

Monetary developments

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

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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.

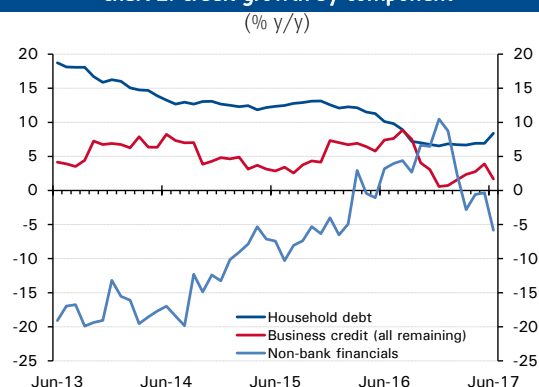
Domestic interest rates moved up in June even as the CBK opted to keep its key policy rate on hold following the US Fed hike. Though the central bank refrained from hiking the discount rate in June, it did increase the overnight repo rate by 25 basis points, which helped lift interest rates. The 3-month 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.

Chart 1: Credit growth



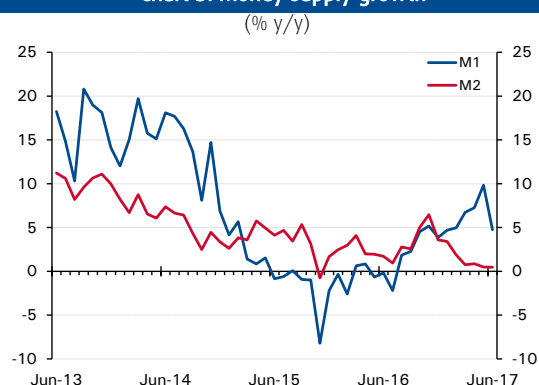
Source: Central Bank of Kuwait

Chart 2: Credit growth by component



Source: Central Bank of Kuwait

Chart 3: Money supply growth



Source: Central Bank of Kuwait

Table 1: Monetary indicators

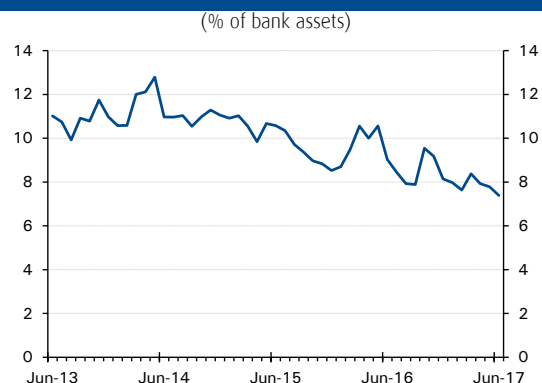
	Jun-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total system liquidity (M2)	36,502	-73	-0.2	-203	-0.6	173	0.5	
Currency in circulation	1,902	92	5.1	256	15.6	232	13.9	
Private sector deposits	34,599	-165	-0.5	-459	-1.3	-60	-0.2	
KD deposits	32,139	-149	-0.5	-70	-0.2	998	3.2	
Sight deposits	8,442	-325	-3.7	-221	-2.6	236	2.9	
Savings deposits	4,872	-15	-0.3	82	1.7	116	2.4	
Time deposits & CDs	18,825	191	1.0	69	0.4	645	3.5	
Foreign currency deposits	2,460	-16	-0.6	-389	-13.7	-1,057	-30.1	

Source: Central Bank of Kuwait

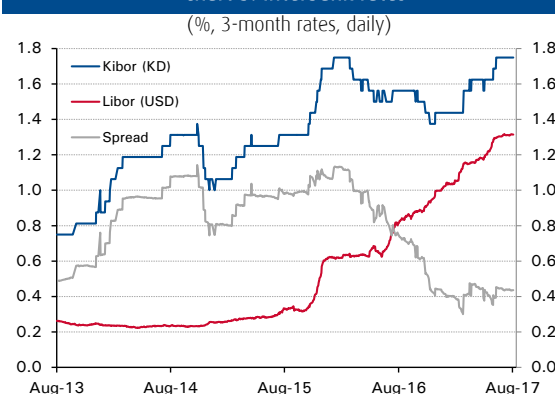
Table 2: Consolidated bank balance sheets

	Jun-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total bank assets	62,588	986	1.6	631	1.0	2,501	4.2	
Core liquid assets	4,625	-170	-3.5	-566	-10.9	-802	-14.8	
Cash and CBK deposits	823	-253	-23.5	-410	-33.3	-466	-36.1	
CBK bonds	3,122	120	4.0	301	10.7	-429	-12.1	
Time deposits with CBK	680	-38	-5.3	-457	-40.2	93	15.8	
Public debt instruments	3,996	-151	-3.6	149	3.9	1,649	70.3	
Interbank deposits	1,733	462	36.3	341	24.5	-403	-18.9	
Credit facilities	35,541	388	1.1	654	1.9	1,223	3.6	
Foreign assets	12,806	587	4.8	59	0.5	620	5.1	
Other assets	3,889	-129	-3.2	-6	-0.2	213	5.8	
Total bank liabilities	54,323	985	1.8	639	1.2	2,256	4.3	
Total deposits	43,245	342	0.8	-69	-0.2	51	0.1	
Private sector deposits	34,599	-165	-0.5	-459	-1.3	-60	-0.2	
Government deposits	6,992	79	1.1	106	1.5	501	7.7	
Interbank deposits	1,653	427	34.9	283	20.7	-390	-19.1	
Foreign liabilities	5,146	553	12.0	405	8.5	1,626	46.2	
Other liabilities	5,931	91	1.6	-286	-4.6	1,709	40.5	
Shareholder equity	8,266	2	0.0	-8	-0.1	245	3.1	

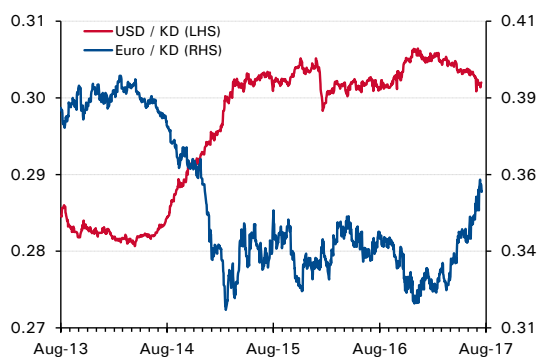
Source: Central Bank of Kuwait

Chart 4: Bank reserves


Source: Central Bank of Kuwait

Chart 5: Interbank rates


Source: Thomson Reuters Eikon, Central Bank of Kuwait

Chart 6: Exchange rates


Source: Thomson Reuters Eikon

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