

Business

NBK ECONOMIC REPORT

# Kuwait inflation remained low in Q4 2018 despite Dec pick-up

## Inflation could hit 2.0% in 2019 as housing pressures

**KUWAIT:** Inflation remained low in 4Q18, ending the quarter at 0.4 percent y/y, up only slightly from 0.3 percent in September and having hit a 15-year low of just 0.1 percent in November. Our measure of core inflation, which excludes food and housing, also edged up to 1.7 percent from 1.5 percent at the end of Q3. The pick-up in headline inflation in Q4 was due to higher prices for transport and education, but also a slower pace of deflation in housing services and clothing.

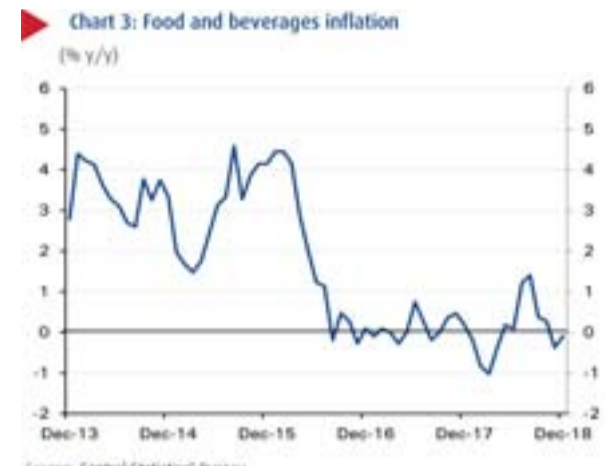
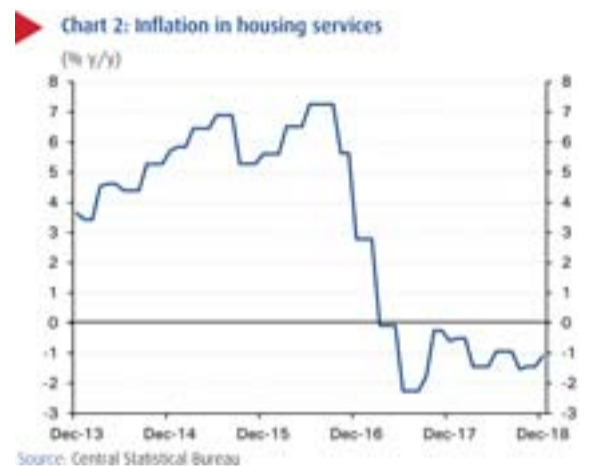
Inflation averaged just 0.6 percent overall in 2018, down from 1.5 percent in 2017 and its lowest since 2002, weighed mostly by weak price pressures in food and housing. Core inflation also fell, to 1.9 percent from 3.3 percent in 2017 as prior fuel subsidy cuts roll out of the annual comparison.

### Housing services deflation

Housing deflation slowed to -1.1 percent in December from -1.5 percent in September, supported by slower year-on-year deflation in rents although rent prices have been essentially unchanged for the past nine months. Looking forward, it is likely that there will be a modest pickup in housing services inflation starting in March due to a base effect, following a fall in rents in March 2018. Moreover, with the apartment market now showing signs of recovery, it is possible that rents may start to rise in the near-to-medium term.

### Inflation picks up slightly

Food and beverage prices - a component worth 17 percent of the CPI basket - fell back into deflation at -0.1 percent y/y in December from 0.4 percent in September. Food inflation averaged just 0.1 percent in 2018 overall, helped by falls in international food prices. But inflation in most other categories picked up through the



