

## GCC Inflation Update

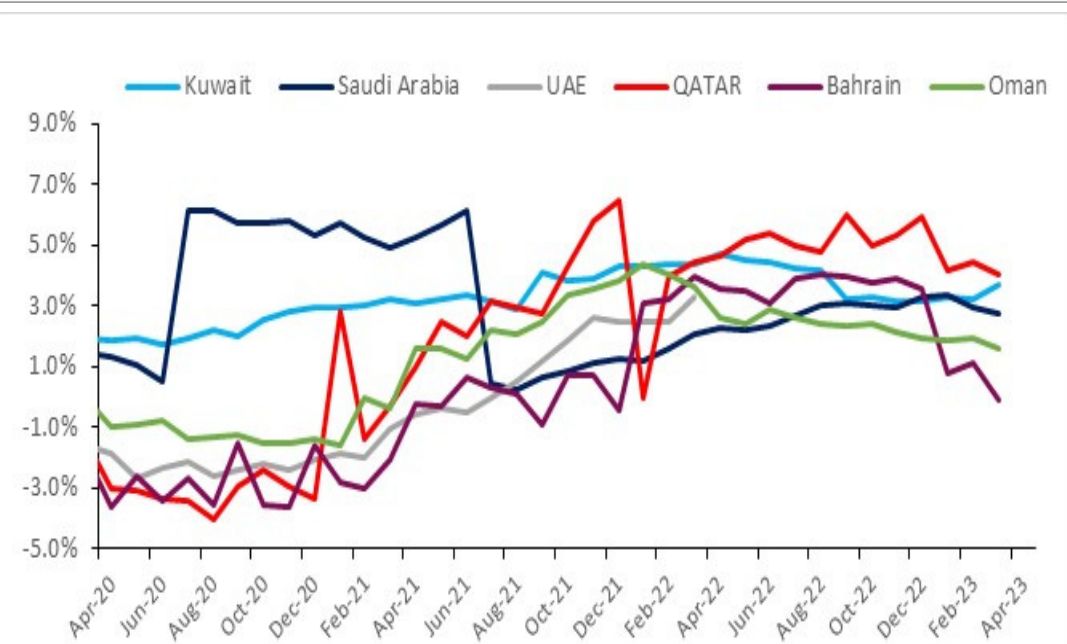
May-2023

### *GCC inflation expected to decelerate in 2023 and 2024...*

Inflation remained relatively low in the GCC in 2022 despite averaging higher than estimates in 3.3% as compared to annual estimate of 3.1%, according to the IMF's Regional Economic Outlook. Moreover, the IMF expects GCC inflation to fall in the next two years penciling an average of 2.9% in 2023 and 2.3% in 2024. Lower inflation in GCC countries is mainly attributed to governmental intervention such as price caps on certain products, subsidies on key products or utilities and the strengthening of the USD which all GCC countries have pegged to their currencies except for Kuwait which has linked the Kuwaiti Dinar to a basket of currencies including the USD. On the wider Arab World, however, inflation is expected to accelerate this year reflecting the economic fallout from the pandemic induced economic restriction as well as the Russia-Ukraine conflict. The IMF expects inflation to reach 9.9% in 2023 for the Arab World, as compared to 8.9% in 2022. In contrast, the IMF forecasts inflation in the MENA region to reach 14.8% in 2023 underlining the fourth consecutive year in which the MENA region's inflation has exceeded the 10% mark.

In terms of sectoral inflation trends, the Food and Beverages subcategory has been one of the most important categories in terms of weight or growth in GCC inflation performance. The Food and Beverages subcategory has showed growth in all the GCC countries except the UAE which has not yet released its monthly inflation stats. The Food and Beverages CPI subcategory for Kuwait recorded a y-o-y monthly growth of 7.5% in March-2023 followed by Bahrain with Food and Beverages subcategory growth of 4.8% during the month.

