



Inflation Report

4th Quarter 2013



Monetary Policy and Financial Stability Department
Saudi Arabian Monetary Agency



Cost of Living Index

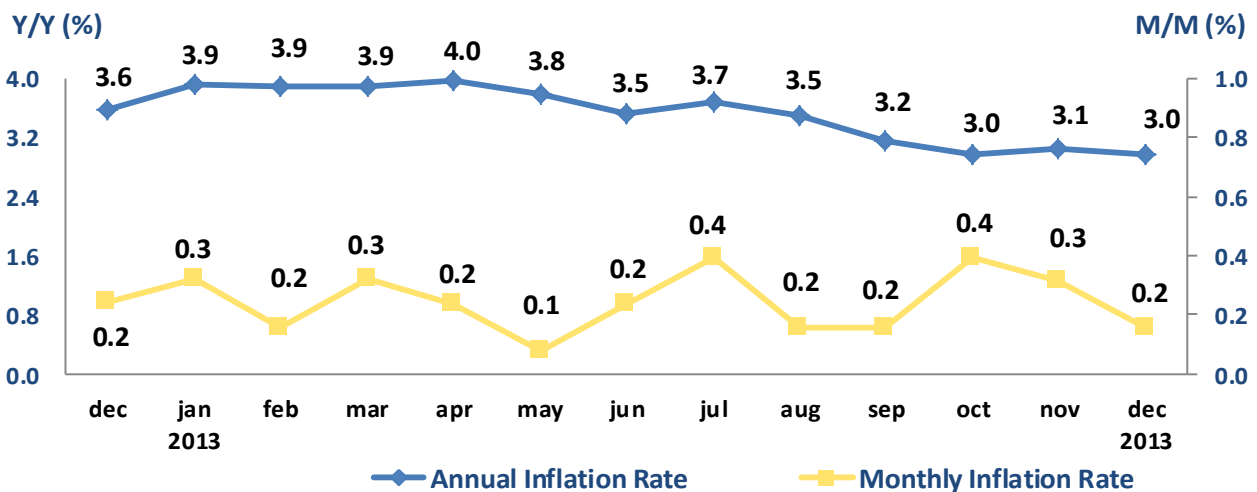
The cost of living index went up by 3.0 percent in December 2013 compared to the same month in the preceding year. The index registered the highest inflation rate of 4.0 percent in April 2013, then it declined gradually due to the easing of inflationary pressures on the groups of transport, restaurants and hotels, and miscellaneous goods and services. During the fourth quarter, the cost of living index also registered monthly increases of 0.4 percent and 0.3 percent in October and November, respectively, due to the rise in demand for goods and services during Hajj season, then it stood at 0.2 percent in December 2013 (Chart 1).

Developments of the Fourth Quarter, 2013

The general cost of living index rose by 0.8 percent in the fourth quarter of 2013 as compared to the third quarter of the same year, and by 3.0 percent in the fourth quarter of 2013 compared to the corresponding quarter of the previous year.

Education and tobacco groups recorded the highest inflation rates during the fourth quarter of 2013 as compared to the preceding quarter, registering quarterly inflation rates of 3.7 percent and 3.6 percent; respectively. The recreation and culture group ranked third with 2.4 percent, house furnishing 2.2 percent, followed by food and beverages 1.3 percent during the same period (Table 1 and Chart 2).

**Chart 1: Inflation Rate of the General Cost of Living Index
(2007=100)**



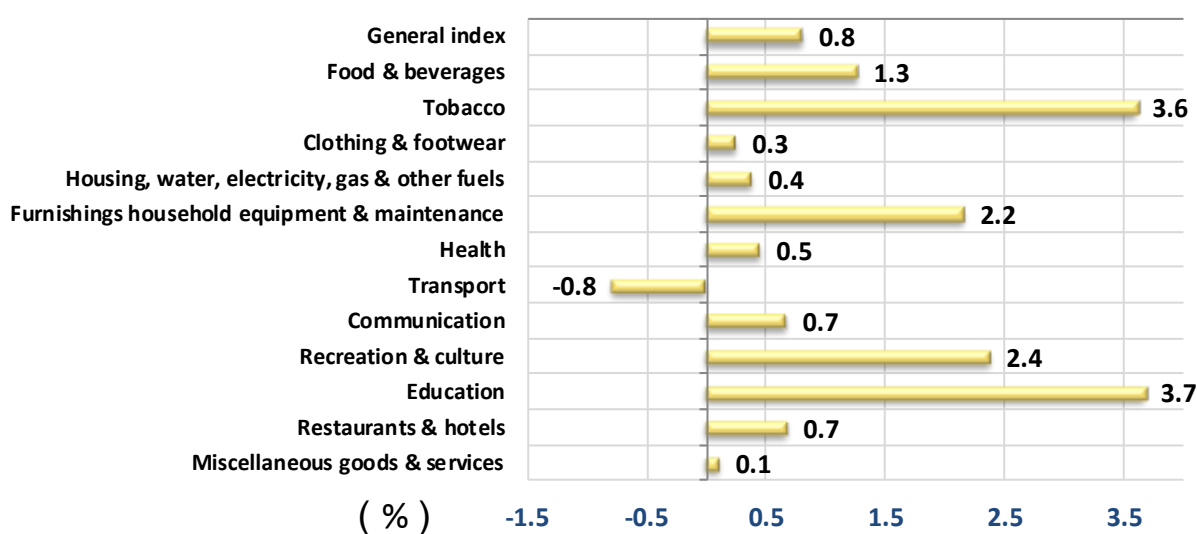
Source: Central Department of Statistics and Information.

