BANKING, HOUSING, & CITIZENSHIP; FINANCIAL ARCHITECTURE OF RISK: DEBT & CREDIT IN A RENT-FUELLED ECONOMY

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BANKING, HOUSING, & CITIZENSHIP; FINANCIAL ARCHITECTURE OF RISK: DEBT & CREDIT IN A RENT-FUELLED ECONOMY

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البنـوك، الإسـكان، والجنسـية؛ الهندسـة الماليـة للمخاطـر، الديـن والائـتمان في اقتصـاد ريعـي.

تبحـث هـذه الدراسـة في سـلوك الإقـراض لـدى البنـوك الكويتيـة، وتحديـدًا تفضيلهـا الهيـكلي لإقـراض المواطـنين الكويتـيين مقارنـة بـغير المواطـنين، وذلـك ضمـن سـياق اقتصـاد ريعـي يعتمـد على توزيـع عوائـد النفـط. تـم بنـاء مـؤشر تقديـري لحجـم الإقـراض الموجّـه إلى المواطـنين مـن خلال الجمـع بين قـروض بنـك الائـتمان الكويتـي و 80% مـن إجمالي القـروض الشـخصية، بالاسـتناد إلى الخصائـص المعروفـة لسـوق العمـل الكويتـي. باسـتخدام بيانـات بنـك الكويـت المركـزي للـفترة بين 2012 و2021، أظهـرت نتائـج الانحـدار وجـود علاقـة عكسـية قويـة بين مـؤشر الإقـراض للمواطـنين ونسـبة القـروض المتـعثرة، مما يـشير إلى أن زيـادة الإقـراض للمواطـنين ترتبـط بانخفـاض المخاطـر الائتمانيـة في القطـاع المصرفي. امتـدت الدراسـة لاحقًـا إلى سـوق العقـار السـكني، حيـث أظهـرت تحاليـل إضافيـة وجـود علاقـة طرديـة بين نمـو الائـتمان الموجّـه للمواطـنين وارتفـاع القيـم الإيجاريـة للوحـدات السـكنية. وهـذا يـدل على أن المُلّاك، مثـل البنـوك، يعتمـدون على استقرار رواتـب المواطـنين المدعومـة مـن الدولـة لتعزيـز العوائـد. تسـلّط الورقـة الضـوء على كيفيـة ترسـيخ النظـام المالي الكويتـي للتمييـز الاقتصـادي بين المواطـنين وغير المواطـنين، مما يسـاهم في تعزيـز الاسـتقرار على المـدى القـصير، لكنـه قـد يزيـد مـن هشاشـة النظـام المالي على المـدى البعيـد إذا ما تغيرت الأوضـاع المالية العامـة. وتُختتم الدراسـة بتوصيـات سياسـية، أبرزهـا: تحـسين شـفافية البيانـات عبر تصنيـف القـروض حسـب الجنسـية، وتوسـيع نطـاق الإقـراض للمؤسسـات الصـغيرة والمتوسـطة وغير المواطـنين، وتحفيـز البنـوك على تنويـع محافظهـا الائتمانيـة لتعزيـز مرونـة الاقتصـاد الكويتـي في المسـتقبل.

ABSTRACT

This paper examines the lending behavior of Kuwaiti banks and argues that their credit allocation strategies reflect a systemic preference for Kuwaiti citizens due to lower financial risk. Using data from the Central Bank of Kuwait's Financial Stability Reports (2012–2021), a proxy for citizen-directed credit is constructed by combining government housing loans with a weighted share of personal credit. Regression analysis reveals a strong negative correlation between this citizen credit proxy and non-performing loan (NPL) ratios, indicating that increased lending to citizens is associated with reduced credit risk. This suggests that banks prioritize citizen borrowers— particularly public sector employees—not only due to structural advantages in repayment capacity, but as a rational strategy to capture oil-based income flows through the financial system. The findings highlight how Kuwait's dual labor and credit market reinforces institutional credit preferences, with implications for financial inclusion, SME access to credit, and longterm economic resilience.

1. INTRODUCTION

Kuwait's political economy is widely characterized as a rent-based system in which hydrocarbon revenues are centralized and redistributed by the state, with citizenship mediating access to public employment, social benefits, and subsidized housing (Beblawi & Luciani, 1987; Hanieh, 2011). This distributive structure produces a dual labor market in which nationals disproportionately occupy stable government jobs, while non-citizens are concentrated in more precarious private-sector positions (Hanieh, 2011). Financial intermediation in Kuwait does not operate independently of these arrangements; rather, banking practices are shaped by and reproduce the institutional logics of the rentier state (Kregel, 2008; Lapavitsas, 2013).

Over the last decade, household and personal lending have constituted a large and persistent share of banks' domestic portfolios, while reported non-performing loan (NPL) ratios have remained low by regional standards—even through oil price swings and the pandemic period (Central Bank of Kuwait [CBK], 2012–2021). A central conduit between public finance and retail lending is the state's housing and social credit to nationals—most prominently the interest-free facilities provided under Kuwait's housing policy—alongside widespread salarytransfer arrangements that secure repayment on personal finance (CBK, 2012–2021). Policy episodes have, at times, reinforced expectations of backstops around household indebtedness, underscoring the embedding of citizen credit within the social contract (CBK, 2012–2021). Taken together, these features suggest that Kuwaiti citizens—particularly public-sector employees—present banks with lower realized credit risk because repayment capacity is indirectly underwritten by oil-financed fiscal flows (Hanieh, 2011; CBK, 2012–2021).

Theoretically, this configuration is consistent with a Minskyan reading in which salaryanchored household credit functions as "hedge" finance so long as public wage commitments are sustained; latent fragility may emerge if fiscal capacity weakens or employment guarantees are reformed (Minsky, 1986). It also resonates with the literature on household financialization, wherein financial institutions increasingly capture stable income streams— whether wages, pensions, or transfers—through consumer credit (Lapavitsas, 2013). In Kuwait's case, the convergence of Islamic and conventional retail products around salarybacked structures raises additional questions about how rentier incentives delimit the practical scope of risk-sharing and asset-based finance (Kregel, 2008; Lapavitsas, 2013).

This study advances an empirical test of the proposition that banks in Kuwait rationally prioritize lending to citizens because it is less risky. Using annual data from CBK Financial Stability Reports for 2012–2021, we construct a proxy for citizen-targeted credit by combining state housing/social lending with a weighted share of personal credit, and examine its relationship to system-wide household NPL ratios (CBK, 2012–2021). Secondary market aggregates are used for context and checks (Boursa Kuwait, 2012–2021).

Contributions. This paper makes four contributions. First, it proposes a transparent, replicable measurement strategy for approximating citizen-directed credit using publicly reported aggregates (CBK, 2012–2021). Second, it documents a strong negative association between the citizen-credit proxy and household NPLs, linking revealed portfolio choices to realized risk at the system level (CBK, 2012–2021). Third, it situates these results within comparative and theoretical debates on household financialization and state-anchored lending, clarifying mechanisms through which public income streams are intermediated by banks (Lapavitsas, 2013; Minsky, 1986). Fourth, it derives policy implications for financial inclusion, SME finance, and macro-prudential oversight in an economy where retail credit safety ultimately depends on fiscal capacity (CBK, 2012–2021).

Research questions.

RQ1: Do Kuwaiti banks exhibit a measurable preference for lending to citizens? **RQ2:** Is this preference associated with lower household credit risk (as proxied by NPL ratios)?

RQ3: To what extent does citizen-targeted lending account for the structure and growth of personal credit in Kuwait?

