

GCC Inflation Update

October-2022

Risk of global recession exacerbates inflation challenge...

Economists around the world are expecting the world to enter a recession soon, as inflation continues to remain high while world central banks front load their interest rate hike cycle after being late to recognize the severity of inflation. However, a recent Reuters poll of central banks showed that unlike previous recessions, the employment rates this time are much higher indicating that the recession would be shorter but at the same time inflation is expected to remain sticky and, as a result, central banks may extend the rate hike cycle beyond their current target. The impact of inflation on economic growth expectation were apparent in the IMF's recently released world economic outlook that slashed 2022 real GDP growth expectations for key markets including India, China and the US. Moreover, the continued geopolitical issues as a result of the Russia/Ukraine conflict as well as the issues between US and China are expected to once again bring supply chain issues at the forefront and affect global trade.

According to the IMF, currently the global economic activity is experiencing the highest inflation seen in decades and a broad-based slowdown. In its latest World Economic Outlook Report, the IMF forecasted global inflation to reach 8.8% in 2022 up from 4.7% in 2021 (an upward revision of 0.5% since July-2022) and fall to 6.5% in 2023. The IMF has warned that the global economy was facing three major challenges namely the Russia-Ukraine conflict, the economic slowdown in China and the cost-of-living crisis due to worsening inflation.

The rise of global inflationary pressures has prompted quick and coordinated rise of benchmark rates in most countries of the world tightening global monetary conditions. The hiking of US interest rates by the Federal Reserve as a measure to rein in inflation has had important impact on the world economy since the US Dollar is the world's reserve currency. All GCC countries have their currencies pegged to the USD, except for Kuwait which has its currency pegged to a basket of currencies. According to Bloomberg, the US Fed is expected to hike another 75 basis points in November-2022 followed by 50 basis points in December-2022 taking the average benchmark target rate to 4.5% by the end of 2022. GCC central banks are also expected to follow the Fed's rate hike by raising their respective policy rates.

In the wider MENA region, rising inflation has had much worse impact on energy importers as compared to the mainly energy exporting GCC countries. MENA energy importing countries have witnessed dramatic increase in external debt post the pandemic and the expensive energy imports and the pressure to increase interest rates is expected to dampen economic growth. The situation is not as bad for the GCC countries mainly led by internal policies that protect commodity price rise well due to the lower impact of rising energy bills being subsidized by most of the governments in the region.

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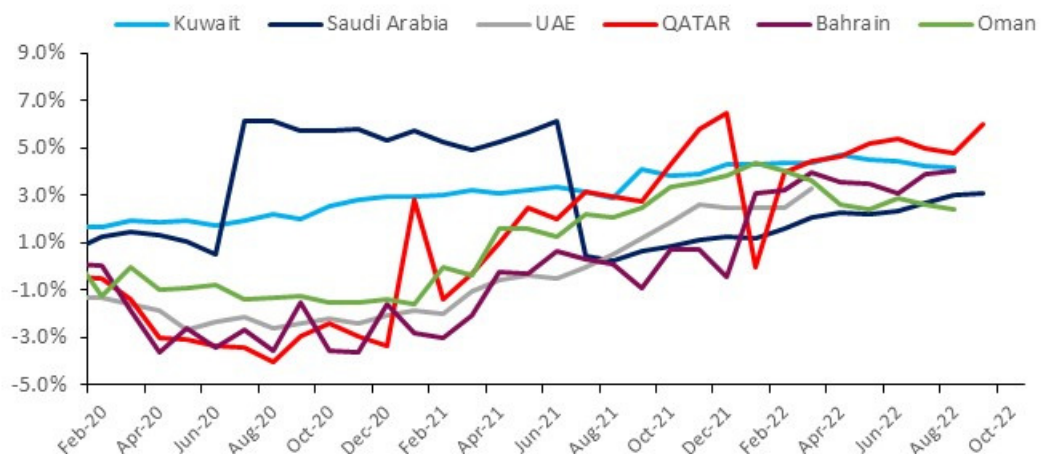
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Sources : Bloomberg, Kamco Invest Research, IMF