**TABLE 1: COST OF LIVING INDEX
(2007=100)**

	Weights	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	% change	
							Q4 2013/ Q3 2013	Q4 2013/ Q4 2012
General index	100.0	124.4	125.4	126.2	127.1	128.1	0.8	3.0
Food & beverages	21.7	136.2	137.4	139.5	141.6	143.4	1.3	5.3
Tobacco	0.5	150.8	151.7	151.7	151.7	157.2	3.6	4.2
Clothing & footwear	8.4	105.5	105.1	104.5	104.6	104.8	0.3	-0.7
Housing, water, electricity, gas & other fuels	20.5	150.1	151.7	153.2	154.9	155.5	0.4	3.6
Furnishings, household equipment & maintenance	9.1	118.0	119.7	121.5	123.3	126.0	2.2	6.7
Health	2.6	106.3	107.7	109.0	109.5	110.0	0.5	3.4
Transport	10.4	111.1	112.4	111.6	110.4	109.5	-0.8	-1.4
Communication	8.1	92.6	93.4	93.8	93.6	94.3	0.7	1.8
Recreation & culture	3.5	105.4	105.1	104.9	106.4	108.9	2.4	3.4
Education	2.7	111.6	111.6	111.6	111.6	115.7	3.7	3.7
Restaurants & hotels	5.7	125.1	125.3	126.3	127.4	128.2	0.7	2.5
Miscellaneous goods & services	6.8	119.0	118.5	117.3	117.3	117.5	0.1	-1.3

Source: Central Department of Statistics and Information.

**Chart 2: Inflation Rate of the Cost of Living Index by Main Groups
(Q4 / Q3 2013)**



Source: Central Department of Statistics and Information.

In contrast, the transport group registered a deflation of 0.8 percent in the fourth quarter of 2013 compared to the third quarter of the same year. Chart 3 shows the quarterly changes in major groups that influence the general inflation rate the most in domestic market during the period from fourth quarter of 2012 to fourth quarter of 2013.

Major Groups' Effects on the General Cost of Living Index

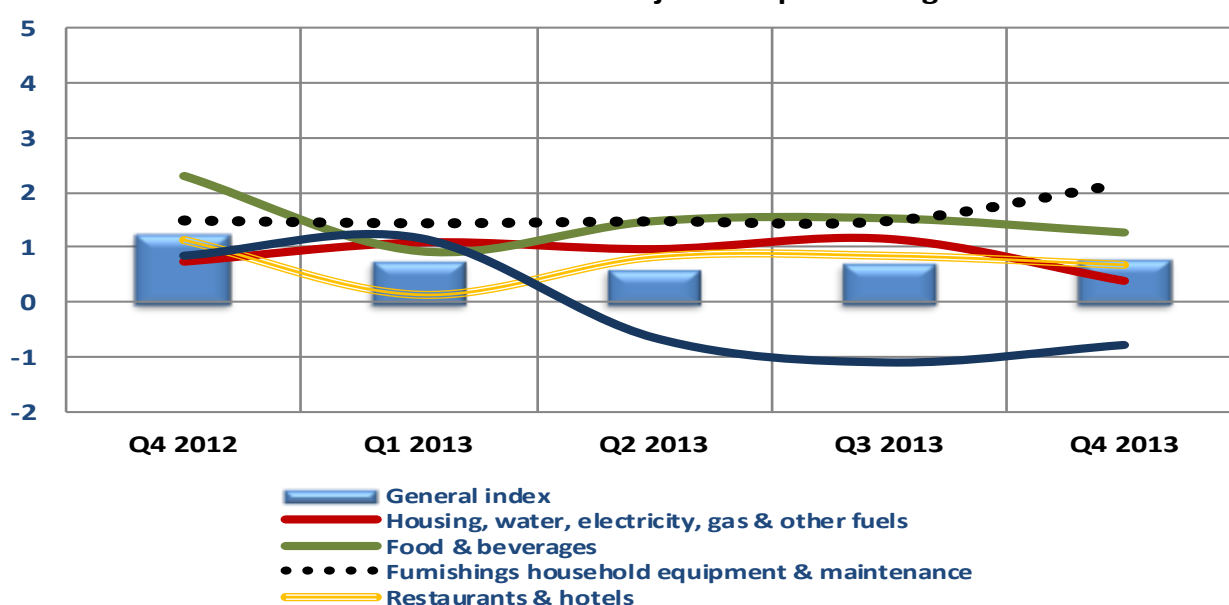
The inflation rates of the general cost of living index were affected by the rises in its various groups. Food and beverages group ranked first with 28.5 percent in the fourth quarter of 2013 in terms of its influence on the cost of living index. The ratio of influence of furnishings, household equipment and maintenance group on the annual change rate of the general index went up from 11.1 percent in the fourth

quarter of 2012 to 20.3 percent in the fourth quarter of 2013. The influence ratio of education group increased from 3.8 percent to 10.2 percent during the same period. The total influence ratio of the three highest inflated major groups (food and beverages, household furnishing and equipment and education) reached 59.0 percent in the fourth quarter of 2013 as compared to 55.6 percent for these groups in the fourth quarter of 2012 (Charts 4 and 5).

Wholesale Price Indices

The wholesale price index recorded an increase of 0.4 percent during the fourth quarter of 2013 compared to the corresponding quarter of the previous year. However, it deflated by 0.1 percent during the fourth quarter of 2013 compared to the preceding quarter. It had registered an increase of 0.9 percent in the

Chart 3: Quarterly Inflation Rate of the General Cost of Living Index and the Most Major Group Affecting it



Source: Central Department of Statistics and Information.



