

## GCC Inflation Update

February-2023

### Inflation remains low in GCC; expected to fall globally in the near term...

The year 2022 was a turbulent year for the global economy with runaway inflation and the cost-of-living crisis being dominant issues facing the bulk of the countries globally. The GCC economies were no exception that faced the challenges of higher prices that worsened due to excessive reliance on imported products. However, proactive policies by the governments in the region and subsidies on food and energy items helped to keep inflation in the region at relatively low levels. Inflation in the GCC averaged at around the 4% mark and showed a downward trend for most countries during 2H-2022.

Global energy prices sky-rocketed during 2022 mainly driven by the Russia-Ukraine conflict as Russia's energy exports were sanctioned. The EU countries, Russia's biggest natural gas and oil export destination, started to diversify and look elsewhere for energy imports to curtail Russia's ability to wage war. The sanctioning of Russia's energy exports created a supply drop in global energy markets hence pushing oil and natural gas prices up. The Russia-Ukraine conflict also created a negative sentiment in energy markets as the war nears its one-year anniversary. In 2022, European natural gas prices reached record highs. The Dutch TTF natural gas future prices touched EUR 340/MWh in August-2022, the highest levels ever recorded, while the US oil prices spiked to 13-year high of over USD 130 per barrel during March-2022.

Russia and Ukraine are key producers of global foodstuffs. Between them the two countries export nearly one third of the world's wheat exports and barley and over 70% of its sunflower. The Russia-Ukraine conflict has prevented export of foodgrains from those countries from leaving their shores causing worldwide price increases in food as well as other repercussions such as fear of food shortages, inflation, and political instability.

Inflation reached a peak of 9.1% in June-2022 in the US and has mostly trended downwards thereafter. Inflationary pressure is also expected to ease in the near term. According to the IMF, nearly 84% of the countries in the world are forecasted to have lower consumer price index inflation growth in 2023 than in 2022 when inflation reached the highest level in decades. In terms of global inflation growth, the IMF forecasted in its latest World Economic Report, that global headline inflation would fall from an annual average of 8.8% in 2022 to 6.6% in 2023 and further to 4.3% in 2024. The IMF attributed its lower inflation projection declining international fuel and nonfuel commodity prices due to weaker global demand.

Efforts to control inflation via tighter monetary policies, including higher interest rates, are expected to continue in 2023. After raising rate by 25 bps in 2023, the US Fed is expected to undertake further rate hikes as indicated in their statement as well as probability surveys from Bloomberg that shows at least two more rate hikes of 25 bps this year.

#### Junaid Ansari

Head of Investment Strategy & Research

+(965) 2233 6912

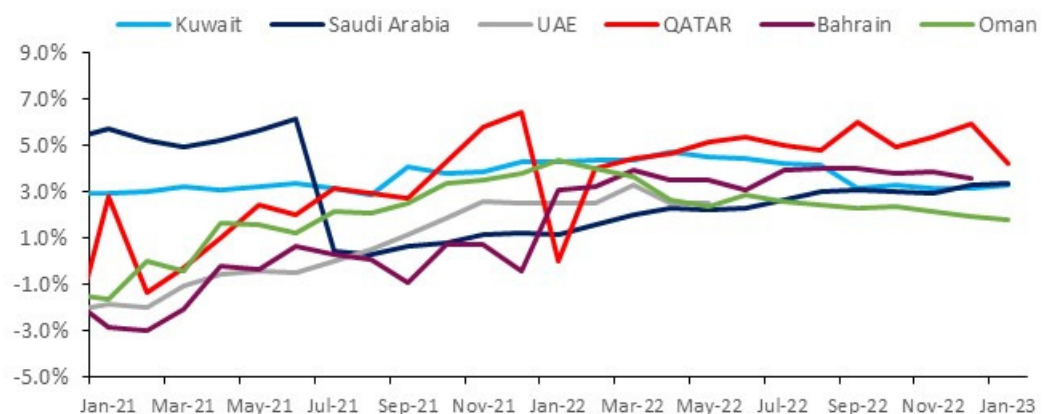
[jansari@kamcoinvest.com](mailto:jansari@kamcoinvest.com)

#### Mohamed Ali Omar

Analyst

+(965) 2233 6906

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



Sources : Bloomberg, Kamco Invest Research, IMF

## GCC rate hikes and inflation

In its latest response at the start of February-2023, Saudi Arabia's Central Bank increased its repo rate by 0.25% to 5.25% while the UAE Central Bank lifted its base rate for overnight deposit facility from 4.4% to 4.65%. Similarly, Kuwait's Central Bank has raised its discount rate by 50 bps from 3.5% to 4% whereas the Central Bank of Bahrain raised its one-week deposits rate by 25 basis points to 5.5%. On the other hand, the Central Bank of Qatar kept its rates intact; its repo rate at 5.25%, its deposit rate at 5% and its lending rate at 5.5%. GCC central banks follow the US Federal Reserve's rate changes since their local currencies are pegged to the US Dollar barring Kuwait which has its currency pegged to a basket of currencies.

