

بنك الكويت المركزي
CENTRAL BANK OF KUWAIT



First Issue – November 2022

Overview of The Key Economic, Monetary and Banking Developments



Introduction

This issue sheds light on the key economic, monetary and banking developments in the State of Kuwait, and highlights the most important related indicators in some selected countries during the third quarter of 2022. This issue is the first of a series of new issues developed by the Central Bank of Kuwait (CBK), and it will be issued quarterly.

The International Monetary Fund (IMF)'s World Economic Outlook Report, October 2022, lowered its **global economic growth** forecast to 3.2% in 2022 and 2.7% in 2023, compared to a growth of 6.0% in 2021 (lower than April and July 2022 growth forecasts) under the burden of four interrelated factors, i.e. the current higher cost of living, tightening monetary policies in many countries, impact of the Russian-Ukrainian war, and the lingering effects of Corona pandemic. The Fund also expected that this slowdown would be accompanied by increasing rates of inflation, reaching 8.8% in 2022, before declining to 6.5% in 2023.

For 2022, the Fund's forecasted Real GDP in Kuwait to grow 8.7% compared to 8.2% for the said year (as in the April 2022 Outlook). Meanwhile, the Fund projection for growth kept unchanged at 2.6% in 2023.

Within the central banks' attempt to stabilize price levels, despite the continued slowdown of inflation rate in the United States since June 2022 after reaching an all-time high of 9.1% in May 2022 to reach 8.3% in October 2022, the Federal Reserve continued to implement its tightened monetary policy and hiked interest rate by 75 basis points for the fourth consecutive time on November 2, 2022, which is the sixth increase of the year, in an attempt to curb inflation which reached record levels. Many central banks around the world followed the Fed, whether by raising the interest rate by the same percentage or at different rates, while other central banks chose to keep their interest rates unchanged at its current levels, the CBK did not follow the Fed footsteps in moving the interest rate.

Examples of the Movement in line with the Fed Monetary Policy Since February 2022 (+375 bps)

Significant Movement								
	(+350)	(+375)	(+375)	(+375)	(+400)	(+575)	(+350)	(+350)
								
	(+500)							
Proportionate Movement								
	(+100)	(+50)	(+275)	(+190)	(+250)	(+250)	(+225)	(+200)
								
	(+200)	(+175)	(+150)					
Reverse Movement								
	(-5)	(-125)	(-250)	(0)				

In light with CBK's incessant monitoring of economic and monetary developments and indicators in international markets, as well as the geopolitical developments, and the impact of these developments and the need to respond according to the requirements and **nature of the State of Kuwait's economy**, and the available data reflecting the continued soundness and resilience of the monetary and financial stability conditions in the State of Kuwait, all available tools have been activated and enhanced to achieve CBK's goals. This comes within the CBK monetary policy framework that aims to enhance **monetary and financial stability** of the banking sector's units, maintain **attractiveness of the national currency** as a store of the local savings and reinforce an environment inducing to **sustainable economic growth**.



The following is a brief analysis of the economic, monetary and financial indicators of the State of Kuwait:



First -Inflation Rate in the State of Kuwait:

Inflation rate in the State of Kuwait continued to slowdown (on an annual basis) for the fifth consecutive month, as it declined from 4.71% in April 2022 to 3.19% in September 2022. In contrast, many global economies are still (including most economies in the region) showing an upward trend in inflation during the same period.

Figure (1): Average Inflation Rate of Selected Countries (annual basis %)

