

Monetary developments

Kuwait: Steady credit growth at 3.1% in September; 3Q17 closed weaker

> Nembr Kanafani

Head of Research

+965 2259 5365, nemrkanafani@nbk.com

> Chaker El Mostafa

Economist

+965 2259 5356, chakermostafa@nbk.com

A solid gain in credit was recorded in September, though 3Q17's overall performance was visibly weaker. Credit saw a net gain of KD 231 million on the month, with the number boosted by usual end-of-quarter gains. Growth, however, slipped to 3.1% year-on-year (y/y). Credit's performance for 3Q17 as a whole was underwhelming, registering at a quarterly annualized pace of 3.2%, compared to 7.3% for the first half of 2017. The bulk of September's gains came from lending for the purchase of securities. Private deposits saw a second month of strong gains, while interest rates held steady.

Household lending was subdued in September, though growth was steady at 7.4% y/y. Personal facilities excluding securities lending added a net KD 27 million during the month, well below its year-to-date average of KD 69 million. This followed a strong performance the previous month.

All remaining credit (excluding nonbanks) saw a relatively modest gain in September, though this was largely from the regular end-of-quarter jump in lending for the purchase of securities. Credit gained KD 206 million, with growth slipping to 1.3% y/y. Outside securities lending, there were some gains in trade and "other sectors", but these were offset by declines in real estate and construction.

While "productive" business sectors saw only a small gain during the month, growth in this segment remained relatively robust. Productive business credit, which excludes real estate and financial sector lending (i.e. lending to nonbanks and lending for securities), ticked up to 5.1% y/y. This figure continues to be held back by the large settlements made in 4Q16. Nonetheless, growth in "productive" sector credit thus far in 2017 averaged an annualized 10% compared to 5.9% for total credit.

Private deposits saw a second month of solid gains in September. Deposits rose by KD 358 million largely on the back of gains in KD time and KD sight deposits. Yet despite the pick-up, money supply (M2) growth slipped slightly to 2.5% y/y. Meanwhile, government deposits declined by KD 51 million, with growth easing further to 3.4% y/y.

The banking system's liquid reserves, or "excess liquidity", edged lower in September to 6.6% of bank assets. Bank reserves (cash, deposits with the CBK, and CBK bonds) decreased by KD 273 million to KD 4.2 billion (Chart 4). This coincided with KD 400 million in net issuance of public debt in September. This increased outstanding domestic public debt instruments (PDIs) to KD 4.97 billion, or an estimated 13% of GDP.

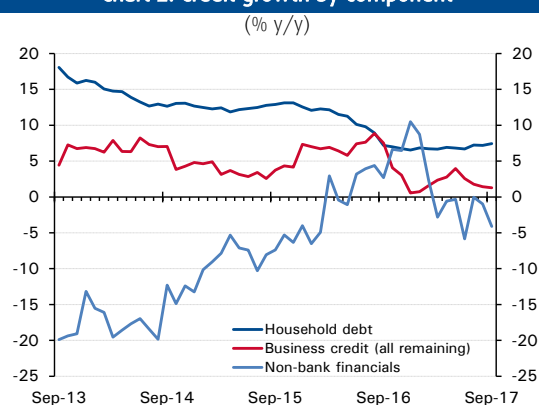
Domestic interest rates in September were little changed from August. The 3-month interbank rate edged up 2 basis points to settle at 1.76% (Chart 5), though rates have moved slightly higher since. Customer deposit rates were unchanged on the month.

