Kuwait: Credit growth edges lower in 2Q19; CBK leaves policy on hold

Highlights

- Credit growth eased back to 4.8% y/y in 2Q19, helped by a base effect following a strong rise a year ago.
- The slowdown was most prominent in business lending, where growth slowed to 5.1% y/y.
- Household borrowing growth also edged down to 5.4%; but within this overall total, consumer lending continued to surge.
- Following the US Fed’s 25 bps cut in July, the Central Bank of Kuwait left interest rates unchanged.

Credit growth eased slightly in 2Q19, ending at 4.8% y/y versus 5.2% in March. (Chart 1.) The slowdown was driven mostly by a moderation in lending to businesses, which slipped to 5.1% from 6.1% in March, albeit driven by a base effect following a jump in lending in June 2018. (Chart 2.) Growth in household lending continued to edge down on softer housing loans, contrasting a jump in lending for consumption. Given reasonable economic growth, a steady flow of project spending by the government, decent employment conditions and a global interest rate cycle now tilted towards easing, we do not expect credit growth to dip a great deal further over coming months, likely remaining in the 4-5% range, which is around double the 2.3% average for last year.

The slowdown in business lending growth in Q2 was due to the oil and gas sector, where borrowing had surged in June 2018 on financing for a large government LNG project; excluding this, business lending would have accelerated significantly in the quarter. Elsewhere, it was another good quarter for lending to the real estate sector, which rose 8.9% y/y in June and has accelerated sharply this year, pointing to recovering activity in that sector. Other sectors were a mixed bag, though lending to the smaller but still important trade (0.4%) and construction (-1.6%) sectors weakened.

Chart 2: Credit by broad category

News on the household sector was also mixed, though continued the trends of previous months. Growth in loans for home purchase – which are worth around 90% of total household lending (excluding securities purchase borrowing) – slowed to 4.2% y/y from 5.4% in March and to around half its level of a year ago. (Chart 3.) By contrast, the smaller consumer loan segment surged once again, rising 18% versus 7.8% in March – and its fastest pace in over six years. The pick-up reflects the continuing effect from the central bank’s loosening of restrictions on consumer loans last December and based upon reasonable assumptions, the annual growth rate could accelerate still further over coming months. Separately, growth in lending for securities purchases edged up to 2.2%.
y/y from 1.2% at the end of Q1, amid a generally improving picture over the past year due to more favorable attitudes toward the stock market driven by index upgrades. Finally, lending to investment firms fell 2.3% y/y in June, but broadly steadied in Q2 after significant deleveraging last year.

Chart 3: Credit to households (% y/y)

Source: Central Bank of Kuwait / NBK  * Excludes securities purchase loans

Meanwhile, deposit growth halved to 1.2% y/y in June from 2.4% in March, driven by a softening in private deposit growth to 1.5% from 5.1% (though month-on-month June was solid) on slower growth in time deposits. Weak growth in private sector deposits was only partially offset by an improving trend in government deposits, which can be volatile and which had been very soft earlier in the year. Reflecting these trends, growth in the M2 money supply measure stood at a modest 1.6% y/y in June versus 5.0% in March. (Chart 4.)

Chart 4: Money supply growth (% y/y)

Source: Central Bank of Kuwait

Following the US Federal Reserve’s 25 bps cut in interest rates at the end of July, the Central Bank of Kuwait (CBK) opted to leave its main policy interest rates on hold at 3.0% for the discount rate and 2.5-3.25% for the repo rates of different maturities. (Chart 5.) The CBK has been less active than the Fed in the recent past, having lifted the discount rate on only four of the nine occasions the Fed has hiked rates in the tightening cycle that began in 2015. The CBK stated that the decision to hold was in line with maintaining a healthy margin in favor of the dinar and to allow for a conducive environment for economic growth. The Kuwaiti dinar, meanwhile, has remained broadly flat against the US dollar this year at $3.29/KD1, but has appreciated versus the euro (2%) and British pound (6%).