↑ 4.37%	↓ 3.99%	↓ 4.03%	↑ 1.62%	↑ 3.21%	↑ 7.9%	↑ 6.2%	↑ 5.9%	Feb-22
↓ 4.36%	↑ 4.42%	↓ 3.57%	↑ 2.04%	↑ 3.94%	↑ 8.5%	↑ 7.0%	↑ 7.4%	Mar-22
↑ 4.71%	↑ 4.66%	↓ 2.63%	↑ 2.30%	↓ 3.53%	↓ 8.3%	↑ 9.0%	↑ 7.4%	Apr-22
↓ 4.52%	↑ 5.18%	↓ 2.44%	↓ 2.24%	↓ 3.52%	↑ 8.6%	↑ 9.1%	↑ 8.1%	May-22
↓ 4.42%	↑ 5.41%	↑ 2.91%	↑ 2.31%	↓ 3.09%	↑ 9.1%	↑ 9.4%	↑ 8.6%	Jun-22
↓ 4.24%	↓ 4.98%	↓ 2.61%	↓ 2.67%	↑ 3.91%	↓ 8.5%	↑ 9.9%	↑ 8.9%	July-22
↓ 4.15%	↓ 4.80%	↓ 2.42%	↑ 3.00%	↑ 4.01%	↓ 8.3%	↓ 9.9%	↑ 9.1%	Aug-22
↓ 3.19%	↑ 6.03%	↓ 2.33%	↑ 3.07%	↓ 4.00%	↓ 8.2%	↑ 10.1%	↑ 10%	Sep-22

Source: Statistical agencies of the selected countries.

Central banks design their monetary policies based on their objectives, economic requirements and local economic conditions. However, many of those banks whose currency is pegged to the US dollar (USD), as it is the reliable international currency used in completing commercial and financial transactions between countries, often follow Federal Reserve decisions regarding interest rates (as one of the tools of monetary policy). As for countries with floated exchange rate or exchange rate pegged to a basket of currencies, their decisions are often not in line with the Fed decisions but rather consider their economic conditions.



The KWD maintained its relative stability against major international currencies due to the KD exchange rate policy which peg the KWD to a special weighted basket of currencies of Kuwait's major trade and financial partner countries.



As for the exchange rate in the State of Kuwait, we note that since May 20, 2007, by virtue of the Decree No. 147/2007, the Kuwaiti dinar (KWD) exchange rate has been pegged to an undisclosed weighted basket of international currencies of Kuwait's major trade and financial partner countries. The CBK's policy for the KWD exchange rate is a key factor in achieving relative stability of the KWD against other international currencies. This policy indirectly helped mitigate the impact of imported inflation on the domestic economy reflecting the importance of the exchange rate for the Kuwaiti economy, which does not impose any restrictions on the movement of capital.