2. LITERATURE REVIEW

A substantial body of research connects patterns of credit allocation to the political–economic structures in which financial systems are embedded. In resource-dependent countries, particularly rentier states, hydrocarbon revenues are centralized by the state and redistributed through public employment, housing programs, and social transfers; access to these channels is mediated by citizenship (Beblawi & Luciani, 1987; Hanieh, 2011). Banks operating in such environments do not intermediate in a vacuum. Rather, portfolio choices and risk pricing tend to align with the distributive architecture of the state, producing stable revenue models built around the monetization of government-anchored incomes (Kregel, 2008; Lapavitsas, 2013). Kuwait is an archetypal case: nationals disproportionately occupy public-sector posts with predictable remuneration and strong tenure protections, while non-nationals are concentrated in more contingent private-sector roles subject to sponsorship rules and employment volatility (Hanieh, 2011). The asymmetry in employment security and access to policy backstops maps directly onto the asymmetry in retail credit terms, approval rates, and default outcomes observed in practice (Central Bank of Kuwait [CBK], 2012–2021).

2.1 Rentier Intermediation: From Public Revenues to Household Credit

Classical rentier-state theory emphasizes how the boundary between public revenue and private income becomes blurred when states transform oil receipts into salaries, allowances, and subsidized services (Beblawi & Luciani, 1987). Financial intermediation adapts to this setting by designing retail products—especially personal and housing finance—whose repayment capacity is ultimately secured by the same fiscal streams. In Kuwait, two stylized facts recur across CBK Financial Stability Reports: first, personal/household credit has remained a large and persistent component of banks' domestic portfolios; second, reported non-performing loan (NPL) ratios in the household segment have been low by regional standards, even across oil-price cycles and the pandemic period (CBK, 2012–2021). These facts are mutually reinforcing. When the borrower's income is tied to government payrolls and benefit programs, idiosyncratic cash-flow risk is dampened, loss-given-default is reduced by salary-transfer mechanisms, and realized defaults remain modest. From a bank's perspective, wage-anchored household lending becomes a comparatively low-risk, scalable asset class so long as fiscal capacity persists. This in turn helps explain why SME lending remains modest despite policy initiatives: given a choice between state-anchored retail exposures and uncertain entrepreneurial cash flows, risk-adjusted returns often favor the former (Hanieh, 2011; Kregel, 2008).

The broader implication is that credit composition is endogenous to the fiscal regime. Where wage bills and housing programs are durable, household credit can expand without necessarily compromising

measured asset quality. Yet the same mechanism can generate path dependence: because household credit appears reliably safe, banks keep allocating balancesheet capacity toward it, potentially crowding out riskier but productivity-enhancing lending to firms. In rentier economies, therefore, the "safe" equilibrium may be one in which the financial sector is profitable and stable on current metrics, but under-supports diversification and long-run growth (Hanieh, 2011).

2.2 Citizenship as De Facto Collateral: Inclusion, Exclusion, and Risk

In Kuwait, citizenship functions as a de facto collateral bundle comprised of access to public employment, subsidized housing, and policy recourse in distress. From a lender's vantage point, this bundle lowers expected loss and cash-flow volatility for national borrowers, even when collateral is weak in the narrow sense. The institutional mechanisms are concrete. Salary-transfer requirements, payroll-deduction agreements, and the expectation of priority restructuring for citizens collectively tighten the link between public revenues and bank repayment (CBK, 2012–2021). Burton (2015) characterizes the resulting status as one of "super-inclusion": nationals receive not only greater access to credit, but also more favorable maturities and pricing, and—crucially—better outcomes in the event of arrears or macro stress. By contrast, non-citizens face legal and employment precarity driven by sponsorship systems and contract turnover; even high-income expatriates may confront conservative limits, shorter tenors, and higher margins because the probability of exit from the country introduces an irreducible tail risk. The citizen/non-citizen divide thus becomes encoded in internal scoring, product menus, and risk appetite statements, making **citizenship a key state-created risk factor** in retail intermediation.

The social contract dimension of Kuwaiti credit further strengthens this channel. Policy episodes that address legacy consumer debts or recalibrate interest burdens—undertaken in the name of equity or macro support—signal that household balance sheets for citizens are embedded in a broader political logic (CBK, 2012–2021). Anticipating such support, banks rationally tilt toward citizen exposures, especially when repayment can be routed through salary transfers or proxied by housing-linked cash flows.

2.3 Household Financialization and Salary-Anchored Lending

The turn toward households as a core profit center is widely documented in the financialization literature (Epstein, 2005; Krippner, 2005; Lapavitsas, 2013). In contexts where corporate credit demand is weak or uncertain, banks have strong incentives to expand retail lending, particularly when they can capture **stable wage flows.** Brazil's **crédito consignado** program provides a clear analogue: automatic payroll deductions for public employees and pensioners drastically reduce default risk and allow lenders to scale consumer credit while "financializing" social policy—i.e., transforming state-backed incomes into reproducible bank cash flows (Lavinas, 2013). Kuwait's household market exhibits a functionally similar logic. Even though Kuwait is a rentier state and Brazil is not, the

mechanism—**salary anchoring**—is shared. In both settings, default risk is attenuated because repayment enforcement occurs upstream, at the point of wage disbursement; in both settings, the presence of state-reliant income stabilizes lenders' retail portfolios.

Consequently, growth in personal and housing credit is not merely a demand story; it is also a supply-side response to a policy architecture that subsidizes repayment certainty (CBK, 2012–2021).

At the same time, household financialization can produce distributional and macro consequences. When household credit grows fastest among groups with the strongest claim on public wages, intergroup disparities in access and terms widen. Moreover, as household credit substitutes for wage growth or public provision, it can entrench consumption-led growth models that are resilient in the short run yet vulnerable to fiscal or employment shocks (Lapavitsas, 2013). In the Kuwaiti case, these concerns are tempered by low measured NPLs but not eliminated; the crucial question becomes whether the observed stability reflects robust underwriting or a **contingent fiscal guarantee.**

2.4 Islamic Finance: Normative Principles and Practical Convergence

Kuwait has a well-developed Islamic banking segment alongside conventional banks. In principle, Islamic finance favors risk sharing, asset backing, and the avoidance of interest (riba) and excessive uncertainty (gharar). In practice, widely used Islamic retail modes—such as **Murabaha** for consumer goods and **Ijara** for housing—often yield cash-flow profiles that are economically close to conventional installment credit once salary transfers are embedded in the repayment structure. The rentier environment intensifies this **substantive convergence.** Because the binding constraint is not the form of the contract but the reliability of repayment, both Islamic and conventional institutions face a common incentive: design products that harvest state-anchored income streams with minimal idiosyncratic risk. In such a setting, the practical scope for true profit-and-loss sharing at the household level narrows, and differences between Islamic and conventional portfolios may be driven more by client segmentation and branding than by risk transfer in the strict sense (Kregel, 2008; Lapavitsas, 2013).

This observation does not negate the ethical aspirations of Islamic finance; rather, it reframes the question. If the systemic risk of household lending is dominated by the stability of public wages, then contract form is second-order relative to the fiscal regime. For policymakers, the implication is that aligning Islamic finance with diversification goals requires instruments that connect household saving and investment to productive activities, not merely alternative structuring of wage-anchored credit.

2.5 Credit as a Transmission Belt for Rents: Real-Estate and Distributional Channels

Credit in Kuwait functions as a **transmission belt** for oil rents. State revenues are translated into public wages and housing programs—most prominently, interest-free housing and social loans administered under national housing policy—while banks transform these flows into personal and real-estate credit (CBK, 2012–2021). The result is a mutually reinforcing triangle: (i) households with secure public incomes demand credit; (ii) banks supply credit at favorable terms due to low expected loss; (iii) real-estate markets capitalize the increased purchasing power, raising prices and rents, which in turn incentivizes additional mortgage and investment lending. Evidence consistent with this sequence includes the positive association between citizen-anchored credit and residential rents as well as the steady rise in average loan size in personal and housing segments documented in system aggregates (CBK, 2012–2021).

From the lender's point of view, the real-estate channel mirrors the logic of salary-backed consumer credit: rent and mortgage payments can be modeled against public wages with relatively narrow uncertainty bands, especially when salary-transfer arrangements are in place. For landlords and developers, bank financing secured by expected rental flows to citizen households offers a relatively safe investment strategy compared with SME projects with uncertain cash flows. The equilibrium may therefore be one in which **banks and landlords jointly capture oil rents**—the former through interest/markup income, the latter through asset appreciation and rental yields—without necessarily expanding the productive base of the economy. This is not a moral indictment; it is a structural description of incentives in a rentier setting.