Among the GCC countries, inflation growth in the Housing subcategory was mixed albeit leaning to positive y-o-y growth during March-2023. Qatar's Housing costs rose by 8.7% y-o-y during March-2023, the highest growth among the GCC countries. On the other hand, Bahrain's Housing prices contracted by 2.1% during the similar period. In terms of the Communication subcategory, the picture was still mixed. Both Bahrain and Qatar recorded negative growth or decline in costs in their Communications inflation rate at -2.5% and -4.8% y-o-y during March-2023, respectively. In the Education subcategory, GCC inflation growth has been on a declining trajectory. Saudi Arabia's Education inflation growth fell from a growth of 6.3% in March-2022 to a growth of 3.1% during March-2023 supporting the Kingdom's overall CPI decline during the period. Moreover, Kuwait's Education CPI subcategory growth has also dropped from 19% in March-2022 to just 0.5% in March-2023.



Sources : Bloomberg, Kamco Invest Research, IMF

#### Junaid Ansari

Head of Investment Strategy & Research

+(965) 2233 6912

[jansari@kamcoinvest.com](mailto:jansari@kamcoinvest.com)

#### Mohamed Ali Omar

Associate

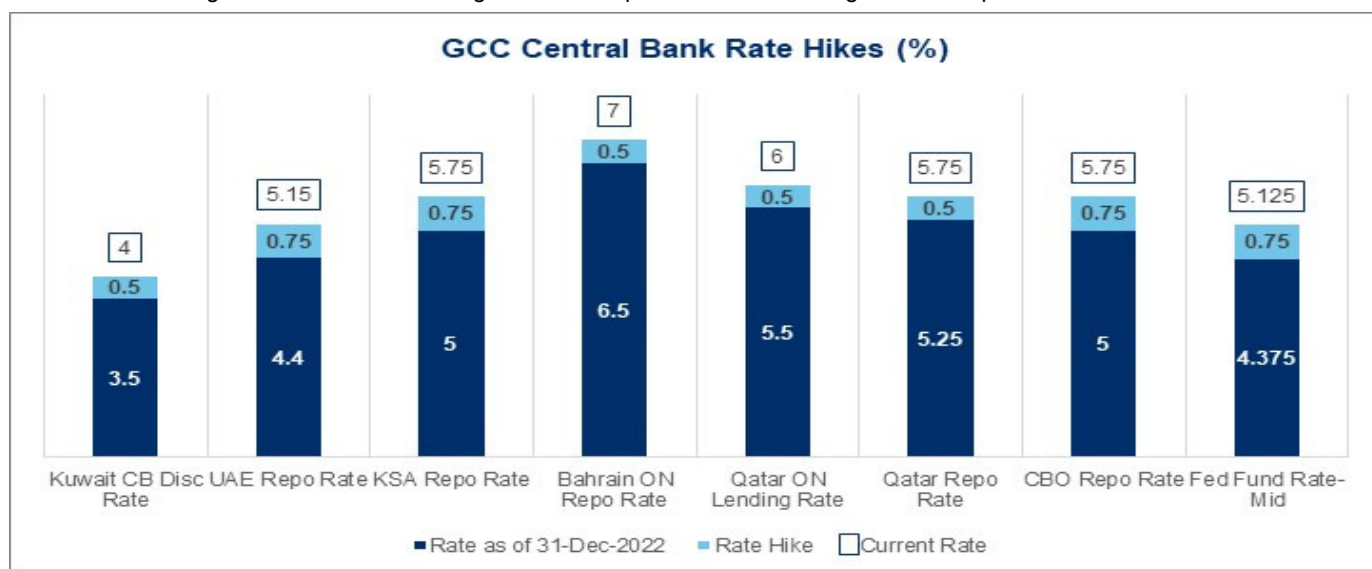
+(965) 2233 6906

[momar@kamcoinvest.com](mailto:momar@kamcoinvest.com)

The combination of persistent high oil and gas prices and the interest rates hikes by GCC central banks largely in unison with the US Federal Reserve rate increases has been another key pillar which kept GCC inflation rate significantly lower than their global counterparts. Another key driver of the decline in inflation is the decline of global food prices. The FAO (The Food and Agriculture Organization) main food price index witnessed its 12th consecutive month decline in March-2023. FAO index tracks most globally traded food items. The FAO index averaged 126.9 points during March-2023, 20.5% lower than its peak value at the start of the Russia-Ukraine conflict. The fall in global foodstuffs prices has been contributed by a combination of different developments including subdued global food import demand and the extension of a deal which allowed the export of Ukrainian grain via the Black Sea.

