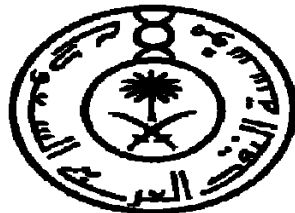


Inflation Report
Third Quarter 2008



Prepared by:
Saudi Arabian Monetary Agency
Research and Statistics Department

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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. Specifically in the last five years, many countries have registered noticeable rates of inflation at an accelerating pace due to a number of factors, including increased economic activity, high prices of primary goods and increased shipping charges worldwide as well as a high level of employment, especially in emerging economies.

In general, the factors causing inflation in an economy vary from factors related to international environment, such as trends of commodity prices, the activity of the global economy and developments of international financial markets, to other domestic factors, such as the aggregate demand and supply in the economy, costs of raw materials and wages as well as other factors associated with money supply in addition to seasonal factors.

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 Five Years

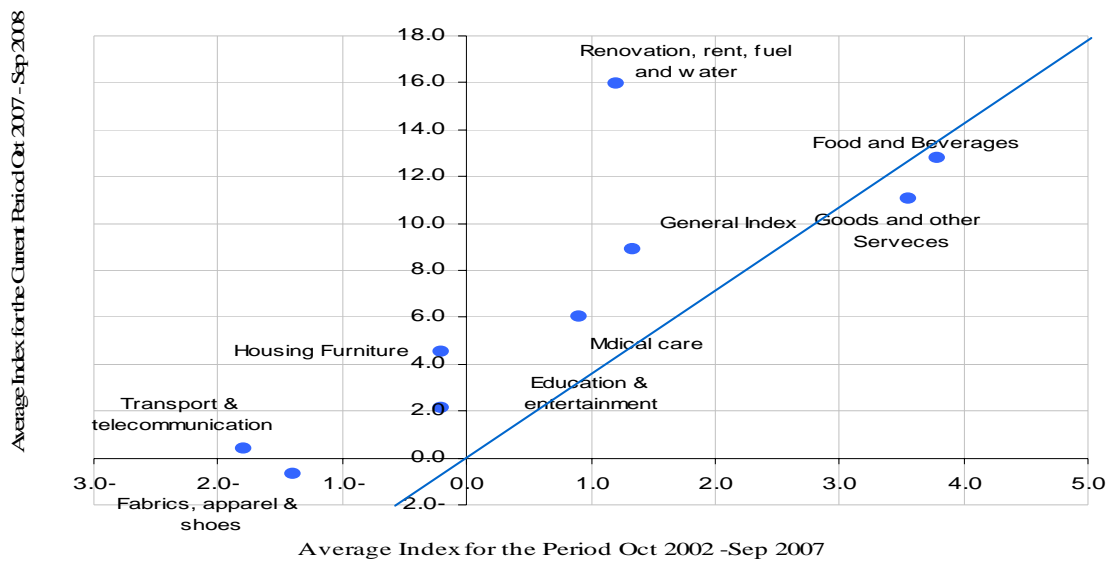
The average inflation rate (moving average) as measured by annual changes in the cost of living indices during the twelve months ended September 2008 rose by 8.9 percent while the average inflation rate during the preceding five years (October 2002–September 2007) was 1.3 percent. During the period from October 2007 to September 2008, inflation rates by groups of goods and services exceeded their levels recorded in the preceding five years. The group of renovation, rent, fuel and water (housing and appurtenances) rose by 16.0 percent, the group of food and beverages 12.8 percent, the group of goods and other services 11.1 percent, the group of medical care 6.0 percent, the group of home furniture 4.5 percent, the group of education and entertainment 2.1 percent and the group of transport and telecommunications 0.4 percent (Table 1 and Chart 1). However, the group of fabrics, apparel and shoes went down by 0.7 percent.

Chart 1 compares the average level of inflation during the twelve months ended September 2008 with its level during the preceding five years. Points on the left of Line 45° (in the positive side of the chart) represent higher average inflation in the year ended September 2008 compared to the average of the preceding five years (the opposite in the negative side).

Table 1 : Change in the General Cost of Living Index and its Major Groups (%)			
	Weights (Relative Importance) (%)	Average Index for the Period Oct 2002 -Sep 2007	Average Index for the Current Period Oct 2007 - Sep 2008
General Index	100	1.3	8.9
Foodstuffs & beverages	26	3.8	12.8
Fabrics, Clothing & footwear	8	-1.4	-0.7
Renovation, rent, fuel & water	18	1.2	16.0
Home furniture	11	-0.2	4.5
Medical care	2	0.9	6.0
Transport & telecommu-nication	16	-1.8	0.4
Education & entertainment	6	-0.2	2.1
Other expenses & services	13	3.6	11.1

Source: Central Department of Statistics and Information.

Chart 1 : Comparison between Inflation Levels during the Twelve Months Ended Sep 2008 and Those During the Preceding Five Years.



As Table 2 shows, the average inflation rate in the Kingdom is still low compared to the average of GCC countries and some other countries.

