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**Financial Stability Directorate**

# **Monetary and Financial Trends**

**Fourth Quarter 2009**

## Table of Contents

Highlights.....	1
1. Monetary Aggregates.....	4
2. Credit Developments.....	6
3. Interest Rates.....	9
4. Domestic Prices .....	10
5. Domestic Public Debt .....	10
6. Exchange Rates and Official Reserves .....	12
7. The Stock Market .....	13

## List of Tables

Table 1: Developments in Monetary Aggregates.....	4
Table 2: Developments in Components of Money Supply .....	5
Table 3: Contributions to Monetary Growth .....	5
Table 4: Trends in Domestic Credit.....	6
Table 5: Trends in Retail Private Domestic Credit.....	8
Table 6: Structure of Interest Rates.....	9
Table 7: Consumer Price Index .....	10
Table 8: Domestic Public Debt Outstanding.....	11
Table 9: BD Exchange Rates Against Selected Currencies* .....	12
Table 10: Market Capitalisation on the Bahrain Stock Exchange* .....	14
Table 11: Sectoral Indices of Bahrain All-Share Index* .....	14
Table 12: Liquidity on the BSE .....	15

## List of Charts

Chart 1: Trends in Real Effective Exchange Rates.....	12
Chart 2: Trends in Official Reserves—2008:Q4-2009:Q4 (BD millions).....	13

*Monetary and Financial Trends* is produced quarterly by the Financial Stability Directorate, Central Bank of Bahrain. This edition focuses on the Fourth 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:Q4, *narrow money* (M1) increased by 4.9%. In addition, *broad money* (M2) increased by 5.8%.
- *Savings and time deposits* were the fastest growing component of the money stock during the quarter, growing at 6.2%. Demand deposits grew by 5.5%, followed by *Currency outside banks* which also increased by 1.8%.

### Credit Developments

- Total domestic credit grew by 2.2% to reach BD 5,884.9 million, representing an increase in domestic credit when compared to the 1.8% drop recorded last quarter.
- Private sector credit *increased* by 1.0% (vs. 1.6% decrease in Q3) as well as lending to general government which increased by 22.8%.
- An analysis of private sector credit components shows that *business loans* increased by 2.0%, a reversal of the 3.1% drop in the third quarter.
- *Business loans* went primarily to the “construction and real estate” segment, which accounted for 43.5% of total business loans.
- *Personal loans* decreased by 1.2% during the quarter, compared to 2.0% growth in the previous quarter.
- Loans “With Salary Assignment” constituted the bulk of personal loans (53.1% of the total). This was followed by loans “Secured by Property Mortgage” which made up 21.5% of total personal loans.

### Interest Rates

- Short-term interest rates showed a mix trends during the fourth quarter.
- The 3-month and 6-month inter-bank rates dropped to 1.3% and 1.5% respectively by the end of the quarter. The (3-month and 6-month) Treasury bill yield increased to 0.9% and 1.0% respectively.
- The CBB key policy rate remained unchanged at 0.50% at the end of the quarter.

### Domestic Prices

- Inflation numbers show that the *consumer price index* increased by 0.9% during 2009:Q4.
- *Year-on-year* inflation was 1.4%.

### Public Debt

- The stock of public debt (securities only) increased during the quarter to reach BD 1,348.0 million.
- Public debt increased due to the growth in the outstanding balance of Treasury Bills to BD 415.0 million.
- The stock of outstanding Islamic leasing securities (Ijara) and Al Salam Islamic Securities remained unchanged during the quarter at BD 860.0 million and BD 18.0 million respectively.

### Exchange Rates and Official Reserves

- During the fourth quarter, the Bahraini dinar depreciated against the Pound Sterling and appreciated against all other major key currencies (Euro, Japanese Yen and Swiss Franc).
- Available data on Bahrain's *Real Effective Exchange Rate* (REER) (2005=100) shows that the Bahrain dinar depreciated against a basket of world currencies. During 2009:Q4, the REER decreased to reach an index value of 94.0 points, down from 95.9 points in the previous quarter.
- During 2009:Q4, official reserves decreased to reach BD 1,448.3 million, 2.2% lower than the level attained during the same period of 2008.

