

NBK Economic Report

Kuwait's household credit picks up, but business credit growth muted

Private sector deposits down 2.8% y/y

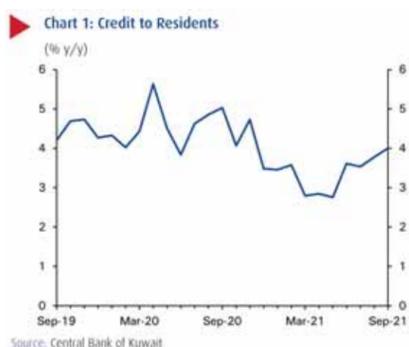
KUWAIT: Domestic credit growth picked up to 2.1 percent q/q in 3Q2021 with the y/y increase at 4 percent through September. For the fifth consecutive quarter, household lending was the main growth driver, while business lending has been slow to recover from the pandemic-related slowdown. Business credit was flat in 3Q2021 with the y/y increase at only 0.3 percent through September. While the pandemic-induced shock continues to put pressure on the growth in business credit, we think that relatively high repayments/write-offs are also a likely factor for the weak business credit trends over the past year.

Nevertheless, the various sectors showed wide differences with the trade and construction sectors continuing to be the weakest, falling by 13 percent and 11 percent y/y, respectively. In contrast, credit growth in the oil/gas (+14 percent y/y) and industry (+11 percent) sectors was very robust. Credit to real estate, by far the largest component of business credit with a 43 percent share, continued to gradually inch up with the y/y increase at 2.3 percent through September.

Household credit accelerated to register the fastest quarterly growth since the third quarter of last year, with the y/y increase at 11.2 percent through September. This strong expansion was driven by housing loans as well as personal consumption loans with both growing at around 11 percent y/y. The six-month deferral of household credit installments for Kuwaiti borrowers (which is set to expire in Q4), the ongoing robust demand/high valuations in the residential real estate sector, and the continued solid consumer spending are some of the key factors behind this multi-year record expansion in household lending.

Overall credit growth in 3Q2021 got a boost from a solid expansion in lending to non-bank financial institutions, which soared by a multi-year high of nearly 10 percent q/q, and from credit for securities purchase, which increased by the second-highest quarterly rate in the past two years. Going into 2022, credit growth will likely be supported by the further normalization of economic activities given the major pickup in vaccination rates and the ongoing easing of pandemic-related restrictions. Business credit should be supported by a likely improvement in project awards and by the pent-up demand for capital spending (CAPEX) given muted CAPEX by corporates since the outbreak of the pandemic. As for household credit, growth will likely start to trend down to pre-pandemic levels following the Q4 expiry of the six-month deferral of household credit installments of Kuwaiti borrowers.

On the other hand, passage of the mortgage



law in one form or another (which is expected) will be a game changer, providing significant growth potential for the banks given the very strong demand for housing loans. Finally, in an effort to continue supporting the economic recovery, the Central Bank of Kuwait will only gradually unwind the easing of some of its liquidity and capitalization regulations that took effect in April last year due to the onset of the pandemic. Almost all prudential regulations shall get back to their pre-pandemic levels effective January 2023.

Private-sector deposits

Domestic deposits inched up by 0.8 percent q/q, fully driven by government deposits, with the y/y expansion still very much muted (-3.3 percent

Highlights:

- Domestic credit growth strengthened to 2.1% q/q in 3Q2021, with the y/y increase at 4% through September.
- Business credit was flat in Q3 and y/y growth remains muted (0.3%) as the recovery from the pandemic shock is proving to be slow.
- Household credit increased at the fastest quarterly rate in a year, with the y/y increase at 11.2% through September.
- Private-sector deposit growth continued to be muted, while government deposits rebounded in Q3 following a steep drop in 1H2021.
- Going into 2022, credit growth should be supported by the normalization of business activities and higher capital spending by corporates
- Absence of loan deferral schemes will soften household credit growth but the mortgage law passage will be a game changer.



KUWAIT: A citizen checks the forex rates at a currency exchange shop in Kuwait City in this file photo. — Photo by Yasser Al-Zayyat

through September). Private-sector deposits are down 2.8 percent y/y, while government deposits have dropped by 5.5 percent probably related to the liquidity constraints that the government has been facing. However, following two quarters of steep decreases, government deposits showed improving trends, rebounding by 7.3 percent q/q likely driven by surging oil prices.