Global inflation trend

In terms of global inflationary outlook, the IMF is projecting that inflation would be worse for developing economies where it expects price increases in 2022 to reach +9.9% as compared to developed nations which are projected 7.2% inflation rise. The Russia-Ukraine conflict has exacerbated global inflation which was already on the rise before the war even started. After the start of hostilities in the Russia-Ukraine conflict, the IMF revised their inflation projections upwards by 3.3% for developed economies and 4% for developing economies. US annual inflation rose 8.2% during September-2022 while annual inflation in the European Union increased by 10.9% during the similar period.

Rising prices and its impact on consumer demand was disconnected until recently, especially in the US, as wage growth somewhat offset the impact of higher inflation. However, demand destruction is now apparent with companies in the white goods sector now started experiencing a slowdown as rising prices has resulted in consumers buying less of these items. Retail sales in the US have stagnated, as per a Bloomberg report, as consumers limit discretionary purchases. Moreover, the rising interest rate in the US that is followed by bulk of economies globally has its immediate impact in the cooling down of the real estate market, a partial relief for headline inflation. On the other hand, a stronger dollar coupled with rising crude oil prices, continue to remain a concern especially for emerging market countries despite many hoping a slowdown in the aggressive rate hikes seen over the last six months.

Kuwait

Kuwait's Inflation rate witnessed 4.1% y-o-y increase during August-2022 mainly driven by the education price index which recorded 19% y-o-y growth in August-2022 followed by the food and beverages price index which registered 6.9% y-o-y growth during the similar period. The inflation trend in Kuwait has been gradually receding since April-2022 when y-o-y monthly inflation stood at 4.7% led by declines by the Food & Beverages and Clothing & Footwear groups. Furthermore, inflation in the Housing Services group, the largest weighted group, also witnessed a year-on-year growth during August-2022 recording 2.2% growth. In terms of m-o-m price growth, Kuwait's Consumer Price Index (CPI) was stable and did not witness any mentionable significant change recording a marginal uptick of only 0.08% m-o-m growth during August-2022. Prices of Foods and Beverage group and Furnishing and Equipment Household group increased by 0.15% each m-o-m.

Inflation is expected to continue to slow down in Kuwait due to the decrease of the global food prices. According to the UN Food and Agriculture Organization (FAO), global food prices declined for the sixth straight month in a row in September-2022. The FAO Food Price Index recorded 1.1% m-o-m decline to reach 136.3 in September but was up 5.5% y-o-y. The Food and Beverages component of the CPI Index was one of the major drivers of inflation and the slowdown in global food prices is expected to have a restraining effect on the country's inflation rate. The IMF projects Kuwait's economy to grow by 8.7% during 2022 making it the fastest growing economy in the GCC and 2.3% in 2023.

Saudi Arabia

Saudi Arabia's inflation rate recorded an increase of 3.1% y-o-y in September-2022 its highest monthly y-o-y rate change since June-2021 according to the Kingdom's General Authority of Statistics. Food and Beverages and Transport groups were the key drivers behind the CPI uptick witnessing an increase of 4.3% and 3.8% respectively. In terms of m-o-m change, the Kingdom's CPI was stable during September-2022 recording a marginal rise of 0.3% from August-2022.

