

**Inflation Report**  
**Fourth Quarter 2009**



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## **1. Introduction**

Inflation (the continuous rise in the general level of prices) is a phenomenon which goes in line with economic growth. In the last five years, excluding the year of 2009 and the fourth quarter of 2008, many countries have registered noticeable rates of inflation at an accelerating pace due to a number of factors, including increased global economic activity (especially in emerging economies) and high prices of primary goods.

The main factors causing inflation in an economy are not different, but other factors vary due to reasons related to the nature of the economy, its diversification base, its openness and common business practices, etc. as well as seasonal factors that may vary from one economy to another.

This report highlights inflation rates in the Saudi economy and their general trends, using the general cost of living index in the Kingdom (issued by the Central Department of Statistics and Information). Some parts of the report also review other indices, such as the general wholesale price index and the GDP deflator, which is used as a measure of the general level of prices for the economy as a whole.

## **2. Inflation Trends during the Past Six Years**

The average inflation rate (moving average) as measured by annual changes in the cost of living indices during the year ending by December 2009 rose by 5.1 percent while the average inflation rate during the preceding five years (January 2004–December 2008) was 3.4 percent. During 2009, most inflation rates by major groups exceeded their average levels recorded in the preceding five years. Five main groups, representing 59 percent of the size of the cost of living basket, recorded rises in their averages exceeding the levels recorded during the preceding five years. The group of renovation, rent, fuel and water (housing and appurtenances) rose by 14.2 percent, the group of home furniture 8.4 percent, the group of education and entertainment 1.3 percent, the group of transport and telecommunications 1.0 percent, the group of fabrics, apparel and shoes 0.5 percent, while the remaining three groups (which constitute 41 percent of the basket) recorded inflation rates lower than the average levels they registered during the past five years. The group of food and beverages rose by 2.0 percent, the group of goods and other services 4.3 percent, and the group of medical care 0.7 percent (Table 1 and Chart 1).

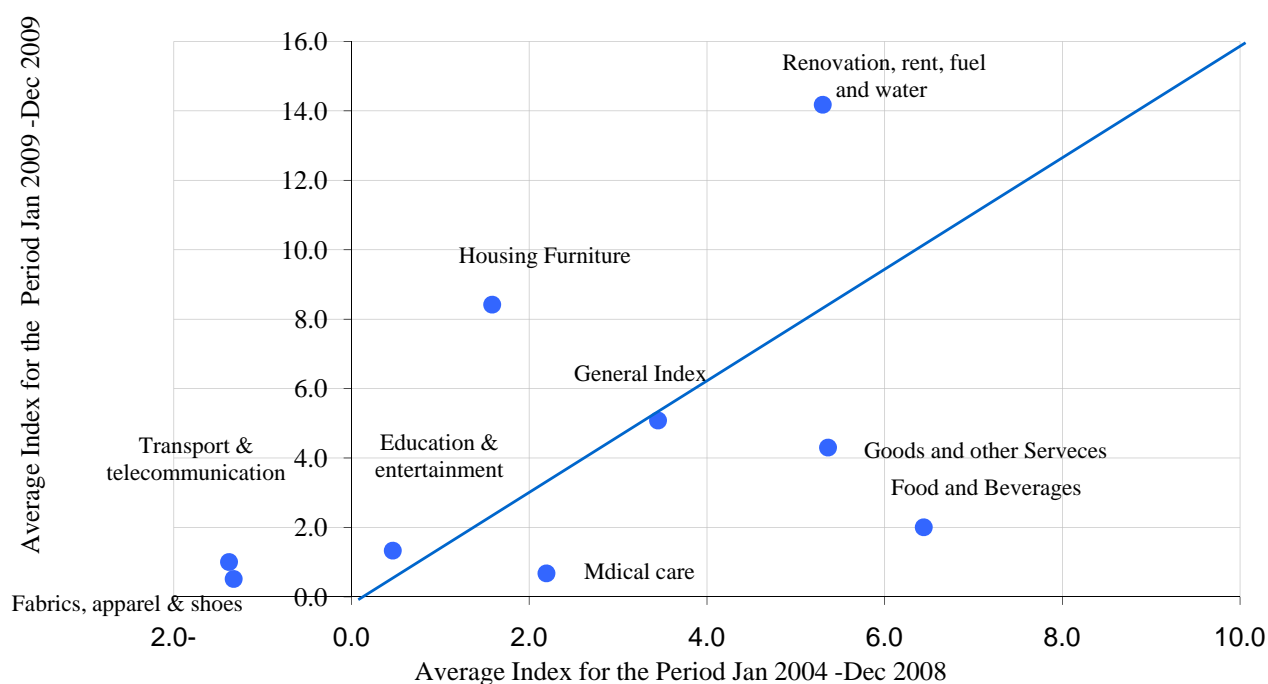
**Table 1: Change in the General Cost of Living Index and its Major Groups (%)**

	Weights (Relative Importance) ( % )	Average Index for the Period Jan 2004 -Dec 2008	Average Index for the Period Jan 2009 -Dec 2009
General Index	100	3.4	5.1
Foodstuffs & beverages	26	6.4	2.0
Fabrics, Clothing & footwear	8	1.3-	0.5
Renovation, rent, fuel & water	18	5.3	14.2
Home furniture	11	1.6	8.4
Medical care	2	2.2	0.7
Transport & telecommunication	16	1.4-	1.0
Education & entertainment	6	0.5	1.3
Other expenses & services	13	5.4	4.3

Source: Central Department of Statistics and Information.

Chart 1 compares the average level of inflation during the year ended December 2009 with that during the preceding five years. Points on the left of Line 45° (in the positive side of the chart) indicate higher average inflation during the year ended December 2009 compared to the average of the preceding five years (the opposite in the negative side).

