



# Kuwait Banking Sector 2025 Outlook: Economic Recovery To Boost Performance

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**S&P Global**  
Ratings

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*This report does not constitute a rating action*

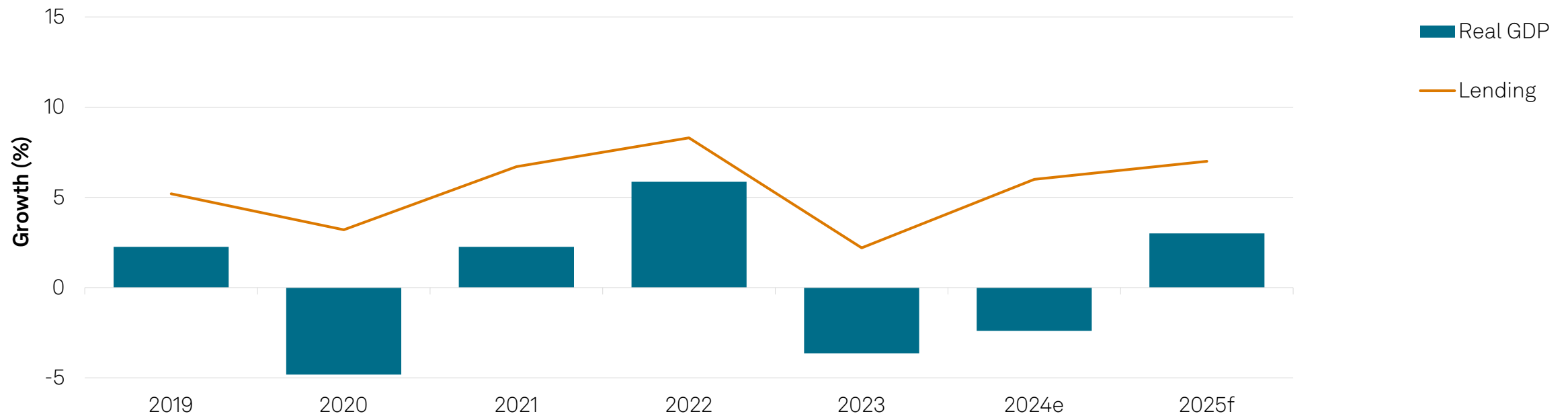
# Key Takeaways

- We expect Kuwaiti banks' asset quality will continue to improve thanks to a stronger economy and lower interest rates.
- We foresee stronger lending growth that will somewhat compensate the negative impact of lower interest rates on profitability.
- We expect geopolitical risk to remain in check and believe that the banking system is well positioned to deal with a potential escalation of geopolitical stress.
- Risks from high exposure to real estate remain, while the sector is benefiting from visa relaxations.
- We expect Kuwaiti banks to maintain stable and strong capital buffers and robust funding profiles.

# Economic Rebound Will Support Lending Growth

- After an estimated 2.3% contraction in 2024, we expect Kuwait's GDP growth will rebound to 3.0% in 2025 as OPEC+ oil production restrictions are gradually eased, and project implementation and reform momentum improves.
- Accelerated reforms following last year's political changes could improve the pace of reform and growth prospects for the economy, which in turn would support higher lending growth for the banking system. The latter would also get a boost from lower interest rates.