Chart 1: Credit growth



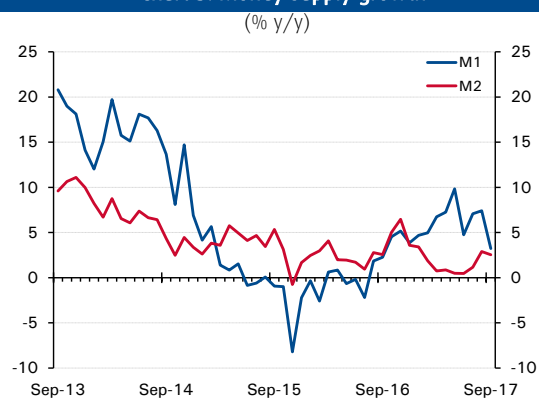
Source: Central Bank of Kuwait

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

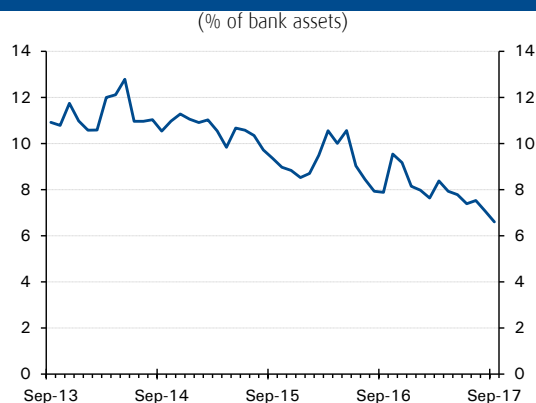
	1-month change		3-month change		12-month change		
	Sep-17	KD mn	%	KD mn	%	KD mn	%
Total system liquidity (M2)	36,563	250	0.7	62	0.2	904	2.5
Currency in circulation	1,618	-108	-6.2	-284	-14.9	89	5.8
Private sector deposits	34,945	358	1.0	346	1.0	815	2.4
KD deposits	32,422	323	1.0	282	0.9	1,435	4.6
Sight deposits	8,325	89	1.1	-117	-1.4	222	2.7
Savings deposits	4,787	-35	-0.7	-85	-1.7	168	3.6
Time deposits & CDs	19,310	269	1.4	484	2.6	1,044	5.7
Foreign currency deposits	2,524	34	1.4	64	2.6	-620	-19.7

Source: Central Bank of Kuwait

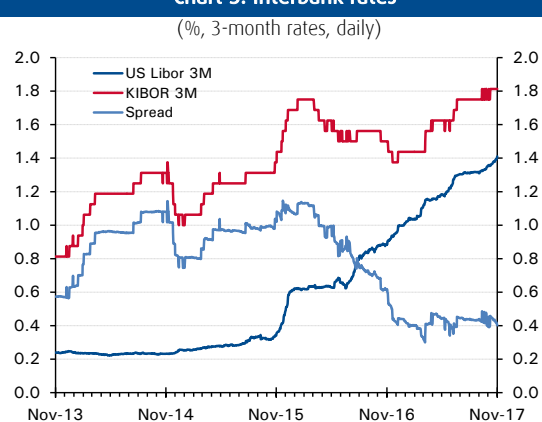
Table 2: Consolidated bank balance sheets

	1-month change		3-month change		12-month change		
	Sep-17	KD mn	%	KD mn	%	KD mn	%
Total bank assets	63,131	346	0.6	543	0.9	2,517	4.2
Core liquid assets	4,169	-273	-6.2	-456	-9.9	-610	-12.8
Cash and CBK deposits	797	7	0.9	-26	-3.1	-194	-19.6
CBK bonds	2,582	-401	-13.4	-540	-17.3	-506	-16.4
Time deposits with CBK	790	120	17.9	110	16.2	90	12.8
Public debt instruments	5,224	415	8.6	1,022	24.3	2,442	87.8
Interbank deposits	1,355	-182	-11.8	-377	-21.8	-360	-21.0
Credit facilities	35,823	231	0.6	282	0.8	1,072	3.1
Foreign assets	12,588	-32	-0.3	-218	-1.7	-391	-3.0
Other assets	3,972	187	4.9	291	7.9	364	10.1
Total bank liabilities	54,830	356	0.7	514	0.9	2,238	4.3
Total deposits	43,308	112	0.3	63	0.1	739	1.7
Private sector deposits	34,945	358	1.0	346	1.0	815	2.4
Government deposits	7,050	-51	-0.7	58	0.8	235	3.4
Interbank deposits	1,313	-195	-12.9	-340	-20.6	-311	-19.1
Foreign liabilities	5,260	170	3.3	114	2.2	1,058	25.2
Other liabilities	6,262	74	1.2	338	5.7	1,788	40.0
Shareholder equity	8,301	-10	-0.1	29	0.4	280	3.5

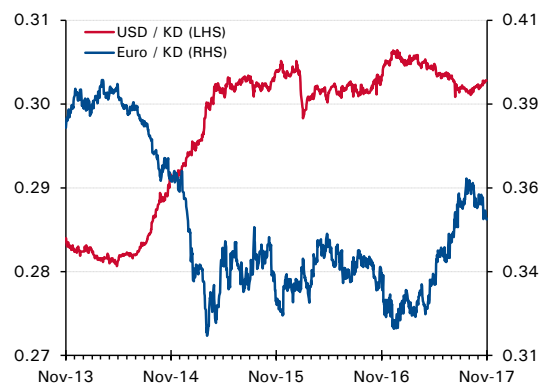
Source: Central Bank of Kuwait

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