

GCC Inflation Update

February-2025

Energy prices cap GCC inflation in 2024 ...

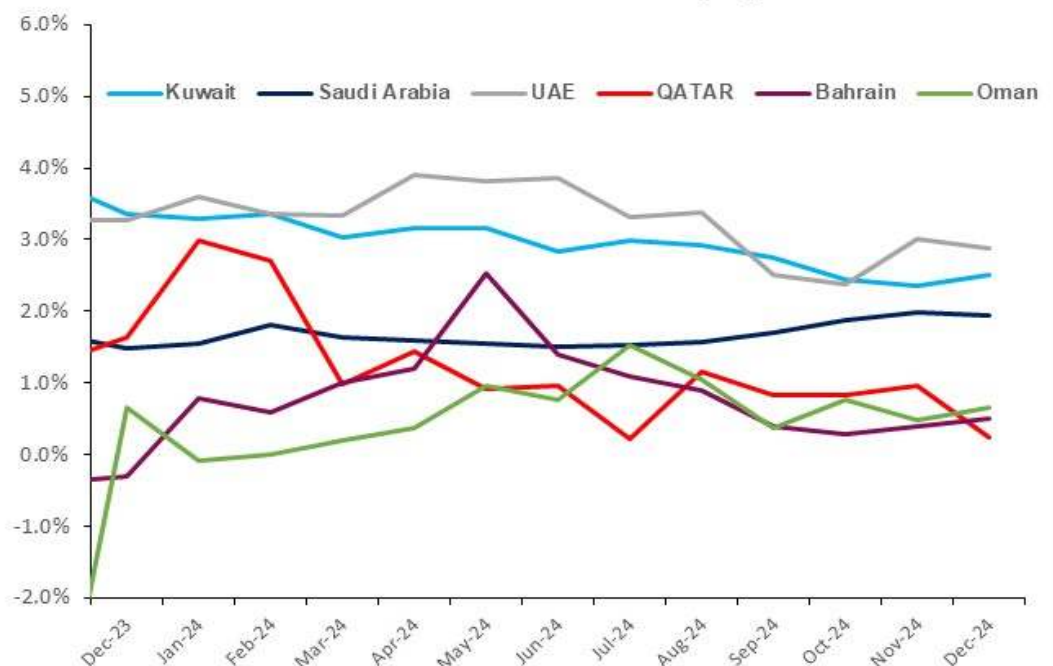
Inflation in the GCC countries continued to be subdued during 2024 as compared to most other regions in the world where elevated prices and high inflation persisted despite a falling trajectory. Moreover, inflation in the wider MENA region remained higher than that of the GCC region during 2024. According to the World Bank, inflation in the GCC region came in at 2.1% in 2024, kept down by subsidies, fuel price cap, and currency pegs. However, in certain sectors such as the Housing sector, inflationary pressures remained in several of the six GCC nations.

Overall, global inflation witnessed a downward trend, maintaining its declining trend from the peaks it reached in 2022. This global deceleration in the rate of inflation (disinflation) is expected to continue in 2025 mainly on the back of expected subdued energy prices coupled with stabilizing supply chains. However, there is a possibility that the tariffs implemented by the new U.S. administration could escalate into a full-scale trade war, potentially driving up prices and contributing to increased inflation in 2025. According to the IMF, global headline inflation is poised to drop to 4.2% in 2025 and to 3.5% in 2026 converging back to target earlier in advanced economies than in emerging market and developing nations. The decline in global inflation is expected to continue in 2025 maintained by the expected decline in energy prices.

US inflation witnessed a significant decline in 2024 falling to 2.9%. On an annual basis, US food climbed 2.5% in 2024 as compared to US energy prices which declined by 0.5% during the same year. However, excluding food and energy, the US CPI annual rate was 3.2% during 2024. Comparatively, annual inflation in the Euro zone fell from 2.9% in December-2023 to 2.4% in December-2024. The decline in inflation in the eurozone during 2024 was attributed to several factors, including stabilization of energy prices in the region, and the loosening up of supply chain disruptions that had previously driven prices higher.

Among the six GCC countries, Dubai reported an increase of 3.3% in its average annual inflation rate in 2024 nearly identical to its 3.3% annual average rate in 2023. On the other hand, the rest of the GCC countries reported a lower inflation rate growth than Dubai. Average annual inflation rate for Kuwait declined from 3.4% in 2023 to 2.5% in 2024. In contrast, average annual inflation rate for Saudi Arabia recorded a slight gain, up from 1.5% in 2023 to 1.9% in 2024.

