

Kuwait: Credit growth was soft in 1Q18, up 1.9% y/y in March

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Highlights

- Bank credit eased further in March, registering its weakest performance since 2012.
- Money supply growth was dampened by a lower-than-expected seasonal jump in deposits compared to last year.
- In the absence of new government debt, banks' liquid reserves edged higher and should continue to increase in 2018.
- Domestic interest rates were higher ahead of the widely-anticipated policy rate hike that took place in March.
- Credit activity is expected to finish 2018 at a modest 4-5%.

Credit growth finished the quarter at 1.9% y/y in March, its weakest performance since January 2012. Modest business lending, a slight softening in household borrowing, and ongoing deleveraging by non-bank financial companies weighed on overall growth. (Chart 1.)

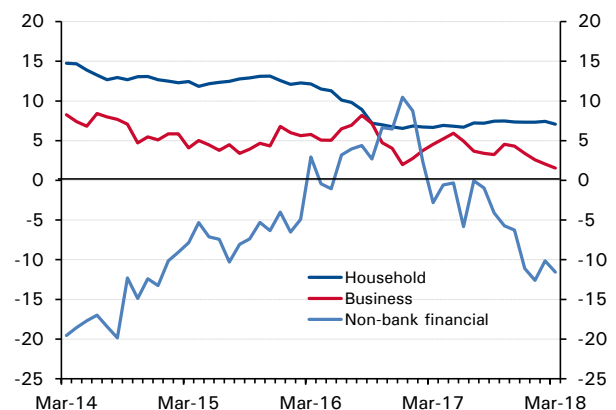
▶ **Chart 1: Credit growth**
(% y/y)



Source: Central Bank of Kuwait

Business credit (excluding non-bank financial firms) was lackluster, with growth slowing to 1.5% y/y in March from 3.4% in December 2017. (Chart 2.) Subdued business confidence may still be weighing on borrowing appetite. However, there were some promising sectors: lending for construction had its best quarter in 18-months, albeit still down in March year-on-year, and the oil sector's quarterly performance was solid. Borrowing by other uncategorized sectors was also decent and the pick-up in domestic real estate sales saw credit to that sector higher over the quarter.

▶ **Chart 2: Credit growth by component**
(% y/y)



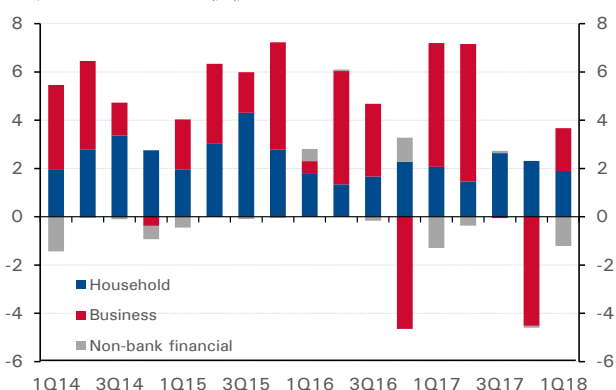
Source: Central Bank of Kuwait

Growth in household lending (excluding securities lending) eased slightly in 1Q18 to 7.1% y/y in March from 7.3% in December. (Chart 2.) Lending rose a moderate KD 189 million in the quarter (chart 3), below its two-year average of KD 230 million, on softer, albeit still healthy installment loans (primarily used for the purchase of housing). Meanwhile, the contraction in consumer loans (used mainly for the purchase of durable goods) widened further to -5.9% in March, from -4.9% in December.

Deleveraging in the non-bank financial sector (primarily investment and financing companies) picked up pace in 1Q18. (Chart 2.) The contraction in the sector's outstanding loans peaked in January (-12.6% y/y) settling at -11.5% in March.

Chart 3: Credit growth by component

(KD hundred million, q/q)

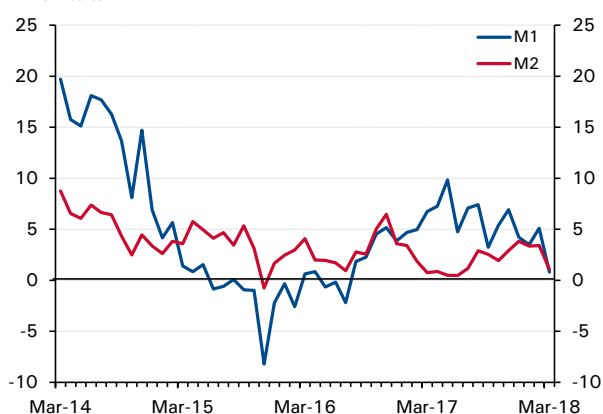


Source: Central Bank of Kuwait

Private deposits growth over 1Q18 eased to 0.9% y/y in March — the seasonal jump usually associated with dividend payments, failed to materialize during this quarter. This and a large jump in deposits a year earlier slowed growth in the M2 money supply to just 1.1% y/y in March. (Chart 5.) However, it is expected to pick up pace in April when the dividend payments filter through. Meanwhile, government deposits, which have been weakening over the last year, improved in 1Q18, contracting by a smaller 1.3% y/y in March compared to 3.5% in December.