### Stock Market

- Total market capitalisation decreased by 4.2% to reach BD 6,131.0 million, compared to BD 6,400.7 million registered last quarter. Year-on-year, market capitalisation was 18.5% lower.
- The fall in market capitalisation was mainly due to the decrease in the *commercial banks* segment which decreased by 10.1%.
- The BSE All-Share Index declined to 1,458.2 points during 2009:Q4, compared to 1,554.5 points in the third quarter.
- Liquidity decreased during the quarter, with the turnover ratio decreasing at 0.8%.

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

In the fourth quarter of 2009, *narrow money* (M1) increased by 4.9%, a reversal of the 6.0% decrease witnessed during 2009:Q3 (Table 1). *Year-on-year*, the level of M1 was 13.7% higher than its level for 2008:Q4. In addition to the expansion in M1, *broad money* (M2) increased also by 5.8% during 2009:Q4 compared to a 0.2% decrease in 2009:Q3. *Year-on-year*, the level of M2 was 5.8% higher than its level during last year.

**Table 1: Developments in Monetary Aggregates**

(BD Million)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
M1	1,898.7	2,081.8	2,187.9	2,057.6	2,158.3
<i>M1 Growth (%)</i>	<i>-9.7</i>	<i>9.6</i>	<i>5.1</i>	<i>-6.0</i>	<i>4.9</i>
M2	6,728.4	6,783.3	6,745.6	6,729.5	7,119.3
<i>M2 Growth (%)</i>	<i>0.9</i>	<i>0.8</i>	<i>-0.6</i>	<i>-0.2</i>	<i>5.8</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 in M1 was a result of a 5.5% increase in demand deposits during 2009:Q4. There was also an increase of 1.8% in the level of currency outside banks from BD 317.2 million in the third quarter to BD 323.0 million by the end of the fourth quarter. In addition, the growth in M2 was a result of a 6.2% increase in saving and time deposits for the same period.

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

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

(BD Million)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
Currency Outside Banks	304.2	307.4	318.9	317.2	323.0
<i>Growth Rate (%)</i>	<i>-1.0</i>	<i>1.1</i>	<i>3.7</i>	<i>-0.5</i>	<i>1.8</i>
Demand Deposits	1,594.5	1,774.4	1,869.0	1,740.4	1,835.3
<i>Growth Rate (%)</i>	<i>-11.2</i>	<i>11.3</i>	<i>5.3</i>	<i>-6.9</i>	<i>5.5</i>
Savings and Time Deposits	4,829.7	4,701.5	4,557.7	4,671.9	4,961.0
<i>Growth Rate (%)</i>	<i>5.8</i>	<i>-2.7</i>	<i>-3.1</i>	<i>2.5</i>	<i>6.2</i>

\* Central government and the Social Insurance system

Source: Central Bank of Bahrain

**Table 3: Contributions to Monetary Growth**

(% Change)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
<b>Net Foreign Assets (NFA)</b>	-31.8	-22.3	-0.5	5.9	-5.1
Central Bank of Bahrain	5.0	-0.9	-3.5	8.5	-10.4
Retail Banks	-51.3	-46.8	6.1	0.8	5.9
<b>Domestic Assets</b>	33.3	11.5	0.2	0.1	5.4
Claims on Government	-4.4	34.7	9.3	22.3	5.3
Claims on Private Sector	7.2	-1.5	0.3	-1.3	1.8
Other Assets (net)	38.1	30.2	-8.4	-12.0	11.7

Source: Central Bank of Bahrain

In addition to the decreases witnessed in the money supply, net foreign assets (NFA) decreased by 5.1% compared to the 5.9% increase during 2009:Q3 (Table 3). The reduction in NFA during 2009:Q4 was a result of an 10.4% decrease in claims on the Central Bank of Bahrain.

In contrast, domestic assets increased by 5.4% during the quarter. This was mainly due to a 5.3% growth in claims on government.

Assets exceeded liabilities on the "other assets (net)" category, but the net deficit narrowed by 11.7% during the quarter.



## 2. Credit Developments

During 2009:Q4, total domestic credit increased by 2.2% to reach BD 5,884.9 million, compared to a 1.8% decrease registered in the previous quarter (Table 4). The major factor behind this trend was an expansion in credit to general government by 22.8% compared to a 5.4% drop in the third quarter. In addition, credit to the private sector increased by 1.0%, compared to the 1.6% decrease during 2009:Q3.