GCC Countries Inflation Trend (y-o-y)



Sources : Bloomberg, Kamco Invest Research, IMF

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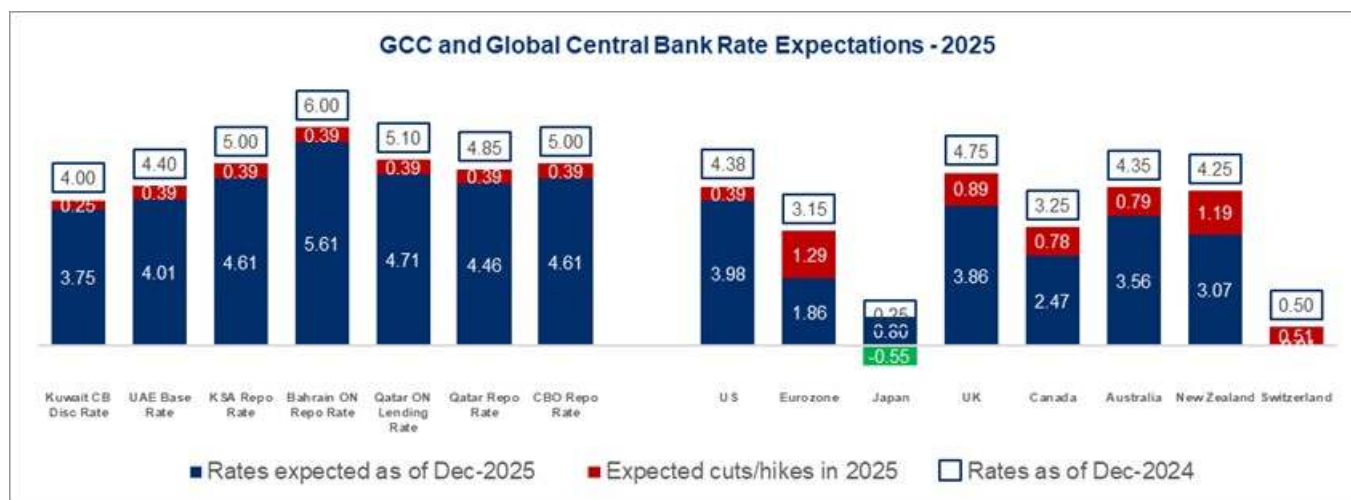
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Global Food Prices

Global food prices witnessed moderate growth during 2024. The FAO Food Price Index increased by 6.7% y-o-y in 2024 but remained 20.7% lower than its March-2022 peak, according to the Food and Agriculture Organization of the United Nations (FAO). The growth in global food prices was attributed to a 9.4% y-o-y increase in the Vegetable Oil Price Index during the year, mainly due to the tightening of global supplies. Furthermore, the FAO Vegetable Oil Price Index gain was also driven by prolonged tight supplies in leading producers, mainly in Southeast Asia. Similarly, global meat and dairy prices (the FAO Meat Price Index) registered a moderate y-o-y increase of 2.7% in 2024 compared to 2023, while the FAO Dairy Price Index recorded a y-o-y gain of 4.7% during the same period. The increase in meat prices was primarily driven by higher bovine meat prices due to strong global demand, coupled with production constraints from routine end-of-year maintenance shutdowns at processing plants in major exporting countries. On the other hand, growth in global dairy products was mainly due to an acute rise in butter prices, driven by high global demand and limited exportable supplies resulting from irregular weather patterns that negatively impacted production.

GCC Rate Hikes and Inflation

The global inflation slowdown during the last six months has prompted central bank leaders around the world to follow a dual strategy: pausing interest rate increases and executing rate cuts. The US Federal Reserve has made three rate cuts during 2024 and lowered rate by 100 bps. The Fed reduced its basic borrowing rate by 50 basis points to a range of (5.0%-5.25%) in September 2024, followed by two more rate cuts, each of 25 basis points, in November 2024 and December 2024, which brought the rate to 4.75%-5.0% and 4.25%-4.5%, respectively. In comparison, the European Central Bank implemented a series of four interest rate cuts to address the falling inflation trend and other economic challenges in the Eurozone. The ECB implemented its first rate reduction of the year in June-2024 with a 25 basis point cut, bringing its Deposit Facility Rate to 3.5%, followed by another 25-bps cut in September-2024, which further reduced the Deposit Facility Rate to 3.25%. Two further cuts of 25 bps in October-2024 and December-2024 further lowered the ECB's Deposit Facility Rate to 2.75%. These rate cuts were aimed at stimulating economic growth.