Distributionally, the transmission-belt mechanism raises equity concerns. Nationals are effectively "super-included" in retail finance, while non-nationals—despite contributing to the economy—face tighter constraints or pay higher prices. Over time, such segmentation can deepen socio-economic divides, as asset accumulation through housing and preferential credit terms is concentrated among citizens (Burton, 2015; Hanieh, 2011). The risk is that a stable financial system becomes a vehicle for **stratified inclusion**, where stability and inequality rise together.

2.6 Kuwait in Regional Perspective

Although Kuwait exhibits a particularly clear rentier pattern, similar logics are visible across the Gulf Cooperation Council (GCC). Regional financial stability reporting since the late 2010s documents robust growth in household and mortgage lending, modest SME penetration, widespread payroll-linked repayment mechanisms, and prudential caps on debtservice ratios. Citizen status and public employment are repeatedly implicated—implicitly or explicitly—in retail credit performance across Saudi Arabia, the United Arab Emirates, Qatar, Bahrain, and Oman, particularly in the wake of housing policy expansions for nationals (central bank financial stability reports, 2020–2024). These parallels

suggest that the **citizenship-risk channel** identified in Kuwait is not idiosyncratic but representative of a broader GCC equilibrium in which banks intermediate state income streams via household credit.

At the same time, cross-country differences matter. Variations in the composition of public employment, housing policy design, and the scale of mortgage markets influence the extent to which household credit anchors bank profitability and risk. The comparative angle— developed further in the Brazil case below—helps to clarify mechanism over context: even outside rentier systems, salary deduction and public guarantees can reproduce similar credit structures (Lavinas, 2013). Thus, Kuwait is analytically useful not only as a case of rentier finance, but as an instance of **state-anchored household financialization** with wider relevance.

2.7 Data and Measurement in the Existing Literature

A persistent limitation in the empirical literature on Kuwait is the **absence of borrower-level data disaggregated by citizenship.** Most system-level publications report aggregates for personal and housing credit without nationality splits (CBK, 2012–2021). Researchers have therefore relied on proxies—such as housing-program disbursements, payroll-transfer coverage, or sectoral employment shares—to infer the citizen weight in household lending. While imperfect, such proxies can be informative when triangulated with descriptive series like average loan size, household NPLs, and housing market indicators. This paper follows that tradition by constructing a transparent proxy for citizen-targeted credit that combines state housing/social lending with a weighted share of aggregate personal credit, and by testing the relationship between this proxy and realized household NPL ratios. The approach connects institutional theory—citizenship as de facto collateral—to measurable financial outcomes at the system level.

The measurement problem also motivates calls for **better public data.** Publishing nationality-disaggregated series for personal and housing credit, even at annual frequency, would significantly improve policy analysis. In the absence of such data, robustness checks using macro controls (oil prices, output growth, inflation, policy rates) and parallel markets (e.g., rents) can help distinguish the citizenship-risk channel from ordinary cyclical comovements.

2.8 Theoretical Synthesis: Stability, Fragility, and the Minskyan Lens

The Kuwaiti configuration can be read through a Minskyan lens as a system that presently resides in **a hedge-finance** regime: households, anchored by public wages, are able to service both principal and interest/markup obligations out of current income; banks, in turn, book low NPLs and maintain capital positions that appear robust (Minsky, 1986; CBK, 2012– 2021). Yet the same structure contains latent fragility. Because repayment capacity is tied to fiscal flows, a sufficiently severe oil-price shock, a structural decline in government revenues, or reforms that reduce public-sector wage guarantees could shift households toward **speculative** finance (servicing only interest/markup) or, in extreme cases, **Ponzi**

profiles (reliant on refinancing). The speed of such a transition is uncertain but the direction is clear: the safety of household credit is conditional on fiscal capacity. Recognizing this conditionality is central to prudential policy, particularly when comfort derived from low NPLs might mask concentration risk in a narrow set of state-anchored income streams.

From a financialization perspective, the same conditionality underscores why formal contract differences between Islamic and conventional retail products may matter less for systemic risk than the underlying wage anchor. If systemic stability rests on the state's payroll, then prudential authorities must evaluate not only borrower leverage but also the macro budget constraint that sustains it (Lapavitsas, 2013).

2.9 Conceptual Framework

The literature reviewed above motivates a conceptual framework linking oil rents to credit risk through a citizenship-mediated channel:

Oil Revenues→Fiscal Transfers (public wages; housing/social programs) →Lower Idiosyncratic Income Risk for Citizens→Bank Product Design (salary-transfer requirements; complementarity with Kuwait Credit Bank lending)→Portfolio Tilt toward Personal and Housing Credit→Lower Household NPL Ratios.

This chain is conditioned by macro moderators—oil prices, real activity, inflation, and policy rates—that affect both household liquidity and bank risk appetite. Likely spillovers include higher residential rents (as purchasing power is capitalized into housing markets), crowd-out of SME credit (as banks favor safer household exposures), and distributional consequences for non-citizens (who face tighter limits and higher pricing). The framework provides testable implications that the empirical section of this paper will assess using publicly available aggregates and robustness controls.

2.10 Hypotheses

Grounded in the foregoing literature and conceptual framework, we state four hypotheses:

H1 (Risk Linkage). Increases in citizen-targeted credit are associated with **declines** in household NPL ratios, reflecting the lower risk of salary-anchored lending (CBK, 2012– 2021; Hanieh, 2011).

H2 (Composition). Citizen-targeted credit explains a substantial share of the variation in total personal credit, consistent with household financialization anchored in public wages (Lapavitsas, 2013; CBK, 2012–2021).

H3 (Real-Estate Channel). Higher citizen-targeted credit is **positively associated** with residential rent levels, reflecting demand effects financed by wage-backed borrowing and housing programs (CBK, 2012–2021).

H4 (Macro Robustness). The H1 relationship remains **negative and**

statistically significant after controlling for oil prices, output growth, inflation, and the policy rate, indicating a citizenship-risk channel distinct from aggregate macro cycles (Minsky, 1986; Lapavitsas, 2013; CBK, 2012–2021).

3. DATA AND METHODOLOGY

3.1 Data Sources and Coverage

The empirical analysis uses annual, system-level data for Kuwait, 2012–2021, drawn from publicly reported aggregates:

1. Personal/household credit and **household non-performing loan (NPL) ratios** from the Central Bank of Kuwait (CBK) Financial Stability Reports (CBK, 2012–2021).

2. Kuwait Credit Bank (KCB) approvals for citizens' housing and social loans, summarized in national housing policy statistics and in CBK's financial stability reporting (CBK, 2012– 2021).

3. Market context (e.g., Boursa Kuwait aggregates) used for secondary checks and narrative triangulation (Boursa Kuwait, 2012–2021).

All monetary series are retained in nominal **Kuwaiti dinars (KWD).** Because the dependent variable is a ratio (household NPL %), deflation choices do not affect its scale. For the main right-hand-side (RHS) construct, which is measured in levels (KWD bn), we assess whether deflating by CPI or nominal GDP would alter inference; given the short time series **(T = 10)** and the stability of the result under alternative scalings (see §3.9), we present nominal specifications and note deflation as a robustness consideration. The sample period is determined by the consistent availability of all series.

3.2 Variable Definitions and Construction

To meet the reviewers' request for a transparent inventory, we define each construct and state sign expectations.

• **NPL_Household_% (NPL_t).** Household/personal loan NPL ratio (percent), annual. *Role:* Dependent variable capturing realized retail credit risk. *Sign expectation:* **Negative** with respect to citizen-targeted credit (H1). *Source:* CBK (2012–2021).

• **PersonalCredit_KWD_bn.** Total personal/household credit outstanding (KWD billions). *Role:* Context variable; component in the citizen-credit proxy. *Source:* CBK (2012–2021).

