

Monetary developments

Kuwait: Credit growth averages 7% in 2016

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Credit growth slowed further in December, despite a healthy gain during the month, on basis effects. Growth came in at 2.9% year-on-year (y/y), its slowest pace in nearly five years (Chart 1). December's healthy net gain of KD 291 million in lending was dominated by a jump in lending for the purchase of securities and an unusually large increase in investment company debt. Lending for households and business activity was weaker in December. Total credit growth averaged 7% in 2016. Private deposits were down, though they were largely offset by an increase in government deposits. Interest rates were mixed on the month.

Credit growth's recent slowdown is largely explained by a large corporate debt repayment in October, though basis effects were also to blame. A single borrower is thought to have repaid nearly KD 700 million. Still, we estimate that credit growth adjusted for this repayment still slowed to 5% y/y in December due to basis effects, as a result of large jump in lending in December 2015.

Household lending was weaker following two months of more robust gains. Growth eased to 6.5% y/y, well below the 12.6% y/y growth recorded at the end of 2015. December's gains topped out at a modest KD 52 million, in line with the relatively weaker average recorded during the first nine months of 2016, though much smaller than the stronger gains recorded in October and November (Chart 2).

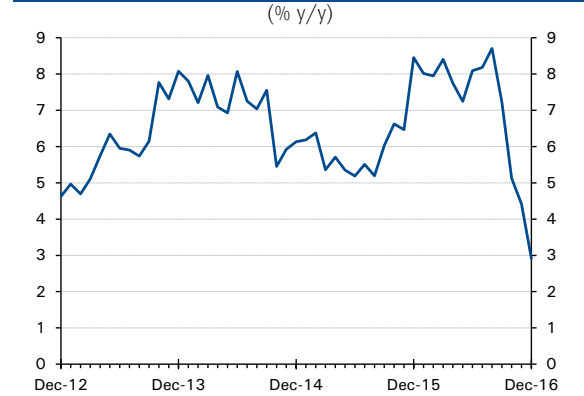
The weakness in household lending comes on the heels of a perceived slowdown in the consumer sector. Evidence has pointed to a decrease in household consumption. This has been visible in point-of-sale (POS) data, which shows consumer spending weakening notably in 2016. Growth in the value of local POS transactions slowed to 5.5% in 2016 from 13.3% in 2015.

Lending to nonbank financial companies saw a stronger than usual increase in December. Sector debt was up KD 85 million, as growth accelerated to 10.5% y/y. (Chart 2.) The sector, which ended 2016 with one of the most rapid paces of credit growth, was recording declines in debt just 12 months before and now appears to have clearly moved beyond more than six years of debt consolidation.

All remaining credit saw growth slow to 0.6% y/y on basis effects and the effects of the large debt repayment by a Kuwaiti company in October. (Chart 2.) The sector actually added KD 154 million in net new loans during the month, much of it in lending for the purchase of securities and the oil sector. These were partly offset by declines in real estate, industry and trade.

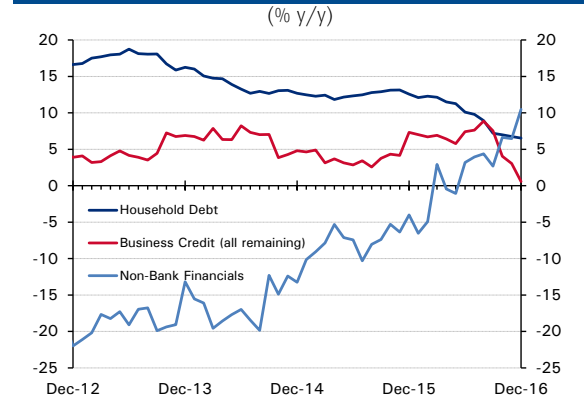
Private deposits were down KD 123 million in December, though mostly offset by a rise in government deposits. Broad M2 money supply growth fell to 3.1% y/y while growth in narrower M1 slowed to 2.1% y/y. The drop in deposits came largely from KD time and KD savings deposits, while KD sight deposits saw a small increase. Government deposits rose by KD 101 million during the month, offsetting

Chart 1: Credit growth



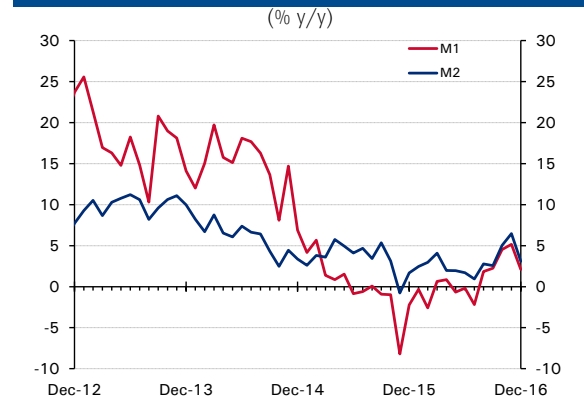
Source: Central Bank of Kuwait

Chart 2: Credit growth by component



Source: Central Bank of Kuwait

Chart 3: Money supply growth



Source: Central Bank of Kuwait

much of the decline in private deposits, with growth steady at 14% y/y.

Banking system liquidity retreated for a second consecutive month but remained healthy nonetheless. Bank reserves (cash, deposits with the CBK and CBK bonds) lost KD 609 million to reach KD 4.7 billion or 7.75% of total bank assets (Chart 4). This coincided with a drop in foreign assets and the government continuing to tap bank liquidity through the issuance of domestic bonds.

