



مصرف البحرين المركزي

Central Bank of Bahrain

Economic Report

2007

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Preface

This is the Central Bank of Bahrain's (CBB) first Economic Report for the year 2007. This report presents international, regional and domestic economic developments over the course of the year 2007. It also covers monetary, financial and capital market developments and presents the public finances and the balance of payments for Bahrain.

Bahrain is one of the most open economies in the Middle East and North Africa (MENA) region and has been experiencing solid economic performance in recent years. Alongside its regulatory functions, and in its role as a public policy institution, the CBB monitors the performance of the Bahrain economy and presents available data in this Economic Report. This report is produced on an annual basis by the Financial Stability Directorate (FSD) and the data covered ranges from Q4 2006 to Q4 2007.

Executive Summary

The international economy experienced a mixed year in 2007, led by housing market problems and the subsequent financial crisis toward the latter half of the year. An economic slowdown was experienced in advanced economies and growth continued in emerging market economies. During 2007, world output grew by 4.9%, down from a growth of 5.0% in 2006. Buoyed by higher commodity, oil and food prices, inflation also increased slightly in advanced economies but rose noticeably in emerging markets.

The GCC countries continued to have vibrant economic activity supported by high oil prices and a public and private investment boom. Effects of the global financial turmoil had limited direct impact on the economic performance of the GCC economy.

Bahrain is the least oil dependent nation of the GCC and achieved good growth in a relatively low inflation environment. Estimates show a nominal and real growth rate of 25.8% and 6.6% in 2007 and a forecasted nominal and growth of 14.7% and 6.2% in 2008. Given, the strong commodity and food price rises, Bahrain recorded an inflation of 3.3% during 2007, which by global standards were low.

Bahrain also had favourable sovereign credit ratings. Fitch Ratings upgraded Bahrain's long term foreign currency debt rating from an "A-" (positive) in 2006 to an "A" (stable) in 2007 and Standard and Poor's ratings for foreign and local currency debt remained unchanged at "A".

Bahrain continued its push for the implementation of economic policy that aims to sustain the progress of the domestic economy. These came in the form of trade agreements and MoU's with other countries, labour market reform, E-government and the upgrading of the economic infrastructure. The private sector will benefit from these reforms and the expansion will add to the vibrancy of economic sectors.

Bahrain money supply continued to grow during 2007, mainly spurred on by a growth in savings. Broad money M2 grew by 40.8% and was mainly due to increases in private sector deposits in both domestic and foreign currency. With the US monetary policy changing to combat financial and economic turmoil, rates in Bahrain showed mixed trends. Business loan rates have decreased and personal loan rates increased, where concurrently deposit rates have decreased sharply. Exchange rates have been influenced by US

developments, with the real effective exchange rate decreasing against other major world currencies. Bilateral rates of the Dinar against other currencies also showed the currency depreciation.

The financial sector continued to improve in 2007 with both retail and wholesale banks enjoying good years. The total assets of retail banks stood at BD 18.6 billion as at 31st December 2007 and total wholesale bank assets increased by 19.5% to reach USD 196.3 billion leading to the consolidated balance sheet for the banking system increasing by 31.2% to reach USD 245.8 billion. Credit levels have grown significantly with total outstanding credit facilities extended by retail banks to the different sectors of the domestic economy amounting to BD 4,183.9 million at the end of 2007.

Bahrain's external sector indicators showed healthy surpluses due to high oil prices. Bahrain's exports are still mostly oil related items which make around a large portion of total export earnings for 2007. Increases in other export commodities can also be explained by Bahrain holding a positive external competitive position for some exported commodities. The trade surplus rose to BD 806.8 million in 2007 and the current account surplus reached an estimated BD 1,092.9 million. The capital and financial account registered a net outflow of BD 1,096.6 million in 2007, compared with BD 826.7 million in 2006 making Bahrain a net exporter of capital to the rest of the world.

The Bahrain Stock Exchange continued to develop during 2007, with new agreements and upgraded regulations enabling higher levels of activity and transparency, alongside improved coordination with other regional and international stock exchanges. The Bahrain All Shared Index closed at the end of 2007 at 2,755.3 points recording a record high year on year increase of 24.3%. The best performer between the sectors according the Bahrain All Share Sub-indices was the Investment sector with a 37.8% year on year increase. The number of listed companies was 51 companies.

I. International Economic Developments

Overview

The year 2007 witnessed a number of significant developments that reflect economic slowdown in advanced economies and continued growth in emerging market economies. The major development has been the US housing market crisis which has impacted economies to varying degrees. The financial distress has been most stark in the US, whilst European growth has also been decelerating. Japan and the rest of the emerging market economies have maintained strong economic activity despite the turmoil.

Inflationary pressures have also had a significant impact on the global economy, buoyed by higher commodity, oil and food prices. Inflation has increased slightly in advanced economies but has risen noticeably in emerging markets. In the foreign exchange market, developments have been dominated by the weakness of the US Dollar against major currencies.

World Output

During 2007, world output grew by 4.9%, down from a growth of 5.0% in 2006 (Table I-I). The moderation in growth has resulted from the recent financial turbulence caused by housing market corrections, increases in commodity prices and a general slowdown in advanced economies. The deceleration in world output is expected to continue, with growth forecasts of 3.7% and 3.8% for the years 2008 and 2009 respectively.

Emerging and developing economies have not been affected as much by the financial turmoil and have in turn compensated for the slowdown in Europe and America. Emerging economies grew at 7.9% in 2007, up from 7.8% in 2006. This growth was led predominantly by the Chinese and Indian economies, which grew by 11.4% and 9.2% respectively.

Overall growth projections for 2008 and 2009 are modest. After achieving a growth rate of 4.9% in 2007, the United States economy is expected to slow down significantly to 0.5% and 0.6% for 2008 and 2009. The Euro area and Japan are also expected to grow slowly. Japan is expected to slow down to

1.4% and 1.5%, after registering a growth of 2.1% in 2007. The Euro area is expected to cool to 1.4% and 1.2% for the same period. China and India are set to continue growing at high levels, albeit at a slightly lower pace. China is set to grow at 9.3% and 9.5%, and India is expected to grow at 7.9% and 8.0%.

Table I-I: Summary of World Output

	2004	2005	2006	2007	2008*	2009*
World	4.9	4.4	5.0	4.9	3.7	3.8
United States	3.6	3.1	2.9	2.2	0.5	0.6
Euro Area	2.1	1.6	2.8	2.6	1.4	1.2
Japan	2.7	1.9	2.4	2.1	1.4	1.5
China	10.1	10.9	11.1	11.4	9.3	9.5
India	7.9	9.1	9.7	9.2	7.9	8.0
Middle East	5.9	5.7	5.8	5.8	6.1	6.1

* Forecasts

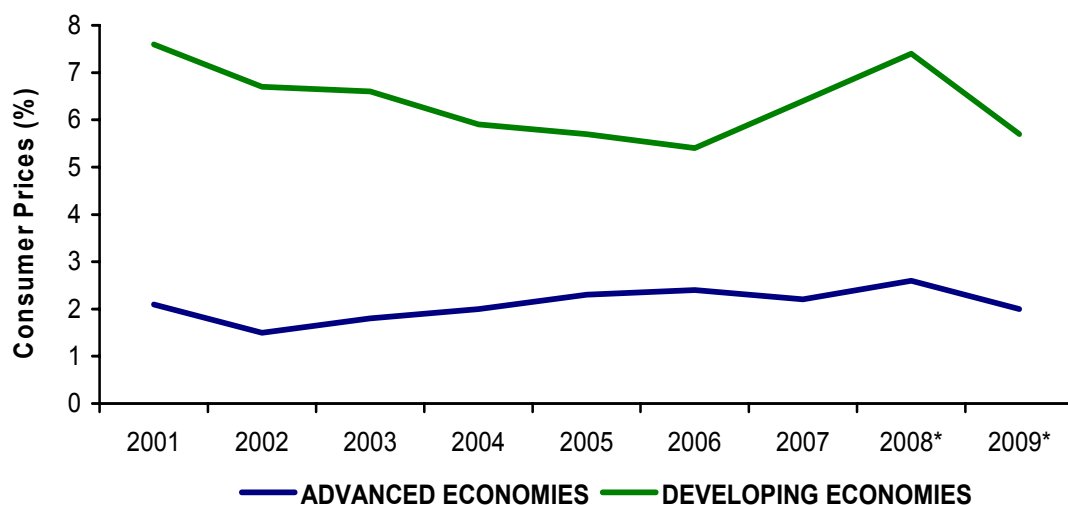
Source: IMF, World Economic Outlook.

Inflation

Inflation concerns were high during 2007 as a result of global increases in food, commodity and energy prices. This was particularly evident in the high-growth emerging market economies, which were fuelled by increased domestic demand. Consumer prices in emerging markets grew by 5.4% in 2006 and 6.4% in 2007. Forecasts for the year 2008 show emerging markets are set to have an inflation rate of 7.4% in 2008 and 5.7% in 2009 (Chart I-I).

In advanced economies, inflation was less evident. Consumer prices increased by 2.2% in 2007 down from an increase of 2.4% in 2006. Inflation is expected to be 2.6% in 2008 and 2.0% in 2009.

Chart I-I: Consumer Prices



*Forecasts

Source: IMF, World Economic Outlook.

Unemployment

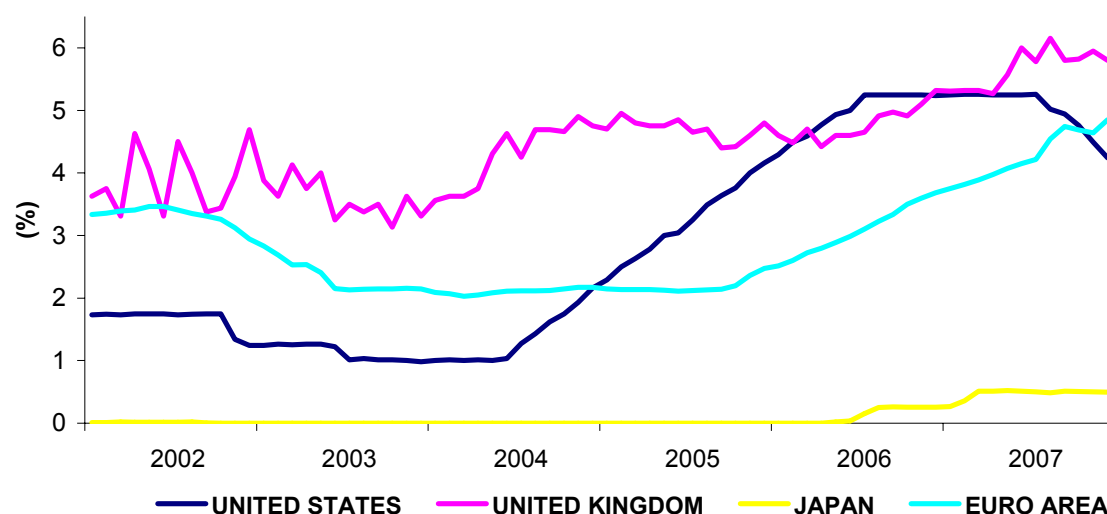
Despite the general economic slowdown, IMF figures show that overall average unemployment rates in advanced economies decreased from 5.7% in 2006 to 5.4% in 2007. In the United States, average unemployment decreased to 4.6% for the year 2007; at the end of the year, however unemployment was at 5.0%, reflecting the results of the recent financial turmoil and widespread job cuts.

In the Euro area, average unemployment decreased from 8.2% to 7.4% for the same period. In Japan, the unemployment registered a slight decrease from 4.1% in 2006 to 3.9% in 2007.

Interest Rates

As a result of global economic developments in 2007, many central banks in developed economies decided to reduce their interest rates in order to stimulate economic growth. The US Fed cut its key federal funds rate several times during the course of the year to reach 4.24% at end-December 2007, down from 5.24% in 2006 (Chart I-II). The UK, Euro and Japanese rates ended on average higher during the course of 2007 reaching 5.8%, 4.85%, and 0.50% at end-December 2008, up from 5.32%, 3.68%, and 0.26% respectively in 2006.

Chart I-II: Money Market Rates of Major Currencies, 2002-2007



Source: IMF, World Economic Outlook.

Exchange Rates

An analysis of the foreign exchange rates using national currency units per SDR in 2007 indicates that the US Dollar, the Japanese Yen and the Pound Sterling depreciated by 5.1%, 0.7% and 1.7% respectively (Table I-II). Conversely, the Euro appreciated by 6.0%.

Table I-II: Exchange Rates of Major Currencies against the SDR

Currencies	2006	2007			
		Q1	Q2	Q3	Q4
US Dollar	1.504	1.510	1.516	1.557	1.580
Euro	1.142	1.134	1.122	1.098	1.073
Japanese Yen	178.9	177.7	186.8	179.1	180.1
Pound Sterling	0.766	0.771	0.756	0.766	0.789

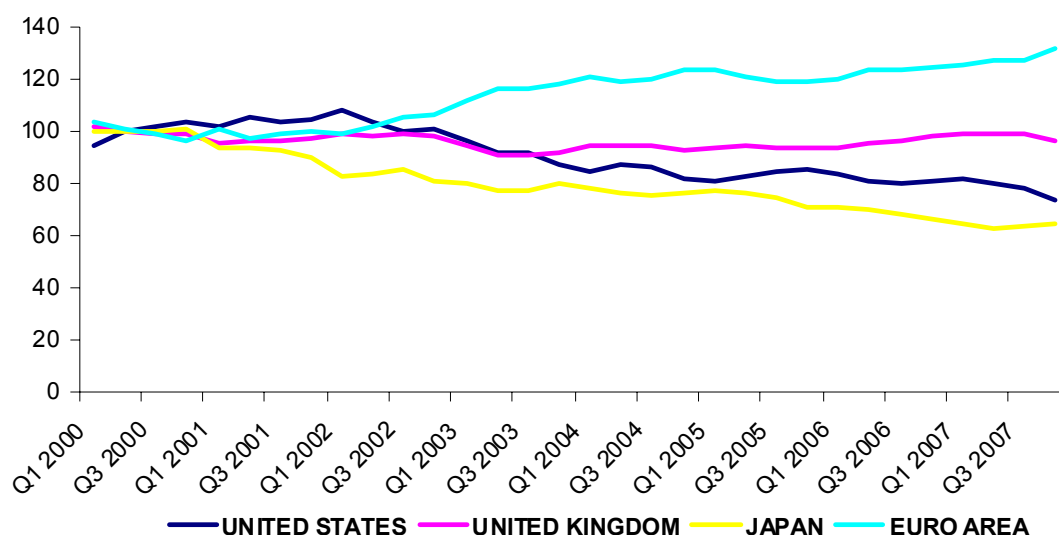
Source: IMF, International Financial Statistics Database.

The real effective exchange rates of the US Dollar, Japanese Yen and Pound Sterling all depreciated in 2007 (Chart I-III). The US dollar weakened the most, depreciating by 9.5%, the Pound Sterling was next, depreciating by 2.9% while the Japanese Yen fell slightly by 0.9%. Conversely, the Euro strengthened during the course of the year, appreciating by 5.1%.

The weakening of currencies has been mainly explained by the concerns on the health of financial markets and the overall global economy. Central banks

have responded by cutting key policy rates and injecting liquidity into the money markets to aid financial systems in times of distress.

Chart I-III: Real Effective Exchange Rates of Major Currencies (2000 = 100)



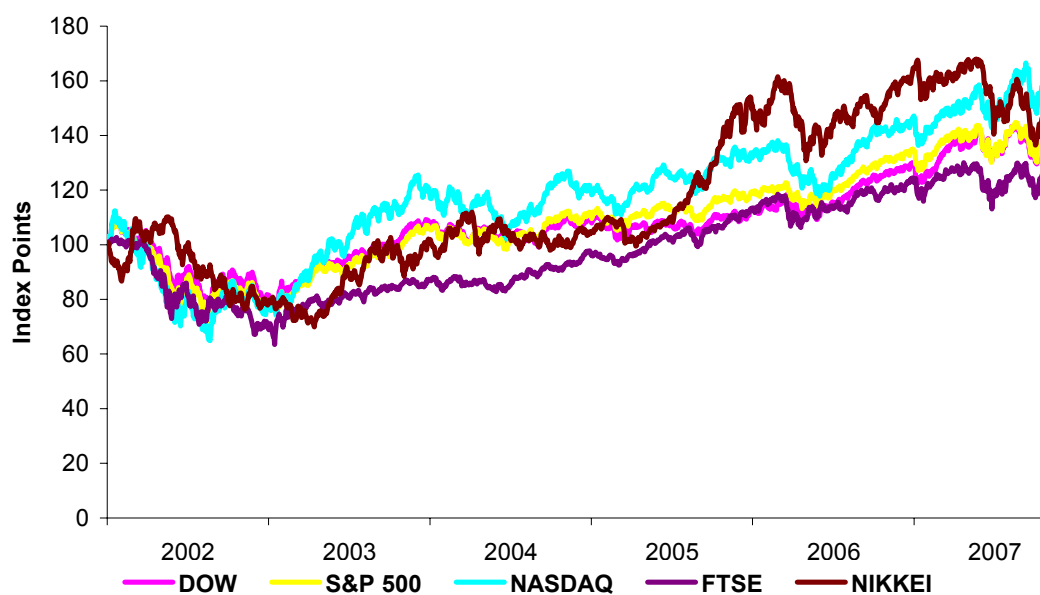
Source: IMF, International Financial Statistics Database.

Equity Markets

Relative to the beginning of 2007, global equity markets improved on average. Financial market turbulence, caused by the US sub-prime mortgage market crisis, began in August 2007 and impacted the financial markets towards the latter end of 2007 as banks and financial institutions declared losses and wrote down assets.

At the end of 2007, the Dow Jones Industrial Average index registered an increase of 7.9% from previous year (Chart I-IV). The NASDAQ Composite index also increased by 7.6% and the FTSE 100 rose by 4.1% for the same period. In Japan the effect of the financial turbulence was a bit more pronounced, with the Nikkei decreasing by 11.9% during the year.

Chart I-IV: Major World Stock Market Indices (January 2002 = 100)



Commodity Markets

Oil prices reached fresh highs during 2007, fuelled by continued world growth and increased domestic consumption in emerging market economies. Also, a weakening US dollar, high global energy demand and limited output expansion from producers have caused prices to increase.

The average world price of crude oil as quoted by IMF statistics increased from USD 59.03 per barrel at the end of 2006 to USD 87.62 per barrel at the end of 2007, an average increase of USD 28.59 per barrel or 48.4% (Table I-III).

Prices of selected metals also exhibited an upward trend in 2007. Average gold prices climbed by 28.2% from USD 614.5 at the end of 2006 to USD 788.0 per troy ounce by the end of 2007. Copper prices also increased over the same period, from USD 7,069.2 to USD 7,202.9 per metric tonne or by 1.9%.

However, aluminium prices showed the opposite trend, decreasing from USD 2,727.6 per metric tonne at the end of 2006 to USD 2,444.8 per metric tonne at the end of 2007, a decrease of 10.4%. This decrease was spurred on by escalating costs and fears of industrial consolidation in the aluminium industry.

Table I-III: Commodity Prices

Commodity	2006	2007			
		Q1	Q2	Q3	Q4
<i>Average Crude Oil Price (\$/Barrel)</i>	59.0	57.2	66.1	73.6	87.6
<i>UK Brent (\$/Barrel)</i>	59.7	58.1	68.7	75.0	89.0
<i>Dubai Fateh (\$/Barrel)</i>	57.3	55.6	64.7	70.0	83.2
<i>West Texas Intermediate (\$/Barrel)</i>	60.0	58.0	65.0	75.5	90.7
<i>Gold (\$/Troy Ounce)</i>	614.5	650.3	667.5	681.1	788.0
<i>Aluminium (\$/Metric Tonne)</i>	2,727.6	2,798.4	2,767.7	2,548.6	2,444.8
<i>Copper (\$/Metric Tonne)</i>	7,069.2	5,957.6	7,648.5	7,717.5	7,202.9

Source: IMF, International Financial Statistics Database.

II. Economic Trends in the GCC

Over the past decade, the countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) have undergone a significant transformation in their economic systems. The combined economies have experienced strong growth along with an expansion of domestic infrastructure.

Regional integration and global cooperation are considered important issues for the future growth of the Gulf Cooperation Council (GCC), with the GCC countries formalising a customs union at the end of 2002. Diversification of economic bases has also been an important policy objective of the GCC trading bloc, with the non-oil sectors playing more important roles in the growth of the economy. Also, growth in real estate, financial and service sectors have contributed significantly to the GCC economy.

The region's adoption of a market-friendly approach has improved the business and investment climate, whilst the economies are benefiting from public-private partnerships. Trade systems have become more liberalised whilst legislative and supervisory systems have also been upgraded.

Economic Performance

The GCC countries continued to experience vibrant economic activity throughout 2007. Continued high oil prices have supported the subsequent public and private investment and thus economic sectors have expanded briskly. The global financial turmoil has not affected the economic performance of the GCC countries significantly.

Nominal GDP for the GCC increased from USD 717.9 billion in 2006 to USD 799.7 billion in 2007, an increase of 11.4% (Table II-I). The growth in nominal GDP is substantially less than the average growth experienced in 2005-2006 (17.2%). The slowdown in growth for 2007 is more a reflection of a decrease in total crude output as opposed to domestic consumption as indicated by the increase in GDP per capita. GDP per capita for the GCC region increased from USD 19,800 in 2006 to USD 21,300 in 2007. Furthermore, real GDP grew at 5.2% in 2007 and is estimated to continue growing by 7.8% in 2008.

Table II-I: Aggregate Growth Indicators for the GCC

	2005	2006	2007*	2008*
Nominal GDP (\$ billion)	612.3	717.9	799.7	912.1
% Change	26.8	17.2	11.4	14.0
GDP per Capita (\$ '000)	17.5	19.8	21.3	23.4
Real GDP (% Change)	9.8	6.1	5.2	7.8
Hydrocarbon GDP	3.2	2.7	1.4	6.4
Non-hydrocarbon GDP	8.5	8.9	9.0	9.1
Inflation (%)	4.1	5.3	6.7	7.0

* Forecasts

Source: Institute of International Finance

Despite the historical reliance and importance of oil to the growth of the GCC, hydrocarbon GDP growth remained modest, increasing by 1.4% in 2007. On the other hand, non-hydrocarbon GDP growth remained strong at 9.0% in 2007, reflecting the buoyancy of non-oil sectors. This sector is further expected to outpace hydrocarbon GDP and grow by 9.1% in 2008, although hydrocarbon GDP is also expected to pickup and grow by 6.4%.

Inflationary pressures in the GCC have been increasing mainly due to higher domestic consumption, growth and investment in the region coupled with depreciations in the value of the US Dollar. Overall inflation is estimated at 6.7% in 2007.

High oil prices have further improved the fiscal and external positions of the GCC member nations. Current account surpluses have improved for all 6 countries, as have foreign reserves. On the fiscal side, the GCC countries have been prudent by focusing on capital expenditures.

Regional Integration and Developments

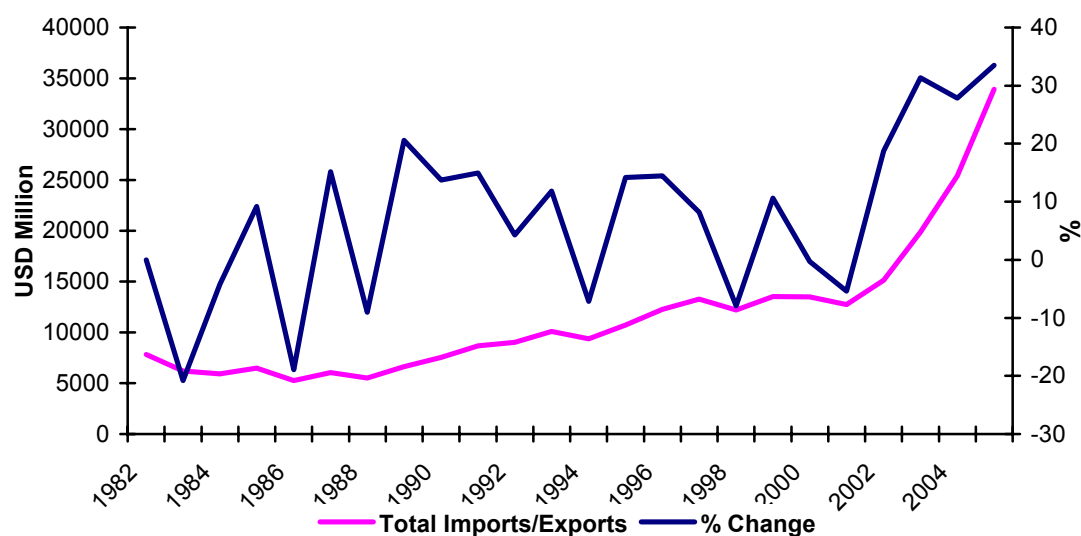
The countries of the GCC have been pursuing economic integration since the signing of the Unified Economic Agreement in 1981 and effective January 2003, the GCC formalised and implemented a customs union. The agreement removes legislative barriers to intra-GCC trade and establishes a common external tariff against imports of goods and services originating outside the GCC.

The integration drive by the GCC countries has increased trade levels between the six member states. The GCC countries have reinforced and improved cross border business resulting in business licenses increasing. In 2005, 14,655 licenses were granted, up 11.3% from 2004, where 13,165 licenses

were granted. A total of 16 intra-GCC bank branches have been opened, indicating the improved financial system integration. Bahrain has the most branches of financial institutions with 6 branches in other GCC states.

After the 2003 customs union agreement trade in intra-GCC goods has increased. The total import/export activity for the GCC has increased by USD 8,519.7 million in 2005, an increase of 33.5% over 2004. Since 1982, intra-GCC trade has increased on average by 7.3% (Chart II-I).

Chart II-I: Volume of Intra-GCC Trade



Source: GCC Secretariat General Website.

Outlook and Policies

The overall growth outlook for the GCC is positive with the governments continuing to pursue high growth initiatives supported by strong oil prices. With high forecasted growth rates and no sign of substantial decrease in oil prices, large scale projects are improving the diversification of the economies. At end-September 2007, over USD 1 trillion of GCC projects have been announced. Furthermore, the global credit crunch may have a positive impact on the region, tightening lending standards further. In light of the positive outlook, the main policy challenges for the governments are to continue maintaining diversified economies whilst containing further inflationary pressures in the long run.

