

Economic Update

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Inflation



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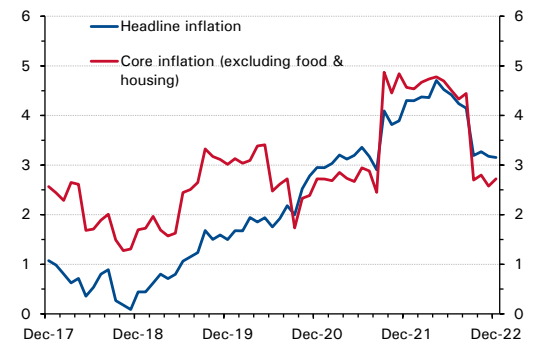
Kuwait: Inflation at 4% in 2022 amid firm demand and global supply chain disruptions

Summary

Inflation rose to 4.0% on average in 2022, the highest for several years, as firm post-pandemic consumer spending and supply-chain disruptions caused by the Russia-Ukraine crisis propelled food and commodity prices upwards. Inflation moderated in 2H22, however, as these factors abated, stabilizing at 3.2% y/y in 4Q22. Looking to the year ahead, inflation should ease amid tighter monetary policy and softer economic growth prospects.

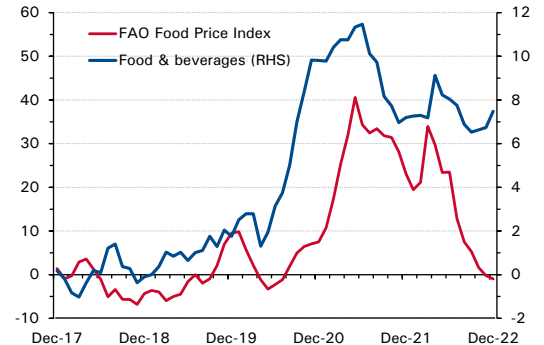
- Kuwait's inflation averaged 4% in 2022, a multi-year high in a year defined by surging inflation rates across advanced economies. External shocks from the Ukraine war exacerbated existing supply-chain bottlenecks in 1H22, with Kuwait's headline rate peaking in April at 4.7% y/y. (Chart 1.) Price pressures have since moderated, and inflation retreated to 3.2% by year end, albeit unchanged from both November and September's rate. The slowdown was mostly on a combination of normalizing supply-chains, fading base effects from the education sector and a softer rise in housing rents. Looking ahead, inflation could soften slightly further amid tighter global monetary policy and a potential global economic slowdown.
- Inflation in food & beverages picked up towards the end of the year, rising to 7.5% y/y in December from 6.5% at end-3Q22. Price rises in the volatile fish & seafood component (+25% y/y in December) were noteworthy. This could be related to both domestic factors, such as a reported shortage of labor in the fishing industry, and external factors, such as higher import prices, perhaps partly reflecting a weaker US dollar (-8% q/q on a trade-weighted basis). This marks a deviation from the Food and Agriculture Organization's (FAO) food price index, an international food price benchmark, which declined 1% y/y in December. (Chart 2.) The government established a food security authority last August to help minimize the pronounced volatility and spikes that occurred to food prices in the aftermath of Russia's invasion of Ukraine.
- Meanwhile, prices in the housing services category (mainly rents), the largest CPI component with a weighting of 33%, eased to 1.4% y/y in December from 2.2% in September, but gaining 0.8% m/m. Aside from rents, prices in "Services of Maintenance and Repair" rose at their fastest rate since March 2021 (+1.1% m/m). For the year as a whole, housing inflation rose by 2.2% y/y on average compared to 0.5% in 2021. This is the fastest pace since 2016, and could point to firmer rental demand.
- Core inflation, which excludes food and housing costs, increased to 2.8% y/y in December, unchanged from September's print, with the biggest contributions to the annual figure coming from the clothing and footwear, transportation and other goods and services categories. However, of note was the monthly jump of 0.6% in December, on the back of a broad-based increase in subcomponent prices. Sharp m/m rises were seen in the restaurants and hotels (+2.0% m/m; +3.5% y/y), "Services & Miscellaneous goods" (+1.1% m/m; +3.8% y/y) and healthcare (+0.7% m/m; +2.6% y/y) categories, the latter perhaps due to a shortage of medicine in government hospitals (the government had to allocate KD230 million to purchase necessary supplies). Overall, on an average annual basis, the core rate moved

