Monetary developments

Kuwait: Credit growth moderates to 4.4% in November; household strong

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Credit growth slowed once again in November, as outstanding debt saw another decline during the month. Growth came in at 4.4% year-on-year (y/y) as credit fell by KD 34 million. Most of the weakness was in the industrial sector, while household loans saw another strong month. Growth continued to reflect the large repayment of debt by a Kuwaiti listed corporate in October. Adjusted for the latter, credit is estimated to have registered growth of 6.5% y/y. Projections for 2016 still see credit growth averaging 7%. Private deposits were up while government deposits saw a second consecutive month of decline. Interest rates on both interbank lending and deposits were lower on the month.

Household lending saw a second month of robust gains in November, though growth continued to moderate to 6.8% y/y. The sector, which had average gains of only KD 54 million through the first nine months of 2016, recorded an increase of KD 83 million in November, one of the better performances during the year (Chart 2). Gains continued to come from installment loans, consumer loans saw a small decline.

Lending to nonbank financial companies saw a small decline, though it continued to see positive growth from a year ago. Sector debt was down KD 9 million, with growth steady at 6.5% y/y. The sector appears to have largely completed deleveraging that began in the wake of the 2008 financial crisis (Chart 2).

All remaining credit declined by KD 108 million, with growth slipping to 3.1% y/y (Chart 2). Much of the weakness came from a KD 170 million drop in lending to the industrial sector. Lending for the purchase of securities was also down KD 37 million. These were partly offset by gains in real estate and the crude oil & gas sector.

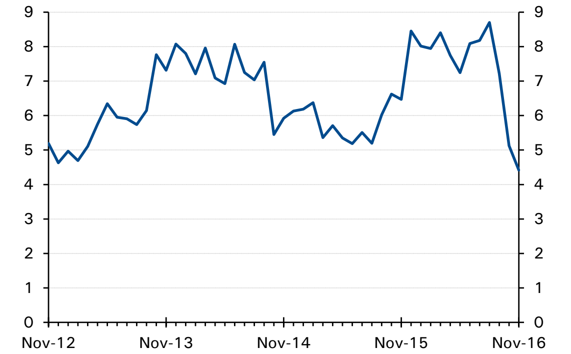
Private deposits were up a small KD 57 million in November, with broad M2 money supply growth accelerating further for a second consecutive month to 6.5% y/y. Growth in the narrower M1 money supply also improved to 5.2% y/y. There was a modest shift of deposits from KD time deposits into KD sight, savings and FX deposits. Meanwhile, government deposits fell by KD 142 million during the month, with growth easing notably to 14% y/y.

Banking system liquidity decreased in November but remained healthy. Bank reserves (cash, deposits with the CBK and CBK bonds) lost KD 189 million to reach KD 5.3 billion or 8.8% of total bank assets (Chart 4). This coincided with the government continuing to tap bank liquidity through issuance of domestic bonds; outstanding domestic public debt instruments (PDIs) rose by KD 200 million during November to KD 3.17 billion or an estimated 9.4% of GDP.

Interest rates edged lower in November as the liquidity situation in Kuwait remained comfortable. The 3-month Kuwait interbank offered rate (Kibor) edged lower in November to 1.46% and has held steady since (Chart 5). The rate ended 2016 at 1.44%, apparently unfazed by the CBK's 25 basis point (bp) discount rate hike in December. Meanwhile, customer deposit rates were lower by 2-4 bps in November.

Chart 1: Credit growth

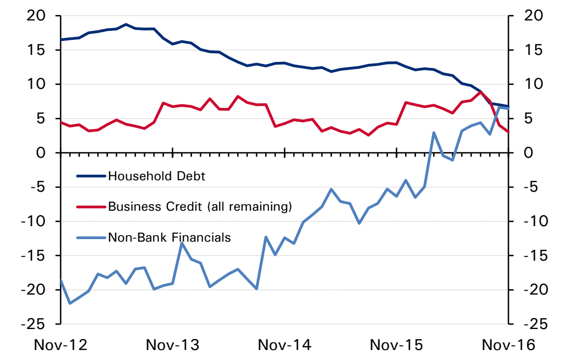
(% y/y)



Source: Central Bank of Kuwait

Chart 2: Credit growth by component

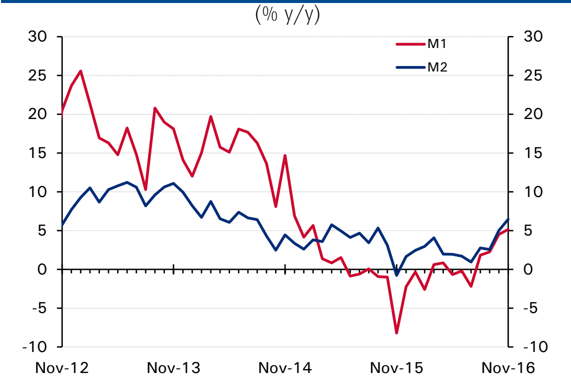
(% y/y)



