



Financial Stability Directorate

Monetary and Financial Trends

First Quarter 2011

Table of Contents

Highlights.....	1
1. Monetary Aggregates	3
2. Credit Developments.....	4
3. Interest Rates.....	7
4. Domestic Prices	8
5. Public Debt.....	9
6. The Stock Market	10

List of Tables

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

Monetary and Financial Trends is produced quarterly by the Financial Stability Directorate, Central Bank of Bahrain. This edition focuses on the First Quarter of 2011 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 2011:Q1, *narrow money* (M1) increased by 5.7%. In addition, *broad money* (M2) increased by 0.6%.
- *Currency outside banks* was the main cause for the increase in M1, growing by 27.2%. *Demand deposits* increased by 1.8%, while *Savings and time deposits* decreased by 1.5%.

Credit Developments

- Total domestic credit increased by 0.1% to reach BD 5,682.6 million.
- Private sector credit *increased* by 0.7% while lending to general government decreased by 13.0%.
- An analysis of private sector credit components shows that *personal loans* grew slightly by 0.1% following the 3.2% increase experienced in the fourth quarter of 2010.
- Loans “With Salary Assignment” constituted the bulk of personal loans (52.0% of the total). This was followed by loans “Secured by Property Mortgage” which made up 20.3% of total personal loans.
- *Business loans* increased by 1.0% during the quarter compared to the 5.6% drop in the previous quarter.
- *Business loans* went primarily to the “construction and real estate” segment, which accounted for 45.6% of total business loans.

Interest Rates

- Short-term interest rates increased during the quarter.
- The 3 and 6-month inter-bank rates increased to reach 1.3% and 1.6% respectively in 2011:Q1. Moreover, the treasury bill yield (3 and 6 months) increased for the quarter to reach 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* decreased slightly by 0.4%.
- *Year-on-year* inflation was 0.1%.

Public Debt

- The stock of outstanding public debt (securities only) remained unchanged during the quarter at BD 2,441.0 million.

Stock Market

- Total market capitalisation decreased by 0.7% to reach BD 7,511.2 million, compared to BD 7,562.5 million registered last quarter. Year-on-year, market capitalisation was 15.4% higher.
- The decrease in market capitalisation during 2011:Q1 was mainly due to the decrease in the *investment* and *service* segments, which grew by 6.0% and 4.9% respectively.
- The Bahrain Bourse All-Share Index decreased to 1,424.64 points during 2011:Q1, compared to 1,432.26 points in the fourth quarter of 2010.
- Liquidity stabilized marginally during the quarter, with the turnover ratio standing at 0.3%.

1. Monetary Aggregates¹

In the first quarter of 2011, *narrow money* (M1) increased by 5.7%, compared to the 0.5% decrease witnessed in the fourth quarter of 2010 (Table 1). However, on a *year-on-year* basis, the level of M1 was 10.3% higher than its level for 2010:Q1. *Broad money* (M2) also increased by 0.6% during 2011:Q1 following the 2.6% increase in 2010:Q4. *Year-on-year*, the level of M2 was 9.4% higher than its level last year.

Table 1: Developments in Monetary Aggregates

(BD Million)

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1
M1	2,207.0	2,398.9	2,315.5	2,303.9	2,434.6
<i>M1 Growth (%)</i>	<i>2.3</i>	<i>8.7</i>	<i>-3.5</i>	<i>-0.5</i>	<i>5.7</i>
M2	7,236.9	7,677.3	7,668.5	7,867.5	7,916.7
<i>M2 Growth (%)</i>	<i>1.7</i>	<i>6.1</i>	<i>-0.1</i>	<i>2.6</i>	<i>0.6</i>

Source: Central Bank of Bahrain

Table 2 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 2011 was mainly a result of a 27.2% increase in currency outside banks and a 1.8% increase in demand deposits. Saving and time deposits decreased by 1.5% for the same period.

