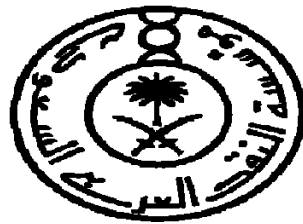


Inflation Report
Second Quarter 2010



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 goes in line with economic growth. In the last five years, except for the year 2008, many countries have registered noticeable rates of inflation at an accelerating pace due to a number of factors, including increased global economic activity (especially in emerging economies) and high prices of primary goods.

The main factors causing inflation 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 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 third 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 June 2010 rose by 4.5 percent compared to the average inflation rate of 4.0 percent during the preceding five years (July 2004– June 2009). During the year July 2009- June 2010, most inflation rates by major groups exceeded their average levels recorded in the preceding five years. Five main groups, representing 64 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 its appurtenances) rose by 11.1 percent, the group of goods and other services 5.9 percent, the group of home furniture 4.6 percent, the group of education and entertainment 1.0 percent, the group of transport and telecommunications 0.4 percent, while the remaining three groups (which constitute 36 percent of the basket) recorded inflation rates lower than the average levels they registered during the past five years. The group of food and beverages rose by 2.6 percent, and the group of medical care 0.1 percent. However, the group of fabrics, apparel and shoes went down by 0.2 percent (Table 1 and Chart 1).

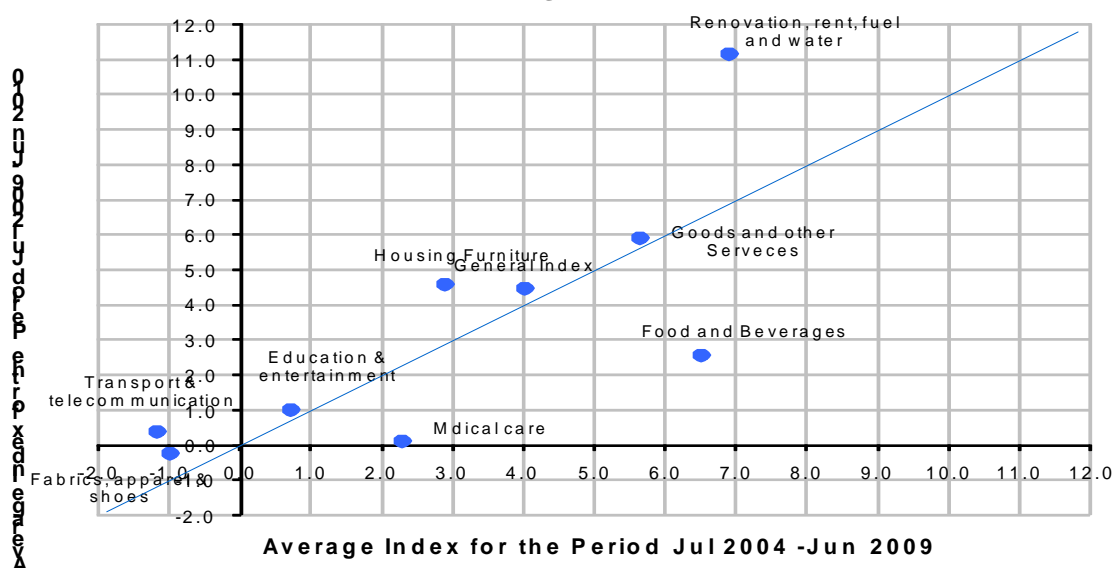
Table 1: Change in the General Cost of Living Index and its Major Groups (%)

	Weights (Relative Importance) (%)	Average Index for the Period Jul 2004 - Jun 2009	Average Index for the Period Jul 2009 - Jun 2010
General Index	100	4.0	4.5
Foodstuffs & beverages	26	6.5	2.6
Fabrics, Clothing & footwear	8	-1.0	-0.2
Renovation, rent, fuel & water	18	6.9	11.1
Home furniture	11	2.9	4.6
Medical care	2	2.3	0.1
Transport & telecommunication	16	-1.2	0.4
Education & entertainment	6	0.7	1.0
Other expenses & services	13	5.7	5.9

Source: Central Department of Statistics and formation.

Chart 1 compares the average level of inflation during the year ended June 2010 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 June 2010 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 Jun 2010 and Those During the Preceding Five Years.



As Table 2 shows, the average inflation rate in the Kingdom during the period from 2004 until 2009 is still low compared to the average rate in 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	5.4	14.9	-0.7	5.5
Kuwait	1.3	4.1	3.1	5.5	10.5	4.7	4.9
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	11.7	11.5	1.0	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, Apr 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 for sixteen cities. Table (3) shows all cities' cost of living indices, and quarterly and annual rates of change up to the end of the second quarter of 2010.

Table (3) shows that the average general cost of living index for the base year (1999=100) registered an increase of 1.3 percent in the second quarter of 2010

compared to the first quarter of 2010. This increase is attributed to rises in the group of food and beverages by 0.9 percent, the group of renovation, rent, fuel and water by 2.9 percent, the group of transport and telecommunications by 0.3 percent, the group of other goods by 2.2 percent, and the group of housing furnishing by 0.5 percent*, while the remaining groups registered slight rates of decline.

