

**Inflation Report**  
**Third Quarter 2011**



**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, 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 2011.

## **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 September 2011 rose by 5.1 percent compared to the average inflation rate of 4.9 percent during the preceding five years (October 2005–September 2010).

During the period October 2010- September 2011, three main groups, representing 37 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 goods and other services rose by 8.4 percent, the group of transport and telecommunications by 2.0 percent and the group of fabrics, clothing and footwear went down by 0.3 percent compared to the average during the previous five years.

Five main groups recorded inflation rates lower than the average levels they registered during the past five years. The group of renovation, rent, fuel and water (housing and its appurtenances) went up by 7.9 percent, the group of food and beverages by 6.3 percent, the group of medical care by 1.1 percent, the group of education and entertainment by 0.8 percent. However, the group of house furnishing 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 Oct 2005 -Sep 2010	Average Index for the Period Oct 2010 -Sep 2011
-			
General Index	100	4.9	5.1
Foodstuffs & beverages	26	6.7	6.3
Fabrics, Clothing & footwear	8	-0.6	-0.3
Renovation, rent, fuel & water	18	9.6	7.9
Home furniture	11	4.2	-0.2
Medical care	2	2.3	1.1
Transport & telecommunication	16	-0.5	2.0
Education & entertainment	6	0.9	0.8
Other expenses & services	13	6.8	8.4

Source: Central Department of Statistics and information.

Chart 1 compares the average level of inflation during the year ended September 2011 with that during the preceding five years. Points on the left of Line 45° indicate higher average inflation during the year ended September 2011 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 2011 and Those During the Preceding Five Years.**

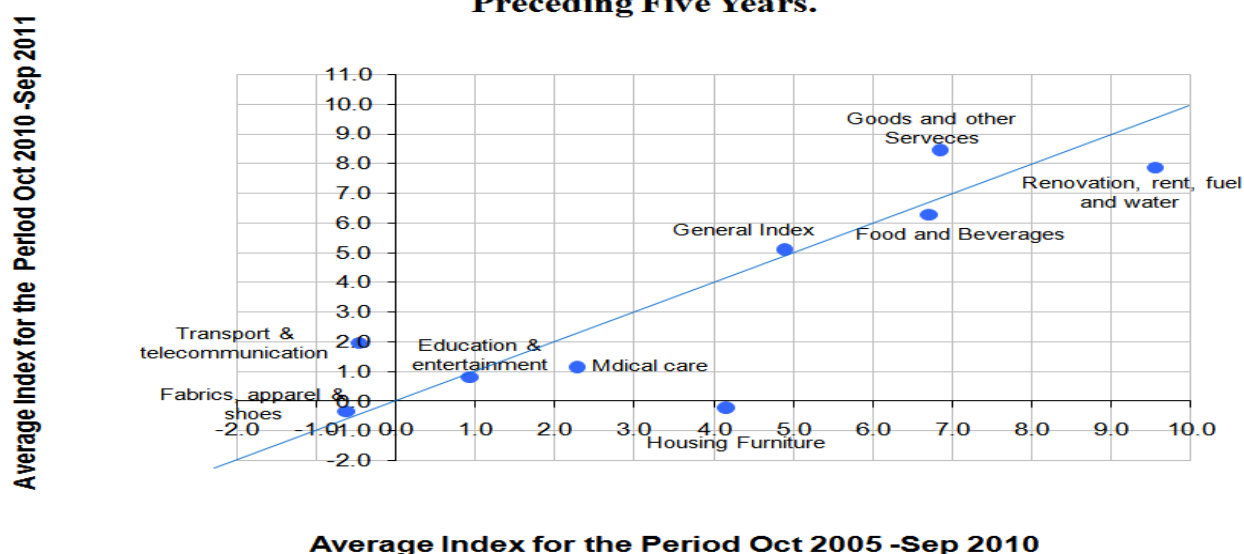


Table 2 shows that the average inflation rate in the Kingdom during the period 2004- 2010 is still low compared to the average rate in a number of countries (excluding Bahrain and People’s Republic of China).

**Table 2 :Comparison of Inflation rate in some countries  
(Annual percent change)**

Country	2004	2005	2006	2007	2008	2009	2010*	Average
Bahrain	2.2	2.6	2.0	3.3	3.5	2.8	2.0	<b>2.6</b>
Brazil	6.6	6.9	4.2	3.6	5.7	4.9	5.0	<b>5.3</b>
China	3.9	1.8	1.5	4.8	5.9	-0.7	3.3	<b>2.9</b>
Egypt	8.1	8.8	4.2	11.0	11.7	16.2	11.7	<b>10.2</b>
India	3.8	4.2	6.2	6.4	8.3	10.9	12.0	<b>7.4</b>
Jordan	3.4	3.5	6.3	4.7	13.9	-0.7	5.0	<b>5.2</b>
Kuwait	1.3	4.1	3.1	5.5	10.6	4.0	4.1	<b>4.7</b>
Oman	0.7	1.9	3.4	5.9	12.6	3.5	3.3	<b>4.5</b>
Qatar	6.8	8.8	11.8	13.8	15.0	-4.9	-2.4	<b>7.0</b>
Saudi Arabia	0.4	0.6	2.2	4.1	9.9	5.1	5.3	<b>3.9</b>
Turkey	8.6	8.2	9.6	8.8	10.4	6.3	8.6	<b>8.6</b>
United Arab Emirates	5.0	6.2	9.3	11.1	12.3	1.6	0.9	<b>6.6</b>
Venezuela	21.7	16.0	13.7	18.7	30.4	27.1	28.2	<b>22.3</b>

\* Estimated.