Table 2: Developments in Components of Money Supply

(BD Million)

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1
Currency Outside Banks	330.8	336.3	339.2	349.6	444.7
<i>Growth Rate (%)</i>	<i>2.4</i>	<i>1.7</i>	<i>0.9</i>	<i>3.1</i>	<i>27.2</i>
Demand Deposits	1,876.2	2,062.6	1,976.3	1,954.3	1,989.9
<i>Growth Rate (%)</i>	<i>2.2</i>	<i>9.9</i>	<i>-4.2</i>	<i>-1.1</i>	<i>1.8</i>
Savings and Time Deposits	5,029.9	5,278.4	5,353.0	5,563.6	5,482.1
<i>Growth Rate (%)</i>	<i>1.4</i>	<i>4.9</i>	<i>1.4</i>	<i>3.9</i>	<i>-1.5</i>

* Central government and the Social Insurance system

Source: Central Bank of Bahrain

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

Table 3: Contributions to Monetary Growth

(% Change)

	2010: Q1	2010: Q2	2010: Q3	2010: Q4	2011:Q1
Net Foreign Assets (NFA)	20.3	0.9	-22.8	3.1	9.7
Central Bank of Bahrain	49.6	-5.7	-2.9	-1.2	-15.2
Retail Banks	-31.0	26.1	-79.6	62.2	215.5
Domestic Assets	-1.3	10.4	5.4	3.1	-1.1
Claims on Government	-4.7	10.5	-2.9	22.8	9.8
Claims on Private Sector	-2.2	6.6	4.2	-2.2	0.3
Other Assets (net)	10.3	11.2	15.4	8.5	-37.3

Source: Central Bank of Bahrain

In the first quarter of 2011, net foreign assets (NFA) increased by 9.7% following the 3.1% increase in 2010:Q4 (Table 3). The growth in NFA during 2011:Q1 was driven mainly by a 215.5% increase in claims on retail banks. These claims were due to an accumulation of foreign assets to banks by the value of BD 605.8 million.

In contrast, domestic assets decreased by 1.1% during the quarter compared to the 3.1% increase in the last quarter. This was due to decrease in claims on other assets (net) by 37.3%. Assets exceeded liabilities on the "other assets (net)" category, and the net deficit has widened by BD 266.4 million.

2. Credit Developments

During 2011:Q1, total domestic credit increased slightly by 0.1% to reach BD 5,682.6 million, compared to a 2.9% decrease registered in the previous quarter (Table 4). This growth is mainly a result of a 0.7% increase in credit to private sector, while credit to general government decreased by 13.0% for the same period.

Table 4: Trends in Domestic Credit

(BD Million)

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1
Total Domestic Credit	5,761.4	5,700.5	5,848.8	5,676.6	5,682.6
<i>Growth (%)</i>	<i>-2.1</i>	<i>-1.1</i>	<i>2.6</i>	<i>-2.9</i>	<i>0.1</i>
Credit to General Government	380.4	410.7	269.7	261.5	227.4
<i>Growth (%)</i>	<i>-3.0</i>	<i>8.0</i>	<i>-34.3</i>	<i>-3.0</i>	<i>-13.0</i>
Credit to Private Sector	5,381.0	5,289.8	5,579.1	5,415.1	5,455.2
<i>Growth (%)</i>	<i>-2.0</i>	<i>-1.7</i>	<i>5.5</i>	<i>-2.9</i>	<i>0.7</i>
Memo Items					
Share of Private Sector Credit	93.4	92.8	95.4	95.4	96.0
Share of Public Sector Credit	6.6	7.2	4.6	4.6	4.0

Source: Central Bank of Bahrain

On a *year-on-year* basis, total domestic credit decreased by 1.4%. Private sector credit shows a different pattern for the first time, with year-on-year growth of 1.4%.

In terms of composition, the private sector continues to receive the bulk of domestic credit, accounting for 96.0% of total domestic credit during the first quarter. Compared to the same period last year, this share has increased, where it accounted for 93.4% of total private sector credit in 2010:Q1.

