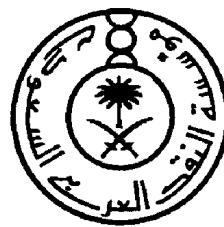




Inflation Report

4th Quarter, 2015



**Monetary Policy and Financial Stability Department
Saudi Arabian Monetary Agency**



Cost of Living Index

The cost of living index was generally stable during the first three quarters of 2015. In December 2015, it registered a y/y increase of 2.3% as compared to a monthly rise of 0.1%. It also recorded a y/y rise of 2.3% in Q4 of 2015, against a quarterly rise of 0.7% (Table 1 and Chart 1).

Developments in Q4 2015

The general cost of living index rose by 0.7% against the preceding quarter and by 2.3% y/y in Q4.

Education group registered the highest q/q inflation rate in Q4, recording a quarterly inflation rate of 5.4%. Clothing and footwear group came second with 1.6%; food and beverages and recreation and culture groups ranked third

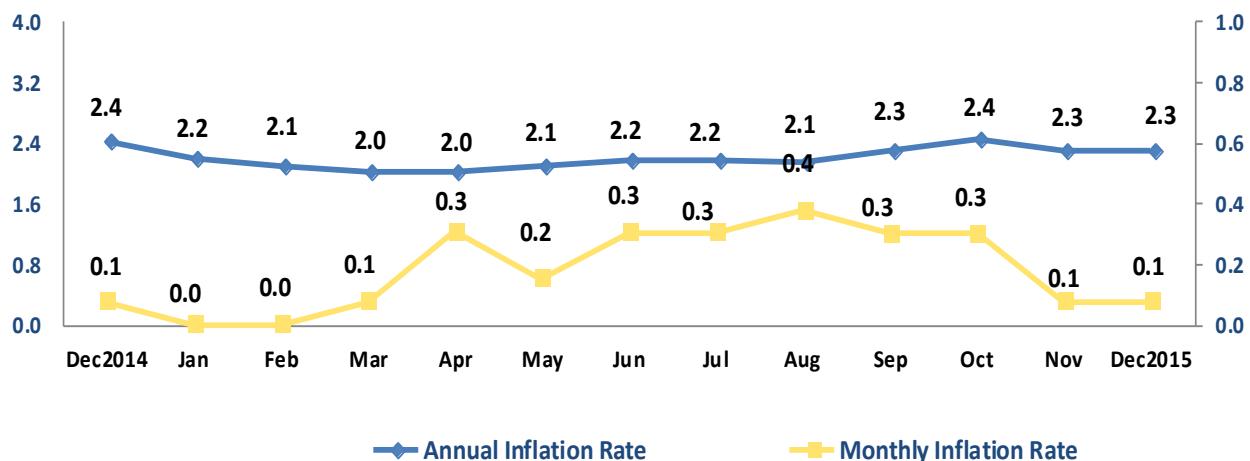
with 0.9% each; miscellaneous goods and services with 0.8%; health group with 0.7%; housing, water, electricity, gas and other fuels group and household furnishing, equipment and maintenance group with 0.4% each; transportation with 0.3%; and communication group with 0.1%. (Table 1 and Chart 2).

In contrary, restaurants and hotels group dropped by 0.3% during this quarter as compared to the preceding quarter. (Table 1 and Chart 2), while the tobacco group remained unchanged in Q4.

Influence of Major Groups on the General Cost of Living Index

The general cost of living index is relatively affected by the changes taking place in its various groups. Classified by their influence rates on the cost of living index,

Chart 1: Inflation Rate of the General Cost of Living Index
(2007=100)



