GCC Inflation Update

August-2022

Government policies insulate GCC from rising inflation...

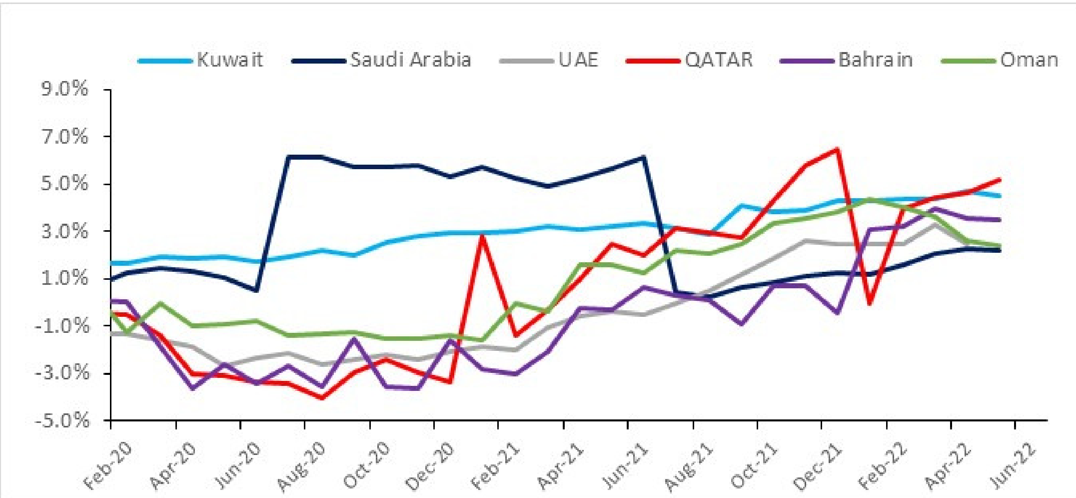
Consistently elevated consumer prices led by constrained supplies and higher demand remained a key challenge for global central banks. The sources of inflation were from both demand as well as supply side of the market. *Demand-side inflation mainly reflected almost 3 years of lose monetary policy aimed at the Covid-19 pandemic to boost economic recovery and support vulnerable sectors. The Russia/Ukraine conflict, on the other hand, added to supply-side-led inflation arising out of food shortages from the region as well as restricted oil and natural gas supplies from Russia.* ***Soaring food prices affected people especially in the low and middle-income countries, as per World Bank. Meanwhile, crude oil prices remained elevated as the market remained tight due to resilient demand and limited supplies.***

Bond market were the most affected due to the rising inflation as corporate yields remain high, and with strengthening USD, refinancing of bonds is becoming a key challenge for firms. For instance, insolvencies in the UK increased to the highest level in more than a decade during the last three months due to higher inflation while in Turkey a double-whammy of weak Lira and rising inflation became a big challenge for corporates.

The fears and rising probability of a recession was also reflected in equity markets that posted two consecutive quarters of declines so far this year. Nevertheless, corporate profits remain high as seen from the recent earnings announcements mainly due to higher demand as well as higher prices. *However, we can expect to see the impact of higher financing costs and fading consumer sentiments in the upcoming earnings seasons by the end of the year.*

The latest monthly inflation figures yet again point to levels not seen in decades. ***Various strategies are on the table to tame inflation globally including monetary tightening, subsidizing essential items, hike in minimum wages and direct benefit transfers to citizens. The hiking of interest rates remains the most important tool as seen from the recent rate hikes.*** *Higher rates are expected to dent overall demand and help to control prices. However, even higher rates are seeing a lower-than-expected impact resulting in recessionary pressure that could be longer and deeper before prices are brought under control.*

Inflation in the GCC has been significantly lower than in most of the advanced and EM countries. The moderate inflation rate rise in GCC countries is mainly attributed to improved economic activity in the region as higher oil and gas prices strengthened government coffers and investments. *Moreover, GCC countries, despite importing up to 90% of their food supplies, have weathered the Russia-Ukraine conflict-related food supply chain disruption mainly by having varied food import sources.* ***Government price caps on essential food items and fuel also insulated GCC households from steep food and fuel price rises.***