Chart 5: Policy interest rates (%)

Source: Refinitiv  * Upper end of the target range
### Table 1: Monetary indicators

<table>
<thead>
<tr>
<th></th>
<th>Mar19</th>
<th>Apr19</th>
<th>May19</th>
<th>Jun19</th>
<th>% m/m</th>
<th>% y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total system liquidity (M2)</td>
<td>38,947</td>
<td>38,815</td>
<td>38,242</td>
<td>39,000</td>
<td>0.7</td>
<td>0.3</td>
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<tr>
<td>Currency in circulation</td>
<td>1,803</td>
<td>1,892</td>
<td>2,063</td>
<td>1,885</td>
<td>-0.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Private sector deposits</td>
<td>37,144</td>
<td>36,924</td>
<td>36,180</td>
<td>37,115</td>
<td>0.7</td>
<td>-0.6</td>
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<tr>
<td>KD deposits</td>
<td>34,287</td>
<td>34,463</td>
<td>33,864</td>
<td>34,588</td>
<td>0.6</td>
<td>0.2</td>
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<tr>
<td>Sight deposits</td>
<td>6,689</td>
<td>9,071</td>
<td>9,356</td>
<td>9,112</td>
<td>2.4</td>
<td>4.4</td>
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<td>Savings deposits</td>
<td>5,100</td>
<td>5,245</td>
<td>5,276</td>
<td>5,300</td>
<td>-0.1</td>
<td>2.8</td>
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<td>Time deposits &amp; CDs</td>
<td>20,599</td>
<td>20,147</td>
<td>19,231</td>
<td>20,176</td>
<td>0.1</td>
<td>-2.2</td>
</tr>
<tr>
<td>Foreign currency deposits</td>
<td>2,767</td>
<td>2,461</td>
<td>2,316</td>
<td>2,527</td>
<td>1.8</td>
<td>-10.7</td>
</tr>
</tbody>
</table>

### Table 2: Consolidated bank balance sheets

<table>
<thead>
<tr>
<th></th>
<th>Mar19</th>
<th>Apr19</th>
<th>May19</th>
<th>Jun19</th>
<th>% m/m</th>
<th>% y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bank assets</td>
<td>67,431</td>
<td>67,246</td>
<td>67,392</td>
<td>68,133</td>
<td>1.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Core liquid assets</td>
<td>6,290</td>
<td>6,462</td>
<td>6,427</td>
<td>6,329</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Cash and CBK deposits</td>
<td>2,064</td>
<td>1,651</td>
<td>1,835</td>
<td>1,882</td>
<td>7.4</td>
<td>-20.0</td>
</tr>
<tr>
<td>CBK bonds</td>
<td>2,971</td>
<td>2,971</td>
<td>2,972</td>
<td>2,971</td>
<td>-1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Time deposits with CBK</td>
<td>1,255</td>
<td>1,840</td>
<td>1,620</td>
<td>1,475</td>
<td>5.0</td>
<td>46.6</td>
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<tr>
<td>Public debt instruments</td>
<td>3,715</td>
<td>3,534</td>
<td>3,315</td>
<td>3,318</td>
<td>-1.2</td>
<td>-4.9</td>
</tr>
<tr>
<td>Interbank deposits</td>
<td>1,964</td>
<td>1,821</td>
<td>1,577</td>
<td>1,919</td>
<td>9.8</td>
<td>-7.3</td>
</tr>
<tr>
<td>Credit facilities</td>
<td>37,421</td>
<td>37,162</td>
<td>37,568</td>
<td>37,881</td>
<td>0.8</td>
<td>-0.7</td>
</tr>
<tr>
<td>Foreign assets</td>
<td>13,954</td>
<td>14,159</td>
<td>14,273</td>
<td>14,556</td>
<td>4.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Other assets</td>
<td>4,087</td>
<td>4,107</td>
<td>4,233</td>
<td>4,130</td>
<td>-2.1</td>
<td>0.5</td>
</tr>
</tbody>
</table>

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