

Business

Kuwait needs surgical confrontation to turn around its economy: Al-Shall

Bursa Kuwait liquidity grows substantially in November

KUWAIT: Twenty nine young Kuwaiti economists issued a document which they named it "Before It Is Too Late". We will not go into the contents' details, as the content is fully consistent with all serious studies and reports that diagnosed the outcome of the incorrect economic and financial policies that produced the difficult situation of the country.

The beauty of the document is that it was issued by young professionals motivated by a patriotic sense and concern for their country's future. So it is inspiring some hope at a time when corruption, waste and mismanagement have become features inherent in the country's public administration. The document names the four structural disorders in the economy: the production, financial, labor force balance and demographic structure disorders, it also added the educational system defect as a fifth administrative disorder. All pillars of diagnosis are correct and what is new in the document is the defect in educational system which is manifested not only in the separation between its outputs and the labor market need for them but also by its high costs while its level is heading downward, that is declining.

The document mentions two example of science and mathematics. In the science test, for example, Kuwait scored 347 points in 2011 then dropped to 315 points in 2015. In the mathematics test, it scored 342 points in 2011 and dropped to 327 points in 2015. This happened while students' costs increased between the two aforementioned two years by about 38 percent and the entire Ministry of Education's expenses increased by 63 percent.

We believe that the difference in the increase between the student's cost and the total expenses goes to employment expenses irrelevant to education. In Kuwait, according to our information, the salaries and wages in the Ministry of Education scored about 82 percent of its total expenditures for the fiscal year 2016/2017, rising by 62 percent from the fiscal year 2002/2003, while the "Arab Center for Educational Research" recommended a rate that it does not exceed 65 percent.

The imbalance of the percentages means fewer laboratories, equipment, and tools necessary to promote education. The rest of the document is valid pillars to get out of the impasse. The economy, public finance, labor force balance and demographic structure are all unsustainable; unless the goal is to sustain them and with fair participation by all society components to bear the costs of rotating the economy, it may be too late.

According to the document, Kuwait cannot get out of its predicament unless it seriously addresses corruption and it avails information to whoever needs it abundantly up-to-date, with transparency and unless the transformation project takes into account the social justice principle. Since the fall of the Soviet Union in 1990, the race for supremacy in the world has shifted to the economy. As such, the economy has lifted China to the top and the economy has dropped many countries to failing countries status despite their enormous resources. Venezuela, for instance, is a good example of that. Kuwait needs surgical confrontation of its economic conditions and

this requires that a motivated group and similar to the young people of this group take over the task of turning the economy towards China as an alternative to the management of "tribalism" and "quotas", which have become enslaved to the Venezuelan route.

Boursa Kuwait

Performance of Boursa Kuwait in November was more active compared to October performance as the traded value, i.e. Boursa liquidity increased accompanied by positive indices performances. The Premier Market index rose slightly by 0.1 percent, the All-Share Market index rose by 0.3 percent, also the Main Market index rose by 1 percent and the BK Main 50 index rose by 1.4 percent. Boursa liquidity doubled in November compared to October and scored KD 2.174 billion compared with KD 1.145 billion in October. On Monday 30th of November 2020, there was an influx of approximately KD 961.6 million in the trading session directly after implementing Boursa Kuwait upgrade within the MSCI as an emerging market level. Accordingly, the average daily trading value for November increased to KD 98.8 million versus KD 60.3 million in October, an increase of 63.9 percent. It remains an exceptional elevation that may not reoccur.

Boursa liquidity in the first eleven months of this year (219 working days) reached KD 9.832 billion, and the average daily trading value for the period was about KD 44.9 million, higher by 43.9 percent if compared to KD 31.2 million average daily trading value for the same period of 2019, and higher by 41.4 percent when compared to the average for the entire year of 2019 at KD 31.8 million. Liquidity trends since the beginning of the year indicate that half of the listed companies got only 0.7 percent, i.e. less than one percent, including 50 companies that got 2 about 0.1 percent of that liquidity and 5 companies without any trading. As for the small liquid companies, 12 companies whose market value equals 3.2 percent of all listed companies' value captured about 6.9 percent of total market liquidity. This means that major liquidity activity still deprives almost half of the listed companies. On the contrary, it favors companies with small market value even though this bias is low.

As for liquidity distribution between the two markets during November 2020 was as follows:

Premier Market (20 companies)

It captured about KD 2,039 billion, or 93.8 percent of Boursa liquidity, and half of its companies captured 93.8 percent of its liquidity and about 87.9 percent of total Boursa liquidity, while the other half obtained the remainder or about 6.2 percent of its liquidity. Liquidity concentration rate reached a high level, as 4 companies obtained 75.8 percent of its liquidity.