### GCC Rate Hikes

The US Federal Reserve continued its rate increasing measures to reign against inflation. In its most recent rate hike, the US Federal Reserve increased its benchmark overnight interest rate by 0.25% to the 5% and 5.25% range, underlining the Fed's 10th consecutive rate increase since March-2022. In response to the Fed's rate hike, GCC central banks have also increased their benchmark rates. The Central Bank of the UAE has increased its base rate on overnight deposits by 0.25% (25 bps) to 5.15%. The UAE Repo rate currently stands at 5.15% as compared to 4.4% during the end of 2022. Similarly, Saudi Arabia's Central Bank (SAMA) has also matched the US Federal Reserve's recent rate increase by increasing its repo and reverse repo rates by 25 bps to 5.75% recording 75 bps rate increase since the end of 2022. In the GCC, rate hikes since the start of 2023 were in line with the hikes in the US. Bahrain's ON Repo Rate reached 7% up from 6.5% at the start of 2022 while the Qatar ON Lending Rate witnessed similar growth of 50 bps to reach 6% during the similar period.



Sources : Bloomberg, Kamco Invest Research

### Kuwait

The Kuwaiti Consumer Price Index's latest inflation reading for March-2023 showed a y-o-y increase of 3.7%. The increase was led by a 7.5% growth in the Food & Beverages index followed by the Clothing & Footwear price index which registered 5.9% y-o-y growth.

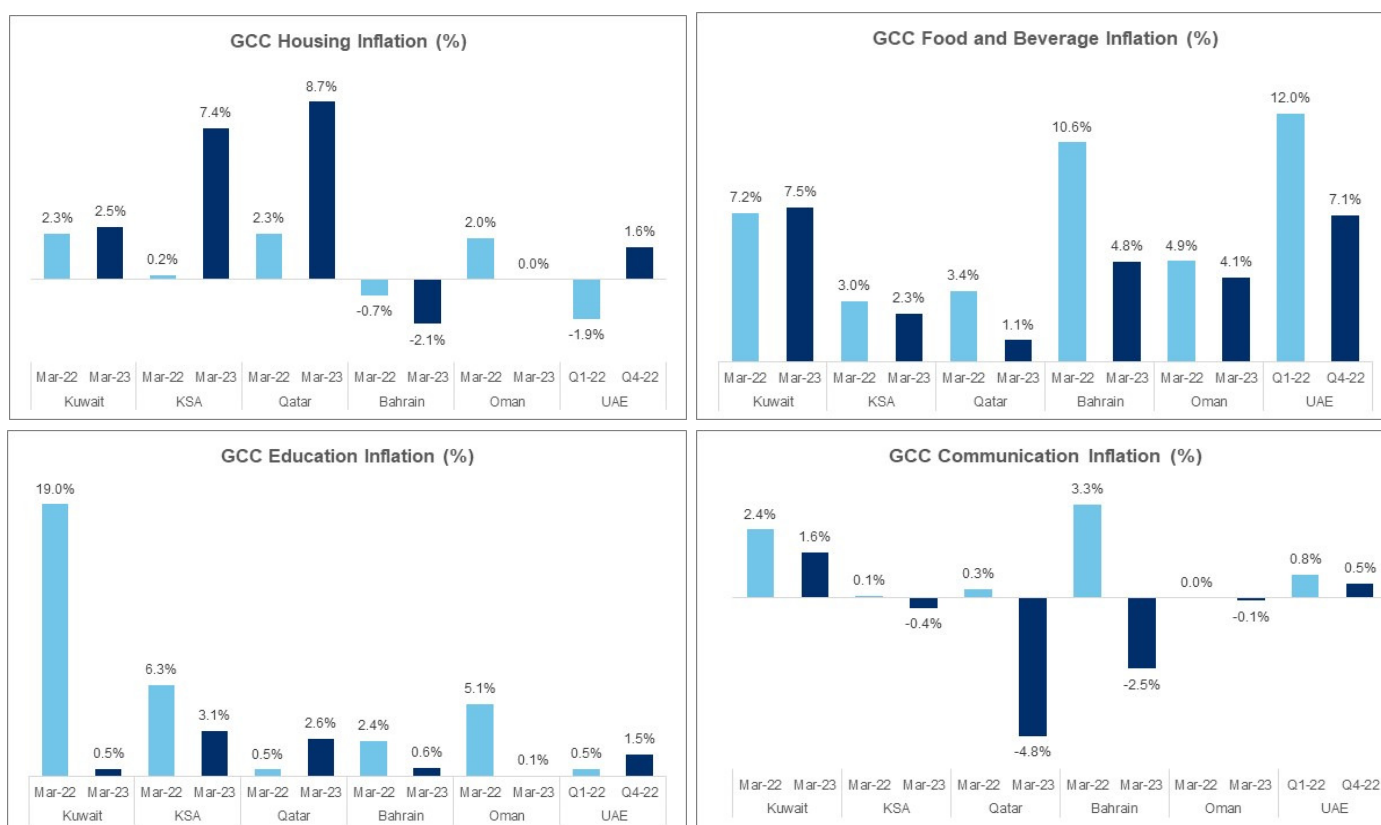
Consumer Price Index	Average	Actual			Projections	
Y-o-y percent change	2000–19	2020	2021	2022	2023e	2024e
Bahrain	1.8%	-2.3%	-0.6%	3.6%	2.2%	2.2%
Kuwait	2.9%	2.1%	3.5%	3.9%	3.3%	2.6%
Oman	2.1%	-0.9%	1.5%	2.8%	1.9%	2.4%
Qatar	3.5%	-2.5%	2.3%	5.0%	3.0%	2.7%
Saudi Arabia	1.8%	3.4%	3.1%	2.5%	2.8%	2.3%
United Arab Emirates	3.2%	-2.1%	-0.1%	4.8%	3.4%	2.0%
<b>GCC</b>	<b>2.3%</b>	<b>1.3%</b>	<b>2.2%</b>	<b>3.3%</b>	<b>2.9%</b>	<b>2.3%</b>
<b>Arab World</b>	<b>4.8%</b>	<b>6.1%</b>	<b>9.1%</b>	<b>8.9%</b>	<b>9.9%</b>	<b>7.7%</b>

