Economic Update

NBK Economic Research Department I 10 May 2020

Monetary developments

Kuwait: Credit growth stable at 4.4% y/y by the end of 1Q2020

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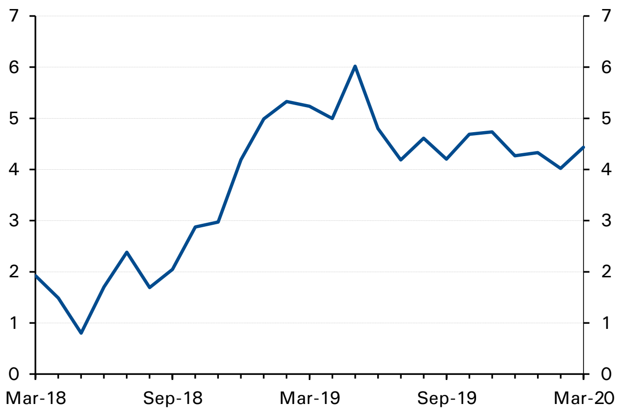
Highlights

- **Domestic credit growth stood at 4.4% y/y by the end of 1Q2020, broadly in line with the expansion seen in 2019.**
- **Credit growth was fully driven by business lending in 1Q2020, pushing up the y/y expansion to 5.7%.**
- **Household credit was broadly flat in 1Q2020, bringing down the y/y growth to 3.5%.**
- **Deposit growth continued to be weak on muted private sector deposits while government deposits remained robust.**
- **The CBK eased liquidity and capitalization requirements in April, significantly increasing banks' lending capacity.**

Domestic credit increased by 1.7% q/q in 1Q2020, resulting in a broadly stable y/y expansion of 4.4% by the end of March compared with 4.3% in 2019. (Chart 1). Credit growth was fully driven by business lending (+3.4% q/q), which pushed the y/y growth to 5.7% from 4.3% one quarter before.

Chart 1: Credit to Residents

(% y/y)



Source: Central Bank of Kuwait

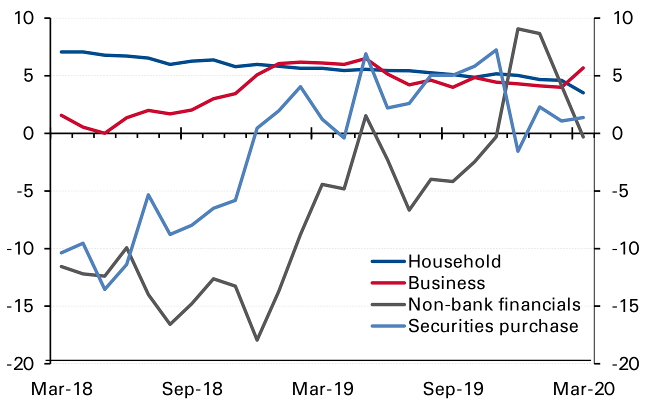
After being on a downtrend in the second half of 2019, the "trade" sector was a main driver of business lending as it expanded by nearly 8% q/q, pulling up the y/y growth from negative territory in 2019 (-3%) to +1% by the end of 1Q2010. Real estate, the largest component of business lending with a 42% share, continued to be dominant as it expanded by 9.5% y/y by the end of 1Q2020. On the other hand, credit to the construction sector decreased for the second quarter in a row, deepening the y/y contraction to 7% from 4% in the previous quarter.

Household credit was broadly flat in 1Q2020, bringing down the

y/y growth to a multi-year low of 3.5% from 5% in 2019. For the first time in many years, housing loans decreased q/q (-0.4%), softening the y/y increase to just 1.1%. The growth in personal consumption loans dropped to +2% q/q, compared with an average quarterly increase of 8% in 2019, which had been fueled by the relaxation of lending restrictions by the CBK toward the end of 2018. From a y/y perspective, their growth moderated to 28% at the end of 1Q2020 after peaking at 37% in November 2019. After supporting overall growth in 2019, credit to non-bank financial institutions was a drag in 1Q2020 as it dropped for three months in a row. A closer look at the monthly data shows that March propelled overall credit growth in 1Q2020, while January and February were relatively weak. This is interesting as the operating environment weakened in March given the spread of the Coronavirus and the lockdown measures imposed.

