



Financial Stability Directorate

Monetary and Financial Trends

First Quarter 2010

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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 First Quarter of 2010 and highlights developments in the following monetary and financial indicators: i) monetary aggregates; ii) domestic credit; iii) interest rates; iv) domestic prices; v) public debt; vi) exchange rates; vii) official reserves; and viii) the stock market.

Highlights

Monetary Aggregates

- During 2010:Q1, *narrow money* (M1) increased by 2.3%. In addition, *broad money* (M2) increased by 1.7%.
- *Currency outside of banks* was the fastest growing component of the money stock during the quarter, growing at 2.4%. *Demand deposits* grew by 2.2%, followed by *savings and time deposits* which also increased by 1.4%.

Credit Developments

- Total domestic credit fell by 2.1% to reach BD 5,761.4 million.
- Private sector credit *decreased* by 2.0% (vs. 1.0% increase in Q4 2009) as well as lending to general government which decreased by 3.0%.
- An analysis of private sector credit components shows that *personal loans* fell by 6.3% in comparison to the 1.2% drop experienced in the fourth quarter of 2009.
- Loans “With Salary Assignment” constituted the bulk of personal loans (53.7% of the total). This was followed by loans “Secured by Property Mortgage” which made up 21.5% of total personal loans.
- *Business loans* decreased by 0.2% during the quarter a reversal from the 2.0% growth in the previous quarter.
- *Business loans* went primarily to the “construction and real estate” segment, which accounted for 43.4% of total business loans.

Interest Rates

- Short-term interest rates remained generally unchanged from the previous quarter.
- The 3-month and 6-month inter-bank rates remained at 1.3% and 1.5% respectively. The (3-month Treasury bill yield continued to stand at 0.9% while the 6-month Treasury bill increased slightly to 1.1%.

- 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* continued to increase by 0.9%, the same rate as in the fourth quarter of 2009.
- *Year-on-year* inflation was 1.8%.

Public Debt

- The stock of domestic public debt (securities only) increased during the quarter to reach BD 1,871.0 million.
- Public debt increased mainly due to the growth in the outstanding balance of development bonds to BD 525.0 million.
- The only decrease was in the stock of outstanding Islamic leasing securities (Ijara) which dropped to BD 845.0 million from its recorded BD 860.0 million in Q4 2009.

Exchange Rates and Official Reserves

- During the first quarter, the Bahraini dinar appreciated against all the major key currencies (Pound Sterling, Euro, Japanese Yen and Swiss Franc).
- Available data on Bahrain's *Real Effective Exchange Rate* (REER) (2005=100) shows that the Bahraini dinar appreciated against a basket of world currencies. During 2010:Q1, the REER increased to reach an index value of 96.0 points, the first increase in a year.
- During 2010:Q1, official reserves increased to reach BD 2,102.8 million, 43.1% higher than the level attained during the same period of 2009.

Stock Market

- Total market capitalisation increased by 6.2% to reach BD 6,509.1 million, compared to BD 6,131.0 million registered last quarter. Year-on-year, market capitalisation was 0.5% lower.
- The increase in market capitalisation was mainly due to the increase in the *commercial banks* segment, which rose by 22.8%.

- The BSE All-Share Index increased to 1,547.13 points during 2010:Q1, compared to 1,458.24 points in the fourth quarter of 2009.
- Liquidity decreased marginally during the quarter, with the turnover ratio decreasing to 0.7%.

1. Monetary Aggregates¹

In the first quarter of 2010, *narrow money* (M1) increased by 2.3%, down from the 4.9% increase witnessed in the fourth quarter of 2009 (Table 1). *Year-on-year*, the level of M1 was 6.0% higher than its level for 2009:Q1. *Broad money* (M2) also increased by 1.7% during 2010:Q1 compared to a 5.8% increase in 2009:Q4. *Year-on-year*, the level of M2 was 6.7% higher than its level last year.