The issuance of domestic debt slowed slightly in December. Outstanding domestic public debt instruments (PDIs) rose by KD 100 million during December to KD 3.27 billion or an estimated 9.4% of GDP. This compares to a debt level of 4.6% in 2015. Meanwhile, outstanding CBK bills, used for liquidity management, decreased by KD 310 million in 2016, as the CBK reduced issuance of the 3-6 month paper to KD 8.4 billion in 2016 from KD 9.5 billion in 2015.

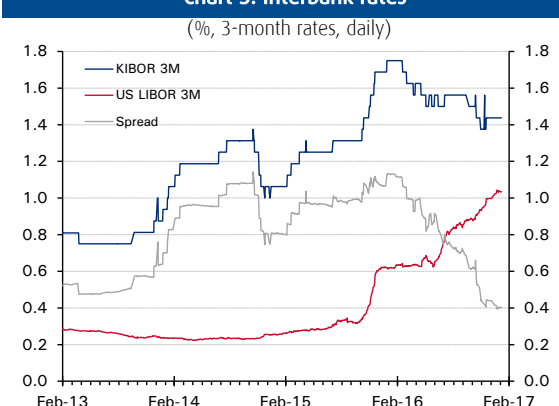
Interest rates were mixed in December as interbank rates continued to edge lower on ample liquidity in Kuwait, while deposit rates rose following the policy rate hike. The 3-month Kuwait interbank offered rate (Kibor) edged lower in December to 1.40% and has held relatively steady since (Chart 5). The rate was apparently unfazed by the CBK's 25 basis point (bp) discount rate hike in December. Customer deposit rates, however, did benefit from the hike, rising by 8-10 bps in December.

Chart 4: Bank reserves



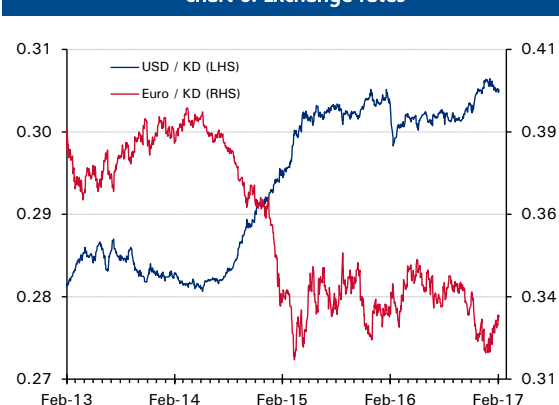
Source: Central Bank of Kuwait

Chart 5: Interbank rates



Source: Thomson Reuters Datastream, Central Bank of Kuwait

Chart 6: Exchange rates



Source: Thomson Reuters Datastream

Table 1: Monetary indicators

	Dec-16		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total system liquidity (M2)	35,613	-69	-0.2	-47	-0.1	1,072	3.1	
Currency in circulation	1,646	53	3.3	117	7.6	149	10.0	
Private sector deposits	33,967	-123	-0.4	-163	-0.5	923	2.8	
KD deposits	31,045	-128	-0.4	58	0.2	1,592	5.4	
Sight deposits	7,944	37	0.5	-159	-2.0	48	0.6	
Savings deposits	4,653	-42	-0.9	34	0.7	38	0.8	
Time deposits & CDs	18,449	-123	-0.7	183	1.0	1,506	8.9	
Foreign currency deposits	2,922	5	0.2	-221	-7.0	-669	-18.6	

Source: Central Bank of Kuwait

Table 2: Consolidated bank balance sheets

	Dec-16		1-month change		3-month change		12-month change	
	KD mn	KD mn	%	KD mn	%	KD mn	%	
Total bank assets	60,443	338	0.6	-171	-0.3	1,830	3.1	
Core liquid assets	4,922	-594	-10.8	143	3.0	-74	-1.5	
Cash and CBK deposits	1,179	-268	-18.5	188	18.9	276	30.5	
CBK bonds	3,042	-5	-0.2	-46	-1.5	1,167	62.2	
Time deposits with CBK	701	-320	-31.3	1	0.1	-1,517	-68.4	
Public debt instruments	3,287	101	3.2	504	18.1	1,707	108.1	
Interbank deposits	1,456	228	18.6	-259	-15.1	-1,145	-44.0	
Credit facilities	34,308	291	0.9	-443	-1.3	973	2.9	
Foreign assets	12,668	199	1.6	-311	-2.4	116	0.9	
Other assets	3,803	112	3.0	195	5.4	253	7.1	
Total bank liabilities	52,488	332	0.6	-103	-0.2	1,670	3.3	
Total deposits	40,646	-21	-0.1	-299	-0.7	1,723	4.4	
Private sector deposits	33,967	-123	-0.4	-163	-0.5	923	2.8	
Government deposits	6,679	101	1.5	-136	-2.0	800	13.6	
Interbank deposits	1,422	277	24.2	-203	-12.5	-996	-41.2	
Foreign liabilities	4,364	-53	-1.2	162	3.8	-329	-7.0	
Other liabilities	6,056	129	2.2	237	4.1	1,271	26.6	
Shareholder equity	7,955	6	0.1	-68	-0.9	161	2.1	

Source: Central Bank of Kuwait

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