Monetary developments

Kuwait: Credit growth improved to 3.6% in March on a solid monthly gain

Credit growth improved further in March, with the month seeing a strong increase in outstanding loans. Growth rose to 3.6% year-on-year (y/y), on a monthly gain of KD 488 million. Gains were seen across a number of sectors including oil & gas, real estate and households. (Chart 1.) Private deposits also saw a large increase in March, as most banks paid out cash dividends. Interest rates moved slightly higher during March, in line with the CBK’s rate hike, though liquidity appeared to improve.

Household lending was relatively strong in March, though growth remained steady. The sector saw a gain of KD 83 million, with growth largely unchanged at 6.7% y/y. (Chart 2.) Growth came from installment loans, which grew by 8.2% y/y.

Lending to nonbank financial companies was mostly flat in March, but the sector returned to seeing contracting growth. Loans for the sector were up KD 6 million, but credit was down by 2.8% y/y on basis effects. (Chart 2.)

Business credit (all remaining credit) rose by KD 488 million, with growth improving to 2.4% y/y. (Chart 2.) The largest increase was in loans for the purchase of securities, which saw their usual end-of-quarter rise, increasing by KD 183 million. Gains were also seen in oil & gas, real estate and trade sectors. Meanwhile, industry and construction saw declines in loan balances during the month.

Credit growth in “productive” business sectors continued to improve, reflecting the robust progress in Kuwait’s projects pipeline. Business credit excluding real estate and securities lending accelerated to a robust 9.6% y/y after averaging 10% growth in 2016. The oil & gas and construction sectors have been the two largest sources of this growth over the last year.

Private deposits rose strongly in March, as a result of the seasonal payment of bank dividends during the month. Deposits rose by KD 1.1 billion on gains in KD deposits. Sight and time deposits accounted for the bulk of the gains, though savings were also up. Meanwhile, foreign currency deposits saw a second month of declines falling by KD 37 million.

Money supply growth remained lackluster despite the strong gains in deposits. While the strong rise in sight deposits pushed M1 money supply growth up to 6.7%, M2 growth slipped to 0.7% on basis effects. Government deposits also rose in March, adding KD 136 million, with growth remaining steady at 15% y/y. (Chart 3.)

Banking system liquidity increased in March. Bank reserves (cash, deposits with the CBK, and CBK bonds) added KD 554 million to reach KD 5.2 billion or 8.4% of total bank assets (Chart 4). The government continued to tap bank liquidity to finance part of the deficit through the issuance of domestic bonds. Outstanding domestic public debt instruments (PDIs) rose by KD 50 million during March to KD 3.8 billion, to
an estimated 11% of GDP.

The increase in banking system liquidity coincided with Kuwait issuing its first international bond in March. The debt sale raised $8 billion (KD 2.44 billion) at a pricing superior to other GCC sovereigns. Two tranches were offered, with $3.5 billion in a 5-year at 75 bps over equivalent US Treasuries (2.88%) and $4.5 billion in a 10-year at 100 bps over Treasuries (3.62%). The spread was below Abu Dhabi’s, which until now had been considered the “gold standard” in the GCC. On the secondary market, the USD bond yields have tightened somewhat since.

Interest rates moved slightly higher in March, steadily pricing in the CBK’s 25 basis point March rate hike. (Chart 5) The 3-month and 6-month interbank rates were up between 5-6 basis points each. Customer deposit rates were also up, with rates on all maturities higher by 6-10 basis points.

### Table 1: Monetary indicators

<table>
<thead>
<tr>
<th>Mar-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>36,704</td>
<td>970</td>
<td>2.7</td>
</tr>
<tr>
<td>Currency in circulation</td>
<td>1,646</td>
<td>31</td>
<td>1.9</td>
</tr>
<tr>
<td>KD deposits</td>
<td>32,209</td>
<td>976</td>
<td>3.1</td>
</tr>
<tr>
<td>Sight deposits</td>
<td>8,663</td>
<td>480</td>
<td>5.9</td>
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<tr>
<td>Savings deposits</td>
<td>4,790</td>
<td>55</td>
<td>1.2</td>
</tr>
<tr>
<td>Time deposits &amp; CDs</td>
<td>18,756</td>
<td>441</td>
<td>2.4</td>
</tr>
<tr>
<td>Foreign currency deposits</td>
<td>2,849</td>
<td>-37</td>
<td>-1.3</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kuwait

### Table 2: Consolidated bank balance sheets

<table>
<thead>
<tr>
<th>Mar-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>61,958</td>
<td>1,252</td>
<td>2.1</td>
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<tr>
<td>Core liquid assets</td>
<td>5,190</td>
<td>554</td>
<td>12.0</td>
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<tr>
<td>Cash and CBK deposits</td>
<td>1,233</td>
<td>118</td>
<td>10.5</td>
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<tr>
<td>CBK bonds</td>
<td>2,820</td>
<td>-126</td>
<td>-4.3</td>
</tr>
<tr>
<td>Time deposits with CBK</td>
<td>1,137</td>
<td>563</td>
<td>98.1</td>
</tr>
<tr>
<td>Public debt instruments</td>
<td>3,847</td>
<td>57</td>
<td>1.5</td>
</tr>
<tr>
<td>Interbank deposits</td>
<td>1,391</td>
<td>201</td>
<td>16.9</td>
</tr>
<tr>
<td>Credit facilities</td>
<td>34,888</td>
<td>488</td>
<td>1.4</td>
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<tr>
<td>Foreign assets</td>
<td>12,747</td>
<td>-142</td>
<td>-1.1</td>
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<tr>
<td>Other assets</td>
<td>3,895</td>
<td>94</td>
<td>2.5</td>
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<tr>
<td>Total bank liabilities</td>
<td>53,712</td>
<td>1,097</td>
<td>2.1</td>
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<tr>
<td>Total deposits</td>
<td>41,944</td>
<td>1,075</td>
<td>2.6</td>
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<tr>
<td>Private sector deposits</td>
<td>35,058</td>
<td>939</td>
<td>2.8</td>
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<tr>
<td>Government deposits</td>
<td>6,886</td>
<td>136</td>
<td>2.0</td>
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<tr>
<td>Interbank deposits</td>
<td>1,370</td>
<td>220</td>
<td>19.1</td>
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<tr>
<td>Foreign liabilities</td>
<td>4,742</td>
<td>51</td>
<td>1.1</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>5,656</td>
<td>-249</td>
<td>-4.2</td>
</tr>
<tr>
<td>Shareholder equity</td>
<td>8,246</td>
<td>155</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kuwait

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**Chart 4: Bank reserves**

(%) of bank assets

**Chart 5: Interbank rates**

(%, 3-month rates, daily)

**Chart 6: Exchange rates**

Source: Thomson Reuters Datastream, Central Bank of Kuwait

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