Table 1: Developments in Monetary Aggregates

(BD Million)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
M1	2,081.8	2,187.9	2,057.6	2,158.3	2,207.0
<i>M1 Growth (%)</i>	<i>9.6</i>	<i>5.1</i>	<i>-6.0</i>	<i>4.9</i>	<i>2.3</i>
M2	6,783.3	6,745.6	6,729.5	7,119.3	7,236.9
<i>M2 Growth (%)</i>	<i>0.8</i>	<i>-0.6</i>	<i>-0.2</i>	<i>5.8</i>	<i>1.7</i>

Source: Central Bank of Bahrain

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

The growth in M1 in the first quarter of 2010 was a result of a 2.2% increase in demand deposits combined with a 2.4% increase in the level of currency outside banks. In addition, the 1.4% increase in saving and time deposits contributed to the growth in M2.

Table 2: Developments in Components of Money Supply

(BD Million)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
Currency Outside Banks	307.4	318.9	317.2	323.0	330.8
<i>Growth Rate (%)</i>	<i>1.1</i>	<i>3.7</i>	<i>-0.5</i>	<i>1.8</i>	<i>2.4</i>
Demand Deposits	1,774.4	1,869.0	1,740.4	1,835.3	1,876.2
<i>Growth Rate (%)</i>	<i>11.3</i>	<i>5.3</i>	<i>-6.9</i>	<i>5.5</i>	<i>2.2</i>
Savings and Time Deposits	4,701.5	4,557.7	4,671.9	4,961.0	5,029.9
<i>Growth Rate (%)</i>	<i>-2.7</i>	<i>-3.1</i>	<i>2.5</i>	<i>6.2</i>	<i>1.4</i>

* Central government and the Social Insurance system

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

Source: Central Bank of Bahrain

Table 3: Contributions to Monetary Growth

(% Change)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010: Q1
Net Foreign Assets (NFA)	-22.3	-0.5	5.9	-5.1	20.3
Central Bank of Bahrain	-0.9	-3.5	8.5	-10.4	49.6
Retail Banks	-46.8	6.1	0.8	5.9	-31.0
Domestic Assets	11.5	0.2	0.1	5.4	-1.3
Claims on Government	34.7	9.3	22.3	5.3	-4.7
Claims on Private Sector	-1.5	0.3	-1.3	1.8	-2.2
Other Assets (net)	30.2	-8.4	-12.0	11.7	10.3

Source: Central Bank of Bahrain

In the first quarter of 2010, net foreign assets (NFA) increased by 20.3% compared to the 5.1% decrease in 2009:Q4 (Table 3). The growth in NFA during 2010:Q1 was driven mainly by the 49.6% increase in claims on the Central Bank of Bahrain.

In addition, domestic assets decreased by 1.3% during the quarter. This was due to decreases in claims on government, claims on the private sector, and other assets (net) (4.7%, 2.2%, and 10.3% respectively).

Assets exceeded liabilities on the "other assets (net)" category, however the net deficit narrowed by 10.3% during the quarter.

2. Credit Developments

During 2010:Q1, total domestic credit decreased by 2.1% to reach BD 5,761.4 million, compared to a 2.2% increase registered in the previous quarter (Table 4). This contraction is mainly a result of the 2.0% decrease in credit to the private sector, down from the 1.0% increase experienced in 2009:Q4. The 2010:Q1 total domestic credit tightening is also a consequence of the fall in credit to the general government by 3.0% compared to an increase of 22.8% in 2009:Q4.

Table 4: Trends in Domestic Credit

(BD Million)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
Total Domestic Credit	5,823.3	5,860.5	5,756.5	5,884.9	5,761.4
<i>Growth (%)</i>	<i>-1.1</i>	<i>0.6</i>	<i>-1.8</i>	<i>2.2</i>	<i>-2.1</i>
Credit to General Government	302.8	337.4	319.3	392.0	380.4
<i>Growth (%)</i>	<i>6.9</i>	<i>11.4</i>	<i>-5.4</i>	<i>22.8</i>	<i>-3.0</i>
Credit to Private Sector	5,520.5	5,523.1	5,437.2	5,492.9	5,381.0
<i>Growth (%)</i>	<i>-1.5</i>	<i>0.05</i>	<i>-1.6</i>	<i>1.0</i>	<i>-2.0</i>
Memo Items					
Share of Private Sector Credit	94.8	94.2	94.5	93.3	93.4
Share of Public Sector Credit	5.2	5.8	5.5	6.7	6.6

Source: Central Bank of Bahrain

On a *year-on-year* basis, total domestic credit decreased by 1.1%. Private sector credit shows a similar pattern, with year-on-year reduction of 2.5%.

