

Economic Update

NBK Economic Research Department | 13 February 2022

Monetary developments

Kuwait: Driven by households, credit up 6.3% in 2021, the highest since 2015

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Highlights

- Domestic credit ended the year on a strong note, increasing by 1.6% q/q with growth at 6.3% for the full year.
- Business credit remained flat for the second consecutive quarter, growing by 1.4% in 2021 but with wide differences among sectors.
- Household credit growth continued to be solid, finishing the year at 13.3% y/y the fastest annual expansion since 2013.
- Deposit expansion remained muted, with private-sector and government deposits falling in 2021.
- We expect credit growth of around 5% to 6% in 2022, given stronger business credit expansion in the context of elevated oil prices and solid non-oil growth, but softer household credit growth due to the absence of blanket loan deferral schemes.

Domestic credit ended the year on a relatively strong note, increasing by 1.6% q/q in 4Q2021 with growth at 6.3% for the full year, the highest since 2015. For the sixth consecutive quarter, household lending was the main growth driver, while business lending is yet to recover from the pandemic-related slowdown.

► **Chart 1: Credit to Residents**

(% y/y)



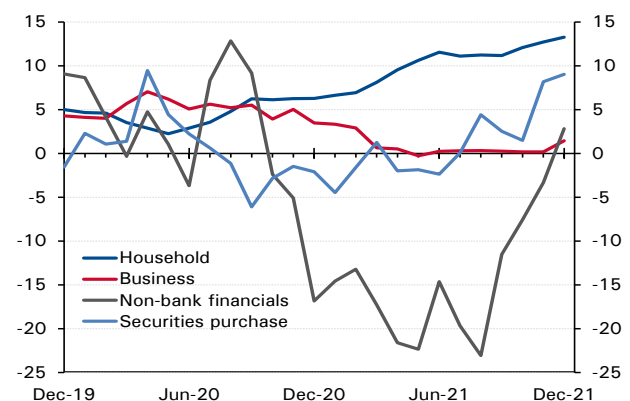
Source: Central Bank of Kuwait

Business credit remained flat for the second consecutive quarter to record 1.4% growth for the full year. While the pandemic-induced shock continues to weigh on the growth in business credit, we believe that relatively high repayments and write-offs were also a factor behind the weak business credit expansion in 2021. Growth of the various sectors differed markedly with the construction and trade sectors remaining the weakest for the second year in a row, falling by 10% and 9% y/y, respectively. In contrast, credit growth in the industry (+16% y/y) and oil/gas (+14% y/y) sectors was very solid. Credit to real estate, by far the largest component of business credit with a 43% share, inched up by just 1% in 2021, the weakest growth in five years.

Household credit growth continued to be very strong, though softened compared with 3Q2021, finishing the year at 13.3% y/y the fastest annual expansion since 2013. This strong growth was driven by personal consumption loans as well as housing loans, which rose by around 15% and 13%, respectively. The six-month deferral of household credit instalments for Kuwaiti borrowers (which expired in 4Q2021), the ongoing robust demand/high valuations in the residential real estate sector, and the continued solid consumer spending are some of the key factors behind this multi-year record expansion in household lending.

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

(% y/y)



Source: Central Bank of Kuwait

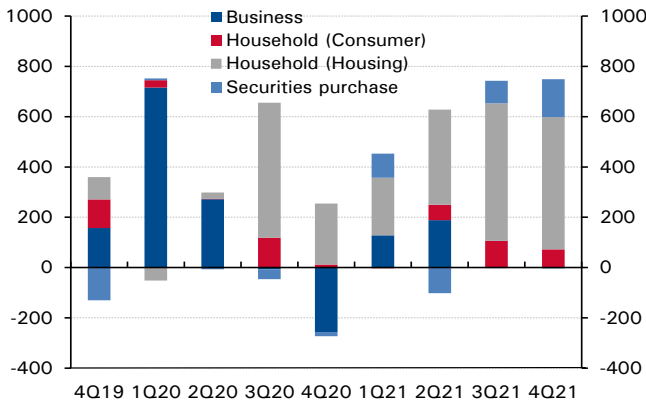
In addition, credit growth in 2021 got a boost from a solid expansion in lending for securities purchase, which increased by 9% (after being on a decreasing trend in the previous five years) buoyed by a 26% gain in the Boursa Kuwait All-Share Index.