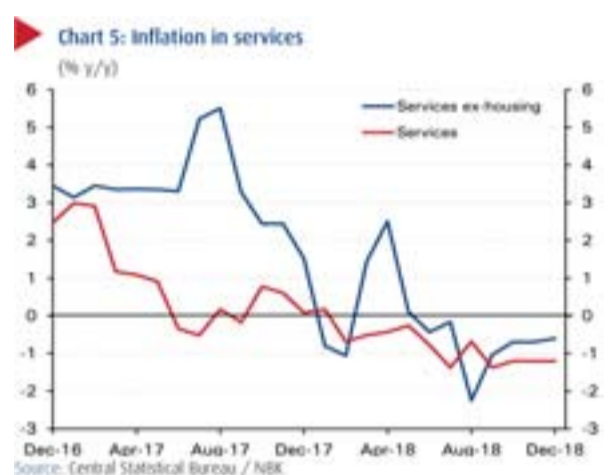
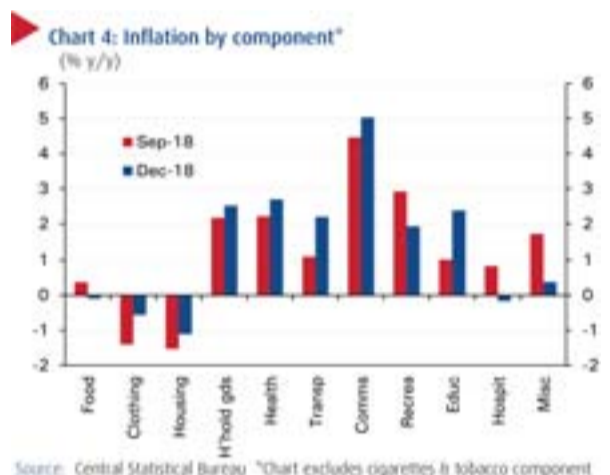
quarter, the largest shifts coming in education (to 2.4 percent from 1.0 percent) and transport (2.2 percent from 1.0 percent); deflation in the clothing segment also eased (-0.6 percent from -1.4 percent). The most notable component that went the other way was the miscellaneous category, where inflation fell (to 0.4 percent from 1.7 percent) through the quarter helped by smaller price rises in the personal care segment.

It is also notable that deflation in the services category persists, though slowed to -0.9 percent in December from -1.4 percent in September. Service sector items tend to be less tradable across borders than goods, so can reflect conditions in the domestic economy more so than external factors or the exchange rate. Deflation

in services is present even once excluding the impact of price falls in the housing segment, which is an important services component. The price of services fell overall in 2018, by 0.7 percent y/y, while the prices of goods - durable, semi-durable and non-durables - rose.

Inflation is expected to pick up in 2019, but will remain within manageable limits at an average of 2.0 percent. Inflation has been kept low in the recent past by a combination of falling housing costs, weak food price pressures, the relative strength of the Kuwaiti dinar (due to the peg to the currency basket dominated by the US dollar, which strengthened last year), and only modest rates of economic growth.

Looking forward, the headline rate will be lifted by an expected easing in deflation in the housing sector, which has continued to move into recovery mode with prices for both houses and apartments now rising year-on-year. However elsewhere, price pressures should be well contained. International food prices have shown no discernible pick up over recent months so we do not expect a strong inflationary impulse from this area. Meanwhile, core inflation is seen little changed at 2.2 percent in 2019 given ongoing strength in the US dollar (and by extension the dinar), and moderate non-oil growth. We also do not expect any significant subsidy cut measures over the coming fiscal year and the implementation of VAT is unlikely before 2021 at the earliest.



CPI component	% y/y annual average		% m/m			% y/y		
	2017	2018	Oct	Nov	Dec	Oct	Nov	Dec
Food & beverages	0.1	0.1	0.4	-0.6	0.5	0.3	-0.4	-0.1
Tobacco & cigarettes	1.2	11.5	0.0	0.0	0.0	13.5	13.5	13.4
Clothing & footwear	1.4	-0.5	-0.1	0.3	0.2	-1.6	-1.3	-0.6
Housing services	-0.4	-1.1	0.1	0.0	0.0	-1.4	-1.4	-1.1
Furnishings & household maintenance	3.4	2.0	0.2	0.3	0.3	2.2	2.3	2.5
Healthcare	0.3	1.8	0.0	0.0	0.3	2.1	2.1	2.7
Transportation	10.2	1.3	0.0	0.0	0.9	1.1	1.0	2.2
Communication	-0.7	3.7	0.6	0.5	0.1	4.2	4.7	5.0
Recreation & culture	3.2	4.1	0.0	0.0	0.0	2.3	1.7	1.9
Education	2.8	1.4	0.0	0.0	1.3	1.0	1.0	2.4
Restaurants & hotels	3.1	1.7	0.0	0.0	-0.1	0.8	0.8	-0.2
Other goods & services	1.7	3.5	-0.1	-0.1	0.0	0.7	0.4	0.4
*CPI ex food and housing	3.3	1.9	0.2	0.0	0.4	1.3	1.3	1.7
General Index	1.5	0.6	0.2	-0.1	0.3	0.2	0.1	0.4