A breakdown of private sector credit indicates that lending to business expanded during the first quarter, increasing by 1.0% compared to the 5.6% decrease recorded during 2010:Q4 (Table 5). Personal loans experienced a slight increase of 0.1% in 2011:Q1 following the 3.2% increase during the previous quarter. Year-on-year, Business loans decreased by 2.8% while personal loans increased by 11.6% for the same period.

Table 5: Trends in Retail Private Domestic Credit

(BD Million)

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1	2011:Q1 Growth (%)
BUSINESS	3,809.7	3,634.3	3,881.9	3,663.7	3,701.9	1.0
--Manufacturing	379.5	448.2	434.5	407.5	440.5	8.1
--Mining and Quarrying	7.8	7.2	9.4	9.9	8.7	-12.1
--Agriculture, Fishing and Dairy	6.7	5.7	5.2	5.3	5.2	-1.9
--Construction and Real Estate	1,654.9	1,767.4	1,920.2	1,740.6	1,687.2	-3.1
--Trade	968.6	726.9	760.1	772.9	762.7	-1.3
--Non-bank Financial	233.6	224.3	269.2	235.1	257.9	9.7
--Transport and Communication	171.9	113.1	114.8	100.2	113.8	13.6
--Hotels and Restaurants	67.4	64.7	80.8	88.7	88.2	-0.6
--Other Sectors	319.3	276.8	287.7	303.5	337.7	11.3
PERSONAL	1,571.3	1,655.5	1,697.2	1,751.4	1,753.3	0.1
--Secured by Property Mortgage	337.4	327.6	347.2	339.7	356.4	4.9
--Secured by Vehicle Title	135.4	120.3	96.7	106.7	83.8	-21.5
--Secured by Deposits	25.5	26.6	27.6	22.9	21.8	-4.8
--With Salary Assignment	843.9	869.5	899.1	886.1	911.1	2.8
--Credit Card Receivables	51.5	51.7	50.0	51.5	46.0	-10.7
Other	177.6	259.8	276.6	344.5	334.2	-3.0
TOTAL	5,381.0	5,289.8	5,579.1	5,415.1	5,455.2	0.7

Source: Central Bank of Bahrain

Table 5 also presents a breakdown of lending to the private sector by activity. Business loans outstanding stood at BD 3,701.9 million in 2011:Q1, representing 67.9% of outstanding private sector credit. Loans to the “construction and real estate” segment accounted for the largest share of business loans (45.6%), followed by “trade” at 20.6%.

The increase in total business loans outstanding in 2011:Q1 was due to increase in “transportation and communication”, “non-bank financial” and “manufacturing” (13.6%, 9.7% and 8.1% respectively).

Outstanding personal loans stood at BD 1,753.3 million at the end of 2011:Q1, accounting for 32.1% of total outstanding private sector credit. Personal loans “with salary assignment” represented the largest proportion of total personal loans (52.0%) during the quarter. Personal loans “secured by property mortgage” were the next largest component of total personal loans, accounting for 20.3%.

The growth in total personal loans outstanding in 2011:Q1 was mainly due to increase in personal loans “secured by property mortgage” and “with salary assignment” by 4.9% and 2.8% respectively.

3. Interest Rates

Short-term interest rates increased during the quarter. The 3 and 6-month inter-bank rates increased to reach 1.3% and 1.6% respectively in 2011:Q1. Moreover, the treasury bill yield (3 and 6 months) increased for the quarter to reach 0.9% and 1.0% respectively. The CBB key policy rate remained unchanged for the quarter at 0.50%.

