

Monetary developments

Kuwait: Credit growth improved to 3.6% in March on a solid monthly gain

> Nembr Kanafani

Senior Economist

+965 2259 5365, nemrkanafani@nbk.com

> Chaker El Mostafa

Economist

+965 2259 5356, chakermostafa@nbk.com

Credit growth improved further in March, with the month seeing a strong increase in outstanding loans. Growth rose to 3.6% year-on-year (y/y), on a monthly gain of KD 488 million. Gains were seen across a number of sectors including oil & gas, real estate and households. (Chart 1.) Private deposits also saw a large increase in March, as most banks paid out cash dividends. Interest rates moved slightly higher during March, in line with the CBK's rate hike, though liquidity appeared to improve.

Household lending was relatively strong in March, though growth remained steady. The sector saw a gain of KD 83 million, with growth largely unchanged at 6.7% y/y. (Chart 2.) Growth came from installment loans, which grew by 8.2% y/y.

Lending to nonbank financial companies was mostly flat in March, but the sector returned to seeing contracting growth. Loans for the sector were up KD 6 million, but credit was down by 2.8% y/y on basis effects. (Chart 2.)

Business credit (all remaining credit) rose by KD 488 million, with growth improving to 2.4% y/y. (Chart 2.) The largest increase was in loans for the purchase of securities, which saw their usual end-of-quarter rise, increasing by KD 183 million. Gains were also seen in oil & gas, real estate and trade sectors. Meanwhile, industry and construction saw declines in loan balances during the month.

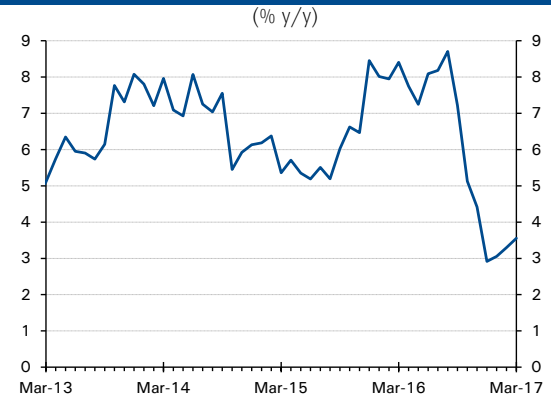
Credit growth in "productive" business sectors continued to improve, reflecting the robust progress in Kuwait's projects pipeline. Business credit excluding real estate and securities lending accelerated to a robust 9.6% y/y after averaging 10% growth in 2016. The oil & gas and construction sectors have been the two largest sources of this growth over the last year.

Private deposits rose strongly in March, as a result of the seasonal payment of bank dividends during the month. Deposits rose by KD 1.1 billion on gains in KD deposits. Sight and time deposits accounted for the bulk of the gains, though savings were also up. Meanwhile, foreign currency deposits saw a second month of declines falling by KD 37 million.

Money supply growth remained lackluster despite the strong gains in deposits. While the strong rise in sight deposits pushed M1 money supply growth up to 6.7%, M2 growth slipped to 0.7% on basis effects. Government deposits also rose in March, adding KD 136 million, with growth remaining steady at 15% y/y. (Chart 3.)

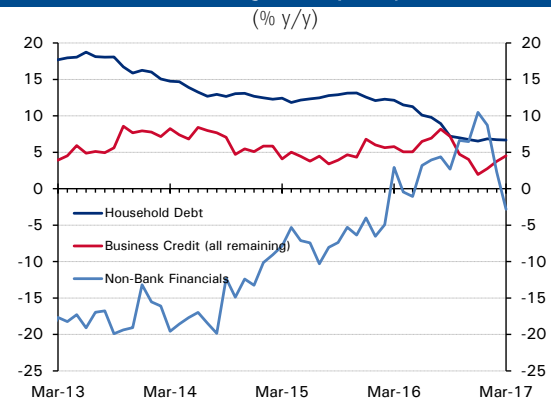
Banking system liquidity increased in March. Bank reserves (cash, deposits with the CBK, and CBK bonds) added KD 554 million to reach KD 5.2 billion or 8.4% of total bank assets (Chart 4). The government continued to tap bank liquidity to finance part of the deficit through the issuance of domestic bonds. Outstanding domestic public debt instruments (PDIs) rose by KD 50 million during March to KD 3.8 billion, to

Chart 1: Credit growth



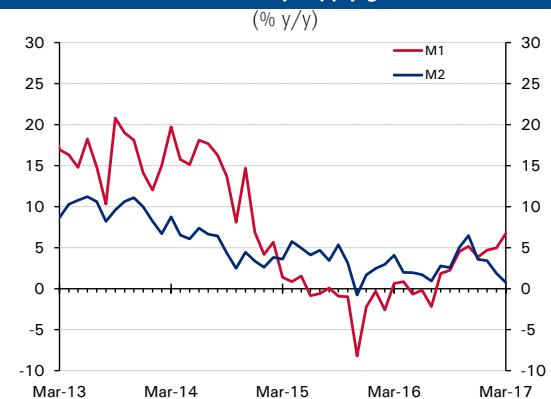
Source: Central Bank of Kuwait

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

an estimated 11% of GDP.

