

GCC Inflation Update

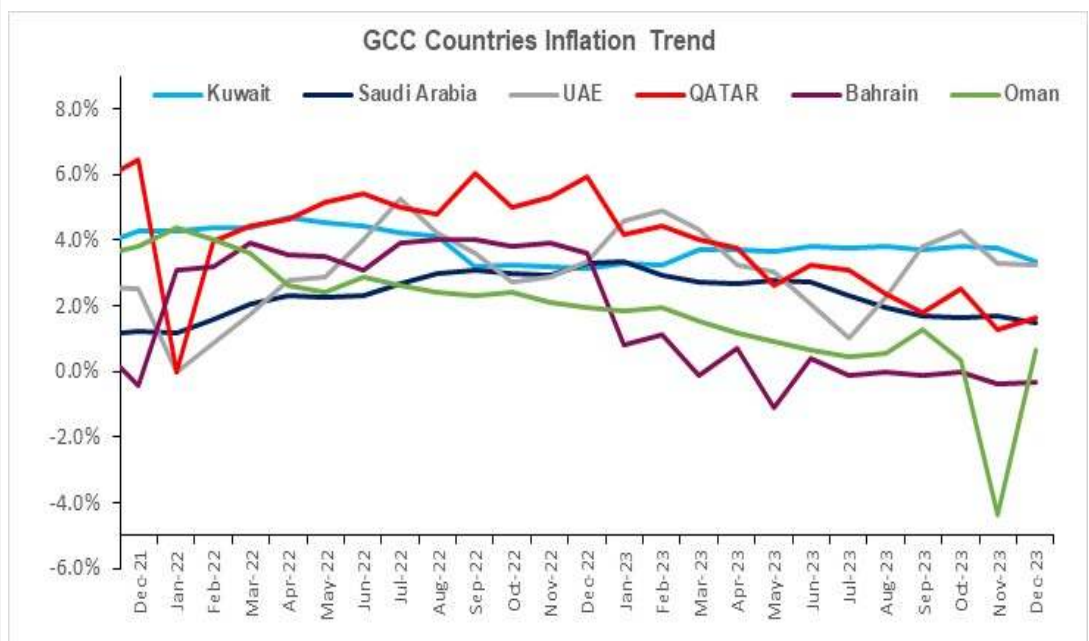
February-2024

GCC inflation witnessed broad-based decline in 2023...

Inflation in the GCC countries trended lower during 2023 as compared to most other regions in the world where high inflation persists. According to the OECD, global headline inflation is estimated to decline to 7% in 2023 and 5.2% in 2024 as compared to an average of 9.5% in 2022. The persistently high global inflation for the last two years was underpinned by a combination of high energy prices and elevated commodity prices which were mainly driven by geopolitical tensions such as the Russia-Ukraine conflict. To combat the effects of high inflation, central banks around the world moved to raise their benchmark rates in unison, creating a higher for longer interest rate environment in the process. According to the IMF, central banks have raised rates by approximately 400 bps in advanced economies and around 650 bps in emerging market economies during the period between late 2021 and October-2023. This astronomical growth of global borrowing rates had an expected negative effect on the global economy. Currently there is a sentiment that the period of continuous interest rate hikes has come to an end as most of the global central banks kept their benchmark rates unchanged.

However, there are new geopolitical challenges facing the global economy especially the MENA economies such as the ongoing war on Gaza and the disruption of global shipping lines in the Red Sea. According to the BMI, Middle East consumers are the most exposed to the Red Sea crisis as 81.6% of the region's imports travel along Red Sea routes that are exposed to the disruption. In 2022, USD 229 Bn of imported goods which were mainly from Europe and Asia reached the MENA region through these Red Sea routes. There are fears that the ongoing disruption in the Red Sea trade routes might heighten costs of goods and therefore put an upward pressure on the GCC as well as the MENA inflation.

Among the six GCC countries, only Dubai reported an increase in its average annual inflation rate which increased from 2.9% in 2022 to 3.3% in 2023. On the other hand, the rest of the GCC countries reported a decline in their annual average inflation rate from 2022 to 2023. Average annual inflation rate for Kuwait declined from 4.0% in 2022 to 3.6% in 2023. Similarly, average annual inflation rate for Saudi Arabia dipped from 2.5% in 2022 to 2.3% in 2023. According to the IMF, the primary factors that allowed the GCC regional countries to control their inflation so well are among other things, the combination of subsidies in energy sector, the prevalence of administered prices on basic food items and food security strategies, and the wider continuing economic diversification efforts.