For 2022, credit growth will likely be supported by the further normalization of economic activities given the major pickup in vaccination rates and the expected ongoing easing of pandemic-

related restrictions. Whether 2022 will be the “end-of-the-pandemic year” remains to be seen, but in all cases the disruption to economic activities has generally been milder with each subsequent infection wave, boding well for economic and credit growth in 2022.

In the context of elevated oil prices and robust non-oil growth in Kuwait, business credit should be supported by a likely improvement in project awards and by the pent-up demand for capital spending (CAPEX) given muted CAPEX by corporates since the outbreak of the pandemic. As for household credit, growth is expected to soften (but remain relatively robust) given no more blanket deferrals of household credit instalments, which have strongly supported growth in the past two years. On the other hand, passage of the mortgage law in one form or another will be a game changer, providing significant growth potential for the banks given the very strong demand for housing loans.

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



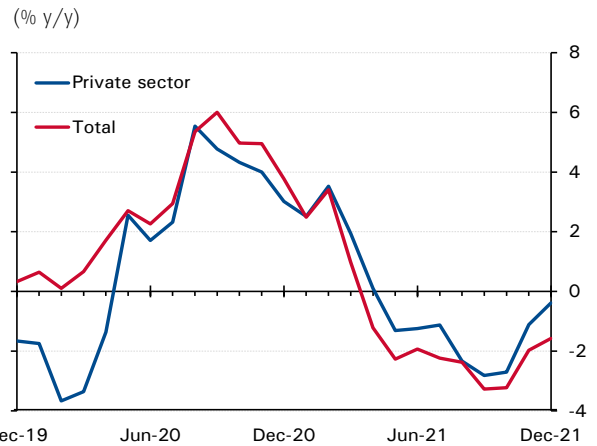
Source: Central Bank of Kuwait

Private-sector and government deposits decreased in 2021

Meanwhile, domestic deposit growth continued to be muted, falling by 1.6% in 2021. Despite elevated oil prices, government deposits dropped by 7.2% (KD 571 million) in 2021, likely related to the liquidity issues facing the government. Private-sector deposits were broadly flat in 4Q2021, to finish the year registering a slight (0.4%) decrease.

Looking at the breakdown of KD private-sector deposits shows that current and saving accounts (CASA) expanded by around 5% in 2021, while the more expensive time deposits fell by 6.4%. While this remains favorable for the banks, it marks a sharp deceleration from 2020 when CASA surged by 24% and time deposits decreased by 8%. The record-low interest rate environment (banks shedding expensive institutional deposits to defend margins and depositors facing lower opportunity cost from keeping funds in CASA) and the deferral of credit instalments have been two key drivers for the changing composition of private sector deposits over the last two years.

Chart 4: Deposits from Residents



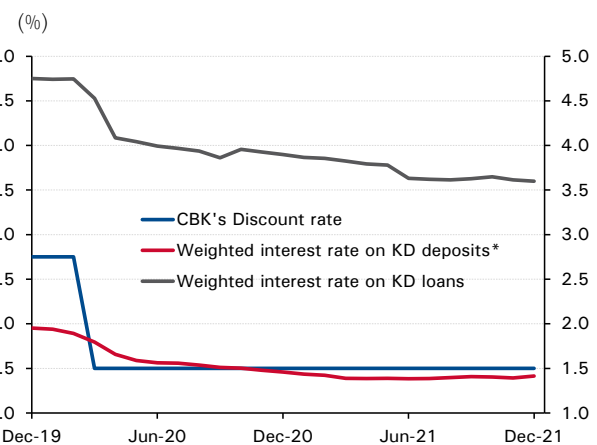
Source: Central Bank of Kuwait

The lack of growth in domestic deposits over the past year led to an increase in the domestic loans-to-deposits ratio to 95% at the end of 2021 from around 88% one year ago, reflecting the slightly tighter liquidity situation.

Policy interest rates on hold but set to increase in 2022

The Central Bank of Kuwait’s (CBK) discount rate has remained at 1.5% since March 2020 but will likely start trending up in 2022 (though not necessarily one-for-one with US rates) given that the US Federal Reserve will be hiking rates several times this year. However, given the tighter liquidity situation, interest rates (weighted average as calculated by the CBK) on KD-denominated deposits have bottomed out and actually have started to very gradually trend higher in the past few months as can be seen in chart 5.

