

Kuwait: Robust household but weak business credit in 1Q2021

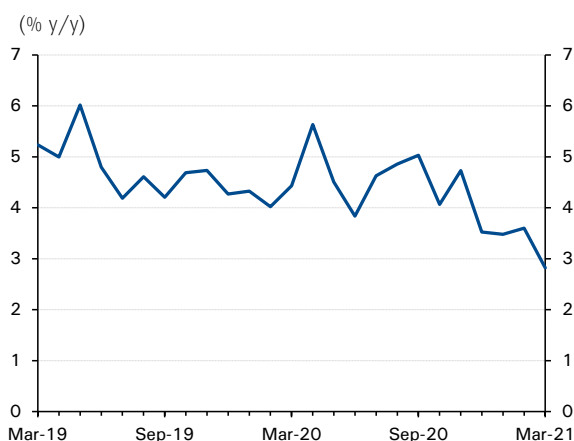
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Highlights

- Domestic credit started the year on a relatively weak note as it increased by 1% q/q, with y/y growth at 2.8% through March.
- Business credit continued to be muted, with y/y growth of just 0.6% by the end of March.
- Household credit remained robust growing by 8.1% y/y, the highest annual expansion in 4.5 years.
- Domestic deposit growth was weak in 1Q2021, driven by both private-sector deposits as well as government ones.
- The six-month deferral of household credit instalments of Kuwaiti borrowers, all else equal, is expected to strengthen even further the net growth of household credit.

Domestic credit started the year on a relatively weak note as it increased by 1% q/q, with y/y growth at 2.8% through March. For the third consecutive quarter, household lending was the main growth driver, while business credit remained muted. The pandemic-related uncertainty and disruptions continued to weigh on business lending so far this year. In addition, business lending was supported last year by the emergency tapping of credit lines, which expectedly is playing a less important role so far this year. On the other hand, ongoing high demand/resilient valuations in the residential real estate sector and robust consumer spending are supporting household lending growth, which has touched multi-year highs.

▶ **Chart 1: Credit to Residents**



Source: Central Bank of Kuwait

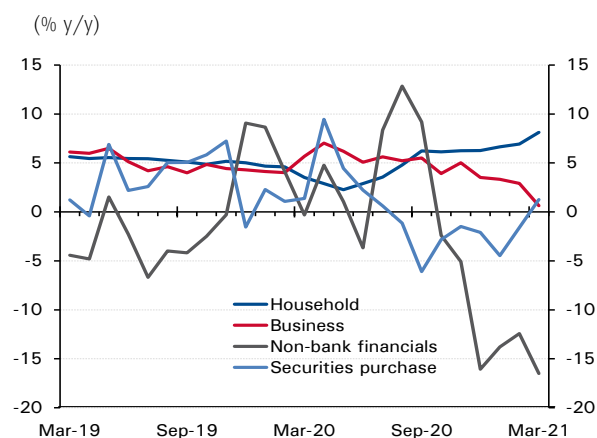
Business credit growth stood at just 0.6% y/y by the end of March 2021, impacted by very high growth in March of last year that was likely driven by emergency tapping of credit lines given the onset of the pandemic. Nevertheless, growth was resilient in some sectors, such as industry (+3.4% y/y) and oil/gas (+3.2%). On the other hand, credit to the trade sector continued to be

among the weakest since mid-2020, falling by 7.6% y/y through March. Credit to real estate, the sector's heavyweight, increased by 2% to account for around 43% of total business credit by the end of 1Q2021.

Household credit remained robust in 1Q2021, with y/y growth at 8.1% through March, the highest annual expansion in 4.5 years. This accelerating expansion was driven by housing loans, which increased by 8.7%. In contrast, personal consumption loans were broadly flat in 1Q2021 and y/y growth softened to 8.9%, likely impacted by the shrinking expatriate population.

Credit for securities purchase supported overall growth in 1Q2021 as it expanded by the fastest quarterly rate in 1.5 years. On the other hand, deleveraging by non-bank financial institutions continued in 1Q2021 with credit to that segment falling 16% y/y.