Table 6: Structure of Interest Rates

(%)

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1
3 Month Inter-bank Rate (BHIBOR)*	1.3	1.3	1.2	1.2	1.3
6 Month Inter-bank Rate (BHIBOR)*	1.5	1.6	1.6	1.5	1.6
CBB Key Policy Rate (end-of-quarter)	0.50	0.50	0.50	0.50	0.50
3 Month Treasury Bill Yield	0.9	0.8	0.7	0.7	0.9
6 Month Treasury Bill Yield	1.1	0.9	0.9	0.9	1.0
Commercial Bank Lending Rate – Personal**	7.7	7.1	6.9	7.1	7.2
Commercial Bank Lending Rate – Business***	6.8	5.6	6.0	7.3	5.9
Commercial Bank Deposit Rate (3-12 mths)**	1.4	1.1	1.2	1.1	1.0

*BHIBOR was introduced in December 2006

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

***The drop is due to excluding Rafidain bank

Source: Central Bank of Bahrain

The weighted average lending rate for personal loans increased slightly to reach 7.2%. In contrast, the weighted average lending rate for business loans and the weighted average deposit rates (3-12 months) decreased and registered a 5.9% and 1.0% for the same period.

Because of the above instability in rates, the spread between personal loan and deposit rates remained similar, increasing slightly from 6.0% in 2010:Q4 to 6.2% in 2011:Q1, an indication that loan rates remained unchanged and had no effects on deposit rates. In contrast, the spread between business loan and deposit rates narrowed from 6.2% in 2010:Q4 to 4.9% in 2011:Q1.

4. Domestic Prices

Inflation numbers for 2011:Q1 show that the consumer price index decreased slightly by 0.4% to reach 111.8 index points compared to the 0.2% increase in 2010:Q4. *Year-on-year*, inflation stands at 0.1%, down from 1.4% in 2010:Q4 (Table 7).

Table 7: Consumer Price Index

(2006=100)

Major Group of Commodities	2010:Q1*	2010:Q2*	2010:Q3*	2010:Q4*	2011:Q1*
Food and non-alcoholic Beverages	130.8	134.1	132.6	132.6	132.6
Alcoholic beverages & Tobacco	117.3	117.3	116.7	117.8	119.2
Clothing & Footwear	105.1	106.3	106.7	107.3	107.7
Housing, Water, Electricity & Fuels	109.0	107.9	107.9	107.9	102.8
Household Goods & Services	112.5	112.2	112.9	115.1	113.2
Healthcare Services	104.3	105.8	106.3	107.0	108.7
Transport	104.4	105.8	106.4	105.1	107.4
Communication	94.9	94.9	94.7	94.2	94.2
Recreation & Culture	105.4	105.5	105.5	105.4	104.8
Education	111.7	111.7	112.7	114.6	114.6
Restaurants	112.7	112.9	112.9	113.0	113.0
Miscellaneous	117.5	117.0	117.1	118.5	126.9
General Index	111.7	112.1	112.1	112.3	111.8
Growth rate (%)	0.9	0.4	0.0	0.2	-0.4
Inflation (Year on Year)	1.8	2.5	2.2	1.4	0.1

*Quarterly averages

Source: Central Informatics Organisation

On a year-on-year basis², prices for “miscellaneous” and “healthcare” increased by 8.0% and 4.2% respectively, the largest increase among the segments. “Transportation”, “education” and “clothing and footwear” followed increasing by 2.9%, 2.6% and 2.5% respectively. For the same period, “housing, water, electricity and fuels” decreased by 5.7% to reach 102.8 index points.

During the latest quarter, the highest price rise was in the “miscellaneous” segment, which grew on average by 7.1%. In contrast, “housing, water, electricity and fuels” decreased by 4.7% for the same period.

5. Public Debt

The size of Bahrain’s outstanding public debt (securities only) remained unchanged at BD 2,441.0 million during the first quarter of 2011.

