

Economic Update

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Monetary developments

Kuwait: Rebound in business lending drives up overall credit growth to 8.7% y/y

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Highlights

- Domestic credit started the year on a very strong note, increasing by 3.2% q/q, driving up y/y growth to 8.7% through March.
- Business credit recovered sharply, increasing by a strong 3.7% q/q, the fastest quarterly growth in at least 10 years.
- Household credit growth softened, but continued to be solid with the y/y expansion at a multi-year high of 14% through March.
- Private-sector deposits rebounded at the fastest quarterly rate in almost two years, pushing y/y growth to 6%.
- Looking ahead, credit growth will likely continue to be supported by the lifting of all pandemic-related restrictions, elevated oil prices giving a boost to confidence levels, a likely improvement in project awards, and pent-up demand for capital spending by corporates.

Domestic credit started the year on a very strong note, increasing by 3.2% q/q in 1Q2022, the fastest growth in at least 10 years, which drove the y/y increase to 8.7% through March. Business credit growth recovered sharply, while household lending remained solid although growth softened.

► **Chart 1: Credit to Residents**

(% y/y)



Source: Central Bank of Kuwait

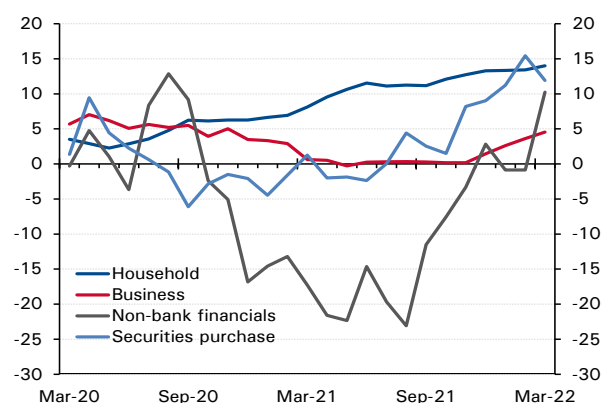
Business credit expanded by a strong 3.7% in 1Q2022, the fastest growth in at least 10 years, driving up the y/y increase to 4.5% through March. Business credit is benefiting from the normalization of economic activities as pandemic-related restrictions were lifted, and from pent-up demand for capital spending (CAPEX) given muted CAPEX by corporates since the outbreak of the pandemic, and from the improving operating environment in general. Most sectors recorded solid growth but especially construction, trade, and oil/gas, which together accounted for nearly two-thirds of the increase in business lending in 1Q2022. Credit to real estate, by far the largest component of business credit, picked up to record the highest growth in more than two years. From a y/y perspective, the

oil/gas (+15.4%) and industry sectors (+12.4%) remain in the lead.

Household credit growth softened compared with last year, but continued to be strong with the y/y expansion at a multi-year high of 14% through March. This strong growth was driven by personal consumption loans as well as housing loans, which rose by around 15% and 14% y/y, respectively. The ongoing robust demand/high valuations in the residential real estate sector, the prior loan-repayment holidays, continued solid consumer spending, and various campaigns (sometimes at zero interest rate lending) launched by several banks to attract retail customers are some of the key factors behind this record expansion in household lending.

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

(% y/y)

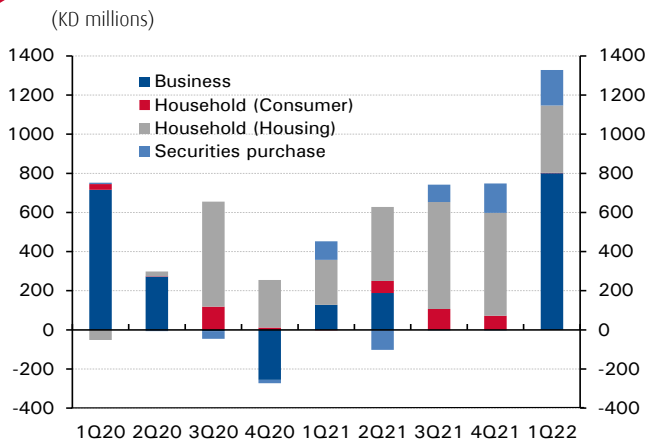


Source: Central Bank of Kuwait

In addition, credit growth in 1Q2022 got a boost from an ongoing solid expansion in lending for securities purchase, which drove the y/y increase to 12%, the highest end-quarter rate in around six years.