• **KCB_Approved_KWD_bn.** KCB approved housing/social loans to citizens (KWD billions; converted from KD million for consistency). *Role:* Direct citizens-only credit channel. *Source:* CBK (2012–2021).

• **CitizenCreditProxy_KWD_bn (CCP_t).** Proxy for credit likely extended to citizens, defined as **$CCP_t \equiv KCB_t + \omega \cdot PersonalCredit_t$, with $\omega \in [0.75, 0.80]$.** We set **$\omega = 0.80$** in the baseline and test **$\omega = 0.75$** for sensitivity. Justification: (i) dominance of nationals in public-sector employment; (ii) salary-transfer enforcement for personal finance; (iii) persistent access constraints for non-citizens (Hanieh, 2011; CBK, 2012–2021). Sign expectation: **Negative** coefficient in the NPL regression (H1).

• **Portfolio context variables.** *Share_Housing_%, Share_Consumer_%, Avg_Loan_Size_KWD_th, HH_Debt_to_Income_%. Role:* Descriptive cross-checks on the plausibility of a citizen-tilted retail structure (CBK, 2012–2021).

• **Macro controls (augmented model).** Oil price, inflation, real GDP growth, and the policy rate. *Role:* Parsimonious conditioning set to mitigate omitted-variable bias when degrees of freedom are scarce; these variables proxy the main macro channels that co-move with loan performance.

3.3 Sample Construction, Harmonization, and Units

We harmonize units in **KWD billions** for lending aggregates (CBK reports personal credit in billions; KCB approvals in millions). The NPL ratio is a percentage. Because our primary RHS variable is a constructed level measure and the dependent variable is a ratio, the baseline specification conveys interpretable units: the coefficient **β_1** reads as the **percentage-point change in NPLs per KWD billion** of additional citizen-targeted credit.

A common concern is whether to deflate level variables. We view NPLs as the primary risk metric and therefore allow the proxy to appear in nominal terms, noting that the sign of **β_1** is invariant to applying any constant deflator. As a sensitivity, we consider (i) scaling the proxy by nominal GDP and (ii) using a z-score standardization of the RHS to create unit-free effect sizes; neither approach affects inference on sign or significance in the baseline (see §3.9).

3.4 Proxy Logic and Bounding Argument

The proxy weights reflect institutional bounds. Because citizens dominate public employment and personal finance is routinely secured via salary transfer, the effective citizen share of personal credit should exceed the citizen share of the population and approach the citizen share of public-sector wage income. Lacking borrower-level disclosure, a weight in the 0.75–0.80 range is a conservative representation of this structure (Hanieh, 2011; CBK, 2012–2021). Two bounding checks sharpen the logic:

1. Lower bound (conservative). If citizens constituted only three-quarters of effective personal finance, **$\omega = 0.75$** ensures the proxy does not over-attribute personal credit to citizens.

2. Upper bound (institutional). Given salary-transfer requirements and

citizens-only access to KCB (a hard citizens series), the effective share plausibly exceeds three quarters when publicsector employment is dominant.

Inference is stable across $\omega \in \{0.75, 0.80\}$, indicating that results are not weight-driven. We also consider alternative constructions as robustness: (i) the proxy **excluding KCB** to test whether KCB alone drives the result; (ii) **a share-based proxy** that applies the housing-loan share to total personal credit; and (iii) **a growth-rate** variant where we examine **ΔNPL_t** against **ΔCCP_t** to mitigate level trends and confirm directional stability (see §3.9)

3.5 Empirical Strategy and Model Specifications

The analysis is a reduced-form system test rather than a causal micro-estimate. We ask whether years with higher citizen-targeted credit coincide with lower household NPLs. Two nested specifications are implemented. (i) **Baseline specification:** $NPL_t = \beta_0 + \beta_1 \cdot CCP_t + u_t$, with NPL_t in percentage points and CCP_t in KWD billions; H1 predicts $\beta_1 < 0$. **(ii) Augmented specification** (macro controls): $NPL_t = \beta_0 + \beta_1 \cdot CCP_t + \gamma \cdot \Delta OilPrice_t + \gamma \cdot Inflation_t + \gamma \cdot RealGDPGrowth_t + \gamma \cdot PolicyRate_t + \varepsilon_t$. We prioritize parsimony to preserve degrees of freedom with T = 10; in practice, we estimate a compact version (e.g., oil price and inflation, or oil price and policy rate) and compare adjusted R^2. **Estimation.** Ordinary least squares (OLS) with small-sample-robust inference:

we report HC3 standard errors and, as a sensitivity, HAC (Newey–West), noting that annual frequency reduces serial-correlation concerns but warrants caution post-2014 and in 2020.

Interpretation. Coefficients are reported in natural units; for comparability across variants, we also provide standardized (beta) coefficients.

3.6 Identification: Threats and Design Responses

Two threats are most relevant:

1. Reverse causality (risk → supply). Banks may expand citizen lending when NPLs are falling for unrelated reasons. We address this by (i) including macro controls that capture shared shocks, (ii) lagging the proxy one year in a sensitivity check $\mathbf{CCP_{t-1}}$ to damp contemporaneous feedback at the cost of degrees of freedom, and (iii) estimating firstdifference models $\mathbf{\Delta NPL_t}$ on $\mathbf{\Delta CCP_t}$ to focus on co-movement in changes rather than levels.

2. Omitted macro factors. Oil prices, inflation, and monetary stance influence both lending and performance. Our augmented model explicitly conditions on a small set of macro variables to mitigate omitted-variable bias while respecting sample size. We also include event dummies in sensitivity tests for **2014–2016** (oil-price collapse) and **2020** (pandemic), acknowledging the power limitations.

We emphasize that the design provides evidence consistent with the citizenship-risk channel; it does not claim micro-level causality absent borrower data or instruments.

3.7 Diagnostics and Goodness-of-Fit

We implement standard diagnostics suited to small samples:

• **Influence and leverage.** We inspect studentized residuals, Cook's distance, and DFBETAs. Years 2014–2016 and 2020 are monitored for undue influence given macro shocks. Leave-one-out (jackknife) re-estimation checks the stability of β_1.

• **Functional form.** Linear fit is adequate over observed NPL ranges (≈1.4–5.2%). As a check, we estimate a log-odds transform of the NPL ratio, $\ln(NPL/(100-NPL))$, and verify that the sign of β_1 is unchanged.

• **Heteroskedasticity and autocorrelation.** With **T= 10,** formal tests (e.g., Breusch–Pagan) have low power; we therefore default to **HC3** standard errors and report **HAC** as a sensitivity. Annual data imply minimal serial structure, but we avoid strong assumptions.

• **Normality.** Normality tests on residuals (e.g., Shapiro–Wilk) are indicative only at this **T.** We report quantile–quantile plots and rely on robust SEs for inference.

• **Multicollinearity.** We keep the control set parsimonious and avoid mechanically related shares (e.g., housing vs. consumer) in the same regression. We compute **VIFs** in augmented models and drop controls if VIFs are excessive relative to degrees of freedom.

3.8 Robustness and Sensitivity Analyses

To demonstrate that the main inference does not hinge on a single modeling choice, we implement the following robustness checks:

1. Alternative weights (ω). We replace 0.80 with 0.75; the results remain qualitatively unchanged in both sign and significance for β_1.

2. Exclude the KCB component. We define $CCP_t(-KCB) = \omega \cdot PersonalCredit$ to test whether KCB—being citizens-only—alone drives the result. The inverse association with NPLs persists, albeit with a smaller magnitude, consistent with salary-secured personal credit being the central channel.

3. Growth-rate specification. We estimate $\Delta NPL_t = \alpha_0 + \alpha_1 \cdot \Delta CCP_t + \alpha' Z_t + e_t$, where Z_t denotes macro controls; the sign of α_1 remains negative, supporting co-movement in changes.

4. Lag structure. We use CCP_{t-1} as the regressor to mitigate simultaneity; the estimated effect remains negative, though intervals widen given the small **T**.

