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Kuwait Banking Sector Outlook 2020 – Asset quality under pressure as operating environment turns challenging

Research Highlights:

Analyzing the impact of COVID-19 on Kuwait's banking sector in 2020

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Executive Summary

Table 1.1: Kuwait Banking Key Metrics

Period	2019	2020 (F)
Loan Growth (YoY)	XXX	XXX
Deposit growth (YoY)	XXX	XXX
Net Interest Spread	XXX	XXX
Gross Non-Performing Loans to total loans (%)	XXX	XXX
Loan Loss Provisions (% of Gross Loans)	XXX	XXX
Cost to Income ratio	XXX	XXX
Total Loans (KD million)	XXX	XXX
Total Deposits (KD million)	XXX	XXX
Total Assets (KD million)	XXX	XXX
Total Equity (KD million)	XXX	XXX
Net Income (KD million)	XXX	XXX

Source: Refinitiv, Marmore Research, Note: Aggregate data based on listed banks

Key Highlights

- COVID-19 is expected to add considerable strain to Kuwait's banking sector in 2020 and 2021. Lockdown measures and subsequent plunge in oil prices is expected to reduce economic activity to levels not seen in decades.
- The unique nature of the crisis, where both the supply and demand has been impacted needs to be effectively addressed by policy measures. Lack of sizeable fiscal stimulus to support the economy and spurt in distressed businesses could increase the burden for banking sector and the costs in the long-term could be prohibitive.
- With the business environment immensely challenged amidst the COVID-19 pandemic, demand for financing and credit to sustain businesses (particularly SMEs) amid near zero revenues has surged. Kuwait government has extended benefit measures for the SMEs in the form of subsidized loans (interest waivers). However, the onus of loan origination, administration and due diligence checks fall on banks exacerbating operational risk.

- Credit growth is expected to fall to XX% for 2020 on year-on-year basis due to the fall in economic output. Supply-side constraints like labor force shortfalls in expat dominated sectors are also expected to keep economic activity subdued.
- Deposit growth is expected to fall to XX% for 2020, down from XX% witnessed in the previous year. Possible job losses and lower interest rates for deposits are expected to drive the contraction. Further interest rate cuts to stimulate economic growth will have negative outcomes in deposit mobilization.
- Defaults are likely to be more in sectors such as real estate, where the financial leverage of some borrowers may be relatively large. Gross NPLs are expected to shoot up to XX% in 2020, up from XX% in 2019.
- During the Global Financial Crisis (GFC), Kuwait economy contracted by XX% largely due to fall in oil economy while non-oil sector witnessed growth. The losses in financial market percolated through Investment Companies (ICs), which accounted for XX% of loans outstanding in 2009. Subsequently, gross NPAs increased to XX% of total loans in 2009 from an earlier value of XX% in 2008.
- Profitability for 2020 is expected to fall, with net income reducing from KD XXXX million in 2019 to KD XXXX million in 2020, due to lower operating income consequent to shrinking net interest spreads (down from XX% in 2019 to XX% in 2020) and lower non-interest income due to lower reduced business activity.
- Our prognosis could change under the following conditions: provision of additional fiscal stimulus to assuage the economic damage, rebound in oil prices, active privatization measures and aggressive reforms on the upside and increase in case count, return of lockdown restrictions and further deterioration of economic activity on the downside. Positive developments on potential vaccine for COVID-19 would be a game changer.
- The pandemic would be a driver for greater digitization in the banking sector. More customers will start demanding contactless payments, branchless account opening and digitized lending. Banks might have to partner with smaller fintech firms in the short term to avail digital services that the new-age banking customer demands.

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