

Economic Insight

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Kuwait: Domestic credit growth improved in Q1 despite onset of US-Iran conflict

Domestic credit growth ticked up to 1.8% q/q in Q1 2026 from 1.5% in the previous quarter, despite headwinds from the US-Iran conflict that adversely affected sentiment in March. This led to a first monthly contraction in household credit in two years in March, while lending to businesses slowed. However, stronger momentum earlier in Q1 helped cushion the overall impact and y/y credit growth was still a solid 7.8%. On the liabilities side, growth in residents' deposits actually accelerated in Q1 26 on a jump in government and public sector deposits. Private sector deposits growth remained weak, though, and registered a 1% m/m drop in March. While credit growth started the year on a strong footing and precautionary borrowing could support growth over the short term, these effects could be offset in the coming months if weaker non-oil activity and changes in consumer spending behavior weigh on demand.

Even as overall credit remained firm in Q1, growth diverged across key segments. Credit to banks and financial institutions grew by 5.0% q/q, significantly slower than the 8.8% expansion recorded in Q4 2025, as heightened volatility and weaker confidence following the outbreak of hostilities led to a sharp contraction in March. Similarly, credit for the purchase of securities expanded by 1.2% q/q, well below the 6.3% growth seen in Q4, reflecting softer risk appetite and a more cautious investment stance. Household credit growth slowed markedly, rising by just 0.1% q/q in Q1, compared with 0.7% in Q4 2025. The small 0.4% monthly contraction in March marked the first decline since March 2024, ending a prolonged period of steady expansion and underscoring increased caution by households in response to rising uncertainty. In contrast, business lending was the primary driver of domestic credit in Q1, accelerating to 2.9% q/q (+6.3% y/y) from 0.6% in Q4, though momentum weakened in conflict-affected March with a sharp decline recorded in trade-related credit (-5.5% m/m) and slower growth seen across the construction (+0.8%), public services (+0.3%), and oil & gas (+2.7%) sectors. These were partly offset by stronger lending to real estate (+1.3%), industry (+3.8%), and other sectors (+1.7%). Meanwhile, previously stellar credit growth to non-residents slowed in Q1 (+3.4% q/q) from the previous quarter (+8.0%), reflecting a sharp contraction in February and only a modest recovery in March. Non-resident credit accounts for 17% of all credit.

Private sector deposit growth remained weak in Q1 2026

On the funding side, residents' deposits saw strong growth of 3.8% q/q in Q1 (7.4% y/y), more than double Q4's rate, thanks to double-digit increases in public (+13.2% q/q) and government deposits (+22% q/q). In contrast, growth in private sector deposits was subdued (+0.1% q/q), barely improving on Q4. Non-resident deposit growth also slowed in Q1 (1.9% q/q from 18.6% in Q4), due to the monthly declines seen in February (-0.3% m/m) and March (-4.9%), with the weakness concentrated in foreign currency private sector deposits. This was partly offset by gains in KD-denominated deposits and continued increases in government and public non-resident deposits.

Table 1: Credit growth

Credit	Mar-2026	% growth			
	KD billions	q/q	YTD	y/y	2025
Business	26.3	2.9	2.9	6.3	6.0
of which Real Estate	11.0	2.8	2.8	5.5	5.2
Household	20.1	0.1	0.1	3.4	3.7
Securities	4.9	1.2	1.2	28.5	27.9
Banks & financial instit.	2.9	5.0	5.0	27.0	25.3
Total domestic credit	54.1	1.8	1.8	7.8	7.6
Non-resident credit	10.9	3.4	3.4	41.1	36.1
Total credit	65.1	2.1	2.1	12.2	11.5

Source: Central Bank of Kuwait

Table 2: Deposit growth

Deposits	Mar-2026	% growth			
	KD billions	q/q	YTD	y/y	2025
Private sector	40.5	0.0	0.0	1.8	3.8
of which Time dep.	23.7	-1.3	-1.3	2.0	5.6
of which CASA dep.	14.9	2.8	2.8	1.1	0.8
Public Institutions	8.6	13.2	13.2	48.1	30.8
Government	3.7	22.2	22.2	-2.5	-23.5
Total resident dep.	52.9	3.8	3.8	7.4	4.7
Non-resident deposits	6.3	1.9	1.9	58.3	89.3
Total deposits	59.2	3.6	3.6	11.1	9.9

Source: Central Bank of Kuwait

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