**Chart 1 : Comparison between Inflation Levels during the Twelve Months Ended Dec 2009 and Those During the Preceding Five Years.**



As Table 2 shows, the average inflation rate in the Kingdom during the period from 2004 until 2009 is still low compared to the average rate in all countries shown in the table except for Bahrain and China.

**Table 2: Comparison of Inflation rate in some countries  
(Percent change Annual)**

Country	2004	2005	2006	2007	2008	2009	Average
Bahrain	2.2	2.6	2.0	3.3	3.5	3.0	<b>2.8</b>
Brazil	6.6	6.9	4.2	3.6	5.7	4.8	<b>5.3</b>
China	3.9	1.8	1.5	4.8	5.9	0.1-	<b>3.0</b>
Egypt	8.1	8.8	4.2	11.0	11.7	16.2	<b>10.0</b>
India	3.8	4.2	6.2	6.4	8.3	8.7	<b>6.3</b>
Jordan	3.4	3.5	6.3	5.4	14.9	0.2	<b>5.6</b>
Kuwait	1.3	4.1	3.1	5.5	10.5	4.7	<b>4.9</b>
Oman	0.7	1.9	3.4	5.9	12.6	3.3	<b>4.6</b>
Qatar	6.8	8.8	11.8	13.8	15.0	0.0	<b>9.4</b>
Saudi Arabia	0.4	0.6	2.2	4.1	9.9	5.1	<b>3.7</b>
Turkey	8.6	8.2	9.6	8.8	10.4	6.2	<b>8.6</b>
United Arab Emirates	5.0	6.2	9.3	11.1	12.3	2.5	<b>7.7</b>
Venezuela	21.7	16.0	13.7	18.7	30.4	29.4	<b>21.7</b>

Outlook Database, Oct 2009 Source: International Monetary Fund, World Economic

### **3. The Level of Current Performance of Inflation Indicators in the Kingdom**

#### **3-1 All Cities Cost of Living Index**

This index is the most widely used measure of inflation in the Kingdom. It measures changes in consumer prices of goods and services. The index includes 406 goods and services compiled on a monthly basis for sixteen cities. Table (3) shows all cities' cost of living indexes, quarterly and annual rates of change up to the end of the fourth quarter of 2009.

Table (3) shows that the average general cost of living index for the base year (1999=100) registered an increase of 1.5 percent in the fourth quarter of 2009 compared to the third quarter of 2009. This increase is attributed to rises in the group of home furniture by 3.5 percent, the group of food and beverages by 2.1 percent, the group of renovation, rent, fuel and water by 1.7 percent, the group of other goods by

1.4 percent, the group of education and entertainment by 1.3 percent, the group of medical care by 0.1. However, the group of transport and telecommunication and the group of apparel, clothing and footwear remained unchanged.

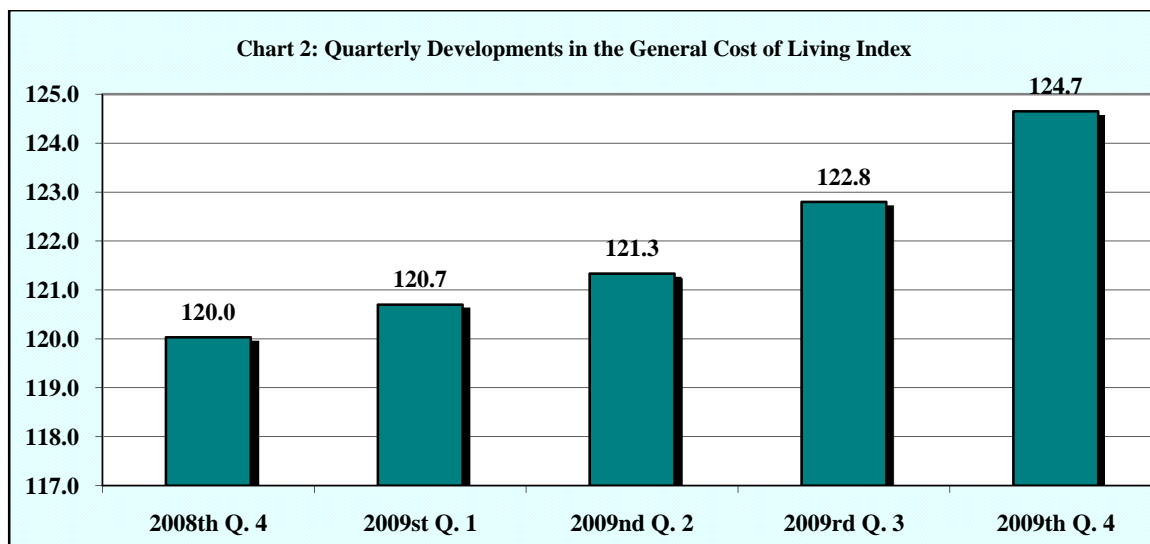
Data in Table (3) and Chart (2) indicate an increase of 3.8 percent in the average\* Cost of Living index in the period ended in the fourth quarter of 2009 compared to the period ended in the third quarter of the previous year. This increase was attributable to rises in the group of renovation, rent and fuel by 12.0 percent, the group of food and beverages by 0.2 percent, the group of home furniture by 2.8 percent, the group of goods and other services by 8.0 percent, and the group of education and entertainment by 1.2 percent. As Table (3) shows, the group of renovation, rent and fuel (housing and related items) still represents the main source of inflationary pressures in the Kingdom.