Inflation in the MENA region is expected to affect economic growth despite being low when compared to global economies. Efforts such as price controls and consumption subsidies in some countries in the MENA region helped to control prices. However, these measures are expected to result in additional costs to oil importing countries in the region. According to the World Bank, developing oil importing countries in the region might need to find new revenues, increase deficit, debt, or even cut government spending in other areas of the economy to fund costs of the inflation mitigation programs. In contrast, there is no such fiscal pressure for the GCC and other oil-exporting countries in the region as state revenue growth mainly from higher oil prices is expected to more than compensate for additional inflation mitigation costs incurred by governments.

In the GCC region, inflation is expected to diminish in 2023 led by higher interest rates and slowing global growth. According to PWC, inflation in the region is expected to average of 2.7% in 2023. The GCC region is also expected to gain from its relative stability in its financial covers thanks to higher oil prices and higher energy exports in 2022. This would allow countries in the region to invest in critical sectors in order to protect from future fluctuations in key food and component prices.

## Global inflation trend

According to the IMF, global inflation is expected to stabilize at 6.6% in 2023 and then drop to 4.3% in 2024 as compared to 8.8% in 2022. The forecast is based on expected drop in energy prices, improving global supply chains and stabilization in prices of essential commodities. However, factors such as faster economic growth in China and a rise in energy prices can push inflationary pressures upwards. On the regional front, inflation in developing countries is projected to reach 7.9% in 2023 and 5.8% in 2024. The primary apparatus of controlling the global run-away inflation in 2022 has been the coordinated aggressive increase of benchmark rates among most of the major central banks in the world. The increase of interest rates is expected to have consequences in economic growth around the globe. According to Morgan Stanley analysis, the US economy would stagnate during 2023 witnessing a marginal growth of 0.5% while economies in Euro area and UK are likely to contract 0.2% and 1.5%, respectively. On the other hand, India and China are expected to drive global economic growth during 2023 with GDP expansion likely to reach 6.2% and 5.0%, respectively.

## Kuwait

Consumer inflation in Kuwait witnessed a declining trend in 2022 after peaking in April-2022 at 4.7% mainly reflecting a fall in the Food & Beverages and Clothing & Footwear groups. The y-o-y growth in the index was the smallest during the last two months of the year at 3.2%. The latest inflation reading for January-2023 showed a small uptick of 10 bps to reach 3.3%. The increase was led by a 7.4% growth in the Food & Beverages index followed by the Clothing & Footwear price index which registered 6% y-o-y growth. Inflation in the Housing Services group, the largest weighted group, witnessed a y-o-y increase of 1.4%. In terms of m-o-m changes, Kuwait's CPI witnessed a marginal uptick of 0.24% during January-2023 driven by prices of Clothing & Footwear group which a recorded m-o-m growth of 0.86%.