**Table 4: Trends in Domestic Credit**

(BD Million)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
<b>Total Domestic Credit</b>	5,887.6	5,823.3	5,860.5	5,756.5	5,884.9
<i>Growth (%)</i>	6.8	-1.1	0.6	-1.8	2.2
Credit to General Government	283.2	302.8	337.4	319.3	392.0
<i>Growth (%)</i>	-7.2	6.9	11.4	-5.4	22.8
Credit to Private Sector	5,604.4	5,520.5	5,523.1	5,437.2	5,492.9
<i>Growth (%)</i>	7.6	-1.5	0.05	-1.6	1.0
<b>Memo Items</b>					
Share of Private Sector Credit	95.2	94.8	94.2	94.5	93.3
Share of Public Sector Credit	4.8	5.2	5.8	5.5	6.7

Source: Central Bank of Bahrain

On a *year-on-year* basis, total domestic credit decreased by 0.05%. This reduction is in contrast to the 40.7% growth rate registered for the same period in 2008. Private sector credit shows a similar pattern, with year-on-year reduction of 2.0%.

In terms of composition, the private sector continues to receive the bulk of domestic credit, accounting for 93.3% during the fourth quarter.

A breakdown of private sector credit indicates that lending to businesses grew during the fourth quarter, increasing by 2.0% after a 3.1% drop recorded during 2009:Q3 (Table 5). On the other hand, Personal loans decreased during the quarter by 1.2% compared to a 2.0% increase during the previous quarter. Year-on-year, Business and personal loans reduced by 1.4% and 3.3% 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 1,676.3 million at the end of 2009:Q4, accounting for 30.5% 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 21.5%.

The decrease in total personal loans outstanding in 2009:Q4 was mainly due to the 34.8% decrease in credit card receivables and the 7.5% decrease in loans “secured by vehicle title” for the same period.

Business loans outstanding stood at BD 3,816.6 million in 2009:Q4, representing 69.5% of outstanding private sector credit. Loans to the “construction and real estate” segment accounted for the largest share of business loans (43.5%), with the “trade” segment in second place at 26.2%. The growth in business loans during 2009:Q4 occurred mainly in the “transportation and communication” segments, which increased by 29.8%. “Mining and quarrying” and the “manufacturing” segments, increased by 11.6% and 6.1% respectively.

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

(BD Millions)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2009:Q4 Growth (%)
<b>BUSINESS</b>	<b>3,870.5</b>	<b>3,869.4</b>	<b>3,860.0</b>	<b>3,740.7</b>	<b>3,816.6</b>	<b>2.0</b>
--Manufacturing	464.3	415.6	401.8	367.0	389.5	6.1
--Mining and Quarrying	8.1	9.7	13.1	6.9	7.7	11.6
--Agriculture, Fishing and Dairy	8.7	4.9	5.5	5.2	5.4	3.8
--Construction and Real Estate	1,539.7	1,504.4	1,576.7	1,604.9	1,659.5	3.4
--Trade	1,065.4	1,088.4	1,057.1	1,017.8	998.7	-1.9
--Non-bank Financial	226.5	276.9	268.5	231.7	211.3	-8.8
--Transport and Communication	84.8	124.2	132.4	137.4	178.3	29.8
--Hotels and Restaurants	84.9	67.4	72.1	72.8	65.2	-10.4
--Other Sectors	388.1	377.9	332.8	297.0	301.0	1.3
<b>PERSONAL</b>	<b>1,733.9</b>	<b>1,651.1</b>	<b>1,663.1</b>	<b>1,696.5</b>	<b>1,676.3</b>	<b>-1.2</b>
--Secured by Property Mortgage	374.5	326.7	342.9	349.0	360.3	3.2
--Secured by Vehicle Title	128.7	127.4	129.8	149.5	138.3	-7.5
--Secured by Deposits	32.9	28.6	25.1	26.7	26.9	0.7
--With Salary Assignment	803.5	877.8	868.9	901.5	890.6	-1.2
--Credit Card Receivables	79.5	76.1	76.6	79.7	52.0	-34.8
Other	314.8	214.5	219.8	190.1	208.2	9.5
<b>TOTAL</b>	<b>5,604.4</b>	<b>5,520.5</b>	<b>5,523.1</b>	<b>5,437.2</b>	<b>5,492.9</b>	<b>1.0</b>

Source: Central Bank of Bahrain

### 3. Interest Rates

Short-term interest rates showed a mix trends during 2009:Q4. The 3-month and 6-month inter-bank rates decreased to 1.3% and 1.5% respectively by the end of the quarter. The (3-month and 6-month) Treasury bill yield increased to 0.9% and 1.0% respectively for the period. The CBB key policy rate remained unchanged for the quarter at 0.50%.