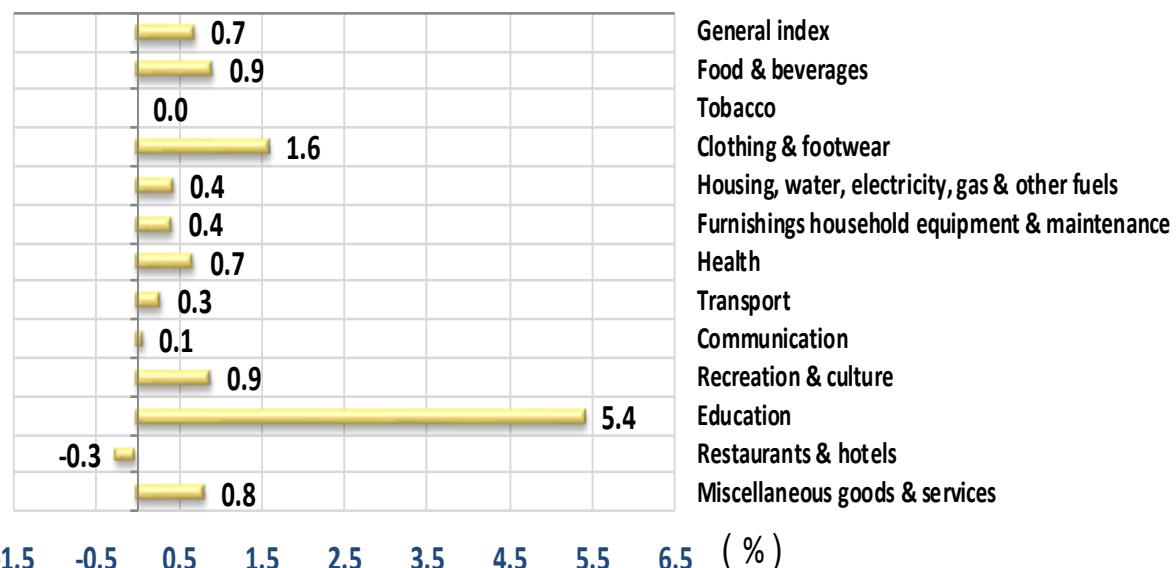
Source: Central Department of Statistics and Information.



	Weights	(% change)						
		Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q3 2015/ Q2 2015	Q3 2015/ Q3 2014
General index	100.0	131.3	131.5	132.3	133.5	134.4	0.7	2.3
Food & beverages	21.7	147.8	146.2	146.1	148.1	149.5	0.9	1.1
Tobacco	0.5	163.5	164.8	165.8	165.8	165.8	0.0	1.4
Clothing & footwear	8.4	106.4	107.3	108.6	110.1	111.9	1.6	5.1
Housing, water, electricity, gas & other fuels	20.5	159.7	161.7	164.3	165.8	166.5	0.4	4.3
Furnishings, household equipment & maintenance	9.1	130.2	130.7	131.2	132.2	132.7	0.4	2.0
Health	2.6	113.9	114.5	115.3	116.0	116.8	0.7	2.5
Transport	10.4	110.9	110.3	110.9	112.8	113.1	0.3	2.0
Communication	8.1	93.7	93.9	94.4	94.7	94.8	0.1	1.2
Recreation & culture	3.5	118.3	119.3	118.8	119.4	120.5	0.9	1.9
Education	2.7	116.3	116.3	116.3	116.3	122.6	5.4	5.4
Restaurants & hotels	5.7	129.5	129.6	128.5	127.3	126.9	-0.3	-2.0
Miscellaneous goods & services	6.8	120.8	120.4	120.7	121.4	122.4	0.8	1.4

Source: Central Department of Statistics and Information.

**Chart 2: Inflation Rate of the Cost of Living Index by Main Groups
(Q4 2015/Q3 2015)***



* Latest Available Data

Source: Central Department of Statistics and Information.



food and beverages group ranked first with 26.1% in Q4 against 55.3% influence rate during the corresponding quarter of the previous year. Education group ranked second with 19.1% in Q4 compared to 1.9% during the corresponding quarter of the previous year. Clothing and footwear group came next with an influence rate of 17.6% compared to 8.2% during the corresponding quarter of the previous year, housing, water, electricity, gas and other fuels with an influence rate of 11.8% compared to 0.6% during the corresponding quarter of the previous year, and finally miscellaneous goods and services group with an influence rate of 7.3% compared to 5.1% during the corresponding quarter of the previous year.

The total influence rate of the three

major groups (housing, water, electricity, gas and other fuels; food and beverages; and transportation groups) stood at 41.9% in Q4 2015 against 57.6% during the corresponding quarter of the previous year (Charts 4 and 5).