Chart 5: Interest Rates



Source: Central Bank of Kuwait * Strictly private-sector deposits

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Sep 21	Oct 21	Nov 21	Dec 21	Sep 21	Oct 21	Nov 21	Dec 21	Sep 21	Oct 21	Nov 21	Dec 21
Total system liquidity (M2)	38,916	38,890	39,188	38,965	0.1	-0.1	0.8	-0.6	-2.9	-2.9	-1.2	-0.5
Currency in circulation	1,779	1,757	1,772	1,775	0.1	-1.3	0.9	0.2	-5.3	-6.8	-2.6	-2.0
Private sector deposits	37,137	37,133	37,416	37,189	0.1	0.0	0.8	-0.6	-2.8	-2.7	-1.1	-0.4
KD deposits	35,105	34,949	35,151	34,966	0.2	-0.4	0.6	-0.5	-2.6	-2.7	-1.4	-0.9
Sight deposits	10,933	10,937	11,072	10,755	0.0	0.0	1.2	-2.9	2.8	5.3	6.2	2.0
Savings deposits	6,965	6,987	7,028	7,072	0.9	0.3	0.6	0.6	10.5	10.2	10.3	10.0
Time deposits & CDs	17,207	17,025	17,051	17,139	0.0	-1.1	0.2	0.5	-9.8	-11.3	-9.5	-6.4
Foreign currency deposits	2,032	2,184	2,265	2,223	-1.2	7.5	3.7	-1.9	-7.0	-3.1	3.2	8.0

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

	KD millions				% m/m				% y/y			
	Sep 21	Oct 21	Nov 21	Dec 21	Sep 21	Oct 21	Nov 21	Dec 21	Sep 21	Oct 21	Nov 21	Dec 21
Total bank assets	76,000	75,790	76,447	77,058	0.6	-0.3	0.9	0.8	4.8	4.4	4.0	5.1
Core liquid assets	7,839	7,950	8,033	7,512	-2.8	1.4	1.0	-6.5	-8.4	-7.8	-7.8	-15.5
Cash and CBK deposits	2,629	2,646	2,826	2,523	-6.4	0.6	6.8	-10.7	10.1	-0.5	-9.4	-21.8
CBK bonds	2,964	2,964	2,964	2,964	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Time deposits with CBK	2,245	2,340	2,242	2,025	-2.0	4.2	-4.2	-9.7	-29.8	-22.0	-14.6	-25.0
Public debt instruments	1,283	1,283	1,187	1,138	0.7	0.0	-7.5	-4.2	-6.7	-5.1	-12.1	-16.2
Interbank deposits	2,736	2,529	2,581	3,337	4.9	-7.6	2.1	29.3	36.3	27.6	1.9	32.2
Credit facilities	41,610	41,653	42,125	42,287	1.0	0.1	1.1	0.4	4.0	4.4	5.2	6.3
Foreign assets	17,601	17,482	17,636	17,883	0.4	-0.7	0.9	1.4	9.2	7.9	7.7	8.7
Other assets	4,931	4,893	4,885	4,902	0.8	-0.8	-0.1	0.3	10.1	7.6	9.0	12.6
Total bank liabilities	66,459	66,259	66,934	67,383	0.7	-0.3	1.0	0.7	5.4	5.0	4.6	5.6
Total deposits	47,184	46,769	47,334	47,710	0.5	-0.9	1.2	0.8	-1.8	-2.1	-1.9	0.0
Private sector deposits	37,137	37,133	37,416	37,189	0.1	0.0	0.8	-0.6	-2.8	-2.7	-1.1	-0.4
Government deposits	7,378	7,175	7,404	7,373	1.3	-2.8	3.2	-0.4	-5.5	-5.9	-6.1	-7.2
Interbank deposits	2,669	2,462	2,514	3,148	5.0	-7.8	2.1	25.2	32.8	24.0	-0.4	28.7
Foreign liabilities	11,804	11,795	11,718	11,873	2.3	-0.1	-0.7	1.3	42.1	40.2	34.1	26.9
Other liabilities	7,471	7,695	7,882	7,800	-0.6	3.0	2.4	-1.0	10.8	11.0	12.7	16.2
Shareholders' equity	9,541	9,531	9,513	9,676	-0.3	-0.1	-0.2	1.7	0.9	0.5	-0.1	1.3

Source: Central Bank of Kuwait

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