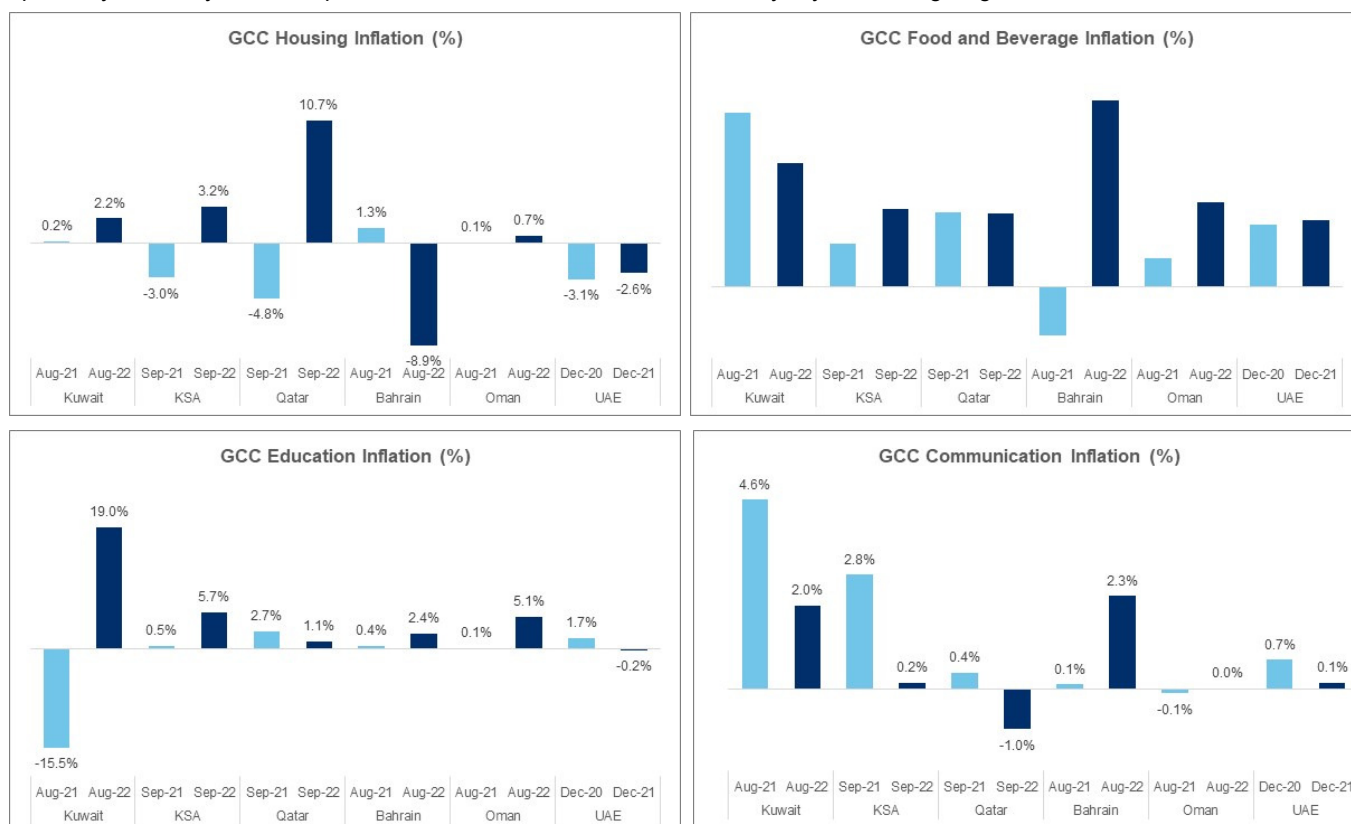
According to the IMF, Saudi Arabia's GDP is expected to expand at 7.6% making the Kingdoms economy to be one of the fastest growing economies in the world in 2022 buoyed by pro-business reforms and higher oil prices. In spite of higher priced imported goods, the Kingdom is expected to contain inflation at 2.8% during the year also capped Saudi Central Bank's increase in interest rates in line with the US Fed. Furthermore, the Saudi government is now reintroducing some measures of government relief to ease the bite of inflation on lower income households. The Saudi government has allocated extra USD 9 Bn to programs that will ease inflation on citizens such as Small Livestock Program and the Citizens Account Program. The Kingdom is one of the best placed countries to weather the global inflation storm with strengthened public finances and increased non-oil revenues combined with higher proceeds from oil exports.

