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Policy, Planning, and Research

WORKING PAPERS

Financial Policy and Systems

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Averting Financial Crisis — Kuwait

Fawzi H. Al-Sultan

Specuiation in Kuwait's surging stock market in the early eighties fueled a financial crisis that threatened the banking system and required government intervention.

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Policy, Planning, and Research

WORKING PAPERS

Financial Policy and Systems

On August 8, 1982 a leaflet was distributed in the Suq Al Manakh building and in the basement of Commercial Center No. 5, the offices of the parallel stock market and the Kuwait Stock Exchange. The leaflet carried the names of most of the dealers in the stock market and it declared a one-month moratorium on all payments of maturing future cheques. The moratorium, informal as it was, was respected by the dealers. By that time, close to a month had passed since the first major default, and backlogs in payments had brought the accepted form of clearing to a halt. The moratorium also marked the beginning of a financial crisis that would absorb the country's full attention.

During the next two years stock market and real estate prices fell more than 50 percent, devastating investors who had bought the underlying assets at future prices that were multiples of the current market value. Because these equities had been bought with postdated cheques—the acceptable form of payment in future transactions—buyers and sellers found themselves unable to settle their accounts and the government was forced to intervene.

The government's actions should be seen in the context of its desire to maintain social harmony in a small, closely knit society during the protracted Iran-Iraq war. Accordingly, officials pursued a policy to sidestep commercial regulations and bankruptcy law in the interest of settling outstanding claims as quickly as possible.

While asset prices continued to fall under the impetus of government intervention, the decline was reinforced by political and economic shocks that affected domestic growth. The sharp drop in oil prices and production cutbacks led to lower government revenues, reducing the level of public spending programs. At the same time, the continuation of the Iran-Iraq war and the recession in the oil-dependent Gulf countries reduced nonoil trade and dampened economic expectations.

This paper traces the development of Kuwait's financial crisis and describes the interventions devised by the government as events unfolded. The critical question is whether the solutions will reignite Kuwait's nonoil economy and stimulate the participation of the private sector.

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AVERTING FINANCIAL CRISIS - KUWAIT

By: Fawzi H. Al-Sultan

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CHRONOLOGY OF THE KUWAITI FINANCIAL CRISIS

March-August '82	:	"Suq Al-Manakh" parallel market index falls from 240 to 110.
August '82	:	Share dealers declare moratorium on postdated cheque settlements.
September '82	:	Law requires registration of postdated cheques with clearing company. Arbitration Panels formed to settle disputes.
October '82	:	Value of cheques registered at US$90 billion.
November '82	:	Creditor-Guarantee Fund capitalized at KD 500 million formed to guarantee up to KD 2 million per individual against dealers in bankruptcy.
December '82	:	Chamber of Commerce recommendation to bring down cheque values is rejected by government.
January-March '83	:	Clearing process begins. Government begins purchasing Kuwaiti stock exchange company shares at support prices.
April '83	:	Settlement organization for futures transactions in shares setup to manage bankruptcy, liquidation, and settlement of distressed dealers.
August '83	:	Law brings down cheque values by limiting premiums and authorizes Arbitration Panels to further reduce debt on a case-by-case basis.
August '84	:	Kuwait Stock Exchange established.
October-December '84	:	Government stops share support program resulting in sharp break in Kuwaiti stock prices.
January-June '85	:	Number of irregular loans increases.
July '85	:	Government, CBK formally announce support of banking system and depositors' funds.
	:	Study of Kuwaiti and Gulf companies' problems in progress.
November '85	:	Restructuring and liquidation of shareholding companies begins.

October '85	:	CBK introduces new loan classification and provisioning procedures.
August '86	:	Difficult Credit Facilities Settlement Program reschedules borrowers for up to 15 years with no interest. CBK supports distressed banks by providing deposits at 1 percent.
1987-'88	:	Foreign exchange companies registered under CBK regulation.
July '88	:	Arbitration Panel and settlements organization are dissolved and replaced by the courts and the Ministry of Finance.
		Creditor Guarantee Fund increases capital by KD 670 million.
October '88	:	Planning council begins review of a medium- to long-term economic diversification and income stabilization study.

THE STOCK MARKET

The first Kuwaiti Shareholding Company (KSC) was formed in 1952, and at the time of the moratorium there were 40 publicly owned companies listed on the Kuwait stock exchange. There were also 46 unlisted Kuwaiti shareholding companies' known as KSCCs, and 38 companies established in Gulf countries that traded on the informal exchange called the Suq Al Manakh, after the name of the building in which most of the brokers had their offices. The companies listed on the official stock exchange were established under Kuwaiti commercial law 1/ ; the rest were traded on the unofficial exchange since they did not meet the exchange's legal requirements.

Kuwait's securities industry was regulated by the Committee on Securities appointed by the Minister of Commerce. Although the committee had wide powers for regulating the stock market, and its executive board met twice a month to follow market developments, there were no established procedures to supervise the system. Moreover, the committee was limited in its supervision to only those shares registered with it, which effectively excluded trades in the parallel market that accounted for more than 80 percent of trading volume. The Securities and Investment Department of the ministry was responsible for registering trades, supervising brokers, and generally executing the committee's decisions.

Market Expansion. During the early seventies, surging demand for equities forced prices higher, prompting buyers to pay a premium for newly issued shares, even while companies were being established. In fact, the subscription rights of Kuwaiti citizens could be bought through brokers, and almost all the companies founded were oversubscribed. Merchants responded to shareholder enthusiasm by forming new companies at a rapid pace, assuring themselves of a certain number of shares at a nominal price. New issues on the stock exchange rose from KD 33 (Kuwaiti dinars) million a year in 1974 to an annual KD 165 million between 1982-84 2/ .

This growth was accompanied by a rapid rise in new KSCCs and Gulf companies when the government suspended the formation of KSCs for almost two years, from mid-1977 to mid-1979. Between 1976 and 1982, 38 Gulf-incorporated companies were established with subscribed capital of $3.5 billion 3/ . These were essentially Kuwaiti-owned but incorporated in the Gulf Emirates. Regulations permitted Kuwaiti investors to incorporate a company in any Gulf state. The firm would have a long list of Gulf founders (although most were Kuwaitis) and each share was denominated at 1/30 the Kuwaiti price ($1 as compared to $30). Within a relatively short time the share would be actively trading in the parallel

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1/ See Statistical Appendix 8 and 9.

2/ See Statistical Appendix 8.

3/ Ibid.

market. To the Gulf states these were essentially offshore companies that were subject to few regulations or reporting requirements. When the market peaked in 1982 the equity base had reached $4.1 billion, half of which had been issued in the first six months of the year.

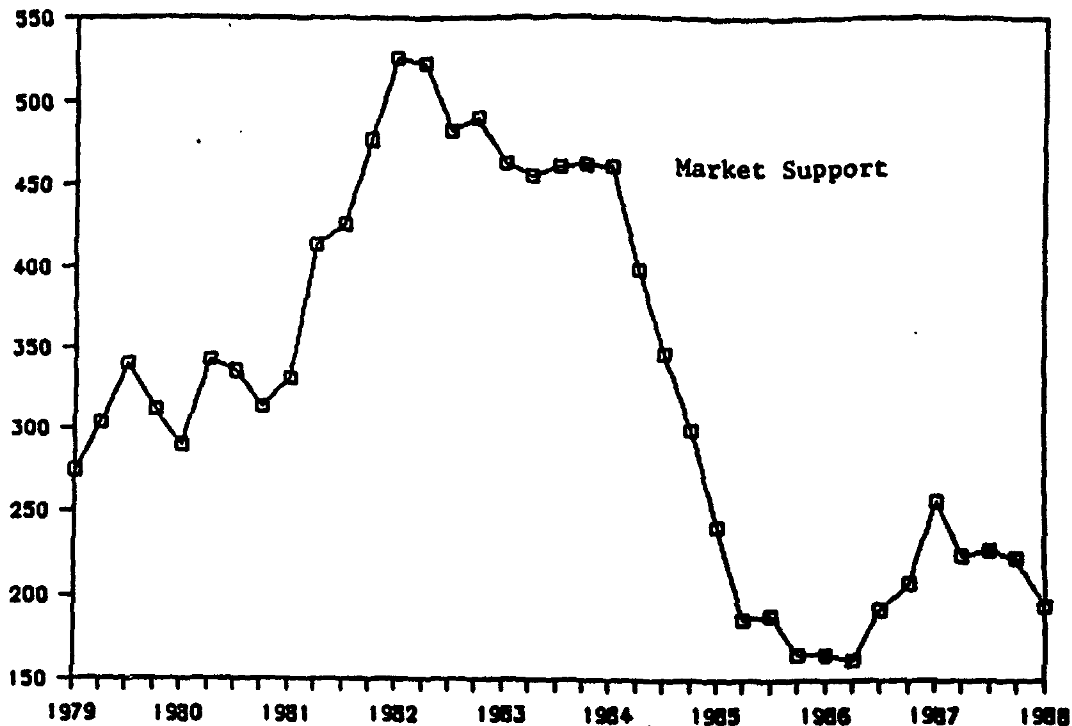
Following the expiration of the ban, 37 KSCCs capitalized at $2 billion 4/ started up, and these too began trading on the parallel market despite regulations that prohibited founders from selling shares before a three-year period of profitability. To skirt the law, letters of sale, rather than actual shares, were given to the buyer. Depending on how many times the shares were sold, buyers would accumulate sequential letters that would trace the sale back to the founder. The government accelerated the process during the boom years by reducing the maximum subscription amount to encourage small investors to establish firms, and in this way, spread the benefits of the stock market boom. New issues between 1979-82 in all markets totaled close to KD 2.2 billion, an increase in outstanding stocks of 373 percent. In 1982 the equity of the Gulf companies alone exceeded that of the listed Kuwaiti companies. The equity base of the entire parallel market (including KSCCs) was more than twice that of the Kuwaiti market 5/ .

The First Market Break. In late 1976 the first major market break occurred; the annual index fell 18.7 percent, from 235.2 to 191.8, and volume dropped 66 percent. The government intervened to avert a crisis by suspending the establishment of new shareholding companies and increases in the capital of existing companies. The rationale was that the pace of new equity issues was affecting domestic liquidity and had contributed to precipitating the crisis. The government stepped in to support the market by purchasing shares at a floor price. From December 1977 to April 1978, the government bought about KD 150 million in shares. The Central Bank of Kuwait (CBK) intervened to address possible repercussions to the banking system by effectively setting up a purchasing facility for any bad debt as a result of bank lending to share dealers or against security of shares. The facility, however, was not used by any bank. The market recovered toward the end of 1978 and both markets remained steady until 1981, when strong bull market effectively started. The Kuwaiti share index moved from 331 in the first quarter of 1981 to 523 in the second quarter of 1982 (see figures 1 and 2). The Gulf index moved from 120 to 235 from September 1981 to March 1982 (see figures 3 and 4).

4/ Ibid.

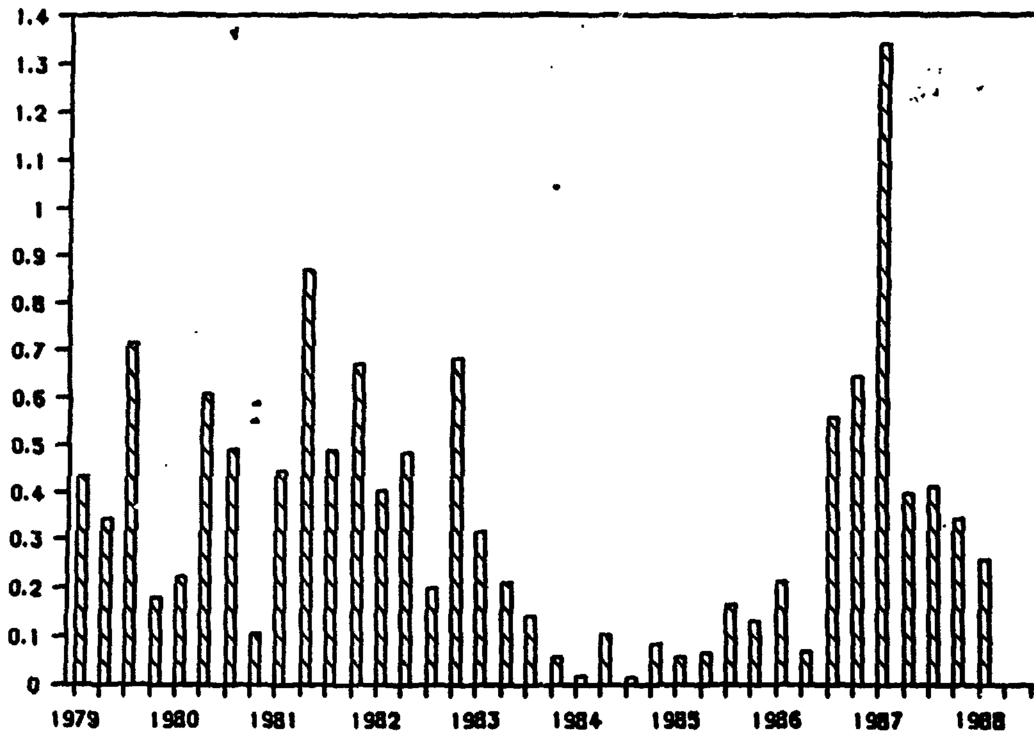
5/ See Statistical Appendix 8 and 9.

FIGURE 1: KUWAIT SHARE INDEX



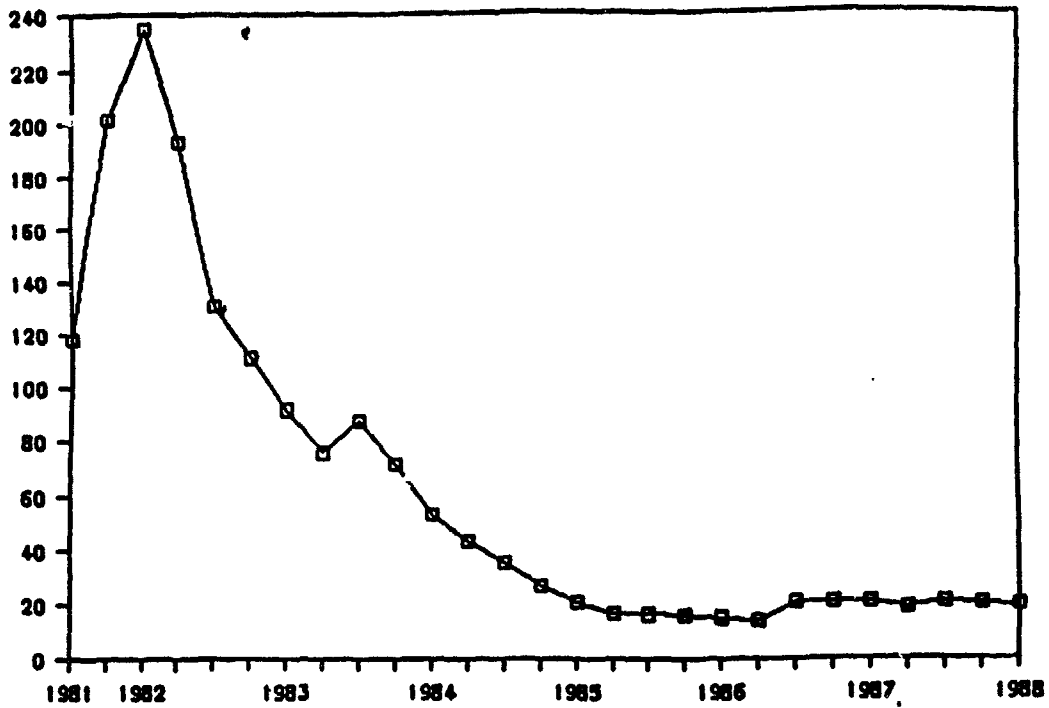
Source: Al-Amwal Co. WLL, Kuwait.

