Inflation Report

Third Quarter 2010

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 almost goes in line with economic growth. The main factors causing inflation are not different from one economy to another, but other factors vary due to reasons related to the nature of the economy, its diversification base, its openness to the external world 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. In addition, the report presents a summary of inflation expectations for the fourth quarter of 2010.

2. Inflation Trends during the Past Few Years

The average inflation rate (moving average) as measured by annual changes in the cost of living indices during the year ending in September 2010 rose by 4.9 percent compared to the average inflation rate of 4.2 percent during the preceding five years (October 2004– September 2009). During the period October 2009- September 2010, five main groups, representing 61 percent of the size of the cost of living basket, recorded inflation rates higher than their averages recorded in the previous five years. The group of renovation, rent, fuel and water (housing and its appurtenances) rose by 10.2 percent, the group of goods and other services by 7.3 percent, the group of education and entertainment by 1.0 percent and the group of transport and telecommunications by 0.7 percent, while the group of fabrics, apparel and shoes went down by 0.5 percent. However, the group of food and beverages and group of medical care recorded inflation rates lower than the average levels they registered during the past five years. The group of food and beverages went up by 4.2 percent and the group of medical care by 0.2 percent, while the group of house furnishing recorded an increase equal to its five-year average of 3.4 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 October 2004 - September 2009	Average Index for the Period October 2009 - September 2010
General Index	100	4.2	4.9
Foodstuffs & beverages	26	6.4	4.2
Fabrics, Clothing & footwear	8	-0.8	-0.5
Renovation, rent, fuel & water	18	7.6	10.2
House furnishing	11	3.4	3.4
Medical care	2	2.3	0.2
Transport & telecommunication	16	-1.1	0.7
Education & entertainment	6	0.8	1.0
Other expenses & services	13	5.8	7.3

Source: Central Department of Statistics and information.

Chart 1 compares the average level of inflation during the year ended September 2010 with that during the preceding five years. Points on the left of Line 45° indicate higher average inflation during the year ended September 2010 compared to the average of the preceding five years (the opposite in the negative side).

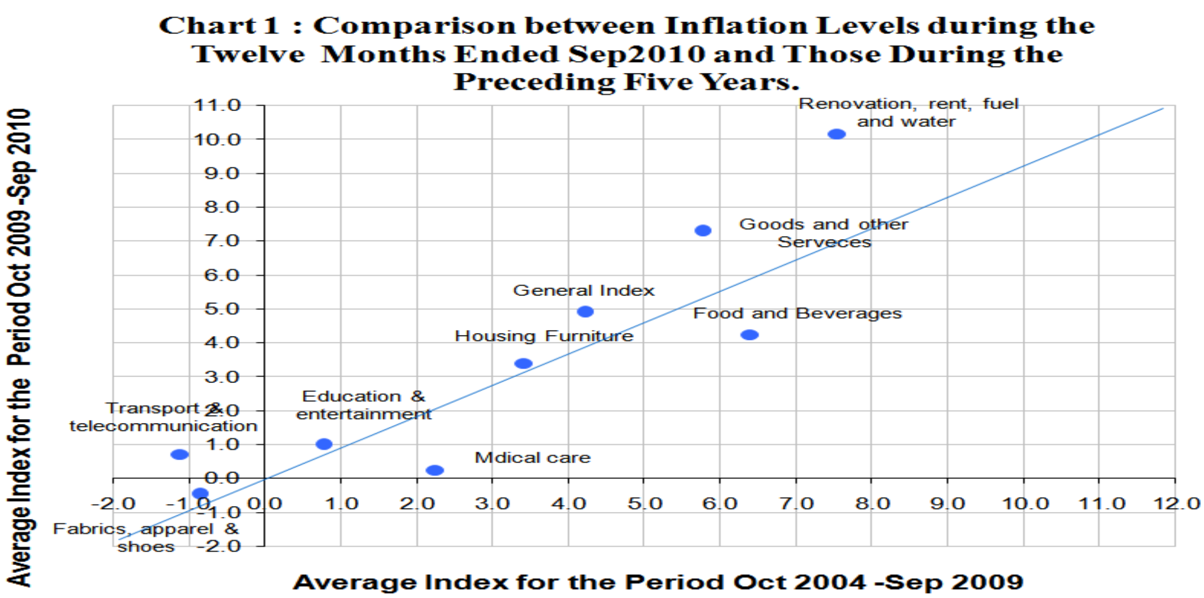

Table 2 shows that the average inflation rate in the Kingdom during the period 2004- 2009 is still low compared to the average rate in a number of countries (except for Bahrain and People's Republic of China).

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	2.8	**2.7**
Brazil	6.6	6.9	4.2	3.6	5.7	4.9	**5.3**
China	3.9	1.8	1.5	4.8	5.9	-0.7	**2.9**
Egypt	8.1	8.8	4.2	11.0	11.7	16.2	**10.0**
India	3.8	4.2	6.2	6.4	8.3	10.9	**6.6**
Jordan	3.4	3.5	6.3	4.7	13.9	-0.7	**5.2**
Kuwait	1.3	4.1	3.1	5.5	10.6	4.0	**4.8**
Oman	0.7	1.9	3.4	5.9	12.6	3.5	**4.7**
Qatar	6.8	8.8	11.8	13.8	15.0	-4.9	**8.6**
Saudi Arabia	0.4	0.6	2.2	4.1	9.9	5.1	**3.7**
Turkey	8.6	8.2	9.6	8.8	10.4	6.3	**8.6**
United Arab Emirates	5.0	6.2	9.3	11.1	12.3	1.2	**7.5**
Venezuela	21.7	16.0	13.7	18.7	30.4	27.1	**21.3**

Source: International Monetary Fund, World Economic Outlook Database, Oct 2010.