**Table 6: Structure of Interest Rates**

(%)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
3 Month Inter-bank Rate (BHIBOR)*	2.8	2.2	1.6	1.4	1.3
6 Month Inter-bank Rate (BHIBOR)*	2.9	2.3	2.0	1.6	1.5
CBB Key Policy Rate (end-of-quarter)	0.75	0.75	0.75	0.50	0.50
3 Month Treasury Bill Yield	2.8	1.2	1.1	0.8	0.9
6 Month Treasury Bill Yield	3.0	1.5	1.3	0.8	1.0
Commercial Bank Lending Rate—Personal**	8.1	7.9	8.1	7.7	7.7
Commercial Bank Lending Rate—Business**	7.4	7.0	6.9	6.8	6.8
Commercial Bank Deposit Rate (3-12 mths)**	1.3	1.6	1.5	1.7	1.4

\*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 and personal loans remained the same at 6.8% and 7.7% respectively during the period. In contrast, average deposit rates (3-12 months) decreased from 1.7% to 1.4% during the quarter.

This has resulted in a wider spread between personal loan and deposit rates from 6.0% in 2009:Q3 to 6.3% in 2009:Q4; implying that depositors will suffer from their decreased deposit rates. Similarly, the spread between business loan and deposit rates also widened from 5.1% in 2009:Q3 to 5.4% in 2009:Q4.

## 4. Domestic Prices

Inflation numbers for 2009:Q4 show that the consumer price index increased by 0.9%, following the 0.3% increase in the third quarter. Year-on-year, inflation stands at 1.4% (Table 7).

**Table 7: Consumer Price Index**

(2006=100)

Major Group of Commodities	2008:Q4*	2009:Q1*	2009:Q2*	2009:Q3*	2009:Q4*
Food and non-alcoholic Beverages	119.5	127.3	125.0	126.0	127.1
Alcoholic beverages & Tobacco**	-	106.8	107.3	114.6	116.2
Clothing & Footwear	104.6	104.3	104.5	105.3	104.3
Housing, Water, Electricity & Fuels	109.5	109.5	109.5	109.5	109.5
Household Goods & Services	109.4	109.4	111.5	112.5	112.7
Healthcare Services	101.7	101.7	101.6	102.3	103.6
Transport	102.6	101.5	101.6	101.4	102.9
Communication	100.0	100.0	98.3	94.9	94.9
Recreation & Culture	103.5	105.3	105.3	105.4	105.4
Education	103.6	103.6	103.6	106.3	111.7
Restaurants**	-	106.0	106.0	106.0	108.2
Miscellaneous	111.7	113.7	114.5	114.7	116.5
<b>General Index</b>	<b>109.2</b>	<b>109.7</b>	<b>109.4</b>	<b>109.7</b>	<b>110.7</b>
<b>Growth rate (%)</b>	<b>1.7</b>	<b>0.5</b>	<b>-0.3</b>	<b>0.3</b>	<b>0.9</b>
<b>Inflation</b>	<b>4.6</b>	<b>4.6</b>	<b>3.1</b>	<b>2.1</b>	<b>1.4</b>

\*Quarterly averages

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

Source: Central Informatics Organisation

On a year-on-year basis<sup>2</sup>, prices for “education” increased by 7.8% to reach 111.7 index points. Next were the “food and non-alcoholic beverages” and “miscellaneous” segments, which increased by 6.4% and 4.3% to reach an average of 127.1 and 116.5 index points respectively. For the

<sup>2</sup> Year-on-year comparisons for the CPI use average quarterly data.

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

During the latest quarter, the highest price rise was also for “education”, which grew on average by 5.1%; the “restaurants” segment, which experienced a price increase of 2.1%, follows.

## 5. Public Debt

The size of Bahrain’s outstanding public debt (securities only) increased to BD 1,348.0 million during the fourth quarter, compared to BD 1,203.0 in the previous quarter (Table 8).