Sources : Bloomberg, Kamco Invest Research, IMF

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Global Food Prices

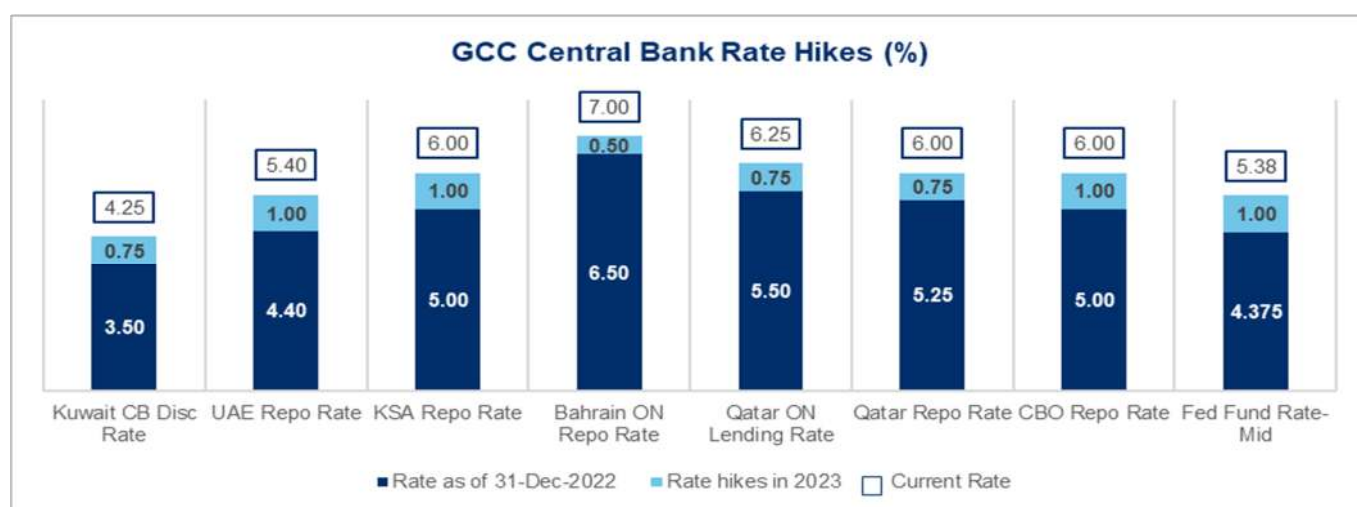
Global food prices have fallen by 13.7% in 2023, according to the Food and Agriculture Organization of the United Nations (FAO). The decline in global food prices was attributed to 15.4% decline in the Cereals Index, recovering from price increases that took place after the start of the Russia-Ukraine conflict. World cereal production in 2023 is expected to reach an all-time high of 1,523 million tons in 2023 witnessing 1.2% growth from 2022 according to FAO. Another key contributor to the overall fall in global food prices was the 32.7% decline in the Vegetable Oil price Index during 2023, which was supported by improved supplies and reduced use for biofuel production. Nevertheless, the FAO Meat Price Index witnessed 1.4% decline during December-2023 extending its seventh month consecutive decline during the year. On the other hand, global sugar prices rose 26.7% during 2023. Furthermore, the UN Organization noted that despite the decline in overall global food prices, in many countries food prices are increasing faster than the overall inflation rate.

GCC Rate Hikes and Inflation

The global inflation slowdown during the last six months has prompted central bank leaders around the world to pause interest rate increases. Economists are now looking at rate cuts and even more importantly, the timing of cuts. The US inflation reached 9.1%, its highest point in 40 years, in June-2022 due to broad-based overall increase in rent prices, new and used vehicles prices as well as medical prices.

Similarly, inflation in the European Union increased by 3.4% during December-2023 marking a significant drop from the 11.5% jump it recorded during October-2022, its highest ever point which was mainly driven by instability and repercussions from the Russia-Ukraine conflict such as high energy and food prices. To combat the skyrocketing inflation growth, central banks around the globe started a rate increasing program to rein in inflation.

