

## Monetary developments

# Kuwait: Credit growth at 3.8% y/y by the end of 2Q2020

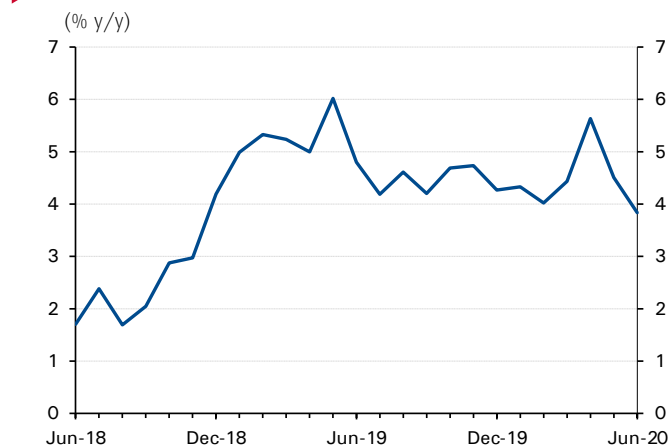
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### Highlights

- Domestic credit growth softened to 0.7% q/q (KD 255 million) in 2Q20, resulting in a 2.4% YTD increase (KD 906 million).
- For the second quarter in a row credit growth was fully driven by business lending, pushing its YTD growth to 4.7%.
- Household credit was flat in 2Q2020, impacted by the lockdown measures that were in place for most of the quarter.
- Domestic deposit growth was strong, standing at 3.6% q/q and the fastest quarterly expansion in more than four years.
- The opening up of the economy will likely support loan growth going forward but the uncertain outlook is expected to keep that growth in check.

On the back of the lockdown measures and the weak operating environment, domestic credit growth softened to 0.7% q/q (KD 255 million) in 2Q2020, resulting in a 2.4% YTD increase (+3.8% y/y). Just like in 1Q2020, credit growth was fully driven by business lending (+1.3% q/q), pushing the YTD growth to 4.7% (+5.1% y/y).

► **Chart 1: Credit to Residents**



Source: Central Bank of Kuwait

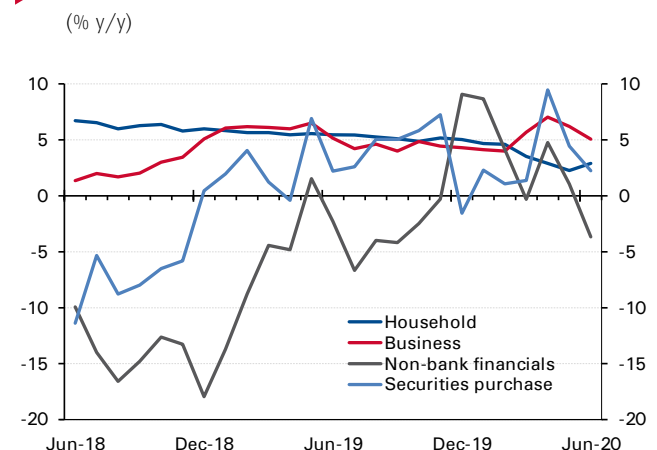
The "trade" sector continued to be a main driver of business lending as it expanded by 7% q/q (+15% YTD), accounting for as much as 86% of the increase in business lending in 2Q2020. On the other hand, real estate, the largest component of business lending with a 42% share, was flat in 2Q2020 resulting in a 2.2% YTD increase. This could be linked to the weakness in that market, especially in the context of the authorities' intention to limit the expatriate population numbers.

For the second consecutive quarter, household credit was broadly flat as it has been impacted by the lockdown measures that were imposed for most of 2Q2020, resulting in a 2.9% y/y increase.

Housing loans inched up by 0.2% q/q in 2Q2020, after dropping in the previous quarter resulting in a nearly-flat YTD performance. Personal consumption loans were broadly flat in 2Q2020, deepening the weakness that started in 1Q2020 to reflect a growth of only 2.2% YTD, compared with a 36% surge in 2019.