Sources : Bloomberg, Kamco Invest Research

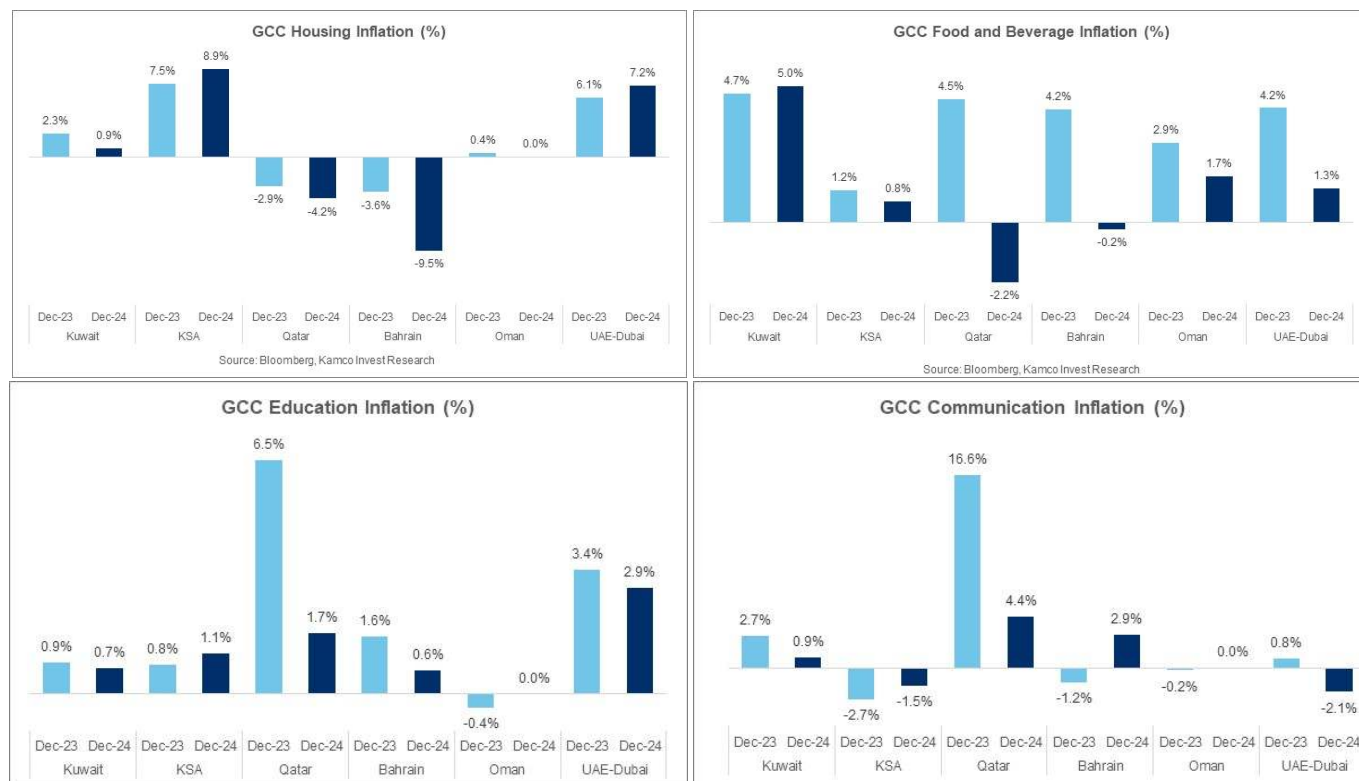
GCC central banks continued to match the Federal Reserve's rate adjustments throughout the year since the GCC countries have their currencies pegged to the Dollar, except for Kuwait (which has its currency pegged to a basket of currencies, including the Dollar). In the latest Fed rate adjustment in December-2024, in which the Fed implemented a rate cut of 25 basis points, the GCC central banks matched the Fed's adjustment accordingly. The UAE Central Bank cut its base rate on the overnight deposit facility by 25 bps to 4.4%. Similarly, Saudi Arabia's Central Bank (SAMA) reduced its repo rate by 25 bps, lowering the bank's repurchase (repo) rate to 5% and the reverse repo rate to 4.5%. On the other hand, the coordinated actions of GCC central banks did not include Kuwait, which maintained its discount rate and did not implement a rate reduction during December-2024.