FIGURE 2: KUWAIT SHARE INDEX VOLUME
(In millions of shares)



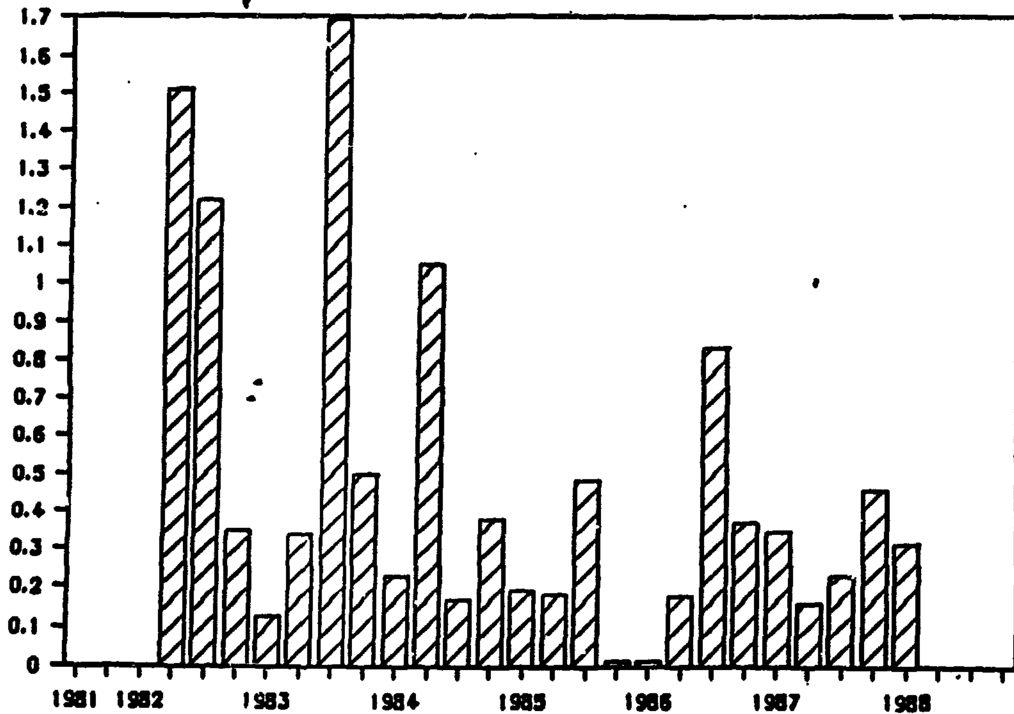
Source: Al-Amwal Co. WLL, Kuwait.

FIGURE 3: GULF SHARE INDEX



Source: Al-Amwal Co. WLL, Kuwait.

FIGURE 4: GULF SHARE INDEX VOLUME
(In millions of shares)



Source: Al-Amwal Co. WLL, Kuwait.

Futures Trading. Prior to the crisis forward trading was very informal. A government ban on such trades was largely ignored. Kuwaiti merchants were accustomed to futures trading in commodities and real estate, but only began to make use of the method to buy shares in the mid-seventies. The seller would actually deliver shares to the buyer in exchange for either a postdated cheque or a promissory note. Futures trading played a very significant technical role in precipitating the crisis, particularly as dealers had to liquidate share positions to cover maturing payments or their overall position in the market. The cheques or notes issued were also often discounted with the banking system, with the proceeds used to make payments or purchase shares.

In 1976 when the Stock Market Committee was organized, its functions included regulating the futures market, but not until the 1977 crisis did the government pass legislation regulating this market 6/ . The law required all futures trades to be registered with the Securities Administration and carry a maximum maturity of 12 months. In addition, the buyer was required to pay the seller a deposit equivalent to the greater of either 10 percent of the purchase value or the difference between the spot and future prices. The seller retained title to the shares during the contract period unless paid in full by the buyer. But traders ignored the new regulations since they could not be implemented without a clearing agent to monitor the deposit required as prices changed and to guarantee the transfer of title. Without a clearing intermediary, individual investors continued the practice of treating the sale as a cash transaction except that the payments were deferred. The use of cheques was also very practical because under Kuwaiti commercial law a cheque is a cash instrument payable upon presentation. The date is only significant in that the cheque is not payable if the date is over a month old. The future date of the cheque was, therefore, not significant, and what merchants accepted was a cash instrument that was enforceable by law within the allotted time. In any case, except for registering the trade, the authorities had no way to supervise the agreement between buyers and sellers.

In 1981 the futures trading laws were amended to require a contract signed through a broker and registered with the stock exchange. 7/ The contract specified the maturity, the underlying shares of the transaction, and the method of payment. This registration gave a special impetus to futures trading in a rapidly rising stock market. The buyer and seller were both protected by law, so that what had been essentially an instrument for merchants who knew each other well became an instrument determined by price and the reputation of the buyer. The stock exchange, beside registering the contract, had no role in regulating the clearing mechanisms. The brokers ensured that that buyer delivered his cheque and the seller his shares (after transferring title), so the trades continued to be treated as cash trades. Traders in the fast-growing parallel market were completely unregulated at this time.

6/ Kuwait Stock Exchange No. 52, 1974; 61, 1976; 31, 1977. Laws, Decrees, and Ministerial Resolutions.

7/ Ibid. No. 90. 1981.

By 1981 premiums in the Kuwaiti stock market were between 50 and 100 percent and double that in the parallel market 8/ . Rather than take the risk, many individual and institutional investors sold the shares forward, locking in a presumably high premium. Technically, this was a significant development for the futures market. Previously most trading was between dealers who could clear transactions with each other, but the entry of a large number of "sellers only" meant that the dealers would have large open and unbalanced positions.

A significant number of the sellers were the shareholding companies. Of the 38 Gulf companies, 28 dealt in the Kuwaiti real estate and stock markets through limited liability subsidiaries 9/ . Loans were made to the subsidiary and the subsidiary invested them in the market. These companies, with a total capital of $2.5 billion, had total investments in the securities market worth $2.8 billion -- the difference funded by borrowings.

A look at the assets of 33 nonbank KSCs demonstrates the financial involvement of Kuwaiti companies in the stock market. Between 1980 and 1982 these firms reported a 92 percent jump in assets, from KD 1.5 billion to KD 3 billion. (Thirty-nine percent of the growth was financed from internal resources and 61 percent with short- and medium-term loans.) Profits in 1981 and 1982 were double that of 1980, and in 1984 and 1985 losses were an equivalent amount 10/ . The pattern parallels the rise and fall of the stock market.

Debt to Nonbanks (KD million) 11/

SECTOR	1980	1981	1982	1983	1984	1985	1986	1987
Industrial	116	129	118	179	164	128	113	102
Food	78	85	85	64	61	57	31	25
Service & Transport	18	34	76	43	44	36	53	52
Real Estate	151	217	358	317	297	241	186	192
Investment	567	922	1084	1240	1186	1124	942	1029
Insurance	76	91	100	105	109	92	93	89
TOTAL	1006	1478	1821	1948	1861	1678	1418	1489

As an illustration of the diverse KSCs that were involved in the stock market, nine of fourteen industrial companies showed exceptional growth in external funding, receivables, and investments from 1979 to

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8/ Al-Behlawi, Hazem and Riad Fahmi. The Kuwaiti Stock Market 1946-1980. The Industrial Bank of Kuwait. June 1982. P. 56.

9/ Securities Group SAK. Gulf Companies Directory. Kuwait. 1984.

10/ Based on figures from the Institute of Banking Studies. Financial Index for Kuwait Stock Exchange Listed Companies 80-86. Kuwait. 1987.

11/ Provided by Al-Amwal.

1982. A future cheque was normally accounted for either as a receivable or if the accountant was imaginative, as an operating asset. While the nine companies invested close to KD 176 million in the market, bank lending to the sector increased by KD 102 million over the same period. The market investments constituted more than a third of these companies' assets. Other sectors, such as food and services, invested 24 percent, the transport sector about 40 percent, and real estate firms 26 percent of their assets in the market.

In 1982 a sharp break in the parallel market plunged the index from 240 in March to about 110 in August, making it difficult, if not impossible, for dealers to liquidate shares in exchange for cash. The Kuwaiti market only fell 6.5 percent in the same period, primarily because of the government share purchase program. In September outstanding postdated cheques totaled $94 billion, of which $78 billion, or 83 percent, related to transactions in Gulf and KSCC shares.

TOWARD A SOLUTION

Kuwait's small merchant community was aware that prices were increasing too rapidly, and on several occasions called for closer government supervision of the markets. One such occasion was a Chamber of Commerce conference in November 1981. It was clear from the papers presented 12/ that there were serious issues to be addressed: first, the role of futures trading in determining prices; second, the lack of information on the size of outstanding futures cheques; and third, the supervision, control, and development of the Kuwaiti stock market and the parallel stock markets. At the time, however, there was no problem. Prices of securities and real estate were high. The 'wealth' effect spilled over into excellent sales for everything, from new homes to jewelry. The large futures trades that were discussed were mainly between the 20 largest dealers, and they were said to clear most of their purchases and sales between themselves. The government had already implemented new regulations for the Kuwaiti market and issued stiff warnings on dealing in the parallel markets, explicitly stating that transferring titles of KSCC shares was illegal.

The problem was that even in the parallel market dealers issued cheques against Kuwaiti banks. These cheques kept accumulating since there was no clearing system. Dealers could not offset purchases with sales so that even though the dealers were heavily linked to each other, there was no institution to net their positions. While the market demonstrated a tremendous need for this service, it was difficult for institutions to get involved for two reasons: first, the cheques originated mostly from transactions that were illegal (KSCCs) or not in the jurisdiction of Kuwaiti courts (Gulf); and second, the cheques were not issued under the supervision of a regulatory body, particularly with respect to credit and market risk, so that offsetting credits and debits would involve risks beyond the normal clearing functions.

12/ Kuwait Chamber of Commerce. Development of the Kuwaiti Securities Market. (Proceedings of the conference). 1981.

In mid-1981 a private investment company, International Finance Advisors (IFA), began work on a clearing system. And in April 1982 IFA first approached the dealers. The company would clear cheques maturing every 15 days on two fixed settlement dates each month. Cheques up to six months maturity would be deposited with the system. Within a month, 60 dealers, who handled more than half the market's volume, joined the system. Because those dealers had cheques for and against them from dealers outside the system, it was finally possible to arrive at the positions of most dealers 13/ .

Toward late June information on the amount of outstanding cheques and the dealers' future positions was available. IFA estimated that cheques with a nominal value of KD 1 billion matured every month, for an expected net of KD 200 million. Of this amount, KD 150 million was estimated to be normal deficits and surpluses, that is, dealers with net overbought in one month could cover either with net oversold in another. The remaining KD 50 million represented net overall overbought positions, mainly in the parallel market. These dealers had bought at very high premiums and had insufficient assets.

Prior to a netting-out system, the full KD 1 billion had to change hands in cash, which meant that dealers had to liquidate substantial amounts of shares. If a dealer had to pay KD 100 million in the first 15 days, even though he had KD 98 million coming in in the next 15 days, he would have to liquidate KD 100 million in shares without a clearing system. With a clearing system he would only need KD 2 million in cash.

The clearing problem was how to handle the net payout from the dealers of KD 100 million a month that required liquidating assets. The remaining KD 100 million a month could be handled within the system by moving balances from one dealer in surplus for a settlement period to another dealer in deficit for the same settlement period -- assuming that prices of securities and property held firm. And, how was the system to handle the chronic deficits that were not backed with good assets, if any?

Government Intervention. When the information was relayed related to the acting Minister of Finance and the Minister of Commerce, the immediate priority was to avoid a liquidity crisis, since by this time the first default of a major dealer was already causing delays for other dealers. The Minister of Finance asked IFA to meet with the banks and the investment companies to discuss possible bridge financing requirements 14/ . It became clear after a number of meetings that the financial institutions would not be able to meet funding requirements of almost KD 100 million a month. In fact, they were not sure that this was the best approach since the dealers' financial positions were unknown. And because the dealers were heavily linked, it was difficult if not impossible to tell which dealers were illiquid and which were insolvent.

13/ Based on files from International Financial Advisors KSC. Kuwait.

14/ The author served as chairman of IFA.

By the end of July it was clear that the government would have to intervene. The dealers' moratorium in August was useful in that it gave the government time to bring out the first of a series of laws.

To determine the size of the problem, on September 20, the government passed a law requiring investors to register all cheques for stock-related transactions 15/ . The law specified that the Council of Ministers would set up one or more arbitration panels (A Panels) of five members each to look into claims, including those that were being processed by the civil courts 16/ .

The A Panel was established for one year, subject to renewal. The panel's decisions were final and not subject to appeal, and were to be guided by 'commercial practice' and 'national economic interest.' The panel could determine the form of payment and could nullify transactions and cancel contracts. The decisions would be implemented by the executive authorities. But the panel had no power to bring down the value of the payments, although the law did allow the council of ministers to decide on the value of the premium over the spot prices. The powers also included attaching assets. Settlement among dealers was permitted, provided that the settlements did not affect third parties; that is, all creditors were to receive proportional amounts, and the A Panel was to be informed.

On November 22 the National Assembly approved a second law that embodied many of the principles of the first law but included some extremely important additions: 17/

(1) Cheques that did not have an underlying stock transaction would be referred to the courts for a decision on fair compensation.

In other words, the legislators recognized that the cheques were inflated and gave the courts the power to bring down the face value. The cheque in this case was considered a 'debt' rather than a 'cash' instrument 18/ .

(2) The A Panel would refer dealers unable to meet their payments to the attorney general for bankruptcy procedures.

The A Panel's powers were restricted to negotiating disputes rather than resolving issues, whether it was

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15/ Kuwait Ministry of Commerce. Law No. 57. 1982.

16/ Only one A Panel was established, although its members eventually divided up the number of cases and split into two groups.

17/ Kuwait Ministry of Commerce. Law No. 59. 1982.

18/ Nasr, Zakaria. Al-Manakh Crisis and the Development of the Kuwait Stock Market. Kuwait. August 1984.

bringing down the value of one cheque or determining what was a fair payment for a distressed dealer.

(3) The law provided five years in jail for punishment of dealers who were not able to meet payments and had undisclosed assets.

(4) The A Panel was extended to two years and it was required to ratify all settlements.

(5) A creditor guarantee fund was established in the Ministry of Finance to guarantee the creditors in a bankruptcy proceeding. Claims were guaranteed for the full value of the cost of the shares and any premium agreed to (up to the date of the law). The cost was arrived at using the spot share price on the date of the transaction. The fund charged 1 percent of the value of all registered cheques.

The payout from the fund was as follows:

(1) Amounts up to KD 100,000 would be fully compensated in cash.

(2) From KD 200,000-250,000 in bonds maturing in one year.