Sources : Bloomberg, Kamco Invest Research, IMF

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Trend in Global Inflation

Nearly every country in the world is dealing with soaring food prices and higher inflation this year. Although inflation was rising in 2021, it has significantly accelerated during 2022 driven mainly by Russia-Ukraine conflict and reverberations of COVID-19 related economic restrictions implemented in 2020 and 2021. According to the available data, rising global inflationary pressures have strengthened during the second quarter of the year. Apart from the Russia-Ukraine conflict, supply chain problems mainly attributed to China's Covid-19 measures in key city ports such as Shanghai and rising commodity and food prices have driven the upwardly inflationary pressures during the quarter.

In the US, consumer price index increased 9.1% y-o-y during June-2022, its highest increase in 40 years. Similarly, the inflation rate in the European Union has jumped by 8.6% y-o-y during June-2022. A combination of similar ailments on the global economy such as the Russia-Ukraine conflict and strained global supply chains in part due to China's Covid-19 restrictions have contributed to the inflation crunch. In its latest World Economic Report, the IMF forecasted that global inflation to remain high in 2022. The IMF penciled a 5.7% inflation rate increase for advanced economies slightly lower than the 8.7% for emerging markets and developing countries during 2022.

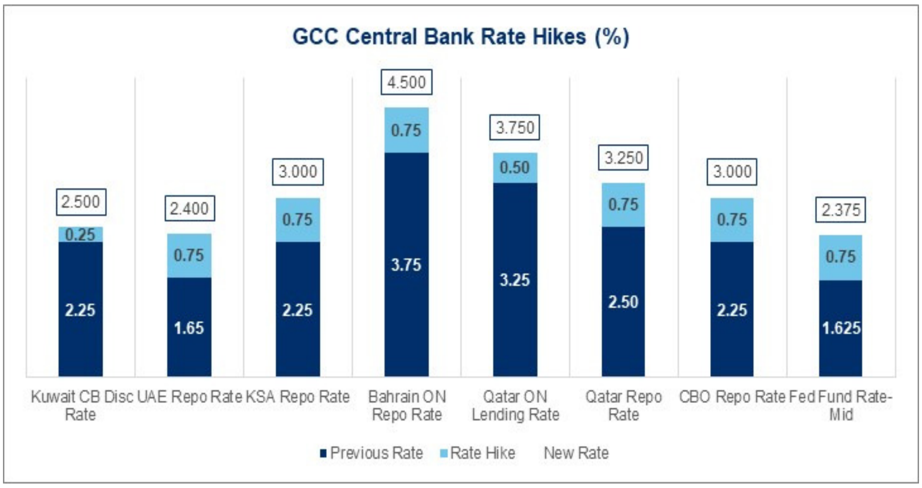
Inflation in the GCC and Arab Region

In its latest Regional Economic Outlook, the IMF penciled GCC inflation rate to witness a growth of 3.3% in 2022 and 2.3% for 2023. The IMF expects Kuwait's inflation to average 4.8% in 2022, the highest in the GCC. Comparatively, the fund projects 2.5% inflation growth for Saudi Arabia in 2022, the lowest among the GCC. On the other hand, the IMF forecasts 3.7% inflation uptick for UAE and Oman as compared to an inflation rate of 3.7% for Qatar and Bahrain, respectively, in 2022.

The overall Arab region countries were not immune from the repercussions of the war and commodity shortages, as the inflation rate in the Arab countries is expected to rise in 2022 to 7.5%, compared to about 5.7% in 2021, followed by a small decline in 2023 to reach 7.0%, according to Arab Monetary Fund. It is expected that the inflation rate in some countries of the GCC will be affected by changes in the global prices of oil and food. As a result of global developments, as well as the impact of some countries increasing the VAT rate or implement the tax, it is expected that the inflation rate in the GCC will average at 2.2% in 2022 and 2.4% in 2023. While the inflation rate in other Arab oil-exporting countries outside the GCC (Algeria, Iraq, Yemen and Libya) is expected to rise to about 11.4% and 11.8% during 2022 and 2023, respectively. As for the oil-importing Arab countries, the inflation rate is expected to reach 6.6% in 2022 and drop to 5.2% in 2023, according to the Arab Monetary Fund.

