

# Kuwait: Accelerating household credit growth and improving business credit trends

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### Highlights

- Domestic credit growth strengthened to 1.5% q/q in 2Q2021, with the y/y increase at 3.6% through June.
- Business credit growth remains muted from a y/y perspective (+0.2%), though quarterly trends are slightly improving.
- Household credit accelerated further, growing by 11.6% y/y through June, the highest annual expansion since early 2016.
- Deposit trends improved in 2Q2021, although government deposits continued their downtrend, falling by 13.5% (KD 1.1 billion) YTD.
- Looking ahead, credit growth will likely be supported by further normalization of business activities (given the pickup in vaccination rates and easing of restrictions), but could be affected by historically weaker business credit expansion in the second half of the year.

Domestic credit growth strengthened to 1.5% q/q in 2Q2021 with the y/y increase at 3.6% through June. For the fourth consecutive quarter, household lending was the main growth driver (although business credit trends improved compared with 1Q2021) as pandemic-related uncertainty continued to weigh on business lending so far this year.

► **Chart 1: Credit to Residents**

(% y/y)



Source: Central Bank of Kuwait

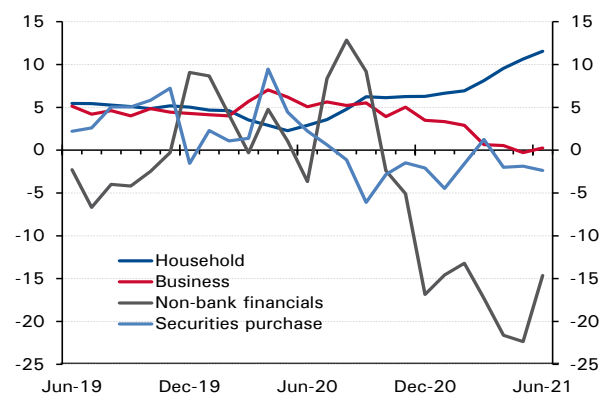
Business credit growth stood at just 0.2% y/y by the end of June 2021, affected by relatively high growth in the first half of last year that was driven by emergency tapping of credit lines given the onset of the pandemic. However, business credit trends so far this year are not as weak with growth at 0.9% q/q in 2Q2021, improving from 0.6% in 1Q2021. The y/y increase was resilient in the oil/gas (+12.9%) and industry (+6.4%) sectors, accounting for all the increase in business credit so far this year. On the other hand, credit to the trade sector continued to be the weakest, falling by 14% y/y through June. Credit to real estate, the sector's

heavyweight, increased by 2.1% y/y, keeping its share of total business credit broadly stable at around 43%.

Household credit growth accelerated in 2Q2021, with the y/y increase at 11.6% through June, the highest annual expansion since early 2016. This robust expansion was driven by both housing loans (+11.6% y/y) and personal consumption loans (+12.8%), which picked up in 2Q2021 following two weak quarters. The ongoing robust demand in the residential real estate sector, the continued solid consumer spending, and the commencement of the six-month deferral of household credit instalments for Kuwaiti borrowers are some of the factors behind this multi-year record expansion in household lending.

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

(% y/y)



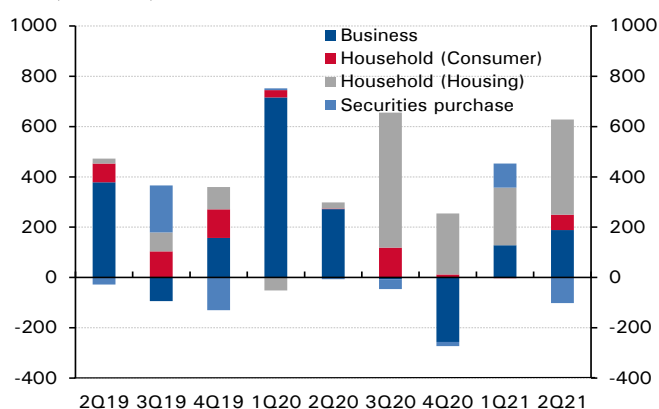
Source: Central Bank of Kuwait

Looking ahead, credit growth will likely be supported by the further normalization of business activities (given the pickup in vaccination rates and the easing of pandemic-related restrictions) and a potential improvement in project awards. Moreover, the six-month deferral of household credit instalments of Kuwaiti