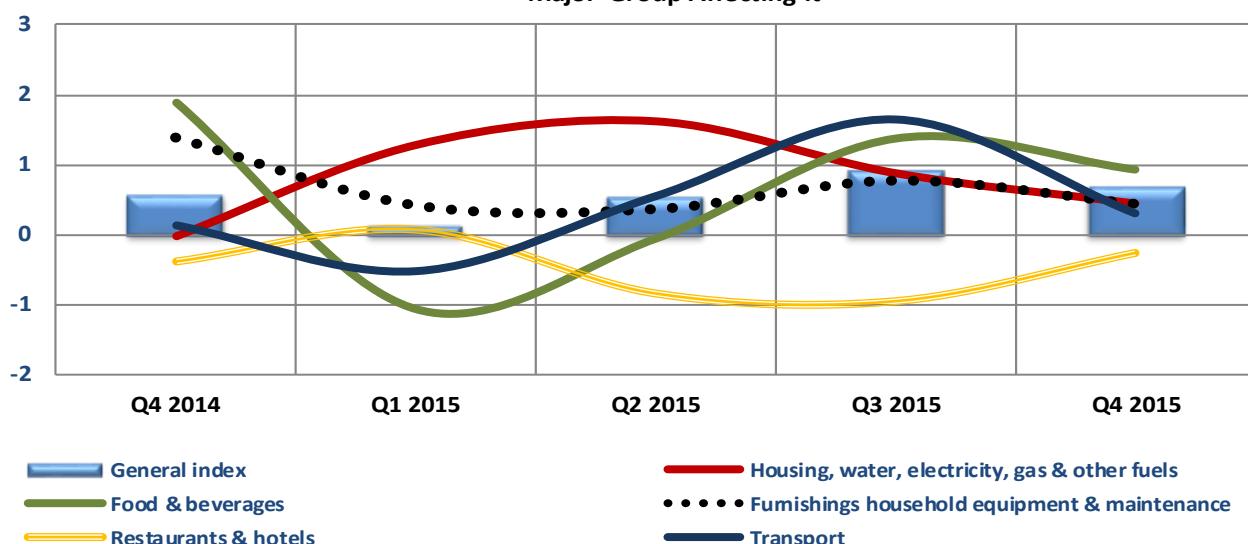
Wholesale Price Indices

The wholesale price index registered a q/q rise of 0.2% and a y/y decline of 1.4% in Q4 2015. It had recorded a q/q increase of 0.3% in Q3 2015 (Chart 6).

Wholesale Price Indices by Groups

The subgroup of oils and fats registered the highest y/y increase in Q4 2015. This group denoted a y/y inflation rate of 4.4% due to a rise in the subgroup of oils and fats by 4.4% during the same period. The group of beverages and

Chart 3: Quarterly Inflation Rate of the General Cost of Living Index and the Most Major Group Affecting it



Source: Central Department of Statistics and Information.



Chart 4: Percentage Impact Of Major Groups On The General Inflation Rate (Q4 2014)

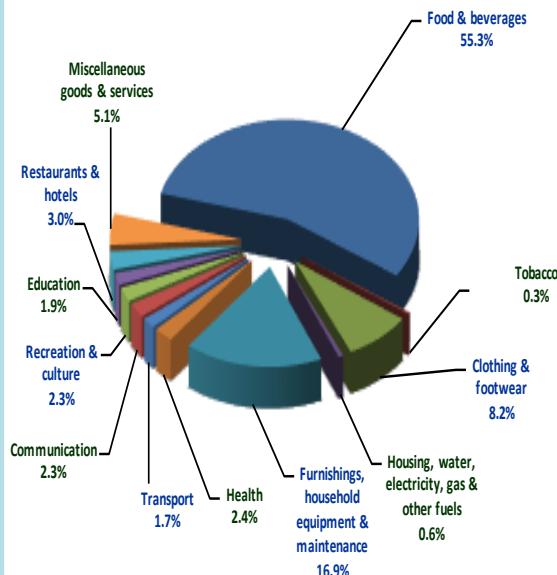
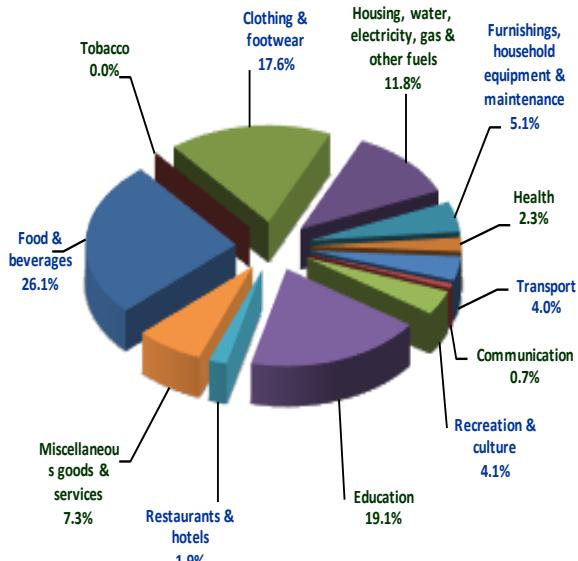


Chart 5: Percentage Impact Of Major Groups On The General Inflation Rate (Q4 2015)