Chart 4: Percentage Impact Of Major Groups On The General Inflation Rate (Q4 2012)

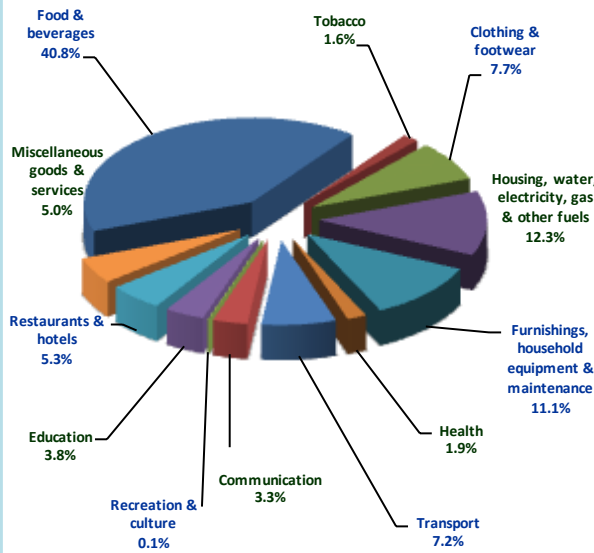
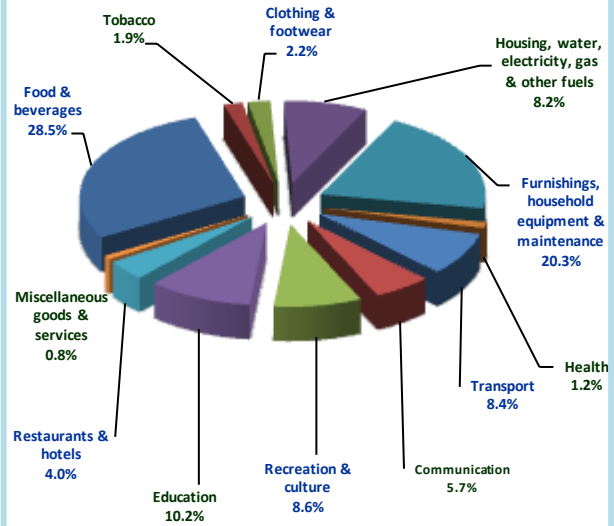


Chart 5: Percentage Impact Of Major Groups On The General Inflation Rate (Q4 2013)



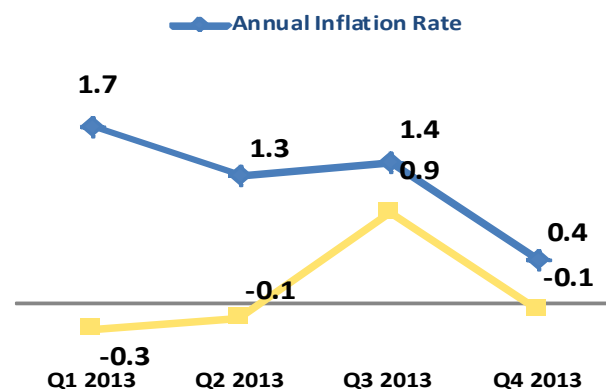
third quarter, and had also recorded a deflation of 0.3 percent and 0.1 percent during the first and second quarters of 2013, respectively. This resulted in a decline in its annual inflation rate from 2.9 percent during the fourth quarter of 2012 to 0.4 percent during the fourth quarter of 2013 (Chart 6).

compared to the same quarter of the preceding year. This group was affected by the increases in the subgroup (vehicles and their spare parts) where prices of transport vehicles (trucks) rose by 15.0 percent, passenger vehicles by 6.2 percent, and vehicle spare parts by 3.3 percent during the same period.

Wholesale Price Indices by Groups

The group of beverages and tobacco recorded the highest increase rate during the fourth quarter of 2013 compared to the same quarter of the preceding year. This group's inflation rate reached 15.6 percent due to a rise of 19.7 percent in the subgroup (beverages) during the same period. The group of machinery and transport equipment recorded the second highest inflation rate of 4.8 percent during the fourth quarter of 2013

Chart 6: Inflation of the Wholesale Price Index (1988=100)



Source: Central Department of Statistics and Information.



The group of machinery and transport equipment was also affected by the increase recorded by the subgroup (office equipment and devices) where prices of computers rose by 6.4 percent during the same period.

The group of food and live animals came third with an annual inflation rate of 4.1 percent during the fourth quarter of 2013. Most of the group's items were relatively stable, except for the subgroups (live animals) and (food stuffs) which increased by 16.4 percent and by 47.1 percent, respectively, during the fourth quarter of 2013 compared to the same quarter of the previous year.

In contrast, the group of other commodities registered the highest deflation rate

during the fourth quarter of 2013 compared to the same quarter of the previous year. This group's inflation rate decreased by 21.6 percent due to a decline in prices of fine gold (24 carat) by 22.1 percent during the same period. Annual inflation rate of chemicals and related materials dropped by 12.7 percent during the fourth quarter of 2013. Miscellaneous manufactured articles (furniture, apparel, watches) also declined by 12.7 percent during the fourth quarter of 2013 as a result of the decrease in prices of jewelry and their components by 25.5 percent, and the prices of apparel and its related materials by 12.8 percent (Table 2 and chart 7).