Chart 2: Categories of Credit to Residents

(% y/y)

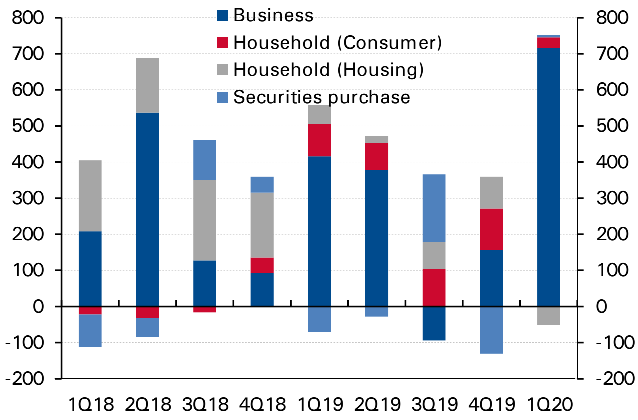


Source: Central Bank of Kuwait

One reason that possibly lead to that was that companies, in the face of lower actual and expected revenues, supported their funding by tapping credit lines that they have with banks. Another potential reason is that the CBK had instructed banks, on March 12, to delay loan instalments for three months for customers that have been impacted by the Coronavirus; this would have possibly slowed loan repayments and hence, resulted in net loan growth that is higher than would have been the case. In addition, tracking the Federal Reserve, the CBK cut the discount rate by 100 basis points to 1.5% in mid-March making it cheaper for companies to borrow money.

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

(KD millions)



Source: Central Bank of Kuwait

In a major development that supports banks in the current environment, the CBK, in early April, eased some liquidity and capitalization requirements. This included increasing the maximum allowed loans-to-deposits ratio from 90% to 100%, decreasing the minimum "reserve ratio" from 18% to 15%, reducing capital adequacy requirements by 2.5%, and lowering the minimum LCR and NSFR ratios to 80% from 100%, among other measures. These regulatory changes have increased by a wide margin banks' lending capacity (to an estimated KD 4.5 to 5 billion), enabling them to further support their clients, which is in line with the government's stimulus plan that calls for banks' participation in the overarching goal of supporting the private sector and the overall economy.

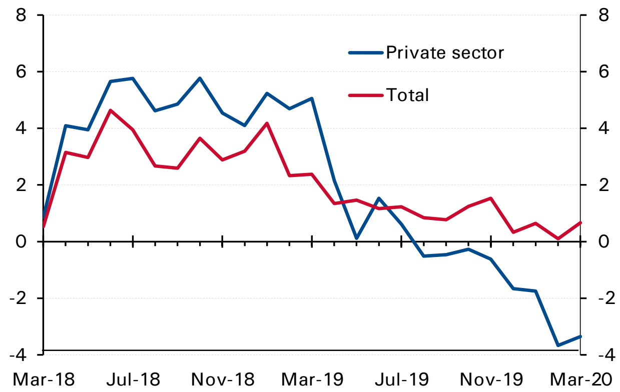
For that, the government approved in April a subsidized loan scheme for the benefit of SMEs and other companies/customers that have been impacted by the coronavirus. That scheme calls for banks to extend loans at a maximum rate of 2.5% per annum for two to three years, subject to certain terms and conditions. The banks will provide the funding (for SMEs, banks will provide 20% of the funding while the National Fund for SME Development will provide 80%) and assume the credit risk, while the government will pay a major portion of the interest cost. It has been estimated that this scheme might total around KD 2 billion, which is around 5% of total domestic loans at the end of March. Some of the terms and conditions of the funding scheme are 1) funding is to support periodic contractual expenditures, and not to repay debt obligations 2) beneficiary companies shall not distribute dividends before paying back their loans 3) other conditions related to the employment of citizens and Kuwaitization quotas.

Domestic deposit growth was weak in 1Q2020, standing at -0.4% q/q to reflect a 0.7% y/y increase. In continuation of the trend seen in 2019, private sector deposits decreased q/q while government deposits increased. By the end of 1Q2020, private sector deposits were down by 3.4% y/y while government deposits were up by a whopping 25% (KD 1.5 billion) to account for 17.4% of total domestic deposits compared with 14% one year before. Money supply (M2) tracked private sector deposits, decreasing by 2.4% y/y by the end of 1Q2020. Non-resident deposits remained robust increasing by 15% q/q (+80% y/y) to account for around 9% of total deposits at the end of 1Q2020, up from only 5% one year before.

Although domestic private sector deposit accumulation has been generally weak, the banks' simple loans-to-deposits ratio was still a relatively low 88% by the end of March, with the more-important regulatory loans-to-deposits ratio (which is currently capped at 100%) being even lower than that (given that banks' borrowings would be added to deposits in the calculation of that ratio), indicating ample room to increase lending, as mentioned before.

