



Financial Stability Directorate

Monetary and Financial Trends

Fourth Quarter 2010

Table of Contents

Highlights.....	1
1. Monetary Aggregates.....	4
2. Credit Developments.....	5
3. Interest Rates.....	8
4. Domestic Prices	9
5. Public Debt.....	10
6. Exchange Rates and Official Reserves	11
7. The Stock Market	12

List of Tables

Table 1: Developments in Monetary Aggregates.....	4
Table 2: Developments in Components of Money Supply	4
Table 3: Contributions to Monetary Growth.....	5
Table 4: Trends in Domestic Credit.....	6
Table 5: Trends in Retail Private Domestic Credit	7
Table 6: Structure of Interest Rates.....	8
Table 7: Consumer Price Index	9
Table 8: Public Debt Outstanding.....	10
Table 9: BD Exchange Rates Against Selected Currencies*	11
Table 10: Market Capitalisation on the Bahrain Stock Exchange*	13
Table 11: Sectoral Indices of Bahrain All-Share Index*	13
Table 12: Liquidity on the BSE	14

List of Charts

Chart 2: Trends in Real Effective Exchange Rates.....	11
(2005=100; period averages).....	11
Chart 3: Trends in Official Reserves—2009:Q4-2010:Q4 (BD Million)*	12

Monetary and Financial Trends is produced quarterly by the Financial Stability Directorate, Central Bank of Bahrain. This edition focuses on the Fourth 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:Q4, *narrow money* (M1) continued to decrease by 0.5%. In contrast, *broad money* (M2) increased by 2.6%.
- *Demand deposits* were the main cause for the decrease in M1, declining at 1.1%. *Savings and time deposits* grew by 3.9%, followed by *Currency outside banks* which also increased by 3.1%.

Credit Developments

- Total domestic credit dropped by 2.9% to reach BD 5,676.6 million.
- Private sector credit *decreased* by 2.9% as well as lending to general government which decreased by 3.0%.
- An analysis of private sector credit components shows that *personal loans* grew by 3.2% following the 2.6% increase experienced in the third quarter of 2010.
- Loans “With Salary Assignment” constituted the bulk of personal loans (50.6% of the total). This was followed by loans “Secured by Property Mortgage” which made up 19.4% of total personal loans.
- *Business loans* decreased by 5.6% during the quarter compared to the 6.8% growth in the previous quarter.
- *Business loans* went primarily to the “construction and real estate” segment, which accounted for 47.5% of total business loans.

Interest Rates

- Short-term interest rates remained mostly unchanged during the quarter.
- The 3-month inter-bank rates remained unchanged at 1.2% while the 6-month inter-bank rates decreased slightly to reach 1.5%. Moreover, the treasury bill yield (3 and 6 months) remained unchanged for the quarter at 0.7% and 0.9% 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 slightly by 0.2%.
- *Year-on-year* inflation was 1.4%.

Public Debt

- The stock of outstanding public debt (securities only) increased during the quarter to reach BD 2,441.0 million.
- Public debt increased mainly due to the growth in the outstanding balance of development bonds to BD 975.0 million.

Exchange Rates and Official Reserves

- During the fourth quarter, the Bahraini dinar appreciated against the Pound Sterling and Euro, while it depreciated against Japanese Yen and Swiss Franc.
- Available data on Bahrain's *Real Effective Exchange Rate* (REER) (2005=100) shows that during 2010:Q4, the REER continued to decrease to reach an index value of 87.5 points down from the 90.4 points registered in the previous quarter.
- During 2010:Q4, official reserves decreased to reach BD 1,915.8 million, however this is still 33.8% higher than the level attained during the same period of 2009.

Stock Market

- Total market capitalisation increased by 19.4% to reach BD 7,562.5 million, compared to BD 6,331.5 million registered last quarter. Year-on-year, market capitalisation was 23.3% higher.
- The increase in market capitalisation during 2010:Q4 was mainly due to the increase in the *industrial* segment, which grew by 7694.6%.
- The BSE All-Share Index decreased to 1,432.26 points during 2010:Q4, compared to 1,444.76 points in the third quarter of 2010.