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 common measure of inflation used in the Kingdom. It measures price changes of goods and services for consumers. The index includes 406 goods and services compiled on a monthly basis from sixteen cities. Table (3) shows all cities' cost of living indices, and quarterly and annual rates of change up to the end of the third quarter of 2010.

Table (3) shows that the average general cost of living index for the base year (1999=100) registered an increase of 2.0 percent in the third quarter of 2010 compared to the second quarter of 2010. This increase is attributed to rises in the group of other goods and services by 4.4 percent, the group of food and beverages by 2.7 percent, the group of renovation, rent, fuel and water by 1.7 percent, the group of medical care by 1.1 percent and the group of transport and telecommunications by 1.0 percent, while the remaining groups registered slight rates of decline.

Table 3: Quarterly and Annual Cost of Living Indices up to the End of the Third Quarter of 2010

1999 = 100

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 10 against 2nd quarter 10	%change of 3rd quarter 10 against correspond-ing quarter of previous year	Change of Annual Average 2009
	2008	2009	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010	Third Quarter 2010			
General Index	116.5	122.4	122.8	124.7	126.1	127.7	130.2	2.0	6.0	5.1
Food and Beverages	137.0	139.7	139.2	142.1	144.4	145.7	149.7	2.7	7.5	1.9
Fabrics, Apparel and Shoes	85.9	86.3	86.2	86.2	86.2	85.9	85.6	-0.3	-0.7	0.5
Renovation, Rent, Fuel and Water	128.3	146.4	148.8	151.4	154.9	159.4	162.1	1.7	8.9	14.1
House Furnishing	103.8	112.6	111.5	115.4	115.7	116.2	116.1	-0.1	4.1	8.5
Medical Care	112.4	113.2	113.2	113.3	113.1	112.9	114.1	1.1	0.8	0.7
Transport and Telecommunications	88.3	89.2	89.1	89.1	89.6	89.9	90.8	1.0	1.9	1.0
Education and Entertainment	101.0	102.3	102.0	103.3	103.2	102.9	102.8	-0.1	0.8	1.4
Goods and other Services	133.6	139.3	141.1	143.0	143.5	146.7	153.1	4.4	8.5	4.3

Source: Central Department of Statistics and Information

Data in Table (3) and Chart (2) indicate an increase of 6.0 percent in the average* Cost of Living index in the period ended in the third quarter of 2010 compared to the corresponding quarter of the previous year. This increase was ascribed to rises in the group of renovation, rent fuel and water by 8.9 percent, the group of other goods and services by 8.5 percent, the group food and beverages by 7.5 percent, the group of house furnishing by 4.1 percent, the group of transport and telecommunications by 1.9 percent and the group of medical care and the group of education and entertainment by 0.8 percent each. However, the group of fabrics apparel and shoes declined by 0.7 percent.

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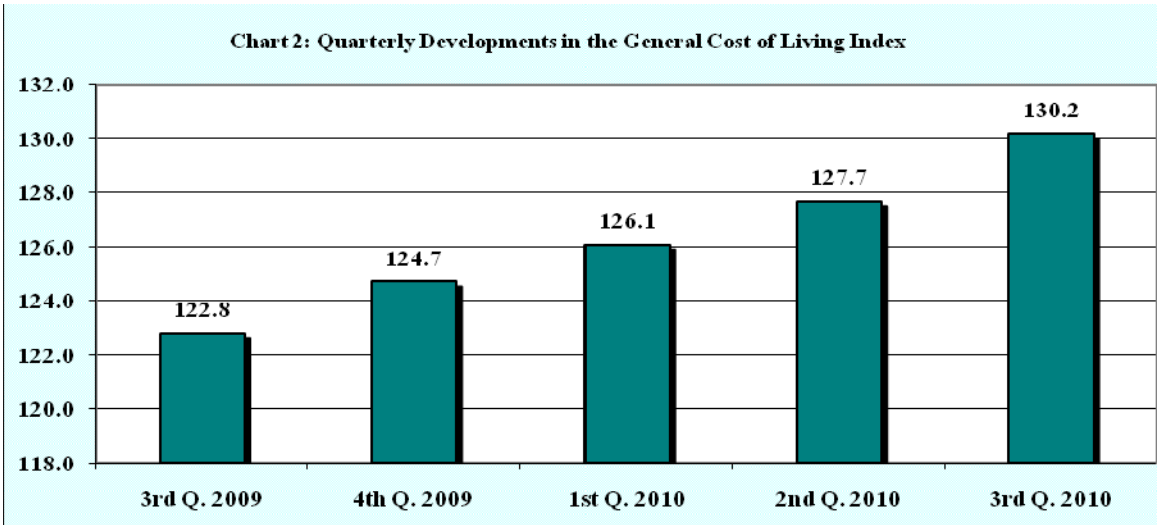
* The average here is for the third quarter of 2010 against the third quarter of 2009. It is different from the average inflation rate (moving average) indicated in section 2 of this report.



