



Financial Stability Directorate

Monetary and Financial Trends

Third Quarter 2009

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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 Third Quarter of 2009 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 2009:Q3, *narrow money* (M1) fell by 6.0%, while *broad money* (M2) decreased by 0.2%.
- *Savings and time deposits* were the fastest growing components of the money stock during the quarter, expanding by 2.5%. Demand deposits declined by 6.9%, while *currency outside banks* also decreased by 0.5%.
- Despite the overall drop in M1 and M2, M3 increased by 1.6% due to the growth in general government deposits by 11.0% for the period. As a result, *Net Foreign Assets* (NFA) increased by 5.9%.
- *Net Domestic Assets* (NDA) also increased by 0.1% during the quarter.

Credit Developments

- Total domestic credit fell by 1.8% to reach BD 5,756.5 million, compared to the 0.6% growth recorded last quarter.
- Private sector credit *decreased* by 1.6% (vs. 0.05% increase in Q2) while lending to general government decreased by 5.4%.
- An analysis of private sector credit components shows that *business loans* shrank by 3.1%, following the 0.2% drop in the second quarter.
- *Business loans* went primarily to the “construction and real estate” segment, which accounted for 42.9% of total business loans.
- *Personal loans* increased by 2.0% during the third quarter, compared to a 0.7% growth in the previous quarter.
- Loans “With Salary Assignment” constituted the bulk of personal loans (53.1% of the total), followed by loans “Secured by Property Mortgage” (20.6%).

Interest Rates

- Short-term interest rates decreased during the third quarter.
- The 3-month and 6-month inter-bank rates dropped to 1.4% and 1.6% respectively by the end of the third quarter compared to 1.6% and 2.0% respectively by the end of the second quarter. The 3-month and 6-month Treasury bill yields decreased to 0.8%, a reversal of the 1.1% and 1.3% respectively registered last quarter.
- The CBB key policy rate fell from 0.75 to 0.50% at the end of the quarter.

Domestic Prices

- Inflation numbers show that the *consumer price index* increased by 0.3% during 2009:Q3 compared to 0.3% *decrease* during 2009:Q2.
- *Year-on-year* inflation was 2.1%.

Domestic Public Debt

- The stock of domestic public debt (securities only) increased during the quarter to reach BD 1,203.0 million.
- Domestic public debt increased due to the growth in the outstanding balance of Islamic leasing securities (Ijara) to BD 860.0 million compared to BD 695.0 million last period.
- The stock of outstanding Treasury Bills and Salam Islamic Securities remained unchanged during the quarter at BD 325.0 million and BD 18.0 million respectively.

Exchange Rates and Official Reserves

- During the third quarter, the Bahraini dinar appreciated against the Pound Sterling and depreciated against all other major key currencies (Euro, Japanese Yen and Swiss Franc).
- Available data on Bahrain's *Real Effective Exchange Rate* (REER) (2000=100) shows that the Bahrain dinar depreciated against a basket of world currencies. During 2009:Q3, the REER decreased to reach an index value of 85.1 points, down from 88.1 points in the previous quarter.

- During 2009:Q3, official reserves increased to BD 1,604.5 million, 13.6% higher than the level attained during the same period of 2008.

Stock Market

- Total market capitalisation decreased by 1.3% to reach BD 6,400.7 million, compared to BD 6,482.8 million registered last quarter. Year-on-year, market capitalisation was 37.7% lower.
- The fall in market capitalisation was mainly due to the decrease in the *investment* segment which decreased by 5.9%.
- The BSE All-Share Index declined to 1,554.5 points during 2009:Q3, compared to 1,581.7 points in the second quarter.
- Liquidity remained unchanged during the quarter, with the turnover ratio standing at 1.0%.

1. Monetary Aggregates¹

In the third quarter of 2009, *narrow money* (M1) decreased by 6.0%, a reversal of the 5.1% increase witnessed during 2009:Q2 (Table 1). *Year-on-year*, the level of M1 was 2.1% lower than its level for 2008:Q3. In addition to the drop in M1, *broad money* (M2) decreased by 0.2% during 2009:Q3 following a 0.6% decrease in 2009:Q2. *Year-on-year*, the level of M2 was 0.9% higher than its level for during last year.