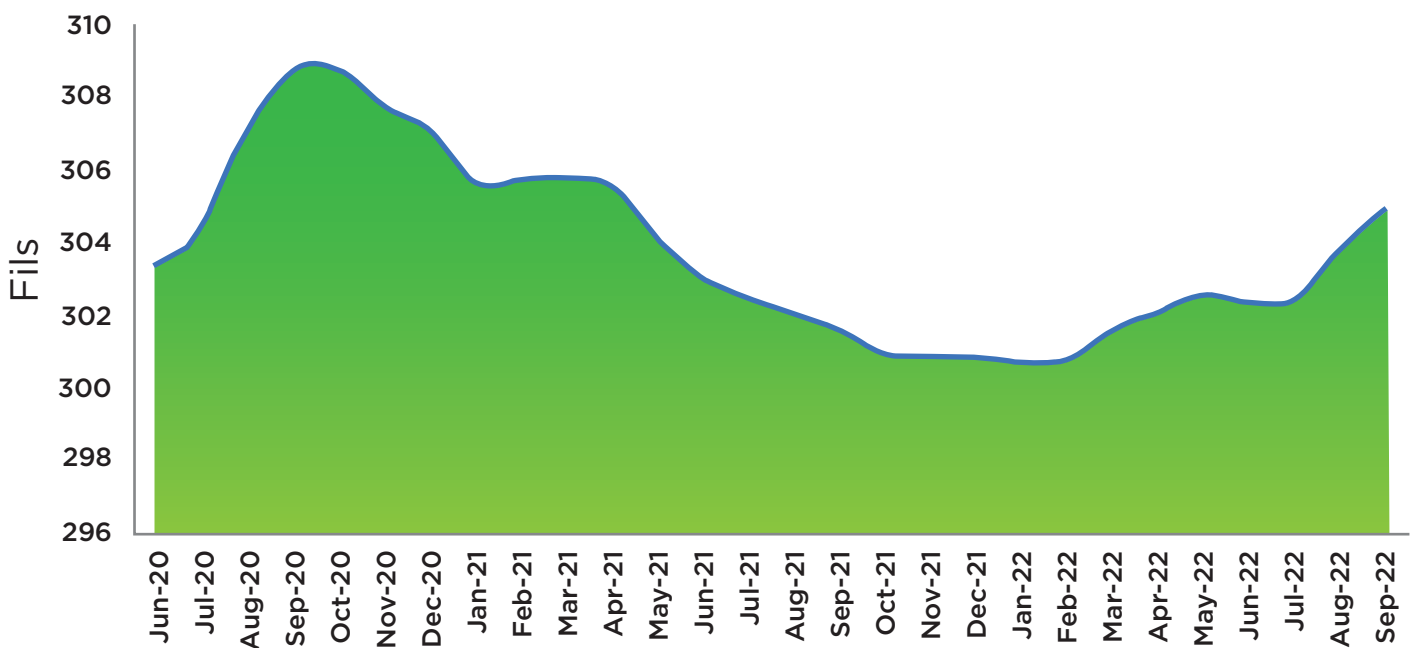


Available data reveal a hike in the exchange rate of the USD against the KWD by 6.2 fils or 2.1% during February-September 2022. This was due to the growing global demand for the USD as an attractive currency for investments which is driven by the rise in the USD interest rates resulted in a jump in the USD against most international currencies and not only against the KWD.

“
USD gains against most international currencies.
 ”

On the other hand, data indicate an increase in the KWD exchange rate against other major international currencies (the British Pound, the Euro, the Swiss Franc, and the Japanese Yen).

Figure (2): Average Exchange Rate of USD Against KWD (fils)



Source: Central Bank of Kuwait.

Figure (3): The rate of change of the average exchange rate of the US dollar against some major currencies and the Kuwaiti dinar (percentage) (for the period February-September 2022)

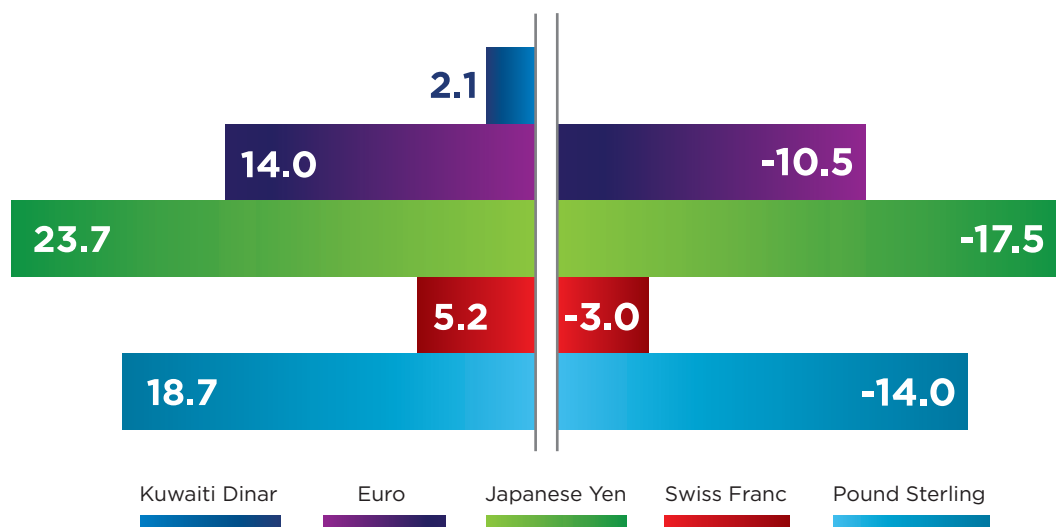
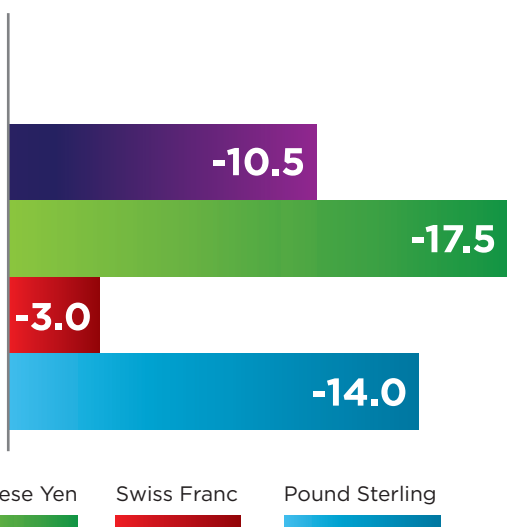