(3) From KD 250,000-500,000 in bonds maturing in two years.

(4) From KD 500,000-750,000 in bonds maturing in three years.

(5) From KD 750,000-1 million in bonds maturing in four-and-a-half years.

(6) From KD 1 million-1.5 million in bonds maturing in five-and-a-half years.

(7) From KD 1 million-2 million in bonds maturing in six years.

A creditor was guaranteed up to KD 2 million in claims. The law was adjusted a year later to limit total claims to KD 0.5 million.

The fund was criticized as over-generous since in many cases the spot share price did not represent the real cost. Founders of companies in particular had paid only a fraction of what the fund guaranteed. The total claims guaranteed for each creditor were also high. The National Assembly made the decision on the grounds that the fund would eliminate most of the small dealers from the settlement process.

The cheques were registered with the Kuwait Clearing Company, a newly established entity owned by the banks and the three public investment companies. Figures finally became available and they showed 6,188 individuals with cheques valued at KD 26.7 billion. Of these, 5,120 (if they were payers and receivers) would have a surplus and 1,068 would have a deficit. Forty-nine percent of the net receivers had net surplus positions of up to KD 100,000 and ninety percent of up to KD 2 million; the net deficit position amounted to KD 7.5 billion.

A number of technical and legal questions remained to be answered, including these:

- Would the council of ministers lower the premiums?
- How would the clearing system operate?
- How would the A Panel proceed?
- How would assets be liquidated to meet payments?

The Chamber of Commerce Approach. The Chamber of Commerce, which has traditionally been a powerful lobby for the merchant community, came up with its own solution a month later 19/ . Essentially, the proposal suggested reducing the premiums to a minimum of 25 percent and a maximum of 50 percent; delaying by six months all maturities with an interest of 12 percent; and giving the dealers government assistance with financing. The Chamber suggested that all dealers submit their financial statements and clear accounts between each other to show their net positions. Dealers unable to meet payments could file for amicable settlement under the bankruptcy proceedings.

Chamber officials and dealers were surprised when the Kuwait Clearing Company announced on behalf of the Minister of Finance that all dealers were to authorize the company to perform clearing operations on their behalf on a quarterly basis, at which time deficit dealers would be expected to settle their quarterly positions. The accounts would be calculated on the full value of the outstanding cheques, without the reductions in premiums recommended by the Chamber of Commerce. Those dealers that did not wish to authorize the company were free to withdraw their cheques from the system after paying the 1 percent fee to the creditor's fund. The government began to purchase Kuwaiti companies' shares at announced prices during 1983. The intention at that time seemed to be that with a sufficient injection of liquidity, share prices would recover to make clearing possible.

According to observers there were a number of risks in the government's plan, but having pursued a legal approach, there were few alternatives available. Government policymakers should have required all dealers with claims against them to submit financial statements or a bank guarantee equivalent to the amount of their liability. The clearing company, however, was not authorized to require liability statements without the approval of the A Panel. The A Panel could ask for accounts, and in fact, did ask all deficit dealers to present their accounts. Where there were real deficits, dealers were asked to reach amicable settlements with creditors in a specified period. Surplus dealers and those deficit dealers that were able to balance their positions were not required to submit statements if there was no dispute.

19/ Kuwait Chamber of Commerce. Solution to the Stock Market and Future Cheques Crisis. Kuwait. December 15, 1982.

The real problem was that the accounts showed cheques at their face values when it was evident that there was a large real deficit in the system. Not only was it impossible to tell the clients' true position, but if some dealers were forced into bankruptcy their deficits would imperil other dealers because of the heavy linkages. In fact, by December, the A Panel had already referred nine dealers to bankruptcy proceedings. Their deficits with the clearing company were KD 4.3 billion 20/ . After a generous valuation of their assets, the dealers were estimated to have a net deficit of KD 3.4 billion. Both the existing deficits in the system and the rapid deterioration in asset prices made it difficult to assure that third parties were not adversely affected. Creditors who settled their disputes first received larger payouts and higher quality assets.

A second problem with the legal approach was handling the flow of assets from net payers to net receivers. The clearing company's figures showed that 83 percent of the registered trades covered transactions in Gulf companies and KSCCs, whose shares which were not supported by the government and could not be placed as security against a loan. The cheque-by-cheque approach meant that assets had to physically change hands, and since receivables and payables could not be matched under the system, assets had to be liquidated in an already thin Kuwaiti market and a rapidly falling parallel market. The clearing company could not perform multilateral clearing operations on cheques whose real values were not known and whose values changed as the market declined. The links between dealers meant that as the value of a cheque changed, it would work through the system to affect other dealers.

Third, the approach did not solve the problems of the large dealers in deficit. Bankruptcy proceedings at best would take years. This meant that most payments would effectively come to a stop since no payments could be made by the large dealers, and all the dealers in the network would be unable to meet their commitments.

A COMPREHENSIVE SOLUTION?

It was not surprising that these risks were not addressed either by the Chamber or the government. They could not be addressed because the decision had been made to route the cases through the courts. The legislators disapproved of the dealers, whom they saw as speculators whose risky activities had upset the financial system and who deserved to be punished. The laws reflected this objective. While alternatives were presented they were not politically acceptable.

The Clearing Solution. A satisfactory response could have been based on simplifying asset movements between dealers through the clearing company. The basic assumption was that the cheques were only worth the value of the dealers' underlying assets and that was what final receivers would get regardless of the law.

20/ IFA acted as trustee and advisor to some of the dealers. The information is from IFA files.

This meant that asset prices would have been fixed for clearing purposes (for both Kuwaiti and Gulf shares), without any purchasing mechanism. Dealers' accounts would have been calculated on the same basis and would have included all claims (including those not related to stocks). The first step would have been to determine each dealer's net worth and turn it over to the clearing system. All receivers, whether intermediary or final, would have been entitled to the same value, and no third party would have been affected. Net payers would turn in their assets to an intermediary and net receivers would then have claims to real assets. The clearing company would have effectively unlinked the dealers through issuing clearing notes, which could have been used for payments within the system.

This solution faced opposition for a number of reasons:

(1) It nullified the contract between the buyer and seller specifying payment of a certain sum. The laws provided for a reduction in the premiums according to recommendations by the council of ministers. The Chamber recommended cuts of 25 to 50 percent, reflecting the strong institutional influence of its members. The 'clearing' solution would treat solvent and insolvent individuals and firms according to their ability to pay. The basic difference was that since insolvent firms would pay less than the amount owed, their creditors would have to agree. No doubt some of the procedures could have been tightened to resemble bankruptcy, and in fact they later were when the settlements organization was established.

Solvent dealers (loosely defined) put pressure on the government to bring down the premium. Under the 'clearing' solution they would not benefit by the deflation in payments except by the extent of their net worth. All dealers had the option of amicably settling their debts, as many later did, on more favorable terms. The clearing solution would have favored receivers, but would not have constituted fair compensation for dealers and merchants, who in 'real' terms would pay multiples of the amounts contracted.

The legal basis for bringing down the premiums was not viable because it could change the net position of the dealers, depending on the differences in premiums and maturities between assets and liabilities. Dealers in surplus could find themselves in deficit, and vice versa.

(2) The solution would have required fixing the prices of Kuwaiti and Gulf shares. Delinking the dealers by using instruments such as clearing notes would have required some form of government or clearing guarantee. Without a clear evaluation of all the assets that could end up with the clearing company, the government would have faced an open-ended commitment. It also raised issues of burdensharing between the government and the dealers in the costs of a solution.

(3) Since most of the expected payments would be in the form of assets such as shares and property, there would be a settlement problem for those receivers that had sold to dealers with good assets. Why, for example, should they accept paper from the clearing company when they could get good assets? The A Panel in its judgments too would need to indicate the settlement details. This would have meant that good assets would be directly transferred to final receivers while bad assets would be deposited with the clearing company.

Distressed Dealers. The situation was extremely complex and the only way to avoid affecting third parties would have been a government guarantee of all claims. Since this was neither possible nor desirable, it was up to the A Panel to devise a fair resolution. The A Panel used its powers vigorously. In the event of a dispute, and there were many, the distressed debtors were asked to prepare a settlement program for all creditors and show how payments would be handled. Distressed debtors with many transactions could not effectively prepare a program since creditors would not willingly accept Gulf or Kuwaiti shares in lieu of cash. The Guarantee Fund also made settlement with creditors difficult, since creditors with guarantees had no incentive to settle for shares from the debtors. In fact, the alter nature of a cash settlement by the Fund encouraged bankruptcy proceedings. In the case of dealers with better assets and a small number of transactions, the A Panel would rule on the creditors' assets against the claim, without specifying the value of the assets, and in this way, it would effectively reduce the value of the payment.

As the A Panel proceeded, there was a strong need to process bankruptcy procedures more quickly, particularly since installment payments depended on payments from the large dealers. On April 20, 1983 tne Ministry of Finance established the Settlement Organization for Futures Transactions to handle settlements, liquidation, and bankruptcy procedures 21/ . In effect its mandate was to manage the 'bankruptcy' function without the disadvantages associated with the courts; the organization was also given the authority to settle claims amicably. The creditors' fund represented the creditors that were paid out. The organization was also authorized to issue negotiable and transferable bonds against assets, which assisted the payments process for other debtors.

The organization issued three kinds of bonds depending on the assets held by the debtors, the first against cash and other liquid assets, the second against real estate and KSC shares, and the third against Gulf and KSCC shares. Payments to creditors were made available as the assets were liquidated or sold to the government under the purchase or restructuring programs. Of 312 dealers referred to the organization, 238 were able to settle amicably with their creditors and the remaining 74 declared bankruptcy. The distressed dealers had claims

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21/ Kuwait Chamber of Commerce. Law No. 75. Kuwait. 1983.

of KD 5.8 billion against those inside the organization and received an average 29 percent of their claims 22/ .

In August a new law was passed incorporating the following important changes: 23/

(1) All debt related to forward shares would mature on the date of effectiveness of the law.

(2) The maximum interest rate or premium would be 25 percent.

(3) The A Panel was given the right to reduce the premium.

(4) Dealers could insist on clearing claims against other dealers.

The first two changes affected the financial position of dealers depending on the maturity and premium profiles of assets and liabilities. Some dealers in surplus changed to deficit, while others that had made settlements with their creditors on the basis of the old law now had to renegotiate receivables that were reduced in value. In effect, some dealers became distressed by law.

The A Panel's power to reduce the premiums was helpful but as noted, the panels had already found ways to do this. The fourth item was critical for dealers that were linked, and allowed dealers to offset a matured obligation to a dealer against future claims on him. Under the old law the A Panel considered the first dispute and waited three months for the other amounts. Now dealers could insist that their payments be made with claims against the same dealer, possibly with some discount on premium for maturity differences.

THE BANKING CRISIS

Toward the end of 1984 as asset prices continued to fall, it became evident that the banking system would be affected; how severely was unclear. In early 1985 when bank officials had the information to assess the problem, they estimated that 40 percent of their loan portfolios were nonperforming. In October the Minister of Finance announced that the banking system's total loans amounted to KD 4.4 billion, of which KD 1.5 billion was secured; the remaining KD 3 billion was unsecured and the possibilities of collection were unknown. He added that some debtors might pay part or all of their debts, depending on their assets 24/ .

22/ Information provided by Settlements Organization.

23/ Kuwait Ministry of Commerce. Law No. 100. 1983.

24/ Kuwait News Agency.

The central bank sought ways to strengthen its supervision of the system and established a framework for classifying bark debts, provisioning, and collateral. As dealers finished with the A Panels, they approached the banks for rescheduling. The magnitude of the fall in asset prices also led many borrowers whose involvement in the stock market was minimal to seek rescheduling. On August 11, 1986 new legislation was announced to alleviate the position of the banks. The Difficult Credit Facilities Settlement Program set the basic guidelines for rescheduling debt and outlined the principles for central bank support of the banking system.

The support system applied to the entire financial sector, which included six commercial banks and four specialized banks -- the Industrial Bank, the Kuwait Real Estate Bank, the Credit Saving Bank and the Kuwait Finance House, an Islamic bank 25/ . There were also three listed investment companies and 17 private investment companies formed as KSCCs that specialized in various services, such as merchant banking, portfolio management, automobile finance, and so on. The assets of the banks and the investment companies listed on the stock exchange formed more than 91 percent of total KSC assets and close to 63 percent of the equity base 26/ .

Effects of Growth. During the oil boom the commercial banks grew rapidly. Total assets rose 534 percent from 1973 to 1979. The commercial bank's capital and reserves in the same period increased from KD 45.5 million to KD 268.6 million, or by almost 590 percent (although since Kuwait follows the "hidden reserves" system, these figures underestimate the true reserve position). Bank lending to the private sector grew eight times, from KD 266 million in 1973 to KD 2.1 billion in 1979. An increasing proportion of bank lending went to the financial service sector, real estate, and personal loans.

With the parallel growth in government expenditures, the private sector benefited from direct flows from land purchases and indirect flows from development expenditures. During 1974-79 there were two important changes in the banking system's loan portfolios. First, a high rate of growth in lending to all sectors; and second, a shift in the share of loans to the service sector and to individuals. The share of trade fell from 31 percent to 27.3 percent, financial services rose from 13.4 percent to 21.9 percent construction soared from 2.3 percent to 17.3 percent, and personal loans climbed from 22 percent to 27.1 percent. These changes transformed the implicit duration of bank loans from short-term trade financing to medium-term loans for equipment, equity, and real estate. The banks did continue overdraft lending methods that required

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25/ Foreign bank branches are prohibited from operating in Kuwait although they are allowed to hold minority equity in investment companies, except for the Bahrain Kuwait Bank which is a joint venture between private Bahraini and Kuwaiti interests.

26/ The figures do not include the Credit and Savings Bank, a government-owned bank that makes low-interest housing and social loans, the Industrial Bank, or other unlisted investment companies.

annual approval, but they moved slowly toward loans with commitments longer than a year. This shift to term lending also made the banking system more susceptible to changes in government expenditures and other factors as lending became linked to services and the prices of assets.

The structure of bank liabilities also changed over the same period, with an increasing proportion of private sector claims against the banks taking the form of term deposits. This undoubtedly increased the average cost of funds to the banks which, on the asset side, translated into floating rate loans, best suited for the financial sector. As banks developed their treasury departments and branch networks, Kuwaiti depositors became increasingly interest-sensitive and shopped around for the best rate. When foreign currency interest rates began to climb toward 1977, investors moved deposits out of demand and savings accounts to foreign currencies.

A change in Kuwait's interest rate structure facilitated these shifts in assets and liabilities. Interest rates, which had been fixed at a maximum 7 percent, were loosened in 1977 when the law was amended authorizing the central bank to adjust the rates from time to time. But the law was not flexible enough to allow the authorities to keep pace with interest rates overseas as they approached 8 to 10 percent, and climbed in 1978-79 to between 15 and 18 percent.

For instance, interest rates in 1977 were 7 percent on secured one-year loans (for productive activities); 8.5 percent on unsecured loans; and 10 percent on loans of more than a year. But as interbank deposit rates rose to 12 percent in 1979, banks had to shift to higher yielding assets of longer maturities. The yields were in fact improved by requiring compensating balances and charging service fees to avoid interest rate regulations. The offshore banks, most of them branches of international banks, which were not bound by Kuwait regulations, borrowed Kuwaiti dinars to on-lend to Kuwaiti clients. In some instances the cost of interbank overnight funds reached 30 to 40 percent.

