

Kuwait: Strong household credit growth but muted business credit expansion

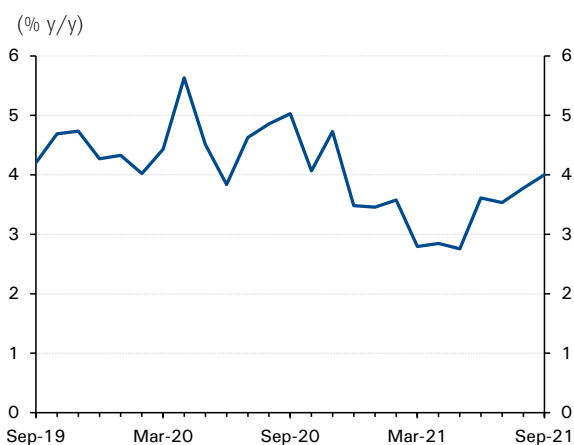
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Highlights

- Domestic credit growth strengthened to 2.1% q/q in 3Q2021, with the y/y increase at 4% through September.
- Business credit was flat in Q3 and y/y growth remains muted (0.3%) as the recovery from the pandemic shock is proving to be slow.
- Household credit increased at the fastest quarterly rate in a year, with the y/y increase at 11.2% through September.
- Private-sector deposit growth continued to be muted, while government deposits rebounded in Q3 following a steep drop in 1H2021.
- Going into 2022, credit growth should be supported by the normalization of business activities and higher capital spending by corporates; absence of loan deferral schemes will soften household credit growth but the mortgage law passage will be a game changer.

Domestic credit growth picked up to 2.1% q/q in 3Q2021 with the y/y increase at 4% through September. For the fifth consecutive quarter, household lending was the main growth driver, while business lending has been slow to recover from the pandemic-related slowdown.

▶ **Chart 1: Credit to Residents**

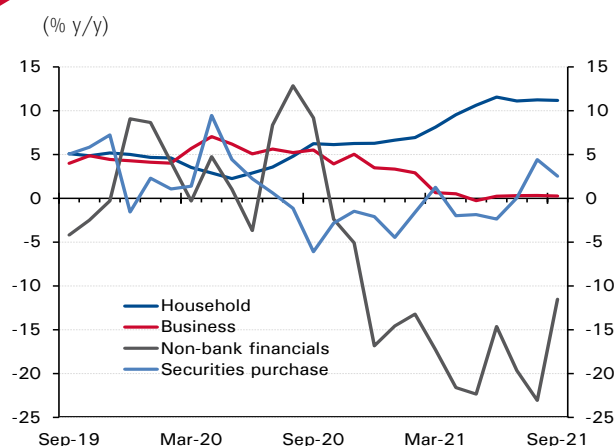


Source: Central Bank of Kuwait

Business credit was flat in 3Q2021 with the y/y increase at only 0.3% through September. While the pandemic-induced shock continues to put pressure on the growth in business credit, we think that relatively high repayments/write-offs are also a likely factor for the weak business credit trends over the past year. Nevertheless, the various sectors showed wide differences with the trade and construction sectors continuing to be the weakest, falling by 13% and 11% y/y, respectively. In contrast, credit growth in the oil/gas (+14% y/y) and industry (+11%) sectors was very robust. Credit to real estate, by far the largest component of business credit with a 43% share, continued to gradually inch up with the y/y increase at 2.3% through September.

Household credit accelerated to register the fastest quarterly growth since the third quarter of last year, with the y/y increase at 11.2% through September. This strong expansion was driven by housing loans as well as personal consumption loans with both growing at around 11% y/y. The six-month deferral of household credit instalments for Kuwaiti borrowers (which is set to expire in Q4), the ongoing robust demand/high valuations in the residential real estate sector, and the continued solid consumer spending are some of the key factors behind this multi-year record expansion in household lending.

▶ **Chart 2: Categories of Credit to Residents**



Source: Central Bank of Kuwait

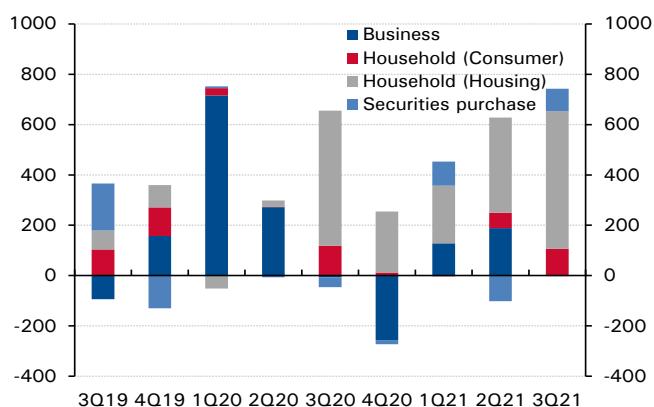
Overall credit growth in 3Q2021 got a boost from a solid expansion in lending to non-bank financial institutions, which soared by a multi-year high of nearly 10% q/q, and from credit for securities purchase, which increased by the second-highest quarterly rate in the past two years.