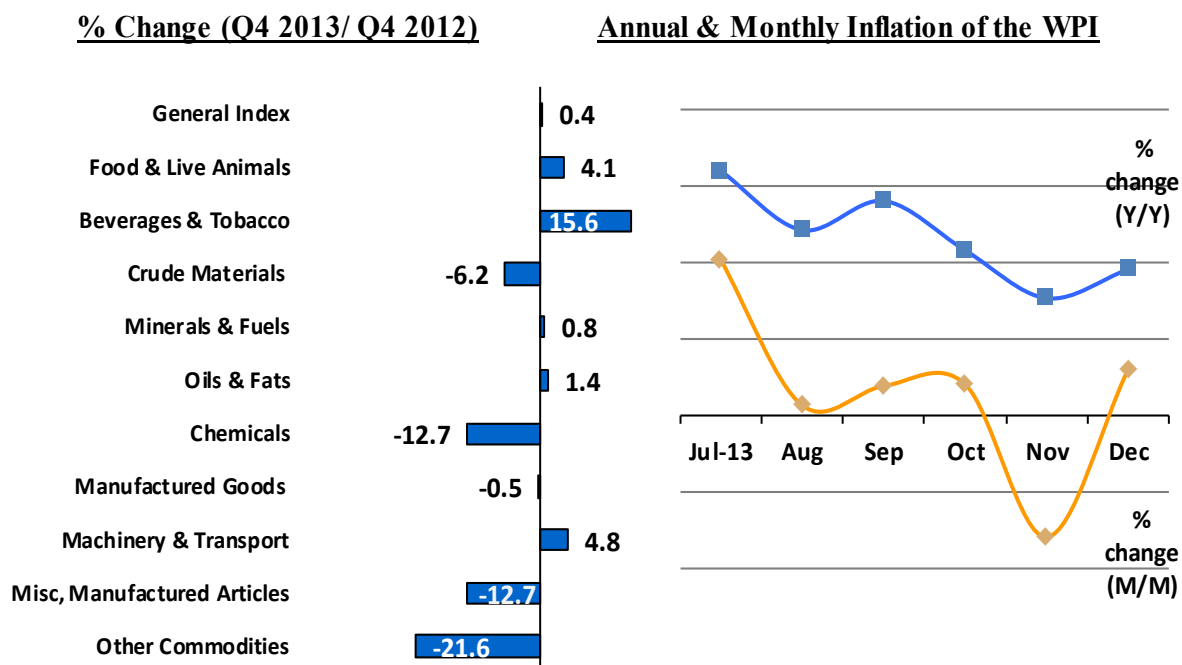
TABLE 2: WHOLESALE PRICE INDEX (WPI)
(1988=100)

	Weights	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	% change	
							Q4 2013/ Q3 2013	Q4 2013/ Q4 2012
General Index	100.0	158.2	157.8	157.6	159.0	158.9	-0.1	0.4
Food & Live Animals	31.9	180.9	178.9	183.0	187.7	188.4	0.4	4.1
Beverages & Tobacco	1.2	151.8	153.1	167.2	174.3	175.4	0.7	15.6
Crude Materials	0.3	217.9	217.9	204.0	204.2	204.3	0.0	-6.2
Minerals & Fuels	10.1	184.8	184.8	186.3	186.3	186.3	0.0	0.8
Oils & Fats	0.4	148.8	149.0	151.0	150.7	150.9	0.1	1.4
Chemicals	9.8	234.5	227.9	201.2	204.5	204.8	0.1	-12.7
Manufactured Goods	26.2	144.4	145.2	144.3	144.1	143.7	-0.3	-0.5
Machinery & Transport	13.4	136.9	139.8	143.6	143.7	143.5	-0.2	4.8
Misc, Manufactured Articles	6.4	153.5	152.5	136.3	135.4	134.0	-1.0	-12.7
Other Commodities	0.3	323.4	307.6	276.1	266.8	253.4	-5.0	-21.6

Source: Central Department of Statistics and Information.



**Chart 7: Inflation of the Wholesale Price Index by Main Groups
(1988=100)**



Source: Central Department of Statistics and Information.

GDP Deflator

The non-oil GDP deflator declined by 1.9 percent during the fourth quarter of 2013 as compared to the third quarter of the same year. The GDP deflator also declined by 0.5 percent during the fourth quarter of 2013 compared to the same quarter of the preceding year.

The GDP deflator measures inflation rate at the macroeconomic level and differs from the cost of living index, which only targets final consumption. The GDP deflator, however, targets all consumption, investment and government sectors according to their

respective contributions to the GDP. Therefore, the deflator is considered as an indirect measure of the change in the general level of prices. The non-oil GDP deflator is usually used to exclude the impact of change in oil prices on the domestic economy.

Over the last three years, the non-oil GDP deflator recorded the highest increase rate of 9.0 percent during the third quarter of 2012 compared to the same quarter of 2011. Then, it started to decrease gradually to -0.5 percent during the fourth quarter of 2013 (Table 3 and chart 8).