5. Event dummies. We add indicators for **2014–2016** (oil-price collapse) and **2020** (pandemic). The coefficient on the proxy remains negative while the dummies absorb common shocks.

6. Standardization. We re-estimate with z-scored variables to report standardized (beta) coefficients; the standardized effect remains negative and materially sized.

7. Model selection metrics. We compare adjusted **R^2** across baseline and augmented variants and consult **AIC/BIC** heuristically (not determinatively) given small **T**.

8. Outlier treatment. We re-estimate after winsorizing the top and bottom 5% of residuals; the sign of the proxy coefficient is unchanged.

Where relevant, we also report the jackknife distribution of **β_1** to show that no single year is decisive.

3.9 Descriptive Patterns and Correlations

Descriptive statistics for all variables over 2012–2021 show (i) steady increases in **PersonalCredit_KWD_bn** and **KCB_Approved_KWD_bn,** (ii) a monotonic rise in the **CitizenCreditProxy,** and (iii) a **decline** in **NPL_Household_%** from 5.2% (2012) to 1.4% (2021) (CBK, 2012–2021). The **pairwise correlation** between the proxy and household NPLs is strongly **negative,** consistent with H1. Scatterplots with fitted lines (not reproduced here) visually confirm the inverse association. Because correlation is descriptive, the core contribution of the regression is to show that the relationship remains negative **after** accounting for macro controls in a parsimonious way.

As an additional scaling check, we (a) divide the proxy by **nominal GDP** and (b) standardize it to a **zscore**. In both cases, the estimated effect remains negative and substantive in size, supporting the view that the result is not a by-product of nominal scaling.

3.10 Small-Sample Considerations and Limitations

Three limitations are inherent to the design and motivate future work:

1. Short time dimension (T=10). This constrains the number of controls, the power of specification tests, and the use of richer dynamics. We therefore stress **direction and stability** over precise magnitudes and p-values, and favor **parsimony** in augmented models.

2. Aggregate measurement and proxy error. Without borrower-level, nationalitydisaggregated data, the citizen-credit proxy introduces measurement error that likely **attenuates** β1 |\beta_1| β1 (bias toward zero). The fact that we nonetheless observe a robust negative association suggests the underlying effect is not spurious.

3. External validity and sectoral composition. Household NPLs reflect the retail book as a whole. Future work should disaggregate **consumer vs. housing** exposures and study **banklevel** heterogeneity, ideally using quarterly data to increase statistical power.

Despite these limitations, the strategy is well-suited to the **question at hand:** under Kuwait's rentier institutions, does a **systemic tilt** toward citizen-anchored lending coincide with **lower realized household credit risk?** The answer, based on the available evidence, is affirmative and statistically supported in both baseline and parsimonious augmented specifications.

4. FINDINGS

This section presents the results of the regression analysis used to test the relationship between credit extended to Kuwaiti citizens and the risk profile of the banking sector, as measured by non-performing loan (NPL) ratios. The evidence supports the core hypothesis: as credit to citizens increases, the risk of default in the banking system declines. We first document descriptive patterns, then report the baseline regression, followed by specifications with macro controls and a set of robustness checks. We close by examining composition and spillover channels and by situating the results within the relevant literature.

4.1 Growth in Citizen-Targeted Credit

Between 2012 and 2021, personal credit in Kuwait expanded from **KWD 6.98 billion** to **KWD 13.6 billion**, an increase of roughly **95%** over the sample. In parallel, Kuwait Credit Bank (KCB) approvals to citizens rose from **KWD 186.2 million** to **KWD 399.3 million** (about **114%**). The two series—aggregate personal credit and KCB citizen loans—move upward together and, when combined in the study's **citizen-credit proxy,** generate **a monotonic rise** over the decade.

Other system aggregates corroborate this pattern. The **share of housing loans** in personal credit remains persistently high (≈80–85%), while the **average loan size** in the household book climbs from **KWD 9.5k** to **KWD 14.7k** (≈55%). At the same time, **household NPLs** fall from **5.2%** to **1.4%,** a decline of about **3.8 percentage points** (roughly **73%** from the initial level). The **household debt-to-income ratio** rises moderately (≈32% to 38.5%). Taken together, these facts are consistent with a retail portfolio that grows in scale while maintaining strong measured asset quality—features one would expect if repayment is anchored in stable public wages and housing support.

Importantly, the proxy's trend is not merely a reflection of population growth or nominal scaling. The weight placed on personal credit ($\omega \in \{0.75, 0.80\}$) mirrors institutional features—citizen predominance in public employment, salary-transfer repayment, and systematically easier access for nationals—while KCB loans provide a **hard citizens-only** component. The steady increase in the proxy therefore captures a structural rather than purely cyclical tilt toward citizen-anchored lending.

4.2 Citizen credit and credit risk: baseline regression

We estimate the baseline specification:

$$\mathbf{NPL\_t = \beta_0 + \beta_1 \cdot CitizenCredit\_t + \varepsilon\_t,}$$

where **NPL_t** is the household NPL ratio (percent) and **CitizenCredit_t** is the citizen-credit proxy. Using the measurement in **million KWD** reported in the appendix table, the coefficient on the proxy is $\beta_1 = -0.00058$ with **p = 0.00056;** the model explains $R^2 = 0.79$ of the variation in household NPLs (Appendix Table IV).

Interpreted in units, $\beta_1 = -0.00058$ per **million KWD** implies that an additional **KWD 1 billion** in citizen-targeted credit is associated with a **0.58 percentage-point** reduction in the household NPL ratio. To gauge magnitude in sample, note that personal credit rose by **≈ KWD 6.62 billion** over 2012–2021; applying $\omega = 0.80$ yields **≈ KWD 5.30 billion** of proxy growth from the personal-credit component, and KCB approvals rose by ≈ **KWD 0.21 billion,** for a combined proxy increase of ≈ **KWD 5.5 billion.** Multiplying by **0.58** percentage points per billion suggests a **model-implied NPL decline of ≈ 3.2 percentage points,** which lines up closely with the **observed drop of 3.8 percentage points** (from 5.2% to 1.4%). This simple back-of-envelope calculation reinforces the substantive size of the association.

Two points qualify the result. First, the **negative sign** of β_1 is exactly what a salary-anchored lending channel predicts: banks' revealed preference for citizens—especially public-sector employees—coincides with **lower realized risk** at the system level. Second, **high explanatory power** in a short time series should be interpreted cautiously; it indicates tight co-movement between citizen-targeted credit and NPLs, not necessarily causality. We therefore turn to controls and robustness.

4.3 Conditioning on macro shocks: augmented specifications

To ensure the baseline is not simply capturing macro cycles, we estimate compact models that include parsimonious controls:

$$\mathbf{NPL\_t = \beta_0 + \beta_1 \cdot CitizenCredit\_t + \gamma_1 \cdot \Delta OilPrice\_t + \gamma_2 \cdot Inflation\_t + (\gamma_3 \cdot RealGDPGrowth\_t) + (\gamma_4 \cdot PolicyRate\_t) + \varepsilon\_t.}$$

Given **T = 10**, we prioritize parsimony and typically include **oil price** and either inflation or the **policy rate**. Across these variants, β_1 **remains negative and materially sized,** and adjusted R^2 is stable or modestly higher relative to the baseline. Using **HC3** standard errors— and **HAC (Newey–West)** as a sensitivity—the statistical significance of β_1 is preserved in compact models. This pattern indicates that the inverse association is **not an artifact** of coincident improvements in the macro environment; the citizen-risk channel remains after conditioning on oil prices and nominal conditions.