III. Bahrain Economic Performance

The Bahrain economy has been performing well during the past few years due to sound economic fundamentals and a progressive policy of economic diversification. As the performance of the oil sector has historically been a significant contributor to the domestic economic performance, the private sector has now come into its own to take a larger share of economic growth. In light of the financial and global market turmoil, inflation concerns have been relatively subdued compared to its regional peers and government policies have been viewed positively by the international community.

Gross Domestic Product and Economic Growth

Continued high oil prices, coupled with vibrant financial and private sectors have ensured that Bahrain has been able to continue its economic growth during 2007. After recording nominal and real GDP growth rates of 17.6% and 6.5% during 2006, IMF estimates for 2007 show this growth to continue at 25.8% and 6.6% for nominal and real GDP respectively. Conservative growth forecasts for 2008 show nominal GDP estimated to grow by 14.7% and real GDP by 6.2%.

GDP per capita is estimated to have grown to USD 21,400, up slightly from USD 20,400 in 2006 and is forecast at USD 22,500 in 2008. Compared to its regional peers, Bahrain is the least oil dependent nation. Real GDP, which accounts for inflation, for the oil sector has decreased by 8.5% and 1.2% for 2005 and 2006 respectively. For 2007 and 2008, it is forecast that real oil GDP will increase marginally due to higher forecast oil prices. Real non-oil GDP has been growing strongly from 2005 to 2007, registering at 10.3% 8.6% and 7.0% respectively. The private sector is the primary driver of this growth and this sector is expected to grow strongly at 6.6% in 2008.

In nominal terms, which do not account for inflation, oil GDP growth has been stronger, registering at 31.6% in 2005, 16.7% in 2006 and slightly decreasing by 0.7% in 2007. This has mainly been a reflection of high oil prices as Bahrain's onshore oil production has slightly reduced.

Production at Awali oilfield decreased from a total of 13,085 thousand barrels at end 2006 to 12,552 thousand barrels at end 2007. Conversely, Abu Sa'afa oil

production grew slightly, increasing from 53,823 thousand barrels to 54,710 thousand barrels.

Table III-I: Crude Oil Production and Refining

(USD Barrels Thousands)

	2006	2007			
		Q1	Q2	Q3	Q4
Total Crude Oil	66,908	16,606	16,857	16,962	16,837
Bahrain Oilfield	13,085	3,136	3,217	3,154	3,045
Abu Sa'afa Oilfield	53,823	13,470	13,640	13,808	13,792
Refined Oil Production	96,217	23,056	24,417	24,907	25,523

Source: National Oil and Gas Authority (NOGA)

Refined oil production also increased from 96,217 thousand barrels in 2006 to 97,903 thousand barrels in 2007 (Table III-I). Despite the non-oil sector playing a more important role in the GDP, there are still signs that the oil sector remains important to the overall performance of the economy as total production has increased.

The General Level of Domestic Prices

On the back of strong domestic demand, coupled with global rises in energy, commodity and food prices, Bahrain recorded an inflation of 3.3% during 2007 relative to the year 2006 (Table III-II). To facilitate a more accurate inflation data series, The Central Informatics Organisation has updated its consumer basket weights with the year 2006 as the new base year. Therefore, Bahrain has maintained strong economic growth in a relatively low inflation environment as indicated by the consumer price index (CPI).

The reported consumer price index (CPI) at the new base year of 2006 increased from 100.0 in 2006 to 103.3 in 2007, an increase of 3.3%. Reflecting global trends, prices for food items, housing fuels and healthcare increased by 4.5%, 4.1% and 4.1% respectively while household goods and services decreased by 5.7%.

Table III-II: Consumer Price Index (2006 = 100)

	2000	2001	2002	2003	2004	2005	2006	2007
Food, Beverages & Tobacco	96.8	95.4	94.5	93.1	95.2	98.0	100.0	104.5
Clothing & Footwear	97.6	99.3	99.4	99.9	101.3	100.7	100.0	102.1
Housing, Water, Electricity & Fuels	81.8	73.8	81.8	85.6	90.8	96.4	100.0	104.1
Household Goods & Services	107.5	102.3	102.5	102.6	102.4	100.6	100.0	94.3
Healthcare Services	98.1	100.4	99.0	96.5	96.4	96.8	100.0	104.1
Transport	98.8	100.0	94.1	95.8	97.0	98.8	100.0	102.6
Communication	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Recreation & Culture	108.6	111.2	110.9	106.5	103.0	101.2	100.0	100.2
Education	93.2	80.5	87.1	99.1	99.0	98.8	100.0	100.6
Miscellaneous	86.2	83.9	85.3	87.5	89.9	91.9	100.0	102.3
General Index	93.4	92.3	91.9	93.4	95.5	98.0	100.0	103.3
Inflation	-0.7	-1.2	-0.5	1.7	2.3	2.6	2.1	3.3

Source: Central Informatics Organisation

By global standards, inflation levels in Bahrain are low; this is due to a successful implementation of subsidies on essential commodities by the Bahrain government.

It is thought that the fixed exchange rate policy has increased inflation in the GCC nations, a result of the deprecating value of the US Dollar and the reliance on imports of commodities from abroad. The pressures stem from the regional economic boom attracting a larger working population leading to subsequently higher rental and real estate prices coupled with low interest rates.

Labour Force

Total employment in Bahrain amounted to 379,471 at the end of 2007, which accounts for 49.9% of total population with the private sector and public sector accounting for 89.7% and 10.3% of total employment respectively (Table III-IV). Data indicates a growth of 7.8% in total employment in 2007 mainly due to an increase in private sector employment.

The public sector predominantly employs Bahraini nationals, who make up 88.8% of total public sector employment in 2007. Total public sector employment grew marginally by 1.1% for the same year.

Table III-III: Employment

	2006	2007	2007			
			Q1	Q2	Q3	Q4
Total Employment*	351,862	379,471	381,126	392,147	397,918	379,471
Change (%)	4.6	7.8	8.3	2.9	1.5	-4.6
Private Sector	313,039	340,217	342,451	353,528	359,193	340,217
As % of Total Employment	89.0	89.7	89.9	90.2	90.3	89.7
Male	283,533	310,019	309,819	320,557	326,119	310,019
Female	29,506	30,198	32,632	32,971	33,074	30,198
Bahraini	65,614	66,834	71,703	72,352	72,820	66,834
Non-Bahraini	247,425	273,383	270,748	281,176	286,373	273,383
Public Sector**	38,823	39,254	38,675	38,619	38,725	39,254
As % of Total Employment	11.0	10.3	10.1	9.8	9.7	10.3
Male	22,160	21,906	21,874	21,691	21,567	21,906
Female	16,663	17,348	16,801	16,928	17,158	17,348
Bahraini	34,771	34,847	34,624	34,522	34,661	34,847
Non-Bahraini	4,052	4,407	4,051	4,097	4,064	4,407

*Total Registered at GOSI and Civil Service Bureau.

**Excluding Ministry of Interior and Bahrain Defence Force.

Source: General Organisation for Social Insurance and Civil Service Bureau.

Conversely, the private sector mostly employs non-Bahrainis, who at the end of 2007 made up 80.4% of total private sector employment. Bahraini private sector employment grew marginally by 1.9% during the year, and Bahrainis accounted for 19.6% of total private sector employment.

The private sector in comparison to the public sector has been employing more, highlighting growth in the private sector. It is anticipated that this trend will generally continue should the private sector's role in the Bahrain economy continue to expand.

International Rankings

The international community has retained its positive assessment of Bahrain based on its sound economic fundamentals. Monetary stability, a well-developed financial system and the recent progress of structural reform programmes have allowed Bahrain to receive upgrades in various internationally recognised ratings. This is also aided by the government's policy of privatisation in opening various public sector domains to the private sector, increasing fiscal transparency and improving the overall long run outlook for the economy.

Credit Ratings

In 2007, Bahrain had favourable sovereign credit ratings. Bahrain's long term local and foreign currency debt ratings have been upgraded by Fitch Ratings Agency. Fitch upgraded Bahrain's long term foreign currency debt rating from an "A-" (with a positive outlook) in 2006 to an "A" (with a stable outlook) in 2007. Local currency debt ratings were upgraded from an A (positive) to an A+ (stable) (Table III-V).

Table III-IV: Government of Bahrain Foreign Currency Credit Ratings

	2006			2007		
	Fitch	S&P	CI	Fitch	S&P	CI
Foreign Currency						
Long Term	A-	A	BBB+	A	A	A-
Short Term	F1	A-1	A2	F1	A-1	A2
Outlook	Positive	Stable	n/a	Stable	Stable	Stable
Local Currency						
Long Term	A	A	A-	A+	A	A
Short Term	n/a	A-1	A1	n/a	A1	A1
Outlook	Positive	Stable	n/a	Stable	Stable	Stable

Source: S&P, Fitch and Capital Intelligence and Rating Agencies.

Standard and Poor's ratings for foreign and local currency debt remained unchanged at "A" (stable) in 2007. These ratings reinforce the creditworthiness of the Bahrain government and have positive rating effects on individual credit ratings for financial institutions in Bahrain.

The credit ratings are above all supported by a strong government net asset position, which is estimated at about 60% of GDP by year-end 2007 and is forecast to remain at more than 50% of GDP beyond 2009.

Rankings and International Indices

Since the 1990's the United Nations Development Programme's Human Development Report has published the Human Development Index (HDI) to have a broader look at a country's performance beyond GDP. The HDI provides an overview of human progress and the complex relationship between income and well-being as a composite measure of three dimensions related to human development: living standards, education and life expectancy.

Bahrain's HDI in the Human Development Report 2007/2008 was 0.866 compared with 0.859 in the 2006 report (Table III-VI). The Kingdom ranked 41st out of 177 countries in 2007/2008 moving down two places after ranking 39th in 2006 even though it had a higher HDI value. Bahrain's Gender-related development index (GDI), had a value of 0.857 which is 99.0% of its HDI value. The GDI measures achievements in the same dimensions using same indicators as the HDI, but to measure inequalities in achievements between men and women.

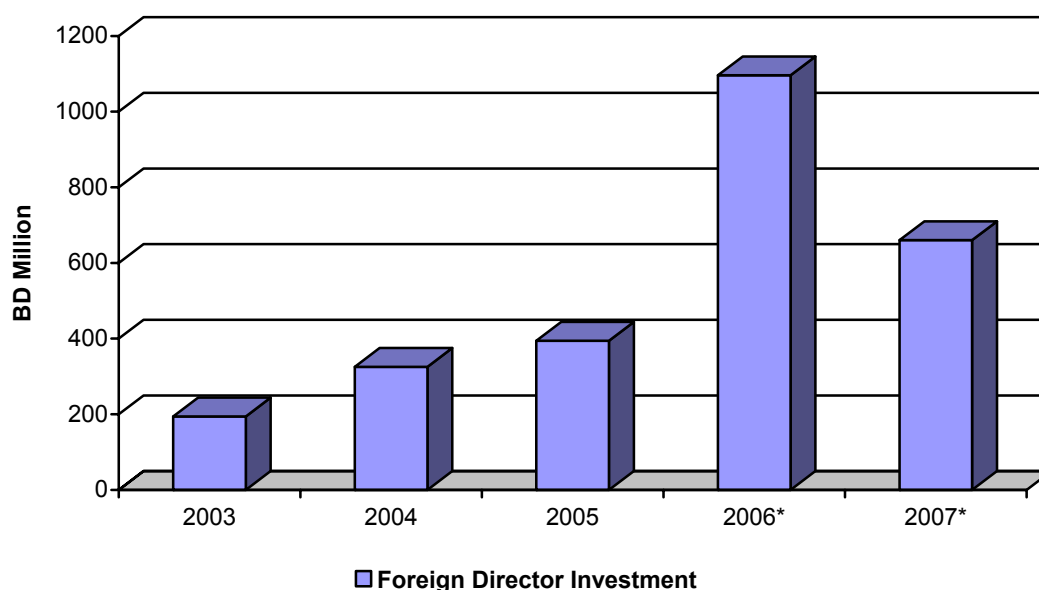
Table III-V: Bahrain Human Development Index, 2007

HDI Rank (Value)	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	Primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP \$)
41 (0.866)	45 (75.2)	73 (86.5)	40 (86.1)	33 (21,482)

Source: Human Development Report 2007/2008.

Bahrain has been recognised over the past few years by UNCTAD as a front runner for its foreign direct investment (FDI) performance, as evidenced by its high FDI potential and performance indicators (Chart III-I). In the 2007 World Investment Report, Bahrain was ranked 11th in the world for its inward FDI performance moving up 22 places after being in 23rd place in 2006.

Chart III-I: Foreign Direct Investment in Bahrain



Source: Central Bank of Bahrain

* Provisional Data

As a benchmark for overall economic performance, Bahrain ranked 34th in the world for growth competitiveness by the World Economic Forum after being ranked 49th the previous year (Table III-VII). The Growth Competitiveness Index is composed of three components which are: the technology index, the public institutions index, and the macroeconomic environment index. Bahrain also achieved high ranks in all of the three indices obtaining 43rd place in the Technology Index, 37th place in the Public Institutions Index, and 28th place in the Macroeconomic Environment Index.

Table III-VI: Bahrain Growth Competitiveness Index, 2007

	Rank	Score
Growth Competitive Index	34	4.61
Technology Index	43	3.80
Public Institutions Index	37	5.19
Macroeconomic Index	28	4.84

Source: The World Economic Forum 2006-2007.

Bahrain was also ranked 19th by the Heritage Foundation/Wall Street Journal 2008 Index of Economic Freedom and was ranked 1st out of 17 countries in the Middle East and North Africa region with an economy that is seen as ideal in many aspects such as tax and banking freedom.

Bahrain Policy Developments

In 2007, Bahrain continued to pursue and implement various economic policy programmes that aim to sustain the progress of the Bahraini economy. These initiatives have primarily focused on economic liberalisation, labour market reform, structural reform and the promotion of private sector growth and investment. The government has also pursued an ambitious “E-government” initiative, which aims to have government services facilitated on an electronic platform.

Economic Liberalisation Agreements

In 2007, Bahrain signed a number of Memorandums of Understanding (MoU) with other countries. The bilateral MoU’s were agreed upon to stimulate business and investment between Bahrain and the respective countries by reducing legislative barriers to economic activity.

In addition, the Ministry of Finance (MOF) signed an Agreement with the Kingdom of the Netherlands on the Promotion & Protection of Investments and the Reciprocal Exemption with Respect to Taxes on Income & Profits

Derived from International Air Transport. The agreement protects investments of contracting parties from both countries within their respective legislative and regulatory framework. Taxes, fees, fiscal deductions and exemptions to nationals from both countries should be given treatment no less favourable than that accorded to its own nationals or to those of any third state in the same circumstances.

A similar agreement was signed between Bahrain and the Czech Republic for the Promotion and Protection of Investments. The agreement confirms that both countries will create a favourable investment environment for investors of the other country. Investments will be treated in accordance with laws and regulations of the destination country and will be treated no less favourable than investments and returns of its own investors or those of any third country. The investment will be accorded fair and equitable treatment at all times and will have full protection and security.

In February 2007, a treaty concerning the Encouragement and Reciprocal Protection of Investments was signed between Bahrain and the Federal Republic of Germany. The treaty also intends to intensify economic co-operation between the two countries by creating a favourable investment environment. The treaty encourages reciprocal protection and promotion of investments and accords them with fair and equitable treatment.

Labour Market

In January 2006 the National Employment Project (NEP) was established as a scheme to create job opportunities to unemployed Bahrainis who can register with 20 centres distributed throughout the Kingdom. In 2007, Bahrain was able to reap from the effort put invested into the BD 30 million project.

Unemployed Bahrainis started registering at the NEP through the distributed centres throughout the Kingdom. In January 2006 3,127 were registered; by January 2007, around 12,000 people were already employed under the project and a further 900 are being trained at the Bahrain Training Institute making unemployment among Bahrainis who registered with NEP reach four percent. NEP trainees also attended courses in BAPCO, College of Health Sciences and Bahrain Institute of Banking and Finance.

The NEP programme uses career-related assessment, which is designed to tailor evaluation to individuals and provide accurate information about a person's capabilities, desires and future career. The First phase of the NEP is to be completed by June of 2008, 18 months from the start date, where all job-seekers who are unemployed will find a gainful employment. A survey,

completed in June 2007 and conducted by the Bahrain Centre for Studies and Research (BCSR) for the Labour Market regulatory Authority (LMRA), provided the LMRA with an accurate picture of the Labour Market in Bahrain and living standards of people in Bahrain.

In the light of the NEP, the Ministry of Labour officials has been encouraging private organisations and institutionalise training in private companies. The ministry focused on developing HR teams in private companies, providing training to more than 30 companies and 40 personnel in the first half of 2007. The aim was to raise productivity and performance of the companies. This came after the Cabinet approved the formation of a Supreme Committee for Human Resources Development as the ministry implemented a wage subsidy to private companies. These various efforts in the labour market have helped reduce unemployment.

In order to provide financial support to unemployed Bahrainis, the Bahraini government placed a 1% fee on salaries to pay for the unemployment scheme. Deductions started at the end of June 2007, with unemployment benefits to start from September 2007.

Labour Market Reform through the NEP was also seen through other efforts of Ministry of Labour and the Labour Fund. In October 2007, a bureau for employed Bahrainis in Qatar was established. This was followed by an announcement of the Ministry of Labour that an office for recruitment of Bahrainis in the United Arab Emirates. On January 1st 2007, the Labour Fund, which was established in August 12, 2006, was separated operationally from the Economic Development Board (EDB) focusing its efforts to increase the efficiency and productivity of Bahraini labour, strengthening the economy, and developing the private sector by creating new jobs suitable for Bahrainis.

Structural Developments

Bahrain is using its oil windfall to improve its infrastructure to promote the development of the private sector. The accelerated progress of existing infrastructure projects and the execution of planned projects will have a direct impact on the daily life of the people and play a crucial role in fostering an investment-friendly environment. This comes along the 2007 Skidmore, Owings & Merrill LLP (SOM) report submitted following an 18-month process of research, analysis, consultation, and design, to develop the Bahrain 2030 National Planning Development Strategies. The plan is considered the first project to inventory and propose virtually every aspect of a new national infrastructure. It exemplifies a forward-looking process designed to address

the role of sustainable land use and development in guaranteeing stable, predictable, and long-term economic growth.

One example is the new Sitra Bridge where the project aims at easing the traffic flow in Bahrain and facilitating the increasing land transport between Manama and Sitra. It also enhances the overall road network in Bahrain. A financing agreement was signed in July 2007 between the Government of the Kingdom of Bahrain and the Arab Fund for Economic and Social Development (AFESD) whereby the Fund will contribute an amount of BD 24.7 million towards the reconstruction of the BD 74.2 million Sitra Causeway.

Another example is the 45 km Qatar-Bahrain Friendship Causeway that was initially declared back in 2001. A MoU was signed between Qatar, Bahrain and a consortium of companies. In September 2007, it was announced that construction will start within seven months and last about 48 months. A new company was also formed last year to raise funds for the USD 2.7 billion project.

E-Government

Bahrain has taken plenty of initiative to advance its readiness for the full implementation of an electronic government system. As such, many efforts have been made for Bahrain to acquire a higher international status in that domain. In 2007, Bahrain was credited as being one of the first countries in the world to establish an e-Government. According to the United States Brown University general policies report (covering 1,687 government sites in 198 countries), Bahrain's rank has jumped to 15th place, up from 65 from the year before and topping all GCC and Arab countries. This immense effort to convert the government into an electronic one reinforces the Kingdom's position as a regional innovator.

Bahrain's e-Government website focuses on legislative, executive and judicial powers and is a collection of different establishments that include translated material, video and sound excerpts, fees, safety of personal data, availability of services, and accessibility to the sites. The Bahrain e-government links about 300 governmental sites and governs communication with the central site to offer its services to citizens, expatriates and investors.

The Government of Bahrain was the first country in the world to sign an agreement with Microsoft to set up its Live@Gov suite of solutions for all citizens. The partnership with Microsoft was a step towards providing all individuals of Bahrain with a secure location for government-to-citizen

communication as well as enabling them to communicate more effectively with each other through the latest and most innovative platform at no cost to the individual end users. The platform will provide tools to allow the user to use emails, photos, file sharing, search, and communicate online to interact with online and physical communities.

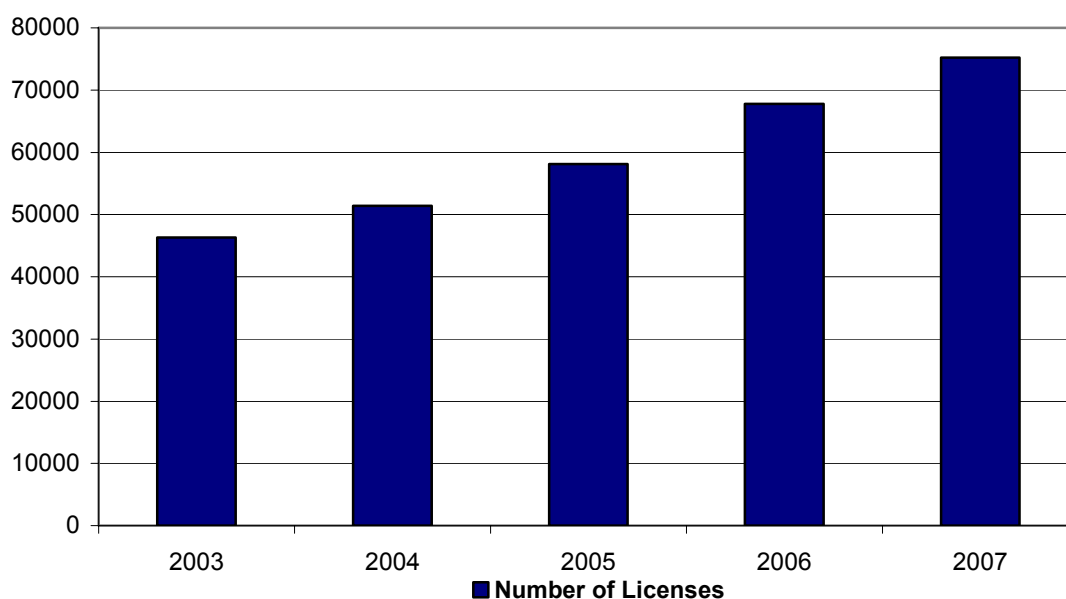
The e-Government platform has improved to implement debit card payment facilities, whereas previously only credit card users were able to make payments for online services (such as traffic fines and electricity bills). With the launch of this service in July 2007, around 70% of Bahrain was capable of making these payments. The debit card payment facility was created through an agreement signed between the Ministry of Finance and Ahli United bank through the Benefit network.

Private Sector Initiatives

Bahrain's economic boom is set to continue, reinforced by economic and political reform and higher oil prices. As a result, the country's non-financial sector has also witnessed major growth. Coupled with prudent fiscal policy and a progressive government, this growth is expected to continue into the future. Bahrain's strategy to sustain this growth is a combination of promoting economic diversification, free trade, privatisation and growing economic integration taking place among the GCC states.

As an indicator of the increased private sector activity, the total number of new commercial licenses issued increased during 2007. In total, 7,477 new licenses were issued, taking the total number of commercial licenses to 75,238 or an increase in 11.0% over 2006 (Chart III-II). The largest numbers of licenses issued have been in the wholesale and retail trade (including repair of motor equipment) sub-segment, where 3,090 licenses were issued.

Chart III-II: Total Number of Commercial Registration Licenses



Source: Ministry of Industry and Commerce

Property and Real Estate Developments

The property sector plays an important and influential role in economic activity in Bahrain. It has become a vibrant investment sector that influences commercial activity both domestically and regionally.

Despite the global turmoil in the housing and real estate markets, Bahrain has experienced feasible growth trends for traded properties in 2007.

Data for end-2007 shows a 54.8% increase in real estate transactions compared to last year according to Survey of Land Registration Bureau. Total real estate transactions (buy and sell) during 2007 amounted to BD 1,356.7 million compared to BD 876.2 million in 2006. In terms of district, the Capital Governorate had the lion's share of transactions, with 44 % of the total trade in real estate properties. These transactions were worth a total of BD 598.4 million and December was the most active month for 2007 with a total traded value in real estate of BD 223.8 million.

Table III-VII: Traded Properties by Nationality, 2007

Investor Nationality	2007		
	Number of Properties	Value (BD million)	%
Bahraini	1,8267	1,265.3	93.3
Saudi	107	50.1	3.7
Kuwaiti	47	21.1	1.6
Emirati	12	4.6	0.3
Qatari	19	2.8	0.2
Omani	10	1.7	0.1
Other Foreigners	61	11.1	0.8
Total	18,523	1,356.7	100

Source: Survey of Land Registration Bureau.

The percentage of properties traded by Bahraini citizens accounted for 93.0% up from 86.0% from the year before (Table III-VIII). The percentage of properties traded by non-citizens in the Kingdom from GCC states and foreigners accounted for 7.0% with citizens from Saudi having the highest share with 3.6% of traded property with, amounting to a value of BD 50 million. The share of GCC nationals and foreigners dropped from 14.0 % last year.

Large increases in commodity and energy prices in combination with global inflation concerns have led to import and materials costs increasing. This has affected the construction sector of the real estate market, slightly cooling some of the activity in the sector. In 2007, a total of 10,581 construction permits were issued, a decrease of 704 permits or 6.2% from the year 2006 (Table III-IX). Data still indicates a growing real estate construction sector, with addition permits constituting 45.8% of total number of permits followed by 35.4% in the form of new construction permits.

Table III-VIII: Construction Permits by Type

Construction Permits by Permit Type	2006	2007
Addition	5,420	4,848
Demolition	680	724
Demolition and New Construction	404	413
New Construction	4,021	3,748
Reclamation	36	27
Renovation	724	821
Total	11,285	10,581

Source: Ministry of Municipalities Affairs and Agriculture.

Over the past few years, investment in large scale multi-purpose projects was high, and these are expected to carry on given large investor confidence and interest in the sector.

