KUWAIT: Finance Minister Anas Al-Saleh (right) and Central Bank of Kuwait Governor Dr Mohammad Al-Hashel attend the 7th Euromoney Conference yesterday. — Photo by Fouad Al-Shaikh

Kuwait to sell local currency bond by year-end to meet deficit: Minister

'Low oil prices reveal major challenge facing budget'

KUWAIT: Kuwait plans to issue bonds denominated in local currency by the end of this year to help the Gulf Arab state bridge its budget deficit, the country's finance minister said yesterday. No value for the issuance was given by Anas Al-Saleh, who was speaking on the sidelines of a conference in Kuwait City.

Kuwait's parliament in July approved a state budget for the current 2015-16 fiscal year that envisages a budget deficit of 8.18 billion dinars ($27 billion) because of low oil prices. However, the actual deficit may not turn out to be nearly as large. The size will depend on oil prices, while Kuwait has in the past often underspent its budget because of bureaucratic red tape and tensions between the cabinet and parliament that have slowed economic projects. This could also limit the deficit.

Sharp decline

Saleh said that sharp decline in global oil prices since June of last year sheds lights on one of the main challenge facing the country's state budget. The minister made his remarks in his opening speech of the 7th Euromoney Conference which kicked off yesterday under the slogan 'Innovation in Uncertain Times.' He added that the state budget's reliance on oil revenues is closely related to the structure environment of the country's economy and the pivotal role of the oil industry in it, especially as Kuwait has 10 percent of the world reserves of oil and one of the top ten global oil exporters.

Saleh noted that this conference takes place in a critical time, regionally and internationally as the world economy faces huge challenges, including the moderate economic performances in most parts of the world. The minister said that the global economic performance gravely impacted Gulf Cooperation Council (GCC) countries due to the plunge of oil prices on global markets since mid 2014.

Reserved fund

Saleh said Kuwait established since the 1950s a reserved fund from oil revenues and in the 1970s established the future generations fund in addition to the sovereign funds in all exporting countries. The minister explained since then that Kuwait has been working to improve performance of the first two established funds to minimize rapid and severe changes due to changes in global oil markets.

Saleh asserted importance on realizing the difference between financial and structural deficits of the state budget. He explained that the structural deficit is related to the national economy structure's reliance on revenues from oil and its derivative which coincides with failure to diversify income sources and rapid growth in expenditure. The minister stressed importance of realizing the difference between financial deficit and deficit in determining the suitable solutions for each type.

Saleh also called for continuing development of national production potential, health, education, and infrastructure. The minister underlined the finalized legislative reforms to activate the various kinds of partnership between the public and private sectors.

Regarding the expected deficit in the nation's budget, the minister, who is also a deputy prime minister, said in the event that Kuwaiti crude oil price stabilized at $45 a barrel, the budget deficit would reach KD 8 billion, noting that a non-deficit budget required the oil price to be at least $73.

Foreign companies

Meanwhile, Saleh spoke about facilitations Kuwait has given to encourage businesses locally, saying that the country has attracted international companies to set up businesses in the country with full ownership by these companies, such as IBM and Huawei, among others.

Kuwait is now a free trade zone, he said in a press statement on the sideline of the conference. He added that a number of Gulf countries have followed in Kuwait's footsteps, by enacting legislations inviting foreign capital with no strings attached.

Innovation

Central Bank of Kuwait (CBK) Governor Mohammad Al-Hashel also spoke during the conference, saying that innovation in finance has become a major driver for growth and welfare in different world countries. "It goes without saying that innovation has been one of the key drivers of growth, productivity and prosperity across countries and over time," Hashel addressed the conference.

In the field of finance, the role of innovation can be discussed from a variety of angles; after all, our modern world of finance is an innovation in itself, under a constant evolutionary cycle spanning over decades.

Giving examples of innovative developments, he said: "Let me start with central banks. One relevant example of central banks' innovative approach towards policymaking has been the use of unconventional monetary policies (UMPs) in recent years."

