

Kuwait: Credit growth improves in Q3, corporate borrowing is firming up

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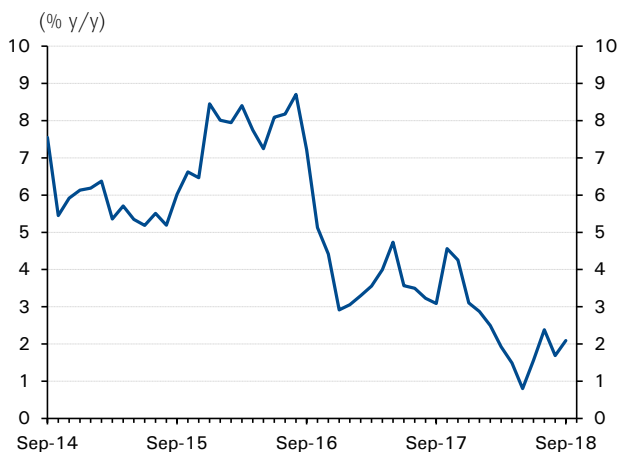
Highlights

- Credit growth picked up to 2.1% y/y in September, supported by rising business borrowing, which saw its second consecutive quarter of positive growth.
- Growth in household borrowing eased slightly, but should be supported by the CBK's recent loosening of lending restrictions.
- Domestic deposit rates were higher in line with the hike in the repo rate, while the discount rate remained unchanged.
- Credit activity is expected to finish 2018 at a modest 4%.

Credit growth improved in 3Q18 despite seasonal softness, ending September at 2.1% (chart 1), supported by both a pick-up in business and household lending, while credit to non-financial companies continued to decline. (Chart 2 & 3.) Deposit growth, on the other hand, eased to 4.9% in Q3 on KD sight and savings deposit outflows that coincided with the travel season. As for interest rates, the CBK left its policy rate unchanged after the Fed's September rate hike, but increased the repo rate by 25 bps and so did banks on their deposit rates.

restore the appetite for credit in that segment. The subsequent fall in oil prices in October and November may since have impacted this trend.

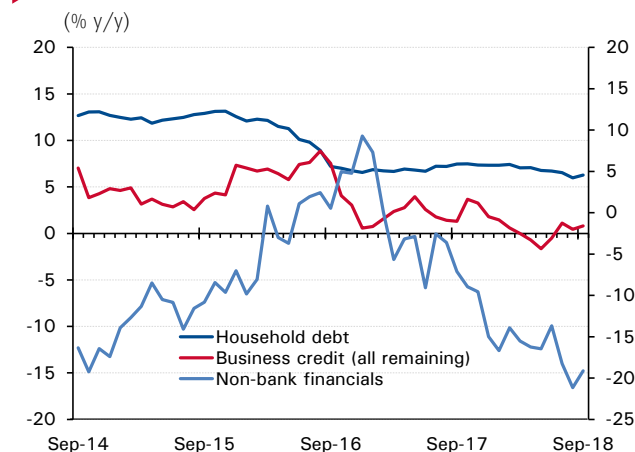
▶ **Chart 1: Credit growth**



Source: Central Bank of Kuwait

Business lending growth rose to 2.0% y/y in September from 1.0% in June, thanks to a pick-up in borrowing by key sectors, such as industry and construction, as well as other non-specified categories – its second consecutive quarterly improvement. Business confidence was supported by an environment of higher oil prices, which may have helped

▶ **Chart 2: Credit growth by component**

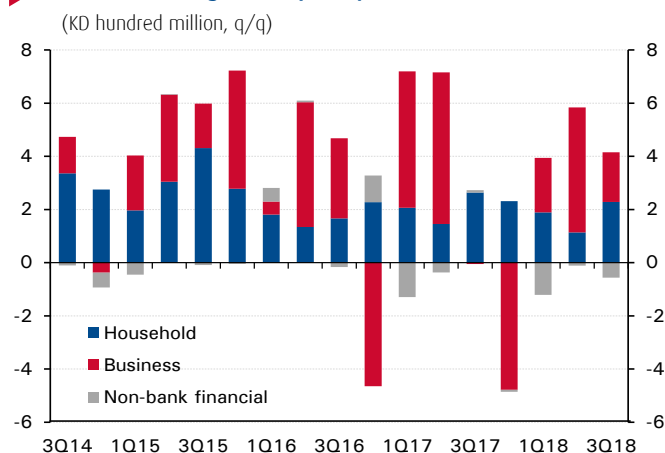


Source: Central Bank of Kuwait

Growth in borrowing by households, however, softened slightly to 6.3% in September from 6.7% in June (chart 2), as weaker consumer borrowing – in the form of medium-term loans and/or credit cards – weighed on healthy housing loan demand. In a bid to catalyze the former, the central bank of Kuwait has relaxed some of its lending restrictions, reflecting recent economic developments. Borrowers seeking non-housing loans can now borrow up to 25 times their salary or a maximum of KD 25,000, up from 15 times or maximum of 15,000 KD. The central bank will also now only require proof of purchase documents for housing-related loans, while no such documents will be required for non-housing borrowing.