Table 2: Comparison of Inflation rate in some countries						
(Annual Percent change)						
Country	2003	2004	2005	2006	2007	Average
Bahrain	1.7	2.3	2.6	2.2	3.4	2.4
Brazil	14.8	6.6	6.9	4.2	3.6	7.2
China	1.2	3.9	1.8	1.5	4.8	2.6
Egypt	3.2	8.1	8.8	4.2	11.0	7.1
India	3.8	3.8	4.2	6.2	6.4	4.9
Jordan	1.6	3.4	3.5	6.3	5.4	4.0
Kuwait	1.0	1.3	4.1	3.1	5.5	3.0
Oman	0.2	0.7	1.9	3.4	5.9	2.4
Qatar	2.3	6.8	8.8	11.8	13.8	8.7
Saudi Arabia	0.6	0.4	0.6	2.2	4.1	1.6
Turkey	25.3	8.6	8.2	9.6	8.8	12.1
United Arab Emirates	3.2	5.0	6.2	9.3	11.1	7.0
Venezuela	31.1	21.7	16.0	13.7	18.7	20.2

Source: International Monetary Fund (World Economic Outlook), except data on Saudi Arabia which are taken from Central Department of Statistics and Information.

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. This index includes 406 goods and services compiled on a monthly basis for sixteen cities. Table (3) shows all cities' cost of living indexes, and quarterly and annual rates of change up to the end of the third quarter of 2008.

Table (3) shows that the average cost of living index for the base year (1999=100) registered an increase of 4.1 percent in 2007, due to rises in the group of renovation,

rent, fuel and water by 8.1 percent, the group of food and beverages by 7.0 percent, the group of medical care by 4.2 percent, and the group of other goods by 5.3 percent.

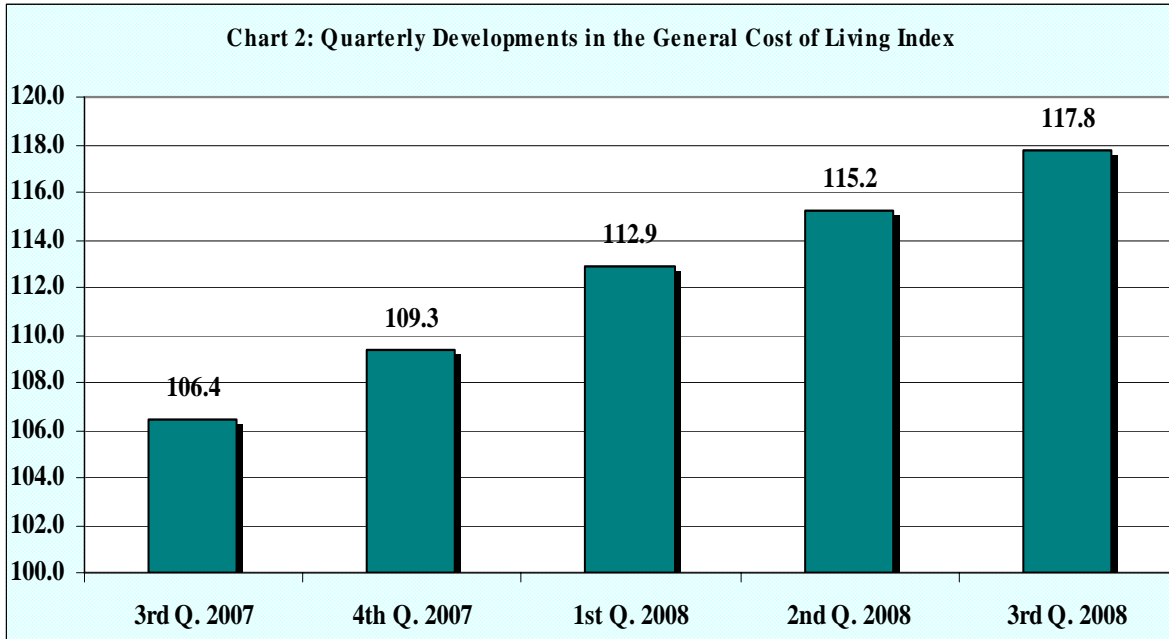
Data in Table (3) and Chart (2) indicate an increase of 10.7 percent in the average* index in the period ended in the third quarter of 2008 compared to the corresponding period of the previous year. This increase was attributable to rises in the group of renovation, rent and fuel by 18.8 percent, the group of food and beverages by 15.8 percent, the group of goods and other services by 11.8 percent, and the group of medical care by 6.9 percent.

**Table 3: Quarterly and Annual Cost of Living Indices
up to the End of the Third Quarter of 2008
1999 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 08 against 2nd quarter 08	%change of 3rd quarter 08 against corresponding quarter of previous year	Annual Average 2007
	2006	2007	Third Quarter 2007	Fourth Quarter 2007	First Quarter 2008	Second Quarter 2008	Third Quarter 2008			
General Index	101.8	106.0	106.4	109.3	112.9	115.2	117.8	2.2	10.7	4.1
Food and Beverages	112.2	120.1	119.3	125.2	132.5	135.5	138.1	1.9	15.8	7.0
Fabrics, Apparel and Shoes	87.7	85.6	85.2	85.2	85.3	85.6	86.1	0.6	1.1	-2.4
Renovation, Rent, Fuel and Water	101.0	109.2	110.9	114.6	119.6	126.4	131.8	4.3	18.8	8.1
House Furnishing	95.2	96.4	95.9	98.1	99.6	100.8	102.5	1.7	6.9	1.3
Medical Care	102.7	107.0	110.0	110.2	111.6	112.0	113.0	0.9	2.7	4.2
Transport and Telecommunications	88.9	88.1	88.4	88.7	87.8	87.7	88.7	1.1	0.3	-0.9
Education and Entertainment	98.7	98.9	98.1	100.5	100.4	100.3	101.1	0.8	3.1	0.2
Goods and other Services	114.6	120.7	122.6	125.5	131.4	133.2	137.1	2.9	11.8	5.3

Source: Central Department of Statistics and Information

* It is worth mentioning that the average here is for the third quarter of 2008 against that for the third quarter of 2007, and it differs from the average inflation rate (moving average) provided in section 2 of this report.