Bahrain Bay, the USD 2.5 billion mixed development project next to the Financial Harbour, was officially launched in December 2006. With reclamation being completed in 2007, the project is expected to be completed by 2011. Bahrain Bay Development B.S.C, announced in December 2007 that it signed a land purchase agreement with Salhia Real Estate Company (SREC), a Kuwaiti property developer, to acquire land and develop a prestigious commercial and retail tower with a value in excess of USD 125 million. The development will be located within the same district as the Arcapita headquarters, CapitaLand's Raffles City Bahrain and Al Baraka Banking Group headquarters.

Enthusiasm for the upcoming Bahrain City Centre has been immense that the majority of the outlets have already been leased out more than a year before its scheduled opening date. The three-level shopping and leisure destination will have almost 330 retail units and will consist of two hotels, a four-star and a five-star, and a family entertainment centre. The property will be developed over a total area of 150,000 square-metres. By April 2007, a total of 317 units have been taken up since marketing efforts began two years ago, with tenants ranging from the world's most recognisable brands to popular local retailers, catering to all tastes and budgets.

In May 2007, the first phase of the USD 1.3 billion Bahrain Financial Harbour project was opened. The Financial Centre, which is located in the main business district, included the Harbour Towers, comprising of office and commercial space for financial services, and Harbour Mall, which houses retail outlets, leisure facilities, cafes, and brokerage and trading firms.

In August 2007, Gulf Holding Company announced the signing of USD 380 million construction contracts to Al Hamad Contracting Company for establishing its project 'Villamar @ the Harbour' project. The project, valued at USD 620 million will be the first residential Component of Bahrain's Financial Harbour and will feature some of the most advanced technological features such as next generation security systems, automated-covered walkways designed to shield tenants from the harsh summer days, amongst several others. Furthermore, it will have five major design elements namely, the Lifestyle Apartments, Terrace Podium, Sky Villas, Terraced Villas and the Twisting Towers, which is the second of its kind in the entire Middle East region. The development work on this signature project is to be completed by the first quarter of 2010.

A number of other tourism and residential projects also witnessed major progress in 2007 such as Lulu Island, Al Areen desert Spa and Resort, Riffa Views, Abraj AL Lulu, and Marina West. It is anticipated that these developments, when complete, will have a significant boost to the high-end tourism sector and achieve the government's goal of doubling the sectors contribution to GDP by year 2014.

Air Carriers

In May 2007, Bahrain took full ownership of Gulf Air after a request from Oman, the joint-owner, was approved to withdraw from the carrier. From the 1970s, Gulf Air was the joint carrier of Abu Dhabi, Bahrain, Oman and Qatar, but Gulf Arab states have increasingly moved towards creating their own national carriers. The Omani request was approved and a committee of members appointed equally from both sides evaluated the airline's assets to finalise the procedures relating to the transfer of ownership to Bahrain. This news comes along the two year restructuring plan that will inject BD 310 million to cut losses faced by the carrier.

In November of 2007, Bahrain Air, Bahrain's second national carrier announced itself as a competitive, low price carrier providing customers with highest level of service and reliability. The company has an authorised capital of BD 10 million and a fully paid-up capital of BD 8 million.

Telecommunications

Bahrain has a well-respected independent regulator, The Telecommunications Regulatory Authority (TRA) and was the first country within the GCC to fully liberalise its telecommunication industry. Figures released by TRA show Bahrain as one of the fastest growing markets. There has been a 73% increase

in industry revenue between 2003 and 2006 with an increase in employment of about 28%. From a base of about BD 145 million in 2003, the industry generated over BD 265 million in 2006, while employment figures rose from 1,808 in 2003 to 2,322 in the first quarter of 2007.

More than half of Bahraini households now enjoy access to the internet, with two-thirds holding fixed telephone lines. TRA statistics show that that 99% of households now have a member with mobile phone access, with individual subscriptions exceeding 800,000 in 2006, having numbered around 300,000 only four years previously. Residential broadband subscription increased by 40% in the first quarter of 2007 which is a new four fold increase since 2004 when the number was about 13,000.

In May 2007, the TRA signed a MoU with the Communication and Information Technology Commission (CITC) of Saudi Arabia for cooperation in regulatory issues related to the telecommunications sector. The memorandum aims to develop cooperation in issues of concern to the two regulators, such as tariff mechanisms, numbering, quality of service, interconnection, dispute resolution between operators, number portability and consumer protection.

Also, in September 2007 Bahrain TRA signed a MoU in Beirut with the TRA of Lebanon. The MoU covers bilateral and multilateral issues of interest to strengthen bonds between both authorities covering areas of consumer protection, spectrum management, quality of service, exchange of expertise and staff training among other subjects.

As of June 2007 the TRA had issued a total 134 licenses. Over half of those issued were International Telecommunications Services Licence (ISL), Value Added Services Licence (VAS), and Internet Service Provider Licence (ISP).

This evident growth in 2007 confirms the successful liberalisation of the Bahrain telecommunications market in providing services to households and enterprises. A major development in the telecommunications sector in 2007 was leading telecom operator Zain International choosing Bahrain as the location of its newly established global headquarters. Formerly known as MTC-Vodafone, the company was established in 1983 as the Gulf region's first mobile operator. The company rebranded its master corporate identity to Zain on September 8, 2007. With over 13,500 employees, Zain provides a comprehensive range of mobile, voice and data services to over 33 million individual and business customers. The move was completed in January 2008 aided by The Economic Development Board (EDB) who created a specialist unit to assist and ensure the move takes place smoothly.

Zain introduced new technology that has put Bahrain on the world telecoms map such as Kingdom-wide 3G, 3.5G and the recently-introduced WiMAX service, all of which were a global first. Within a short period of operation, Zain was renowned for its state-of-the-art mobile technology offerings and is recognised as the leading edge operator in the Middle East.

The move reflects Bahrain's economic progress as an attractive investment destination. Bahrain emerged as the winning destination from a shortlist including Dubai and Amsterdam. The company's decision marks a further step in the progress of Bahrain's reform programme.

Industrial Developments

Bahrain aspires to transform itself as base for exporting to the Middle East market. An industrial area has been established in Hidd for attracting small, medium and large-sized manufacturing companies. With a modern infrastructure developed with a deepwater port and power station, the goal is to promote Bahrain as a manufacturing hub by having two major development zones, the Bahrain International Investment Park (BIIP) and the Bahrain Investment Wharf (BIW). The first will be focusing on manufacturing and service activities with total foreign ownership, no recruitment restrictions and no taxation for first 10 years. The latter will be divided into five categories. These will include an industrial park for mid and small-sized industries, areas for storage and logistics warehouses, office buildings and training centre combined with a residential area which comprises of housing, hotels, and services. The Hidd area will also include a USD 350 million pellet and USD 200 million stainless steel plants.

October 2007 witnessed the launch of a significant privately funded joint venture between Bahrain International Circuit (BIC) and MCC Project Partners, L.L.C. (MCCPP) to develop the Bahrain Centre of Excellence. The project will be an independently funded USD 3.5 billion world-class centre of innovation in the automotive engineering, motorsport and alternative energy sectors. The goal of the Bahrain Centre of Excellence is to develop new, globally-focused businesses with substantial job opportunities at a purpose-built site on land adjacent to the BIC as a way to integrate, high-technology engineering and manufacturing sector into the economy.

The business plan for the Bahrain Centre of Excellence has been developed and will be executed by MCCPP, a global business developer/operator with extensive experience in real estate, hospitality, automotive, innovative technology, alternative energy, education and sports and leisure.

The Bahrain Investors Centre (BIC) was established in 2004 with the help of the EDB was created to attract future investors by facilitating and providing investors with cost effective incorporation procedures by liaising with ministries and entities involved in the incorporation process under one roof. The BIC handles the start up process from the initial application for setting up businesses to the start of its operations. The BIC uses a web-based interface that provide customers with a single point of contact to direct their applications and introduce them to the commercial registration system

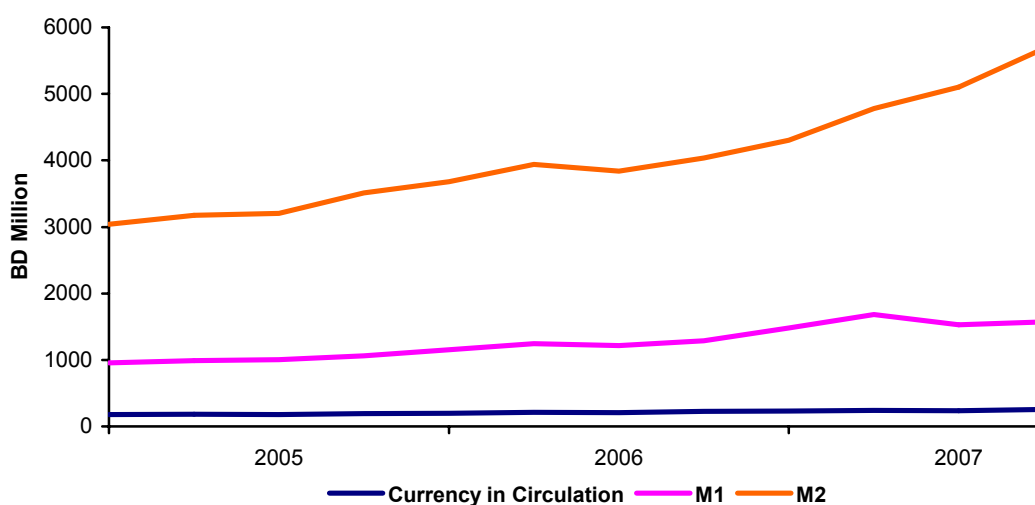
IV. Monetary Developments

During 2007 monetary and financial developments reflected trends in the global economy as well as developments in the domestic Bahrain economy. As part of its mandate, the CBB is assigned the responsibility of conducting monetary policy and maintaining the stability of the Bahraini Dinar by being responsible for the maintenance of a fixed exchange rate regime against the US Dollar.

Money Supply Developments

Data shows that money supply continued to grow during 2007. Currency in circulation (outside banks) registered an increase of BD 28.5 million or 12.5% to reach BD 256.2 million compared with BD 227.7 million in 2006 (Table IV-I). M1 (currency in circulation plus demand deposits) grew by 22.3% from BD 1,285.8 million in 2006 to BD 1,572.6 million in 2007. As a result of the growth in M1, broadly defined money, M2 (M1 plus time and savings deposits) registered its highest ever increase, rising by BD 1,647.4 million or 40.8% at end 2007, compared with BD 522.4 million or 14.9% in 2006.

Chart IV-I: Money Supply



Source: Central Bank of Bahrain

Money supply growth, considered a future indication of inflation, has been spurred on by a growth in savings. Broad money (M2) growth was mainly due to increases in private sector deposits in both domestic and foreign currency. In 2007, total private sector deposits (demand deposits as well as time and savings deposits) amounted to BD 5,426.4 million and accounted for 95.5% of M2. Although private demand deposits increased by 24.4%, M2 growth was largely a result of growth in time and savings deposits. Time and savings deposits increased by 49.5% from BD 2,749.4 million at end 2006 to BD 4,110.0 million at end 2007, increasing its share of M2 from 68.0% in 2006 to 72.3% in 2007.

Table IV-I: Money Supply

End of Period	Currency Outside Banks 1	Deposits ^{1/}			M1 (1+2)	M2 (M1+3)	M3 (M2+4)
		Private Sector		General Government ^{2/} 4			
		Demand 2	Time and Savings 3				
2006	227.7	1,058.1	2,749.4	857.4	1,285.8	4,035.2	4,892.6
2007	256.2	1,316.4	4,110.0	974.5	1,572.6	5,682.6	6,657.1

1/ BD and Foreign Currency deposits of resident non-banks at Central Bank of Bahrain and Retail Banks

2/ Central Government, the Social Insurance System and the Central Bank of Bahrain

Source: Central Bank of Bahrain

A breakdown of private sector deposits by currency shows that M2 growth has been mainly driven by increases in both BD and foreign currency time deposits. Total private sector deposits increased by 42.5% or BD 1,618.9 to reach BD 5,426.4 at end 2007.

During 2007, BD time deposits (including certificates of deposit) grew the most, increasing by BD 786.6 million or by 68.0% to reach BD 1,943.8 million. BD demand and savings deposits followed, growing by 16.1% and 15.8% respectively (Table IV-II). Foreign currency deposits grew strongly across the board, albeit at lower rates in comparison to BD deposits. Foreign currency time deposits increased by an equivalent BD 434.6 or 46.3% during 2007, whilst demand and savings deposits grew by 45.4% and 49.3% respectively.

Table IV-II: Private Sector Deposits by Currency

(BD Million)

Deposit Type	Currency	2006	2007	% Change
Demand	BD	757.2	878.8	16.1
	Foreign	300.9	437.6	45.4
Savings	BD	685.5	793.8	15.8
	Foreign	29.8	44.5	49.3
Time	BD	1,157.2	1,943.8	68.0
	Foreign	809.9	1,244.4	53.6
CBB Liabilities to Non-Banks	BD and Foreign	67.0	83.5	24.6
Total		3,807.5	5,426.4	42.5
As a Share of M2 (%)		94.4	95.5	

Source: Central Bank of Bahrain

At the end of 2007, the broadest measure of money (M3), increased by BD 1,764.5 million or by 36.1% from BD 4,892.6 million at end 2006 to BD 6,657.1 million. From the context of deposits, M3 includes general government deposits (with both the Central Bank of Bahrain and retail banks) which increased by BD 117.1 million or 13.7% from BD 857.4 million in 2006 to BD 974.5 million in 2007.

As domestic liquidity, as also defined by M3, the growth was largely due to an increase in net foreign assets relative to domestic assets. During 2007, net foreign assets increased by BD 1,460.9 million or 65.2% to reach a total of BD 3,638.5 million and total domestic assets increased by BD 303.6 million or 11.4% to reach a total of BD 2,956.0 million (Table IV-III).

Table IV-III: Factors Affecting Domestic Liquidity

(BD Million)

Factor	End-2006	End-2007	Change (%)
Domestic Liquidity (M3)	4,892.6	6,657.1	36.1
Factors Affecting Liquidity			
Net Foreign Assets	2,240.2	3,701.1	65.2
a) CBB	1,015.7	1,546.1	52.2
b) Retail Banks	1,224.5	2,155.0	76.0
Domestic Claims	2,652.4	2,956.0	11.4
c) Claims on Government	568.6	612.8	7.8
d) Claims on Private Sector 1/	3,122.5	4323.7	38.5
e) Other Assets (Net)	-1,038.7	-1,980.5	90.7

1/ Includes Loans and Holdings of Securities

Source: Central Bank of Bahrain

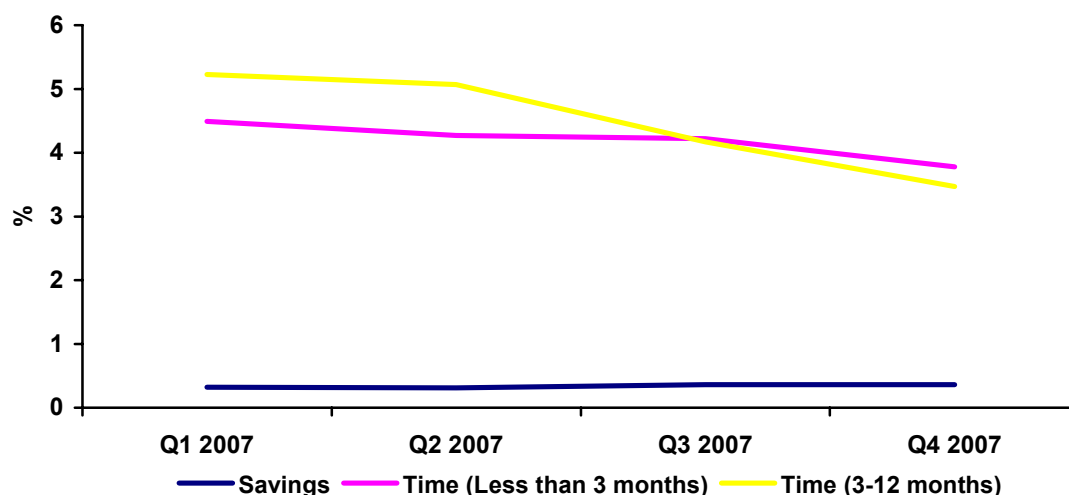
At the end of 2007, 55.6% of M3 was in the form of net foreign assets and 44.4% in the form of domestic assets. Retail banks' and the CBB's net foreign assets account for 32.4% and 23.2% of M3 respectively. In terms of domestic assets, government claims, private sector claims and other assets accounted for 9.2%, 64.9% and -29.8% of M3 respectively.

Domestic Interest Rates

In pursuing monetary stability, the CBB's monetary policy committee reviewed market operations and adjusted rates accordingly and in line with the fixed exchange rate regime. During 2007, in light of an economic slowdown, the US has loosened monetary policy by decreasing interest rates. Subsequently, this has affected overall interest rates in Bahrain where they have mirrored cuts in the US rates.

In terms of deposits, weighted average retail bank rates on short term time deposits (less than 3 months) decreased from 4.49% at the start of 2007 to 3.78% during the year; longer terms time deposits (3-12 months) also decreased from 5.23% to 3.47% for the same period (Table IV-IV). Rates on savings accounts increased marginally, from 0.32% to 0.36%.

Chart IV-II: Weighted Average Deposit Rates of Retail Banks



Source: Central Bank of Bahrain

As a trend, deposit rates have shown to have been sensitive to US monetary policy. Time deposits of less than 3 months were high at the end of 2006 due to US monetary tightening, and have subsequently reduced sharply during the fourth quarter of 2007 (Chart IV-II). Similarly, longer term time deposits rates for 3-12 months have shown the same variability.

Table IV-IV: Deposit Interest Rates

(% per annum)

Deposits	End 2005	End 2006	2007			
			Q1	Q2	Q3	Q4
Time 1/						
a) <3 months	3.52	4.31	4.49	4.27	4.22	3.78
b) 3-12 months	3.70	4.40	5.23	5.07	4.17	3.47
Savings	0.32	0.37	0.32	0.31	0.36	0.36

1/ Deposits in the BD 10,000-50,000 range, for period indicated, beginning with June, 1998.

Source: Central Bank of Bahrain

On the lending side, weighted average rates for total business loans decreased from 7.86% at the beginning of 2007 to 6.91% at the end of 2007 (Table IV-V). Business loans have shown some sensitivity to US monetary policy, and followed in line with US rate cuts. Rates for all sectors dropped significantly after the 3rd quarter of 2007. Of particular note, the trade sector has dropped significantly from 7.68% to 6.05% at the year end; reflecting trade reliance on exchange rates and external influences.

Table IV-V: Interest Rates on Business Loans

(% per annum)

Sector	End 2005	End 2006	2007			
			Q1	Q2	Q3	Q4
Construction and real estate	8.90	8.82	9.20	8.35	7.63	6.63
Manufacturing	6.35	6.89	6.86	8.30	7.11	6.69
Trade	6.74	7.94	7.79	7.96	7.68	6.05
Other 1/	6.27	7.32	7.51	7.18	7.77	6.31
Total Business 2/	7.16	7.97	7.86	8.13	8.05	6.91

1/ Includes overdraft approvals

2/ Includes non-banks financial and other services

Source: Central Bank of Bahrain

Conversely, weighted average rates for total personal loans increased from 9.08% to 9.27% for the same period (Table IV-VI). Whilst, total loan rates showed an increase, individual secured and unsecured item lending rates have generally declined. This is due to custom types of lending that are not captured by the statistics.

Table IV-VI: Interest Rates on Personal Loans

(% per annum)

Personal Lending Type	End 2005	End 2006	2007			
			Q1	Q2	Q3	Q4
Secured by:						
by Mortgages	8.48	8.74	9.18	8.51	9.22	9.13
Vehicles Title	8.36	9.68	9.81	9.77	9.94	9.56
By Deposits	7.15	10.41	9.04	9.10	9.22	8.45
Unsecured:						
Salary Assignment	7.90	8.11	8.12	8.14	8.22	8.42
Other	14.44	18.30	17.03	20.12	17.61	15.59
Total Personal 1/	8.31	8.89	9.08	9.01	9.26	9.27
Credit Cards	20.28	20.46	20.67	20.74	20.53	20.97

1/ Includes other types of personal loans not shown separately

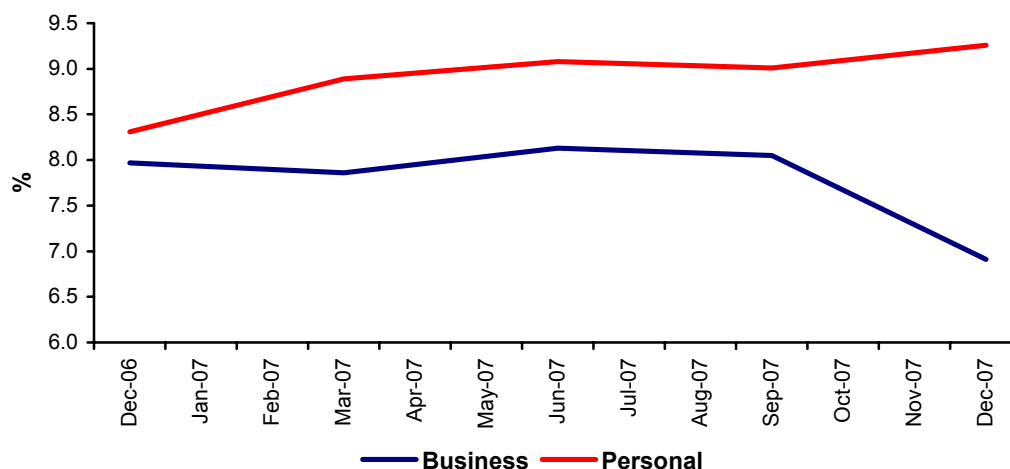
Source: Central Bank of Bahrain

According to the data, personal loans secured by cash deposits benefited most from the interest rate reductions, as rates decreased from 9.04% at the beginning to 8.45% by the end of 2007. Mortgage rates very slightly decreased from 9.18% to 9.13%, reflecting the construction boom in the country and vehicle titles decreased from 9.81% to 9.56%.

Unsecured lending rates against salary assignments increased from 8.12% to 8.42%, whilst other forms of unsecured lending decreased from 17.03% to 15.59%.

Interest rates on both personal and business loans showed differing trends during 2007. With business loan rates decreasing and personal loan rates increasing, it can be concluded that individual account holders in Bahrain do not benefit from interest rate reductions on loans (Chart IV-III). Furthermore, sharper decreases in deposit rates have meant that returns on earnings have decreased also.

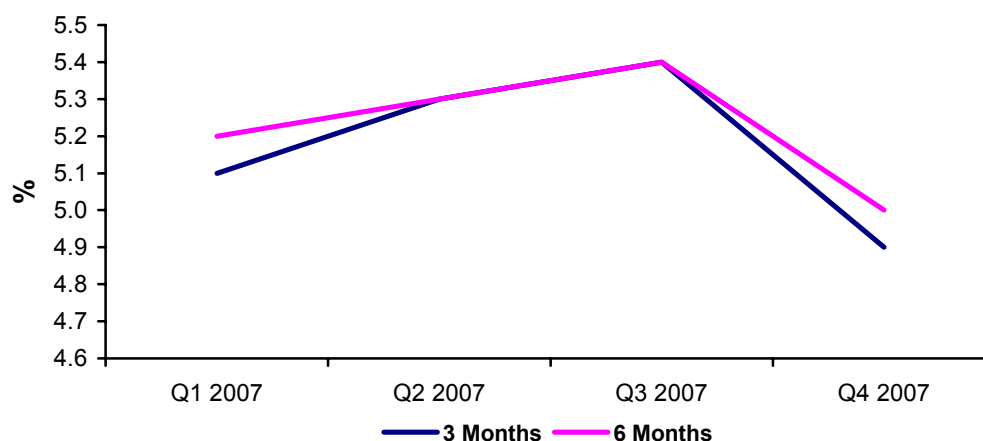
Chart IV-III: Personal and Business Interest Rates



Source: Central Bank of Bahrain

Average interbank rates have also decreased during the course of 2007. Whilst interbank rates are more reflective of bank to bank demand for money and liquidity positions, they have also been influenced by US monetary policy developments over the past year.

Chart IV-IV: Money Market Rate/Interbank Rate



Source: Central Bank of Bahrain

Average short term interbank rates (3 month transfers) have decreased from a rate of 5.1% in the first quarter of 2007 to 4.9% at the end of the year. Longer term interbank rates (6 month transfers) also decreased from 5.2% to 5.0% for the same period (Chart IV-IV). The major rate decreases all occurred during the fourth quarter of the year, whereas for the first 3 quarters interbank rates were on the rise.

Exchange Rate Developments

The CBB is responsible for maintaining the fixed exchange rate of the Bahrain Dinar to the United States Dollar as an anchor for monetary policy.

The nominal exchange rate with the dollar remained unchanged during the course of 2007. With most of the GCC countries also maintaining a fixed exchange rate or their currencies to the US Dollar, the exchange rate with these currencies also remained unchanged (Table IV-VII).