Source: International Monetary Fund, World Economic Outlook Database, Sep 2011.

### **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 2011 (The base year 1999=100).

Table (3) shows that the average general cost of living index registered an increase of 2.2 percent in the third quarter of 2011 compared to the second quarter of 2011. This increase was attributed to rises in the group of goods and other services by 5.8 percent, the group of food and beverages by 2.3 percent, the group of renovation, rent and fuel by 2.2 percent, the groups of transport and telecommunications and house furnishing by 0.5 percent each, while the group of

education and entertainment and the group of medical care retained their previous rates.

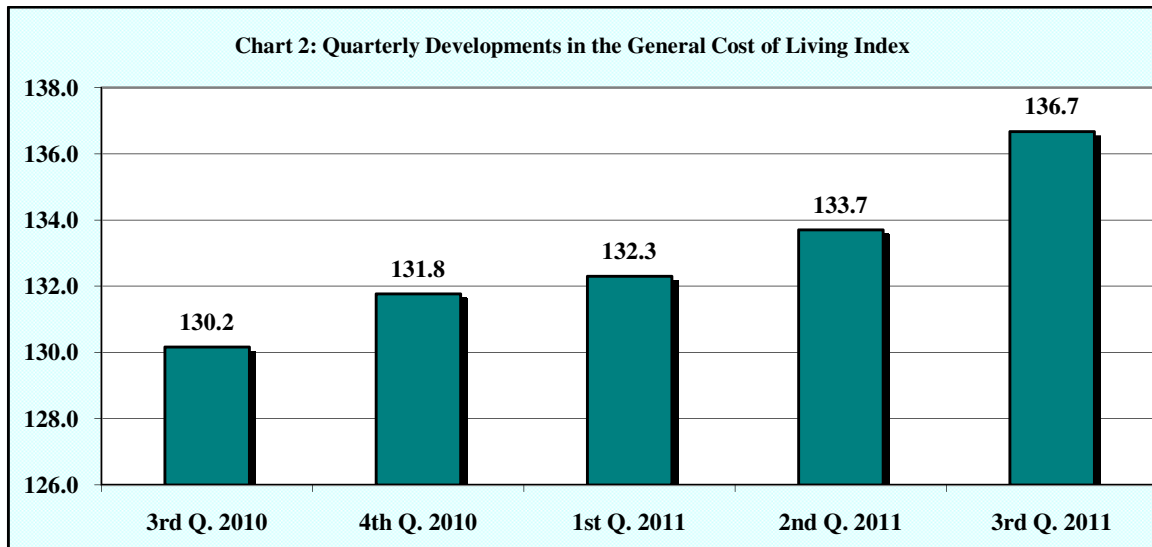
Data in Table (3) and Chart (2) indicate an increase of 5.0 percent in the average<sup>(1)</sup> Cost of Living index in the period ended in the third quarter of 2011 compared to its corresponding quarter of the previous year. This increase was ascribed to rises in the group of goods and other services by 9.3 percent, the group of renovation, rent and fuel by 7.8 percent, the group of food and beverages by 5.3 percent, the group of transport and telecommunications by 1.9 percent, the group of education and entertainment by 1.1 percent, the group of fabrics, apparel and shoes by 0.5 percent, the group of medical care by 0.4 percent, and the group of house furnishing by 0.1 percent.

**Table 3: Quarterly and Annual Cost of Living Indices  
up to the End of the Third Quarter of 2011  
1999 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 11 against 2nd quarter 11	% change of 3rd quarter 11 against corresponding quarter of previous year	Change of Annual Average 2010
	2009	2010	Third Quarter 2010	Fourth Quarter 2010	First Quarter 2011	Second Quarter 2011	Third Quarter 2011			
<b>General Index</b>	<b>122.4</b>	<b>128.9</b>	<b>130.2</b>	<b>131.8</b>	<b>132.3</b>	<b>133.7</b>	<b>136.7</b>	<b>2.2</b>	<b>5.0</b>	<b>5.3</b>
Food and Beverages	139.6	148.4	149.7	153.7	152.9	154.1	157.7	2.3	5.3	6.2
Fabrics, Apparel and Shoes	86.3	85.7	85.6	85.3	85.6	85.8	86.0	0.2	0.5	-0.7
Renovation, Rent, Fuel and Water	146.4	160.3	162.1	164.6	167.6	170.9	174.6	2.2	7.8	9.4
House Furnishing	112.6	115.7	116.1	115.0	115.3	115.6	116.2	0.5	0.1	2.9
Medical Care	113.2	113.7	114.1	114.7	114.6	114.6	114.6	0.0	0.4	0.5
Transport and Telecommunications	89.2	90.2	90.8	90.5	91.5	92.0	92.5	0.5	1.9	1.1
Education and Entertainment	102.3	103.2	102.8	103.9	103.9	103.9	103.9	0.0	1.1	0.9
Goods and other Services	139.3	149.6	153.1	155.0	155.4	158.1	167.3	5.8	9.3	7.5

Source: Central Department of Statistics and Information.

<sup>1</sup> The average here is for the third quarter of 2011 against the third quarter of 2010. It is different from the average inflation rate (moving average) indicated in section 2 of this report.



The group of renovation, rent, and fuel contributed a 1.7 point increase to the general index (34.3 percent of total impact on the general index), the group of food and beverages 1.6 point (31.7 percent), the group of goods and other services 1.4 point (28.1 percent). The remaining groups contributed by rates equal or lower than 1.0 percent of the total impact on the general index.