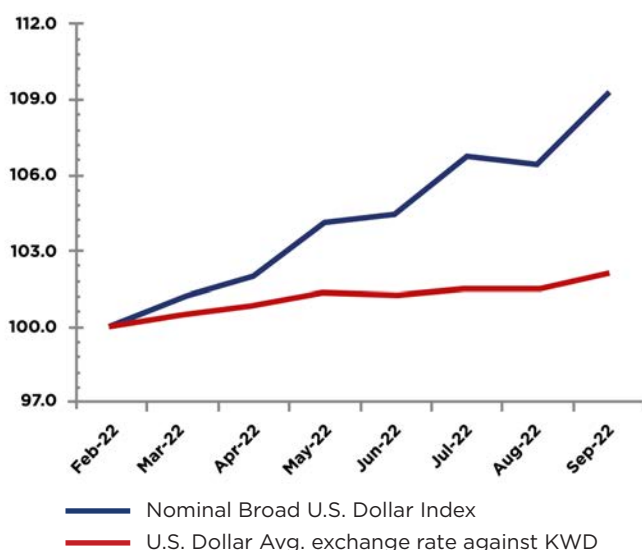
Figure (4): The rate of change of the average exchange rate of some major currencies against the Kuwaiti dinar (percentage) (For the period February-September 2022)



Source: Central Bank of Kuwait.

As for Trade-Weighted USD index (or Nominal Broad US Dollar Index: Is an index used by the Federal Reserve to measure the value of the USD against foreign currencies widely used in international trade), data indicate an upward trend in the USD against major currencies by 9.3% during the period (February-September 2022), given that February 2022 is the base period = 100, as the Federal Reserve began to tighten monetary policy on March 16, 2022.

Figure (5): General USD Exchange Rate Index Compared to the Average Exchange Rate of the USD Against the KWD (February 2022 = 100)



Source: Data from the Federal Reserve and the Central Bank of Kuwait.

As a result of the current global conditions, i.e. the bottlenecks in global supply chain and the negative impact of the Russia-Ukraine war, a price rise of energy and strategic food commodities were witnessed causing an increase in imported inflationary pressures on most economies, including the State of Kuwait, which imports most of the commodity needs (imports. of commodities accounted for 23.3% of GDP in 2021).

Economic literature indicates the importance of coordination between various economic policies in all countries to address imported inflation. This includes designing social security programs aimed at enhancing the foundations of food security, which is what the Kuwaiti government has followed.