borrowers will be an additional factor keeping household credit growth buoyant for the coming few months. In addition, Parliament's expected approval, in some form or another, of a mortgage law will provide additional growth potential for the banking sector, given the very strong demand for housing loans. On the other hand, business credit growth in the second half of the year has historically been weaker than in the first half of the year, while more travel abroad (given the easing of travel restrictions) may put some pressure on household credit demand. Finally, in an effort to continue supporting the banks and the overall economic recovery, the Central Bank of Kuwait (CBK) extended its relaxed capital adequacy and liquidity measures for an additional six months (until the end of 2021).

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

(KD millions)



Source: Central Bank of Kuwait

### Improving private-sector deposit trends in 2Q2021

Domestic deposit growth improved in 2Q2021 (+0.6% q/q) after being in negative territory in 1Q2021 with the y/y expansion still muted (-1.9% through June). After decreasing in the previous two quarters, private-sector deposits increased in 2Q2021 though y/y growth stands at -1.2%. Going forward, the six-month deferral of household credit instalments of Kuwaiti borrowers will likely provide some support for private-sector deposit growth. As for government deposits, the drawdown continued in 2Q2021, bringing their YTD decrease to 13.5% (almost KD 1.1 billion), which is likely related to the liquidity constraints that the government has been facing.

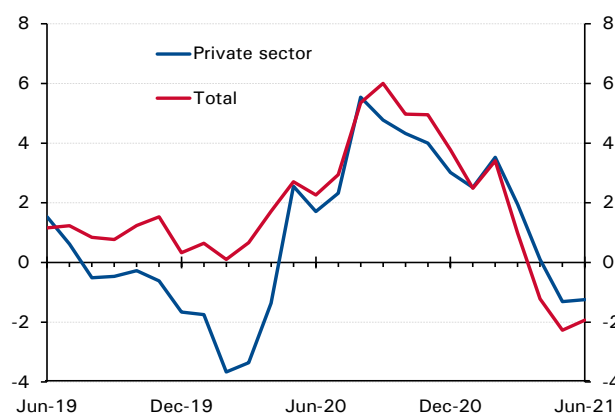
Looking at the breakdown of KD private sector deposits, however, shows a much more favorable view for the banks with sight and savings accounts up 9.5% y/y, while time deposits dropped by 10.3%. The steep fall in interest rates last year (banks shedding expensive institutional deposits to defend margins and depositors facing lower opportunity cost from keeping funds in CASA deposits) and the deferral of credit instalments are two drivers for the changing composition of private sector deposits.

The weakness in domestic deposits was fully compensated by higher non-resident deposits, which have soared by 28% y/y,

while the sector's simple loans-to-deposits ratio stood at 90% broadly unchanged in 2Q2021.

**Chart 4: Deposits from Residents**

(% y/y)



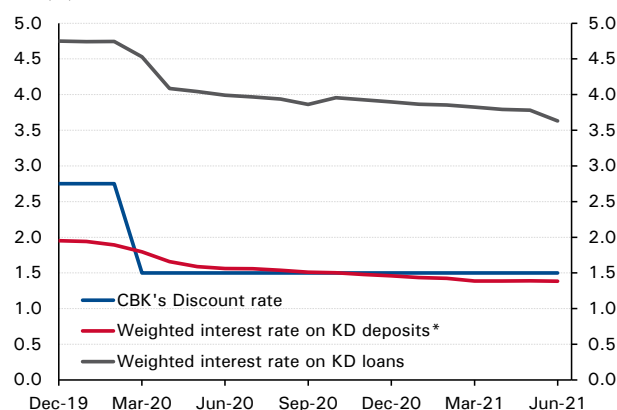
Source: Central Bank of Kuwait

### 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 for now given that the US Federal Reserve is unlikely to hike its policy rate anytime soon. Interest rates (weighted average as calculated by the CBK) on KD-denominated loans continue to gradually trend lower (after the relatively sharp decrease witnessed last year), partly reflecting the ongoing downward repricing of household loan portfolios.