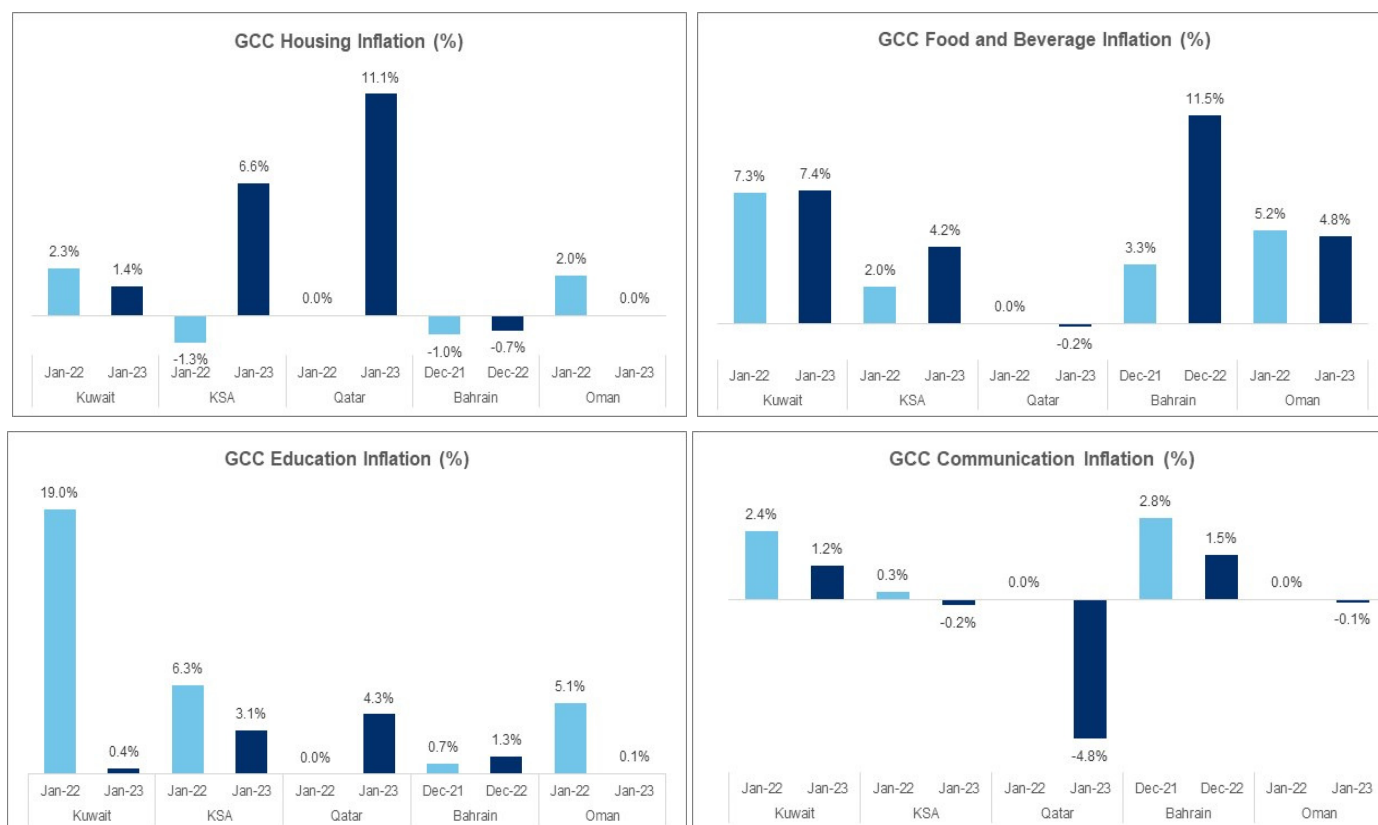
Kuwait, which imports the bulk of its food requirements, was affected by the rise in world food prices which hit record levels in 2022. According to Reuters, the Food and Agriculture Organization (FAO) main food price index reached 143.7 points in 2022 recording a 14.3% increase from 2021. Kuwait's Food & Beverages component of the CPI recorded the biggest yearly growth among the CPI indices primarily driving the country's inflation growth during the year.

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

## Saudi Arabia

Annual consumer price index for the Kingdom rose by 3.35% during January-2023 mainly driven by an increase in Housing Water, Gas and Electricity sector index which witnessed 6.6% growth and the Restaurants index which registered 6.5% growth during the month. Saudi Arabia's y-o-y inflation growth in January-2023 has been its highest monthly y-o-y rate change since June-2021, according to the Kingdom's General Authority of Statistics. Food & Beverages index which has about 18.8% weight (second largest weight in the index) in the Kingdom's CPI index was another key driver behind the CPI uptick recording a growth of 4.2%. In terms of m-o-m change, the Kingdom's CPI witnessed a marginal growth of 0.2% during January-2023 as compared to a 0.3% monthly rise in December-2022.



Sources : Bloomberg, Kamco Invest Research

The IMF expects Saudi Arabia's economy to expand by 2.6% (lower than the Kingdom's own estimates of 3.1%) in 2023 and 3.4% in 2024. On the other hand, the Saudi government expects inflation in the Kingdom to average at 2.1% in 2023 down from an annual average of 3.3% in 2022. According to the global credit ratings agency Fitch, one of the key tenets that is expected to drive the Kingdom's economic growth in 2023 would be its low inflation rate among other things such as steady population growth and an increase in household incomes. Inflation in the Kingdom witnessed significant uptick in 2020 averaging 3.5% during 2020 after the Saudi government raised VAT from 5% to 15%. Despite witnessing lower inflation growth than most of its global counterparts the Saudi government has taken proactive steps to contain inflation including programs to give more support to social security beneficiaries and putting a ceiling on energy prices which are the main drivers of the upward pressures of inflation.