3-2 Wholesale Price Index

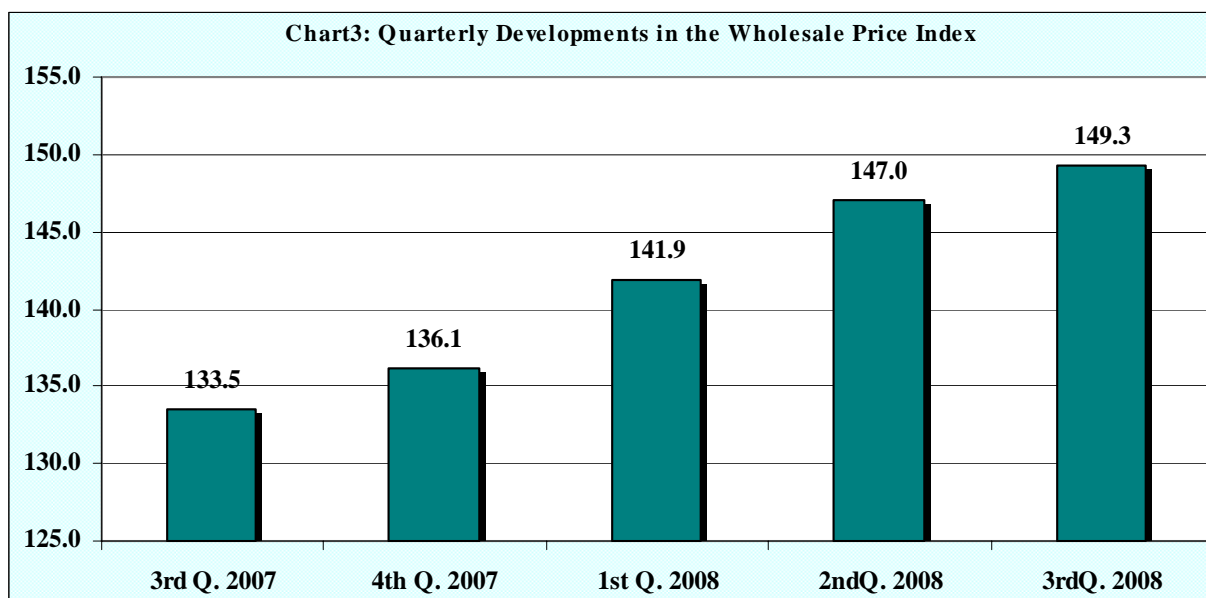
The index measures wholesale prices. It represents a basket containing 160 items sold on primary markets in the Kingdom. Table (4) shows quarterly and annual wholesale price indices up to the end of the third quarter of 2008. The table indicates that the wholesale price index during 2007 was 132.7 against 125.6 during 2006, increasing by 5.7 percent.

The general wholesale price index recorded an increase of 11.8 percent during the third quarter of 2008 compared to the second quarter of 2007 basically due to a rise in the groups of other commodities by 18.0 percent, chemicals by 32.3 percent, animal and vegetable oils and fats by 11.9 percent, food and live animals by 8.6 percent, and manufactured goods by 17.1 percent.

**Table 4: Quarterly and Annual Wholesale Price Indices
up to the End of the Third Quarter of 2008
1988 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 08 against 2nd quarter 08	% change of 3rd quarter 08 against corresponding quarter of previous year	Annual Average 2007
	2006	2007	Third Quarter 2007	Fourth Quarter 2007	First Quarter 2008	Second Quarter 2008	Third Quarter 2008			
General Index	125.6	132.7	133.5	136.1	141.9	147.0	149.3	1.6	11.8	5.7
Food & Live Animals	132.6	147.1	149.3	151.5	156.4	160.1	162.1	1.2	8.6	10.9
Beverages & Tobacco	128.9	129.7	130.3	130.2	130.7	131.3	132.2	0.7	1.5	0.6
Crude Materials (except fuel)	184.6	193.6	195.8	195.8	196.0	197.8	197.8	0.0	1.0	4.9
Mineral Fuels & related products	192.6	184.8	184.8	184.8	184.8	184.8	184.8	0.0	0.0	-4.0
Animal and Vegetable Oils & Fats	114.7	118.3	119.7	122.3	127.0	132.9	133.9	0.8	11.9	3.1
Chemicals & Related Products	143.0	156.4	154.4	166.4	186.1	186.0	204.3	9.8	32.3	9.4
Manufactured Goods classified by substance	120.0	126.2	127.2	128.5	134.8	148.3	149.0	0.5	17.1	5.2
Machinery & Transport Equipment	114.4	119.3	119.9	122.2	125.6	127.6	127.8	0.2	6.6	4.3
Msc. Manufactured Articles	100.9	106.5	106.1	110.0	118.3	121.0	121.9	0.7	14.9	5.6
Other Commodities	127.0	145.7	141.5	164.6	186.8	172.3	166.9	-3.1	18.0	14.7

Source: Central Department of Statistics and Information.



