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Economic Update

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Monetary developments

Kuwait: Credit growth decelerated in Q3, cutting y/y growth to 9.1%

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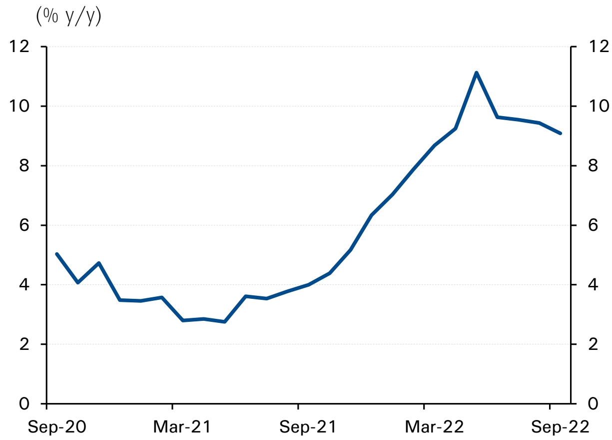
Highlights

- **Domestic credit growth softened in 3Q2022 (+1.7%), cutting the y/y increase to 9.1% through September.**
- **Business credit expansion weakened to 0.7% q/q, translating into y/y growth of 6.8% through September.**
- **Household credit growth remained robust though decelerated compared with Q2, with the y/y expansion at 11.3%.**
- **Domestic deposits dropped in Q3, cutting the y/y increase to 5.3% through September.**
- **Going into 2023, we expect credit growth to soften compared with 2022 though remaining robust at around 5% to 6%.**
- **Higher interest rates and a weaker global macroeconomic backdrop are factors pressuring credit growth going forward, while ongoing elevated oil prices, robust credit demand from households, and a likely improvement in project awards are supporting factors.**

Domestic credit growth softened to 1.7% in 3Q2022, cutting the y/y increase to 9.1% through September. In line with expectations, business credit growth weakened, while household loan expansion remained robust, though decelerated compared with 2Q2022. On a YTD basis, credit growth reached 6.8%, surpassing the increase (+6.3%) seen in all of 2021.

Chart 1: Growth in Credit to Residents

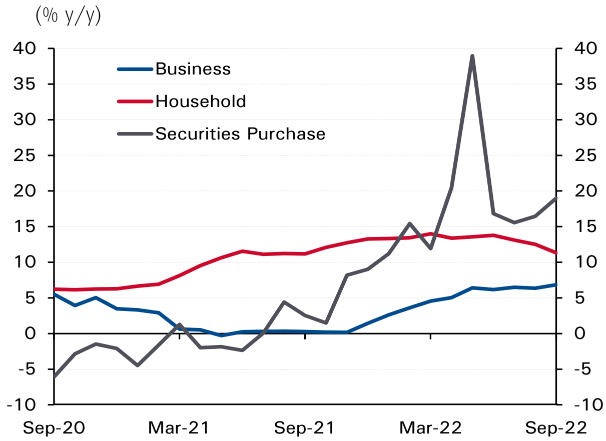


Source: Central Bank of Kuwait; slight change in data series starting August 2021 but with no major impact on historical y/y growth rates

Business credit expanded by a relatively weak 0.7% q/q, down from 2.5% in Q2, resulting in a y/y increase of 6.8% through September. Underlying growth was even softer as most sectors dropped or were broadly flat in Q3, while only one category, the "other", drove most of the increase in business credit in Q3. That category, which accounts for around 15% of total outstanding business credit, surged by 8.3% q/q. In contrast, the trade sector was the weakest, dropping by 3.5% q/q after expanding strongly in the first half. From a y/y perspective, the "other" category (+13.4%) and the construction sector (+9.7%) are in the lead. Going into 2023, given higher interest rates and a weaker global economy, we expect slower business credit growth than the multi-year high seen in 2022, though growth should remain decent by historical standards on the back of elevated oil prices, ongoing post-pandemic recovery, and a likely improvement in project awards, which have been very weak this year.

Household credit growth remained robust (+2.1% q/q) though softened compared with Q2 (+3%), with the y/y expansion at 11.3% through September. This strong growth was driven by both housing loans (+12% y/y) and personal consumption loans (+9.1%). Household credit growth continues to be supported by robust demand/high valuations in the residential real estate sector and the strong price competition (often at zero interest rate lending) among the banks to attract new customers. Looking ahead, we expect household credit growth to remain solid though weaker than in 2022 on the back of higher interest rates, lower price competition among banks given the increasing cost of funds, and normalizing growth in consumer spending.