Data in Table (3) and Chart (2) indicate an increase of 5.3 percent in the average** Cost of Living index in the period ended in the second quarter of 2010 compared to the corresponding quarter of the previous year. This increase was ascribed to rises in the group of food and beverages by 5.6 percent, the group of renovation, rent and fuel by 9.4 percent, the group of transport and telecommunications by 1.1 percent, the group of other goods by 7.2 percent, the group of house furnishing by 4.2 percent, and the group of education and entertainment by 0.9 percent.

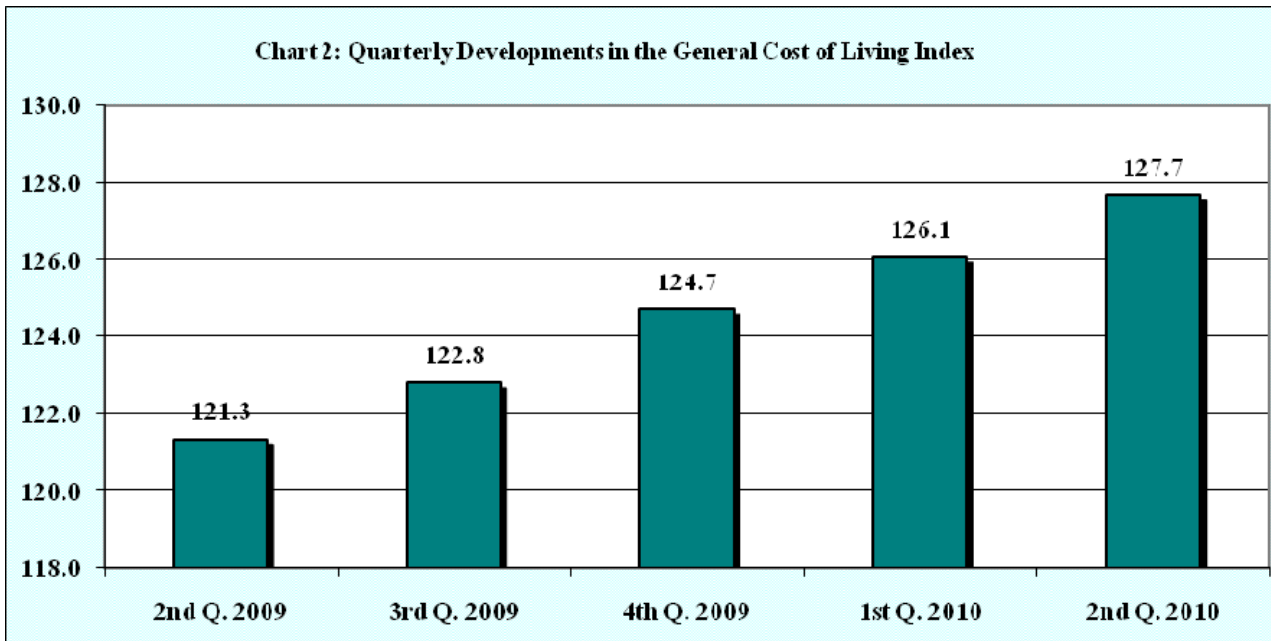
**Table 3: Quarterly and Annual Cost of Living Indices
up to the End of the Second Quarter of 2010
1999 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 2nd quarter 10 against 1st quarter 09	% change of 2nd quarter 10 against corresponding quarter of previous year	Change of Annual Average 2009
	2008	2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010			
General Index	116.5	122.4	121.3	122.8	124.7	126.1	127.7	1.3	5.3	5.1
Food and Beverages	137.0	139.7	138.0	139.2	142.1	144.4	145.7	0.9	5.6	1.9
Fabrics, Apparel and Shoes	85.9	86.3	86.3	86.2	86.2	86.2	85.9	-0.3	-0.5	0.5
Renovation, Rent, Fuel and Water	128.3	146.4	145.7	148.8	151.4	154.9	159.4	2.9	9.4	14.1
House Furnishing	103.8	112.6	111.5	111.5	115.4	115.7	116.2	0.5	4.2	8.5
Medical Care	112.4	113.2	113.1	113.2	113.3	113.1	112.9	-0.2	-0.2	0.7
Transport and Telecommunications	88.3	89.2	88.9	89.1	89.1	89.6	89.9	0.3	1.1	1.0
Education and Entertainment	101.0	102.3	102.0	102.0	103.3	103.2	102.9	-0.3	0.9	1.4
Goods and other Services	133.6	139.3	136.9	141.1	143.0	143.5	146.7	2.2	7.2	4.3

Source: Central Department of Statistics and Information

* It is worth mentioning that the group order is based on its relative weight and importance (see Table 1).