- Liquidity increased marginally during the quarter, with the turnover ratio increasing to 0.3%.

1. Monetary Aggregates¹

In the fourth quarter of 2010, *narrow money* (M1) continued to decrease by 0.5%, following the 3.5% decrease witnessed in the third quarter of 2010 (Table 1). However, on a *year-on-year* basis, the level of M1 was 6.7% higher than its level for 2009:Q4. *Broad money* (M2) increased by 2.6% during 2010:Q4 compared to a 0.1% decrease in 2010:Q3. *Year-on-year*, the level of M2 was 10.5% higher than its level last year.

Table 1: Developments in Monetary Aggregates

(BD Million)

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
M1	2,158.3	2,207.0	2,398.9	2,315.5	2,303.9
<i>M1 Growth (%)</i>	<i>4.9</i>	<i>2.3</i>	<i>8.7</i>	<i>-3.5</i>	<i>-0.5</i>
M2	7,119.3	7,236.9	7,677.3	7,668.5	7,867.5
<i>M2 Growth (%)</i>	<i>5.8</i>	<i>1.7</i>	<i>6.1</i>	<i>-0.1</i>	<i>2.6</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 drop in M1 in the fourth quarter of 2010 was mainly a result of a 1.1% decrease in demand deposits. Saving and time deposits increased by 3.9% for the same period which contributed to the increase in M2.

Table 2: Developments in Components of Money Supply

(BD Million)

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
Currency Outside Banks	323.0	330.8	336.3	339.2	349.6
<i>Growth Rate (%)</i>	<i>1.8</i>	<i>2.4</i>	<i>1.7</i>	<i>0.9</i>	<i>3.1</i>
Demand Deposits	1,835.3	1,876.2	2,062.6	1,976.3	1,954.3
<i>Growth Rate (%)</i>	<i>5.5</i>	<i>2.2</i>	<i>9.9</i>	<i>-4.2</i>	<i>-1.1</i>
Savings and Time Deposits	4,961.0	5,029.9	5,278.4	5,353.0	5,563.6
<i>Growth Rate (%)</i>	<i>6.2</i>	<i>1.4</i>	<i>4.9</i>	<i>1.4</i>	<i>3.9</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)

	2009:Q4	2010: Q1	2010: Q2	2010: Q3	2010: Q4
Net Foreign Assets (NFA)	-5.1	20.3	0.9	-22.8	3.1
Central Bank of Bahrain	-10.4	49.6	-5.7	-2.9	-1.2
Retail Banks	5.9	-31.0	26.1	-79.6	62.2
Domestic Assets	5.4	-1.3	10.4	5.4	3.1
Claims on Government	5.3	-4.7	10.5	-2.9	22.8
Claims on Private Sector	1.8	-2.2	6.6	4.2	-2.2
Other Assets (net)	11.7	10.3	11.2	15.4	8.5

Source: Central Bank of Bahrain

In the fourth quarter of 2010, net foreign assets (NFA) increased by 3.1% compared to the 22.8% decrease in 2010:Q3 (Table 3). The growth in NFA during 2010:Q4 was driven mainly by a 62.2% increase in claims on retail banks.

In addition, domestic assets increased similarly by 3.1% during the quarter following the 5.4% increase in the last quarter. This was due to increases in claims on government and other assets (net) by 22.8% and 8.5% respectively. Claims on private sector decreased for the period by 2.2%.

Assets exceeded liabilities on the "other assets (net)" category. However, the net deficit has been narrowing for the last five quarters. Other assets (net) for 2010:Q4 narrowed by 8.5%.

2. Credit Developments

During 2010:Q4, total domestic credit decreased by 2.9% to reach BD 5,676.6 million, compared to a 2.6% increase registered in the previous quarter (Table 4). This fall is mainly a result of a 3.0% decrease in credit to general government and a 2.9% decrease in credit to the private sector.

