

# BANKING SYSTEM IN KUWAIT REMAINS SOUND, STABLE DURING 2015: HASHEL

**KUWAIT:** The banking system in Kuwait remained sound and stable during 2015, where domestic credit posted a healthy growth, Governor of the Central Bank of Kuwait (CBK) Dr Mohammad Al-Hashel announced yesterday.

Banks non-performing loan ratio continued its steady decline to reach a historically low level, coverage ratio climbed to a new high, capital adequacy levels stayed robust and net income grew positively, albeit at a much slower pace than in 2014, Hashel said during the publication of the CBK Financial Stability Report (FSR) for 2015.

According to the report and after two years of double-digit growth, the banking system posted a much slower expansion when viewed on a consolidated basis; assets grew by a muted 2.6 percent during 2015.

## Domestic assets

Growth in domestic assets was much healthier at 5.7 percent on the back of strong growth in domestic credit which was up by 8.5 percent compared to 6.3 percent in 2014. As for growth in banks' consolidated deposits slowed down to 3 percent compared to 7.8 percent in 2014, Domestic deposits grew only a tad better, posting 3.3 percent increase in 2015. However, the banking system continued to enjoy a stable funding base with 63 percent of the total deposits placed in the time deposit category. Moreover the asset quality of the banking system has visibly improved over the last few years, exhibited by a steady decline in both the gross and net non-performing loan ratio, the gross on a consolidated basis, has dropped to a historically low level of 2.4 percent (1.9 percent on domestic, Kuwait-only basis) as of December 2015, well below 3.8 percent last observed in 2007 before the global financial crisis struck.

The Banks' net income, on consolidated basis, grew by a modest 7 percent to reach KD 705 million in 2015, at a much slower pace compared to 26.5 percent in 2014. Both return on assets as well as equity experienced a marginal improvement as growth in net income outpaced the growth in assets and equity.

As for Capital Adequacy Ratio (CAR) of the banking sector, it further improved to reach 17.5 percent, well above the CBK's 12.5 percent requirement for 2015. Though the improvement in CAR was largely driven by conventional banks in 2015.

Adding that the Islamic banks continued to maintain capital adequacy ratios above their conventional counterparts, which in part also explains their lower efficiency ratios. The

banks' overall leverage ratio was 9.7 percent in 2015, well above 3 percent benchmark proposed by the Basel Committee, indicating banks' capacity to extend credit without the risk of breaching the leverage ratio.

## Discount rate

CBK, in lockstep with the Federal Reserve, raised its discount rate by 25 bps in December 2015. Domestic inter-bank rates were on ascent few months in advance of CBK's move, largely in anticipation of an impending lift-off by the Federal Reserve. Both the scale of liquidity absorptions as well as interbank rates indicate that liquidity in the banking sector,



**Governor of the Central Bank of Kuwait (CBK) Dr Mohammad Al-Hashel**

while still healthy, has slightly tightened; accordingly, absorption both in terms of interventions and Tawaruq for shorter maturities visibly tapered by the close of 2015.

CBK's mop up exercise relied, almost entirely, on the use of one-week instruments, further reducing the share of one-month arrangements. In the foreign exchange market, KD depreciated against USD by 3.6 percent in 2015 while appreciating against EURO and GBP by 6.7 percent and 0.9 percent respectively; diverging growth trajectories and monetary policies across major economies influenced the exchange rates.

Kuwait Stock Exchange, moving in lockstep with the protracted decline in oil prices, closed the year down in double digits (14.1 percent) as

the absence of a domestic catalyst left the market more attuned to global developments; large cap stocks retreated by 15 percent (Kuwait-15 index) despite banks' healthy profits.

Kuwait's real estate market also markedly slowed down both in terms of number and sales value of the deals, after enjoying positive growth for five consecutive years (with a particularly robust expansion in 2014).

The retreat was broad based as all three segments (residential, investments and commercial) contracted significantly as steady fall in oil prices weighed on investors' sentiments. Yet the real estate prices seemingly held up well, averting any serious correction; this suggests the presence of genuine demand as well as investors' preference to stay put.

However, materialization of an extreme tail event like a sharp correction in the real estate prices, though highly unlikely, could test the resilience of the banking sector, given banks' significant exposure to the real estate market, both in terms of loans and collaterals. Both retail and large-scale payment systems in Kuwait have been steadily growing, exhibiting the increasing role of modern payment systems in facilitating a myriad of transactions on a daily basis. During 2015, value of ATMs and point of sale (POS) based transactions posted growth of 5.2 percent and 13.2 percent respectively. These growth trends are similar to the ones observed in 2014 and underscore the resilience of household consumption in Kuwait despite a challenging economic environment. There are, however, signs of a slowing trend in the sales of consumer durables.

## E-banking

To facilitate the increasing use of e-banking, necessary infrastructure in Kuwait has also been expanding; the number of ATMs and POS machines grew by 4.7 percent and 13.1 percent, respectively reaching 1,708 and 43,322 machines by December 2015. Moreover, branch network also continued to expand (particularly for Islamic banks), bringing total bank branches in Kuwait to 422.

The Governor indicated that growth in private sector credit is likely to remain healthy amid ongoing emphasis on capital spending. Moreover, oil market is heading towards a more balanced position. The Kuwaiti banking sector, which has remained unscathed so far, is likely to benefit further from this relatively improved outlook on domestic front. And the banking sector is well placed to remain resilient in the near term, though the capacity to withstand various shocks does vary across banks. — KUNA



The Central Bank of Kuwait's head office.

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