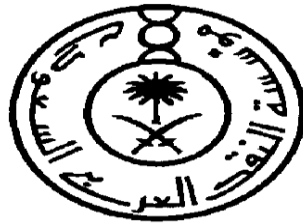


Inflation Report
Third Quarter 2009



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. In the last five years, excluding the last three quarters (the first three quarters 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), high prices of primary goods and increased shipping charges worldwide.

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 September 2009 rose by 6.6 percent while the average inflation rate during the preceding five years (October 2003–September 2008) was 3.0 percent. During the year from October 2008 to September 2009, inflation rates by groups of goods and services exceeded their levels recorded in the preceding five years. Five 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 15.8 percent, the group of home furniture 11.5 percent, the group of education and entertainment 1.5 percent, the group of transport and telecommunications 1.1 percent, the group of fabrics, apparel and shoes 1.0 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 beverage rose by 5.3 percent, the group of goods and other services 3.7 percent, and the group of medical care 1.2 percent (Table 1 and Chart 1).

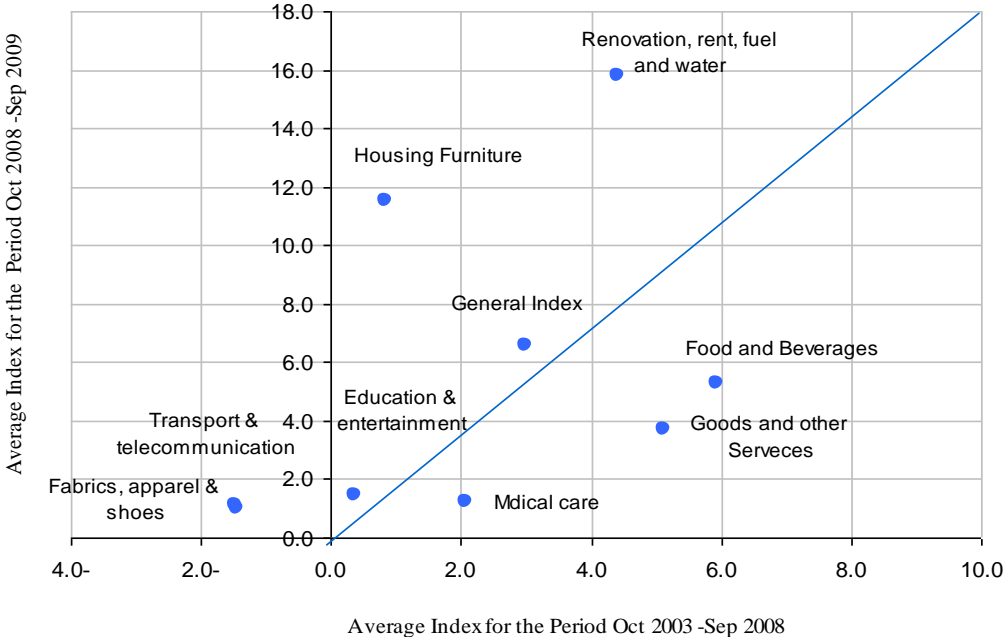
Table 1: Change in the General Cost of Living Index and its Major Groups (%)

	Weights (Relative (%)	Average Index for the Period Oct 2003 -Sept 2008	Annual Average Index for the Year Ending Sept 2009
General Index	100	3.0	6.6
Foodstuffs & beverages	26	0.9	0.3
Fabrics, Clothing & footwear	8	1.0-	1.0
Renovation, rent, fuel & water	18	4.4	10.8
Home furniture	11	0.8	11.0
Medical care	2	2.1	1.2
Transport &	16	1.0-	1.1
Education & entertainment	6	0.4	1.0
Other expenses & services	13	0.1	3.7

Source: Central Department of Statistics and Information.

Chart 1 compares the average level of inflation during the year ended September 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 September 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 Sep 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 2008 is still low compared to the average rate in all countries shown in the table except for Bahrain.

