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**Financial Stability Directorate**

# **Monetary and Financial Trends**

**Second Quarter 2008**

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*Monetary and Financial Trends* is produced quarterly by the Financial Stability Directorate, Central Bank of Bahrain. This edition focuses on the Second Quarter of 2008 and highlights developments in the following monetary and financial indicators: i) monetary aggregates; ii) domestic credit; iii) interest rates; iv) domestic prices; v) domestic public debt; vi) exchange rates; vii) official reserves; and viii) the stock market.

## Highlights

### Monetary Aggregates

- During 2008:Q2, *narrow money* (M1) grew by 18.5% while *broad money* (M2) expanded by 8.8%.
- *Demand deposits* were the fastest growing component of the money stock during the quarter, increasing by 20.9%. *Quasi-money* (savings and time deposits) grew by 4.5% while *currency in circulation* grew by 3.8%.
- The growth in money supply was driven primarily by *net domestic assets* (NDA) which rose by 26.0% during the second quarter.
- In contrast, *net foreign assets* (NFA) declined by 8.0%.

### Credit Developments

- Total domestic credit grew by 9.8% to reach BD 5,077.3 million, representing a decrease in domestic credit growth when compared to the 10.5% growth recorded last quarter.
- Private sector credit *increased* by 9.8% (vs. 12.5% in Q1) alongside a 9.7% *increase* in lending to general government (vs. the 19.1% *decline* in Q1).
- An analysis of private sector credit components shows that *business loans* increased by 3.6%, much *slower* than the 15.3% in the first quarter.
- *Personal loans* grew by 20.9% during the quarter, much *faster* than the 7.8% growth in the previous quarter.
- Loans “with salary assignment” constituted the bulk of personal loans (44.4% of the total), slightly down from the 46.9% share recorded in the previous quarter.
- *Business loans* went primarily to the “construction and real estate” segment which accounted for 35.4% of the total.
- The *year-on-year* growth of private sector credit (49.6%) was higher than the growth in 2007 nominal GDP (16.4%), indicating that the boom in private sector lending persists.

### Interest Rates

- Short-term interest rates decreased during the second quarter.
- The 3-month and 6-month inter-bank rates fell to 2.8% and 3.3% respectively by the end of the quarter, while the 3-month Treasury bill yield declined to 2.1%.
- The CBB key policy rate was also reduced to 2.0% by the end of the quarter.

### Domestic Prices

- Inflation numbers released by the CIO, based on a revised basket of commodities (2006 base year) show that the *consumer price index* increased by 1.2% for 2008:Q2.
- *Year-on-year* inflation was 4.0%.

### Domestic Public Debt

- The stock of domestic public debt (securities only) decreased during the quarter from BD 764.6 million to BD 705.0 million.
- The decline in domestic public debt was largely due to a decrease of BD 131.6 million in Islamic leasing securities (Ijara Sukuk).
- Outstanding treasury bills increased to BD 180.0 million whilst Al Salam Islamic Securities remained unchanged at BD 18.0 million.

### Exchange Rates and Official Reserves

- The Bahraini dinar depreciated slightly against the Pound Sterling and appreciated against other key currencies (Euro, Yen, and Swiss Franc) during the second quarter.
- The latest available data for end-2008:Q1 indicates that the *Real Effective Exchange Rate* (REER) is still trending downwards, suggesting continued improvements in Bahrain's international competitive position.
- The accumulation of official reserves accelerated during 2008:Q2, with reserves reaching BD 1,674.5 million, 44.4% higher than the level attained during the same period of 2007.

**Stock Market**

- Total market capitalisation increased to BD11.5 billion, compared to the BD10.9 billion attained during the first quarter. Year-on-year, market capitalisation was 33.8% higher than the level at the same period of 2007.
- Growth in market capitalisation was attributable to the expansion in market capitalisation of the “hotel and tourism” segment and “Investment” segments by 12.0% and 11.0% respectively.
- The BSE All-Share Index rose to 2859.03 points during 2008:Q2, compared to 2789.89 in the first quarter.
- Liquidity declined during the quarter, with the turnover ratio standing at 1.8%, compared to 2.9% recorded at the end of the first quarter.

