

Monetary developments

Kuwait: Credit growth at 3.5% in July, as month sees some weakness

> Nembr Kanafani

Senior Economist

+965 2259 5365, nemrkanafani@nbk.com

> Chaker El Mostafa

Economist

+965 2259 5356, chakermostafa@nbk.com

Credit was down in July, with growth slowing slightly to 3.5% year-on-year (y/y). The month saw a net decline of KD 143 million in credit. Most of the weakness in July was from the regular start-of-quarter drop in securities lending, though there was also some softness in other business sectors. By contrast, lending to the real estate sector and households was robust. Private deposits were down, while rates climbed.

Household lending was strong in July, with growth accelerating to 7.2% y/y. Personal facilities excluding securities lending added a net KD 119 million during the month, though this followed a flat month. The gains continued to come from installment loans, while consumer loans were off, contracting by 5.3% y/y.

Business credit (excluding nonbanks) dropped by KD 281 million, with growth falling to 1.8% y/y. The largest decline was in lending for the purchase of securities, which dropped by KD 211 million; this followed a similar increase the month before, part of a regular quarterly pattern. But there was also weakness elsewhere. The construction and oil & gas sectors saw noticeable declines, with the former contracting by 5.7% y/y. Most other sectors were flattish. As a result, growth in “productive” business sectors (excluding real estate and securities lending), which had been quite strong, slowed to 4.4% y/y, though this is also due to some base effects.

Meanwhile, real estate sector credit continued to recover in July. The sector, which had seen its borrowing contract by 3.6% during 2016, has recorded positive credit growth thus far in 2017. Year-to-date, lending to the sector has grown by an annualized 8.1%. The July gain, at KD 109 million, was the largest monthly gain thus far this year. This coincides with some stabilization in the real estate market.

Private deposits declined in July, though once again this was partially offset by a rise in government deposits. Private deposits fell by KD 252 million, most of it from a decline in foreign currency deposits. KD sight and savings deposits were also down, though gains in KD time deposits offset some of that. Money supply (M2) growth benefited from some base effects but remained subdued at 1.2% y/y. M1 growth was stronger at 7.1% y/y. Government deposits rose by KD 113 million, but growth slowed nonetheless to 6.4% y/y due to base effects.

The banking system’s liquid reserves, or “excess liquidity”, was steady in July at 7.5% of bank assets. Bank reserves (cash, deposits with the CBK, and CBK bonds) increased by KD 62 million to KD 4.7 billion (Chart 4). This coincided with KD 200 million in net issuance of public debt. This increased outstanding domestic public debt instruments (PDIs) to KD 4.17 billion, or an estimated 11% of GDP.

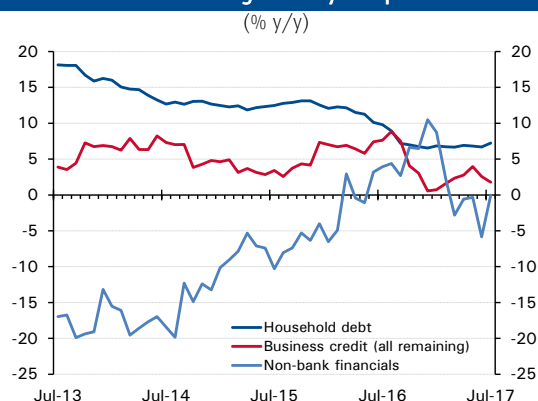
Domestic interest rates rose in July in line with June’s increase of the overnight repo rate by 25 basis points. The 3-month interbank rate was up 9 basis points in July (Chart 5); rates have been mostly steady since. Customer deposit rates also moved up by 7-16 bps during the month. They are now up by 36-48 bps since December 2016.