The Fed increased the Federal Funds Rate eleven times between March-2022 till July-2023 or in other words from 0.25% to 5.5% in 17 months. Similarly, the European Central Bank raised its Fixed Rate nine times between July-2022 till September-2023 from 0.5% to 4.0%.



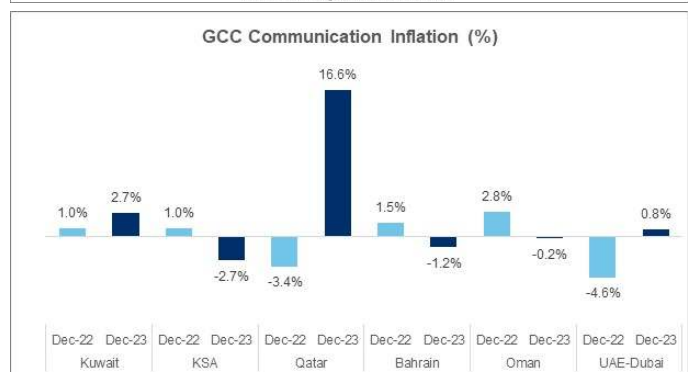
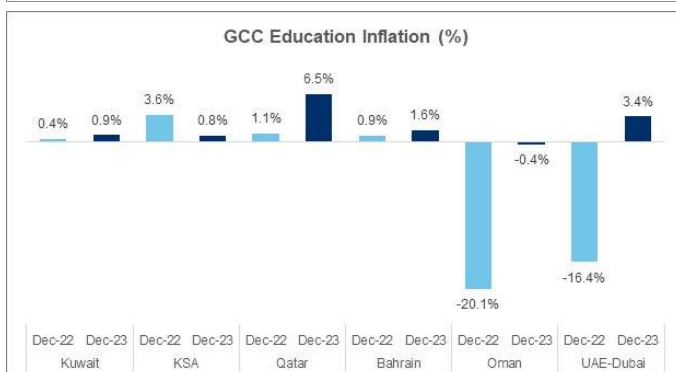
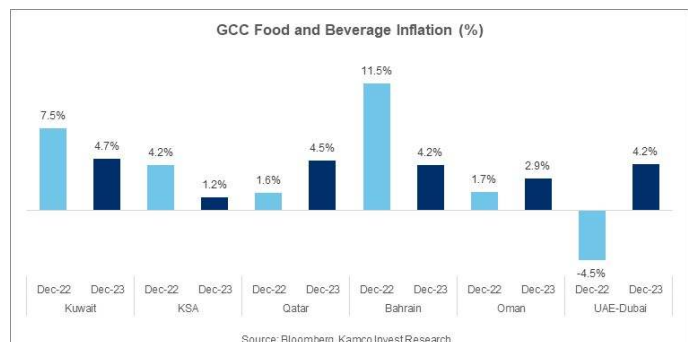
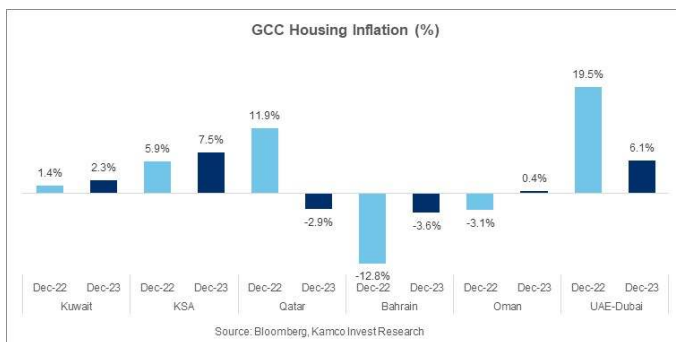
Sources : Bloomberg, Kamco Invest Research

The GCC central banks which have their currencies pegged to the Dollar except for Kuwait (which has its currency pegged to a basket of currencies including the Dollar), have been raising interest rates and keeping up with the Fed rate hikes during this period. Kuwait increased its Central Bank discount rate eight times between March-2022 till July-2023 (from 1.5% to 4.25%). Afterwards Kuwait kept its discount rate unchanged matching the Fed's stance. Similarly, Saudi Arabia's central bank repo rate increased from 1% in March-2022 to 6% in July-2023 matching the Fed's rate hike program. The remaining GCC countries have also matched the US Federal Reserve in increasing and pausing their benchmark rates during the period between March-2022 till July-2023.