To fund the growth in the banking system, the banks almost annually increased capital either by capitalizing earnings in the form of bonus shares (at no cost to shareholders) or by issuing new shares and charging a premium over the nominal price (but below the market price). 27/ With active trading and a steady increase in stock prices, the banks had no problem raising equity except in 1977-78, when no new companies or new share issues were permitted (although some banks issued bonus shares during this period). The change of the banks' liabilities and their need for more capital also made them susceptible to foreign interest rates, exchange rates, and stock market activity.

From 1979 to 1982 bank assets grew 95 percent, from KD 3.8 billion to KD 7.4 billion, while claims against the private sector advanced 102 percent. Except for agriculture and fisheries, growth was strong in all sectors, with some further shift toward financial services, real estate, and personal loans. As term lending increased, loans became

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27/ See Statistical Appendix 6.

more concentrated in terms of the number of companies and individuals that could borrow fixed-term funds at floating interest rates 28/ . It required an awareness of the market and management skills that only the larger companies and merchants had. It is important to note that while the banks would lend to a company in the financial sector, for example, such loans could be used to invest in, or lend to, real estate. As noted earlier some Gulf and Kuwaiti companies were heavily involved in the stock market.

End of the Boom. A number of factors precipitated the decision to intervene but there was no run on the banks on any other "panic" that stopped operations. But by 1984 the banks were encountering an alarming increase in irregular debt. Borrowers were increasingly unable to pay the interest or principal due on loans because there was a shortage of liquidity among clients involved in the stock market. This was a natural evolution of the settlement system followed by the A Panel. The cheque by cheque clearing system was a slow process. The increasing number of "distressed" borrowers, whether illiquid or insolvent, were simultaneously trying to liquidate assets, "clogging" the clearing process. This made it difficult for dealers to know not only how much each receivable was worth but also in what kind of assets -- and when -- they would be paid. For the banks it became increasingly difficult to assess a borrower's financial position and, in particular, to differentiate between illiquid and insolvent borrowers.

When the government stopped its share support purchases toward the end of 1984, there was no market for sellers to turn to. Under the support system, there were market prices for most shares at discounts to the support prices. Dealers pressed to make cash payments sold shares at lower prices, since the government did not purchase all the available shares. The other route for dealers requiring cash was to borrow from the investment companies against the security of shares at government support prices. While this eased the dealers' cash flow problems, it only replaced the market debt with commercial debt carrying interest, putting more strain on the dealers. As the government eased out of the price support system and KSC prices fell, it became easier for the banks to evaluate the value of the securities they held.

A third factor in the decision to intervene was the bank's rising awareness that borrowers were unable to service their debts and losses were likely. Acting to protect their deteriorating positions, bank officials sent warnings and threatening letters, and finally as the spiral of losses grew, filed court actions. This sudden shift in attitude toward banks' best customers, some of whom were related to shareholders or were well known, was a difficult move. The rising number of court cases brought by the banks prompted the interest of the National Assembly. The banks had inherited from the stock markets' crisis dealers and merchants who, in the settlement process, had been hardened by the A Panel procedures. And in response the Minister of Finance, in a July 1985 economic report, outlined a five-point program to address the debt problems of the financial institutions and the business community. The

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28/ See Statistical Appendix 7.

report also proposed new macroeconomic policies to stimulate the domestic economy, and begin the process of structural adjustment.

The program aimed at providing both moral and financial support to allow the financial institutions to recover. While losses would not be compensated, the government would lend public funds at below-market costs. The CBK negotiated with the banks to begin amicable settlements with their irregular clients. In rescheduling loans and provisioning, the banks would follow CBK guidelines. Any client who did not cooperate would be subject to legal action by the banks. Settlement with the distressed clients would assure them a suitable home and a reasonable income.

The CBK would also determine whether public funds could be used for other financial institutions. Support would be based on the following criteria:

(1) Was the company performing a significant activity in the market?

(2) Would liquidation have harmful effects on other financial companies with strong linkages to foreign financial intermediaries? and

(3) Was the company solvent enough to continue after the support was withdrawn?

In November 1985 the CBK announced new procedures for loan classification and borrower settlement 29/ . In particular, the settlement procedures emphasized that the debts of large debtors and members of the boards of the banks and investment companies would be closely supervised by the CBK. The loan classification procedures introduced the concept of irregular debt, where the emphasis was on the cash flow of the borrower, particularly the extent and the period over which the loans or overdrafts were serviced. Arrears in each case were clearly defined, ranging from 60 days to 180 days -- a sharp contrast to previous method of increasing the borrowers' credit limit or loan by the accrued interest and other charges, and taking such amounts into the income statements.

The new provisioning procedures included both general and specific provisions. The general provisions included a 10 percent allocation against all facilities below KD 20,000, and a 5 percent allocation against secured irregular facilities. The banks were also expected to have a 5 percent allocation against regular cash facilities and 2 1/2 percent against regular noncash facilities. For accrued income to be taken into the banks' income statements, the CBK required interest to be paid in cash, unless the client had money in his account. In the

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29/ CBK instructions to the bank concerning the basis for loan classification, provisioning, and accruing income. December 28, 1985.

case of exceptions the accrued income was to be held in a suspense account and not considered in the banks income statement.

For unsecured irregular facilities, a 15 percent allocation was required after 180 days, increasing to 45 percent between 180 days and 360 days, and 100 percent after 360 days. While the financial institutions were better able to assess the financial position of distressed clients, there was little progress in reaching settlements. Banks in particular were reluctant to reach any agreements that would include both a larger provision on doubtful debt and a doubtful debt "carryover" without knowing who was to bear the losses and in what form. Borrowers were reluctant to sign rescheduling agreements and submit complete financial statements without knowing just how final this settlement was, what income stream they would be allowed to keep, and what assets they would continue to control.

DIFFICULT CREDIT FACILITIES SETTLEMENT PROGRAM (DCFSP)

In August 1986 the Difficult Credit Facilities Settlement Program (DCFSP) was announced to formalize and clarify the relationship between the government, the financial institutions, and the borrowers. The program set out formal procedures for the settlements and the support program. This was the last of a series of administrative actions that the government would take to resolve a problem that could have led to a financial crisis.

The essential element of the settlement program was that one bank, which had the largest claim against the distressed debtor, would represent all the other creditors and had a lien on any free assets except for the debtor's residence. Claims against the debtor were then classified as follows:

(1) Claims backed by assets with a cash flow, such as real estate, business, and so on would be rescheduled for up to 15 years and carry interest not exceeding 7 percent, provided there was sufficient cash to cover interest payments.

(2) Claims backed by assets without any cash flow, such as undeveloped land. A 10-year non-interest bearing loan would be issued against this claim. Repayment of the loan could be either from liquidation of the assets before or on maturity or by possession of the assets on maturity.

(3) Claims not backed by assets. The debtor would sign a 10-year noninterest-bearing note that could be partially or fully repaid from surplus in cash flows or in the value of assets over other claims. The bank writes off this instrument on maturity.

The support system for the Kuwaiti banks consisted of:

First, a government commitment to maintain shareholders' equity at the December 31, 1985 level and to guarantee all depositors' funds.

The CBK would annually issue a net-worth certificate equivalent to the deficit in provisions needed against the unsecured notes issued under the settlement program.

Second, the government would place funds with the CBK to supplement the 'deficit' banks' necessary provisions and allow them to distribute an appropriate level of profits. The CBK could use these funds and favorable treatment through other instruments under its control, such as the discount window and swaps, to support 'surplus' banks profitability as well.

While the CBK has not disclosed the financial position of each bank, five of the six commercial banks were deficit banks. The specialized banks were not significantly involved in giving unsecured personal loans or lines of credits. The investment companies' problems went beyond losses in loan portfolios, so their activities were assessed as part of the restructuring exercise. Only the banks were entitled to financial support; other financial institutions such as the Kuwait Finance House, were only entitled to the net worth certificates.

The irregular debts of the banking system by December 1987 amounted to KD 2.2 billion and involved 1,827 borrowers (about KD 200 million of this was lent at the request of the government to debtors to enable them to pay cash). Of these, 698 borrowers, with KD 405.5 million of debt were found to be solvent, and the remaining were insolvent or illiquid 30/ . Ninety-two percent of the distressed borrowers had approached the banks for settlement under this program. Of the 663 settlements completed in 1987, the collatoral level averaged 30 percent. Assuming that this ratio will apply to all irregular loans, a minimum specific provisioning level of KD 1.3 billion will be required; that is, 116 percent of declared shareholders' equity. Court action was taken against 159 borrowers constituting 6 percent of irregular debt. The CBK placed KD 550 million in interest-subsidized funds with the banks beside offering them favorable discount rates and other benefits to supplement their provisioning abilities.

A March 1985 study 31/ of the banking systems 'own' funds, including inner reserves and provisions, estimated the total at KD 1.6 billion, with shareholders' equity KD 1 billion. Using these figures as a base, banks' 'own' funds reached an estimated KD 2.1 billion in 1987. The provisions required against irregular debt would amount to approximately KD 1.3 billion. While this would exceed the declared shareholders' equity of KD 1 billion, inner reserves were sufficient to provide the banks an estimated KD 783 million in unimpaired equity. The strong reserve position of the banking system effectively insulated the system's deposit base. The existence of unimpaired equity also explains the government's willingness to protect shareholders' equity and assist in building provisions.

30/ Various press releases.

31/ Proposal by the commercial banks to set up an "Asset Management Company" that would buy out nonperforming loans.

As of September 1988 irregular debt was at KD 2.8 billion (KD 2.2 billion in 1987) and was owed by 2,339 borrowers (1,827 in 1987). The number of the borrowers with negative net worth has also increased to 1,214 with a debt of KD 2 billion 32/ . While this will undermine the position of most of the banks, it is expected that rising prices of shares and real estate will have a positive effect.

Recently the CBK changed the structure of interest rates to allow Kuwait's rates to reflect international interest rates. This is expected to have a sharp effect on Bank profitability by increasing the cost of deposit funds at a time when a substantial part of their loan portfolios are nonperforming. If the rise in international interest rates continues, the CBK may have to increase the level of support to the banking system.

THE CAUSES OF THE CRISIS

To understand the background and causes of the crisis, it is important to distinguish between external shocks to the economy and internal fiscal, monetary, and institutional causes. Two shocks affected the economy from 1979 to 1981 33/ . First, a sharp decline in oil prices and crude oil production cut public revenues from KD 6 billion in 1980 to KD 3 billion in 1982, a 50 percent drop. While this did not affect total government expenditures, as a result of withdrawals from investment reserves 34/ , shifts within expenditure items could have contributed to precipitating the crisis. The effect of oil accounted for 33 percent of average GDP from 1980 to 1982, compared to 30 percent from 1980 to 1985 (though there was some improvement from 1983 to 1984).

Second, the Iraq-Iran war slowed trade with neighboring countries and contributed to dampening confidence in the domestic economy. Nonoil exports to the Middle East, which had peaked in 1981 at $2.2 billion, declined by 1986 to $1.1 billion 35/ , a 49 percent drop. Of this, the war contributed a decline in exports from $1.1 billion in 1981 to $370 million in 1984, a drop of 68 percent. the share of Middle East exports in GDP was about 4.9 percent, with the Iraq-Iran war contributing 3.4 percent 36/ .

32/ Figures from CBK.

33/ P.G. Sadler. op.cit. P. 8.

34/ Government's budget revenues do not include income from investment of government reserves.

35/ International Monetary Fund. Direction of Trade Statistics. Washington, D.C. 1986, 1987.

36/ Wholesale and retail trade as a share of GDP declined 32 percent (1984 prices) from 1982 to 1983.

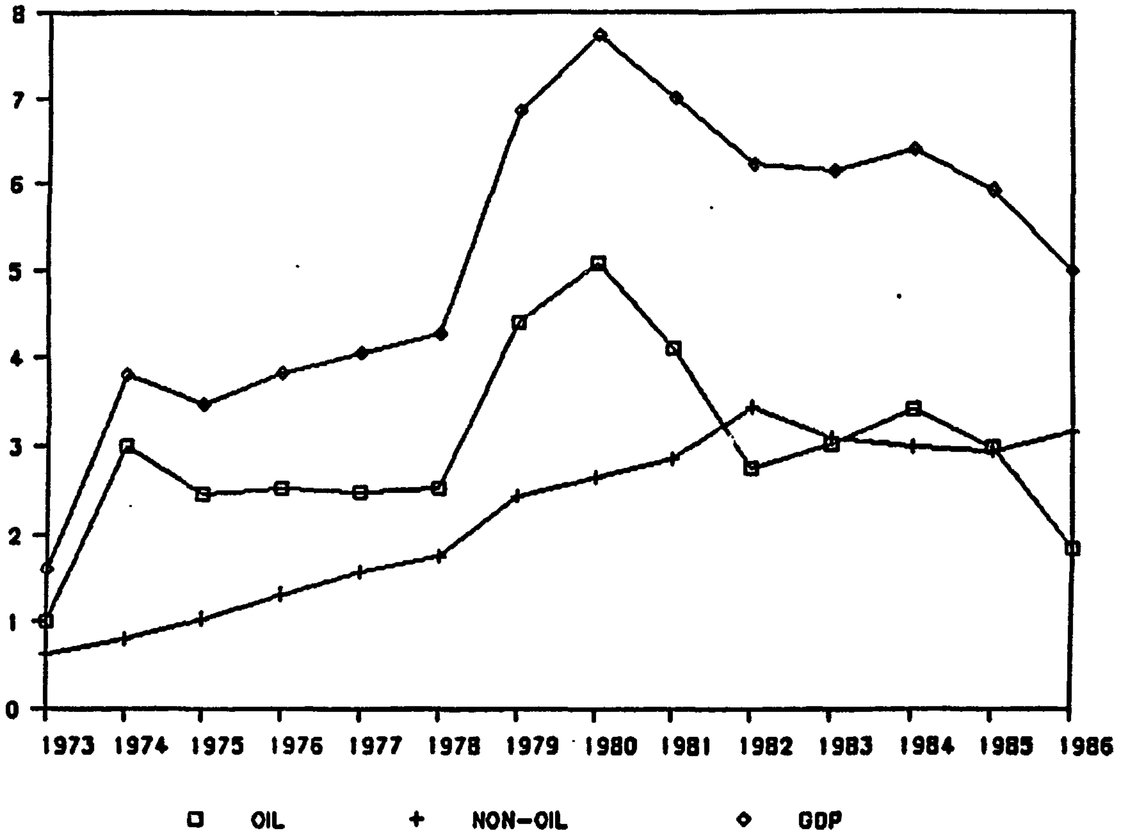
Structural Factors. Four internal factors related to fiscal and monetary policy. The role of government fiscal policies; the role of monetary expansion,; whether institutional or stock market-related; the role of regulatory authorities; and the behavior of the dealers, banks, investment companies, and Gulf and Kuwaiti shareholding companies.

To understand the role of the government, it is important to look at the structure of the Kuwaiti economy in the period preceding the crisis. Kuwait is essentially an oil-based economy, but the oil sector provides relatively little direct benefit to the population. In 1985 while this sector produced 52 percent of GDP it employed only about 1 percent of the total labor force 37/ . Since oil is a government monopoly, the real benefits to the economy come from government expenditures in other sectors.