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



When comparing the second quarter of 2010 with the corresponding quarter of the preceding year, it becomes evident that the amount of increase in inflation was 5,3 percent. The group of renovation, rent, and fuel contributed a 2,0 points increase to the general index (38.4 percent of total impact on the general index), the group of foods and beverages 1.7 points (31,1 percent), the group of goods and other services 1,1 points (19.8 percent). The remaining groups contributed by rates less than 8 percent of the total impact on the general index.

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 second quarter of 2010. The table indicates that the wholesale price index recorded a rise of 4.7 percent during the second quarter of 2010 compared to the corresponding quarter of 2009. This was due to a rise in 8 of the groups constituting the wholesale price index. The group of other commodities rose by 25.0 percent, the group of chemicals and related products by 21,0 percent, the group of beverages and tobacco by 13.6 percent, the group of miscellaneous manufactured articles by 12.2 percent, both the group of manufactured

goods classified by substance, and the group of food and live animals by 3.4 percent, the group of crude materials (except fuel) by 1.5, and the group of vegetable and animal oils & fats by 0.1 percent. On the other hand, the group of mineral fuels and related products remained unchanged, while the group of machinery and transport equipment recorded a decline of 0.2 percent.

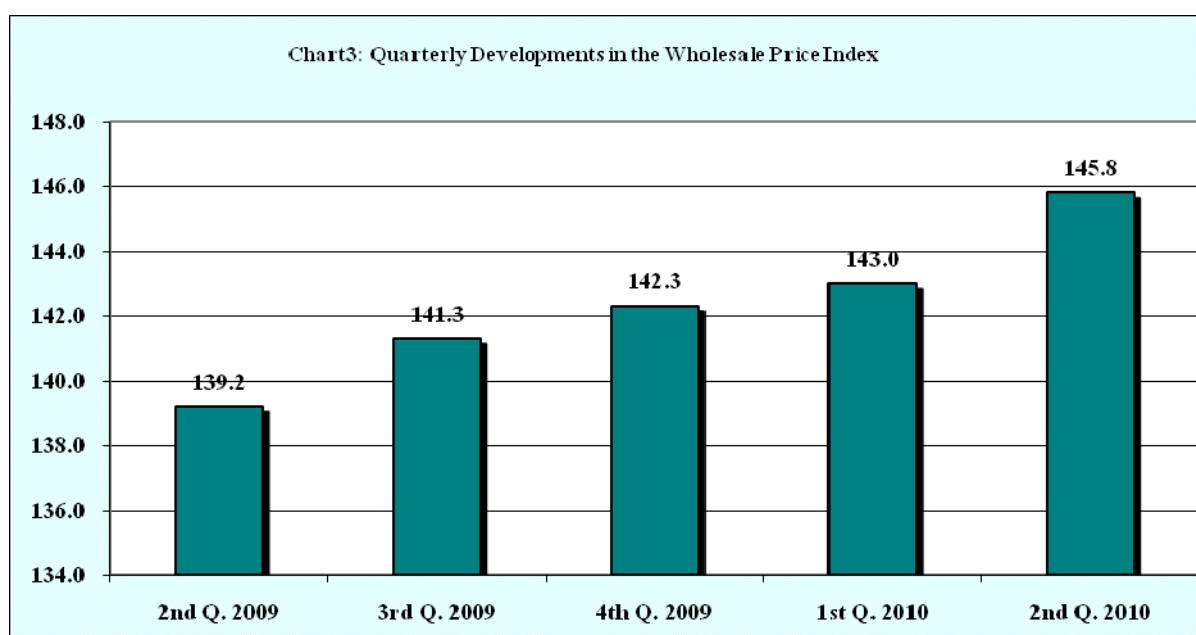
**Table 4: Quarterly and Annual Wholesale Price Indices
up to the End of the Second Quarter of 2010
1988 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 2nd quarter 10 against 1st quarter 09	% change of 2nd quarter 10 against corresponding quarter of previous year	Change of Annual Average 2009
	2008	2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010			
General Index	144.7	140.3	139.2	141.3	142.3	143.0	145.8	2.0	4.7	-3.0
Food & Live Animals	160.5	162.0	160.2	162.8	163.1	163.3	165.7	1.5	3.4	0.9
Beverages & Tobacco	131.6	135.3	131.9	131.9	144.9	148.9	149.8	0.6	13.6	2.8
Crude Materials (except fuel)	193.6	181.7	183.6	184.0	185.3	185.1	186.4	0.7	1.5	-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	136.1	136.0	135.5	136.7	136.2	-0.4	0.1	2.3
Chemicals & Related Products	178.3	141.7	139.9	149.1	154.1	163.1	169.3	3.8	21.0	-20.5
Manufactured Goods classified by substance	142.0	134.3	134.1	134.9	134.1	134.4	138.6	3.1	3.4	-5.4
Machinery & Transport Equipment	126.8	126.0	125.6	125.9	128.0	125.3	125.4	0.1	-0.2	-0.6
Msc. Manufactured Articles	120.6	123.0	120.3	123.6	126.4	129.4	135.0	4.3	12.2	2.0
Other Commodities	172.6	196.3	187.0	196.8	219.4	210.9	233.7	10.8	25.0	13.7

Source: Central Department of Statistics and Information.

