

Kuwait: Credit growth slowed to 4.2% y/y by the end of September

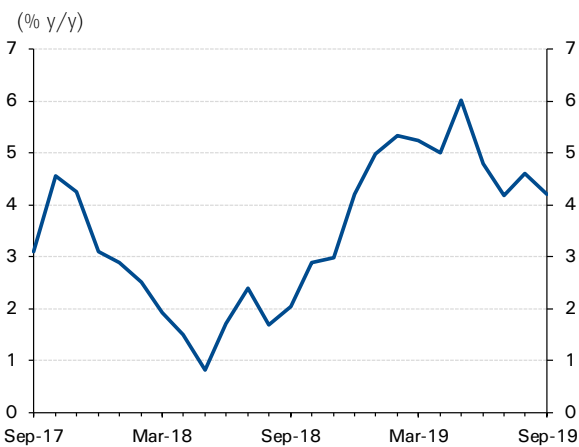
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Highlights

- Credit growth weakened to 4.2% y/y by the end of September from 4.6% y/y in June mainly on muted business lending.
- Household credit growth slowed to 5.1% y/y in September from 5.4% y/y in June on anemic housing loans.
- Lending for securities purchase soared by the fastest q/q rate in at least eight years.
- Deposit accumulation continued to weaken on subdued private sector deposits.

Domestic credit growth weakened to 4.2% y/y by the end of September 2019 from 4.6% y/y at the end of June on muted business lending (Chart 1). Growth in business credit eased to 4% y/y by the end of September from 5.1% y/y one quarter before, with business credit decreasing q/q for the first time in around two years.

▶ **Chart 1: Credit to Residents**



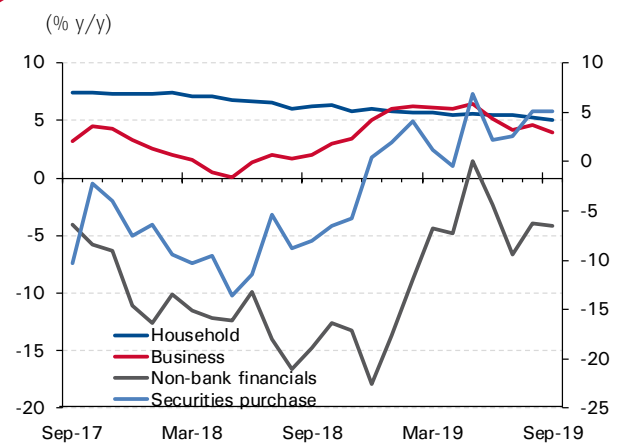
Source: Central Bank of Kuwait

The largest three categories of business credit, namely real estate, trade, and "others" were relatively weak in 3Q2019. Real estate credit, which is by far the largest category of business credit (42% of total), has now exhibited three consecutive months of weakness and was down 0.5% q/q. However, due to previous robust expansion since October 2018 the y/y growth ended up at a strong 9% by the end of September 2019. Trade credit (16% of total business credit) continues to be muted, and has decreased by 1.4% y/y by the end of September.

The y/y expansion in household credit (excluding securities purchase) also inched down to 5.1% in September from 5.4% in June (Chart 2). Housing loans (87% of household credit) stalled

in August and September, and their 2.8% y/y expansion is the lowest annual growth in more than eight years. The expansion in personal consumption loans (10% of household credit) surged to 30% y/y (from 18% in June) following a very rapid q/q increase in 3Q2019, as their growth continued to be driven by the central bank's loosening of lending restrictions in December 2018. It is to be noted though that personal consumption loans decreased m/m in September for the first time in one year.

▶ **Chart 2: Categories of Credit to Residents**

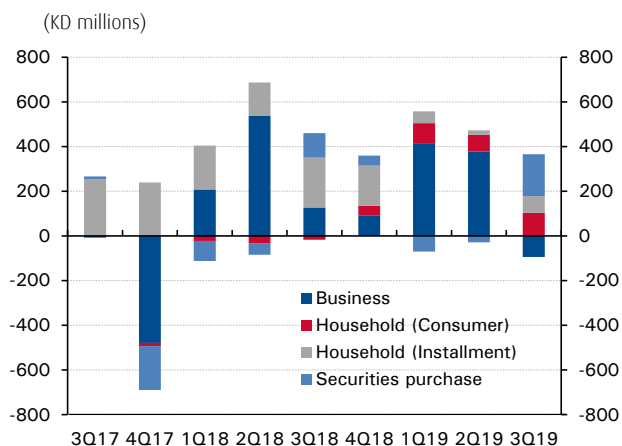


Source: Central Bank of Kuwait

Lending for securities purchase soared by 7.3% q/q in 3Q2019, driven by a sharp m/m increase (+9.2%) in September. Lending for securities purchase usually exhibits a common pattern, whereby it soars before quarter-end and then plummets in the following two months. However, 3Q2019 was an extreme case as lending for securities purchase expanded by the fastest quarterly rate in at least eight years. In fact, excluding securities purchase, q/q credit growth was nil in 3Q2019. It is highly likely that the spike in lending for securities purchase was partially driven by the launch of the two IPOs (Boursa Kuwait and Az-

Zour) as subscription in both kicked off on October 1, 2019.