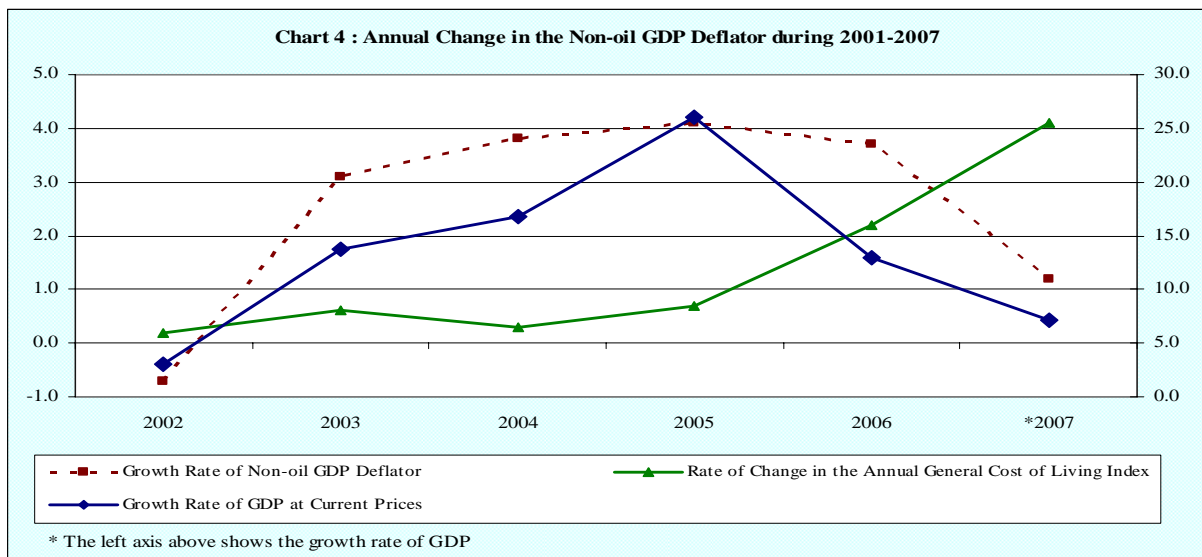
3-3 GDP Deflator

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) reviews the deflator and the growth rate of the annual GDP from 2002 to 2007, in addition to the rate of change in the general cost of living index. The non-oil deflator registered an increase of 1.2 percent in 2007 compared to 3.7 percent during 2006.

Years	Growth Rate of GDP at Current Prices	Growth Rate of Non-oil GDP Deflator	Rate of Change in the Annual General Cost of Living Index
		(1999 = 100)	
2002	3.0	-0.7	0.2
2003	13.8	3.1	0.6
2004	16.7	3.8	0.3
2005	26.1	4.1	0.7
2006	13.0	3.7	2.2
2007*	7.1	1.2	4.1

* Preliminary.

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 2.3 percent to 117.8 in the third quarter of 2008 compared to the second quarter of the same year. Eight cities (Makkah, Ta'if, Al-Madinah, Buraydah, Al-Dammam, Tabuk, Jazan, and Najran) have recorded higher rates than the rate of change in the general cost of living index, while Ha'il registered an inflation rate equal to the general inflation rate. The remaining cities, however, recorded lower rates than the rate of change in the general index (Table 6 and Chart 5).

The general cost of living index (all cities) registered an annual rise of 10.7 percent in the third quarter of 2008 compared to the third quarter of the preceding year. Seven cities (Riyadh, Ta'if, Buraydah, Al-Dammam, Al-Hufuf , Ha'il and Najran) recorded annual rises higher than the rate of change in the general index. The rest of the cities, however, recorded lower inflation rates than the rate of change in the general index (Table 6 and Chart 6).

Table 6: Cost of Living Indices by City

	Third Quarter 2007	Fourth Quarter 2007	First Quarter 2008	Second Quarter 2008	Third Quarter 2008	Quarterly Change (%)	Annual Change*
General Index (All cities)	106.4	109.3	112.9	115.2	117.8	2.3	10.7
Riyadh	107.5	110.6	115.1	118.2	120.2	1.7	11.8
Makkah	105.6	107.1	109.6	112.3	115.2	2.6	9.1
Jeddah	105.7	109.0	111.1	113.7	115.7	1.8	9.5
Ta'if	110.5	112.4	115.3	115.1	123.2	7.0	11.5
Al-Madinah	103.0	105.0	107.4	108.4	111.0	2.4	7.8
Buraydah	106.6	111.0	116.2	117.7	120.7	2.6	13.3
Al-Dammam	107.5	111.6	115.5	118.1	121.3	2.7	12.8
Al-Hufuf	105.3	108.6	114.1	115.7	117.6	1.6	11.7
Abha	103.6	106.1	109.7	111.7	114.0	2.1	10.1
Tabuk	105.5	109.3	112.8	113.3	116.4	2.8	10.4
Ha'il	108.1	111.1	116.9	119.7	122.5	2.3	13.3
Jazan	105.3	108.1	111.6	113.2	116.1	2.6	10.3
Najran	108.7	111.2	115.6	117.1	120.8	3.2	11.2
Al-Baha	107.6	111.3	114.9	117.2	118.2	0.8	9.9
Sakaka	99.2	101.6	104.6	106.1	107.2	1.0	8.0
'Ar'ar	98.4	100.2	103.8	104.8	105.8	1.0	7.5

* Comparison between 3rd quarter of 2008 and 3rd quarter of 2007.

