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Preface

In addition to its regulatory functions, the Central Bank of Bahrain (CBB) monitors the performance of the Bahraini economy on a continuous basis. As part of this effort, the *Economic Report* is produced annually by the Financial Stability Directorate. It discusses international, regional, and domestic economic developments over the course of the year. It also covers monetary, financial, and capital market developments as well as public finances and the balance of payments. This edition focuses on macroeconomic developments in Bahrain during 2008.

Executive Summary

In 2008, the crisis which began in the US real estate market during 2007 worsened considerably, with serious consequences around the world. Many American and European banks suffered large losses due to their exposure to sub-prime and other “toxic” assets and there was a scramble for additional capital as banks sought to repair their balance sheets. As a result of these losses, the capacity of banks to lend was compromised and by the end of the year, the financial crisis had been transformed into an economic one, with recession in many advanced economies. Growth in developing and emerging markets also slowed.

In response, many governments around the world have used public funds to bail out financial institutions, introduced deposit guarantees and relaxed monetary policy through reduced policy rates and “quantitative easing”. Various packages of fiscal stimulus have also been enacted in a bid to contain the recessionary impact of the financial crisis.

These developments had adverse consequences for global economic prospects. During 2008, world output grew by 3.4%, down from a growth of 5.2% in 2007. Growth projections for 2009 indicate a low of 0.5% growth, with an improvement to 3.0% expected for 2010.

Before developing into a global crisis, the initial effects of the turmoil had limited direct impact on the economic performance of the GCC economies. In September 2008, the financial crisis entered a more serious phase and with oil prices declining substantially, sustaining high levels of growth became a big challenge for all GCC countries.

Although the initial impact of the crisis on the Bahraini financial system was relatively modest, the economic effects were more immediate as real GDP growth fell to 6.3% in 2008, down from 8.4% the previous year. This was largely due to shrinkage in non-oil output, especially financial services. The inflation rate remained low at 3.5% during 2008.

Despite the far-reaching effects of the crisis, Bahrain's sovereign credit ratings are still favourable. Fitch's rating for Bahrain's long term foreign currency debt remained at "A" (with a stable outlook) in 2008. Local currency debt ratings remained "A+" (stable). Standard and Poor's ratings for foreign and local currency debt also remained unchanged at "A" (stable) in 2008.

Notwithstanding the turmoil, the Bahraini government continued to introduce various policies aimed at strengthening the domestic economy. It continued the implementation of labour market reforms, advanced the e-government initiative and continued the upgrade of general infrastructure. It also entered into several trade agreements. The private sector is expected to benefit from these reforms thus strengthening further the foundations for economic diversification.

Bahrain's money supply continued to grow during 2008, mainly through a growth in savings deposits. Broad money (M2) grew by 18.4%, due principally to increases in domestic and foreign currency private sector deposits. With US monetary policy changing to combat the financial and economic turmoil, interest rates in Bahrain showed mixed trends. Given the dinar's peg to the US dollar, exchange rates have been influenced by economic developments in the United States. For most of 2008, the real effective exchange rate decreased against other major world currencies and bilateral rates of the dinar against other currencies also showed some depreciation.

The financial sector continues to be the largest contributor to Bahrain's economy, accounting for 26.6% of real GDP in 2008. The total assets of retail banks (including foreign assets) stood at BD 23.9 billion as at the end of the year, an increase of BD 5.3 billion or 28.3% over 2007. This growth is attributed mainly to growth in domestic assets, which increased from BD 8.0 billion at end-2007 to BD 11.1 billion at end-2008 (38.6% growth rate). Total outstanding credit facilities extended by retail banks to the different sectors of the domestic economy amounted to BD 5,887.6 million as at end of 2008.

The consolidated balance sheet for wholesale banks decreased in 2008. Total wholesale bank assets fell by 3.8% to reach USD 188.9 billion at year-end, down from USD 196.3 billion in 2007.

External sector indicators for 2008 reflected the global economic disturbances with Bahrain's current account surplus narrowing to BD 848.6 million, compared to BD 1,092.9 million in 2007. The capital and financial account registered a net outflow of BD 837.2 million, while the direct investment

account shows a noticeable increase in net inflow of BD 65.2 million (up from BD 32.7 million in 2007). Net international investment position rose to BD 5,774.9 million by the end of the year (from BD 4,949.4 in 2007).

With the global financial crisis affecting financial markets around the world, the Bahrain All Share Index closed 34.5% down at the end of the year with virtually all sectors showing year-on-year declines. The only outlier was the hotel and tourism sector with a 23.0% year-on-year increase.

Chapter

1

1. International Economic Developments

Overview

The Global Financial Crisis

World Output

Inflation

Unemployment

Interest Rates

Exchange Rates

Equity Markets

Commodity Markets

Overview

During 2008, the US subprime mortgage crisis broadened and deepened rapidly to become a global financial crisis. This development was largely driven by persistent declines in US home prices, resulting in defaults and foreclosures, and subsequently larger losses in the market value of mortgage-related securities worldwide.

The most significant turning point in this crisis was the collapse of Lehman Brothers in September 2008. The failure of the investment bank almost triggered a collapse of the global financial system. Government intervention became inevitable with the US government bailing out several banks as well as the insurance company, American International Group (AIG). A USD 700 billion rescue package was also passed by the US Congress.

In 2008, inflation concerns were high during the first half of the year as a result of global increases in food and energy prices. As the financial crisis began to impact real economies, overall average unemployment rates in advanced economies increased from 5.4% in 2007 to 5.8% in 2008. Several monetary authorities reduced policy interest rates in an attempt to stimulate their economies.

The Global Financial Crisis

In 2008, the so-called “sub-prime” crisis which arose from the US real estate sector was transformed into a far-reaching financial crisis, affecting major advanced and emerging markets around the world. By mid-2008, large US and European banks had suffered large losses due to their exposure to mortgage-related assets and structured products. Booking these losses depleted capital positions, thereby inhibiting the ability of banks to lend to the real sector. Many banks sought to raise additional capital in order to repair their damaged balance sheets. Despite this turbulence, it was widely believed that while a slowdown in global output was inevitable, the worst effects of the crisis would be concentrated in the advanced countries, while key emerging countries would maintain their recent strong growth.

This belief was shattered in September 2008, following the collapse of the US investment bank, Lehman Brothers. This event led to a severe shortage of liquidity, significant falls in stock markets as well as a freezing of inter-bank

markets in major financial centres. The failure of Lehman intensified the negative impact of the turmoil on economies around the world, with recession in advanced economies and slowdown in the growth rates of developing/emerging markets.

In response to the damaging effects of the crisis, many governments around the world have used public funds to bail out financial institutions, introduced deposit guarantees and relaxed monetary policy through reduced policy rates and “quantitative easing”. Various packages of fiscal stimulus have also been enacted in a bid to contain the attendant economic recession. In the short term, these measures helped to stabilise banking systems but it quickly became clear that more time will be needed in order to reverse the adverse effects on the real economy.

World Output

During 2008, world output grew by 3.2%, down from 5.2% in 2007 (Table 1-1). The significant decrease in growth has resulted from the continuation of financial turbulence and its adverse spill-over effects on the real sector of advanced, emerging, and developing economies. Consumption, investment, and trade have all fallen substantially.

Overall growth projections for 2009 indicate a contraction in advanced economies by 3.8% and a 0.0% growth rate is expected in 2010. Emerging and developing economies are projected to experience a slowdown in growth rates to average 1.6% in 2009 as a result of lower commodity prices, falling exports and tightening of external financing. However, in 2010, growth is expected to pick up to 4.0%.

Despite policy measures taken by authorities around the world, prospects of a sustained economic recovery remain uncertain. The IMF expects a drop in world output of 1.3% in 2009 and a growth of 1.9% in 2010, yet this will critically depend on the success of fixing the financial sector problems in the US and Europe. Furthermore, it will also depend on the ability of emerging economies to grow by stimulating their domestic economies, instead of relying on export-led growth.

Table 1-1: Summary of World Output

	2005	2006	2007	2008	2009*	2010*
World output	4.5	5.1	5.2	3.2	-1.3	1.9
Advanced Economies	2.6	3.0	2.7	0.9	-3.8	0.0
United States	2.9	2.8	2.0	1.1	-2.8	0.0
Euro Area	1.7	2.9	2.7	0.9	-4.2	-0.4
Japan	1.9	2.0	2.4	-0.6	-6.2	0.5
Emerging & developing Economies	7.1	8.0	8.3	6.1	1.6	4.0
China	10.4	11.6	13.0	9.0	6.5	7.5
India	9.2	9.8	9.3	7.3	4.5	5.6
Middle East	5.8	5.7	6.3	5.9	2.5	3.5

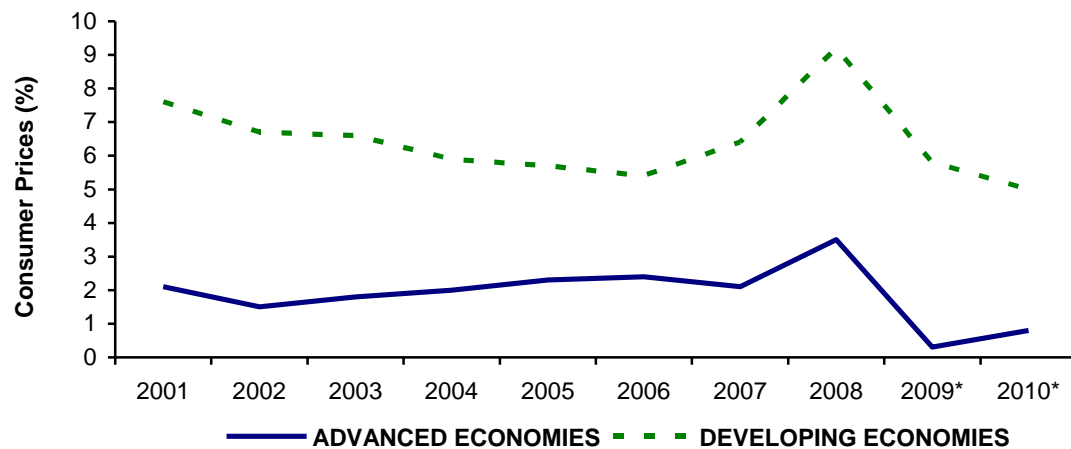
* Forecasts

Source: IMF, World Economic Outlook.

Inflation

Inflation concerns were high during 2007 and the first half of 2008 as a result of global increases in food and energy prices. This was particularly evident in the high-growth emerging market economies. Consumer prices in emerging and developing markets rose by 6.4% in 2007 and 9.2% in 2008 (Chart 1-1). In advanced economies, inflation was also high but less pronounced. Consumer prices in these countries increased by 2.1% in 2007 and by 3.5% in 2008.

In the near-term, the slowdown in economic activity and lower commodity prices will reduce inflationary pressures. In some advanced economies, there also exists the potential threat of deflation if economic conditions deteriorate further. However, on average, the IMF expects inflation in advanced economies to be 0.3% in 2009 and 0.8% in 2010. In emerging markets, forecasts for 2009 and 2010 show an inflation rate of 5.8% and 5.0% respectively.

Chart 1-1: Consumer Prices

*Forecasts

Source: IMF, World Economic Outlook.

Unemployment

The impact of the global recession has affected the labour markets of advanced economies negatively. Figures show that overall average unemployment rates in advanced economies increased from 5.4% in 2007 to 5.8% in 2008. In the US, average unemployment increased from 4.6% in 2007 to 5.8%, reflecting the widespread layoffs across most industries. Average unemployment registered a slight increase for the same period changing from 7.5% to 7.6% in Europe and from 3.8% to 4.0% in Japan.

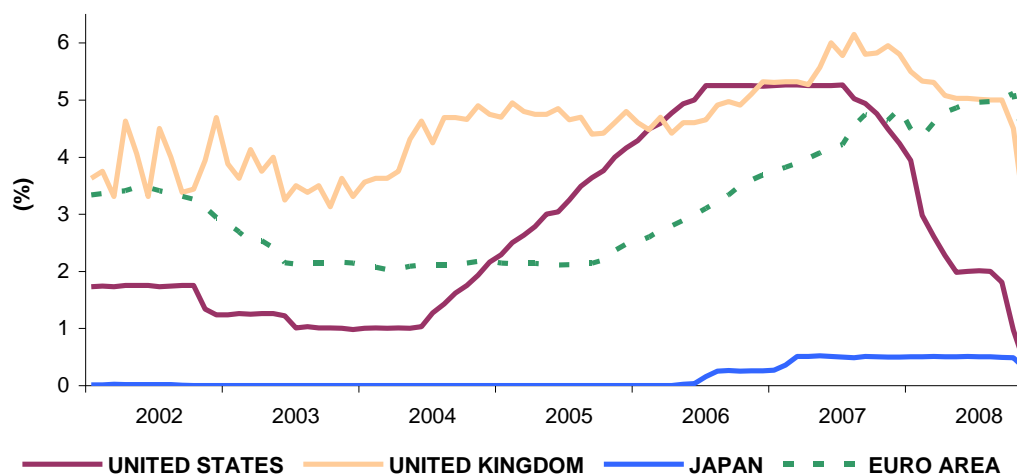
Projections for 2009 and 2010 show a much steeper increase in unemployment rates compared to 2008. Overall unemployment in advanced economies is expected to increase to 8.1% in 2009 and 9.2% in 2010. In the US, the unemployment rate is projected to increase to 8.9% and 10.1% during the same period. In the Euro area, unemployment is expected to rise in 2009 and 2010 to 10.1% and 11.5% respectively, while in Japan it is projected to increase to 4.6% and 5.6% respectively.

Interest Rates

Due to liquidity strains resulting from the global financial crisis, several monetary authorities reduced interest rates during the course of 2008 to restore bank lending and stimulate their economies. As a result, policy rates

declined in major advanced economies, including the US, UK, Japan and the Euro Area (Chart 1-2).

Chart 1-2: Policy Rates in Advanced Countries, 2002-2008



Source: IMF, World Economic Outlook.

Exchange Rates

An analysis of the foreign exchange rates using national currency units per SDR in 2008 indicates a depreciation of the pound sterling and the euro by 34.0% and 3.2% respectively (Table 1-2). Conversely, the Japanese yen and the US dollar appreciated by 22.0% and 2.5% respectively.

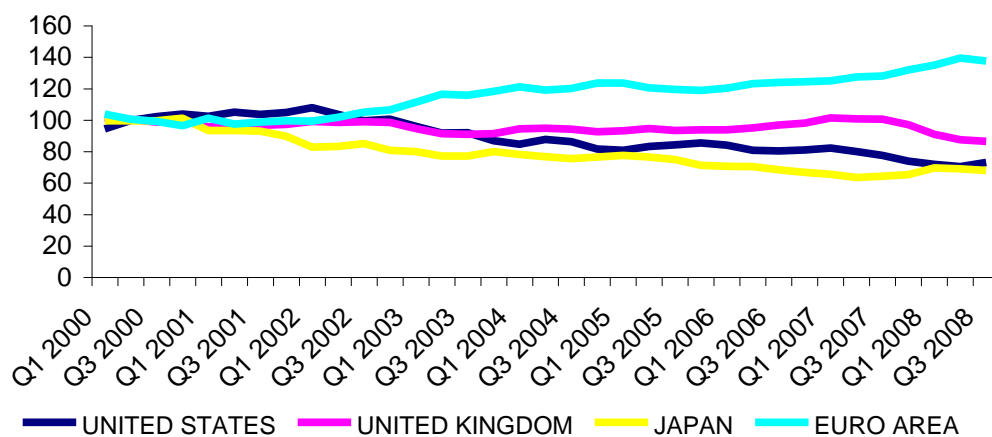
Table 1-2 : Exchange Rates of Major Currencies against the SDR

Currencies	2007	2008			
		Q1	Q2	Q3	Q4
US dollar	1.580	1.645	1.634	1.557	1.540
Euro	1.073	1.040	1.036	1.089	1.107
Japanese Yen	180.1	164.6	173.8	162.4	140.5
Pound Sterling	0.789	0.827	0.820	0.865	1.057

Source: IMF, International Financial Statistics Database.

From the third quarter of 2007 to the third quarter of 2008, the real effective exchange rates of the US dollar and pound sterling depreciated by 5.8% and 13.8% respectively (Chart 1-3). Conversely, the Japanese yen appreciated and the euro appreciated by 5.8% and 7.5% respectively for the same period. The weakening of some currencies is mainly explained by the concerns on the health of financial markets and the overall global economy.

Chart 1-3: Real Effective Exchange Rates of Major Currencies (2000 = 100)

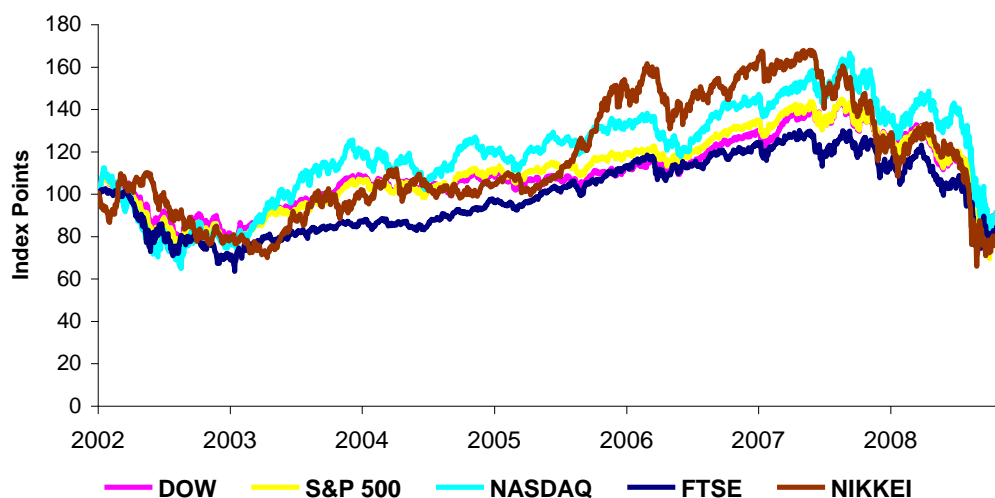


Source: IMF, International Financial Statistics Database.

