

Monetary developments

Kuwait: Credit growth picked up pace to 3.3% on solid February gain

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Credit growth picked up pace in February, with the month seeing a healthy increase in outstanding loans. Growth rose to 3.3% year-on-year (y/y), on a monthly gain of KD 165 million. The strongest gains were in the business sector, dominated by the oil and gas sector. Private deposits also rose in February, though growth remained weak. Rates were mostly steady in February but have since picked up following March's discount rate hike by the Central Bank of Kuwait (CBK).

Household lending was weaker in February, though this could have been due to seasonal factors. The sector saw a relatively modest gain of KD 40 million coming exclusively from installment loans. Growth slipped to 6.7% y/y.

Lending to nonbank financial companies saw a second consecutive month of decline. Nonbank credit fell by KD 61 million, with growth easing to 2.3% y/y. The sector's borrowing has been seeing positive growth over the last year following several years of contraction in the wake of the 2008 financial crisis.

Business credit rose by a healthy KD 186 million, with growth improving to 1.6% y/y. Gains were largely in the oil and gas sector which added KD 126 million in new loans. Construction and real estate were also up KD 30 million and KD 19 million, respectively. Industry remained the exception, with a KD 44 million decline, as the sector continued to see a contraction in credit by 8.8% y/y.

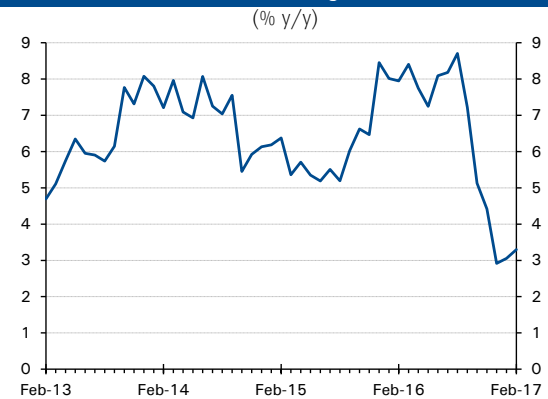
The business sector has been dragged down by the real estate sector and lending for the purchase of securities. Outside these two sectors, business credit growth has been stronger, accelerating to a robust 8.6% y/y, though a large part of that has come from strong growth in the oil and gas sector.

Private deposits rose in February, though a drop in government deposits offset some of that. Despite the increase, broad M2 money supply growth slipped to 1.4% y/y, though growth in the narrower M1 improved to 3.2% y/y. The gains were in KD deposits, led by time deposits which saw inflows of KD 167 million; savings and sight deposits also rose. Meanwhile, foreign currency deposits declined by KD 67 million. A drop in government deposits by KD 88 million offset some of the gains in private deposits, with growth slowing to 15% y/y.

Banking system liquidity edged lower in February. Bank reserves (cash, deposits with the CBK, and CBK bonds) lost KD 171 million to reach KD 4.6 billion or 7.6% of total bank assets, the lowest level in six years (Chart 4). The government continued to tap bank liquidity through issuance of domestic bonds; outstanding domestic public debt instruments (PDIs) rose by KD 252 million during February to KD 3.8 billion or an estimated 10% of GDP.

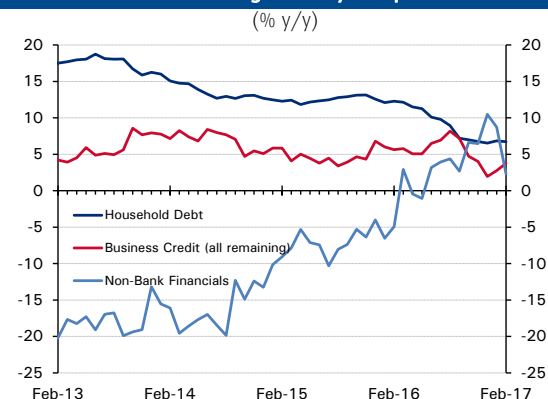
Interest rates moved slightly higher in February. The 1-month and 12-month interbank rates were up by 2-4 basis points to 1.19% and 2.06%, respectively. The 3-month and 6-month rates were steady. Customer

Chart 1: Credit growth



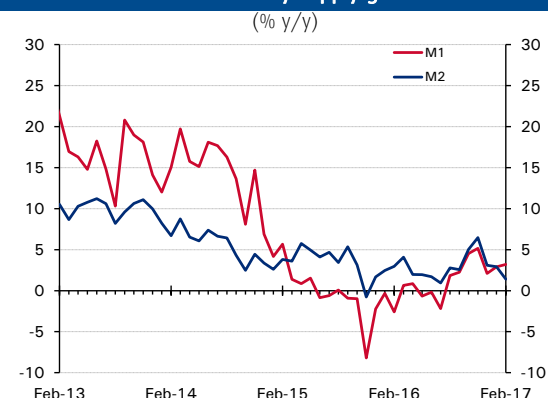
Source: Central Bank of Kuwait

Chart 2: Credit growth by component



Source: CBK; *Excl. loans to nonbanks and for the purchase of securities.

Chart 3: Money supply growth



Source: Central Bank of Kuwait

deposit rates were mostly unchanged, with rates on longer maturities edging up 1-2 basis points.