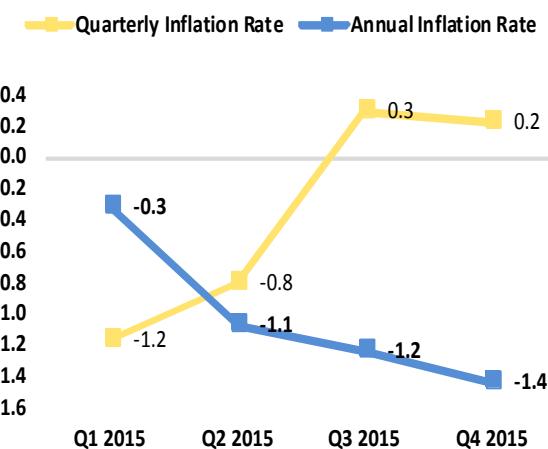
tobacco recorded the second y/y highest inflation rate of 2.7% in Q4, mainly attributed to the increase in the subgroup (tobacco). The group of food and live animals came third with a y/y inflation rate of 2.2% in Q4, owing to a 10.7% increase in the subgroup of fish and crustaceans (Table 2 and Chart 7).

In contrast, the group of other commodities posted the highest y/y deflation rate in Q4 2015, dropping by 10.5%. The group of chemicals and other related materials ranked second with a deflation rate of 6.3%, followed by the group of manufactured goods classified by materials with a deflation rate of 4.7% (Table 2 and Chart 7).

Cost of Living Index by Cities during Q4 2015

All Cities Cost of Living Index increased by 0.7% q/q in Q4 2015. Ara'ar posted the highest rise of 2.4%. Jeddah came next with 1.9%, Skaka 1.5%, Taif

Chart 6: Inflation of the Wholesale Price Index (1988=100)



Source: Central Department of Statistics and Information.



1.3%, Riyadh and Najran 1.0% each, Bahah 0.6%, Makkah 0.5%, Buraidah 0.3%, Abha, Al-Hufuf and Jazan 0.2% each, and Ha'il and Tabuk with the lowest increase of 0.1% (Table 3).

In contrast, the cost of living index for Al-Madinah registered the only q/q deflation rate of 0.5% in Q4 2015. (Table 3).

GDP Deflator

According to the latest data issued by the Central Department of Statistics and Information, the non-oil GDP deflator decreased by 2.0% quarter-on-quarter in Q3 2015. It also dropped by 0.3% as

compared to the preceding year (Table 4 and Chart 8).

The GDP deflator measures inflation rate at the macroeconomic level, which is different from the cost of living index that only targets final consumption. The GDP deflator, however, targets all consumption, investment and government sectors based on their respective contributions to the GDP. Therefore, the deflator is considered as an indirect measure of the change in the general level of prices. The non-oil GDP deflator is usually used to exclude the impact of change in oil prices on the domestic economy.

The non-oil GDP deflator registered

TABLE 2: WHOLESALE PRICE INDEX (WPI)
(1988=100)

	Weights	Q4 2014	Q1 2015	Q2 2015	Q3 2015	q4 2015	(% change	
							Q4 2015/ Q3 2015	Q4 2015/ Q4 2014
General Index	100.0	160.0	158.1	156.9	157.3	157.7	0.2	-1.4
Food & Live Animals	31.9	190.7	187.5	188.2	190.6	194.9	2.3	2.2
Beverages & Tobacco	1.2	177.0	178.6	178.8	179.3	181.7	1.4	2.7
Crude Materials	0.3	203.2	204.0	203.5	204.2	206.1	0.9	1.4
Minerals & Fuels	10.1	186.3	186.3	186.3	186.2	186.2	0.0	-0.1
Oils & Fats	0.4	148.5	150.2	152.0	152.7	155.0	1.5	4.4
Chemicals	9.8	214.3	206.9	191.2	201.3	200.9	-0.2	-6.3
Manufactured Goods	26.2	142.9	141.8	141.2	139.0	136.1	-2.0	-4.7
Machinery & Transport	13.4	142.8	141.0	140.3	140.0	139.2	-0.6	-2.5
Misc, Manufactured Articles	6.4	136.4	136.4	136.3	134.1	135.3	0.9	-0.8
Other Commodities	0.3	254.8	242.5	241.7	230.2	228.0	-1.0	-10.5

Source: Central Department of Statistics and Information.