The general wholesale price index recorded a rise of 2.0 percent during the second quarter of 2010 compared to the first quarter, due to a rise in 8 of the groups constituting the wholesale price index. The group of other commodities rose by 10.8 percent, the group of miscellaneous manufactured articles by 4.3 percent, the group of chemicals and related products by 3.8 percent, the group of manufactured goods classified by substance by 3.1 percent, the group of food and live animals by 1.5 percent. The group of crude materials (except fuel), the group of beverages and tobacco, and the group of machinery & transport equipment recorded rises by rates less than 1.0 percent. However, the group of mineral fuels and related products

remained unchanged, while a single case of decline recorded in the group of vegetable and animal oils & fats by 0.4 percent.



3-3 GDP Deflator

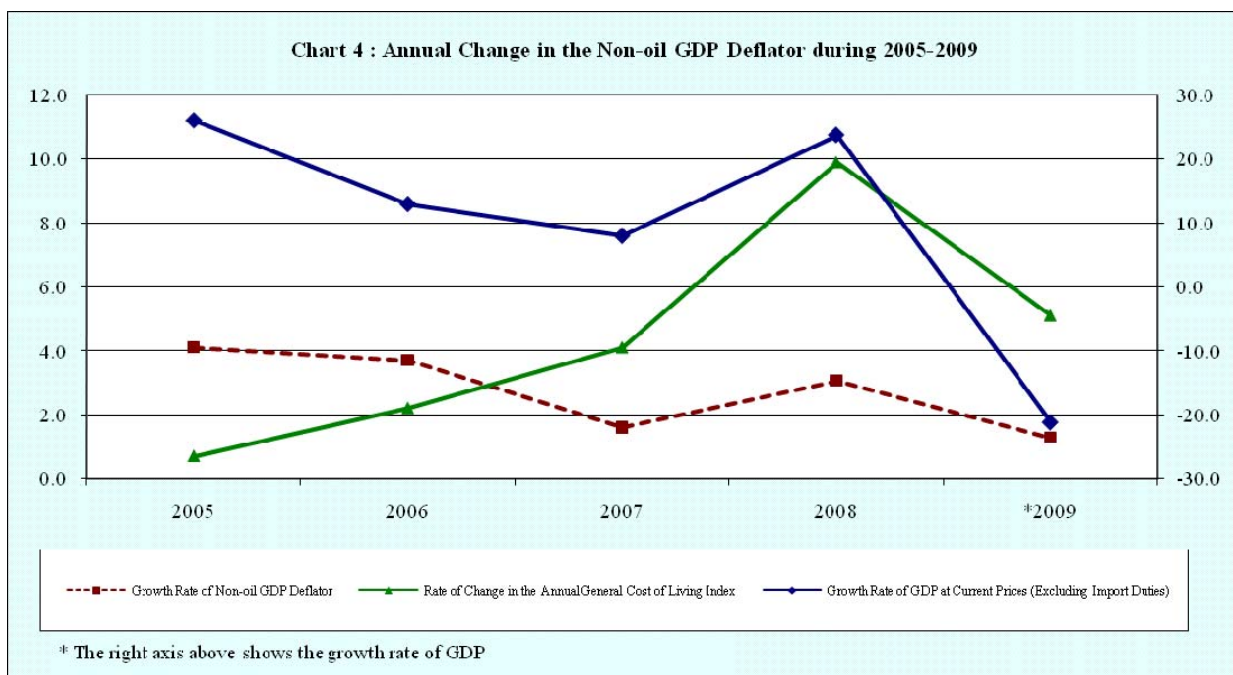
This deflator measures the prices of commodities, produced domestically, through the deflator of the oil sector, and the non-oil sector. The non-oil deflator reflects domestic inflation by excluding change in crude oil prices. Table (5) and Chart (4) show the non-oil deflator and the growth rate of the 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 Inflation.



4- Geographical Distribution of Inflation Rate in the Kingdom

The general cost of living index (for all cities) registered a rise of 1.3 percent to 127.7 in the second quarter of 2010 compared to the first quarter of 2010. Five cities (Riyadh, Ta'if, Al-Hafuf, Ha'il, and Jazan) recorded higher quarterly rates than the growth rate in the general cost of living index. Notably, Riyadh recorded the highest quarterly growth rate, followed by Jazan. The remaining cities recorded lower growth rates than the rate of growth in the general cost of living index, while three cities (Buraydah, Skaka, and Ar'ar) recorded negative growth rates (Table 6 and Chart 5).

The general cost of living index (all cities) registered an annual rise of 5.3 percent in the second quarter of 2010, compared to the second quarter of the preceding year. Three cities (Riyadh, Jeddah, 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).