Equity Markets

Global equity markets experienced turbulence during 2008. As economic and financial conditions worsened, equity markets slumped. It is expected that advanced economies will continue to experience difficult market conditions until further policy actions are implemented by their respective authorities. These policies will have to centre on their ability to reform financial markets and instil some elements of market certainty in line with the overall direction of the international economy.

Chart 1-4: Major World Stock Market Indices (January 2002 = 100)



Commodity Markets

In the first half of 2008, commodity prices were rising steeply on the back of what seemed to be strong demand from emerging market economies.

The average world price of crude oil increased from USD 71.12 per barrel in 2007 to USD 120.97 per barrel in the second quarter of 2008 (Table 1-3). This increase was justified by high demand for oil from China and India combined with constrained supply due to declining global reserves and limited investment in new exploration and production activities.

Along with energy prices, prices of other commodities also rose in this period. For instance, the average price of barley has increased from USD 172.4 per metric tonne in 2007 to USD 239.1 per metric tonne in Q2 2008. Also, the average aluminium price rose from USD 2,638 per metric tonne in 2007 to USD 2,940 per metric tonne in Q2 2008.

Table 1-3: Commodity Prices (Averages)

Commodity	2007	2008			
		Q1	Q2	Q3	Q4
Crude oil, avg. spot (\$/Barrel)	71.12	95.31	120.97	115.68	56.00
Barley (\$/Metric Tonne)	172.4	216.8	239.1	216.6	129.5
Aluminium (\$/Metric Tonne)	2,638	2,743	2,940	2,787	1,821
Gold (\$/Troy Ounce)	697	927	896	870	795

Source: World Bank, Pink Sheet

By mid-2008, the impact of the financial crisis on the global economy overwhelmed factors that contributed to the surge in commodity prices. Therefore, in the second half of 2008, commodity prices started to decline rapidly. The average world price of oil fell significantly from a peak of USD 147 per barrel in July 2008 to an average price of USD 56 per barrel in the fourth quarter of 2008. The price of barley fell from to USD 129.5 per metric tonne and price of aluminium fell to USD 1,821 per metric tonne after reaching their mid-year peaks.

The only commodities which remained resilient were precious metals, particularly gold, since these are normally safe havens during times of volatility and uncertainty. The average price of gold increased from USD 697 per troy ounce in 2007 to USD 795 per troy ounce in Q4 2008.

Chapter

2

2. Economic Trends in the GCC

Overview

Economic Performance

Outlook and Policies

Overview

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 transformation in their economic systems. The combined economies have experienced strong growth alongside significant improvements in domestic infrastructure.

Regional integration and global cooperation are considered important issues for the future growth of the Gulf Cooperation Council (GCC) despite the global financial crisis. Faced with declining oil prices, fluctuating dollar exchange rates, and stock market losses, GCC countries swiftly designed measures to support and allocate resources to sustain economic performance and respond effectively to the macroeconomic and social impact of the crisis.

Diversification of economic bases has also been an important policy objective of the GCC trading bloc, with non-oil sectors playing more important roles in the growth of the economy. Also, growth in the 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, while the economies are benefiting from public-private partnerships. Trade systems have become more liberalised while legislative and supervisory systems have also been upgraded.

Economic Performance

The performance of GCC countries in the first half of 2008 was strong, due mainly to high oil prices, public investment in development projects and private investment in various economic sectors. The global financial turmoil did not have a marked impact on the economic performance of the GCC countries until the second half of 2008 when oil prices experienced a drastic decline. On average, notwithstanding the fourth quarter, 2008 was a solid year for the region.

Nominal GDP for the GCC increased from USD 821 billion in 2007 to USD 1,065 billion in 2008, an increase of 29.7% (Table 2-1). The growth in nominal GDP is substantially higher than the average growth experienced in 2006-2007 (14.3%). Real GDP growth is also slightly higher in 2007-2008 compared to

2006-2007, rising from 5.5% to 5.7%. As the global financial crisis worsened in the second half of the year, it became clear that the GCC countries would not be immune from its adverse effects. In 2009, average real GDP is expected to grow at a slower rate of 3.6% due to lower oil prices, production, in addition to tighter credit conditions in the local and international markets.

Table 2-1: Aggregate Growth Indicators for the GCC

	2006	2007	2008*	2009*
Nominal GDP (\$ billion)	718	821	1,065	906
% Change	17.2	14.3	29.7	-14.9
Real GDP (% Change)	6.1	5.5	5.7	3.6
Hydrocarbon GDP	2.7	1.1	4.2	1.3
Non-hydrocarbon GDP	8.9	7.9	6.1	4.4
Average Inflation (%)	5.3	7.0	12.0	7.6

* Forecasts

Source: Institute of International Finance

During 2008, real hydrocarbon GDP grew 4.2% as a result of high oil prices. In 2009, real hydrocarbon GDP growth is projected to decelerate to 1.3%, close to the growth rate experienced in 2007, as a result of much a lower forecast for oil prices. Growth in non-hydrocarbon GDP is estimated to remain strong in 2008 at 6.1%. Although these levels are modest compared to the previous two years, they still outpace the growth in real hydrocarbon GDP, reflecting buoyancy of non-oil sectors. In 2009, non-hydrocarbon GDP growth is expected to grow by 4.4%.

Inflation levels were very high in 2008. This was due to high domestic consumption and investment in the region. Inflation levels are expected to moderate in 2009 as a result of slowdown in credit growth, strengthening of the dollar and significant declines in commodity prices.

In 2008, the combined current and fiscal accounts of GCC countries were both in surplus. The external account surplus is expected to come under pressure as oil revenues decline. The fiscal accounts of most GCC governments are expected to be in deficit in 2009 as governments continue to spend in order to offset the slowdown in spending by the private sector.

Outlook and Policies

The short-term outlook for the GCC is stable, with financial sectors holding up, supported by government measures aimed at easing the impact of the

crisis. Furthermore, economic activity is expected to slowdown but growth will remain positive. The region's ability to navigate through this period of international turbulence is underpinned by the strong fundamentals of the GCC economies and by the support measures undertaken by the monetary and fiscal authorities in response to the crisis.

GCC central banks have taken strong actions to support the banking system and ease the flow of credit. Aside from cutting interest rates, measures taken have included reducing reserve requirements on bank deposits, introducing new credit facilities to strengthen banks' liquidity positions, and guaranteeing deposits.¹

GCC governments have also taken important steps to build confidence and support economic growth. They have allocated substantial amounts of money to spending on development projects, despite falling oil revenues and pressure on their fiscal budgets. These commitments will be critical for sustaining long-run economic growth and for creating new employment opportunities. Governments, through their sovereign wealth funds, also took responsibility by redirecting significant amounts of their investments locally.

In the long-run, the GCC outlook remains fundamentally strong. Efforts by governments to diversify the economies away from oil into high value added industries provide employment opportunities for the expanding labour force in the region. Furthermore, if oil prices increase again, fiscal positions will become stronger. There is also a widespread recognition by the GCC governments that they have to pursue countercyclical fiscal policies in the future, which will ensure the long-term sustainability of the region's prosperity.

¹ For more information on the GCC's response to the global financial crisis, refer to Box 3.1 in

Chapter

3

3. Bahrain's Economic Performance

Overview

Gross Domestic Product and Economic Growth

The General Level of Domestic Prices

Labour Force

International Rankings

Bahrain Policy Developments

Private Sector Initiatives

Overview

As the global financial crisis unfolded, there was a widespread view that its impact on emerging markets (including the GCC) would be minimal. However, in the final quarter of 2008, it became evident that the crisis would have far-reaching ramifications for both advanced and emerging countries.

Although the initial impact of the crisis on the Bahraini financial system was relatively modest, the effects on the real economy were evident, looking at key macroeconomic indicators. Real GDP growth fell to 6.3% in 2008, down from 8.4% the previous year, largely due to shrinkage in non-oil output (especially financial services). Although the inflation rate remained low at 3.5% during 2008 (influenced by a fall in global commodity prices), the current account surplus shrank considerably. Also, as oil prices continued to fall, government finances came under pressure.

Gross Domestic Product and Economic Growth

In 2008, real GDP growth in Bahrain was 6.3%, down from 8.4% in 2007 (Table 3-1). In absolute dinar terms, real GDP rose from BD 4,453.6 million to BD 4,733.9 million over the period. Real GDP per capita stood at BD 4554.9.

Table 3-1: Gross Domestic Product (GDP) 2007-2008

(BD Million)

	2007	2008*	% Change
GDP at Constant Prices	4,453.6	4,733.9	6.3
Oil	602.6	605.1	0.4
Non-Oil	3,851.0	4,128.8	7.2
Non-Financial Corporations	3,264.7	3,477.6	6.5
Manufacturing	706.5	757.9	7.3
Transportation and Communication	376.4	409.6	8.8
Trade	357.1	368.8	3.3
Real Estate & Business Activities	434.1	466.8	7.5
Financial Corporations	1,192.2	1,258.8	5.6
Government Services	630.7	689.2	9.3

* Provisional Data

Source: Central Informatics Organisation (CIO)

A look at the sectoral breakdown of GDP shows that non-financial corporations grew by 6.5% in 2008, slightly lower than the 7.8% growth of 2007. Financial corporations recorded a growth rate of 5.6%, much lower than the 9.3% of 2007. This is evidently a reflection of the global financial crisis. Government services however experienced positive growth, expanding by 9.3% during 2008 (compared to 7.6% in 2007).

Despite the slowdown in the financial sector, it remains the largest single contributor to GDP. At the end of 2008, the financial sector accounted for 26.6% of real GDP, virtually unchanged from the year before.

While the strength of the private sector, particularly the financial sector was crucial for the growth of the Bahrain economy, the oil sector still retains its significance. In nominal terms, oil GDP grew by 37.5% in 2008, much higher than the 11.0% recorded in 2007. This is a reflection of soaring world oil prices during the first 3 quarters of the year. The resultant oil windfalls also added some comfort in that Bahrain may be somewhat insulated from the effects of the crisis.

In real terms, following a 1.1% increase in 2007, oil GDP increased only by 0.4% in 2008. Real non-oil GDP growth was stronger in comparison and registered a 7.2% growth in 2008.

The growth indicators underscore the progress of the Bahrain economy in reducing its reliance on the oil sector to create jobs and maintain growth. Nevertheless, oil constitutes a large segment of fiscal revenues and exports.

Total crude oil production decreased slightly from 67,262 thousand barrels in 2007 to 66,864 thousand barrels in 2008. Production at Awali oil field (Bahrain Oilfield) decreased from a total of 12,552 thousand barrels at end 2007 to 12,027 thousand barrels at end 2008. Abu Sa'afa oil production grew slightly, increasing from 54,710 thousand barrels in 2007 to 54,837 thousand barrels in 2008.

Table 3-2: Crude Oil Production and Refining

(USD Barrels Thousands)

	2007	2008	2008			
			Q1	Q2	Q3	Q4
Total Crude Oil	67,262	66,864	16,543	16,730	16,783	16,808
Bahrain Oilfield	12,552	12,027	3,039	2,952	3,002	3,034
Abu Sa'afa Oilfield	54,710	54,837	13,504	13,778	13,781	13,774
Refined Oil Production	97,903	96,368	24,805	24,602	24,881	22,080

Source: National Oil and Gas Authority (NOGA)

The slight increase in Abu Sa'afa oil production could not offset the larger decline in production at Awali (Table 3-2). Total refined oil production therefore decreased from 97,903 in 2007 to 96,368 thousand barrels in 2008.

Domestic Prices

During 2008, Bahrain recorded an inflation rate of 3.5% (Table 3-3). The reported consumer price index (CPI) at the new base year of 2006 increased from 100.0 in 2006 to 106.9 in 2008, an increase of 6.9% during the period. Prices for food items, housing fuels, and household goods and services increased by 11.4%, 3.0%, and 12.5% respectively while healthcare services decreased by 2.5%.

Table 3-3: Consumer Price Index (2006 = 100)

	2001	2002	2003	2004	2005	2006	2007	2008
Food, Beverages & Tobacco	95.4	94.5	93.1	95.2	98.0	100.0	104.5	115.9
Clothing & Footwear	99.3	99.4	99.9	101.3	100.7	100.0	102.1	104.1
Housing, Water, Electricity & Fuels	73.8	81.8	85.6	90.8	96.4	100.0	104.1	107.1
Household Goods & Services	102.3	102.5	102.6	102.4	100.6	100.0	94.3	106.8
Healthcare Services	100.4	99.0	96.5	96.4	96.8	100.0	104.1	101.6
Transport	100.0	94.1	95.8	97.0	98.8	100.0	102.6	101.6
Communication	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Recreation & Culture	111.2	110.9	106.5	103.0	101.2	100.0	100.2	101.0
Education	80.5	87.1	99.1	99.0	98.8	100.0	100.6	102.4
Miscellaneous	83.9	85.3	87.5	89.9	91.9	100.0	102.3	107.7
General Index	92.3	91.9	93.4	95.5	98.0	100.0	103.3	106.9
Inflation	-1.2	-0.5	1.7	2.3	2.6	2.1	3.3	3.5

Source: Central Informatics Organisation

By global standards, inflation levels in Bahrain are low, reflecting government subsidies on essential commodities as well as the recent decline in global commodity prices.

Labour Force

Total employment in Bahrain amounted to 471,088 at the end of 2008, 24.1% higher than in 2007. The increase in total employment was mainly due to an increase in private sector employment. Total employment accounted for 45.3% of total population with the private sector and public sector accounting for 91.5% and 8.5% of total employment respectively (Table 3-4).

The public sector predominantly employs Bahraini nationals, who made up 87.5% of total public sector employment in 2008. Total public sector employment grew marginally by 2.4 % for the same year.

Table 3-4: Employment

	2007	2008	2008			
			Q1	Q2	Q3	Q4
Total Employment*	379,471	471,088	410,162	432,638	458,456	471,088
Change (%)	7.8	24.1	8.1	5.5	6.0	2.8
Private Sector	340,217	430,882	370,825	393,279	419,268	430,882
As % of Total Employment	89.7	91.5	90.4	90.9	91.5	91.5
Male	310,019	389,802	336,913	357,311	380,961	389,802
Female	30,198	41,080	33,912	35,968	38,307	41,080
Bahraini	66,834	81,867	72,864	75,679	78,191	81,867
Non-Bahraini	273,383	349,015	297,961	317,600	341,077	349,015
Public Sector**	39,254	40,206	39,337	39,359	39,188	40,206
As % of Total Employment	10.3	8.5	9.6	9.1	8.5	8.5
Male	21,906	22,108	21,904	21,820	21,638	22,108
Female	17,348	18,098	17,433	17,539	17,550	18,098
Bahraini	34,847	35,204	34,846	34,843	34,769	35,204
Non-Bahraini	4,407	5,002	4,491	4,516	4,419	5,002

*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 employed non-Bahrainis, who at the end of 2008 made up 81.1% of total private sector employment. Bahraini private sector employment grew significantly by 22.5% during the year, and Bahrainis accounted for 19.0% of total private sector employment.

The private sector, in comparison to the public sector, has been employing a larger number of workers, highlighting growth in the 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 in the midst of the global financial crisis. 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, increasing fiscal transparency and improving the overall long run outlook for the economy.

Credit Ratings

In 2008, Bahrain had favourable sovereign credit ratings. Bahrain's long term foreign and local currency debt ratings were unchanged by Fitch Ratings Agency. Fitch reaffirmed Bahrain's rating for long term foreign currency debt at "A" (with a stable outlook) in 2008. Local currency debt ratings remained at "A+" (stable) (Table 3-5).

Standard and Poor's ratings for foreign and local currency debt also remained unchanged at "A" (stable) in 2008. These ratings reflect the creditworthiness of the Bahrain government and have positive effects on individual credit ratings for financial institutions operating in Bahrain.

Table 3-5: Government of Bahrain Foreign Currency Credit Ratings

	2007			2008		
	Fitch	S&P	CI	Fitch	S&P	CI
Foreign Currency						
Long Term	A	A	A-	A	A	A
Short Term	F1	A-1	A2	F1	A-1	A2
Outlook	Stable	Stable	Stable	Stable	Stable	Stable
Local Currency						
Long Term	A+	A	A	A+	A	A
Short Term	n/a	A-1	A1	n/a	A-1	A1
Outlook	Stable	Stable	Stable	Stable	Stable	Stable

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

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 provide a broader look at a country's performance beyond GDP. The HDI

provides an overview of human progress and the 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 3-6). Bahrain ranked 41st out of 177 countries in 2007/2008. 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 the same indicators as the HDI, but to measure inequalities in achievements between men and women.

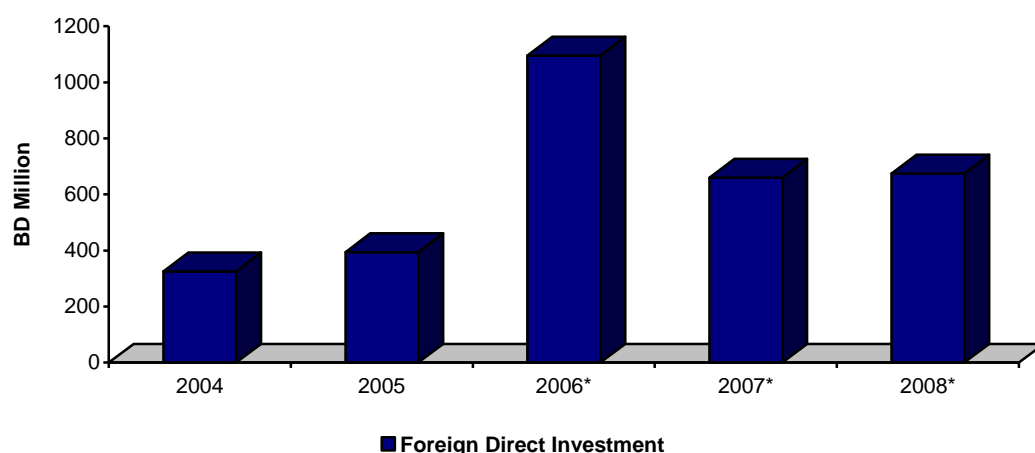
Table 3-6: Bahrain Human Development Index, 2008

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 3-1). In the 2008 World Investment Report, Bahrain was ranked 12th for inward FDI performance for 2007 (unchanged from 2006) and 9th for outward FDI performance (2 places above 11th place in 2006). During 2008, Bahrain attracted a total of BD 674.5 million in foreign direct investment.