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



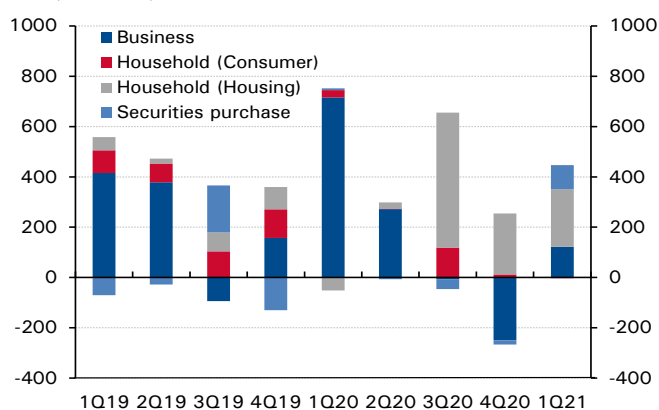
Source: Central Bank of Kuwait

Looking ahead, we still expect credit growth of around 4-5% in 2021. The six-month deferral of household credit instalments of Kuwaiti borrowers, all else equal, is expected to strengthen even

further the net growth of household credit, given that the deferral results in loans staying longer on banks' balance sheets. An improvement in the operating environment, including positive developments on the virus front, will likely support business credit growth, although lower projected emergency working-capital funding (a phenomenon witnessed strongly in 2020 given the pandemic) might be a drag on growth. The approval of the "loan guarantee" law, while positive for SMEs, is not expected to have a main impact on overall credit growth given its small size (capped at KD500 million), which represents only 1.2% of total outstanding domestic credit by the end of March. Finally, in an effort to continue supporting the banks and the overall economic recovery, the Central Bank of Kuwait (CBK) extended its relaxed capital adequacy and liquidity measures for an additional six months (until the end of June 2021).

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

(KD millions)



Source: Central Bank of Kuwait

Weak deposit growth in 1Q2021

Domestic deposit growth continued to be muted (+1% y/y), driven by both private-sector deposits as well as government ones. Private-sector deposits dropped (-2%) for the second quarter in a row, pressuring the y/y growth to just 1.9%. Government deposits were even weaker, falling by 8.2% (KD655 million) q/q, which may be related to the liquidity constraints that the government has been facing.

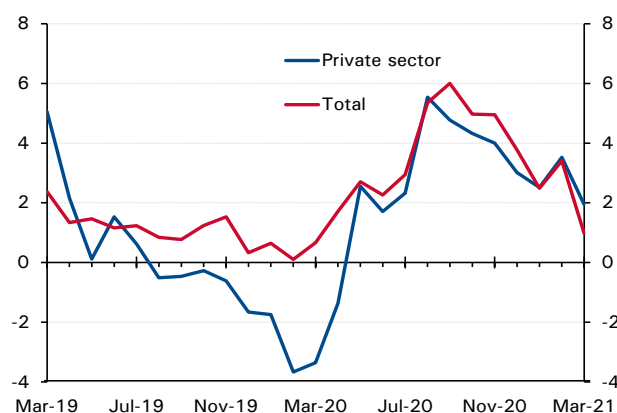
Looking at the breakdown of KD private sector deposits, however, shows a more favorable view for the banks with sight and savings accounts actually soaring by around 20% y/y, while the more expensive time deposits dropped by 9.5% y/y. The steep fall in interest rates and the deferral of credit instalments last year are two drivers for the changing composition of private sector deposits. Money supply (M2) broadly tracked private sector deposits, increasing by 1.9% y/y.

The weakness in domestic deposits so far this year was partially compensated by higher non-resident deposits, which have increased by 7.2% q/q, while the sector's simple loans-to-deposits ratio inched up to 90% by the end of 1Q2021 from 87% at the end of 2020. Finally, the deferral of household credit

instalments of Kuwaiti borrowers is expected to provide some support for the growth of private-sector deposits going forward.

Chart 4: Deposits from Residents

(% y/y)



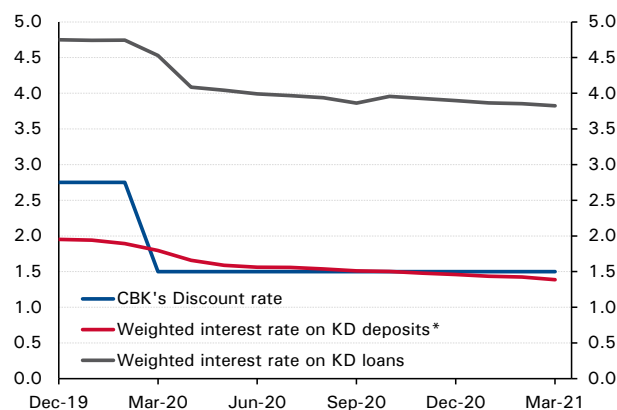
Source: Central Bank of Kuwait

Policy interest rates on hold

The CBK's discount rate has remained at 1.5% since March 2020 and will probably stay at that level for now given that the US Federal Reserve is unlikely to hike its policy rate anytime soon. Commercial interest rates (weighted averages as calculated by the CBK) on KD-denominated loans and deposits continue to very gradually trend lower after the relatively sharp decrease witnessed last year, partly reflecting, on the lending side, the ongoing downward repricing of household loan portfolios.

