

Kuwait: Household credit drives growth in Q3

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Highlights

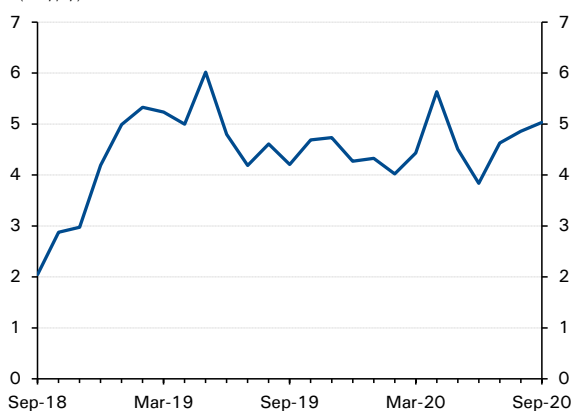
- Domestic credit growth strengthened to 1.7% q/q in Q3, pushing up the y/y increase to 5%.
- After being subdued in 1H2020, household credit rebounded by 4.7% q/q, pushing up y/y expansion to 6.2%.
- Business lending was flat in Q3 with the y/y growth at 5.5% by the end of the quarter.
- Domestic deposit growth continued to be robust in Q3, strengthening the y/y increase to 6%.
- Looking ahead, Q4 has historically been one of the slowest quarters in terms of business lending, while the expiry of the household loan repayment holidays would naturally exert some pressure on net credit growth.

Domestic credit growth strengthened to 1.7% q/q in Q3, pushing up the y/y increase to 5%. In contrast to the first two quarters of the year, credit growth in Q3 was fully driven by the household sector, while business lending was muted.

This rebound was driven by both housing loans and personal consumption loans, ending the quarter with a y/y growth of 5% and 20%, respectively.

▶ **Chart 1: Credit to Residents**

(% y/y)



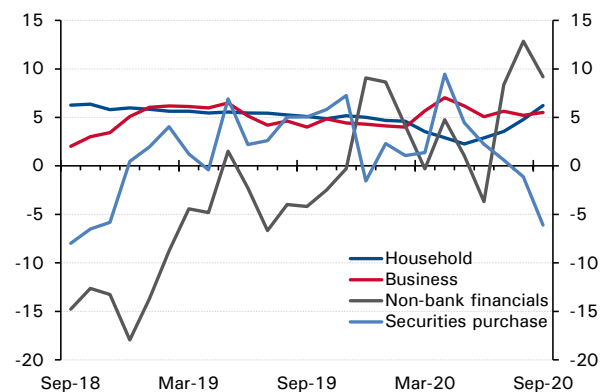
Source: Central Bank of Kuwait

Business lending was flat in Q3 with the y/y growth at 5.5% by the end of the quarter. Credit that falls under the "other" category (presumably credit to sectors that do not fall under any of the mentioned categories and credit to conglomerates) remained strong for the second quarter in a row, with y/y growth at 7.4%. In contrast, real estate credit was flat for the second consecutive quarter, with the y/y growth softening to 6.5%. This is probably linked to the weakness in the investment and commercial sectors of that market, especially in the context of the authorities' intention to limit the expatriate population numbers.

After being subdued in the first half of the year, household credit staged a solid rebound, growing by 4.7% q/q (highest growth rate in around eight years) pushing up its y/y expansion to 6.2%.

▶ **Chart 2: Categories of Credit to Residents**

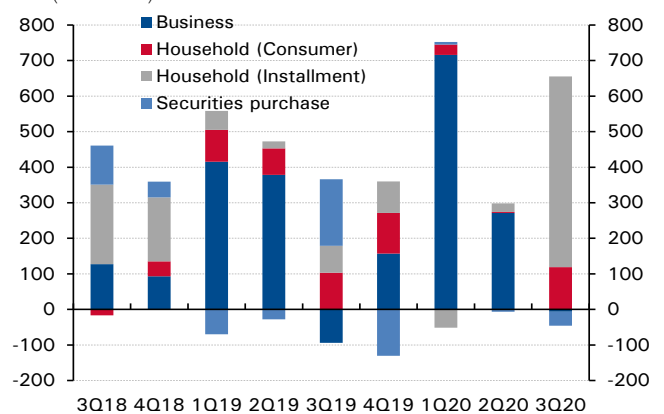
(% y/y)



Source: Central Bank of Kuwait

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

(KD millions)



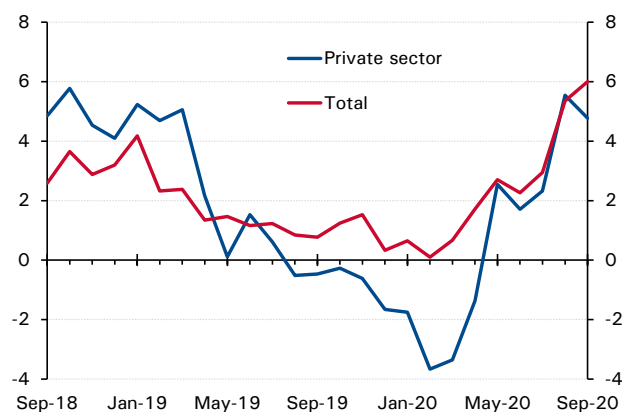
Source: Central Bank of Kuwait

Domestic deposit growth continued to be robust in Q3, with a y/y growth rate of 6%. This was driven by both private-sector and government deposits, resulting in around 5% and 12% y/y growth, respectively. The growth in private sector deposits has been remarkable so far this year, compared with the nearly 2% decrease in 2019. The deferral of household loan repayments and the lower spending avenues, given much less travel abroad and the impact of the lockdown are possible reasons for the deposit growth so far this year. Money supply (M2) tracked private sector deposits, increasing by 5.7% y/y.