Two patterns in GDP are worth noting from 1974 to 1987 (see figure 5). First, nonoil GDP increased from 20 percent to 55 percent of GDP; and second, while the oil sector and total GDP began declining in 1980, nonoil GDP started to decline in 1982, but not by the same extent, primarily as a result of government expenditures. Real GDP also declined from 1979 to 1982, falling 43 percent. It is not surprising that there was a shift from real to financial assets and speculation in real estate and stocks by investors searching for substitute income sources.

37/ Kuwait Ministry of Planning, Annual Statistical Abstract, 1987.

FIGURE 5: GROSS DOMESTIC PRODUCT
(In billions of Kuwaiti dinars)



Sources: Central Bank of Kuwait, The Kuwaiti Economy, 1980-1984.
Central Bank of Kuwait, Quarterly Statistical Bulletin, Oct. - Dec. 1987.

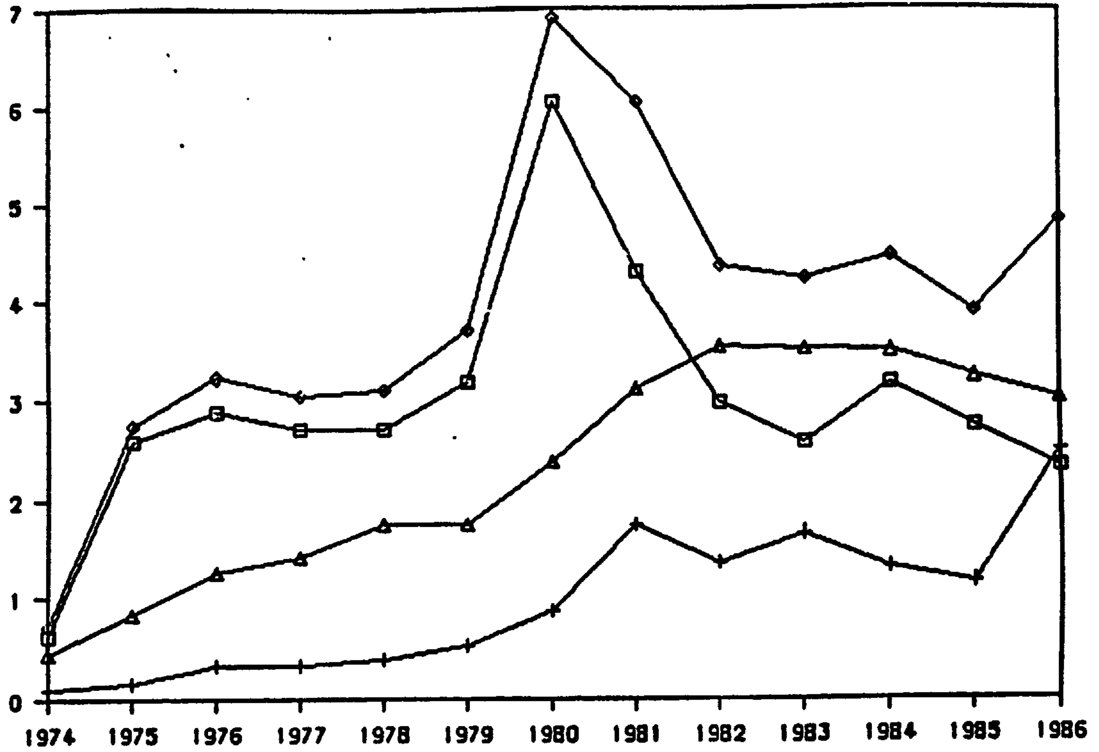
The relative importance of the major components of GDP shifted from 1974 to 1982, with declines in manufacturing and increases in trade, financial services, and government spending. Government expenditures are significant not only because of the large role of the government sector but also because of the effect of government spending on other sectors, such as trade and construction - directly through procurement or indirectly through civil service salaries 38/ .

There were three significant changes in this respect (see figure 6):

- Government spending dropped from 1982 to 1986, after rising 27 percent during the preceding three years.
- The government budget was in deficit for four of the five fiscal years after the stock market crisis, and the deficit was financed by government reserves.
- Land purchase, a form of direct transfer payment, increased 68 percent from 1979 to 1982 and decreased by 69 percent from 1982 to 1985. The increase in 1982 was part of the government policy to inject funds into the economy to support asset prices, particularly since most receivers of funds would normally have bought land or shares with the money. However, with decreases in asset prices, this was not the case.

38/ The World Bank. Kuwait, Recent Economic Development and Prospects. P. 19 (unpublished).

FIGURE 6: GOVERNMENT REVENUES AND EXPENDITURES
(In billions of Kuwaiti dinars)



◻ Budget Revenues + Investment Revenues ◇ Total Revenues
△ Expenditure

Sources: Central Bank of Kuwait.
Government Finance Statistics Yearbook.

The government's role was also significant at the micro level. To encourage diversification and investment the government often established companies and sold shares to the private sector. In some cases unsuccessful companies were subsidized, and in others the government effectively bought all the shares. By 1974 the government owned 41 percent of all KSCs, and during the 1976/77 stock market break, supported stock prices by purchasing shares. During the same period the government bought out two KSCs - an oil refinery and a fertilizer plant. As a result, by December 31, 1979, the government owned 35 percent of all outstanding shares in the listed KSCs. The strong government presence inhibited private sector enterprises that found it difficult to compete with subsidized and protected shareholding companies. By 1983 the government owned 48 percent of all KSCs, as a result of the share support program.

While the real economy was in a recession as government expenditures fell, there was an exceptional expansion of liquidity during 1980 and 1981 contributing to an inflation in real estate and stock values (see figure 7). Several factors contributed to the increase in liquidity:

- Toward the third quarter of 1981, as interest rates in the Eurodollar market fell from 18 percent to 9 percent, depositors moved funds from foreign currencies to KDs. Foreign deposits, which constituted 20 percent of total deposits in June 1981, fell almost 50 percent by a year later. At the same time demand deposits rose 122.3 percent as depositors chose to stay liquid. Total deposits rose 85 percent, from KD 2.1 billion to KD 3.8 billion, from 1979 to 1982.

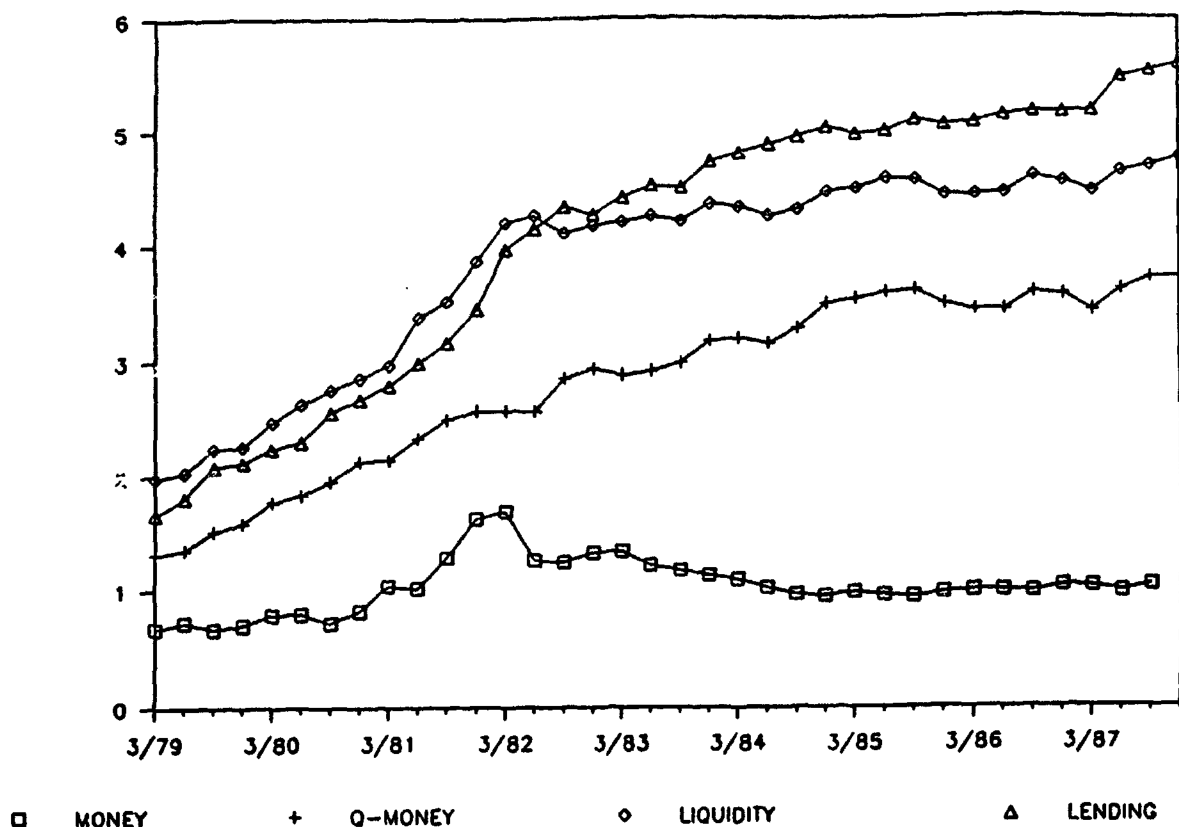
- Commercial bank lending grew 103.4 percent, while personal loans and loans to financial institutions grew 92.4 percent and 123 percent, respectively, during the same period. Domestic lending by investment companies increased from KD 80.1 in 1979 to KD 461.6 million in 1982, or 576 percent. Domestic loans by the specialized banks doubled from KD 493 million in 1979 to KD 994 million in 1982. After 1982, while total commercial bank lending continued to increase slowly, the increases consisted of accrued interest and the discounting of the creditor guarantee funds' bonds, which reached almost 10 percent of total claims against the private sector in 1983. By 1986 the bonds discounted had reached KD 602 million 39/ .

- The creation of debt instruments outside the scope of the financial system and the regulatory authorities in the form of postdated cheques was perhaps the most important liquidity creating instrument. While the gross claims of the market were KD 26.7 billion, the net claims were KD 7.5

39/ Central Bank of Kuwait. The Economic Report. 1986. PP. 25-26 and the World Bank. op.cit. P. 41.

billion, 192 percent of total bank lending to residents in 1982 and slightly above total commercial bank assets.

FIGURE 7: DOMESTIC LIQUIDITY
(In billions of Kuwaiti dinars)



Source: International Financial Statistics, various editions.

While the increase in domestic liquidity was the main impetus behind the initial increases in asset prices, postdated cheques took over as the driving force as higher and higher premiums were offered. The external shocks, the termination of future trading, and the subsequent restrictions in bank lending all contributed to the rapid decline in asset prices.

The Role of Regulatory Institutions. From 1979 to 1982 the CBK took a number of measures that ultimately had little effect on bank lending 40/ and may have contributed to increasing domestic liquidity, including the following:

40/ Central Bank of Kuwait. op.cit. p. 41.

(1) KD deposits in foreign banks were no longer considered liquid assets from April 1979. This led to an active Kuwaiti interbank market and reduced the proportion of foreign assets to total assets from 33 percent in 1979 to 24.6 percent in 1982.

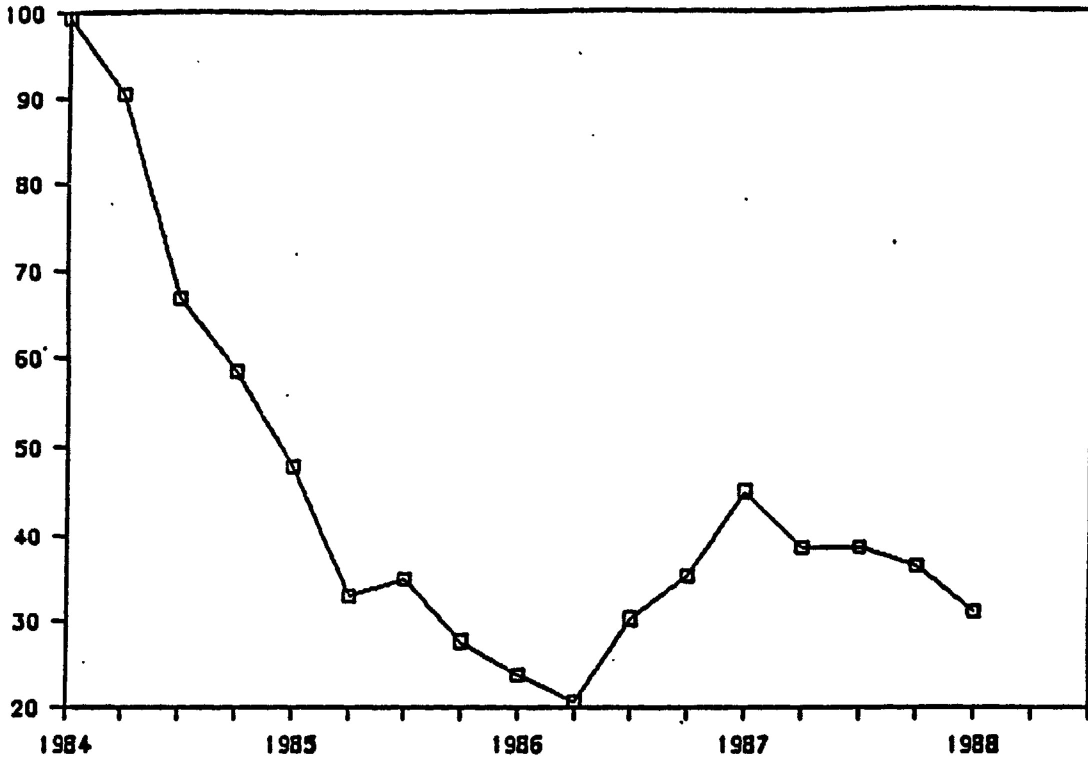
(2) To reduce the banking system's exposure to overdrafts, the ratio of overdrafts to total credit facilities was reduced from 55 percent to 40 percent between 1980 and 1982. As banks changed their lending structure to a larger proportion of loans, clients drew their money immediately since they were being charged interest, and invested in the stock market. Under the overdraft system clients were only charged interest when they withdrew funds.

(3) Instead of lending at low interest rates to productive sectors, the banks found it more profitable to make term loans to individuals and financial institutions. These loans returned higher rates and yielded more income through compensatory financing, commissions, and fees.

It seems clear that the CBK's policies were too weak, and in fact a number of indicators should have served as warning signals, including: the rapid increase in lending to nonproductive sectors; the high concentration of loans to large borrowers in the portfolios of commercial banks 41/ ; and the inflation in stock and real estate prices which the commercial banks accepted as security. (see figure 8).

41/ See Statistical Appendix 7.

FIGURE 8: KUWAIT REAL ESTATE INDEX



Source: Kuwait Real Estate Bank.

A further cause of concern should have been the increase in cheque clearing. From a monthly average of KD 1.2 billion in 1981, the total peaked in July 1982 at KD 3.9 billion. This was a clear indication that future cheques were being cashed and should have warned authorities of the need for restrictions. Moreover, the development of debt instruments outside the CBK control should have been stopped. First to impose credit controls, and also because the credit risk information that the CBK shared with the banks as a basis for bank lending was no longer adequate.