Table 1: Developments in Monetary Aggregates

(BD Million)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
M1	2,101.9	1,898.7	2,081.8	2,187.9	2,057.6
<i>M1 Growth (%)</i>	<i>-4.7</i>	<i>-9.7</i>	<i>9.6</i>	<i>5.1</i>	<i>-6.0</i>
M2	6,668.8	6,728.4	6,783.3	6,745.6	6,729.5
<i>M2 Growth (%)</i>	<i>1.2</i>	<i>0.9</i>	<i>0.8</i>	<i>-0.6</i>	<i>-0.2</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 decline in M1 was mainly due to a 6.9% decrease in demand deposits during 2009:Q3. There was also a decrease of 0.5% in the level of currency outside banks from BD 318.9 million in the second quarter to BD 317.2 million by the end of the third quarter.

¹ 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)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
Currency Outside Banks	307.2	304.2	307.4	318.9	317.2
<i>Growth Rate (%)</i>	<i>11.5</i>	<i>-1.0</i>	<i>1.1</i>	<i>3.7</i>	<i>-0.5</i>
Demand Deposits	1,794.7	1,594.5	1,774.4	1,869.0	1,740.4
<i>Growth Rate (%)</i>	<i>-7.0</i>	<i>-11.2</i>	<i>11.3</i>	<i>5.3</i>	<i>-6.9</i>
Savings and Time Deposits	4,566.9	4,829.7	4,701.5	4,557.7	4,671.9
<i>Growth Rate (%)</i>	<i>4.2</i>	<i>5.8</i>	<i>-2.7</i>	<i>-3.1</i>	<i>2.5</i>

* Central government and the Social Insurance system

Source: Central Bank of Bahrain

Table 3: Contributions to Monetary Growth

(% Change)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
Net Foreign Assets (NFA)	14.8	-31.8	-22.3	-0.5	5.9
Central Bank of Bahrain	-16.0	5.0	-0.9	-3.5	8.5
Retail Banks	42.6	-51.3	-46.8	6.1	0.8
Net Domestic Assets (NDA)	-4.1	33.3	11.5	0.2	0.1
Claims on Government	6.8	-4.4	34.7	9.3	22.3
Claims on Private Sector	8.2	7.2	-1.5	0.3	-1.3
Other Assets (net)	-35.8	-38.1	30.2	-8.4	-12.0

Source: Central Bank of Bahrain

Despite the decreases witnessed in M1 and M2, M3 increased by 1.6% due to the growth in general government deposits by 11.0% for the period. As a result, net foreign assets (NFA) increased by 5.9% compared to the 0.5% decrease during 2009:Q2 (Table 3). The growth in NFA during 2009:Q3 was due to an 8.5% increase in claims on the Central Bank of Bahrain, and a 0.8% increase in retail banks' assets.

In addition, net domestic assets (NDA) increased by 0.1% during the quarter. This was mainly due to a 22.3% growth in claims on government.

Liabilities continue to exceed assets on the "other assets (net)" category, with the net deficit widening by 12.0% during the quarter.

2. Credit Developments

During 2009:Q3, total domestic credit decreased by 1.8% to reach BD 5,756.5 million, compared to a 0.6% increase registered in the previous quarter (Table 4). The major factor behind this trend was a reduction in credit to general government by 5.4% compared to an 11.4% growth in the second quarter. In addition, credit to the private sector decreased by 1.6%, compared to the slight 0.05% increase during 2009:Q2.

Table 4: Trends in Domestic Credit

(BD Million)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
Total Domestic Credit	5,513.5	5,887.6	5,823.3	5,860.5	5,756.5
<i>Growth (%)</i>	8.6	6.8	-1.1	0.6	-1.8
Credit to General Government	305.3	283.2	302.8	337.4	319.3
<i>Growth (%)</i>	31.3	-7.2	6.9	11.4	-5.4
Credit to Private Sector	5,208.2	5,604.4	5,520.5	5,523.1	5,437.2
<i>Growth (%)</i>	7.5	7.6	-1.5	0.05	-1.6
Memo Items					
Share of Private Sector Credit	94.5	95.2	94.8	94.2	94.5
Share of Public Sector Credit	5.5	4.8	5.2	5.8	5.5

Source: Central Bank of Bahrain

On a *year-on-year* basis, total domestic credit expanded by 4.4%. This growth was much slower compared to the 42.2% growth rate registered for the same period in 2008. Private sector credit shows a similar pattern, with year-on-year growth of 4.4%. The year-on-year growth of total domestic credit, as well as private sector credit, was lower than the growth in 2008 nominal GDP (18.6%).