## 1. Monetary Aggregates<sup>1</sup>

In the second quarter of 2008, *narrow money* (M1) increased by 18.5%, compared with the 18.3% growth witnessed during the first quarter (Table 1). *Year-on-year*, the level of M1 was 31.1% higher than its level for 2007:Q2. Corresponding to M1 growth, the growth of *broad money* (M2) accelerated to 8.8% during 2008:Q2, compared to the 6.6% expansion in the first quarter. *Year-on-year*, the level of M2 was 37.9% higher than its level for 2007:Q2.

**Table 1: Developments in Monetary Aggregates**

(BD Million)

|                        | 2007:Q2     | 2007:Q3     | 2007:Q4     | 2008:Q1     | 2008:Q2     |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| M1                     | 1,681.4     | 1,525.5     | 1,572.6     | 1,860.8     | 2,204.7     |
| <i>Growth Rate (%)</i> | <i>13.5</i> | <i>-9.3</i> | <i>3.1</i>  | <i>18.3</i> | <i>18.5</i> |
| M2                     | 4,777.7     | 5,099.4     | 5,682.6     | 6,056.9     | 6,588.0     |
| <i>Growth Rate (%)</i> | <i>11.0</i> | <i>6.7</i>  | <i>11.4</i> | <i>6.6</i>  | <i>8.8</i>  |

Source: Central Bank of Bahrain

Table 2 (next page) presents data on the different components of the money supply, providing further insights into the driving forces behind the movements in M1 and M2.

First, it shows that the growth pattern of M1 was largely influenced by the 20.9% growth in demand deposits during 2008:Q2, compared to 15.3% during 2007:Q2. In addition, there was a 3.8% increase in the level of Currency outside banks from BD 265.3 million in the first quarter to BD 275.5 million by the end of the second quarter. The observed growth in M2 was therefore a result of this expansion of both components of M1 as well as the growth in savings and time deposits from BD 4,196.1 million in the first quarter to BD 4,383.3 million in 2008:Q2.

<sup>1</sup> M1 is the sum of currency in circulation and demand deposits. M2 equals M1 plus savings and time deposits.

**Table 2: Developments in Components of Money Supply**

(BD Million)

|                           | 2007:Q2     | 2007:Q3      | 2007:Q4     | 2008:Q1     | 2008:Q2     |
|---------------------------|-------------|--------------|-------------|-------------|-------------|
| Currency Outside Banks    | 241.5       | 233.0        | 256.2       | 265.3       | 275.5       |
| <i>Growth Rate (%)</i>    | <i>3.8</i>  | <i>-3.5</i>  | <i>10.0</i> | <i>3.6</i>  | <i>3.8</i>  |
| Demand Deposits           | 1,439.9     | 1,292.5      | 1,316.4     | 1,595.5     | 1,929.2     |
| <i>Growth Rate (%)</i>    | <i>15.3</i> | <i>-10.2</i> | <i>1.8</i>  | <i>21.2</i> | <i>20.9</i> |
| Savings and Time Deposits | 3,096.3     | 3,573.9      | 4,110.0     | 4,196.1     | 4,383.3     |
| <i>Growth rate (%)</i>    | <i>9.7</i>  | <i>15.4</i>  | <i>15.0</i> | <i>2.1</i>  | <i>4.5</i>  |