Chart 3-1: Foreign Direct Investment in Bahrain



Source: Central Bank of Bahrain

* Provisional Data

Bahrain Policy Developments

National Vision

The Bahrain “Economic Vision 2030” was officially launched in October 2008, outlining a comprehensive economic and social development framework for the country. The vision will be implemented through the National Strategy which comprises a programme of government initiatives that seek to achieve long-term economic growth and prosperity for Bahrainis. The vision is the product of four years of work by the Economic Development Board (EDB) alongside other government authorities. Efforts will be focused on increasing the efficiency and productivity of Bahraini labour, strengthening the foundations of the economy, and emphasising private sector development.

The vision also aims to make Bahrain a favourable business environment by having a progressive but stable government and a multicultural society that encourages entrepreneurship and human capital development. The vision states:

“We aspire to shift from an economy built on oil wealth to a productive, globally competitive economy, shaped by the government and driven by a pioneering private sector – an economy that raises a broad middle class of Bahrainis who enjoy good living standards through increased productivity and high-wage jobs. Our society and government will embrace the principles of sustainability, competitiveness and fairness to ensure that every Bahraini has the means to live a secure and fulfilling life and reach their full potential.”

Labour Market

Bahrain’s increase in labour productivity is considered to be the highest in the Gulf since 2000 according to the “Growing Beyond Oil” report, published in June 2008 by the US Conference Board. The organisation praised the success of Bahrain’s efforts to modernise its labour market stating that the resultant increased productivity is key to future economic growth.

The report concluded that Bahrain’s labour productivity rate was 20% higher than that of Oman, its nearest competitor, and more than five times above the GCC average. The study also indicated that Bahrain achieved the highest multi-factor productivity in the Gulf since the year 2000. Bahrain's economic growth is based on rapidly increasing labour productivity and therefore is more sustainable compared to other countries in the region where economic development largely depends on the inflow of foreign labour.

Bahrain's labour force has become one of the most skilled in the Arab world. Education is compulsory and free for Bahrain's entire population and Bahrain's literacy rate stands at 85%, one of the highest in the region. The authorities have a long-term commitment to developing a modern and highly skilled workforce that is capable of competing with economies across the world.

Bahrain's efforts in improving its labour force are evident in the efforts of the Labour Fund "Tamkeen". Throughout 2008, Tamkeen promoted business growth and invested in the human capital through various programmes and initiatives. These initiatives focus on human capital and private sector development through labour market reform.

For private sector development, Tamkeen aims to enhance business productivity, competitiveness and strengthen presence in the market, to raise the standards of corporate performance, and support employment and wage opportunity improvements. Financial support is extended to small and medium sized enterprises (SMEs). By the end of 2008, Tamkeen was able to help 825 small and medium sized enterprises from various sectors.

As for Human Capital Development, the aim is to address manpower shortages and skills gaps in the private sector. One programme is the *Specialised Training for Skills Gap* that is designed to provide for the skills shortage in the defined professions and career streams. The programme assists labour market entrants to identify new job opportunities in various sectors. In June 2008, the Human Capital Development initiative announced it had invested in excess of USD 75 million (BD 28 million) to provide over 11,000 Bahraini nationals with world-class training over the next four years. The initiatives extend to nationals entering the labour market as well as existing employees.

Structural Developments

Infrastructure is fundamental to sustainable economic development. Significant progress in improving the infrastructure 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.

Progress has been made on projects that aim to enhance the overall road network in Bahrain. Work on the new Sitra Bridge continued in 2008 as well as work on the flyovers at Umm Al Hassam and on Shaikh Isa bin Salman Highway. The projects are expected to be completed in the second half of 2010.

On December 31st, 2008, The BD 6 million new Seef Flyover was inaugurated and officially opened to the public.

E-Government

Bahrain has continued to implement its electronic government system. The Bahrain e-government portal links about 300 governmental sites and governs communication with the central site to offer its services to citizens, expatriates and investors. The online portal contains about 67 services available for four categories (individuals, businesses, government, and visitors) in Arabic and English.

In 2008, 13 new services were added to the portal. These consisted of four health services, five tendering services, two social security services, one education service and flight information as part of the aviation services. As part of its continuous awareness program for all its services, the e-Government Agency launched in July 2008 a campaign to display the electronic services to the public.

In September 2008, Cisco announced that it will be working closely with the Bahrain government to define strategic information and communications technology (ICT) initiatives that will help advance Bahrain's global competitiveness and network readiness. The company will establish an internet data centre based in Bahrain which will serve as a regional hub for Cisco's ICT services. The hub will support the delivery of multiple services and technologies including Cisco TelePresence and Cisco's Unified Communications solutions to company offices in the region. The initiative aims to strengthen cooperation between the Bahraini government and global technology providers in an effort to grow the ICT industry and attract foreign direct investments for its services.

The efforts of the e-Government Authority began to show some results in 2008 with a significant increase in electronic financial transactions done via the online portal. Figures showed that the number of financial transactions reached 12,550 worth roughly BD 940,000 in the third quarter of 2008 representing a 200% increase in number of transactions and a 250% increase in overall amount compared to the first quarter. Credit card transactions accounted for 80% of the total number of transactions, while debit cards accounted for 20%.

Economic Agreements

In 2008, 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 January 2008, two Agreements were signed between Bahrain and the Sultanate of Brunei Darussalam. The agreements were signed to create favourable bilateral investment conditions and to ensure that residents of Bahrain and Brunei will not be subjected to double taxation with regard to income and capital taxes levied by either country.

In February 2008, a MoU was signed between the Bahrain Ministry of Finance (MOF) and the Singapore Cooperation Enterprise (SCE). The MoU aims to enhance bilateral relations and create a Bahrain-Singapore partnership with regard to vital business sectors and government.

In April 2008, two Memorandums of Understanding were signed between Bahrain, the United Kingdom and Northern Ireland on co-operation in customs' affairs. The first MoU deals with the mutual assistance and cooperation in Customs' matters in the fight against serious and organised crime, illicit drug trafficking and matters of mutual interest. The second MoU covers developing or acquiring the skills, tools, processes and resources needed to improve the ability of the customs administration to carry out its functions.

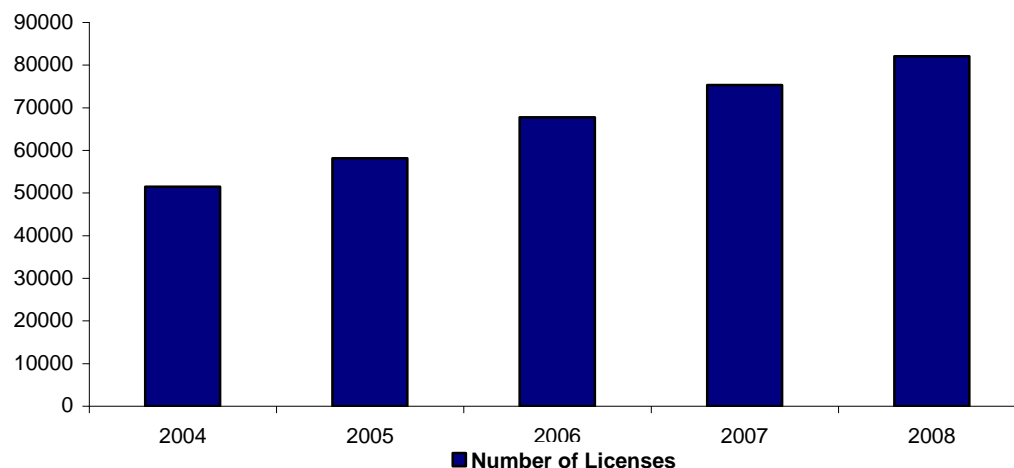
In May 2008, an agreement and a Memorandum of Understanding were signed between Bahrain and Spain. The agreement was signed to create favourable investment conditions between the two countries. The MoU on Economic, Trade and Technical Co-operation aims at strengthening co-operation in a number of sectors, mainly construction, telecommunications and tourism. It also encourages relevant specialised entities, and companies exploring the possibilities of executing projects in these sectors.

Private Sector Developments

The strong performance of the private sector has enabled Bahrain to cope with the ongoing global crisis. In 2008, the total number of new commercial licenses issued totalled 6,730 taking the total number of commercial licenses to 82,085 (9.0% increase from 2007) (Chart 3-2). The largest numbers of

licenses issued have been in the wholesale and retail trade (including repair of motor equipment) sub-segment, where 2,801 licenses were issued.

Chart 3-2: Total Number of Commercial Registration Licenses



Source: Ministry of Industry and Commerce

Property and Real Estate Developments

When the credit crunch began to impact the Gulf region, there were concerns about a possible slowdown in the real estate and construction sector as several projects were either cancelled or delayed.

However, available data for end-2008 shows a 22.8% increase in property transactions compared to 2007. Total real estate transactions (buy and sell) during 2008 amounted to BD 1,665.7 million compared to BD 1,356.7 million in 2007. In terms of district, the Capital Governorate had the lion's share of transactions, with 47.0 % of the total trade in property.

Table 3-7: Traded Properties by Nationality, 2008

Investor Nationality	2008		
	Number of Properties	Value (BD million)	%
Bahraini	4,203	1,478.6	89.0
Saudi	98	93.7	6.0
Kuwaiti	42	57.8	3.4
Emirati	14	3.0	0.2
Qatari	30	7.0	0.4
Omani	7	2.3	0.1
Other Foreigners	70	13.2	0.8
Total	4,464	1,655.7	100.0

Source: Survey of Land Registration Bureau.

The percentage of properties traded by Bahraini citizens accounted for 89.0% down from 93.0% from the year before (Table 3-7). The percentage of properties traded by non-citizens (GCC states and foreigners) accounted for 11.0% with citizens from Saudi having the highest share of 6.0%.

In 2008, a total of 10,564 construction permits were issued, a slight decrease of 7 permits from 2007 (Table 3-8). The data still indicates a growing real estate construction sector, with “addition” permits constituting 46.9% of total number of permits followed by 32.1% in the form of “new construction permits”.

Table 3-8: Construction Permits by Type

Construction Permits by Permit Type	2007	2008
Addition	4,826	4,959
Demolition	721	928
Demolition and New Construction	411	108
New Construction	3,759	3,398
Reclamation	26	34
Renovation	828	1,137
Total	10,571	10,564

Source: Ministry of Municipalities Affairs and Agriculture.

Work on large scale multi-purpose projects continued during 2008, including Bahrain Bay, a USD 2.5 billion mixed development project. By the end of 2008, Bahrain Bay announced that the project's infrastructure is nearing completion.

In September 2008 and after two years in development, the construction of Bahrain's biggest mall, City Centre was completed. The 1.5 million square feet three-level shopping and leisure destination has almost 330 retail units plus two hotels (one four-star and the other five-star), as well as a family entertainment centre.

In 2008, after completion of the first phase of the Bahrain Financial Harbour, the Bahrain Financial Harbour Holding Company (BFHHC) announced that it had signed lease and tenancy agreements with many financial institutions that would commence operations in the financial centre.

Several other real estate projects are also underway, including the Villamar at the Harbour, Diyar Al Muharraq, Amwaj Marina, Downtown Al Areen, Reef Island, Riffa Views, Abraaj Al Lulu and Marina West.

Telecommunications

Bahrain is one of the fastest growing telecommunications markets in the Gulf. According to the “Telecommunications Indicators Report” released by the Telecommunications Regulatory Authority (TRA) in October 2008, there was a 12.6% increase in industry revenue between 2006 and 2007. Figures also show that the telecommunications sector currently employs almost 2,400 workers, with Bahrainis constituting 87% of total employees.

As of December 2007, TRA has issued 152 licenses to 68 companies. Out of these 68 companies, 16 operators currently provide telecommunications services.

This growth in 2007 confirms the ongoing liberalisation of the Bahrain telecommunications market in providing services to households and enterprises.

One of the major developments in 2008 is Bahrain’s decision to open up its mobile telecommunications sector to a third player by 2010. In October 2008, the TRA announced that following the closure of bidder registration, four companies have registered for the third mobile license auction in Bahrain².

Batelco and Zain are the current mobile network operators in Bahrain with a total number of 1,115,979 mobile subscribers by the end of 2007 (a 23.0% growth compared to 2006).

Another major development in 2008 was the TRA announcement of a 20.0% reduction in annual fees paid by licensed operators. Since the formation of TRA in 2002, the annual fees charged to licensees was 1.0% of their annual gross revenue generated from their licensed activities within Bahrain.

Industrial Developments

Bahrain’s two flagship industrial developments, the Bahrain Investment Wharf (BIW) and the Bahrain International Investment Park (BIIP), have

² In early 2009, it was announced that Saudi Telecom Company (STC) has won Bahrain’s third mobile network operating licence.

already brought in investments worth millions, with thousands of new jobs in the pipeline. These two projects are designed to attract 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.

In 2008, work on the BIW continued as the land was allocated and contracts were awarded. Reclamation work finished in November 2007 and the development was divided into 164 plots, which have been re-leased to a total of 51 sub-developers. Bahrain Investment Wharf Company, the project operators have already succeeded in promoting the available area, which will accommodate 400 industrial projects and is expected to offer job opportunities for 10,000 people.

As for the BIIP, current and/future industries include: software development and food manufacturing raw material fabrication, electronics and textiles. The BIIP offers many incentives for firms such as zero tax for 10 years, 100% foreign ownership and free trade access to the USA.

Other industrial projects already being implemented represent a total investment of more than BD 900 million, covering a wide range of manufactured goods from construction materials to coat hangers.

Chapter

4

4. Monetary Developments

Overview

Money Supply Developments

Domestic Interest Rates

Exchange Rate Developments

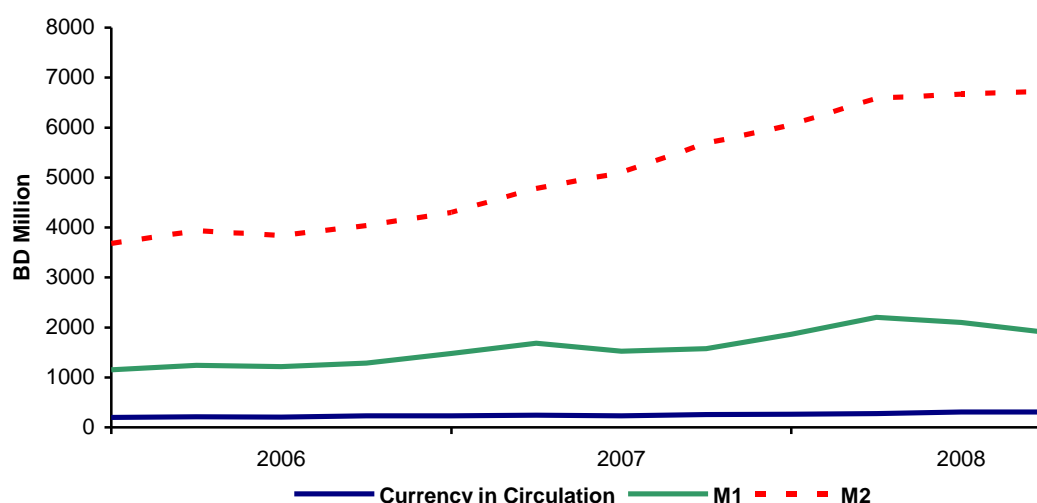
Overview

During 2008, monetary and financial developments in Bahrain reflected trends in the global economy as well as domestic economic developments. Given the Bahraini dinar's peg against the US dollar, domestic interest rates largely tracked US policy rates during the year, as the US authorities struggled to contain the recessionary impact of the global financial crisis. Also, the exchange rate of the dinar against other currencies largely reflected the movements of the US dollar against those currencies.

Money Supply Developments

Data shows that money supply continued to grow during 2008. Currency in circulation (currency outside banks) registered an increase of BD 48.0 million (18.7% growth) to reach BD 304.2 million compared with BD 256.2 million in 2007 (Table 4-1). M1 (currency in circulation plus demand deposits) grew by 20.7% from BD 1,572.6 million in 2007 to BD 1,898.7 million in 2008. As a result of the growth in M1, broad money, M2 (M1 plus time and savings deposits) rose by BD 1,045.8 million (18.4% increase) at end 2008, compared with BD 1,647.4 million or 40.8% in 2007.

Chart 4-1: Money Supply



Source: Central Bank of Bahrain

Money supply growth has been spurred on by a growth in savings. Broad money (M2) growth was mainly due to increases in domestic and foreign currency private sector deposits. In 2008, total private sector deposits

(demand deposits as well as time and savings deposits) amounted to BD 6,424.2 million and accounted for 95.5% of M2. Private sector time and saving deposits increased by 17.5% and largely contributed to the growth in M2. Demand deposits increased by 21.1% from BD 1,316.4 million at end 2007 to BD 1,594.5 million at end 2008, increasing its share of M2 from 23.2% in 2007 to 23.7% in 2008. Total private sector deposits increased by 18.4% to reach BD 6,424.2 million at end 2008.

Table 4-1: 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				
2007	256.2	1,316.4	4,110.0	974.5	1,572.6	5,682.6	6,657.1
2008	304.2	1,594.5	4,829.7	1,316.1	1,898.7	6,728.4	8,044.5

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 (Retail banks only) by currency shows that M2 growth has been mainly driven by increases in both Bahraini dinar and foreign currency saving deposits.

During 2008, Bahraini dinar demand deposits at retail banks grew the most, increasing by BD 320.3 million or by 36.4% to reach BD 1,199.1 million. BD savings and time deposits followed, growing by 21.3% and 16.9% respectively (Table 4-2). Foreign currency saving and time deposits increased by 67.6% and 14.7% respectively during 2008, while foreign currency demand deposits decreased by 9.6% for the same period.