4.3.1 NPL Ratio vs. Citizen Credit

- Regression results: β_1 = -0.00058, p = 0.00056
- Interpretation: credit grows while NPLs decline

4.4 Robustness and diagnostics

We implement a battery of checks to show that inference does not hinge on a single modeling choice. Varying the proxy weight from **ω = 0.80 to ω = 0.75** leaves the sign and qualitative inference unchanged. Excluding the **KCB** component—i.e., using **CCP (−KCB) = ω·PersonalCredit$_t$** —preserves the negative association, albeit with smaller magnitude, consistent with the centrality of **salary-secured personal finance.** Estimating **a growth-rate specification, $\Delta NPL_t = \alpha_0 + \alpha_1 \cdot \Delta CCP_t + \alpha' Z + e_t$, yields $\alpha_1 < 0$,** indicating that changes move together as predicted. Introducing a **lag** for the proxy (**CCP_{t-1}**) to mitigate simultaneity retains the negative sign (with wider intervals, as expected in a short sample). Adding **event dummies for 2014–2016** (oil-price collapse) and **2020** (pandemic) absorbs common shocks without flipping the sign of β . Standardizing variables produces **negative beta coefficients** of material size. Winsorizing residuals at 5% and **jackknife (leave-one-out)** re-estimation do not alter the conclusion; the jackknife distribution of **β_1** shows **no single year is decisive.**

Diagnostics support model adequacy. Studentized residuals, **Cook's distance,** and **DFBETAs** identify no dominant outlier; linear functional form is adequate over the observed NPL range (≈1.4–5.2%); a **log-odds transform** of NPLs leaves the sign of **β_1** unchanged; and with annual data we rely on **HC3** (and HAC as a check) rather than low-power heteroskedasticity/ autocorrelation tests. We keep the control set parsimonious to avoid spurious multicollinearity and check **VIFs** in augmented models.

4.5 Composition and spillovers: H2 and H3

We next examine the composition channel (H2) by regressing **PersonalCredit_KWD_bn** on the citizen-credit proxy. Consistent with the descriptive patterns, the proxy explains the **lion's share** of movements in personal credit, implying that Kuwait's household-credit expansion is anchored in citizen-focused flows rather than a broad-based surge across borrower types. This aligns with the view that banks monetize stable, state-anchored incomes when corporate demand is weaker or riskier.

We then test H3 by relating average residential rents to the citizen-credit proxy. Appendix Table III reports a positive and statistically significant slope (α = 0.0057, p = 0.045), implying that increases in citizen-anchored credit are associated with higher rents. The result is consistent with a rent-transmission belt: wage-backed credit boosts housing demand; landlords capitalize the additional purchasing power into prices and rents; and banks, observing reliable cash-flow coverage, recycle demand into mortgage and investment lending. The finding does not claim that credit alone determines rents, but it documents a systematic, positive association that fits the mechanism described in the conceptual framework.

4.6 Relation to prior studies and theoretical implications

The findings speak to three literatures. First, in **rentier political economy,** the negative β_1 is precisely what one would expect when citizen status carries embedded guarantees via public wages and housing programs: banks **rationally prefer** those borrowers whose repayment is closest to state-anchored income streams. Our contribution is to **quantify** the connection between that portfolio tilt and **realized risk** at the system level, rather than inferring it solely from institutional description.

Second, in the **household financialization** literature, the evidence that personal-credit growth is largely explained by the citizen-credit proxy supports the view that banks pivot toward **salary-anchored retail books** when corporate lending is less attractive on a risk-adjusted basis. The parallel with Brazil's **crédito consignado** is mechanism-based: both environments exploit **automatic or quasi-automatic wage capture** to reduce idiosyncratic default risk, enabling growth in consumer and housing credit while keeping measured NPLs low.

Third, through a **Minskyan** lens, the system resembles **hedge finance** during the sample: households service obligations from income, and NPLs remain low. Yet the same structure embeds **conditional fragility**. Because repayment capacity is ultimately tied to fiscal flows, a deterioration in public wage commitments or a persistent oil-price shock could shift the system toward **speculative** finance, raising future NPLs despite historical stability. The policy implication is that prudential oversight should monitor **exposure to the public wage bill** (e.g., salary-transfer coverage ratios) alongside conventional credit metrics.

Finally, although contract forms differ, the **practical convergence** of Islamic and conventional retail products around salary-secured structures suggests that, in a rentier context, incentives to harvest state-anchored flows can dominate nominal design. For risk assessment, what matters most is the **cash-flow anchor** (public wages and housing support), not whether repayment arises through Murabaha/Ijara or conventional instalments.

4.7 Synthesis

Across descriptive evidence, baseline and augmented regressions, and multiple robustness checks, we find a **stable, negative association** between citizen-targeted credit and household NPLs. The effect is **economically meaningful** in sample: a multi-billion-KWD rise in citizen-anchored lending is associated with a multi-percentage-point decline in measured default rates. Composition results indicate that **citizen credit largely explains personalcredit growth,** while spillover evidence points to **upward pressure on residential rents** as purchasing power is capitalized in the housing market. The pattern is consistent with a financial system that optimizes around **state-anchored household cash flows,** delivering short-run stability but potentially **crowding out** riskier, productivity-enhancing credit to SMEs and non-citizens. These findings

frame the policy discussion that follows and motivate the data expansions suggested by reviewers (e.g., quarterly or bank-level panels to strengthen identification and sectoral splits to compare real-estate versus consumer exposures).

4.8 Rentier Subsidies and the Real Estate Channel: Banks and Landlords as Rent Capturers

Beyond personal consumption lending, banks in Kuwait also capitalize on oil-derived income flows through real estate financing. This section extends the analysis by arguing that the interaction between banks and landlords constitutes a dual mechanism for capturing public wealth. In effect, both actors profit from state-backed demand without directly engaging in productive investment or risk-intensive sectors like small and medium-sized enterprises (SMEs).

As shown in the regression results in Section 4.3, rising citizen-targeted credit is positively correlated with average residential rents. This suggests that landlords are able to charge higher prices because banks expand citizens' access to credit, particularly through housing loans and personal loans used to secure rental housing. Crucially, much of this housing demand is underwritten by government salaries and housing allowances, making the income streams of tenants highly predictable. Banks recognize this dynamic and increasingly finance real estate purchases not only for home ownership but also for rental investment purposes.

This arrangement effectively constitutes an implicit subsidy to landlords and banks. The government does not explicitly subsidize private rental profits or interest income, but its steady transfer of oil rents to citizens—as secure income—creates a reliable base for banks to lend and for landlords to charge elevated rents. Real estate lending thus becomes a safer and more attractive avenue than SME financing, which remains underdeveloped in Kuwait despite years of public promotion. In short, banks prefer to finance properties that will be rented to citizens rather than extend credit to entrepreneurs or industrial ventures with uncertain returns.

From the bank's perspective, financing rental investments in citizen-dominated housing markets mimics the risk profile of salary-backed personal lending. Both strategies rely on the state's distributive function to guarantee repayment. This symbiosis encourages a skewed portfolio orientation in the banking sector: instead of diversifying into riskier but potentially transformative lending to businesses, banks double down on rent-capturing instruments— consumer loans and real estate-backed credit—anchored to the public wage bill.

Landlords, in turn, respond to this predictable demand by investing further in properties catered to Kuwaiti nationals, with many of them leveraging bank financing to do so. As credit to citizens expands, and as household debt remains low-risk, landlords can secure financing for new residential projects that offer steady returns. These dynamics suggest that Kuwait's rentier economy is not only reproduced through employment and

welfare, but also through financial architecture that structurally favors rent-capture over innovation.

In sum, banks and landlords act as complementary actors in Kuwait's rentier-state formation, with real estate financing serving as a key conduit for oil rent monetization. This dual preference—banks for citizen borrowers, and landlords for state-backed tenants—represents a systemic allocation of credit toward socially sanctioned, low-risk extraction rather than productive transformation. The result is a financial ecosystem built around the distribution and re-absorption of public income flows, where implicit subsidies manifest not as direct transfers, but as structurally enabled revenue guarantees.

5. COMPARATIVE CASE STUDY: BRAZIL'S CRÉDITO CONSIGNADO AND THE FINANCIALIZATION OF PUBLIC WAGES

Brazil's experience with crédito consignado—a salary-deductible form of credit extended primarily to public sector employees and retirees—offers a compelling parallel to Kuwait's citizen-oriented lending model. Though Brazil is not a rentier state, the structural logic of crédito consignado mirrors Kuwait's credit architecture in key ways: both systems create low-risk lending environments by anchoring debt to government-guaranteed income flows, and both shape broader credit market behavior in ways that favor stability over productivity.