**Table :٢ Comparison of Inflation rate in some countries
(Percent change Annual)**

Country	٢٠٠٤	٢٠٠٥	٢٠٠٦	٢٠٠٧	٢٠٠٨	Average
Bahrain	٢.٢	٢.٦	٢.٠	٣.٣	٣.٥	٢.٧
Brazil	٦.٦	٦.٩	٤.٢	٣.٦	٥.٧	٥.٤
China	٣.٩	١.٨	١.٥	٤.٨	٥.٩	٣.٦
Egypt	٨.١	٨.٨	٤.٢	١١.٠	١١.٧	٨.٨
India	٣.٨	٤.٢	٦.٢	٦.٤	٨.٣	٥.٨
Jordan	٣.٤	٣.٥	٦.٣	٥.٤	١٤.٩	٦.٧
Kuwait	١.٣	٤.١	٣.١	٥.٥	١٠.٥	٤.٩
Oman	٠.٧	١.٩	٣.٤	٥.٩	١٢.٦	٤.٩
Qatar	٦.٨	٨.٨	١١.٨	١٣.٨	١٥.٠	١١.٢
Saudi Arabia	٠.٤	٠.٦	٢.٢	٤.١	٩.٩	٣.٤
Turkey	٨.٦	٨.٢	٩.٦	٨.٨	١٠.٤	٩.١
United Arab Emirates	٥.٠	٦.٢	٩.٣	١١.١	١٢.٣	٨.٨
Venezuela	٢١.٧	١٦.٠	١٣.٧	١٨.٧	٣٠.٤	٢٠.١

Source: International Monetary Fund, World Economic Outlook Bulletin, Oct 2009, except for Saudi data whose source is the 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. 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 third quarter of 2009.

Table (3) shows that the average cost of living index for the base year (1999=100) registered an increase of 1.2 percent in the third quarter of 2009 compared to the second quarter of 2009. This increase is attributed to rises in the group of renovation, rent, fuel and water by 2.1 percent, the group of other goods by 3.1 percent, the group of food and beverages by 0.9 percent, the group of transport and

telecommunication by 0.2 percent and the group of medical care by 0.1 percent. However, the group of apparel and clothing declined by 0.1 percent. The group of home furniture and the group of education and entertainment remained unchanged.

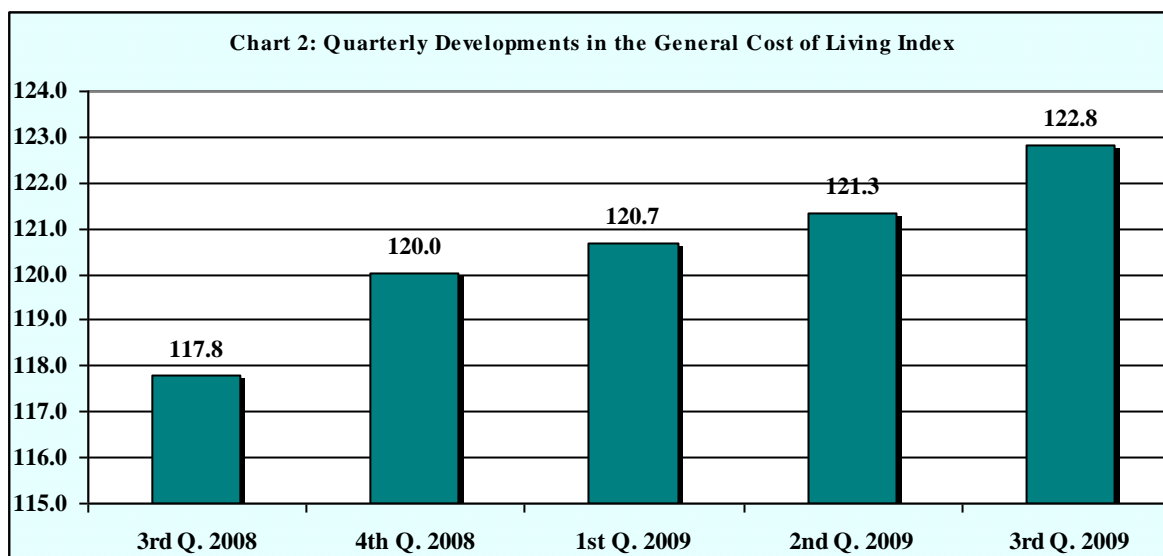
Data in Table (3) and Chart (2) indicate an increase of 4.2 percent in the average* Cost of Living index in the period ended in the third quarter of 2009 compared to the corresponding period of the previous year. This increase was attributable to rises in the group of renovation, rent and fuel by 12.9 percent, the group of food and beverages by 0.8 percent, the group of home furniture by 8.8 percent, the group of goods and other services by 2.9 percent, and the group of education and entertainment by 0.9 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 Third Quarter of 2009
1999 = 100

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 09 against 2nd quarter 09	% change of 3rd quarter 09 against corresponding quarter of previous year	Change of Annual Average 2008
	2007	2008	Third Quarter 2008	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009	Third Quarter 2009			
General Index	106.0	116.5	117.8	120.0	120.7	121.3	122.8	1.2	4.2	9.9
Food and Beverages	120.1	137.0	138.1	141.8	139.2	138.0	139.2	0.9	0.8	14.1
Fabrics, Apparel and Shoes	85.6	85.9	86.1	86.5	86.5	86.3	86.2	-0.1	0.2	0.3
Renovation, Rent, Fuel and Water	109.2	128.3	131.8	135.2	139.9	145.7	148.8	2.1	12.9	17.5
House Furnishing	96.4	103.8	102.5	112.3	111.8	111.5	111.5	0.0	8.8	7.6
Medical Care	107.0	112.4	113.0	113.0	113.0	113.1	113.2	0.1	0.2	5.0
Transport and Telecommunications	88.1	88.3	88.7	89.1	89.7	88.9	89.1	0.2	0.5	0.2
Education and Entertainment	98.9	101.0	101.1	102.1	102.2	102.0	102.0	0.0	0.9	2.1
Goods and other Services	120.7	133.6	137.1	132.5	136.0	136.9	141.1	3.1	2.9	10.7