At the end of 2008, the broadest measure of money (M3), increased by BD 1,387.4 million or by 20.8% from BD 6,657.1 million at end 2007 to BD 8,044.5 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 341.6 million or 35.1% from BD 974.5 million in 2007 to BD 1,316.1 million in 2008.

Table 4-2: Private Sector Deposits by Currency

(BD Million)

Deposit Type	2007	2008	Change (%)
Demand			
BD	878.8	1,199.1	36.4
Foreign Currency	437.6	395.4	-9.6
Savings			
BD	793.8	962.9	21.3
Foreign Currency	44.5	74.6	67.6
Time			
BD	1,943.8	2,271.5	16.9
Foreign Currency	1,244.4	1,427.9	14.7
CBB Liabilities to Non-Banks (BD and Foreign Currency)	83.5	92.8	11.1
Total	5,426.4	6,424.2	18.4
As a Share of M2 (%)	95.5	95.5	0.0

Source: Central Bank of Bahrain

In terms of domestic liquidity, as also defined by M3, the growth was largely due to an increase in domestic assets relative to net foreign assets. During 2008, domestic assets increased by BD 2,399.3 million or 81.2% to reach a total of BD 5,355.3 million. In contrast, net foreign assets decreased by BD 1,011.9 million or 27.3% to reach a total of BD 2,689.2million (Table 4-3).

At the end of 2008, 66.6% of M3 was in the form of domestic assets and 33.4% in the form of net foreign assets. In terms of domestic assets, government claims, private sector claims and other assets accounted for 8.6%, 77.2% and -19.2% of M3 respectively. Retail banks' and the CBB's net foreign assets account for 17.8% and 15.6% of M3 respectively.

Table 4-3: Factors Affecting Domestic Liquidity

(BD Million)

Factor	End-2007	End-2008	Change (%)
Domestic Liquidity (M3)	6,657.1	8,044.5	20.8
Factors Affecting Liquidity			
Net Foreign Assets	3,701.1	2,689.2	-27.3
a) CBB	1,546.1	1,433.9	-7.3
b) Retail Banks	2,155.0	1,255.3	-41.7
Domestic Claims	2,956.0	5,355.3	81.2
c) Claims on Government	612.8	691.0	12.8
d) Claims on Private Sector ^{1/}	4,323.7	6,207.7	43.6
e) Other Assets (Net)	-1,980.5	-1,543.4	22.1

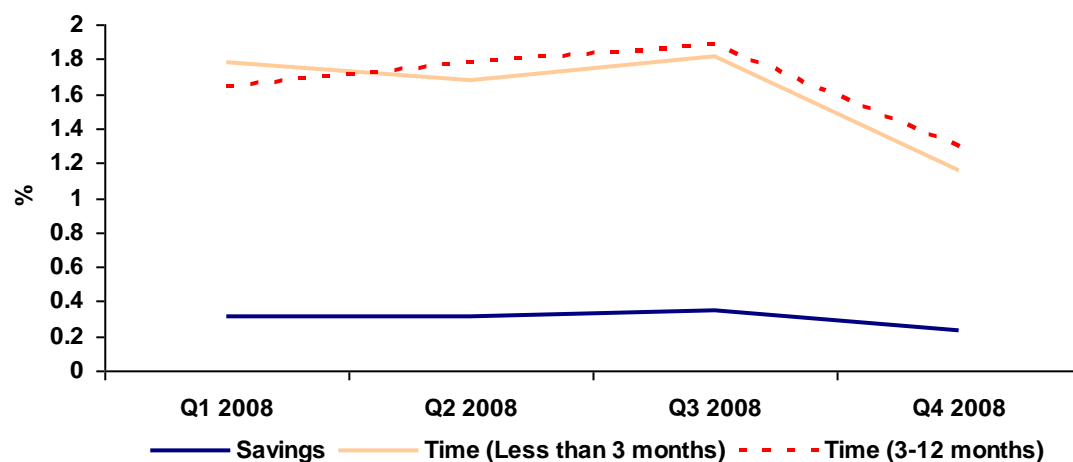
^{1/} Includes Loans and Holdings of Securities

Source: Central Bank of Bahrain

Domestic Interest Rates

In line with the dinar-dollar peg, interest rates in Bahrain have mostly tracked US interest rates. In terms of deposits, weighted average retail bank rates on short term time deposits (less than 3 months) decreased from 1.78% at the start of 2008 to 1.16% during the year; longer term time deposits (3-12 months) also decreased from 1.64% to 1.29% for the same period (Table 4-4). Rates on savings accounts also decreased, from 0.31% to 0.23%.

Chart 4-2: 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 higher at the end of 2007 and have subsequently reduced sharply during 2008. Similarly, longer term time deposits rates for 3-12 months have shown the same trend.

Table 4-4: Deposit Interest Rates

Deposits	End 2006	End 2007	2008 (% per annum)			
			Q1	Q2	Q3	Q4
Time 1/						
a) <3 months	4.31	3.78	1.78	1.68	1.81	1.16
b) 3-12 months	4.40	3.47	1.64	1.78	1.88	1.29
Savings	0.37	0.36	0.31	0.31	0.35	0.23

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 increased from 6.58% at the beginning of 2008 to 7.43% by year-end (Table 4-5). Rates for all sectors rose significantly after the third quarter of 2008 as the fallout of

the global crisis materialised. Of particular note, trade sector loan rates increased significantly from 5.20% to 8.17% at the year end.

Table 4-5: Interest Rates on Business Loans

(% per annum)

Sector	End 2006	End 2007	2008			
			Q1	Q2	Q3	Q4
Construction and real estate	8.82	6.63	6.80	7.90	7.44	8.60
Manufacturing	6.89	6.69	6.33	4.71	6.03	7.54
Trade	7.94	6.05	5.20	7.34	6.81	8.17
Other ^{1/}	7.32	6.31	6.69	5.75	5.54	6.72
Total Business ^{2/}	7.97	6.91	6.58	6.91	6.78	7.43

1/ Includes non-banks financial and other services

2/ Includes overdraft approvals

Source: Central Bank of Bahrain

Conversely, weighted average rates for total personal loans decreased from 8.98% to 8.09% for the same period (Table 4-6). This is due to decreases in rates for loans secured by mortgages, vehicles and deposits. Unsecured lending experienced an increase in both salary assigned and other loans.

According to the data, personal loans secured by vehicle title were affected most by the interest rate reductions, as rates decreased from 9.18% at the beginning of 2008 to 7.54% by year-end. Personal loans secured by cash deposits also decreased from 8.15% to 6.72%, while mortgage rates decreased slightly from 8.66% to 8.24%.

Table 4-6: Interest Rates on Personal Loans

(% per annum)

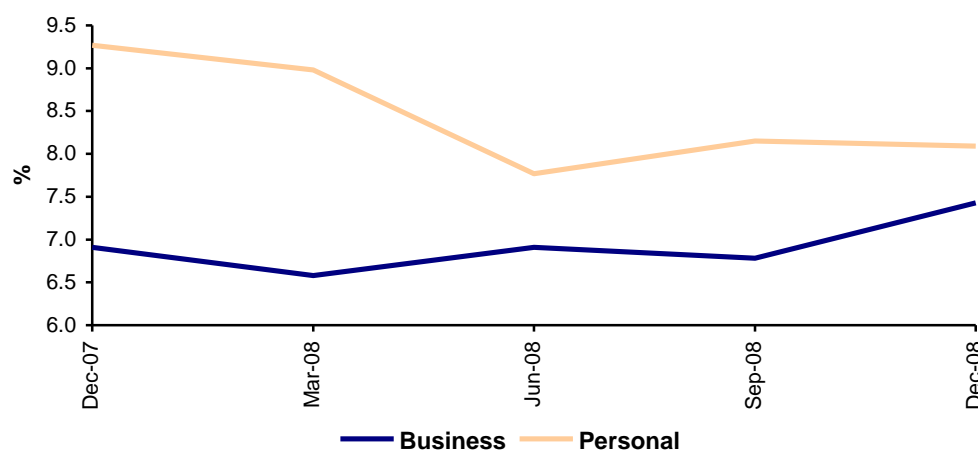
Personal Lending Type	End 2006	End 2007	2008			
			Q1	Q2	Q3	Q4
Secured by:						
by Mortgages	8.74	9.13	8.66	8.42	8.43	8.24
Vehicles Title	9.68	9.56	9.18	8.59	7.90	7.54
By Deposits	10.41	8.45	8.15	8.49	6.22	6.72
Unsecured:						
Salary Assignment	8.11	8.42	8.31	7.35	8.23	8.37
Other	18.30	15.59	19.84	11.32	12.27	20.51
Total Personal ^{1/}	8.89	9.27	8.98	7.77	8.15	8.09
Credit Cards	20.46	20.97	20.89	21.79	21.80	21.78

1/ Includes other types of personal loans not shown separately

Source: Central Bank of Bahrain

Lending rates against unsecured salary assignments increased from 8.31% to 8.37% with “other” forms of unsecured lending increased also from 19.84% to 20.51%.

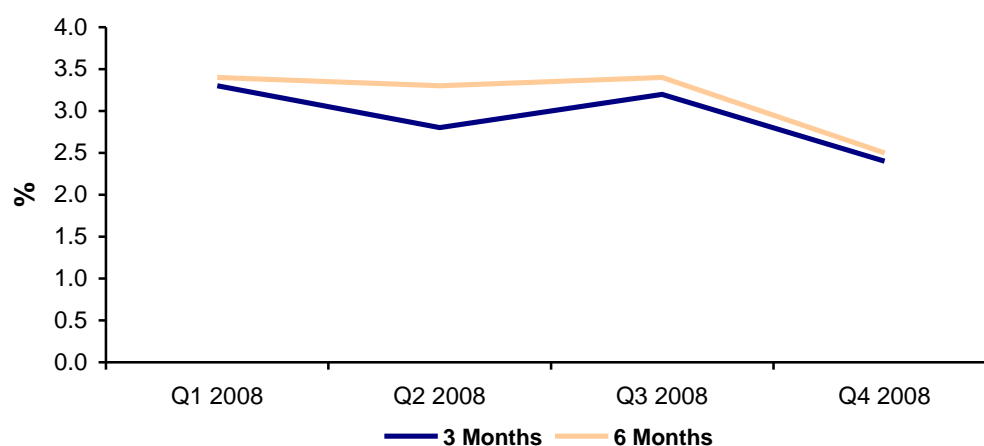
Chart 4-3: Personal and Business Interest Rates



Source: Central Bank of Bahrain

Average interbank rates have also decreased during the course of 2008. While interbank rates are more reflective of banks' demand for liquidity, they have also been influenced by US monetary policy developments over the past year.

Chart 4-4: Money Market Rate/Interbank Rate



Source: Central Bank of Bahrain

Average short term interbank rates (3 month transfers) fell from 3.3% in the first quarter of 2008 to 2.4% at the end of the year. Longer term interbank rates (6 month) also decreased from 3.4% to 2.5% over the same period (Chart 4-4).

Exchange Rate Developments

During 2008, the Bahraini dinar appreciated against the pound sterling and euro, while it depreciated against Japanese yen and remained unchanged against the Swiss franc (Table 4-7).

Table 4-7: BD Exchange Rate against major currencies

	End 2007	End 2008	2008			
			Q1	Q2	Q3	Q4
Saudi Riyal	0.100	0.100	0.100	0.100	0.100	0.100
Kuwaiti dinar	1.377	1.363	1.411	1.420	1.412	1.363
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	0.751	0.543	0.749	0.750	0.686	0.543
Euro	0.554	0.530	0.594	0.593	0.543	0.530
Japanese Yen ^{1/}	3.360	4.160	3.770	3.550	3.530	4.160
Swiss Franc	0.335	0.355	0.377	0.369	0.342	0.355

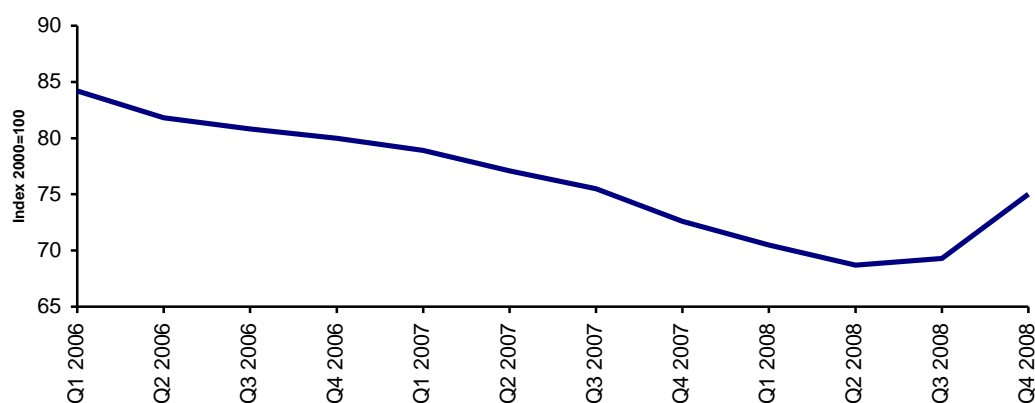
Interest rates as at the last working day of each period

1/ Per 1000 Units

Source: Central Bank of Bahrain

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. By the fourth quarter of 2008, Bahrain's REER has increased by 5.7 points (8.2%) compared to the previous quarter, but only higher by 2.4 points (3.3%) compared to the level at end of 2007 (Chart 4-5).

Chart 4-5: Bahrain's Real Effective Exchange Rate (2000 = 100)



Source: IMF: International Financial Statistics

Chapter

5

5. Financial Sector Developments

Overview

Structure of the Bahrain Financial System

Consolidated Banking System

Retail Banks

Wholesale Banks

Islamic Banks

Domestic Credit

Credit Card Survey

Mutual Funds

Manpower Survey

Overview

Although the global financial crisis worsened considerably during 2008, the overall impact on the Bahraini financial system was relatively modest during the year. In the early days of the crisis, three banks declared losses from their exposures to mortgage-related securities and structured products, but were able to raise additional capital to cover the losses. Although many banks experienced liquidity pressures during the second half of the year, the sector did not experienced systemic liquidity shortages

Hence, unlike in other GCC countries, the Government and the CBB did not consider it necessary to resort to some of the exceptional measures adopted elsewhere in the world as Bahrain's financial institutions and markets continued to operate normally throughout the crisis. The CBB did, however, introduce a number of new measures designed to assist the financial system to cope with any liquidity pressures emanating from the global turmoil. These included the introduction of a swap facility which enabled commercial banks to swap US dollars for Bahraini dinars and an expansion in the range of collateral it will accept in its repo facility. The CBB has also engaged in close monitoring of both individual institutions and the financial system throughout the period under review³.

Structure of the Bahrain Financial System

At the end of 2008, the financial sector remained the largest contributor to Bahrain's economy, accounting for 26.6% of real GDP. There were 416 banks and financial institutions operating in Bahrain (Table 5-1) compared to 400 at end of 2007. The licensing framework for financial institutions operating in Bahrain has remained largely unchanged, with a variety of licenses granted to institutions in line with their principal activities.

³ For more information on CBB's response to the global financial crisis, refer to Chapter 7 in the December 2008 Financial Stability Report.

Table 5-1: Total number of licenses (2007 vs. 2008)

License Type	2007	2008
Retail Banks	29	30
<i>Islamic</i>	6	6
<i>Conventional</i>	23	24
Wholesale Banks	85	84
<i>Islamic</i>	19	20
<i>Conventional</i>	66	64
Representative Offices	35	36
<i>Islamic</i>	4	4
<i>Conventional</i>	31	32
Money Changers	19	19
Financing Companies	4	5
Investment Business Firms	34	49
Provider of Ancillary Services	11	14
Administrators	4	5
Trust Service Providers	1	3
Capital Market Brokers	13	7
Insurance Companies and Organisations	165	164
Total	400	416

Source: Central Bank of Bahrain

During 2008, the CBB issued a total of 45 new licenses for financial institutions compared to 38 in 2007 (Table 5-2). These included 3 banking licenses (of which 1 was Islamic), 29 financial institutions (of which 8 were Islamic), and 13 insurance companies (of which 4 were Islamic).

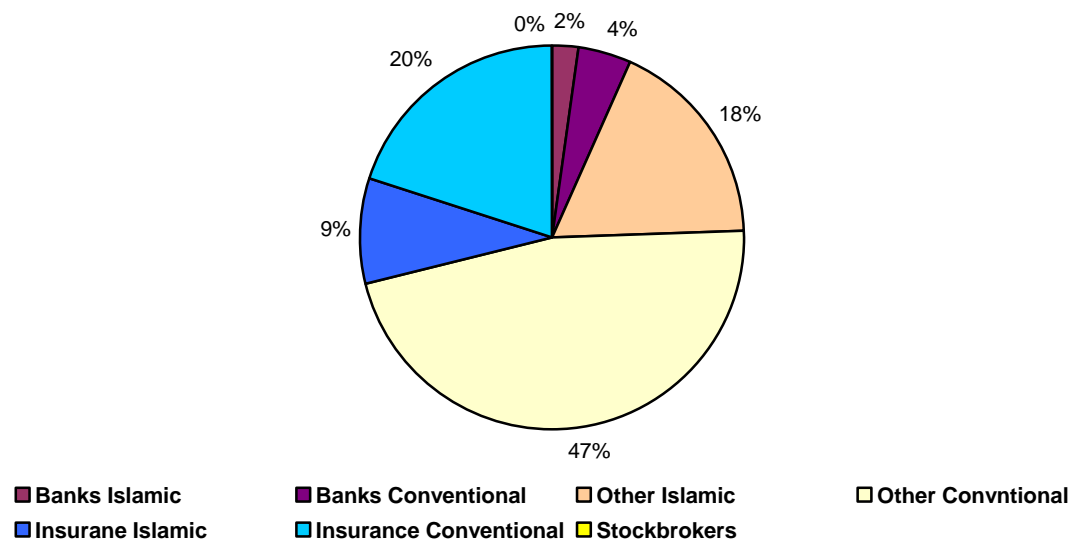
Table 5-2: New Licenses Issued (2007 vs. 2008)

License Type	2007	2008
Banks	9	3
<i>Islamic</i>	6	1
<i>Conventional</i>	3	2
Other Financial Institutions	17	29
<i>Islamic</i>	1	8
<i>Conventional</i>	16	21
Insurance Companies	12	13
<i>Islamic</i>	2	4
<i>Conventional</i>	10	9
Total	38	45

Source: Central Bank of Bahrain

The new licenses also included 18 investment business firm licenses (seven Category-1, seven Category-2, and four Category-3), 11 other financial institutions (4 Representative Offices, an Administrator, 2 Trust Service Providers, 3 Ancillary Services, and a Financing Company).