Sources : IMF, Kamco Invest Research

Inflation in the Housing Services group, the largest weighted group, witnessed a y-o-y increase of 2.6%. Kuwait's Education Inflation index dropped from 19% price increase in March-2022 to just 0.5% price growth in March-2023 underlining the overall stabilization of Education price hikes. It is noteworthy to point out that Kuwait's Education Index was one of the key drivers of CPI in the country and has only started to decline during the last eight months. In terms of m-o-m changes, Kuwait's CPI witnessed a marginal uptick of 0.7% during March-2023 driven by prices of Housing Services and Services and Miscellaneous group which a recorded m-o-m growth of 1.1% and 1% respectively.

## Saudi Arabia

The annual Consumer Price Index in the Kingdom witnessed a higher growth of 2.7% y-o-y during March-2023 as compared to 2% y-o-y growth in March-2022. The overall inflation growth in the Kingdom during March-2023 was driven by higher prices of housing, water, electricity & gas. Rent was a key inflation driver during the month. According to Saudi Arabia's General Authority for Statistics, actual rents for housing increased by 8.7% during March-2023 shedding a light on the growth of rent increase in apartments which witnessed an increase of 22% y-o-y. Food prices in the Kingdom rose by 2.3%, especially, in poultry and meat category which comprise 21% of the food sectors overall weight. Moreover, Transport prices in the Kingdom recorded an uptick of 1.8% reflecting the rise in vehicle price purchases of 1.6%. In the Hospitality Sector, Restaurant and Hotel prices rose by 6.3% after catering services witnessed a 6.3% price growth during March-2023.



Sources : Bloomberg, Kamco Invest Research

In terms of m-o-m change, the Kingdom's CPI witnessed a marginal growth of 0.1% during March-2023 as compared to February-2023. The Kingdom's monthly CPI growth was mainly contributed by blanket increases in housing, water, gas, and electricity prices by 0.4% which resulted in price growth in actual rents for housing which witnessed 0.4% m-o-m growth. In its latest by-yearly Regional Economic Outlook Report, the IMF forecasted Saudi Arabia's economy to maintain a 3.1% real GDP growth for both 2023 and 2024 on the back of real GDP expansion of 8.7% in 2022 due to elevated crude prices.