Kuwait

The Kuwaiti Consumer Price Index's latest inflation reading for December-2023 showed a y-o-y increase of 3.4% according to official government data . The increase was mainly led by a 6.7% growth in the Clothing & Footwear index followed by the Food & Beverages price index which registered 4.7% y-o-y growth. In terms of m-o-m performance, Kuwait's (CPI) recorded a 0.3% m-o-m growth during December-2023 due to mixed movement of price increases in some major groups balanced by price decreases in other major groups.

Inflation in the Housing Services group, the largest weighted group, witnessed a y-o-y increase of 2.3% in 2023. Kuwait's Education group prices were stable and only recorded a marginal uptick of 0.9% y-o-y during 2023. Comparatively, prices in the Transport Index, which has an index weight of 7.5%, registered 2.4% y-o-y growth due to the rise in prices of purchase of vehicles and operation of personal transport equipment during December-2023. The index for Furnishing Equipment Household, which has an index of weight of 11.4%, recorded 3.4% y-o-y growth in 2023 . In terms of monthly price movements, prices of the Foods and Beverage group recorded a marginal uptick of 0.07% due to an increase in prices of cereals, bread, meat, and poultry as well as fish and seafood. Similarly, prices of the Health group witnessed a 0.92% m-o-m growth during December-2023 because of an increase in prices of outpatient services as well as general hospital services.



Sources : Bloomberg, Kamco Invest Research

Saudi Arabia

The average annual Consumer Price Index in Saudi Arabia recorded 2.3% growth in 2023 as compared to 2022. The CPI uptick was mainly driven by higher prices in the Housing, Water, Electricity, and Other Fuels groups, the highest weighted group, which increased by 7.9% during 2023 primarily driven by 9.5% growth in actual rentals during the year. Comparatively, growth in the prices of the average annual Food and Beverages group was subdued during the year witnessing a modest increase of 1.4% which was mainly driven by price growth in milk products and eggs.

Prices in Restaurants and Hotels witnessed 4.1% y-o-y growth during 2023 mainly because of 5.7% increase in accommodation and services prices in the Kingdom during the year. On the other hand, prices in the Transport group, the third largest weighted group, witnessed a marginal growth of 1.0% mainly due to the growth in transport services prices by 5.3% during 2023. The modest annual inflation growth in the Kingdom came as a result of offsetting price decreases recorded in four of the twelve groups in the Kingdom's CPI groups such as the Clothing and Footwear group which witnessed 3.1% decline in prices primarily due to 4.8% the decrease in garment prices. Furthermore, prices for the Furnishing, Household Equipment & Maintenance witnessed a 2.1% drop during the year as a result of a 4.0% fall in furniture, carpets, and other floorings prices. According to Saudi Arabia's Central Bank (Sama), the Kingdom's inflation rate is expected to decline in Q1-2024 due to the application of the Royal Directive to settle the maximum prices for gasoline as well as the global decline of food prices.

UAE

The Dubai Consumer Price index witnessed a moderate uptick of 3.3% during December-2023 as compared to the 3.4% increase it witnessed during December-2022. Dubai's CPI index growth was primarily driven by the 6.1% increase in the Housing, Water, Electricity and Gas group, the highest weighted group, during December-2023. Additionally, Dubai's Food & Beverages group, the third highest weighted group in the CPI, recorded a 4.2% increase during December-2023 as compared to a decline of 4.5% during December-2022. On the other hand, the Transport subgroup (second largest weighted group) recorded 5.8% decline during December-2023 as compared to 2.9% decrease in December-2022, moderating the growth in the previous two subgroups in the CPI during the month. Overall, only 3 out of Dubai's 13 CPI subgroups recorded y-o-y decreases during the month. In terms of average annual inflation growth, Dubai annual average inflation for 2023 reached 3.3%, slightly higher than the IMF estimate for overall average inflation for the UAE during the year.