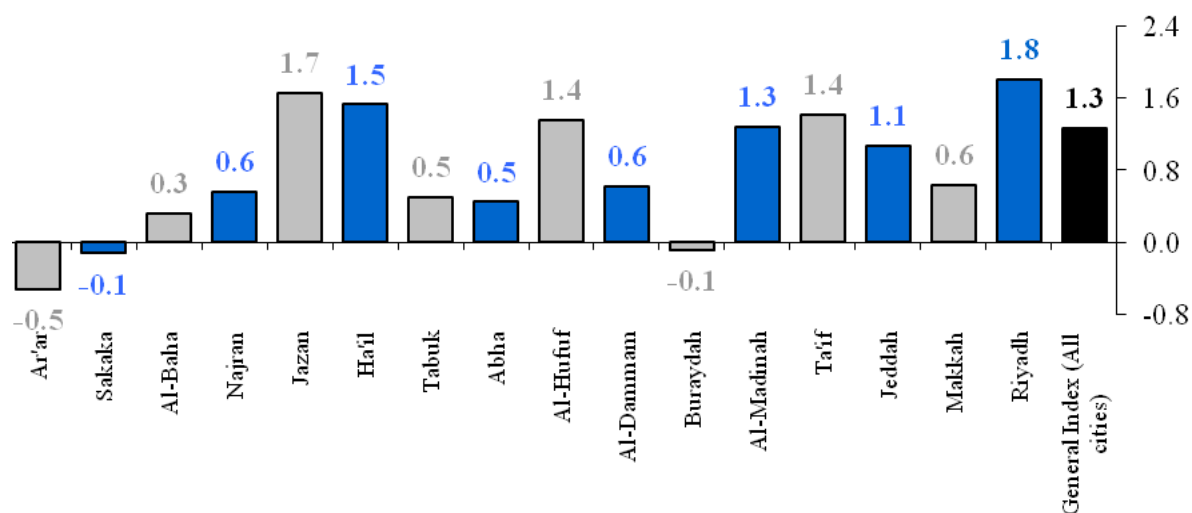
Table 6: Cost of Living Indices by Cities

	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010	Quarterly Change (%)	Annual Change* (%)
General Index (All cities)	121.3	122.8	124.7	126.1	127.7	1.3	5.3
Riyadh	124.1	126.1	129.0	130.6	133.0	1.8	7.1
Makkah	116.1	117.6	119.0	119.1	119.8	0.6	3.2
Jeddah	121.2	122.7	125.0	127.1	128.5	1.1	6.0
Ta'if	124.0	127.9	126.5	126.5	128.3	1.4	3.5
Al-Madinah	113.9	113.8	115.5	116.3	117.8	1.3	3.5
Buraydah	121.3	123.9	126.0	127.7	127.6	-0.1	5.2
Al-Dammam	126.0	127.4	130.2	132.3	133.2	0.6	5.7
Al-Hufuf	121.8	121.2	121.2	122.1	123.8	1.4	1.6
Abha	115.7	117.0	117.6	117.8	118.4	0.5	2.3
Tabuk	117.3	117.4	117.5	117.7	118.3	0.5	0.9
Ha'il	123.8	124.7	126.6	128.2	130.1	1.5	5.1
Jazan	119.8	120.3	121.7	122.7	124.7	1.7	4.1
Najran	121.3	121.8	122.9	124.0	124.7	0.6	2.8
Al-Baha	120.1	120.7	122.6	124.3	124.7	0.3	3.8
Sakaka	111.2	111.4	113.1	114.0	113.9	-0.1	2.4
Ar'ar	108.2	107.8	108.5	109.4	108.8	-0.5	0.6

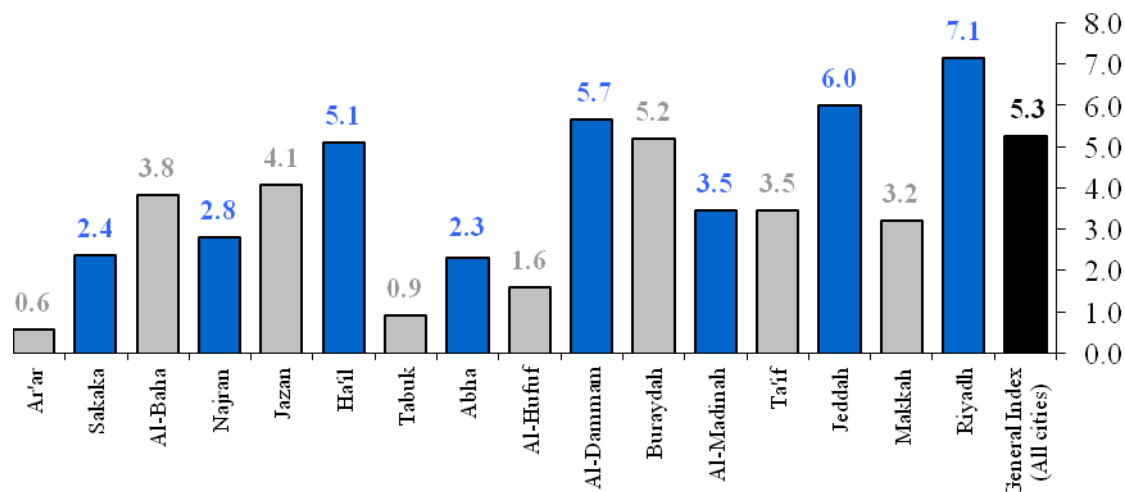
* Comparison between 2nd quarter of 2010 and 2nd quarter of 2009.