Meanwhile, the pace of deleveraging by non-bank financial firms picked-up in September to 14.8% y/y from 9.9% in June, with no borrowing by that segment over the quarter. Credit extended to the investment sector is down KD 188 million year-to-date.

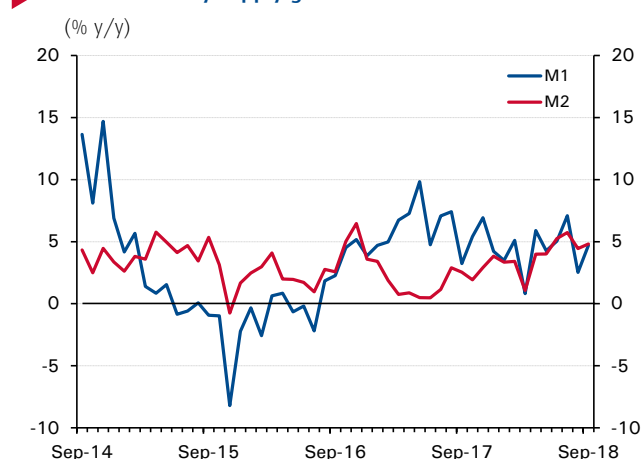
Chart 3: Credit growth by component



Source: Central Bank of Kuwait

Growth in private deposits eased to 4.9% y/y in September from 5.7% in June, on withdrawals from KD sight and savings deposits that coincided with the summer travel season. As such, the expansion in the money supply stood at 4.8%, down from 5.3% in June. (Chart 4.) Meanwhile, the contraction in government deposit growth worsened to 8.9% in September from 0% in June, despite higher oil prices.

Chart 4: Money supply growth

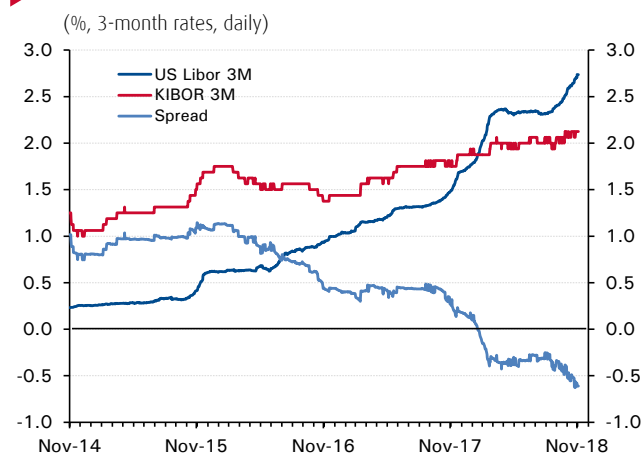


Source: Central Bank of Kuwait

Bank reserves (cash, deposits with the CBK, and CBK bonds) were down a small KD 57 million to KD 6.0 billion or 9.2% of bank assets in 3Q18. The pick-up in lending helped banks make good use of the KD 450 million in public debt that matured over the quarter. The new public debt law has yet to be approved by parliament.

Commercial lending rates were unchanged last quarter, while deposit and interbank rates increased alongside hikes in the domestic repo rate. The Central Bank of Kuwait forewent an increase in its main policy rate – the discount rate used to price loans – after the US Fed hiked its target rate by 25 bps for the third time this year in September. The CBK has skipped four out of the last eight US Fed hikes, a slower pace of rate increases aimed at supporting economic growth. To maintain the attractiveness of the Kuwaiti dinar and stem potential outflows, however, the CBK increased by 25 bps its repo-rate, with banks following with a similar increase on their deposits. On average, rates for commercial deposits maturing between 1 and 12 months were each up 16 bps over 3Q18. Meanwhile, lingering liquidity in the system capped the rise in the offered 3-month interbank rate at 3bps.