Chart 5-1: New licenses Issued, 2008



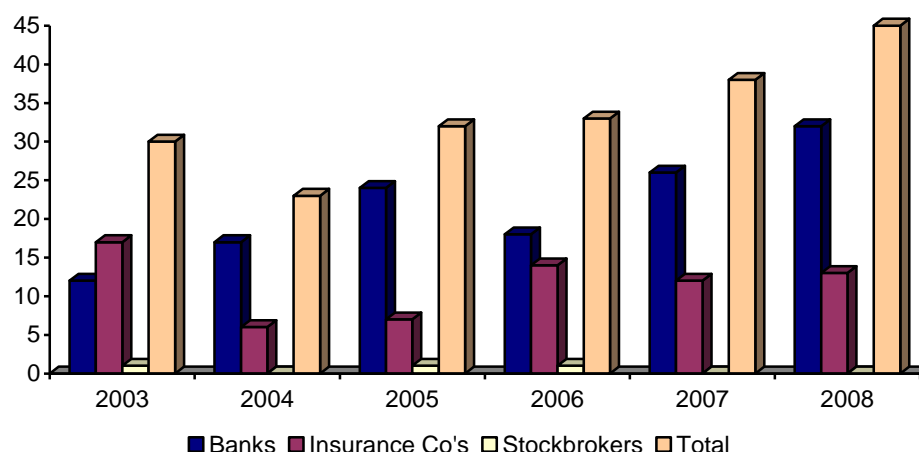
Source: Central Bank of Bahrain

Licenses have mostly been granted to banks and other financial institutions. However, there was also a growth in the insurance companies sector, particularly during the last three years. The CBB granted 26 and 32 new licenses for banks and other financial institutions during 2007 and 2008 respectively. The growth in new licensees in the insurance companies' sector has also increased slightly from 12 to 13 companies for 2007 and 2008 respectively (Table 5-3).

Table 5-3: Historical Issuance of Licenses

	2003	2004	2005	2006	2007	2008
Banks	12	17	24	18	26	32
Insurance Co's	17	6	7	14	12	13
Stockbrokers	1	0	1	1	0	0
Total	30	23	32	33	38	45

Source: Central Bank of Bahrain

Chart 5-2: Issuance of licenses, 2003-2008

Source: Central Bank of Bahrain

Consolidated Banking System

The consolidated balance sheet for the banking system (conventional and Islamic retail and wholesale banks) increased in total to reach USD 252.4 billion by the end of 2008, compared to USD 245.8 billion at the end of 2007, an increase of USD 6.6 billion, or 2.7% (Table 5-4). Wholesale banks represented 74.8% of the total, while retail banks accounted for 25.2%.

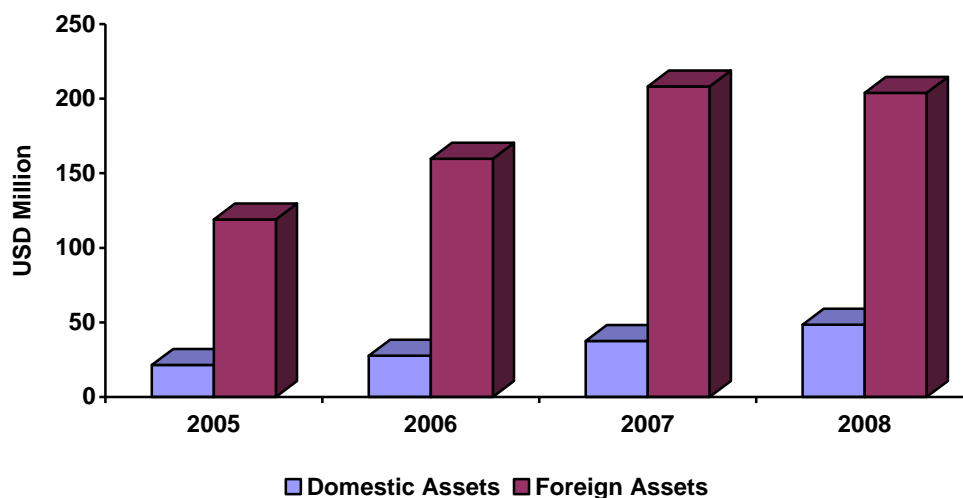
Table 5-4: Consolidated Balance Sheet of the Banking System

(USD Billion)

Items	Year-end		% Change
	2007	2008	
Retail Banks	49.5	63.5	28.3
Wholesale Banks	196.3	188.9	-3.8
Total	245.8	252.4	2.7

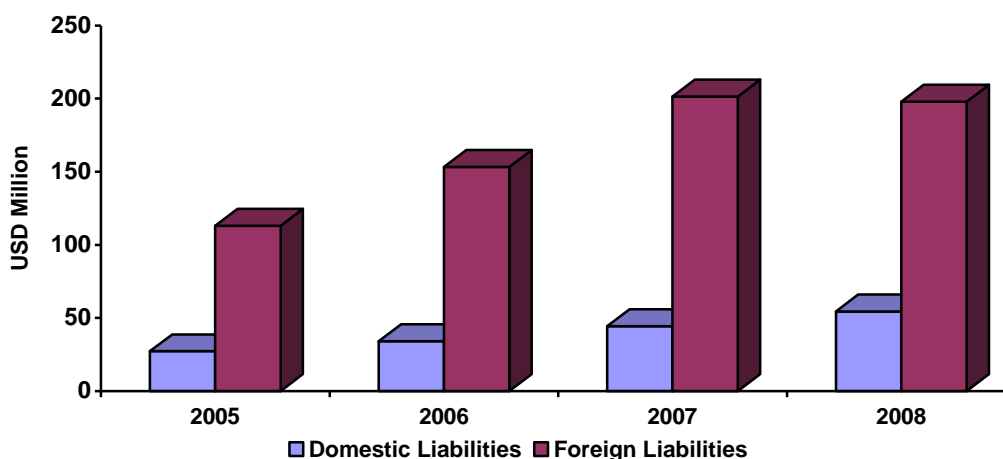
Source: Central Bank of Bahrain

In total, domestic banking assets were smaller than foreign assets and amounted to USD 48.5 billion at the end of 2008 compared to USD 37.6 billion at the end of 2007, registering an increase of USD 10.9 billion (29.0%). Foreign assets amounted to USD 203.9 billion at the end of 2008 compared to USD 208.3 billion at the end of 2007, a decrease of USD 4.4 billion (2.1%).

Chart 5-3: Domestic and Foreign Assets of the Banking System

Source: Central Bank of Bahrain

With regard to liabilities, domestic liabilities rose to USD 54.5 billion at the end of 2008 compared to USD 44.4 billion at the end of 2007, an increase of USD 10.1 billion (22.7%). Total foreign liabilities decreased at the end of 2008 by USD 3.5 billion (1.7%) to reach USD 197.9 billion against USD 201.4 billion at the end of 2007.

Chart 5-4: Domestic and Foreign Liabilities of the Banking System

Source: Central Bank of Bahrain

Geographically, the banking systems balance sheet for 2008 shows a high level of concentration of both assets and liabilities.

The banking system assets over time have been mainly concentrated in GCC and European economies. From the period 2006 to 2008, the GCC share of total assets increased from 28.9% to 34.5% while Europe's share of total assets decreased from 29.8% to 27.4% for the same period (Table 5-5). Assets in the Americas have decreased the most, with their share of total assets falling from 15.5% in 2006 to 9.4% in 2008. This could be a response to the financial turmoil in the US prompting some banks to reduce their exposure accordingly.

Table 5-5: Geographical Classification of the Banking System's Assets/Liabilities

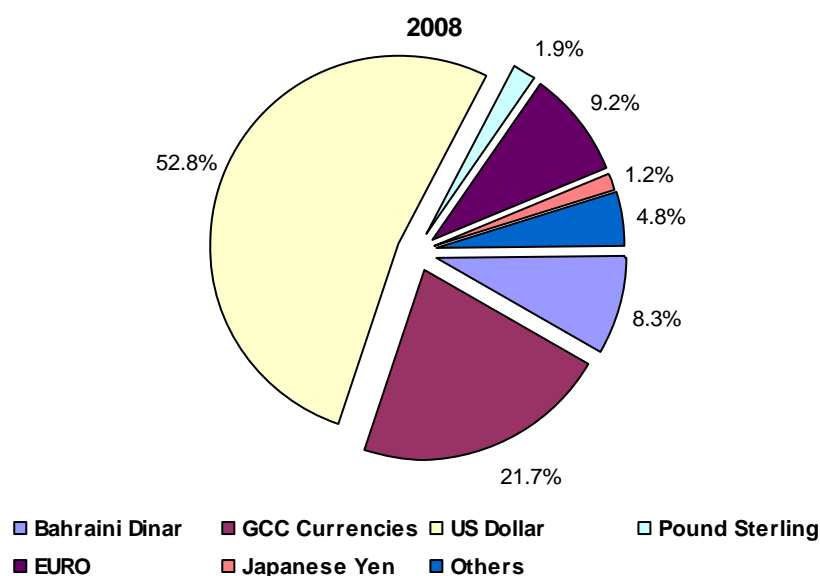
(USD Billion)

Items	Year					
	2006		2007		2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	27.6	34.1	37.6	44.4	48.5	54.5
GCC	54.2	56.0	80.0	67.4	87.2	67.2
Other Arab Countries	3.5	11.9	5.3	16.2	5.2	13.0
Americas	29.0	15.0	26.9	15.6	23.8	14.4
Western Europe	55.9	50.4	75.9	78.8	69.2	80.7
Asia	12.9	17.6	15.1	21.4	13.4	20.4
Other	4.2	2.3	5.1	2.0	5.0	2.3
Total	187.3	187.3	245.8	245.8	252.4	252.4

Source: Central Bank of Bahrain

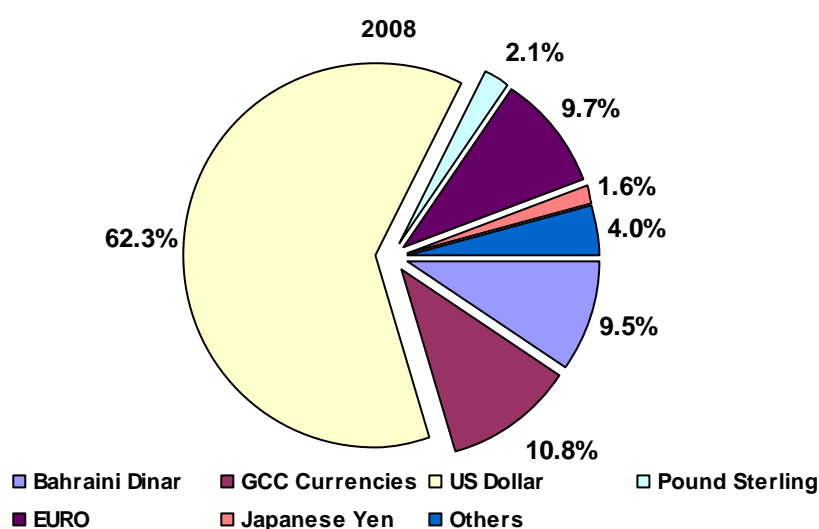
The trends for liabilities indicate that Europe accounts for 32.0% of total liabilities. Europe is closely followed by the GCC and Bahrain who account for 26.6% and 21.6% of total liabilities respectively.

The currency structure of the banking system shows that in 2008, most assets are denominated in US dollars. 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 52.8% of total assets, compared with 62.5% at end-2007. GCC countries followed and accounted for 21.7% of total assets (Chart 5-5). The Euro is the non-dollar currency with the highest volume of assets (9.2% of total assets).

Chart 5-5: 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 62.3% of total liabilities and the GCC and Euro accounted for 10.8% and 9.7% of total liabilities respectively (Chart 5-6). Relative to assets, BD denominated liabilities are higher than assets, registering 9.5% of total liabilities compared to 8.3% of total assets.

Chart 5-6: Currency Structure of the Banking System's Liabilities

Source: Central Bank of Bahrain

Retail Banks

The total assets of retail banks (including foreign assets) stood at BD 23.9 billion as at 31st December 2008, an increase of BD 5.3 billion or 28.3% over 2007 (Table 5-6). This growth is attributed to a substantial growth in domestic assets, which increased from BD 8.0 billion at end-2007 to BD 11.1 billion at end-2008, a growth of 38.6%.

Table 5-6: Consolidated Balance Sheet of Retail Banks - Assets

(BD Million)

Items	2007	2008	% Change
Total Domestic Assets	8,036.2	11,134.2	38.6
Cash	51.4	66.6	29.6
CBB	1,051.3	931.7	-11.4
Banks 1/	1,462.6	2,591.3	77.2
Private Non-Banks 2/	4,323.7	6,207.7	43.6
General Government			
Loans	262.3	283.2	8.0
Securities	350.5	407.8	16.3
Other	534.4	645.9	20.9
Total Domestic Assets	8,036.2	11,134.2	38.6
Foreign Assets	10,570.3	12,738.5	20.5
Total Assets	18,606.5	23,872.7	28.3

1/ Includes Head Offices and Affiliates

2/ Loans and Holdings of Securities

Source: Central Bank of Bahrain

The major contributor to domestic asset growth was claims on banks, which increased by BD 1,128.7 million from BD 1,462.6 million at end-2007 to BD 2,591.3 million at end-2008, an increase of 77.2%. Claims on private non-banks increased by 43.6% from BD 4,323.7 million at end-2007 to reach BD 6,207.7 million at end-2008 or by 43.6%. Cash assets also increased compared to the year to reach BD 66.6 million at end-2008 or by 29.6%.

At the end of 2008, total domestic liabilities stood at BD 12,389.7 million, 21.6% higher than the BD 10,191.2 million recorded in 2007 (Table 5-7). Total foreign liabilities (including capital and reserves) grew significantly, by 36.5% from BD 8,415.3 million in 2007 to BD 11,483.2 million. Most of the growth in domestic liabilities was in the form of deposits with the CBB, which grew by 128.5%. Liabilities to general government and to banks grew by 39.7% and 32.3% amounting to BD 1,329.4 million and BD 2,699.8 million at end-2008 respectively.

Table 5-7: Consolidated Balance Sheet of Retail Banks - Liabilities

(BD Million)

Items	2007	2008	% Change
Total Domestic Liabilities	10,191.2	12,389.7	21.6
Central Bank of Bahrain	97.4	222.6	128.5
Banks	2,017.3	2,669.8	32.3
Private Non-Banks ^{2/}	5,351.6	6,343.3	18.5
General Government ^{2/}	951.3	1,329.4	39.7
Other	349.0	403.9	15.7
Capital & Reserves	1,424.6	1,420.7	-0.3
Foreign Liabilities ^{1/}	8,415.3	11,483.2	36.5
Total Liabilities	18,606.5	23,872.9	28.3

^{1/} Includes Capital and Reserves.^{2/} Includes some non-deposit (non-monetary) liabilities.

Source: Central Bank of Bahrain

Wholesale Banks

The consolidated balance sheet for wholesale banks shrank in 2008. Aggregate data indicates that total wholesale bank assets decreased by 3.8% to reach USD 188.9 billion at the end of 2008, down from USD 196.3 billion in 2007 (Table 5-8). The decrease in total assets was mainly due to a decrease in total foreign assets, which decreased from USD 180.2 billion at end-2007 to USD 170.0 billion at end-2008 or by 5.6%. The decrease in total foreign assets was driven mainly by a shrink in claims on banks, securities and head office and affiliates by 20.5%, 19.2% and 19.7% respectively.

On the other hand, total domestic assets grew by 16.7% during the same period, from USD 16,180.7 million in 2007 to USD 18,879.3 million in 2008. Claims on general government increased by 20.7% from USD 436.2 million in 2007 to USD 526.6 million in 2008, as well as claims on private non-banks and other domestic assets by 15.5% and 226.0% respectively. Claims on banks decreased by USD 955.7 million from USD 11,325.7 in 2007 to USD 10,370.0 million in 2008 or by 8.4%.

Table 5-8: Consolidated Balance Sheet of Wholesale Banks - Assets

(USD Million)

Items	2007	2008	% Change
Total Domestic Assets	16,180.7	18,879.3	16.7
Banks ^{1/}	11,325.7	10,370.0	-8.4
Private Non-Banks ^{2/}	3,051.2	3,524.7	15.5
General Government ^{2/}	436.2	526.6	20.7
Other	1,367.6	4,458.0	226.0
Total Foreign Assets	180,157.8	169,983.3	-5.6
Banks	23,006.4	18,281.1	-20.5
Non-Banks	59,958.9	70,096.1	16.9
Securities	42,357.4	34,216.7	-19.2
H.O. & Affiliates	53,908.2	43,278.3	-19.7
Other	926.9	4,111.1	343.5
Total Assets	196,338.5	188,862.6	-3.8

^{1/} Includes Head Offices and Affiliates^{2/} Includes Securities

Source: Central Bank of Bahrain

With regard to wholesale bank liabilities, most of the decrease during 2008 was from liabilities to foreign non-banks and foreign banks, which fell by 30.8% and 21.0% respectively (Table 5-7).