## China says US trade talks progress 'well received'

**BEIJING:** The "substantive progress" China and the United States have made in their trade talks has been "well-received" in both countries and around the world, a senior Chinese official said yesterday, maintaining Beijing's previous upbeat assessment of discussions.

"History shows cooperation is the best choice for the world's two largest economies," Zhang Yesui, a former Chinese ambassador in Washington and now spokesman for China's largely rubber-stamp parliament, told a news briefing. China and the United States have imposed tit-for-tat tariffs on hundreds of billions of dollars' worth of each other's goods, and the talks are aimed at de-escalating a conflict that has roiled financial markets, disrupted manufacturing supply chains and shrunk US farm exports. "So far they have achieved substantive progress on many issues of mutual interest," Zhang said ahead of parliament's opening today.

"Economic and trade ties between China and the United States are mutually beneficial, win-win by the nature, and we hope that both sides can continue to step up consultations, to reach a mutually-beneficial, win-win agreement."

Zhang's remarks echoed comments made late last month by the Chinese government's top diplomat. Zhang noted that aside from the trade dispute, the two countries also regularly clash over issues like human rights, the disputed South China Sea and self-ruled Taiwan, which China claims as its own.

While China will defend its sovereignty, security and development interests, it is also dedicated to having a relationship with the United States based on mutual respect and non-confrontation, he said.

"The two countries' history, culture, social system and development stage certainly have many differences," Zhang said. "It's totally normal to have differences and disputes, but this does not inevitably lead to antagonism or confrontation."

It is in neither country's interests to clash or have confrontation, Zhang added.

"Using the old thinking of the Cold War to deal with new problems in the context of globalization definitely won't get you anywhere."

### Foreign investors

China's legislature will vote next week on a highly-anticipated bill that will bring "a fundamental change" for foreign investors, an official said yesterday, in a move that could help



WASHINGTON, DC: Rep Bill Pascrell (left) talks with US Trade Representative Robert Lighthizer during a House Ways and Means Committee hearing in Washington, DC. —AFP

ease US trade tensions. The draft foreign investment law will be the most closely watched item at the annual two-week session of the rubber-stamp National People's Congress, which opens today. The legislation seeks to address longstanding complaints from foreign companies, though Europeans voiced concerns that it was being fast-tracked to meet US demands on trade.

The bill will eliminate the requirement for foreign firms to transfer proprietary technology to Chinese joint-venture partners—a central issue in China's trade negotiations with the United States.

It also promises to abolish the "case-by-case approvals" process for foreign investments. NPC spokesman Zhang Yesui said at a news conference. The change will ensure that foreign investors will enjoy the same privileges as Chinese companies in most sectors, except those placed on a "negative list".

Beijing uses negative lists to identify areas that are either off-limits to non-state businesses or that require them to go through an application and approval process.

"Areas for prohibiting and restricting foreign investments shall be clearly listed and areas outside the negative list will be fully open," Zhang said. "Chinese and foreign investment will enjoy the same treatment." The new "unified law" will replace three existing laws on Chinese and foreign equity joint ventures, non-equity joint ventures and wholly foreign-owned enterprises.

"This is a fundamental change in our foreign investment management system, which will improve the openness, transparency and predictability of the investment environment," Zhang said. —Agencies

lions of dollars' worth of each other's goods, roiling financial markets, disrupting manufacturing supply chains and shrinking US farm exports.