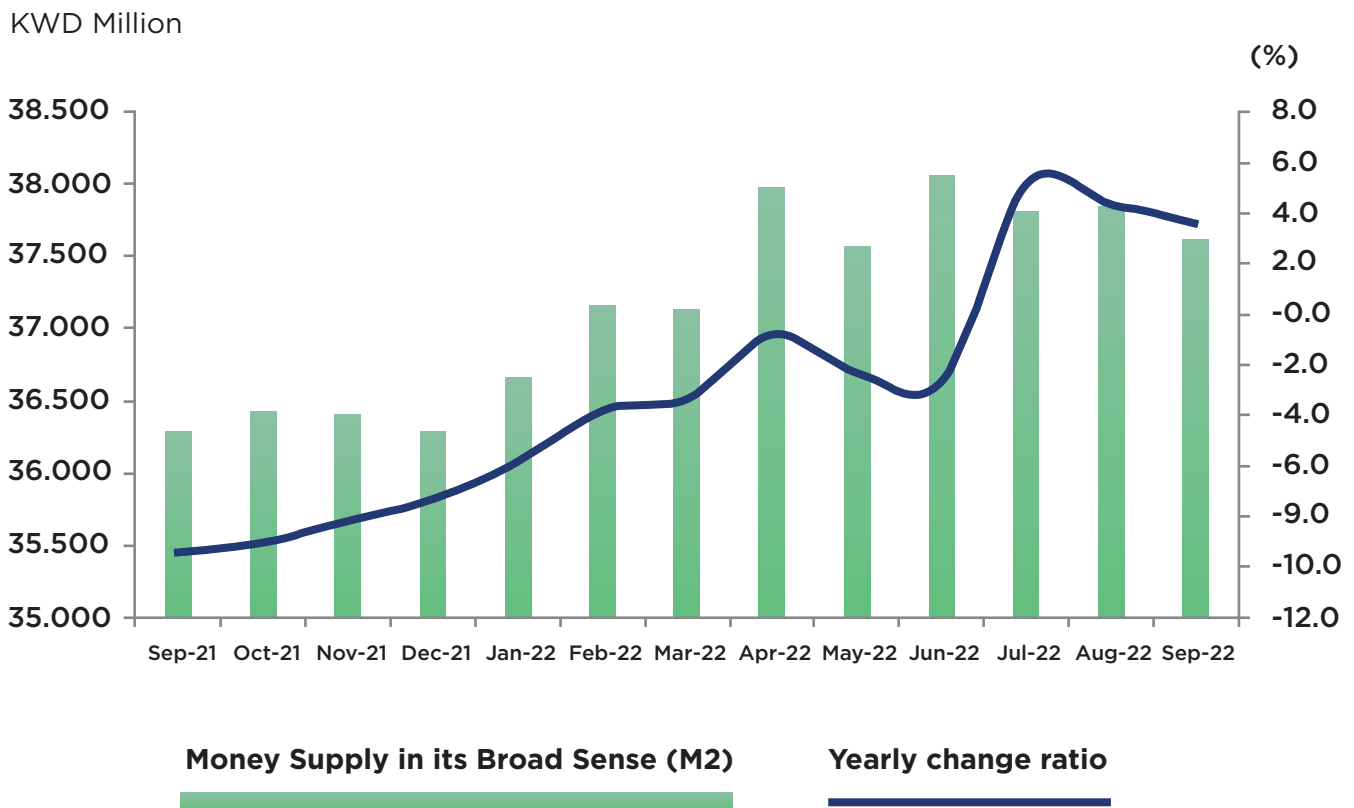


Second - Selected Monetary and Banking Indicators

A- Money Supply in its Broad Sense (M2)

On an annual basis, **Money Supply in its Broad Sense (M2) went up by KWD 1,327.8 million or 3.7%** to stand at KWD 37,621.3 million at the end of September 2022, against KWD 36,293.5 million at the end of September 2021. This rise came as a result of the increase in Quasi-Money (KWD saving deposits, KWD time deposits, deposits in foreign currency and KWD certificates of deposits) by KWD 1,583.0 million or 6.6% and the drop in Narrow Money (M1) by KWD 255.2 million or 2.1%.

Figure (6): Developments of Broad Money Supply (M2)



Source: Central Bank of Kuwait.

B- Residents' Deposits with Local Banks

Although CBK's discount rate was at its lowest level (1.5%) due to the expansionary policy which the bank adopted during the Corona pandemic, which began on March 16, 2020 and lasted for two years, **data on KWD deposits indicate an upward trend in residents' deposits with local banks since April 2021.**

Residents' deposits with local banks inched up by KWD 3,343.5 million or 7.7% during the period (from the end of April 2021 to the end of September 2022). Noting that most of these deposits belong to the private sector with an average ratio of 76.9% from the beginning of 2022 until September 2022. Moreover, the average ratios of the private sector's KWD deposits to the total deposits of the private sector were stable throughout the said period and accounted for 95.3%. In the same direction, private sector's KWD deposits (residents and non-residents) elevated from KWD 34,573.5 million at the end of April 2021 to KWD 37,085.1 million at the end of September 2022, i.e. an increase by KWD 2,511.6 million or 7.3%.