## Economic rebound and lower interest rates will support higher lending growth

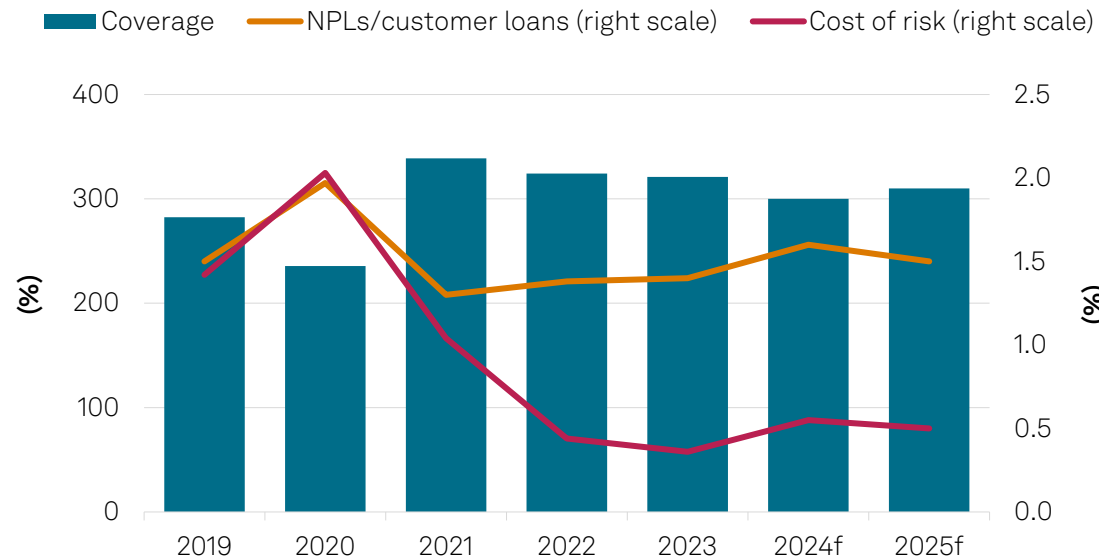


e--Estimated, f--Forecast. Source: S&P Global Ratings.

# Asset Quality Will Remain Stable

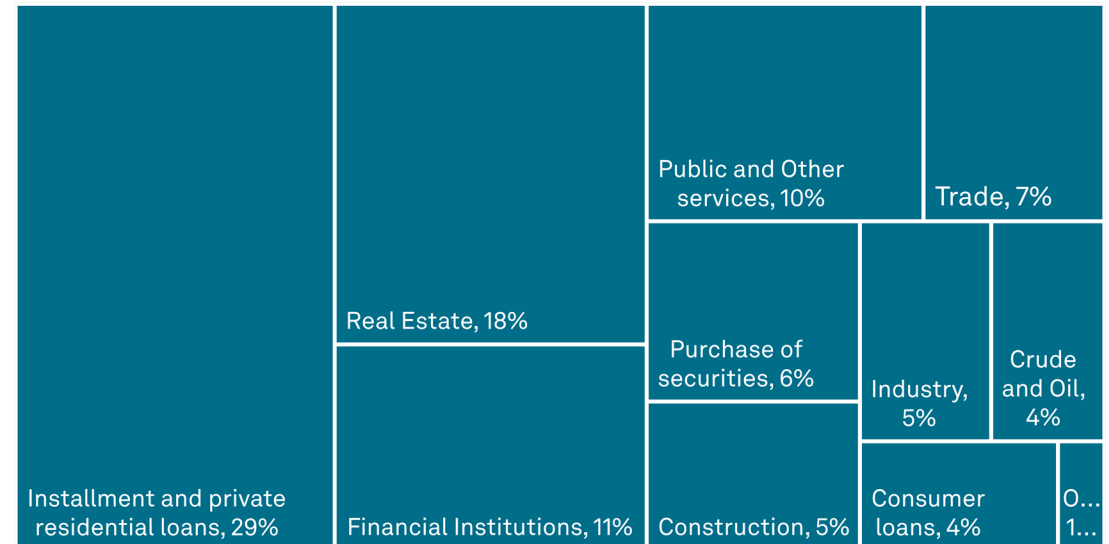
- We believe the banking sector’s credit losses are approaching cyclical low points.
- Furthermore, aided by strong provisioning buffers, we expect banks will resort to write-offs to limit the increase in the nonperforming loan ratio.
- Although risks from high exposure to real estate and the geopolitical environment remain, we believe Kuwaiti banks will be relatively resilient in case of related stressors.

## Asset quality to stabilize



NPLs--Nonperforming loans. f--Forecast. Source: S&P Global Ratings.