In terms of composition, the private sector continues to receive the bulk of domestic credit, accounting for 93.4% during the first quarter.

A breakdown of private sector credit indicates that lending to business slightly contracted during the first quarter, decreasing by 0.2% after a 2.0% increase recorded during 2009:Q4 (Table 5). Personal loans experienced a larger contraction decreasing 6.3% in 2010:Q1 compared to a 1.2% decrease during the previous quarter. Year-on-year, Business and personal loans reduced by 1.5% and 4.8% respectively for the same period.

Table 5: Trends in Retail Private Domestic Credit

(BD Millions)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q1 Growth (%)
BUSINESS	3,869.4	3,860.0	3,740.7	3,816.6	3,809.7	-0.2
--Manufacturing	415.6	401.8	367.0	389.5	379.5	-2.6
--Mining and Quarrying	9.7	13.1	6.9	7.7	7.8	1.3
--Agriculture, Fishing and Dairy	4.9	5.5	5.2	5.4	6.7	24.1
--Construction and Real Estate	1,504.4	1,576.7	1,604.9	1,659.5	1,654.9	-0.3
--Trade	1,088.4	1,057.1	1,017.8	998.7	968.6	-3.0
--Non-bank Financial	276.9	268.5	231.7	211.3	233.6	10.6
--Transport and Communication	124.2	132.4	137.4	178.3	171.9	-3.6
--Hotels and Restaurants	67.4	72.1	72.8	65.2	67.4	3.4
--Other Sectors	377.9	332.8	297.0	301.0	319.3	6.1
PERSONAL	1,651.1	1,663.1	1,696.5	1,676.3	1,571.3	-6.3
--Secured by Property Mortgage	326.7	342.9	349.0	360.3	337.4	-6.4
--Secured by Vehicle Title	127.4	129.8	149.5	138.3	135.4	-2.1
--Secured by Deposits	28.6	25.1	26.7	26.9	25.5	-5.2
--With Salary Assignment	877.8	868.9	901.5	890.6	843.9	-5.2
--Credit Card Receivables	76.1	76.6	79.7	52.0	51.5	-1.0
Other	214.5	219.8	190.1	208.2	177.6	-14.7
TOTAL	5,520.5	5,523.1	5,437.2	5,492.9	5,381.0	-2.0

Source: Central Bank of Bahrain

Table 5 also presents a breakdown of lending to the private sector by economic sector. Outstanding personal loans stood at BD 1,571.3 million at the end of 2010:Q1, accounting for 29.2% of total outstanding private sector credit. Personal loans “with salary assignment” represented the largest proportion of total personal loans (53.7%) during the quarter. Personal loans “secured by property mortgage” were the next largest component of total personal loans, accounting for 21.5%.

The fall in total personal loans outstanding in 2010:Q1 was mainly due to the 5.2% decrease in personal loans “with salary assignment”.

Business loans outstanding stood at BD 3,809.7 million in 2010:Q1, representing 70.8% of outstanding private sector credit. Loans to the “construction and real estate” segment accounted for the largest share of business loans (43.4%), followed by “trade” at 25.4%.

Although overall business loans contracted slightly in 2010:Q1, however some segments experienced increases such as “agriculture, fishing and dairy”, “non-bank financial” and “hotel and restaurants” (24.1%, 10.6%, and 3.4% respectively). However, the largest drop was in “transport and communication” which contracted by 3.6% followed by “trade” which decreased by 3.0%.

3. Interest Rates

Short-term interest rates remain generally unchanged from the previous quarter. The 3-month and 6-month inter-bank rates continued to stand at 1.3% and 1.5% respectively in 2010:Q1. Moreover, the 3-month Treasury bill yield remained at 0.9% yet the 6-month Treasury bill yield increased marginally to reach 1.1% in the first quarter of 2010. The CBB key policy rate remained unchanged for the quarter at 0.50%.

