

Business

NBK Economic Report

# Kuwait's credit growth edges lower in Q2 2019; CBK leaves policy on hold

## Business lending growth slows; deposit growth drops

**KUWAIT:** Kuwait's credit growth eased slightly in 2Q19, ending at 4.8 percent y/y versus 5.2 percent in March. The slowdown was driven mostly by a moderation in lending to businesses, which slipped to 5.1 percent from 6.1 percent in March, albeit driven by a base effect following a jump in lending in June 2018. Growth in household lending continued to edge down on softer housing loans, contrasting a jump in lending for consumption. Given reasonable economic growth, a steady flow of project spending by the government, decent employment conditions and a global interest rate cycle now tilted towards easing, we do not expect credit growth to dip a great deal further over coming months, likely remaining in the 4-5 percent range, which is around double the 2.3 percent average for last year.

The slowdown in business lending growth in Q2 was due to the oil and gas sector, where borrowing had surged in June 2018 on financing for a large government LNG project; excluding this, business lending would have accelerated significantly in the quarter. Elsewhere, it was another good quarter for lending to the real estate sector, which rose 8.9 percent y/y in June and has accelerated sharply this year, pointing to recovering activity in that sector. Other sectors were a mixed bag, though lending to the smaller but still important trade (0.4 percent) and construction (-1.6 percent) sectors weakened.

News on the household sector was also mixed, though continued the trends of previous months. Growth in loans for home purchase - which are worth around 90 percent of total household lending (excluding securities purchase borrowing) - slowed to 4.2 percent y/y from 5.4 percent in March and to around half its level of a year ago. By contrast, the smaller consumer loan segment surged once again, rising 18 percent versus 7.8 percent in March - and its fastest pace in over six years. The pick-up reflects the continuing effect from the central bank's loosening of restrictions on consumer loans last



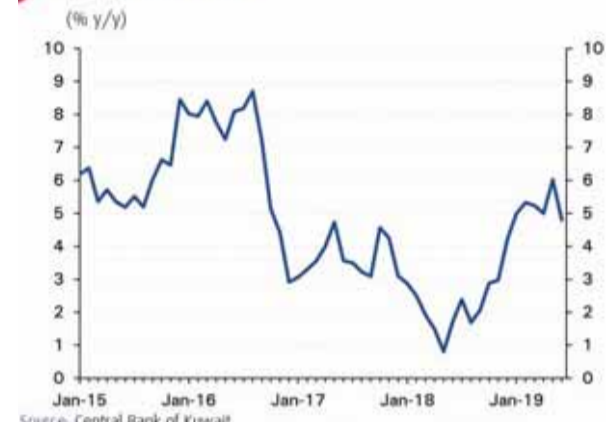
December and based upon reasonable assumptions, the annual growth rate could accelerate still further over coming months. Separately, growth in lending for securities purchases edged up to 2.2 percent y/y from 1.2 percent at the end of Q1, amid a generally improving picture over the past year due to more favorable attitudes toward the stock market driven by index upgrades. Finally, lending to investment firms fell 2.3 percent y/y in June, but broadly steadied in Q2 after significant deleveraging last year.

Meanwhile, deposit growth halved to 1.2 percent y/y in June from 2.4 percent in March, driven by a softening in private deposit growth to 1.5 percent from 5.1 percent (though month-on-month June was solid) on slower growth in time deposits. Weak growth in private sector deposits was only partially offset by an improving trend in government deposits, which can be volatile and which had been very soft earlier in the year. Reflecting these trends, growth in the M2 money supply measure stood at a modest 1.6 percent y/y in June versus 5.0 percent in March.

Following the US Federal Reserve's 25 bps cut in interest rates at the end of July, the Central Bank of Kuwait (CBK) opted to leave its main policy interest rates on hold at 3.0 percent for the discount rate and 2.5-3.25 percent for the repo rates of different maturities.

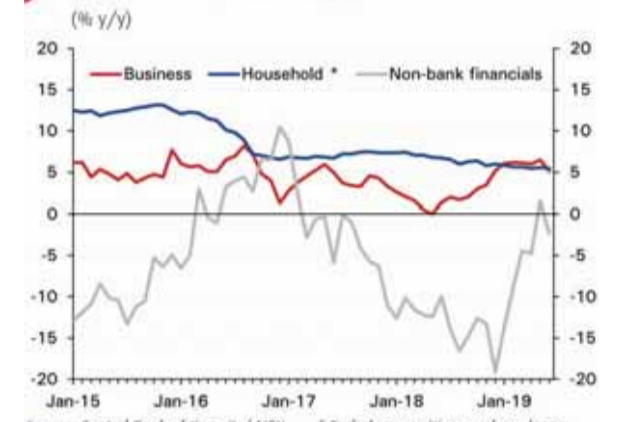
The CBK has been less active than the Fed in the

Chart 1: Bank credit (% y/y)