In terms of composition, the private sector continues to receive the bulk of domestic credit, accounting for 94.5% during the third quarter.

A breakdown of private sector credit indicates that lending to business continued to fall during the third quarter, decreasing by 3.1% after a 0.2% drop recorded during 2009:Q2 (Table 5). On the other hand, Personal

loans increased during the quarter by 2.0% compared to a 0.7% increase during the previous quarter. Year-on-year, Business and personal loans expanded by 5.7% and 1.7% respectively for the same period.

Table 5 also presents a breakdown of lending to the private sector by activity. Outstanding personal loans stood at BD 1,696.5 million at the end of 2009:Q3, accounting for 31.2% of total outstanding private sector credit. Personal loans “with salary assignment” represented the largest proportion of total personal loans (53.1%) during the quarter. Personal loans “secured by property mortgage” were the next largest component of total personal loans, accounting for 20.6%.

The increase in total personal loans outstanding in 2009:Q3 was mainly due to the 15.2% increase in loans “secured by vehicle title”. Loans “secured by deposits” and “credit card receivables” increased by 6.4% and 4.0% respectively.

Business loans outstanding stood at BD 3,740.7 million in 2009:Q3, representing 68.8% of outstanding private sector credit. Loans to the “construction and real estate” segment accounted for the largest share of business loans (42.9%), with the “trade” segment in second place at 27.2%. The decline in business loans during 2009:Q3 occurred mainly in the “mining and quarrying” segment, which decreased by 47.3%. “Non-bank financial” and the “manufacturing” segments decreased by 13.7% and 8.7% respectively.

Table 5: Trends in Retail Private Domestic Credit

(BD Millions)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q3 Growth (%)
BUSINESS	3,540.3	3,870.5	3,869.4	3,860.0	3,740.7	-3.1
--Manufacturing	414.7	464.3	415.6	401.8	367.0	-8.7
--Mining and Quarrying	5.8	8.1	9.7	13.1	6.9	-47.3
--Agriculture, Fishing and Dairy	7.5	8.7	4.9	5.5	5.2	-5.5
--Construction and Real Estate	1,425.8	1,539.7	1,504.4	1,576.7	1,604.9	1.8
--Trade	1,023.9	1,065.4	1,088.4	1,057.1	1,017.8	-3.7
--Non-bank Financial	249.8	226.5	276.9	268.5	231.7	-13.7
--Transport and Communication	113.7	84.8	124.2	132.4	137.4	3.8
--Hotels and Restaurants	71.3	84.9	67.4	72.1	72.8	1.0
--Other Sectors	227.8	388.1	377.9	332.8	297.0	-10.8
PERSONAL	1,667.9	1,733.9	1,651.1	1,663.1	1,696.5	2.0
--Secured by Property Mortgage	445.3	374.5	326.7	342.9	349.0	1.8
--Secured by Vehicle Title	106.4	128.7	127.4	129.8	149.5	15.2
--Secured by Deposits	36.8	32.9	28.6	25.1	26.7	6.4
--With Salary Assignment	765.8	803.5	877.8	868.9	901.5	3.8
--Credit Card Receivables	77.8	79.5	76.1	76.6	79.7	4.0
Other	235.8	314.8	214.5	219.8	190.1	-13.5
TOTAL	5,208.2	5,604.4	5,520.5	5,523.1	5,437.2	-1.6

Source: Central Bank of Bahrain

3. Interest Rates

Short-term interest rates decreased during 2009:Q3. The 3-month and 6-month inter-bank rates decreased to 1.4% and 1.6% respectively by the end of the quarter while the 3-month and 6-month treasury bill yields decreased to 0.8%. The CBB key policy rate fell for the first time after remaining unchanged for the last three quarters to 0.50% during the same period.

