Kuwait: Credit growth at 4.3% in 2019

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Highlights

- **Domestic credit growth stood at 4.3% in 2019, broadly in line with the expansion seen in 2018 (+4.2%).**
- **Weaker business and household lending growth in 2019 were compensated by strong credit to non-bank financial institutions.**
- **Business lending was driven by the real estate sector in 2019 while soaring personal consumption loans supported household credit.**
- **Domestic deposit growth weakened further to 0.3% y/y in December from 0.8% y/y in September on muted private sector deposits.**

Domestic credit growth was broadly stable at 4.3% y/y in December 2019 compared with 4.2% y/y in September 2019 and December 2018 (Chart 1). For 2019 as a whole, weaker business lending growth (+4.3% y/y versus +5.1% in 2018) and slower household credit expansion (+5% versus +6% in 2018) were compensated by credit to non-bank financial institutions (+9% in 2019).

Chart 1: Credit to Residents

(% y/y)

Source: Central Bank of Kuwait

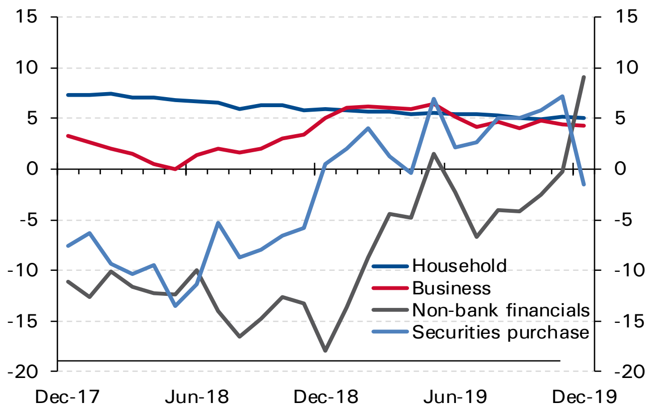
Growth in business credit stood at 4.3% in 2019 driven by real estate sector credit, which expanded by 9.3% and accounted for a significant 89% of the total increase in business lending in 2019. In contrast, credit to the trade and the construction sectors were the weakest in 2019, falling by 2.7% and 4.1% respectively.

Household credit expanded by 5% in 2019 as soaring personal consumption loans (+36%) were dampened by a relatively weak growth in housing loans (+2%). Despite its small size (10% of household credit), personal consumption loans accounted for 58% of the total increase in household credit in 2019. Going forward, we expect a slower growth for personal consumption loans compared with the surge recorded in 2019. On the other hand, the 2% growth in housing loans is a multi-year low, compared to an expansion of around 7% and 9% in 2018 and 2017, respectively.

As mentioned before, credit to non-bank financial institutions supported domestic credit growth in 2019 after being a drag in the previous two years (-18% in 2018 and -11% in 2017). In fact, the major pick up for that segment occurred in 4Q2019 when growth surged to 9% q/q, pushing up the y/y expansion to around 9%. In contrast, despite monthly volatility, lending for securities purchase saw its share of total credit drop to below 7% from nearly 10% in 2015, as it remained a drag on credit growth for the fourth consecutive year.

Chart 2: Categories of Credit to Residents

(% y/y)

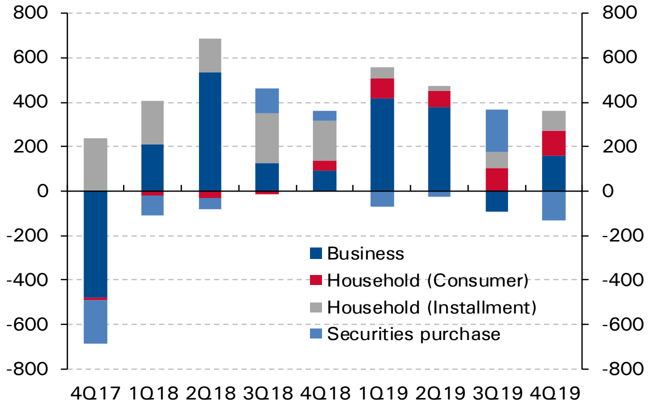


Source: Central Bank of Kuwait

Finally, it is important to note that credit to non-residents expanded by a solid 21% in 2019 (compared with +4% in 2018) to account for around 7% of total credit in the Kuwaiti banking sector by the end of 2019. While we are not clear on the reasons for this jump, perhaps, some of this credit could have been extended to non-resident foreign companies undertaking projects in Kuwait.

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

(KD millions)



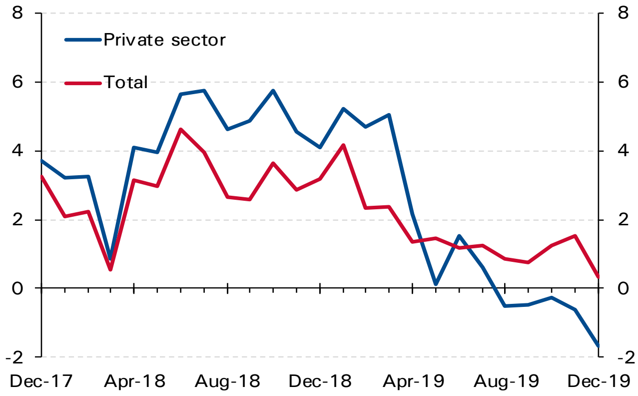
Source: Central Bank of Kuwait

Deposit growth weakened further to 0.3% y/y in December (+0.8% y/y in September) on muted private sector deposits, and compared to a 3.2% growth in each of 2018 and 2017 (Chart 4). Private sector deposits remained soft in 4Q2019, resulting in an annual decrease for the first time in many years (-1.7% in 2019). Money supply (M2) dropped by around 1% y/y in 2019. On the other hand, government deposit inflows accelerated in 4Q2019 (+6.4% q/q), pushing up their y/y growth to 11.4%. Despite their much faster growth in 2019, government deposits still accounted for 17% of total resident deposits.