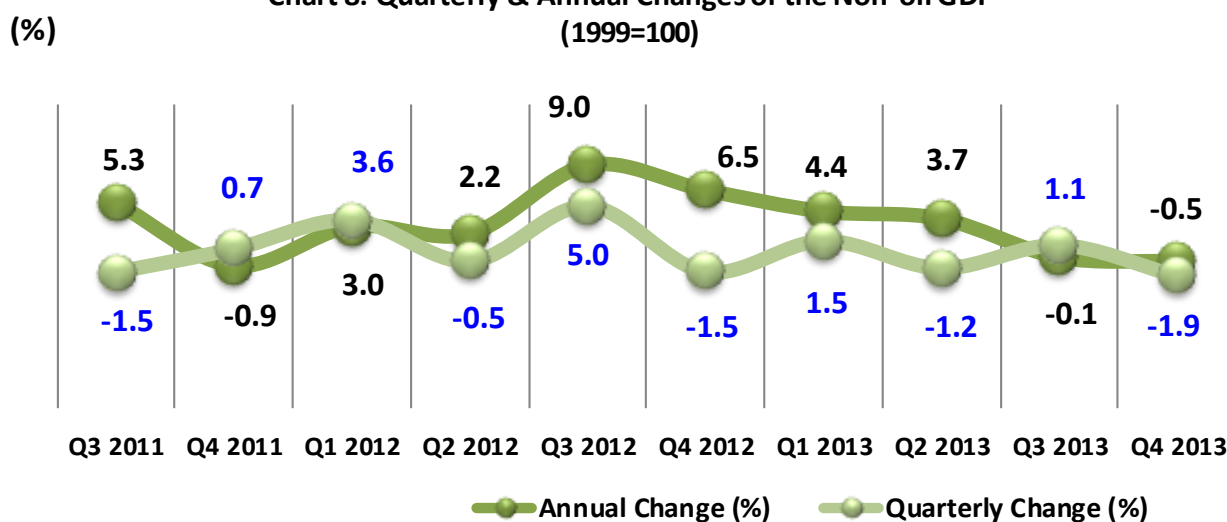
TABLE 3: GDP Deflator
(1999=100)

	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
<u>GDP (Million Rls):</u>										
At Current Prices	629815	655038	708741	678164	680124	685304	691909	676884	711999	713980
At Constant Prices	287713	296748	308438	302849	305921	308685	316761	314326	318194	323164
GDP Deflator	218.9	220.7	229.8	223.9	222.3	222.0	218.4	215.3	223.8	220.9
Quarterly Change (%)	-0.4	0.8	4.1	-2.5	-0.7	-0.1	-1.6	-1.4	3.9	-1.3
Annual Change (%)	21.1	9.7	10.8	1.9	1.6	0.6	-4.9	-3.8	0.6	-0.5
<u>Non-oil GDP (Million Rls):</u>										
At Current Prices	295494	308955	336579	325417	345288	346980	369361	357367	360460	361769
At Constant Prices	220465	228816	240663	233830	236397	241213	252901	247567	246972	252722
Non-oil GDP Deflator	134.0	135.0	139.9	139.2	146.1	143.8	146.0	144.4	146.0	143.1
Quarterly Change (%)	-1.5	0.7	3.6	-0.5	5.0	-1.5	1.5	-1.2	1.1	-1.9
Annual Change (%)	5.3	-0.9	3.0	2.2	9.0	6.5	4.4	3.7	-0.1	-0.5

Source: Central Department of Statistics and Information.



**Chart 8: Quarterly & Annual Changes of the Non-oil GDP
(1999=100)**



Source: Central Department of Statistics and Information.

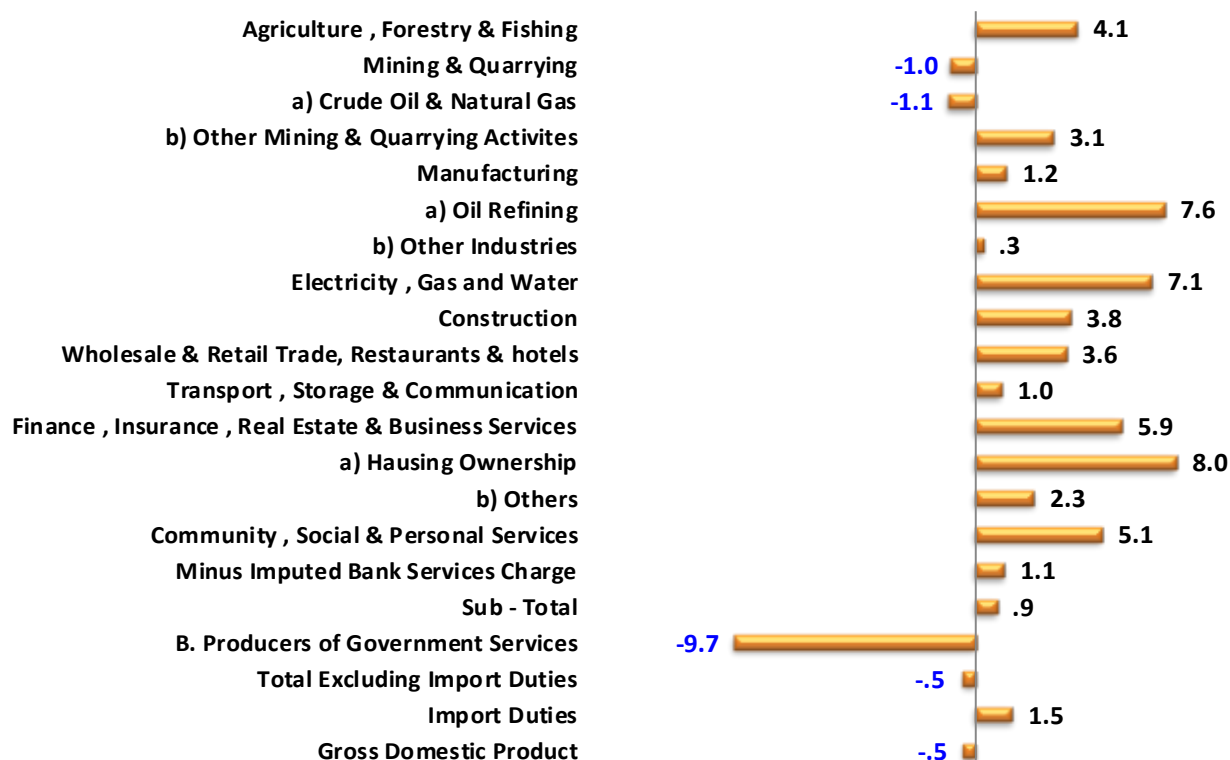
An analysis of the GDP deflator data (at constant prices for 1999) by economic activity shows that the activity of electricity, gas and water registered the highest increase of 7.1 percent in the fourth quarter of 2013 as compared to the fourth quarter of the preceding year. The activity of Finance, insurance, real estate and business services came second with 5.9 percent due to an increase of 8.0 percent in the activity of house ownership, followed by community, social and personal services with 5.1 percent. Agriculture, forestry and fishing ranked fourth with an increase of 4.1 percent in the fourth quarter of 2013 compared to the fourth quarter of 2012.