\* Central government and the Social Insurance system

Source: Central Bank of Bahrain

**Table 3: Contributions to Monetary Growth**

(% change)

|                                  | 2007:Q2      | 2007:Q3      | 2007:Q4      | 2008:Q1      | 2008:Q2      |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Growth in M2</b>              | <b>11.0</b>  | <b>6.7</b>   | <b>11.4</b>  | <b>6.6</b>   | <b>8.8</b>   |
| <b>Net Foreign Assets (NFA)</b>  | <b>27.7</b>  | <b>6.6</b>   | <b>-1.8</b>  | <b>0.9</b>   | <b>-8.0</b>  |
| <i>Central Bank of Bahrain</i>   | <i>7.4</i>   | <i>1.2</i>   | <i>36.9</i>  | <i>21.5</i>  | <i>-13.4</i> |
| <i>Retail Banks</i>              | <i>39.8</i>  | <i>9.1</i>   | <i>-18.4</i> | <i>-13.9</i> | <i>-2.5</i>  |
| <b>Net Domestic Assets (NDA)</b> | <b>-11.6</b> | <b>7.7</b>   | <b>34.3</b>  | <b>12.4</b>  | <b>26.0</b>  |
| <i>Claims on Government</i>      | <i>21.8</i>  | <i>0.0</i>   | <i>9.5</i>   | <i>-0.4</i>  | <i>10.9</i>  |
| <i>Claims on Private Sector</i>  | <i>6.7</i>   | <i>12.8</i>  | <i>7.8</i>   | <i>11.6</i>  | <i>10.9</i>  |
| <i>Other Assets (net)</i>        | <i>-40.0</i> | <i>-14.3</i> | <i>16.4</i>  | <i>-6.6</i>  | <i>12.9</i>  |

Source: Central Bank of Bahrain

Examining the *sources of monetary expansion*, it is revealed that a 26.0% expansion in net domestic assets (NDA) was the key driver of the expansion in money supply during the second quarter (Table 3). In turn, the growth in NDA was primarily driven by the “other assets” category which witnessed a 12.9% increase in the gap between assets and liabilities (compared to the 6.6% expansion in the deficit during 2008:Q1)<sup>2</sup>. Claims on the private sector increased by 10.9% while claims on government also increased by 10.9%, further contributing to the expansion in net domestic assets.

In contrast to developments in NDA, net foreign assets (NFA) declined by 8.0% during the second quarter, a significant reversal of the 0.9% growth recorded in the previous quarter. This was caused mostly by a reduction in the net foreign assets of the Central Bank of Bahrain.

<sup>2</sup> The “other assets, net” category refers to the balance of unclassified assets and liabilities of the central bank and commercial banks.



## 2. Credit Developments

During 2008:Q2, total domestic credit increased by 9.8% to BD 5,077.3 million, a slightly slower growth rate when compared to the 10.5% growth of the previous quarter (Table 4). The major factor behind this trend was the slowdown in the growth of credit to the private sector from 12.5% in the first quarter to 9.8% in the second quarter. However, lending to general government rose by 9.7%, reversing the 19.1% fall recorded during 2008:Q1.

**Table 4: Trends in Domestic Credit**

(BD million)

|                                    | 2007:Q2 | 2007:Q3 | 2007:Q4 | 2008:Q1 | 2008:Q2 |
|------------------------------------|---------|---------|---------|---------|---------|
| <b>Total Domestic Credit</b>       | 3,453.6 | 3,877.4 | 4,183.9 | 4,623.1 | 5,077.3 |
| <i>Growth Rate (%)</i>             | 7.3     | 12.3    | 7.9     | 10.5    | 9.8     |
| Credit to General Government       | 213.0   | 197.0   | 262.3   | 212.1   | 232.6   |
| <i>Growth Rate (%)</i>             | 40.0    | -7.5    | 33.1    | -19.1   | 9.7     |
| Credit to Private Sector           | 3,240.6 | 3,680.4 | 3,921.6 | 4,411.0 | 4,844.7 |
| <i>Growth Rate (%)</i>             | 5.6     | 13.6    | 6.6     | 12.5    | 9.8     |
| <b>Memo Items</b>                  |         |         |         |         |         |
| Share of Private Sector Credit (%) | 93.8    | 94.9    | 93.7    | 95.4    | 95.4    |
| Share of Public Sector Credit (%)  | 6.2     | 5.1     | 6.3     | 4.6     | 4.6     |

Source: Central Bank of Bahrain

Year-on-year, total domestic credit expanded by 47.0%, far exceeding the 16.4% growth rate of nominal GDP for 2007. Private sector credit shows a similar pattern, with year-on-year growth of 49.5%, which is higher than the growth rate of nominal GDP. This indicates that the lending boom to households and business enterprises is persisting.