Going into 2022, credit growth will likely be supported by the further normalization of economic activities given the major

pickup in vaccination rates and the ongoing easing of pandemic-related restrictions. Business credit should be supported by a likely improvement in project awards and by the pent-up demand for capital spending (CAPEX) given muted CAPEX by corporates since the outbreak of the pandemic. As for household credit, growth will likely start to trend down to pre-pandemic levels following the Q4 expiry of the six-month deferral of household credit instalments of Kuwaiti borrowers. On the other hand, passage of the mortgage law in one form or another (which is expected) will be a game changer, providing significant growth potential for the banks given the very strong demand for housing loans. Finally, in an effort to continue supporting the economic recovery, the Central Bank of Kuwait will only gradually unwind the easing of some of its liquidity and capitalization regulations that took effect in April last year due to the onset of the pandemic. Almost all prudential regulations shall get back to their pre-pandemic levels effective January 2023.

Chart 3: Change in Credit to Residents (q/q)

(KD millions)



Source: Central Bank of Kuwait

Private-sector deposits continue to be muted

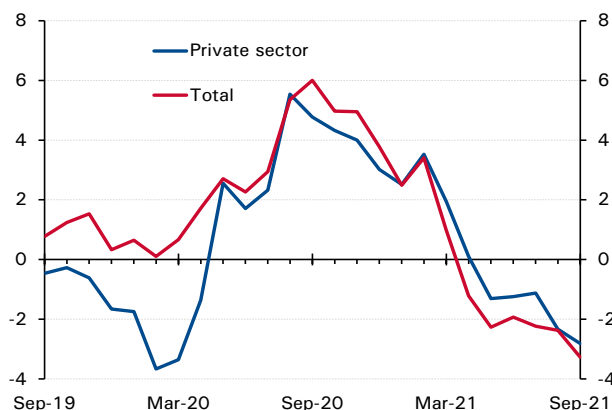
Domestic deposits inched up by 0.8% q/q, fully driven by government deposits, with the y/y expansion still very much muted (-3.3% through September). Private-sector deposits are down 2.8% y/y, while government deposits have dropped by 5.5% probably related to the liquidity constraints that the government has been facing. However, following two quarters of steep decreases, government deposits showed improving trends, rebounding by 7.3% q/q likely driven by surging oil prices.

Looking at the breakdown of KD private sector deposits, the trend that has been at play since the outbreak of the pandemic (which is current and saving (CASA) deposits expanding much faster than time deposits for six consecutive quarters) reached a stand-still in 3Q2021 as CASA edged down slightly while time deposits inched up by 1%. Nevertheless, from a y/y perspective, CASA is still up 5.6%, while time deposits are down 10%. The steep fall in interest rates last year (banks shedding expensive institutional deposits to defend margins and depositors facing

lower opportunity cost from keeping funds in CASA deposits) and the deferral of credit instalments have been two key drivers for the changing composition of private sector deposits.

Chart 4: Deposits from Residents

(% y/y)



Source: Central Bank of Kuwait

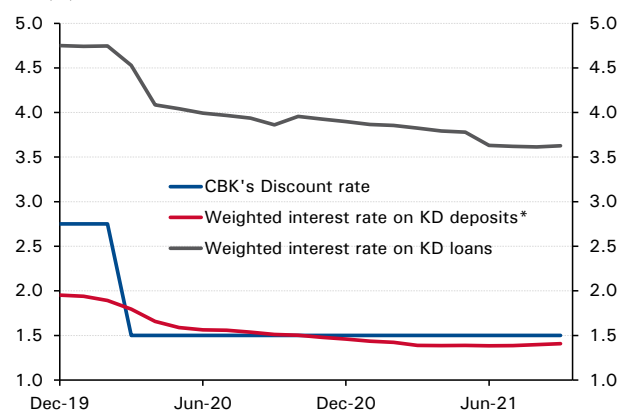
The lack of growth in domestic deposits over the past year led to an increase in the sector's domestic loans-to-deposits ratio, which reached 93.5% in September from around 87% one year ago, reflecting the slightly tighter liquidity situation.