Table IV-VII: BD Exchange Rate against major currencies

	End 2006	End 2007	2007			
			Q1	Q2	Q3	Q4
Saudi Riyal	0.100	0.100	0.100	0.100	0.100	0.100
Kuwaiti Dinar	1.300	1.377	1.300	1.305	1.344	1.377
UAE Dirham	0.102	0.102	0.102	0.102	0.102	0.102
Omani Riyal	0.977	0.977	0.977	0.977	0.977	0.977
Qatari Riyal	0.103	0.103	0.103	0.103	0.103	0.103
US Dollar	0.376	0.376	0.376	0.376	0.376	0.376
Pound Sterling	0.736	0.751	0.739	0.752	0.758	0.751
Euro	0.493	0.554	0.501	0.506	0.532	0.554
Japanese Yen 2/	3.160	3.360	3.200	3.050	3.270	3.360
Swiss Franc	0.307	0.335	0.309	0.306	0.322	0.335

1/ Last working day of each period

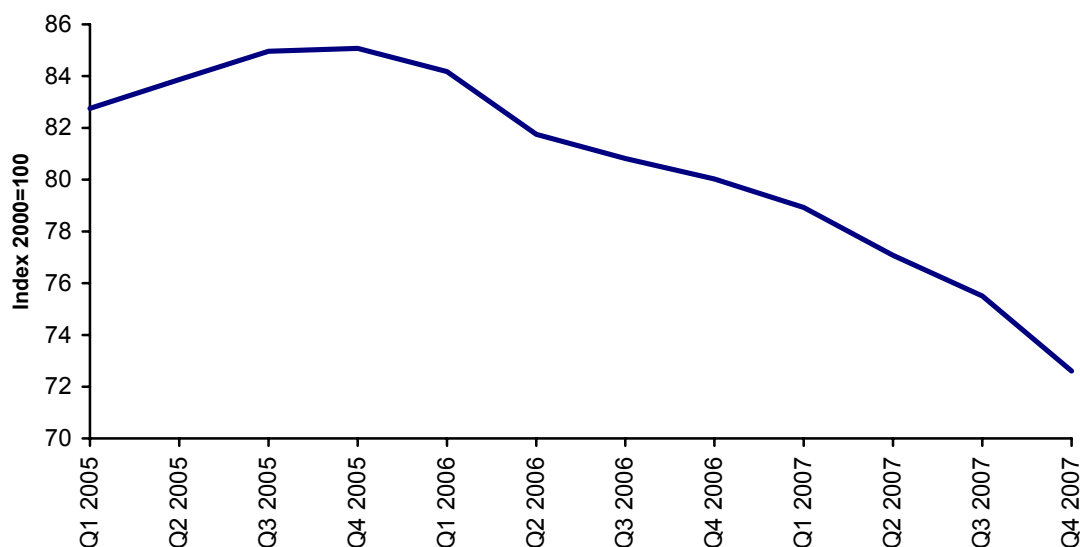
2/ Per 1000 Units

Source: Central Bank of Bahrain

The US Dollar weakened during the course of 2007, and as such the Dinar weakened against other world currencies. During 2007, the Bahraini Dinar depreciated against the Pound Sterling, Euro, Japanese Yen and Swiss Franc. As comparative measure, the Real Effective Exchange Rate (REER) is the weighted average exchange rate of a country's currency relative to an index or basket of other major currencies adjusted for inflation.

Bahrain's REER has decreased by 12.5 points (14.7%) since the end of 2005 (Chart IV-V).

Chart IV-V: Bahrain's Real Effective Exchange Rate (2000 = 100)



Source: IMF: International Financial Statistics

The downward trend in Bahrain's REER suggests continued improvements in its overall external competitive position. The effective depreciation of the dinar is in contrast to the appreciation which occurred during 2005, and reflects the competitiveness and increase of Bahrain's trade in exports.

With the dinar pegging to the US dollar at BD 0.376 since 1980, the fixed exchange rate regime has a number of advantages that have helped the Bahraini economy. Significant portions of exports are denominated in Dollars and the US is one of the biggest exporters of goods to Bahrain (along with Japan, Australia, and Saudi Arabia). The United States is also expanding its trade with Bahrain following the Free Trade Agreement. Bahrain also exports more to countries (mostly to GCC and Asian countries) that have their currency pegged to the Dollar. Exports to dollar pegged countries as a percentage of total exports accounted for over 50% of total exports in 2007.

Issuance of Public Debt Instruments

In contrast to the downward trend of recent quarters, the size of Bahrain's domestic public debt (securities only) increased during the fourth quarter of 2007, rising by 18.6% to BD 616.6 million, but still showed a 9.2% decrease from end-2006 (Table IV-VIII).

Table IV-VIII: Summary of Domestic Debt Instruments

(BD Million)

	2006	2007			
		Q1	Q2	Q3	Q4
Total Outstanding	679.1	565.1	545.0	520.0	616.6
% of GDP*	11.4	9.5	9.2	8.7	10.4
Development Bonds	0.0	0.0	0.0	0.0	0.0
Treasury Bills	162.0	90.0	85.0	90.0	90.0
Islamic Leasing Securities	472.0	457.0	442.0	412.0	508.6
Al Salam Islamic Securities	45.1	18.1	18.0	18.0	18.0

* 2006 GDP

Source: Central Bank of Bahrain

This increase in 2007 is mainly due to an expansion in the stock of Islamic leasing securities by BD 96.6 million (23.4% increase). Both treasury bills and Al Salam Islamic securities outstanding remained unchanged at BD 90 million and BD 18 million respectively. Reflecting the increase in domestic public debt, the debt-GDP ratio rose to 10.4% by the end of 2007, compared to 8.7% at the end of the third quarter.

Table IV-IX: Summary of Conventional Domestic Debt Instruments

(BD Million)

End of Period	Development Bonds 1/			Treasury Bills 2/			Outstanding Balance
	Matured	New Issue	Balance	Matured	New Issue	Balance	
2005	0.0	0.0	0.0	525.0	525.0	130.0	130.0
2006	0.0	0.0	0.0	610.0	642.0	162.0	162.0
2007	0.0	0.0	0.0	367.0	295.0	90.0	90.0

1/ Development bonds have a maturity of 5 years and 30 years

2/ Treasury bills have a maturity of 91 and 182 days.

Source: Central Bank of Bahrain

Three month (91 days) treasury bills are issued on a weekly basis with the issue amount of BD 15 million. Six months (182 days) treasury bills are issued on a monthly basis with the issue amount of BD 5 million. The total outstanding amount for T-bills (short and long term) as of December 31, 2007 was BD 90 million which is a 44.4% decline from the outstanding balance as of the same time the previous year (Table IV-IX). Treasury bills in the amount of BD 295.0 million were issued and BD 367.0 million matured in 2007 a significantly lesser amount compared to Treasury bills issued and matured in 2005 and 2006.

The outstanding Balance for Islamic securities as of December 31, 2007 was BD 526.6 million an increase from the BD 517.1 million as of December 31, 2006 (Table IV-X). Islamic securities are comprised of Islamic leasing securities and Al Salam Islamic Securities.

Islamic leasing securities are comprised of Ijara short term and long term Sukuks. Ijara Sukuks are a BD-denominated or USD-denominated leasing instrument issued in accordance with Shari'a standards. The total balance of Islamic leasing securities as of December 31, 2007 was BD 508.6 million which is a 7.8% increase over end-2006 and 15.1% increase since end-2005. Newly issued Islamic Leasing Securities were in the amount of BD 155.0 million and matured were in BD 120.0 million in 2007 compared to BD 120.0 million newly issued and BD 90.0 million matured in 2006.

Table IV-X: Summary of Islamic Domestic Debt Instruments

(BD Million)

End of Period	Islamic Leasing Securities 1/			Al Salam Islamic Securities 2/			Outstanding Balance
	Matured	New Issue	Balance	Matured	New Issue	Balance	
2005	141.7	156.4	442.0	135.2	152.0	45.1	487.1
2006	90.0	120.0	472.0	180.0	180.0	45.1	517.1
2007	120.0	155.0	508.6	54.0	54.0	18.0	526.6

1/ Islamic leasing securities have a maturity of 3, 4, 6 to 10 years for BD & US Dollar

2/ Al Salam Islamic securities have a maturity of 91 days

Source: Central Bank of Bahrain

Al Salam Sukuk is short term notes similar to the Treasury Bills; however, they are issued in accordance with Shari'a standards and with an issue amount of BD 6 million. Issued on a monthly basis, the Al Salam Sukuk has a maturity period of 91 days. The balance on these Sukuks reached a total of BD 18.0 million indicating a significant decline from the BD 45.1 million (60.1%) from end-2005 and end-2006. Al Salam Islamic securities that were newly issued were in the amount of BD 54.0 million, a sharp decrease from the BD 180.0 million in 2006. Similarly, matured securities decreased in 2007 to BD 54.0 million from BD 180.0 million in 2006.

V. Financial Sector Developments

The financial services sector has been a mainstay of the Bahrain economy and has been performing well over the past 5 years. At the end of 2006, the financial sector is the largest contributor to Bahrain's economy, accounting for 25.5% of real GDP. Bahrain has a large concentration of financial institutions in the Middle East that offer a wide range of banking services. As a result, financial sector participants have enjoyed solid profitability levels in line with an expansion in credit, as well as growth in their balance sheets. Furthermore, the financial sector has witnessed new entrants as well as consolidation amongst existing licenses.

Structure of the Bahrain Financial System

Bahrain is a thriving regional financial centre, as evidenced by the increasing number of institutions licensed and assets under management. The financial system includes a variety of institutions which provide products and services to both institutions and individuals. The CBB licensed 400 banks and financial institutions by end of 2007 (Table V-I).

Table V-I: Total number of licenses, 2007

Retail Banks	Islamic	6
	Conv.	23
Wholesale Banks	Islamic	19
	Conv.	66
Representative Offices	Islamic	4
	Conventional	31
Money Changers		19
Financing Companies		4
Investment Business Firms		34
Provider of Ancillary Services		11
Administrators		4
Trust Service Providers		1
Capital Market Brokers		13
Insurance Companies and Organizations		165
Total		400

Source: Central Bank of Bahrain

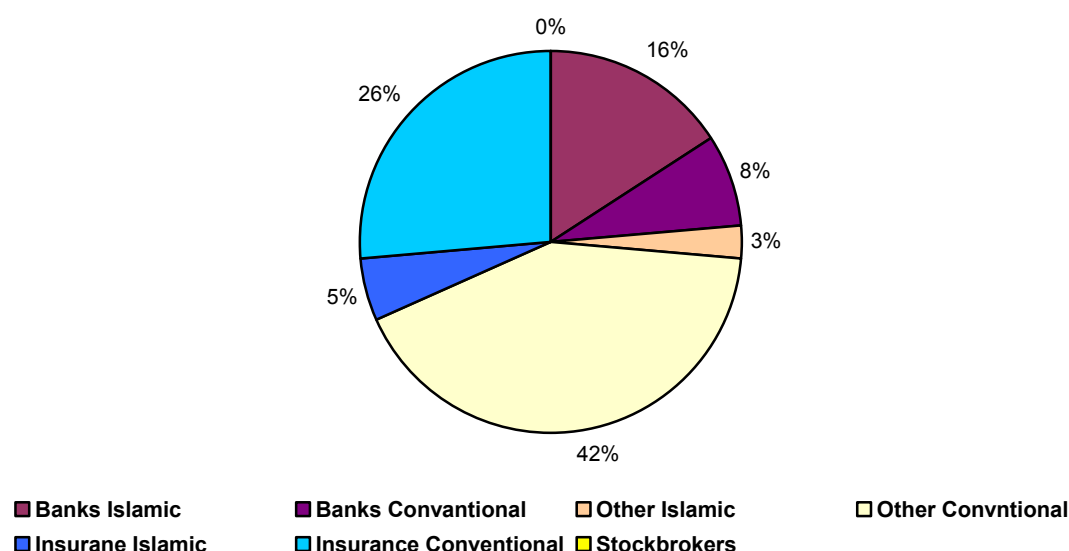
During 2007, the CBB issued a total of 38 new licenses for financial institutions operating in Bahrain (Table V-II). These licenses included 9 banking institutions (of which 6 are Islamic), 17 financial institutions (of which 1 is Islamic) and 12 insurance companies (of which 2 are Islamic).

Table V-II: New Licenses Issued, 2007

Banks	Islamic	6
	Conv.	3
Other Financial Institutions	Islamic	1
	Conv.	16
Insurance Companies	Islamic	2
	Conv.	10
Total		38

Source: Central Bank of Bahrain

Chart V-I: New licenses Issued, 2007



Source: Central Bank of Bahrain

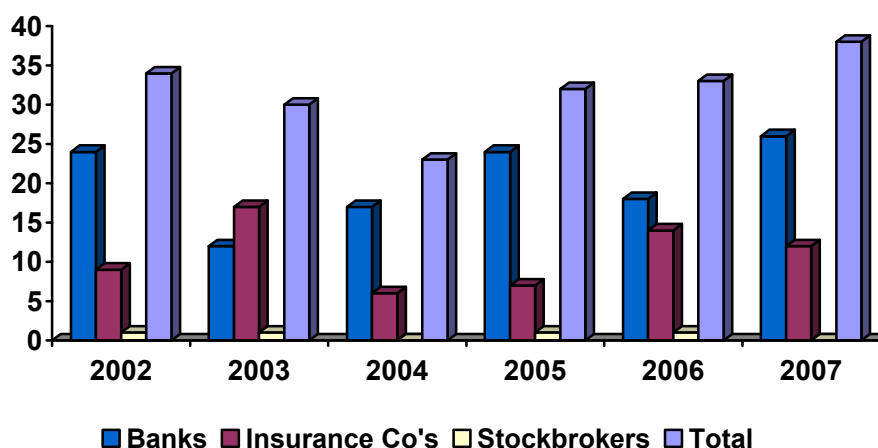
Historically, licenses have mostly been granted to banking institutions, however insurance companies have also grown, particularly during the last 2 years (Chart V-II). New licenses granted by the CBB for banking institutions amounted to 18 and 26 during the years 2006 and 2007 respectively, whilst new licenses for insurance companies have increased by 14 and 12 for the same years (Table V-III).

Table V-III: Historical Issuance of Licenses

	2002	2003	2004	2005	2006	2007
Banks	24	12	17	24	18	26
Insurance Co's	9	17	6	7	14	12
Stockbrokers	1	1	0	1	1	0
Total	34	30	23	32	33	38

Source: Central Bank of Bahrain

Chart V-II: Issuance of licenses, 2002-2007



Source: Central Bank of Bahrain

The banking system in Bahrain consists of two types of banks, retail banks and wholesale banks, with each category including both conventional and Islamic licenses. Retail banks carry out retail and commercial banking activities whilst wholesale banks are oriented towards merchant and investment banking activities. Both license types operate in both BD and foreign currencies. Representative offices, investment business firms and ancillary service providers provide sundry services the round off the banking sector.

The insurance sector comprises of insurance companies, representative offices, brokers, loss adjusters, consultants, ancillary services providers, managers and syndicates. Insurance companies also include Islamic insurance, which is known as Takaful.

During 2007, new Licenses were granted to 1 retail bank, 6 wholesale banks (4 of which are Islamic), 4 representative offices (2 of which are Islamic), 9 investment business firms, 2 administrators, 3 ancillary service provider (1 of which is Islamic), 1 money changer, 4 insurance companies (2 of which are Islamic), 1 insurance rep offices, 6 registered actuaries, and 1 loss adjuster.

Retail Banks

Overall, the retail banking sector enjoyed a good year in 2007. Total retail banks (conventional as well as Islamic licenses) continued performing well during the year.

The total assets of retail banks (including foreign assets) stood at BD 18.6 billion as at 31st December 2007, showing an increase of BD 9.9 billion or 113.8% over 2006 (Table V-IV). This growth is attributed to a substantial growth in foreign assets, which increased from BD 3,219.3 million at end-2006 to BD 10,570.3 million at end-2007, a growth of 228.3%.

In terms of domestic assets, claims on general government, the CBB and private non-banks (including loans and holdings of securities) also were responsible for the increase in total assets. Claims on government increased by BD 100.8 million from BD 161.5 million at end-2006 to BD 262.3 million at end-2007, an increase of 62.4%. Claims on the CBB increased dramatically, by BD 697.7 million or 197.3%, indicating high levels of liquidity in the banking system. Claims on private non-banks increased from BD 3,122.5 million at end-2006 to BD 4,323.7 at end-2007 or by 38.5%.

Table V-IV: Consolidated Balance Sheet of Retail Banks - Assets

		(BD Million)			
Items		2006	2007	% Change	
Domestic Assets	Cash	52.0	51.4	-1.2	
	CBB	353.6	1,051.3	197.3	
	Banks 1/	1,091.5	1,462.6	34.0	
	Private Non-Banks 2/	3,122.5	4,323.7	40.0	
	General Government	Loans	161.5	262.3	62.4
		Securities	407.1	350.5	-13.9
	Other	269.5	534.4	98.3	
Total Domestic Assets		5,457.7	8,036.2	47.3	
Foreign Assets		3,219.3	10,570.3	228.3	
Total Assets		8,677.0	18,606.5	114.4	

1/ Includes Head Offices and Affiliates

2/ Loans and Holdings of Securities

Source: Central Bank of Bahrain

Foreign assets of retail banks increased dramatically mainly because some banks changed license types at the beginning of the first quarter of 2007. Due to the new integrated licensing framework, certain banks have decided to convert their wholesale banking license (or previously known as investments bank or offshore banking units) to a retail license. By the end of 2007, 4

wholesale banks (previously as 1 investment bank and 3 offshore banks) changed their status to retail banks only.

In terms of liabilities, retail banks have higher domestic liabilities in comparison to foreign liabilities, indicating a high volume of domestic funding for foreign based exposures. However, the growth in foreign liabilities (including capital and reserves) has increased significantly due to wholesale banks changing status to retail banks.

At the end of 2007, total domestic liabilities stood at BD 10,191.2 million, growing by 52.5% from BD 6,682.2 million in 2007 (Table V-V). Total foreign liabilities (including capital and reserves) grew significantly, by 321.9% from BD 1,994.8 million in 2006 to BD 8,415.3 million in 2007 reflecting the reallocation of capital from wholesale to retail banks. Most of the growth in domestic liabilities was in the form of deposits with the CBB, which grew by 159.7%, however these only amounted to BD 97.4 million at the end of 2007. Liabilities to banks amounted to BD 2,017.3 million at end-2007, growing by 88.2% from BD 1,071.9 million at end-2006.

Table V-V: Consolidated Balance Sheet of Retail Banks - Liabilities

(BD Million)

	Items	2006	2007	% Change
Domestic Liabilities	Central Bank of Bahrain	37.5	97.4	159.7
	Banks	1,071.9	2,017.3	88.2
	Private Non-Banks 2/	3,826.3	5,351.6	39.9
	General Government 2/	771.7	951.3	23.3
	Other	177.3	349.0	96.8
	Capital & Reserves	797.5	1,424.6	78.6
Total Domestic Liabilities		6,682.2	10,191.2	52.5
Foreign Liabilities 1/		1,994.8	8,415.3	321.9
Total Liabilities		8,677.0	18,606.5	114.4

1/ Includes Capital and Reserves.

2/ Includes some non-deposit (non-monetary) liabilities.

Source: Central Bank of Bahrain

Wholesale Banks

Wholesale banks continued to have a good year during 2007. Aggregate data indicates that total wholesale bank assets increased by 19.5% to reach USD 196.3 billion at the end of 2007, up from USD 164.3 billion in 2006 (Table V-VI). The increase of domestic assets was mainly due to private non-banks (including securities) which grew by 44.4% during 2007, from USD 2,113.2 million in 2006 to USD 3,051.2 million in 2007.

In terms of foreign assets, wholesale banks largest increase was in the funding of non-banks, which grew by 39.9% from USD 42,867.3 million in 2006 to USD 59,958.9 million in 2007. Non-bank assets are followed second by head offices and affiliates, which reached USD 53,908.2 million, growing by 13.6%.

The increase in non-bank foreign assets is most likely a reflection of an increased appetite for safer investments from foreign entities that may be suffering from losses after the advent of the global credit crisis in mid-2007. This is supported by the sudden increase in foreign non-bank assets, which increased by just over USD 8 billion from the period July 2007 to December 2007.

Table V-VI: Consolidated Balance Sheet of Wholesale Banks – Assets
(USD Million)

Items		2006	2007	% Change
Domestic Assets	Banks 1/	9,802.8	11,325.7	15.5
	Private Non-Banks 2/	2,113.2	3,051.2	44.4
	General Government 2/	347.5	436.2	25.5
	Other	853.5	1,367.6	60.2
Total Domestic Assets		13,117.0	16,180.7	23.4
Foreign Assets	Banks	22,974.8	23,006.4	0.14
	Non-Banks	42,867.3	59,958.9	39.9
	Securities	37,035.6	42,357.4	14.4
	H.O. & Affiliates	47,456.0	53,908.2	13.6
	Other	812.5	926.9	14.1
Total Foreign Assets		151,146.2	180,157.8	19.2
Total Assets		164,263.2	196,338.5	19.5

1/ Includes Head Offices and Affiliates

2/ Includes Securities

Source: Central Bank of Bahrain

With regard to wholesale bank liabilities, most of the increase during the year 2007 was from private non-banks and other liabilities (including capital and reserves) on the domestic side, which grew by 19.6% and 21.8% respectively (Table V-VII).

Table V-VII: Consolidated Balance Sheet of Wholesale Banks - Liabilities

(USD Million)

Items		2006	2007	% Change
Domestic Liabilities	Banks 1/	9,942.2	10,063.0	1.2
	Private Non-Banks	1,460.5	1,746.1	19.6
	General Government	1,013.3	757.6	-25.2
	Other 2/	3,878.3	4,722.9	21.8
Total Domestic Liabilities		16,294.3	17,289.6	6.1
Foreign Liabilities	Banks	50,855.0	63,125.9	24.1
	Non-Banks	32,348.4	37,233.2	15.1
	Securities	3,607.3	4,798.8	33.0
	H.O. & Affiliates	49,283.7	61,912.1	25.6
	Other 2/	11,874.5	11,978.9	0.9
Total Foreign Liabilities		147,968.9	179,048.9	21.0
Total Liabilities		164,263.2	196,338.5	19.5

1/ Includes Head Offices and Affiliates

2/ Includes Capital and Reserves

Source: Central Bank of Bahrain

The largest component of foreign liabilities is banks, which reached USD 63,125.9 million at the end of 2007 and increased by 24.1%. This was followed closely by head offices and affiliates which reached USD 61,912.1 million and also grew briskly at 25.6%. On balance, the composition of wholesale bank liabilities shows that there is still some concentration in foreign positions and funding indicating continued eagerness for international transactions and investment in Bahrain, despite global turmoil.

Islamic Banks

Bahrain hosts one of the world's oldest Shari'a compliant financial sectors, which has grown significantly over the past few years. Islamic banking has been growing at a fast pace given high liquidity levels in the region and the increasing preference for Islamic transactions. Given this new interest and growth, the Islamic banking sector in Bahrain has grown substantially.

Table V-VIII: Consolidated Balance Sheet of Islamic Banks - Assets

(USD Million)

Items		2006	2007	% Change
Domestic Assets	Cash	21.2	17.9	-15.6
	Investment with Banks 2/	3,065.6	4,288.9	39.9
	Investment with Private Non-Banks	1,986.5	3,590.6	80.8
	Investment with Government	81.9	144.3	76.2
	Other	651.7	1,462.5	124.4
Total Domestic Assets		5,806.9	9,504.2	63.7
Foreign Assets	Investment with Banks	1,975.7	1,409.9	-28.6
	Investment with Private Non-Banks	1,422.5	2,437.8	71.4
	Securities	859.5	1,156.4	34.5
	H.O. & Affiliates	1994.0	1,676.8	-15.9
	Other	149.7	244.9	63.6
Total Foreign Assets		6,401.4	6,925.8	8.2
Total Assets 1/		12,208.3	16,430.0	34.6

1/ Includes Unrestricted Investment Accounts

2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

The consolidated balance sheet of Islamic banks (retail and wholesale banks) grew by 34.6% during the year 2007 with the overall growth being fuelled by domestic assets (Table V-VIII).

Domestic investments have increased significantly across the board. Investment with banks (including head offices and affiliates) grew by 39.9%, from USD 3,065.6 million to USD 4,288.9 million whilst investment with private non-banks experienced an increase of double that, growing from USD 1,986.5 million to 3,590.6 million or by 80.8%. Government investments have also increased by 76.2%, reflecting increased participation with government entities.

In terms of foreign assets, private non-bank investments have been the major contributor, growing 71.4% from USD 1,422.5 million in 2006 to USD 2,437.8 million in 2007; this reflects the preference of foreign individuals for Islamic investments and particularly the high liquidity in the region.

Table V-IX: Consolidated Balance Sheet of Islamic Banks – Liabilities

(USD Million)

Items		2006	2007	% Change
Domestic Liabilities	Banks 2/	2,253.5	2,578.9	14.4
	Private Non-Banks	1,867.7	3,337.6	78.7
	General Government	219.6	236.5	7.7
	Capital and Reserves	2,238.5	3,893.4	73.9
	Other	258.4	412.3	59.6
Total Domestic Liabilities		6,837.7	10,458.7	53.0
Foreign Liabilities	Banks	2,242.6	3,244.9	44.7
	Non-Banks	1,369.8	1,286.6	-6.1
	H.O. & Affiliates	52.2	42.5	-18.6
	Capital and Reserves	1,659.5	1,330.8	-19.8
	Other	46.5	66.5	43.0
Total Foreign Liabilities		5,370.6	5,971.3	11.2
Total Liabilities 1/		12,208.3	16,430.0	34.6

1/ Includes Unrestricted Investment Accounts

2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

Liabilities, like assets are mostly also domestically domiciled and have been growing faster, showing increased faith by investors and depositors in the Islamic products and services offered. Foreign liabilities on the other hand have mostly been shrinking.

Total domestic liabilities grew by 53.0%, mostly led by capital and reserves and private non-bank liabilities, showing the establishment of new banks as well as increasing the levels of non-bank investment in Islamic products (Table V-IX). Private non-bank liabilities grew by 78.7% from USD 1,867.7 million in 2006 to 3,337.6 million in 2007, whilst capital and reserves increased from USD 2,238.5 million in 2006 to 3,893.4 million in 2007, a growth of 73.9%.

Foreign liabilities grew by a total of 11.2%, led predominantly by banks, which grew by 44.7% from USD 2,242.6 million in 2006 to 3,244.9 million in 2007. Liabilities to foreign non-banks, head offices and affiliates and capital decreased by 6.1%, 18.6% and 19.8% respectively whilst other foreign liabilities increased by 43.0%.

Consolidated Banking System

The consolidated balance sheet for the banking system (retail and wholesale banks) increased to reach USD 245.8 billion by the end of 2007, compared to

USD 187.3 billion at the end of 2006, an increase of USD 58.5 billion, or 31.2% (Table V-X). Wholesale banks represented 79.9% of the total balance sheet whilst retail banks represented 20.1%.