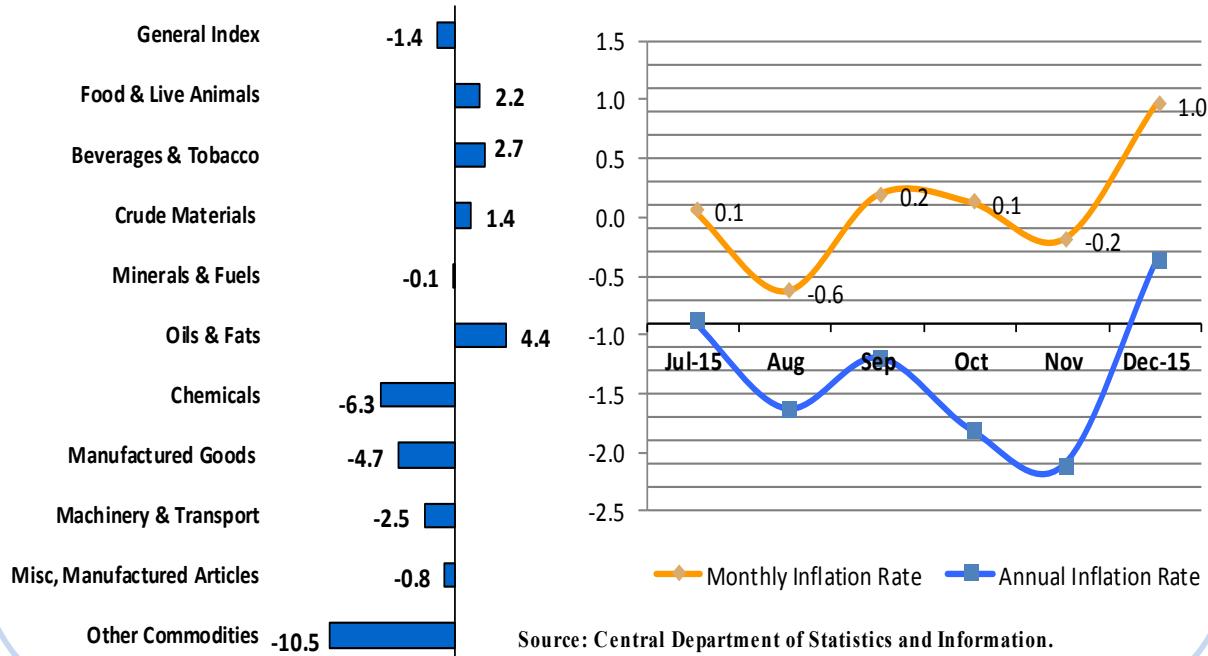


Chart 7: Inflation of the Wholesale Price Index by Main Groups

(1988=100)

% Change (Q4 2015/ Q4 2014)

Annual & Monthly Inflation of the WPI



Source: Central Department of Statistics and Information.

an annual decline of 0.3% in Q3 2015 compared to a rise of 5.4% in Q2 2015 (Table 4 and chart 8).

An analysis of the GDP deflator data (at constant prices for base year 2010) by economic activity shows that the activity of building and construction constituted the highest y/y rise of 4.2% in Q3 of 2015. The activity of import fees ranked second with a rise of 2.8% for the same period. The activity of finance, insurance, real estate and business services came next with an increase of 1.9% as a result of a rise in housing ownership activity by 2.1%. Then, the activity of

transportation, storage and communications ranked fourth, advancing by 1.7% y/y in Q3 2015.

On the other hand, the activity of mining and quarrying recorded the highest y/y deflation (49.3%) in the GDP deflator during the third Quarter of 2015, (Chart 9).

A comparison of annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator declined by 0.3% in Q3 2015. The annual change rate of the wholesale price index went down by 1.2% during the same period, while the annual inflation rate of the cost of living index



Table 3 : AVERAGE COST OF LIVING INDEX BY CITY
(2007=100)

General Index	2014	2015	Q2 2015	Q3 2015	Q4 2015	2015/2014	Q4 2015/ Q3 2015	Inflation Rate
	2014	2015	2015	2015	2015			
All Cities Index	130.1	132.9	132.3	133.5	134.4	2.2	0.7	
Riyadh	135.0	140.1	139.1	140.6	142.0	3.8	1.0	
Makkah	126.9	129.7	129.2	130.3	131.0	2.2	0.5	
Jeddah	129.3	131.7	131.3	131.5	133.9	1.8	1.9	
Al-Dammam	133.7	135.1	134.7	135.3	135.4	1.0	0.0	
Al-Madinah	124.7	126.4	125.8	127.7	127.1	1.4	-0.5	
Ta'if	127.2	127.8	127.0	127.4	129.1	0.5	1.3	
Al-Hufuf	124.6	124.9	124.5	125.5	125.8	0.3	0.2	
Abha	123.2	125.0	125.9	125.1	125.4	1.5	0.2	
Buraydah	123.9	127.7	126.8	128.6	129.0	3.0	0.3	
Tabuk	128.9	120.2	120.1	119.8	119.9	-6.7	0.1	
Ha'il	127.2	128.2	128.7	128.1	128.2	0.8	0.1	
Jazan	142.1	149.9	147.5	152.5	152.8	5.4	0.2	
Najran	128.5	132.0	131.1	133.6	134.9	2.7	1.0	
Al-Bahah	130.5	134.5	130.9	138.7	139.5	3.0	0.6	
Sakaka	127.5	131.7	130.7	132.2	134.2	3.4	1.5	
'Ar'ar	120.1	126.5	125.4	126.5	129.5	5.3	2.4	

Source: Central Department of Statistics and Information, Ministry of Economy and Planning.

registered a rise of 2.2% during the same period (Chart 10).

