

Economic Update

NBK Economic Research Department | 15 August 2022

Monetary developments

Kuwait: Solid second quarter drives up credit growth to 9.6% y/y

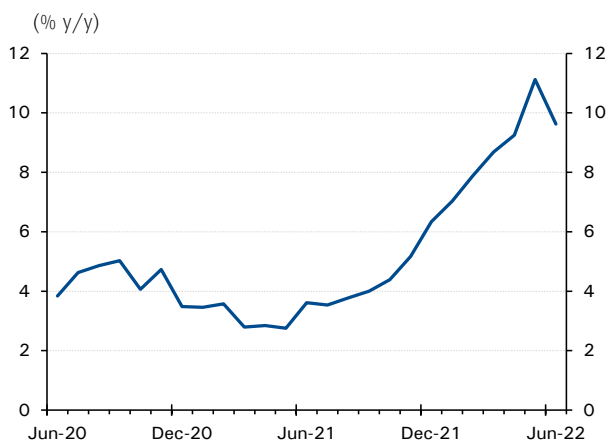
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Highlights

- Domestic credit growth remained solid in 2Q2022 (+2.3%), which drove the y/y increase to 9.6% through June.
- Business credit continued its recovery as it expanded by 2.4% in Q2, driving up y/y growth to 6.2% through June.
- Household credit growth strengthened compared with Q1 with the y/y expansion broadly steady at multi-year highs of around 14%.
- Private-sector deposit growth remained robust in Q2, pushing y/y growth to more than 7%.
- Looking ahead, credit growth will likely continue to be supported by elevated oil prices, pent-up demand for CAPEX by corporates and solid household credit demand. However, business credit growth will likely soften in the year's second half as has been the case historically.

Domestic credit remained solid in 2Q2022, increasing by 2.3% q/q, which drove the y/y increase to 9.6% through June. The recovery in business credit continued, while household loan growth remained very strong, even accelerating from 1Q2022. On a YTD basis, credit growth reached 5.7%, nearly matching the 6.3% expansion seen in all of 2021.

▶ Chart 1: Credit to Residents



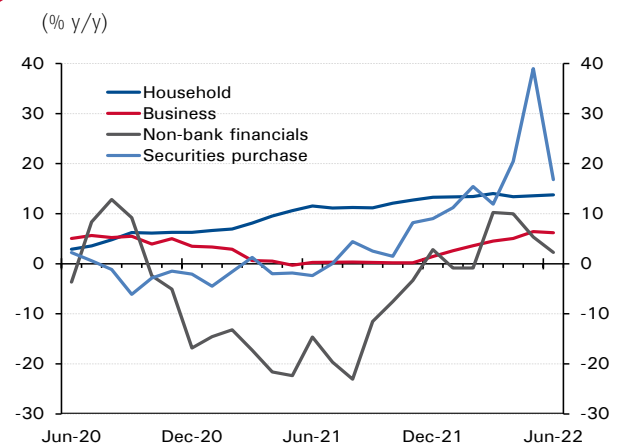
Source: Central Bank of Kuwait

Business credit expanded by a solid 2.4% q/q, albeit down from the fastest growth in at least 10 years in 1Q2022 (+3.7%), driving up the y/y increase to 6.2% through June. Business credit continues to benefit from the normalization of economic activities as pandemic-related restrictions were fully lifted, from pent-up demand for capital spending (CAPEX) given muted CAPEX by corporates since the outbreak of the pandemic, and from the improving operating environment in general. The trade sector, a main beneficiary from the normalization of business activities, was the fastest growing in Q2 at 6.1%, continuing its recovery that started in Q1 (+5.1%) after having dropped for six consecutive quarters before. In contrast, the oil/gas sector

witnessed its first quarterly drop after growing fast in the previous six quarters. From a y/y perspective, the industry (+12.9%) and the oil/gas (+8.9%) sectors remain in the lead.

Household credit growth (+3.1% q/q) strengthened compared with Q1 (+2.2%) with the y/y expansion broadly steady at multi-year highs of around 14% through June. This strong growth was driven by personal consumption loans as well as housing loans, as both rose by around 14% y/y. The ongoing robust demand/high valuations in the residential real estate sector, the continued solid consumer spending, and the various campaigns (sometimes at zero interest rate lending) launched by several banks to attract retail customers are some of the key factors behind this ongoing strong expansion in household lending. Moreover, given the broadly fixed-interest rate nature of household lending in Kuwait, and the upward trend in benchmark interest rates (locally and globally), it is possible that some borrowers are front-loading their borrowings in order to lock-in the lower rates.