Table 4: Trends in Domestic Credit

(BD Million)

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
Total Domestic Credit	5,884.9	5,761.4	5,700.5	5,848.8	5,676.6
<i>Growth (%)</i>	2.2	-2.1	-1.1	2.6	-2.9
Credit to General Government	392.0	380.4	410.7	269.7	261.5
<i>Growth (%)</i>	22.8	-3.0	8.0	-34.3	-3.0
Credit to Private Sector	5,492.9	5,381.0	5,289.8	5,579.1	5,415.1
<i>Growth (%)</i>	1.0	-2.0	-1.7	5.5	-2.9
Memo Items					
Share of Private Sector Credit	93.3	93.4	92.8	95.4	95.4
Share of Public Sector Credit	6.7	6.6	7.2	4.6	4.6

Source: Central Bank of Bahrain

On a *year-on-year* basis, total domestic credit decreased by 3.5%. Private sector credit shows a similar pattern, with year-on-year drop of 1.4%.

In terms of composition, the private sector continues to receive the bulk of domestic credit, accounting for 95.4% of total domestic credit during the fourth quarter. Compared to the same period last year, this share has increased, where it accounted for 93.3% of total private sector credit in 2009:Q4.

A breakdown of private sector credit indicates that lending to business shrank during the fourth quarter, decreasing by 5.6% compared to the 6.8% increase recorded during 2010:Q3 (Table 5). Personal loans experienced an increase of 3.2% in 2010:Q4 following the 2.5% increase during the previous quarter. Year-on-year, Business loans decreased by 4.0% while personal loans increased by 4.5% for the same period.

Table 5: Trends in Retail Private Domestic Credit

(BD Million)

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2010:Q4 Growth (%)
BUSINESS	3,816.6	3,809.7	3,634.3	3,881.9	3,663.7	-5.6
--Manufacturing	389.5	379.5	448.2	434.5	407.5	-6.2
--Mining and Quarrying	7.7	7.8	7.2	9.4	9.9	5.3
--Agriculture, Fishing and Dairy	5.4	6.7	5.7	5.2	5.3	1.9
--Construction and Real Estate	1,659.5	1,654.9	1,767.4	1,920.2	1,740.6	-9.4
--Trade	998.7	968.6	726.9	760.1	772.9	1.7
--Non-bank Financial	211.3	233.6	224.3	269.2	235.1	-12.7
--Transport and Communication	178.3	171.9	113.1	114.8	100.2	-12.7
--Hotels and Restaurants	65.2	67.4	64.7	80.8	88.7	9.8
--Other Sectors	301.0	319.3	276.8	287.7	303.5	5.5
PERSONAL	1,676.3	1,571.3	1,655.5	1,697.2	1,751.4	3.2
--Secured by Property Mortgage	360.3	337.4	327.6	347.2	339.7	-2.2
--Secured by Vehicle Title	138.3	135.4	120.3	96.7	106.7	10.3
--Secured by Deposits	26.9	25.5	26.6	27.6	22.9	-17.0
--With Salary Assignment	890.6	843.9	869.5	899.1	886.1	-1.4
--Credit Card Receivables	52.0	51.5	51.7	50.0	51.5	3.0
Other	208.2	177.6	259.8	276.6	344.5	24.5
TOTAL	5,492.9	5,381.0	5,289.8	5,579.1	5,415.1	-2.9

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 3,663.7 million in 2010:Q4, representing 67.7% of outstanding private sector credit. Loans to the “construction and real estate” segment accounted for the largest share of business loans (47.5%), followed by “trade” at 21.1%.

Although overall business loans shrank in 2010:Q4 some of its segments experienced increases such as “hotels and restaurants” and “mining and quarrying” (9.8% and 5.3% respectively). However, the

largest drop was in “non-bank financial” and “transportation and communication” which decreased by 12.7% for both segments.

Outstanding personal loans stood at BD 1,751.4 million at the end of 2010:Q4, accounting for 32.3% of total outstanding private sector credit. Personal loans “with salary assignment” represented the largest proportion of total personal loans (50.6%) during the quarter. Personal loans “secured by property mortgage” were the next largest component of total personal loans, accounting for 19.4%.

The growth in total personal loans outstanding in 2010:Q4 was mainly due to the 10.3% increase in personal loans “secured by vehicle title”.