**Table 3: Quarterly and Annual Cost of Living Indices up to the End of the Fourth Quarter of 2009**  
1999 = 100

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 4th quarter 09 against 3rd quarter 09	% change of 4th quarter 09 against corresponding quarter of previous year	Change of Annual Average 2009
	2008	2009	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009			
<b>General Index</b>	116.5	122.4	120.0	120.7	121.3	122.8	124.7	1.5	3.8	5.1
Food and Beverages	137.0	139.7	141.8	139.2	138.0	139.2	142.1	2.1	0.2	2.0
Fabrics, Apparel and Shoes	85.9	86.3	86.5	86.5	86.3	86.2	86.2	0.0	-0.3	0.5
Renovation, Rent, Fuel and Water	128.3	146.4	135.2	139.9	145.7	148.8	151.4	1.7	12.0	14.2
House Furnishing	103.8	112.6	112.3	111.8	111.5	111.5	115.4	3.5	2.8	8.4
Medical Care	112.4	113.2	113.0	113.0	113.1	113.2	113.3	0.1	0.3	0.7
Transport and Telecommunications	88.3	89.2	89.1	89.7	88.9	89.1	89.1	0.0	0.0	1.0
Education and Entertainment	101.0	102.3	102.1	102.2	102.0	102.0	103.3	1.3	1.2	1.3
Goods and other Services	133.6	139.3	132.5	136.0	136.9	141.1	143.0	1.4	8.0	4.3

Source: Central Department of Statistics and Information

\* It is worth mentioning that the average here is for the fourth quarter of 2009 against that for the fourth quarter of 2008, and it differs from the average inflation rate (moving average) indicated in section 2 of this report.



### 3-2 Wholesale Price Index

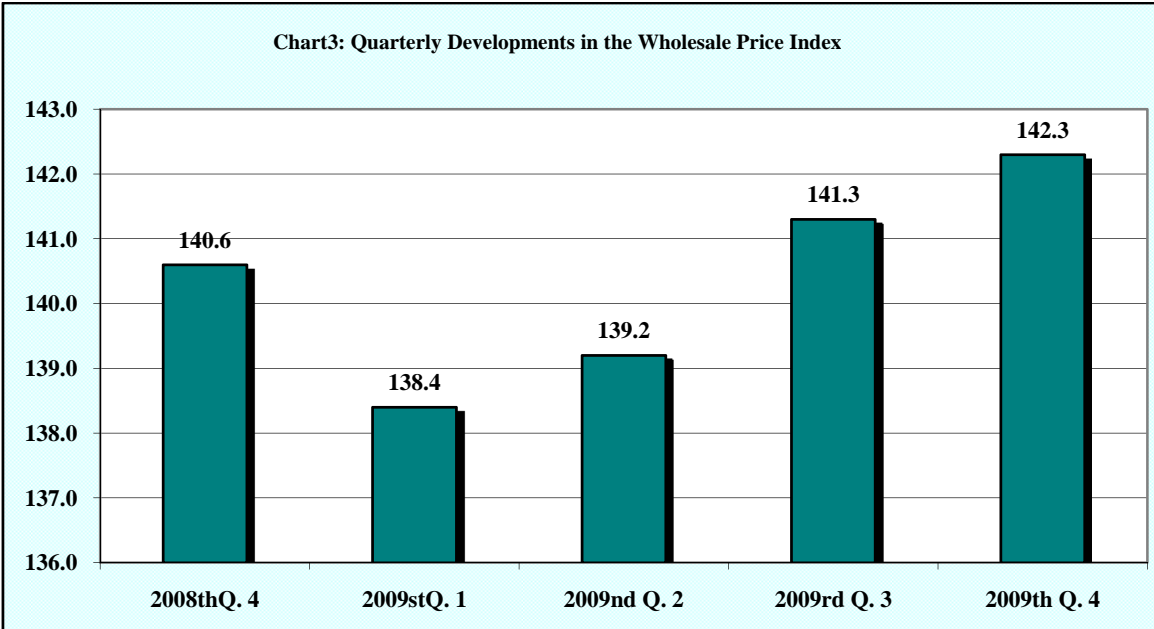
The index measures wholesale prices. It represents a basket containing 160 items sold on primary markets in the Kingdom. Table (4) shows quarterly and annual wholesale price indices up to the end of the fourth quarter of 2009. The table indicates that the wholesale price index during 2009 was 140.3 against 144.7 during 2008, decreasing by 3.0 percent.

**Table 4: Quarterly and Annual Wholesale Price Indices up to the End of the Fourth Quarter of 2009**  
**1988 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 4th quarter 09 against 3rd quarter 09	%change of 4th quarter 09 against corresponding quarter of previous year	Change of Annual Average 2009
	2008	2009	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009			
<b>General Index</b>	144.7	140.3	140.6	138.4	139.2	141.3	142.3	0.7	1.2	-3.0
Food & Live Animals	160.5	162.0	163.7	161.9	160.2	162.8	163.1	0.2	-0.4	0.9
Beverages & Tobacco	131.6	135.3	132.2	132.7	131.9	131.9	144.9	9.9	9.6	2.8
Crude Materials (except fuel)	193.6	181.7	183.1	174.1	183.6	184.0	185.3	0.7	1.2	-6.1
Mineral Fuels & related products	184.8	184.8	184.8	184.8	184.8	184.8	184.8	0.0	0.0	0.0
Vegetable Oils & Fats	133.2	136.3	139.2	137.6	136.1	136.0	135.5	-0.4	-2.7	2.3
Chemicals & Related Products	178.3	141.7	137.0	123.7	139.9	149.1	154.1	3.4	12.5	-20.5
Manufactured Goods classified by substance	142.0	134.3	136.2	134.1	134.1	134.9	134.1	-0.6	-1.5	-5.4
Machinery & Transport Equipment	126.8	126.0	126.2	124.8	125.6	125.9	128.0	1.7	1.4	-0.6
Msc. Manufactured Articles	120.6	123.0	121.2	121.9	120.3	123.6	126.4	2.3	4.3	2.0
Other Commodities	172.6	196.3	164.5	182.2	187.0	196.8	219.4	11.5	33.4	13.7

Source: Central Department of Statistics and Information.