Source: Central Department of Statistics and Information.

**Chart 5: Change in the General Index in the 2nd Quarter of 2010
Compared to the 1st Quarter of 2010**



**Chart 6: Change in the General Index in the 2nd Quarter of 2010
Compared to the 2nd 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 0.4 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. Table 7 indicates an increase in the volume of the Kingdom's imports over the years under study. There was a rise in the percentage share of imports from emerging economies, such as India, South Korea, and other countries, which were characterized by higher inflationary pressures especially during the last three years. Data of the IMF (World Economic Outlook, July 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	-0.4
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	2.2
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	0.1
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, April 2010.

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

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

Tables (8 and 9) provide descriptive statistics on monthly inflation rates for the year ended in June 2010 and for the last five years (July 2004 to June 2009), as well as statistics for quarterly inflation rates during the period from the second quarter of 2005 to the second quarter of 2010. Table (9) shows that the average quarterly inflation rate amounted to 4.6 percent of the general index with a standard deviation of 3.2 and range of 10.4 (The range is the difference between the maximum and the minimum values). As shown in Table (8), the arithmetic average of inflation rate increased (from 4.0 to 4.5 percent) during the year ended in June 2010, compared with the previous five years. 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 home furnishing, the group of fabrics, apparel and shoes, the group of transport and telecommunication, and the group of education and entertainment. 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.

Most of the volatility in the quarterly inflation rates during the period from the second quarter of 2005 to the second quarter of 2010 was accounted for by the group of renovation, rent, fuel and water (average = 8.5 with a standard deviation = 7.2 and range = 20.2), the group of food and beverages (average = 6.4 with a standard deviation = 4.5 and range = 15.6), the group of goods and other services (average = 6.4 with a standard deviation = 3.5 and range = 11.0), the group of home furnishing

(average = 3.9 with a standard derivation = 4.4 and range = 14.5), and the group of medical care (average = 2.2 with a standard deviation = 2.6 and range = 7.8).