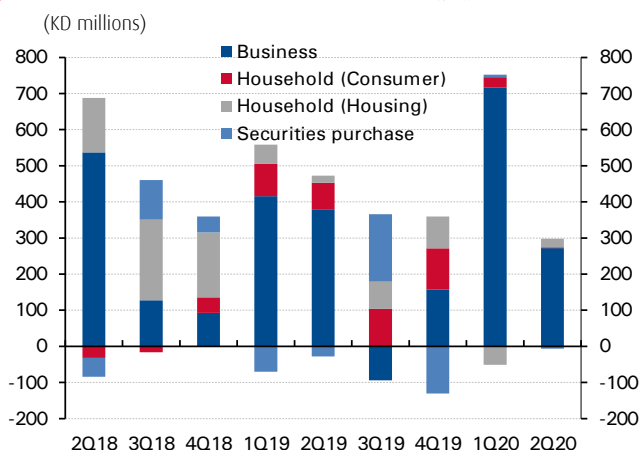
Credit to non-bank financial institutions was a drag on growth for the second quarter in a row, resulting in a 5.3% YTD decrease. Finally, credit to non-residents was flat in 2Q2020 resulting in a 4.3% YTD increase, and representing around 7% of total credit in the Kuwaiti banking sector by the end of June.

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



Source: Central Bank of Kuwait

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



Source: Central Bank of Kuwait

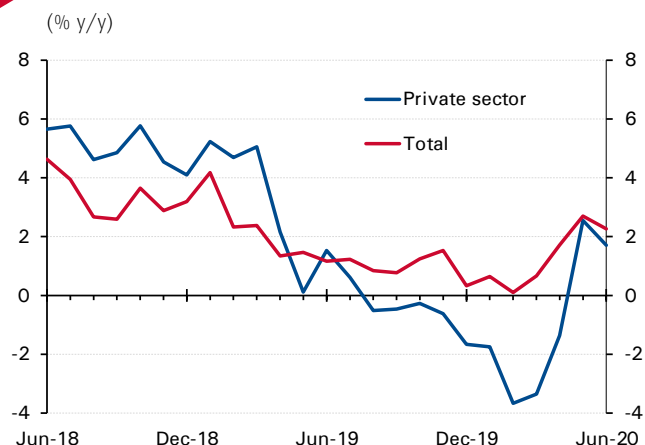
Domestic deposit growth was strong in 2Q2020, standing at 3.6% q/q (+3.2% YTD, +2.3% y/y) and the fastest quarterly expansion in more than four years. This was fully driven by private sector deposits, which increased by 5.5% q/q (KD 1.85 billion), following three consecutive quarters of decrease. Two possible factors that could have contributed to the relatively high growth in private sector deposits in 2Q2020 are 1) weak consumer spending in 2Q2020, which decreased by 23% q/q and 28% y/y given the lockdown measures (i.e. increase in savings at the expense of spending) and 2) the retail loan repayment holiday, which temporarily inflates both sides of banks' balance sheets. One point in favor of these possible explanations is that 91% of the increase in private sector KD deposits in 2Q2020 was in the form of sight/saving deposits as opposed to time deposits. On the other hand, government deposits slipped by 4% q/q, the first quarterly decrease in more than a year. Money supply (M2) tracked private sector deposits, increasing by 5.7% q/q.

The high growth in domestic deposits in 2Q2020 was offset by a steep fall in non-resident deposits, which dropped by 4.2% q/q (KD 158 million) following a solid increase in each of the previous four quarters. The lower interest rates locally and/or banks' shedding of relatively expensive corporate deposits to support their net interest margins may have been reasons for this fall in non-resident deposits. By the end of June, non-resident deposits accounted for 7% of total deposits in the Kuwaiti banking sector. The banks' simple loans-to-deposits ratio stood at 87% at the end of June, slightly below the level one quarter before, and indicating ample room to increase lending going forward.

The gradual opening up of the economy will likely support loan growth going forward, especially in the context of the significant easing of capitalization and liquidity requirements by the Central Bank of Kuwait back in April, in addition to the record-low level of the discount rate (1.5%), which effectively made borrowing cheaper for corporate and retail customers. On the other hand, the outlook remains clouded with high uncertainty regarding the

speed of the economic recovery and the success in controlling the virus especially as the economy fully opens up. This is expected to keep loan growth in check as banks would aim to safeguard their asset quality. In addition, expiry of the retail loan repayment holidays would naturally exert pressure on net loan growth in the latter part of 2020.