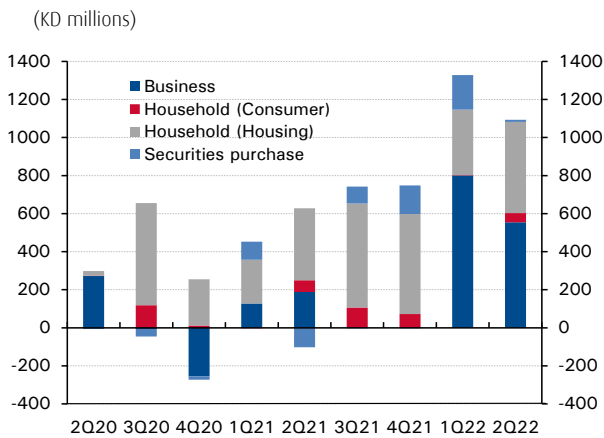
▶ Chart 2: Categories of Credit to Residents



Source: Central Bank of Kuwait

In addition to the factors mentioned above, credit growth will likely continue to be supported by the normalization of business activities, elevated oil prices giving a boost to confidence levels and a likely improvement in project awards, in addition to pent-up demand for CAPEX by corporates. On the other hand, higher interest rates, given the expected trajectory of benchmark rates globally and locally, may dampen growth to a certain extent, but we think the factors supporting growth, as mentioned above, will have a bigger impact. In addition, business credit growth will likely soften in the second half of the year as has been the case historically.

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



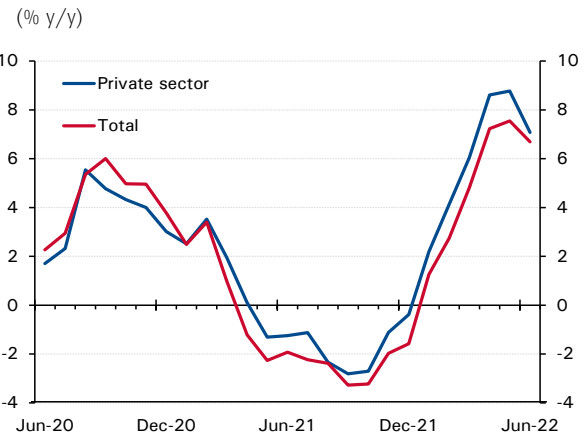
Source: Central Bank of Kuwait

Recovery in private-sector deposits continued

Meanwhile, domestic deposit growth remained strong in Q2, driving up the y/y increase to 6.7% through June. This was fully driven by private-sector deposits, which increased by 2.9% q/q, pushing y/y growth to 7.1%. Despite elevated oil prices, government deposits were flat in Q2 and are down by 2% YTD (+4.6% y/y).

Looking at the breakdown of KD private-sector deposits shows that current and saving accounts (CASA) increased at a much slower rate (1.4%) in Q2 than the more expensive time deposits (+3.5% q/q), with the latter now up by a solid 7.7% YTD. The increase in time deposits comes after three consecutive years of steady decrease, which resulted in a cumulative drop of 17% between end-2018 and end-2021. Looking ahead, given ongoing higher interest rates, the growth in time deposits will likely continue to outstrip that of CASA, reversing the trend that was at play for the past three years.

▶ **Chart 4: Deposits from Residents**

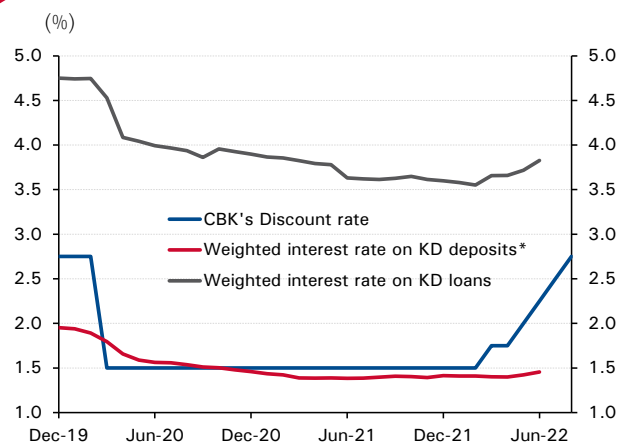


Source: Central Bank of Kuwait

Policy interest rates set to increase further

The Central Bank of Kuwait (CBK) has hiked the discount rate by a cumulative 1.25% (five times of 25bps each) so far this year, less than the cumulative 2.25% hike by the US Federal Reserve (Fed). Accordingly, the weighted average interest rate on loans, and to a lower extent on deposits, started going up as can be seen in chart 5. Given that the Fed will still be hiking rates in the remainder of the year, the discount rate in Kuwait should continue trending up, pushing loan yields and cost of funds higher.