Looking at the breakdown of KD private sector deposits, the trend that has been at play since the

outbreak of the pandemic (which is current and saving (CASA) deposits expanding much faster than time deposits for six consecutive quarters) reached a stand-still in 3Q2021 as CASA edged down slightly while time deposits inched up by 1 percent. Nevertheless, from a y/y perspective, CASA is still up 5.6 percent, while time deposits are down 10 percent. The steep fall in interest rates last year (banks shedding expensive institutional deposits to defend margins and depositors facing lower opportunity cost from keeping funds in CASA deposits) and the deferral of credit instalments have been two key drivers for the changing composition of private sector deposits.

The lack of growth in domestic deposits over the past year led to an increase in the sector's domestic loans-to-deposits ratio, which reached 93.5 percent in September from around 87 percent one year ago, reflecting the slightly tighter liquidity situation.

Policy interest rates on hold

The CBK's discount rate has remained at 1.5 percent since March 2020 and will likely stay at that level in the short term given that the US Federal Reserve is unlikely to hike its policy rate in the first half of 2022. However, interest rates (weighted average as calculated by the CBK) on KD-denominated deposits seem to have bottomed out and actually have started to very gradually trend higher in the past few months. Kuwaiti banks' results confirm this trend as all witnessed a q/q increase in the cost of funds in 3Q2021.

Thamer Arab: DHAMAN first healthcare PPP body in Middle East

KUWAIT: The first Kuwait Public-Private Partnership Conference (PPPKW) was launched under the patronage of His Highness the Prime Minister Sheikh Sabah Khaled Al-Hamad Al-Sabah with the sponsorship and participation of Health Assurance Hospitals Company (DHAMAN), where DHAMAN CEO Thamer Arab delivered a keynote speech in which he expressed gratitude to the sponsor of the conference His Highness the Prime Minister, as well as his representative the Deputy Prime Minister and Minister of Defense Sheikh Hamad Jaber Al-Ali Al-Sabah, noting the importance of the event, which reflects the strategic economic direction of the State of Kuwait to expand the scope of private sector participation, as it is the most important pillar of the economic system, and considered as one of the main directions for facing challenges and implementing the vision of New Kuwait 2035.

Thamer Arab added that countries and governments are seeking various ways to develop healthcare for their communities, and many of them tend to invest in strategic partnerships between the public and private sectors for this goal. In Kuwait, we find that the number of residents is large compared to the number of citizens, which prompted the State of Kuwait to adopt advanced healthcare systems through public-private partnerships to reduce the financial burdens on the state budget, improve the operation of healthcare services and facilities, as well as expand access to high-quality healthcare.



Thamer Arab

Therefore, Kuwait launched the first pioneering and ambitious partnership in the health sector through the Health Assurance Hospitals Company (DHAMAN) to become the new healthcare destination for all residents working in the private sector and their families, as well as an

optional destination for citizens.

Thamer Arab noted that the establishment of DHAMAN is based on an Amiri directive and a resolution of the Council of Ministers to be one of the strategic projects and the most important element of the healthcare pillar in the vision of New Kuwait 2035 in the development plan to provide high-quality healthcare and develop the infrastructure of the health sector to benefit Kuwaiti citizens and nearly 2 million of residents working in the private sector and their families, which will lead to direct results in reducing the operational and financial burdens on government health facilities, as the numbers prove the need to reduce the state budget to maximize economic benefits, as well as stimulate projects and development programs to reach the Amir's vision for New Kuwait 2035.

DHAMAN works to enhance the financial sustainability of the country through two directions, with the first is to reduce the financial and administrative burdens on the state represented in capital expenditures and costs directed to the health sector, which doubles at large rates annually, while the second direction is to achieve rewarding investment returns for shareholders, including the public sector and Kuwaiti citizens.

Thamer Arab highlighted the achievements of DHAMAN that despite the repercussions of the COVID-19 pandemic, the Company has taken tangible steps in establishing its integrated healthcare sys-

tem, which includes a network of primary healthcare centers and hospitals, where three healthcare centers were opened in Hawally, Farwaniya and Dhajeej, and it is currently completing two additional centers in Jahra and Fahaeel, which gives it more presence in various areas.

