

Monetary developments

Kuwait: Credit growth steady at 3.1% in Jan, as month sees small decline

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Credit growth was steady in January, though the month saw a small decline in outstanding loans. Growth came in at 3.1% year-on-year (y/y), with outstanding credit down KD 73 million. The monthly weakness was largely due to the usual quarterly drop in lending for the purchase of securities as well as a decline in borrowing by investment companies (nonbanks). Meanwhile, household lending and business credit did relatively well. Private deposits were down, though they were largely offset by an increase in government deposits. Interest rates edged higher following December's rate hike.

Household lending did better than usual with a monthly gain of KD 84 million. Still, growth remained subdued at 6.9% y/y compared to growth exceeding 12% a year ago. Installment loans continued to stand out as the sector's primary driver, adding KD 81 million in January and growing by 8.3% y/y.

Lending to nonbank financial companies and for the purchase of securities saw noticeable drops. Nonbank credit fell by KD 74 million, though the sector continued to see healthy growth of 8.7% y/y (Chart 2). Meanwhile, lending for the purchase of securities witnessed the usual drop that takes place during the first month of the quarter and which generally offsets a similar increase the month before. Credit to this segment fell by KD 212 million during the month and is now down by 11.3% y/y.

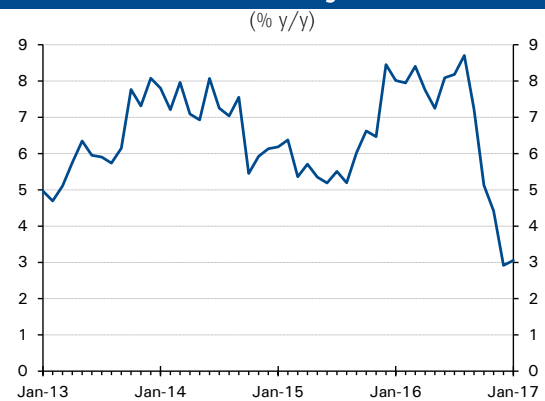
Business credit recorded its best performance in six months, with a gain of KD 129 million and growth improving to 2.8% y/y. Gains were largely in the trade, oil & gas and construction sectors. Real estate was the only sector to see a drop in outstanding credit.

Private deposits were down in January, though once again mostly offset by a rise in government deposits. Broad M2 money supply growth slipped to 2.9% y/y, though growth in the narrower M1 improved to 2.9% y/y on basis effects. The drop in deposits was in KD time which fell by KD 301 million, though this was offset by gains in KD sight, savings and foreign currency deposits. Meanwhile, government deposits rose by KD 159 million, with growth accelerating to 18% y/y.

Banking system liquidity was steady at healthy levels in January. Bank reserves (cash, deposits with the CBK, and CBK bonds) lost KD 115 million to reach KD 4.8 billion or 8.0% of total bank assets (Chart 4). This coincided with the government continuing to tap bank liquidity through issuance of domestic bonds; outstanding domestic public debt instruments (PDIs) rose by KD 250 million during January to KD 3.5 billion or an estimated 10.4% of GDP.

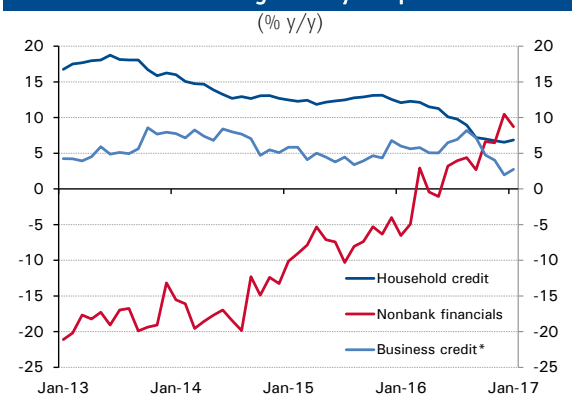
Interest rates edged slightly higher in January, though they have yet to fully reflect the December hike in the CBK policy rate. The 3-month Kuwait interbank offered rate (Kibor) edged up 4 basis points in January to 1.44% and has held steady since (Chart 5). Customer KD deposit rates, however, seem to have been affected, with increases between 9 and 13 basis points observed across the board.

Chart 1: Credit growth



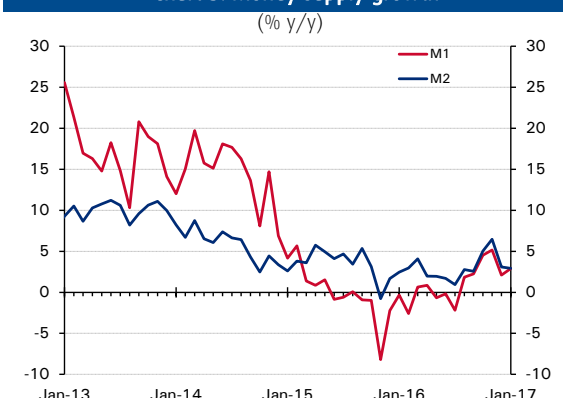
Source: Central Bank of Kuwait

Chart 2: Credit growth by component



Source: CBK; *Excl. loans to nonbanks and for the purchase of securities.