## UAE

The UAE Consumer Price index grew by 4.6% during Q4-2022 as compared to the 2.6% increase it witnessed during Q1-2022. The smaller but persistent inflation rate of the Emirates is in line with the global inflation trend but is significantly lower than the global average. In terms of full year, The UAE witnessed an inflation rate growth of 4.8% during 2022, 0.1% lower than UAE Central Bank's forecast. In terms of sub-indices, the UAE Housing sub-index, the category with the biggest weight in the general index (35.1%) registered a 1.6% y-o-y rise in Q4-2022 mainly driven by increases in rents in Dubai.

The Transport index, the second largest index in the UAE's CPI, recorded an 11% y-o-y increase during Q4-2022 while the third largest sub-index, the Food and Beverages sub-index, registered a 7.1% y-o-y growth during the similar period. According to the UAE's Central Bank, inflation in the Emirate would decline and average at 3.2% in 2023 due to weaker price growth expected in almost all categories of the CPI, especially in the Transport and Food and Beverages sub-indices. Moreover, the Emirate's imported inflation is also anticipated to be low due to the general decline in worldwide inflation. Meanwhile, the IMF in its latest Regional Economic Outlook report, has forecasted an inflation rate of 3.4% in 2023 for the Emirates, the highest inflation forecast among the GCC countries in 2023.

### **Qatar**

Qatar's inflation rate increased by 4.0% y-o-y during March-2023, recording its lowest mark since February-2022. Qatar's inflation rate growth was driven by an overall prices increase across the eight categories or sub-indices of its CPI. The country's General Consumer Price Index reached 105.55 points in March-2023 witnessing a 0.2% m-o-m growth over February-2023. Inflation during the month was mainly driven by rise in prices in the Recreation & Culture group that saw an increase of 13.6% y-o-y in March-2023 followed by Housing & Utilities and Clothing and Footwear groups with y-o-y increases of 8.7% and 4.9%, respectively. Comparatively, Qatar's Food and Beverages sub-index which has recorded y-o-y decline during the first two months of the year, has registered an uptick of 1% during March-2023. The overall trend in Qatar's inflation is projected downwards. Qatar recorded an inflation rate of 5% in 2022. Meanwhile, in its latest by-yearly projection, the IMF forecasts Qatar an inflation rate of 3% in 2023 and 2.7% in 2024. On the other hand, the Fund also predicts that Qatar's real GDP would fall from a growth of 4.2% in 2022 to a growth of 2.4% in 2023 and further to 1.8% real GDP growth in 2024.

### **Bahrain**

The monthly y-o-y inflation rate in Bahrain during March-2023 reached its lowest level since December-2021 at -0.1% down from 3.9% in March-2022. The softening of Bahraini's inflation rate was mainly due to the contraction of five out of the eleven sub-indices in the general CPI. Bahrain's Clothing and Footwear sub-index witnessed the largest contraction among other sub-indices at negative 11.7% followed by Alcoholic and Beverages sub-index which witnessed a y-o-y contraction of 5.0% during March-2022. In terms of expectations, Bahrain has the IMF's second lowest projected inflation rate among the GCC countries at 2.2% in 2023 and in 2024. In context, Bahrain witnessed an average inflation rate of 3.6% in 2022. On the other hand, the IMF has penciled Bahrain's real GDP a growth of 3% in 2023 and 3.8% in 2024. Comparatively, Bahrain's real GDP has expanded 4.2% in 2022.

### **Oman**

The inflation in the Sultanate of Oman increased by 1.6% y-o-y during March-2023 the lowest monthly growth since June-2021. Oman's inflation rise was mainly driven by a 4.1% y-o-y growth of Food and Non-Alcoholic Beverage index, the second biggest weighted index. Furthermore, the Sultanate's Restaurant index also recorded a 3.8% y-o-y increase during March-2023 while the Furnishing and Household Equipment sub-index followed with a close 3.7% y-o-y growth during the period. In terms of regional picture, the Sultanate witnessed the second lowest inflation rates among the GCC countries during 2022 at 2.8% after Saudi Arabia which registered an inflation rate rise of just 2.5% during the year. Furthermore, the Sultanate has the lowest inflation rate forecast among the GCC countries at 1.9% in 2023 according to the IMF.

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**Kamco Investment Company - K.S.C. (Public)**

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : [kamcoird@kamcoinvest.com](mailto:kamcoird@kamcoinvest.com)

Website : [www.kamcoinvest.com](http://www.kamcoinvest.com)

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