When comparing the third quarter of 2010 with the corresponding quarter of the preceding year, it becomes evident that the amount of increase in inflation was 6.0 percent. The group of foods and beverages contributed a 2.2 point increase to the general index (36.5 percent of total impact on the general index), the group of renovation, rent, and fuel 1.9 points (32.0 percent), the group of goods and other services 1.13 points (20.9 percent). The remaining groups contributed by rates lower than 7.0 percent of the total impact on the general index. The inflationary pressure of the group of food and beverages is clear in this quarter due to their global higher prices, while the inflation severity of the group of renovation, rent and fuel declined compared to the preceding quarter of the same year.

3-2 Wholesale Price Index

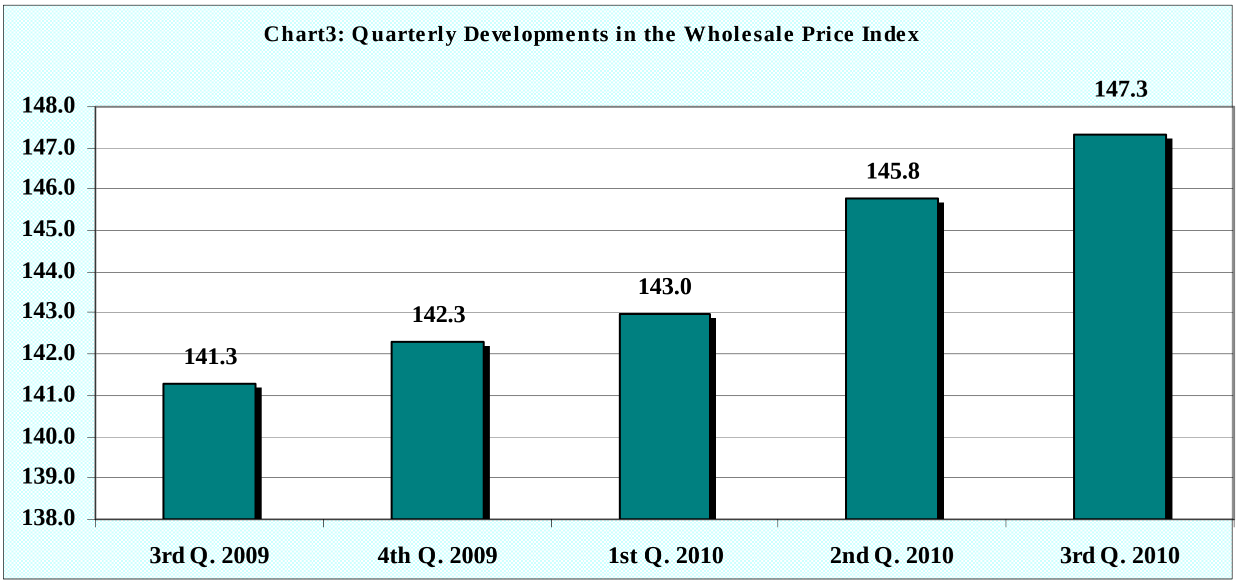
This index measures wholesale prices in a basket containing 160 items sold in the primary wholesale markets in the Kingdom. Table (4) shows quarterly and annual wholesale price indices up to the end of the third quarter of 2010. The table indicates that the wholesale price index recorded a rise of 4.2 percent during the third quarter of 2010 compared to the corresponding quarter of 2009. This was due to a rise in 9 of the groups constituting the wholesale price index. The group of other commodities rose by 21.1 percent, the group of beverages and tobacco by 13.9 percent, the group of miscellaneous manufactured articles by 10.4 percent, the group of chemicals and related products by 9.2 percent, the group of food and live animals by 5.0 percent, the group of manufactured goods classified by substance by 3.5 percent, the group of crude materials (except fuel) by 3.3 percent, the group of vegetable and animal oils & fats by 1.7 percent, and the group of machinery and transport equipment by 0.9 percent. The group of mineral fuels and related products remained unchanged.

Table 4: Quarterly and Annual Wholesale Price Indices up to the End of the Third Quarter of 2010
1988 = 100

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 10 against 2nd quarter 09	% change of 3rd quarter 10 against corresponding quarter of previous year	Change of Annual Average 2009
	2008	2009	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010	Third Quarter 2010			
General Index	144.7	140.3	143.0	145.8	147.3	145.8	147.3	1.0	4.2	-3.0
Food & Live Animals	160.5	162.0	163.3	165.7	171.0	165.7	171.0	3.2	5.0	0.9
Beverages & Tobacco	131.6	135.3	148.9	149.8	150.3	149.8	150.3	0.3	13.9	2.8
Crude Materials (except fuel)	193.6	181.7	185.1	186.4	190.1	186.4	190.1	2.0	3.3	-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	136.7	136.2	138.3	136.2	138.3	1.5	1.7	2.3
Chemicals & Related Products	178.3	141.7	163.1	169.3	162.8	169.3	162.8	-3.8	9.2	-20.5
Manufactured Goods classified by substance	142.0	134.3	134.4	138.6	139.6	138.6	139.6	0.7	3.5	-5.4
Machinery & Transport Equipment	126.8	126.0	125.3	125.4	127.0	125.4	127.0	1.3	0.9	-0.6
Msc. Manufactured Articles	120.6	123.0	129.4	135.0	136.5	135.0	136.5	1.1	10.4	2.0
Other Commodities	172.6	196.3	210.9	233.7	238.3	233.7	238.3	2.0	21.1	13.7

Source: Central Department of Statistics and Information.