Table V-X: Consolidated Balance Sheet of the Banking System

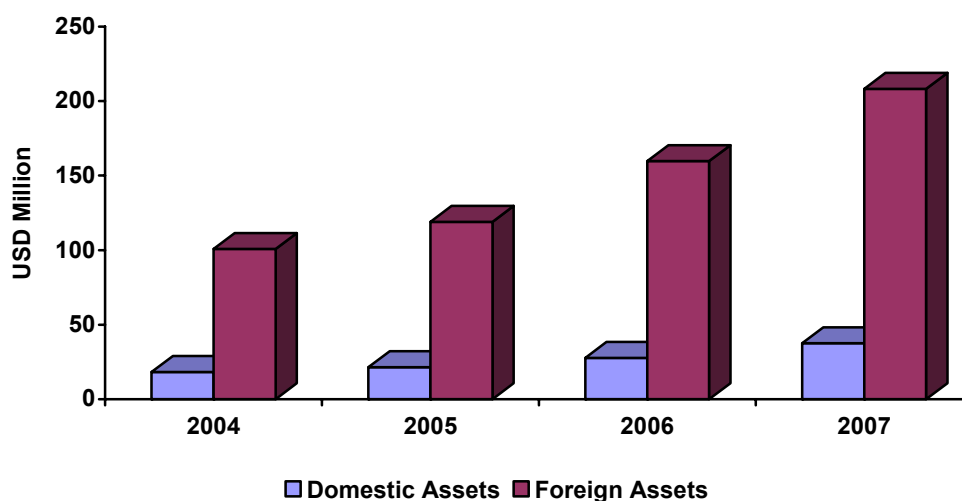
(USD Billion)

Items	Year-end		% Change
	2006	2007	
Retail Banks	23.0	49.5	115.2
Wholesale Banks	164.3	196.3	19.5
Total	187.3	245.8	31.2

Source: Central Bank of Bahrain

In total, domestic banking assets were smaller than foreign assets and amounted to USD 37.5 billion at the end of 2007 compared to USD 27.6 billion at the end of 2006, registering an increase of USD 9.9 billion (35.9%). Foreign assets amounted to USD 208.3 billion at the end of 2007 compared to USD 159.7 billion at the end of 2006, an increase of USD 48.6 billion (30.4%).

Chart V-III: Domestic and Foreign Assets of the Banking System



Source: Central Bank of Bahrain

With regard to liabilities, domestic liabilities rose to USD 44.4 billion at the end of 2007 compared to USD 34.0 billion at the end of 2006, an increase of USD 10.4 billion (30.6%). Total foreign liabilities increased at the end of 2007 by USD 48.1 billion (31.4%) to reach USD 201.4 billion against USD 153.3 billion at the end of 2006. Like assets, domestic liabilities are large relative to foreign liabilities.

Chart V-IV: Domestic and Foreign Liabilities of the Banking System



Source: Central Bank of Bahrain

Geographically, the banking systems balance sheet 2007 shows mixed trends. Relative to previous years, there is a greater diversification of the balance sheet assets, however on the liabilities side, there has been increased concentration.

Table V-XI: Geographical Classification of the Banking System's Assets/Liabilities

(BD Billion)

Items	Year					
	2005		2006		2007	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	21.4	27.2	27.6	34.1	37.6	44.4
GCC	36.2	38.0	54.2	56.0	80.0	67.4
Other Arab Countries	3.0	9.1	3.5	11.9	5.3	16.2
Americas	25.6	9.8	29.0	15.0	26.9	15.6
Western Europe	38.7	43.0	55.9	50.4	75.9	78.8
Asia	12.0	12.4	12.9	17.6	15.1	21.4
Other	3.1	0.8	4.2	2.3	5.1	2.0
Total	140.4	140.3	187.3	187.3	245.8	245.8

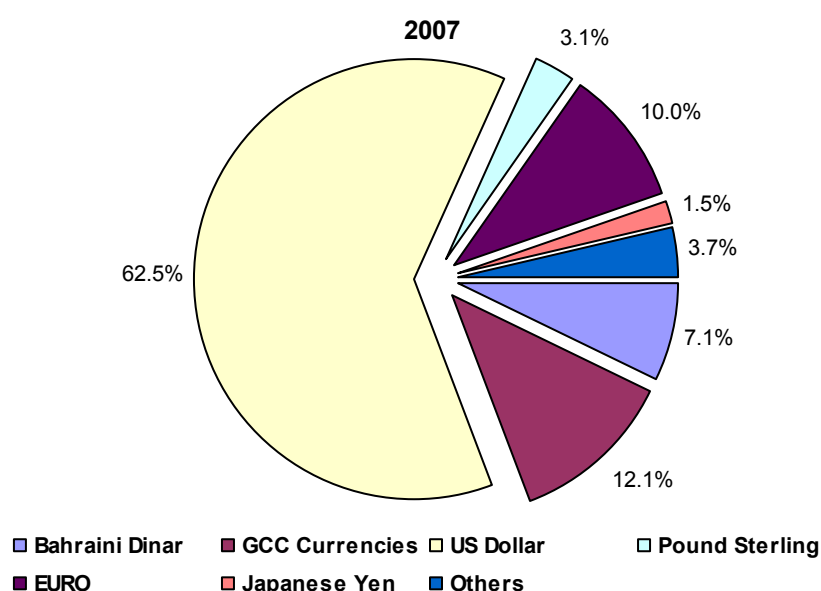
Source: Central Bank of Bahrain

The banking system assets over time have been mainly concentrated in GCC and European economies. From the period 2005 to 2007, the GCC share of total assets increased from 26.0% to 32.5% and Europe's share of total assets increased from 26.7% to 30.9% for the same period (Table V-XI). Assets in the Americas have decreased the most, with their share of total assets falling from 18.2% in 2005 to 10.9% in 2007.

The trends for liabilities indicate that Europe accounts for 32.1% of total liabilities. Europe is closely followed by the GCC and Bahrain who account for 27.4% and 18.1% of total liabilities respectively.

The currency structure of the banking system shows that in 2007, most assets are denominated in US Dollar. This is mainly due to the fixed exchange rate regime, which adds to the certainty and predictability of banking business. US Dollar denominated assets accounted for 62.5% of total assets, followed by GCC countries, which account for 12.1% of total assets (Chart V-V). The Euro is the non fixed exchange rate currency with the highest assets with 10.0% of total assets.

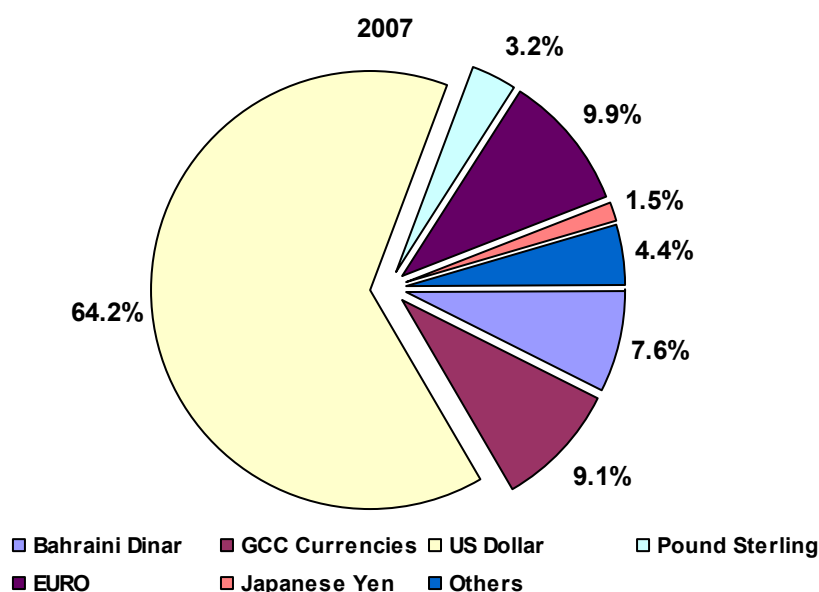
Chart V-V: Currency Structure of the Banking System's Assets



Source: Central Bank of Bahrain

Similarly, the liabilities by currency are mostly of US Dollar, GCC currencies and the Euro. US Dollar liabilities accounted for 64.2% of total liabilities and the GCC and Euro accounted for 9.1% and 9.9% of total liabilities respectively (Chart V-VI). Relative to assets, BD denominated liabilities are slightly higher than assets, registering 7.6% of total liabilities compared to 7.1% of total assets.

Chart V-VI: Currency Structure of the Banking System's Liabilities



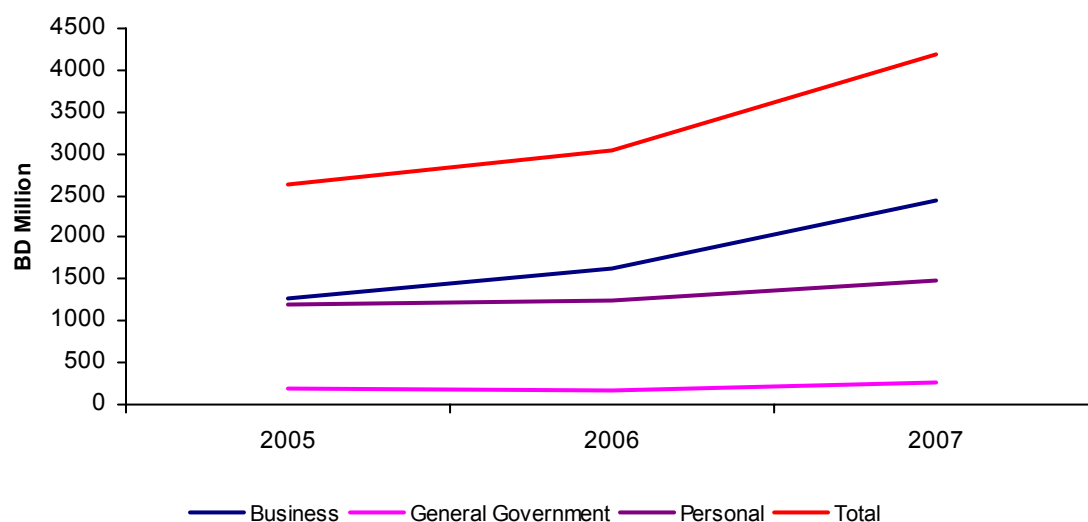
Source: Central Bank of Bahrain

Domestic Credit

Given the positive growth that Bahrain has been experiencing, credit facilities have been showing an upsurge for the majority of the economic sectors operating in the Kingdom. Total outstanding credit facilities extended by retail banks to the different sectors of the domestic economy amounted to BD 4,183.9 million at end of 2007, compared to BD 3,033.4 million at end-2006 and BD 2,623.5 million at end-2005 increasing by nearly 60% in just two years (Chart V-VII).

Total domestic credit has increased by 15.6% by end-2006 and 37.9% at end-2007 with the highest increase being a 12.3% growth in the third quarter. Private sector credit (business and personal) shows a similar pattern, with a yearly growth of 18.6% in 2006 and 36.5% in 2007, indicating that the lending boom to households and business enterprises is persisting.

Chart V-VII: Domestic Credit by Sectors



Source: Central Bank of Bahrain

In terms of composition, the private sector (business and personal combined) received the bulk of domestic credit, ranging from 94% to 95% of total loans throughout 2007 (Table V-XII). The business sector accounts for the majority of credit facilities extended, overtaking personal sector credit growth. This signifies the ever improving role of the banking sector in business growth. As a percentage of total facilities, outstanding business sector facilities accounted for 58.1% at end-2007, up from 53.4% in 2006 and 46.8% in 2005.

Personal sector credit facilities accounted for 35.6% at end-2007, decreasing from 41.3% in 2006 and 45.5% in 2005. General government credit has been usually low in comparison, accounting for 6.3% in 2007, 5.3% in 2006 and 7.7% in 2005.

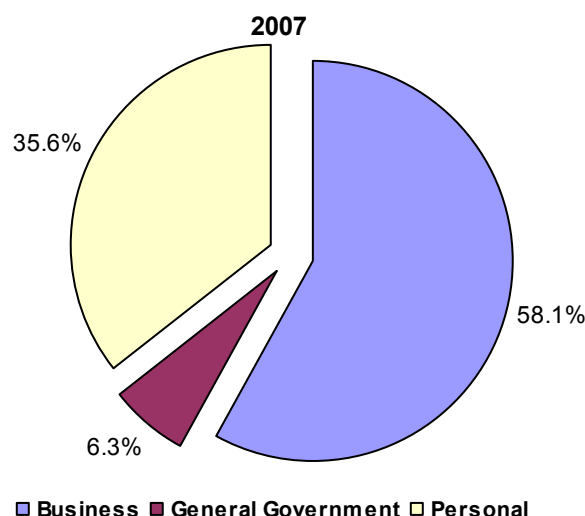
Table V-XII: Domestic Credit by Sector

(BD Million)

Sectors	End-2005		End-2006		End-2007	
	Value	% Share	Value	% Share	Value	% Share
Business	1226.9	46.8	1,619.0	53.4	2,432.0	58.1
General Government	202.6	7.7	161.5	5.3	262.3	6.3
Personal	1,194.0	45.5	1,252.9	41.3	1,489.6	35.6
Total	2,623.5	100.0	3,033.5	100.0	4,183.9	100.0

Source: Central Bank of Bahrain

Chart V-VIII: Domestic Credit by Sector



Source: Central Bank of Bahrain

Outstanding facilities to the business sector increased by 32.0%, from BD 1,226.9 million at end-2005 to BD 1,619.1 million at end-2006 and by 50.2% from BD 1,619.1 million at end-2006 to BD 2,432.0 at end-2007. During 2007, business lending expanded by 42.4% from BD 1,708.1 million in the first quarter of 2007 to BD 2,432.0 million in the last, concurrently increasing its share of total domestic credit from 53.1% to 58.1%. Business credit showed a major increase of 26.2% during the 3rd quarter of 2007 (Table V-XIII).

Table V-XIII: Business Loans by Sector

(BD Million)

Sectors	2007*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Manufacturing	296.4	9.2	290.6	8.4	369.0	9.5	425.4	10.2
Mining & Quarrying	3.2	0.1	3.0	0.1	16.7	0.4	8.0	0.2
Agriculture & Dairy	6.5	0.2	6.0	0.2	5.7	0.1	6.4	0.1
Construction & Real Estate	508.8	15.8	598.0	17.3	711.7	18.4	776.6	18.6
Trade	597.2	18.6	540.9	15.7	650.4	16.8	735.3	17.6
Non-Bank Financial	97.9	3.0	102.0	2.9	144.8	3.7	171.0	4.1
Other Sectors, of which:	198.1	6.2	257.8	7.5	370.3	9.6	309.3	7.4
Transport & Comms.	46.5	1.4	60.2	1.7	111.8	2.9	95.5	2.3
Hotels & Restaurants	24.1	0.7	35.7	1.0	54.4	1.4	44.3	1.1
Total Business Loans	1,708.1	53.1	1,798.3	52.1	2,268.6	58.5	2,432.0	58.1

*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

Loans to the construction and real estate segment accounted for the largest share of business loans at 31.9%, with the trade sector being in second place at 30.2%. Most of the growth in business loans in 2007 was attributed to the manufacturing, construction and real estate, and trade sectors.

Outstanding credit facilities to the personal sector increased by 4.9% from BD 1,194.0 million at end-2005 to BD 1,252.9 million at end-2006 and by 18.9% to BD 1,489.6 million at end-2007. Personal loans showed an 8.5% increase in the first quarter of 2007 (Table V-XIV). Even though personal loans showed an overall increase in 2007, its share of total domestic credit decreased from 42.2% at the beginning of 2007 to 35.6 at the end, which was offset by an increase in lending to the general government.

Table V-XIV: Personal Domestic Credit by Sector

(BD Million)

	2007*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Secured by								
Property Mortgage	262.6	8.1	272.9	7.9	273.4	7.1	376.0	9.0
Vehicle Title	93.1	2.9	99.7	2.9	97.8	2.5	113.2	2.7
Deposits	28.2	0.9	26.6	0.8	28.7	0.7	25.6	0.6
Salary Assignment	762.4	23.7	777.9	22.5	721.5	18.6	675.7	16.2
Credit Card Receivables	69.5	2.1	69.1	2.0	74.6	1.9	75.4	1.8
Other	143.8	4.5	196.1	5.7	215.8	5.6	223.7	5.3
Total	1,359.6	42.2	1,442.3	41.8	1,411.8	36.4	1,489.6	35.6

*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

Personal loans constituted 38.0% of outstanding private sector credit. Salary assigned loans represented the largest proportion of personal loans throughout 2007, reaching a high of 53.9% and 51.1% in the second and third quarter of 2007 before moderating to 45.4% of total personal loans at the end of the year. Salary assigned loans and those secured by property mortgage made up for 70.6% of all personal loans by the end of 2007.

Government credit outstanding decreased by 20.3% to BD 161.5 million at end-2006, compared with BD 202.6 million at end-2005. By the end of 2007, lending to general government increased significantly by 62.4%.

Credit Card Survey

The CBB conducted its eighth annual credit card survey during 2007. There has been a significant growth in credit card business in Bahrain as the total number of credit card customers increased by record levels. The Credit Card survey for 2007 showed an increase in the total credit card customers by 20,685 (13.1%), registering a total of 179,150 customers at end-2007 (Table V-XV). The number of credit card accounts also increased by 4.2% from 136,473 in 2006 to 142,166 in 2007.

Table V-XV: Credit Card Data

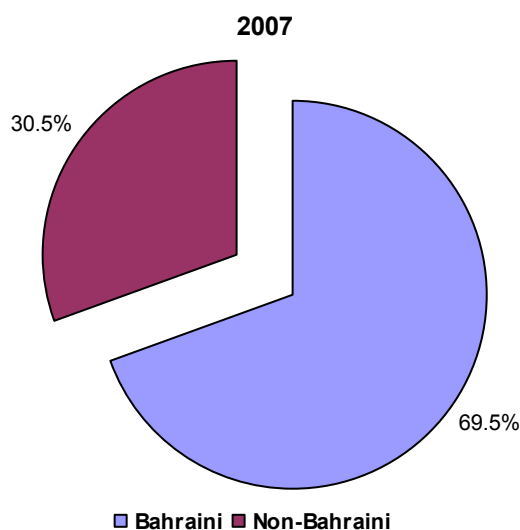
	2006	2007	% Change
Total Number of Customers	158,465	179,150	13.1
Bahraini	115,392	124,494	7.9
Non Bahraini	43,073	54,656	26.9
Number of Accounts	136,473	142,166	4.2
of which: rollover Accounts	108,763	104,917	-3.5
Overdue Accounts	26,866	28,181	4.9
Total Limits (BD Million)	184.6	221.6	20.1
Total Outstanding (BD Million)	91.8	97.2	5.9
of which: Delinquency Amounts	16.4	23.7	44.6
Amount of Credit Card written-off	2.2	5.5	151.5
Rollover Amounts	36.6	53.2	45.4
Interest Rates	20.5	21.0	2.4

Source: Central Bank of Bahrain

Bahrainis represented 69.5% of the total number of credit card holders showing a decrease from the 72.8% in 2006 (Chart V-IX). In recent years non-Bahraini credit card customers have also increased reaching 30.5% in 2007. This is in contrast to the year 2000, where the Bahraini customers accounted for 78.1% and non-Bahrainis 21.9%.

The number of rollover accounts with outstanding balances at end-2007 decreased by 3.5%, and totalled 104,917. Overdue accounts increased by 4.9% or 1,315 accounts at end-2007, compared with end-2006.

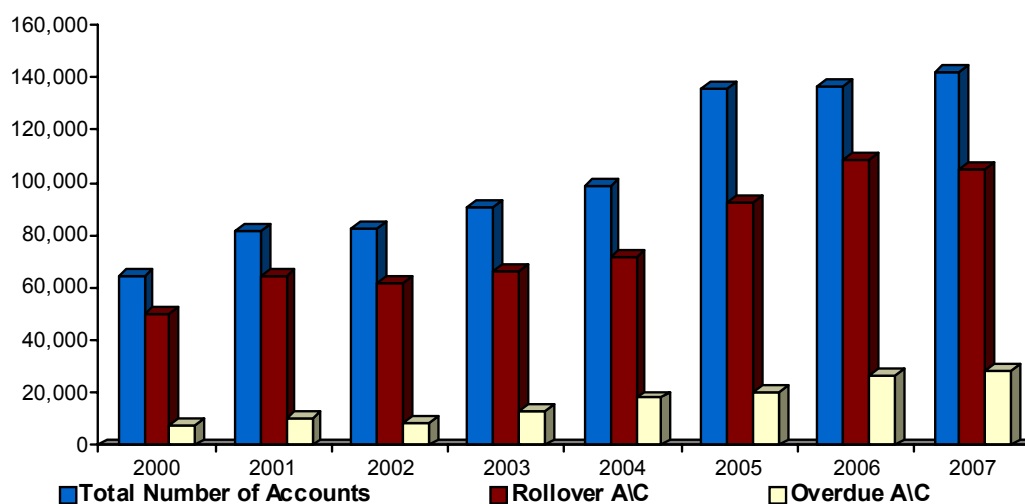
Chart V-IX: Credit Card Customers



Source: Central Bank of Bahrain

A higher number of Bahraini credit card customers have shared or linked accounts in comparison to non-Bahraini customers.

Chart V-X: Credit Card Accounts

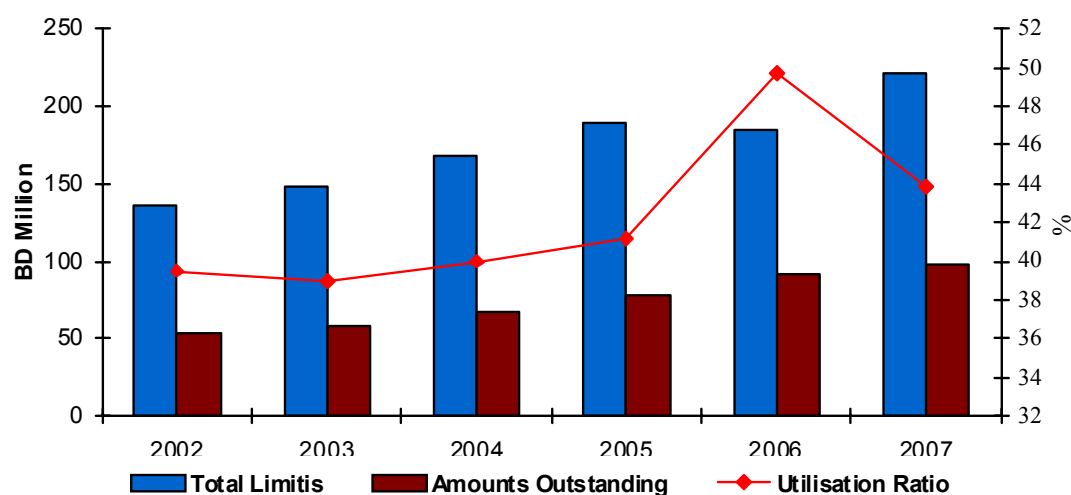


Source: Central Bank of Bahrain

The total number of accounts has been increasing since the year 2000. Rollover accounts have generally been decreasing while overdue accounts have been increasing relative to the total number of accounts (Chart V-X). The increase in total accounts indicates growth in the credit card market, whilst the higher numbers of overdue and rollover accounts has shown more card usage.

An analysis of the total amounts outstanding reveals that rollover as well as delinquency amounts have increased, whilst card write offs decreased in 2007. Rollover amounts reached BD 53.2 million at end-2007, making up 54.7% of the total amount outstanding. It has increased by BD 16.6 million from the year 2006. The rollover amount is a reflection of borrowed credit by customers on their accounts. Utilisation of limits has decreased due to banks extending more credit cards and higher limits. The utilisation ratio for 2007 was 43.9% in comparison to 49.7% in 2006.

Chart V-XI: Total Limits and Amounts Outstanding



Source: Central Bank of Bahrain

Delinquency amounts in the survey represent overdue amounts that have exceeded 90 days. The amount of delinquent credit increased by BD 7.3 million (44.5%), reaching a total of BD 23.7 million at end-2007 compared with BD 16.4 at end-2006 causing the delinquency ratio to increase to 24.3%. Amounts of credit cards written off has increased by 150.0% in 2007 recording BD 5.5 million at end-2007, compared with BD 2.2 million at end-2006.

Mutual Funds

In line with the overall growth of the financial sector, the mutual funds industry in Bahrain has continued to grow over the last few years. Retail and wholesale banks, representative offices and other institutions market mutual funds to both individual and institutional investors. During 2007, the total amount of outstanding investments for all types of banks has increased by 72.7%, from USD 9,034.0 million to at end-2006 to USD 15,605.2 million at end-2007 (Table V-XVI).

In terms of type of institution, wholesale banks had the highest amount of outstanding investments, followed secondly by retail banks and then other institutions. At the end of 2007, wholesale banks had USD 7,395.7 million outstanding investments in mutual funds, retail banks had USD 4,528.5 million outstanding and other institutions had USD 3,511.0 million outstanding. During the 3rd quarter of 2007, retail banks overtook wholesale banks in outstanding investments, mainly due to international developments; however this amount rebounded by the end of the year.

Table V-XVI: Mutual Funds – Total Outstanding Investments, 2007

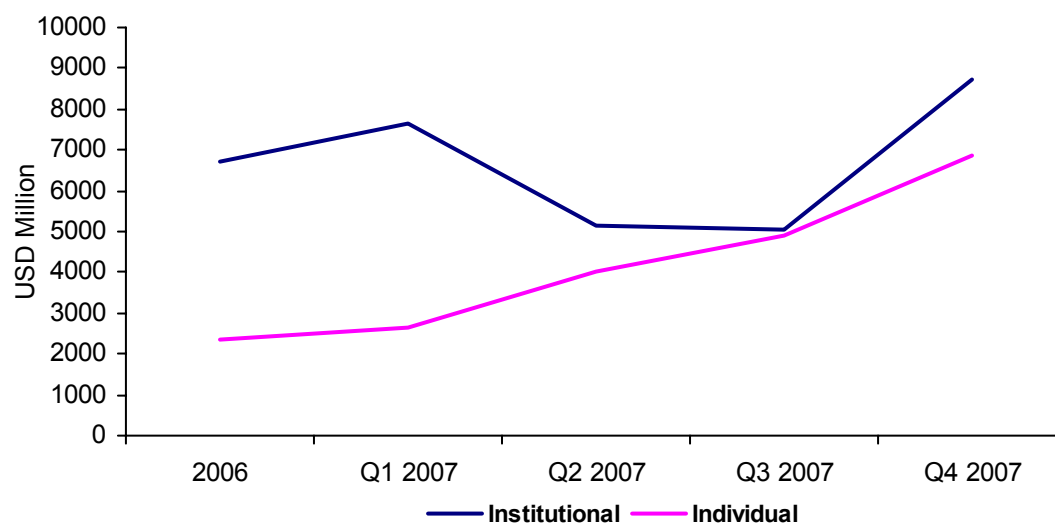
(USD Million)

Type of Bank	2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Retail Banks	1,286.1	1,336.7	2,713.2	3,647.5	4,528.5
Wholesale Banks	5,483.7	5,792.6	3,409.4	3,275.6	7,395.7
Representative Offices	231.9	683.8	269.3	251.6	170.1
Other	2,032.3	2,489.9	2,754.6	2,769.0	3,511.0
Grand Total	9,034.0	10,303.0	9,146.4	9,943.7	15,605.2

Source: Central Bank of Bahrain

The split of mutual fund investments have usually been in favour of institutional investors, but by the end of 2007, there was an upsurge in the amount of individual investors (Chart V-XII). Individual investments in mutual funds increased by 194.4% from USD 2,331.2 million at end-2006 to USD 6,863.3 million at end-2007. Relative to individual investments, institutional investments have been growing at a steadier pace. During 2007, institutional investment in mutual funds grew by 30.4%, from USD 6,702.8 million at end-2006 to USD 8,741.9 million at end-2007.