▶ **Chart 1: Consumer price inflation**
(% y/y)



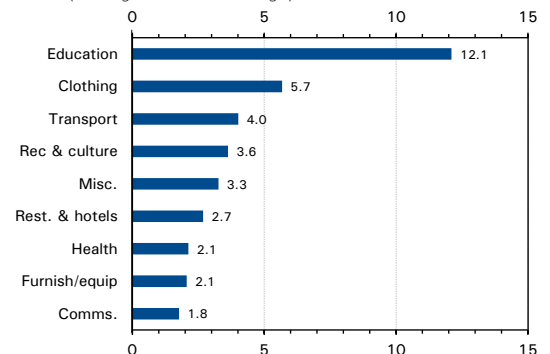
Source: Central Statistical Bureau (CSB), NBK

▶ **Chart 2: Food price inflation and FAO Index**
(% y/y)



Source: FAO, CSB

▶ **Chart 3: Core inflation components in 2022**
(Average annual % change)

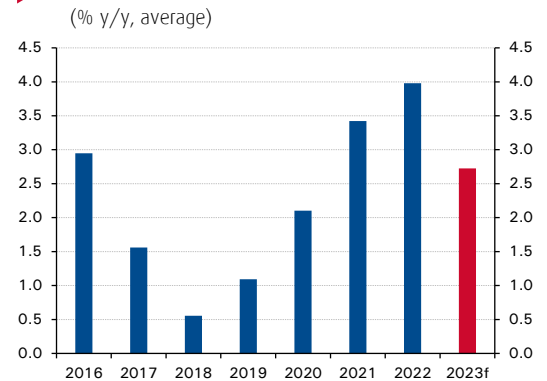


Source: CSB

higher in 2022 at 3.9% (+3.4% in 2021), driven by upward pressures in education (+12.1%), clothing (+5.7%), and transport (+4%). (Chart 3.)

- Looking to the year ahead, further global monetary policy tightening and softer global economic activity are expected to act as moderating influences on inflation, with the headline rate forecast to slow to 2.7% on average in 2023. (Chart 4.) Kuwait's central bank is expected to raise policy rates some more in 1H23 as the US Fed looks to complete its current cycle of rate increases, while non-oil economic activity in Kuwait is likely to ease on fading pent-up demand effects. Upside risks to our outlook stem from factors such as labor shortages and higher import costs.

▶ **Chart 4: Headline inflation**



Source: CSB, NBK

▶ **Table: Consumer price inflation**

CPI components	% y/y annual average		% m/m			%y/y		
	2021	2022	Oct	Nov	Dec	Oct	Nov	Dec
Food & beverages	9.5	7.4	0.9	0.8	1.1	6.6	6.7	7.5
Tobacco & cigarettes	0.6	0.1	0.1	0.0	0.1	0.1	0.1	0.2
Clothing & footwear	6.0	5.7	0.7	0.6	0.9	5.4	5.2	5.3
Housing services	0.5	2.2	0.0	0.0	0.8	2.2	2.2	1.4
Furnishings & household maintenance	3.5	2.1	0.2	0.1	0.3	1.9	1.7	1.7
Healthcare	2.2	2.1	0.2	0.1	0.7	2.6	2.4	2.6
Transportation	4.4	4.0	0.0	0.1	0.7	2.9	2.9	2.9
Communication	4.5	1.8	0.2	0.0	0.3	0.7	0.7	1.0
Recreation & culture	6.3	3.6	0.4	0.2	0.2	3.5	3.4	3.1
Education	-5.3	12.1	0.0	0.0	0.1	0.4	0.4	0.4
Restaurants & hotels	0.8	2.7	0.0	0.0	2.0	2.6	2.3	3.5
Services & miscellaneous goods	4.2	3.3	0.2	0.2	1.1	3.0	2.8	3.8
General index	3.4	4.0	0.3	0.2	0.7	3.3	3.2	3.2
Core index (excl. food and housing)	3.4	3.9	0.2	0.2	0.6	2.6	2.6	2.8

Source: Central Statistical Bureau

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