The general wholesale price index recorded a rise of 0.7 percent during the fourth quarter of 2009 compared to the third quarter of the same year basically due to a rise in the group of other commodities by 11.5 percent, the group of beverages and tobacco by 9.9 percent, the group of chemicals and related products by 3.4 percent, the group of miscellaneous manufactured articles by 2.3 percent, the group of machinery and transport equipment by 1.7 percent, the group of crude materials (except fuel) by 0.7 percent, and the group of food and live animals by 0.2 percent. However the group of mineral fuels & related products recorded no change. But the group of vegetable and animal oils & fats declined by 0.4 percent, and the group of manufactured goods classified by substance declined by 0.6 percent.



**3-3 GDP Deflator**

This deflator measures the prices of commodities, which are produced domestically, through the deflator of oil sector, non-oil sector and GDP. The non-oil deflator reflects domestic inflation by excluding change in crude oil prices. Table (5) and Chart (4) show the deflator and the growth rate of the annual GDP from 2005 to 2009, in addition to the rate of change in the general cost of living index. The non-oil deflator registered an increase of 2.4 percent in 2009 which is the same as the increase during 2008.

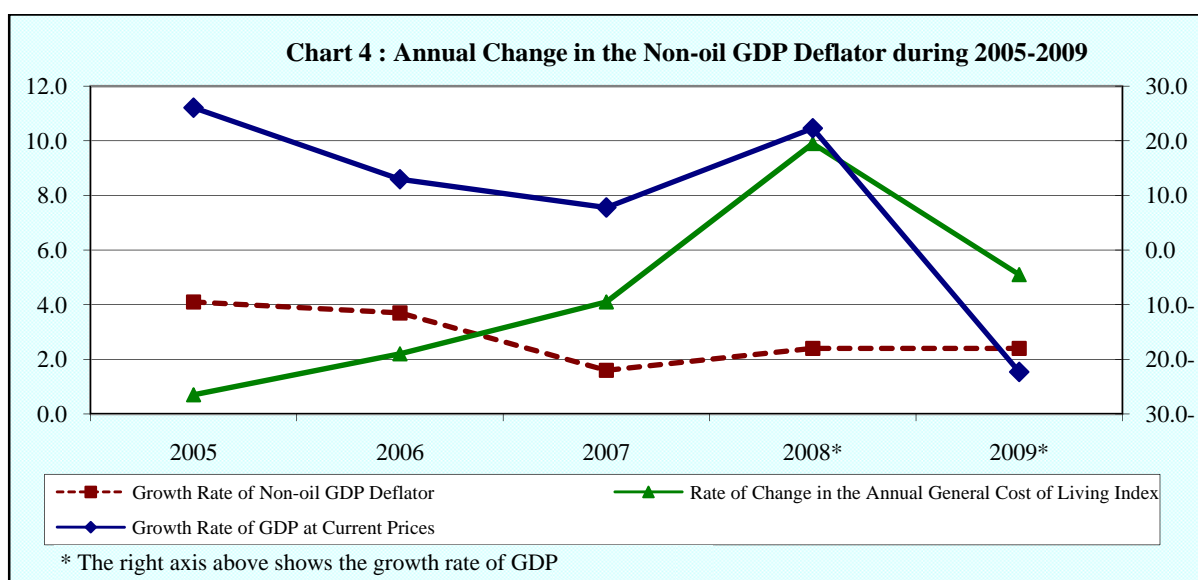


**Table 5: Nominal GDP growth and Annual Rate of Change in the Deflator**

Years	Growth Rate of GDP at Current Prices	Growth Rate of Non-oil GDP Deflator (1999 = 100)	Rate of Change in the Annual General Cost of Living Index
2005	26.1	4.1	0.7
2006	13.0	3.7	2.2
2007	7.8	1.6	4.1
2008*	22.3	2.4	9.9
2009*	-22.3	2.4	5.1

\*Data of GDP 2008&2009 Provisional.

Source: Central Department of Statistics and Inflation.



#### 4- Geographical Distribution of Inflation Rate in the Kingdom

The general cost of living index (for all cities) registered a rise of 1.5 percent to 124.7 in the fourth quarter of 2009 compared to the third quarter. Four cities (Riyadh, Jeddah, Buraydah, and Al-Dammam) recorded higher quarterly rates than the rate of change in the general cost of living index. Notably, Riyadh recorded the highest quarterly rate of change. Four cities (Al-Madinah, Ha'il, Al-Bahah, Sakaka) recorded rates equal to that of the general index. The remaining cities recorded lower rates than the

rate of change in the general cost of living index. However, two cities (Ta'if and Al-Hufuf ) recorded negative growth rates (Table 6 and Chart 6).

The general cost of living index (all cities) registered an annual rise of 3.8 percent in the fourth quarter of 2009 compared to the fourth quarter of the preceding year. The largest three cities in the Kingdom (Jeddah, Al-Dammam, and Riyadh) recorded annual rises higher than the rate of change in the general index. The rest of the cities, however, recorded a rise in inflation rates but lower than the rate of change in the general index. It is to be noted that two cities (Al-Hufuf and Tabuk) recorded negative growth rates (Table 6 and Chart 6).