The increase in banking system liquidity coincided with Kuwait issuing its first international bond in March. The debt sale raised \$8 billion (KD 2.44 billion) at a pricing superior to other GCC sovereigns. Two tranches were offered, with \$3.5 billion in a 5-year at 75 bps over equivalent US Treasuries (2.88%) and \$4.5 billion in a 10-year at 100 bps over Treasuries (3.62%). The spread was below Abu Dhabi's, which until now had been considered the "gold standard" in the GCC. On the secondary market, the USD bond yields have tightened somewhat since.

Interest rates moved slightly higher in March, steadily pricing in the CBK's 25 basis point March rate hike. (Chart 5.) The 3-month and 6-month interbank rates were up between 5-6 basis points each. Customer deposit rates were also up, with rates on all maturities higher by 6-10 basis points.

Table 1: Monetary indicators

	Mar-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total system liquidity (M2)	36,704	970	2.7	926	2.6	273	0.7	
Currency in circulation	1,646	31	1.9	0	0.0	164	11.1	
Private sector deposits	35,058	939	2.8	925	2.7	108	0.3	
KD deposits	32,209	976	3.1	998	3.2	915	2.9	
Sight deposits	8,663	480	5.9	553	6.8	486	5.9	
Savings deposits	4,790	55	1.2	137	3.0	160	3.4	
Time deposits & CDs	18,756	441	2.4	307	1.7	270	1.5	
Foreign currency deposits	2,849	-37	-1.3	-73	-2.5	-807	-22.1	

Source: Central Bank of Kuwait

Table 2: Consolidated bank balance sheets

	Mar-17		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total bank assets	61,958	1,252	2.1	1,515	2.5	2,167	3.6	
Core liquid assets	5,190	554	12.0	269	5.5	-1,122	-17.8	
Cash and CBK deposits	1,233	118	10.5	54	4.6	-561	-31.3	
CBK bonds	2,820	-126	-4.3	-222	-7.3	995	54.5	
Time deposits with CBK	1,137	563	98.1	436	62.2	-1,556	-57.8	
Public debt instruments	3,847	57	1.5	560	17.0	2,268	143.6	
Interbank deposits	1,391	201	16.9	-65	-4.5	-515	-27.0	
Credit facilities	34,888	488	1.4	580	1.7	1,198	3.6	
Foreign assets	12,747	-142	-1.1	79	0.6	106	0.8	
Other assets	3,895	94	2.5	91	2.4	233	6.4	
Total bank liabilities	53,712	1,097	2.1	1,305	2.5	1,807	3.5	
Total deposits	41,944	1,075	2.6	1,132	2.8	1,003	2.4	
Private sector deposits	35,058	939	2.8	925	2.7	108	0.3	
Government deposits	6,886	136	2.0	207	3.1	894	14.9	
Interbank deposits	1,370	220	19.1	-51	-3.6	-417	-23.3	
Foreign liabilities	4,742	51	1.1	378	8.7	476	11.2	
Other liabilities	5,656	-249	-4.2	-153	-2.6	746	15.2	
Shareholder equity	8,246	155	1.9	210	2.6	360	4.6	

Source: Central Bank of Kuwait

Chart 4: Bank reserves

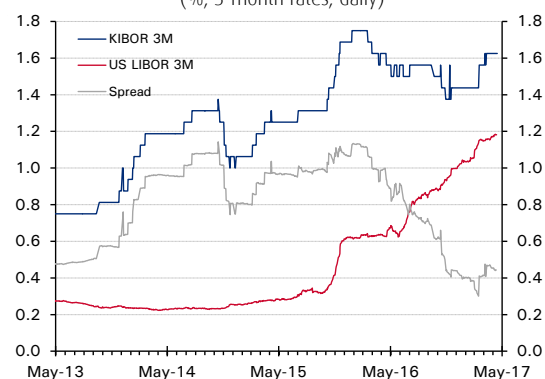
(% of bank assets)



Source: Central Bank of Kuwait

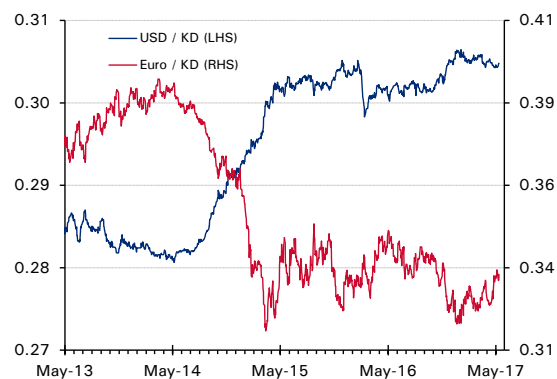
Chart 5: Interbank rates

(%, 3-month rates, daily)



Source: Thomson Reuters Datastream, Central Bank of Kuwait

Chart 6: Exchange rates



Source: Thomson Reuters Datastream

Head Office

Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 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

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

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

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait
(International) Plc
Paris Branch
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 Representative 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
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
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