
I	Introduction Mohamed A. El-Erian	I
II	Accumulation for Future Generations: Kuwait's Economic Challenges Mohamed A. El-Erian	2
	. Kuwait's Economy on the Eve of the Iraqi Invasion The Economic and Financial Impact of the Invasion The Authorities' Policy Response and the Challenges Ahead Emergency Program, Reconstruction, and Rehabilitation Restoring Financial Balances Strengthening the Financial Markets Improving the Functioning of the Labor Market Conclusions Bibliography	2 3 4 5 5 5 6 7 7
111	Budget Structure and Implications for Fiscal Policy Susan Fennell	8
	Historical Perspective Fiscal Developments in 1994/95–1995/96 Structural Aspects of the Budget Revenues Expenditure Implications for Reform Conclusions	8 10 10 11 12 13 15
IV	The Impact of Fiscal Retrenchment on the Private Sector Nigel Andrew Chalk	16
	A Review of the Literature Impact of Expenditure on Aggregate Private Activity The Sectoral Breakdown Manufacturing Construction Trade, Restaurants, and Hotels Other Sectors Summary of Findings The Impact of Fiscal Policies on Private Consumption Expenditure Conclusions	16 16 19 20 21 22 22 23 24

¢

		ppendix: Augmented Dickey-Fuller Tests and Johansen Test Results bliography	25 26
		he Kuwaiti Financial System: Structure and Experience hn F.Wilson and Alexei P. Kireyev	28
	0	verview of Kuwait's Financial Structure	28
	Po	blicy Evolution in the 1980s	30
		Monetary Policy	30
		Interest Rate Policy	30
		Liquidity Issues and Management	32
		evelopments in Supervision and Regulation	34
		onetary and Credit Developments	37
	C	onclusions	40
		n Analysis of Kuwait's Debt Collection Program exei P. Kireyev	42
	А	Brief History of the DCP	42
		The Souk Al-Manakh Episode	42
		Original Program	43
		Purchase of Bad Debts	43
		Recovery of Bad Debts	45
		ne Analytics of the DCP: The Framework	45
		ne Analytics of the DCP: A Preliminary Application	47
		onclusions	49
	B	bliography	49
	Tables		
	3.	1 Composition of Revenues for Kuwait and Comparator Countries	11
		2 Components of Government Expenditure, 1994	13
	4.	1 Impact of Changes in Expenditure on Total Private Sector Output	18
		2 Impact of Changes in Expenditure on Private Manufacturing	20
		3 Impact of Changes in Expenditure on Private Construction	21
	4.	4 Impact of Changes in Expenditure on Private Trade, Restaurants, and Hotels	22
	4.	5 The Effect of Changes in Public Expenditure	22
		on Private Consumption	23
	5.	1 Structure of Financial System	29
		2 Evolution of Monetary Policy Instruments	31
	5.	3 Selected Monetary Policy Tools	33
	5.	4 Key Elements of Banking Supervision	35
		5 Factors Affecting Changes in Domestic Liquidity, 1992–March 1996	37
		6 Factors Affecting Changes in Domestic Liquidity, 1981–95	38
		7 Structure of Interest Rates on May 15, 1996	40
		1 Chronology of the Debt Collection Program, 1986–96	44
		2 Debt Collection Program	48
	6.	3 DCP: Outcome of the First Installment Repayment on April 6, 1996	49
٠	Figures	,	
	0	A	

.

2. Selected Economic Indicators	4
2.2 Total Revenue and Investment Income	4
2.3 Crude Oil Production	5
2.4 Interest Rates	6
2.5 Value and Volume of Shares Traded on Kuwait Stock Exchange	6
3.1 Overall Fiscal Balance	9

2

Contents

3.2 Developments in Fiscal Revenue	11
3.3 Components of Fiscal Expenditure	12
5.1 Contributions to Liquidity Growth, 1981–95	39
6.1 Kuwait: Individual Debt Laffer Curve	46

Boxes

٠

3.1 The Budgetary Process in Kuwait	8
3.2 Budgetary Subsidies and Transfers	14