Main Market (153 companies)

It captured KD 135.3 million or about 6.2 percent of Boursa liquidity; within it, 20 percent of its companies captured 84.5 percent of its liquidity and 80 percent of its companies got about 15.5 percent of its liquidity. Companies within the Main Market that have a window for liquidity when needed deserve to

	30/09/2020	30/09/2019	Change		
	(Thousand KD)	(Thousand KD)	Value	%	
Total Assets	4,314,801	4,117,767	197,034	4.8%	↑
Total Liabilities	3,816,972	3,609,628	207,344	5.7%	↑
Equity attributable to the equity holders of the bank	437,189	447,499	-10,310	-2.3%	↓
Total Operating Income	68,412	80,670	-12,258	-15.2%	↓
Total Operating Expenses	25,824	29,584	-3,760	-12.7%	↓
Provision	18,369	3,751	14,618	389.7%	↑
Taxation	1,109	2,096	-987	-47.1%	↓
Net Income	23,110	45,239	-22,129	-48.9%	↓
Ratios					
**Return on Average Assets (ROA)	0.7%	1.5%			↓
**Return on Average Equity relevant to the bank shareholder (ROE)	6.9%	13.7%			↓
**Return on Average Capital (ROC)	14.6%	30.0%			↓
Earnings per share (EPS) - (Ei)	11.0	22.3	-11.3	-50.7%	↓
Closing Price - (Ei)	271	312	-41	-13.1%	↓
*Price to Earnings Per Share Multiples (P/E)	18.5	10.5			
*Price to Book Value Multiples (P/B)	1.2	1.3			

* Indicators Ended September 30, 2020 on an annual basis.

** Calculated based on the average rate of the financial data at the end of December 2019 and September 30.

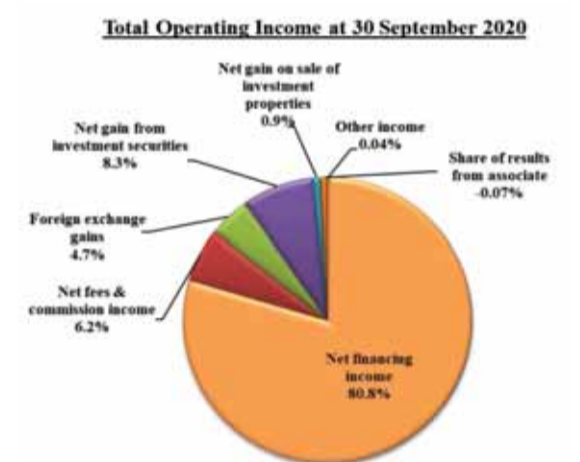
be kept listed. There is no harm in encouraging companies that lack liquidity for a long period of time to withdraw from listing.

Monthly Report of the State's Financial Administration Accounts - August 2020

In its monthly follow-up report for the State's Financial Administration until the end of August 2020 (as published on its website), the Ministry of Finance indicates that total realized revenues until the end of the 5th month of the current fiscal year 2020/2021 scored KD 3.301 billion, which is 44 percent of the total estimated revenues for the entire fiscal year in the amount of about KD 7.503 billion. In details, actual oil revenues until 31/08/2020 were at KD 2.778 billion, i.e. 49.4 percent of the estimated oil revenues for the entire current fiscal year in the amount of KD 5.628 billion, or about 84.2 percent of total collected revenues. The average Kuwaiti oil price for the first five months of the current fiscal year 2020/2021 scored US\$ 33.1 per barrel.

An amount of KD 522.694 million was collected from non-oil revenues during the same period with a monthly average of KD 104.539 million, while the total estimated amount for the entire current fiscal year was about KD 1.874 billion. This means that the realized amount if it continues at the monthly average, will be less for the entire current fiscal year by nearly KD 619.9 million than the estimated. Expenditures allocations for the current fiscal year were estimated at KD 21.555 billion, of which an amount of KD 4.209 billion has been actually spent according to the bulletin until 31/08/2020.

An amount of KD 505.923 million has been obligated and considered as spent, raising the total



expenditures -the actual and the obligated to KD 4.715 billion. The monthly average of the actual expenditures and the obligated is nearly KD 942.927 million. Though the bulletin concludes that the budget achieved at the end of the 5th month of the current fiscal year a KD 1.414 billion deficit, although we publish it without recommending relying on it and taking into account that the monthly spending average will increase significantly by the end of the fiscal year.

The deficit figure at the end of the fiscal year depends mainly on the price of oil and its production for the remainder of the current fiscal year, that is the upcoming seven months. And if oil prices continue at their current level with reduction in production level, we expect the actual deficit number to rise to between KD 10-12 billion with it being closer to the smaller figure.

Has the ECB made wealth gap wider?

PARIS: The European Central Bank likely saved the eurozone from several financial crises but it is also accused of exacerbating inequality with its ultra-loose monetary policies.

What policies are being questioned?

Under the direction of Mario Draghi and now Christine Lagarde, the ECB has purchased billions of euros worth of sovereign and corporate debt since 2015 to keep borrowing rates down in the eurozone and ward off additional crises.

The unconventional policy is known as Quantitative Easing (QE) and it has been implemented along with more classic methods of boosting the economy, such as ultra-low interest rates that currently hover around zero. The bank might unveil additional, or stronger, measures this week.

Does this make financial inequality worse?

"Asset purchases tend to mechanically widen the gap between the most wealthy and the least wealthy," notes Jezebel Coupey-Soubeyran, professor of monetary policy at the Paris-1 University.