## UAE

Inflation in Dubai reached 5.2% during December-2022 up from 4.7% in November-2022 according the UAE' Minister of Economy. The rise in inflation was mainly driven by stronger increases in prices for housing, water, electricity, gas and other fuels. Moreover, prices for transport in the city witnessed a 10% m-o-m growth during the period. According to the Emirates government, UAE inflation is estimated to reach around 5.6% in 2022 the highest rate in the last six years. However, the Emirates inflation rate is forecasted to fall in 2023 thanks to careful fiscal control and the local issuance of currency debt by the UAE government among other measures. The surge in inflation in the UAE is mainly attributed to the same underlying global drivers such as the turbulent economic conditions caused by the Russia-Ukraine war and China's zero Covid policy which disrupted global supply chains. In its latest IMF staff article, the IMF highlighted the UAE's positive economic outlook in 2022 and in 2023 underpinned by higher oil prices and strong domestic economic activity combined with the gradual moderation of inflationary pressures in the country in 2023 backed by prudent fiscal management.

**Qatar**

Qatar's inflation growth was the highest in the GCC region during 2022 but significantly lower than global levels. Qatar's inflation rate surged to 4.2% y-o-y growth in January-2023, the second lowest mark since February-2022 after it increased to 4% . The country witnessed increased domestic demand such as growing energy consumption led by the successful FIFA World Cup it hosted, which strengthened existing inflationary pressures in the country. Inflation during the year was mainly driven by rise in prices in the Recreation & Culture group that saw a increase of 12.5% y-o-y in January-2023 followed by Housing & Utilities and the Restaurant & Hotels groups with y-o-y increases of 11.1% and 6.9%, respectively. In terms of monthly trend, Qatar's inflation rate declined by 2.6% during January-2023 as compared to the 1.2% m-o-m growth in December-2022.

**Bahrain**

The annual inflation rate in Bahrain during December-2022 reached its lowest level since June-2022 at 3.6% down from 3.9% in November-2022. The softening of Bahraini's inflation rate was mainly due to the gradual decline of inflation for the Transport group which fell from 6.7% in November-2022 to 6.4% in December 2022, the lowest level in six months. Inflation in Bahrain reached the highest-level during August-2022 and September-2022 at 4%. Despite the Kingdom's annual inflation remaining under its peers, the Bahraini government is currently seeking to legislate an urgent rescue package with the aim of tackling inflation. The legislation, which was introduced during the fourth quarter of 2022, is designed to help Bahraini businesses that are still struggling to recover from the economic measures designed to curb the pandemic. The legislation includes a proposal which lists gyms, spas and entertainment venues among other businesses as the hardest-hit businesses.

**Oman**

The inflation rate in the Sultanate of Oman increased to 1.8% y-o-y during January-2023 the lowest monthly growth since August-2021. Oman's inflation rise was mainly driven by a 4.8% y-o-y growth of Food and Non Alcoholic Beverage index, the second biggest weighted index. Furthermore, the Sultanate's Restaurant index also recorded 3.9% y-o-y increase during January-2023. The Sultanate witnessed one of the lowest inflation rates among the GCC countries during 2022 with price growth peaking at 4.4% in January-2022. The Omani government has underlined that the low and acceptable levels of inflation in the Sultanate was due to the governments pro-active handling of the global inflation crisis such as tackling the supply chain crisis related to foodstuffs. .

---

## Disclaimer & Important Disclosures

**Kamco Invest** is authorized and fully regulated by the Capital Markets Authority ("CMA, Kuwait") and partially regulated by the Central Bank of Kuwait ("CBK")

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Kamco Invest did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

### Analyst Certification

Each of the analysts identified in this report, if any and where applicable, certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

### Kamco Invest Ratings

Kamco Invest research is based on the analysis of regional and country economics, industries and company fundamentals. Kamco Invest company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

- \* **Outperform:** Target Price represents expected returns  $\geq 10\%$  in the next 12 months
- \* **Neutral:** Target Price represents expected returns between  $-10\%$  and  $+10\%$  in the next 12 months
- \* **Underperform:** Target Price represents an expected return of  $< -10\%$  in the next 12 months

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Kamco Invest policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Kamco Invest's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Kamco Invest clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Kamco Invest and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. Kamco Invest has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Kamco Invest is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

'Kamco Investment Company (DIFC) Limited ("Kamco Invest DIFC"), Office 205, Level 2, Gate Village 1, Dubai International Financial Centre, a wholly owned subsidiary of Kamco Investment Company KSC (Public), is regulated by the Dubai Financial Services Authority (DFSA). Kamco Invest DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA licence. The information in this document may be distributed by Kamco Invest DIFC on behalf of Kamco Investment Company KSC (Public). This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. The recipients of this document hereby should conduct their own due diligence on the accuracy of the information relating to the contents of this document. If you do not understand the contents of this document you should consult an authorized financial advisor.

### Risk Warnings

Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

### Conflict of Interest

Kamco Invest and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of Kamco Invest may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. Kamco Invest may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Kamco Invest business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of Kamco Invest's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

### No Liability & Warranty

Kamco Invest makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. Kamco Invest will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.



---

**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)

---

**Kamco Invest**