Higher oil prices are also expected to help the GCC countries offset the effect that the US interest rate hike might have on their non-oil economic sectors. According to the IMF, higher oil and gas prices in the GCC are expected to improve the domestic liquidity situation and induce expansionary fiscal policies which increase available credit in the private sector.

In response to the latest 75 bps hike in the Fed fund rate, GCC central banks once again followed varied paths in their rate hike decisions. While Saudi Arabia, UAE, Bahrain and Oman fully replicated the rate hikes in their respective policy rates, Kuwait and Qatar did not fully replicated the rate hikes. Qatar raised its overnight lending rate by 50 bps to 3.75% and repo rate by 75 bps to 3.25%. Kuwait, which has its currency pegged to a basket of currencies vs. fully pegged in the case of the rest of the GCC currencies, raised its discount rate by 25 bps for the third time this year to 2.5%. The differences in approach mainly reflect the flexibility the GCC central banks have to support their currency that is mainly backed by lower inflation rates in the region, strong oil prices, domestic economic trend as well as government priorities.



Sources : IMF, Kamco Invest Research

Consumer Price Inflation	Average	Actual			Projections	
Y-o-y percent change	2000–18	2019	2020	2021	2022e	2023e
Bahrain	1.8%	1.0%	-2.3%	-0.6%	3.5%	2.8%
Kuwait	3.0%	1.1%	2.1%	3.4%	4.8%	2.3%
Oman	2.2%	0.1%	-0.9%	1.5%	3.7%	2.2%
Qatar	3.7%	-0.7%	-2.7%	2.3%	3.5%	3.2%
Saudi Arabia	2.0%	-2.1%	3.4%	3.1%	2.5%	2.0%
United Arab Emirates	3.8%	-1.9%	-2.1%	0.2%	3.7%	2.8%
GCC	**2.5%**	**-1.5%**	**1.2%**	**2.2%**	**3.1%**	**2.3%**
Arab World	**4.9%**	**2.7%**	**6.2%**	**9.9%**	**10.3%**	**7.2%**

Sources : IMF, Kamco Invest Research

Kuwait

Kuwait's Inflation rate witnessed 4.4% y-o-y increase during June-2022 mainly driven by the education price index which recorded 19% y-o-y growth in June-2022 followed by the food and beverages price index which registered 8% y-o-y growth during the similar period. In terms of m-o-m price growth, Kuwait's Consumer Price Index (CPI) witnessed a marginal 0.4% m-o-m growth during June-2022 due to high prices in major price indices. Prices of Foods and Beverage group increased by 1.2% m-o-m in June-2022 mainly due to a rise in prices of cereals, meat, fish and bread among other items. Moreover, prices of the Clothing and Footwear group witnessed a marginal rise of 0.49% during the similar period.

Supply chain challenges worsened by China's measures to combat Covid combined with the rise of global commodity prices are some of the important drivers of inflation in the country. Kuwait imports over 95% of the bulk foodstuffs and hence is susceptible to the soaring and fluctuation of global food prices which are currently mainly driven by Russia-Ukraine conflict. Kuwait's housing and real estate market saw 50% fall in transactions during the first half of 2022. The fall in real estate transactions is in partly attributed to the ongoing global economic slowdown and increase in inflation.