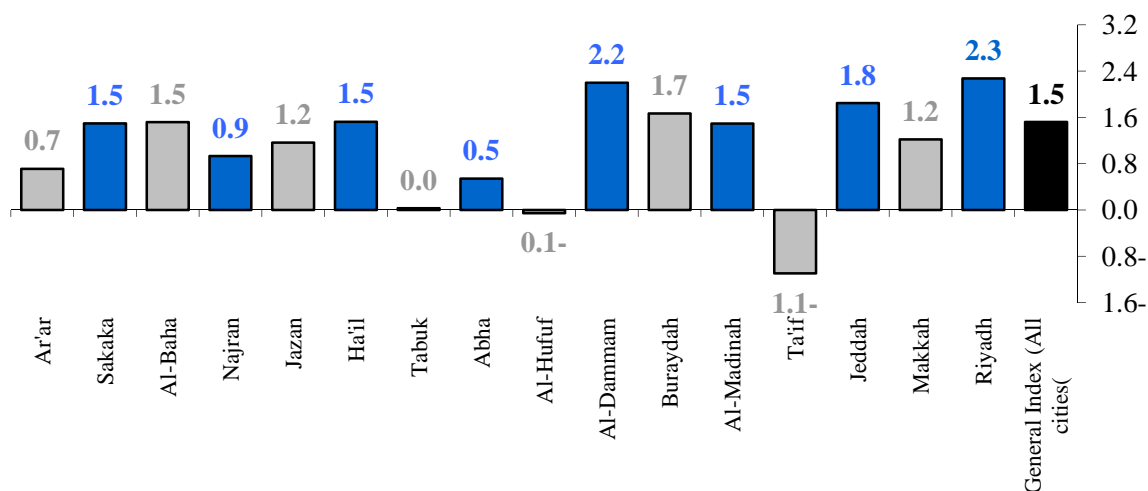
**Table 6: Cost of Living Indices by Cities**

	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	Quarterly Change (%)	Annual Change*
<b>General Index (All cities)</b>	<b>120.0</b>	<b>120.7</b>	<b>121.3</b>	<b>122.8</b>	<b>124.7</b>	<b>1.5</b>	<b>3.8</b>
Riyadh	122.6	123.5	124.1	126.1	129.0	2.3	5.2
Makkah	116.4	116.0	116.1	117.6	119.0	1.2	2.3
Jeddah	118.5	119.5	121.2	122.7	125.0	1.8	5.5
Ta'if	124.2	124.1	124.0	127.9	126.5	-1.1	1.8
Al-Madinah	113.2	112.8	113.9	113.8	115.5	1.5	2.0
Buraydah	123.0	121.6	121.3	123.9	126.0	1.7	2.4
Al-Dammam	123.6	125.3	126.0	127.4	130.2	2.2	5.4
Al-Hufuf	121.4	122.0	121.8	121.2	121.2	-0.1	-0.2
Abha	115.7	116.0	115.7	117.0	117.6	0.5	1.6
Tabuk	117.8	117.9	117.3	117.4	117.5	0.0	-0.3
Ha'il	123.5	123.7	123.8	124.7	126.6	1.5	2.5
Jazan	119.0	119.5	119.8	120.3	121.7	1.2	2.3
Najran	121.2	120.8	121.3	121.8	122.9	0.9	1.4
Al-Baha	120.7	120.5	120.1	120.7	122.6	1.5	1.6
Sakaka	109.5	110.6	111.2	111.4	113.1	1.5	3.3
Ar'ar	108.3	108.9	108.2	107.8	108.5	0.7	0.2

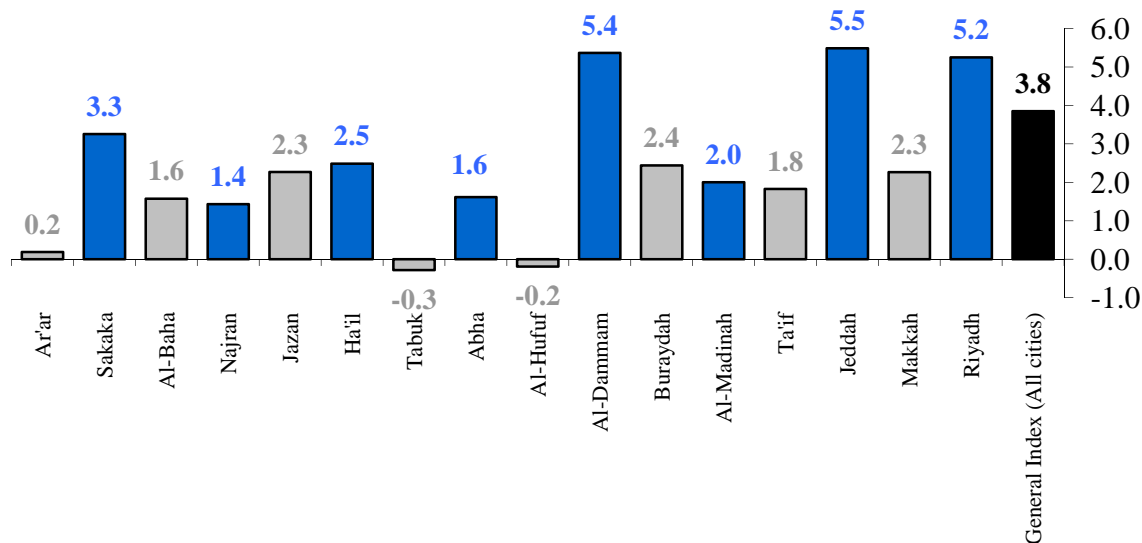
\* Comparison between 4th quarter of 2009 and 4th quarter of 2008.

Source: Central Department of Statistics and Information.

**Chart 5: Change in the General Index in the 4th Quarter of 2009 Compared to the 3rd Quarter of 2009**



**Chart 6: Change in the General Index in the 4th Quarter of 2009 Compared to the 4th Quarter of 2008**



## 5- Inflation and Foreign Trade with Major Trading Partners of the Kingdom

The Saudi economy is an open-market based economy which is reflected by data of foreign trade with trading partners of the Kingdom. Therefore, the change in the prices of imported goods is an important factor affecting the level of domestic inflation. High degree of economic openness of a country causes the domestic inflation

rate to be affected by change in the prices of goods in the country of origin. Table (7) shows the values of the Kingdom's imports from major trading partners during 2008.

The United States is the largest trading partner of the Kingdom though there was a decline in the relative share of imports from USA during 2008 to 13.7 percent from 19.3 percent in 2000. Imports from the USA amounted to Rls 59.1 billion during 2008 against Rls 21.8 billion in 2000, rising by 171.1 percent. Figures indicate that the rate of inflation in the USA increased to 3.8 percent during 2008 compared to 3.4 percent in 2000.