Chart 3: Money supply growth



Source: Central Bank of Kuwait

More recently, the CBK hiked its key policy rate following the much anticipated interest rate hike by the US Fed. The discount rate was raised by 25 basis points effective 16 March to 2.75%. The move ensures the CBK policy rate maintains a spread to the US federal funds rate target of 1.75%, which is in line with the historic spread between the two rates and helps stave off outflows that could pressure the dinar's peg to a basket of major currencies.

Table 1: Monetary indicators

	Jan-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total system liquidity (M2)	35,335	-278	-0.8	-298	-0.8	1,005	2.9	
Currency in circulation	1,567	-78	-4.8	-34	-2.1	135	9.4	
Private sector deposits	33,768	-199	-0.6	-265	-0.8	870	2.6	
KD deposits	30,815	-230	-0.7	-361	-1.2	1,453	4.9	
Sight deposits	7,990	46	0.6	150	1.9	135	1.7	
Savings deposits	4,677	25	0.5	28	0.6	30	0.6	
Time deposits & CDs	18,148	-301	-1.6	-539	-2.9	1,288	7.6	
Foreign currency deposits	2,953	31	1.1	96	3.4	-583	-16.5	

Source: Central Bank of Kuwait

Table 2: Consolidated bank balance sheets

	Jan-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total bank assets	60,275	-168	-0.3	226	0.4	2,153	3.7	
Core liquid assets	4,806	-115	-2.3	-926	-16.2	-252	-5.0	
Cash and CBK deposits	1,181	2	0.2	-248	-17.3	246	26.3	
CBK bonds	2,972	-70	-2.3	-146	-4.7	1,097	58.5	
Time deposits with CBK	654	-47	-6.7	-532	-44.9	-1,594	-70.9	
Public debt instruments	3,539	252	7.7	555	18.6	1,959	124.0	
Interbank deposits	1,313	-144	-9.9	35	2.7	-894	-40.5	
Credit facilities	34,234	-73	-0.2	184	0.5	1,016	3.1	
Foreign assets	12,607	-61	-0.5	196	1.6	119	1.0	
Other assets	3,776	-27	-0.7	182	5.1	205	5.7	
Total bank liabilities	52,237	-251	-0.5	210	0.4	1,880	3.7	
Total deposits	40,606	-40	-0.1	-147	-0.4	1,931	5.0	
Private sector deposits	33,768	-199	-0.6	-265	-0.8	870	2.6	
Government deposits	6,838	159	2.4	118	1.8	1,061	18.4	
Interbank deposits	1,254	-168	-11.8	42	3.5	-805	-39.1	
Foreign liabilities	4,370	6	0.1	95	2.2	-389	-8.2	
Other liabilities	6,008	-49	-0.8	219	3.8	1,143	23.5	
Shareholder equity	8,038	83	1.0	15	0.2	273	3.5	

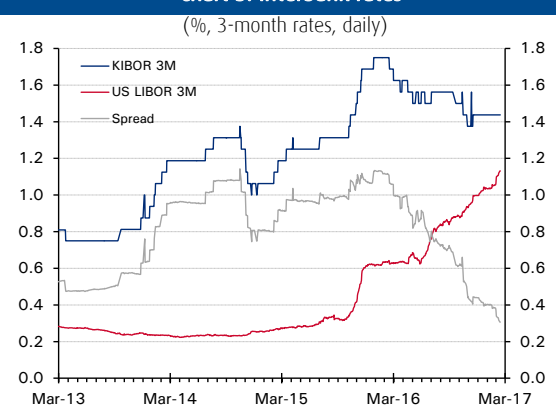
Source: Central Bank of Kuwait

Chart 4: Bank reserves



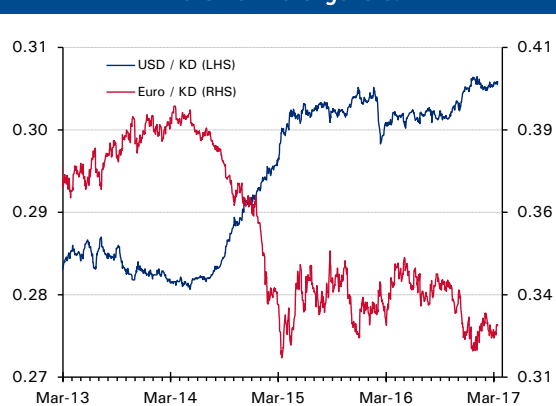
Source: Central Bank of Kuwait

Chart 5: Interbank rates



Source: Thomson Reuters Datastream, Central Bank of Kuwait

Chart 6: Exchange rates



Source: Thomson Reuters Datastream

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