Looking ahead, credit growth will likely continue to be supported by the normalization of economic activities, the lifting of all pandemic-related restrictions, elevated oil prices giving a boost to confidence levels, a likely improvement in project awards, and the 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 only slightly but we think the factors supporting growth, as mentioned above, will have a much bigger impact. However, 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

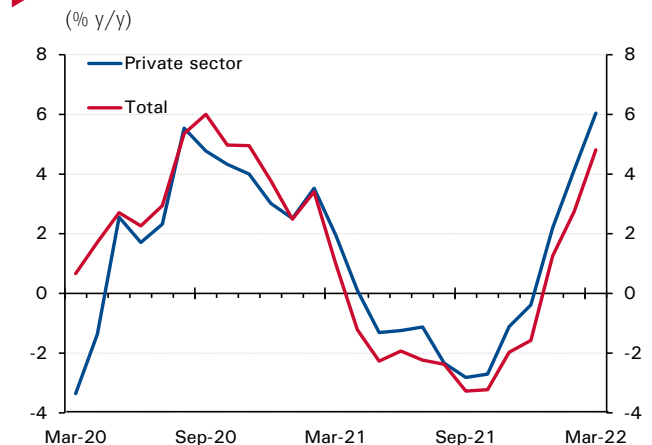
Private-sector deposits rebounded

Meanwhile, domestic deposit growth rebounded strongly in 1Q2022, driving up the y/y increase to 4.8% through March. This was fully driven by private-sector deposits, which expanded in 1Q2022 at the fastest rate since the second quarter of 2020, pushing y/y growth to 6%. Despite elevated oil prices, government deposits dropped in 1Q2022 and are down by around 1% y/y.

Looking at the breakdown of KD private-sector deposits shows that current and saving accounts (CASA) expanded at a similar rate (of around 4%) in 1Q2022 to that of the more expensive time deposits. 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 higher interest rates, the growth in CASA will likely fall behind the growth of time deposits, reversing the trend that was at play for the past three years.

The pick-up in domestic deposits in 1Q2022 kept the loans-to-deposits ratio stable at around 95% after it had increased from close to 88% at the end of 2020.

▶ **Chart 4: Deposits from Residents**

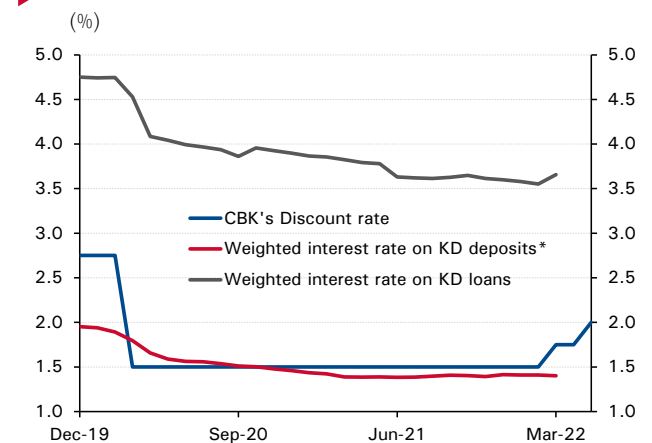


Source: Central Bank of Kuwait

Policy interest rates set to increase further in 2022

The Central Bank of Kuwait (CBK) tracked the US Federal Reserve (Fed) in March by hiking the discount rate by 25 bps, but opted for a smaller increase (25 bps) when the Fed hiked by 50 bps in May. Accordingly, the weighted average interest rate on KD loans started going up in March as can be seen in chart 5. Given that the Fed will still be hiking rates several times this year, the discount rate in Kuwait should continue trending up, though not necessarily one-for-one with US rates.