▶ **Chart 5: Interest Rates**



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

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Mar 22	Apr 22	May 22	Jun 22	Mar 22	Apr 22	May 22	Jun 22	Mar 22	Apr 22	May 22	Jun 22
Total system liquidity (M2)	40,589	41,530	41,569	41,687	1.2	2.3	0.1	0.3	5.7	8.5	8.1	6.6
Currency in circulation	1,781	1,933	1,742	1,770	-1.9	8.5	-9.9	1.6	-1.7	6.2	-5.8	-2.5
Private sector deposits	38,808	39,597	39,827	39,917	1.3	2.0	0.6	0.2	6.0	8.6	8.8	7.1
KD deposits	36,384	36,940	37,151	37,272	1.8	1.5	0.6	0.3	5.1	7.3	7.4	6.7
Sight deposits	11,359	11,502	11,544	11,426	4.1	1.3	0.4	-1.0	3.8	6.2	5.2	2.7
Savings deposits	7,196	7,407	7,271	7,396	-0.5	2.9	-1.8	1.7	8.9	10.1	7.4	8.9
Time deposits & CDs	17,829	18,031	18,335	18,450	1.4	1.1	1.7	0.6	4.6	6.9	8.9	8.3
Foreign currency deposits	2,423	2,657	2,677	2,645	-5.6	9.6	0.7	-1.2	21.8	30.5	31.9	13.3

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

	KD millions				% m/m				% y/y			
	Mar 22	Apr 22	May 22	Jun 22	Mar 22	Apr 22	May 22	Jun 22	Mar 22	Apr 22	May 22	Jun 22
Total bank assets	80,076	82,182	83,198	81,805	1.4	2.6	1.2	-1.7	8.4	11.4	12.3	9.2
Core liquid assets	8,492	8,378	9,389	8,503	5.2	-1.3	12.1	-9.4	10.0	8.2	15.0	3.1
Cash and CBK deposits	3,037	3,123	3,001	2,234	-2.2	2.8	-3.9	-25.5	-8.2	-0.8	-1.2	-21.8
CBK bonds	2,964	2,965	3,067	3,068	0.0	0.0	3.4	0.0	0.0	0.0	3.5	3.5
Time deposits with CBK	2,490	2,290	3,321	3,201	24.5	-8.0	45.0	-3.6	71.7	40.5	53.7	31.7
Public debt instruments	740	737	736	734	-22.3	-0.4	-0.1	-0.2	-45.4	-41.6	-41.6	-42.1
Interbank deposits	3,569	3,944	3,262	3,755	9.7	10.5	-17.3	15.1	22.9	47.7	25.9	39.3
Credit facilities	43,658	44,108	44,831	44,679	1.1	1.0	1.6	-0.3	8.7	9.3	11.1	9.6
Foreign assets	18,504	19,575	19,359	18,747	0.9	5.8	-1.1	-3.2	7.0	14.4	12.8	9.9
Other assets	5,114	5,440	5,622	5,388	-1.4	6.4	3.3	-4.2	14.6	18.3	23.2	10.2
Total bank liabilities	70,104	72,134	73,240	71,627	1.3	2.9	1.5	-2.2	9.0	12.4	13.5	9.6
Total deposits	49,322	50,395	50,103	50,676	1.6	2.2	-0.6	1.1	5.6	9.2	8.4	8.3
Private sector deposits	38,808	39,597	39,827	39,917	1.3	2.0	0.6	0.2	6.0	8.6	8.8	7.1
Government deposits	7,189	7,101	7,179	7,191	0.3	-1.2	1.1	0.2	-1.4	0.1	1.2	4.6
Interbank deposits	3,326	3,697	3,097	3,568	8.1	11.1	-16.2	15.2	17.5	42.3	23.5	36.1
Foreign liabilities	12,915	13,860	13,628	13,064	3.7	7.3	-1.7	-4.1	17.7	24.2	18.7	16.6
Other liabilities	7,867	7,879	9,509	7,887	-3.9	0.2	20.7	-17.1	18.2	14.9	39.4	7.3
Shareholders' equity	9,972	10,048	9,958	10,178	1.9	0.8	-0.9	2.2	4.3	4.8	4.1	6.1

Source: Central Bank of Kuwait

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