Chart 1: Credit growth



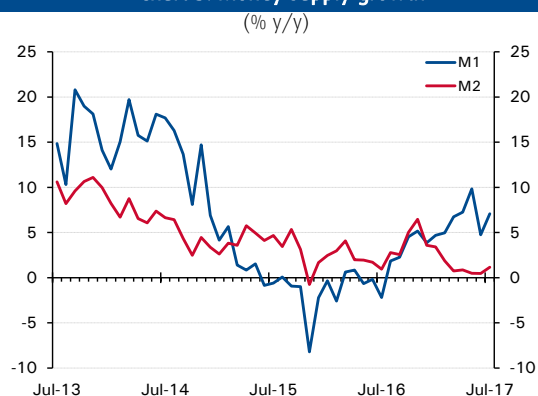
Source: Central Bank of Kuwait

Chart 2: Credit growth by component



Source: Central Bank of Kuwait

Chart 3: Money supply growth



Source: Central Bank of Kuwait

Table 1: Monetary indicators

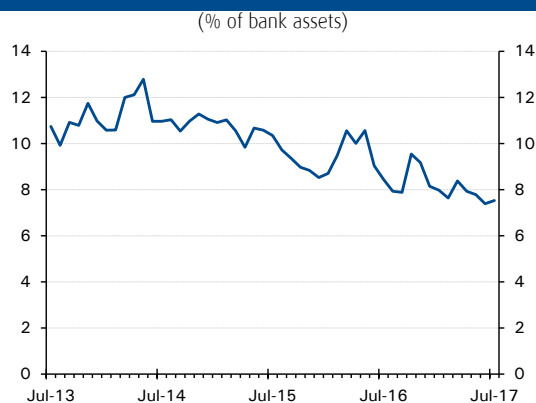
	Jul-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total system liquidity (M2)	35,972	-530	-1.5	-430	-1.2	411	1.2	
Currency in circulation	1,624	-278	-14.6	-56	-3.3	71	4.5	
Private sector deposits	34,348	-252	-0.7	-374	-1.1	341	1.0	
KD deposits	32,060	-79	-0.2	34	0.1	1,406	4.6	
Sight deposits	8,343	-99	-1.2	-152	-1.8	588	7.6	
Savings deposits	4,847	-26	-0.5	10	0.2	195	4.2	
Time deposits & CDs	18,871	46	0.2	176	0.9	623	3.4	
Foreign currency deposits	2,288	-173	-7.0	-408	-15.1	-1,065	-31.8	

Source: Central Bank of Kuwait

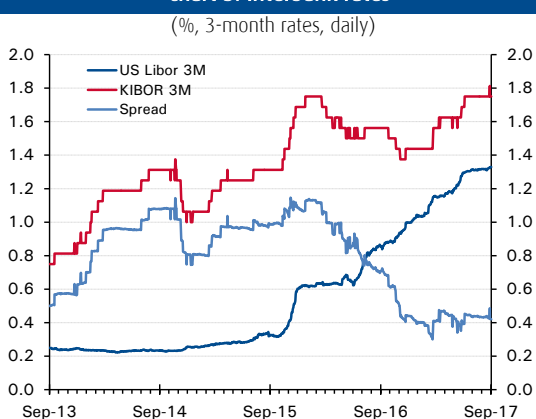
Table 2: Consolidated bank balance sheets

	Jul-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total bank assets	62,264	-324	-0.5	1,192	2.0	2,995	5.1	
Core liquid assets	4,687	62	1.3	-154	-3.2	-322	-6.4	
Cash and CBK deposits	689	-134	-16.2	-325	-32.1	-335	-32.7	
CBK bonds	3,182	61	1.9	306	10.7	-233	-6.8	
Time deposits with CBK	815	135	19.8	-135	-14.2	246	43.2	
Public debt instruments	4,197	202	5.0	52	1.2	1,649	64.7	
Interbank deposits	1,303	-430	-24.8	211	19.3	-292	-18.3	
Credit facilities	35,399	-143	-0.4	525	1.5	1,196	3.5	
Foreign assets	12,799	-7	-0.1	644	5.3	507	4.1	
Other assets	3,880	-8	-0.2	-86	-2.2	257	7.1	
Total bank liabilities	53,974	-348	-0.6	1,152	2.2	2,736	5.3	
Total deposits	42,701	-544	-1.3	187	0.4	490	1.2	
Private sector deposits	34,348	-252	-0.7	-374	-1.1	341	1.0	
Government deposits	7,105	113	1.6	364	5.4	430	6.4	
Interbank deposits	1,248	-406	-24.5	197	18.7	-280	-18.3	
Foreign liabilities	5,200	54	1.0	617	13.4	1,574	43.4	
Other liabilities	6,074	142	2.4	-37	-0.6	1,931	46.6	
Shareholder equity	8,290	24	0.3	40	0.5	259	3.2	

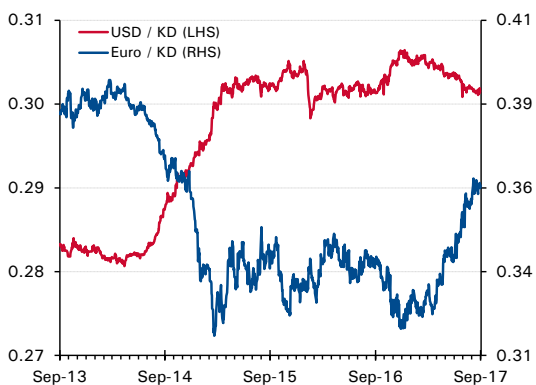
Source: Central Bank of Kuwait

Chart 4: Bank reserves


Source: Central Bank of Kuwait

Chart 5: Interbank rates


Source: Thomson Reuters Eikon, Central Bank of Kuwait

Chart 6: Exchange rates


Source: Thomson Reuters Eikon

Head Office

Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353