Policy interest rates on hold

The CBK's discount rate has remained at 1.5% since March 2020 and will likely stay at that level in the short term given that the US Federal Reserve is unlikely to hike its policy rate in the first half of 2022. However, interest rates (weighted average as calculated by the CBK) on KD-denominated deposits seem to have bottomed out and actually have started to very gradually trend higher in the past few months as can be seen in chart 5. Kuwaiti banks' results confirm this trend as all witnessed a q/q increase in the cost of funds in 3Q2021.

Chart 5: Interest Rates

(%)



Source: Central Bank of Kuwait * Strictly private-sector deposits

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Jun 21	July 21	Aug 21	Sep 21	Jun 21	July 21	Aug 21	Sep 21	Jun 21	July 21	Aug 21	Sep 21
Total system liquidity (M2)	39,094	38,799	38,886	38,916	1.6	-0.8	0.2	0.1	-1.5	-1.4	-2.5	-2.9
Currency in circulation	1,815	1,821	1,778	1,779	-1.9	0.3	-2.4	0.1	-5.5	-7.2	-6.8	-5.3
Private sector deposits	37,279	36,978	37,108	37,137	1.8	-0.8	0.4	0.1	-1.2	-1.1	-2.3	-2.8
KD deposits	34,944	34,750	35,051	35,105	1.0	-0.6	0.9	0.2	-1.2	-1.6	-2.2	-2.6
Sight deposits	11,121	10,755	10,934	10,933	1.3	-3.3	1.7	0.0	7.8	4.0	4.5	2.8
Savings deposits	6,790	6,821	6,904	6,965	0.2	0.5	1.2	0.9	12.3	11.7	10.6	10.5
Time deposits & CDs	17,033	17,174	17,213	17,207	1.2	0.8	0.2	0.0	-10.3	-9.0	-10.0	-9.8
Foreign currency deposits	2,335	2,228	2,057	2,032	15.0	-4.6	-7.7	-1.2	-2.5	7.6	-4.5	-7.0

► **Table 2: Consolidated banks' balance sheet**

	KD millions				% m/m				% y/y			
	Jun 21	July 21	Aug 21	Sep 21	Jun 21	July 21	Aug 21	Sep 21	Jun 21	July 21	Aug 21	Sep 21
Total bank assets	74,915	73,866	75,564	76,000	1.1	-1.4	2.3	0.6	3.3	2.1	4.0	4.8
Core liquid assets	8,250	7,768	8,062	7,839	1.1	-5.8	3.8	-2.8	7.3	1.5	-2.9	-8.4
Cash and CBK deposits	2,856	2,904	2,808	2,629	-6.0	1.7	-3.3	-6.4	17.7	27.1	11.9	10.1
CBK bonds	2,964	2,964	2,964	2,964	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Time deposits with CBK	2,430	1,900	2,290	2,245	12.5	-21.8	20.5	-2.0	5.7	-21.0	-19.1	-29.8
Public debt instruments	1,269	1,269	1,274	1,283	0.7	0.0	0.4	0.7	-29.4	-29.2	-19.9	-6.7
Interbank deposits	2,696	2,283	2,609	2,736	4.0	-15.3	14.3	4.9	2.8	-2.3	17.5	36.3
Credit facilities	40,755	40,903	41,200	41,610	1.0	0.4	0.7	1.0	3.6	3.5	3.8	4.0
Foreign assets	17,058	16,687	17,527	17,601	-0.6	-2.2	5.0	0.4	2.4	1.0	6.7	9.2
Other assets	4,888	4,956	4,892	4,931	7.1	1.4	-1.3	0.8	9.8	9.1	10.0	10.1
Total bank liabilities	65,326	64,285	65,992	66,459	1.3	-1.6	2.7	0.7	3.7	2.1	4.3	5.4
Total deposits	46,775	46,116	46,934	47,184	1.2	-1.4	1.8	0.5	-1.6	-2.3	-1.5	-1.8
Private sector deposits	37,279	36,978	37,108	37,137	1.8	-0.8	0.4	0.1	-1.2	-1.1	-2.3	-2.8
Government deposits	6,874	6,922	7,284	7,378	-3.1	0.7	5.2	1.3	-5.5	-7.8	-2.6	-5.5
Interbank deposits	2,621	2,215	2,542	2,669	4.5	-15.5	14.7	5.0	4.1	-3.4	17.1	32.8
Foreign liabilities	11,205	10,692	11,542	11,804	-2.4	-4.6	7.9	2.3	25.2	17.8	28.4	42.1
Other liabilities	7,347	7,477	7,517	7,471	7.7	1.8	0.5	-0.6	13.4	12.1	13.6	10.8
Shareholders' equity	9,589	9,581	9,572	9,541	0.3	-0.1	-0.1	-0.3	0.1	1.8	1.4	0.9

Source: Central Bank of Kuwait

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