## Breakdown of loan portfolio by sector

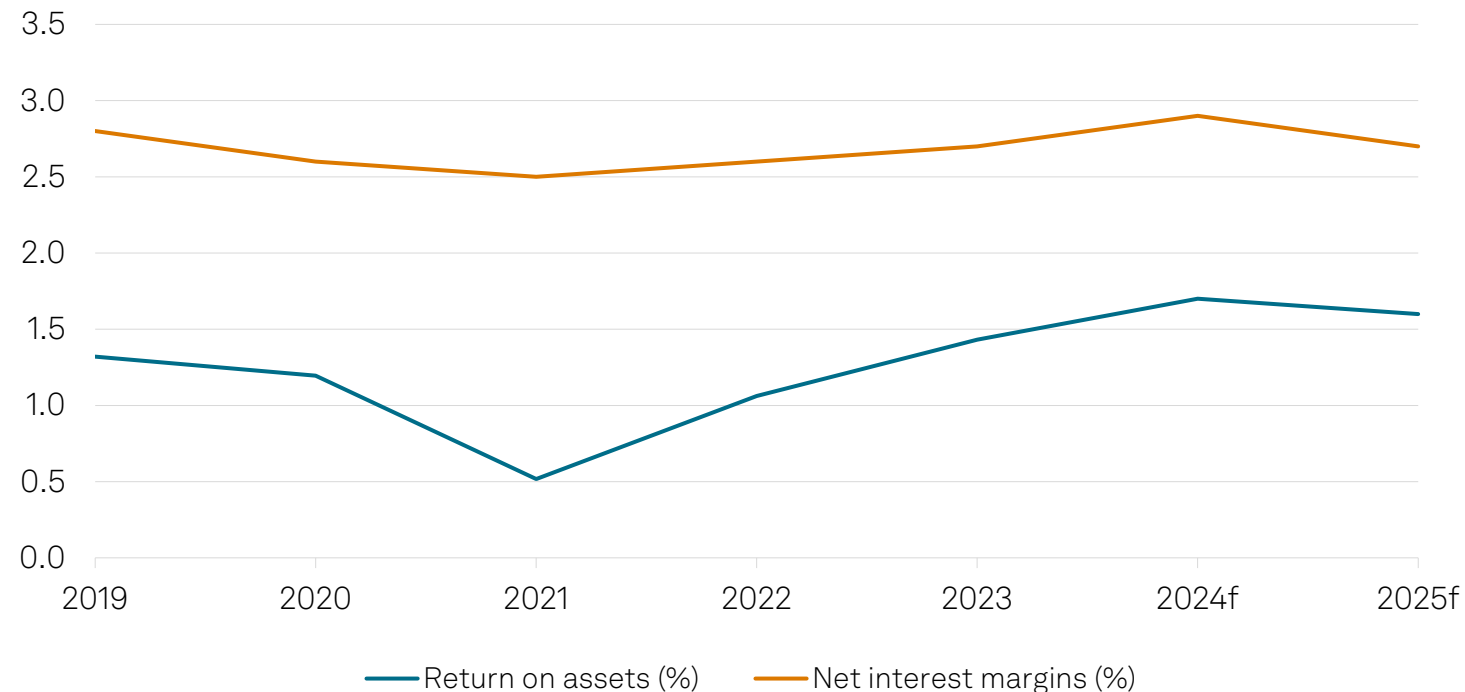


As of Nov. 2024. OL—Other Loans. Sources: Central Bank of Kuwait, S&P Global Ratings.

