Inflation in saudi arabia

Introduction

Has resulted in the volume of global monetary easing restrictions and taxes over the past two years, many observers suggest that compared to a rise in inflation all but inevitable. Since the budget of the Federal Reserve extended only $ 800 billion to 2. 2 trillion U. S. dollars in less than a year, and many believe that the sharp price pressures emerge, almost regardless of the pace of recovery in the total production.

These concerns are also evident in Saudi Arabia. Inflation has moderated significantly since 2008 to the mid-high percent – 11. But some local commentators fear that raised sharp rise in the prices of both the government and expansion of strong financial (increase spending by 10 per cent of GDP in 2009), and high rates of inflation in the world of food in the country through the import channel.

These fears are justified? To answer this, we will examine inflation peak of 2007-08, in order to obtain a better understanding of the main causes of inflation in the Kingdom of Saudi Arabia. We will take this into account developments in 2009, when inflationary pressures rather quickly, before going on to study the possibilities of short and medium term for the different programs, both nationally and internationally.

Some inflation is a good thing. In a period of deflation households tend to postpone consumption in waiting further down the prices to come. This, in turn, forces companies to delay investment decisions, which means that output at the end starts to decline and unemployment rates will rise. Increase in real interest rates also, triggering defaults and tightening credit.

However, the hyper-inflation and unwelcome. Also price-distorting, and inflation erodes the rapid increase in savings, and reduces the value of profits in the future (and thus discouraging investment), stimulates capital flight (in the foreign assets and precious metals, real estate or non-productive) and held economic planning. In its most extreme, could spark inflation, social unrest and political turmoil. Thus, the rate of moderate and stable and predictable growth of prices for both producers and consumers and investors to feel comfortable, is a universally recognized goal of monetary policy. What was the experience of inflation in the Kingdom of Saudi Arabia?

Inflation in Saudi Arabia

Is a measure of inflation in the Kingdom in two ways: through the cost of living (CLI) and the index of wholesale prices, which are both there and published by Department of Statistics and Information (a government department which is completely separate from the central bank and the Saudi Arabian Monetary Agency). There are periodic surveys of labor productivity or inflation expectations.

Saudi Arabia has a history of low inflation and stable

CLI is composed of hundreds of products, and builds index 1999. Energy costs and the rental together represent about 44 percent of the total index. And supports about 10 percent of goods and services in the Qatari initiative by the authorities, particularly petroleum products and electricity. Is fixed the prices of these goods for long periods, and therefore rarely have any impact on changes in the CLI. For these reasons, there is no distinction between inflation and the title of “ core”, which excludes food and energy prices.

And guided by the Central Bank and the Saudi Arabian Monetary Agency, through public policy to maintain price stability in the exchange rate. Under a fixed barrier, such as those enjoyed by the Kingdom of Saudi Arabia, and price stability, in theory, take a back seat to keep the exchange rate. However, for long periods in the history of the Kingdom of Saudi Arabia both targets have been comfortably accommodated. Consumer prices rose at an annual rate of 1. 3 percent in 1990 and 0. 1 percent in the period 2000-06, while there was only a modest factor occasional pressure on the exchange rate. The inflation path sweet reflects a number of factors, including economic activity generally moderate, and easy access to cheap imports, and labor market flexibility, and open capital account. This has helped the fixed exchange rate itself to reduce inflationary expectations.

High inflation began to emerge in 2007

This has begun to change in 2007. In that year, and the acceleration of inflation in consumer prices to an average annual rate of 4 percent (from 2. 4 percent in 2006), and ending the year at 6. 5 percent. Prices continued to grow rapidly in 2008 with inflation of 12 months, reaching a peak of 11. 1 percent in July.

Observers focused on the exchange rate peg

Inflation has grown rapidly, despite the tightening of monetary policy in the early and strong are the Saudi Arabian Monetary Agency, including a sharp increase in work requirements and the Central Bank issues an escalation of Treasury Bills. Has resulted in the ineffectiveness of these measures many commentators to focus on the Saudi riyal, the U. S. dollar. He highlighted two specific issues. First, linking and the generation of " imported inflation", according to observers. High inflation and coincided with the sharp weakness in the value of the U. S. dollar against most major currencies, with its value against the trade-weighted basket of currencies (the nominal effective exchange rate) fell by about 4. 3 percent in 2007 and increased 3. 7 per cent in 2008, after 1 , 5 percent in 2006. Has developed this upward pressure on import prices and the Kingdom of Saudi Arabia, and therefore, according to the prices of many from Saudi Arabia, and retail.

