

Kuwait: Credit growth soft in Q2, but picked up in June

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Highlights

- Credit growth picked up to 1.7% y/y in June, halting seven months of decline.
- Business lending benefitted from an improving economy and government capital spending.
- With the debt law still not approved, banks' liquid reserves increased and may continue to do so through 2018.
- Domestic deposit rates were higher thanks to a hike in the repo rate, while the discount rate remained unchanged.
- Credit activity is expected to finish 2018 at a modest 4%.

Credit saw its strongest month-on-month gain in two years in June, and finished 1H18 up 1.7% y/y from 0.8% in May. (Chart 1.) This followed seven consecutive months of declines affected by lackluster growth in business lending, slightly softer household borrowing and continued deleveraging by non-bank financial firms. Year-to-date, however, lending is still lagging, with only KD 0.8 billion borrowed in 1H18 compared to an average of KD 1.1 billion during similar periods in the last five years. Credit growth also eased a touch from March's 1.9%.

▶ **Chart 1: Credit growth**

(% y/y)



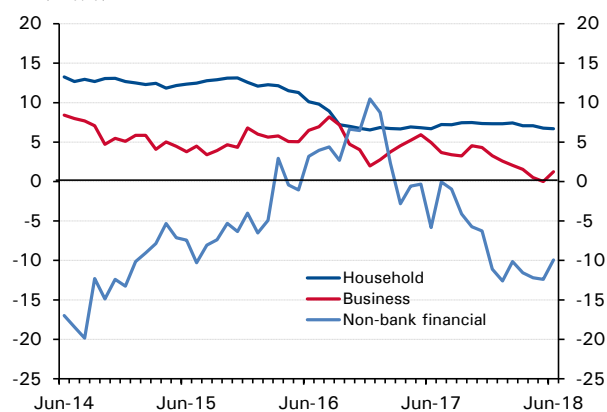
Source: Central Bank of Kuwait

June saw strong business lending – up KD 482 million m/m and 1.3% y/y – overturning months of little to no growth in that segment. (Charts 2 & 3.) There was improving appetite for credit from key sectors – oil, trade, industry, and construction. Catalysts included the conclusion of a major financing deal for a government oil project, and possibly increasing issuance of

commercial business licenses in recent months (up more than 60% y/y in 1H18) and an improving operating environment.

▶ **Chart 2: Credit growth by component**

(% y/y)



Source: Central Bank of Kuwait

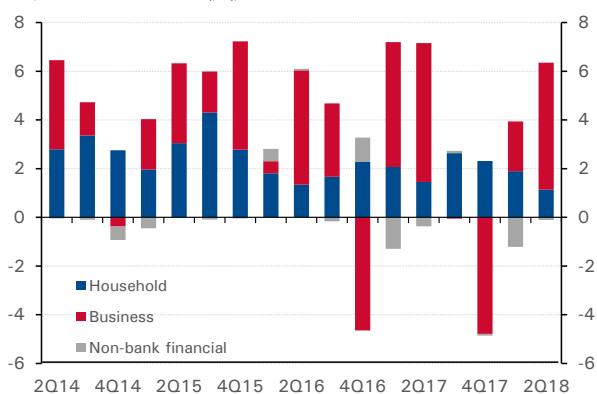
Household borrowing growth however edged down, ending June up 6.7% y/y compared to 7% in March, on softer demand for home financing. (Chart 3.) This perhaps reflected recent firmness in housing prices and seasonal softness usually associated with the holy month of Ramadan (mid-May to mid-June). Meanwhile, consumer loans – of shorter duration – contracted by 6.4% y/y in June compared to March's 5.9%. But the pace of decline steadied through the quarter, perhaps reflecting early signs of improved consumer sentiment and consumption.

Meanwhile, the pace of deleveraging by non-bank financial firms slowed in June to 9.9% y/y from 11.6% in March, thanks

to a pick-up in net borrowing late in the quarter. (Chart 2.) Investment companies may be looking to take advantage of the rebound in the domestic stock market, helped by a recent index reclassification and restructuring.