Table 6: Structure of Interest Rates

(%)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
3 Month Inter-bank Rate (BHIBOR)*	2.2	1.6	1.4	1.3	1.3
6 Month Inter-bank Rate (BHIBOR)*	2.3	2.0	1.6	1.5	1.5
CBB Key Policy Rate (end-of-quarter)	0.75	0.75	0.50	0.50	0.50
3 Month Treasury Bill Yield	1.2	1.1	0.8	0.9	0.9
6 Month Treasury Bill Yield	1.5	1.3	0.8	1.0	1.1
Commercial Bank Lending Rate— Personal**	7.9	8.1	7.7	7.7	7.7
Commercial Bank Lending Rate— Business**	7.0	6.9	6.8	6.8	6.8
Commercial Bank Deposit Rate (3-12 mths)**	1.6	1.5	1.7	1.4	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 since 2009:Q3 (6.8% and 7.7% respectively). Average deposit rates (3-12 months) also did not change, remaining at 1.4% since last quarter.

4. Domestic Prices

Inflation numbers for 2010:Q1 show that the consumer price index continued to increase at 0.9%, the same rate as in the fourth quarter 2009. *Year-on-year*, inflation stands at 1.8%, up from 1.4% in 2009:Q4 (Table 7).

Table 7: Consumer Price Index

(2006=100)

Major Group of Commodities	2009:Q1*	2009:Q2*	2009:Q3*	2009:Q4*	2010:Q1*
Food and non-alcoholic Beverages	127.3	125.0	126.0	127.1	130.8
Alcoholic beverages & Tobacco	106.8	107.3	114.6	116.2	117.3
Clothing & Footwear	104.3	104.5	105.3	104.3	105.1
Housing, Water, Electricity & Fuels	109.5	109.5	109.5	109.5	109.0
Household Goods & Services	109.4	111.5	112.5	112.7	112.5
Healthcare Services	101.7	101.6	102.3	103.6	104.3
Transport	101.5	101.6	101.4	102.9	104.4
Communication	100.0	98.3	94.9	94.9	94.9
Recreation & Culture	105.3	105.3	105.4	105.4	105.4
Education	103.6	103.6	106.3	111.7	111.7
Restaurants	106.0	106	106	108.2	112.7
Miscellaneous	113.7	114.5	114.7	116.5	117.5
General Index	109.7	109.4	109.7	110.7	111.7
Growth rate (%)	0.5	-0.3	0.3	0.9	0.9
Inflation (Year on Year)	4.6	3.1	2.1	1.4	1.8

*Quarterly averages

Source: Central Informatics Organisation

On a year-on-year basis² prices for “alcoholic beverages & tobacco” increased by 9.8%, the largest increase among the segments.

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

“Education” and “restaurants” followed increasing by 7.8% and 6.3% to reach an average of 111.7 and 112.7 index points respectively. 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 “restaurant” segment, which grew on average by 4.2%, this was followed by the “food and non-alcoholic beverages” segment, which experienced a price increase of 2.9%.

5. Public Debt

The size of Bahrain’s outstanding public debt (securities only) increased to BD 1,871.0 million during the first quarter of 2010, compared to BD 1,348.0 in the previous quarter. Public debt as a percentage of 2009 nominal GDP also rose to 24.2% higher than the 16.4% registered at the end of 2009:Q4 (Table 8).

Table 8: Public Debt Outstanding

(BD Millions)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
Total Outstanding	820.0	1,038.0	1,203.0	1,348.0	1,871.0
--% of GDP	10.0	12.6	14.6	16.4	24.2
Development Bonds	0.0	0.0	0.0	55.0	525.0
Treasury Bills	295.0	325.0	325.0	415.0	465.0
Islamic Leasing Securities	507.0	695.0	860.0	860.0	845.0
Al Salam Islamic Securities	18.0	18.0	18.0	18.0	36.0

Source: Central Bank of Bahrain

The outstanding balance of development bonds increased to reach BD 525 million, with BD 470 million in new development bonds issued. Treasury bills also increased to reach BD 465.0 million. Moreover, Al Salam Islamic securities outstanding increased from BD 18.0 million in the fourth quarter of 2009 to BD 36 million in the first quarter of 2010. The only decrease was in Islamic leasing securities outstanding which dropped from BD 860.0 million to BD 845.0 million.

