

Monetary developments

Kuwait: Credit growth slowed to 3.2% in Dec.; money supply growth rose

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Bank credit contracted for the third consecutive month in December, with growth slowing to 3.2% y/y. (Chart 1.) Outstanding credit declined by KD 65 million, despite the usual end-of-quarter spike in lending for the purchase of securities. Business credit was particularly weak, registering its largest monthly decline in over a year. By contrast, private deposits rose for the second consecutive month, pushing money supply growth to its most rapid pace in 13 months. Meanwhile, interest rates were higher on the month, pricing in the CBK's repo rate increase.

Business credit (excluding nonbanks and securities lending) dropped by KD 225 million, with growth slowing to 3.4% y/y. The declines were in the industrial, construction, trade and "other" sectors. The only sector to see a noticeable gain was oil & gas, which added KD 52 million and grew by 25% y/y in December. Separately, lending for the purchase of securities rose by KD 100 million: a smaller jump than the usual end-of-quarter increases seen in the past. Meanwhile, the non-bank financial sector saw a small gain. (Chart 2.)

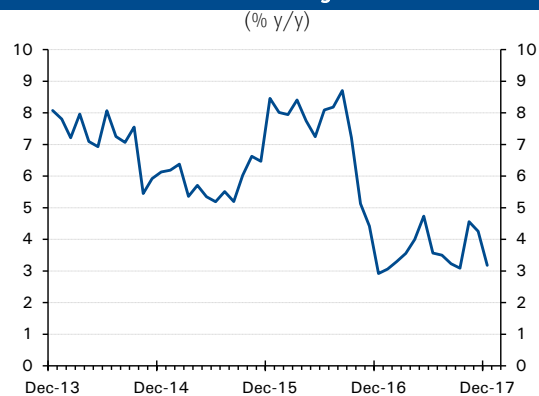
Household lending saw a moderate gain during the month, with growth steady at 7.3% y/y. (Chart 2.) The KD 53 million net increase in household debt (personal facilities excluding securities lending) came from a KD 60 million increase in installment loans, which are used primarily for financing a home, while consumer credit shrank during the month. The contraction in consumer loans continued to widen to -4.9% y/y while installment loan growth was steady at 8.8% y/y.

Private deposits rose by KD 383 million in December, on gains in KD time and foreign currency deposits. (Table 1.) Money supply (M2) growth accelerated to 3.8% y/y. Meanwhile, government deposits, which have been weakening over the last year, saw a small KD 51 million gain, with growth at just 0.9% y/y. (Chart 3.)

The banking system's liquid reserves edged higher in December. Bank reserves (cash, deposits with the CBK, and CBK bonds) increased by KD 271 million to KD 5 billion (Chart 4) or 7.9% of bank assets. This coincided with the absence of public debt issuance in December; in fact, outstanding domestic public debt instruments (PDIs) were steady at KD 4.77 billion, or an estimated 12% of GDP.

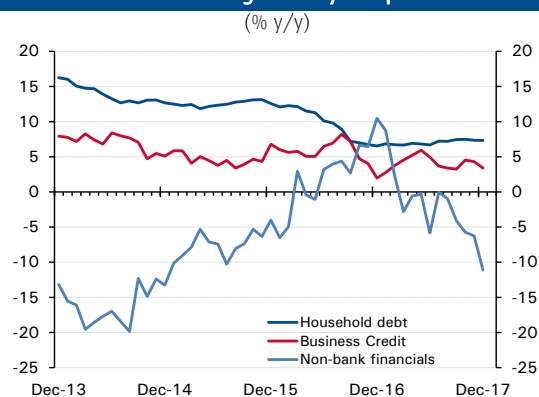
Domestic rates were higher in December, pricing in the CBK's 25 basis point increase in the repo rate. Customer deposit rates were up 8-11 basis points across the board. The average 3-month interbank rate rose one basis point in December to settle at 1.80% (Chart 5). Rates have moved higher since, with the 3-month Kibor now at 1.88%.

Chart 1: Credit growth



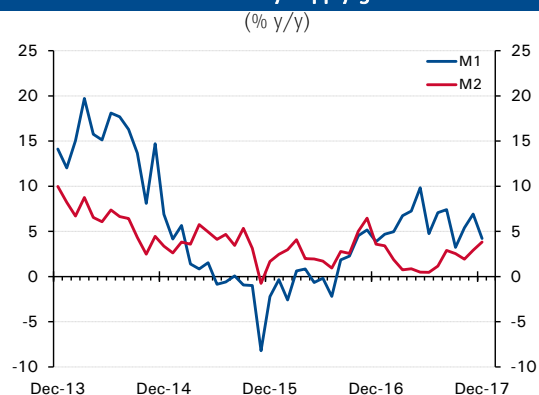
Source: Central Bank of Kuwait

Chart 2: Credit growth by component



Source: Central Bank of Kuwait; Note: business credit excludes nonbank lending and securities lending