3. Interest Rates

Short-term interest rates remained mostly unchanged during the quarter. The 3-month inter-bank rates stayed the same at 1.2% while the 6-month inter-bank decreased slightly to reach 1.5% in 2010:Q4. Moreover, the treasury bill yield (3 and 6 months) remained unchanged for the quarter at 0.7% and 0.9% respectively. The CBB key policy rate remained unchanged for the quarter at 0.50%.

Table 6: Structure of Interest Rates

(%)

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
3 Month Inter-bank Rate (BHIBOR)*	1.3	1.3	1.3	1.2	1.2
6 Month Inter-bank Rate (BHIBOR)*	1.5	1.5	1.6	1.6	1.5
CBB Key Policy Rate (end-of-quarter)	0.50	0.50	0.50	0.50	0.50
3 Month Treasury Bill Yield	0.9	0.9	0.8	0.7	0.7
6 Month Treasury Bill Yield	1.0	1.1	0.9	0.9	0.9
Commercial Bank Lending Rate— Personal**	7.7	7.7	7.1	6.9	7.1
Commercial Bank Lending Rate— Business**	6.8	6.8	5.6	6.0	7.3
Commercial Bank Deposit Rate (3-12 mths)**	1.4	1.4	1.1	1.2	1.1

*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 increased for the quarter to reach 7.3% and 7.1% respectively. In contrast, the weighted average deposit rates (3-12 months) decreased and registered a 1.1% for the same period.

Because of the above increases, the spread between personal loan and deposit rates widened from 5.7% in 2010:Q3 to 6.0% in 2010:Q4, an indication that loan rates increased faster than deposit rates. In addition, the spread between business loan and deposit rates widened from 4.8% in 2010:Q3 to 6.2% in 2010:Q4.

4. Domestic Prices

Inflation numbers for 2010:Q4 show that the consumer price index increased slightly by 0.2% to reach 112.3 index points. *Year-on-year*, inflation stands at 1.4%, down from 2.2% in 2010:Q3 (Table 7).

Table 7: Consumer Price Index

(2006=100)

Major Group of Commodities	2009:Q4*	2010:Q1*	2010:Q2*	2010:Q3*	2010:Q4*
Food and non-alcoholic Beverages	127.1	130.8	134.1	132.6	132.6
Alcoholic beverages & Tobacco	116.2	117.3	117.3	116.7	117.8
Clothing & Footwear	104.3	105.1	106.3	106.7	107.3
Housing, Water, Electricity & Fuels	109.5	109.0	107.9	107.9	107.9
Household Goods & Services	112.7	112.5	112.2	112.9	115.1
Healthcare Services	103.6	104.3	105.8	106.3	107.0
Transport	102.9	104.4	105.8	106.4	105.1
Communication	94.9	94.9	94.9	94.7	94.2
Recreation & Culture	105.4	105.4	105.5	105.5	105.4
Education	111.7	111.7	111.7	112.7	114.6
Restaurants	108.2	112.7	112.9	112.9	113.0
Miscellaneous	116.5	117.5	117.0	117.1	118.5
General Index	110.7	111.7	112.1	112.1	112.3
Growth rate (%)	0.9	0.9	0.4	0.0	0.2
Inflation (Year on Year)	1.4	1.8	2.5	2.2	1.4

*Quarterly averages

Source: Central Informatics Organisation

On a year-on-year basis² prices for “restaurants” increased by 4.4%, the largest increase among the segments. “Food and non-alcoholic beverages” and “health services” followed increasing 4.3% and 3.3% to reach an average of 132.6 and 107.0 index points respectively. For the same period, “housing, water, electricity and fuels” decreased by 1.5% to reach 107.9 index points.

During the latest quarter, the highest price rise was in the “household goods and services” segment, which grew on average by 1.9%, this was followed by the “education” and “miscellaneous” segments which increased by 1.7% and 1.2% respectively.

5. Public Debt

The size of Bahrain’s outstanding public debt (securities only) increased to BD 2,441.0 million during the fourth quarter of 2010, compared to BD 2,031.0 in the previous quarter. Public debt as a percentage of 2009 nominal GDP also rose to 33.6% higher than the 28.0% registered at the end of 2010:Q3 (Table 8).