An opposite trend to private sector deposits can be seen in non-resident deposits, which have dropped by 1% y/y after having surged in 2019. The decreasing interest rates locally and/or banks' shedding of relatively expensive institutional deposits to support their net interest margins may have been reasons for the fall in non-resident deposits. By the end of September, non-resident deposits accounted for around 7% of total deposits in the Kuwaiti banking sector.

The banks' simple loans-to-deposits ratio stood at 87% at the end of Q3, indicating ample room to increase lending going forward. However, the outlook remains clouded with uncertainty regarding the speed of the economic recovery and the success in controlling the virus especially as the economy fully opens up. This is expected to keep loan growth in check, especially that Q4 has historically been one of the slowest quarters in terms of business lending. Nevertheless, this year has been anything but customary, and so historical trends might not hold. For household lending, the expiry of the loan repayment holidays would naturally exert some pressure on net credit growth in Q4. On the other hand, the KD 1 billion financing facility that some local banks signed with Kuwait Petroleum Corporation may start to impact business credit growth in the next few months.

► **Chart 4: Deposits from Residents**
(% y/y)



Source: Central Bank of Kuwait

▶ **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	June20	July20	Aug20	Sep20	June20	July20	Aug20	Sep20	June20	July20	Aug20	Sep20
Total system liquidity (M2)	40,176	39,827	40,335	40,509	1.7	-0.9	1.3	0.4	3.0	3.7	6.7	5.7
Currency in circulation	2,427	2,428	2,340	2,296	0.8	0.0	-3.6	-1.9	28.8	29.8	30.9	24.8
Private sector deposits	37,749	37,399	37,995	38,212	1.7	-0.9	1.6	0.6	1.7	2.3	5.5	4.8
KD deposits	35,354	35,329	35,841	36,028	2.1	-0.1	1.5	0.5	2.2	3.8	7.0	6.7
Sight deposits	10,314	10,340	10,468	10,640	0.3	0.3	1.2	1.6	13.2	13.5	16.7	21.0
Savings deposits	6,046	6,106	6,244	6,306	2.3	1.0	2.3	1.0	14.1	19.7	23.7	23.2
Time deposits & CDs	18,994	18,883	19,130	19,082	3.1	-0.6	1.3	-0.2	-5.9	-4.7	-1.7	-3.9
Foreign currency deposits	2,395	2,070	2,153	2,184	-3.8	-13.5	4.0	1.4	-5.2	-17.8	-14.2	-19.2

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

	KD millions				% m/m				% y/y			
	June20	July20	Aug20	Sep20	June20	July20	Aug20	Sep20	June20	July20	Aug20	Sep20
Total bank assets	72,546	72,366	72,686	72,537	-0.1	-0.2	0.4	-0.2	6.5	5.3	5.1	3.8
Core liquid assets	7,691	7,655	8,303	8,554	6.6	-0.5	8.5	3.0	21.5	20.5	35.5	31.7
Cash and CBK deposits	2,426	2,285	2,509	2,389	-47	-5.8	9.8	-4.8	28.9	32.4	50.2	42.9
CBK bonds	2,965	2,964	2,964	2,964	13.8	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2
Time deposits with CBK	2,300	2,405	2,830	3,200	n/m	4.6	17.7	13.1	55.9	45.3	90.5	73.0
Public debt instruments	1,796	1,794	1,590	1,375	-0.3	-0.1	-11.3	-13.5	-45.9	-43.5	-44.7	-48.2
Interbank deposits	2,621	2,338	2,220	2,008	6.5	-10.8	-5.1	-9.6	36.6	4.1	-10.8	-21.7
Credit facilities	39,335	39,507	39,701	40,009	0.2	0.4	0.5	0.8	3.8	4.6	4.9	5.0
Foreign assets	16,652	16,529	16,427	16,112	-4.5	-0.7	-0.6	-1.9	14.4	10.3	5.7	1.8
Other assets	4,451	4,543	4,445	4,480	0.9	2.1	-2.1	0.8	7.8	8.3	4.4	5.5
Total bank liabilities	62,971	62,950	63,245	63,079	0.1	0.0	0.5	-0.3	7.2	6.2	5.9	4.2
Total deposits	47,540	47,197	47,644	48,032	1.0	-0.7	0.9	0.8	4.1	3.4	4.7	4.7
Private sector deposits	37,749	37,399	37,995	38,212	1.7	-0.9	1.6	0.6	1.7	2.3	5.5	4.8
Government deposits	7,273	7,505	7,478	7,809	-4.5	3.2	-0.4	4.4	5.3	6.2	4.4	12.5
Interbank deposits	2,518	2,293	2,171	2,010	6.9	-9.0	-5.3	-7.4	52.7	13.9	-7.8	-18.1
Foreign liabilities	8,951	9,080	8,986	8,308	-6.7	1.4	-1.0	-7.5	32.4	25.1	17.5	5.2
Other liabilities	6,480	6,672	6,616	6,740	4.2	3.0	-0.9	1.9	2.7	4.2	0.6	-0.1
Shareholders' equity	9,575	9,416	9,441	9,458	-1.3	-1.7	0.3	0.2	2.0	0.0	0.3	0.9

Source: Central Bank of Kuwait

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