The Kingdom's imports from some Euro zone countries went up from Germany by 249.7 percent to Rls 32.0 billion compared to 2000, from Italy by 268.0 percent to Rls 17.3 billion, from France by 226.1 percent to Rls 15.2 billion, and from other countries, except the ones in the table, by 345.2 percent to Rls 138.6 billion.

Table 7 shows an increase in the inflation rate in the People's Republic of China from 0.4 percent in 2000 to 5.9 percent in 2008, and a rise in the relative share of its exports to the Kingdom from 4.0 percent in 2000 to 11.0 percent, and amounted to Rls 47.5 billion in 2008. It is also noticed that India's relative share of exports to the Kingdom rose from 2.8 percent in 2000 to 4.2 percent or Rls 18.0 billion in 2008. The inflation rate in India rose from 4.0 percent in 2000 to 8.3 percent in 2008. Table 7 indicates that with the increase in the volume of imports to the Kingdom over the years under study, the percentage share of imports from emerging economies, such as China, South Korea, India and others increased as well; these countries were characterized by higher inflationary pressures, especially during the last three years. Projections of the IMF (World Economic Outlook, October 2009) indicate higher inflation rates in the Kingdom's trading partners during 2008 compared to 2007, which were reflected on the price level of commodity imports to the Kingdom in the preceding year.

**Table 7: Sources of the Kingdom's Imports and Inflation Rates**

Country	Imports (Million Riyals)		(% Share of Imports)		Inflation Rate (%)	
	2000	2008	2000	2008	2000	2008
United States	21802	59107	19.3	13.7	3.4	3.8
Japan	11837	35251	10.5	8.2	-0.8	1.4
Republic of China	4485	47541	4.0	11.0	0.4	5.9
United Kingdom	7308	15225	6.5	3.5	0.9	3.6
South Korea	3846	19218	3.4	4.5	2.3	4.7
India	3132	18012	2.8	4.2	4.0	8.3
Australia	2907	9274	2.6	2.1	4.5	4.4
<b>Euro Zone Countries</b>	26787	89497	23.7	20.7	2.2	3.3
of which :						
Germany	9164	32047	8.1	7.4	1.4	2.8
Italy	4698	17288	4.1	4.0	2.6	3.5
France	4675	15244	4.1	3.5	1.8	3.2
Other countries	31136	138628	27.5	32.1		
Total	113240	431753				

Source: Central Department of Statistics and Information, World Economic Outlook Database, Oct 2009 - IMF.

## 6- Indicators of the General Trend and Fluctuation in Inflation Rates

Since stability of the general price level is very important in decision-making at the micro level (individuals and businesses) and in making decisions related to public policies at the macro level, it is imperative, therefore, to measure the overall trend of volatility in prices and observe the volatility range particularly at the medium and long terms. This section of the report highlights the general trend and degrees of volatility in the inflation rates in the Kingdom (according to the general cost of living index).

Tables (8 and 9) provide descriptive statistics on monthly inflation rates for the year ended in December 2009 and for the last five years (January 2004 to December 2008), as well as statistics for quarterly inflation rates during the period from the fourth quarter of 2004 to the fourth quarter of 2009. The average quarterly inflation rate amounted to 4.1 percent for the general index with a standard deviation of 3.4 and range (the difference between the maximum and the minimum values) was 10.8. As shown in Table (8), the arithmetic average of inflation rate increased (from 3.4 to 5.1 percent) during the twelve-month period ended in December 2009, compared to the previous five years. This was due to an increased arithmetic average of inflation rate in

five groups, particularly the group of renovation, rent, fuel, and water, and the group of home furnishing. However, the arithmetic average of inflation rate went down in three groups, namely, food and beverages, medical care, and other goods.

Most of the volatility in the quarterly inflation rates during the period from the fourth quarter of 2004 to the fourth quarter of 2009 was accounted for by the group of renovation, rent, fuel and water (average = 7.3 with a standard deviation = 7.4 and range = 20.2), the group of food and beverages (average = 6.2 with a standard deviation = 4.5 and range = 15.6), the group of goods and other services (average = 5.8 with a standard deviation = 3.6 and range = 12.3), and the group of medical care (average = 2.2 with a standard deviation = 2.5 and range = 7.8) .

Charts (7 and 8) show inflation performance (quarterly in the first and monthly in the second) and its general trend measured by the moving average of inflation rate (each four quarters for the quarterly, and each 12 months for the monthly), which has recently indicated a continued downward trend in inflationary pressures.