"You will recall that in the wake of global financial crisis, the central banks of major advanced economies provided substantial emergency liquidity support to their battered financial systems. Moreover, policy rates were swiftly slashed in successive intervals - for instance, the Federal Reserve cut interest rate from 5.25 percent in July 2007 to between 0.00 percent - 0.25 percent by January 2009. Likewise, the Bank of England lowered its policy rate from 5.75 percent in July 2007 to 0.5 percent by March 2009. However, even as the policy rates hit the zero-lower bound through successive cuts, financial markets remained in turmoil, real output kept declining and threats of below-target inflation loomed large. As economic theory would tell us, central banks were confronted with a liquidity trap at the zero-lower bound," he said.

No longer being able to cut nominal rates any further, central banks in major advanced economies were compelled to adopt an innovative policy stance. So the central banks pursued UMP, and rounds of quantitative and credit easing were introduced, he added.

It is true that the use of quantitative easing (QE) was not entirely a novel concept as the Bank of Japan had pursued the same since back in 2001. However, the scale, the length and the impact of QE and other innovative measures introduced since 2008 have been unprecedented. The Federal Reserve alone conducted three different rounds of QE programs, purchasing financial assets worth more than $3.5 trillion - an amount roughly equal to the size of Germany's economy.

On the positive side, these innovative policies have definitely helped in improving credit conditions, providing liquidity, bringing yields to historically low levels and lifting growth. Though recovery is still somewhat fragile and uneven across the major advanced economies, the economic outlook has turned clearly positive in both the US and the UK. Yet, the pursuit of UMPs has also spawned debate about their unintended consequences, their diminishing efficcy and their serious implications for global financial stability, Hashel noted.

Concerns

Highlighting a few concerns in this regard, he said: First, the UMPs have helped push interest rates in many advanced countries to record low levels. In fact, rates in the Eurozone have turned negative - which effectively means depositors are being charged to make deposits. Returns on risky and non-risky assets have sharply converged, evident from the extreme compression in sovereign credit spreads in the Eurozone. This has increased the danger of mispriced sovereign risks. Moreover, with short-term rates at zero lower bound, investors are investing in long-dated securities at very low yields, pushing even term premium into negative territory. These investors are likely to suffer significant losses when long-term yields ultimately normalize.

Second, with ultra-loose monetary policies, prices of financial assets have seen a rapid climb. This has increased the risk of a hard landing in the future particularly when the current level of liquidity is ultimately withdrawn. Third, despite historically low interest rates, the impact on real economic activity has remained limited amid weak investments. As the International Monetary Fund (IMF) once put it, 'there has been a lot of financial risk taking but little economic risk taking'.

Fourth, UMPs have also caused significant portfolio rebalancing amid shifting capital flows. Between 2009 and 2012, emerging markets received about $4.5 trillion of gross capital flows, as investors rebalanced their portfolios away from US Treasuries in search of higher yields. Fifth, despite enhanced communication of policy paths, the timing and pace of reversals in UMPs can rattle markets. In any case, orchestrating an orderly exit would not be easy.

Macroprudential measures

Regulators are supplementing their existing microprudential toolkits with macroprudential measures - aimed at addressing systemic vulnerabilities across institutions and over time, Hashel noted. Though the concept is not entirely new, macroprudential policy is increasingly being recognized as a valuable tool to address specific financial stability issues where the use of monetary policy on its own appears too blunt a tool to be entirely effective, he added. However, challenges have also emerged about the appropriate calibration of macroprudential tools, effective coordination among various regulators and even the potential implications for central banks' independence, the CBK governor elaborated.

The pace of innovation in financial products and instruments has been particularly staggering in the run up to the global financial crisis. For instance, within 10 years leading up to 2007, the total outstanding value of interest rate swaps and other derivatives surged from $75 trillion to $600 trillion, almost eleven times the value of global GDP. During 2007 alone, the global derivatives market grew by almost 50 percent.