Foreign Trade with Major Trading Partners

According to the latest available data in Q3 2015, total value of the Kingdom's imports stood at SAR 141.8 billion in Q3, increasing by 6.5% as compared to the preceding quarter. The Kingdom's imports dropped by 7.9% y/y in Q2.

China came at the top of the Kingdom's major trading partners in Q3 2015. The Kingdom's imports from China amounted to SAR 22.5

billion or 15.9% of the Kingdom's total value of imports in Q3, down 5.8% y/y. The United States came second with SAR 20.4 billion or 14.4% of the total value of the Kingdom's imports, decreasing by 5.3% y/y. Germany ranked third with SAR 11.2 billion or 7.9% of the Kingdom's total value of imports, falling 3.1% y/y. South Korea followed with a y/y rise of 20.1% to SAR 8.9 billion or 6.3% of the total value of imports in Q3. Japan came fifth with SAR 8.2 billion or 5.8% of the Kingdom's total imports, down by 13.8% y/y (Table 5).



Q3 2014 Q4 2014 1Q 2015 2Q 2015 3Q 2015*

— — — — —

GDP (Million Rls):

	Q3 2014	Q4 2014	1Q 2015	2Q 2015	3Q 2015*
At Current Prices	720,970	638,747	640,506	628,121	593,629.4
At Constant Prices	603,429	625,490	621,814	622,310.3	625,186.7
GDP Deflator	119.5	102.1	103.0	100.9	95.0
Quarterly Change (%)	-1.7	-14.5	0.9	-2.0	-5.9
Annual Change (%)	0.8	-11.2	-15.2	-17.0	-20.5

Non-oil GDP (Million Rls):

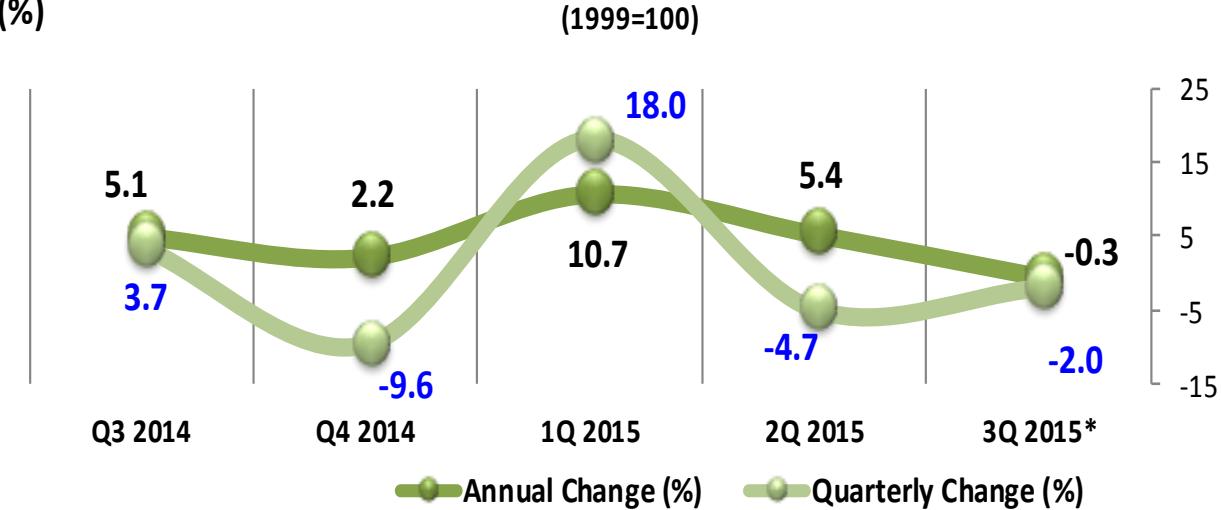
	Q3 2014	Q4 2014	1Q 2015	2Q 2015	3Q 2015*
At Current Prices	409,535	394,846	470,455	429,356	421,552.1
At Constant Prices	335,065	357,180	360,572	345,474.6	346,049.5
Non-oil GDP Deflator	122.2	110.5	130.5	124.3	121.8
Quarterly Change (%)	3.7	-9.6	18.0	-4.7	-2.0
Annual Change (%)	5.1	2.2	10.7	5.4	-0.3

* Latest Available Data

Source: Central Department of Statistics and Information.