Source: Central Department of Statistics and Information

* It is worth mentioning that the average here is for the third quarter of 2009 against that for the third 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 third quarter of 2009. The table indicates that the wholesale price index during 2008 was 144.7 against 132.7 during 2007, increasing by 9.0 percent.

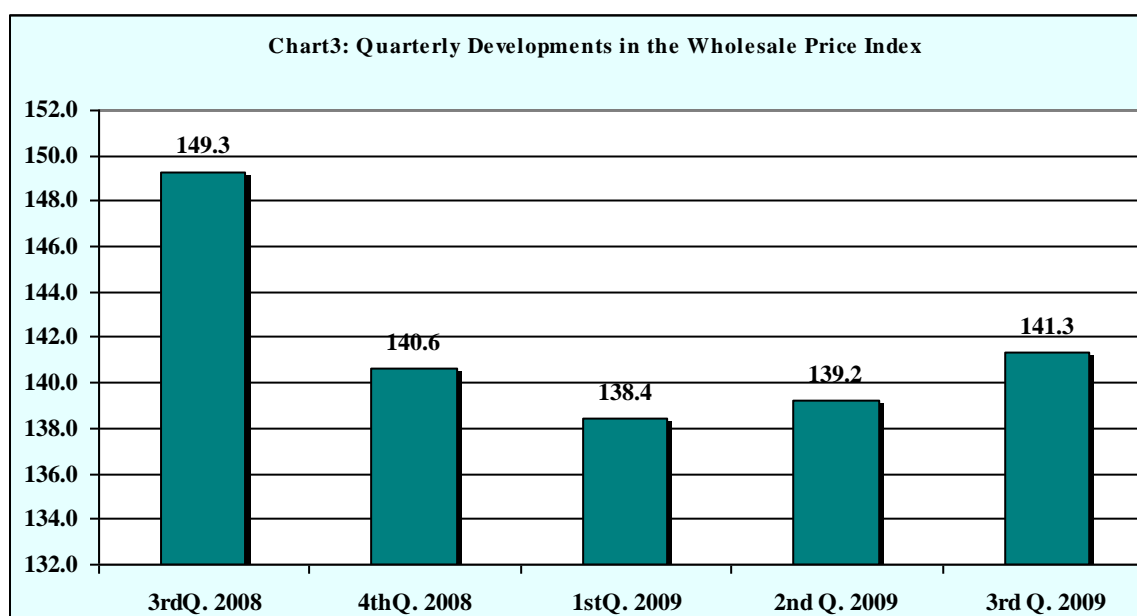
Table 4: Quarterly and Annual Wholesale Price Indices up to the End of the Third Quarter of 2009
1988 = 100

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 09 against 2nd quarter 09	%change of 3rd quarter 09 against corresponding quarter of previous year	Change of Annual Average 2008
	2007	2008	Third Quarter 2008	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009	Third Quarter 2009			
General Index	132.7	144.7	149.3	140.6	138.4	139.2	141.3	1.5	-5.4	9.0
Food & Live Animals	147.1	160.6	162.1	163.7	161.9	160.2	162.8	1.6	0.4	9.2
Beverages & Tobacco	129.7	131.6	132.2	132.2	132.7	131.9	131.9	0.0	-0.2	1.5
Crude Materials (except fuel)	193.6	193.7	197.8	183.1	174.1	183.6	184.0	0.2	-7.0	0.0
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	118.3	133.3	133.9	139.2	137.6	136.1	136.0	-0.1	1.6	12.6
Chemicals & Related Products	156.4	178.4	204.3	137.0	123.7	139.9	149.1	6.6	-27.0	14.0
Manufactured Goods classified by substance	126.2	142.1	149.0	136.2	134.1	134.1	134.9	0.6	-9.5	12.6
Machinery & Transport Equipment	119.3	126.8	127.8	126.2	124.8	125.6	125.9	0.2	-1.5	6.3
Msc. Manufactured Articles	106.5	120.6	121.9	121.2	121.9	120.3	123.6	2.7	1.4	13.2

Other Commodities	145.7	172.6	166.9	164.5	182.2	187.0	196.8	5.2	17.9	18.5
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Source: Central Department of Statistics and Information.