Table 8: Public Debt Outstanding

(BD Million)

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1
Total Outstanding	1,871.0	1,981.0	2,031.0	2,441.0	2,441.0
--% of GDP	25.8	27.3	28.0	33.6	33.6
Development Bonds	525.0	525.0	525.0	975.0	975.0
Treasury Bills	465.0	560.0	610.0	570.0	570.0
Islamic Leasing Securities	845.0	860.0	860.0	860.0	860.0
Al Salam Islamic Securities	36.0	36.0	36.0	36.0	36.0

Source: Central Bank of Bahrain

Similarly, all public debt instruments remained unchanged for the quarter with development bonds standing at BD 975.0 million and treasury bills at BD 570.0 million. Islamic leasing securities and Al Salam Islamic securities remained at BD 860.0 million and BD 36.0 million respectively.

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

6. The Stock Market

During 2011:Q1, total market capitalisation of the Bahrain Bourse decreased by 0.7% to reach BD 7,511.2 million, compared to BD 7,562.5 million registered in the last quarter (Table 10). Year-on-year, market capitalisation was 15.4% higher. The decrease in market size during 2011:Q1 was mainly due to the decreases in the “investment” and “services” segments, which declined by 6.0% and 4.9% respectively as reported by the Bahrain Bourse.

Table 9: Market Capitalisation on the Bahrain Bourse*

(BD Million)

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1	2011:Q1 Growth (%)
Commercial Banks	2,504.1	2,279.3	2,498.3	2,567.9	2,687.2	4.6
Investment	2,439.4	2,357.0	2,371.3	2,241.0	2,106.5	-6.0
Insurance	182.0	169.7	167.5	170.8	181.1	6.0
Services	1,188.3	1,125.2	1,105.0	1,066.2	1,014.0	-4.9
Industrial	16.6	16.6	16.7	1,301.7	1,294.6	-0.5
Hotel and Tourism	178.7	174.6	172.7	215.0	227.6	5.9
TOTAL	6,509.1	6,122.5	6,331.5	7,562.5	7,511.2	-0.7

**end of quarter numbers*

Source: Bahrain Bourse

The Bahrain bourse All-Share Index decreased to 1,424.64 points in 2011:Q1 (compared to 1,432.26 in 2010:Q4) (Table 11). Measured year-on-year, the index level during 2011:Q1 was 7.9% lower than the corresponding figure for 2010:Q1.

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

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1
Commercial banks	2,063.43	1,878.19	2,058.64	2,005.59	2,054.29
Investment	1,121.20	969.37	975.15	978.79	949.19
Insurance	2,014.72	1,875.97	1,886.61	1,922.94	2,039.82
Services	1,566.31	1,483.15	1,456.49	1,405.30	1,336.48
Industrial	1,435.75	1,435.75	1,440.05	1,440.05	1,440.05
Hotel and Tourism	3,333.42	3,257.41	3,221.78	4,010.80	4,246.08
OVERALL INDEX	1,547.13	1,396.29	1,444.76	1,432.26	1,424.64

*end of quarter numbers

Source: Bahrain Bourse

Liquidity on the Bahrain Bourse stabilized marginally during 2011:Q1, with the turnover ratio (value of trading as a share of market capitalisation) standing at 0.3% (Table 12). For the same period, the “commercial banks” and “investment” segments represented 31.7% and 28.1% of the total value of shares traded respectively.

Table 11: Liquidity on the BSE

	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1
A. Overall Market Liquidity (BD Million)					
Value of Shares Traded	44.3	25.9	15.4	22.8	22.1
Market Capitalisation	6,509.1	6,122.5	6,331.5	7,562.5	7,511.2
Turnover Ratio*	0.7	0.4	0.2	0.3	0.3
B. Value of Shares Traded by Sector (% Shares)					
Commercial Banks	26.2	44.8	32.5	44.3	31.7
Investment	50.8	16.6	22.7	5.7	28.1
Insurance	7.0	14.3	9.1	8.8	0.5
Services	15.6	23.9	29.9	33.8	24.0
Industrial	0.0	0.0	0.0	6.6	13.1
Hotel and Tourism	0.5	0.4	5.8	0.9	2.7

*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 Bourse