Monetary developments

Kuwait: Credit growth at 3.6% in June; first half registered strong pace

Credit saw a healthy gain in June, though growth slowed to 3.6% year-on-year (y/y) on base effects (Chart 1). The month saw a net gain of KD 388 million in credit, helping push 1H17 growth to an annualized 7.3% (year-to-date). Securities lending was an important source of gains during the month, though other business sectors were also up. By contrast, household credit was flat. Private deposits saw a moderate decrease.

Household lending was flat in June, possibly due to seasonal weakness during the holy month of Ramadan. Still, growth held steady at 6.7% y/y (Chart 2). There was a noticeable net drop in consumer loans of KD 14 million, with such loans now contracting by 5.1% y/y. Installment loans, which are used to finance home purchases and repair, were also weak adding only KD 14 million, though growth remained robust at 8.1% y/y.

Business credit (excluding nonbanks) added KD 416 million, though growth fell to 2.6% y/y on base effects (Chart 2). The largest increase was in lending for the purchase of securities, up KD 180 million, which saw its usual end-of-quarter rise. Otherwise, there were noticeable gains in the trade, real estate, oil & gas and “other” sectors. Meanwhile, the construction and industrial sectors saw lending balances decline. Growth in “productive” business sectors, which excludes real estate and securities lending, remained relatively strong, though it dipped to 8.4% y/y.

Private deposits saw a moderate decline in June, which was partially offset by a rise in government deposits. Private deposits fell by KD 165 million, most of it from a decline in KD sight deposits, which were down by KD 325 million. Though a large part of the latter reflected a move to KD time deposits. Money supply (M2) growth remained subdued at 0.5% y/y, though M1 growth was stronger at 4.7% y/y (Chart 3). Government deposits offset some of the decline in private deposits, rising by KD 79 million; still, growth in government deposits slowed to 7.7% y/y due to base effects.

The banking system’s liquid reserves, or “excess liquidity”, declined in June, but at 7.4% of bank assets, remained substantial. Bank reserves (cash, deposits with the CBK, and CBK bonds) declined by KD 170 million to KD 4.6 billion (Chart 4). Net issuance of public debt, which usually draws down banks’ liquid reserves, was negative in June for the first time in years. Outstanding domestic public debt instruments (PDIs) fell by KD 150 million to KD 3.97 billion, or an estimated 11% of GDP.

Domestic interest rates moved up in June even as the CBK opted to keep its key policy rate on hold following the US Fed hike. Though the central bank refrained from hiking the discount rate in June, it did increase the overnight repo rate by 25 basis points, which helped lift interest rates. The 3-month interbank rate was up 12 basis points in June (Chart 5); rates have been mostly steady since. Customer deposit rates also moved up by 4-9 bps during the month. They are now up by 40-53 bps since November 2016.
Table 1: Monetary indicators

<table>
<thead>
<tr>
<th>Jun-17</th>
<th>1-month change</th>
<th>3-month change</th>
<th>12-month change</th>
</tr>
</thead>
<tbody>
<tr>
<td>KD mn</td>
<td>KD mn %</td>
<td>KD mn %</td>
<td>KD mn %</td>
</tr>
<tr>
<td>Total system liquidity (M2)</td>
<td>36,502</td>
<td>-73</td>
<td>-0.2</td>
</tr>
<tr>
<td>Currency in circulation</td>
<td>1,902</td>
<td>92</td>
<td>5.1</td>
</tr>
<tr>
<td>Private sector deposits</td>
<td>34,599</td>
<td>-165</td>
<td>-0.5</td>
</tr>
<tr>
<td>KD deposits</td>
<td>32,139</td>
<td>-149</td>
<td>-0.5</td>
</tr>
<tr>
<td>Sight deposits</td>
<td>8,442</td>
<td>-326</td>
<td>-3.7</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>4,872</td>
<td>-15</td>
<td>-0.3</td>
</tr>
<tr>
<td>Time deposits &amp; CDs</td>
<td>18,825</td>
<td>191</td>
<td>1.0</td>
</tr>
<tr>
<td>Foreign currency deposits</td>
<td>2,460</td>
<td>-16</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kuwait