The general wholesale price index recorded a rise of 1.5 percent during the third quarter of 2009 compared to the second quarter of 2009 basically due to a rise in the groups of chemicals and related products by 6.6 percent, other commodities by 5.2 percent, miscellaneous manufactured articles by 2.7 percent, food and live animals by 1.6 percent, manufactured goods classified by substance by 0.6 percent, machinery and transport equipment by 0.2 percent, and crude materials (except fuel) by 0.2 percent. However, two groups, beverages and tobacco, and mineral fuels & related products recorded no change. But the group of vegetable and animal oils & fats declined by 0.1 percent.



3. GDP Deflator

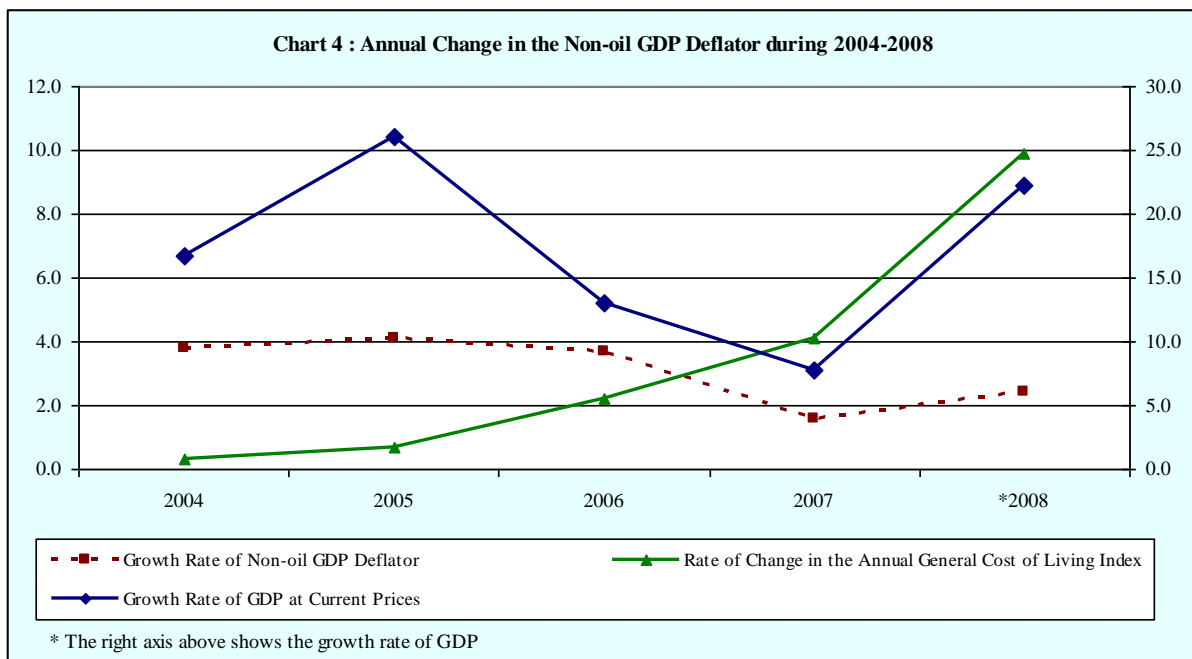
This deflator measures the prices of commodities, which are produced domestically, through the deflator of oil sector, non-oil sector and GDP. The non-oil deflator reflects domestic inflation by excluding change in crude oil prices. Table (5) and Chart (4) show the deflator and the growth rate of the annual GDP from 2004 to 2008, 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 2008 compared to 1.6 percent during 2007.

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
2004	16.7	3.8	0.3
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

*Data of 2008 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 1.2 percent to 122.8 in the third quarter of 2009 compared to the second quarter. Four cities (Ta'if,

Buraydah, Riyadh , and Makkah) have recorded quarterly higher rates than the rate of change in the general cost of living index. Ta'if, one of the Kingdom's summer resorts, has recorded the highest rate of change. Jeddah has recorded a rate equal to that of the general index. The remaining cities (Al-Madinah, Al-Hufuf, and Ar'ar), however, recorded negative growth rates (Table 6 and Chart 5).

The general cost of living index (all cities) registered an annual rise of 4.2 percent in the third quarter of 2009 compared to the third quarter of the preceding year. Three cities (Jeddah, Al-Dammam, and Riyadh) recorded annual rises higher than the rate of change in the general index, and these cities are the largest in the Kingdom which receive an increasing number of people during the Summer time (During the third quarter). The rest of the cities, however, recorded a rise in inflation rates but lower than the rate of change in the general index (Table 6 and Chart 6).