More recently, rates have been increasing steadily following the CBK's policy rate hike. The discount rate was raised by 25 basis points effective 16 March to 2.75% in tandem with the US Fed's rate hike. The move ensures the CBK policy rate maintains a spread to the US federal funds rate target of 1.75%, which is in line with the historic spread between the two rates and helps stave off outflows that could pressure the dinar's peg to a basket of major currencies.

Table 1: Monetary indicators

	Feb-17		1-month change		3-month change		12-month change	
	KD mn	%	KD mn	%	KD mn	%	KD mn	%
Total system liquidity (M2)	35,568		233	0.7	-114	-0.3	490	1.4
Currency in circulation	1,615		48	3.0	23	1.4	168	11.6
Private sector deposits	33,953		185	0.5	-137	-0.4	322	1.0
KD deposits	31,067		253	0.8	-105	-0.3	904	3.0
Sight deposits	8,017		28	0.3	111	1.4	130	1.7
Savings deposits	4,735		58	1.2	41	0.9	98	2.1
Time deposits & CDs	18,315		167	0.9	-257	-1.4	676	3.8
Foreign currency deposits	2,886		-67	-2.3	-31	-1.1	-582	-16.8

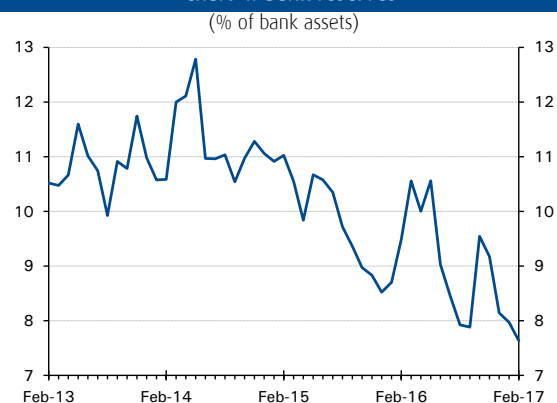
Source: Central Bank of Kuwait

Table 2: Consolidated bank balance sheets

	Feb-17		1-month change		3-month change		12-month change	
	KD mn	%	KD mn	%	KD mn	%	KD mn	%
Total bank assets	60,706		431	0.7	602	1.0	1,959	3.3
Core liquid assets	4,636		-171	-3.5	-879	-15.9	-937	-16.8
Cash and CBK deposits	1,115		-65	-5.5	-332	-22.9	-154	-12.1
CBK bonds	2,946		-25	-0.8	-101	-3.3	1,096	59.3
Time deposits with CBK	574		-80	-12.2	-447	-43.8	-1,879	-76.6
Public debt instruments	3,790		252	7.1	604	19.0	2,211	140.0
Interbank deposits	1,190		-122	-9.3	-37	-3.0	-960	-44.7
Credit facilities	34,399		165	0.5	383	1.1	1,098	3.3
Foreign assets	12,889		282	2.2	421	3.4	351	2.8
Other assets	3,801		25	0.7	111	3.0	196	5.4
Total bank liabilities	52,654		417	0.8	497	1.0	1,670	3.3
Total deposits	40,703		97	0.2	36	0.1	1,186	3.0
Private sector deposits	33,953		185	0.5	-137	-0.4	322	1.0
Government deposits	6,750		-88	-1.3	172	2.6	864	14.7
Interbank deposits	1,151		-103	-8.2	6	0.5	-846	-42.4
Foreign liabilities	4,691		321	7.3	273	6.2	189	4.2
Other liabilities	6,109		101	1.7	182	3.1	1,142	23.0
Shareholder equity	8,052		14	0.2	105	1.3	289	3.7

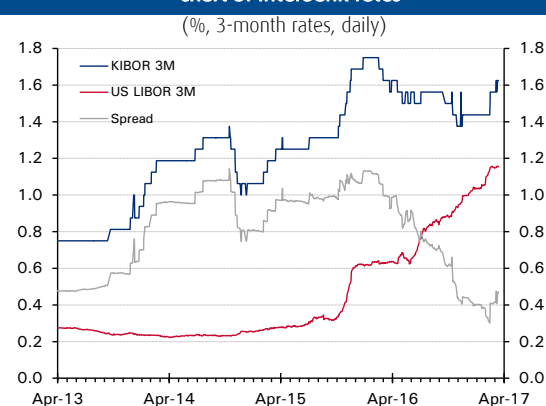
Source: Central Bank of Kuwait

Chart 4: Bank reserves



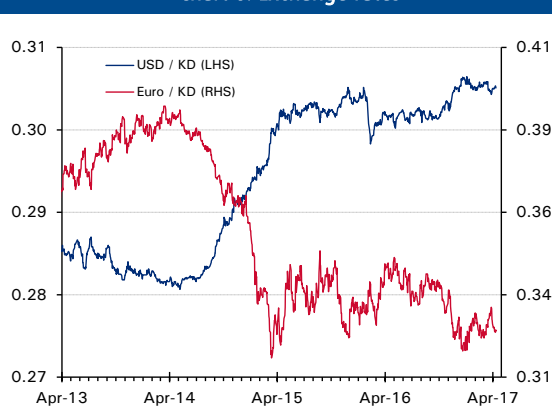
Source: Central Bank of Kuwait

Chart 5: Interbank rates



Source: Thomson Reuters Datastream, Central Bank of Kuwait

Chart 6: Exchange rates



Source: Thomson Reuters Datastream

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