

Kuwait: Credit growth at 3.5% in 2020 following a weak Q4

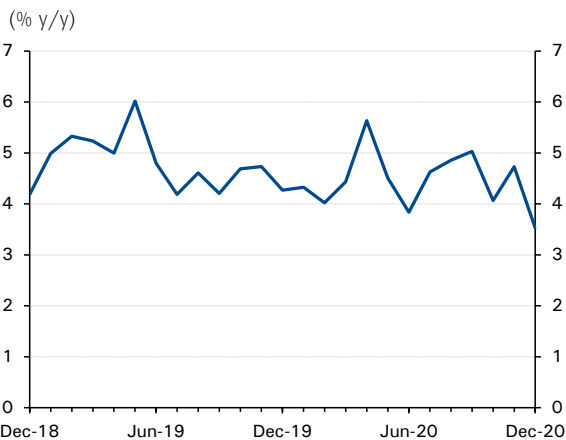
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Highlights

- Domestic credit ended the year on a weak note, falling by 0.6% in Q4, with growth at 3.5% in 2020.
- Business lending growth was muted in Q4, ending the year at 3.5% (+4.3% in 2019).
- Household credit growth normalized in Q4 to stand at 6.3% in 2020 (+5% in 2019).
- Domestic deposit growth weakened sharply in Q4, ending the year at 3.8% with private-sector deposits up 3%.
- We expect credit growth of around 4% to 5% in 2021 as a rebound in economic growth and ongoing robust household lending to citizens will likely be dampened by weaker business emergency working capital funding and muted lending to expats.

Domestic credit ended the year on a weak note, falling by 0.6% in Q4, with growth at 3.5% in 2020. After a strong run in Q3, the increase in household lending normalized in Q4 while business credit growth turned negative.

► **Chart 1: Credit to Residents**



Source: Central Bank of Kuwait

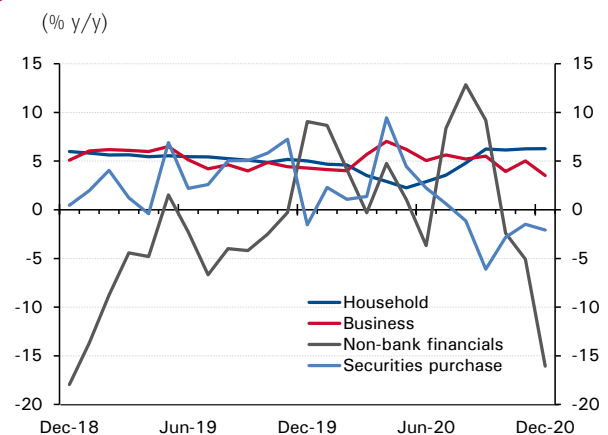
Business lending was weak in Q4, with growth standing at 3.5% in 2020 (+4.3% in 2019). The “other” business credit category (presumably credit to sectors that do not fall under any of the mentioned categories and credit to conglomerates) grew by 9.1% in 2020, accounting for 35% of the increase in business credit in the year, while credit to the oil and gas sector expanded by 8.4% in 2020. Real estate, the sector’s heavyweight, increased by 3.5% to account for 43% of total business credit by the end of 2020. The other main categories of business credit were relatively weak with trade and industry up around 2% in 2020, while construction fell by 4.6%.

Household credit growth normalized in Q4 with the year’s growth standing at 6.3% (+5% in 2019). Housing loans increased by

6.3% in 2020, significantly exceeding the 2% expansion seen in 2019. In contrast, the growth in personal consumption loans softened to 11.2% in 2020, following a 36% surge in 2019 after the central bank loosened some lending limits in November 2018. While the growth trends of housing loans and personal consumptions loans differed markedly in 2019 and 2020, the more important observation is that the growth of the combined pool (i.e. total household credit) was similar in both years.

Credit for securities purchase and for non-bank financial institutions was a drag on growth in 2020, falling by 2% and 16%, respectively. Credit for securities purchase has now trailed overall growth for five years in a row, which decreased its share of total credit from 9.3% in 2015 to 6.5% in 2020. After surging by 21% in 2019, credit to non-residents inched up by just 1.3% in 2020, especially following a steep fall in December.