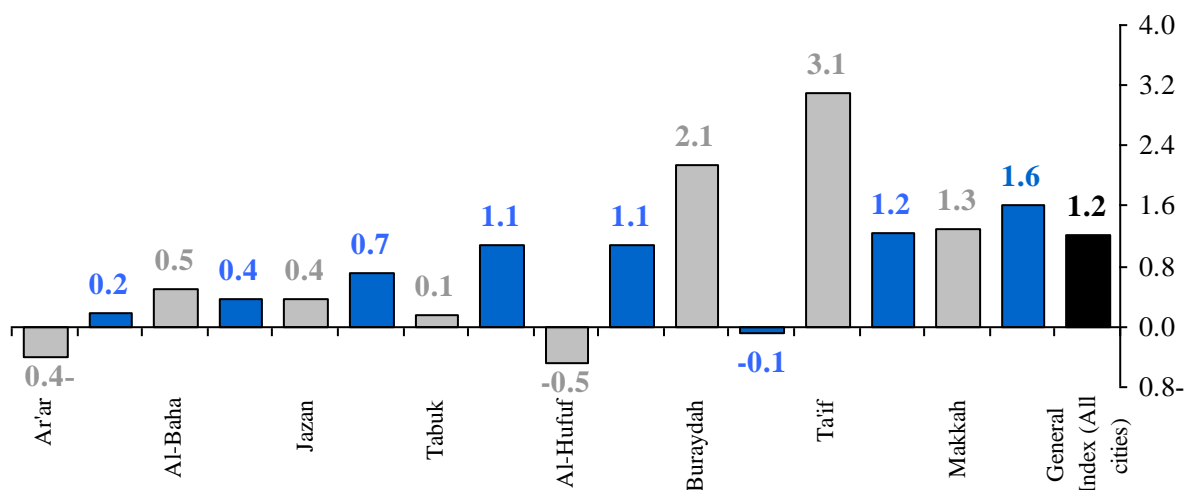
Table 6: Cost of Living Indices by Cities

	Third Quarter 2008	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Quarterly Change (%)	Annual Change* (%)
General Index (All cities)	117.8	120.0	120.7	121.3	122.8	1.2	4.2
Riyadh	120.2	122.6	123.5	124.1	126.1	1.6	4.9
Makkah	115.2	116.4	116.0	116.1	117.6	1.3	2.1
Jeddah	115.7	118.5	119.5	121.2	122.7	1.2	6.0
Ta'if	123.2	124.2	124.1	124.0	127.9	3.1	3.8
Al-Madinah	111.0	113.2	112.8	113.9	113.8	-0.1	2.5
Buraydah	120.7	123.0	121.6	121.3	123.9	2.1	2.7
Al-Dammam	121.3	123.6	125.3	126.0	127.4	1.1	5.0
Al-Hufuf	117.6	121.4	122.0	121.8	121.2	-0.5	3.1
Abha	114.0	115.7	116.0	115.7	117.0	1.1	2.6
Tabuk	116.4	117.8	117.9	117.3	117.4	0.1	0.9
Ha'il	122.5	123.5	123.7	123.8	124.7	0.7	1.8
Jazan	116.1	119.0	119.5	119.8	120.3	0.4	3.6
Najran	120.8	121.2	120.8	121.3	121.8	0.4	0.8
Al-Baha	118.2	120.7	120.5	120.1	120.7	0.5	2.1
Sakaka	107.2	109.5	110.6	111.2	111.4	0.2	4.0
Ar'ar	105.8	108.3	108.9	108.2	107.8	-0.4	1.9

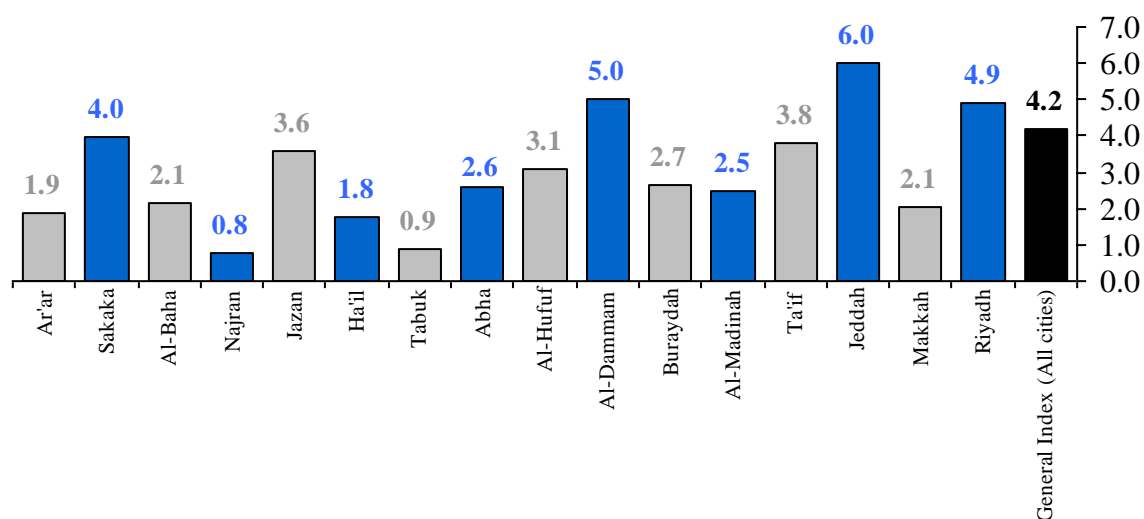
* Comparison between 3rd quarter of 2009 and 3rd quarter of 2008.