The general wholesale price index recorded a rise of 1.0 percent during the third quarter of 2010 compared to the second quarter, due to a rise in 8 of the groups constituting the wholesale price index. The group of food and live animals rose by 3.2 percent, both groups of other commodities and crude materials (except fuel) by 2.0 percent, the group of vegetable and animal oils & fats by 1.5 percent, the group of machinery & transport equipment by 1.3 percent, miscellaneous manufactured articles by 1.1 percent, the group of manufactured goods classified by substance by 0.7 percent, and the group of beverages and tobacco by 0.3 percent. However, the group of mineral fuels and related products remained unchanged, while a single case of decline recorded in the group of chemicals and related products by 3.8 percent.



3-3 GDP Deflator

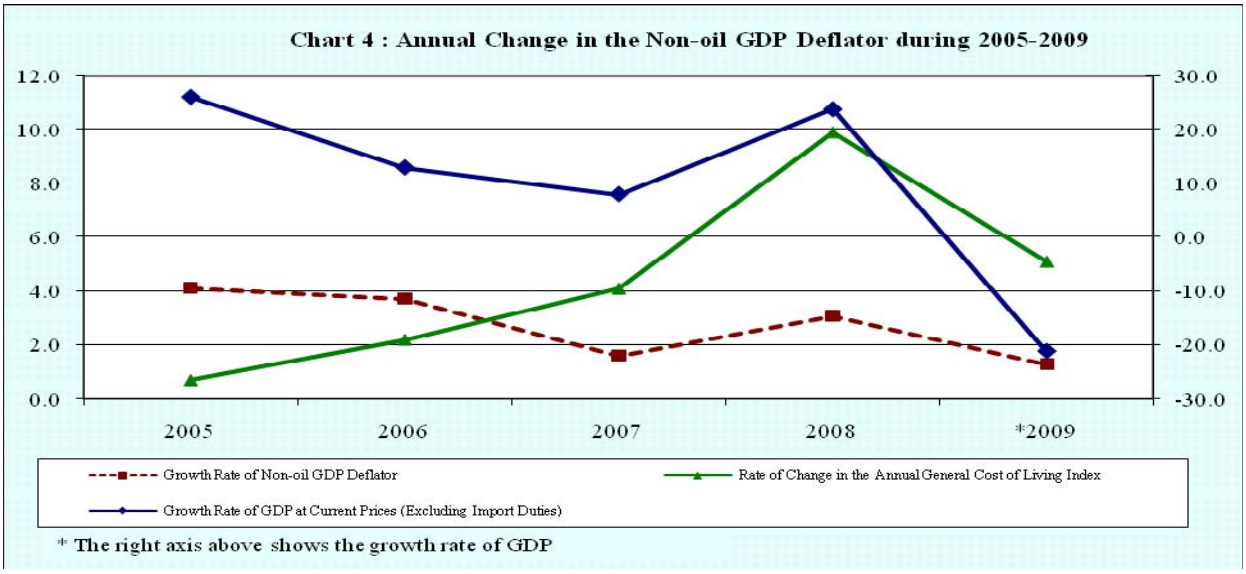
This deflator measures the prices of commodities, produced domestically, through the deflator of the oil sector, and the non-oil sector. The non-oil deflator reflects domestic inflation by excluding change in crude oil prices. Table (5) and Chart (4) show the non-oil deflator and the growth rate of the 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 1.3 percent in 2009 compared to an increase of 3.1 in 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	8.0	1.6	4.1
2008	23.8	3.1	9.9
2009*	-21.2	1.3	5.1

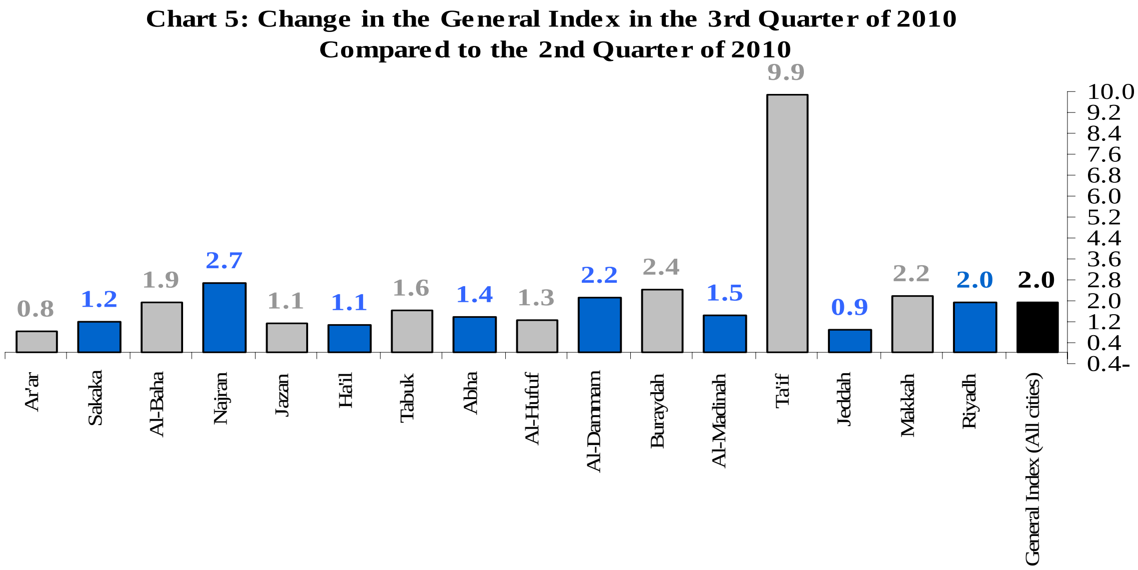
* Data of GDP 2009 (Provisional).