Chart 2: Growth in Credit to Residents by Sector

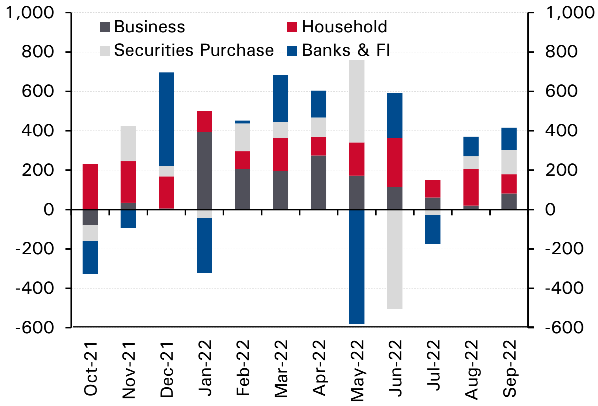


Source: Central Bank of Kuwait; slight change in data series starting August 2021 but with no major impact on historical y/y growth rates

In addition, lending for securities purchase supported credit growth in Q3 as it expanded by a solid 5.4% q/q (+19% y/y), accounting for 21% of the increase in total credit in the quarter.

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

(KD millions)



Source: Central Bank of Kuwait

Deposits decreased in Q3; CASA down, time deposits up

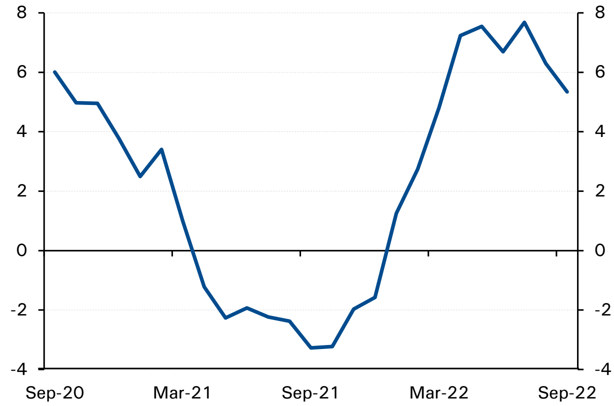
Meanwhile, domestic deposit growth was very weak in Q3 with deposits actually dropping by 0.5% q/q, cutting the y/y increase to 5.3% through September. The drop in Q3 was driven by both private-sector deposits as well as public-institution deposits with their y/y growth standing at 4.2% and -0.6%, respectively. In contrast, likely driven by elevated oil prices, government deposits continued to expand strongly as they surged by 12.4% q/q, driving y/y growth to a whopping 35% (KD 976 million). By the end of September, out of total resident deposits (KD 46.9 billion) private-sector deposits accounted for 77%, public-institution deposits 15%, and government deposits 8%.

In line with expectations, among KD private-sector deposits, time deposits increased at a much faster rate than current and saving accounts (CASA). In fact, CASA dropped for three consecutive months, falling a steep 5% in Q3, while time deposits increased 3.7%. From a YTD perspective, time deposits are up by nearly 10%, while CASA have decreased slightly (-0.3%). By the end of September, among private-sector deposits, CASA accounted for 48% of the total, time deposits 47%, and foreign-currency deposits less than 5%. Looking ahead, given ongoing higher deposit interest rates, the growth in time deposits will most likely continue to outstrip that of CASA.

Finally, the domestic loans-to-deposits ratio increased to around 99% in September from close to 97% in June, reflecting the tighter liquidity situation.

Chart 4: Growth in Deposits from Residents

(% y/y)



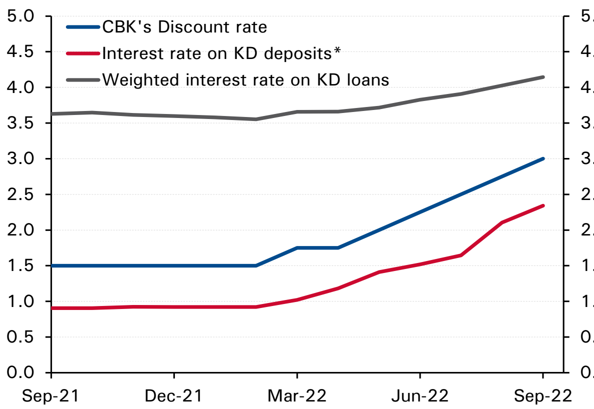
Source: Central Bank of Kuwait

Deposit rates set to increase further

The Central Bank of Kuwait (CBK) has hiked the discount rate by a cumulative 1.5% (six times of 25bps each) so far this year, much less than the cumulative 3.75% hike by the US Federal Reserve (Fed). However, so far this year deposit rates in Kuwait have generally risen more than the increase in the discount rate. The Fed will still be hiking rates in the remainder of the year and into 2023, and the futures market currently reflects an additional 1.25% rise in rates by March 2023. Accordingly, whether the CBK increases the discount rate or not, deposit rates in Kuwait will likely continue trending up in the short term.

Chart 5: Interest Rates in Kuwait

(%)



Source: Central Bank of Kuwait * typical one-month maturity deposit

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