Source: Central Department of Statistics and Information.

**Chart 5: Change in the General Index in the 3rd Quarter of 2009
Compared to the 2nd Quarter of 2009**



**Chart 6: Change in the General Index in the 3rd Quarter of 2009
Compared to the 3rd 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 US 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 share of its exports to the Kingdom from 4.0 percent in 2000 to 11.0 percent or Rls 47.5 billion in 2008. It is also noticed that India's 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 and India, 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 with 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
Euro Zone Countries	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				

* Provisional Data.

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 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 September 2009 and for the last five years (October 2003 to September 2008), as well as statistics for quarterly inflation rates during the period from the third quarter of 2004 to the third quarter of 2009. The average quarterly inflation rate amounted to 3.9 percent for the general index with a standard deviation of 3.5 and range (the difference between the maximum and the minimum values) was 10.6. As

shown in Table (8), the arithmetic average of inflation rate more than doubled (from 3.0 to 6.6 percent) during the twelve-month period ended September 2009, compared with 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 beverage, medical care, and other goods.

Most of the volatility in the quarterly inflation rates during the period from the third quarter of 2004 to the third quarter of 2009 was accounted for by the group of renovation, rent, fuel and water (average = 6.8 with a standard deviation = 7.4 and range = 20.2), the group of food and beverages (average = 6.3 with a standard deviation = 4.4 and range = 15.0), the group of goods and other services (average = 5.5 with a standard deviation = 3.8 and range = 12.4), the group of medical care (average = 2.2 with a standard deviation = 2.4 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