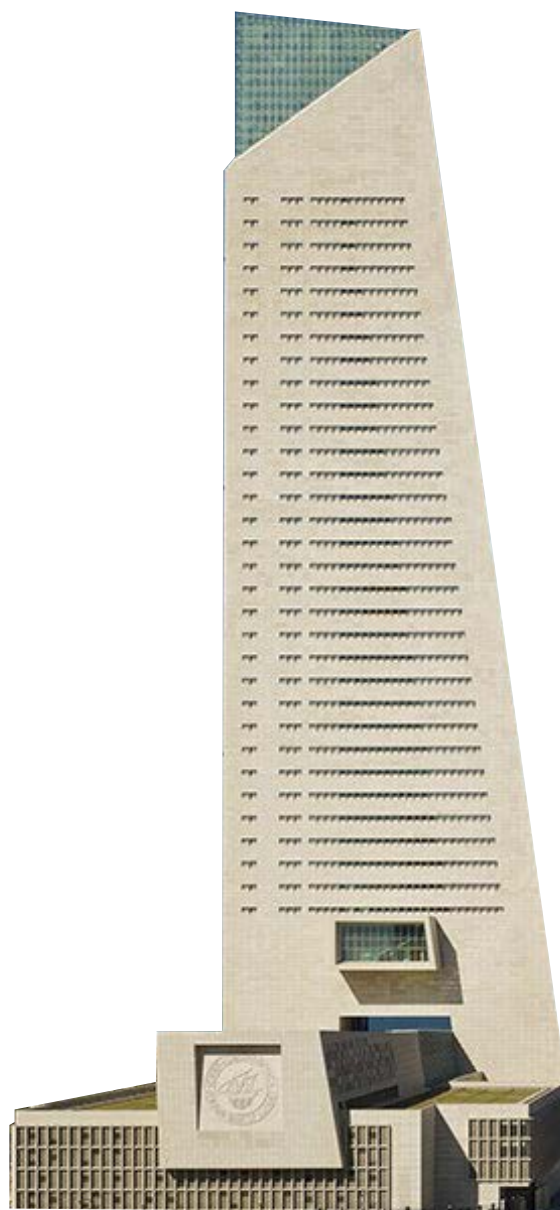
Upward trend in deposits with local banks. Private sector deposits accounted for 76.9% of the total deposits.



Historical data regarding deposits indicate an increase, despite the rapprochement between the Federal Reserve's rate and the Kuwait's discount rate. Despite the decline in the margin between the two rates, it did not affect the upward trend of deposits in local banks. This proves solidity of deposits in the banking sector, and the permanent and continued confidence in the national currency as an attractive and reliable store of local savings, due to the KWD stability against the USD and other major international currencies. These all, beside discount



The rise in deposits with local banks indicates permanent and continued confidence in the national currency as an attractive and reliable store of local savings.



rate, are drivers for attracting and stabilizing deposits in the national economy. The CBK uses many other tools within its regulatory policy framework, including: the regulatory liquidity ratio (16.5%), the liquidity coverage ratio (90%), the net stable financing ratio (90%), and the maximum lending limit (95%). It is important to point out the precautionary policies adopted by the CBK and the prudent regulatory policies that take into account CBK's outlook and precautionary measures. The CBK was able to guide banks to strengthen their financial buffers and fortify the banking sector to increase its ability to face external shocks and remain able to efficiently serve the national economy despite stressed conditions.

At the end of June 2022, the Kuwaiti banking sector possessed a high level of financial soundness indicators which underscore the resilience of the banks. The financial soundness indicators include the capital adequacy ratio (18.4%), the liquidity coverage ratio (157.5%) and the net stable financing ratio (113.8%), these high levels are above the CBK minimum requirements for these regulatory controls. These indicators are supported by asset quality, as the non-performing loan ratio maintained its historically low level of 1.5%.



Kuwaiti banks display decent financial soundness indicators in terms of capital adequacy and liquidity.