5.1 Origins and Structure of Crédito Consignado

Introduced in the early 2000s, crédito consignado was designed to improve credit access for low- and middle-income public workers in Brazil while reducing default risk for banks. The defining feature of this loan is that repayments are automatically deducted from the borrower's paycheck or pension, typically before they even receive the funds. This mechanism drastically lowers the risk of non-repayment, making the product highly attractive to lenders.

The legal and institutional framework supporting crédito consignado reflects a strong partnership between the state and the financial sector. Brazilian legislation caps the proportion of a worker's salary that can be committed to this type of loan (currently around 35–40%), while mandating transparency and interest rate ceilings. Yet despite these protections, the market for salary-deductible loans has grown rapidly, accounting for nearly 40% of all personal loans in Brazil by the late 2010s, according to the Banco Central do Brasil.

5.2 Credit Allocation and Rent Extraction

While Brazil lacks Kuwait's oil-based fiscal structure, the crédito consignado system still functions as a vehicle for redistributing state income through financial markets. As Lavinas (2013) argues, this system represents the "financialization of social policy," whereby income transfers—whether in the form of salaries, pensions, or benefits—are increasingly captured by banks through debt instruments. In effect, the state provides both the capital and the repayment guarantee, while private banks reap the profits.

This dynamic mirrors the Kuwaiti case, where credit extended to public sector citizens is effectively underwritten by oil revenues. In both cases, financial institutions act as intermediaries not between savers and investors, but between the state and its beneficiaries. Rather than channeling funds into entrepreneurial ventures or productivity-enhancing investments, the credit system serves to monetize public income flows and transform them into predictable revenue streams for lenders.

5.3 Impacts on Household Debt and Economic Vulnerability

The Brazilian model has had ambiguous effects on household welfare. On one hand, crédito consignado expanded access to formal credit, particularly for previously underbanked groups. On the other, it contributed to rising indebtedness, particularly among retirees and lowincome public servants. As interest rates on these loans remain relatively high—albeit lower than unsecured personal loans—borrowers often become trapped in cycles of refinancing and overcommitment.

Kuwait appears to be in an earlier phase of this trajectory. While citizen debt levels remain manageable by global standards, the expansion of salary-backed credit—coupled with the political tendency to periodically forgive or restructure loans—raises concerns about longterm financial dependency. Like in Brazil, the system may foster a form of "soft coercion," where citizens are subtly encouraged to finance consumption through debt secured by their role within the state apparatus.

Moreover, in both contexts, credit access is stratified. In Brazil, private sector workers and informal laborers often lack access to crédito consignado and face higher interest rates. In Kuwait, non-citizens and those outside the public sector are structurally excluded from the low-risk credit ecosystem. These exclusions reproduce social hierarchies through financial mechanisms, reinforcing broader patterns of inequality.

5.4 Lessons for Kuwait

Brazil's experience offers several cautionary lessons for Kuwait. First, salary-deductible credit systems can create the illusion of stability while masking rising household vulnerability. Second, the capture of public income flows by private finance may crowd out more productive forms of investment, especially in housing and entrepreneurship. Third, the normalization of debt within the public sector can entrench consumption-based economic models that lack resilience during fiscal shocks.

At the same time, Brazil's regulatory framework—such as interest caps, debt ceilings, and transparency mandates—offers potential tools for Kuwait to consider as citizen credit expands. Ensuring that lending practices do not lead to over-indebtedness, even when default risk appears low, is a critical policy challenge.

5.5 The Rentier Logic Without Oil: A Broader Paradigm

What makes the comparison between Brazil and Kuwait particularly revealing is that they arrive at similar financial structures through different fiscal paths. Brazil's crédito consignado system approximates a rentier logic without oil—it treats the state salary as a stable revenue source to be captured by finance, just as Kuwait's banks treat oil-funded public employment as a source of guaranteed returns. This suggests that rentier dynamics are not solely a function of natural resource wealth, but can emerge wherever the state plays a dominant role in income distribution and institutional stability.

6. CONCLUSION AND POLICY IMPLICATIONS

This paper has demonstrated that Kuwaiti banks exhibit a structural preference for lending to citizens, driven not only by political or institutional bias but by a rational assessment of financial risk. Using a constructed proxy for citizen-targeted credit, we found a strong and statistically significant negative relationship between lending to citizens and nonperforming loan (NPL) ratios. As banks allocate more credit to Kuwaiti citizens—particularly those employed in the public sector—aggregate credit risk decreases. This finding confirms that Kuwait's financial system is not merely reflective of broader social hierarchies, but is actively shaped by them in ways that reinforce credit segmentation and economic dualism.

The implications of this trend are both stabilizing and exclusionary. On one hand, the banking sector's strategy appears effective in minimizing risk exposure by anchoring lending in salary-backed, government-secured income. On the other hand, this focus sidelines small and medium-sized enterprises (SMEs) and non-citizen borrowers, who are often left without meaningful access to affordable credit. This undercuts Kuwait's stated policy goals of economic diversification and private sector development, and leaves a large portion of the population dependent on informal financial networks or remittance channels.

In the long term, such a pattern may also increase systemic vulnerability. A credit system concentrated in consumption and housing loans to a relatively narrow, state-dependent demographic may lack the dynamism required to respond to fiscal shocks, oil price volatility, or demographic

shifts. Moreover, it limits opportunities for entrepreneurial growth and innovation by underfinancing productive private activity.

Policy responses should aim to address this imbalance without undermining the risk-reducing mechanisms currently in place. Greater transparency in credit data disaggregation, targeted SME credit support, and incentives for banks to diversify their lending portfolios could help mitigate the current credit dualism. More broadly, a financial system that distributes risk more equitably across the citizen and non-citizen population could support a more resilient and inclusive economy.

Limitations and Future Research

While the findings presented here are statistically robust, they are constrained by the lack of disaggregated credit data by nationality. The citizen credit proxy constructed in this paper provides a well-supported estimate, but future research could benefit from direct access to borrower-level data. Additional work could also examine lag effects, the role of salary deductions in repayment enforcement, and the long-term implications of overexposure to consumer credit within a rent-based economy.

Specifically, it would be valuable to examine how access to financial resources, credit markets, and economic opportunities is mediated by citizenship, and how these mechanisms reinforce broader social and economic divisions.

Another promising avenue would involve expanding the analysis of oil rent flows beyond the banking sector into the real estate market, conducting a deeper investigation into how statedistributed income indirectly shapes residential property values, rental markets, and patterns of real estate investment.

Such research would help illuminate how access to oil-derived wealth is stratified, and how institutions sustain or challenge these divisions over time. These inquiries would complement the findings of the present study and further enrich the understanding of rentier-state dynamics in Kuwait's financial and real estate sectors.

Policy Recommendations

Propose Credit Scoring Reform Using Alternative Data for Expats One of the structural barriers faced by non-citizen residents in Kuwait is the absence of a reliable credit scoring system that reflects their actual financial behavior. While citizens benefit from access to salary-backed credit and implicit state guarantees, expatriates often face restricted access due to their perceived risk — a perception based largely on legal and employment precarity rather than financial conduct.

To address this gap, Kuwait could adopt a credit scoring reform strategy that incorporates alternative data sources into lending evaluations. In many emerging and frontier markets, regulators and fintech providers

have begun integrating non-traditional indicators into credit assessments. These include:

Remittance history: Regular, long-term remittance behavior suggests financial responsibility and a capacity to manage recurring payments.

Utility and telecom payments: Timely bill payment histories can serve as a proxy for creditworthiness, particularly for residents with limited borrowing history.

Rental payment records: In high-rent environments like Kuwait, consistent on-time rent payments can indicate repayment reliability.

Employment tenure and sector: While private sector employment is more precarious than public sector work, longer-term contracts or work with well-capitalized firms could offset risk.