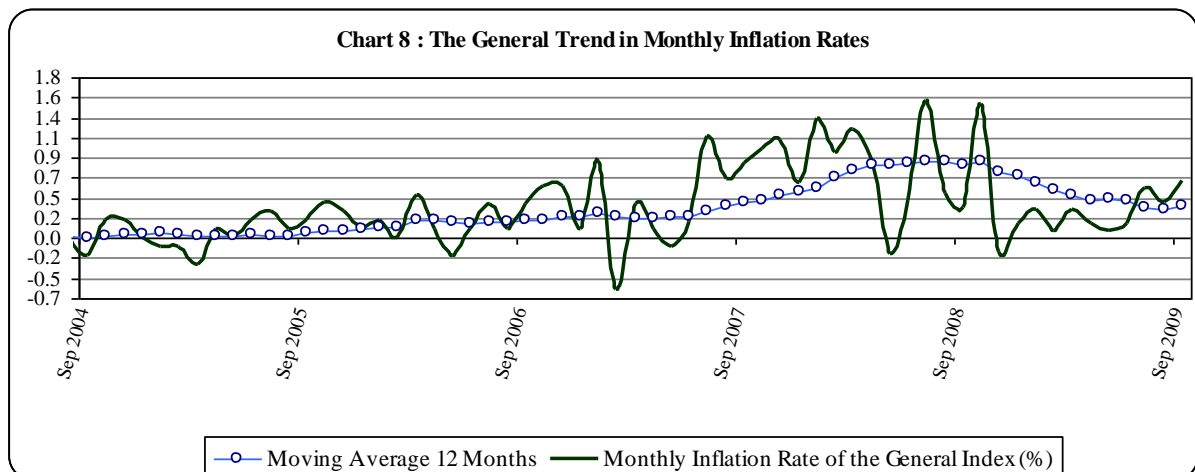
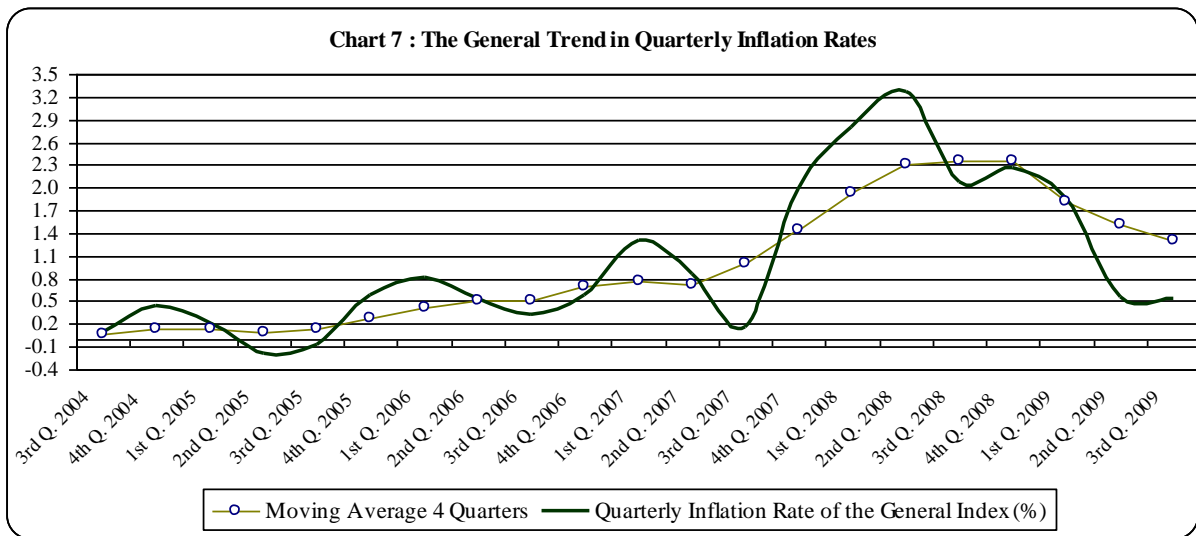
	(%) Monthly Inflation Rates per Group*								
	General Index	Food and Beverages	Fabrics, Apparel and Shoes	Renovation Rent, Fuel and Water	House Furnishing	Medical Care	Transport and Telecommunication	Education and Entertainment	Goods and other Services
Oct 2003- Sep 2008									
Average	3.0	5.9	-1.5	4.4	0.8	2.1	-1.5	0.4	5.1
Median	2.2	4.7	-1.6	1.1	0.6	0.6	-0.9	0.1	4.0
Standard Deviation	3.3	4.1	1.1	6.5	2.2	2.6	2.1	1.0	4.3
Maximum Amount	11.1	16.0	1.5	19.8	7.9	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	5.0	21.2	9.9	7.9	7.0	4.2	14.9
Oct 2008- Sep 2009									
Average	6.6	5.3	1.0	15.8	11.5	1.2	1.1	1.5	3.7
Median	5.7	2.6	1.1	16.4	11.7	1.1	1.2	1.6	3.6
Standard Deviation	2.3	5.3	0.6	2.1	2.3	0.9	0.9	0.4	2.4
Maximum Amount	10.9	15.2	1.8	18.2	14.7	2.5	2.5	1.8	9.6

Minimum Amount	4.1	0.4	-0.1	12.2	7.6	0.2	-0.2	0.8	1.2
Range	6.8	14.8	1.9	6.1	7.1	2.4	2.7	1.0	8.5

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

Table 9: Descriptive Statistics for Quarterly Inflation Rates: Third Quarter 2004 - Third 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
3rd Quarter 2004- 3rd Quarter 2009									
Average	3.9	6.3	-1.0	6.8	2.9	2.2	-1.2	0.7	5.5
Median	2.9	5.2	-1.2	3.3	1.0	1.3	-0.8	0.4	4.5
Standard Deviation	3.5	4.4	1.3	7.4	4.5	2.4	2.1	1.0	3.8
Maximum Amount	10.8	15.8	1.6	18.9	14.4	7.6	2.2	3.1	12.9
Minimum Amount	0.2	0.8	-3.1	-1.3	-1.9	-0.2	-5.3	-0.6	0.5
Range	10.6	15.0	4.7	20.2	16.3	7.8	7.5	3.7	12.4



7. Factors Affecting Inflation Rate

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 by 17.6 percent in 2008, less than 19.6 percent in the preceding year. In the third quarter of 2009, it declined by 0.2 percent compared to the second quarter of 2009, recording an annual rise of 12.5 percent in the year ended in the third quarter of 2009 compared to an annual rise of 19.4 percent in the third quarter of the preceding year.