Chart 8: Quarterly & Annual Changes of the Non-oil GDP
(1999=100)



* Latest Available Data

Source: Central Department of Statistics and Information.

Inflation Projections for Q1 2016

The projections show increased deflationary pressures due to cutting subsidies on fuel and energy prices despite the decline in commodity prices in the global markets, appreciation of the pegging currency (US dollar) and the marked fall in the domestic liquidity because of low government spending.

In contrast, the IMF projections for commodity prices indicate a contraction in the inflationary pressures on the main groups for 2016. The IMF's projections for 2016 show a deflation in metal prices by 18.5%, energy prices by 16.8%, food and agricultural raw materials prices by

6.9% and 5.1% respectively, followed by beverages prices with the least expected deflation rate of 4.0% in 2016 (Table 6).

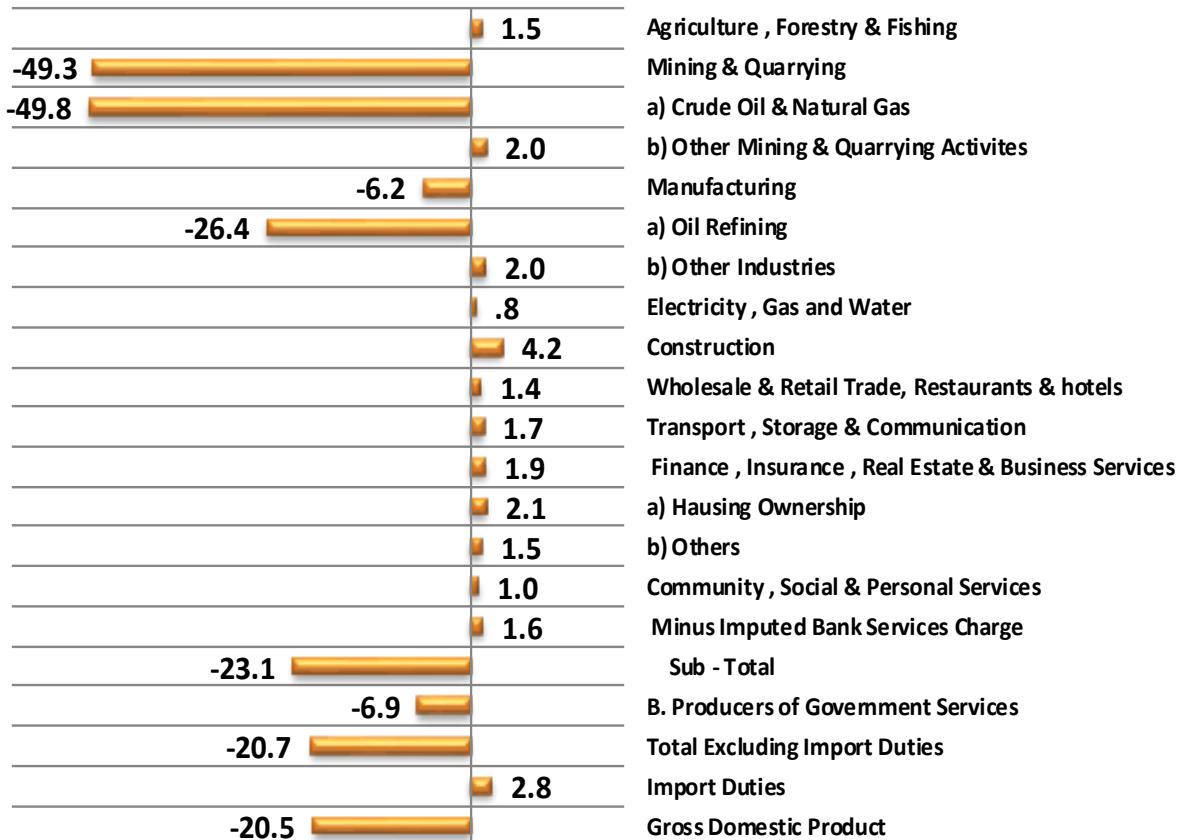
Conclusion

The most significant results of the analysis of the inflation rates in Q4 2015 in the Kingdom can be concluded as follows:

1. The annual cost of living index registered a y/y rise of 2.3% and m/m 0.1% in December 2015. It also registered a y/y increase of 2.3% and a q/q rise of 0.7% in Q4.
2. The group of education registered the highest q/q inflation rates in Q4, going up by 5.4%. In contrast, restaurants and hotels group recorded the highest q/q deflation rate of 0.3%.



Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q3 2015*/Q3 2014 (%) Change



*Latest Available Data

Source: Central Department of Statistics and Information.

- The wholesale price index went up by 0.2% q/q, while it fell 1.4% y/y in Q4 2015.
- The subgroup of oils and fats constituted the highest annual inflation rate of 4.4% in the wholesale price index. In contrast, the group of other commodities posted the highest annual deflation rate of 10.5%.
- According to the latest available data, the non-oil GDP deflator registered a q/q decline of 2.0% in Q3 2015. The

TABLE 5: Top Five Trading Partners by value of Imports (SAR Million)

Countries	Q3 2014	Q3 2015*	Change (%)
China	23924	22538	-5.8
U.S.A	21572	20427	-5.3
Germany	11585	11223	-3.1
South Korea	7401	8888	20.1
Japan	9526	8209	-13.8
Total	74008	71285	-3.7
Ratio to Total	43.8	45.2	3.2

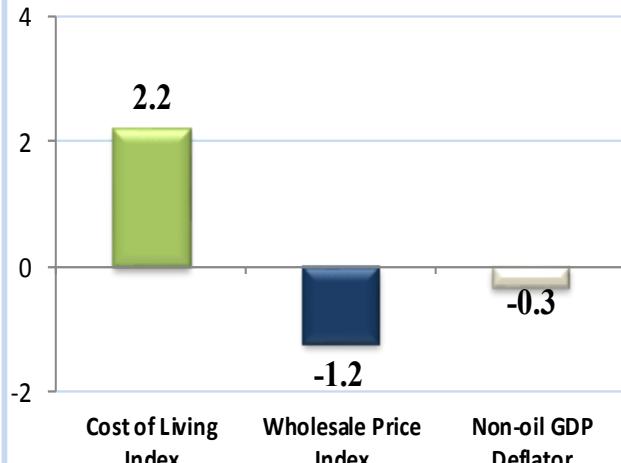
*Latest Available Data.
Source:
Central Department of Statistics and Information.



GDP deflator went up by 0.3% y/y in Q3 2015.

6. According to the latest available data, total value of the Kingdom's imports stood at SAR 141.8 billion in Q3 2015, denoting a q/q decline of 6.5%. The Kingdom's imports also declined by 7.9% y/y in Q3 2015.
7. Projections show increased inflationary pressures in Q1 of 2016 due to cutting subsidies on fuel and energy prices despite the decline in commodity prices in the global markets, appreciation of the pegging currency (US dollar) and the marked fall in the domestic liquidity because of low government spending.

Chart 10: Inflation Measurements in Q3, 2015 (%) Change



Source: Central Department of Statistics and Information.

TABLE 6: IMF Commodity Price Index

(2005=100)

(Percentage changes)

Weights	Actual				Projections			
	2012	2013	2014	2015	2016	2017	2018	
All Primary Commodities	100.0	-3.3	-1.6	-6.2	-35.2	-13.6	6.8	4.2
Food	16.7	-2.4	0.7	-4.1	-16.9	-6.9	-1.3	0.4
Beverages	1.8	-18.6	-11.9	20.7	-3.5	-4.0	1.5	0.1

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Food	16.7	-2.4	0.7	-4.1	-16.9	-6.9	-1.3	0.4
Beverages	1.8	-18.6	-11.9	20.7	-3.5	-4.0	1.5	0.1
Agricultural Raw Materials	7.7	-12.7	1.6	1.9	-13.3	-5.1	3.7	-2.3
Metals	10.7	-16.8	-4.3	-10.3	-23.3	-18.5	0.7	1.1
Energy	63.1	0.7	-1.7	-7.4	-44.7	-16.8	12.4	7.5

Source: IMF



**TABLE 6: IMF Commodity Price Index
(2005=100)
(Percentage changes)**

Weights	Actual				Projections			
	2012	2013	2014	2015	2016	2017	2018	
All Primary Commodities	100.0	-3.3	-1.6	-6.2	-35.2	-13.6	6.8	4.2
Food	16.7	-2.4	0.7	-4.1	-16.9	-6.9	-1.3	0.4
Beverages	1.8	-18.6	-11.9	20.7	-3.5	-4.0	1.5	0.1
Agricultural Raw Materials	7.7	-12.7	1.6	1.9	-13.3	-5.1	3.7	-2.3
Metals	10.7	-16.8	-4.3	-10.3	-23.3	-18.5	0.7	1.1
Energy	63.1	0.7	-1.7	-7.4	-44.7	-16.8	12.4	7.5

Source: IMF