Kuwait

The Kuwaiti Consumer Price Index's latest inflation reading for December-2024 showed a y-o-y increase of 2.5%, according to official government data. The increase was mainly led by a 5.1% growth in the Clothing & Footwear index, followed by the Food & Beverages price index, which registered 5.0% y-o-y growth. The price increase in the Food & Beverages group was mainly attributed to rising prices of cereals and bread, meat and poultry, as well as fish and seafood. Similarly, the uptick in the Clothing & Footwear index was underpinned by an overall increase in clothing and footwear prices.

Inflation in the Furnishing, Equipment & Household Maintenance group, the third-largest weighted group, witnessed a y-o-y increase of 3.5% in 2024, while Kuwait's Education group prices remained stable, recording only a marginal uptick of 0.7% y-o-y during 2024. Comparatively, prices in the Transport Index, which has a weight of 7.5%, registered a 1.5% y-o-y decline due to the drop in prices for vehicle purchases and the operation of personal transport equipment during 2024.

In terms of m-o-m performance, Kuwait's CPI recorded a marginal 0.45% m-o-m growth during December-2024 due to overall price stability across major index groups during the month. Prices in the Food & Beverages group increased by 0.4%, while prices in the Housing Services group, the largest weighted index, also rose by 0.4% in December-2024 compared to November-2024.



Sources : Bloomberg, Kamco Invest Research

Saudi Arabia

Overall inflation growth in Saudi Arabia remained under control during 2024, generally staying under the 2% mark. The average annual Consumer Price Index in Saudi Arabia recorded a 1.9% increase in December-2024 as compared to December-2023. The moderate CPI uptick was mainly driven by higher prices in the Housing, Water, Electricity, and Other Fuels groups, the highest-weighted group, which increased by 8.9% during December-2024. The increase was primarily due to a 10.6% increase in overall rents paid for housing, underpinned by a 9.9% jump in villa rental prices.

Comparatively, growth in the prices for Food & Beverages group was subdued during the year, witnessing a modest increase of 0.8%, mainly driven by price growth in meat and poultry. The Personal Goods & Services group recorded a 2.2% y-o-y increase during December-2024, induced by a 20.2% rise in the prices of jewelry and watches, while prices in the Education group improved by 1.1% during the period, mainly due to a 1.8% increase in fees for intermediate and secondary education. In context, six out of the twelve index groups in the CPI witnessed y-o-y price gains during December-2024, while the remaining six index groups recorded declines during the period. Prices in the Furnishing & Household Equipment group declined by 2.8% y-o-y during December-2024, mainly due to a 5.1% drop in the prices of carpets, flooring, and furniture. Similarly, prices in the Clothing & Footwear group declined by 2.2% y-o-y, primarily due to a 4.2% fall in ready-made clothing prices. Moreover, the Transportation group witnessed a 2.5% decline, affected by a 3.9% decrease in vehicle purchase prices.

UAE

The Dubai Consumer Price Index witnessed a moderate y-o-y average uptick of 3.3% during 2024 on par with the 3.3% annual average in 2023. Dubai's CPI index growth was primarily driven by a 6.7% annual average increase in the Housing, Water, Electricity, and Gas group, the highest-weighted group, during 2024. Additionally, Dubai's Food & Beverages group, the third-highest-weighted group in the CPI, recorded an annual average increase of 2.4% during 2024 as compared to the 4.6% annual average gain it recorded in 2023.