▶ **Chart 5: Interest Rates**



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

► **Table 1: Monetary indicators**

	KD millions				% m/m				% y/y			
	Dec 21	Jan 22	Feb 22	Mar 22	Dec 21	Jan 22	Feb 22	Mar 22	Dec 21	Jan 22	Feb 22	Mar 22
Total system liquidity (M2)	38,965	39,668	40,110	40,589	-0.6	1.8	1.1	1.2	-0.5	1.9	3.9	5.7
Currency in circulation	1,775	1,735	1,816	1,781	0.2	-2.3	4.6	-1.9	-2.0	-3.4	-1.7	-1.7
Private sector deposits	37,189	37,933	38,295	38,808	-0.6	2.0	1.0	1.3	-0.4	2.2	4.1	6.0
KD deposits	34,966	35,481	35,727	36,384	-0.5	1.5	0.7	1.8	-0.9	1.4	2.9	5.1
Sight deposits	10,755	11,088	10,911	11,359	-2.9	3.1	-1.6	4.1	2.0	4.8	2.9	3.8
Savings deposits	7,072	7,066	7,232	7,196	0.6	-0.1	2.4	-0.5	10.0	7.7	10.4	8.9
Time deposits & CDs	17,139	17,327	17,584	17,829	0.5	1.1	1.5	1.4	-6.4	-3.0	0.2	4.6
Foreign currency deposits	2,223	2,453	2,568	2,423	-1.9	10.3	4.7	-5.6	8.0	16.0	24.4	21.8

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

	KD millions				% m/m				% y/y			
	Dec 21	Jan 22	Feb 22	Mar 22	Dec 21	Jan 22	Feb 22	Mar 22	Dec 21	Jan 22	Feb 22	Mar 22
Total bank assets	77,058	77,868	78,971	80,076	0.8	1.1	1.4	1.4	5.1	5.8	7.1	8.4
Core liquid assets	7,512	7,864	8,071	8,492	-6.5	4.7	2.6	5.2	-15.5	-7.2	-3.9	10.0
Cash and CBK deposits	2,523	2,865	3,107	3,037	-10.7	13.6	8.4	-2.2	-21.8	-2.7	-6.8	-8.2
CBK bonds	2,964	2,964	2,964	2,964	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Time deposits with CBK	2,025	2,035	2,000	2,490	-9.7	0.5	-1.7	24.5	-25.0	-20.7	-4.8	71.7
Public debt instruments	1,138	1,040	952	740	-4.2	-8.6	-8.5	-22.3	-16.2	-22.2	-29.5	-45.4
Interbank deposits	3,337	3,061	3,253	3,569	29.3	-8.3	6.3	9.7	32.2	13.7	28.6	22.9
Credit facilities	42,287	42,714	43,163	43,658	0.4	1.0	1.1	1.1	6.3	7.0	7.9	8.7
Foreign assets	17,883	18,271	18,346	18,504	1.4	2.2	0.4	0.9	8.7	9.1	9.2	7.0
Other assets	4,902	4,918	5,186	5,114	0.3	0.3	5.4	-1.4	12.6	11.4	11.3	14.6
Total bank liabilities	67,383	68,010	69,185	70,104	0.7	0.9	1.7	1.3	5.6	6.2	7.8	9.0
Total deposits	47,710	48,165	48,541	49,322	0.8	1.0	0.8	1.6	0.0	1.7	3.9	5.6
Private sector deposits	37,189	37,933	38,295	38,808	-0.6	2.0	1.0	1.3	-0.4	2.2	4.1	6.0
Government deposits	7,373	7,358	7,170	7,189	-0.4	-0.2	-2.5	0.3	-7.2	-3.3	-4.1	-1.4
Interbank deposits	3,148	2,874	3,076	3,326	25.2	-8.7	7.0	8.1	28.7	9.5	24.9	17.5
Foreign liabilities	11,873	12,068	12,460	12,915	1.3	1.6	3.3	3.7	26.9	23.0	19.1	17.7
Other liabilities	7,800	7,777	8,184	7,867	-1.0	-0.3	5.2	-3.9	16.2	13.6	16.5	18.2
Shareholders' equity	9,676	9,858	9,786	9,972	1.7	1.9	-0.7	1.9	1.3	3.1	2.6	4.3

Source: Central Bank of Kuwait

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