In terms of composition, the private sector continues to receive the bulk of domestic credit, accounting for an unchanged 95.4% during the first two quarters of 2008.

A breakdown of private sector credit indicates that lending to business slowed significantly during the second quarter, growing by 3.6% compared to the 15.3% recorded during 2008:Q1 (see Table 5, next page). Year-on-year, lending to business expanded by 61.5%. In contrast, personal loans increased by 20.9% during the quarter, compared to 7.8%

growth experienced during the first quarter. Year-on-year, personal loans rose by 34.7%.

Table 5 also presents a breakdown of lending to the private sector by activity. Personal loans stood at BD 1,939.9 million at the end of 2008:Q2, accounting for 40.0% of outstanding private sector credit. Personal loans “with salary assignment” represented the largest proportion of personal loans (44.9%), although this share has fallen compared to the 46.9% share attained in the first quarter.

Most of the growth in personal loans during 2008:Q2 occurred in the “secured by deposit” category, which expanded by 152.2% (compared to 12.9% in 2008:Q1), indicating a greater willingness by residents to use cash deposits as collateral for loans. Loans “secured by property mortgage” also accelerated by 43.0%, remarkably higher than the 20.2% growth recorded in 2008:Q1. In contrast, loans “secured by vehicle title” decreased by 6.2%.

Business loans stood at BD 2,904.9 million in 2008:Q2, representing 60.0% of outstanding private sector credit. Loans to the “construction and real estate” segment accounted for the largest share of business loans (35.4%), with the “trade” segment in second place at 29.4%. Most of the growth in business loans during 2008:Q2 occurred in the “non-bank financial” segment, which increased by 24.1% during the quarter. Notably, there were negative growth rates in loans to “transport and communication” (-32.3%), “manufacturing” (-4.5%), “agriculture, fishing and dairy” (-1.5) and “other sectors” (-20.8%).

**Table 5: Trends in Retail Private Domestic Credit**

(BD millions)

|                                     | 2007:Q2        | 2007:Q3        | 2007:Q4        | 2008:Q1        | 2008:Q2        | <b>2008:Q2<br/>GROWTH<br/>(%)</b> |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------------------------|
| <b>BUSINESS</b>                     | <b>1,798.3</b> | <b>2,268.6</b> | <b>2,432.0</b> | <b>2,804.5</b> | <b>2,904.8</b> | <b>3.6</b>                        |
| --Manufacturing                     | 290.6          | 369.0          | 425.4          | 435.6          | 416.2          | -4.5                              |
| --Mining and<br>Quarrying           | 3.0            | 16.7           | 8.0            | 3.6            | 4.2            | 16.7                              |
| --Agriculture,<br>Fishing and Dairy | 6.0            | 5.7            | 6.4            | 6.5            | 6.4            | -1.5                              |
| --Construction and<br>Real Estate   | 598.0          | 711.7          | 776.6          | 943.5          | 1,027.6        | 8.9                               |
| --Trade                             | 540.9          | 650.4          | 735.3          | 782.0          | 854.0          | 9.2                               |
| --Non-bank<br>Financial             | 102.0          | 144.8          | 171.0          | 209.3          | 259.7          | 24.1                              |
| --Transport and<br>Communication    | 60.2           | 111.8          | 95.5           | 114.1          | 77.3           | -32.3                             |
| --Hotels and<br>Restaurants         | 35.7           | 54.4           | 44.3           | 53.1           | 55.9           | 5.3                               |
| --Other sectors                     | 161.9          | 204.1          | 169.5          | 256.8          | 203.5          | -20.8                             |
| <b>PERSONAL</b>                     | <b>1,442.3</b> | <b>1,411.8</b> | <b>1,489.6</b> | <b>1,606.5</b> | <b>1,939.9</b> | <b>20.8</b>                       |
| --Secured by<br>Property Mortgage   | 272.9          | 273.4          | 376.0          | 451.8          | 646.2          | 43.0                              |
| --Secured by<br>Vehicle Title       | 99.7           | 97.8           | 113.2          | 122.1          | 114.5          | -6.2                              |
| --Secured by<br>Deposits            | 26.6           | 28.7           | 25.6           | 28.9           | 72.9           | 152.2                             |
| --With Salary<br>Assignment         | 777.9          | 721.5          | 675.7          | 753.7          | 871.7          | 15.7                              |
| --Credit Card<br>Receivables        | 69.1           | 74.6           | 75.4           | 71.5           | 74.8           | 4.6                               |
| Other                               | 196.1          | 215.8          | 223.7          | 178.5          | 159.8          | -10.5                             |
| <b>TOTAL</b>                        | <b>3,240.6</b> | <b>3,680.4</b> | <b>3,921.6</b> | <b>4,411.0</b> | <b>4,844.7</b> | <b>9.8</b>                        |