6. Exchange Rates and Official Reserves

During 2010:Q1, the Bahraini dinar appreciated against all the major key currencies (Pound Sterling, Euro, Japanese Yen and Swiss Franc) (Table 9).

Table 9: BD Exchange Rates Against Selected Currencies*

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
US Dollar	0.376	0.376	0.376	0.376	0.376
Pound Sterling	0.538	0.625	0.603	0.604	0.566
Euro	0.499	0.530	0.550	0.540	0.503
Japanese Yen**	3.820	3.940	4.200	4.070	4.020
Swiss Franc	0.328	0.348	0.364	0.363	0.352

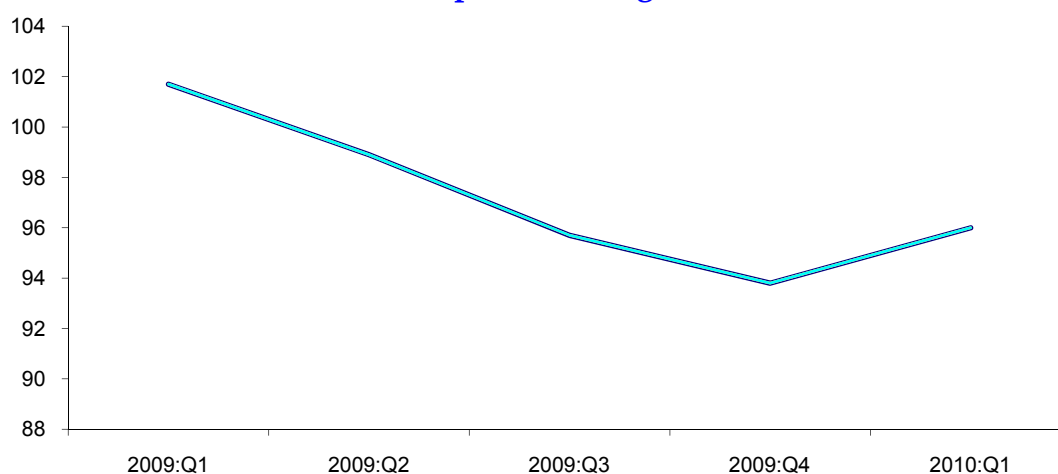
*Last working day of each period

** Per 1000 units

Source: Central Bank of Bahrain

Available data on Bahrain's Real Effective Exchange Rate (REER) (2005=100) shows that after a period of steady decline since 2009:Q1, the REER has began to increase to reach an index value of 96.0 points in 2010:Q1, up from the 93.8 points recorded in the fourth quarter of 2009. However the 2010:Q1 REER is still lower than the 101.7 points registered in the same period of the previous year (Chart 2).

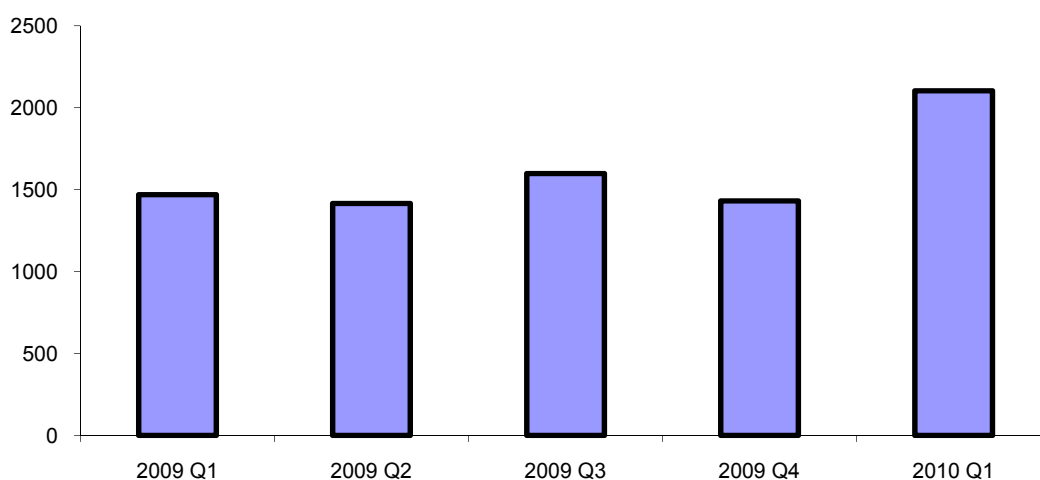
**Chart 1: Trends in Real Effective Exchange Rates
(2005=100; period averages)**