Have been reported on the constraints imposed on monetary policy

Another explanation focuses on monetary policy. Connectivity forced fixed space policy of the Saudi Arabian Monetary Agency, and restrictions on what can lead to this interest rate and the growth of domestic credit. If the rate of Saudi Arabia has moved too far out of line with the rates of the United States, then the Saudi Arabian Monetary Agency to the risk of attracting capital flows side

Put upward pressure on the exchange rate. Have been identified and this limitation is particularly salient because of commercial bank lending and rapid expansion. , In mid-2008, bank lending to the private sector has been growing at 35 percent a year on an annual basis is not as high as is the case in some other Gulf countries, but rapid enough to suggest that the Saudi economy was overheating. Unfortunately, with the United States to reduce the speed mode, there was little can be done by the Saudi Arabian Monetary Agency that it is up the growth of liquidity in line with the essentials.

International Monetary Fund more of the characteristics of the inflationary pressures on food inflation and business partners

The justification for linking the Centre on the exchange rate? The dramatic rise in the rate of inflation is primarily a product of the limitations of monetary policy and the weak dollar or the interaction of several factors more complicated than this? In fact, evidence suggests that the main causes of inflation in the Kingdom of Saudi Arabia, both short-term inflation and long-term partner is the commercial and food prices all over the world. Fixed exchange rate also helps, but mostly to help.

International Monetary Fund, which conducted extensive research on this Topic2 enough, and believed that without adjusting the exchange rate (and not under the horizontal bar), an increase in the prices of imported goods have a direct and fast on domestic prices in saudi arabia. Food prices, which can be seen both as a source of inflation on business partners and external factor in a part of has had a strong impact on prices in the Kingdom of Saudi Arabia. Internal factors such as increases in aggregate demand, they play only a minor role, according to the International Monetary Fund. This largely explains the limited impact of changes in interest rates in the UK (see chart below) 0. 3

Particularly the International Monetary Fund believes that the search to increase the price per cent in levels of trading partners results in an increase of 0. 83 percent of the price level in the Kingdom of Saudi Arabia. Pass-through effect is the effect of changes in the nominal exchange rate is relatively modest increase of one percent (estimate) IsoDraw results in a 0. 19 percent decline in the price level in the Kingdom of Saudi Arabia.

Exchange rate pass-through is weak, according to the International Monetary Fund

Because the exchange rate pass-through is very weak? International Monetary Fund notes that while the changes in price levels of trading partners, usually permanent, and changes in exchange rates are not. Therefore, exporters, Bearing this in mind, and the need to protect its stake in the Saudi market, you may be willing to absorb all or part of the exchange rate effect by adjusting the profit mark-up “ market price”. Similarly, the Saudi importers may also adjust the profit mark-ups to maintain market share. It also puts the IMF said that “ the market share of the profits today determines tomorrow” (in fact, this phenomenon has been well documented in other countries)

The IMF attributes little impact on internal factors such as inflation, government spending and monetary policy. This, perhaps, overlooking the impact of changes in total domestic demand in the area of non-commercial, such as rental costs, and will look at later, as well as on asset prices, which are not covered in this document. However draws a large crowd out of the fund makes sense, given that the expression is usually an increase in domestic demand through the import channel, rather than to be in demand for domestically produced consumer goods (which are limited).

Interest rates in the Kingdom of Saudi Arabia

Is the definition of the scope of monetary policy by the exchange rate peg, and this is why politics has traditionally tended to be negative. However, there is evidence to suggest that even if the authorities were free to adjust interest rates to their will, and this would be only a limited impact on inflationary pressures in the Kingdom.

With many shops located on the Kingdom of the Arab-Islamic, and the stock market the only realistic alternative for liquidity, and broadcast signals interest rate tends to be low in the Kingdom of Saudi Arabia and the Gulf. This is evident in the storage activity in 2009: total deposits increased by more than 11 percent last year, despite the sharp decline in interest rates on deposits nominal (from 2. 89 percent on average in 2008 to 0. 63 per cent in 2009)

The downside of this is the lack of sensitivity to interest rates on loans. In its efforts to offset the impact of the global financial crisis, which held the Saudi Arabian Monetary Agency monetary tightening very quickly in the late 2008's and early 2009. And lower interest rates (in line with the rates of the United States), was reduced reserve requirements, has been reduced treasury bill auctions, and carried out operations to pump liquidity into the banking system directly. However, this does not encourage commercial banks to increase lending to the private sector, however, loans contracted slightly during 2009. In short, even if the Saudi Arabian Monetary Agency and have full control over interest rates is not certain that this will enable him to exercise a decisive influence on the levels of credit or deposits in the economy.

