

Conduct of monetary policy in kuwait

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In order to accomplish these broad goals, CBK has been adept at controlling the level of the domestic money supply and different interest rates. During the fiscal year 2005-2006, the broad definition of money supply or M2 amounts to KD14524. 7 which represents a double-digit increase of 17. 2% from its previous level. This growth represents the ballooning of both quasi-money (18. 6%) and narrow money (13. 5%). The increase in money supply is attributed to the increase in both CBK's net foreign assets by 31. 1% and the net foreign assets of local banks by 14. 4% (Annual Report 2005-06 15). The strict monitoring of interest rates is primarily attributed to CBK's efforts in " ensuring their consistency with the domestic economic and monetary developments (Annual Report 2005-06 16)" and " their alignment with trends in major currencies (Annual Report 2005-06 16)." In general, this is to enhance the competitiveness and attractiveness of Kuwaiti dinar relative to foreign currencies. Thus, CBK has opted to increase its discount rates thrice during 2005 which consequently bringing up the interest rate from 5. 25% to 6. 00% at the end of the fiscal year. In addition, CBK also implemented eight consecutive increases in the intervention rate (from 3. 56% to 4. 88%) in order to enhance the potential of KD as a domestic store of value. These changes are coupled and aligned with CBK's effort of increasing the interest rates for Kuwaiti dinar time deposits relative to dollar-denominated ones(Annual Report 2005-06 16).

In terms of the exchange rate, it should be noted that in spite of other countries' adherence to floating interest rates, Kuwait prefers to peg the value of its currency to the US dollar within specific margins around the parity exchange rate. Specifically, the Kuwaiti dinar is allowed to float around 3. 5% around the parity exchange rate of 299. 63fil/\$1. During the fiscal

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year 2005-2006, the country reports an exchange rate of 292.0 fils/\$1 which indicates a 2.5% fluctuation below the parity exchange rate. CBK considers this as a success because Kuwaiti dinar's exchange rate, relative to other major currencies has been more stable (Annual Report 2005-06 17).