**Table 8: Public Debt Outstanding**

(BD Millions)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
Total Outstanding	705.0	820.0	1,038.0	1,203.0	1,348.0
--% of GDP	8.6	10.0	12.6	14.6	16.4
Development Bonds	0.0	0.0	0.0	0.0	55.0
Treasury Bills	180.0	295.0	325.0	325.0	415.0
Islamic Leasing Securities	507.0	507.0	695.0	860.0	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 increased to reach BD 415.0 million, with BD 355.0 million in new treasury bills issued. Moreover, Islamic leasing securities outstanding remained unchanged at BD 860.0 million, with the new issued of BD 15.0 million offset the BD 15.0 million matured. Al Salam Islamic securities outstanding remained unchanged at BD 18.0 million. Domestic public debt as a percentage of 2008 nominal GDP stood at 16.4% higher than the 14.6% registered at the end of 2009:Q3.

## 6. Exchange Rates and Official Reserves

During 2009:Q4, the Bahraini dinar depreciated against the pound sterling and appreciated against all other major key currencies (Euro, Japanese Yen and Swiss Franc) (Table 9).

**Table9: BD Exchange Rates Against Selected Currencies\***

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
US Dollar	0.376	0.376	0.376	0.376	0.376
Pound Sterling	0.543	0.538	0.625	0.603	0.604
Euro	0.530	0.499	0.530	0.550	0.540
Japanese Yen**	4.160	3.820	3.940	4.200	4.070
Swiss Franc	0.355	0.328	0.348	0.364	0.363

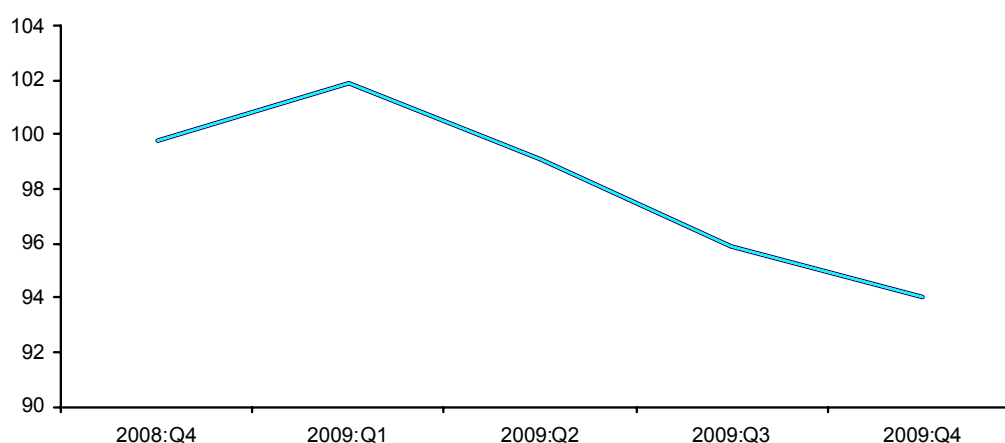
\*Last working day of each period

\*\* Per 1000 units

Source: Central Bank of Bahrain

Available data on Bahrain's Real Effective Exchange Rate (REER) (2005=100) shows that during 2009:Q4, the REER decreased to reach an index value of 94.0 points, down from 95.9 points recorded in the previous quarter (Chart 2).

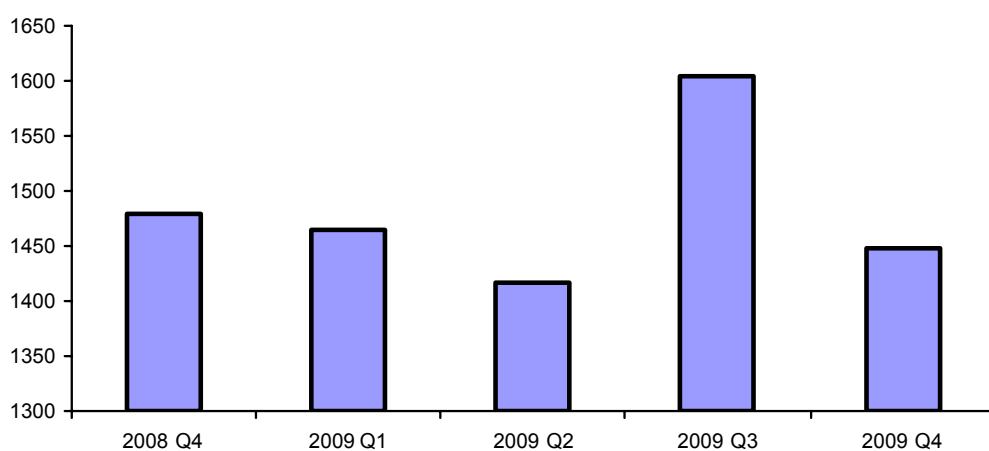
**Chart 2: Trends in Real Effective Exchange Rates  
(2005=100; period averages)**