Source: Central Department of Statistics and Information.

Chart 5: Change in the General Index in the 3rd Quarter of 2008 Compared to the 2nd Quarter of 2008

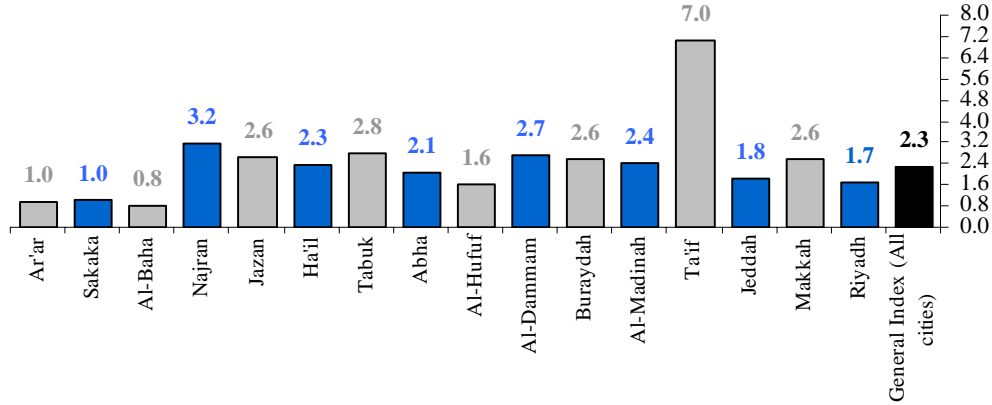
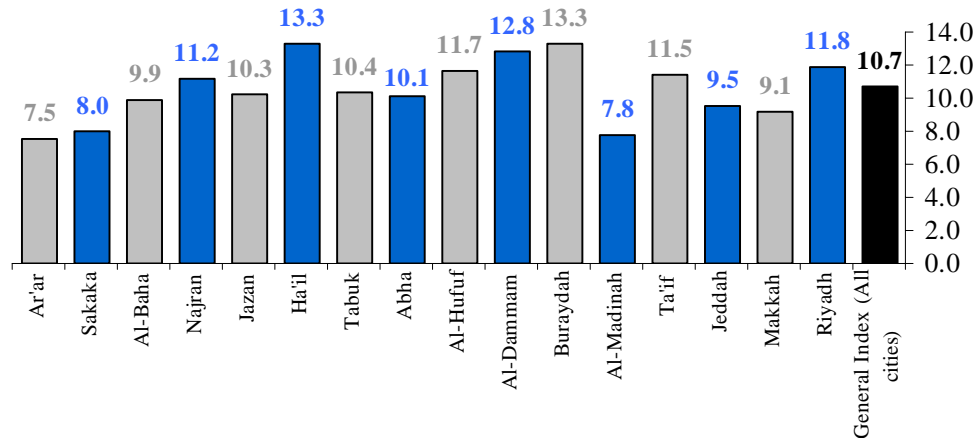


Chart 6: Change in the General Index in the 3rd Quarter of 2008 Compared to the 3rd Quarter of 2007



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

The Saudi economy is an open-market 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 2007 compared to 2000.

The United States is the largest trading partner of the Kingdom though there was a decline in the share of imports from USA during 2007 to 13.6 percent from 19.3 percent in 2000. Imports from the US amounted to Rls 45.8 billion during 2007 against Rls 21.8 billion in 2000, rising by 110.3 percent. Figures indicate that the rate of inflation in the USA decreased to 2.9 percent during 2007 compared to 3.4 percent in 2000.

The percentage share of imports from the Euro zone countries decreased slightly to 23.1 percent during 2007 compared to 23.7 percent in 2000. Imports from these countries stood at Rls 77.9 billion during 2007 against Rls 26.8 billion in 2000.

Data indicate a decline in the percentage share of the Kingdom's imports from Japan to 8.7 percent and from France to 3.4 percent. Inflation rates in both countries during 2007 decreased to 0.0 percent and 1.6 percent respectively.

Table 7 shows an increase in the inflation rate in the People's Republic of China from 0.4 percent in 2000 to 4.8 percent in 2007, and a rise in the share of its exports to the Kingdom from 4.0 percent in 2000 to 9.7 percent in 2007. It is also noticed that India's share of exports to the Kingdom rose from 2.8 percent in 2000 to 3.4 percent in 2007. Inflation rates in India rose from 4.0 percent in 2000 to 6.4 percent in 2007. Table 7 indicates that with the increase in the volume of imports to the Kingdom during the years under study, the percentage share of imports from emerging economies, such as China, South Korea and India, increased as well; these countries were characterized by higher inflationary pressures, especially during the last three years. Projections of IMF (World Economic Outlook, Oct. 2008) indicate higher inflation rates in the Kingdom's trading partners during 2008 compared to 2007 (Table 7), which were reflected on the price level of commodity imports to the Kingdom.