# Profitability Will Reduce Slightly As Margins Ease

Lower interest rates may weaken profitability

Kuwaiti banks' profitability has benefitted from higher interest rates, but will decline slightly



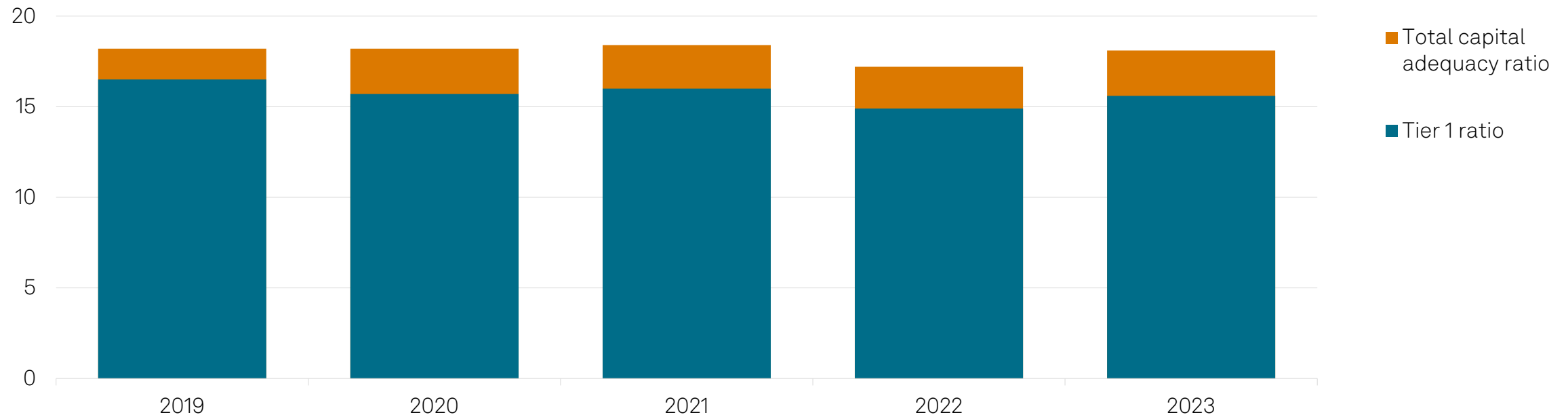
Data for 8 largest banks. f--forecast. Source: S&P Global Ratings.

- Kuwait banks' profitability improved in the monetary tightening cycle, as higher interest rates helped to expand margins. Now, amid declining interest rates, we expect profitability to follow.
- This could be partially boosted by lending growth, a migration of deposits back to nonremunerated instruments, and low cost of risk.

# Capitalization Remains A Supportive Factor

- Kuwait banks operate with strong capital buffers and typically retain 50% or more of their bottom line, which supports their capitalization.
- The quality of capital remains strong, with a modest share of hybrid instruments. As of end-September 2024, Additional Tier 1 instruments accounted for only 10.8% of total adjusted capital. The decline in interest rates offers banks the chance to boost hybrid issuance and replace existing instruments at a lower cost when they reach their call dates.