Table 8: Descriptive Statistics for Monthly Inflation Rates

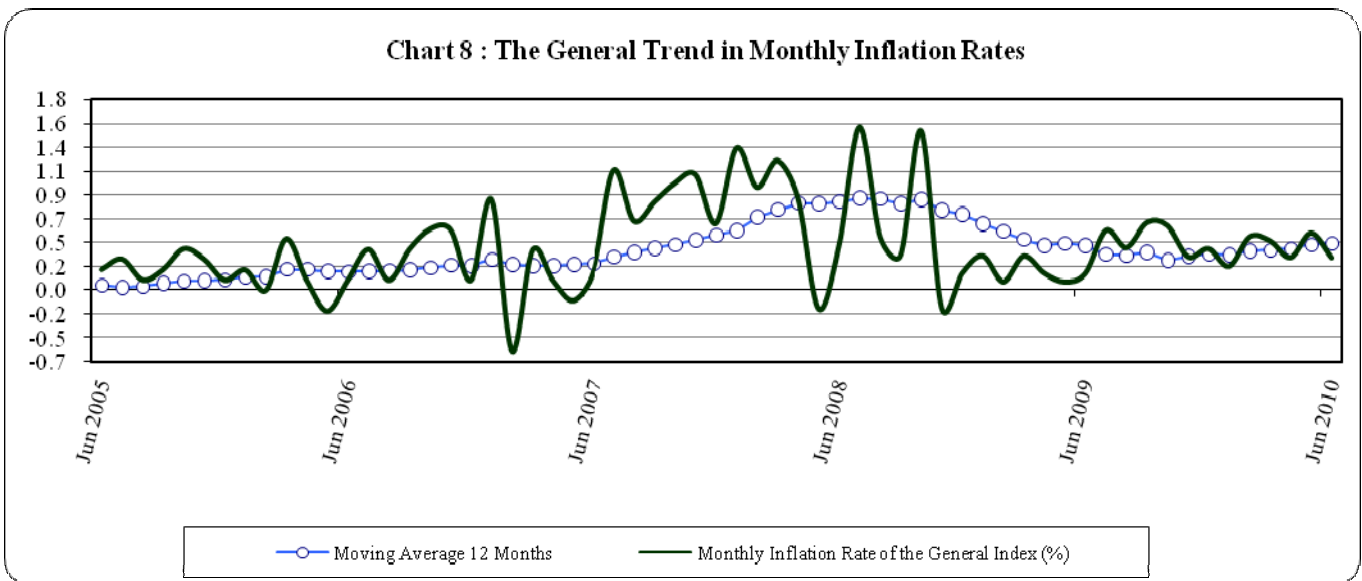
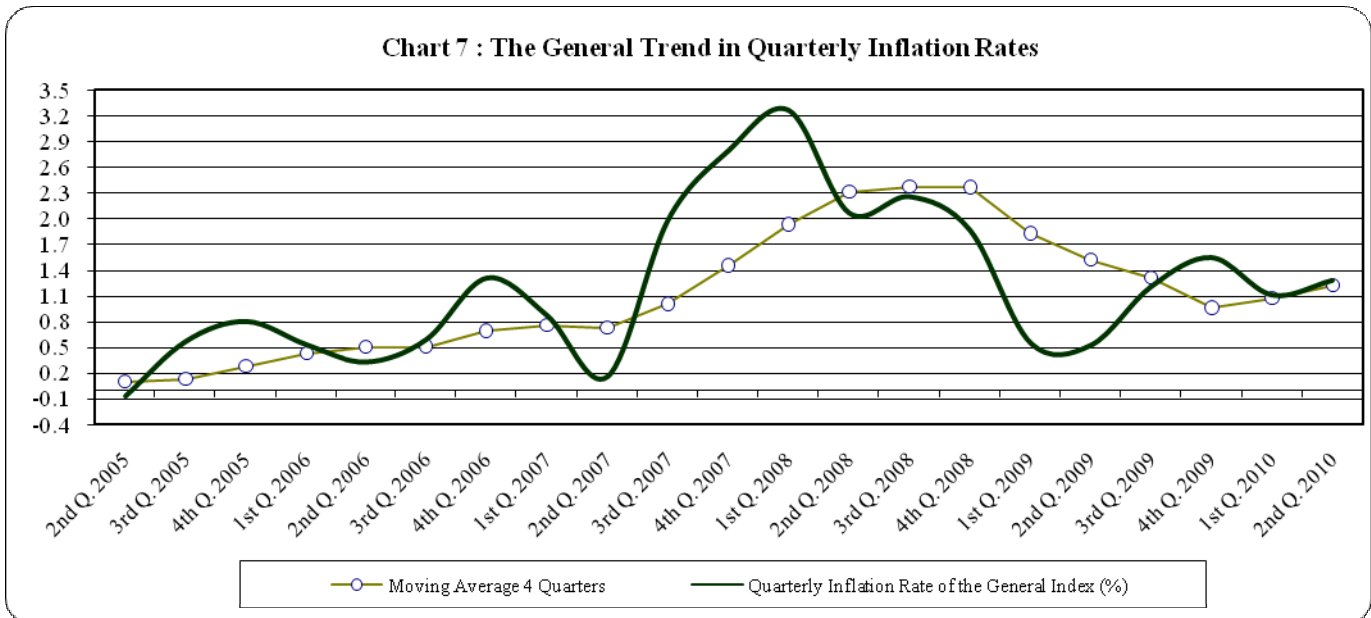
	(%) Monthly Inflation Rates per Group*								
	General Index	Food and Beverages	Fabrics, Apparel and Shoes	Renovation Rent, Fuel and Water	House Furnishing	Medical Care	Transport and Telecomm-unication	Education and Entertainment	Goods and other Services
Jul 2004 - Jun 2009									
Average	4.0	6.5	-1.0	6.9	2.9	2.3	-1.2	0.7	5.7
Median	2.9	5.2	-1.1	3.2	1.0	1.6	-0.5	0.4	4.2
Standard Deviation	3.5	4.4	1.4	7.5	4.6	2.5	2.4	1.0	4.0
Maximum Amount	11.1	16.0	1.8	19.8	14.7	7.7	2.5	3.2	14.7
Minimum Amount	0.0	1.6	-3.5	-1.4	-2.0	-0.2	-5.4	-0.7	0.3
Range	11.1	14.4	5.3	21.2	16.7	7.9	7.9	3.9	14.4
Jul 2009- Jun 2010									
Average	4.5	2.6	-0.2	11.2	4.8	0.1	0.4	1.0	5.9
Median	4.3	1.6	-0.3	11.7	4.1	0.1	0.2	1.0	5.9
Standard Deviation	0.6	2.4	0.3	1.4	2.5	0.2	0.7	0.1	2.7
Maximum Amount	5.5	6.2	0.5	13.4	9.5	0.3	1.2	1.3	9.5
Minimum Amount	3.5	-0.3	-0.7	9.2	2.5	-0.2	-1.1	0.8	1.2
Range	2.0	6.5	1.2	4.2	7.0	0.4	2.4	0.5	8.3

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

Table 9: Descriptive Statistics for Quarterly Inflation Rates: Second Quarter 2005 - Second 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
2nd Quarter 2005 2nd Quarter 2010									
Average	4.6	6.4	-0.7	8.5	3.9	2.2	-0.8	0.9	6.4
Median	4.1	5.5	-0.7	9.5	1.6	1.6	0.1	0.7	6.0
Standard Deviation	3.2	4.5	1.3	7.2	4.4	2.6	2.3	0.9	3.5
Maximum Amount	10.8	15.8	1.6	18.9	14.4	7.6	2.2	3.1	12.9
Minimum Amount	0.4	0.2	-3.1	-1.3	-0.1	-0.2	-5.3	-0.3	2.0
Range	10.4	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 second quarter of 2010, broad money supply (M3) increased by 2.5 percent compared to the first quarter of 2010, recording an annual rise of 3.4 percent in the year ended in the second quarter of 2010 compared to an annual rise of 16.4 percent in the second quarter of 2009.