Chart V-XII: Individual and Institutional Mutual Fund Investments



Source: Central Bank of Bahrain

Manpower Survey

The CBB annual manpower survey showed an increase in the number of employees in the financial sector (banks and non-banks) of 22.6% compared with the 18.0% in 2006 (Table V-XVII). Bahraini employment in the financial sector increased by 17.5% while non-Bahraini employment increased by 35.8%. Even though there was an increase in Bahraini employment in 2007, Bahrainis represented 69.0% of the total number of employees, indicating a decrease from the 72.0% in 2006.

Table V-XVII: Number of Employees in the Financial Sector

Sectors	2006			2007			% Change
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total	
Banks	5,316	1,822	7,138	6,241	2,367	8,608	20.6
Retail Banks	3,200	628	3,828	3,786	903	4,689	22.5
Wholesale Banks	2,085	1,149	3,234	2,414	1,409	3,823	18.2
Representative Offices	31	45	76	41	55	96	26.3
Non-Banks	1,317	877	2,194	1,626	1,306	2,932	33.6
Insurance Companies	761	375	1,136	763	397	1,160	2.1
Insurance Related Activities Companies	24	55	79	152	217	369	367.1
Money Changers	217	332	549	244	444	688	25.3
Stock Brokers	43	15	58	47	15	62	6.9
Financing Companies	138	13	151	167	13	180	19.2
Investment Business Firms	75	64	139	133	148	281	102.2
Other *	59	23	82	120	72	192	134.1
Other Institutions	385	35	420	381	39	420	0.0
Total	7,018	2,734	9,752	8,248	3,712	11,960	22.6

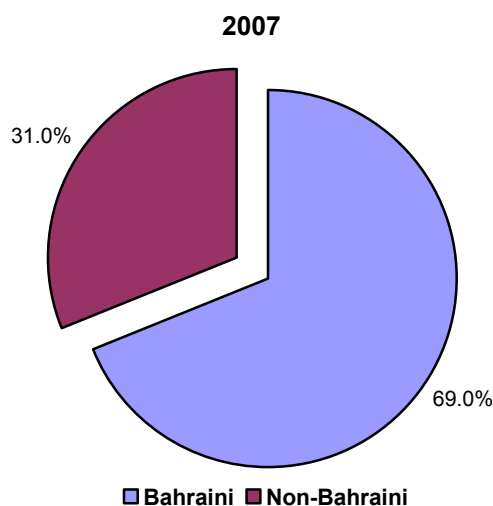
* Includes provider of Ancillary Services, Trust Service Providers and Registered Administrators

Source: Central Bank of Bahrain

Total employment in banks (retail banks, wholesale banks, representative offices, excluding specialised banks and other institutions) reached 8,608 at end-2007, compared to 7,138 at end-2006, indicating an increase of 20.6%.

Bahrainis represented 72.5% of the work force in the banking sector compared with 74.5% in 2006 (Chart V-XIII).

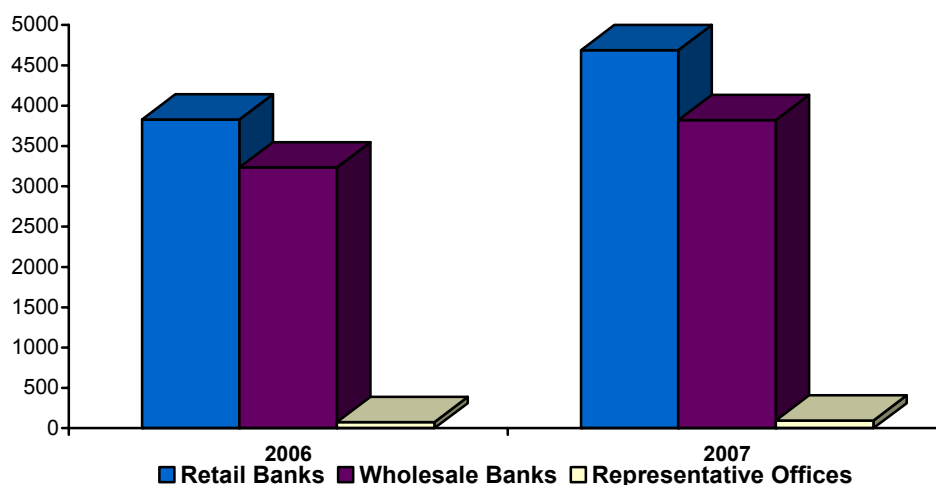
Chart V-XIII: Bahraini and Non-Bahraini Employment in the Financial Sector



Source: Central Bank of Bahrain

There were double digit increases in the employment in retail banks, wholesale banks, and representative offices. The increase in Bahraini employment comprised 55.7% of the increase in the employment in the banking sector for 2007 (Chart V-XIV).

Chart V-XIV: Employment in the Banking Sector

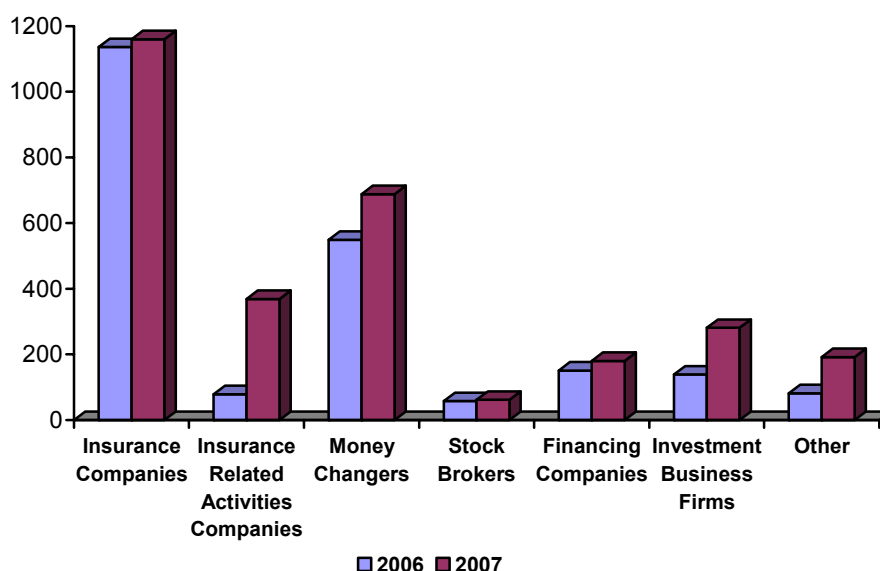


Source: Central Bank of Bahrain

Total employment in the non-bank financial sector reached 2,932 at end-2007, compared with 2,194 at end-2006, an increase of 33.6%. Bahrainis accounted for 55.5 % of the total in the non-bank financial sector.

The biggest increases in employment in the non-banking sector was in insurance related activities companies and investment business firms showing increases of 376.1% and 102.2% respectively (V-XV). The increases were mainly by non-Bahrainis, where the number of non-Bahrainis nearly quadrupled in insurance related activities companies and more than doubled for investment business firms. The increase is attributed mostly to non-Bahrainis who comprised 32.8% of the total increase in employment for the non-banking sector in 2007.

Chart V-XV: Employment in the Non-Banking Sector



Source: Central Bank of Bahrain

The increase is explained by an increase in the number of licenses issued for non-bank financial institutions. In 2007, the number of licenses for Investment business firms increased by 7. Licenses for insurance related activities companies increased from 71 to 90 licenses in one year.

VI. Public Finance

The Bahrain government has recorded consecutive budget surpluses for the past 5 years. This has been due to a prudent policy of using conservative price estimates for oil relative to higher quoted world market prices. Actual expenditures have also been lower than estimates. With oil prices not expected to fall in the foreseeable future and government entities reducing costs, it is anticipated that there will be continued surpluses in the coming years.

Total revenues for the year 2007 increased by 10.7% to reach BD 2,036.7 million compared to BD 1,839.6 million at the end of 2006 (Table VI-I). Relative to the budgeted BD 1,660.6 million for 2006, actual revenues were BD 376.1 million or 22.6% higher.

Table VI-I: Summary of Public Finance

(BD Million)

	2004	2005	2006	2007
Revenues	1,300.4	1,671.4	1,839.6	2,036.7
Oil & Gas	943.8	1,265.3	1,416.7	1,630.5
Non-Oil	356.6	406.1	422.9	406.2
Expenditure	1,104.6	1,289.2	1,558.5	1,818.1
Current	864.0	1,024.2	1,101.3	1,331.1
Project	240.6	265.0	457.2	487.0
Strategic Projects	50.6	0	0	0
Surplus/Deficit Before Rollover	145.2	382.2	281.1	218.6
Rollover for the Period				
Project	85.2	114.7	135.8	171.9
Current	0	10.2	3.7	3.8
Total Rollover	85.2	124.9	139.5	175.7
Net Surplus/Deficit After Rollover	60	257.3	141.6	42.9
As a % of GDP	1.4	5.1	2.4	-

Source: Ministry of Finance

Total expenditure increased by 16.7% at the end of 2007 to reach BD 1,818.1 million, up from BD 1,558.5 million in 2006. Actual expenditure was 10.6% lower than the budget estimates for 2007 which were budgeted at BD 2,033.2 million.

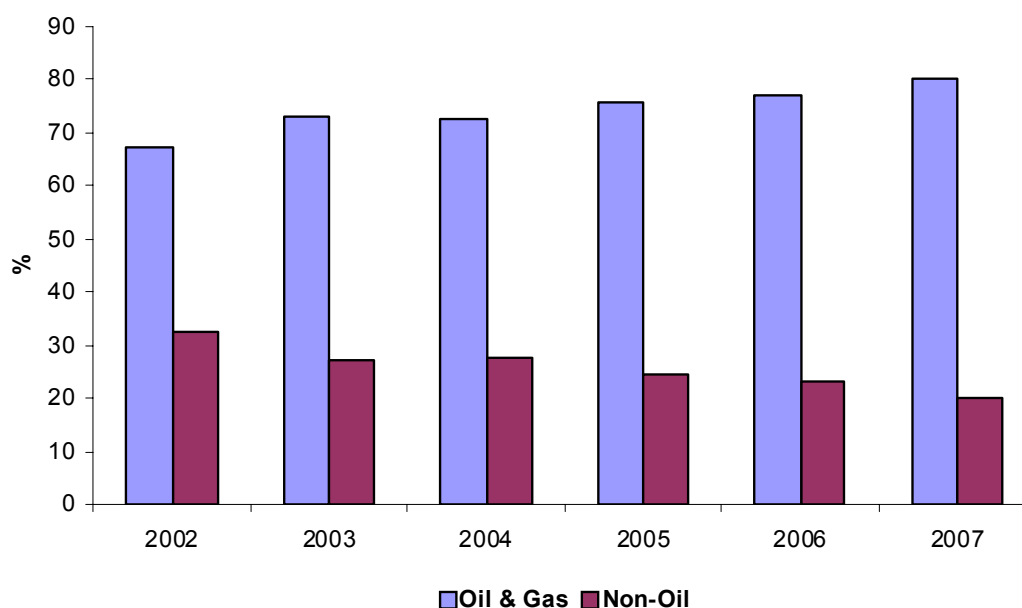
Rollover amounts are usually carried forward to project and current expenditure accounts for the following year. The rollover amount has increased from BD 139.5 million in 2006 to BD 175.7 million in 2007, or by 25.9%.

Most of the rollover goes towards project expenditure, which is in line with the government's policy of building and investing for the future. Projects rollover increased from BD 135.8 million in 2006 to BD 171.9 million in 2007, or by 26.6%; total project rollover also constituted 97.8% of the total rollover.

Revenues

Revenue data shows that oil revenues have become a larger constituent of total revenues over the past 5 years. In 2007, the actual oil revenue of BD 1,630.5 million was 32.0% higher than the budgeted amount of BD 1,235.0 million (Table VI-II). Oil revenues a percentage of total revenues increased from 67.3% in 2002 to 80.1% in 2007. Consequently, non-oil revenues have been decreasing 32.7% in 2002 to 19.9% in 2007 (Chart VI-I).

Chart VI-I: Oil and Non-Oil Revenues as a % of Total Revenues



Source: Ministry of Finance

A breakdown of revenues shows that aside from oil, budgeted amounts for the sale of capital assets, taxation and fees, fines, penalties and miscellaneous items were below actual revenues, registering 600.0%, 8.6% and 33.0% increases respectively.

Table VI-II: Government Revenue – Actual vs. Budgeted, 2007

(BD Million)

Items	Budgeted	Actual	% Difference
Oil & Gas	1,235.0	1,630.5	32.0
Taxation & Fees	143.9	156.3	8.6
Government Goods & Services	133.0	117.3	-11.8
Investments & Government Properties	100.2	78.8	-21.4
Grants	37.6	35.9	-4.5
Sale of Capital Assets	0.6	4.2	600.0
Fines, Penalties & Misc.	10.3	13.7	33.0
Total Revenue	1,660.6	2,036.7	22.6

Source: Ministry of Finance

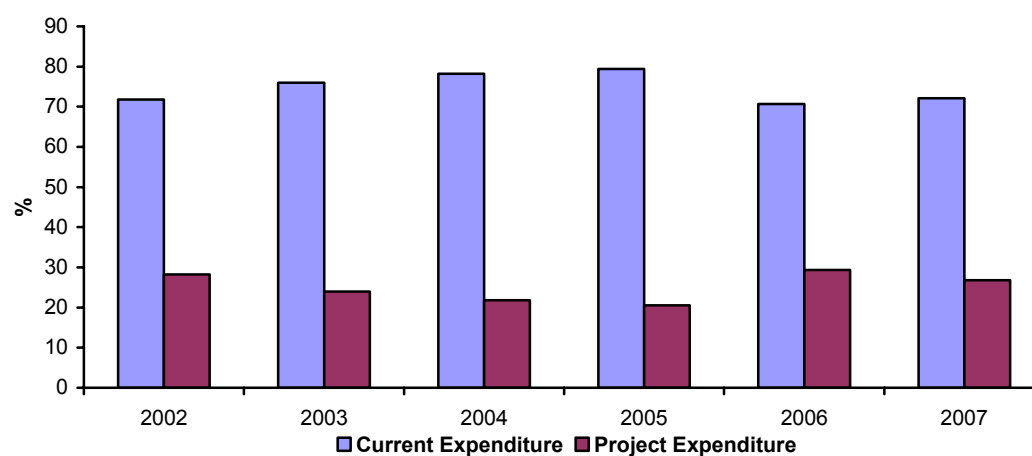
Revenue items that were recorded below budget estimates were government goods and services, investments and government properties and grants, which recorded decreases of 11.8%, 21.4% and 4.5% respectively.

Regardless of the fact that the government has been attempting to diversify its revenue streams, oil and gas remains the largest contributor to total revenue, and it is anticipated to contribute further given the world outlook for oil prices. Given the governments diversification policies, there is a positive outlook for the future of non-oil revenues, given the expansion of aluminium production and other downstream industries.

Expenditure

Expenditure data for 2007 shows that as a trend, most of government spending was in the form of current expenditure, which constituted 72.1% of total expenditure, up from 70.7% in 2006.

Chart VI-II: Current and Project Expenditure as a % of Total Expenditure



Source: Ministry of Finance

Current expenditure consists of expenditure on manpower, consumables, assets, maintenance, services, transfers and grants. Current expenditure was highest in 2005, accounting for 79.4% of total expenditure and lowest in 2006 (Chart VI-II). The savings in expenditure came in the services, consumables, assets, transfers and grants categories, where actual expenditure was lower than budgeted expenditure by 0.3%, 15.5%, 4.8%, 3.9% and 13.3% respectively (Table VI-III).

Table VI-III: Government Current Expenditure – Actual vs. Budgeted, 2007

(BD Million)

Items	Budgeted	Actual	% Difference
Manpower	724.8	725.5	0.1
Services	106.2	105.9	-0.3
Consumables	173.3	146.5	-15.5
Assets	18.7	17.8	-4.8
Maintenance	33.4	46.4	38.9
Transfers	206.1	198.1	-3.9
Grants and Subsidies	104.9	91.0	-13.3
Total Current Expenditure	1,367.4	1,331.1	-2.7

Source: Ministry of Finance

Cost overruns in actual expenditure were mainly in the form of service maintenance costs and manpower, which increased by 38.9% and 0.1% respectively.

VII. Foreign Trade and Balance of Payments

Bahrain is considered a trading centre in the Gulf and has one of the most open economies in the region. During 2007, Bahrain's external sector indicators showed healthy surpluses due to high oil prices. The expansion in these indicators was due to positive developments in the economy and the provision of goods and services, and the subsequent reduction in net outflows.

Oil is still occupying a prominent place in the economy, but the Kingdom has had made some progress in diversifying its sources of income. Bahrain's exports are still mostly oil related items which make around a large portion of total export earnings for 2007. The increase made up for the decrease in non-oil export earnings, which was mainly due to the reduction in aluminum export receipts. Increases in other export commodities can also be explained by Bahrain holding a positive external competitive position for some exported commodities.

Every year Bahrain has been ensuring its position as great location for capital inflows through foreign direct investments, such as real estate and tourism projects. As a result, Bahrain has had increased services receipts as a tourist destination for visitors within and outside the GCC.

Trade Balance

Due to the economic growth Bahrain has been experiencing, there has been a growth in import and export activity during 2007. The growth on the import side is mainly driven by increased private consumption for households and enterprises, as well as raw material demand (such as building materials) for projects underway; whilst the growth in export receipts is due to increases in world oil prices.

As a result, the trade surplus rose from BD 633.5 million in 2006 to BD 806.8 million in 2007 (Table VII-I). The oil trade surplus increased from BD 1,622.8

million in 2006 to BD 1,854.4 million in 2007 and the non-oil trade balance deficit increased from BD 989.3 million in 2006 to BD 1,047.6 million in 2007.

Table VII-I: Foreign Trade

(BD Million)

Main Groups	2006*	2007*	Change (%)	Relative Share (%)
Total Exports	4,587.2	5,126.2	11.8	100.0
Oil Exports	3,465.8	4,059.3	17.1	79.2
Non-Oil Exports	1,121.4	1,066.9	-4.9	20.8
Total Imports	3,953.7	4,319.4	9.2	100.0
Oil Imports	1,843.0	2,204.9	19.6	51.0
Non-Oil Imports	2,110.7	2,114.5	0.2	49.0
Trade Balance	633.5	806.8	27.4	

* Provisional data

Source: National Oil and Gas Authority and Central Informatics Organisation

As in previous years, oil has been featured prominently on the both the import and export sides. Oil imports accounted for 51.0% of total imports and oil exports accounted for 79.2% of total exports in 2007. Non-oil imports accounted for 49.0% of total imports non-oil exports and accounted for 20.8% of total exports.

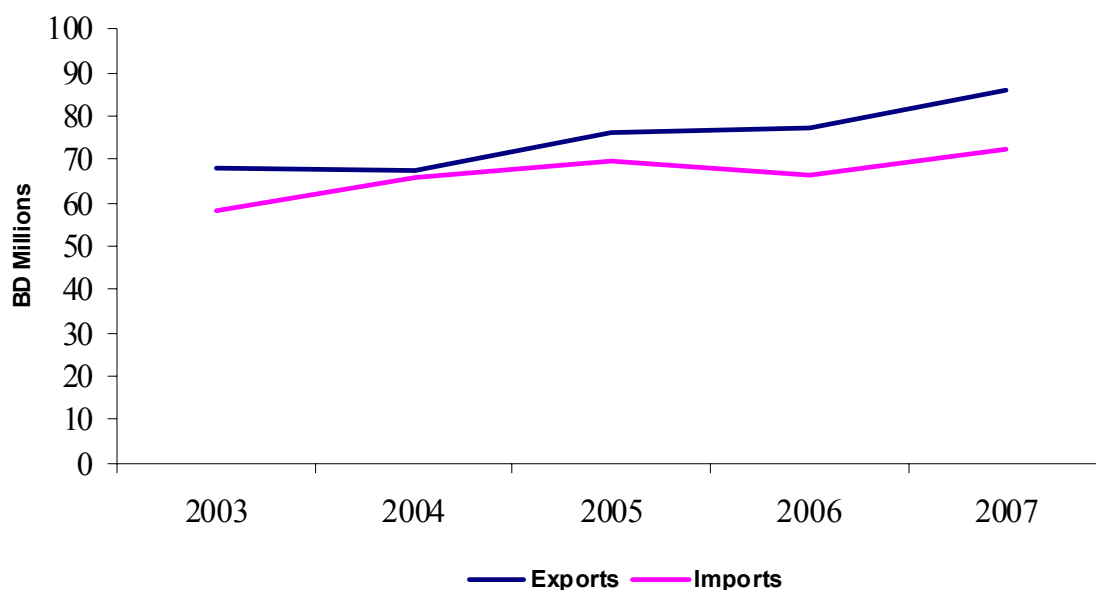
Despite strong import activity, which grew by a total of 9.2%, export volumes have offset imports by growing at 11.8% in 2007. This has resulted in a trade surplus increase of 27.4%.

Relative to the growth of the Bahraini economy, import and export activity has been increasingly becoming important over the past few years. During 2007, total imports as a percentage of GDP increased from 66.4% at the end of 2006 to 72.6% (Chart VII-I).

Export activity as a percentage of GDP increased further, however. During 2007, total exports accounted for 86.1% of GDP, up from 77.1% at the end of 2006.

Despite a pickup in imports during 2007, exports still outperform import activity relative to the size of the economy, making it important to the future prosperity of Bahrain.

Chart VII-I: Foreign Trade as a % of GDP



Source: Ministry of Oil and Central Informatics Organisation

Exports

During the year, the value of total exports increased from BD 4,587.2 million in 2006 to BD 5,126.2 million in 2007 (Table VII-II). This increase was due to a rise in the value of oil exports by 17.1% from BD 3,465.8 million in 2006 to BD 4,059.3 million in 2007. A further analysis of exports reveals that despite a decrease in production, exports receipts for petroleum products and of Abu-Sa'afa crude oil increased by 20.0% and 11.8% respectively.

In terms of commodities, the value added commodity production of chemical products increased by 101.8% during 2007, whilst mineral products (including oil) increased by 15.9%

Despite non-oil exports decreasing by 4.9% from BD 1,121.4 million in 2006 to BD 1,066.9 million in 2007, some commodity groups showed noticeable growth in exports during 2007. Exports of "animals and animal products" more than registered a growth of 22.7% whilst exports in "Textile and textile articles", "articles of stone, plaster and cement", as well as "pearls, precious stones and metals" showed noteworthy increases.

Table VII-II: Exports Classified by Sections of Commodities

(BD Million)

Sections	2006*	2007*	Change (%)
Animals and Animal Products	8.8	10.8	22.7
Vegetable Products	2.6	1.9	-26.9
Animal and Vegetable Fats and Oils	0.1	0.0	-100.0
Prepared Foodstuffs, Beverages, and Tobacco	12.1	11.6	-4.1
Mineral Products 1/	3,566.3	4,134.7	15.9
Products of Chemical and Allied Industries	108.7	219.4	101.8
Plastic and Rubber Articles	21.2	22.7	7.1
Raw Hides and Skins, Leather & Others	0.6	0.5	-16.7
Wood and Articles of Wood	0.2	0.1	-50.0
Wood Pulp and Paper	14.6	11.5	-21.2
Textiles and Textile Articles	38.5	45.4	17.9
Footwear, Headgear & Others	0.1	0.0	-100.0
Articles of Stone, Plaster, Cement & Others	2.6	3.8	46.2
Pearls, Precious Stones and Metals	1.4	2.5	78.6
Base Metals and Articles Thereof	685.0	542.2	-20.8
Machinery and Appliances, Electrical Equipment	36.1	44.9	24.4
Transport Equipment	72.7	55.2	-24.1
Optical, Photographic, Medical, Precision Equipment & Others	3.7	4.4	18.9
Other	11.9	14.6	22.7
Total	4,587.2	5,126.2	11.8

* Provisional data

1/ Includes Oil

Source: Central Informatics Organisation.

Imports

The value of total imports rose from BD 3,953.7 million in 2006 to BD 4,319.4 million in 2007, by BD 356.7 million or by 9.2% (Table VII-III). The value of oil imports increased from BD 1,843.0 million in 2006 to BD 2,204.9 million in 2007, or by 19.6%. The value of non-oil imports increased from BD 2,110.7 million in 2006 to BD 2,114.5 million in 2007 or by 0.2%.

A breakdown of imports by commodity shows that imports grew primarily as a result of the increase in the imports of Products of Chemical and Allied Industries by 11.7%, Transport Equipment by 11.2%, and Base Metals and Articles Thereof by 11.9%. Reflecting the growth in global food and raw material prices, animal and vegetable fats and oils import values grew by 12.7%, whilst wood and wood articles grew by 33.0%.

There was a decrease in optical, medical and precision equipment as well as textiles, by 36.0% and 14.9% respectively. Machinery and electrical appliances also decreased by 11.1%. These decreases reflect the diversification of production in secondary industries and a shift towards a more service oriented economy.