Saudi Arabia

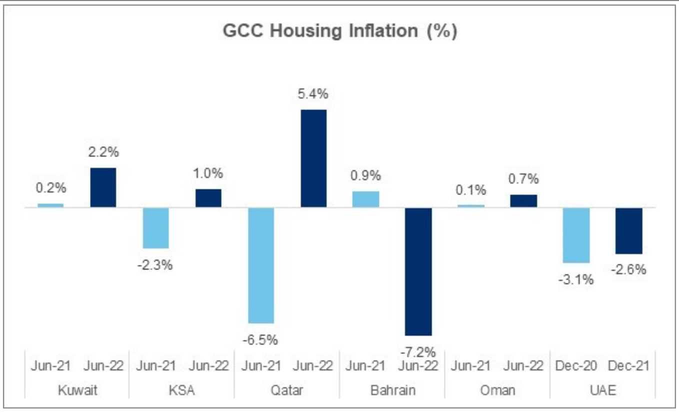
Saudi Arabia is one of the few countries in the world that have not witnessed soaring inflation during 2022. According to the OECD, inflation in the Kingdom is expected to increase by 2.2% in 2022 and 2.7% in 2023. Comparatively, inflation in the G20 countries would average 7.6% in 2022 while the OECD states would witness inflation rate increase of 8.8% during the same period. The jump in global oil and food prices were the primary drivers of inflation in most countries of the world. However, the Kingdom's lower dependency on wheat exports from Russia and Ukraine and the freezing of the price of gasoline inside the Kingdom has cushioned the brunt of the inflation blow from the country. The Saudi government has implemented a price cap on gasoline in July-2021 to support local consumption and help foster economic growth. Moreover, rent which makes up over 20% of the Kingdom's CPI has been falling contributing to the low inflation environment.

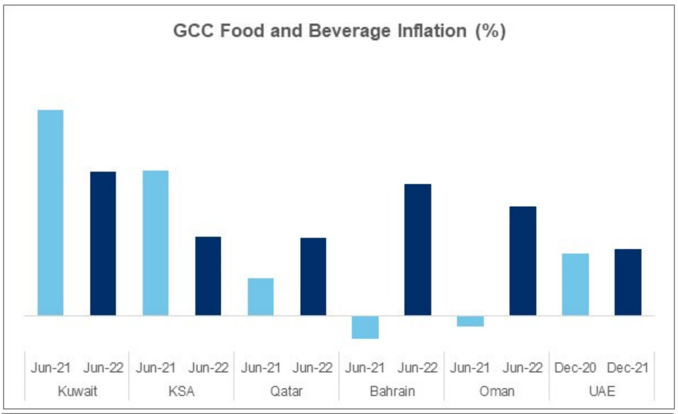
In terms of monthly inflation performance, Saudi Arabia's consumer price index increased 2.3% y-o-y during June-2022. On the other hand, the Kingdom's inflation rate was up m-o-m compared to May-2022 rate of 0.2%, according to the General Authority for Statistics. Prices of the Education group witnessed 6.2% y-o-y rise in June-2022 registering the largest increase among the group indices followed by Price Index of the Recreation group which recorded 5.9% y-o-y rise during the June-2022.