Consumer Price Index	Average	Actual			Projections	
Y-o-y percent change	2000–20	2021	2022	2023	2024e	2025e
Bahrain	1.6%	-0.6%	3.6%	0.1%	1.4%	1.8%
Kuwait	NA	3.4%	4.0%	3.6%	3.0%	2.4%
Oman	2.0%	1.7%	2.5%	0.9%	1.3%	1.5%
Qatar	3.2%	2.3%	5.0%	3.1%	1.0%	1.4%
Saudi Arabia	1.9%	3.1%	2.5%	2.3%	1.7%	1.9%
United Arab Emirates	2.9%	-0.1%	4.8%	1.6%	2.3%	2.1%
GCC	2.2%	2.2%	3.3%	2.2%	1.8%	1.9%
Arab World	5.0%	8.4%	8.6%	10.7%	11.9%	8.5%

Sources : Bloomberg, IMF, Kamco Invest Research

* IMF Projections

On the other hand, the Transport subgroup (the second-largest weighted group) recorded a 2.2% y-o-y annual average decline during 2024 as compared to a 5.7% annual average decrease in 2023, offsetting the growth in the previous two subgroups in the CPI during the period. Overall, only five out of Dubai's 13 CPI subgroups recorded y-o-y decreases during the month. In terms of average annual inflation growth forecast, Dubai's annual average inflation for 2024 was slightly higher than the IMF estimate for the overall average inflation forecast for the UAE during 2024 (2.3%).

Qatar

Qatar's inflation rate increased by a marginal 0.2% y-o-y during December-2024, recording its second-lowest average yearly inflation rate growth in four years. Qatar's moderate inflation rate growth came after four out of the eleven sub-indices recorded declines during December-2024, dragging down what could have been a greater inflation rate uptick in December-2024. The Food and Beverages group, one of the largest weighted groups in Qatar's CPI Index, witnessed a 2.2% y-o-y decline during December-2024, while the Housing, Water, Electricity, and Gas Index, another majorly weighted sub-index of the general CPI, declined by 4.2% y-o-y during December 2024. The marginal yearly inflation uptick during the year was mainly driven by a moderate rise in prices in the Communication group, which saw an increase of 4.4% y-o-y in December-2024, followed by the Recreation & Culture and Restaurants & Hotels groups, with y-o-y increases of 2.5% and 1.7%, respectively. In terms of monthly performance, Qatar's CPI increased by 0.87% in December-2024 over the previous month. The m-o-m inflation rate in Qatar averaged 0.09% during the period between 2009 and 2024, reaching an all-time high of 1.59% in December-2023 and a record low of -2.6% in January-2022. The moderate monthly inflation uptick was mainly due to the 8.8% m-o-m jump in the prices of the Recreation & Culture index, followed by the 1.5% m-o-m moderate gain in the Restaurants & Hotels index.

Bahrain

Bahrain's inflation rate remained flat, recording only a y-o-y uptick of 0.5% in December-2024, as the general CPI reached its lowest point in twelve months at 101.1 points. In terms of m-o-m change, Bahrain's CPI declined by 0.1% during the month. Bahrain had the second-lowest inflation rate among GCC countries in December-2024. The y-o-y flattening of Bahrain's inflation rate was mainly due to the contraction of four out of the eleven sub-indices in the general CPI. The Housing, Water, and Electricity index witnessed the largest contraction, dropping by 9.5%, followed by the Recreation & Culture and Health indices, which saw y-o-y declines of 8.9% and 1.7%, respectively, in December-2024. Comparatively, the Food & Non-Alcoholic Beverages index recorded a marginal 0.2% y-o-y drop, while the Education index showed slightly higher growth at 0.6% during the same period. Looking ahead, Bahrain has the IMF's third-lowest projected inflation rate among GCC countries for 2025, at 1.8%, following Qatar and Oman, with inflation forecasts of 1.5% and 1.4%, respectively.

Oman

Oman's Consumer Price Index (CPI) recorded a marginal y-o-y increase of 0.7% in December-2024 as compared to the same 0.7% uptick in December-2023. The Sultanate's inflation rate has been on a downward trend throughout the year. The slight rise in inflation was primarily driven by a 1.7% y-o-y increase in the Food & Non-Alcoholic Beverages index, the second-largest weighted index. Within this category, vegetable prices rose by 7.6%, while the milk, cheese, and eggs group saw a 3.8% increase in December-2024. Meanwhile, the prices of bread and grains remained stable, while the non-alcoholic beverages group recorded a slight decline of 0.5% y-o-y. In contrast, fish and seafood prices fell by 6.3% y-o-y. Additionally, the Furnishing & Household Equipment index recorded a modest 0.4% y-o-y increase in December-2024. The Tobacco and Recreation & Culture indices remained largely unchanged, at 0.0% and 0.6% growth, respectively. On the other hand, the Transport index registered a 0.8% y-o-y decline, while the Housing, Water & Electricity index recorded no change at 0.0% during the same period.

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