Table 5-9: Consolidated Balance Sheet of Wholesale Banks-Liabilities

(USD Million)

Items	2007	2008	% Change
Total Domestic Liabilities	17,289.6	21,528.7	24.5
Banks ^{1/}	10,063.0	11,140.5	10.7
Private Non-Banks	1,746.1	1,881.2	7.7
General Government	757.6	406.8	-46.3
Other ^{2/}	4,722.9	8,100.2	71.5
Total Foreign Liabilities	179,048.9	167,333.9	-6.5
Banks	63,125.9	49,843.1	-21.0
Non-Banks	37,233.2	25,779.6	-30.8
Securities	4,798.8	3,926.7	-18.2
H.O. & Affiliates	61,912.1	74,297.6	20.0
Other ^{2/}	11,978.9	13,486.9	12.6
Total Liabilities	196,338.5	188,862.6	-3.8

^{1/} Includes Head Offices and Affiliates^{2/} Includes Capital and Reserves

Source: Central Bank of Bahrain

On balance, the composition of wholesale bank liabilities shows that banks in Bahrain are relying less on foreign funding for their assets, and instead

turning towards domestic sources as the global turmoil dampens international transactions.

The largest component of foreign liabilities are in the head office and affiliates category, which reached USD 74,297.6 million at the end of 2008 and increased by 20.0%. This was followed by liabilities to banks, which reached USD 49,843.1 million and decreased by 21.0%.

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 continued to grow due to the increasing interest in Islamic products and services as a perceived "safer" alternative to conventional banking in the uncertain financial environment.

Consolidated assets of Islamic banks (retail and wholesale banks) grew significantly by 50.0% during 2008 with the overall growth being fuelled by foreign assets (Table 5-10).

Table 5-10: Consolidated Balance Sheet of Islamic Banks - Assets

(USD Million)

Items	2007	2008	% Change
Total Domestic Assets	9,504.2	11,839.7	24.6
Cash	17.9	37.1	107.3
Investment with Banks ^{2/}	4,288.9	3,578.5	-16.6
Investment with Private Non-Banks	3,590.6	6,079.3	69.3
Investment with Government	144.3	332.9	130.7
Other	1,462.5	1,811.9	23.9
Total Foreign Assets	6,925.8	12,812.5	85.0
Investment with Banks	1,409.9	2,621.0	85.9
Investment with Private Non-Banks	2,437.8	3,241.3	33.0
Securities	1,156.4	2,392.6	106.9
H.O. & Affiliates	1,676.8	4,463.9	166.2
Other	244.9	93.7	-61.7
Total Assets ^{1/}	16,430.0	24,652.2	50.0

1/ Includes Unrestricted Investment Accounts

2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

Assets in foreign head offices and affiliates have increased significantly growing at 166.2%, from USD 1,676.8 million in 2007 to USD 4,463.9 million in 2008. Foreign securities also increased noticeably by 106.0% from USD 1,156.4 million to USD 2,392.6 million for the same period. Investments with foreign

banks increased from USD 1,409.9 million in 2007 to USD 2,621.0 million in 2008 or by 85.9%; this reflects the preference of foreign entities for Islamic investments and particularly the high liquidity in the region.

In terms of domestic assets, investments with government have been the major contributor, growing at 130.7% from USD 144.3 million in 2007 to USD 332.9 million in 2008. Investments with private non-banks also had a significant increase, growing by 69.3% to reach USD 6,074.3 million.

Liabilities, like assets are growing fast on the foreign side, showing increased faith by international investors and depositors in Islamic products and services offered. Domestic liabilities have also increased during the year.

Total foreign liabilities grew by 101.1%, mostly led by increases in capital and reserves and head office and affiliates (Table 5-11). Capital and reserve liabilities grew by 251.4% from USD 1,330.8 million in 2007 to 4,676.1 million in 2008, while head office and affiliates increased from USD 42.5 million in 2007 to 134.2 million in 2008, a growth of 215.8%.

Domestic liabilities grew by a total of 20.9%, led predominantly by liabilities to general government, which grew by 239.2% from USD 236.5 million in 2007 to 802.2 million in 2008. Liabilities to banks and private non-banks increased by 39.3%, 43.4% respectively while capital and reserves and other liabilities decreased by 21.3% and 3.9% respectively.

Table 5-11: Consolidated Balance Sheet of Islamic Banks – Liabilities

(USD Million)

Items	2007	2008	% Change
Total Domestic Liabilities	10,458.7	12,642.0	20.9
Banks ^{2/}	2,578.9	3,591.3	39.3
Private Non-Banks	3,337.6	4,786.7	43.4
General Government	236.5	802.2	239.2
Capital and Reserves	3,893.4	3,065.6	-21.3
Other	412.3	396.2	-3.9
Total Foreign Liabilities	5,971.3	12,010.2	101.1
Banks	3,244.9	5,399.0	66.4
Non-Banks	1,286.6	1,754.3	36.4
H.O. & Affiliates	42.5	134.2	215.8
Capital and Reserves	1,330.8	4,676.1	251.4
Other	66.5	46.6	-29.9
Total Liabilities ^{1/}	16,430.0	24,652.2	50.0

1/ Includes Unrestricted Investment Accounts

2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

Domestic Credit

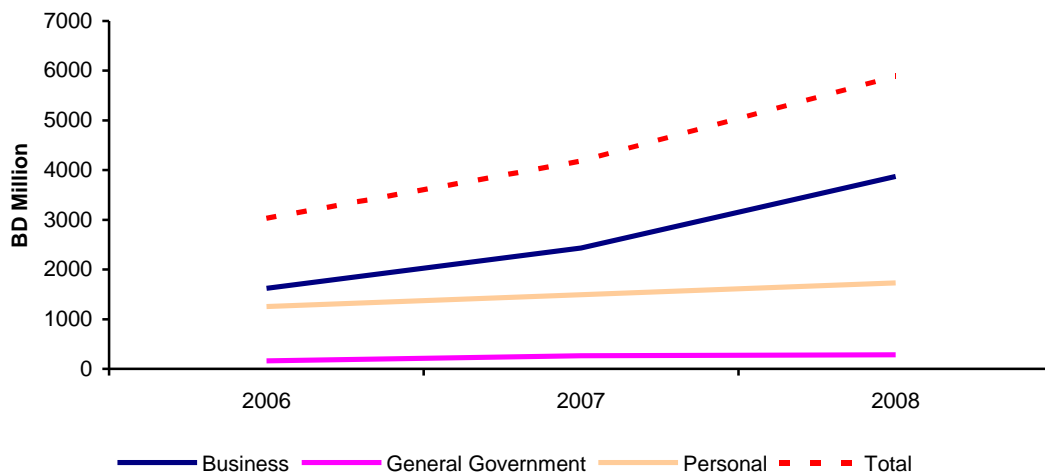
Credit facilities have been showing an upsurge for the majority of the economic sectors operating in Bahrain. Total outstanding credit facilities extended by retail banks to the different sectors of the domestic economy amounted to BD 5,887.6 million at end-2008, compared to BD 4,183.9 million at end-2007 (a 40.7% increase)(Chart 5-7).

Total domestic credit has increased by 37.9% by end-2007 and 40.7% at end-2008 with the highest increase being a 9.8% growth in the second quarter. Private sector credit (business and personal) shows a similar pattern, with a yearly growth of 36.6% in 2007 and 42.9% in 2008, indicating that the lending boom to households and business enterprises is persisting.

Outstanding facilities to the business sector increased by 59.1% from BD 2,432.0 million at end-2007 to BD 3,870.5 million at end-2008. During 2008, business lending expanded by 38.0% from BD 2,804.5 million in the first quarter of 2008 to BD 3,870.5 million in the last, concurrently increasing its share of total domestic credit from 60.7% to 65.7%. Business credit showed a major increase of 21.9% during the third quarter of 2008.

In terms of composition, the private sector (business and personal combined) received the bulk of domestic credit, ranging from 95% to 96% of total loans throughout 2008 (Table 5-12). The business sector accounts for the majority of credit facilities extended, overtaking personal sector credit growth. As a percentage of total credit facilities, outstanding business sector credit accounted for 65.7% at end-2008, up from 58.1% in 2007 and 53.4% in 2006.

Chart 5-7: Domestic Credit by Sectors



Source: Central Bank of Bahrain

Personal sector credit facilities accounted for 29.5% at end-2008, decreasing from 35.6% in 2007 and 41.3% in 2006. General government credit has been usually low in comparison, accounting for 4.8% in 2008, lower than the 6.3% in 2007 and 5.3% in 2006.

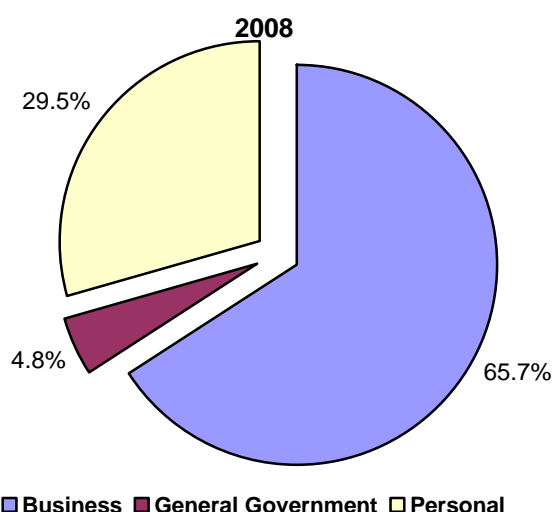
Table 5-12: Domestic Credit by Sector

(BD Million)

Sectors	End-2006		End-2007		End-2008	
	Value	% Share	Value	% Share	Value	% Share
Business	1,619.1	53.4	2,432.0	58.1	3,870.5	65.7
General Government	161.5	5.3	262.3	6.3	283.2	4.8
Personal	1,252.9	41.3	1,489.6	35.6	1,733.9	29.5
Total	3,033.5	100.0	4,183.9	100.0	5,887.6	100.0

Source: Central Bank of Bahrain

Chart 5-8: Domestic Credit by Sector



Source: Central Bank of Bahrain

Loans to the construction and real estate segment accounted for the largest share of business loans (39.8%), with the trade sector being in second place at 27.5%. Most of the growth in business loans in 2008 occurred in the manufacturing, construction and real estate, and trade sectors.

Table 5-13: Business Loans by Sector

(BD Million)

Sectors	2008*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Manufacturing	435.6	9.4	416.2	8.2	414.7	7.5	464.3	7.9
Mining & Quarrying	3.6	0.1	4.2	0.1	5.8	0.1	8.1	0.1
Agriculture, Fishing & Dairy	6.5	0.2	6.4	0.1	7.5	0.1	8.7	0.1
Construction & Real Estate	943.5	20.4	1,027.6	20.3	1,425.8	25.9	1,539.7	26.2
Trade	782.0	16.9	854.0	16.8	1,023.9	18.6	1,065.4	18.1
Non-Bank Financial	209.3	4.5	259.7	5.1	249.8	4.5	226.5	3.8
Other Sectors, of which:	424.0	9.2	336.7	6.6	412.8	7.5	557.8	9.5
Transport & Comm.	114.1	2.5	77.3	1.5	113.7	2.1	84.8	1.4
Hotels & Restaurants	53.1	1.1	55.9	1.1	71.3	1.3	84.9	1.4
Total Business Loans	2,804.5	60.7	2,904.8	57.2	3,540.3	64.2	3,870.5	65.7

*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

Outstanding credit facilities to the *personal sector* increased by 18.9% from BD 1,489.6 million at end-2007 to BD 1,733.9 million at end-2008 (16.4%). Personal loans showed a 7.8% increase in the first quarter of 2008. Even though personal loans showed an overall increase in 2008, its share of total domestic credit decreased from 34.7% at the beginning of 2008 to 29.5% at the end, which was offset by an increase in lending to the general government.

Personal loans constituted 30.9% of outstanding private sector credit. Salary assigned loans represented the largest proportion of personal loans throughout 2008, reaching highs of 46.9% and 45.9% in the first and third quarter of 2008 before moderating to 46.3% of total personal loans at the end of the year. Salary assigned loans and those secured by property mortgage made up for 67.9% of all personal loans by the end of 2008.

Outstanding government credit increased by 62.4% to BD 262.3 million at end-2007, compared with BD 161.5 million at end-2006. By the end of 2008, lending to general government increased by 8.0%.

Table 5-14: Personal Domestic Credit by Sector

(BD Million)

	2008							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Secured by:								
Property Mortgage	451.8	9.8	646.2	12.7	445.3	8.1	374.5	6.4
Vehicle Title	122.1	2.6	114.5	2.3	106.4	1.9	128.7	2.2
Deposits	28.9	0.6	72.9	1.4	36.8	0.7	32.9	0.6
Salary Assignment	753.7	16.3	871.7	17.2	765.8	13.9	803.5	13.6
Credit Card Receivables	71.5	1.5	74.8	1.5	77.8	1.4	79.5	1.4
Other	178.5	3.9	159.8	3.1	235.8	4.3	314.8	5.3
Total	1,606.5	34.7	1,939.9	38.2	1,667.9	30.3	1,733.9	29.5

*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

Credit Card Survey

The CBB conducted its semi-annual credit card survey in December 2008. The survey showed an increase in the total number of credit card customers by 1.0%, registering a total of 181,001 customers at December 2008 (Table 5-15). This increase follows a 13.1% increase reported in 2007. The number of credit card accounts increased by 8.3% from 142,166 in 2007 to 154,018 in 2008.

Table 5-15: Credit Card Data

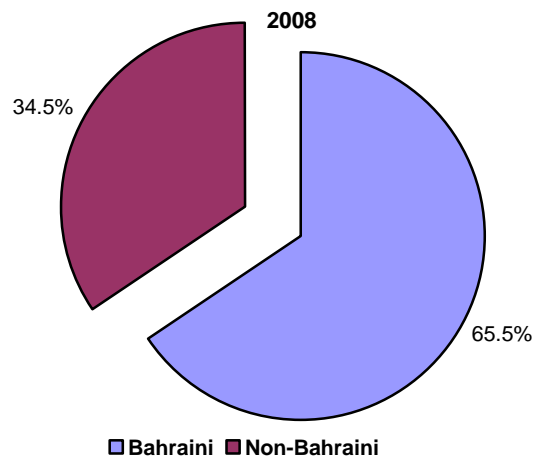
	Dec. 2007	Dec. 2008	% Change
Total Number of Customers	179,150	181,001	1.0
Bahraini	124,494	118,639	-4.7
Non Bahraini	54,656	62,362	14.1
Number of Accounts	142,166	154,018	8.3
of which: rollover Accounts	104,917	95,393	-9.1
Overdue Accounts	28,181	30,781	9.2
Total Limits (BD Million)	221.6	255.6	15.3
Total Outstanding (BD Million)	97.2	102.8	5.8
of which: Delinquency Amounts	23.7	37.5	58.2
Amount of Credit Card written-off	5.5	9.2	67.3
Rollover Amounts	53.2	64.7	21.6
Interest Rates	20.97	21.78	3.9

Source: Central Bank of Bahrain

Bahrainis represented 65.5% of the total number of credit card holders in 2008 showing a decrease from the 69.5% in 2007 (Chart 5-9). In recent years non-Bahraini credit card customers have also increased reaching 34.5% in 2008. 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 the end of 2008 decreased by 9.1%, and totalled 95,393. Overdue accounts increased by 9.2% or 2,600 accounts at 2008, compared with end-2007.

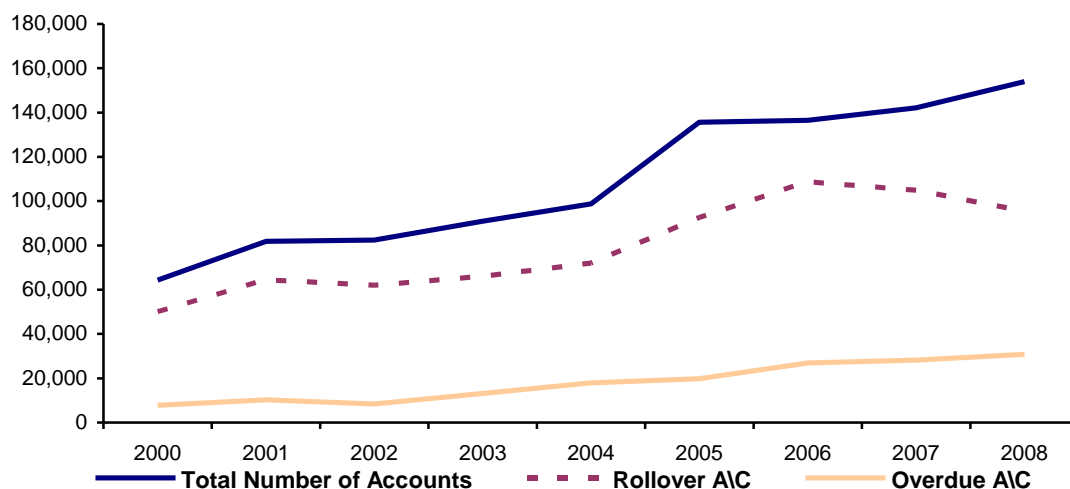
Chart 5-9: Credit Card Customers



Source: Central Bank of Bahrain

An analysis of credit card customers and accounts show that a higher number of Bahraini credit card customers have shared or linked accounts in comparison to non-Bahraini customers.

Chart 5-10: Credit Card Accounts

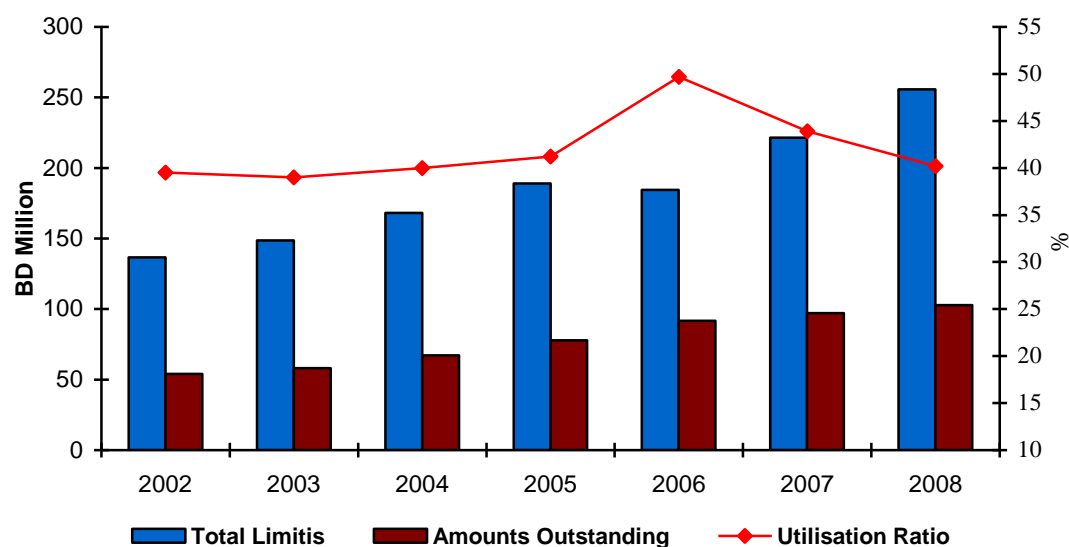


Source: Central Bank of Bahrain

Trends indicate that the total number of accounts have been increasing since 2000. Rollover accounts have generally been decreasing as a percentage of total accounts while overdue accounts have been increasing (Chart 5-10). The increase in total accounts indicates growth in the credit card market, while the higher numbers of overdue and rollover accounts has shown more card usage.