Consumer Price Index	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%	3.4%
Kuwait	3.0%	1.1%	2.1%	3.4%	4.3%	2.4%
Oman	2.2%	0.1%	-0.9%	1.5%	3.1%	1.9%
Qatar	3.7%	-0.7%	-2.7%	2.3%	4.5%	3.3%
Saudi Arabia	2.0%	-2.1%	3.4%	3.1%	2.7%	2.2%
United Arab Emirates	3.8%	-1.9%	-2.1%	0.2%	5.2%	3.6%

Sources : IMF, Kamco Invest Research

UAE

In September-2022 the UAE's Central Bank forecasted 5.6% inflation rate rise for the Emirates during 2022 the country's highest rate in six years. Dubai's inflation rate stood 6% in August-2022 receding from 7.1% in July-2022. Dubai's inflation was primarily driven by the Transport sector inflation which witnessed 27% y-o-y rise during August-2022.



Sources : Bloomberg, Kamco Invest Research

As a result of the rising cost of living attributed to inflation, the Emirati population have started to cut back on spending in certain necessities such as clothes and petrol. In line with other GCC government's measures to contain inflation, the UAE government has recently introduced new social package which would assist low-income Emirati families with their cost of living. The Emirati government has distributed grant funds to 47,300 low-income Emirati families to assist them with increasing prices of food, fuel, electricity, and water. The UAE government has restructured its flagship social support program for low-income citizens doubling the programs funds from AED 14 Bn to AED 28 Bn in July-2022.

Qatar

Qatar's inflation rate hit the highest rate in nine months after it increased by 6% y-o-y during September-2022. Qatar's inflation growth during the month was mainly driven by the Recreation and Culture sector which registered 35.6% y-o-y rise during September-2022 as the country makes final preparations to host the FIFA World Cup. The Housing Water and Electricity sector was also another major contributor which pushed the inflation rate rise recording 10.7% y-o-y rise during the month. On the other hand, price rises eased for certain sectors such as the Food and Beverages group recording 4.1% in September-2022 down from 5.8% in August-2022. The global ratings agency Fitch forecasts Qatar's inflation to accelerate from 2.3% in 2021 to 5.1% in 2022. The ratings agency expects that the Qatari Central Bank will hike its benchmark policy rate in line with the US Federal Reserve in Q4-2022 to contain inflation.

Bahrain

The inflation rate in Bahrain grew at the highest monthly rate in nearly 10 years recording 4% y-o-y increase during August-2022. Inflation in the Kingdom was mainly driven by the Food and non-Alcoholic Beverages group which increased by 10.4% during August-2022, the highest growth in three months. The price increase of the sector was mainly due to the rise of costs of essential foods such as milk and dairy products, sugar, and fish. Additional upward pressures from major groups of the Kingdoms CPI such as the Alcoholic Beverages and Tobacco group (+13.4%) and Transport group (+6.5%) also contributed to the growth of inflation in the Kingdom during the month.

Oman

The inflation rate in the Sultanate of Oman increased by 2.4% y-o-y during September-2022. The Sultanate recorded the lowest inflation rate among the GCC countries during September-2022. The Sultanate's moderate inflation growth was primarily driven by increases in the prices of the main commodity groups. Prices in the Education group rose 5.1% y-o-y during September-2022 while the prices of the food and non-alcoholic beverages group increased by 5% during the similar period. Furthermore, prices for the Transportation group rose 3.1% during the month while the prices of the Culture and Entertainment group appreciated by a mere 1.6% during September-2022 based on available data.

Despite the global interruptions in supply chains due to ongoing intermittent Covid-19 measures in certain places such as China, and other international crisis such as the Russia-Ukraine conflict which drove up prices of essential goods such as food stuffs, the Sultanate was able to contain inflation in line with its five-year development plan's 2.8% target. Oman's government has taken some proactive measures such as establishing a ceiling on monthly fuel prices and direct supply of food items to curb inflation at acceptable levels during the year.

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