Chart 5: Interbank rates



Source: Thomson Reuters Eikon, Central Bank of Kuwait

Credit is projected to finish the year up 4%, supported by capital spending and moderate economic growth. The Fed is almost certain to hike its target rate for a fourth time this year in December. The impact of this move on domestic interest rates is not clear at this time depending on the CBK’s assessment of credit and liquidity conditions and economic growth more generally. Even if the CBK decides to raise its policy rate for a second time in 2018, this should not in principle have a noticeable dampening impact on borrowing as looser borrowing restrictions and an unwinding in base effects that have weighed on loan growth this year should see credit growth improve in 2019.

► **Table 1: Monetary indicators**

	KD mn				% m/m				% y/y			
	Jun	Jul	Aug	Sep	Jun	Jul	Aug	Sep	Jun	Jul	Aug	Sep
Total system liquidity (M2)	38,419	38,036	37,925	38,323	1.0	-1.0	-0.3	1.0	5.3	5.7	4.4	4.8
Currency in circulation	1,848	1,694	1,723	1,666	-1.6	-8.3	1.7	-3.3	-2.8	4.3	-0.1	2.9
Private sector deposits	36,571	36,342	36,202	36,657	1.1	-0.6	-0.4	1.3	5.7	5.8	4.7	4.9
KD deposits	33,783	33,673	33,505	33,743	0.6	-0.3	-0.5	0.7	5.1	5.0	4.4	4.1
Sight deposits	9,018	8,980	8,489	8,744	-1.4	-0.4	-5.5	3.0	6.8	7.6	3.1	5.0
Savings deposits	5,166	5,137	4,997	4,993	0.3	-0.6	-2.7	-0.1	6.0	6.0	3.6	4.3
Time deposits & CDs	19,599	19,557	20,019	20,007	1.6	-0.2	2.4	-0.1	4.1	3.6	5.1	3.6
Foreign currency deposits	2,789	2,669	2,697	2,914	8.3	-4.3	1.0	8.0	13.4	16.7	8.3	15.5

► **Table 2: Consolidated bank balance sheets**

	KD mn				% m/m				% y/y			
	Jun	Jul	Aug	Sep	Jun	Jul	Aug	Sep	Jun	Jul	Aug	Sep
Total bank assets	64,576	64,430	64,350	64,937	0.8	-0.2	-0.1	0.9	3.2	3.5	2.5	2.9
Core liquid assets	6,062	5,866	5,886	6,005	-4.4	-3.2	0.3	2.0	31.1	25.2	32.5	44.0
Cash and CBK deposits	1,507	1,427	1,482	1,440	-14.3	-5.3	3.9	-2.8	83.2	107.0	87.7	80.7
CBK bonds	3,009	3,009	2,999	2,999	0.0	0.0	-0.3	0.0	-3.6	-5.4	0.6	16.2
Time deposits with CBK	1,545	1,430	1,405	1,565	-1.6	-7.4	-1.7	11.4	127.2	75.5	109.7	98.1
Public debt instruments	4,286	4,084	4,035	3,832	-4.5	-4.7	-1.2	-5.0	2.0	-7.3	-16.1	-26.6
Interbank deposits	979	1,282	1,099	1,418	2.8	31.0	-14.3	29.0	-43.5	-1.6	-28.5	4.6
Credit facilities	36,096	36,242	36,193	36,572	1.9	0.4	-0.1	1.0	1.6	2.4	1.7	2.1
Foreign assets	13,020	12,889	13,037	13,105	1.8	-1.0	1.1	0.5	1.7	0.7	3.3	4.1
Other assets	4,134	4,066	4,099	4,006	1.6	-1.6	0.8	-2.3	12.3	10.7	8.3	0.8
Total bank liabilities	55,977	55,806	55,689	56,182	0.9	-0.3	-0.2	0.9	3.1	3.4	2.2	2.5
Total deposits	44,362	44,246	43,792	44,362	1.4	-0.3	-1.0	1.3	2.6	3.6	1.4	2.4
Private sector deposits	36,571	36,342	36,202	36,657	1.1	-0.6	-0.4	1.3	5.7	5.8	4.7	4.9
Government deposits	6,948	6,747	6,599	6,426	2.7	-2.9	-2.2	-2.6	-0.6	-5.0	-7.1	-8.9
Interbank deposits	843	1,157	991	1,279	1.3	37.2	-14.3	29.1	-49.0	-7.3	-34.3	-2.6
Foreign liabilities	5,807	5,631	5,850	5,760	-2.3	-3.0	3.9	-1.5	12.8	8.3	14.9	9.5
Other liabilities	5,809	5,929	6,047	6,060	0.7	2.1	2.0	0.2	-1.9	-2.3	-2.3	-3.2
Shareholder equity	8,598	8,624	8,661	8,756	0.0	0.3	0.4	1.1	3.9	4.0	4.2	5.5

Source: Central Bank of Kuwait

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