Source: Central Department of Statistics and Information.



4- Geographical Distribution of Inflation Rate in the Kingdom

The general cost of living index (for all cities) registered a rise of 2.0 percent to 130.2 in the third quarter of 2010 compared to the second quarter of 2010. Six cities (Ta'if, Najran, Buraydah, Makkah, Al-Dammam, and Riyadh) recorded higher quarterly rates than the growth rate in the general cost of living index. Notably, Ta'if recorded the highest quarterly growth rate of 9.9 percent compared to the remaining cities of the Kingdom. The remaining cities recorded equivalent or lower growth rates than that of the rate of growth in the general cost of living index (Table 6 and Chart 5).



The general cost of living index (all cities) registered an annual rise of 6.0 percent in the third quarter of 2010, compared to the third quarter of the preceding year. Three cities (Ta'if, Riyadh, and Al-Dammam) recorded annual rises higher than the rate of growth in the general index. The rest of the cities, however, recorded annual rises lower than the rate of growth in the general index (Table 6 and Chart 6).

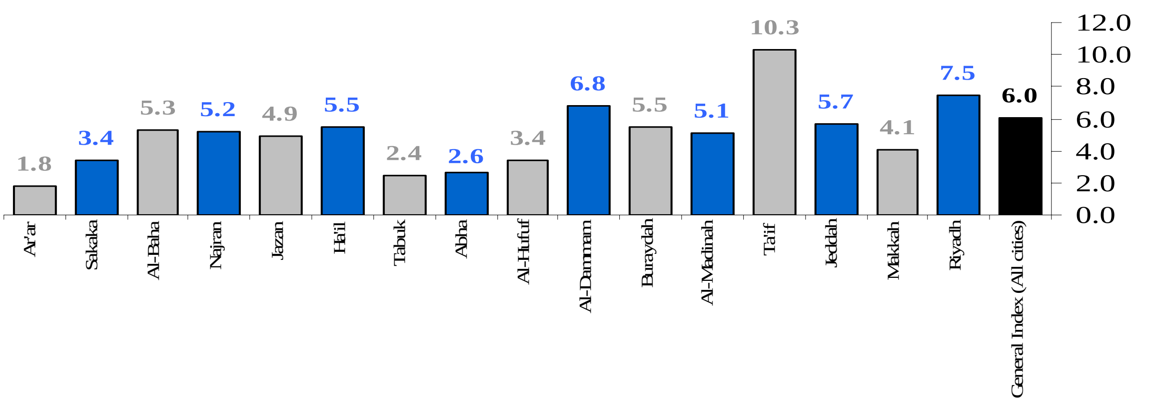
Table 6: Cost of Living Indices by Cities

	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Quarterly Change (%)	Annual Change* (%)
General Index (All cities)	**122.8**	**124.7**	**126.1**	**127.7**	**130.2**	**2.0**	**6.0**
Riyadh	126.1	129.0	130.6	133.0	135.6	2.0	7.5
Makkah	117.6	119.0	119.1	119.8	122.4	2.2	4.1
Jeddah	122.7	125.0	127.1	128.5	129.6	0.9	5.7
Ta'if	127.9	126.5	126.5	128.3	141.0	9.9	10.3
Al-Madinah	113.8	115.5	116.3	117.8	119.6	1.5	5.1
Buraydah	123.9	126.0	127.7	127.6	130.7	2.4	5.5
Al-Dammam	127.4	130.2	132.3	133.2	136.0	2.2	6.8
Al-Hufuf	121.2	121.2	122.1	123.8	125.3	1.3	3.4
Abha	117.0	117.6	117.8	118.4	120.0	1.4	2.6
Tabuk	117.4	117.5	117.7	118.3	120.3	1.6	2.4
Ha'il	124.7	126.6	128.2	130.1	131.5	1.1	5.5
Jazan	120.3	121.7	122.7	124.7	126.1	1.1	4.9
Najran	121.8	122.9	124.0	124.7	128.1	2.7	5.2
Al-Baha	120.7	122.6	124.3	124.7	127.1	1.9	5.3
Sakaka	111.4	113.1	114.0	113.9	115.3	1.2	3.4
Ar'ar	107.8	108.5	109.4	108.8	109.7	0.8	1.8

* Comparison between 3rd quarter of 2010 and 3rd quarter of 2009.

Source: Central Department of Statistics and Information.

Chart 6: Change in the General Index in the 3rd Quarter of 2010 Compared to the 3rd Quarter of 2009



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. 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 2009.

