Economic Insight

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# Kuwait: Domestic credit growth eased in Q2 amid regional conflict

**Domestic credit growth moderated to a still-decent 1.2% q/q in Q2 2026 from 1.8% in Q1, reflecting the first full quarter of impact from the US-Iran conflict. The slowdown was primarily driven by weaker but still-solid business credit growth and a contraction in lending to banks and financial institutions. Meanwhile, household credit gained some momentum in Q2, providing offsetting support to overall credit expansion. Domestic credit rose YTD 2.9% in Q2, below the 4.6% recorded during the same period of 2025. On the liabilities side, resident deposit growth eased but remained robust, supported by a further increase in public sector deposits (government plus public institutions) and a modest rise in private sector deposits. Meanwhile, both credit to non-residents and non-resident deposits contracted in Q2 amid heightened regional uncertainty and weaker cross-border financial activity. The outlook for credit demand during the remainder of the year hinges on developments in the US-Iranian conflict as renewed hostilities could weigh on sentiment while a resolution could unlock lending that was delayed by the conflict.**

Growth in business credit slowed significantly to 1.3% q/q in Q2 from 2.8% in Q1, bringing YTD growth to 4.2%, slightly above the 4.0% recorded during the same period of 2025. The moderation reflected slower lending across several major sectors including a contraction in the manufacturing sector (-1.6% q/q) and the softer growth in real estate (0.6%), oil & gas (1.8%), public services (1.8%), and other sectors (1.8%). Credit to banks and financial institutions contracted by -2.6% q/q, reversing the 5.0% gains recorded in Q1 and marking the first quarterly decline since Q3 2025, while credit for the purchase of securities grew by 1.2% q/q, unchanged from Q1, though considerably below the stronger gains recorded in the same period of 2025. In contrast, household credit accelerated sharply, expanding by 1.5% q/q compared with a subdued 0.1% in Q1, suggesting improved appetite for consumer borrowing which could be helpful for consumer spending. Meanwhile, credit to non-residents declined by -6.7% q/q, reversing the 3.4% q/q increase recorded in Q1, largely due to lower lending to foreign banks.

## Resident deposit growth remained solid despite a slowdown in Q2

On the funding side, resident deposits rose by 2.4% q/q in Q2, down from 3.8% in Q1, pushing the YTD growth to 6.3% by end-Q2. Slower growth came mainly due to a contraction in public institutions' deposits, which fell by -2.2% q/q after surging by 13.2% in Q1. Meanwhile, however, government deposits continued to provide strong support, jumping 23% q/q after a similar increase of 22% in Q1. Private sector deposits, which constitute 73% of resident deposits, showed signs of improvement, rising by 1.2% q/q following no growth in Q1; YTD growth of 1.2% remained below the 3.4% recorded a year earlier. Meanwhile, non-resident deposits fell by -4.6% q/q, reversing the 1.9% increase seen in Q1 and pushing YTD growth into negative territory (-2.8%). The weakness was driven primarily by a decline in foreign currency private sector non-resident deposits, reflecting more cautious cross-border financial flows amid the extension of the US-Iran conflict through the quarter.

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## Table 1: Credit

| Credit | Jun-2026 | % growth | | | |
|---|---|---|---|---|---|
| | KD billions | q/q | YTD | y/y | 2025 |
| **Business** | **26.7** | **1.3** | **4.2** | **6.2** | **6.0** |
| of which Real Estate | 11.1 | 0.6 | 3.4 | 5.2 | 5.2 |
| **Household** | **20.3** | **1.5** | **1.6** | **3.9** | **3.7** |
| Securities | 4.9 | 1.2 | 2.4 | 10.9 | 27.9 |
| Banks & financial instit. | 2.8 | -2.6 | 2.3 | 9.9 | 25.3 |
| **Total domestic credit** | **54.8** | **1.2** | **2.9** | **5.9** | **7.6** |
| Non-resident credit | 10.2 | -6.7 | -3.6 | 25.6 | 36.1 |
| **Total credit** | **64.9** | **-0.2** | **1.9** | **8.6** | **11.5** |

Source: Central Bank of Kuwait

## Table 2: Deposits

| Deposits | Jun-2026 | % growth | | | |
|---|---|---|---|---|---|
| | KD billions | q/q | YTD | y/y | 2025 |
| **Private sector** | **41.0** | **1.2** | **1.2** | **1.6** | **3.8** |
| of which Time dep. | 23.4 | 0.2 | -1.1 | 1.1 | 5.6 |
| of which CASA dep. | 15.4 | 0.5 | 3.3 | -0.2 | 0.8 |
| Public Institutions | 9.5 | -2.2 | 10.7 | 44.4 | 30.8 |
| Government | 5.6 | 23.3 | 50.6 | 28.2 | -23.5 |
| **Total resident dep.** | **56.2** | **2.4** | **6.3** | **9.4** | **4.7** |
| Non-resident deposits | 6.1 | -4.6 | -2.8 | 33.2 | 89.3 |
| **Total deposits** | **62.3** | **1.7** | **5.3** | **11.3** | **9.9** |

Source: Central Bank of Kuwait

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