Chart 4: Deposits from Residents

(% y/y)



Source: Central Bank of Kuwait

Table 1: Monetary indicators

	KD millions				% m/m				% y/y			
	Dec19	Jan20	Feb20	Mar20	Dec19	Jan20	Feb20	Mar20	Dec19	Jan20	Feb20	Mar20
Total system liquidity (M2)	**38,129**	**38,057**	**37,427**	**38,023**	**-0.2**	**-0.2**	**-1.7**	**1.6**	**-1.2**	**-1.4**	**-3.2**	**-2.4**
Currency in circulation	1,890	1,847	1,904	2,126	2.8	-2.3	3.1	11.7	7.7	6.0	5.4	17.9
Private sector deposits	36,240	36,210	35,523	35,897	-0.4	-0.1	-1.9	1.1	-1.7	-1.7	-3.7	-3.4
KD deposits	33,708	33,580	33,300	33,512	0.0	-0.4	-0.8	0.6	-1.5	-1.7	-2.5	-2.5
Sight deposits	8,600	8,546	8,591	9,351	-1.7	-0.6	0.5	8.9	-0.3	1.9	1.3	7.6
Savings deposits	5,112	5,220	5,254	5,328	1.1	2.1	0.7	1.4	2.4	3.0	2.9	4.5
Time deposits & CDs	19,996	19,814	19,455	18,833	0.5	-0.9	-1.8	-3.2	-3.0	-4.3	-5.5	-8.6
Foreign currency deposits	2,532	2,631	2,223	2,385	-5.7	3.9	-15.5	7.3	-3.3	-2.2	-17.9	-13.5

Table 2: Consolidated banks' balance sheet

	KD millions				% m/m				% y/y			
	Dec19	Jan20	Feb20	Mar20	Dec19	Jan20	Feb20	Mar20	Dec19	Jan20	Feb20	Mar20
Total bank assets	**71,021**	**71,348**	**71,709**	**72,774**	**0.5**	**0.5**	**0.5**	**1.5**	**6.7**	**8.2**	**8.0**	**7.9**
Core liquid assets	6,822	7,003	6,986	6,717	-2.2	2.6	-0.2	-3.8	10.4	13.2	14.2	6.8
Cash and CBK deposits	1,851	1,982	4,015	2,243	2.1	7.0	102.6	-44.1	13.9	18.5	109.0	8.6
CBK bonds	2,971	2,971	2,971	2,969	0.0	0.0	0.0	0.0	-1.0	-1.0	-1.0	0.0
Time deposits with CBK	2,000	2,050	0	1,505	-8.7	2.5	-100.0	n/m	28.6	35.3	-100.0	19.9
Public debt instruments	2,371	2,173	2,074	2,003	-4.2	-8.4	-4.5	-3.5	-38.6	-43.7	-44.8	-46.1
Interbank deposits	2,467	2,465	2,733	3,351	-0.8	-0.1	10.9	22.6	34.2	90.9	52.8	70.6
Credit facilities	38,428	38,575	38,629	39,080	0.5	0.4	0.1	1.2	4.3	4.3	4.0	4.4
Foreign assets	16,680	16,927	16,861	17,290	3.3	1.5	-0.4	2.5	20.8	25.2	25.8	23.9
Other assets	4,253	4,206	4,426	4,334	-1.6	-1.1	5.2	-2.1	6.4	2.3	5.9	6.0
Total bank liabilities	**61,596**	**61,835**	**62,182**	**63,422**	**0.6**	**0.4**	**0.6**	**2.0**	**7.4**	**8.5**	**8.3**	**8.9**
Total deposits	45,982	45,996	45,418	46,706	0.1	0.0	-1.3	2.8	2.0	3.5	2.4	3.9
Private sector deposits	36,240	36,210	35,523	35,897	-0.4	-0.1	-1.9	1.1	-1.7	-1.7	-3.7	-3.4
Government deposits	7,388	7,432	7,272	7,560	2.9	0.6	-2.2	4.0	11.4	14.2	23.8	25.5
Interbank deposits	2,354	2,354	2,623	3,249	-0.6	0.0	11.4	23.8	45.6	116.2	64.4	84.2
Foreign liabilities	8,704	8,987	9,751	9,955	4.8	3.2	8.5	2.1	42.9	50.1	49.9	46.0
Other liabilities	6,910	6,852	7,013	6,760	-1.4	-0.8	2.3	-3.6	11.9	4.6	6.7	4.5
Shareholders' equity	**9,426**	**9,513**	**9,527**	**9,352**	**0.3**	**0.9**	**0.1**	**-1.8**	**2.7**	**6.2**	**6.4**	**1.5**

Source: Central Bank of Kuwait

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