The domestic liquidity situation in the Kuwaiti banking sector seems to have slightly tightened in 2019. This can be seen in an increase in the simple loans-to-deposits ratio to 88% in December 2019 from 85% one year before. Furthermore, the excess reserves (above CBK's minimum required reserve ratio of 18%) have trended downwards in 2019. Given that, some Kuwaiti banks have attracted more deposits from abroad; deposits from non-residents soared by 55% in 2019 (compared with only +2% in 2018) to represent around 8% of total deposits in the Kuwaiti banking sector, the highest contribution in more than 10 years.

Chart 4: Deposits from Residents

(% y/y)



Source: Central Bank of Kuwait

Table 1: Monetary indicators

	KD millions				% m/m				% y/y			
	Sep19	Oct19	Nov19	Dec19	Sep19	Oct19	Nov19	Dec19	Sep19	Oct19	Nov19	Dec19
Total system liquidity (M2)	**38,311**	**38,471**	**38,219**	**38,129**	**1.4**	**0.4**	**-0.7**	**-0.2**	**0.0**	**0.3**	**-0.3**	**-1.2**
Currency in circulation	1,840	1,888	1,838	1,890	2.9	2.6	-2.7	2.8	10.4	12.6	6.3	7.7
Private sector deposits	36,471	36,583	36,382	36,240	1.3	0.3	-0.5	-0.4	-0.5	-0.3	-0.6	-1.7
KD deposits	33,768	33,778	33,697	33,708	0.8	0.0	-0.2	0.0	0.1	-0.9	-0.8	-1.5
Sight deposits	8,794	8,593	8,749	8,600	-2.0	-2.3	1.8	-1.7	0.6	-0.3	3.6	-0.3
Savings deposits	5,120	5,098	5,056	5,112	1.4	-0.4	-0.8	1.1	2.5	2.8	1.9	2.4
Time deposits & CDs	19,855	20,088	19,892	19,996	2.0	1.2	-1.0	0.5	-0.7	-2.0	-3.3	-3.0
Foreign currency deposits	2,703	2,805	2,685	2,532	7.7	3.7	-4.3	-5.7	-7.2	7.3	1.7	-3.3

Table 2: Consolidated banks' balance sheet

	KD millions				% m/m				% y/y			
	Sep19	Oct19	Nov19	Dec19	Sep19	Oct19	Nov19	Dec19	Sep19	Oct19	Nov19	Dec19
Total bank assets	**69,891**	**69,817**	**70,645**	**71,021**	**1.1**	**-0.1**	**1.2**	**0.5**	**7.6**	**7.0**	**8.2**	**6.7**
Core liquid assets	6,494	6,662	6,975	6,822	6.0	2.6	4.7	-2.2	8.2	8.6	9.9	10.4
Cash and CBK deposits	1,672	1,745	1,813	1,851	0.1	4.4	3.9	2.1	16.1	23.0	28.4	13.9
CBK bonds	2,971	2,971	2,971	2,971	0.0	0.0	0.0	0.0	-0.9	-0.9	-1.0	-1.0
Time deposits with CBK	1,850	1,945	2,190	2,000	24.6	5.1	12.6	-8.7	18.2	13.4	13.2	28.6
Public debt instruments	2,657	2,671	2,474	2,371	-7.6	0.5	-7.4	-4.2	-30.7	-30.4	-35.9	-38.6
Interbank deposits	2,566	2,175	2,486	2,467	3.1	-15.2	14.3	-0.8	80.9	57.2	107.4	34.2
Credit facilities	38,093	38,344	38,246	38,428	0.6	0.7	-0.3	0.5	4.2	4.7	4.7	4.3
Foreign assets	15,834	15,698	16,142	16,680	1.9	-0.9	2.8	3.3	20.6	18.3	21.4	20.8
Other assets	4,248	4,267	4,323	4,253	-0.2	0.5	1.3	-1.6	6.1	6.2	5.4	6.4
Total bank liabilities	**60,516**	**60,431**	**61,244**	**61,596**	**1.3**	**-0.1**	**1.3**	**0.6**	**7.7**	**6.8**	**8.3**	**7.4**
Total deposits	45,869	45,684	45,932	45,982	0.8	-0.4	0.5	0.1	3.4	3.0	4.5	2.0
Private sector deposits	36,471	36,583	36,382	36,240	1.3	0.3	-0.5	-0.4	-0.5	-0.3	-0.6	-1.7
Government deposits	6,943	7,034	7,181	7,388	-3.1	1.3	2.1	2.9	7.8	9.9	14.0	11.4
Interbank deposits	2,455	2,067	2,370	2,354	4.2	-15.8	14.7	-0.6	91.9	63.7	127.6	45.6
Foreign liabilities	7,899	7,955	8,302	8,704	3.3	0.7	4.4	4.8	36.5	32.1	35.6	42.9
Other liabilities	6,748	6,793	7,010	6,910	2.6	0.7	3.2	-1.4	11.6	9.4	7.8	11.9
Shareholders' equity	**9,375**	**9,386**	**9,402**	**9,426**	**-0.4**	**0.1**	**0.2**	**0.3**	**7.1**	**7.9**	**7.5**	**2.7**

Source: Central Bank of Kuwait

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