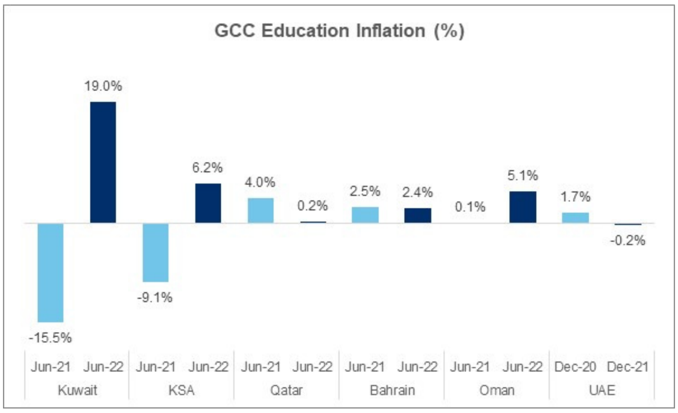
UAE

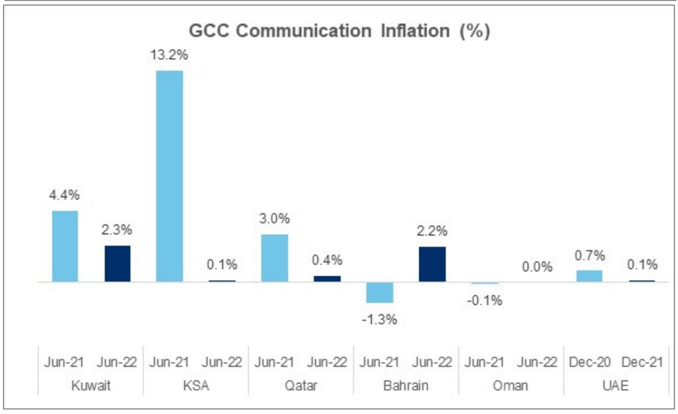
Inflation in the United Arab Emirates increased by 3.3% in Q1-2022 primarily driven by the transportation and restaurants & hotels sectors price increases which reached 22% and 6.9% respectively. In terms of monthly inflation, Dubai's CPI grew 4.6% y-o-y during April-2022 reaching its highest point in seven years according to Dubai Statistics Center. Transport costs and food prices have been the leading driver of inflation in recent months registering 28.8% and 8.6% y-o-y monthly increases during April-2022, respectively according to Emirates NBD.

UAE fuel prices increased for the fifth time in 2022. The cost of fuel in the Emirate has risen nearly 74% since January-2022 due to the soaring global oil prices driven by Russia-Ukraine conflict. The Emirate has ended subsidizing fuel for domestic consumption in 2015 as part of its fiscal reforms to diversify the economy. To combat the rising fuel prices and general inflation the UAE government has rolled out measures to ease the bite of inflation, announcing fuel, electricity, and food allowances for low-income families.









Sources : Bloomberg, Kamco Invest Research

Qatar

Qatar's inflation increased by 5.4% y-o-y during June-2022 recording the fifth consecutive monthly growth during 2022. Moreover, the Qatar's CPI remained flat during June-2022. Qatar's inflation is mainly driven by its Recreation and Culture sector which registered 36.5% y-o-y rise during June-2022 after the country eased pandemic related restrictions according to officials in Qatar's Finance Ministry. Moreover, the Housing and Electricity sector index increased by 5.4% y-o-y during June-2022 adding to the upward inflationary pressure.

Qatar is also facing the bite of the global food prices and high energy prices crunch. Qatar which is gearing up to host the FIFA World Cup competition later this year has already initiated measures to curb the rising inflation such as a food security program in which the government regulates the prices of essential food items as well as medium fiscal policies which control government spending. In its latest Regional Economic Outlook report, the IMF forecasted Qatar's consumer price index inflation to average 3.5% in 2022 and 3.2% in 2023. The Washington Fund underlined that the combination of increasing global food prices and strengthening domestic demand are the main drivers of Qatar's inflationary upward trend.

Bahrain

Higher global food and energy prices combined with recovering domestic demand from pandemic induced economic slowdown has driven Bahrain's inflation to reach 3.1% increase during June-2022. Restaurants, food and nonalcoholic beverages and clothing and footwear sectors led Bahrain's inflation surge with 14.5%, 7.3% and 13.9% y-o-y increases respectively during June-2022. Another major contributing factor to the country's inflation is the doubling of VAT to 10% which was approved by the Bahraini parliament in December-2021 as part of a reform of the gulf states debt laden finances.

Oman

The inflation rate in Oman increased by 2.9% y-o-y during June-2022. Comparatively Oman's inflation rate stood 4.4% y-o-y at the beginning of 2022. In contrast with global inflationary trend, Oman's inflation has been decreasing thanks to the stability in prices on fuel, rent, water, and electricity. The Sultanate introduced and implemented a set of measures such as social protection measures, economic stimulus, support for small and medium sized businesses which greatly eased upward inflationary pressures from soaring. Moreover, Oman's witnessed its finance improved by the end of 2021. On the other hand, The Sultanate's marginal inflation growth was mainly attributed to the rise in food prices index (+6.1%), education index (+5.1%), and transport index (+4.2%).

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