SPIKE 2007-08 inflationary

Review of the 2007-08 high rates of inflation, we can see that the factors identified by the International Monetary Fund has already play an important role. The main driver of earnings of 4 percent in 2007, its index is the pick-up and pronounced in food prices, which rose by 7 per cent. This category includes the largest weighting of the Central Administration of Statistics basket ' with 26 per cent. Within this category there were significant increases in the prices of vegetables and tubers (30%), and fresh vegetables (12%) and fish (12%) and cereals (7%), meat and poultry (6 percent).

Inflation trends in recent

Inflation and cool quickly

After reaching a peak of 11. 1 percent in July 2008, began to cool inflationary pressures in the second half of 2008 and declined somewhat quickly in 2009. And price growth fell to about 4. 5 percent by the end of 2009 (an average of 2009 from 5. 1 per cent) and stabilized at around this level in the first two months of 2010. This rate is slightly higher than the historical average over the long term, but also in the range of rapidly growing emerging markets such as Saudi Arabia.

What caused this decline in price pressures? It was in fact the key factors external dampers that have been identified in advance. With the intensification of the global financial crisis in mid-2008, global economic confidence began to decline rapidly, and the prices of most commodities fell sharply. Food prices along with this trend, with the benchmark S & P / Goldman Sachs index reduced by 28 percent between September and December 2008.

The U. S. dollar strengthening a shadow on the appetite for agricultural products

And dried in risk appetite as investors in the integrity and clear of the public debt of the United States, so the price of the dollar. This had an impact on the indicators made goods less attractive to investors than the dollar. These reduced prices and significantly reduce costs for importers to deal with the Saudi Trade on the basis of the dollar, like New York and Chicago boards of trade. Separately, and made a strong dollar is also cheaper for traders to import Saudi origin directly from the non-dollar countries, landlocked such as Canada, Brazil or Australia.

These dynamics are clearly visible in Saudi Arabia index, which shows the component of food and beverages rose 2. 5 percent between 2009 and December 2008 to June.

Trading partners inflation ‘ has also facilitated the rapid

At the same time, inflation among trading partners have also begun to soften. For example, the average inflation rate in the Kingdom of the four main sources of imports (the United States and China, Japan and Germany) has declined from 4 percent in the first quarter of 2008 to zero per cent a year later. Rate and then moved into negative territory for the remainder of 2009. In the autumn of this year in inflation pressure trading partners’ downward to develop a full range of goods imported into the index Arabia, even though most of these will not be arrested in certain categories of the index.

Rent price inflation remained strong …

If high food prices are falling, and inflation of trading partners and turned negative, it maintained rates of inflation in the Kingdom? After all, at 4. 5 percent, and inflation is still higher than historical norms. The answer is that the component has continued to hire the Qatari initiative for growth: The average inflation to spend the Christmas holiday and was 17. 5 percent in 2008, and cools only slightly to 14 percent in 2009.

With strong demand for rental expenditure

At first glance, and a constant force of the Charter of the index is incompatible with the general deterioration of the confidence of the individuals in the Kingdom of Saudi Arabia and the Gulf in general. Private investment in the ground to arrest is imminent in the Kingdom of 2009, as credit dried up and drew the plans. However, unlike many of the governments in the Gulf region, said that the Saudi public sector resources to fill the gap left by the private sector and support investment. Increase in central government expenditure by 10 per cent of the remarkable GDP in 2009, and implementation of new projects for public infrastructure helped fuel the demand for expatriate workers, and kept upward pressure on rents

Conclusion

It is expected that a period of above-average growth in food prices to continue. Will use the structural changes in the global economy and agricultural products and the forces instrumental in raising the prices of basic commodities. He asked the local factors to put more pressure on consumer prices in the Kingdom of Saudi Arabia.

About one third of the world's population directly benefiting from what appears to be the sustainable economic boom in China and India. This will continue to raise living standards and changing patterns of food consumption, and high prices and demand and thus higher quality and more complex food. The need for raw materials for many of the new ethanol plants currently under construction to add more high food prices all over the world.

A recent report by the Organization for Economic Cooperation and Development OECD and the United Nations Food and Agriculture Organization projects that the percentage increase in the prices of agricultural products between 20 and 50 in the next 10 years. Forecasts by the Ministry of Agriculture in the United States also point to the continuing rise in the prices of major crops until the end of the decade. And will move higher agricultural commodity prices to consumers in the form of higher food prices in the shops.