Government services' producers registered the highest contraction of 9.7 percent in the GDP deflator during the fourth quarter of 2013

as compared to the corresponding quarter in the preceding year. Mining and quarrying activity recorded a contraction of 1.0 percent during the same period (Chart 9).

A comparison of annual inflation measures in the domestic market indicates that annual inflation rate in the cost of living index registered the highest increase of 3.0 percent in the fourth quarter of 2013. Annual inflation rate in the wholesale price index came second with 0.4 percent during the same period, while the annual change rate in the non-oil GDP deflator decreased by 0.5 percent during the same period (Chart 10).

**Chart 9: GDP Deflator by Type of Economic Activity at 1999 Constant Prices
Q4 2013 (% Change)**



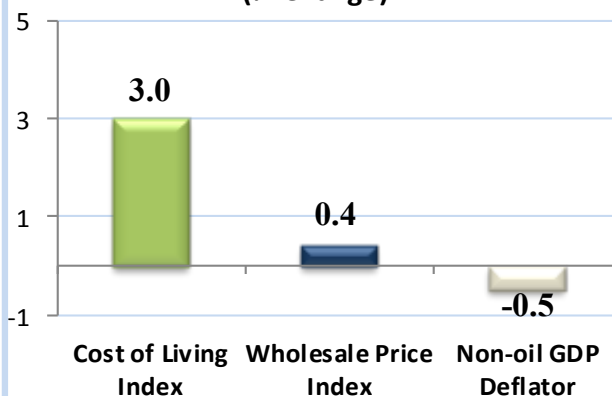
Source: Central Department of Statistics and Information.

Foreign Trade with Major Trading Partners

Total value of the Kingdom's imports stood at Rls 153.8 billion during the third quarter of 2013 (latest available data), declining by 0.8 percent from the second quarter of 2013 and increasing by 4.0 percent over the third quarter of 2012.

China came at the top of the Kingdom's trading partners list during the third quarter of 2013. The Kingdom's imports

**Chart 10: Inflation Measurements in
Q4 2013
(% Change)**



Source: Central Department of Statistics and Information.



from China amounted to Rls 21.0 billion or 13.6 percent of the Kingdom's total imports. The United States came second with Rls 20.5 billion or 13.3 percent of the total value of the Kingdom's imports. Germany came third with Rls 11.2 billion or 7.2 percent of the Kingdom's total imports. Japan ranked fourth with Rls 8.3 billion or 5.3 percent of the total value of imports. South Korea came fifth with Rls 8.0 billion or 5.2 percent of the Kingdom's total value of imports during the third quarter of 2013 (Table 4).

The total value of the Kingdom's imports (latest available data) stood at Rls 565.4 billion during the first 11 months of 2013. The top countries from which the Kingdom imported were as follows:

1. The United States with a value of Rls 76.4 billion, or 13.5 percent of the Kingdom's total value of imports. The annual inflation rate in the U.S. was 1.5 percent in 2013.
2. China with a value of Rls 73.1 billion, or 12.9 percent of the Kingdom's total value of imports. The annual inflation rate in China was 2.5 percent in 2013.
3. Germany with a value of Rls 39.1 billion, or 6.9 percent of the Kingdom's total value of imports. The annual inflation rate in Germany was 1.5 percent in 2013.
4. South Korea with a value of Rls 32.5 billion, or 5.7 percent of the Kingdom's total value of imports. The annual inflation

TABLE 4: Top 5 Trading Partners by value of Imports (Rls Million)

Countries	Q3 2012	Q3 2013	Change (%)
CHINA	20172	20974	4.0
U.S.A	20397	20501	0.5
GERMANY	10111	11230	11.1
JAPAN	9646	8264	-14.3
SOUTH KOREA	8903	8014	-10.0
Total	64605	74030	14.6
Ratio To Total	46.8	44.8	-4.1