Chart 3: Money supply growth



Source: Central Bank of Kuwait

Table 1: Monetary indicators

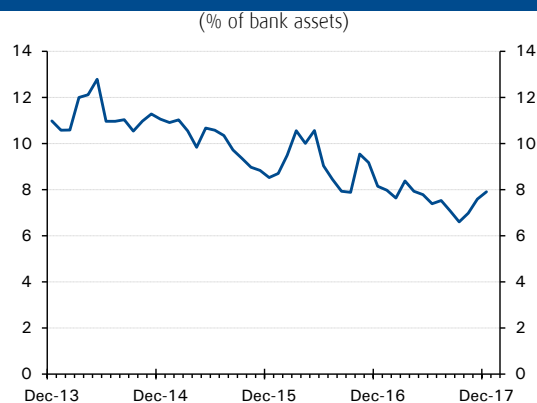
	Dec-17		1-month change		3-month change		12-month change	
	KD mn		KD mn	%	KD mn	%	KD mn	%
Total system liquidity (M2)	37,148		425	1.2	585	1.6	1,369	3.8
Currency in circulation	1,747		42	2.4	129	8.0	101	6.1
Private sector deposits	35,401		383	1.1	456	1.3	1,268	3.7
KD deposits	32,668		248	0.8	246	0.8	1,457	4.7
Sight deposits	8,421		-31	-0.4	96	1.1	311	3.8
Savings deposits	4,856		36	0.7	69	1.4	203	4.4
Time deposits & CDs	19,391		244	1.3	82	0.4	943	5.1
Foreign currency deposits	2,734		135	5.2	210	8.3	-189	-6.5

Source: Central Bank of Kuwait

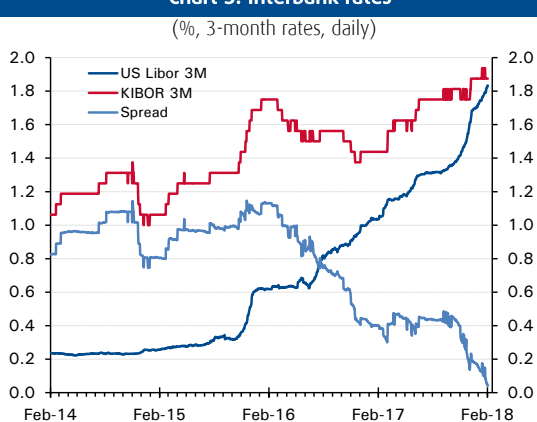
Table 2: Consolidated bank balance sheets

	Dec-17		1-month change		3-month change		12-month change	
	KD mn		KD mn	%	KD mn	%	KD mn	%
Total bank assets	63,468		907	1.5	337	0.5	3,023	5.0
Core liquid assets	5,020		271	5.7	851	20.4	98	2.0
Cash and CBK deposits	1,092		165	17.8	295	37.0	-87	-7.4
CBK bonds	2,893		171	6.3	311	12.0	-149	-4.9
Time deposits with CBK	1,035		-65	-5.9	245	31.0	334	47.7
Public debt instruments	5,059		26	0.5	-165	-3.2	1,772	53.9
Interbank deposits	1,255		-74	-5.5	-100	-7.4	-201	-13.8
Credit facilities	35,399		-65	-0.2	-424	-1.2	1,091	3.2
Foreign assets	12,771		757	6.3	183	1.5	103	0.8
Other assets	3,964		-8	-0.2	-8	-0.2	160	4.2
Total bank liabilities	55,128		828	1.5	298	0.5	2,820	5.4
Total deposits	43,370		511	1.2	62	0.1	1,136	2.7
Private sector deposits	35,401		383	1.1	456	1.3	1,268	3.7
Government deposits	6,737		51	0.8	-313	-4.4	58	0.9
Interbank deposits	1,231		77	6.7	-82	-6.2	-190	-13.4
Foreign liabilities	5,596		577	11.5	336	6.4	1,232	28.2
Other liabilities	6,162		-260	-4.1	-99	-1.6	996	19.3
Shareholder equity	8,340		79	1.0	38	0.5	204	2.5

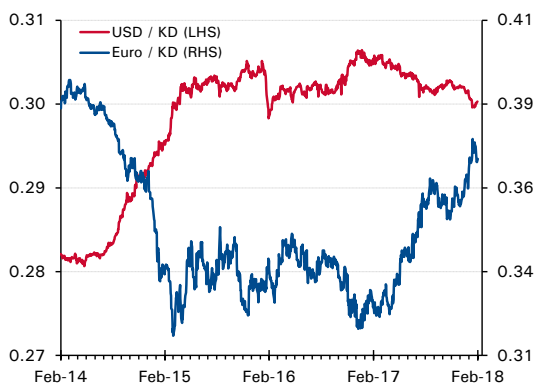
Source: Central Bank of Kuwait

Chart 4: Bank reserves


Source: Central Bank of Kuwait

Chart 5: Interbank rates


Source: Thomson Reuters Eikon, Central Bank of Kuwait

Chart 6: Exchange rates


Source: Thomson Reuters Eikon

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