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

Country	Imports (Million Riyals)		(% Share of Imports)		Inflation Rate (%)		
	2000	2007	2000	2007	2000	2007	2008*
United States	21802	45852	19.3	13.6	3.4	2.9	4.2
Japan	11837	29563	10.5	8.7	-0.7	0.0	1.6
Republic of China	4485	32664	4.0	9.7	0.4	4.8	6.4
United Kingdom	7308	13170	6.5	3.9	0.9	2.3	3.8
South Korea	3846	15162	3.4	4.5	2.3	2.5	4.8
India	3132	11529	2.8	3.4	4.0	6.4	7.9
Australia	2907	7296	2.6	2.2	4.5	2.3	4.6
Euro Zone Countries	26787	77942	23.7	23.1	2.2	2.1	2.9
of which :							2.4
Germany	9164	30022	8.1	8.9	1.4	2.3	3.4
Italy	4698	15381	4.1	4.5	2.6	2.0	3.4
France	4675	11499	4.1	3.4	1.8	1.6	
Other countries	31136	104910	27.5	31.0			
Total	113240	338088					

Source: Central Department of Statistics and Information, and IMF.

* IMF estimation (World Economic Outlook, Oct. 2008).

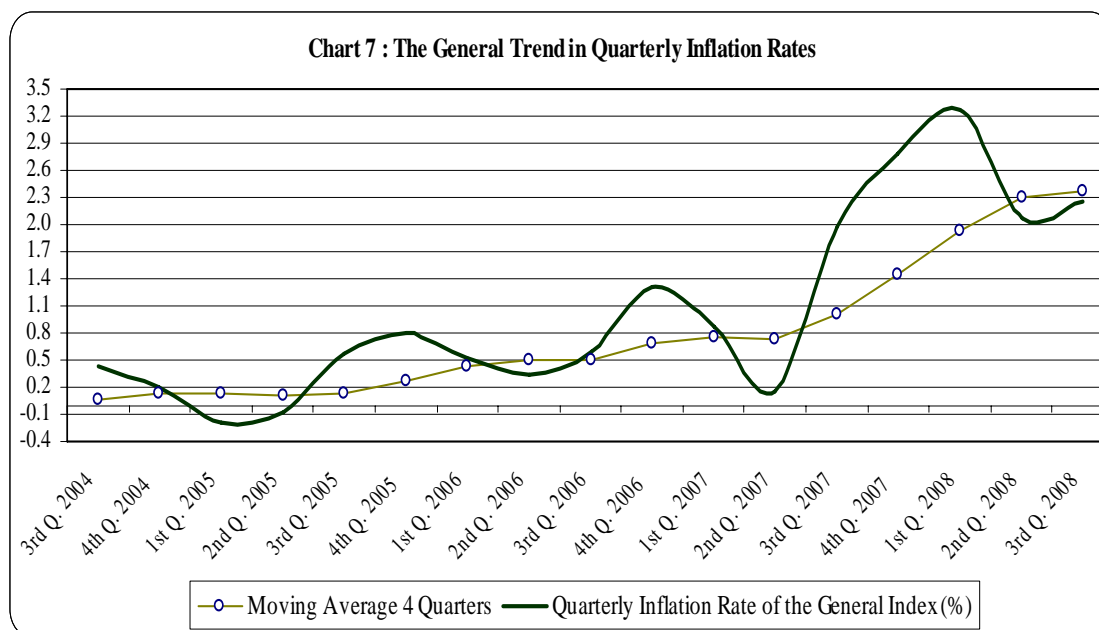
6- Indicators of the General Trend and Fluctuation in Inflation Rates

Since stability of the general price level is very important in decision-making at the micro level and in making decisions related to general 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 statistics on monthly inflation rates for the year ending in September 2008 and for the last five years (October 2002 to September 2007), as well as statistics for quarterly inflation rates during the period from the third quarter of 2003 to the third quarter of 2008. The average quarterly inflation rate amounted to 2.6 percent for the general index with a standard deviation of 3.1 and range (the difference between the maximum and the minimum values) was 10.6.

Most of the volatility in the quarterly inflation rates during the period from the third quarter of 2003 to the third quarter of 2008 was accounted for by the group of food and beverages (average = 5.5 with a standard deviation = 3.8 and range = 13.4), the group of goods and other services (average = 4.7 with a standard deviation = 4.0 and range = 13.0), the group of renovation, rent, fuel and water (average = 3.7 with a standard deviation = 6.0 and range = 20.2) and the group of medical care (average = 1.8 with a standard deviation = 2.5 and range = 7.8) .

The two graphical charts (7 and 8) below show inflation performance (quarterly and monthly) and its general trend measured by the moving average of inflation rate (each four quarters, and each 12 months), which indicate a downward trend in inflationary pressures recently.