Table 6: Structure of Interest Rates

(%)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
3 Month Inter-bank Rate (BHIBOR)*	3.6	2.8	2.2	1.6	1.4
6 Month Inter-bank Rate (BHIBOR)*	3.7	2.9	2.3	2.0	1.6
CBB Key Policy Rate (end-of-quarter)	2.0	0.75	0.75	0.75	0.50
3 Month Treasury Bill Yield	2.3	2.8	1.2	1.1	0.8
6 Month Treasury Bill Yield	2.4	3.0	1.5	1.3	0.8
Commercial Bank Lending Rate—Personal**	8.2	8.1	7.9	8.1	7.7
Commercial Bank Lending Rate—Business**	6.8	7.4	7.0	6.9	6.8
Commercial Bank Deposit Rate (3-12 mths)**	1.9	1.3	1.6	1.5	1.7

*BHIBOR was introduced in December 2006

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

Source: Central Bank of Bahrain

The weighted average lending rate for business loans decreased slightly to 6.8% during the period (from 6.9% in 2009:Q2). Also, the rate on personal loans decreased to 7.7%. In contrast, average deposit rates (3-12 months) increased from 1.5% to 1.7% during the quarter.

This has resulted in a narrowing of the spread between personal loan and deposit rates from 6.6 percentage point in 2009:Q2 to 6.0 percentage point in 2009:Q3, implying that depositors showed benefit from higher deposits rates. Similarly, the spread between business loan and deposit rates also narrowed from 5.4 percentage point in 2009:Q2 to 5.1 percentage point in 2009:Q3.

4. Domestic Prices

Inflation numbers for 2009:Q3 show that the consumer price index increased by 0.3%, a reversal of the 0.3% decrease in the second quarter. *Year-on-year*, inflation stands at 2.1% (Table 7).

Table 7: Consumer Price Index

(2006=100)

Major Group of Commodities	2008:Q3*	2008:Q4*	2009:Q1*	2009:Q2*	2009:Q3*
Food and non-alcoholic Beverages	116.7	119.5	127.3	125.0	126.0
Alcoholic beverages & Tobacco**	-	-	106.8	107.3	114.6
Clothing & Footwear	103.9	104.6	104.3	104.5	105.3
Housing, Water, Electricity & Fuels	108.4	109.5	109.5	109.5	109.5
Household Goods & Services	107.0	109.4	109.4	111.5	112.5
Healthcare Services	102.4	101.7	101.7	101.6	102.3
Transport	101.6	102.6	101.5	101.6	101.4
Communication	100.0	100.0	100.0	98.3	94.9
Recreation & Culture	100.2	103.5	105.3	105.3	105.4
Education	102.7	103.6	103.6	103.6	106.3
Restaurants**	-	-	106.0	106	106
Miscellaneous	108.6	111.7	113.7	114.5	114.7
General Index	107.4	109.2	109.7	109.4	109.7
Growth rate (%)	1.2	1.7	0.5	-0.3	0.3
Inflation	2.2	4.6	4.6	3.1	2.1

*Quarterly averages

** Separated from food, beverage & tobacco section due to basket revision.

Source: Central Informatics Organisation

On a year-on-year basis², prices for “miscellaneous” goods increased by 5.6% to reach 114.7 index points. Next were the “recreation & culture” and “household goods & services” segments, which increased by 5.2% and 5.1% to reach an average of 105.4 and 112.5 index points respectively.

² Year-on-year comparisons for the CPI use average quarterly data.

For the same period, “communication” decreased by 5.1% to reach 94.9 index points.

During the latest quarter, the highest price rise was in the “alcoholic beverages & tobacco”, which grew on average by 6.8%, this was followed by the “education” segment, which experienced a price increase of 2.6%.

5. Domestic Public Debt

The size of Bahrain’s outstanding domestic public debt (securities only) increased to BD 1,203.0 million during the third quarter, compared to BD 1,038.0 in the previous quarter (Table 8).

Table 8: Domestic Public Debt Outstanding

(BD Millions)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
Total Outstanding	705.0	705.0	820.0	1,038.0	1,203.0
--% of GDP	8.6	8.6	10.0	12.6	14.6
Development Bonds	0.0	0.0	0.0	0.0	0.0
Treasury Bills	180.0	180.0	295.0	325.0	325.0
Islamic Leasing Securities	507.0	507.0	507.0	695.0	860.0
Al Salam Islamic Securities	18.0	18.0	18.0	18.0	18.0

Source: Central Bank of Bahrain

The outstanding balance of treasury bills remained unchanged at BD 325.0 million, as a new issuance of BD 265.0 million in T-bills offset maturing T-bills. Moreover, Islamic leasing securities outstanding increased to reach BD 860.0 million, with BD 180.0 million in new Islamic securities issued. Al Salam Islamic securities outstanding remained unchanged at BD 18.0 million. Domestic public debt as a percentage of 2008 nominal GDP stood at 14.6%, higher than the 12.6% registered at the end of 2009:Q2.

