

Monetary developments

Credit growth accelerated to 4% in April despite a flat month

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Credit growth improved further in April, even as the month saw outstanding credit flat. Growth rose to 4.0% year-on-year (y/y), with the month seeing net lending down a small KD 14 million. The poor monthly showing was mostly due to the regular start-of-quarter drop in loans for the purchase of securities. Growth in the “productive” business sectors remained strong. Private deposits saw a noticeable drop in April on the heels of a strong March. Bank liquidity was lower as the government continued to tap domestic debt markets; interest rates moved higher.

Household lending was relatively strong in April, with growth firming up slightly. The sector saw a gain of KD 74 million, with growth improving to 6.9% y/y. The monthly gain was slightly better than the KD 61 million averaged during the last 12 months. (Chart 2.) Growth came from installment loans, which grew by 8.2% y/y.

Business credit (excluding nonbanks) was down KD 88 million, though growth improved to 2.8% y/y. The weakness came largely from a drop of KD 216 million in loans for the purchase of securities; the decline fits a pattern seen at the start of every quarter: a decline that usually reverses a similar increase the month before. Otherwise, business credit was not particularly strong; the industrial and real estate sectors were the only ones to see much of a gain. Meanwhile, oil & gas saw a small decline.

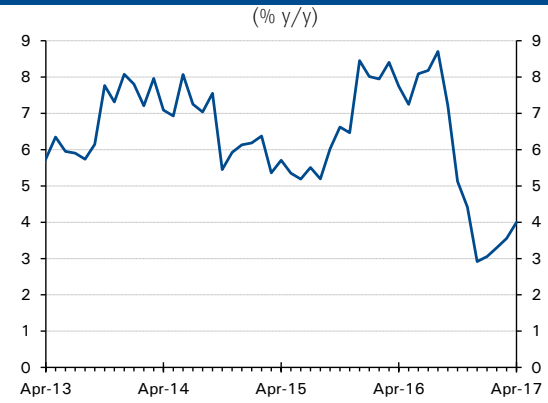
Growth in the “productive” business sectors remained strong. Business credit excluding real estate and securities lending accelerated to a robust 10.9% y/y after averaging 10% growth in 2016. The oil & gas and construction sectors have been the two largest sources of this growth so far this year.

Private and government deposits were off in April following a strong March that had benefited from the annual payment of bank dividends. Private deposits fell by KD 337 million. Declines were seen in sight, foreign currency and time deposits, while savings deposits rose. Government deposits also fell by KD 145 million in April, with growth slowing to 4.9% y/y, its slowest pace in 19 months. Despite the drawdowns, money supply (M2) growth remained steady in April at 0.9% y/y; M1 growth, however, was affected by the outflow, contracting by 1.3%. (Chart 3.)

Banking system liquidity dropped in April. Bank reserves (cash, deposits with the CBK, and CBK bonds) lost KD 350 million to reach KD 4.8 billion or 7.9% of total bank assets (Chart 4). This coincided with the government increasing domestic bond issuance during April in an effort to finance part of the deficit. Outstanding domestic public debt instruments (PDIs) rose by KD 300 million during April to KD 4.117 billion, to an estimated 12% of GDP.

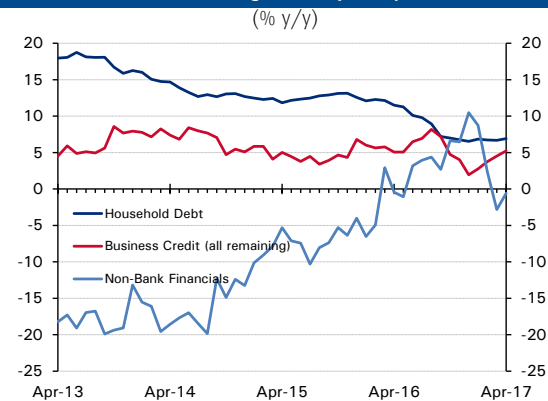
Interest rates moved up in April, further pricing in the CBK’s 25 basis point March rate hike. (Chart 5.) The 3-month and 6-month interbank rates were up 12 basis points and 7 basis points, respectively. Interbank

Chart 1: Credit growth



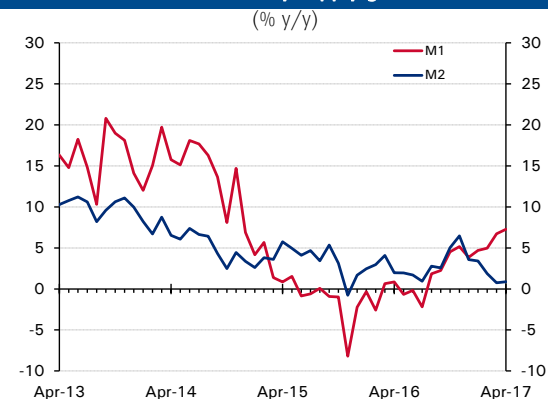
Source: Central Bank of Kuwait

Chart 2: Credit growth by component



Source: CBK; *Excl. loans to nonbanks and for the purchase of securities.