The United States is the largest trading partner of the Kingdom, though the relative share of imports from USA declined during 2009 to 14.2 percent from 19.3 percent in 2000. The value of imports from the United States rose by 133.9 percent to Rls 51.0 billion during 2009 from Rls 21.8 billion in 2000. Figures indicate that the inflation rate in the USA decreased to 0.3 percent during 2009 compared to 3.4 percent in 2000.

As for the Kingdom’s imports from the Euro zone during 2009, imports from Germany went up by 211.9 percent to Rls 28.7 billion compared to 2000, from Italy by 180.9 percent to Rls 13.3 billion, from France by 204.2 percent to Rls 14.3 billion, and from other Euro zone countries by 262.1 percent to Rls 112.6 billion.

Table 7 shows a decline in the inflation rate in the People's Republic of China (PRC) by 0.7 percent in 2009 compared to an increase of 0.4 in 2000. The relative share of its exports to the Kingdom rose from 4.0 percent in 2000 to 11.3 percent in 2009, amounting to Rls 40.6 billion. India's relative share of exports to the Kingdom rose from 2.8 percent in 2000 to 3.7 percent in 2009 and stood at Rls 13.1 billion. The Kingdom's total imports increased during the period 2000-2009. A rise occurred in the percentage share of imports from emerging economies, such as India, South Korea, and other countries. India witnessed higher inflationary pressures especially during the last three years. Data of the IMF (World Economic Outlook, October 2010) indicate lower inflation rates in the Kingdom's trading partners during 2009 compared to 2008, 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	2009*	2000	2009	2000	2009
United States	21802	50999	19.3	14.2	3.4	-0.3
Japan	11837	27142	10.5	7.6	-0.8	-1.4
Republic of China	4485	40601	4.0	11.3	0.4	-0.7
United Kingdom	7308	12842	6.5	3.6	0.9	2.1
South Korea	3846	15931	3.4	4.4	2.3	2.8
India	3132	13095	2.8	3.7	4.0	10.9
Australia	2907	6256	2.6	1.7	4.5	1.8
Euro Zone Countries	26787	78943	23.7	22.0	2.2	0.3
of which :						
Germany	9164	28660	8.1	8.0	1.4	0.2
Italy	4698	13250	4.1	3.7	2.6	0.8
France	4675	14346	4.1	4.0	1.8	0.1
Other countries	31136	112569	27.5	31.4		
Total	113240	358378				

* Provisional Data.

Source: Central Department of Statistics and Information, World Economic Outlook Database, Oct 2010 - 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 inflation rates for the period (October 2009 - September 2010) and the period (October 2004 - September 2009), as well as descriptive statistics for quarterly inflation rates during the period from the third quarter of 2005 to the third quarter of 2010. As shown in Table (8), the arithmetic average of inflation rate increased from 4.2 percent during the last five years to 4.9 percent during the year ended in September 2010. This was due to an increased arithmetic average of inflation rate in the six following groups, the group of renovation, rent, fuel, and water, the group of other goods and services, the group of house furnishing, the group of education and entertainment, the group of transport and telecommunication, and the group of fabrics, apparel and shoes. However, the arithmetic average of inflation rate went down in two groups, namely, the group of food and beverages, and the group of medical care.

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 Telecomm-unication	Education and Entertainment	Goods and other Services
Oct 2004 - Sep 2009									
Average	4.2	6.4	-0.8	7.6	3.4	2.3	-1.1	0.8	5.8
Median	3.0	5.2	-1.1	5.2	1.1	1.6	-0.2	0.5	4.3
Standard Deviation	3.4	4.5	1.4	7.4	4.6	2.5	2.4	0.9	3.9
Maximum Amount	11.1	16.0	1.8	19.8	14.7	7.7	2.5	3.2	14.7
Minimum Amount	0.2	0.4	-3.5	-1.4	-1.9	-0.2	-5.4	-0.4	1.0
Range	10.9	15.6	5.3	21.2	16.6	7.9	7.9	3.6	13.7
Oct 2009- Sep 2010									
Average	4.9	4.2	-0.5	10.3	3.6	0.2	0.7	1.0	7.3
Median	4.8	5.0	-0.5	9.9	4.0	0.2	1.0	1.0	7.9
Standard Deviation	0.9	2.9	0.2	1.3	0.7	0.4	1.0	0.1	1.8
Maximum Amount	6.1	8.0	-0.2	12.0	4.3	0.8	2.6	1.3	9.5
Minimum Amount	3.5	-0.3	-0.9	8.9	2.5	-0.2	-1.1	0.8	4.7
Range	2.7	8.3	0.7	3.1	1.8	1.0	3.8	0.5	4.7