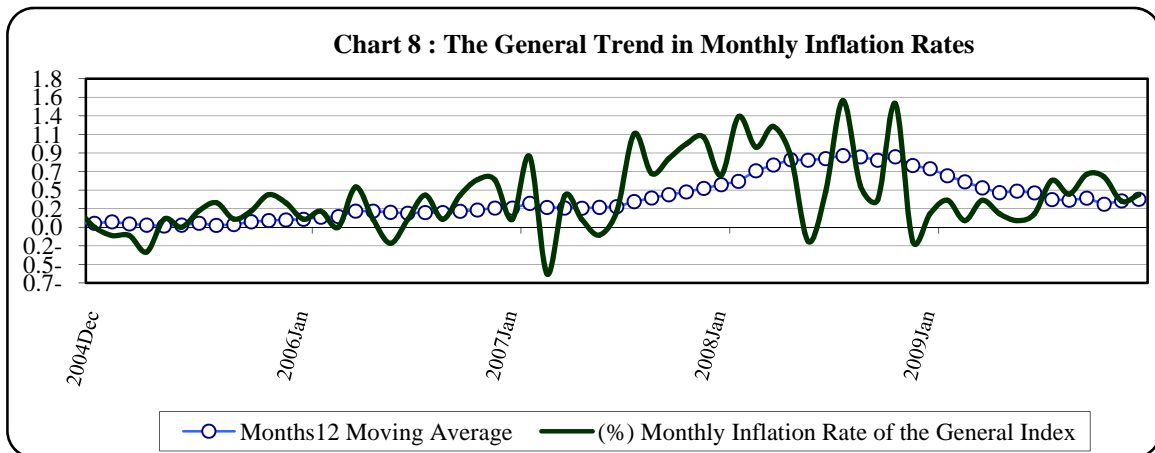
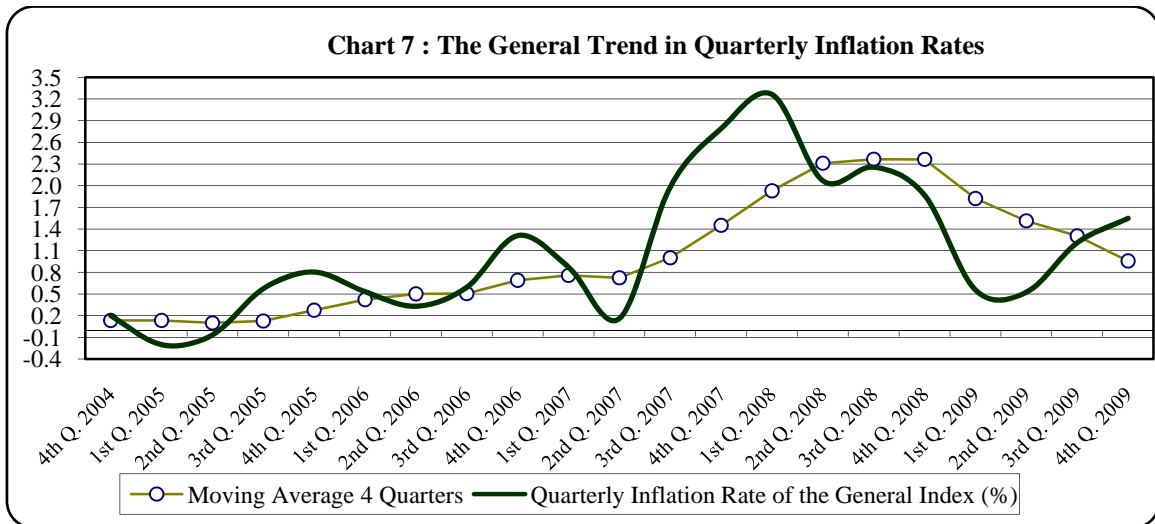
**Table 8: Descriptive Statistics for Monthly Inflation Rates**

(% ) Monthly Inflation Rates per Group*									
	General Index	Food and Beverages	Fabrics, Apparel and Shoes	Renovation Rent, Fuel and Water	House Furnishing	Medical Care	Transport and Telecommunication	Education and Entertainment	Goods and other Services
<b>Jan 2004 - Dec 2008</b>									
Average	3.4	6.4	-1.3	5.3	1.6	2.2	-1.4	0.5	5.4
Median	2.3	5.0	-1.6	1.2	0.7	1.3	-0.7	0.2	4.0
Standard Deviation	3.6	4.4	1.3	7.1	3.7	2.6	2.2	1.0	4.2
Maximum Amount	11.1	16.0	1.8	19.8	14.7	7.7	1.6	3.2	14.7
Minimum Amount	0.0	2.1	-3.5	-1.4	-2.0	-0.2	-5.4	-1.0	-0.2
Range	11.1	13.9	5.3	21.2	16.7	7.9	7.0	4.2	14.9
<b>Jan 2009- Dec 2009</b>									
Average	5.1	2.0	0.5	14.3	8.6	0.7	1.0	1.3	4.3
Median	4.8	1.3	0.6	14.2	9.8	0.6	1.2	1.4	3.9
Standard Deviation	1.3	2.3	0.7	2.1	3.8	0.5	1.1	0.4	2.9
Maximum Amount	7.9	8.0	1.5	17.1	12.8	1.3	2.5	1.8	9.5
Minimum Amount	3.5	-0.3	-0.5	11.8	2.6	0.2	-1.1	0.8	1.2
Range	4.4	8.3	2.0	5.3	10.2	1.1	3.6	1.0	8.3

\* A month against a corresponding month in the preceding year.

**Table 9: Descriptive Statistics for Quarterly Inflation Rates:  
Fourth Quarter 2004 - Fourth Quarter 2009**

	(%) Quarterly Inflation Rates per Group								
	General Index	Food and Beverages	Fabrics, Apparel and Shoes	Renovation Rent, Fuel and Water	House Furnishing	Medical Care	Transport and Telecommunication	Education and Entertainment	Goods and other Services
<b>4th Quarter 2004-4th Quarter 2009</b>									
Average	4.1	6.2	-0.9	7.3	3.0	2.2	-1.1	0.7	5.8
Median	3.0	5.2	-1.0	5.2	1.1	1.3	-0.7	0.4	4.9
Standard Deviation	3.4	4.5	1.3	7.4	4.4	2.5	2.1	0.9	3.6
Maximum Amount	10.8	15.8	1.6	18.9	14.4	7.6	2.2	3.1	12.9
Minimum Amount	0.4	0.2	-3.1	-1.3	-1.7	-0.2	-5.3	-0.6	0.6
Range	10.4	15.6	4.7	20.2	16.1	7.8	7.5	3.7	12.3



## 7. Factors Affecting Inflation Rate

Many factors play a role in affecting inflation rate, and the influence of these factors differs according to the nature of the domestic economy. Table 10 shows the relative changes of the most significant domestic factors affecting the inflation rate in the Kingdom. These factors are concentrated in the demand side, resulting from an increase in the government and private expenditure, and its effect on the level of liquidity. Broad money supply (M3) increased by 10.7 percent in 2009, less than the growth rate of 17.6 percent in 2008. In the fourth quarter of 2009, it rose by 2.9 percent compared to the third quarter of 2009, recording an annual rise of 10.7 percent in the year ended in the fourth quarter of 2009 compared to an annual rise of 12.5 percent in the third quarter of 2009.