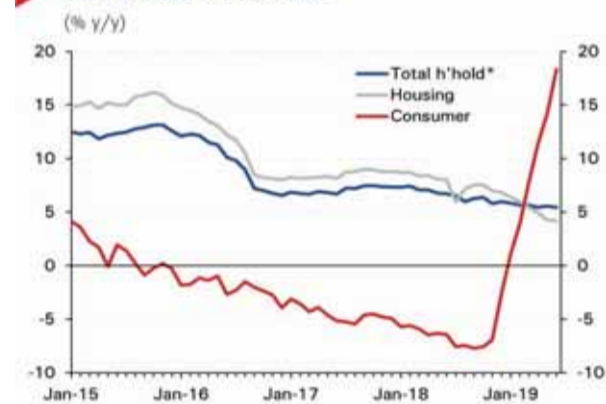
Source: Central Bank of Kuwait

Chart 2: Credit by broad category (% y/y)



Source: Central Bank of Kuwait / NBK \* Excludes securities purchase loans

Chart 3: Credit to households (% y/y)



Source: Central Bank of Kuwait / NBK \* Excludes securities purchase loans

Chart 4: Money supply growth (% y/y)



Source: Central Bank of Kuwait

recent past, having lifted the discount rate on only four of the nine occasions the Fed has hiked rates in the tightening cycle that began in 2015. The CBK stated that the decision to hold was in line with maintaining a healthy margin in favor of the dinar

and to allow for a conducive environment for economic growth. The Kuwaiti dinar, meanwhile, has remained broadly flat against the US dollar this year at \$3.29/KD1, but has appreciated versus the euro (2 percent) and British pound (6 percent).

## 2019 Infiniti QX60 earns top safety ratings



**KUWAIT:** The 2019 Infiniti QX60 luxury crossover was recently awarded Top Safety Pick by the Insurance Institute for Highway Safety (IIHS), as well as a 5-star overall vehicle safety rating as part of the National Highway Traffic Safety Administration's (NHTSA) and New Car Assessment Program (NCAP).

Driven by the safety of its customers and their passengers as a top priority, the award-winning QX60 offers a combination of family-oriented features as well as a welcoming, carefully crafted design inside and out.

Standard on all QX60 models is a breakthrough technology designed especially for active families - Rear Door

Alert. The new Rear Door Alert system, first introduced on the 2018 QX60, can help remind customers of things that may be forgotten in the rear seat, such as pets, valuables, dry cleaning, groceries and more. Other available driver assist technologies include: Around View Monitor with Moving Object Detection; Lane Departure Warning and Lane Departure Prevention; Backup Collision Intervention; Blind Spot Intervention; and Intelligent Cruise Control (Full-Speed Range). Also offered are the advanced Predictive Forward Collision Warning system and Forward Emergency Braking with pedestrian detection.

Table 1: Monetary indicators

|                             | KD mn  |        |        |        | % m/m |       |       |       | % y/y |       |       |       |
|-----------------------------|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
|                             | Mar19  | Apr19  | May19  | Jun19  | Mar19 | Apr19 | May19 | Jun19 | Mar19 | Apr19 | May19 | Jun19 |
| Total system liquidity (M2) | 38,947 | 38,815 | 38,242 | 39,000 | 0.7   | -0.3  | -1.5  | 2.0   | 5.0   | 2.6   | 0.6   | 1.6   |
| Currency in circulation     | 1,803  | 1,892  | 2,063  | 1,885  | -0.1  | 4.9   | 9.0   | -8.6  | 4.6   | 11.5  | 9.8   | 2.0   |
| Private sector deposits     | 37,144 | 36,924 | 36,180 | 37,115 | 0.7   | -0.6  | -2.0  | 2.6   | 5.1   | 2.2   | 0.1   | 1.5   |
| KD deposits                 | 34,387 | 34,463 | 33,864 | 34,588 | 0.6   | 0.2   | -1.7  | 2.1   | 4.9   | 4.1   | 0.9   | 2.4   |
| Sight deposits              | 8,689  | 9,071  | 9,356  | 9,112  | 2.4   | 4.4   | 3.1   | -2.6  | 0.3   | 0.0   | 2.4   | 1.1   |
| Savings deposits            | 5,100  | 5,245  | 5,276  | 5,300  | -0.1  | 2.8   | 0.6   | 0.5   | 2.7   | 5.0   | 2.4   | 2.6   |
| Time deposits & CDs         | 20,599 | 20,147 | 19,231 | 20,176 | 0.1   | -2.2  | -4.5  | 4.9   | 7.6   | 5.9   | -0.2  | 3.0   |
| Foreign currency deposits   | 2,757  | 2,461  | 2,316  | 2,527  | 1.8   | -10.7 | -5.9  | 9.1   | 6.5   | -19.3 | -10.0 | -9.4  |

## Joyalukkas opens its new showroom in Hyderabad



Joyalukkas inaugurated its new showroom in Hyderabad, India. The showroom was inaugurated by Devireddy Sudheer Reddy (MLA LB Nagar) in the presence of other dignitaries.