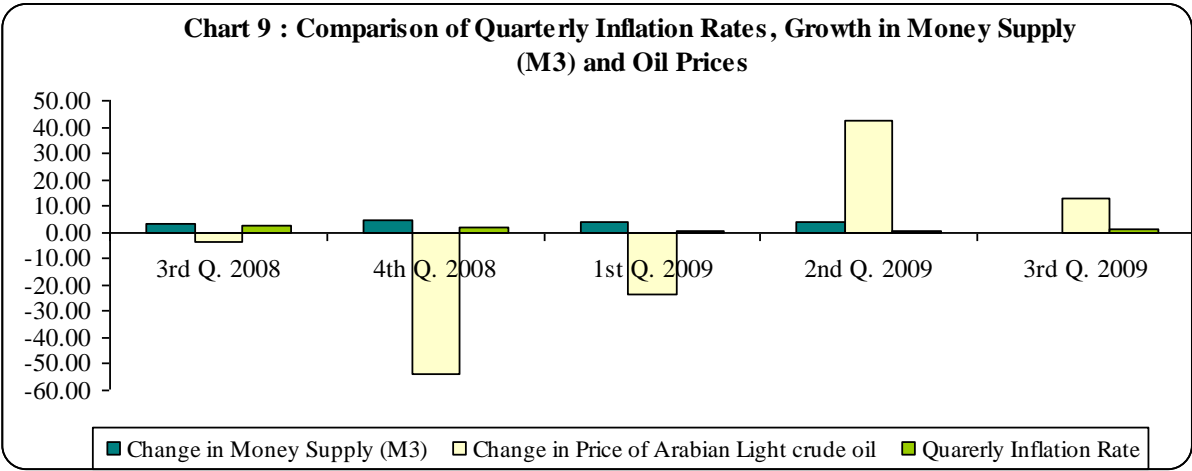
As for the activity of the private and public sectors, the private sector's GDP at current prices recorded a growth rate of 8.7 percent in 2008 while the growth rate of the public sector's GDP was 3.6 percent during the same year.

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

Growth Rates	2004	2005	2006	2007	2008	% Change of 3rd quarter 09 against 2nd quarter 09	%change of 3rd quarter 09 against corresponding quarter of previous year
Money Supply (M3)	18.8	11.6	19.3	19.6	17.6	- 0.2	12.5
Government Expenditure	11.0	21.5	13.5	18.5	11.5	-	
NDP Growth Rate:	16.7	26.1	13.0	7.8	22.3	-	
- Private Sector	7.5	7.8	7.9	8.3	8.7	-	
- Government Sector	10.4	12.5	10.7	3.1	3.6	-	

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 Fourth Quarter of 2009

The quarterly inflation rate in the Saudi economy continued its downward trend over the first two quarters of 2009. The quarterly inflation rate went down from 1.9 percent in the fourth quarter of 2008 to 0.6 percent in the first quarter of 2009, and then to 0.5 percent in second quarter of 2009; while the quarterly inflation rate rose to 1.2 percent in the third quarter of 2009. This rise may be attributed to seasonal and global factors as the third quarter of 2009 coincided with the summer vacation, the Holy month of Ramadan and Eid al-Fitr period . Besides, global economic conditions improved during the quarter. However, the annual inflation rate went down from 9.9 percent in the year ended in fourth quarter of 2008 to 6.9 percent in the year ended in the first quarter of 2009, then to 5.3 percent in the year ended second quarter 2009 and to 4.2 percent in the year ended third quarter 2009.

The inflation rate in the group of food and beverages is expected to continue its decline due to decreased prices of commodities and food in the global market. Recent statistics and projections of the IMF denote a fall in prices of most foodstuffs over the coming period. The price index of non-oil commodities issued by the International Monetary Fund (Data of October 2009) indicates a decline of 14.6 percent in the prices of non-oil commodities in the year ended in September 2009. Among non-oil

commodities, prices of foodstuffs as a whole fell by 14.8 percent and that of grain by 32.5 percent. Among grain products, the price of rice went down by 17.8 percent, wheat by 35.3 percent, barley by 45.3 percent and coffee by 11.6 percent. The prices of the group of vegetable oils dropped by 17.4 percent during the same period.

The projections of the IMF (data of October 2009) indicate that the global economy has begun to exist 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 due to the lower world demand caused by the depth of the global financial crisis while it is expected that inflation rates will slightly increase in some countries. The IMF's Projections indicate a revision in the previous projections in inflation rates in 2009 to (-0.4 percent) in the US, (1.9 percent) in UK, (2.6 percent) in South Korea and (8.7 percent) in India compared to previous projections of July 2009. It is also expected that inflation rates will drop in 2009 in Japan (-1.1 percent), the Euro Zone (0.3 percent) China (-0.1 percent), and Australia (1.6 percent).

All these factors are expected to have little influence on the prices of commodity imports to the Kingdom, and, accordingly, the cost of many production inputs in domestic industrial entities is expected to be stable, bolstering projections of stability of prices over the next period.

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 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. All data show that the general trend indicates a continued decline in the inflation rate during the fourth quarter of 2009 according to current indexes and future forecasts at both the domestic and international levels. However, it can not be denied that there are some data indicating probable inflationary pressures that would be faced due to factors, which may mostly be seasonal.