As for the activity of the private and public sectors, the private sector's GDP at current prices recorded a growth rate of 2.9 percent in 2009 while the growth rate of the public sector's GDP was 10.2 percent during the same year.

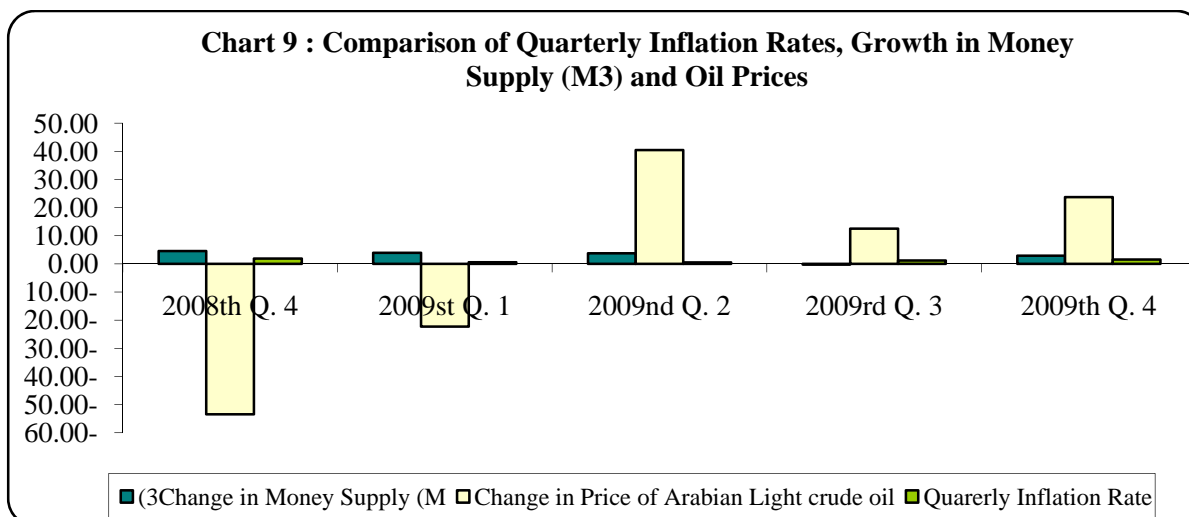
**Table 10 : Most Significant Factors Affecting the Inflation Rate in the Kingdom**

	2004	2005	2006	2007	2008	2009	% Change of 3rd quarter 09 against 2nd quarter 09	%change of 3rd quarter 09 against corresponding quarter of previous year
<b>Money Supply (M3)</b>	18.8	11.6	19.3	19.6	17.6	10.7	2.9	10.7
<b>Government Expenditure</b>	11.0	21.5	13.5	18.5	11.5	5.8	-	-
<b>GDP Growth Rate:</b>	16.7	26.1	13.0	7.8	22.3	-22.3	-	-
<b>- Private Sector</b>	7.5	7.8	7.9	8.3	8.7	2.9	-	-
<b>- Government Sector</b>	10.4	12.5	10.7	3.1	3.6	10.2	-	-

Source: SAMA, Ministry of Finance and Central Department of Statistics and Information

Chart 9 indicates the relationship between quarterly inflation rates, growth in money supply and change in oil prices





## 8. Inflation Projections for the First Quarter of 2010

The quarterly inflation rate in the Saudi economy continued its upward trend over the last two quarters of 2009. The quarterly inflation rate went up from 0.5 percent in the second quarter of 2009 to 1.2 percent in the third quarter of 2009, and then to 1.5 percent in the fourth quarter of 2009. This rise may be attributed to seasonal factors; especially in the group of food and beverages and the group of other goods, as the third quarter of 2009 coincided with the summer vacation, the Holy month of Ramadan and Eid al-Fitr period, as well as particular domestic factors mainly in the group of renovation, rent and fuel (housing and related items). Besides, data show an improvement in global economic conditions. The fourth quarter coincided with Al-Haj season and Eid al-Adha. The annual inflation rate went down from 9.9 percent in 2008 to 5.1 percent in 2009.

Projections indicate that inflationary pressures will continue in the Kingdom during the first quarter of 2010, but at a lower level than that of the fourth quarter of 2009. Most of inflationary pressures in the Kingdom come from the group of renovation, rent and fuel (housing and related items) which went up during the preceding four quarters (first quarter of 2009 up to the fourth quarter of 2009) by an average of 2.8 percent. As for the group of food and beverages, it is expected to stabilize domestically during the first quarter of 2010, except for sugar which has been

increasing since 2007 according to the International Monetary Fund (Data of January 2009), recording the highest rise in 2009 by more than 30 percent.

IMF data of January 2009 denote that the global economy has begun to exit from the economic recession but the recovery is expected to be sluggish. This enhances the projections that economic growth rates in most countries will remain relatively low. Advanced economies are projected to grow by 3.9 percent in 2010 compared to a downturn of 0.8 percent in 2009, while emerging and developing economies are expected to grow by 6.0 percent in 2010, compared to 3.1 percent in 2009. Projections indicate an increase in inflation rates in advanced, and emerging and developing economies by 1.3 and 6.3 percent respectively in 2010.

## **9- Conclusion**

This report has reviewed the historical and current performance of inflation rates in the Kingdom up to the end of the fourth quarter of 2009 based on the data issued by the Central Department of Statistics and Information on retail consumer prices (the General Cost of Living Index), wholesale prices (wholesale price index), as well as at the economy level as a whole (non-oil GDP deflator) and the most important factors affecting inflation rate. Data show that the general trend indicates a possibility for some inflationary pressures to continue to increase but slightly during the first quarter of 2010 according to current indexes and future forecasts at both the domestic and international levels.