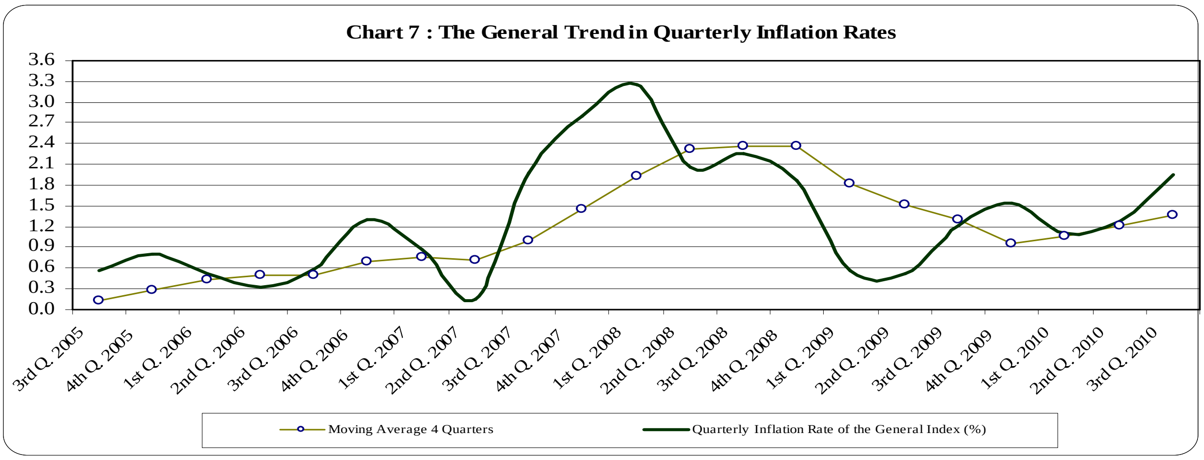
* A month against a corresponding month in the preceding year.

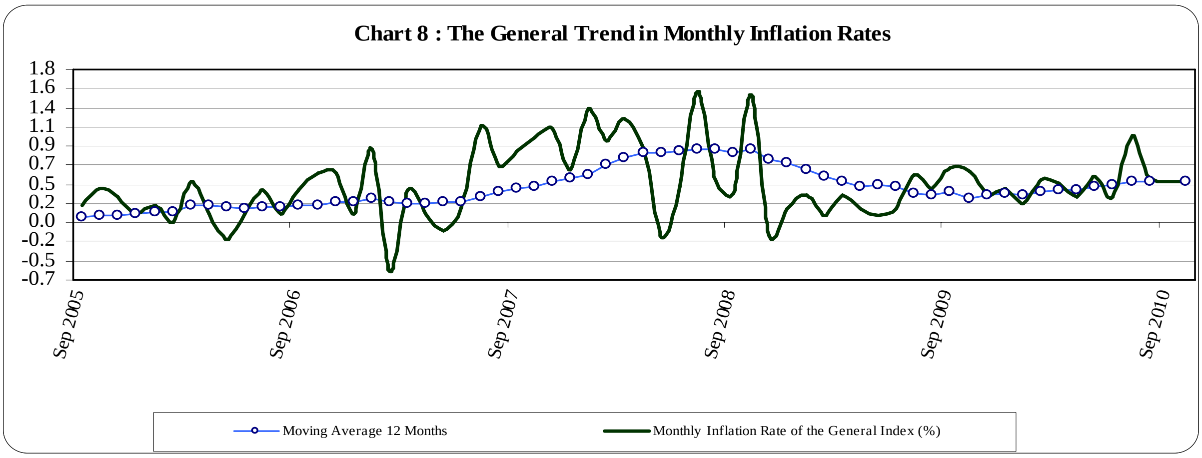
Table (9) shows that the average quarterly inflation rate amounted to 4.9 percent of the general index with a standard deviation of 3.0 and range of 10.3 (The range is the difference between the maximum and the minimum values). Most of the volatility in the quarterly inflation rates during the period from the third quarter of 2005 to the third quarter of 2010 was accounted for by the group of renovation, rent, fuel and water (average = 9.1 with a standard deviation = 6.8 and range = 20.2), the group of food and beverages (average = 6.5 with a standard deviation = 4.4 and range = 15.6), the group of goods and other services (average = 6.6 with a standard deviation = 3.3 and range = 11.0), the group of house furnishing (average = 4.0 with a standard deviation = 4.3 and range = 14.5), and the group of medical care (average = 2.2 with a standard deviation = 2.6 and range = 7.8).

Table 9: Descriptive Statistics for Quarterly Inflation Rates: Third Quarter 2005 - Third Quarter 2010

	(%) 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 Telecomm-unication	Education and Entertainment	Goods and other Services
3rd Quarter 2005 - 3rd Quarter 2010									
Average	4.9	6.5	-0.7	9.1	4.0	2.2	-0.6	0.9	6.6
Median	4.4	5.6	-0.6	9.6	2.8	1.3	0.1	0.9	6.5
Standard Deviation	3.0	4.4	1.3	6.8	4.3	2.6	2.2	0.9	3.3
Maximum Amount	10.8	15.8	1.6	18.9	14.4	7.6	2.2	3.1	12.9
Minimum Amount	0.5	0.2	-3.1	-1.3	-0.1	-0.2	-5.3	-0.3	2.0
Range	10.3	15.6	4.7	20.2	14.5	7.8	7.5	3.4	11.0

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).





7. Factors Affecting Inflation Rate

Many factors play a role in affecting domestic inflation rate, and the influence of these factors varies 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. The government expenditure recorded a growth rate of 14.7 percent in 2009 compared to a growth rate of 11.5 percent in 2008. In the third quarter of 2010, broad money supply (M3) increased by 1.5 percent compared to the second quarter of 2010, recording an annual rise of 5.1 percent in the year ended in the third quarter of 2010 compared to an annual rise of 12.5 percent in the third quarter of 2009.