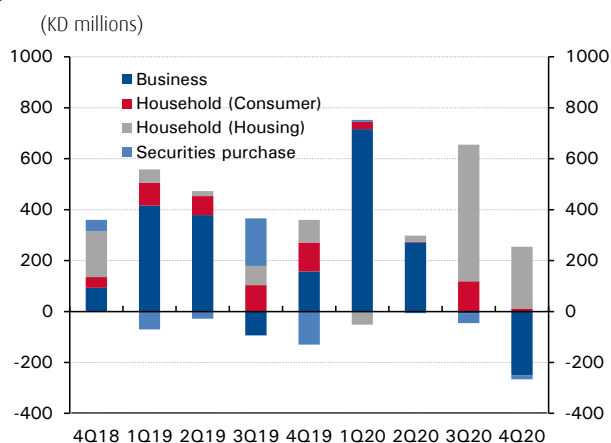
► **Chart 2: Categories of Credit to Residents**



Source: Central Bank of Kuwait

Looking ahead, we expect credit growth of around 4% to 5% in 2021. Business credit will likely benefit from a rebound in economic growth and higher government spending in 2021 (including capital spending, especially if the rebound in oil prices is sustained), although a lower projected emergency working-capital funding (a phenomenon witnessed strongly in 2020 given the pandemic) might be a drag on growth. As for household credit, while lending to citizens will likely continue to be robust given relatively secure jobs and an increasing population, lending to expats is expected to be muted given shrinking expatriate numbers.

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



Source: Central Bank of Kuwait

Domestic deposit growth weakened sharply in Q4, ending the year at 3.8% with private-sector deposits up 3%, way better than the 1.7% drop seen in 2019. Private-sector deposits had witnessed a boost during the year from the deferral of household loan repayments and the lower spending avenues, given much less travel abroad and the impact of the lockdown. For example, their growth peaked at 5.4% YTD by the end of September, which coincided with the end of the household loan deferral period. Money supply (M2) broadly tracked private sector deposits, increasing by 3.8% in 2020.

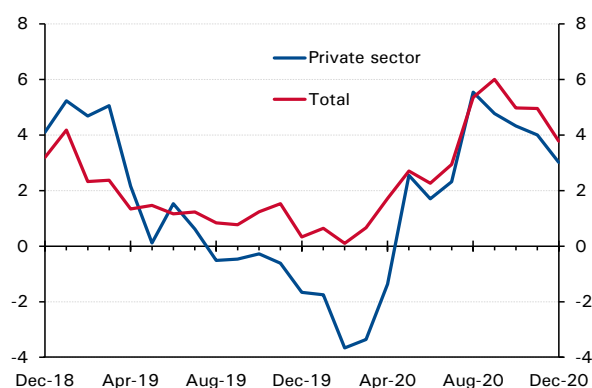
Looking at the breakdown of KD private sector deposits, the share of time deposits dropped significantly in 2020 (from 59.3% to 51.9%), as the share of sight and savings deposits increased from 40.7% to 48.1%, with one driver of that change being the steep fall in interest rates last year.

For the second year in a row, the growth in government deposits surpassed the private-sector one, standing at 7.5% in 2020 with government deposits representing almost 18% of the total by the end of 2020. After soaring by 55% in 2019, non-resident deposits dropped by 3% in 2020, exhibiting an opposite trend vis-à-vis private-sector deposits. The comfortable domestic liquidity situation, decreasing interest rates locally, and banks' shedding of relatively expensive institutional deposits to support their net interest margins may have been reasons for the fall in non-resident deposits in 2020.

The sector's simple loans-to-deposits ratio stood at 88% at the end of 2020, in line with its level at the end of 2019, indicating comfortable room to increase lending going forward. Finally, if the rebound in oil prices is sustained, this will likely feed through higher deposits in the system, while the ongoing record-low interest rate environment will probably be more conducive for the increase of sight and saving deposits compared with the more expensive time deposits.