6. Exchange Rates and Official Reserves

During 2009:Q3, the Bahraini dinar appreciated against the pound sterling and depreciated against all other major key currencies (Euro, Japanese Yen and Swiss Franc) (Table 9).

Table9: BD Exchange Rates Against Selected Currencies*

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
US Dollar	0.376	0.376	0.376	0.376	0.376
Pound Sterling	0.686	0.543	0.538	0.625	0.603
Euro	0.543	0.530	0.499	0.530	0.550
Japanese Yen**	3.530	4.160	3.820	3.940	4.200
Swiss Franc	0.342	0.355	0.328	0.348	0.364

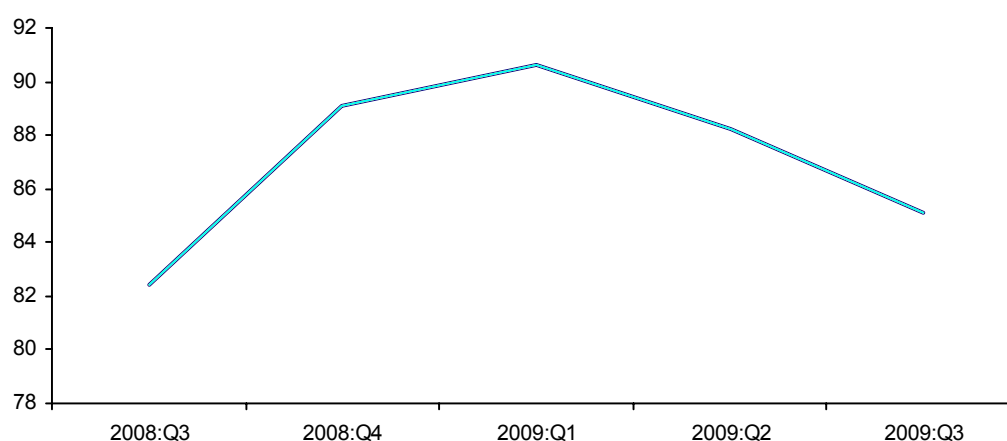
*Last working day of each period

** Per 1000 units

Source: Central Bank of Bahrain

Available data on Bahrain's Real Effective Exchange Rate (REER) (2000=100) shows that the Bahrain dinar depreciated against a basket of world currencies. During 2009:Q3, the REER decreased to reach an index value of 85.1 points, down from 88.1 points recorded in the previous quarter (Chart 2).

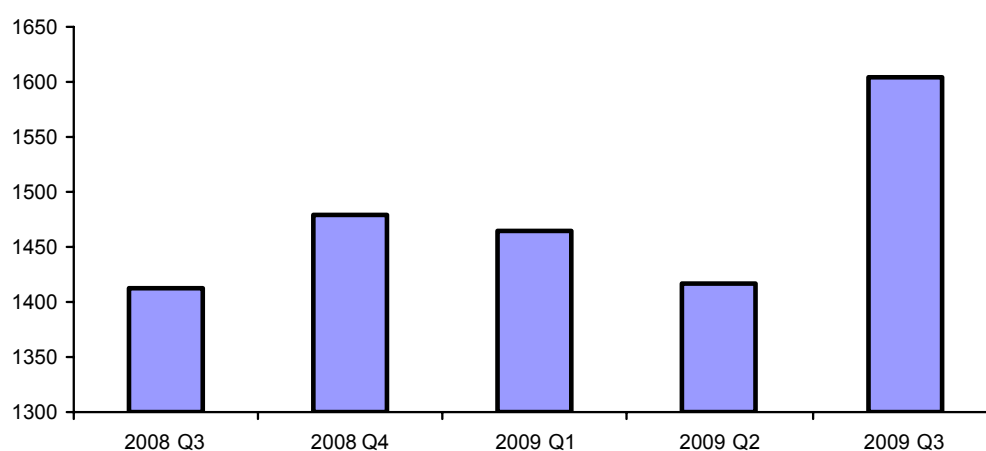
**Chart 2: Trends in Real Effective Exchange Rates
(2000=100; period averages)**