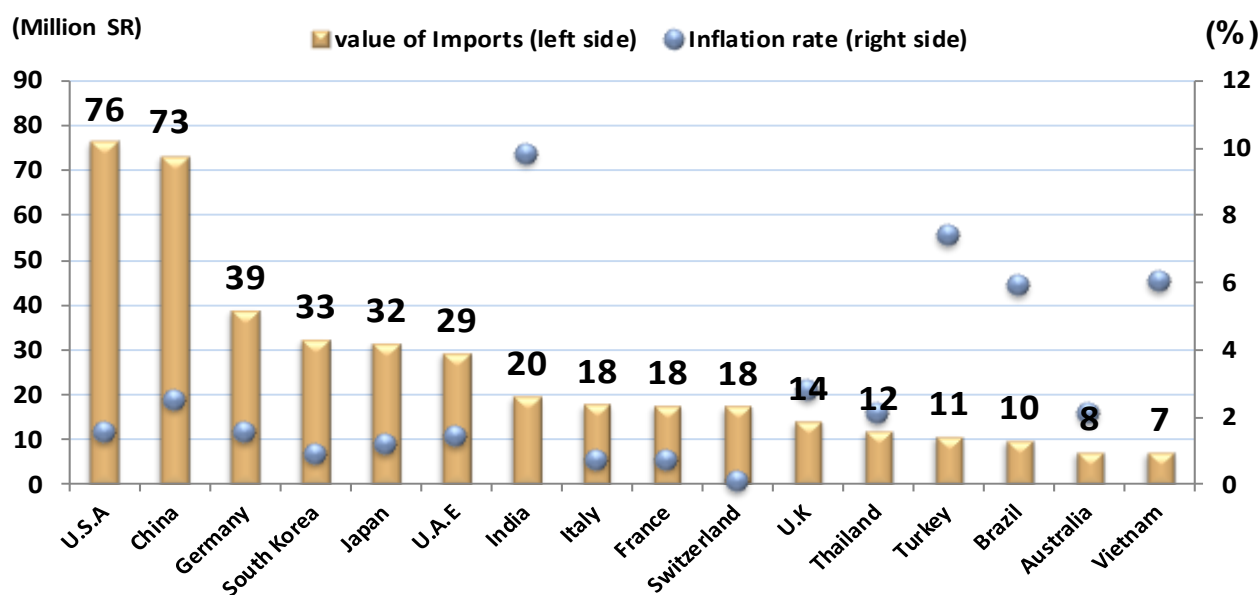
Source: Central Department of Statistics and Information.

rate in South Korea was 0.9 percent in 2013.

5. Japan with a value of Rls 31.7 billion, or 5.6 percent of the Kingdom's total value of imports. The annual inflation rate in Japan was 1.2 percent in 2013.
6. United Arab Emirates with a value of Rls 29.5 billion, or 5.2 percent of the Kingdom's total value of imports. The annual inflation rate in U.A.E. was 1.4 percent in 2013.
7. India with a value of Rls 19.8 billion, or 3.5 percent of the Kingdom's total value of imports. The annual inflation rate in India was 9.8 percent in 2013.
8. Italy with a value of Rls 18.1 billion, or 3.2 percent of the Kingdom's total value of imports. The annual inflation rate in Italy was 0.7 percent in 2013.

9. France with a value of Rls 17.9 billion, or 3.1 percent of the Kingdom's total value of imports. The annual inflation rate in France was 0.7 percent in 2013.
10. Switzerland with a value of Rls 17.6 billion, or 3.1 percent of the Kingdom's total value of imports. The annual inflation rate in Switzerland was 0.1 percent in 2013.
11. The United Kingdom with a value of Rls 14.3 billion, or 2.5 percent of the Kingdom's total value of imports. The annual inflation rate in the UK decreased by 2.8 percent in 2013.
12. Thailand with a value of Rls 12.2 billion, or 2.1 percent of the Kingdom's total value of imports. The annual inflation rate in Thailand was 2.1 percent in 2013.
13. Turkey with a value of Rls 11.1 billion, or 1.9 percent of the Kingdom's total value of imports. The annual inflation rate in Turkey was 7.4 percent in 2013.
14. Brazil with a value of Rls 10.0 billion, or 1.7 percent of the Kingdom's total value of imports. The annual inflation rate in Brazil was 5.9 percent in 2013.
15. Australia with a value of Rls 7.5 billion, or 1.3 percent of the Kingdom's total value of imports. The annual inflation rate in Australia was 2.1 percent in 2013.
16. Vietnam with a value of Rls 7.4 billion, or 1.3 percent of the Kingdom's total value of imports. The annual inflation rate in Vietnam was 6.0 percent in 2013.

Chart 11: Top Trading Partners by Value of Imports for First Eleven Months of 2013



Source: Central Department of Statistics and Information.



TABLE 5: Top Trading Partners by value of Imports for First Eleven Months of 2013

Countries	Value (Million SR)	Ratio To Total (%)	Accum. Ratio (%)	Inflation Rate (%)	Most Imported Commodities Commodity Name
U.S.A	76431	13.50	13.5	1.5	Private Cars, Jeeps, Parts Of Aeroplanes Or Helicopters.
China	73191	12.90	26.4	2.5	Telephones For Cellular Networks And Wireless, Portable Auto Data Processing Machine, Machines For Reception, Conversion And Transmission.
Germany	39087	6.90	33.3	1.5	Cigarettes, Private Cars, Gas Turbines.
South Korea	32542	5.70	39.0	0.9	Private Cars, Telephones For Cellular Networks And Wireless.
Japan	31774	5.60	44.6	1.2	Jeeps, Private Cars, Light Trucks, Chassis-Cabs.
U.A.E	29463	5.20	49.8	1.4	Gold Ingots, Brass, Bars And Rods Of Refined Copper.
India	19876	3.50	53.3	9.8	Rice, Telephones For Cellular Networks Or For Other Wireless Networks, Benzene .
Italy	18105	3.20	56.5	0.7	Cocks, Medicine Containing Penicillins Or Derivatives, Safety.
France	17932	3.10	59.6	0.7	Uncut Frozen Meat, Perfumes, Medicine Containing Penicillins Or Derivatives.
Switzerland	17634	3.10	62.7	0.1	Gold Ingots, Cigarettes, Wrist Watches.
U.K	14370	2.50	65.2	2.8	Parts Of Aeroplanes Or Helicopters, Generating, Medicine Containing Antibiotics.
Thailand	12203	2.10	67.3	2.1	Pickups.
Turkey	11119	1.90	69.2	7.4	Semi-Finished Iron And Steel Products, Partially-Worked Iron Or Steel Bars, Non-Alloy Pig Iron.
Brazil	10096	1.70	70.9	5.9	Uncut Frozen Meat, Agglomerated Iron, Frozen (Chikens).
Australia	7578	1.30	72.2	2.1	Solid milk not excddine, Wheat normal, Private cars.
Vietnam	7468	1.30	73.5	6.0	Tubes and pipes of iron or steel, Telephones for cellular networks or for wireless networks.