**Chart 4: Deposits from Residents**



Source: Central Bank of Kuwait

▶ **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Mar20	Apr20	May20	June20	Mar20	Apr20	May20	June20	Mar20	Apr20	May20	June20
<b>Total system liquidity (M2)</b>	<b>38,023</b>	<b>38,767</b>	<b>39,510</b>	<b>40,176</b>	<b>1.6</b>	<b>2.0</b>	<b>1.9</b>	<b>1.7</b>	<b>-2.4</b>	<b>-0.1</b>	<b>3.3</b>	<b>3.0</b>
Currency in circulation	2,126	2,347	2,408	2,427	11.7	10.4	2.6	0.8	17.9	24.1	16.7	28.8
Private sector deposits	35,897	36,420	37,103	37,749	1.1	1.5	1.9	1.7	-3.4	-1.4	2.6	1.7
KD deposits	33,512	33,971	34,614	35,354	0.6	1.4	1.9	2.1	-2.5	-1.4	2.2	2.2
Sight deposits	9,351	9,780	10,284	10,314	8.9	4.6	5.2	0.3	7.6	7.8	9.9	13.2
Savings deposits	5,328	5,604	5,910	6,046	1.4	5.2	5.4	2.3	4.5	6.9	12.0	14.1
Time deposits & CDs	18,833	18,586	18,421	18,994	-3.2	-1.3	-0.9	3.1	-8.6	-7.7	-4.2	-5.9
Foreign currency deposits	2,385	2,449	2,488	2,395	7.3	2.7	1.6	-3.8	-13.5	-0.5	7.4	-5.2

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

	KD millions				% m/m				% y/y			
	Mar20	Apr20	May20	June20	Mar20	Apr20	May20	June20	Mar20	Apr20	May20	June20
<b>Total bank assets</b>	<b>72,774</b>	<b>72,435</b>	<b>72,597</b>	<b>72,546</b>	<b>1.5</b>	<b>-0.5</b>	<b>0.2</b>	<b>-0.1</b>	<b>7.9</b>	<b>7.7</b>	<b>7.7</b>	<b>6.5</b>
Core liquid assets	6,717	6,877	7,214	7,691	-3.8	2.4	4.9	6.6	6.8	6.4	12.3	21.5
Cash and CBK deposits	2,243	1,958	4,609	2,426	-44.1	-12.7	135.4	-47.4	8.6	18.6	151.2	28.9
CBK bonds	2,969	2,968	2,605	2,965	0.0	0.0	-12.2	13.8	0.0	-0.1	-12.3	-0.2
Time deposits with CBK	1,505	1,950	0	2,300	n/m	29.6	-100.0	n/m	19.9	6.0	-100.0	55.9
Public debt instruments	2,003	1,903	1,802	1,796	-3.5	-5.0	-5.3	-0.3	-46.1	-46.2	-45.7	-45.9
Interbank deposits	3,351	2,958	2,462	2,621	22.6	-11.7	-16.8	6.5	70.6	62.4	56.1	36.6
Credit facilities	39,080	39,255	39,261	39,335	1.2	0.4	0.0	0.2	4.4	5.6	4.5	3.8
Foreign assets	17,290	17,028	17,446	16,652	2.5	-1.5	2.5	-4.5	23.9	20.3	22.2	14.4
Other assets	4,334	4,415	4,413	4,451	-2.1	1.9	0.0	0.9	6.0	7.5	4.2	7.8
<b>Total bank liabilities</b>	<b>63,422</b>	<b>62,780</b>	<b>62,892</b>	<b>62,971</b>	<b>2.0</b>	<b>-1.0</b>	<b>0.2</b>	<b>0.1</b>	<b>8.9</b>	<b>8.2</b>	<b>8.4</b>	<b>7.2</b>
Total deposits	46,706	46,980	47,078	47,540	2.8	0.6	0.2	1.0	3.9	4.1	4.9	4.1
Private sector deposits	35,897	36,420	37,103	37,749	1.1	1.5	1.9	1.7	-3.4	-1.4	2.6	1.7
Government deposits	7,560	7,667	7,619	7,273	4.0	1.4	-0.6	-4.5	25.5	19.4	3.4	5.3
Interbank deposits	3,249	2,894	2,356	2,518	23.8	-10.9	-18.6	6.9	84.2	62.9	74.3	52.7
Foreign liabilities	9,955	9,505	9,593	8,951	2.1	-4.5	0.9	-6.7	46.0	41.7	39.3	32.4
Other liabilities	6,760	6,296	6,221	6,480	-3.6	-6.9	-1.2	4.2	4.5	1.7	-0.3	2.7
<b>Shareholders' equity</b>	<b>9,352</b>	<b>9,655</b>	<b>9,705</b>	<b>9,575</b>	<b>-1.8</b>	<b>3.2</b>	<b>0.5</b>	<b>-1.3</b>	<b>1.5</b>	<b>4.6</b>	<b>3.6</b>	<b>2.0</b>

Source: Central Bank of Kuwait

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