### **3-2 Wholesale Price Index**

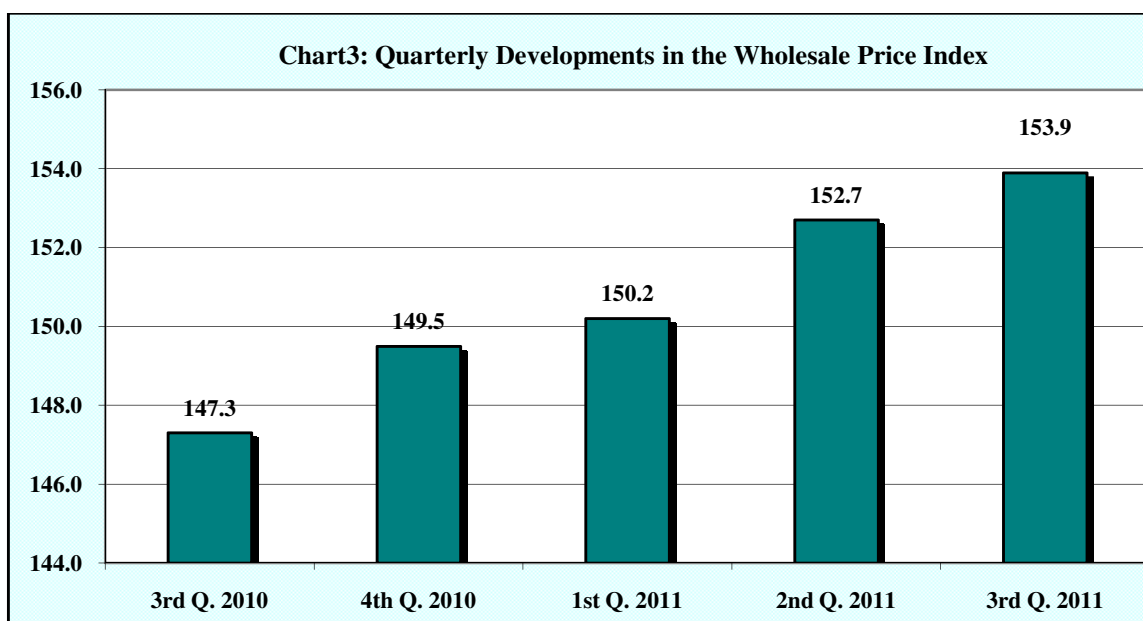
This index measures wholesale prices in a basket of 160 items sold in the (primary) wholesale markets in the Kingdom. Table (4) shows quarterly and annual wholesale price indices up to the end of the third quarter of 2011. The table indicates that the wholesale price index recorded a rise of 4.5 percent during the third quarter of 2011 compared to the corresponding quarter of 2010. This was ascribed to a rise in 9 groups constituting the wholesale price index. The group of other commodities rose by 33.8 percent, the group of chemicals and related products by 18.9 percent, the group of crude materials (except fuel) by 11.9 percent, the group of miscellaneous manufactured articles by 11.4 percent, the group of vegetable and animal oils & fats by 8.5 percent, the group of machinery and transport equipment by 4.4 percent, the group of manufactured goods classified by substance by 2.5 percent, the group of food and live animals by 1.3 percent, and the group of beverages and tobacco by 0.6 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 2011  
1988 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 3rd quarter 11 against 2nd quarter 11	% change of 3rd quarter 11 against corresponding quarter of previous year	Change of Annual Average 2010
	2009	2010	Third Quarter 2010	Fourth Quarter 2010	First Quarter 2011	Second Quarter 2011	Third Quarter 2011			
<b>General Index</b>	140.3	146.4	147.3	149.5	150.2	152.7	153.9	0.8	4.5	4.3
Food & Live Animals	162.0	168.3	171.0	173.4	171.8	174.7	173.3	-0.8	1.3	3.9
Beverages & Tobacco	135.3	150.0	150.3	151.0	151.2	151.2	151.2	0.0	0.6	10.9
Crude Materials (except fuel)	181.7	192.1	190.1	207.0	209.1	211.2	212.7	0.7	11.9	5.7
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	136.3	137.7	138.3	139.9	144.2	147.3	150.0	1.8	8.5	1.1
Chemicals & Related Products	141.7	167.6	162.8	175.5	180.5	191.4	193.6	1.1	18.9	18.3
Manufactured Goods classified by substance	134.3	138.1	139.6	140.1	141.1	143.1	143.0	0.0	2.5	2.9
Machinery & Transport Equipment	126.0	126.4	127.0	127.9	130.1	131.5	132.6	0.9	4.4	0.3
Msc. Manufactured Articles	123.0	134.8	136.5	138.4	139.3	140.3	152.0	8.3	11.4	9.6
Other Commodities	196.3	234.6	238.3	255.6	262.6	270.8	318.7	17.7	33.8	19.5

Source: Central Department of Statistics and Information.

The general wholesale price index recorded a rise of 0.8 percent during the third quarter of 2011 compared to the second quarter of 2011. This rise was attributed to 6 of the groups constituting the wholesale price index. The group of other commodities increased by 17.7 percent, the group of miscellaneous manufactured articles by 8.3 percent, the group of vegetable and animal oils & fats increased by 1.8 percent, the group of chemicals and related products by 1.1 percent, the group of machinery & transport equipment by 0.9 percent, the group of crude materials (except fuel) by 0.7 percent. Meanwhile, the group of beverages and tobacco and the group of mineral fuels and related products remained unchanged. However, the group of food and live animals went down by 0.8 percent.