Source: Central Bank of Bahrain

### 3. Interest Rates

Short-term interest rates fell during 2008:Q2, reflecting the ongoing reductions in US interest rates (Table 6). Given the Bahraini dinar's peg to the US dollar, interest rates in Bahrain are required to closely track rates in the US.

The 3-month and 6-month inter-bank rates fell to 2.8% and 3.3% respectively by the end of the quarter, while the 3-month Treasury bill yield declined to 2.1%. The CBB key policy rate was also reduced to 2.0% by the end of the quarter.

**Table 6: Structure of Interest Rates**

(%)

|  | 2007:Q2 | 2007:Q3 | 2007:Q4 | 2008:Q1 | 2008:Q2 |
|--|---------|---------|---------|---------|---------|
| 3 Month Money Market/Inter-bank Rate (BHIBOR)* | 5.3     | 5.4     | 4.9     | 3.3     | 2.8     |
| 6 Month Money Market/Inter-bank Rate (BHIBOR)* | 5.3     | 5.4     | 5.0     | 3.4     | 3.3     |
| CBB Key Policy Rate (end-of-quarter)           | 5.0     | 5.0     | 4.0     | 2.25    | 2.0     |
| 3 Month Treasury Bill Yield                    | 5.0     | 5.0     | 4.0     | 2.8     | 2.1     |
| 6 Month Treasury Bill Yield                    | 5.0     | 5.0     | 4.2     | 2.9     | 2.2     |
| Commercial Bank Lending Rate—Personal**        | 9.0     | 9.3     | 9.3     | 9.0     | 7.8     |
| Commercial Bank Lending Rate—Business**        | 8.1     | 8.1     | 6.9     | 6.6     | 6.9     |
| Commercial Bank Deposit Rate (3-12 mths)**     | 5.1     | 4.2     | 3.5     | 1.6     | 1.8     |

\*BHIBOR was introduced in December 2006

\*\* Weighted averages of rates during the last month of each quarter

Source: Central Bank of Bahrain

The weighted lending rate for business loans increased to 6.9% during the period (from 6.6% in 2008:Q1). On the other hand, the rate for personal loans decreased to 7.8%. However, average deposit rates (3-12 months) increased from 1.6% to 1.8% during the quarter, resulting in a narrower spread between deposit and lending rates.

Consequently, Bahraini individual account holders have benefited from the recent reductions in interest rates as their borrowing rates have decreased.

## 4. Domestic Prices

Inflation numbers for 2008:Q2 show that the consumer price index increased by 1.2% for the period. Year-on-year, inflation increased by 4%. Trend analysis of inflation rates will become easier in the coming months as a longer CPI time series develops.