On the positive side, the development of innovative financial instruments has empowered institutions to accomplish their financial requirements and effectively hedge their risks. Individuals are also better able to smooth out their consumption over time, he said.

He recalled that on July 8th this year, computer systems at the NYSE went down for nearly four hours in the middle of the day, bringing to a halt the epicenter of America's financial markets. Moreover, with the growing footprint of modern technologies, the nature of risks has also evolved significantly. As various hacking episodes illustrate, now fraud can be perpetrated swiftly, remotely and on a massive scale, he said. While the chances of frauds like tampering with cheques, as shown in Spielberg's 'Catch Me If You Can' are getting remote, the risk of cyber-attacks is on rise. In 2013, hackers stole the personal financial data of 70 million customers at 'Target', a major discount retailer in the US. The breach cost Target more than $150 million and the CEO his job, Hashel pointed out. — Agencies

Gulf Bank hails success of 7th Euromoney Conference in Kuwait

'Kuwait is birthplace of Gulf banking'

KUWAIT: Gulf Bank hailed the successful completion of its sponsorship of the 7th Euromoney Conference which took place yesterday at the JW Marriott Hotel in Kuwait. The theme of this year's conference was 'Innovation in Uncertain Times' and included keynote addresses from Anas Al-Saleh, Minister of Finance, and Dr Mohammed Al-Hashel, Governor of the Central Bank of Kuwait.

Omar Kutayba Alghanim, Chairman of Gulf Bank, participated in an interview session in the morning where he offered his model for the 'next generation bank' and the future of the banking sector in Kuwait.

Alghanim discussed efforts the bank is making to build the 'next generation bank.' He said: "Building the next generation bank relies on three important pillars, these are: ease of use; transparency, and trust. Ease of use includes using technology and other methods to make the customer's banking experience easier and more seamless. Transparency means being clear and open in the banking process. Trust is built by always putting the customer first. Naturally, trust will also grow from the higher levels of transparency and ease of use."

This model for the next generation bank is essential to the growth of the banking sector in Kuwait and the economy in general. Alghanim said: "We are living in a period where oil prices are fluctuating with a downward decline in more recent months. We know that Kuwait needs a more diversified economy and the financial sector should lead the way. We must be competitive and modern."

Alghanim believes Kuwait must capitalize on its strengths: "Kuwait is the birthplace of banking in the Gulf region, and has the capital and talent required. With this in mind and the pillars of the next generation bank, I do not see why Kuwait's financial sector cannot become our next great global export. Kuwait has the best banks in the region but we must look to a future where we sit at the heart of global markets."

Alghanim also stressed the importance of human capital in building this future, saying: "In order to sustain a competitive advantage, we must have the right talent, and we have that here in Kuwait. We are proud that 64% of our workforce is Kuwaiti and we are committed to increasing that percentage and to increasing gender parity. We must continue to work with the next generation, building a cadre of Kuwaiti bankers for the benefit of the bank, Kuwait, and the future of banking".

In closing, Alghanim expressed his appreciation and gratitude to: the Central Bank of Kuwait; Gulf Bank's Board of Directors; the Bank's loyal customers; and the Bank's dedicated staff for the important roles they all play.

With regards to the Euromoney Conference, Alghanim said: "I am very proud that Gulf Bank is playing such a major role in this conference. It is an excellent platform for the industry to discuss future developments in Kuwait's financial sector. New technology, products, and opportunity mean that there are exciting times ahead for the industry and conferences such as this are vital for the exchange of thoughts and ideas in these areas."

Euromoney is the world's leading organizer of conferences for cross-border investment and capital markets for portfolio and direct investors, financial intermediaries, corporations, governments, banks and financial institutions.

Omar Kutayba Alghanim, Chairman of Gulf Bank (left) speaks during his interview session.

Dr Mohammad Al-Hashel, Governor of the Central Bank of Kuwait with Omar Kutayba Alghanim, Chairman of Gulf Bank and Cesar Gonzalez-Bueno, Gulf Bank CEO at the bank's stand.