As for the activity of the private and public sectors, the private sector's GDP at current prices recorded a growth rate of 2.8 percent in 2009, while the growth rate of the public sector was 10.2 percent during the same year.

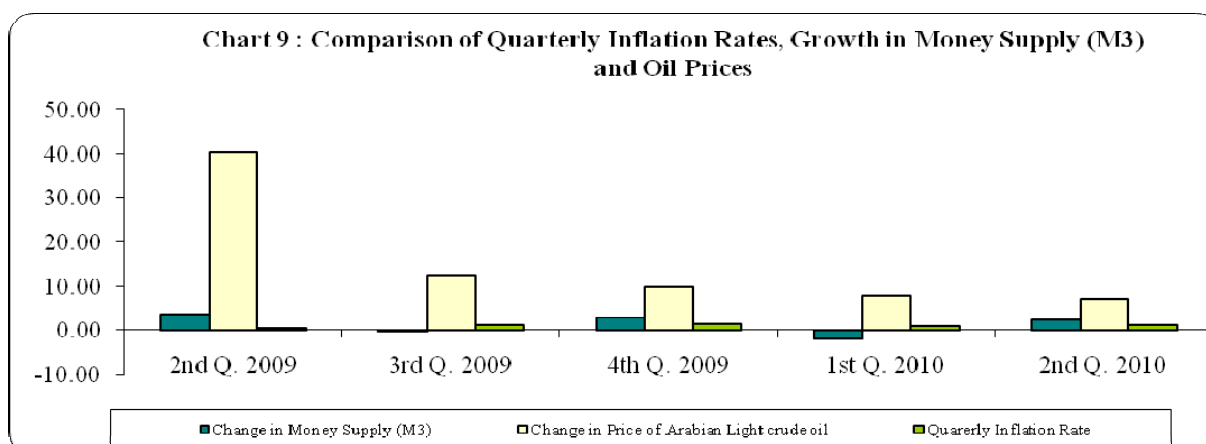
Table 10 : Most Significant Factors Affecting the Inflation Rate in the Kingdom

	2004	2005	2006	2007	2008	2009	% Change of 2nd qr, 10 against 1st qr, 09	%change of 2nd qr, 10 against corresponding quarter of previous year
Money Supply (M3)	18.8	11.6	19.3	19.6	17.6	10.7	2.5	3.4
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

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



8. Inflation Projections for the Third Quarter of 2010

In the second quarter of 2010, the inflation rate was 5.3 percent compared to the corresponding quarter of the preceding year. The average annual inflation in 2010 was 4.9 percent up to the end of the second quarter, compared to 5.1 percent and 9.9 percent in 2009 and 2008 respectively.

A slight increase is noticeable in the level of inflationary pressures in the Saudi economy during the second quarter of the current year. The quarterly inflation rate went up from 1.1 percent in the first quarter of 2010 to 1.3 percent in the second quarter of the same year. This rise is ascribed to the increase in inflation rates of the renovation and rent group, the group of food and beverages, the group of home furniture, and the group of other goods.

The IMF's data on the international price indices issued in June, 2010 shows an increase in the prices of non-fuel commodities by 10.3 percent on an annual basis and by 19.3 percent when comparing the second quarter of 2010 with the corresponding quarter of the preceding year, the agricultural raw materials by 28.5 percent on an annual basis, metals by 45.7 percent and energy by 30.6 percent on annual basis.

According to the IMF's data in July, 2010, the global economy recovery is expected to continue, confirming expectations of steady modest inflation rates in the advanced economies, where it is projected to reach 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 reach 6.3 percent in 2010 compared to 5.2 percent in 2009. It also expects that the inflation rate in the Kingdom will reach 5.2 percent during 2010.

Thus, heavy inflationary pressures are not expected to be seen in the third quarter of the current year, however, the inflationary pressures are likely to continue, as a result of continued inflation rates of renovation, rent, fuel and water group amidst expectations of an increase in the domestic economy activity. Food and beverages

group is more likely to constitute a greater impact on the inflation rate over its level in the second quarter, especially as the holy month of Ramadan is approaching and perhaps accompanied by a seasonal increase in foodstuff commodities' prices.

9- Conclusion

This report has reviewed the historical and current performance of inflation rates in the Kingdom up to the end of the second 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 through 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 general trend demonstrates continuous inflationary pressures during the third quarter of 2010 according to the current indicators and future forecasts at the domestic level.