

Economic Update

NBK Economic Research Department | 2 February 2023



Monetary developments

Kuwait: Credit growth at 7.7% in 2022, fastest yearly increase since 2015

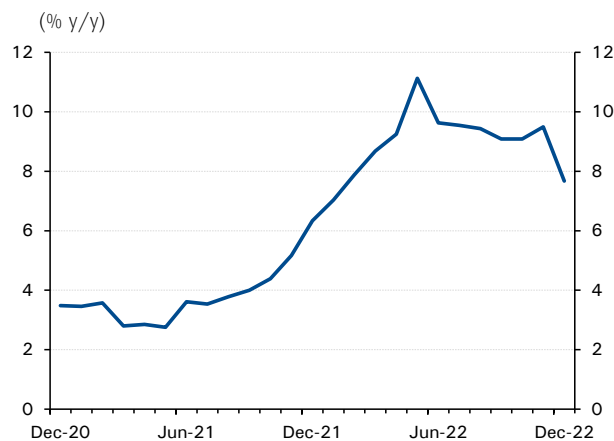
> Raja Ghossoub
Senior Economist
+965 2229 5356
rajaghossoub@nbk.com

Highlights

- Despite ending the year on a weak note, domestic credit increased by 7.7% in 2022, the fastest yearly increase since 2015.
- Business credit was unsurprisingly weak in Q4, but growth stood at 6.8% in 2022, the highest annual increase since 2013.
- Household credit continued to soften, finishing the year at 9% growth, down from 13% in 2021.
- Domestic deposits were weak for the second straight quarter, finishing the year with a 5.3% expansion.
- Private-sector time deposits (+19%) and government deposits (+18%) drove deposit growth in 2022, while CASA dropped.
- Going into 2023, we expect credit growth to soften compared with 2022 though remaining robust at around 5% to 6%.

Domestic credit ended the year on a relatively weak note, increasing by 0.9% q/q in 4Q2022 but with growth at 7.7% for the full year, the fastest yearly expansion since 2015. The softening growth in the fourth quarter did not come as a surprise as that quarter has historically been the weakest quarter of the year. In line with expectations, business credit growth weakened further in Q4, while household loan expansion remained robust, though decelerated for the second straight quarter.

► **Chart 1: Growth in Credit to Residents**



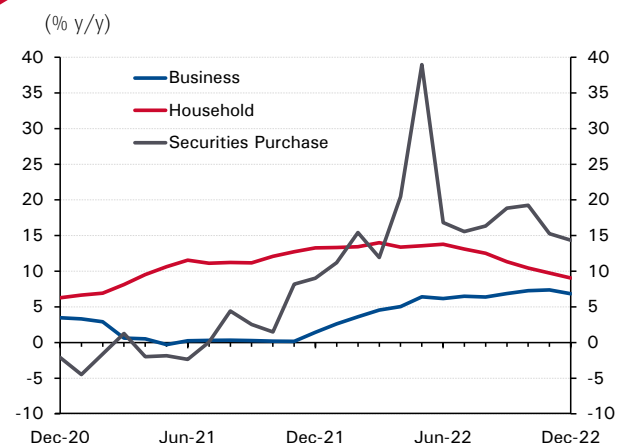
Source: Central Bank of Kuwait; slight change in data series starting August 2021 but with no major impact on historical y/y growth rates

Business credit was broadly flat in Q4 to record 6.8% growth in 2022, the fastest annual expansion since 2013. Growth of the various sectors differed markedly with three sectors (real estate, construction, and other services) accounting for nearly 90% of the increase in business credit in 2022. The construction sector expanded by a whopping 23% in 2022, but after three consecutive years of negative growth. In contrast, the oil/gas sector was the weakest, dropping by 3% in 2022 after growing strongly in 2020 and 2021. Going into 2023, given higher interest rates, a weaker global economic backdrop, and likely softer

domestic non-oil growth, we expect slower business credit growth than the multi-year high seen in 2022. However, growth should remain decent by historical standards helped by still relatively elevated oil prices and an ongoing post-pandemic recovery.

Household credit growth remained generally robust (+1.6% q/q) though softened for the second straight quarter, finishing the year at a strong 9.1%, though down from a record 13.1% in 2021. The growth in housing loans (+9.4% in 2022) slightly outstripped that of personal consumption loans (+6.6%). Looking ahead, we expect household credit growth to remain robust though weaker than in 2022 on the back of higher interest rates, lower price competition among banks given the increasing cost of funds, and normalizing growth in consumer spending.