Table 2: Consolidated bank balance sheets

<table>
<thead>
<tr>
<th>Jun-17</th>
<th>1-month change</th>
<th>3-month change</th>
<th>12-month change</th>
</tr>
</thead>
<tbody>
<tr>
<td>KD mn</td>
<td>KD mn %</td>
<td>KD mn %</td>
<td>KD mn %</td>
</tr>
<tr>
<td>Total bank assets</td>
<td>62,588</td>
<td>986</td>
<td>1.6</td>
</tr>
<tr>
<td>Core liquid assets</td>
<td>4,625</td>
<td>-170</td>
<td>-3.5</td>
</tr>
<tr>
<td>Cash and CBK deposits</td>
<td>823</td>
<td>-253</td>
<td>-23.5</td>
</tr>
<tr>
<td>CBK bonds</td>
<td>3,122</td>
<td>120</td>
<td>4.0</td>
</tr>
<tr>
<td>Time deposits with CBK</td>
<td>680</td>
<td>-38</td>
<td>-5.3</td>
</tr>
<tr>
<td>Public debt instruments</td>
<td>3,996</td>
<td>-151</td>
<td>-3.6</td>
</tr>
<tr>
<td>Interbank deposits</td>
<td>1,733</td>
<td>462</td>
<td>36.3</td>
</tr>
<tr>
<td>Credit facilities</td>
<td>35,541</td>
<td>388</td>
<td>1.1</td>
</tr>
<tr>
<td>Foreign assets</td>
<td>12,806</td>
<td>587</td>
<td>4.8</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,889</td>
<td>-129</td>
<td>-3.2</td>
</tr>
<tr>
<td>Total bank liabilities</td>
<td>54,323</td>
<td>985</td>
<td>1.8</td>
</tr>
<tr>
<td>Total deposits</td>
<td>43,245</td>
<td>342</td>
<td>0.8</td>
</tr>
<tr>
<td>Private sector deposits</td>
<td>34,599</td>
<td>-165</td>
<td>-0.5</td>
</tr>
<tr>
<td>Government deposits</td>
<td>6,892</td>
<td>79</td>
<td>1.1</td>
</tr>
<tr>
<td>Interbank deposits</td>
<td>1,653</td>
<td>427</td>
<td>34.9</td>
</tr>
<tr>
<td>Foreign liabilities</td>
<td>5,146</td>
<td>553</td>
<td>12.0</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>5,931</td>
<td>91</td>
<td>1.6</td>
</tr>
<tr>
<td>Shareholder equity</td>
<td>8,266</td>
<td>2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kuwait

Chart 4: Bank reserves (% of bank assets)

Chart 5: Interbank rates (% of bank assets, daily)

Chart 6: Exchange rates
Head Office
Kuwait
National Bank of Kuwait S.A.P.
Abdullah Al-Ameen Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2017
Fax: +965 2259 5804
Telex: 220432 NBKINT
www.nbk.com

International Network
Bahrain
National Bank of Kuwait S.A.P.
Zain Branch
Zain Tower, Building 401, Road 2086
Seef Area 428, P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait S.A.P.
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait S.A.P.
Dubai Branch
La Trobe Tower, Sheikh Zayed Road
Next to Courtyard P.O. Box 9293, Dubai, UAE
Tel: +971 4 3161600
Fax: +971 4 3880568

National Bank of Kuwait S.A.P.
Abu Dhabi Branch
Sheikh Rashid Bin Sareef
Al Maktom, (Old Airport Road)
P.O. Box 11366, Abu Dhabi, UAE
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait S.A.P.
Jeddah Branch
Al Khobar District, Al-Mukhtar Tower, Jeddah
P.O. Box 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 653 6300
Fax: +966 2 653 6318

Jordan
National Bank of Kuwait S.A.P.
Amman Branch
Sharaf Abdul Hamid Sharaf St
P.O. Box 94129, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait (Lebanon) S.A.L.
BAC Building, Jumblatt Street, Sunayeh
P.O. Box 115727, Rod El Fils
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 107
Sadoun Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plat 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149390
Fax: +20 2 26139978

United States of America
National Bank of Kuwait S.A.P.
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait (International) Plc
Head Office
13 George Street
London W1U 3QH
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait (International) Plc
Postman Square Branch
7 Postman Square
London, W1H 6AA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7466 3077

France
National Bank of Kuwait (International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait S.A.P.
Singapore Branch
Level 21, Republic Plaza
9 Raffles Place #21-01
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait S.A.P.
Shanghai Representative Office
Suite 1003, 10th Floor, Asia Center
2333 Lujuziang Ring Road
Shanghai, 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

© Copyright Notice: The Economic Brief is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.
While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. NBK Research Note is distributed on a complimentary and discretionary basis to NBK clients and associates. This report and other NBK research can be found in the “Research” section of the National Bank of Kuwait’s web site. Please visit our web site, www.nbk.com, for other bank publications. For further information please contact
NBK Economic Research, Tel: (966) 2259 5500, Fax: (966) 2224 6973, Email: econ@nbk.com

www.nbk.com