Table 8: Public Debt Outstanding

(BD Million)

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
Total Outstanding	1,348.0	1,871.0	1,981.0	2,031.0	2,441.0
--% of GDP	18.6	25.8	27.3	28.0	33.6
Development Bonds	55.0	525.0	525.0	525.0	975.0
Treasury Bills	415.0	465.0	560.0	610.0	570.0
Islamic Leasing Securities	860.0	845.0	860.0	860.0	860.0
Al Salam Islamic Securities	18.0	36.0	36.0	36.0	36.0

Source: Central Bank of Bahrain

The outstanding balance of development bonds increased to reach BD 975.0 million, with BD 450.0 million in new issued. Treasury bills on the other hand decreased to reach BD 570.0 million, with BD 400.0 million in matured treasury bills. Islamic leasing securities and Al Salam Islamic securities outstanding remained unchanged at BD 860.0 million and BD 36.0 million respectively.

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

6. Exchange Rates and Official Reserves

During 2010:Q4, the Bahraini dinar appreciated against the Pound Sterling and the Euro, while it depreciated against the Japanese Yen and the Swiss Franc (Table 9).

Table 9: BD Exchange Rates Against Selected Currencies*

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
US Dollar	0.376	0.376	0.376	0.376	0.376
Pound Sterling	0.604	0.566	0.567	0.595	0.583
Euro	0.540	0.503	0.459	0.511	0.497
Japanese Yen**	4.070	4.020	4.240	4.500	4.610
Swiss Franc	0.363	0.352	0.348	0.385	0.399

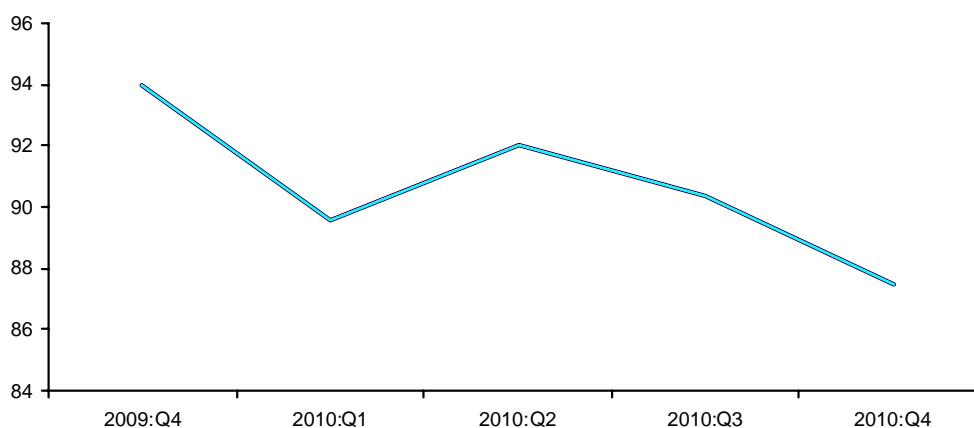
*Last working day of each period

** Per 1000 units

Source: Central Bank of Bahrain

Available data on Bahrain's Real Effective Exchange Rate (REER) (2005=100) shows that the REER continued to decreased to reach an index value of 87.5 points in 2010:Q4, down from the 90.4 points recorded in the third quarter of 2010 (Chart 2).