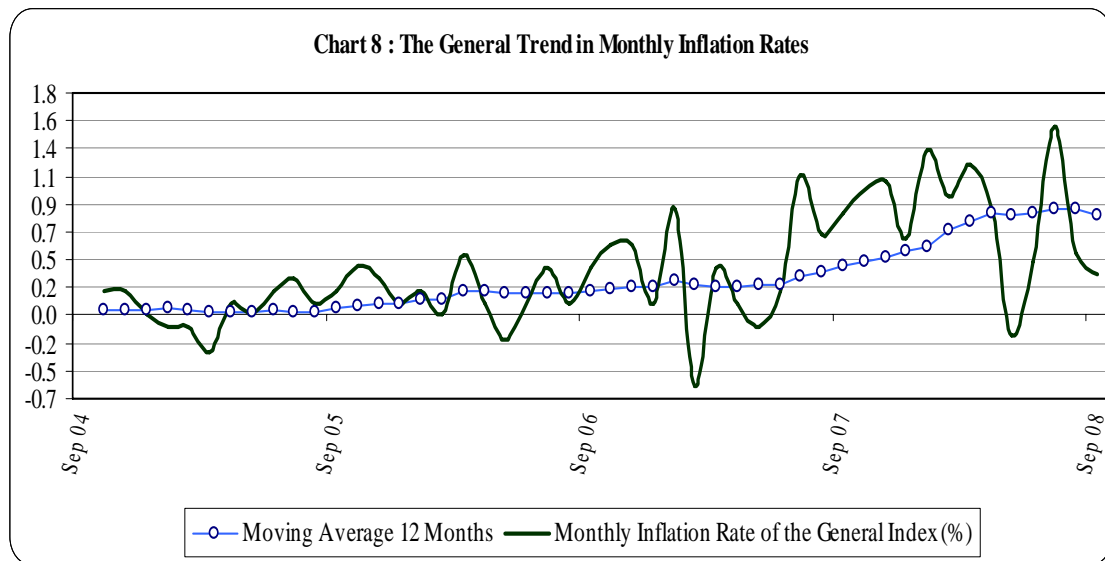


Table 8: Descriptive Statistics for Monthly Inflation Rates
(%) Monthly Inflation Rates per Group*

	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
Oct 2002- Sep 2007									
Average	1.3	3.8	-1.4	1.2	-0.2	0.9	-1.8	-0.2	3.6
Median	0.8	3.1	-1.3	0.0	-0.3	0.3	-1.5	-0.3	2.8
Standard Deviation	1.2	1.8	1.0	2.6	1.0	1.5	2.0	0.5	2.8
Maximum Amount	4.9	9.4	0.4	11.0	1.5	6.5	1.3	0.6	10.3
Minimum Amount	0.0	0.6	-3.5	-1.4	-2.0	-0.2	-5.4	-1.0	-0.2
Range	4.9	8.8	3.9	12.4	3.5	6.7	6.7	1.6	10.5
Oct 2007- Sep 2008									
Average	8.9	12.8	-0.7	16.0	4.5	6.0	0.4	2.1	11.1
Median	10.0	14.7	-0.8	16.4	4.3	6.9	0.3	1.9	11.8
Standard Deviation	2.1	3.7	1.4	2.9	1.9	2.1	0.6	0.6	3.0
Maximum Amount	11.1	16.0	1.5	19.8	7.9	7.7	1.6	3.2	14.7
Minimum Amount	5.4	7.5	-2.6	11.7	1.5	2.5	-0.5	1.6	4.8
Range	5.7	8.5	4.2	8.1	6.5	5.1	2.1	1.5	9.9

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

**Table 9: Descriptive Statistics for Quarterly Inflation Rates:
Third Quarter 2003- Third Quarter 2008**
(%) 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
3rd Quarter 2003 - 3rd Quarter 2008									
Average	2.2	5.0	-1.5	3.0	0.3	1.7	-1.6	0.1	4.4
Median	1.0	3.6	-1.6	0.4	0.3	0.5	-1.2	0.0	3.1
Standard Deviation	2.6	3.2	0.9	5.2	1.6	2.5	1.8	0.8	3.7
Maximum Amount	10.5	15.7	0.1	18.1	5.1	7.6	1.3	2.0	12.9
Minimum Amount	0.2	2.4	-3.1	-1.3	-1.9	-0.2	-5.3	-0.8	0.0
Range	10.3	13.3	3.2	19.4	7.0	7.8	6.6	2.8	13.0

7. Factors Affecting Inflation Rate in the Kingdom

Many factors play a role in affecting inflation rate, and the influence of these factors differs from one to another 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 slightly by 19.6 percent in 2007, compared to 19.3 percent in the preceding year. In the third quarter of 2008, it rose by an annual rate of 19.4 percent.

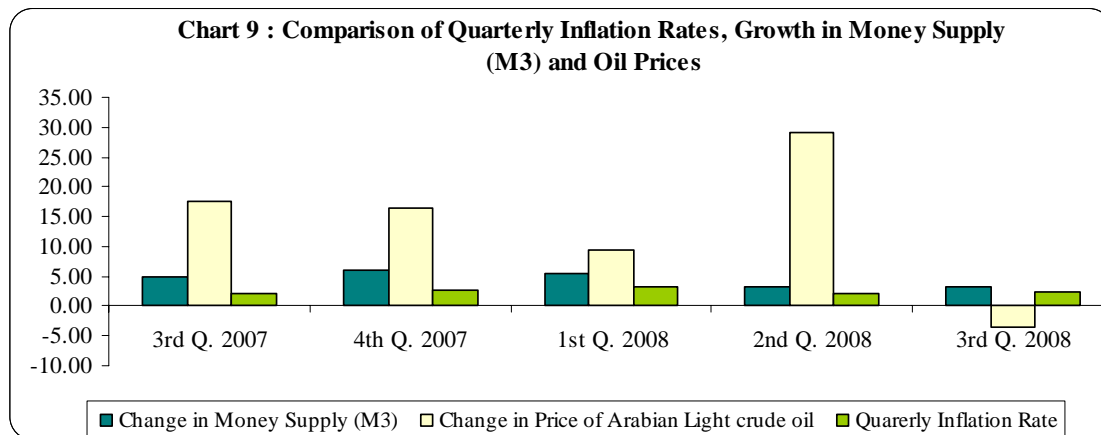
As for the activity of the public and private sectors, growth rate of the private sector's GDP at current prices stood at 8.0 percent in 2007 while growth rate of the public sector's GDP stood at 2.9 percent during the same year.