## EXCHANGE RATES

| Al-Muzaini Exchange Co.                  |         | Dollarco Exchange Co. Ltd |              | BAHRAIN EXCHANGE COMPANY WLL |          | Chinese Yuan |          |
|--|---------|---------------------------|--------------|------------------------------|----------|--------------|----------|
|  |         | Rate for Transfer         | Selling Rate | CURRENCY                     | BUY      | SELL         |          |
| <b>EUROPEAN &amp; AMERICAN COUNTRIES</b> |         | Yemen Riyal/for 1000      | 1.224        | British Pound                | 0.362160 | 0.376060     | 0.041881 |
| US Dollar Transfer                       | 304.800 | US Dollar                 | 304.090      | Czech Korune                 | 0.005062 | 0.014362     | 0.036764 |
| Euro                                     | 339.850 | Canadian Dollar           | 230.300      | Danish Krone                 | 0.041194 | 0.046194     | 0.003756 |
| Sterling Pound                           | 371.550 | Sterling Pound            | 368.445      | Euro                         | 0.330034 | 0.343734     | 0.000017 |
| Canadian dollar                          | 229.950 | Euro                      | 341.840      | Georgian Lari                | 0.103506 | 0.103506     | 0.000273 |
| Turkish lira                             | 54.570  | Swiss Frank               | 297.245      | Hungarian O.000942           | 0.001132 | 0.001132     | 0.000241 |
| Swiss Franc                              | 313.100 | Bahrain Dinar             | 808.690      | Norwegian Krone              | 0.029880 | 0.035080     | 0.069189 |
| US Dollar Buying                         | 297.600 | UAE Dirhams               | 83.195       | Romanian Leu                 | 0.054388 | 0.071238     | 0.002682 |
| <b>ASIAN COUNTRIES</b>                   |         | Qatari Riyals             | 84.435       | Russian ruble                | 0.004538 | 0.004538     | 0.001343 |
| Japanese Yen                             | 2.861   | Saudi Riyals              | 81.985       | Slovakia                     | 0.009118 | 0.019118     | 0.001343 |
| Indian Rupees                            | 4.275   | Jordanian Dinar           | 430.185      | Swedish Krona                | 0.027412 | 0.032412     | 0.00821  |
| Pakistani Rupees                         | 1.944   | Egyptian Pound            | 18.403       | Swiss Franc                  | 0.303990 | 0.314990     | 0.000017 |
| Sri Lankan Rupees                        | 1.716   | Sri Lankan Rupees         | 1.719        | Australian Dollar            | 0.198423 | 0.210423     | 0.000273 |
| Nepali Rupees                            | 2.656   | Indian Rupee              | 4.297        | New Zealand Dollar           | 0.189445 | 0.198945     | 0.000241 |
| Singapore Dollar                         | 220.950 | Pakistani Rupees          | 1.919        | America                      |          |              | 0.000241 |
| Hongkong Dollar                          | 38.854  | Bangladesh Taka           | 3.601        | Canada Dollar                | 0.223372 | 0.232372     | 0.000241 |
| Bangladesh Taka                          | 3.597   | Philippines Peso          | 5.859        | US Dollars                   | 0.300700 | 0.306000     | 0.000241 |
| Philippine Peso                          | 5.838   | Cyprus pound              | 18.090       | US Dollars Mint              | 0.301200 | 0.306000     | 0.000241 |
| Thai Baht                                | 9.923   | Japanese Yen              | 3.881        | Asia                         |          |              | 0.000241 |
| Malaysian ringgit                        | 77.954  | Syrian Pound              | 1.590        | Bangladesh Taka              | 0.002982 | 0.003783     | 0.000241 |
| <b>GCC COUNTRIES</b>                     |         | Nepalese Rupees           | 2.679        |                              |          |              | 0.000241 |
| Saudi Riyal                              | 81.334  | Malaysian Ringgit         | 73.480       |                              |          |              | 0.000241 |
| Qatari Riyal                             | 83.771  | Chinese Yuan Renminbi     | 43.520       |                              |          |              | 0.000241 |
| Omani Riyal                              | 792.203 | Thai Bhat                 | 10.870       |                              |          |              | 0.000241 |
| Bahraini Dinar                           | 809.980 |                           |              |                              |          |              | 0.000241 |
| UAE Dirham                               | 83.040  |                           |              |                              |          |              | 0.000241 |
| <b>ARAB COUNTRIES</b>                    |         |                           |              |                              |          |              | 0.000241 |
| Egyptian Pound - Cash                    | 21.650  |                           |              |                              |          |              | 0.000241 |
| Egyptian Pound - Transfer                | 18.411  |                           |              |                              |          |              | 0.000241 |