## 5. Domestic Public Debt

In Continuation of the downward trend of recent quarters, the size of Bahrain's domestic public debt (securities only) decreased during the second quarter, falling by 7.8% to BD 705.0 million (Table 7).

**Table 7: Domestic Public Debt Outstanding**

(BD millions)

|                             | 2007:Q2      | 2007:Q3      | 2007:Q4      | 2008:Q1      | 2008:Q2      |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total Outstanding</b>    | <b>545.0</b> | <b>520.0</b> | <b>616.6</b> | <b>764.6</b> | <b>705.0</b> |
| --% of GDP                  | 7.9          | 7.5          | 8.9          | 11.0         | 10.2         |
| Development bonds           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Treasury bills              | 85.0         | 90.0         | 90.0         | 108.0        | 180.0        |
| Islamic leasing securities  | 442.0        | 412.0        | 508.6        | 638.6        | 507.0        |
| Al Salam Islamic securities | 18.0         | 18.0         | 18.0         | 18.0         | 18.0         |

Source: Central Bank of Bahrain

This change is mainly due to a fall in the stock of Islamic leasing securities by BD 131.6 million (20.6% decrease). Treasury bills on the other hand increased from BD 108.0 million to BD 180.0 million during the second quarter, while Al Salam Islamic securities outstanding remained unchanged at BD 18.0 million respectively.

Reflecting the decrease in domestic public debt, public debt as a percentage of 2006 nominal GDP decreased to 10.2% by the end of 2008:Q2, compared to 11.0% as at end-Q1.

## 6. Exchange Rates and Official Reserves

During 2008:Q2, the Bahraini dinar depreciated against the Pound Sterling, while the dinar appreciated strongly against the Japanese Yen, the Swiss Franc and the Euro during the same period (Table 8).

**Table 8: BD Exchange Rates Against Selected Currencies\***

|                | 2007:Q2 | 2007:Q3 | 2007:Q4 | 2008:Q1 | 2008:Q2 |
|----------------|---------|---------|---------|---------|---------|
| US Dollar      | 0.376   | 0.376   | 0.376   | 0.376   | 0.376   |
| Pound Sterling | 0.752   | 0.758   | 0.751   | 0.749   | 0.750   |
| Euro           | 0.506   | 0.532   | 0.554   | 0.594   | 0.593   |
| Japanese Yen** | 3.050   | 3.270   | 3.360   | 3.770   | 3.550   |
| Swiss Franc    | 0.322   | 0.322   | 0.335   | 0.377   | 0.369   |

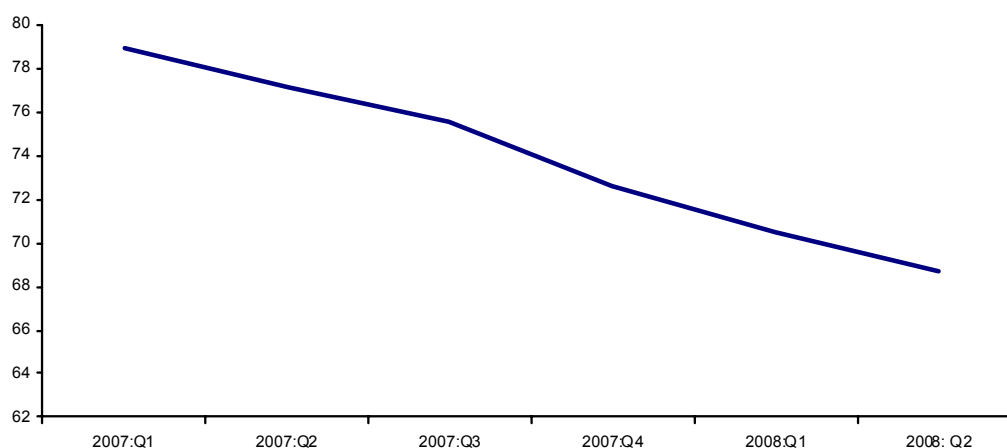
\*Last working day of each period

\*\* Per 1000 units

Source: Central Bank of Bahrain

Available data for end-2008:Q2 shows that Bahrain's Real Effective Exchange Rate (REER) is still trending downwards recording an index value of 68.6 (2000=100) for the quarter. This suggests continued improvements in the overall external competitive position (Chart 1).