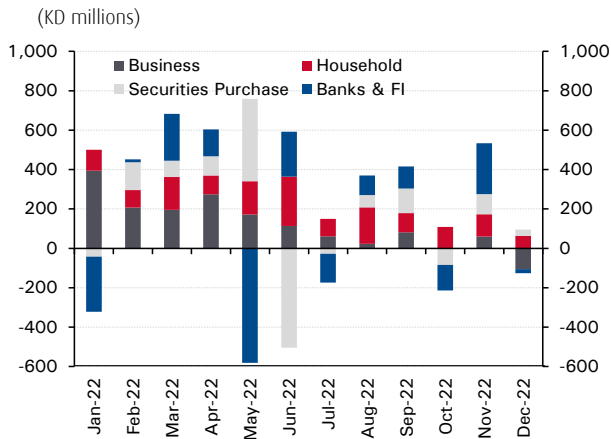
► **Chart 2: Growth in Credit to Residents by Sector**



Source: Central Bank of Kuwait; slight change in data series starting August 2021 but with no major impact on historical y/y growth rates

Finally, lending for securities purchase supported credit growth in 2022 as it expanded by a strong 14.3%, while credit to banks and financial institutions was a drag, falling by 3.1%.

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



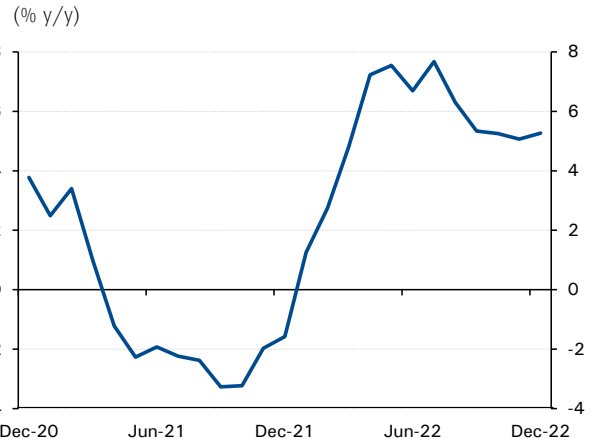
Source: Central Bank of Kuwait

Deposits up 5.3% in 2022 driven by time deposits

Meanwhile, domestic deposit growth was weak for the second consecutive quarter, finishing the year with a 5.3% expansion (-1.6% in 2021). Private-sector deposits expanded by 6.6% in 2022, government deposits soared by 18%, while public-institution deposits decreased by 6.3%. By the end of 2022, out of total resident deposits (KD 46.9 billion) private-sector deposits accounted for 78%, public-institution deposits 15%, and government deposits 7%.

In line with expectations, among KD private-sector deposits, time deposits increased in 2022 at a much faster rate than current and saving accounts (CASA). In fact, CASA dropped for six consecutive months (July through December), falling by 4.3% in 2022, while time deposits soared by 19%. By the end of 2022, among private-sector deposits, CASA accounted for 45% of the total (down from 51% a year ago), time deposits 50%, and foreign-currency deposits less than 5%. Looking ahead, given the relatively elevated interest rate environment (and possibly further increases in deposit rates), the growth in time deposits will most likely continue to outstrip that of CASA.

Chart 4: Growth in Deposits from Residents

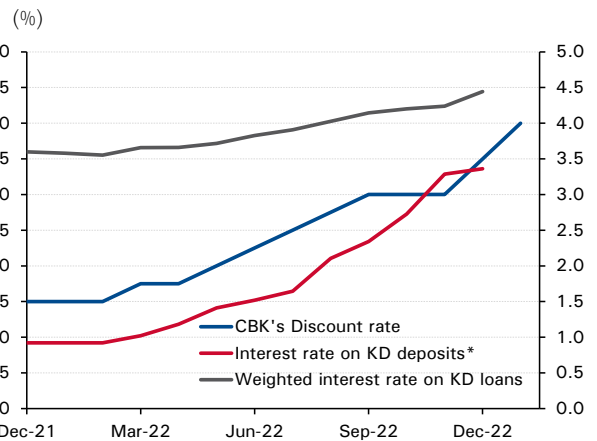


Source: Central Bank of Kuwait

Rate hiking cycle closer to its end

The Central Bank of Kuwait (CBK) has hiked the discount rate by a cumulative 2.5% since March 2022, much less than the cumulative 4.5% increase by the US Federal Reserve (Fed). The Fed is close to ending its rate hiking cycle, with the market expecting a further 25 bps increase in the March meeting. Accordingly, the rate hiking cycle in Kuwait is also likely close to its end. Even if the CBK decides, at the extreme, to hike by slightly more than the Fed (to make up for its smaller hikes previously), it is unlikely that the discount rate will increase substantially from current levels, especially given the possibility of the Fed cutting rates in the second half of the year.

Chart 5: Interest Rates in Kuwait



Source: Central Bank of Kuwait * typical one-month maturity deposit

Head Office

Kuwait

National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2222 2011
Fax: +965 2229 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

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

France

National Bank of Kuwait France SA
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 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
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
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