Credit saw a healthy gain in May of KD 279 million, with growth improving to 4.7% year-on-year (y/y). Both business and household credit accounted for most of the healthy gain. Private deposits saw a moderate increase. Interest rates were steady in May. They have risen since even though the central bank opted to keep its key policy rate unchanged following the June US Fed hike.

The gain in household lending was relatively good in May, though growth held steady. The sector saw a gain of KD 75 million, with growth at 6.8% y/y. There was a noticeable net drop in consumer loans of KD 11 million, with loans contracting by 4.6% y/y. Installment loans continued to be the only source of household loan growth, gaining KD 90 million and recording growth of 8.3% y/y.

Business credit (excluding nonbanks) added KD 216 million, with growth improving to 4.0% y/y. Most of the gains were in real estate, industry and trade. Other sectors were flat, though there was a noticeable KD 20 million decline in credit to the oil & gas sector. Despite this, credit to the sector still doubled from a year before. “Productive” business sectors (excluding real estate and securities lending) continued to exhibit strong growth of 10.4% y/y.

Private deposits saw moderate gains in May while an increase in government deposits offset recent declines. Private deposits rose by KD 42 million, following decent gains in KD sight and savings deposits. These were offset by declines in foreign currency and KD time deposits. Money supply (M2) growth remained subdued at 0.5% y/y, though M1 growth has been stronger at 9.8% y/y. Government deposits rose by KD 172 million, with growth bouncing back to 13.4% y/y. (Chart 3.)

Banking system liquidity was steady in May. Bank reserves (cash, deposits with the CBK, and CBK bonds) declined marginally by KD 46 million to KD 4.8 billion or 7.8% of bank assets (Chart 4). This coincided with no net issuance of public debt during the month. Outstanding domestic public debt instruments (PDIs) were steady at KD 4.117 billion, or an estimated 12% of GDP.

Interest rates were relatively steady in May, though they have risen since. (Chart 5.) The 3-month and 6-month interbank rates were up just 1-2 basis points in May. Customer deposit rates were also little changed. Rates have moved up since, following the Fed’s June rate hike of 25 bps, which saw the CBK increase its repo rate by 25 bps but keep its main policy rate, the discount rate, unchanged. The move was an effort to avoid pressuring domestic economic growth.
Table 1: Monetary indicators

<table>
<thead>
<tr>
<th>May-17</th>
<th>1-month change</th>
<th>3-month change</th>
<th>12-month change</th>
</tr>
</thead>
<tbody>
<tr>
<td>KD mn</td>
<td>% KD mn</td>
<td>% KD mn</td>
<td>% KD mn</td>
</tr>
<tr>
<td>Total system liquidity (M2)</td>
<td>36,574</td>
<td>173</td>
<td>0.5</td>
</tr>
<tr>
<td>Currency in circulation</td>
<td>1,810</td>
<td>130</td>
<td>7.8</td>
</tr>
<tr>
<td>Private sector deposits</td>
<td>34,764</td>
<td>42</td>
<td>0.1</td>
</tr>
<tr>
<td>KD deposits</td>
<td>32,288</td>
<td>262</td>
<td>0.8</td>
</tr>
<tr>
<td>Sight deposits</td>
<td>8,767</td>
<td>272</td>
<td>3.2</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>4,887</td>
<td>50</td>
<td>1.0</td>
</tr>
<tr>
<td>Time deposits &amp; CDs</td>
<td>18,635</td>
<td>-61</td>
<td>-0.3</td>
</tr>
<tr>
<td>Foreign currency deposits</td>
<td>2,476</td>
<td>-219</td>
<td>-8.1</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kuwait

Table 2: Consolidated bank balance sheets

<table>
<thead>
<tr>
<th>May-17</th>
<th>1-month change</th>
<th>3-month change</th>
<th>12-month change</th>
</tr>
</thead>
<tbody>
<tr>
<td>KD mn</td>
<td>% KD mn</td>
<td>% KD mn</td>
<td>% KD mn</td>
</tr>
<tr>
<td>Total bank assets</td>
<td>61,602</td>
<td>530</td>
<td>0.9</td>
</tr>
<tr>
<td>Core liquid assets</td>
<td>4,795</td>
<td>-46</td>
<td>-0.9</td>
</tr>
<tr>
<td>Cash and CBK deposits</td>
<td>1,076</td>
<td>61</td>
<td>6.0</td>
</tr>
<tr>
<td>CBK bonds</td>
<td>3,001</td>
<td>126</td>
<td>4.4</td>
</tr>
<tr>
<td>Time deposits with CBK</td>
<td>718</td>
<td>-232</td>
<td>-24.4</td>
</tr>
<tr>
<td>Public debt instruments</td>
<td>4,147</td>
<td>1</td>
<td>0.0</td>
</tr>
<tr>
<td>Interbank deposits</td>
<td>1,271</td>
<td>179</td>
<td>16.4</td>
</tr>
<tr>
<td>Credit facilities</td>
<td>35,153</td>
<td>279</td>
<td>0.8</td>
</tr>
<tr>
<td>Foreign assets</td>
<td>12,219</td>
<td>65</td>
<td>0.5</td>
</tr>
<tr>
<td>Other assets</td>
<td>4,017</td>
<td>51</td>
<td>1.3</td>
</tr>
<tr>
<td>Total bank liabilities</td>
<td>53,338</td>
<td>515</td>
<td>1.0</td>
</tr>
<tr>
<td>Total deposits</td>
<td>41,878</td>
<td>215</td>
<td>0.5</td>
</tr>
<tr>
<td>Private sector deposits</td>
<td>34,764</td>
<td>42</td>
<td>0.1</td>
</tr>
<tr>
<td>Government deposits</td>
<td>6,914</td>
<td>172</td>
<td>2.6</td>
</tr>
<tr>
<td>Interbank deposits</td>
<td>1,226</td>
<td>175</td>
<td>16.6</td>
</tr>
<tr>
<td>Foreign liabilities</td>
<td>4,594</td>
<td>162</td>
<td>3.6</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>5,841</td>
<td>-36</td>
<td>-0.6</td>
</tr>
<tr>
<td>Shareholder equity</td>
<td>8,264</td>
<td>14</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kuwait

Diagram 4: Bank reserves (% of bank assets)

Diagram 5: Interbank rates (%), 3-month rates, daily

Diagram 6: Exchange rates

Source: Thomson Reuters Datastream, Central Bank of Kuwait

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