**Chart 1: Trends in Real Effective Exchange Rates  
(2000=100; period averages)**

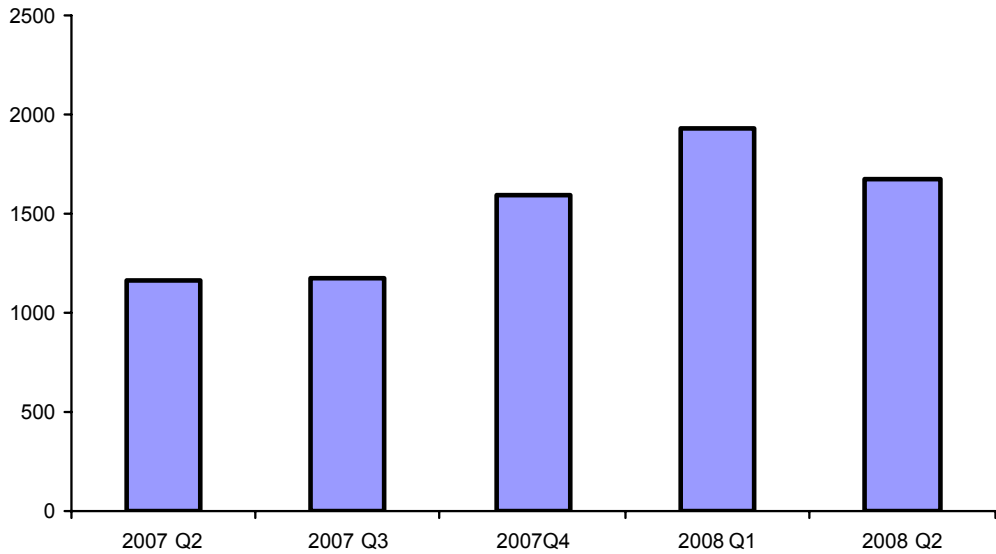


Source: IMF, International Financial Statistics, September 2008

The accumulation of official reserves slowed during the second quarter, with the total level of reserves (gold, foreign exchange, SDR and IMF

reserve position) standing at BD 1,674.5 million at the end of the quarter (Chart 2). This was 13.0% lower than the level at the end of the first quarter and 44.4% above the level attained during the same period of 2007.

**Chart 2: Trends in Official Reserves—2007:Q2-2008:Q2 (BD Million)\***



*\*Includes holdings of gold, foreign currencies, SDR and reserve position at the IMF  
Source: Central Bank of Bahrain*

## 7. The Stock Market

During 2008:Q2, total market capitalisation of the Bahrain Stock Exchange (BSE) rose to BD 11.5 billion, compared to BD 10.9 billion at the end of the first quarter (Table 9). Year-on-year, market capitalisation was 33.8% higher than for the similar period of 2007. Growth in market size during 2008:Q2 was driven by the expansion in the market capitalisation of the “hotel and tourism” and “Investment” segments by 12.0% and 11.0% respectively.

**Table 9: Market Capitalisation on the Bahrain Stock Exchange\***

(BD Million)

|                   | 2007:Q2        | 2007:Q3        | 2007:Q4         | 2008:Q1         | 2008:Q2         | 2008:Q2<br>Growth (%) |
|-------------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------------|
| Commercial banks  | 3,006.6        | 3,122.6        | 3,313.6         | 4,043.3         | 4,092.1         | 1.2%                  |
| Investment        | 3,874.6        | 4,178.3        | 4,983.5         | 4,861.8         | 5,399.4         | 11.0%                 |
| Insurance         | 183.4          | 200.2          | 205.2           | 209.0           | 205.1           | -1.9%                 |
| Services          | 1,384.7        | 1,519.7        | 1,542.0         | 1,629.3         | 1,627.8         | -0.1%                 |
| Industrial        | 16.2           | 16.7           | 16.6            | 15.5            | 15.9            | 2.6%                  |
| Hotel and Tourism | 117.9          | 119.5          | 124.0           | 131.4           | 147.1           | 12.0%                 |
| <b>TOTAL</b>      | <b>8,583.7</b> | <b>9,157.1</b> | <b>10,185.2</b> | <b>10,890.4</b> | <b>11,487.5</b> | <b>5.4%</b>           |