Source: IMF, International Financial Statistics, December 2008

During the third quarter, official reserves increased with the total level of reserves (gold, foreign exchange, SDR and IMF reserve position) standing at BD 1,604.5 million at the end of the quarter (Chart 3). This was 13.2% higher than the level at the end of the second quarter and 13.6% higher than the level attained during the same period of 2008.

Chart 3: Trends in Official Reserves—2008:Q3-2009:Q3 (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 2009:Q3, total market capitalisation of the Bahrain Stock Exchange (BSE) decreased by 1.3% to reach BD 6,400.7 million, compared to BD 6,482.8 million registered in the last quarter (Table 10). Year-on-year, market capitalisation was 37.7% lower. The decrease in market size during 2009:Q3 was mainly due to the decrease in the “investment” segment which decreased by 5.9%; this was followed by the “hotel and tourism” segment which decreased by 1.1%.

Table 10: Market Capitalisation on the Bahrain Stock Exchange*

(BD Million)

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q3 Growth (%)
Commercial Banks	3,535.2	2,531.3	2,079.0	2,206.6	2,267.8	2.8
Investment	4,971.6	3,376.7	3,026.5	2,789.7	2,624.1	-5.9
Insurance	208.9	201.7	196.5	166.1	168.3	1.3
Services	1,390.3	1,242.9	1,076.6	1,148.4	1,166.4	1.6
Industrial	15.9	14.7	13.9	13.6	17.5	28.7
Hotel and Tourism	154.0	152.6	148.3	158.3	156.6	-1.1
TOTAL	10,276.2	7,520.1	6,540.8	6,482.8	6,400.7	-1.3

end of quarter numbersSource: Bahrain Stock Exchange*

The BSE All-Share Index fell to 1,554.51 points in 2009:Q3 (compared to 1,581.67 in 2009:Q2) (Table 11). Measured year-on-year, the index level during 2009:Q3 was 36.9% lower than the corresponding figure for 2008:Q3.

Table 11: Sectoral Indices of Bahrain All-Share Index*

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
Commercial banks	3,188.52	2,117.04	1,733.49	1,839.84	1,867.97
Investment	2,207.05	1,582.53	1,474.93	1,359.10	1,278.12
Insurance	2,358.51	2,275.97	2,215.52	1,867.73	1,859.76
Services	1,832.63	1,638.30	1,418.97	1,513.66	1,537.38
Industrial	1,376.77	1,273.93	1,199.49	1,179.04	1,514.37
Hotel and Tourism	2,875.28	2,848.57	2,767.96	2,954.42	2,922.18
OVERALL INDEX	2,462.72	1,804.07	1,595.85	1,581.67	1,554.51

end of quarter numbersSource: Bahrain Stock Exchange*

Liquidity on the BSE remained unchanged during 2009:Q3, with the turnover ratio (value of trading as a share of market capitalisation) remaining at 1.0% (Table 12). For the same period, the “commercial banks” and “services” segments represented 61.4% and 17.4% of the total value of shares traded respectively.

Table 12: Liquidity on the BSE

	2008:Q3	2008:Q4	2009:Q1	2009:Q2	2009:Q3
A. Overall Market Liquidity (BD Million)					
Value of Shares Traded	79.0	193.3	26.1	64.7	37.6
Market Capitalisation	10,276.2	7,520.2	6,540.8	6,482.8	6,400.7
Turnover Ratio*	0.8	2.2	0.4	1.0	1.0
B. Value of Shares Traded by Sector (% Shares)					
Commercial Banks	46.2	38.3	27.3	55.9	61.4
Investment	41.8	23.6	55.2	27.7	12.5
Insurance	0.8	0.2	0.5	0.9	0.6
Services	10.2	24.5	14.8	14.8	17.4
Industrial	0.1	0.0	0.1	0.0	0.1
Hotel and Tourism	1.0	0.2	1.8	0.6	1.3

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

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

Source: Bahrain Stock Exchange

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