### 3-3 GDP Deflator

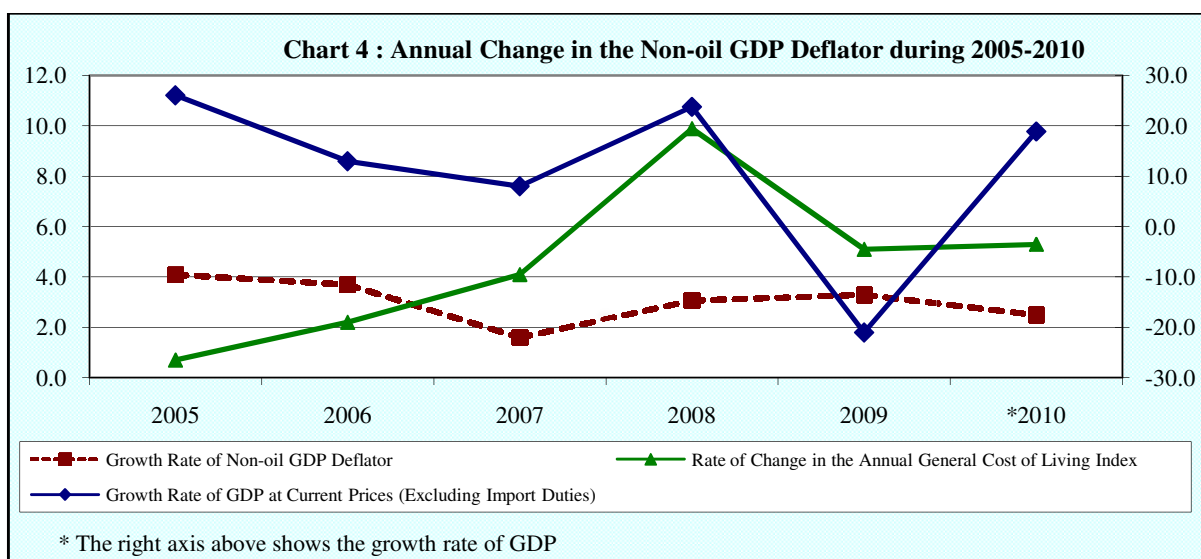
This deflator measures the prices of domestically produced commodities through the deflator of the oil and non-oil sectors. The non-oil deflator reflects domestic inflation by excluding change in crude oil prices. Table (5) and Chart (4) show the non-oil deflator and the growth rate of the annual GDP from 2005 to 2010, in addition to the rate of change in the general cost of living index. The non-oil deflator registered an increase of 2.5 percent in 2010 compared to an increase of 3.3 in 2009.

**Table 5 : Nominal GDP growth and Annual Rate of Change in the Deflator**

Years	Growth Rate of GDP at Current Prices (Excluding Import Duties)	Growth Rate of Non-oil GDP Deflator (100 = 1999)	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	-21.0	3.3	5.1
2010*	18.9	2.5	5.3

\*Data of GDP 2010 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 2.2 percent to 136.7 in the third quarter of 2011 compared to the second quarter of 2011. Six cities (Ta'if, Tabuk, Najran, Buraidah, Al-Dammam, and Riyadh) recorded higher quarterly rates than the growth rate in the general cost of living index. The remaining cities recorded lower or similar growth rates to that of the rate of growth in the general cost of living index for all cities (Table 6 and Chart 5).

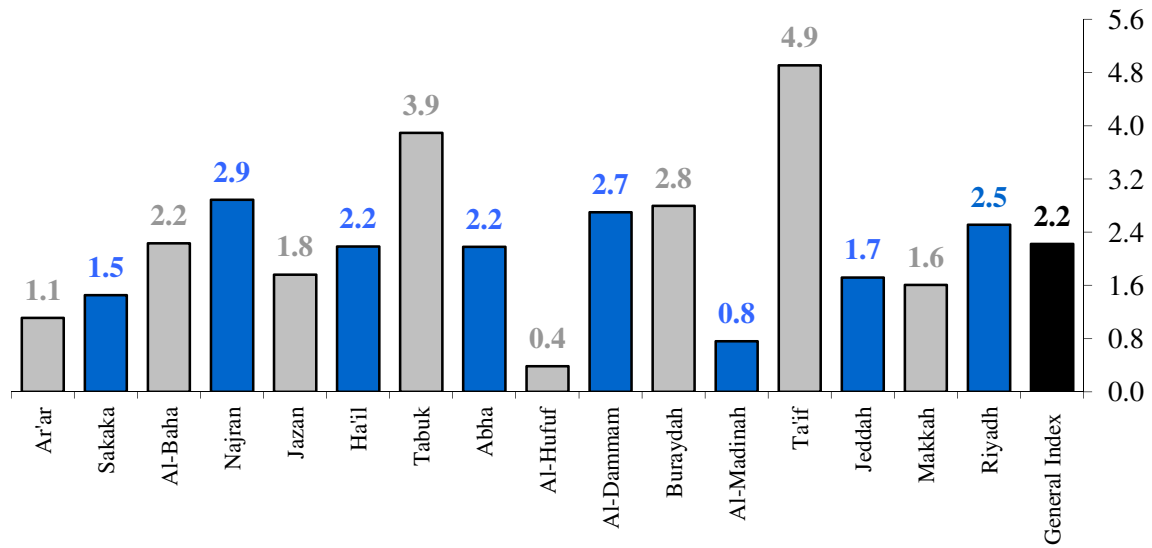
**Table 6: Cost of Living Indices by Cities**

