

Economic Update

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Monetary developments

Kuwait: Weak credit growth in 1Q2023, especially in terms of household credit

> Raja Ghossoub
Senior Economist
+965 2229 5356

rajaghossoub@nbk.com

Highlights

- Domestic credit started the year on a relatively weak note, increasing by 0.6% q/q, cutting the y/y increase to 5.1% through March.
- Higher interest rates and normalizing growth following a strong 2022 are some factors behind the weaker growth so far this year.
- Business credit growth softened, particularly impacted by weak lending to the real estate and oil/gas sectors.
- Household credit was flat in 1Q2023, the weakest quarter since the start of the pandemic in 1Q2020.
- Resident deposit trends were stronger than the credit ones with deposits up 1.4% q/q (+3.4% y/y), driven by resilient private-sector deposits. Growth in private-sector time deposits continued to outstrip CASA, with the latter falling for the third straight quarter.

Domestic credit started the year on a relatively weak note, increasing by 0.6% q/q in 1Q2023, cutting the y/y increase to 5.1% through March. Higher interest rates, banks' lower price competition in terms of retail lending, and normalizing growth following a very strong 2022 are some of the factors behind the softening growth so far this year.

► Chart 1: Growth in Credit to Residents

(% y/y)



Source: Central Bank of Kuwait; slight change in data series starting August 2021 but with no major impact on historical y/y growth rates

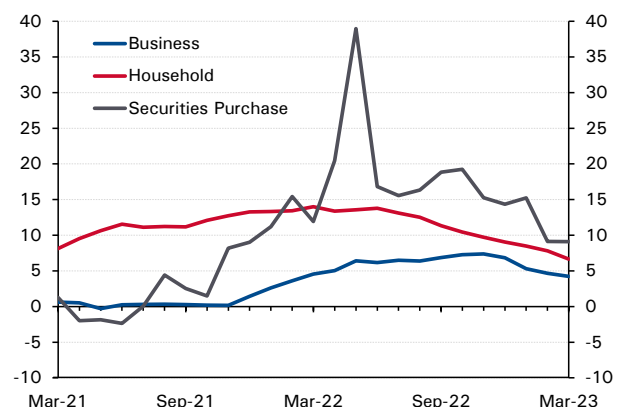
Business credit increased by 1.2% q/q, cutting the y/y increase to 4.2% through March. This follows a strong 6.8% growth in 2022, the fastest annual expansion since 2013. Growth of the various sectors differed markedly with the particularly interest rate-sensitive real estate, in addition to oil/gas, being broadly flat in 1Q2023. On the other hand, industry, construction and other services recorded decent growth of around 3% q/q. Excluding real estate and oil/gas, business credit would have increased by 2.3% q/q (+8% y/y). Looking ahead, business credit dynamics may remain as seen so far this year, especially given the weaker oil price. In contrast, a more optimistic scenario could unfold driven by the major improvement in project awards

so far this year, the end (or close to) of the rate-hiking cycle giving corporates more visibility on their borrowing costs, and a stronger appetite by banks to grow business credit given weak household credit demand.

Household credit was flat in 1Q2023 (weakest quarter since the start of the pandemic in 1Q2020), dropping the y/y increase to 6.7%. Higher interest rates, easing price competition among the banks given the higher cost of funds, softening consumer spending growth, and lower real estate sales are all factors that have contributed to this major slowdown in household lending. Another factor is the normalizing growth after two very strong years, which saw household credit expand by 23% between December 2020 and December 2022.

► Chart 2: Growth in Credit to Residents by Sector

(% y/y)

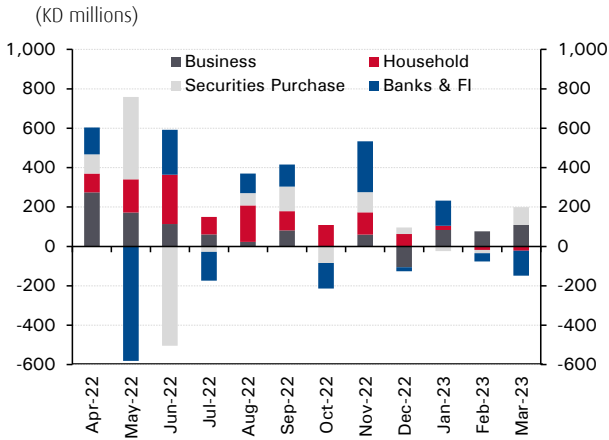


Source: Central Bank of Kuwait; slight change in data series starting August 2021 but with no major impact on historical y/y growth rates

Finally, relatively weak lending for securities purchase and lending to banks/financial institutions also contributed to the lackluster credit growth in 1Q2023. The former increased by 1.6%

in 1Q2023, less than half the average quarterly increase recorded in 2022 while the latter fell by 1.9% q/q.