When it buys debt from financial institutions on secondary markets, i.e. after the debt has already been issued, the ECB and other central banks effectively lower the rate of interest that countries and companies must offer to obtain funds. Investors often then turn to assets that involve more risk but which offer better returns, like stocks, causing share prices to rise.

That generally benefits shareholders such as investment groups and wealthy individuals.

Interest rates have fallen sharply since QE began, and are sometimes negative now for counties such as France and Germany, while the CAC 40 and DAX stock market indices have surged



by more than 30 percent in the past five years. Shareholders have obviously benefited as a result.

"It is certain, that (QE) has enriched this class of the population," confirmed Frederik Ducrozet, a strategist at Pictet Wealth Management. Low interest rates have also allowed wealthy households to benefit from higher real-estate values because demand has driven up prices in many metropolitan areas.

ECB chief economist Philip Lane acknowledged as much in a recent interview with the French financial daily Les Echos, by saying that the bank's monetary policy had "immediate consequences for asset prices". He added that "the value of shares and property is higher which, of course, benefits those who own these assets."

Do such policies help more modest households?

The ECB, which is based in Frankfurt, declined to comment on this question.

But in January 2019, two central bank staff said in a study that QE had helped reduce unemployment among the bottom 20 percent of wage earners in four countries-France, Germany, Italy and Spain-and raised their wages. Ultra-low interest rates have also allowed less-wealthy

households to buy property, thus reducing inequality, they maintained.

That said, several ECB papers have concluded that such reductions have not been particularly significant. And Coupey-Soubeyran pointed out that comparable statistics on unemployment between the eurozone and broader European Union do not demonstrate a large difference that could be attributed to ECB policies.

Have savers been taken to the cleaners?

The central bank acknowledges a negative impact on thrifty households that have seen the value of their savings decline owing to low interest rates. The bank's policy has had a "distributive" effect, and affected households that are net borrowers and those that are net savers in a "heterogeneous manner", according to Eric Dor, research director at the IESEG School of Management.

ECB economists have argued that such negative effects were offset by support for employment and wages. And Dor agreed that strong central bank support for wages, in particular those of poorer workers, "has more than compensated for the fact that some households have suffered an overall loss owing to net interest revenues." —AFP

Venezuela: Top oil exporter in dire straits

CARACAS: Venezuela, once Latin America's top oil exporter and a bete noire of the United States, is enduring a deep economic, political and migration crisis.

With a third of its 30 million people going hungry, embattled President Nicolas Maduro still hopes to retake congress from the opposition in Sunday's elections.

Chavez: Anti-US firebrand

Maduro was propelled to power in 2013 following the death of the hugely popular leftist firebrand Hugo Chavez. Strongly anti-America, Chavez-first elected president in 1999 — mixed a larger-than-life personality with a man-of-the-people style. His popularity was underpinned by oil-funded social programs.

Elected to a third term in 2012, he died the following year of cancer. His were big shoes to fill for Maduro, who quickly lost favor, notably when a 2014 fall in oil prices sparked a major economic crisis for the oil-dependent nation.

The economic woes provoked anti-government riots that raged for months in 2014, with the authorities reacting with force. Forty-three people were killed. Protests again calling for Maduro to step down lasted for four months in 2017, leaving 125 people dead.

Power struggle

During elections in December 2015, the opposition won control of the National Assembly by a landslide. Following an intense fightback from Maduro, in 2018 National Assembly leader Juan Guaido proclaimed himself acting president.

He was immediately recognized by the US and a host of other countries. But Russia, Cuba, Bolivia, Mexico and

Turkey still supported Maduro, who remains in power.

To choke off the Chavist regime, the Trump administration in Washington imposed oil sanctions in April 2019. But the arrival of Joe Biden at the White House in January 2021 could end a hardline US pressure policy designed to oust Maduro, analysts say.

All about oil

The Caribbean nation has the largest proven oil reserves in the world. But lack of investment in infrastructure has meant its crude production has plummeted to less than 400,000 barrels per day from 3.2 million 12 years ago, bringing it to the same level as it was in the 1930s.

Oil accounted for 96 percent of exports in 2019 and half of state revenue. Despite its huge reserves, Venezuela recently had to turn to Iran to deal with a severe fuel shortage.

Economy in free fall

Even before the coronavirus, Venezuela's economy had shrunk by half since 2014. Inflation hit 9,000 percent in 2019, and the national currency, the bolivar, has collapsed. Due to plummeting oil prices Venezuela suffers from a lack of foreign currency, and has fallen into a severe crisis.

As a result five million Venezuelans have fled shortages of food, medicines, water, fuel and electricity. Maduro says the crisis is the result of an "economic war" waged by the right and the US to unseat him.

Teaching music

But Venezuela is not just known for its cataclysmic crises. Its internationally acclaimed "El Sistema" ("The System"), a musical education program founded by the late musician, politician and economist Antonio Abreu, has been copied in more than 50 countries. Venezuela also boasts the highest waterfall in the world, the Angel Falls, near-deserted Caribbean islands and dense jungles and the Andes mountains. But with the country in turmoil, tourists are not likely to flock there anytime soon. —AFP