	Third Quarter 2010	Fourth Quarter 2010	First Quarter 2011	Second Quarter 2011	Third Quarter 2011	Quarterly Change (%)	Annual Change* (%)
<b>General Index (All cities)</b>	<b>130.2</b>	<b>131.8</b>	<b>132.3</b>	<b>133.7</b>	<b>136.7</b>	<b>2.2</b>	<b>5.0</b>
Riyadh	135.6	137.1	137.9	139.6	143.1	2.5	5.5
Makkah	122.4	124.9	125.0	126.5	128.5	1.6	5.0
Jeddah	129.6	130.7	130.8	131.9	134.2	1.7	3.5
Ta'if	141.0	141.5	140.5	142.0	148.9	4.9	5.6
Al-Madinah	119.6	122.1	122.2	123.1	124.0	0.8	3.7
Buraydah	130.7	132.7	132.5	134.8	138.5	2.8	6.0
Al-Dammam	136.0	138.1	139.5	141.0	144.8	2.7	6.4
Al-Hufuf	125.3	126.5	128.5	129.8	130.3	0.4	4.0
Abha	120.0	122.0	123.0	123.9	126.6	2.2	5.5
Tabuk	120.3	121.5	122.9	124.2	129.0	3.9	7.3
Ha'il	131.5	133.9	133.6	134.4	137.3	2.2	4.4
Jazan	126.1	129.2	131.3	132.6	134.9	1.8	7.0
Najran	128.1	129.6	130.6	131.6	135.4	2.9	5.8
Al-Baha	127.1	128.4	128.6	129.9	132.8	2.2	4.4
Sakaka	115.3	116.4	116.3	117.1	118.8	1.5	3.1
Ar'ar	109.7	110.8	110.9	111.3	112.6	1.1	2.6

\* Comparison between Third quarter of 2011 and Third quarter of 2010.

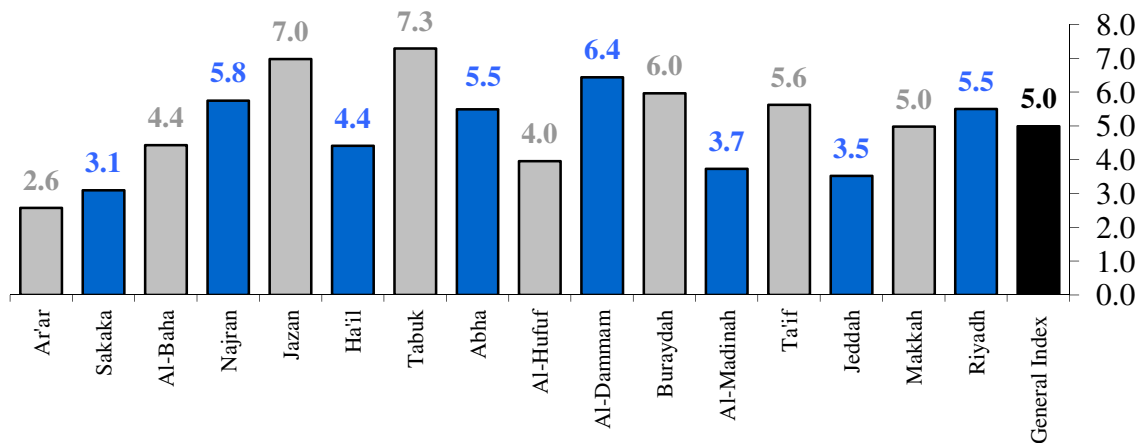
Source: Central Department of Statistics and Information.

**Chart 5: Change in the General Index in the Third Quarter of 2011 Compared to the Second Quarter of 2011**



The general cost of living index (all cities) registered an annual rise of 5.0 percent in the third quarter of 2011, compared to the third quarter of the preceding year. Eight cities (Tabuk, Jazan, Al-Dammam, Buraydah, Najran, Ta'if, Abha and Riyadh) recorded annual rises higher than the rate of growth in the general index. It could be noted that Tabuk recorded an annual rise higher than the rest of the cities which stood at 7.3 percent. Most of the other cities, however, recorded annual rises lower than the rate of growth in the general index (Table 6 and Chart 6).

**Chart 6: Change in the General Index in the Third Quarter of 2011 Compared to the Third Quarter of 2010**



## **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 2010.

The United States is the largest trading partner of the Kingdom, though the relative share of imports from USA declined during 2010 to 13.2 percent from 19.3 percent in 2000. The value of imports from the United States rose by 142.0 percent to Rls 52.8 billion during 2010 from Rls 21.8 billion in 2000. Figures indicate that the inflation rate in the USA increased by 1.6 percent during 2010 compared to 3.4 percent in 2000.

As for the Kingdom's imports from the Euro zone during 2010, imports from Germany went up by 238.6 percent to Rls 31.0 billion compared to 2000, from Italy by 170.0 percent to Rls 12.7 billion, from France by 250.7 percent to Rls 16.4 billion, and from other Euro zone countries by 341.6 percent to Rls 135.4 billion.