Source: IMF, International Financial Statistics

During the first quarter of 2010, official reserves increased with the total level of reserves (gold, foreign exchange, SDR and IMF reserve position) standing at BD 2,102.8 million at the end of the quarter (Chart 3). This was 46.9% higher than the level at the end of the fourth quarter of 2009 and 43.1% higher than the level attained in Q1 2009.

Chart 2: Trends in Official Reserves—2009:Q1-2010:Q1 (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 2010:Q1, total market capitalisation of the Bahrain Stock Exchange (BSE) increased by 6.2% to reach BD 6,509.1 million, compared to BD 6,131.0 million registered in the last quarter (Table 10). Year-on-year, market capitalisation was 0.5% lower. The increase in market size during 2010:Q1 was mainly due to the increase in the “commercial banks” segment, which rose by 22.8%.

Table 10: Market Capitalisation on the Bahrain Stock Exchange*

(BD Million)

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q1 Growth (%)
Commercial Banks	2,079.0	2,206.6	2,267.8	2,038.5	2,504.1	22.8
Investment	3,026.5	2,789.7	2,624.1	2,546.6	2,439.4	-4.2
Insurance	196.5	166.1	168.3	173.3	182.0	5.0
Services	1,076.6	1,148.4	1,166.4	1,178.8	1,188.3	0.8
Industrial	13.9	13.6	17.5	17.7	16.6	-6.2
Hotel and Tourism	148.3	158.3	156.6	176.2	178.7	1.4
TOTAL	6,540.8	6,482.8	6,400.7	6,131.0	6,509.1	6.2

end of quarter numbersSource: Bahrain Stock Exchange*

The BSE All-Share Index rose to 1,547.13 points in 2010:Q1 (compared to 1,458.24 in 2009:Q4) (Table 11). Measured year-on-year, the index level during 2010:Q1 was 3.1% lower than the corresponding figure for 2009:Q1.

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

	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
Commercial banks	1,733.49	1,839.84	1,867.97	1,679.17	2,063.43
Investment	1,474.93	1,359.10	1,278.12	1,173.53	1,121.20
Insurance	2,215.52	1,867.73	1,859.76	1,915.92	2,014.72
Services	1,418.97	1,513.66	1,537.38	1,553.69	1,566.31
Industrial	1,199.49	1,179.04	1,514.37	1,529.80	1,435.75
Hotel and Tourism	2,767.96	2,954.42	2,922.18	3,287.74	3,333.42
OVERALL INDEX	1,595.85	1,581.67	1,554.51	1,458.24	1,547.13

end of quarter numbersSource: Bahrain Stock Exchange*

Liquidity on the BSE decreased marginally during 2010:Q1, with the turnover ratio (value of trading as a share of market capitalisation) standing at 0.7% (Table 12). For the same period, the “investment” and “commercial banks” segments represented 50.9% and 26.3% of the total value of shares traded respectively.

Table 12: Liquidity on the BSE

	2008:Q4	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
A. Overall Market Liquidity (BD Million)						
Value of Shares Traded	193.3	26.1	64.7	37.6	49.9	44.3
Market Capitalisation	7,520.2	6,540.8	6,482.8	6,400.7	6,131.0	6,509.1
Turnover Ratio*	2.2	0.4	1.0	1.0	0.8	0.7
B. Value of Shares Traded by Sector (% Shares)						
Commercial Banks	38.3	27.3	55.9	61.4	60.1	26.3
Investment	23.6	55.2	27.7	12.5	19.9	50.9
Insurance	0.2	0.5	0.9	0.6	0.5	7.0
Services	24.5	14.8	14.8	17.4	18.5	15.5
Industrial	0.0	0.1	0.0	0.1	0.0	0.0
Hotel and Tourism	0.2	1.8	0.6	1.3	0.8	0.4

*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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