* Data of year 2013 for Eleven Months.

Source: Central Department of Statistics and Information, IMF.



**TABLE 6: IMF Commodity Price Index
(2005=100)
(Percentage From Previous Period)**

	Weights	Actual		Projections				
		2011	2012	2013	2014	2015	2016	2017
All Primary Commodities	100.0	26.2	-3.2	-1.6	-2.4	-4.0	-3.1	-2.4
Food	16.7	19.9	-2.2	0.6	-10.4	-3.3	-1.0	-0.9
Beverages	1.8	16.6	-18.6	-12.8	-5.0	1.1	-2.2	-1.7
Agricultural Raw Materials	7.7	22.7	-12.7	1.6	4.6	0.3	-6.8	-4.0
Metals	10.7	13.5	-16.8	-4.3	-5.6	-3.2	1.2	1.1
Energy	63.1	31.5	0.7	-1.6	-0.6	-4.7	-3.9	-3.1

Source: IMF

Inflation Projections for the First Quarter of 2014

Inflation rates in the fourth quarter of 2013 were affected by the increases recorded in the food and beverages group. This was due to the seasonal effect of Hajj on the domestic market. The influence ratio of the group of food and beverages on the general inflation rate stood at 34.2 percent in December 2013, despite diminishing of seasonal pressures where annual inflation rate of the food group declined from 6.2 percent in September 2013 to 5.2 percent in December 2013 (Chart 12).

The general inflation rate is expected to continue declining below 3 percent during the first quarter of 2014, in line with the fall of the inflationary pressures in the food and beverages group (deflation), up to the end of

2017 (Table 6). The IMF projections (latest available data) show a decrease in the average inflation rate in sixteen countries that are the top exporting counties to the Kingdom from 3.1 percent in 2012 to 2.9 percent in 2013.

On the other hand, the FAO food price index went down by 3.4 percent in December 2013 compared to the preceding year and by 3.1 percent in 2013. The decline recorded in December 2013 was due to a sharp decrease in grain prices in the global markets.

Conclusion

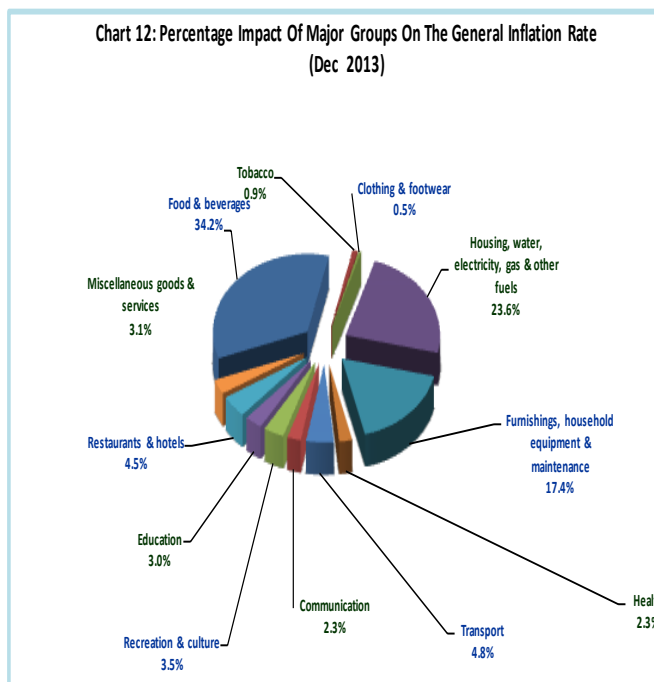
The most significant results of the analysis of the inflation rates in the Kingdom can be summarized as follows:

1. The cost of living index registered the

highest inflation rate of 4.0 percent in April 2013, then it declined gradually due to an easing of inflationary pressures on the groups of transport and housing, water, electricity, gas and other fuels. Moreover, Hajj seasonal effects on the food and beverages group started to diminish.

2. Education and tobacco groups registered the highest inflation rates of 3.7 and 3.6 percent, respectively, during the fourth quarter of 2013 as compared to the preceding quarter.
3. The wholesale price index recorded an increase of 0.4 percent during the fourth quarter of 2013 compared to the corresponding quarter of the previous year.
4. The wholesale prices of the group of beverages and tobacco recorded the highest increase rate during the fourth quarter of 2013 compared to the same quarter of the preceding year. The group denoted an inflation rate of 14.8 percent due to an increase of 19.7 percent in the subgroup (beverages) during the same period.
5. The non-oil GDP deflator recorded a decline of 1.9 percent during the fourth quarter of 2013 compared to the third quarter of the same year, while the GDP deflator declined by 0.5 percent during the fourth quarter of 2013 compared to the same quarter of the preceding year.

Chart 12: Percentage Impact Of Major Groups On The General Inflation Rate (Dec 2013)



6. Because of the decline in the inflationary pressures on the group of food and beverages and the ongoing decrease in the commodity prices in the global markets, the kingdom's general inflation rate is expected to continue declining below 3 percent during the first quarter of 2014.