An analysis of the total amounts outstanding reveals that rollover amounts as well as delinquency and credit card write offs have all increased in 2008. Rollover amounts reached BD 64.7 million at December 2008, making up 62.9% of the total amount outstanding. It has increased by BD 11.5 million from the end of 2007. 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 2008 decreased to 40.2% in comparison to 43.9% in 2007. This decline in the utilisation ration is due to the increase in total limits from BD million 221.6 in 2007 to BD 255.6 in 2008 (15.3%).

Chart 5-11: 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 13.8 million (58.2%) reaching a total of BD 37.5 million at December 2008 compared with BD 23.7 at the end of 2007 causing the delinquency ratio to increase to 36.5%. Amounts of credit card debt written off increased by 67.3% in 2008, recording BD 9.2 million, compared with BD 5.5 million at end-2007.

Mutual Funds

Despite the overall growth of the financial sector, the mutual funds industry in Bahrain has dropped noticeably at the end of 2008. Retail and wholesale banks, representative offices investment business firms, and other institutions market mutual funds to both individual and institutional investors.

During 2008, the total amount of outstanding investments for all banks decreased by 31.3%, from USD 15,610.4 million in 2007 to USD 10,726.5 million in 2008 (Table 5-16). Despite an increase in the number of mutual funds from 77 to 102 during the same period, the decline in the value of mutual funds reflected the decline in the global value of securities.

At the end of 2008, retail banks had USD 1,694.8 million outstanding in mutual funds investments, wholesale banks had USD 4,278.4 million outstanding, and other institutions (excluding retail and wholesale banks) had USD 4,729.5 million outstanding. The biggest year on year decreases were in the retail (62.6%) and wholesale bank (42.2%) categories. On the other hand, investment business firms witnessed a significant increase.

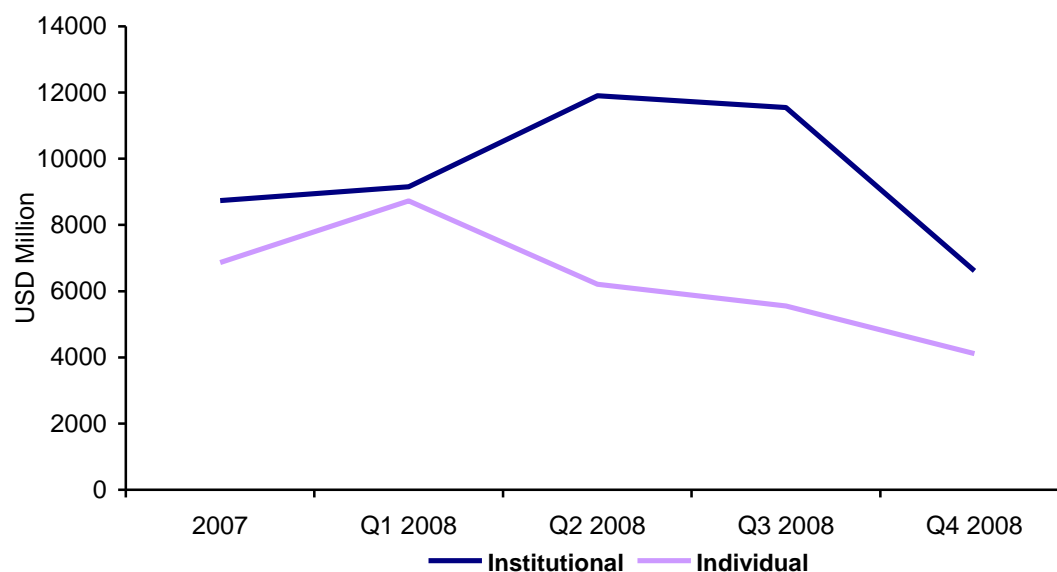
Table 5-16: Mutual Funds – Total Outstanding Investments, 2008

(USD Million)

Type of Bank	2007	2008			
		Q1	Q2	Q3	Q4
Retail Banks	4,528.5	3,977.6	2,340.1	2,094.9	1,694.8
Wholesale Banks	7,400.8	9,887.2	9,919.6	9,139.2	4,278.4
Investment Business Firms	170.1	146.7	1,101.9	1,122.1	1,118.6
Representative Offices	15.5	20.7	36.6	32.4	23.7
Foreign Licensed Banks and Financial Institutions	3,368.3	3,728.4	4,684.2	4,707.1	3,576.5
Insurance	127.1	127.1	34.2	32.3	34.5
Grand Total	15,610.4	17,887.7	18,116.6	17,128.0	10,726.5

Source: Central Bank of Bahrain

During 2008, mutual fund investments to both institutional and individual investors witnessed a significant drop (Chart 5-12). Institutional investment in mutual funds decreased by 24.3% from USD 8,741.9 million in 2007 to USD 6,616.6 million in 2008. Relative to institutional investments, individual investments have been on a downward path since the beginning of the year. During 2008, individual investments in mutual funds fell by 40.1%, from USD 6,863.3 million in 2007 to USD 4,109.9 million in 2008.

Chart 5-12: 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 14.2% compared with the 25.0% increase in 2007 (Table 5-17). Bahraini employment in the financial sector increased by 11.9% while non-Bahraini employment increased by 19.2%. Even though there was an increase in Bahraini employment in 2008, Bahrainis represented 66.7% of the total number of employees, indicating a decrease from the 68.1% share in 2007.

Total employment in banks (retail banks, wholesale banks and representative offices only) reached 9,582 at the end of 2008, compared to 8,608 at the end of 2007, indicating an increase of 11.3%.

Bahrainis represented 72.2% of the work force in the banking sector compared with 72.5% in 2007 (Chart 5-13).

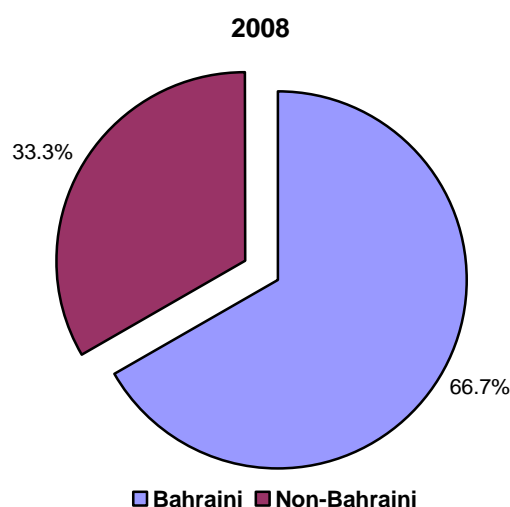
Table 5-17: Number of Employees in the Financial Sector

Sectors	2007			2008			% Change
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total	
Banks	6241	2367	8608	6916	2666	9582	11.3
Retail Banks	3786	903	4689	4294	1048	5342	13.9
Wholesale Banks	2414	1409	3823	2546	1536	4082	6.8
Representative Offices	41	55	96	76	82	158	64.6
Non-Banks	1676	1487	3163	1966	1924	3890	23.0
Insurance Companies	719	388	1107	854	524	1378	24.5
Insurance Related Activities Companies	157	237	394	208	344	552	40.1
Money Changers	244	444	688	238	567	805	17.0
Stock Brokers	47	15	62	33	7	40	-35.5
Financing Companies	167	13	180	203	12	215	19.4
Investment Business Firms	135	181	316	207	249	456	44.3
Other *	207	209	416	223	221	444	6.7
Other Institutions	381	39	420	401	49	450	7.1
Total	8298	3893	12191	9283	4639	13922	14.2

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

Source: Central Bank of Bahrain

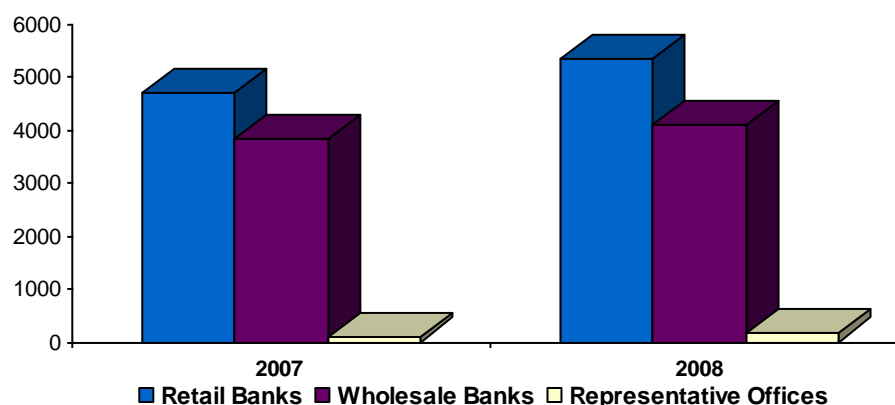
Chart 5-13: Bahraini and Non-Bahraini Employment in the Financial Sector



Source: Central Bank of Bahrain

Retail banks and representative offices had double digit increases in employment while wholesale banks had a moderate increase. The increase in Bahraini employment in the banking sector comprised 69.3% of the increase for 2008 (Chart 5-14).

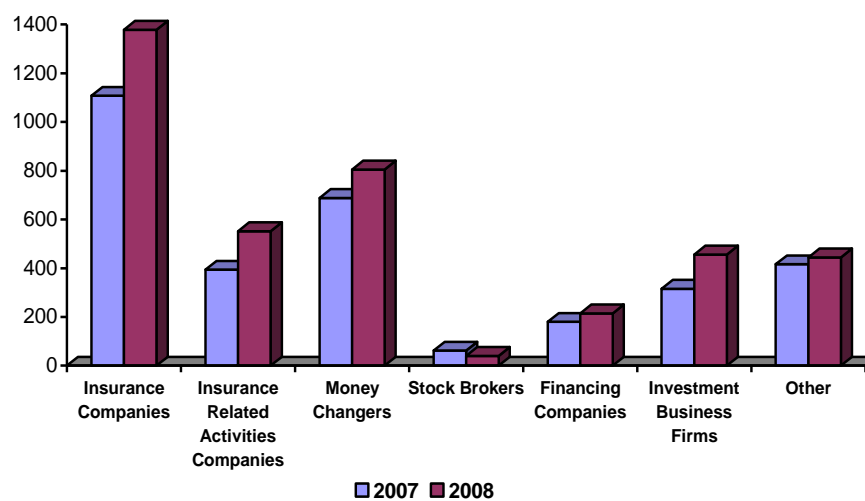
Chart 5-14: Employment in the Banking Sector



Source: Central Bank of Bahrain

Total employment in the non-bank financial sector reached 3,890 at end-2008, compared with 3,163 at end-2007, an increase of 23.0%. Bahrainis accounted for 50.5 % of the total in the non-bank financial sector.

The biggest increases in employment in the non-banking sector was in investment business firms and insurance related activities companies which grew by 44.3% and 40.1% respectively (Chart 5-15). The increases were mainly non-Bahrainis, where the number of non-Bahrainis nearly doubled for insurance related activities companies and investment business firms. Non-Bahrainis comprised 32.8% of the total increase in employment for the Non-banking sector in 2008.

Chart 5-15: Employment in the Non-Banking Sector

Source: Central Bank of Bahrain

Chapter

6

6. Public Finance

Overview

Revenues

Expenditure

Issuance of Public Debt Instruments

Overview

Although oil prices declined substantially during the latter half of 2008, government revenues during the year rose by 31.5% to reach BD 2,677.6 million compared to BD 2,036.7 million at the end of 2007. Government expenditure increased by 13.3% from BD 1,818.1 million in 2007 to 2,060.3 million in 2008 (Table 6-1).

Table 6-1: Summary of Public Finance

(BD Million)

	2004	2005	2006	2007	2008
Revenues	1,300.4	1,671.4	1,839.6	2,036.7	2,677.6
Oil & Gas	943.8	1,265.3	1,416.7	1,630.5	2,281.2
Non-Oil	356.6	406.1	422.9	406.2	396.4
Expenditure	1,104.6	1,289.2	1,558.5	1,818.1	2,060.3
Current	864.0	1,024.2	1,101.3	1,331.1	1,552.0
Project	240.6	265.0	457.2	487.0	508.3

Source: Ministry of Finance

Revenues

Total revenue increased in 2008 by 31.5% to reach BD 2,677.6 million (Table 6-2). Compared to 2007, oil & gas revenue increased by 39.9%, mainly due to high world oil prices for the first three quarters of 2008. Fines, penalties and miscellaneous items follow with a 23.4% growth from the year 2007. On the other hand, there were significant decreases in investments and government properties (67.5%) and sale of capital assets (81.0%).

Table 6-2: Government Revenue (2007 vs. 2008)

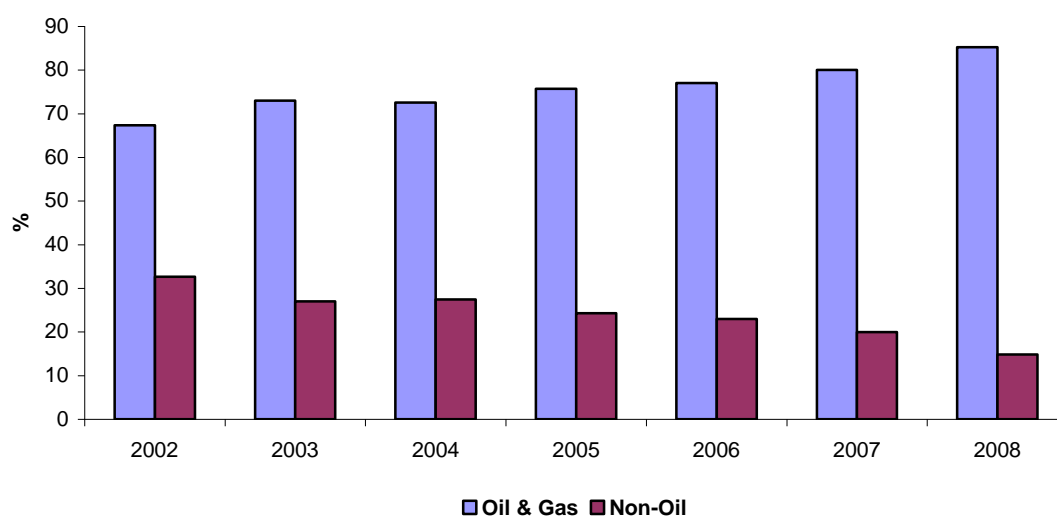
(BD Million)

Items	2007	2008	Change (%)
Oil & Gas	1,630.5	2,281.2	39.9
Taxation & Fees	156.3	186.3	19.2
Government Goods & Services	117.3	137.3	17.1
Investments & Government Properties	78.8	25.6	-67.5
Grants	35.9	29.5	-17.8
Sale of Capital Assets	4.2	0.8	-81.0
Fines, Penalties & Misc.	13.7	16.9	23.4
Total Revenue	2,036.7	2,677.6	31.5

Source: Ministry of Finance

Oil and gas revenues amounted to BD 2,281.2 million (85.2% of total revenues) compared with BD 1,630.5 million (80.1% of total revenues) in 2007 (Chart 6-1). These numbers indicate that the contribution of oil to total revenues continue to increase. Notwithstanding ongoing efforts to diversify sources of government revenue, oil and gas remains the largest contributor to total revenue. There is however a positive outlook for the future of non-oil revenues, given the expansion of aluminium production and other downstream industries.

Chart 6-1: Oil and Non-Oil Revenues as a % of Total Revenues



Source: Ministry of Finance

Expenditure

Total expenditures for 2008 increased by 13.3% to reach BD 2,060.3 million. Total current expenditure amounted to BD 1,552.0 million. The fastest growing component of current expenditure was grants and subsidies, which grew by 78.0%. This was followed by manpower, consumables, assets and services expenditures, which increased by 21.6%, 20.8% 8.4% and 8.1% respectively (Table 6-3). Maintenance was the only current expenditure that declined in 2008, falling by 4.5%. As for project expenditure, it amounted to BD 508.3 million.