C- Credit Facilities Extended to Residents

Data indicate an increase in credit facilities to residents by KWD 2,942.1 million or 6.8% to stand at KWD 46,486.4 million at the end of September 2022, against KWD 43,544.3 million at the beginning of the same year. **In general, credit facilities to residents accounted for 97.4% of the total residents' deposits.**



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Personal credit facilities accounted for 38.9% of overall facilities and credit to businesses accounted for 61.1% during the same period. **In terms of personal credit facilities,** data indicate a rise by KWD 1,248.9 million or 7.4%, since the beginning of 2022 until the end of September 2022, to stand at KWD 18,191.4 million. Data also indicate relative stability of the ratio of personal credit facilities to the total facilities extended to residents, reaching (34.1%, 35.6%, 35.7%, and

35.8%) during the period (2017-2020). It is noted that these ratios increased in 2021 and 2022, to stand at (37.9% and 38.9%) during the period (2021 - until the end of September 2022). This was driven by the increase in housing loans (accounting for 85.4% of overall personal facilities in September 2022), in addition to the rise in consumer loans (accounting for 10.6% of overall personal facilities) which was forced by the pent-up demand resulting from the resumption of economic activities in the post-Corona pandemic period. It is worth noting that these loans were directed in their entirety for the purposes of providing adequate housing for individuals and meeting their basic needs to achieve a decent life. This resulted in stimulating various productive sectors to benefit from liquidity injection in various channels of the economy.



Personal facilities accounted for 38.9%, most of which were housing loans for providing adequate housing for individuals to achieve a decent life.



Credit facilities to businesses, which contribute to supporting the growth of non-oil sectors, elevated by KWD 1,693.2 million or 6.3%, to stand at KWD 28,295.0 million at the end of September 2022 compared to the beginning of 2022.



Credit facilities to business sector contribute to enhancing diversification of the Kuwaiti economy