Consumer Price Index	Average	Actual				Projections
Y-o-y percent change	2000–19	2020	2021	2022	2023	2024e
Bahrain	1.8%	-2.3%	-0.6%	3.6%	0.1%	1.4%
Kuwait	2.9%	2.1%	3.4%	4.0%	3.6%	3.1%
Oman	2.1%	-0.9%	1.5%	2.8%	0.6%	1.7%
Qatar	3.5%	-2.5%	2.3%	5.0%	2.9%	2.3%
Saudi Arabia	1.8%	3.4%	3.1%	2.5%	2.3%	2.2%
United Arab Emirates	3.2%	-2.1%	-0.1%	4.8%	3.3%	2.3%
GCC*	2.2%	1.3%	2.2%	3.3%	2.6%	2.3%
Arab World*	4.8%	6.1%	9.1%	8.9%	12.1%	11.7%

Sources : Bloomberg, IMF, Kamco Invest Research

* IMF Projections

Qatar

Qatar's inflation rate increased by 1.6% y-o-y during 2023, recording its second-lowest monthly average increase in 2023. Qatar's moderate inflation rate growth came after growth in six out of the eleven sub-indices of the CPI was partially offset by decline in the remaining five sub-indices, including the large-weighted Housing, Water, Electricity and Gas subgroup (-2.9%) and the Restaurants and Hotels subgroup (-10.8%) during the month. The country's General Consumer Price Index reached 110.0 points in December-2023 witnessing a 1.6% m-o-m increase over November-2023.

Inflation during the month was mainly driven by significant rise in prices in the Communication group that saw an increase of 16.6% y-o-y in December-2023 followed by Recreation & Culture and Education groups with y-o-y increases of 11.9% and 6.5%, respectively. Comparatively, Qatar's Food and Beverages sub-index which has recorded y-o-y decline during six out of the last twelve months of the year, has registered a robust growth of 4.5% during December-2023. Food inflation in Qatar was among the lowest in the world, according to the World Bank's food price inflation tracker. Qatar's food inflation was less than 2% for the first nine months of 2023. Qatar's monthly inflation rate reached its highest peak at 4.4% in February-2023. In context, Qatar's monthly inflation rate has been on a downward trend since December-2022, reaching its lowest point during November-2023 when it recorded a 1.3% y-o-y growth.

Bahrain

Bahrain's inflation rate remained flat only recording a y-o-y drop of 0.3% during December-2023 as the general CPI reached lowest point in 6 months to 100.6 points. In terms of m-o-m change, Bahrain's CPI witnessed a 0.2% increase during the month. Bahrain had the lowest inflation rate among the GCC countries during December-2023. The y-o-y softening of Bahrain's inflation rate was mainly due to the contraction of eight 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 witnessing a drop of 4.7% followed by the Furnishings, Household Equipment and Routine Maintenance of the House and the Housing, Water and Electricity sub-indices which witnessed a y-o-y contraction of 3.9% and 3.6%, respectively, during December-2023.

Comparatively, the index for Food and nonalcoholic Beverages recorded a 4.2% y-o-y surge during December-2023 while the Education index witnessed a meagre 1.6% growth during the similar period. In terms of expectations, Bahrain has the IMF's lowest projected inflation rate among the GCC countries at 2.4% in 2024 followed by Oman and Saudi Arabia with 1.7% and 2.2% inflation forecast, respectively.

Oman

The consumer prices index in Oman witnessed a marginal y-o-y increase of 0.7% in December-2023. The Sultanate's inflation rate has been on a downward trajectory reaching its lowest monthly growth point since January-2022 till December-2023. Oman's marginal inflation rise was mainly driven by a 2.9% y-o-y growth of Food and Non-Alcoholic Beverage index, the second biggest weighted index. Similarly, the Sultanate's Furnishing Household Equipment index also recorded a 1.6% y-o-y increase during December-2023 while the Tobacco and Recreation & Culture indices witnessed gains of 2.4% and 1.7% respectively during the month. On the other hand, decline in the Transport index (-2.7%), Clothing and Footwear index (-0.3%) and Education (-0.4%) moderated inflation growth in the Sultanate dragging down the overall growth of price of goods in the country. In terms of m-o-m inflation growth, Oman's CPI remained stable only suffering 0.2% during December-2023 mainly due to close the month at 105.6 points its lowest point in over 24 months.

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