Economic Update

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Monetary developments

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

> Daniel Kaye
Head of Research
+965 2259 3136
danielkaye@nbk.com

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.

Chart 1: Bank credit

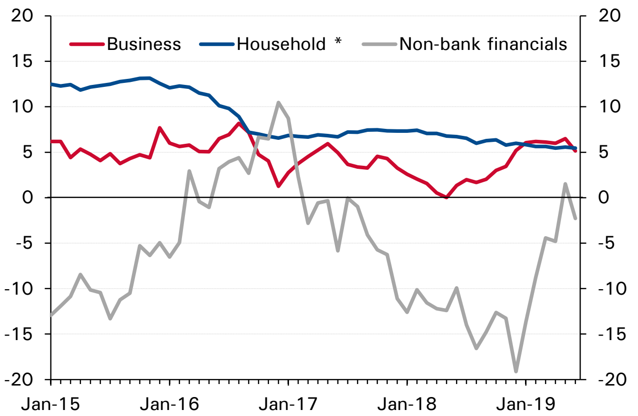
(% y/y)

Source: Central Bank of Kuwait

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

(% y/y)



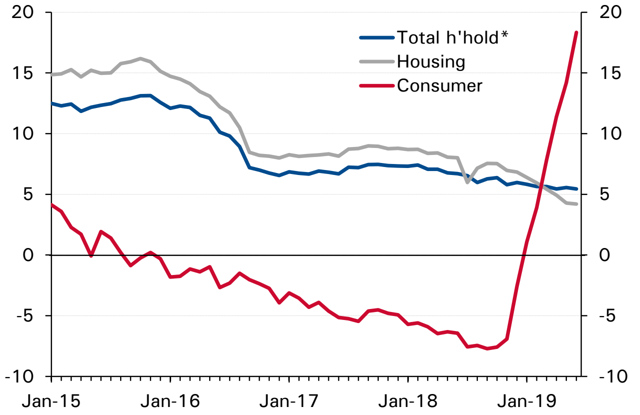
Source: Central Bank of Kuwait / NBK * Excludes securities purchase loans

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)

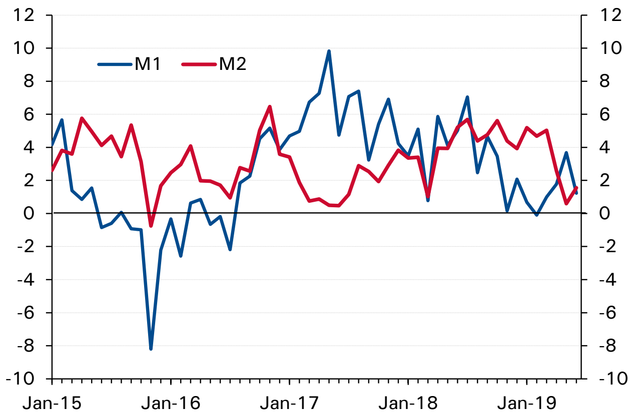


Source: Central Bank of Kuwait / NBK   * Excludes securities purchase loans

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)