Table VII-III: Imports Classified by Sections of Commodities

(BD Million)

Sections	2006*	2007*	Change (%)
Animals and Animal Products	65.8	59.5	-9.6
Vegetable Products	52.6	49.0	-6.8
Animal and Vegetable Fats and Oils	7.1	8.0	12.7
Prepared Foodstuffs, Beverages, and Tobacco	103.9	107.8	3.8
Mineral Products 1/	1,975.4	2,295.2	16.2
Products of Chemical and Allied Industries	337.5	377.0	11.7
Plastic and Rubber Articles	58.8	76.2	29.6
Raw Hides and Skins, Leather & Others	5.4	4.9	-9.3
Wood and Articles of Wood	23.0	30.6	33.0
Wood Pulp and Paper	33.9	36.3	7.1
Textiles and Textile Articles	75.6	64.3	-14.9
Footwear, Headgear & Others	7.9	7.0	-11.4
Articles of Stone, Plaster, Cement & Others	51.9	56.7	9.2
Pearls, Precious Stones and Metals	18.1	16.7	-7.7
Base Metals and Articles Thereof	234.0	261.8	11.9
Machinery and Appliances, Electrical Equipment	479.5	426.2	-11.1
Transport Equipment	333.6	370.9	11.2
Optical, Photo, Medical, Precision Equipment & Others	41.4	26.5	-36.0
Other	48.3	44.8	-7.2
Total	3,953.7	4,319.4	9.2

* Provisional data

1/ Includes Oil.

Source: Central Informatics Organisation

Direction of Non-Oil Trade

An analysis of the trade data for the year 2007 indicates a decrease in the value of non-oil trade with main trading partners. Although non-oil imports have only slightly increased, from BD 2,110.7 million in 2006 to BD 2,114.5 million in 2007, non-oil export values have reduced, which have led to a non-oil trade deficit to BD 1,047.6 million (Table VII-IV).

Table VII-IV: Direction of Non-Oil Trade

(BD Million)

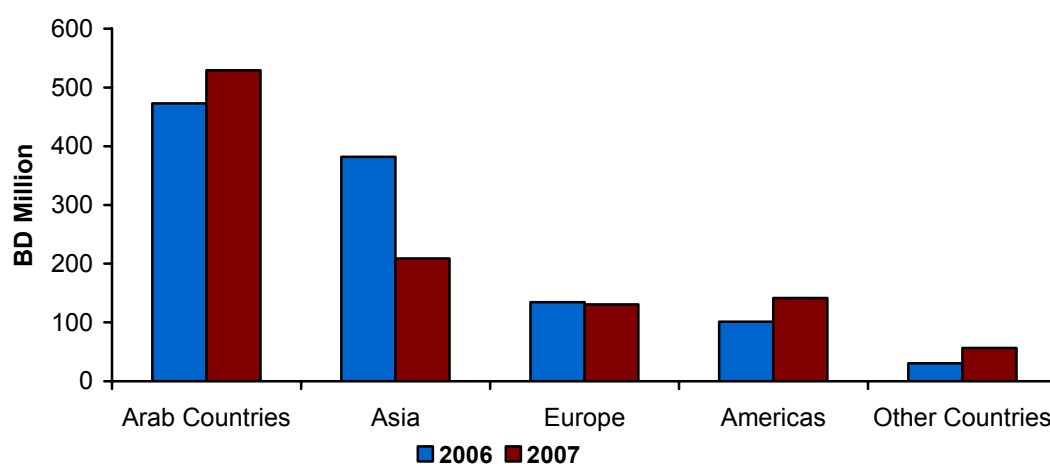
Country Groups	2006*			2007*		
	Exports	Imports	Balance	Exports	Imports	Balance
Arab Countries	472.9	349.0	123.9	529.1	406.0	123.1
Africa	4.0	6.2	-2.2	4.6	8.0	-3.4
Asia	382.1	683.8	-301.7	209.0	692.5	-483.5
Europe	134.3	638.2	-503.9	130.7	539.6	-408.9
Americas	101.4	227.6	-126.2	141.7	190.8	-49.1
Oceania	21.2	204.9	-183.7	47.3	276.5	-229.2
Other Countries	5.5	1.0	4.5	4.5	1.1	3.4
Total	1,121.4	2,110.7	-989.3	1,066.9	2,114.5	-1,047.6

* Provisional data

Source: Central Informatics Organisation

Bahrain had a non-oil trade surplus with Arab and other countries; these surpluses declined marginally in 2007. Conversely, Bahrain recorded deficits with Asia, Europe the Americas and Oceania. The non-oil trade balances with Europe and America reduced by BD 95.0 million and BD 77.1 million respectively, reflecting the appreciation of the Euro and increased competitiveness of Bahrain with non-oil exports to America increasing from BD 101.4 million in 2006 to BD 141.7 million in 2007.

Chart VII-II: Direction of Non-Oil Trade – Exports

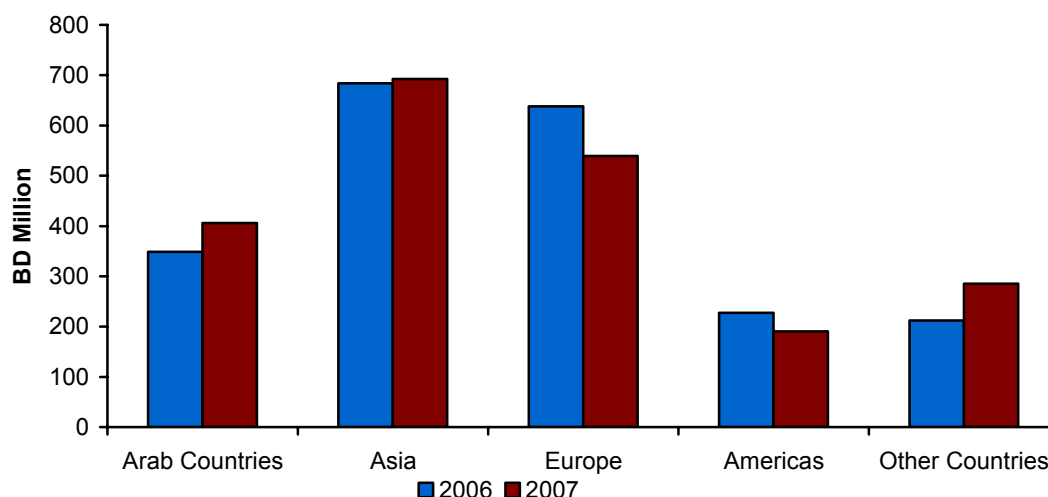


Source: Central Informatics Organisation

Lower imports from both Europe and America have also contributed to the narrowing of the trade deficit. On the other hand, the trade deficit with Asia increased by BD 181.7 million, as non-oil exports to Asia dropped

significantly from BD 382.0 million in 2006 to BD 209.0 in 2007 and imports slightly increased.

Chart VII-III: Direction of Non-Oil Trade – Imports



Source: Central Informatics Organisation

Non-Oil Trade with GCC Countries

The non-oil trade surplus with the GCC countries increased from BD ١٤,٢ million in 2006 to BD ٥٦,٨ million in 2007. This increase was a result of an increase in the non-oil imports by ٢٩,٤% (Table VII-V). Non-oil exports to GCC countries accounted for ٤١,٠% of total non-oil exports, while the non-oil imports from the GCC represented ١٨,٠% of total non-oil imports.

Saudi Arabia and United Arab Emirates remained the main trading partners among the GCC countries. Saudi Arabia accounts for 60.8% of GCC exports to Bahrain, and the UAE 17.3% (Chart VII-IV). With regard to imports, Saudi Arabia accounts for 54.6% of total GCC imports and the UAE accounts for 32.3% (Chart VII-V).

With the GCC customs union in place, it is a widely held view that trade levels between the countries will continue to rise in the future given the growth that the countries have been experiencing and the increased levels of economic integration.

Table VII-V: Non-Oil Trade with GCC Countries, 2007 *

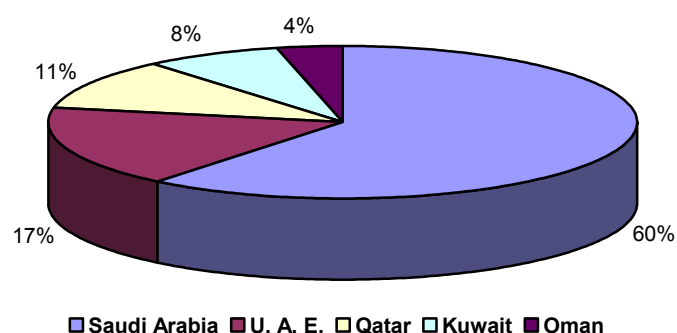
(BD Million)

Country	Exports		Imports	
	Value	Relative Share (%)	Value	Relative Share (%)
Saudi Arabia	265.8	60.8	207.5	54.6
U.A.E.	75.5	17.3	122.7	32.3
Qatar	46.6	10.7	14.8	3.9
Kuwait	33.5	7.7	23.4	6.1
Oman	15.6	3.5	11.9	3.1
Total	437.0	100.0	380.3	100.0

* Provisional data

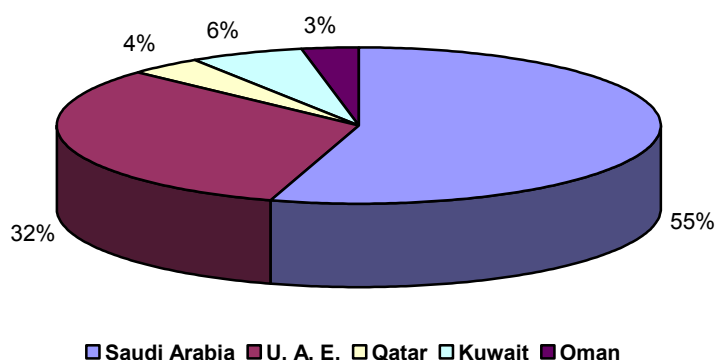
Source: Central Informatics Organisation

Chart VII-IV: Non-Oil Trade with GCC Countries (%) – Exports, 2007



Source: Central Informatics Organisation

Chart VII-V: Non-Oil Trade with GCC Countries (%) – Imports, 2007



Source: Central Informatics Organisation

Balance of Payments (BOP)

Current Account

Balance of payments' provisional data for the year 2007 reflected many positive developments in the Kingdom's economy. The current account surplus rose from BD 822.5 million in 2006 to BD 1,092.9 million in 2007 or by BD 270.4 million (Table VII-VI). The surplus reflects the ongoing boom in the international oil markets, or 14.6% of projected GDP compared to 13.8% of GDP in 2006. The surplus was also due to an increase in the goods surplus by BD 180.0 million. Net services receipts increased by BD 40.0 million in 2007 mainly due to the increase in net travel income by BD 12.8 million and financial services by BD 15.1 million.

Even though there was an increased surpluses in both the goods and services accounts net investment income payments decreased by 22.4% from BD 144.7 million in 2006 to BD 112.3 million in 2007. Net current transfers abroad decreased by 3.1% from BD 575.6 million in 2006 to BD 557.5 million in 2007.

Capital and Financial Account

The capital and financial account registered a net outflow of BD 1,096.6 million in 2007, compared with BD 826.7 million in 2006 making Bahrain continue to be a net exporter of capital to the rest of the world.

The financial account registered a net outflow of 1,115.4 million in 2007 showing a significant increase in Bahraini portfolio investments abroad with an outflow of BD 3,218.5 million in portfolio investments. This is due to the increase in Bahrain other investment assets by BD 3,109.5 million and liabilities by BD 3,664.6 million. The net reserve assets registered a surplus of BD 222.8 million from BD 309.1 million in 2006 to BD 531.9 million in 2007. Capital accounts showed a net inflow of BD 18.8 million.

The acquisition of foreign stocks and bonds by Bahraini residents surpassed similar investments in Bahrain by non-residents. In assets in portfolio account, acquisition of foreign equities by Bahraini residents increased by BD 1,266.4 million in 2007 compared with BD 827.4 million in 2006 with banks being the major investors in foreign equities with 65% of total Bahraini investments in foreign equities. Acquisition of debt securities

increased by BD 2,452.3 million compared with BD 3,130.8 million in 2006. There were no recorded transactions in financial derivatives.

As for the liabilities in portfolio account, inflow of portfolio investments into the Kingdom from non-residents amounted to BD 500.2 million, which is a smaller than the BD 637.7 million inflow recorded in 2006. This slowdown was principally influenced by a slowdown in debt securities which recorded an inflow of BD448 million in 2007, compared to an inflow of BD 587.4 million in 2006.

The direct investment account shows a net inflow of BD 32.7 million in 2007, significantly down from the BD 727.5 million inflow of 2006. is due to the reduced inflow of BD 660.3 million (compared to an inflow of BD 1,096 million in 2006) along the increased outflow of BD 627.6 million (compared to a BD 368.5 million outflow in 2006). There was an increase in Bahraini equity capital investments abroad with the reduction in equity capital investments in Bahrain by non-residents.

Table VII-VI: Balance of Payments

Items	BD Million		
	2005	2006**	2007**
1. Current Account (a+b+c+d)	554.3	822.5	1092.9
a. Goods	555.7	897.2	1077.2
General Merchandise	515.6	844.6	1018.2
Exports (fob)	3851.0	4587.2	5126.2
- Oil and oil products	2926.6	3465.8	4059.3
- Non-Oil	924.4	1121.4	1066.9
Imports (fob)	-3335.4	-3742.6	-4108.0
- Oil and oil products	-1567.8	-1843.0	-2204.9
- Non-Oil	-1767.6	-1899.6	-1903.1
Repairs on goods	40.1	52.6	58.9
b. Services (net)	613.6	645.6	685.6
- Transportation	19.8	18.1	19.1
- Travel	190.2	222.7	235.5
- Communication Services	235.5	232.4	241.7
- Financial Services (Including Insurance)	158.3	160.6	175.7
- Other Business Services	9.8	11.8	13.6
c. Income (net)	-155.0	-144.7	-112.3
Investment Income	-155.0	-144.7	-112.3
- Direct Investment Income	-258.4	-315.4	-447.5
- Portfolio Income	386.4	598.1	772.4
- Other Investment Income	-283.0	-427.4	-437.2
d. Current Transfers (net)	-460.0	-575.6	-557.5
- Workers' Remittances	-460.0	-575.6	-557.5
2. Capital and Financial Account (net) (A+B)	-610.7	-826.7	-1096.6
A. Capital Account (net)	18.8	28.2	18.8
- Capital Transfers	18.8	28.2	18.8
B. Financial Account (1+2+3+4)*	-629.5	-854.9	-1115.4
1. Direct Investment	-32.6	727.5	32.7
- Abroad	-426.9	-368.5	-627.6
- In Bahrain	394.3	1096.0	660.3
2. Portfolio Investment (net)	-1735.0	-3320.5	-3218.5
Assets	-2645.6	-3958.2	-3718.7
Liabilities	910.6	637.7	500.2
3. Other Investment (net)	1248.7	2047.2	2602.3
Assets	-4347.5	-11368.3	-14477.8
Liabilities	5596.2	13415.5	17080.1
4. Reserve Assets (net)	-110.6	-309.1	-531.9
3. Errors and Omissions	56.4	4.2	3.7

* Financial transactions. A negative sign means net outflows/increases in external assets.

** Provisional Data

Source: Central Bank of Bahrain

International Investment Position (IIP)

Net international investment position rose from BD 3832.4 million at end-2006 to BD 4949.4 million at end-2007, or by 29.1% (Table VII-VII). Foreign assets rose by 30.8% from BD 62890.0 million at end-2006 to BD 82234.5 million at end-2007 as a result of the increase in other investment assets by 33.6%.

Similarly, foreign liabilities increased from BD 59057.6 million at end-2006 to BD 77285.1 million at end-2007 or by 30.9% due to the increase in other investment liabilities by 32.6%.

Table VII-VII: International Investment Position (IIP)

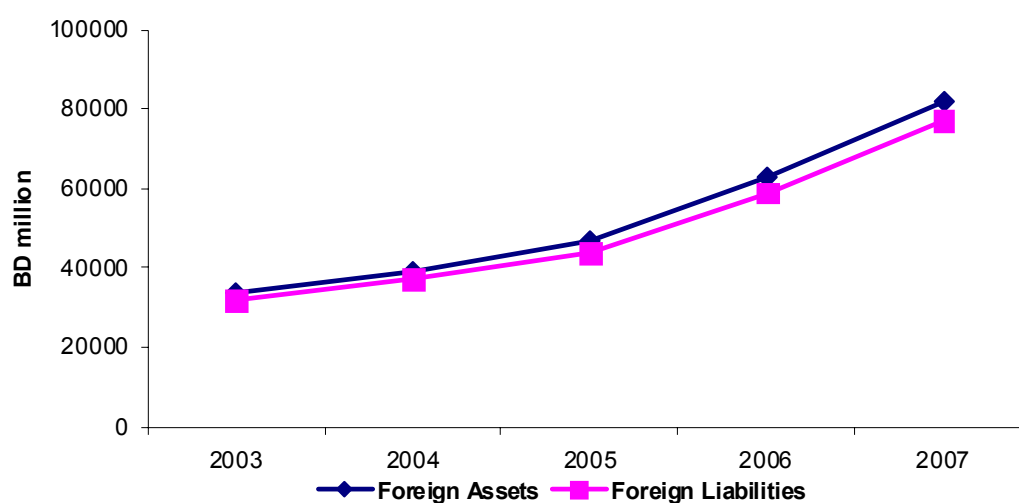
Items	BD Million		
	2005	2006	2007**
IIP, net	2948.5	3832.4	4949.4
Foreign Assets	46882.4	62890.0	82234.5
Direct Investment Abroad	1906.5	2275.0	2902.6
Portfolio Investment	12532.7	16500.0	20209.7
Other Investment*	31693.8	43057.8	57531.6
Reserve Assets	749.4	1057.2	1590.6
Foreign Liabilities	43933.9	59057.6	77285.1
Direct Investment in Bahrain	3111.8	4207.7	4868.1
Portfolio Investment	1879.4	2517.2	3017.3
Other Investment*	38942.7	52332.7	69399.7

* Includes loans, currency, and deposits.

** Provisional data.

Source: Central Informatics Organisation

Chart VII-VI: International Investment Position (IIP)



Source: Central Informatics Organisation

VIII. The Bahrain Stock Exchange

During the year 2007, there were several developments that had an impact on the Bahrain capital market and its investors.

In May 2007, A Memorandum of Understanding (MOU) was signed between Bahrain Stock Exchange (BSE) and Abu Dhabi Securities Market that aims to strengthen and widen the cooperation between Bahrain Stock Exchange and Abu Dhabi Securities Market in the areas of mutual expertise and exchange of information. The MOU also intends to spread awareness of the legal infrastructure and procedures applied to encourage companies to cross list their shares in both markets. The MOU assured the necessity of exchange of information and collaboration between different licensed brokers in BSE and Abu Dhabi Securities Market through organised joint training programmes.

In April 2007, The Bahrain Government announced full details of the initial public offering (IPO) of shares in Seef Properties, the Kingdom's biggest retail real estate company. The IPO subscription period ran from the 26th April until 10th May 2007, with shares available to individual and institutional investors. The Government encouraged Bahrainis to become shareholders in one of the Kingdom's most successful businesses. Individual investors were able to take advantage of two key incentives: they can purchase shares at a discounted price (a reduction of 12 percent to the institutional offer price) and also pay in two instalments - 50 percent following a successful share application and the remaining 50 percent 12 months later.

The shares were offered through a Combined Offering which was divided into two equal Offerings, Retail and Institutional. Bahraini applicants were able to apply for either offerings but not both. Bahrainis applying for a minimum 5,000 and a maximum of 50,000 ordinary shares were qualified to apply for the Retail Offering, which allowed them to benefit from the Government's incentive schemes. All other applicants, including individual non-Bahraini investors, applied through the Institutional Offering. Applicants to the Institutional Offering were capable of applying for a minimum of 51,000 and a maximum of 111,455,000 ordinary shares. Shares were priced at 110 fils for the Retail Offering and 125 fils for the Institutional Offering.

Shares of Seef Properties B.S.C. were listed on Bahrain Stock Exchange on July 29th 2007 and have since then outperformed all other IPO listings in Bahrain and set a successful template for privatisation in Bahrain and the region as a whole. The innovative aspect of the offering structure introduced through the Seef IPO has been copied by subsequent IPOs in the region. The success that Seef Properties IPO and share performance was attributed to several factors that included the government's transparency and conducting the IPO by the book, the innovative structure adopted for the IPO which gave preference to the small investors, and the fair valuation and pricing.

Main Trading Indices

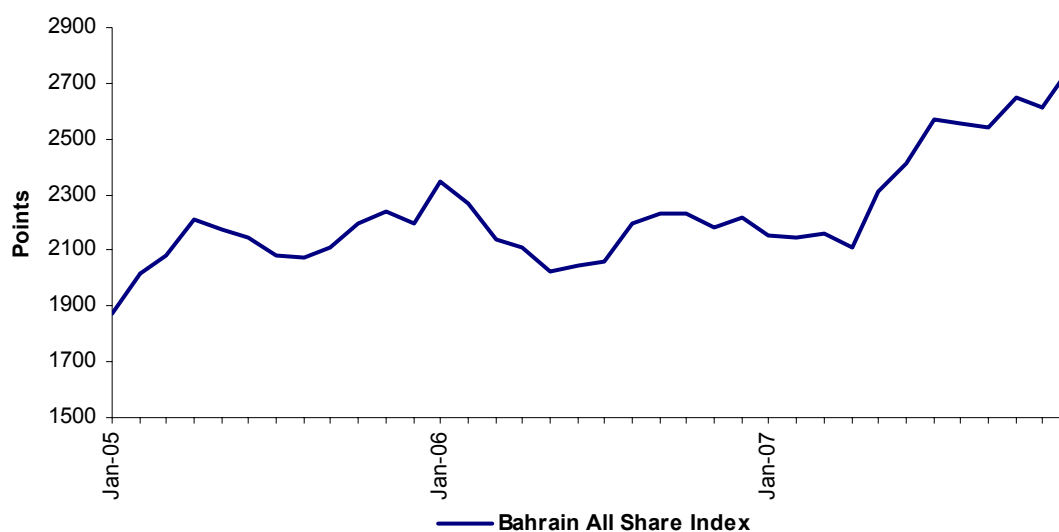
The Bahrain All Share Index closed at the end of 2007 at 2,755.27 recording a year on year increase of 24.3% and also a record high (Table VIII-I). The best performer between the sectors according the Bahrain All Share Sub-indices was the Investment sector with a 37.79% year on year increase followed by the Insurance sector, which posted a growth of 22.93%, Commercial Banks sector with an 18.91% increase, Hotels & Tourism sector with a 14.74% increase, and Services sector with a 3.76% increase. On the other hand, the Industrial sector decreased by 1.23%. Furthermore, the overall index increased by 8.31% compared to the Q3 2007, which closed at 2,543.92. The Dow Jones Bahrain Index changed by 45.40 points (24.10%) and Esterad Index by 632.01 points (27.51%) from end-2006.

Table VIII-I : BSE Indices

BSE Indices	Q4 2007	Q4 2006	Change (Point)	Change (%)
Bahrain All Share Index	2,755.27	2,217.58	537.69	24.3
Commercial Banks	3,479.10	2,925.77	553.33	18.9
Investment	2,546.61	1,848.22	698.39	37.8
Insurance	2,315.99	1,883.96	432.03	22.9
Services	2,031.39	1,957.76	73.63	3.8
Industrial	1,438.47	1,456.41	-17.94	-1.2
Hotels and Tourism	2,315.15	2,017.75	297.40	14.7
Dow Jones Bahrain Index	233.82	188.42	45.40	24.1
Esterad Index	2,929.35	2,297.34	632.01	27.5

Source: Bahrain Stock Exchange

Chart VIII-I: Performance of Bahrain All Share Index, 2005-2007



Source: Bahrain Stock Exchange

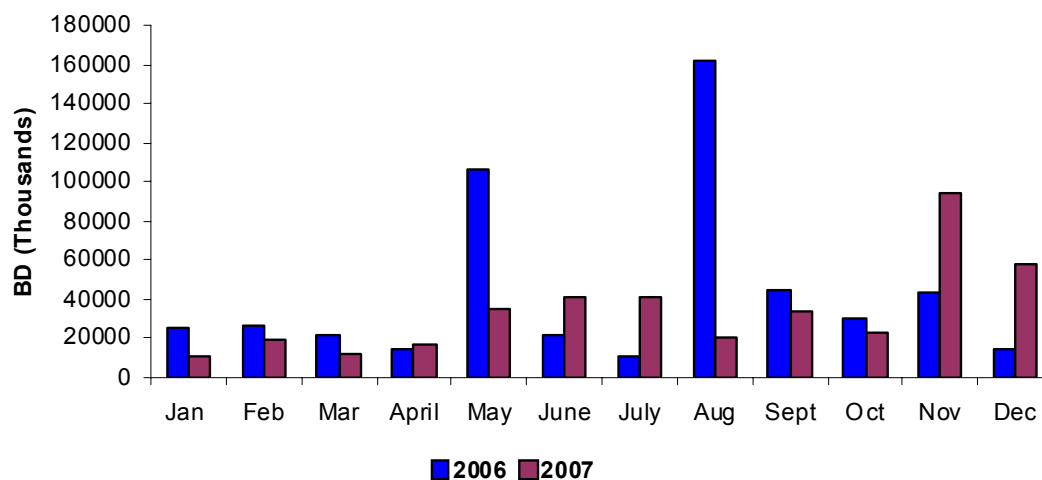
The volume of shares traded in 2007 increased in comparison to the previous year, increasing to BD 851.1 million in 2007 up from BD 727.6 million in 2006, achieving a growth of 17.0% (Table VIII-II). On the other hand, the value of shares traded decreased in comparison to the year before by 22.9%, reaching 403.1 million shares in 2007 compared to 522.9 million shares in 2006. Most of the trading activity was concentrated in the Investment Sector with a value of BD 200.6 million that captured 49.8% of the total value of shares traded during 2007, which comprised of 53.2% of the total volume of shares traded in the market. November and December of 2007 had the highest volume of shares traded and value of shares traded in 2007.