A source briefed on the negotiations told Reuters the two countries appear close to a deal that would roll back US tariffs on at least \$200 billion worth of Chinese goods. Stock markets welcomed the news, with European markets following their Asian counterparts higher. The pan-European STOXX 600 index was up 0.4 percent.


MSCI's All Country World Index, which tracks shares in 47 countries, was up 0.1 percent on the day. "The market rebound has been driven by the prospect of a US-China trade deal and the pause in Fed rate hikes," said Rupert Thompson, head of research at UK-based asset manager Kingswood.

"While hopes on both fronts are likely to end up being vindicated, the good news would largely now seem to be in the price and the scope for further gains not that obvious." —Reuters

## World shares tick higher on US-China trade deal optimism

**LONDON:** Global shares rose yesterday amid growing optimism the United States and China will reach a trade agreement as soon as this month. US President Donald Trump and Chinese President Xi Jinping might seal a formal trade deal around March 27, given progress in talks between the two countries, the Wall Street Journal reported on Sunday.

The two nations have imposed tit-for-tat tariffs on bil-



شركة البترول الوطنية الكويتية  
Kuwait National Petroleum Company

**KUWAIT NATIONAL PETROLEUM COMPANY (KNPC)**  
(Internal Purchasing Committee)

**MRF/PQ-001 "PRE-QUALIFICATION OF APPLICANTS FOR KNPC SPENT CATALYST SALE FOR METAL RECLAMATION FACILITY (MRF) IN KUWAIT."**

- As a part of Kuwait Petroleum Corporation (KPC) initiative for private sector participation in Kuwait Oil sector, KUWAIT NATIONAL PETROLEUM COMPANY (KNPC) invites qualified and experienced local, Gulf & International companies for pre-qualification for Sale of KNPC Spent catalyst to be used in New Metal Reclamation facility (MRF) in Kuwait.
- The successful Bidder shall sign a Twenty (20) year Agreement with KNPC to purchase all types of spent catalyst generated in KNPC Refineries.
- The Contractor shall construct and operate new Metal Reclamation Facility (MRF) in Kuwait where metals will be recovered from spent catalysts generated in KNPC Refineries in Kuwait. The Contractor shall be responsible for collecting, handling, transporting, processing, metal recovery and disposal of catalyst waste in compliance with K-EPA regulations. The Contractor shall execute the contractual obligations in a safe manner in accordance with KNPC Health, Safety and Environment Policy and in compliance with all Regulations as mentioned in Auction documents and to be commensurate with the scope of work.
- KNPC shall evaluate the applications and pre-qualify the Companies meeting KNPC requirements as mentioned in PQ document, forms and Questionnaires.
- The qualified Companies shall be allowed to participate in Auction and submit final Auction offer to purchase all type of spent catalyst from KNPC.
- The details of Scope of Work & Pre-qualification document, forms & Questionnaires shall be downloaded from the link shown below:  
[www.knpc.com/KNPC/media/pdf/MRF-PQ-document-pdf.pdf](http://www.knpc.com/KNPC/media/pdf/MRF-PQ-document-pdf.pdf)

Starting from March 3, 2019.

- The PQ documents to be filled in as required and shall be submitted to the IPC (Room no., 1A-046) in KNPC Head Office, Al-Ahmadi in a closed envelope along with application fee of KD 100/- (One Hundred Kuwaiti Dinars) non-refundable in a form of certified cheque or receipt of deposit in favor of KNPC account. The PQ number, title and the closing date should be indicated on the envelope.
- The closing date to submit the PQ Applications shall be not later than 1:00 pm, of Thursday 13/06/2019.
- For any enquiry, Applicants may contact (mrfproject@knpc.com).
- IPC invites the Applicants to attend the Auction envelopes opening meeting in Room 2A-050, 2nd Floor, KNPC Head Office at Al-Ahmadi at 08:00 am of the first Sunday following to the Application closing date.

**IPC Secretary**