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

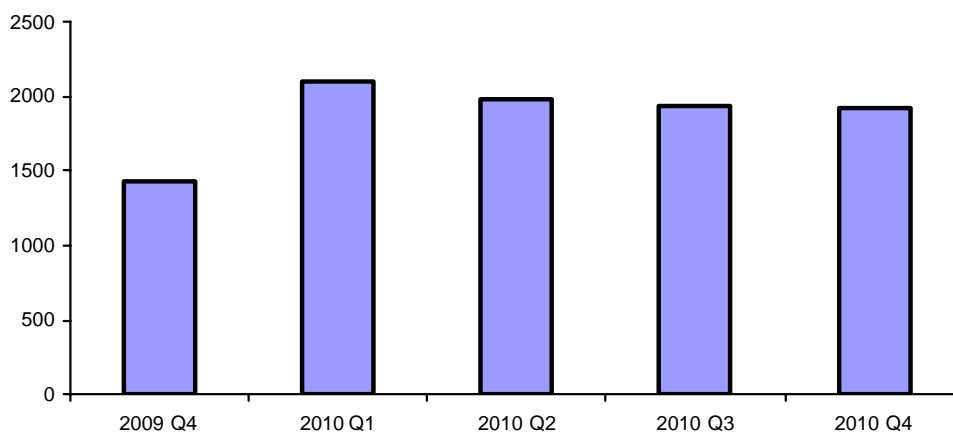


Source: IMF, International Financial Statistics

During the fourth quarter of 2010, official reserves decreased with the total level of reserves (gold, foreign exchange, SDR and IMF reserve position) standing at BD 1,915.8 million at the end of the quarter (Chart

2). This was 1.2% lower than the level attained at the end of the third quarter of 2010 but 33.8% higher than the level registered in Q4: 2009.

Chart 2: Trends in Official Reserves—2009:Q4-2010: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 2010:Q4, total market capitalisation of the Bahrain Stock Exchange (BSE) increased by 19.4% to reach BD 7,562.5 million, compared to BD 6,331.5 million registered in the last quarter (Table 10). Year-on-year, market capitalisation was 23.3% higher. The increase in market size during 2010:Q4 was mainly due to the increase in the “industrial” segment, which grew by 7694.6% as reported by the Bahrain stock exchange.

Table 10: Market Capitalisation on the Bahrain Stock Exchange*

(BD Million)

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2010:Q4 Growth (%)
Commercial Banks	2,038.5	2,504.1	2,279.3	2,498.3	2,567.9	2.8
Investment	2,546.6	2,439.4	2,357.0	2,371.3	2,241.0	-5.5
Insurance	173.3	182.0	169.7	167.5	170.8	2.0
Services	1,178.8	1,188.3	1,125.2	1,105.0	1,066.2	-3.5
Industrial	17.7	16.6	16.6	16.7	1,301.7	7694.6
Hotel and Tourism	176.2	178.7	174.6	172.7	215.0	24.5
TOTAL	6,131.0	6,509.1	6,122.5	6,331.5	7,562.5	19.4

end of quarter numbersSource: Bahrain Stock Exchange*

The BSE All-Share Index decreased to 1,432.26 points in 2010:Q4 (compared to 1,444.76 in 2010:Q3) (Table 11). Measured year-on-year, the index level during 2010:Q4 was 1.8% lower than the corresponding figure for 2009:Q4.

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

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
Commercial banks	1,679.17	2,063.43	1,878.19	2,058.64	2,005.59
Investment	1,173.53	1,121.20	969.37	975.15	978.79
Insurance	1,915.92	2,014.72	1,875.97	1,886.61	1,922.94
Services	1,553.69	1,566.31	1,483.15	1,456.49	1,405.30
Industrial	1,529.80	1,435.75	1,435.75	1,440.05	1,440.05
Hotel and Tourism	3,287.74	3,333.42	3,257.41	3,221.78	4,010.80
OVERALL INDEX	1,458.24	1,547.13	1,396.29	1,444.76	1,432.26

end of quarter numbersSource: Bahrain Stock Exchange*

Liquidity on the BSE increased marginally during 2010:Q4, 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 “services” segments represented 44.3% and 33.8% of the total value of shares traded respectively.

Table 12: Liquidity on the BSE

	2009:Q4	2010:Q1	2010:Q2	2010:Q3	2010:Q4
A. Overall Market Liquidity (BD Million)					
Value of Shares Traded	49.9	44.3	25.9	15.4	22.8
Market Capitalisation	6,131.0	6,509.1	6,122.5	6,331.5	7,562.5
Turnover Ratio*	0.8	0.7	0.4	0.2	0.3
B. Value of Shares Traded by Sector (% Shares)					
Commercial Banks	60.1	26.2	44.8	32.5	44.3
Investment	20.0	50.8	16.6	22.7	5.7
Insurance	0.6	7.0	14.3	9.1	8.8
Services	18.4	15.6	23.9	29.9	33.8
Industrial	0.0	0.0	0.0	0.0	6.6
Hotel and Tourism	0.8	0.5	0.4	5.8	0.9

*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