Source: IMF, International Financial Statistics, December 2008

During the fourth quarter, official reserves decreased with the total level of reserves (gold, foreign exchange, SDR and IMF reserve position) standing at BD 1,448.3 million at the end of the quarter (Chart 3). This was 9.7% lower than the level at the end of the third quarter and 2.2% lower than the level attained during the same period of 2008.

**Chart 3: Trends in Official Reserves—2008:Q4-2009:Q4 (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:Q4, total market capitalisation of the Bahrain Stock Exchange (BSE) decreased by 4.2% to reach BD 6,131.0 million, compared to BD 6,400.7 million registered in the last quarter (Table 10). Year-on-year, market capitalisation was 18.5% lower. The decrease in market size during 2009:Q4 was mainly due to the decrease in the “commercial banks” segment which decreased by 10.1%; this was followed by the “investment” segment which decreased by 3.0%.



**Table 10: Market Capitalisation on the Bahrain Stock Exchange\***

(BD Million)

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2009:Q4 Growth (%)
Commercial Banks	2,531.3	2,079.0	2,206.6	2,267.8	2,038.5	-10.1
Investment	3,376.7	3,026.5	2,789.7	2,624.1	2,546.6	-3.0
Insurance	201.7	196.5	166.1	168.3	173.3	3.0
Services	1,242.9	1,076.6	1,148.4	1,166.4	1,178.8	1.1
Industrial	14.7	13.9	13.6	17.5	17.7	1.1
Hotel and Tourism	152.6	148.3	158.3	156.6	176.2	12.5
<b>TOTAL</b>	<b>7,520.2</b>	<b>6,540.8</b>	<b>6,482.8</b>	<b>6,400.7</b>	<b>6,131.0</b>	<b>-4.2</b>

*\*end of quarter numbers**Source: Bahrain Stock Exchange*

The BSE All-Share Index fell to 1,458.24 points in 2009:Q4 (compared to 1,554.51 in 2009:Q3) (Table 11). Measured year-on-year, the index level during 2009:Q4 was 19.2% lower than the corresponding figure for 2008:Q4.

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

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
Commercial banks	2,117.04	1,733.49	1,839.84	1,867.97	1,679.17
Investment	1,582.53	1,474.93	1,359.10	1,278.12	1,173.53
Insurance	2,275.97	2,215.52	1,867.73	1,859.76	1,915.92
Services	1,638.30	1,418.97	1,513.66	1,537.38	1,553.69
Industrial	1,273.93	1,199.49	1,179.04	1,514.37	1,529.80
Hotel and Tourism	2,848.57	2,767.96	2,954.42	2,922.18	3,287.74
<b>OVERALL INDEX</b>	<b>1,804.07</b>	<b>1,595.85</b>	<b>1,581.67</b>	<b>1,554.51</b>	<b>1,458.24</b>

*\*end of quarter numbers**Source: Bahrain Stock Exchange*

Liquidity on the BSE decreased during 2009:Q4, with the turnover ratio (value of trading as a share of market capitalisation) decreasing at 0.8% (Table 12). For the same period, the “commercial banks” and “investment” segments represented 60.1% and 19.9% of the total value of shares traded respectively.

Table 12: Liquidity on the BSE

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4
<b>A. Overall Market Liquidity (BD Million)</b>					
Value of Shares Traded	193.3	26.1	64.7	37.6	49.9
Market Capitalisation	7,520.2	6,540.8	6,482.8	6,400.7	6,131.0
Turnover Ratio*	2.2	0.1	1.0	0.6	0.8
<b>B. Value of Shares Traded by Sector (% Shares)</b>					
Commercial Banks	38.3	27.3	55.9	61.4	60.1
Investment	23.6	55.2	27.7	12.5	19.9
Insurance	0.2	0.5	0.9	0.6	0.5
Services	24.5	14.8	14.8	17.4	18.5
Industrial	0.0	0.1	0.0	0.1	0.0
Hotel and Tourism	0.2	1.8	0.6	1.3	0.8

\*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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