## Kuwaiti banks have strong capital positions (%)

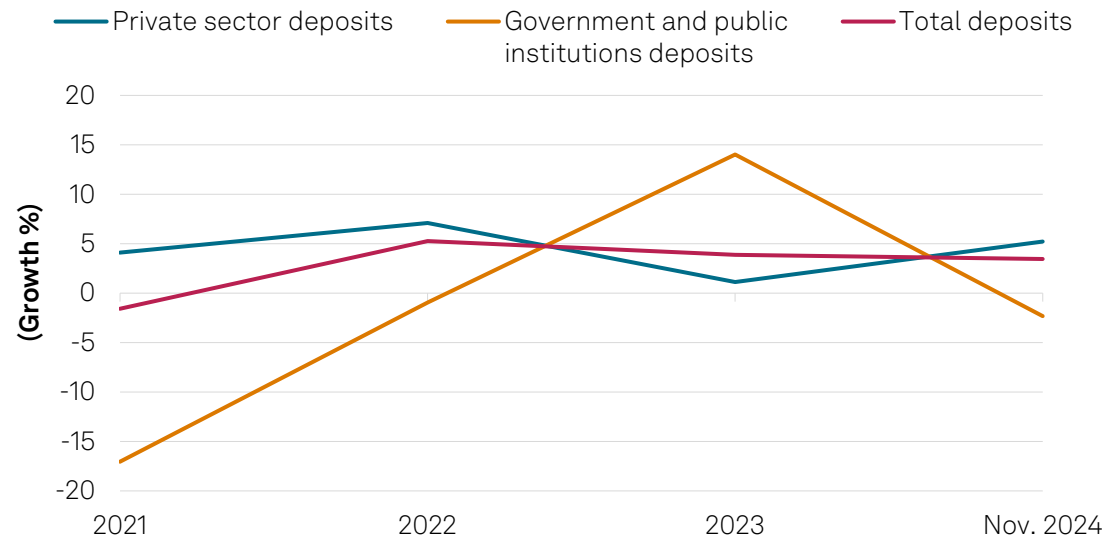


Data for 8 largest banks. Source: S&P Global Ratings.

# Strong Local Deposit Franchise Supports Funding

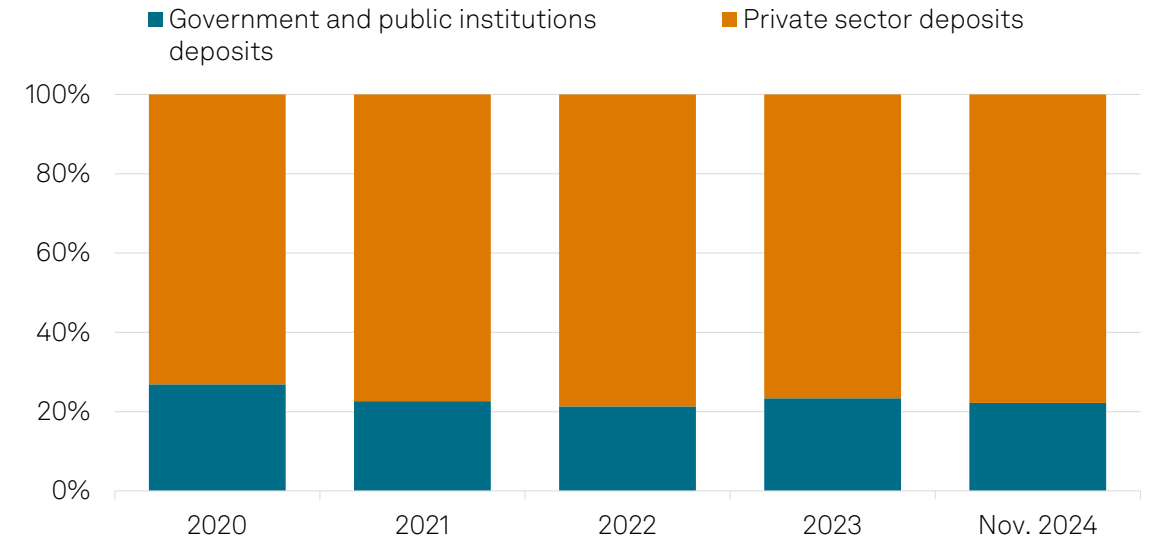
- Kuwaiti banks' funding structures benefit from a strong core customer deposit base and a net external asset position.
- Deposits from government and public institutions have experienced some volatility in the past, as these entities seek to diversify their deposits among local and foreign banks. However, we believe that government support to systemically important banks will be forthcoming if needed, given the significant role the banks play in the financing of the economy and the absence of a developed local capital market.
- Private sector deposits from corporations and households have been stable and dominate Kuwaiti banks' funding base.

## Banking sector deposits have remained resilient



Sources: Central Bank of Kuwait, S&P Global Ratings.