Apparently the CBK saw its role as essentially one of servicing the banks' needs for foreign exchange, swaps, clearing, and credit risk information. Thus officials did not use monetary policy to control liquidity, though they did have open-market instruments available, including treasury bills and the discount rate.

For example, the CBK cut its discount and rediscount facilities from KD 600 million to KD 320 million at the end of 1981 and 1982 42/ . While this was designed to reduce liquidity, the banks had increased their deposits with the CBK from KD 238 million in 1980 to KD 732 million in 1982. The CBK actions were not significant relative to the size of the banks' liquid assets when the banks were net depositors. While the CBK also moved to issuing shorter term treasury bills in early 1982, and in May prohibited the banks from giving credit against future cheques and Gulf company shares, it was too late to control domestic liquidity. The stock market had already peaked and was declining and, in fact, these actions may have accelerated the decline.

While the stock market authorities were excluded from any supervision of the parallel market, the market developed very rapidly without government interference for so long that traders assumed the market was legal. In fact, prices were continuously quoted for the KSCCs, even though share sales were illegal before the three-year period. The stock market committee could have intervened at that time to halt the formation of KSCCs.

Although the stock market committee had wide powers under the law, officials did not set up procedures or mechanisms for effective regulation. Moreover, authorities should have controlled trading in the Kuwaiti shareholding companies on the grounds that KSCs are restricted to investing in the specific area proscribed in the by-laws, and cannot invest at random in other sectors. The Ministry annually sends a representative to the company's shareholders meeting to ascertain that the company's by-laws have not been violated. At that time officials could have curtailed the wide-ranging investments in the stock market. In fact, many companies paid dividends in 1984 and 1985, even though they showed large losses and their investments were valued at above-market prices, artificially improving their overall financial position. Even more surprising the external auditors did not note on their statements that there were violations or that the assets of the company were overvalued.

42/ Central Bank of Kuwait. The Kuwaiti Economy 1980-1984. P. 72.

The behavior of the dealers, merchants, banks, investment companies, and the Kuwaiti and Gulf shareholding companies was also influential. While the recession may explain a shift in preference from real to financial assets, the degree of speculation and disregard for the law reflects badly on the long-established dealers and merchants who formed the new companies and traded in them, setting the pattern for other participants. This same group looked to the government to take the downside risk of its investment strategy.

The banks and investment companies not only lent heavily into an inflated market, but shifted the structure of their assets toward both larger and more speculative borrowers 43/ . This was primarily the responsibility of the Boards of Directors, particularly their lending committees. Management did not develop lending opportunities in the international market, nor did it examine the risks of domestic lending. Management accounting systems for accruing income on loans and overdrafts by increasing the credit facilities even when no payments were received by the borrowers artificially boosted the profits of the banks and reinforced their behavior.

During the stock market crisis the financial institutions that owned the clearing company had detailed positions of all the participants. These institutions unfortunately made no effort to analyze the information. Nor did they protect their creditor status in the laws that were passed. For example, the clearing company made payments on behalf of the Guarantee Fund to dealers even though the dealers owed money to the banks. The banks also discounted the bonds for clients, many of whom withdrew the cash and later applied for the DCSFP. (The procedure was later changed at the prompting of the Settlement Organization so that the dealers had to clear all commitments in the clearing system and the banks before receiving any cash.)

Although some Kuwaiti and Gulf shareholding companies had inexperienced management. their boards of directors had the fiduciary responsibility, and most of them either lent or traded company funds on the market and exposed their shareholders to great risk. Even established Kuwaiti companies suffered from weak management and interference from board members. Companies that could have remained profitable and strong were weakened by high leverage, technical mismanagement, a recessionary environment, and speculative assets that had little to do with the company's business.

RESTRUCTURING

A government study of 37 Kuwaiti shareholding companies (nine of which were listed KSCCs formed before 1981) identified a number of short- and long-run problems. The Kuwait Investment Authority (responsible for the government's investment portfolio) was asked to set up a supervision system to address the long-term problems. The availability of qualified

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43/ Figures available for commercial banks loans in March 1985 show that 0.4 percent of borrowers accounted for 60 percent of the loans.

Kuwaiti management was identified as a fundamental problem, and a human resource information base was set up to identify new managers and board members. The short-run problems were identified as:

(1) Incompetence by the Board of Directors and management;

(2) Weak financial structure;

(3) Technical problems or changes in economic conditions;

(4) Marketing problems;

(5) Falling asset prices.

Of the 37 companies, one real estate and four industrial companies were liquidated. Two manufacturing companies were integrated, three transport companies were restructured, and the remaining 17 were reorganized.

The study found the situation of the 37 KSCCs formed after 1981 was much worse. Only four companies were profitable, 24 had lost 50 to 100 percent of their equity, and three had negative net worth. Out of a total equity of KD 378 million, these companies had lost about 40 percent of their capital; of the remaining capital only KD 68 million was in liquid assets; the rest was in shares and property.

Twenty-four firms were liquidated, five real estate companies were merged and 10 companies remained in business, under the supervision of the investment authority. Of the 33 Gulf companies included in the report, 26 were investigated; seven refused to cooperate. Only two were profitable, the rest had lost substantial portions of their capital. Since direct action was beyond the jurisdiction of the government, the shareholders were asked to initiate actions. Only those cooperating with the Ministry were given the benefits of the share purchase program and were allowed to operate in Kuwait.

The CBK found that a number of exchange companies had violated their articles of association by practicing banking or investment activities. Depending on the extent of the violations, the companies were either registered with the CBK or their licenses were withdrawn. By September 1988, 48 companies were registered and 13 withdrawn 44/ .

In the face of liquidation and restructuring, the problem was how to handle the resulting assets and how to compensate the shareholders. The government plan called for buying the assets of the problem companies at their economic values and compensating shareholders with cash, three-year bonds, or shares in successful companies.

As for the banks, the CBK required all board members who asked for relief under the DCFSP to resign their positions. The investment authority also appointed new members in banks with government

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44/ Al-Watan Newspaper. September 21, 1988. Kuwait.

shareholding. The CBK now approves the appointment of all board members prior to their election and regulates lending, liquidity and internal investment and control. All banks must present an annual plan to support their capital base, including information on the bank's performance and its ability to provision and improve the quality of its assets. The central bank has also increased its inspection staff 45/ .

In addition the CBK has been given a number of effective monetary policy management tools, including the authority to issue up to KD 1.4 billion in government bonds. This effectively gives the CBK an open-market operation instrument. As of July 1988, KD 1.4 billion in public debt had been issued.

Stock Market Reform. In August 1984 the Kuwait Stock Exchange was set up as an independent authority chaired by the Minister of Commerce. The exchange is responsible for setting up and supervising trading procedures, registering brokers, and developing the market. Two legal committees were established with full authority to rule on disputes and take disciplinary actions, such as warnings, calling in guarantees, terminating trading in a stock, and withdrawing membership. Both Kuwaiti and foreign shares and bonds and other financial instruments licensed by the exchange committee can be traded. All companies are required to provide regular financial data to the exchange.

The exchange has been operating for four years with active supervision of registration and trading. Clearing procedures have been simplified and the exchange regularly publishes information on listed shares. The exchange has adopted procedures to: limit daily price movements; regulate brokers; regulate forward trading (not yet implemented); and appoint and regulate market makers for specific shares.

Costs of the Solution. It is important to distinguish between what was spent by the government and what the actual cost was. The cost of the share purchase schemes, for example, depends on the prices of these shares when they are offered in the privatization effort. The best estimate is based on the differences in the stock index between the acquisition period and 1987 46/ . Each scheme is estimated separately below:

- Creditor Guarantee Fund: An audit showed that KD 1 billion was paid out either in cash or bonds. Against this, KD 101.4 million was collected by the clearing company from the 1 percent fee, and KD 212 million in bonds was issued to the Ministry by the settlement organization for debtors whose cheques were guaranteed. The Fund's capital was

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45/ Central Bank of Kuwait. Notes to guidelines. September 20, 1988.

46/ This is expected to underestimate the real cost to the extent that inferior company shares were used by dealers either in the sales to the government or the placement of security against loans.

recently increased by KD 670 million to KD 1.2 billion, 47/ presumably to cover the net deficit in the Fund's capital position.

- Loans against shares: The two investment companies in which the government has a controlling interest lent KD 897 million against KSC shares and real estate. The banks were also asked to lend to debtors of the settlement organization against both KSC and KSCC shares so that dealers owing funds to distressed dealers transferred to the settlements organization could pay cash. The KD 200 million lent was part of the settlement program, so that the provisioning costs were shared by the banks and the government. The KSC share index moved down from the support level of about 460 to 232 in 1987, or 50.6 percent. The real estate index also moved from 206 in 1982 to 94.9 in 1985. Since most of the dealers joined the DCFSP, the cost to the government would be similar to that of having purchased the shares and real estate. Assuming a 25 percent real estate and 75 percent share portfolio, the approximate cost would be KD 435 million 48/ .

- KSC share support program: The government purchased shares worth KD 1.1 billion in 1983 (at support prices) directly from the market and another KD 144 million from the Settlement Organization. At 1987 prices the value was KD 634 million, with net costs of KD 624 million.

- Restructuring: To enable it to liquidate, restructure or merge firms, the government bought KD 243 million in KSCC shares and KD 34.7 million in Gulf shares. It is quite possible that the government will make a profit on the sale of these assets after the restructuring.

- Support of banking system: A total of KD 500 million was placed with the banks; the average 5 percent interest loss amounts to about KD 27.5 million annually.

ISSUES FOR EVALUATION

Two fundamental issues are under government review: the government's future role in the economy, and the structure of the nonoil sector. Fiscal policy management and extensive ownership of domestic institutions and services is at the heart of the first issue. Assuming crude oil prices of $25 to $27 a barrel, economists from the World Bank and other sources have forecast that the present expenditure structure

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47/ Kuwait Ministry of Commerce. Law number 42. 1988.

48/ Real estate index available only up to 1985. An index developed by a private consulting firm (Al-Shall) shows further deterioration in real estate prices during 1986 with some improvements in 1987.

will be unsustainable in the next decade. With the increasing uncertainty of oil prices and current indications that the level is expected to remain at $14 to $18 a barrel, expenditure rationalization is necessary.

The present expenditure pattern developed as a result of the oil wealth, which enabled the government to provide all basic services to the population. This has resulted in free health and education; subsidized electricity, water, housing, gasoline, and some food items. These combined subsidies are expected to amount to KD 1.5 billion by the year 2000 49/ , about 63 percent of 1986 budget revenues, and about 31 percent of total revenues (including investment income) in the same year.

While some subsidies will be retained, particularly for lower income groups, a restructuring would serve the dual purposes of rationalizing expenditures and attaining a better allocation of resources. For housing and food items, this would mean targeting subsidies toward the lower income groups. Utilities could change their pricing structure to achieve full cost recovery and eventually aim for privatization. While the Ministry of Health is currently studying the charges for services and drugs, it would be preferable to avoid a larger bureaucracy for collecting fees and move directly to a medical insurance system. This would also help in restructuring the health system as an independent authority or privatizing parts of it so that private-sector employers can directly contribute toward the cost of the health service.

Such a restructuring also increase the government's effectiveness in managing a pricing and subsidy policy within the framework of burdensharing with the private sector. A more realistic pricing of services is also a necessary element in achieving the allocative effects of the restructuring actions in the private sector. This essential change in the government's role is crucial for the future development of the nonoil sector.

A reduction of the government's ownership in the equity base of the shareholding companies is another essential ingredient. While the government's role in the restructuring exercises is commendable, the Kuwait Investment Authority cannot be expected to manage all the restructured companies, particularly with managers and board members that have no ownership in the institutions. The privatization effort should include criterion for the sale of blocks of shares to private sector groups that have viable management talent with relevant experience. In this way the government's involvement in both the equity base and the direct management of companies would be reduced.

The second issue concerns the structure of the nonoil economy. In the medium term the rationalization of government expenditures, the restructuring of services, and the privatization efforts will decrease the government's role. The essential question is how to develop the sector so that it can be an alternative to the oil sector in terms of

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49/ The World Bank. Kuwait, Recent Economic Development and Prospects. November 1984. p. 81.

diversification of income and employment. A series of long-term strategy papers have recently been completed by a MIT-Harvard Team and are currently being reviewed by the Higher Planning Council.

While a specific plan of action remains to be worked out, the development of Kuwait's financial institutions will remain crucial to the development of other sectors of the economy. The financial institutions' exposure to external markets should enable them to develop Kuwait's financial services and capital markets so as to increase the number of investment opportunities available. This would also contribute towards greater financial stability in the domestic financial markets, particularly by allowing investors to diversify out of Kuwaiti stocks and avoid the speculation that led to the stock market crisis.

The short-term expansion of the private sector, particularly through privatization, is also going to require imaginative financing arrangements by the banks and investment companies. However, since a large number of the active merchants are part of the DCFSP, it may be difficult to formulate investment syndicates to buy out and manage particular companies. In this respect, the CBK may need to examine alternatives for accelerating the writeoff of the unsecured portions of nonperforming debt to give both the banks and the DCFSP clients more flexibility in seeking new business. One alternative would be to form an entity to take over the assets of companies or individuals with nonperforming loans. This would be particularly useful for those assets in which the clients have an insignificant management role in increasing the assets' value or cash flows.

The Kuwaiti banks had proposed a similar solution, recommending the establishment of a company jointly owned by the banks and the government to purchase the assets of distressed clients with nonperforming loans 50/ . The banks felt this would substantially improve their loan portfolio, relieve management of the burden of supervision, and provide liquidity. The new institution would also provide the long-term funding needed by distressed clients who were potentially solvent.

This alternative has merits in a small young country like Kuwait where management talent and experience are scarce and need to be optimally utilized. The sooner the distressed businesses emerge from the settlement programs, the sooner they will be able to pursue new business opportunities. The banks would also find it easier to lend to entities that are not related to nonperforming loans on their books.

While it is too early to judge how the banks would react to loan applications from clients who are part of the DCFSP, it is evident that there remain serious problems with large borrowers who consider the program a constraint on expansion and new activities. The issue is that bank management is involved in lengthy legal procedures and committee meetings with the Central Bank over changes in the asset mix of a client

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50/ Proposal for Asset Management Company. National Bank of Kuwait. 1985.

or the amount of funds that the client can retain. The supervision and monitoring process needs to be simplified so that decisions can proceed.

One way of combining the shortcomings of the DCFSP with the restructuring exercises and the private sector role would be to expand the equity base of the restructured companies so that they can buy the assets held against the nonperforming loans of the banks. The companies could purchase the assets that conform to their expertise at market prices or at a discount. This would effectively substitute the loan financing of the assets for equity, which is a far more suitable financial structure for such assets. This could substantially expand the equity base of the economy. The investment companies would have to intermediate savings directly into equity and effectively terminate the past practice of borrowing to purchase equity. It is also this essential change in the financial structure that will shift the disproportionate risk assumed by the financial institutions to the investors. Such a shift of risk would also reduce the vibrations to the financial institutions as a result of shocks to the equity base and contribute to financial stability.