Source: Central Bank of Kuwait

Chart 3: Money supply growth

(% y/y)



Source: Central Bank of Kuwait

Table 1: Monetary indicators

	Nov-16	1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%
Total system liquidity (M2)	**35,682**	**49**	**0.1**	**392**	**1.1**	**2,167**	**6.5**
Currency in circulation	1,592	-9	-0.5	28	1.8	180	12.7
Private sector deposits	34,090	57	0.2	364	1.1	1,988	6.2
KD deposits	31,173	-3	0.0	710	2.3	2,300	8.0
Sight deposits	7,907	67	0.9	197	2.6	287	3.8
Savings deposits	4,695	45	1.0	68	1.5	57	1.2
Time deposits & CDs	18,572	-115	-0.6	446	2.5	1,957	11.8
Foreign currency deposits	2,917	60	2.1	-346	-10.6	-313	-9.7

Source: Central Bank of Kuwait

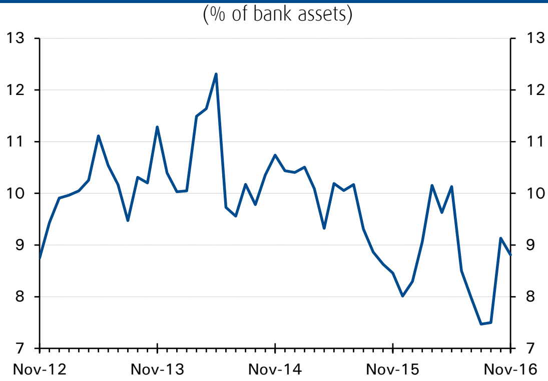
Table 2: Consolidated bank balance sheets

	Nov-16	1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%
Total bank assets	**60,105**	**55**	**0.1**	**547**	**0.9**	**3,186**	**5.6**
Core liquid assets	5,515	-217	-3.8	794	16.8	486	9.7
Cash and CBK deposits	1,447	19	1.3	455	45.8	781	117.3
CBK bonds	3,047	-71	-2.3	-212	-6.5	1,122	58.3
Time deposits with CBK	1,021	-165	-13.9	551	117.2	-1,417	-58.1
Public debt instruments	3,186	203	6.8	606	23.5	1,627	104.4
Interbank deposits	1,228	-50	-3.9	-420	-25.5	-880	-41.8
Credit facilities	34,017	-34	-0.1	-462	-1.3	1,439	4.4
Foreign assets	12,468	58	0.5	15	0.1	308	2.5
Other assets	3,691	96	2.7	14	0.4	205	5.9
Total bank liabilities	**52,157**	**130**	**0.2**	**625**	**1.2**	**2,833**	**5.7**
Total deposits	40,668	-85	-0.2	173	0.4	2,817	7.4
Private sector deposits	34,090	57	0.2	364	1.1	1,988	6.2
Government deposits	6,578	-142	-2.1	-192	-2.8	830	14.4
Interbank deposits	1,145	-66	-5.5	-436	-27.6	-859	-42.9
Foreign liabilities	4,418	143	3.3	555	14.4	-7	-0.2
Other liabilities	5,927	139	2.4	333	6.0	883	17.5
Shareholder equity	**7,948**	**-75**	**-0.9**	**-78**	**-1.0**	**352**	**4.6**

Source: Central Bank of Kuwait

Chart 4: Bank reserves

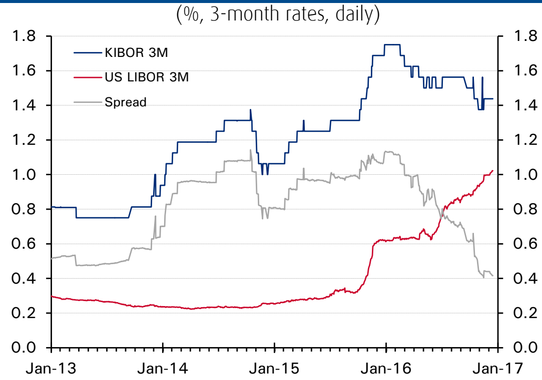
(% of bank assets)



Source: Central Bank of Kuwait

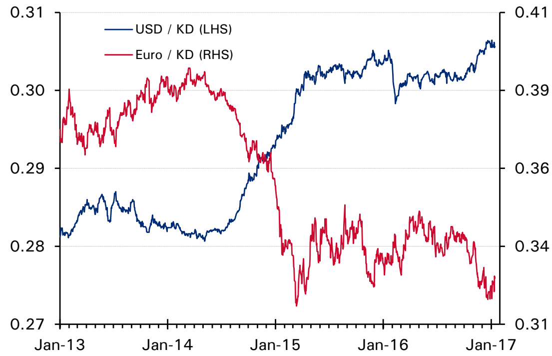
Chart 5: Interbank rates

(%, 3-month rates, daily)



Source: Thomson Reuters Datastream, Central Bank of Kuwait

Chart 6: Exchange rates



Source: Thomson Reuters Datastream

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