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



Source: Central Bank of Kuwait

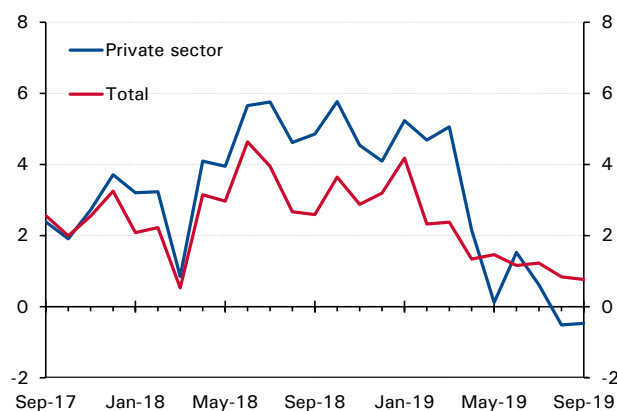
Deposit accumulation was muted with the y/y increase in deposits slowing to 0.8% (compared with 1.2% y/y at the end of June) after total deposits decreased q/q, recording the weakest quarterly growth in around four years (Chart 4).

The subdued growth in deposits was mainly driven by private sector deposits, which fell y/y by 0.5%, compared with +1.5% at the end of June. We note that the annual growth in private sector deposits in the Kuwaiti banking system has rarely been in the red before. The growth in the more volatile government deposits (16% of total deposits) jumped to 8% y/y by the end of September compared with -1% y/y at the end of June.

Finally, following the US Federal Reserve's interest rate cut at the end of October 2019, the Central Bank of Kuwait (CBK) cut its discount rate and its several repo rates by 0.25%. We note that this is the first time in the current cycle that the CBK follows the Federal Reserve in its interest rate policy decision, having opted not to follow the 25bps rate cuts that took place in both July and September 2019.

Chart 4: Resident Deposits

(% y/y)



Source: Central Bank of Kuwait

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Jun19	Jul19	Aug19	Sep19	Jun19	Jul19	Aug19	Sep19	Jun19	Jul19	Aug19	Sep19
Total system liquidity (M2)	39,000	38,421	37,788	38,311	2.0	-1.5	-1.6	1.4	1.6	1.1	-0.3	0.0
Currency in circulation	1,885	1,871	1,788	1,840	-8.6	-0.7	-4.4	2.9	2.0	10.5	3.8	10.4
Private sector deposits	37,115	36,550	36,000	36,471	2.6	-1.5	-1.5	1.3	1.5	0.6	-0.5	-0.5
KD deposits	34,588	34,032	33,489	33,768	2.1	-1.6	-1.6	0.8	2.4	1.1	0.0	0.1
Sight deposits	9,112	9,113	8,973	8,794	-2.6	0.0	-1.5	-2.0	1.1	1.5	5.8	0.6
Savings deposits	5,300	5,102	5,049	5,120	0.5	-3.7	-1.0	1.4	2.6	-0.7	1.0	2.5
Time deposits & CDs	20,176	19,817	19,467	19,855	4.9	-1.8	-1.8	2.0	3.0	1.4	-2.7	-0.7
Foreign currency deposits	2,527	2,518	2,510	2,703	9.1	-0.3	-0.3	7.7	-9.4	-5.7	-6.9	-7.2

► **Table 2: Consolidated banks' balance sheet**

	KD millions				% m/m				% y/y			
	Jun19	Jul19	Aug19	Sep19	Jun19	Jul19	Aug19	Sep19	Jun19	Jul19	Aug19	Sep19
Total bank assets	68,133	68,713	69,152	69,891	1.1	0.9	0.6	1.1	5.4	6.6	7.5	7.6
Core liquid assets	6,329	6,353	6,127	6,494	-1.5	0.4	-3.6	6.0	4.4	8.3	4.1	8.2
Cash and CBK deposits	1,882	1,726	1,670	1,672	2.6	-8.3	-3.2	0.1	24.8	21.0	12.7	16.1
CBK bonds	2,971	2,971	2,971	2,971	0.0	0.0	0.0	0.0	-1.2	-1.3	-0.9	-0.9
Time deposits with CBK	1,475	1,655	1,485	1,850	-9.0	12.2	-10.3	24.6	-4.5	15.8	5.7	18.2
Public debt instruments	3,318	3,174	2,876	2,657	0.1	-4.3	-9.4	-7.6	-22.6	-22.3	-28.7	-30.7
Interbank deposits	1,919	2,247	2,489	2,566	21.7	17.1	10.8	3.1	96.1	75.2	126.5	80.9
Credit facilities	37,881	37,760	37,862	38,093	0.8	-0.3	0.3	0.6	4.8	4.2	4.6	4.2
Foreign assets	14,556	14,985	15,541	15,834	2.0	2.9	3.7	1.9	11.8	16.3	19.2	20.6
Other assets	4,130	4,195	4,257	4,248	-2.4	1.6	1.5	-0.2	-0.1	3.2	3.9	6.1
Total bank liabilities	58,745	59,293	59,742	60,516	1.2	0.9	0.8	1.3	4.8	6.2	7.3	7.7
Total deposits	45,674	45,633	45,517	45,869	1.7	-0.1	-0.3	0.8	3.0	3.1	3.9	3.4
Private sector deposits	37,115	36,550	36,000	36,471	2.6	-1.5	-1.5	1.3	1.5	0.6	-0.5	-0.5
Government deposits	6,910	7,070	7,162	6,943	-6.2	2.3	1.3	-3.1	-0.8	4.5	8.3	7.8
Interbank deposits	1,649	2,013	2,355	2,455	22.0	22.1	17.0	4.2	95.6	74.0	137.6	91.9
Foreign liabilities	6,761	7,257	7,648	7,899	-1.8	7.3	5.4	3.3	16.4	28.9	30.7	36.5
Other liabilities	6,311	6,403	6,577	6,748	1.1	1.5	2.7	2.6	7.6	8.0	8.8	11.6
Shareholders' equity	9,387	9,420	9,410	9,375	0.2	0.3	-0.1	-0.4	9.2	9.2	8.6	7.1

Source: Central Bank of Kuwait

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