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



Source: Central Bank of Kuwait

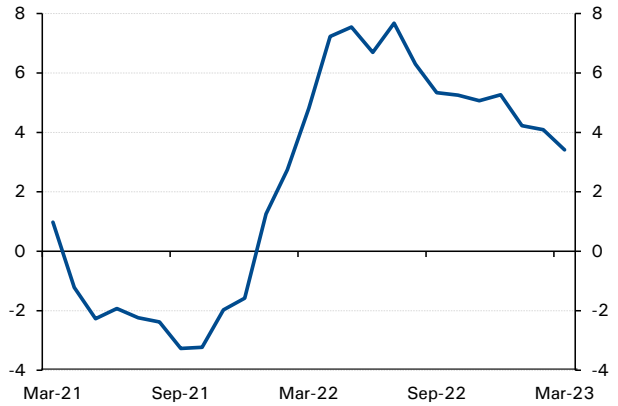
Resilient private-sector deposit growth

Meanwhile, resident deposit trends were stronger than the credit ones with deposits up 1.4% q/q (+3.4% y/y). Private-sector deposits were particularly resilient, growing by 2.2% q/q (+6.5% y/y), government deposits continued to inch up (+3% q/q), while public-institution deposits remained on a downtrend (-3.9% q/q, -12.2% y/y). By the end of March 2023, out of total resident deposits (KD 47.6 billion) private-sector deposits accounted for 79%, public-institution deposits 14%, and government deposits 7%.

In line with expectations, among KD private-sector deposits, time deposits continued to increase at a much faster rate than current and saving accounts (CASA). In fact, CASA dropped for the third straight quarter, falling by 9.1% (KD 1.7 billion) between June 2022 and March 2023, while time deposits soared by 4.9% q/q, the fifth straight quarter of solid growth. By the end of March 2023, among private-sector deposits, CASA accounted for 44% of the total, time deposits 51%, and foreign-currency deposits 5%. This compares to 51%, 44%, and 5%, respectively, in March 2022, when policy interest rates, globally and domestically, started increasing. Looking ahead, given that the rate-hiking cycle is close to its end, if not ended already, it is reasonable to expect that the discrepancy between the growth in time deposits and CASA will start to narrow.

Chart 4: Growth in Deposits from Residents

(% y/y)



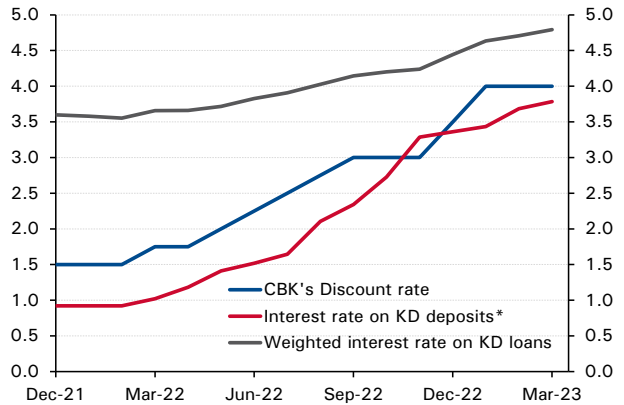
Source: Central Bank of Kuwait

Hiking cycle mostly done; market expects cuts later in 2023

The Central Bank of Kuwait (CBK) has hiked the discount rate by a cumulative 2.5% since March 2022, half the cumulative 5% increase by the US Federal Reserve (Fed). However, the rate-hiking cycle in the US has either ended or is very close to ending. And while the Fed has repeatedly indicated that there will be no rate cuts in 2023, the futures market continues to reflect cuts commencing in the second half of the year. Whether rate cuts in the US will materialize or not, the big picture for Kuwait is that the rate-hiking cycle is also very close to its end.

Chart 5: Interest Rates in Kuwait

(%)



Source: Central Bank of Kuwait * typical one-month maturity deposit

Head Office

Kuwait

National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2222 2011
Fax: +965 2229 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

France

National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353