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STATISTICAL APPENDIX 1

Kuwait Money
(In millions of Kuwaiti Dinars)

DATE	MONEY	QUASI- MONEY	DOMESTIC LIQUIDITY	BANKING SYSTEM'S CLAIMS ON PRIVATE SECTOR
1975	290.30	600.80	891.10	506.70
3/76	348.60	615.60	964.20	593.90
6/76	402.00	699.30	1,101.30	703.40
9/76	387.60	757.50	1,145.10	809.00
12/76	393.70	826.40	1,220.10	934.30
3/77	424.10	888.30	1,312.40	947.10
6/77	449.00	956.80	1,405.80	1,082.90
9/77	447.80	995.20	1,443.00	1,177.60
12/77	490.70	1,078.00	1,568.70	1,236.70
3/78	550.40	1,061.30	1,611.70	1,192.50
6/78	596.00	1,128.00	1,724.00	1,282.00
9/78	630.60	1,215.00	1,845.60	1,355.10
12/78	636.40	1,314.00	1,950.40	1,564.10
3/79	666.90	1,319.30	1,986.20	1,670.20
6/79	675.30	1,363.10	2,038.40	1,818.10
9/79	725.80	1,521.80	2,247.60	2,088.90
12/79	669.40	1,593.30	2,262.70	2,123.60
3/80	699.60	1,782.60	2,482.20	2,244.70
6/80	792.70	1,839.70	2,632.40	2,306.10
9/80	795.50	1,963.20	2,758.70	2,566.80
12/80	720.80	2,136.80	2,857.60	2,676.50
3/81	823.70	2,151.00	2,974.70	2,802.50
6/81	1,041.90	2,343.70	3,385.60	2,991.70
9/81	1,019.90	2,505.50	3,525.40	3,170.70
12/81	1,290.20	2,575.80	3,866.00	3,459.00
3/82	1,629.90	2,575.10	4,205.00	3,975.00
6/82	1,695.70	2,566.70	4,262.40	4,150.20
9/82	1,263.70	2,849.50	4,113.20	4,341.00
12/82	1,247.60	2,935.10	4,182.70	4,277.70
3/83	1,331.20	2,886.60	4,217.80	4,429.00
6/83	1,348.30	2,920.00	4,268.30	4,530.50
9/83	1,223.70	2,996.80	4,220.50	4,515.00
12/83	1,179.60	3,188.20	4,367.80	4,743.10
3/84	1,135.80	3,208.20	4,344.00	4,811.90
6/84	1,097.80	3,166.10	4,263.90	4,887.40
9/84	1,024.50	3,297.40	4,321.90	4,954.08
12/84	968.10	3,507.70	4,475.80	5,035.80
3/85	954.30	3,550.50	4,504.80	4,972.80
6/85	985.30	3,597.30	4,582.60	4,999.40
9/85	956.40	3,615.10	4,571.50	5,097.20
12/85	943.90	3,491.40	4,435.30	5,052.50
3/86	982.10	3,434.20	4,432.40	5,065.40
6/86	994.70	3,435.00	4,448.00	5,127.20
9/86	990.10	3,583.90	4,591.10	5,157.10
12/86	979.30	3,567.60	4,546.90	5,154.30
3/87	1,028.10	3,437.60	4,465.70	5,171.70
6/87	1,023.20	3,617.20	4,640.40	5,476.10
9/87	976.60	3,716.50	4,693.10	5,531.80
12/87	1,035.60	3,726.40	4,762.00	5,596.90
3/88	998.20	3,888.10	4,886.30	5,846.40
6/88				

Source: International Financial Statistics, various editions.

KUWAITI COMMERCIAL BANKS - Claims Against the Private Sector
(In millions of Kuwaiti Dinars)

End of Period	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Trade	81.00	11.90	164.30	292.40	375.60	400.20	523.50	671.80	843.20	955.30	948.80	987.70	932.80	920.20	962.10
Industry	11.90	15.60	24.80	37.20	49.20	65.70	91.30	159.20	174.30	193.60	148.20	144.90	122.20	106.40	140.30
Construction	53.40	80.50	97.00	166.70	199.40	254.40	332.20	408.00	523.20	673.40	664.20	683.20	680.00	701.10	784.70
Agriculture and Fisheries	12.80	9.10	9.90	14.30	20.00	25.10	30.60	39.90	40.20	43.00	25.70	23.80	21.80	15.40	11.80
Financial & Other Services	38.60	47.40	93.80	167.60	215.80	319.70	120.90	142.80	236.00	269.90	314.10	360.60	360.90	371.40	465.50
*Personal Loans	48.90	77.80	72.70	171.10	212.60	319.70	520.10	620.70	890.30	1000.50	934.50	1040.40	1188.30	1271.50	1295.30
Real Estate							254.30	306.60	371.20	614.50	683.40	742.80	768.60	816.50	838.10
Other							44.50	69.60	94.50	147.00	125.40	125.40	123.90	127.60	127.70
Total	246.60	242.30	462.50	849.30	1072.60	1384.80	1917.40	2418.60	3172.90	3897.20	3844.30	4108.80	4198.50	4330.10	4625.50

Sources: Central Bank of Kuwait, The Kuwaiti Economy in Ten Years, Economic Report for the Period 1969 - 1979.
Central Bank of Kuwait, The Kuwaiti Economy, 1980 - 1984.
Central Bank of Kuwait, Quarterly Statistical Bulletin, December 1987.

* Includes real estate and other for 1973-1978.

KUWAITI COMMERICAL BANKS - ASSETS AND LIABILITIES
(In millions of Kuwait Dinars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
ASSETS															
Cash	4.70	5.30	6.10	7.90	10.40	11.30	13.60	17.40	18.80	22.70	24.30	19.70	24.00	25.10	28.20
Balances with Central Bank	22.20	52.70	61.10	84.50	260.50	111.40	116.20	106.00	147.50	133.50	72.10	77.00	48.20	49.80	125.70
Central Banks Bills	-	-	-	-	-	-	13.50	98.30	155.30	469.70	276.10	226.30	263.10	213.10	7.00
Foreign Assets	479.10	561.40	616.10	674.90	823.20	1214.20	1407.50	1880.10	2245.50	2251.00	2301.10	2507.60	2229.60	2179.00	2282.00
Claims on Private Sector	266.30	361.90	506.70	934.30	1238.50	1559.40	2119.30	2671.40	3453.60	4292.50	4752.70	5045.40	5067.80	5156.10	5473.50
Other Assets	31.10	56.30	110.70	137.40	262.10	382.20	621.90	875.90	1578.40	1976.80	2567.90	1710.00	1420.60	1684.80	1977.70
LIABILITIES															
Sight Deposits	103.60	117.90	188.60	264.70	339.70	422.00	410.60	418.40	956.90	857.00	787.60	588.80	565.80	584.80	636.90
Quasi-Money	397.20	521.00	600.90	826.50	1092.70	1351.30	1663.20	2187.80	2652.90	2998.30	3254.20	3583.00	3554.60	3639.80	3798.70
Government Deposits	50.70	73.20	87.30	71.00	114.90	99.30	139.90	164.90	211.00	393.80	362.50	387.80	385.50	226.60	187.20
Foreign Liabilities	136.10	143.40	169.00	324.10	419.80	601.50	803.90	1134.30	1264.10	1530.00	1550.40	1560.70	1360.30	1214.00	1205.80
Capital & Reserves	45.50	51.00	63.80	89.20	197.40	218.40	268.60	337.00	411.00	576.90	664.40	823.30	839.90	898.80	999.10
Other Liabilities	70.30	131.10	191.10	263.50	430.20	586.00	1005.70	1406.70	2103.00	2790.20	3375.20	2642.30	2347.30	2743.80	3066.20
Total Assets = Total Liabilities	803.40	1037.60	1300.70	1839.00	2594.70	3278.50	4291.90	5649.10	7598.90	9146.20	9994.30	9585.90	9053.40	9307.80	9893.90

Sources: Ministry of Planning, Central Statistical Office, Annual Statistical Abstract, 1982, Kuwait.
Central Bank of Kuwait, Quarterly Statistical Bulletin, December 1987.

SUMMARY OF KUWAITI GOVERNMENT REVENUES AND EXPENDITURES

(In millions of Kuwaiti Dinars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
BUDGET REVENUES	626	2598	2896	2704	2709	3177	6043	4299	2985	2567	3150	2730	2331
INVESTMENT INCOME	89	152	328	329	384	521	880	1744	1364	1657	1289	1154	2493
TOTAL REVENUES	715	2750	3224	3033	3093	3698	6923	6043	4349	4224	4439	3884	4824
PUBLIC EXPENDITURE of which	447	839	1260	1418	1746	1750	2378	3116	3538	3501	3475	3223	3025
CURRENT	281	432	658	746	760	881	1247	1483	1745	2001	1928	2071	1977
DEVELOPMENT	70	113	204	353	494	499	423	492	658	662	750	756	776
LAND PURCHASE	19	48	147	108	188	107	264	392	449	220	227	136	160
EQUITY IN LOCAL COMPANIES AND PUBLIC ENTERPRISES	62	232	215	175	297	239	218	650	715	574	547	228	86

Sources: Central Bank of Kuwait. Government Finance Statistics Yearbook.

STATISTICAL APPENDIX 5

Kuwait's Gross Domestic Product at Current Prices
(In millions of Kuwaiti Dinars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. Oil sector	994.10	3,020.05	2,456.56	2,519.67	2,477.31	2,520.55	4,412.54	5,086.30	4,114.96	2,763.47	3,037.93	3,400.09	2,983.16	1,841.76
2. Non-oil Sector	610.00	791.67	1,028.06	1,316.82	1,574.29	1,743.77	2,427.33	2,654.78	2,870.84	3,448.80	3,096.26	2,980.68	2,935.15	3,156.24
-Agriculture & Fisheries	4.70	4.69	6.47	7.15	7.68	9.97	11.78	14.07	23.97	28.51	28.44	34.94	39.38	51.94
-Manufacturing	80.20	171.19	197.49	234.24	246.58	287.95	569.77	430.20	420.66	309.89	376.34	303.18	378.18	556.27
-Electricity, Gas & Water	11.80	12.64	13.14	18.75	21.04	24.39	25.97	(73.93)	(166.83)	(230.68)	(220.99)	(178.17)	(150.50)	(94.14)
-Construction	44.40	62.78	73.67	122.60	158.40	175.83	219.12	278.05	263.00	262.16	273.95	272.24	197.98	156.00
-Wholesale & Retail Trade	112.70	140.40	211.30	288.76	352.40	384.52	410.76	554.05	618.15	714.81	498.36	528.06	499.60	470.12
-Transport, Storage and Communications	41.80	50.39	60.14	72.44	76.95	89.39	115.41	181.24	214.99	291.35	274.91	264.76	239.58	250.43
-Financial Institutions	24.20	25.94	39.20	56.91	82.21	102.80	135.74	167.22	216.30	367.56	291.13	277.00	221.60	217.00
-Insurance	3.50	3.97	6.00	8.31	10.94	10.88	14.86	14.92	16.00	27.63	18.12	22.80	19.38	16.47
-Government & Other Services	286.70	319.67	420.65	507.66	618.08	658.05	922.91	1,088.95	1,264.60	1,687.55	1,555.86	1,455.86	1,489.96	1,532.15
3. GDP (1 + 2)	1,604.10	3,811.72	3,484.62	3,836.49	4,051.60	4,264.32	6,839.87	7,741.08	6,985.80	6,212.27	6,134.19	6,380.77	5,918.31	4,998.00

Sources: Central Bank of Kuwait, The Kuwaiti Economy, 1980 - 1984.
Central Bank of Kuwait, Quarterly Statistical Bulletin, Oct - Dec. 1987.

STATISTICAL APPENDIX 6

*** ANNUAL EQUITY AND EARNINGS OF KUWAITI COMMERCIAL BANKS 1970-87**

Year	Capital (KD 000's)	Number of Shares	EQUITY ISSUES					** Net Profit (KD 000's)
			Bonus		Regular			
			Number	Value (KD 000's)	Number	Value (KD 000's)	Premium (KD 000's)	
1970 (1)	11,413	1,455,000	217,500	1,631	None	None	None	NA
1971	13,044	1,672,500	228,500	1,714	None	None	None	NA
1972	16,758	2,101,000	255,000	1,913	None	None	None	NA
1973	18,670	2,356,000	39,000	293	50,000	5,000	15,000	NA
1974	19,467	2,445,600	100,000	750	308,900	3,089	7,356	NA
1975	22,617	2,854,500	409,675	3,073	442,000	3,440	13,760	NA
1976	29,671	3,706,175	721,235	5,409	1,610,852	13,691	64,920	11,707
1977 (2)	59,094	16,046,262	1,363,638	10,227	None	None	None	16,587
1978 (3)	69,824	69,824,250	7,885,625	7,886	3,500,000	3,500	20,500	22,372
1979	81,210	81,209,875	8,581,376	8,581	6,600,000	6,600	30,600	27,476
1980	96,290	96,397,756	12,667,479	12,667	4,906,704	4,908	25,554	35,313
1981	113,917	113,917,217	22,045,255	22,045	15,511,291	15,511	83,529	50,749
1982	151,404	129,953,956	30,911,366	30,911	None	None	None	60,741
1983	180,418	190,418,218	22,469,092	22,469	24,060,406	24,060	72,205	61.501
1984	203,033	236,100,298	7,419,272	7,419	None	None	None	64,068
1985	192,546	192,546,321	16,702,867	16,703	None	None	None	23,000
1986	260,177	260,176,600	24,600,533	24,601	7,075,000	7,075	7,075	45.969
1987 (4)	324,066	3,240,654,000	70,279,100	7,028	19,444	19,444	38,888	52,587

* Not including Bank Bahrain & Kuwait
** Published net profit

(1) From 1970-77 the par value of shares for some banks was 10 KD
(2) This year includes one bank with shares of par value 1 KD
(3) Shares had been split: one share of par value 7.5 KD to 7.5 shares of par value 1 KD
(4) Shares had been split: one share of par value 1 KD to 10 shares of par value 100 fils

Source: Central Bank of Kuwait.

STATISTICAL APPENDIX 7

KUWAITI COMMERCIAL BANK LOANS AS OF MARCH 31, 1985

Amount of Loan (KD)		Number of Loans	Percent	Value (KD'000)	Percent	Average Loan (KD)
UNDER	20,000	44,544	90.88	110,423	2.49	2,479
20,001	50,000	1,071	2.19	35,793	0.81	33,420
50,001	100,000	829	1.69	59,519	1.34	71,796
100,001	250,000	991	2.02	158,284	3.57	159,721
250,001	500,000	577	1.18	197,697	4.45	342,629
500,001	1,000,000	350	0.71	252,210	5.68	720,600
1,000,001	2,000,000	260	0.53	369,107	8.32	1,419,642
2,000,001	5,000,000	190	0.39	592,806	13.36	3,120,032
OVER	5,000,001	202	0.41	2,662,099	59.98	13,178,708
TOTAL		49,014	100.00	4,437.938	100.00	

SOURCE: Government reply to a parliamentary question - 1985.