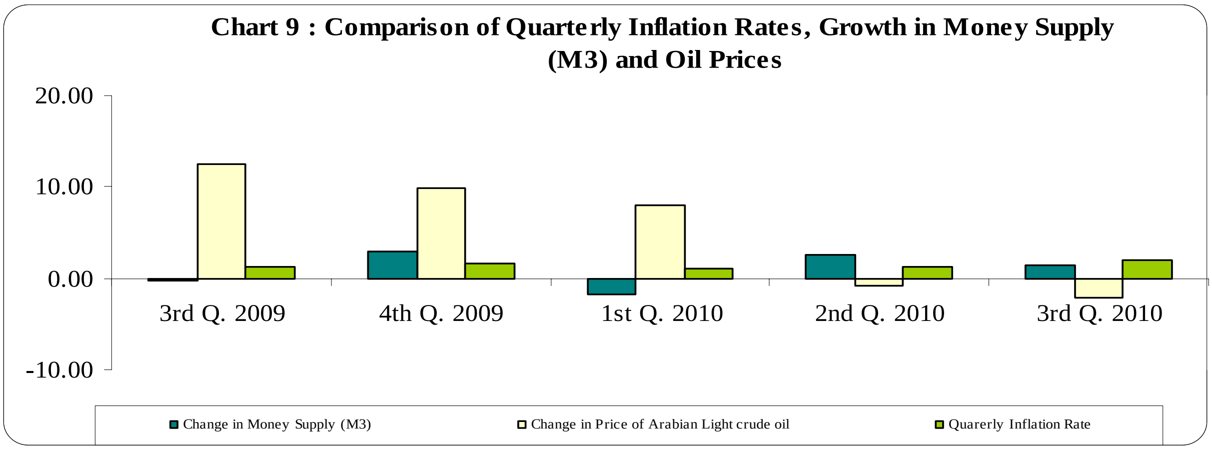
Table 10 : Most Significant Factors Affecting the Inflation Rate in the Kingdom

	2004	2005	2006	2007	2008	2009	% Change of 3rd quarter 10 against 2nd quarter 10	% change of 3rd quarter 10 against corresponding quarter of previous
Money Supply (M3)	18.8	11.6	19.3	19.6	17.6	10.7	1.5	5.1
Government Expenditure	11.0	21.5	13.5	18.5	11.5	14.7	-	-
GDP Growth Rate:	16.7	26.1	13.0	8.0	23.8	-21.2	-	-
- Private Sector	7.5	7.8	7.9	8.3	8.7	3.6	-	-
- Government Sector	10.4	12.5	10.7	3.1	5.4	7.7	-	-

(-) Not Available.
Source: SAMA, Ministry of Finance and Central Department of Statistics and Information

As for the activity of the private and public sectors, the private sector's GDP at current prices recorded a growth rate of 3.6 percent in 2009, while the growth rate of the public sector was 7.7 percent during the same year.

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 2010

In the third quarter of 2010, the inflation rate increased by 6.0 percent compared to the corresponding quarter of the preceding year. The average annual inflation in 2010 was 5.2 percent up to the end of the third quarter, compared to 5.5 percent and 9.9 percent in 2009 and 2008 respectively.

An increase is noticeable in the level of inflationary pressures in the Saudi economy during the third quarter of the current year. The quarterly inflation rate went up from 1.3 percent in the second quarter of 2010 to 2.0 percent in the third quarter of the same year. The bulk of the rise is ascribed to the continued inflationary pressures in the group of food and beverages, the group of other goods and services and the group of housing and its appurtenances.

The IMF's data on the international price indices issued in October, 2010 shows an increase in the prices of non-oil commodities by 23.5 percent in September on an annual basis and by 19.8 percent when comparing the third quarter of 2010 with the corresponding quarter of the preceding year. World food prices rose by 18.1 percent, including barley and wheat that registered record increases of 60.9 percent and 42.3 percent respectively. Agricultural raw materials, metals and energy increased by 27.7 percent, 32.9 percent and 13.8 percent respectively on an annual basis.

According to the IMF's data for October 2010, inflation rates in advanced economies are expected to rise but at moderate rates reaching 1.4 percent in 2010 compared to 0.1 percent in 2009. The IMF expects that the inflation rates in the emerging and developing economies to rise to 6.3 percent in 2010 compared to 5.2 percent in 2009. It also expects that the inflation rate in the Kingdom will be 5.5 percent during 2010.

According to Food Outlook - June 2010 issued by Food and Agriculture Organization (FAO), world commodities prices are expected to decline slightly in the fourth quarter of 2010. This decline is expected to have its impact at the local level, reducing the effect of the group of food and beverages on the general price index. Moreover, the Hajj season is likely to have a positive effect on the Saudi economy in terms of economic growth and a negative effect by increasing inflationary pressures caused by expected increase in local prices of meat and clothes during Eid Aladha period. Inflationary pressures in housing and its appurtenances are expected to decline even at moderate rates in the light of the anticipated increased supply of housing units that would lead to reduce inflationary pressures in housing rents. The decline in the inflation rates in major trading partners of the Kingdom in the third quarter of 2010 is expected to be reflected at the local market in the fourth quarter of the same year.

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 2010 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 the prices of commodities produced domestically measured by the deflator of the oil sector, and the non-oil sector and the most important factors affecting inflation rate. The available data reveal that the local inflationary pressures are likely to continue during the fourth quarter of 2010, but at a lower rate than in the two preceding quarters.