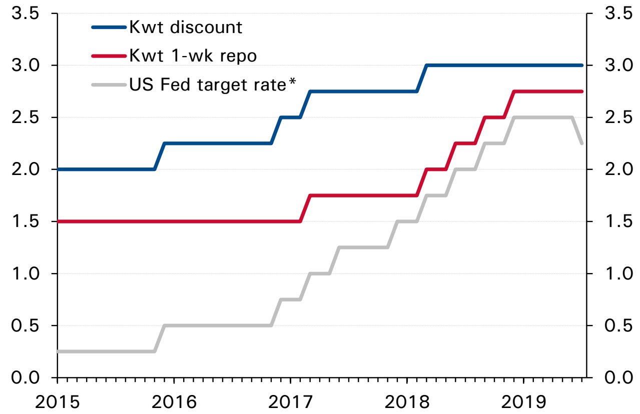


Source: Central Bank of Kuwait

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

	KD mn				% m/m				% y/y			
	Mar19	Apr19	May19	Jun19	Mar19	Apr19	May19	Jun19	Mar19	Apr19	May19	Jun19
Total system liquidity (M2)	**38,947**	**38,815**	**38,242**	**39,000**	**0.7**	**-0.3**	**-1.5**	**2.0**	**5.0**	**2.6**	**0.6**	**1.6**
Currency in circulation	1,803	1,892	2,063	1,885	-0.1	4.9	9.0	-8.6	4.6	11.5	9.8	2.0
Private sector deposits	37,144	36,924	36,180	37,115	0.7	-0.6	-2.0	2.6	5.1	2.2	0.1	1.5
KD deposits	34,387	34,463	33,864	34,588	0.6	0.2	-1.7	2.1	4.9	4.1	0.9	2.4
Sight deposits	8,689	9,071	9,356	9,112	2.4	4.4	3.1	-2.6	0.3	0.0	2.4	1.1
Savings deposits	5,100	5,245	5,276	5,300	-0.1	2.8	0.6	0.5	2.7	5.0	2.4	2.6
Time deposits & CDs	20,599	20,147	19,231	20,176	0.1	-2.2	-4.5	4.9	7.6	5.9	-0.2	3.0
Foreign currency deposits	2,757	2,461	2,316	2,527	1.8	-10.7	-5.9	9.1	6.5	-19.3	-10.0	-9.4

Table 2: Consolidated bank balance sheets

	KD mn				% m/m				% y/y			
	Mar19	Apr19	May19	Jun19	Mar19	Apr19	May19	Jun19	Mar19	Apr19	May19	Jun19
Total bank assets	**67,431**	**67,245**	**67,392**	**68,133**	**1.6**	**-0.3**	**0.2**	**1.1**	**5.6**	**6.0**	**5.2**	**5.4**
Core liquid assets	6,290	6,462	6,427	6,329	2.8	2.7	-0.5	-1.5	18.5	14.6	1.4	4.4
Cash and CBK deposits	2,064	1,651	1,835	1,882	7.4	-20.0	11.1	2.6	32.3	19.7	4.4	24.8
CBK bonds	2,971	2,971	2,972	2,971	-1.0	0.0	0.0	0.0	-2.2	-2.2	-1.2	-1.2
Time deposits with CBK	1,255	1,840	1,620	1,475	5.0	46.6	-11.9	-9.0	76.8	50.8	3.2	-4.5
Public debt instruments	3,715	3,534	3,315	3,318	-1.2	-4.9	-6.2	0.1	-23.1	-23.7	-26.1	-22.6
Interbank deposits	1,964	1,821	1,577	1,919	9.8	-7.3	-13.4	21.7	65.2	77.5	65.8	96.1
Credit facilities	37,421	37,162	37,568	37,881	0.8	-0.7	1.1	0.8	5.2	5.0	6.0	4.8
Foreign assets	13,954	14,159	14,273	14,556	4.1	1.5	0.8	2.0	7.3	10.6	11.6	11.8
Other assets	4,087	4,107	4,233	4,130	-2.1	0.5	3.1	-2.4	2.5	3.6	4.0	-0.1
Total bank liabilities	**58,219**	**58,017**	**58,023**	**58,745**	**1.4**	**-0.3**	**0.0**	**1.2**	**5.3**	**5.7**	**4.6**	**4.8**
Total deposits	44,933	45,119	44,897	45,674	1.3	0.4	-0.5	1.7	3.8	3.3	2.6	3.0
Private sector deposits	37,144	36,924	36,180	37,115	0.7	-0.6	-2.0	2.6	5.1	2.2	0.1	1.5
Government deposits	6,026	6,419	7,365	6,910	2.6	6.5	14.7	-6.2	-11.5	-3.1	8.7	-0.8
Interbank deposits	1,763	1,777	1,352	1,649	10.5	0.8	-23.9	22.0	59.5	93.3	62.6	95.6
Foreign liabilities	6,818	6,708	6,885	6,761	4.8	-1.6	2.6	-1.8	13.1	20.2	15.9	16.4
Other liabilities	6,468	6,190	6,241	6,311	-1.6	-4.3	0.8	1.1	7.9	10.3	8.0	7.6
Shareholder equity	**9,212**	**9,227**	**9,369**	**9,387**	**2.8**	**0.2**	**1.5**	**0.2**	**7.3**	**7.7**	**9.0**	**9.2**

Source: Central Bank of Kuwait

Head Office

Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
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 SAKP
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 SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon 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
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAKP
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 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

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 SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353