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

	2003	2004	2005	2006	2007	% Change of 3rd quarter 08 against 2nd quarter 08	%change of 3rd quarter 08 against corresponding quarter of previous year
Money Supply (M3)	6.9	18.8	11.6	19.3	19.6	3.2	19.4
Government Expenditure	10.1	11.0	21.5	13.5	18.5	-	
NDP Growth Rate:	13.9	16.8	26.1	13.0	7.1	-	
- Private Sector	4.7	7.5	7.8	7.9	8.0	-	
- Government Sector	11.1	10.4	12.5	10.7	2.9	-	

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 Expectations for the Fourth Quarter of 2008

Preliminary data indicate a decline in inflationary pressures in the Saudi economy during the fourth quarter of 2008, due to the positive impact of actions taken by the government in subsidizing some key food items and reducing public fees. In addition, domestic supply started to respond to the increase in demand. There are also several other factors, both domestic and external - especially the current financial crisis – that are likely to ease up inflationary pressures in general during the coming period.

In terms of **domestic factors**, despite the increase in government and private expenditure to promote economic development, there are several other indicators that support expectations of lower inflationary pressures in the Saudi economy during the coming period, starting from the fourth quarter of this year. In respect to the group of housing and related items, the momentum of increase in rents is expected to decline during the coming period, as a result of the marked expansion in construction of residential buildings by the public and private sectors. According to the latest statistics of the Ministry of Municipal and Rural Affairs, the number of residential and commercial construction licenses granted to the public and private sectors rose by 213.6 percent in the first quarter of 1429 H, compared to the first quarter of 1428 H, recording an annual increase rate of 40.0 percent during the year ending Rabi' 1 of 1429 H. On the other hand, cost of construction is expected to decrease as a result of a decline in inputs such as steel and cement, which recorded a marked decline recently in view of increased imports of steel. SABIC, one of the largest steel producers in the Kingdom, also announced significant reductions on the prices of steel products in the domestic market.

As for the group of food and beverages, the impact of actions taken by the State to subsidize key food items started to take effect as prices of such items showed some decline. Inflationary pressures are expected to decline due to the effect of the world financial crisis on prices of food and goods.

In terms of **external factors** that feed domestic inflation level, the openness of the Saudi economy on the world makes it vulnerable to international economic conditions. According to current data "on the global economy" and the current financial crisis, it seems that the world economy is going into recession, which will impact the prices of commodities and services imported from abroad, and, thus, strengthen expectations of a drop in local prices during the coming period due to a drop in global demand. Price index of non-oil commodities issued by the International Monetary Fund (Bulletin of November 2008) indicates that food prices as a whole recorded in October 2008 an annual decrease of 4.8 percent. Prices of grain declined by 5.5 percent, after it had recorded an increase of 73.2 percent in the year ending June of this year. Among grain

products, the price of wheat went down by 29.2 percent, barley by 26.9 percent, and coffee by 9.3 percent. The increase in the price of rice declined from 155.8 percent in the year ending June of this year to 86.1 percent in the year ending October of the same year.

There are some other factors which support the projected price decline in the coming period, including the decline in costs of freight as a result of lower world economic activity, lower oil prices, and high exchange rate of the dollar, which recently witnessed marked improvement against most foreign currencies, particularly the euro. This will have a contributory role in reducing the costs of some imported products to the Kingdom in other currencies. The current decline in oil prices could lead to lower costs of agricultural and industrial production inputs which will reduce the costs of agriculture inputs such as fertilizers and intermediate items of industrial products.

Projections of IMF (World Economic Outlook, Oct. 2008) support expectations of lower inflationary pressures during the coming period. There are strong indicators that inflation rates in the U.S.A. and the Euro zone will decline during 2009 to 1.8 percent and 1.7 percent respectively. Inflation rates are also expected to drop during 2009 in Japan (0.9 percent), China (4.3 percent), U.K. (2.9 percent), South Korea (4.0 percent), India (6.7 percent) and Australia (3.6 percent).

Hopefully, all these factors will be reflected positively on the prices of commodity imports to the Kingdom.

9- Conclusion

This report has reviewed the historical and current performance of inflation rates in the Kingdom up to the end of the third quarter of 2008, according to data issued by Central Department of Statistics and Information on retail consumer prices (the General Cost of Living Index), wholesale prices (wholesale prices index), as well as at the economy level as a whole (non-oil GDP deflator) and the most important factors affecting inflation rate. Published data indicate a decline in the inflation rate during the fourth quarter of 2008 according to current data at the domestic and international levels.