Chart 4: Money supply growth

(% y/y)



Source: Central Bank of Kuwait

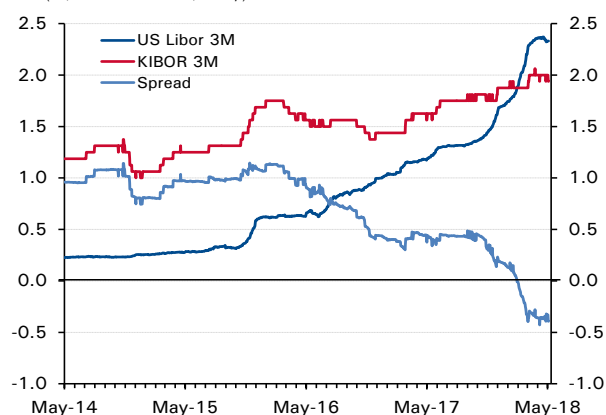
The banking system's liquid reserves edged higher in 1Q18.

Bank reserves (cash, deposits with the CBK, and CBK bonds) increased by KD 287 million to KD 5.3 billion or 8.3% of bank assets. This coincided with the absence of public debt issuances following the expiration of the public debt law in September 2017. With KD 1.2 billion in public debt maturing in 2018 and no new government borrowing, liquidity is expected to continue to rise this year.

Domestic rates were higher in 1Q18 ahead of the widely-anticipated March policy rate hike that took place in March. Customer deposit rates were up 16-21 basis points across the board in 1Q18. The average 3-month interbank rate rose 10 basis points to 1.90%. Rates have moved higher since, with the 3-month Kibor now at 2.0%, below the \$US Libor rate. The negative spread, currently close to -40 bps (chart 6), may lead the Central Bank of Kuwait to adopt a more pro-active monetary policy stance.

Chart 5: Interbank rates

(%, 3-month rates, daily)



Source: Thomson Reuters Eikon, Central Bank of Kuwait

Credit activity is expected to finish 2018 at 4-5% against a backdrop of solid economic growth but rising interest rates. However, there are a number of upside risks: a pick-up in project financing following the steady pace of project awards observed through 2017 and early 2018; a rise in consumer and retail-related borrowing given the ongoing rise in consumer confidence and spending; lower real estate prices encouraging borrowing for home purchases; and a rise in oil-related lending to help finance KPC's ambitious expansion program, which targets \$113 billion in investment over the next five years. Borrowing for the latter is expected to start soon.

► **Table 1: Monetary indicators**

	KD mn			% m/m			% y/y		
	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar
Total system liquidity (M2)	36,691	36,939	37,095	-1.2	0.7	0.4	3.4	3.4	1.1
Currency in circulation	1,669	1,727	1,724	-4.4	3.5	-0.2	6.5	7.0	4.7
Private sector deposits	35,022	35,212	35,371	-1.1	0.5	0.5	3.2	3.2	0.9
KD deposits	32,414	32,472	32,782	-0.8	0.2	1.0	4.6	4.0	1.8
Sight deposits	8,393	8,561	8,668	-0.3	2.0	1.3	2.9	4.6	0.1
Savings deposits	4,960	4,980	4,963	2.1	0.4	-0.3	6.0	5.2	3.6
Time deposits & CDs	19,062	18,931	19,151	-1.7	-0.7	1.2	5.0	3.4	2.1
Foreign currency deposits	2,608	2,740	2,589	-4.6	5.1	-5.5	-11.7	-5.0	-9.1

► **Table 2: Consolidated bank balance sheets**

	KD mn			% m/m			% y/y		
	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar
Total bank assets	62,725	63,240	63,876	-1.2	0.8	1.0	4.1	4.2	3.1
Core liquid assets	5,101	5,280	5,307	1.6	3.5	0.5	6.1	13.9	2.3
Cash and CBK deposits	1,274	1,388	1,560	16.7	8.9	12.4	7.9	24.4	26.5
CBK bonds	2,892	3,032	3,037	0.0	4.8	0.2	-2.7	2.9	7.7
Time deposits with CBK	935	860	710	-9.7	-8.0	-17.5	43.0	49.8	-37.6
Public debt instruments	5,054	4,954	4,828	-0.1	-2.0	-2.5	42.8	30.7	19.2
Interbank deposits	1,093	1,346	1,189	-12.9	23.1	-11.7	-16.7	13.1	-14.6
Credit facilities	35,218	35,258	35,559	-0.5	0.1	0.9	2.9	2.5	1.9
Foreign assets	12,304	12,448	13,005	-3.7	1.2	4.5	-2.4	-3.4	2.0
Other assets	3,955	3,955	3,989	-0.2	0.0	0.8	4.7	4.1	8.1
Total bank liabilities	54,260	54,761	55,346	-1.4	0.9	1.1	4.2	4.3	3.1
Total deposits	42,645	42,985	43,273	-1.7	0.8	0.7	1.5	2.3	-0.1
Private sector deposits	35,022	35,212	35,371	-1.1	0.5	0.5	3.2	3.2	0.9
Government deposits	6,601	6,555	6,794	-2.0	-0.7	3.6	-3.5	-2.9	-1.3
Interbank deposits	1,023	1,218	1,108	-17.0	19.1	-9.0	-18.4	5.9	-19.1
Foreign liabilities	5,675	5,735	6,026	1.4	1.1	5.1	29.9	22.3	27.1
Other liabilities	5,940	6,042	6,047	-1.8	1.7	0.1	10.6	10.3	-5.8
Shareholder equity	8,465	8,478	8,530	0.1	0.2	0.6	3.4	3.4	2.9

Source: Central Bank of Kuwait

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