


Saudi realty helps temper prices

Inflation in Saudi Arabia is unlikely to continue rising despite continuing increases in food prices and high rents, analysts said. Analysts believe that measures taken by the government to increase the number of housing units will ease inflation in the long term, and an expected post-Ramadan fall in food prices will end an inflationary spiral which took the rate to 4.7 per cent in June. The cost of living also rose 0.4 per cent, increasing from 133.7 points in May to 134.2 points in June, according to data from the Central Department of Statistics released last week. Saud Masoud, senior real estate and construction analyst at Rasmala Investment Bank, believes that over the next two years inflation in the housing sector will most likely not experience much of an increase as it undergoes increasing supply. "I foresee inflation pressures subsiding to 4.5 per cent by the end of 2013 with the current expectations from the global economy," Sfakianakis predicted. However, Simon Williams, chief economist at HSBC Middle East, is not so optimistic.

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COUNTRY REPORT

SAUDI ARABIA

Population (July 2010 est):	Size:	GDP (2010 est):	Economic growth (2010 est):	Inflation (June 2010 est):
28.7m	2.15m sq km	\$623b	3.8%	4.7%

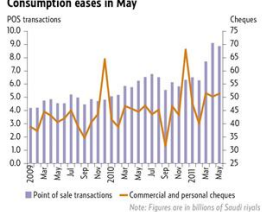
Source: IMF, World Bank

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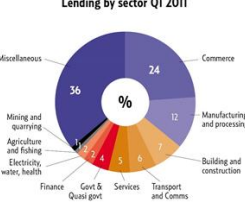
MEASURES TO INCREASE SUPPLY OF HOUSING WILL USHER IN PRICE STABILITY IN LONG RUN

Saudi economic trends

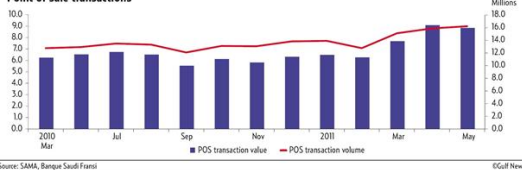
Consumption eases in May



Lending by sector Q1 2011



Point of sale transactions



ment Bank, believes that over the next two years inflation in the housing sector will most likely not experience much of an increase as it undergoes increasing supply.

"There won't be a relatively strong uplift in prices as, outside of certain commodities like food, I don't see mortgages or other drivers pushing prices up in the foreseeable future," Masoud said. Other factors that have influenced the rise in inflation include the steadily increasing gold prices and the political turmoil in the region.

Analysts have pinpointed the causes of inflation, but they remain divided over whether it will rise further next year.

"Any economy that is growing at a good pace is bound to show signs of inflation at some point and the Saudi economy is indeed growing at a good pace," Sfakianakis said.

Twin surpluses

According to a Business Confidence Index report by Banque Saudi Fransi, the economy is likely to grow 5.5 per cent this year, with the government posting twin fiscal and current account surpluses.

Most of the growth will come from the oil and public sectors, while the private sector's expansion should remain below average.

Sfakianakis noted that inflation has fallen to its current 5.1 per cent compared to 5.3 per cent last year, and that there is no reason to fear the double-digit growth experienced in 2008.

"I foresee inflation pressures subsiding to 4.5 per cent by the end of 2013 with the current expectations from the global economy," Sfakianakis predicted.

However, Simon Williams, chief economist at HSBC Middle East, is not so optimistic.

He feels that inflation will continue to rise throughout 2012.

"There is no doubt that the economy is recovering. However, the efforts of the government to boost capacity in the real estate sector will take time to have an effect. I don't expect to see their impact in 2012," Williams said.

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