\*end of quarter numbers

Source: Bahrain Stock Exchange

The BSE All-Share Index rose to 2,859.03 points in the second quarter of 2008 (compared to 2,789.89 in 2008:Q1) (Table 10). Measured year-on-year, the Index level during 2008:Q2 was 18.7% higher than the corresponding figure for 2007:Q2.

**Table 10: Sectoral Indices of Bahrain All-Share Index\***

|                      | 2007:Q2         | 2007:Q3         | 2007:Q4         | 2008:Q1         | 2008:Q2         |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Commercial banks     | 3,395.28        | 3,526.30        | 3,479.10        | 3,646.83        | 3,690.81        |
| Investment           | 1,993.65        | 2,134.92        | 2,546.61        | 2,482.86        | 2,593.06        |
| Insurance            | 2,065.76        | 2,257.89        | 2,315.99        | 2,359.36        | 2,313.98        |
| Services             | 1,938.63        | 2,036.19        | 2,031.39        | 2,154.33        | 2,145.66        |
| Industrial           | 1,411.59        | 1,450.16        | 1,438.47        | 1,338.20        | 1,374.20        |
| Hotel and Tourism    | 2,201.22        | 2,231.37        | 2,315.15        | 2,452.20        | 2,745.52        |
| <b>OVERALL INDEX</b> | <b>2,409.27</b> | <b>2,543.92</b> | <b>2,755.27</b> | <b>2,789.89</b> | <b>2,859.03</b> |

\*end of quarter numbers

Source: Bahrain Stock Exchange



Liquidity on the BSE declined during 2008:Q2, with the turnover ratio (value of trading as a share of market capitalisation) falling to 1.8%, versus 2.9% during the previous quarter (Table 11). As in previous periods, trading was dominated by the “commercial banks” and “investment” segments which respectively accounted for 45.8% and 43.7% of the value of shares traded on the exchange during the period.

**Table 11: Liquidity on the BSE**

|   | 2007:Q2 | 2007:Q3 | 2007:Q4  | 2008:Q1  | 2008:Q2  |
|---|---------|---------|----------|----------|----------|
| <b>A. Overall Market Liquidity (BD Million)</b>       |         |         |          |          |          |
| Value of Shares Traded                                | 92.0    | 94.8    | 175.2    | 311.3    | 203.6    |
| Market Capitalisation                                 | 8,583.6 | 9,157.0 | 10,185.1 | 10,890.4 | 11,487.5 |
| Turnover Ratio*                                       | 1.1     | 1.0     | 1.7      | 2.9      | 1.8      |
| <b>B. Value of Shares Traded by Sector (% Shares)</b> |         |         |          |          |          |
| Commercial Banks                                      | 34.5    | 39.1    | 31.5     | 67.7     | 45.8     |
| Investment  | 44.2    | 45.8    | 57.4     | 20.7     | 43.7     |
| Insurance   | 3.6     | 2.7     | 1.4      | 0.7      | 1.0      |
| Services  | 11.2    | 11.1    | 9.0      | 10.2     | 8.5      |
| Industrial  | 0.2     | 0.0     | 0.0      | 0.1      | 0.0      |
| Hotel and Tourism                                     | 2.7     | 0.6     | 0.4      | 0.2      | 0.8      |

\*Turnover ratio is calculated as value of shares traded as a percentage of total market capitalisation

\*\*Figures may not add to a hundred due to rounding

Source: Bahrain Stock Exchange

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