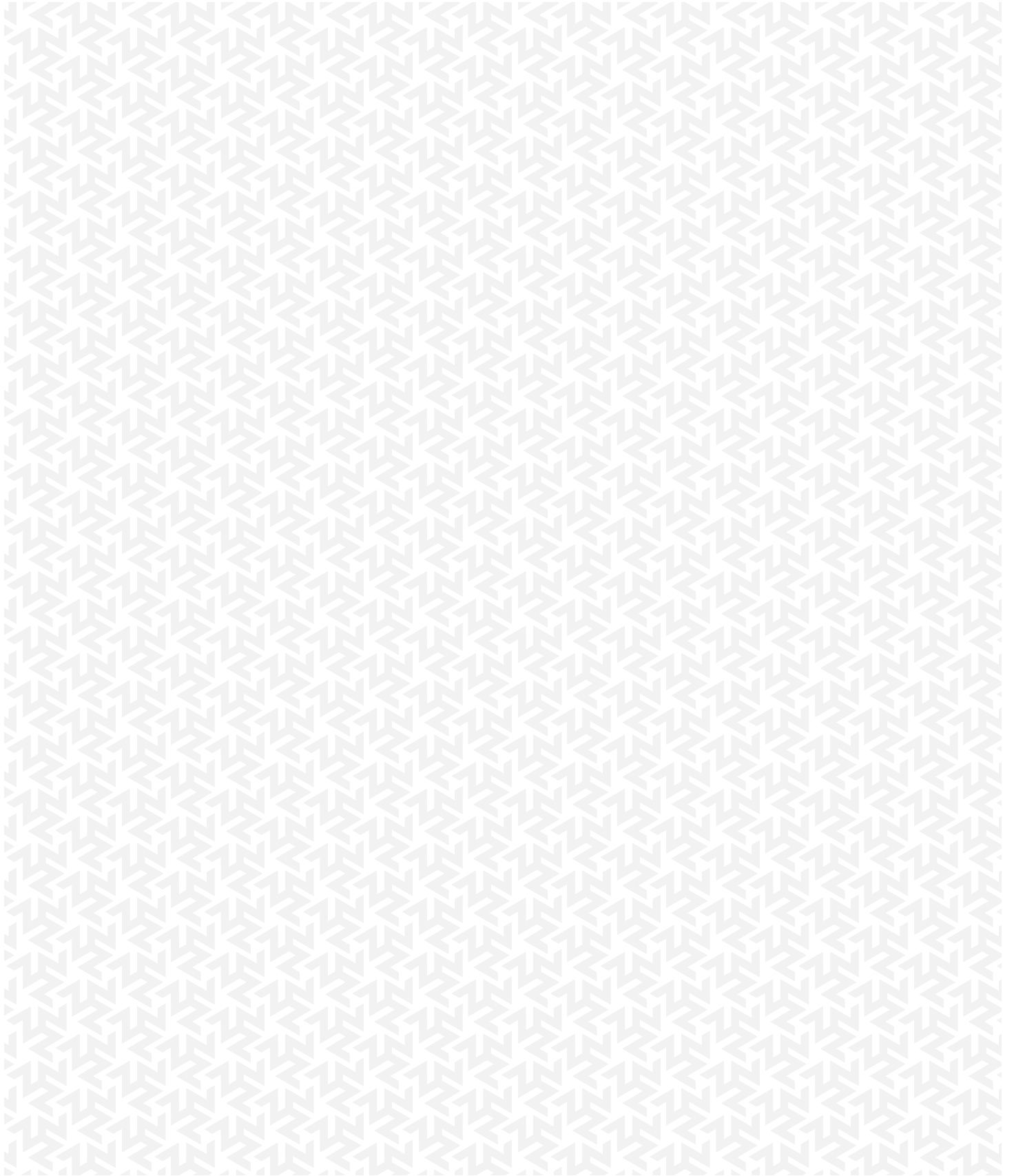
Credit to real estate accounted for 33.7% and credit to constructions accounted for 6.9% of the overall credit facilities to business sector during the aforementioned period. This provide an environment conducive to real estate sector growth. In addition, credit facilities to purchase of securities inched up by KWD 354.7 million or 12.6%, since the beginning of current year to stand at KWD 3,166.8 million, as a key source for revitalizing the primary and secondary market to enhance investment drivers. In the same direction, credit facilities extended to trade, industry, agriculture and fishing went up, which will improve Kuwait's non-oil GDP. This comes in line with the International Monetary Fund's forecast of an increase in the contribution of the non-oil sectors from 3.4% to 3.9% of GDP during 2021 and 2022, respectively. **We would like to emphasize that government launching of development projects and allowing more space for private sector, in**

line with Kuwait's Vision 2035, will contribute to creating favorable opportunities for business sector to increase its economic diversification contribution, and further promoting local banks by providing it with the necessary financing to implement the assigned development projects.

Data indicate CBK's prudent regulatory policies and instructions, maximum limits of credit concentration, credit customers exposures and concentration risks, in addition to the rationalization of credit policy including controls for granting loans, i.e. specifying the purpose of granting facilities and verifying their use for the intended purposes. Likewise, local banks' credit policies contributed to their positive achievement of financial results, according to banks profit announcements during the elapsed period of 2022, as a result of the great confidence in the performance of the Kuwaiti banking sector and flexibility that enables it to face current challenges from a position of strength, which is shown by the financial soundness indicators of the Kuwaiti banking sector including capital adequacy, liquidity, asset quality and profitability. Moreover, the Kuwaiti economy provides an appropriate investment environment as it possesses many competitive advantages such as being a safe investment environment despite the uncertainty and the decline in economic growth opportunities in many countries.

In conclusion, economic and monetary indicators stress the CBK's monetary policy and its close follow-up on the local and global economic conditions, and in light of this, decisions are made in the interest of the national economy. Looking back at history, CBK's policy has always been characterized by taking decisions related to various aspects of economic activity within the framework of the requirements of economic equilibrium in a manner to achieve sustainable economic growth, taking into account the nature of the Kuwaiti economy and CBK's objectives to ensure stability of the Kuwaiti currency and convertibility into foreign currencies, in addition to directing credit policy to support economic and social progress, increasing national income, and monitoring the banking system.





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