The inflation rate in the People's Republic of China (PRC) rose by 3.3 percent in 2010 compared to an increase of 0.4 percent in 2000. The relative share of its exports to the Kingdom rose from 4.0 percent in 2000 to 11.7 percent in 2010, amounting to Rls 46.9 billion. India's relative share of exports to the Kingdom rose from 2.8 percent in 2000 to 3.8 percent in 2010 and stood at Rls 15.1 billion. India witnessed higher inflationary pressures especially during the last three years, with the inflation rate reaching 13.2 percent in 2010 due to higher domestic consumption. Data of the IMF (World Economic Outlook, Sept. 2011) indicate higher inflation rates in the Kingdom's trading partners during 2010 compared to 2009.

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

Country	Imports (Million Riyals)		(% ) Share of Imports		Inflation Rate (%)	
	2000	2010*	2000	2010	2000	2010*
United States	21802	52749	19.3	13.2	3.4	1.6
Japan	11837	29957	10.5	7.5	-0.8	-0.7
Republic of China	4485	46851	4.0	11.7	0.4	3.3
United Kingdom	7308	12909	6.5	3.2	0.9	3.3
South Korea	3846	17789	3.4	4.4	2.3	3.0
India	3132	15116	2.8	3.8	4.0	12.0
Australia	2907	6216	2.6	1.6	4.5	2.8
<b>Euro Zone Countries</b>	26878	83772	23.7	20.9	2.2	1.6
of which :						
Germany	9164	31032	8.1	7.7	1.4	1.2
Italy	4698	12682	4.1	3.2	2.6	1.6
France	4675	16395	4.1	4.1	1.8	1.7
Other countries	31045	135377	27.4	33.8		
Total	113240	400736				

\* Provisional Data.

Source: Central Department of Statistics and Information, World Economic Outlook Database, Sep 2011 - IMF

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

Measuring the general price level contributes to sound and appropriate decision-making at the micro level (individuals and businesses) and at the macro level in terms of public policies. It is imperative, therefore, to follow up 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 briefly the general trend and degrees of volatility in the inflation rates in the Kingdom (according to the general cost of living index). Table (8) provides descriptive statistics on inflation rates for the period (October, 2010 –September, 2011) and the period (October, 2005 –September, 2010), while table (9) shows descriptive statistics for quarterly inflation rates during the period from the third quarter of 2006 to the third quarter of 2011.

As shown in Table (8), the arithmetic average of inflation rate increased from 4.5 percent during the last five years to 4.9 percent during the twelve-month period ended in September, 2011. This was due to increases in the arithmetic average of inflation rate of the following three groups: the group of other goods and services, the group of renovation, rent, fuel, and water, and the group of food

and beverages. However, the arithmetic average of inflation rate went down in two groups, namely, the group of fabrics, apparel and shoes and the group of house furnishing.

**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
<b>Oct 2005 - Sep 2010</b>									
MEDIAN	4.5	5.9	-0.5	10.3	3.0	1.6	0.4	0.9	6.2
Median	4.5	5.9	-0.5	10.3	3.0	1.6	0.4	0.9	6.2
Standard Deviation	2.9	4.4	1.3	6.5	4.2	2.5	2.4	0.9	3.5
Maximum Amount	11.1	16.0	1.8	19.8	14.7	7.7	2.6	3.2	14.7
Minimum Amount	1.0	-0.3	-3.5	-1.4	-0.3	-0.2	-5.4	-0.4	1.2
Range	10.1	16.3	5.3	21.2	15.0	7.9	8.0	3.6	13.5
<b>Oct 2010- Sep 2011</b>									
MEDIAN	4.9	5.9	-0.5	7.9	-0.2	1.3	2.0	0.8	8.1
Median	4.9	5.9	-0.5	7.9	-0.2	1.3	2.0	0.8	8.1
Standard Deviation	0.4	1.2	0.6	0.6	0.3	0.4	0.4	0.2	1.1
Maximum Amount	5.8	8.5	0.6	8.9	0.2	1.5	2.3	1.2	11.8
Minimum Amount	4.6	4.9	-1.1	7.0	-0.8	0.4	1.2	0.6	7.6
Range	1.2	3.6	1.7	1.9	0.9	1.1	1.1	0.6	4.2

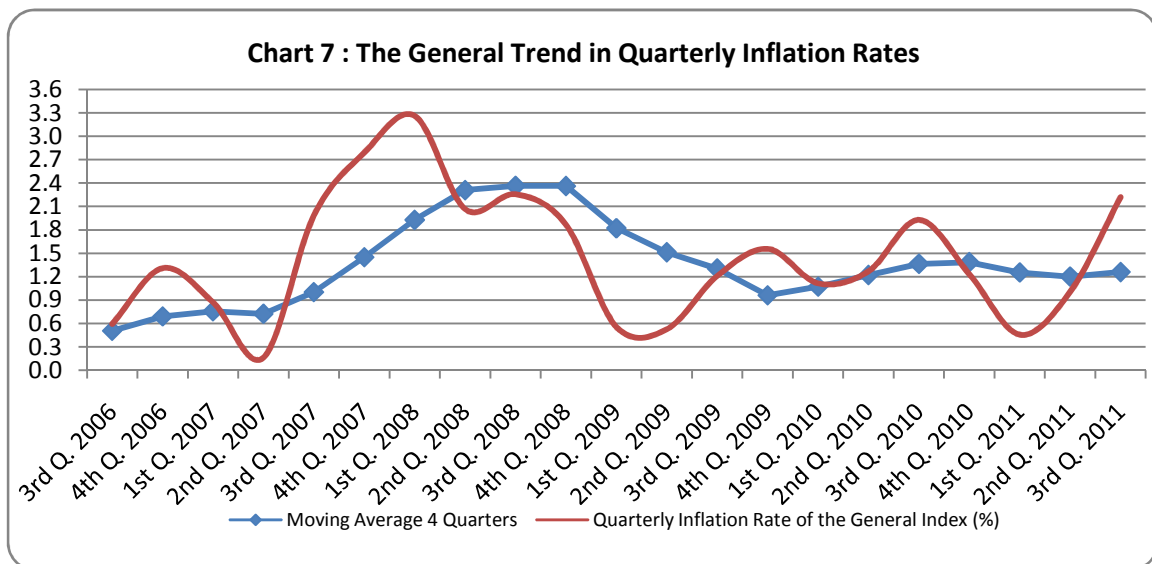
\* A month against a corresponding month in the preceding year.