▶ Chart 3: Credit growth by component

(KD hundred million, q/q)

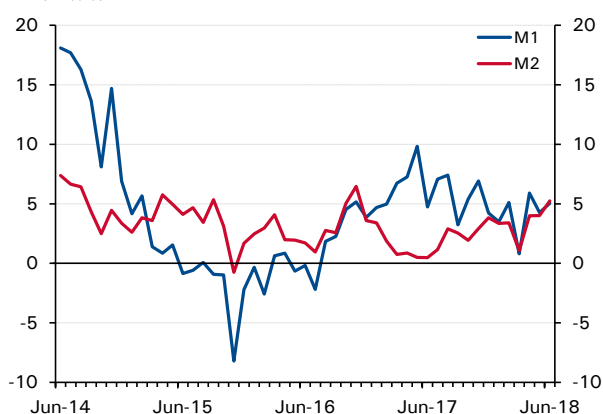


Source: Central Bank of Kuwait

Private deposits finished 2Q18 up 5.7% y/y in June, the strongest growth in almost three years, and up KD 1.2 billion over the quarter. Strong earnings and solid dividend payments supported the increase. This propelled growth in M2 money supply to 5.3% y/y. (Chart 4.) The increase was across the board and led by KD sight and KD time deposits. Meanwhile, government deposits, which have been weakening over the past year, rose in 2Q18, with year-on-year growth at -0.6% in June versus -1.3% in March, helped by higher oil revenues.

▶ Chart 4: Money supply growth

(% y/y)



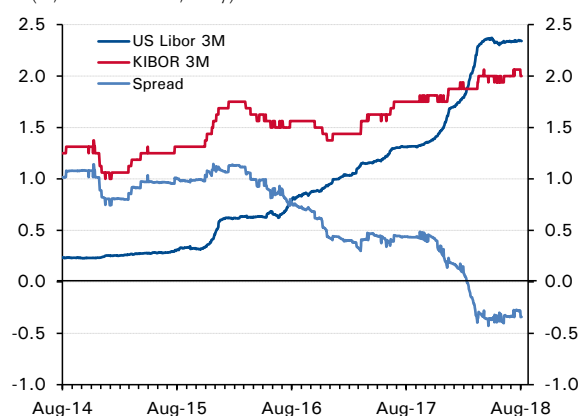
Source: Central Bank of Kuwait

Bank reserves (cash, deposits with the CBK, and CBK bonds) increased by KD 754 million to KD 6.1 billion or 9.4% of bank assets in 2Q18. This coincided with KD 650 million in public debt maturing without any new issuance as the new debt law has yet to be approved. KD 350 million in public debt is still set to mature in 2018, and this is expected to continue increasing liquidity this year.

Domestic deposit rates were higher in 2Q18, pricing in March's rate hike and some of June's increase in the repo rate. The Central Bank of Kuwait left the discount rate unchanged in June, opting not to follow the Fed's latest move. The repo rate, however, was raised by 25 bps to 2.00%. Customer deposit rates were up 25-28 basis points across the board in 2Q18. The average 3-month interbank rate rose 8 basis points to 2.0%. (Chart 5.) Rates have held relatively steady since.

▶ Chart 5: Interbank rates

(%, 3-month rates, daily)



Source: Thomson Reuters Eikon, Central Bank of Kuwait

Credit is projected to finish the year up 4%, supported by capital spending and moderate economic growth. Project financing, in light of the government's budgeted 14% increase in construction capital spending this year, as well as its commitment to reduce delays in execution, is seen providing a vital boost to borrowing.