**Chart 5: Interest Rates**

(%)



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

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Mar 21	Apr 21	May 21	June 21	Mar 21	Apr 21	May 21	June 21	Mar 21	Apr 21	May 21	June 21
<b>Total system liquidity (M2)</b>	38,408	38,278	38,465	39,094	-0.6	-0.3	0.5	1.6	1.0	-1.3	-2.6	-1.5
Currency in circulation	1,812	1,820	1,849	1,815	-1.9	0.5	1.6	-1.9	-14.8	-22.5	-23.2	-5.5
Private sector deposits	36,596	36,458	36,616	37,279	-0.5	-0.4	0.4	1.8	1.9	0.1	-1.3	-1.2
KD deposits	34,606	34,422	34,587	34,944	-0.3	-0.5	0.5	1.0	3.3	1.3	-0.1	-1.2
Sight deposits	10,949	10,830	10,976	11,121	3.2	-1.1	1.4	1.3	17.1	10.7	6.7	7.8
Savings deposits	6,609	6,727	6,773	6,790	0.9	1.8	0.7	0.2	24.1	20.0	14.6	12.3
Time deposits & CDs	17,048	16,866	16,837	17,033	-2.9	-1.1	-0.2	1.2	-9.5	-9.3	-8.6	-10.3
Foreign currency deposits	1,990	2,035	2,030	2,335	-3.6	2.3	-0.3	15.0	-16.6	-16.9	-18.4	-2.5

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

	KD millions				% m/m				% y/y			
	Mar 21	Apr 21	May 21	June 21	Mar 21	Apr 21	May 21	June 21	Mar 21	Apr 21	May 21	June 21
<b>Total bank assets</b>	73,903	73,752	74,081	74,915	0.2	-0.2	0.4	1.1	1.6	1.8	2.0	3.3
Core liquid assets	7,721	7,743	8,162	8,250	-8.1	0.3	5.4	1.1	14.9	12.6	13.1	7.3
Cash and CBK deposits	3,307	3,149	3,038	2,856	-0.8	-4.8	-3.5	-6.0	47.4	60.8	-34.1	17.7
CBK bonds	2,964	2,964	2,964	2,964	0.0	0.0	0.0	0.0	-0.2	-0.1	13.8	0.0
Time deposits with CBK	1,450	1,630	2,160	2,430	-31.0	12.4	32.5	12.5	-3.7	-16.4	n/m	5.7
Public debt instruments	1,355	1,260	1,261	1,269	0.4	-7.0	0.0	0.7	-32.3	-33.8	-30.0	-29.4
Interbank deposits	2,904	2,670	2,592	2,696	14.8	-8.1	-2.9	4.0	-13.3	-9.7	5.3	2.8
Credit facilities	40,172	40,373	40,343	40,755	0.4	0.5	-0.1	1.0	2.8	2.8	2.8	3.6
Foreign assets	17,290	17,106	17,161	17,058	2.9	-1.1	0.3	-0.6	0.0	0.5	-1.6	2.4
Other assets	4,461	4,599	4,564	4,888	-4.3	3.1	-0.8	7.1	2.9	4.2	3.4	9.8
<b>Total bank liabilities</b>	64,344	64,167	64,517	65,326	0.2	-0.3	0.5	1.3	1.5	2.2	2.6	3.7
Total deposits	46,716	46,147	46,215	46,775	0.0	-1.2	0.1	1.2	0.0	-1.8	-1.8	-1.6
Private sector deposits	36,596	36,458	36,616	37,279	-0.5	-0.4	0.4	1.8	1.9	0.1	-1.3	-1.2
Government deposits	7,288	7,091	7,092	6,874	-2.5	-2.7	0.0	-3.1	-3.6	-7.5	-6.9	-5.5
Interbank deposits	2,832	2,598	2,507	2,621	15.0	-8.2	-3.5	4.5	-12.8	-10.2	6.4	4.1
Foreign liabilities	10,974	11,163	11,482	11,205	4.9	1.7	2.9	-2.4	10.2	17.5	19.7	25.2
Other liabilities	6,654	6,856	6,820	7,347	-5.3	3.0	-0.5	7.7	-1.6	8.9	9.6	13.4
<b>Shareholders' equity</b>	9,559	9,585	9,564	9,589	0.2	0.3	-0.2	0.3	2.2	-0.7	-1.5	0.1

Source: Central Bank of Kuwait

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