Chart 3: Money supply growth



Source: Central Bank of Kuwait

rates have been mostly steady since. Customer deposit rates were also up, with rates on all maturities higher by 10-16 basis points.

Table 1: Monetary indicators

	Apr-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total system liquidity (M2)	36,402	-303	-0.8	901	2.5	315	0.9	
Currency in circulation	1,680	34	2.1	113	7.2	183	12.2	
Private sector deposits	34,722	-337	-1.0	788	2.3	132	0.4	
KD deposits	32,027	-183	-0.6	1,046	3.4	1,038	3.3	
Sight deposits	8,494	-169	-1.9	339	4.2	506	6.3	
Savings deposits	4,837	47	1.0	160	3.4	150	3.2	
Time deposits & CDs	18,695	-60	-0.3	548	3.0	382	2.1	
Foreign currency deposits	2,695	-154	-5.4	-258	-8.7	-906	-25.2	

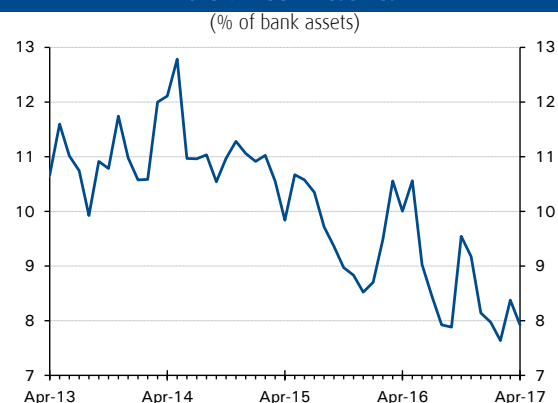
Source: Central Bank of Kuwait

Table 2: Consolidated bank balance sheets

	Apr-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total bank assets	61,072	-885	-1.4	798	1.3	1,801	3.0	
Core liquid assets	4,840	-350	-6.7	34	0.7	-1,089	-18.4	
Cash and CBK deposits	1,015	-218	-17.7	-166	-14.1	-381	-27.3	
CBK bonds	2,876	56	2.0	-96	-3.2	-826	-22.3	
Time deposits with CBK	950	-187	-16.4	296	45.3	118	14.2	
Public debt instruments	4,146	299	7.8	607	17.2	2,355	131.5	
Interbank deposits	1,092	-299	-21.5	-221	-16.8	-328	-23.1	
Credit facilities	34,874	-14	0.0	639	1.9	1,341	4.0	
Foreign assets	12,155	-593	-4.6	-453	-3.6	-808	-6.2	
Other assets	3,966	72	1.8	190	5.0	331	9.1	
Total bank liabilities	52,823	-861	-1.6	667	1.3	1,438	2.8	
Total deposits	41,463	-481	-1.1	691	1.7	446	1.1	
Private sector deposits	34,722	-337	-1.0	788	2.3	132	0.4	
Government deposits	6,741	-145	-2.1	-97	-1.4	314	4.9	
Interbank deposits	1,051	-319	-23.3	-203	-16.2	-284	-21.3	
Foreign liabilities	4,432	-310	-6.5	62	1.4	395	9.8	
Other liabilities	5,876	249	4.4	116	2.0	882	17.6	
Shareholder equity	8,250	-24	-0.3	131	1.6	362	4.6	

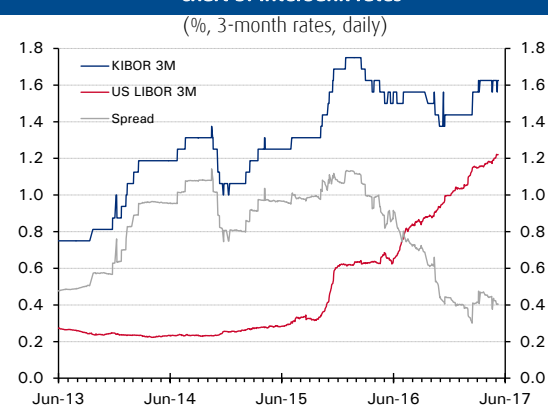
Source: Central Bank of Kuwait

Chart 4: Bank reserves



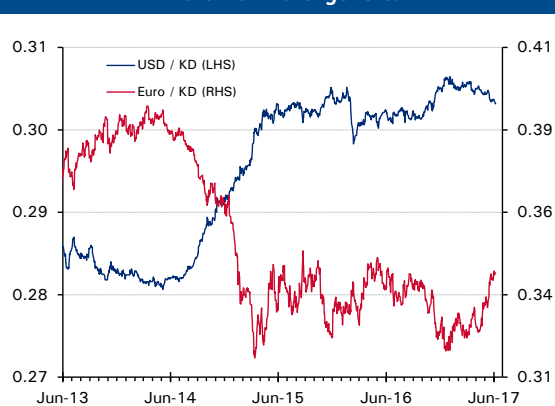
Source: Central Bank of Kuwait

Chart 5: Interbank rates



Source: Thomson Reuters Datastream, Central Bank of Kuwait

Chart 6: Exchange rates



Source: Thomson Reuters Datastream

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