► **Table 1: Monetary indicators**

	KD mn				% m/m				% y/y			
	Mar	Apr	May	Jun	Mar	Apr	May	Jun	Mar	Apr	May	Jun
Total system liquidity (M2)	37,095	37,855	38,042	38,419	0.4	2.0	0.5	1.0	1.1	4.0	4.0	5.3
Currency in circulation	1,724	1,697	1,879	1,848	-0.2	-1.6	10.7	-1.6	4.7	1.0	3.8	-2.8
Private sector deposits	35,371	36,158	36,164	36,571	0.4	2.2	0.0	1.1	0.9	4.1	4.0	5.7
KD deposits	32,782	33,108	33,589	33,783	0.9	1.0	1.5	0.6	1.8	3.4	4.0	5.1
Sight deposits	8,668	9,078	9,149	9,018	1.1	4.7	0.8	-1.4	0.1	6.9	4.4	6.8
Savings deposits	4,963	4,997	5,153	5,166	-0.3	0.7	3.1	0.3	3.6	3.3	5.4	6.0
Time deposits & CDs	19,151	19,034	19,288	19,599	1.2	-0.6	1.3	1.6	2.1	1.8	3.5	4.1
Foreign currency deposits	2,589	3,049	2,574	2,789	-5.5	17.8	-15.6	8.3	-9.1	13.2	4.0	13.4

► **Table 2: Consolidated bank balance sheets**

	KD mn				% m/m				% y/y			
	Mar	Apr	May	Jun	Mar	Apr	May	Jun	Mar	Apr	May	Jun
Total bank assets	63,876	63,450	64,065	64,632	1.0	-0.7	1.0	0.9	3.1	3.9	4.0	3.3
Core liquid assets	5,307	5,637	6,337	6,062	0.5	6.2	12.4	-4.4	2.3	16.5	32.2	31.1
Cash and CBK deposits	1,560	1,380	1,759	1,507	12.4	-11.6	27.5	-14.3	26.5	36.0	63.5	83.2
CBK bonds	3,037	3,038	3,008	3,009	0.2	0.0	-1.0	0.0	7.7	5.6	0.2	-3.6
Time deposits with CBK	710	1,220	1,570	1,545	-17.5	71.8	28.7	-1.6	-37.6	28.4	118.7	127.2
Public debt instruments	4,828	4,632	4,486	4,286	-2.5	-4.1	-3.2	-4.5	19.2	6.5	3.1	2.0
Interbank deposits	1,189	1,026	952	979	-11.7	-13.7	-7.3	2.8	-14.6	-6.0	-25.1	-43.5
Credit facilities	35,559	35,393	35,435	36,147	0.9	-0.5	0.1	2.0	1.9	1.5	0.8	1.7
Foreign assets	13,005	12,797	12,785	13,025	4.5	-1.6	-0.1	1.9	2.0	5.3	4.6	1.7
Other assets	3,989	3,965	4,070	4,134	0.9	-0.6	2.7	1.6	8.1	5.4	6.7	12.3
Total bank liabilities	55,312	54,894	55,479	56,034	1.1	-0.8	1.1	1.0	3.1	3.9	4.0	3.2
Total deposits	43,273	43,688	43,758	44,362	0.6	1.0	0.2	1.4	-0.1	2.8	2.0	2.6
Private sector deposits	35,371	36,158	36,164	36,571	0.4	2.2	0.0	1.1	0.9	4.1	4.0	5.7
Government deposits	6,794	6,609	6,763	6,948	3.6	-2.7	2.3	2.7	-1.3	-2.0	-2.2	-0.6
Interbank deposits	1,108	921	832	843	-9.0	-16.9	-9.7	1.3	-19.1	-12.4	-32.2	-49.0
Foreign liabilities	6,026	5,583	5,941	5,807	5.1	-7.4	6.4	-2.3	27.1	21.8	29.3	12.8
Other liabilities	6,013	5,623	5,780	5,865	0.6	-6.5	2.8	1.5	-6.3	-11.0	-0.8	-1.0
Shareholder equity	8,564	8,557	8,586	8,598	0.4	-0.1	0.3	0.1	3.3	3.6	3.7	3.9

Source: Central Bank of Kuwait

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