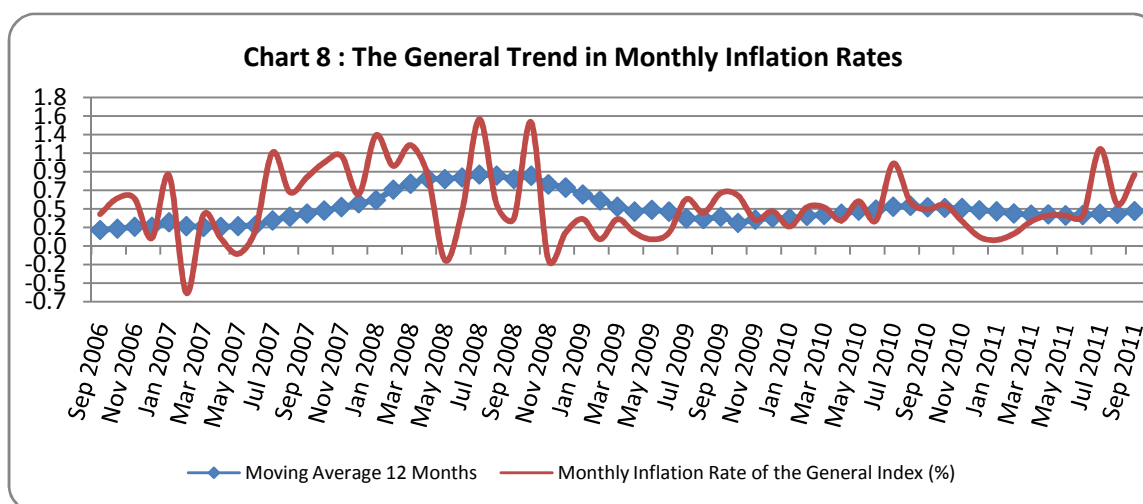
Table (9) shows that the quarterly inflation rate averaged 5.6 percent of the general index with a standard deviation of 2.4 and a range of 8.5 (The range is the difference between the maximum and the minimum values). Most of the volatility in the quarterly inflation rates during the period from the third quarter of 2006 to the third quarter of 2011 was ascribed to increases in the arithmetic averages of the group of renovation, rent, fuel and water (average = 10.7 with a standard deviation = 5.1 and range = 17.6), the group of other goods and services (average = 7.3 with a standard deviation = 3.0 and range = 10.2), the group of food and beverages (average = 7.0 with a standard deviation = 4.2 and range = 15.6), the group of house furnishing (average = 3.9 with a standard deviation = 2.4 and range = 7.8), the group of medical care (average = 2.3 with a standard deviation = 2.4 and range = 7.8), and the group of education and entertainment (average = 1.0 with a standard deviation = 0.9 and range = 3.4).

**Table 9: Descriptive Statistics for Quarterly Inflation Rates**

	(%) 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
<b>3rd Quarter 2006 - 3rd Quarter 2011</b>									
MEDIAN	5.6	7.0	-0.5	10.7	3.9	2.3	0.1	1.0	7.3
Median	5.0	5.9	-0.5	9.6	2.8	1.5	0.5	1.0	7.7
Standard Deviation	2.4	4.2	1.2	5.1	4.4	2.4	2.3	0.9	3.0
Maximum Amount	10.8	15.8	1.6	18.9	14.4	7.6	2.3	3.1	12.9
Minimum Amount	2.3	0.2	-3.1	1.2	-0.5	-0.2	-5.3	-0.3	2.8
Range	8.5	15.6	4.7	17.6	14.9	7.8	7.6	3.4	10.2

Charts (7 and 8) show inflation rate (quarterly in the former charter and monthly in the latter) and its general trend, measured by the moving average of inflation rate (every four quarters for the quarterly, and every 12 months for the monthly).





### 7- Factors affecting Inflation Rate:

A number of factors affect the domestic inflation rate, and their influence differs from one period to another. Table (10) shows the relative changes of the most significant domestic factors affecting the inflation rate in the Kingdom, which are concentrated on the demand side, resulting from an increase in the government and private expenditure, and its effect on the level of liquidity. Government expenditure grew by 9.6 percent in 2010 compared to a growth rate of 14.7 percent in 2009. Money supply (M3) registered an increase of 0.4 percent in the third quarter of 2011 compared to the second quarter of 2011, registering an annual increase of 11.9 percent in the year ended with the third quarter of 2011, against an annual increase of 5.1 percent in the corresponding quarter of 2010 and 12.5 percent in the year ended with the third quarter of 2009.

