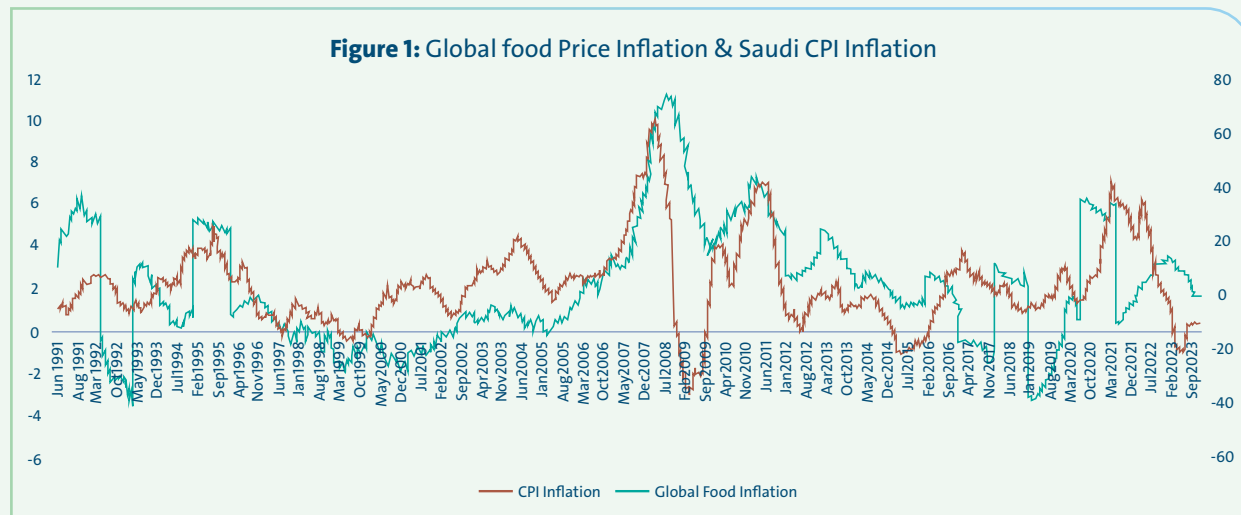


Impact of Global Food Prices on Saudi Arabia's Domestic Market

Fluctuations in global food prices from 1990 to 2023 have influenced the economic landscape of Saudi Arabia, emphasizing the country's dependence on food imports and the resultant economic vulnerabilities.



Source: IMF, FAO, and Authors' calculation



Sensitivity to Price Increases

Saudi Arabia shows a significant sensitivity to increases in global food prices, where a 1% increase globally translates to a 0.55% rise in domestic prices. This reflects the country's high reliance on food imports.

Implication: The economy can be shielded from global price fluctuations by developing a robust local agricultural sector, potentially stabilizing market prices and improving economic independence



Asymmetric Response to Price Decreases

Decreases in global food prices do not significantly impact domestic prices in Saudi Arabia, indicating an asymmetric response likely due to market and contractual dynamics.

Implication: Regulatory measures are recommended to ensure that global price reductions benefit consumers promptly, potentially through enhanced consumer protection laws and competitive policies.

Import Dependence and Economic Vulnerability

The dependence on imported food links Saudi Arabia closely to global market conditions, making it vulnerable to external economic shocks.

Implication: Diversifying food sources and investing in innovative agricultural technologies like hydroponics could lessen this dependency and bolster economic resilience.

Long-Term Planning and Policy Adaptation

The correlation between global and domestic food prices highlights the need for comprehensive economic planning that includes strategies to cope with potential price surges.

Implication: Policymakers should integrate global food price trends into economic models and consider strategic food reserves to stabilize the domestic market during global price spikes.

Conclusion

A strategic approach that combines market regulation and investment in local agriculture can significantly enhance Saudi Arabia's economic stability.