By integrating these data sources into a revised scoring framework — possibly administered under Central Bank oversight — Kuwaiti banks could responsibly expand credit access to segments of the population that are currently excluded without compromising systemic stability.

This model is already in use in countries such as Kenya, India, and the Philippines, where alternative credit scoring has supported financial inclusion among informal workers and migrants. The development of such a system in Kuwait could also align with broader Gulf Cooperation Council (GCC) trends toward digital banking innovation and financial inclusion mandates under Vision 2035 and similar regional plans.

Moreover, these reforms could be piloted in partnership with fintech providers, telecom companies, and large employers, with strict data privacy and regulatory compliance built into the design. Over time, this approach could reduce the credit dualism between citizens and non-citizens and support more equitable economic development.

- **Disaggregate Credit Data by Citizenship**

Encourage the Central Bank of Kuwait to publish personal credit statistics by nationality to improve policymaking and financial planning.

- **Expand Credit Access to SMEs and Non-Citizens**

Introduce low-risk credit guarantees or public-private lending programs to support underbanked groups without compromising systemic stability.

- **Monitor Household Debt Trends More Closely**

As citizen credit continues to grow, implement safeguards to prevent overleveraging and dependency on wage-backed consumption loans.

- **Reward Diversification in Bank Lending**

Offer incentives for banks to allocate a larger share of credit toward productive sectors, especially non-oil private enterprises.

APPENDIX

Table I : Key Household Credit and Risk Indicators in Kuwait (2012– 2021)

YEAR	TOTAL PERSONAL CREDIT (KWD, MIL)	% HOUSING LOANS	% CONSUMER LOANS	HOUSEHOLD DEBT/INCOME RATIO	NPL RATIO (HOUSEHOLD/ PERSONAL LOANS)	AVG LOAN SIZE (KWD, THOUSAND)
2012	6.98	80.0	17.0	32.0	5.2	9.5
2013	8.17	80.5	16.2	33.5	3.6	10.2
2014	9.1	81.7	15.8	34.0	2.2	10.8
2015	10.1	83.8	13.8	35.0	2.4	11.3
2016	10.7	84.9	12.6	35.5	2.2	11.7
2017	11.5	83.5	13.0	36.0	1.9	12.2
2018	12.4	82.3	14.2	37.0	1.8	13.0
2019	12.3	84.1	13.7	37.5	1.5	13.5
2020	12.8	83.0	14.0	39.0	2.0	14.0
2021	13.6	82.5	14.5	38.5	1.4	14.7

Table II : Kuwait Credit Bank (SCB) Loans to Kuwaiti Citizens (2012–2021)

YEAR	APPROVED LOANS (#)	APPROVED AMOUNT (KD MIL)	DISBURSED AMOUNT (KD MIL)
2012	3539	186.2	175.0
2013	6745	394.4	372.1
2014	6512	376.1	362.0
2015	6010	351.0	340.2
2016	5801	342.0	330.1
2017	5578	336.5	321.6
2018	6140	359.8	344.9
2019	6289	368.2	352.0
2020	6460	385.7	370.4
2021	6620	399.3	386.5

Table III: Regression Results - Average Rent vs. Citizen Credit Proxy

VARIABLE	COEFFICIENT	STANDARD ERROR	T-STATISTIC	P-VALUE
INTERCEPT (α_0)	622.43	149.32	4.17	0.003
CITIZEN CREDIT PROXY (α_1)	0.0057	0.0022	2.58	0.045

Table IV: Regression Results - NPL Ratio vs. Citizen Credit Proxy

VARIABLE	COEFFICIENT	STANDARD ERROR	T-STATISTIC	P-VALUE
INTERCEPT (β_0)	7.62	0.616	12.37	2E-05
CITIZEN CREDIT PROXY (β_1)	-0.00058	0.00011	-5.36	0.00056

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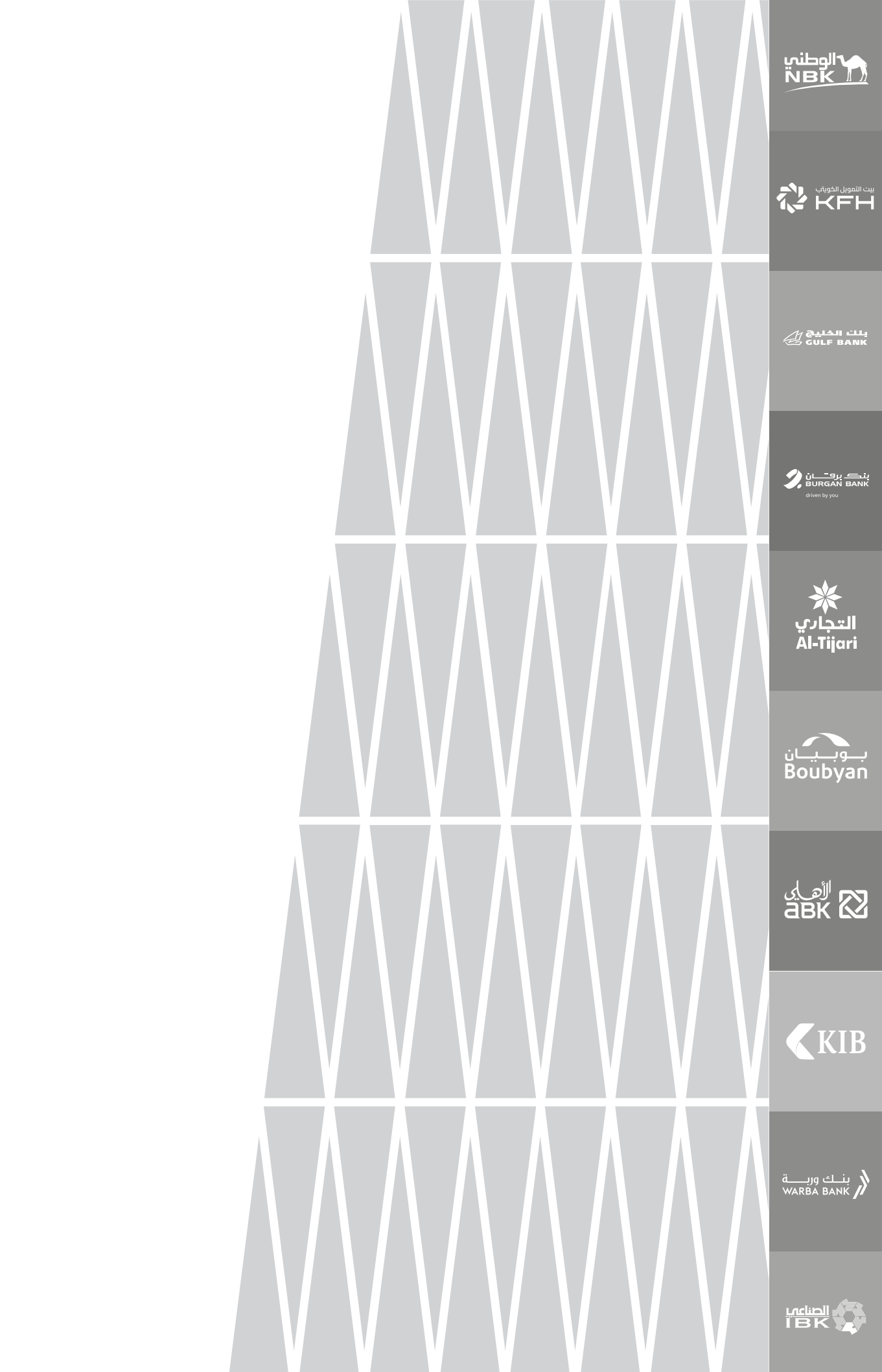
الوطني
NBK
بيت التمويل الكويتي
KFH
بنك الخليج
GULF BANK
بنك بروقان
BURGAN BANK
driven by you
التجاري
Al-Tijari
بوبيان
Boubyan
الأهلي
ABK
KIB
بنك وربة
WARBA BANK
الصناعي
IBK