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

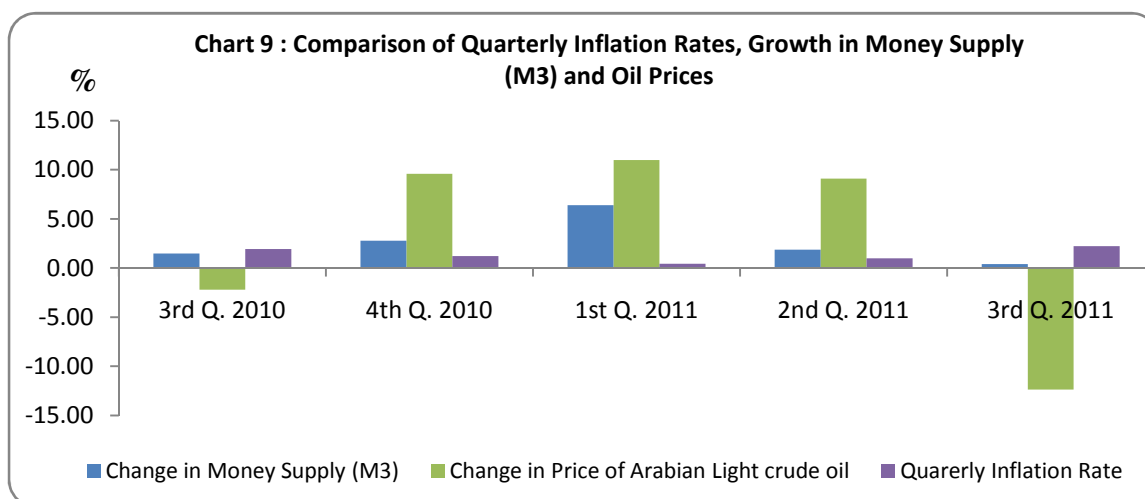
	2004	2005	2006	2007	2008	2009	2010	% Change of 3rd quarter 11 against 2nd quarter 11	% change of 3rd quarter 11 against corresponding quarter of previous year
<b>Money Supply (M3)</b>	18.8	11.6	19.3	19.6	17.6	10.7	5.0	0.4	11.9
<b>Government Expenditure</b>	11.0	21.5	13.5	18.5	11.5	14.7	9.6	-	-
<b>GDP Growth Rate:</b>	16.7	26.1	13.0	8.0	23.8	-21.0	18.9	-	-
- Private Sector	7.5	7.8	7.9	8.3	8.7	3.1	6.4	-	-
- Government Sector	10.4	12.5	10.7	3.1	5.4	13.6	9.3	-	-

(-) 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 6.4 percent in 2010, while the growth rate of the public sector was 9.3 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 2011

The inflation rate recorded a rise of 5.0 percent in the third quarter of 2011 compared to the corresponding quarter of the preceding year. The average annual inflation at the beginning of 2011 until the end of the third quarter of the same year stood at 5.1 percent compared to 5.2 percent and 5.5 percent for the same period of 2010 and 2009 respectively.

The level of inflationary pressures in the Saudi economy rose during the third quarter of 2011. The quarterly inflation rate went up from 1.1 percent in the second quarter of 2011 to 2.2 percent in the third quarter of 2011. This was due to an increase in inflation rates of the group of goods and other services associated with less increases in the groups of renovation and rent, and food and beverages compared to their levels recorded during the second quarter of 2011.

According to the IMF's latest data for September 2011, the global economy is witnessing uncertainty, due to the slowdown in growth rates and apprehension about fiscal balances in a number of developed economies. The global inflation rates accelerated at a higher pace than expected this year to 5.0 percent while the

preliminary expectation for April of the same year was 4.5 percent. Inflation rates in developing and emerging economies are expected to rise to 7.5 percent in 2011 (compared to preliminary expectations in June which was estimated at 6.8 percent. However, inflation rate in advanced economies was expected to reach 2.6 percent in 2011 compared to 1.6 percent in 2010.

The IMF's data on global price indices show an increase of 20.2 percent in the prices of non-oil commodities, comparing the third quarter of 2011 compared with the corresponding quarter of 2010 and their fall by 4.4 percent compared with the previous quarter of the same year.

According to available data of the U.N. Food and Agriculture Organization (FAO) issued on October 6, 2011, the FAO's Index of the food prices witnessed a decline for the third consecutive month (July – September, 2011). The projections for grain production have improved, and, accordingly, prices are expected to decline.

Most global reports have lowered their forecasts for inflation in the Kingdom from what was expected at the beginning of the year due to the drop in global food prices in the second and third quarters of the current year. The International Monetary Fund (IMF) lowered its forecast in its bulletin of "World Economic Outlook" of September 2011 for inflation in the Kingdom this year from 6.0 percent to 5.4 percent.

On the other hand, given that Al-Hajj season is in the fourth quarter of 2011, this may lead to increased inflationary pressures due to higher consumption expenditure associated with Al-Hajj season. The inflation rate in the fourth quarter of 2009 and 2010 compared to the third quarter of the same year rose by 1.5 percent and 1.2 percent respectively, while it went up in the fourth quarter of the two years mentioned above by 3.9 percent and 5.7 percent compared to the corresponding quarter of the previous year.

## **9- Conclusion**

This report has reviewed the inflation rates in the Kingdom during the previous period up to the end of the third quarter of 2011 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 deflators of the oil and the non-oil sectors. In addition, it has reviewed the most important factors affecting change in inflation rates. Available data mentioned earlier indicate continued expected domestic inflationary pressures, especially in the group of goods and other services during the fourth quarter of 2011.