The company has also completed more than 50 percent of the construction and readiness for its hospitals in Ahmadi and Jahra with a total capacity of 600 beds and many important medical specialties with all related facilities. The upcoming two hospitals and two centers will be completed during 2022, giving more momentum and capabilities to the Company, stressing that the expected full operation of DHAMAN facilities will contribute to the development of the healthcare system in Kuwait, stimulate an effective environment for the application of quality programs in health services, and provide the opportunity to focus on prevention, community health and enhance public awareness, which lead to improving the level of service provided to citizens and residents alike.

Thamer Arab affirmed that DHAMAN represents a major foundation for the plans to develop the health sector in Kuwait, especially the size of its investments amount to approximately KD 180 million, which is aimed at developing the sector's infrastructure with the application of sustainability principles, quality enhancement, prevention and community health programs, which affect increasing of healthcare indicators for the State of Kuwait on international level, with this and more in cooperation and coordination with the Ministry of Health (MoH), which has contributed and is still contributing greatly to the State of Kuwait.

In conclusion, Thamer Arab expressed gratitude and appreciation to the sponsor of the conference, all participants, and the event's organizer Nouf Expo, wishing that all partnership projects achieve their goals by contributing to the development and progress of Kuwait to implement Healthcare ... for New Kuwait.

but foreign spectators and almost all domestic fans were barred.

Analysts said that the slowdown was likely short-lived as Japan's vaccination program has picked up speed, with the government lifting virus restrictions in October. "For the fourth quarter, if the virus cases are kept low, consumption will probably bounce back strongly," said Takashi Miwa, economist at Nomura Securities.

He warned though that "some companies say the impact on production from the supply issues may continue until December." New Prime Minister Fumio Kishida has vowed to shore up economic growth after a series of hits from the virus. He is expected to announce an economic stimulus package worth hundreds of billions of dollars this week and his government has pledged to provide vaccine booster shots as early as next month. —AFP



HAIAN, China: Employees work on solar photovoltaic modules at a factory in Haian in China's eastern Jiangsu province yesterday. —AFP

China's factory output, retail sales see surprise jump in Oct

BEIJING: China's economy showed signs of stabilizing in October, according to data yesterday, with retail sales and factory output beating expectations as a power supply crisis appeared to ease.

The recovery in the world's second biggest economy has been losing steam for much of the year after a swift bounceback from harsh lockdowns to contain COVID-19, with officials earlier citing an "unstable and uneven" economic rebound. Power outages in recent months caused by emission reduction targets, the surging price of coal, and supply shortages also had impacted some factory production.

But industrial production grew 3.5 percent one-year last month, up from September, said the National Bureau of Statistics, as China worked to boost coal production and ease the energy shortage. A survey of economists by Bloomberg News tipped a 3.0 percent expansion.

However, NBS spokesman Fu Linghui cautioned yesterday that the "international environment remains complex and severe" with many uncertainties, adding that China needs to "work harder to maintain economic stability and recovery". "While electricity shortages and production cuts hampered output in early October, we don't think they are a significant problem anymore," said Louis Kuijs of Oxford Economics yesterday. He added that this follows "a range of policy measures to boost coal production and lower coal prices".

But economic momentum remained weak in October, he said, "with the real estate downturn weighing on industry and a new wave of COVID outbreaks dampening household consumption". —AFP

COVID hit Japan economy harder than expected in Q3

TOKYO: Japan's economy shrank far more than expected in the three months to September, as a surge in virus cases hit spending and supply chain issues hampered business, data showed yesterday. The world's third largest economy shrank 0.8 percent quarter-on-quarter, much worse than the 0.2 percent economists had forecast.

The contraction was driven in part by a 1.2 percent dip in household consumption that tracked the imposition of a virus state of emergency over the summer, when Japan saw its worst-ever COVID

surge. Also weighing heavily was a drop in non-residential investment, which plunged 3.8 percent on a chip shortage and supply chain issues that weighed on factory output.

Exports, another key factor driving Japan's economy, were also down, with vehicle exports stalling over a shortage of semiconductor components, though imports of goods and services also dropped, making net trade a slight positive overall for GDP growth. The data, issued by the Cabinet Office, revised the figure for the second quarter to June to 0.4 percent growth.

Virus cases surged in Japan over the summer, after a slow start to the country's vaccination campaign, and the government imposed a virus state of emergency that limited restaurant and bar opening hours and alcohol sales. The Olympics went ahead during the period, despite calls for its cancellation,