Chart 5: Interest rates

(%)



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

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Dec 20	Jan 21	Feb 21	Mar 21	Dec 20	Jan 21	Feb 21	Mar 21	Dec 20	Jan 21	Feb 21	Mar 21
Total system liquidity (M2)	39,567	39,288	38,950	38,745	-1.3	-0.7	-0.9	-0.5	3.8	3.2	4.1	1.9
Currency in circulation	2,235	2,168	2,176	2,149	0.2	-3.0	0.4	-1.2	18.2	17.4	14.3	1.1
Private sector deposits	37,332	37,120	36,775	36,596	-1.3	-0.6	-0.9	-0.5	3.0	2.5	3.5	1.9
KD deposits	35,273	35,005	34,710	34,606	-1.0	-0.8	-0.8	-0.3	4.6	4.2	4.2	3.3
Sight deposits	10,540	10,580	10,606	10,949	1.1	0.4	0.3	3.2	22.6	23.8	23.5	17.1
Savings deposits	6,430	6,563	6,552	6,609	0.9	2.1	-0.2	0.9	25.8	25.7	24.7	24.1
Time deposits & CDs	18,303	17,862	17,552	17,048	-2.8	-2.4	-1.7	-2.9	-8.5	-9.8	-9.8	-9.5
Foreign currency deposits	2,059	2,115	2,065	1,990	-6.2	2.7	-2.4	-3.6	-18.7	-19.6	-7.1	-16.6

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

	KD millions				% m/m				% y/y			
	Dec 20	Jan 21	Feb 21	Mar 21	Dec 20	Jan 21	Feb 21	Mar 21	Dec 20	Jan 21	Feb 21	Mar 21
Total bank assets	73,331	73,563	73,735	73,897	-0.2	0.3	0.2	0.2	3.3	3.1	2.8	1.5
Core liquid assets	8,890	8,455	8,397	7,721	2.1	-4.9	-0.7	-8.1	30.3	20.7	20.2	14.9
Cash and CBK deposits	3,225	2,925	3,333	3,307	3.4	-9.3	13.9	-0.8	74.2	47.6	-17.0	47.4
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	2,700	2,566	2,100	1,450	2.9	-5.0	-18.2	-31.0	35.0	25.2	n/m	-3.7
Public debt instruments	1,348	1,347	1,340	1,346	-0.2	-0.1	-0.5	0.4	-43.1	-38.0	-35.4	-32.8
Interbank deposits	2,515	2,683	2,520	2,895	-0.7	6.7	-6.1	14.9	1.9	8.8	-7.8	-13.6
Credit facilities	39,782	39,917	40,019	40,181	-0.7	0.3	0.3	0.4	3.5	3.5	3.6	2.8
Foreign assets	16,443	16,740	16,790	17,284	0.5	1.8	0.3	2.9	-1.4	-1.1	-0.4	0.0
Other assets	4,353	4,422	4,669	4,470	-2.9	1.6	5.6	-4.3	2.3	5.1	5.5	3.1
Total bank liabilities	63,844	64,082	64,145	64,293	-0.2	0.4	0.1	0.2	3.7	3.6	3.2	1.4
Total deposits	47,722	47,353	46,714	46,716	-1.1	-0.8	-1.3	0.0	3.8	2.9	2.9	0.0
Private sector deposits	37,332	37,120	36,775	36,596	-1.3	-0.6	-0.9	-0.5	3.0	2.5	3.5	1.9
Government deposits	7,943	7,609	7,477	7,288	0.8	-4.2	-1.7	-2.5	7.5	2.4	2.8	-3.6
Interbank deposits	2,446	2,624	2,463	2,832	-3.1	7.2	-6.1	15.0	3.9	11.5	-6.1	-12.8
Foreign liabilities	9,264	9,720	10,371	10,884	6.0	4.9	6.7	4.9	6.4	8.2	6.4	9.3
Other liabilities	6,858	7,010	7,061	6,694	-2.0	2.2	0.7	-5.2	-0.7	2.3	0.7	-1.0
Shareholders' equity	9,487	9,481	9,590	9,604	-0.3	-0.1	1.1	0.1	0.6	-0.3	0.7	2.7

Source: Central Bank of Kuwait

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