Kuwait Stock Exchange
Issues of Equity 1973-1987
(In thousands of Kuwaiti Dinars)

Name of Company	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
National Bank of Kuwait	7,350.00	7,350.00	8,250.00	9,075.00	13,612.50	17,676.25	19,163.00	22,285.76	26,062.91	34,921.78	36,096.73	35,316.10	38,001.90	63,070.00	70,277.00
Gulf Bank	2,970.00	3,267.00	3,667.01	4,616.31	7,011.75	9,000.00	12,000.00	15,000.00	17,500.00	23,500.00	33,500.00	37,000.00	40,920.00	43,407.00	47,310.00
Commercial Bank	4,200.00	4,200.00	4,200.00	8,400.00	13,440.00	16,128.00	18,144.00	20,412.00	24,499.10	29,393.20	36,741.60	36,741.60	36,741.60	38,579.00	41,665.00
Al-Ahli Bank of Kuwait	2,880.00	2,300.00	2,300.00	3,300.00	7,000.00	9,000.00	12,000.00	15,000.00	16,500.00	23,723.00	30,000.00	30,000.00	31,300.00	41,738.00	45,699.00
Kuwait & Middle East Bank	2,000.00	2,000.00	4,000.00	4,000.00	6,000.00	8,000.00	9,600.00	9,600.00	10,559.91	16,743.90	20,929.07	24,069.33	25,212.02	27,042.00	29,746.00
Real Estate Bank	5,000.00	5,000.00	6,720.17	6,720.17	7,350.60	8,213.00	9,100.00	14,019.70	15,716.30	20,631.19	24,316.90	24,316.90	24,316.90	24,517.00	25,743.00
Burgan Bank					10,000.00	14,000.00	14,000.00	14,000.00	14,000.00	21,000.00	24,150.00	30,973.23	30,973.23	33,329.00	38,000.00
Kuwait Finance House						10,000.00	10,000.00	10,000.00	10,000.00	15,000.00	18,750.00	18,750.00	18,750.00	28,371.00	23,143.00
Kuwait Investment	8,347.50	8,347.50	8,347.50	11,269.13	11,269.13	12,296.04	21,073.27	23,100.99	23,100.50	34,770.09	37,906.32	40,903.13	49,903.13	48,263.00	48,263.00
Kuwait Foreign Trading, Contracting & Invest. Co.	20,000.00	20,000.00	20,000.00	25,000.00	25,000.00	25,000.00	30,000.00	30,000.00	40,000.00	60,000.00	69,000.00	69,000.00	69,000.00	60,000.00	
Kuwait Int. Investment		10,023.00	10,023.00	10,023.00	12,030.00	13,030.00	15,627.09	17,100.40	19,337.64	29,002.00	31,932.00	31,932.00	31,932.00	31,992.00	31,992.00
Commercial Facilities						3,001.50	3,001.50	3,001.50	8,012.90	7,926.97	8,279.67	8,279.67	8,279.67	8,691.00	9,363.00
Kuwait Insurance	600.00	750.00	1,000.00	1,333.33	2,333.33	3,499.99	5,250.00	7,350.00	9,187.50	12,062.50	16,000.00	16,000.00	16,000.00	16,000.00	16,000.00
Gulf Insurance	990.00	1,000.00	1,000.00	1,600.00	2,349.00	3,072.00	4,147.20	5,184.00	6,000.00	8,700.00	11,310.00	11,310.00	11,310.00	11,310.00	11,310.00
Al-Ahleia Insurance	1,000.00	1,000.00	1,000.00	1,300.00	1,690.00	2,250.00	2,700.00	3,240.00	3,000.00	5,054.40	6,370.72	6,370.72	6,370.72	6,371.00	7,220.00
Warba Insurance					4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,731.60	5,230.06	5,230.06	5,230.06	5,230.00	5,230.00
Kuwait Real Estate	3,000.00	3,000.00	3,000.00	8,000.00	10,000.00	12,000.00	15,000.00	18,000.00	23,000.00	27,600.00	30,623.21	45,000.00	45,000.00	45,000.00	45,000.00
National Industries	2,160.00	2,160.00	2,320.00	5,039.36	6,299.40	6,930.00	15,244.44	16,006.28	19,207.54	22,009.67	24,297.52	24,297.52	24,297.52	24,290.00	24,290.00
Kuwait Cement	2,250.00	3,000.00	3,000.00	3,900.00	6,300.00	8,300.00	11,000.00	13,750.00	10,962.50	22,275.00	25,616.25	25,616.25	25,616.25	25,616.00	25,616.00
United Fisheries	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	11,000.00	12,100.00	13,310.00	19,965.00	24,956.25	24,956.25	24,956.25	10,717.00	7,000.00
United Realty	3,300.00	7,000.00	7,000.00	10,000.00	16,787.20	19,633.10	23,260.23	25,000.00	25,000.00	37,409.37	76,767.63	76,767.63	76,767.64	76,760.00	76,760.00
National Real Estate		6,091.49	6,091.49	10,300.00	12,600.00	12,600.00	12,600.00	13,064.00	17,017.00	25,799.23	33,339.02	33,339.02	33,339.02	33,339.00	36,050.00
Salhiah Real Estate			5,500.00	5,500.00	5,500.00	8,000.00	8,000.00	8,000.00	12,000.00	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00
Investment Real Estate				10,000.00	10,000.00	10,000.00	11,000.00	11,000.00	24,000.00	24,000.00	24,000.00	24,000.00	24,000.00	10,000.00	17,497.00
Metal Pipe Industries	1,500.00	1,000.00	2,170.00	3,000.00	4,000.00	5,600.00	6,440.00	7,001.00	8,146.60	10,062.13	13,206.99	13,206.99	13,206.99	13,207.00	13,207.00
Refrigeration Industries		2,000.00	2,920.00	4,000.00	4,000.00	4,020.00	4,000.00	4,000.00	4,241.03	5,530.00	6,340.00	6,340.00	6,360.00	6,367.00	6,367.00
Gulf Cables				3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,260.71	3,912.03	4,699.42	5,634.30	5,634.00	5,634.00
Pharmaceutical Industries									6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	5,531.00	5,997.30
Kuwait Int. Invest. of Petrol									100,000.00	108,000.00	107,999.55	107,904.09	107,904.09		
Cont. & Marine Services		5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	6,000.00	7,500.00	7,500.00	7,500.00	7,500.00	7,500.00	7,500.00
Shipbuilding & Repair			10,000.00	10,000.00	10,000.00	10,000.00	15,000.00	15,000.00	20,000.00	20,000.00	20,000.00	20,000.00	30,000.00	25,100.00	25,100.00
National Autos		3,600.00	3,600.00	3,600.00	3,600.00	3,600.00	3,600.00	3,780.00	5,670.00	5,670.00	6,231.01	6,231.01	6,231.01		
Livestock Transport & Trad.		8,000.00	8,000.00	8,000.00	9,768.10	9,042.04	9,043.04	10,876.19	12,650.02	10,852.39	21,662.73	21,662.73	21,661.00	21,649.00	21,649.00
Kuwait Poultry			4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	8,000.00	7,961.00	10,091.27	11,340.39	11,340.39	11,340.79	11,310.00	11,310.00
Kuwait Foods	400.00	800.00	800.00	800.00	1,320.00	1,716.00	2,230.00	4,461.60	4,907.76	9,015.37	11,207.03	11,207.03	11,200.00	11,200.00	11,200.00
Agricultural Products				10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,051.46	10,051.46	10,051.46	10,051.46	8,350.00	8,333.00
Over Land Transport						10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	9,002.00	8,870.00
Kuwait National Cinema	1,633.26	1,633.26	1,633.26	1,633.26	1,633.26	1,633.26	1,633.26	1,633.26	2,943.07	5,886.93	7,000.00	7,000.00	7,000.00	7,000.00	7,000.00
Kuwait Hotels	2,941.12	2,941.12	2,941.12	2,941.12	2,941.10	3,529.42	4,235.30	4,658.83	4,658.83	6,522.36	7,826.77	7,826.77	7,826.77	10,232.00	
The Public Warehousing								25,000.00	25,000.00	25,000.00	26,933.01	26,933.01	26,933.01	26,889.00	26,934.00
Market Complex											50,000.00	50,000.00		24,967.00	24,967.00
Mobile Telephone												25,000.00	25,000.00	25,000.00	25,000.00
Kuwait Oil Tankers Company	26,000.00	26,000.00	26,000.00	26,000.00	26,000.00	26,000.00	26,000.00								
Kuwait National Petroleum Co.	15,000.00	15,000.00	15,000.00												
Kuwait Petrochemical Indust.	32,000.00	32,000.00	32,000.00												
Sanitary Wares Company			6,750.00	6,700.00	6,700.00	6,700.00	6,700.00	6,700.00	6,700.00	6,700.00	6,700.00	6,700.00	6,700.00	6,700.00	
Melamine Industries				12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	
Tyre Manufacturing				7,900.00	7,900.00	7,900.00	7,900.00	7,900.00	7,900.00	7,900.00	7,900.00	7,900.00	7,900.00	7,900.00	
Gulf Petroleum Products									8,200.00	41,000.00	41,000.00	41,000.00	41,000.00		
Arabian Iron & Steel									14,720.00	43,312.50	43,312.50	44,250.00			
Arabian Investment							9,769.54	9,769.54	9,769.54	23,002.16	23,046.77	23,046.25	23,046.25	23,261.00	21,603.00
Coast Investment									23,600.00	29,300.00	29,300.00	29,300.00	30,000.00	7,310.00	27,7[illegible]
First Gulf Bank							9,342.97	9,004.73	9,012.22	9,010.53	9,010.53	9,010.53	9,010.53	9,379.00	9,2[illegible]
Bahrain International Bank										53,039.23	53,039.23	53,039.23	53,970.30	52,531.00	49,070.00
Bahrain Middle East Bank										29,403.37	29,403.37	41,903.09	20,432.00	38,203.00	
United Gulf Bank								21,977.50	21,977.50	59,000.00	59,000.00	59,000.00	60,000.00	10,600.00	56,400.00
TOTALS:	134,903.00	196,417.37	220,601.50	254,610.60	314,006.69	366,274.67	440,009.19	517,392.02	799,032.69	1,139,250.20	1,327,116.66	1,437,177.17	1,343,164.94	1,152,721.00	1,091,107.00
* Total Kuwaiti	134,903.00	196,417.37	220,601.50	254,610.60	314,006.69	366,274.67	425,696.60	476,010.23	671,743.65	850,034.46	1,037,916.44	1,134,740.05	1,189,097.04	1,007,215.00	976,220.00
New Kuwaiti Issues		41,513.49	31,984.21	26,217.10	59,160.00	52,107.99	59,422.00	50,343.35	193,703.20	178,311.04	187,061.90	96,023.61	(30,643.21)	(96,053.00)	(81,079.00)

*Does not include Gulf companies listed on the Exchange.

Source: Ministry of Commerce & Industry.

STATISTICAL APPENDIX 9

GULF COMPANIES
(In thousands of U.S. Dollars)

	1978	1979	1980	1981	1982	1983	1984
Bank Sector							
*First Gulf Bank		32,596.00	32,596.00	32,596.35	32.617.30	32,617.27	32.617.27
*United Gulf Bank			74,500.00	74,500.00	200,002.00	200,000.00	200,000.00
*Bahrain International Bank					179,794.00	179,794.00	179,701.00
*Bahrain Middle East Bank					99,944.00	99,944.00	139,944.00
Investment Sector							
Sharjah Group Company (76)	82,281.00	82,281.00	82,281.40	130,000.00	199,062.90	199,132.50	
Pearl (Lo'Lo'a) Investment Co.		75,000.00	75,000.00	100,000.00	150,000.00	150,000.00	150,000.00
Gulf Financial Centre		54,400.00	54,400.00	59,954.50	110,000.00		
Arab International Development Co.		6,625.00	6,625.00	7,950.00	29,449.00	30,213.00	30,259.40
Gulf Investments Company		124,974.00	124,974.00	137,472.00	287,940.30	289,685.50	289.932.80
*Arabian General Investment Co.		32,454.00	32,454.00	32,454.59	79,204.06	79,212.72	79.217.65
*Coast Investment & Devevelopment Co.			80,090.00	80,000.00	100,000.00	100,000.00	100,000.00
Kuwait & Gulf Financial Center			32,680.00	32,680.53	80,918.44	80,918.44	
Bahrain International Investment Center					125.000.00	125.000.00	125.000.00
Bahraini Kuwaiti Investment Group					14,982.21	14,982.21	14,982.21
Insurance Sector							
United Insurance Company (76)	2,724.00	2,724.00	2,724.05	2,996.46	3.296.10	3.296.10	
Gulf Union Insurance Co.		7,950.00	7,950.00	8,745.00	19,067.10	19,072.60	19,072.70
Gulf International Insurance Company Ltd. (Al Alamia)			11,982.00	11,982.95	29,525.80	30,036.42	30.036.42
Arab International Insurance Co.			5,997.00	5,997.00	7,497.00	7,497.00	7,497.00
Real Estate Sector							
Gulf Investment and Real Estate Company (Gireco) (77)	175,787.00	175,787.00	175,787.70	292,981.20	591,001.20	591.005.50	591,006.60
Al Jazira Contract. & Investment Co.(78)	10,590.00	10,590.00	10,590.00	13,237.40	72,260.70	74,063.70	
Gulf Real Estate Company			95,341.00	95,341.00	95,341.87	95.341.87	95,341.87
Industrial Sector							
Ras Al-Khaimah Poultry & Fodder Co.			10,050.67	24,516.40	24,516.40	24,516.40	24.516.40
Gulf Cement Company (77)	81,683.00	81,683.00	81,683.11	131,028.71	131,046.45	131,047.04	131,047.04
Gulf Industries Company (77)	16,344.00	16,344.00	16,344.32	24,516.40	54,577.85	54,629.75	54,629.75
Sharjah Cement & Industrial Development Company Ltd.		48,878.00	48,878.18	74,911.47	131,095.07	137,649.82	137,649.82
Fujairah Cement Industries		47,593.00	47,593.73	71,265.95	136,080.93	136,102.04	136.102.04
Gulf Group for Projects & Industries			10,896.00	10,896.21	136.202.67	136,202.67	95,341.87
Ajman Cement Company			61.291.00	61,291.20	61,291.20	64.355.76	64.355.76
*Arab Iron & Steel Co. (E.C.)			50,000.00	50,000.00	127,090.00	135,604.00	135.944.00
*Gulf Petroleum Products Co.			27,240.00	27,240.53	136,202.67	136,202.67	136,202.67
Ras Al Khaimah Co. for White Cement & Construction Materials			156,905.00	156,905.40	163,443.20	164,314.90	164,314.90
Mines & Industry Company				46,581.00	46,581.31	46,581.31	46,581.31
Gulf Consolidated Company For Services & Industries				100,000.00	149,246.00	149,246.00	149,246.00
Gulf Clinker Company (Ras Al Khaimah)					102,363.20	103,115.10	103,115.10
Miscellaneous Companies							
United International Hotels (76)	49,250.00	49,250.00	49,250.89	52,035.22	54,401.07	60.325.82	
Gulf Agriculture Development Co. (77)		27,073.00	27,093.07	3,132.66	54,481.07	54,481.07	54,481.07
Al Sharquia For Art Production & Dist.		8,172.00	8,172.16	19,060.37	38,136.75	38.136.75	38,136.75
Gulf Medical Projects Co.		27,757.00	27,757.50	33,505.86	64,025.99	64,027.21	64,027.21
TOTALS	418.659.00	912,151.00	1,529,095.39	2,006,680.61	4,118,572.05	4,039,071.24	3,621,300.70
New Gulf Issues		493,492.00	616,944.39	477,585.22	2,111,891.45	(79,500.81)	(417,770.54)

*Companies listed on the Kuwait Stock Exchange.

Source: Securities Group SAK, Kuwait, 1984, Gulf Companies Directory.

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