Table VIII-II: Daily Traded Averages

	2006	2007	Change (%)
Total Trading Days	246	249	1.2
Value of Shared Traded (BD Million)	522.9	403.1	-22.9
Daily Average of Value of Shared Traded (BD Million)	2.1	1.6	-23.9
Volume of Shares Traded (Million)	727.6	851.1	17.0
Daily Average No. of Shares Traded (Million)	3.0	3.4	-15.6
Number of Transactions	21,699	27,707	27.7
Daily Average No. of Transactions	88	111	26.2

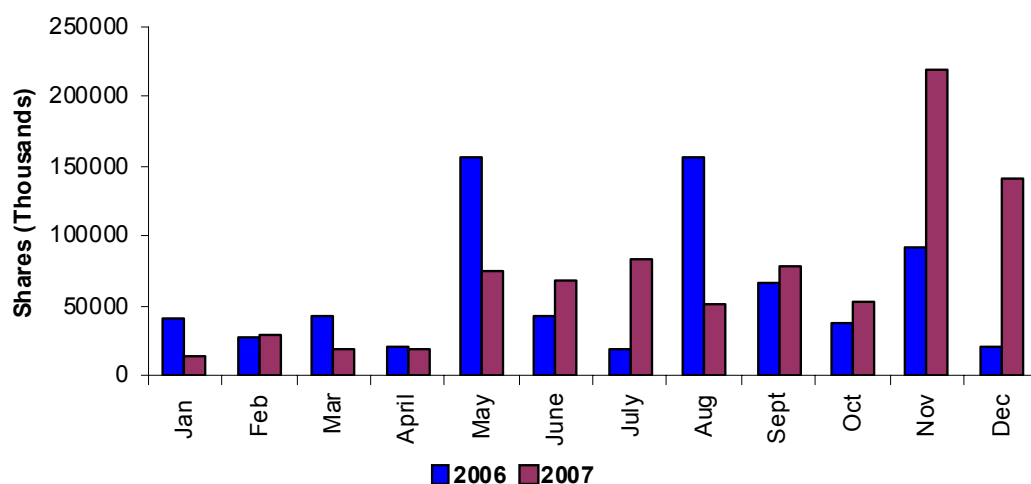
Source: Bahrain Stock Exchange

Chart VIII-II: Value of Shares Traded



Source: Bahrain Stock Exchange

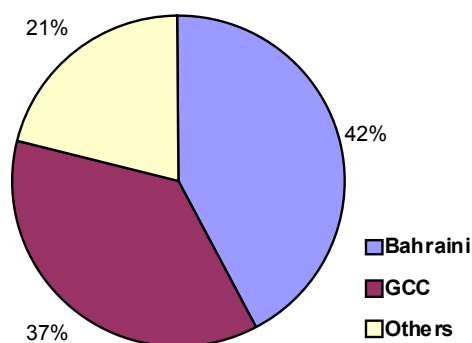
Chart VIII-III: Volume of Shares Traded



Source: Bahrain Stock Exchange

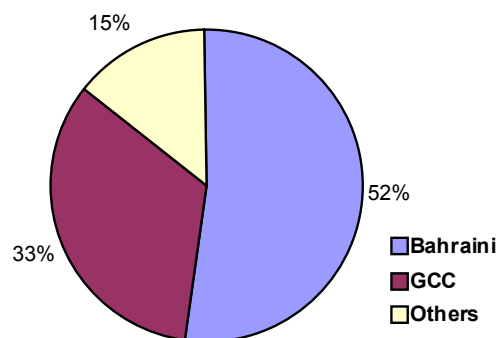
Bahraini investors accounted for 52% of the total value of traded shares in 2007 an increase from the 42% from 2006 (Chart VIII-IV and VIII-V). On the other hand, GCC and non-GCC investors accounted for 33% and 15% respectively accounting for smaller percentage of total value of traded shares than in 2006.

Chart VIII-IV: Trading Value of Investors' Participation (BD Thousand), 2006



Source: Bahrain Stock Exchange

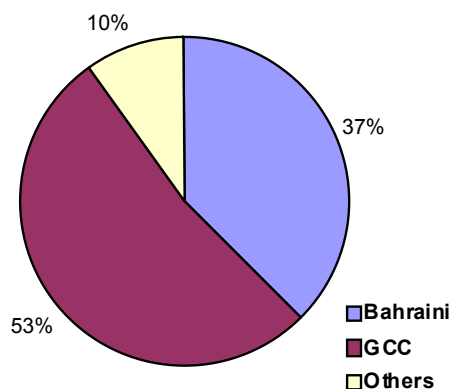
Chart VIII-V: Trading Value of Investors' Participation (BD Thousand), 2007



Source: Bahrain Stock Exchange

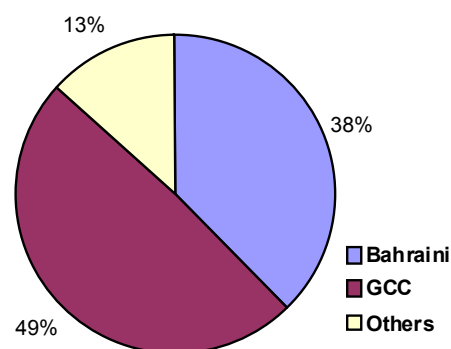
The Bahraini, GCC and Non-GCC investors' trading activity all decreased in 2007 compared to 2006, where the market witnessed BD 419.2 million values of shares traded by Bahraini investors, BD 269.9 million by GCC investors and BD 117.1 million by Non-GCC investors, resulting in a decrease of 5.3%, 29.4% and 47% respectively (Chart VIII-VI and VIII-VII).

Chart VIII-VI: % of Share Ownership, 2006



Source: Bahrain Stock Exchange

Chart VIII-VII: % of Share Ownership, 2007



Source: Bahrain Stock Exchange

Price Movements

During 2007, the prices of 30 stocks have went up, 11 went down and 10 remained unchanged compared to 14 that went up, 27 that went down, and 9 unchanged for 2006 (Table VIII-III). Therefore, the market breadth showed that advancers outperformed decliners by a margin of 30:11.

Table VIII-III: Market Breadth

Advancers	30
Decliners	11
Unchanged	10
Total	51

Source: Bahrain Stock Exchange

Profits of Listed Companies

Arab Banking Corporation was ranked the top advancer in 2007 with 109.6% in price change followed by United Gulf Bank (67.1%), United Gulf Industries (64.0%), Taib Bank (60.0%), and Al Salam Bank (55.3%). As for the top 5 decliners, Bahrain Car Parks was the biggest decliner with an 21.7% annual decrease in price followed by Al Baraka Bank (20.1%), United Finance Company (17.7%), Bahrain Duty Free Shop Complex (17.3), and Bahrain Islamic Bank (16.4).

Table VIII-IV: Top BSE Advancers, 2007

Advancers	%	Rank
ABC	109.6	1
UGB	67.1	2
UGIC	64.0	3
TAIB	60.0	4
SALAM	55.3	5

Source: Bahrain Stock Exchange

Table VIII-V: Top BSE Decliners, 2007

Decliners	%	Rank
CPARK	(21.7)	1
BARKA	(20.1)	2
UFC	(17.7)	3
DUTYF	(17.3)	4
BISB	(16.4)	5

Source: Bahrain Stock Exchange

The most active companies by value, Gulf Finance House came first in terms of the value with BD 56.5 million traded translating to 14.0% of total value of shares traded, then came Ithmaar Bank with BD 50.5 million constituting 12.5% of the total value of shares traded, then Taib Bank with BD 48.7 million and 12.1% of total value of shares traded, followed by Ahli United Bank with BD 35.7 million constituting 8.8% of the total value of shares traded, and

finally came Bank of Bahrain and Kuwait with BD 33.4 million constituting 8.3% of the total value of shares traded (Table VIII-VI).

Table VIII-VI: Most Active Companies by Value, 2007

Company	Value (BD)	% From Total Market
GFH	56,490,658	14.0
ITHMR	50,523,409	12.5
TAIB	48,707,260	12.1
AUB	35,655,766	8.8
BBK	33,385,790	8.3
Total	224,762,873	55.8

Source: Bahrain Stock Exchange

As for most active companies by volume, Ithmaar had the most traded shares with 235.5 million shares traded translating to 27.7% of total volume, then came Ahli United Bank with 72.8 million constituting 8.5% of the total volume of shares traded, then Taib Bank with 63.5 million and 7.5% of total volume of shares traded, followed by Gulf Finance House with BD 63.1 million constituting 7.4% of the total volume of shares traded, and finally came Bahrain Islamic Bank with BD 60.5 million constituting 7.1% of the total volume of shares traded (Table VIII-VII).

Table VIII-VII: Most Active Companies by Volume, 2007

Company	Volume	% From Total Market
ITHMR	235,449,619	27.7
AUB	72,766,267	8.5
TAIB	63,521,888	7.5
GFH	63,169,720	7.4
BISB	60,562,834	7.1
Total	60,563,834	58.2

Source: Bahrain Stock Exchange

Developments in Market Capitalisation and Share Issue Base

Market Capitalisation of the BSE stood at BD 10.19 billion by the end of the quarter, increasing from BD 7.96 billion 2006:Q4, achieving a growth of 27.9% (Table VIII-VIII). The biggest growth among the sectors was recorded by the Investment sector, where the market capitalisation grew by 35.41% increasing from BD3.68 billion in 2006:Q4 to BD 4.98 billion in 2007:Q4. The investment

sector and the Commercial bank sector comprised more than 80% of the total market capitalisation in 2007.

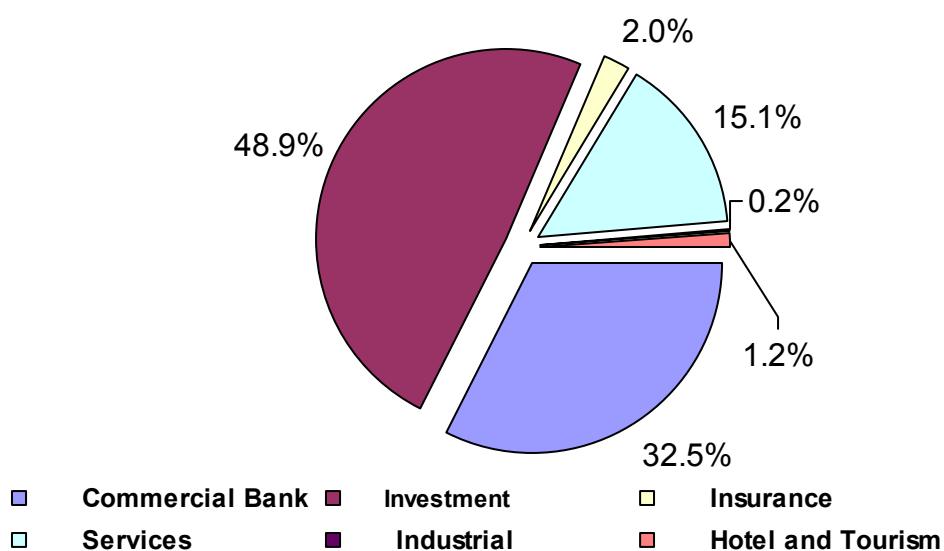
Table VIII-VIII: Market Capitalisation by Sector

(BD Million)

	2006	2007	Change (%)
Total Market Capitalisation	7,963.1	10,185.2	27.9
Commercial Banks	2,591.8	3,313.7	27.9
Investment	3,680.5	4,983.6	35.4
Insurance	167.5	205.2	22.5
Services	1,398.4	1,542.0	10.3
Industrial	16.9	16.6	-1.3
Hotels and Tourism	108.1	124.0	14.7

Source: Bahrain Stock Exchange

Chart VIII-VIII: Market Capitalisation among Sectors



Source: Bahrain Stock Exchange

As for companies, the largest company in terms of market capitalisation end-2007 was Ahli United Bank with BD 1.58 billion which constitutes 15.5% of the total market. The top 5 companies with the highest market capitalisation comprise 54.1% of the total market capitalisation for 2007 (Table VIII-IX).

Table VIII-IX: Table: Largest Companies by Market Capitalisation

Company	Market Capitalisation (BD)	% of Total Market
AUB	1,573,662,090	15.45
BATELCO	1,158,000,000	11.37
ABC	1,066,910,000	10.48
GFH	914,377,879	8.09
INVCORP	792,906,400	7.78
Total	5,505,856,369	54.1%

Source: Bahrain Stock Exchange

New Companies Listed on the Bahrain Stock Exchange

The number of listed companies at the end of 2007 was 51 companies compared with 50 from the previous year (Table VIII-X). On July 29, 2007 Seef Properties was listed at the Bahrain Stock Exchange with a paid up capital of BD 46 million. On the other hand, number of mutual funds decreased from 35 in 2006 to 32 in 2007. Similarly bonds and Sukuks also decreased from 19 in 2006 to 17 in 2007. The number of companies listed with preferred shares also went down to 1 in 2007.

Table VIII-X: BSE Summary of Listings

	Q4 2006	Q4 2007
Number of Companies	50	51
Number of Mutual Funds	35	32
Number of Bonds and Sukuks	19	17
Preferred Shares	2	1

Source: Bahrain Stock Exchange

Factors Affecting BSE Activity

The Kingdom of Bahrain's position as an attractive centre for foreign investment has grown significantly in 2007. That is due to the Government's efforts in maintaining Bahrain as a hub for regional investment and an international financial centre and maintaining transparency and economic freedom and competitiveness through various political, economic, social, and juridical programs. Bahrain's ability to sustain strong economic growth is enhanced by oil prices and growth in non-oil sectors such as growth in investment in real estate, tourism, industrial and commerce sectors.

Another factor attributed is in the BSE efforts to strengthen its ties with stock markets in the region to attract more regional and international investment to

enhance capital movements and support economic activities by consolidating the investment environment to make it more attractive and profitable. Similar Bahrain, the economic growth witnessed in the GCC's economies as a result of high oil prices, oil revenue, expansionary in 2007 where GCC countries recorded significant increase in liquidity, inward foreign investment, and strong growth in the financial, real estates, transport and telecommunication sectors. Therefore, agreements between stock markets in the region will provide a mechanism for cooperation and communication creating an environment that will continue to witness strong growth and economic diversification and attract more regional investment.

IX. Statistical Appendix

Economic Indicators

Table IX-I: Employment

	2006	2007	2007			
			Q1	Q2	Q3	Q4
Total Employment*	351,862	379,471	381,126	392,147	397,918	379,471
As % of Total Population	47.4	36.3	36.4	37.5	38.0	36.3
Change (%)	4.6	7.8	8.3	2.9	1.5	-4.6
Private Sector	313,039	340,217	342,451	353,528	359,193	340,217
As % of Total Employment	89.0	89.7	89.9	90.2	90.3	89.7
Male	283,533	310,019	309,819	320,557	326,119	310,019
Female	29,506	30,198	32,632	32,971	33,074	30,198
Bahraini	65,614	66,834	71,703	72,352	72,820	66,834
Non-Bahraini	247,425	273,383	270,748	281,176	286,373	273,383
Public Sector**	38,823	39,254	38,675	38,619	38,725	39,254
As % of Total Employment	11.0	10.3	10.1	9.8	9.7	10.3
Male	22,160	21,906	21,874	21,691	21,567	21,906
Female	16,663	17,348	16,801	16,928	17,158	17,348
Bahraini	34,771	34,847	34,624	34,522	34,661	34,847
Non-Bahraini	4,052	4,407	4,051	4,097	4,064	4,407

*Total Registered at GOSI and Civil Service Bureau.

**Excluding Ministry of Interior and Bahrain Defence Force.

Source: General Organisation for Social Insurance and Civil Service Bureau.

Table IX-II: Foreign Trade

(BD Million)

	2006	2007*
Total Exports	4,587.2	5,126.2
Oil Exports	3,465.8	4,059.3
Non-oil Exports	1,121.4	1,066.9
Total Imports	3,953.7	4,319.4
Oil Imports	1,843.0	2,204.9
Non-oil Imports	2,110.7	2,114.5
Trade Balance	633.5	806.8

*Provisional Data

Source: National Oil and Gas Authority and the Central Informatics Organisation

Table IX-III: Domestic Public Debt

(BD Million)

	2006*	2007*	2007*			
			Q1	Q2	Q3	Q4
Total Outstanding	679.1	616.6	565.1	545.0	520.0	616.6
As % of GDP	11.4	10.4	9.5	9.2	8.7	10.4
Development Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bills	162.0	90.0	90.0	85.0	90.0	90.0
Islamic Leasing Securities	472.0	508.6	457.0	442.0	412.0	508.6
Al Salam Islamic Securities	45.1	18.0	18.1	18.0	18.0	18.0

*Provisional Data

Source: Central Bank of Bahrain

Table IX-IV: BD Exchange Rates Against Major Currencies 1/

	2006	2007
Saudi Riyal	0.100	0.100
Kuwaiti Dinar	1.300	1.377
UAE Dirham	0.102	0.102
Omani Riyal	0.977	0.977
Qatari Riyal	0.103	0.103
US Dollar	0.376	0.376
Pound Sterling	0.736	0.751
Euro	0.493	0.554
Japanese Yen 2/	3.160	3.360
Swiss Franc	0.307	0.335

1/ Last working day of each period.

2/ Per 1000 Units

Source: Central Bank of Bahrain

Table IX-V: Bahrain Stock Exchange

	2006	2007	Change (%)
Market Capitalisation by Sector (BD Million)			
Total Market Capitalisation	7,963.1	10,185.2	27.9
Commercial Bank	2,591.8	3,313.7	27.9
Investment	3,680.5	4,983.6	35.4
Insurance	167.5	205.2	22.5
Services	1,398.4	1,542.0	10.3
Industrial	16.9	16.6	-1.3
Hotel and Tourism	108.1	124.0	14.7
Trading Activities in The Market			
Bahrain All Share Index (Points)	2,217.6	2,755.3	24.3
Dow Jones Bahrain Index (Points)	188.4	223.8	18.8
Esterad Index (Points)	2297.3	2929.4	27.5
Value of Shared Traded (BD Million)	522.9	403.1	-22.9
Daily Average of Value of Shared Traded (BD Million)	2.1	1.6	-28.3
Share Turnover	6.5	3.8	-41.7
Volume of Shares Traded (Million)	727.6	851.1	17.0
Daily Average No. of Shares Traded (Million)	3.0	3.42	-15.6
Number of Transactions	21,699	27,707	27.7
Daily Average No. of Transactions	88	111	26.1
Number of listed Companies *	50	51	2.0

*Includes Non-Bahraini Companies

Source: Bahrain Stock Exchange

Financial Sector Indicators

Table IX-VI: Money Supply

(BD Million)

Items	Year- end			Change 2007	
	2005	2006	2007	Absolute	%
Currency in Circulation	190.8	227.7	256.2	28.5	12.5
M1	1,062.5	1,285.8	1,572.6	286.8	22.3
M2	3,512.8	4,035.2	5,682.6	1,647.4	40.8
M3	4,169.4	4,892.6	6,657.1	1,764.5	36.1

Source: Central Bank of Bahrain

Table IX-VII: Factors Affecting Domestic Liquidity

(BD Million)

Factors	Year- end			Change	
	2005	2006	2007	2005 vs. 2006	2006 vs. 2007
A. Total Domestic Liquidity (M3)	4,169.4	4,892.6	6,657.1	723.2	1,764.5
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	1,401.5	2,240.2	3,701.1	838.7	1,460.9
(a) Central Bank	707.8	1,015.7	1,546.1	307.9	530.4
(b) Commercial Banks	693.7	1,224.5	2,155.0	530.8	930.5
2. Domestic Claims (a+b+c)	2,767.9	2,652.4	2,956.0	-115.4	303.6
(a) Claims on government	675.6	568.6	612.8	-107.0	44.2
(b) Claims on private sector 1/	2,623.0	3,122.5	4,323.7	499.6	1,201.2
(c) Other Assets (net)	-530.7	-1,038.7	-1,980.5	-508.0	-941.8

1/ Loans and holding of securities

Source: Central Bank of Bahrain

Table IX-VIII: Consolidated Balance Sheet of Banking System

(USD Billion)

Items	Year-End			Change % 2007
	2005	2006	2007	
Retail Banks	16.5	33.0	49.5	50.0
Wholesale Banks	123.8	164.3	196.3	19.5
Total	140.3	187.3	245.8	31.2

Source: Central Bank of Bahrain

Table IX-IX: Geographical Classification of the Banking System's Assets/Liabilities

(USD Billion)

Items	Year					
	2005		2006		2007	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	25.2	31.9	27.6	34.1	37.6	44.4
GCC	38.4	39.5	54.2	56.0	80.0	67.4
Other Arab Countries	3.3	9.6	3.5	11.9	5.3	16.1
Americas	26.6	10.5	28.9	15.0	26.9	15.6
Western Europe	39.6	43.6	55.9	50.4	75.9	78.7
Asia	12.1	12.4	13.0	17.6	15.1	21.5
Other	3.2	0.9	4.2	2.3	5.1	2.0
Total	148.4	148.4	187.3	187.3	245.8	245.8

Source: Central Bank of Bahrain

Table IX-X: Currency Structure of the Banking System's Assets/Liabilities

(USD Billion)

Currencies	Year					
	2005		2006		2007	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Bahraini Dinar	9.3	10.8	10.9	13.1	17.5	18.7
GCC Currencies	13.3	13.2	17.8	17.4	29.7	22.4
US Dollar	90.6	86.2	125.2	123.1	153.7	157.7
Pound Sterling	8.0	12.5	5.1	5.8	7.6	7.9
EURO	11.1	8.7	17.4	17.6	24.6	24.4
Japanese Yen	2.1	2.4	3.0	3.2	3.6	3.8
Others	6.0	6.6	7.9	7.1	9.2	10.8
Total	140.4	140.4	187.3	187.3	245.8	245.8

Source: Central Bank of Bahrain

Table IX-XI: Interest Rates on BD Deposits and Loans

Items	End 2005	End 2006	2007			
			Q1	Q2	Q3	Q4
1. Deposits						
Time/1	3.70	4.40	5.23	5.07	4.17	3.47
Savings	0.32	0.37	0.32	0.31	0.36	0.36
2. Loans						
Business	7.16	7.97	7.86	8.13	8.05	6.91
Personal	8.31	8.89	9.08	9.01	9.26	9.27
3. Credit Cards	20.80	20.46	20.67	20.74	20.53	20.97

1/ Time deposits 3-12 months.

Source: Central Bank of Bahrain

Table IX-XII: Outstanding Credit to Non-Bank Residents by Economic Sector

(BD Million)

Sectors	Year-end						Change 2007	
	2005		2006		2007		Value	%
	Value	%	Value	%	Value	%		
1. Business	1,226.9	46.8	1,619.1	53.4	2,432.0	58.1	812.9	50.2
Manufacturing	282.6	10.8	312.3	10.3	425.4	10.2	113.1	36.2
Mining and Quarrying	2.3	0.1	1.8	0.1	8.0	0.2	6.2	344.4
Agriculture, Fishing and Dairy	9.0	0.4	6.5	0.2	6.4	0.2	-0.1	-1.5
Construction and Real Estate	302.1	11.5	484.2	15.9	776.6	18.6	292.4	60.4
Trade	436.2	16.6	551.6	18.2	735.3	17.6	183.7	33.3
Non-Bank Financial	67.7	2.6	75.1	2.5	171.0	4.1	41.9	55.8
Other Sectors	127	4.8	187.6	6.2	309.3	7.4	122.3	65.2
2. General Government	202.6	7.7	161.5	5.3	262.3	6.3	100.8	62.4
3. Personal	1,194	45.5	1,252.9	41.3	1,489.6	35.6	236.7	18.9
Total	2,623.5	100	3,033.5	100	4183.9	100.0	1,589.6	52.4

Source: Central Bank of Bahrain

Table IX-XIII: Employment in the Banking and Financial Sector

Sectors	2006			2007		
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total
Banking Sector	5,316	1,822	7,138	6,241	2,367	8,608
Retail Banks	3,200	628	3,828	3,786	903	4,689
Wholesale Banks	2,085	1,149	3,234	2,414	1,409	3,823
Rep. Offices	31	45	76	41	55	96
Non-Bank Financial	1,317	877	2,194	1,626	1,306	2,932
Insurance Companies	761	375	1,136	763	397	1,160
Insurance Related Activities	24	55	79	152	217	369
Money Changers	217	332	549	244	444	688
Stock Brokers	43	15	58	47	15	62
Financing Companies	138	13	151	167	13	180
Investment Business Firms	75	64	139	133	148	281
Other*	59	23	82	120	72	192
Other Institutions	385	35	420	381	39	420
Total	7,018	2,734	9,752	8,248	3,712	11,960

* Includes the Central Bank of Bahrain (CBB), Bahrain Institute of Banking and Finance (BIBF) and the Bahrain Stock Exchange (BSE)

Source: Central Bank of Bahrain

Table IX-XIV: Selected Banking Indicators

End of Period (%)	2005	2006	2007			
			Q1	Q2	Q3	Q4
Loans to Non-Banks / Total Assets	42.2	34.9	24.7	21.8	22.9	22.5
Loans to Private Non-Banks / Total Assets	38.9	33.1	23.5	20.5	21.7	21.2
Loans to Non-Banks / Total Deposits	64.9	62.2	52.3	52.4	57.6	56.8
Foreign Assets / Total Assets	28.2	37.0	55.5	60.6	57.3	56.8
Foreign Liabilities / Total Liabilities	17.0	23.0	42.2	45.3	41.8	45.6
Total Deposits / Total Liabilities	65.0	56.1	47.2	41.6	39.7	39.6
BD Deposits / Total Deposits	61.6	58.5	49.7	49.3	52.9	55.1
Private Sector Deposits / Total Deposits	80.9	76.8	65.2	68.2	71.5	71.7
Private Sector Demand Deposits / Total Deposits	21.6	21.7	20.3	21.9	19.2	18.0

Source: Central Bank of Bahrain

Number of Banks and Financial Institutions End 2007

Retail Banks	29
of which Islamic banks	6
Wholesale Banks	85
of which Islamic banks	19
Representative Offices	35
of which Islamic Institutions Rep. Offices	4
Money Changers	19
Financing Companies	4
Investment Business Firms	34
Category 1	6
of which Islamic Investment Business Firms	2
Category 2	8
of which Islamic Investment Business Firms	0
Category 3	20
of which Islamic Investment Business Firms	3
Provider of Ancillary Services	11
Administrators	4
Trust Service Providers	1
Capital Market Brokers	13
Insurance Companies and Organisations	165
Locally Incorporated Insurance and Reinsurance Companies	22
Branches Insurance Companies	11
Restricted Insurance Companies	42
Insurance Representative Offices	6
Insurance Brokers (including restricted to business outside Bahrain)	43
Surveyors and Loss Adjusters	10
Insurance Consultants (including restricted to business outside Bahrain)	8
Actuaries	18
Insurance Ancillary Services	2
Insurance Manager	1
Insurance Pools and Syndicates	2
Total	400