Chart 4: Deposits from Residents

(% y/y)



Source: Central Bank of Kuwait

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Sep 20	Oct 20	Nov 20	Dec 20	Sep20	Oct 20	Nov 20	Dec 20	Sep20	Oct 20	Nov 20	Dec 20
	Total system liquidity (M2)	40,509	40,488	40,068	39,567	0.4	-0.1	-1.0	-1.3	5.7	5.2	4.8
Currency in circulation	2,296	2,323	2,231	2,235	-1.9	1.1	-4.0	0.2	24.8	23.0	21.4	18.2
Private sector deposits	38,212	38,165	37,837	37,332	0.6	-0.1	-0.9	-1.3	4.8	4.3	4.0	3.0
KD deposits	36,028	35,912	35,642	35,273	0.5	-0.3	-0.8	-1.0	6.7	6.3	5.8	4.6
Sight deposits	10,640	10,387	10,430	10,540	1.6	-2.4	0.4	1.1	21.0	20.9	19.2	22.6
Savings deposits	6,306	6,340	6,374	6,430	1.0	0.5	0.5	0.9	23.2	24.4	26.1	25.8
Time deposits & CDs	19,082	19,185	18,838	18,303	-0.2	0.5	-1.8	-2.8	-3.9	-4.5	-5.3	-8.5
Foreign currency deposits	2,184	2,253	2,195	2,059	1.4	3.2	-2.6	-6.2	-19.2	-19.7	-18.2	-18.7

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

	KD millions				% m/m				% y/y			
	Sep20	Oct20	Nov20	Dec20	Sep20	Oct20	Nov20	Dec20	Sep20	Oct20	Nov20	Dec20
	Total bank assets	72,537	72,602	73,498	73,331	-0.2	0.1	1.2	-0.2	3.8	4.0	4.0
Core liquid assets	8,554	8,623	8,710	8,890	3.0	0.8	1.0	2.1	31.7	29.4	24.9	30.3
Cash and CBK deposits	2,389	2,658	3,120	3,225	-4.8	11.3	17.4	3.4	42.9	52.3	72.1	74.2
CBK bonds	2,964	2,964	2,964	2,964	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2
Time deposits with CBK	3,200	3,000	2,625	2,700	13.1	-6.2	-12.5	2.9	73.0	54.2	19.9	35.0
Public debt instruments	1,375	1,352	1,350	1,348	-13.5	-1.7	-0.1	-0.2	-48.2	-49.4	-45.4	-43.1
Interbank deposits	2,008	1,983	2,533	2,515	-9.6	-1.3	27.7	-0.7	-21.7	-8.8	1.9	1.9
Credit facilities	40,009	39,903	40,055	39,782	0.8	-0.3	0.4	-0.7	5.0	4.1	4.7	3.5
Foreign assets	16,112	16,195	16,369	16,443	-1.9	0.5	1.1	0.5	1.8	3.2	1.4	-1.4
Other assets	4,480	4,547	4,482	4,353	0.8	1.5	-1.4	-2.9	5.5	6.6	3.7	2.3
Total bank liabilities	63,079	63,117	63,978	63,844	-0.3	0.1	1.4	-0.2	4.2	4.4	4.5	3.7
Total deposits	48,032	47,772	48,244	47,722	0.8	-0.5	1.0	-1.1	4.7	4.6	5.0	3.8
Private sector deposits	38,212	38,165	37,837	37,332	0.6	-0.1	-0.9	-1.3	4.8	4.3	4.0	3.0
Government deposits	7,809	7,621	7,884	7,943	4.4	-2.4	3.4	0.8	12.5	8.3	9.8	7.5
Interbank deposits	2,010	1,986	2,523	2,446	-7.4	-1.2	27.1	-3.1	-18.1	-3.9	6.5	3.9
Foreign liabilities	8,308	8,410	8,738	9,264	-7.5	1.2	3.9	6.0	5.2	5.7	5.3	6.4
Other liabilities	6,740	6,935	6,996	6,858	1.9	2.9	0.9	-2.0	-0.1	2.1	-0.2	-0.7
Shareholders' equity	9,458	9,485	9,520	9,487	0.2	0.3	0.4	-0.3	0.9	1.1	1.3	0.6

Source: Central Bank of Kuwait

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