## Stable private sector deposits dominate the deposit base



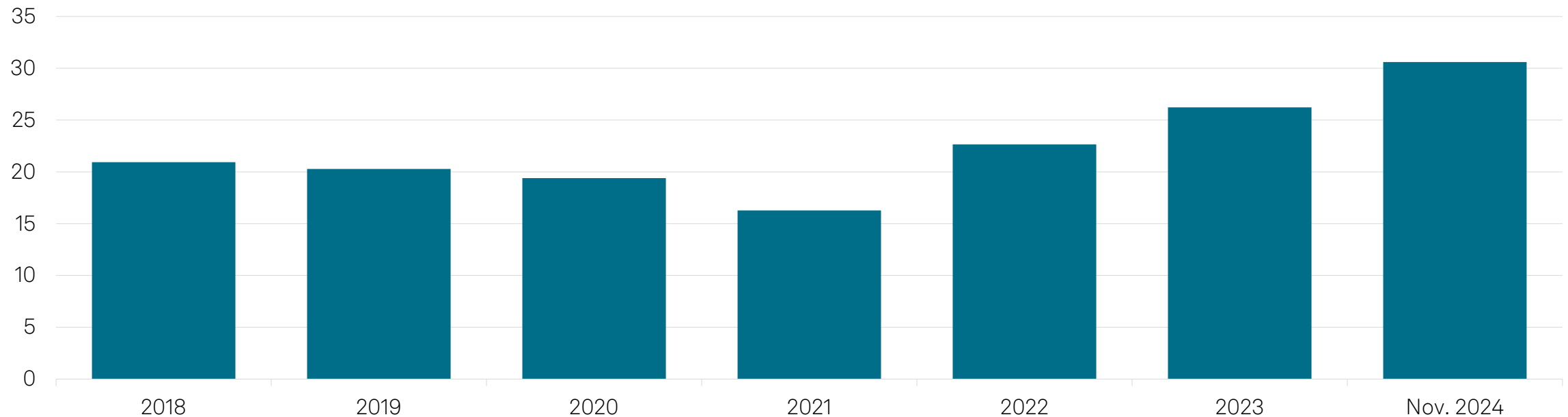
Sources: Central Bank of Kuwait, S&P Global Ratings.

# Strong Net External Asset Position

- Kuwait's banking system is in a strong net external assets position, which strengthened to 30.6% of systemwide domestic loans on Nov. 30, 2024, as domestic lending opportunities remained limited.
- This makes banks less vulnerable to potential capital outflows if geopolitical risk were to escalate.

## Kuwait's banking sector is in a strong net external asset position

Net foreign assets/domestic loans (%)



Sources: Central Bank of Kuwait, S&P Global Ratings.



# Kuwaiti Banking Industry Trends And Our Bank Ratings

- Our current ratings and the stable outlook on them shows that Kuwaiti banks are on a stable path heading into 2025.
- This reflects banks' strong performance deriving from improved asset quality, higher lending growth, and still high profitability, balanced by the potential downside risks from the regional geopolitical tensions and oil price volatility.
- Inorganic growth has supported Kuwait's banking sector over the past few years, as banks aim to diversify and enhance their financial profiles against the backdrop of limited organic growth opportunities.
- After Kuwait Finance House's (KFH) acquisition of Bahrain-based Ahli United Bank, and Burgan Bank's acquisition of Bahrain's United Gulf Bank, Boubyan Bank last year announced that it is considering a potential merger with Gulf Bank, which, if completed, would result in the creation of the third-largest bank in Kuwait, boasting over \$50 billion in assets.
- Despite larger banks gaining market share from these transactions, we view this as broadly neutral for overall competitive dynamics and industry stability. Kuwait's banking market is relatively small, primarily dominated by National Bank of Kuwait and KFH, followed by a few midsize players with niche positions.

	<b>Issuer credit rating</b>
National Bank of Kuwait	A/Stable/A-1
Boubyan Bank	A/Stable/--
Burgan Bank	BBB+/Stable/A-2

Ratings as of Jan. 7, 2025. Source: S&P Global Ratings.

## Related Research

- [Kuwait](#), Dec. 10, 2024
- [Banking Industry Country Risk Assessment: Kuwait](#), Oct. 22, 2024
- [GCC Banking Sector Outlook 2025: Profitability And Asset Quality Boost Resilience](#), Nov. 13, 2024
- [What Would An Escalation Of The War In The Middle East Mean For GCC Banks?](#), Oct. 21, 2024
- [Your Three Minutes In Banking: GCC Banks Are Well Positioned To Continue Their Strong Run](#), Sept. 4, 2024

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