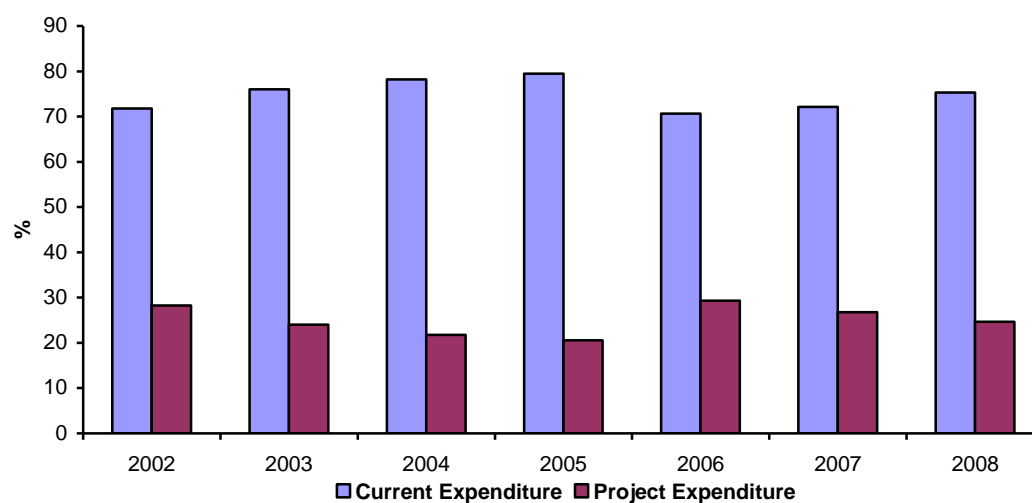
Table 6-3: Government Current Expenditure (2007 vs. 2008)

(BD Million)

Items	2007	2008	Change (%)
Manpower	725.5	882.1	21.6
Services	105.9	114.5	8.1
Consumables	146.5	177.0	20.8
Assets	17.8	19.3	8.4
Maintenance	46.4	44.3	-4.5
Transfers	198.1	212.8	7.4
Grants and Subsidies	91.0	162.0	78.0
Total Current Expenditure	1,331.1	1,552.0	16.6

Source: Ministry of Finance

Expenditure data for 2008 shows that most of government spending was in the form of current expenditure, which constituted 75.3% of total expenditure, up from 73.2% in 2007.

Chart 6-2: Current and Project Expenditure as a % of Total Expenditure

Source: Ministry of Finance

Issuance of Public Debt Instruments

In contrast to the upward trend of the first quarter, the size of Bahrain's domestic public debt (securities only) decreased and remained unchanged during the last three quarters of 2008. The total public debt outstanding is 14.3% higher compared to end-2007 and reached BD 705.0 million at end-2008 (8.6% of GDP) (Table 6-4)⁴.

⁴ There were no issues of public debt during the last three quarters of 2008.

Table 6-4: Summary of Domestic Debt Instruments

(BD Million)

	2007	2008			
		Q1	Q2	Q3	Q4
Total Outstanding	616.6	764.6	705.0	705.0	705.0
% of GDP*	8.9	9.3	8.6	8.6	8.6
Development Bonds	0.0	0.0	0.0	0.0	0.0
Treasury Bills	90.0	180.0	180.0	180.0	180.0
Islamic Leasing Securities	508.6	638.6	507.0	507.0	507.0
Al Salam Islamic Securities	18.0	18.0	18.0	18.0	18.0

* 2007 GDP

Source: Central Bank of Bahrain

Three month (91 day) treasury bills are issued on a weekly basis with the issue amount of BD 15 million. Six month (182 day) 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, 2008 was BD 180.0 million which is a 100% growth from the outstanding balance as of the same time the previous year (Table 6-5). BD 588.0 million in treasury bills were issued and BD 498.0 million matured in 2008, a significantly higher amount compared to the amounts issued and matured in 2007.

Table 6-5: 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	
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
2008	0.0	0.0	0.0	498.0	588.0	180.0	180.0

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

The outstanding balance of Islamic securities as of December 31, 2008 was BD 525.0 million, a slight decrease from the BD 526.6 million as of December 31, 2007 (Table 6-6). Islamic securities are comprised of Islamic Leasing (Ijara) Securities and Al Salam Islamic Securities.

Islamic leasing securities are comprised of Ijara short term and long term Sukuk. Ijara Sukuk is Bahraini dinar-denominated or US dollar-denominated

leasing instrument issued in accordance with Shari'a standards. The total balance of Islamic leasing securities as of December 31, 2008 was BD 507.0 million which is a 0.3% decrease over end-2007. Newly issued Islamic Leasing Securities amounted to BD 191.6 million while BD 191.6 million matured in 2008 compared to BD 155.0 million and BD 120.0 million in 2007 respectively.

Al Salam Sukuk is short term notes similar to 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 Sukuk remained unchanged at BD 18.0 million. Al Salam Islamic securities that were newly issued were in the amount of BD 72.0 million, a noticeable increase from the BD 54.0 million in 2007. Similarly, matured securities increased in 2008 to BD 72.0 million from BD 54.0 million in 2007.

Table 6-6: 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	
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
2008	191.6	191.6	507.0	72.0	72.0	18.0	525.0

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

Chapter

7

7. Foreign Trade and Balance of Payments

Overview

Current Account

Capital and Financial Account

International Investment Position (IIP)

Overview

Bahrain is one of the major trade hubs in the Gulf area and has benefited from maintaining its status as an open economy with no trade and capital controls. A strong transport and communications infrastructure has also helped Bahrain's international trade and capital movements.

As a result, Bahrain's economy is strongly influenced by its trade activities. Principal imports include commodity imports for domestic consumption while main exports include crude oil, aluminium, and refined products.

The activities of the vibrant financial sector ensure that Bahrain experiences a high volume of capital flows. Bahrain has a high level of inward foreign direct investment and Bahraini entities are also active investors abroad.

Current Account

The current account surplus narrowed from BD 1,092.9 million in 2007 (15.7% of GDP) to BD 848.6 million in 2008 (10.3% of GDP) (Table 7-1). Despite the decrease in the current account balance, there was an increase in the goods surplus by BD 143.0 million. Net services receipts decreased by BD 42.6 million in 2008 mainly due to the decrease in net transportation services by BD 73.3 million.

Further, net investment income payments increased significantly by 209.3% from BD 112.3 million in 2007 to BD 347.3 million in 2008. Also, net current transfers abroad increased by 19.7% from BD 557.5 million in 2007 to BD 667.2 million in 2008.

Table 7-1: Balance of Payments

Items	BD Million		
	2006**	2007**	2008**
1. Current Account (a+b+c+d)	822.5	1092.9	848.6
a. Goods	897.2	1077.1	1220.1
General Merchandise	844.6	1018.2	1154.1
Exports (fob)	4587.2	5126.2	6510.7
- Oil	3465.8	4059.3	5184.6
- Non-Oil	1121.4	1066.9	1326.1
Imports (fob)	-3742.6	-4108.0	-5356.6
- Oil	-1843.0	-2204.9	-2708.8
- Non-Oil	-1899.6	-1903.1	-2647.8
Repairs on goods	52.6	58.9	66.0
b. Services (net)	645.6	685.6	643.0
- Transportation	18.1	19.1	-54.2
- Travel	222.7	235.5	249.2
- Communication Services	232.4	241.7	250.1
- Financial Services (Including Insurance)	160.6	175.7	183.0
- Other Business Services	11.8	13.6	14.9
c. Income (net)	-144.7	-112.3	-347.3
Investment Income	-144.7	-112.3	-347.3
- Direct Investment Income	-315.4	-447.5	-479.0
- Portfolio Income	598.1	772.4	408.7
- Other Investment Income	-427.4	-437.2	-277.0
d. Current Transfers (net)	-575.6	-557.5	-667.2
- Workers' Remittances	-575.6	-557.5	-667.2
2. Capital and Financial Account (net) (a+b)	-826.7	-1096.6	-837.2
a. Capital Account (net)	28.2	18.8	18.8
- Capital Transfers	28.2	18.8	18.8
b. Financial Account (1+2+3+4)*	-854.9	-1115.4	-856.0
1. Direct Investment	727.5	32.7	65.2
- Abroad	-368.5	-627.6	-609.3
- In Bahrain	1096.0	660.3	674.5
2. Portfolio Investment (net)	-3320.5	-3218.5	3488.1
Assets	-3958.2	-3718.7	2363.8
Liabilities	637.7	500.2	1124.3
3. Other Investment (net)	2047.2	2602.3	-4519.9
Assets	-11368.3	-14477.8	-1227.5
Liabilities	13415.5	17080.1	-3292.4
4. Reserve Assets (net)	-309.1	-531.9	110.6
3. Errors and Omissions	4.2	3.7	-11.4

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

** Provisional Data

Source: Central Bank of Bahrain

Trade Balance

During 2008, trade in Bahrain witnessed a large increase, fuelled by positive growth in the economy. Imports have grown due to higher domestic demand, and private consumption. Raw material demand for projects also contributed to the sustained increase in imports. Export receipts remained high, as global oil prices were high for most of 2008.

As a result, the trade surplus expanded to BD 1,154.1 million in 2008 (Table 7-2). The oil trade surplus increased to BD 2,475.8 million in 2008. The non-oil trade balance was in deficit and increased to BD 1,321.7 million in 2008.

Despite having a diversified economy, Bahrain's oil trade accounted for a substantial amount of total imports and exports. During 2008, oil imports accounted for 50.6% of total imports, down a slight 0.4% from the 51.0% share it had in 2007. The share of oil exports remained unchanged from 2007 and accounted for a 79.2% of total exports in 2008 as well. Non-oil imports accounted for 49.4% of total imports and non-oil exports and accounted for 20.8% of total exports.

Table 7-2: Foreign Trade

(BD Million)		
Main Groups	2008*	Relative Share (%)
Total Exports	6,510.7	100.0
Oil Exports	5,184.6	79.2
Non-Oil Exports	1,326.1	20.8
Total Imports	5,356.6	100.0
Oil Imports	2,708.8	50.6
Non-Oil Imports	2,647.8	49.4
Trade Balance	1,154.1	

* Provisional data

Source: National Oil and Gas Authority and Central Informatics Organisation

Capital and Financial Account

The capital and financial account registered a net outflow of BD 837.2 million in 2008, compared with BD 1,096.6 million in 2007. Despite the decrease in the net outflow, Bahrain continues to be a net exporter of capital to the rest of the world.

The capital account showed a net inflow of BD 18.8 million in 2008, unchanged from 2007, while the financial account registered a net outflow of

BD 856.0 million in 2008 compared to BD 1,115.4 million in 2007. Bahraini portfolio investments showed a net inflow of BD 3,488.1 million in 2008, a reversal of the BD 3,218.5 million net outflow recorded in 2007. The other investments category showed a net outflow of BD 4,519.9 million. The net reserve assets registered a deficit of BD 110.6 million down from a surplus of BD 531.9 million recorded in 2007.

International Investment Position (IIP)

Net international investment position rose from BD 4,949.4 million at the end of 2007 to BD 5,774.9 million in 2008 (a 16.7% increase) (Table 7-3). Foreign assets fell by 0.8% from BD 82,234.5 million at end-2007 to BD 81,600.4 million in 2008 as a result of the decrease in portfolio investment assets by 11.7%.

Similarly, foreign liabilities decreased from BD 77,285.1 million in 2007 to BD 75,825.5 million in 2008 or by 1.9% due to the decrease in other investment liabilities by 4.8%.

Table 7-3: International Investment Position (IIP)

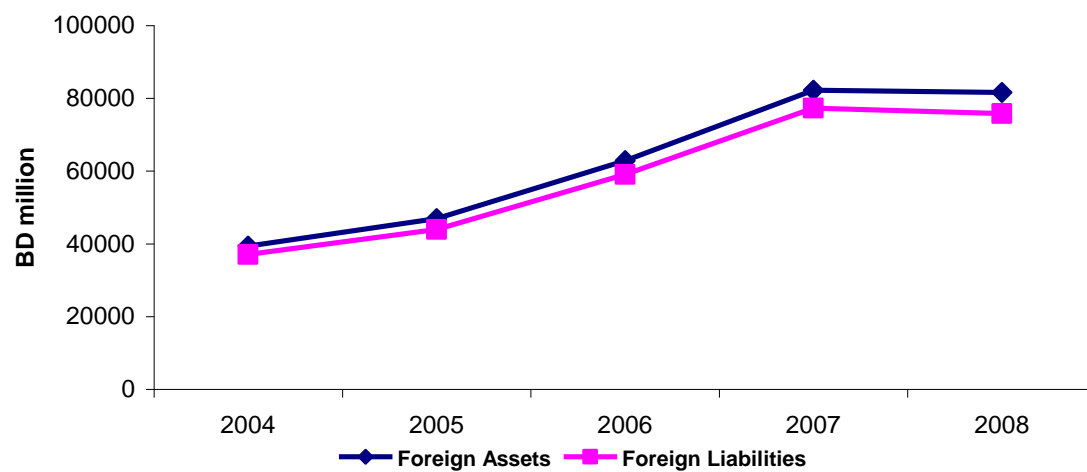
(BD Million)

Items	2006**	2007**	2008**
IIP, net	3,832.5	4,949.4	5,774.9
Foreign Assets	62,881.1	82,234.5	81,600.4
Direct Investment Abroad	2,275.0	2,902.6	3,511.9
Portfolio Investment	16,491.0	20,209.7	17,846.3
Other Investment*	43,057.9	57,531.6	58,759.3
Reserve Assets	1,057.2	1,590.6	1,482.9
Foreign Liabilities	59,057.6	77,285.1	75,825.5
Direct Investment in Bahrain	4,207.7	4,868.1	5,581.4
Portfolio Investment	2,517.2	3,017.3	4,141.6
Other Investment*	52,332.7	69,399.7	66,102.5

* Includes loans, currency, and deposits.

** Provisional data.

Source: Central Bank of Bahrain.

Chart 7-1: International Investment Position (IIP)

Source: Central Bank of Bahrain.

Chapter

8

8. The Bahrain Stock Exchange

Overview

Main Trading Indices

Developments in Market Capitalisation and Share Issue Base

Trading Activities

Nationalities of Investors

Price Movements

New Companies Listed on the Bahrain Stock Exchange

Overview

GCC stock markets showed high resistance in 2007 and the first half of 2008 where they were not affected by negative international news. This was due largely to the increase in the price of oil at that time which had a positive effect on the stock exchange. However, in the second half of 2008, GCC stock exchanges fell sharply as oil prices started to decline and the effects of the financial crisis began to emerge in the region. Markets lost a lot of their previous rises and some bourses even experienced a larger drop than those of America and Europe. The Dubai stock market experienced the largest decrease among the GCC followed by the decline in the Saudi market. Naturally, most of the losses were concentrated in bank and property stocks.

Since the beginning of the global financial crisis, stock markets in the Gulf region have been negatively affected with indices and equities losing a significant amount of their value. It is estimated that the GCC stock markets have lost around USD 500 billion since September 2008, when the global financial crisis began along with other assets such as bonds and real estate, also being affected. The decline in GCC equity markets is considered a reflection of the global financial crisis and the associated loss of investor confidence in both developed and emerging markets.

Similar to other GCC equity markets, the Bahrain stock market has not been immune to these shocks, with the Bahrain All Share Index down to 1,804.07 points by year-end, a 34.5% loss compared to 2007.

Despite the developments, the Bahrain Stock Exchange (BSE) made efforts to strengthen its ties with other stock markets in an effort to offer a more attractive and profitable investment environment. In October 2008, the BSE signed a MoU with the Singapore Exchange Limited (SGX). The MoU aims to foster a closer relationship between the two bodies and develop channels of information exchange in the areas of operations, regulatory framework, and the equity products traded on the respective markets

Another major development was the integration of the BSE trading platform with online trading services provided by “Mubasher”, a private provider of e-financial solutions and subsidiary of National Technology Group (NTG). The services have already been introduced to brokerage firms, who are required to meet all the requirements set by the BSE in order to be entitled to provide online trading services to their clients. In April 2008, the BSE launched an

online trading service to brokerage firms registered at the Exchange and licensed by the CBB.

During the year Khaleeji Commercial Bank was the only new listing on the BSE with a paid up capital of BD 100 million. Consequently the number of companies traded on the exchange increased to 52. However in December, The International Investor of Kuwait delisted its shares from BSE taking the number of companies listed on the exchange back to 51.

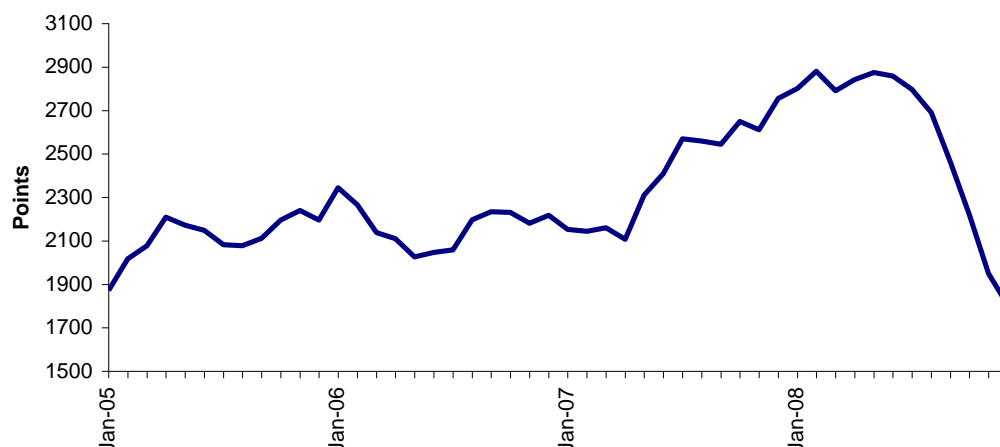
Main Trading Indices

The Bahrain All Share Index closed at the end of the year at 1,804.07 points recording a year on year decrease of 34.5%. The best performer among the sectors was the hotels & tourism sector which increased by 23.0%. All other sectors reported a year on year decrease in 2008 with the commercial bank and investment sector reporting the biggest declines of 39.1% and 37.9% respectively. The Dow Jones Bahrain Index decreased by 81.9 points (35.0%) and Esterad Index decreased by 1,099.75 points (37.5%) from end-2007.

Table 8-1 : BSE Indices

BSE Indices	Q4 2007	Q4 2008	Change (Point)	Change (%)
Bahrain All Share Index	2,755.27	1,804.07	-951.20	-34.5
Commercial Banks	3,479.10	2,117.04	-1,362.06	-39.1
Investment	2,546.61	1,582.53	-964.08	-37.9
Insurance	2,315.99	2,275.97	-40.02	-1.7
Services	2,031.39	1,638.30	-393.09	-19.4
Industrial	1,438.47	1,273.93	-164.54	-11.4
Hotels and Tourism	2,315.15	2,848.57	533.42	23.0
Dow Jones Bahrain Index	233.82	151.90	-81.92	-35.0
Esterad Index	2,929.35	1,829.60	-1,099.75	-37.5

Source: Bahrain Stock Exchange

Chart 8-1: Performance of Bahrain All Share Index, 2005-2008

Source: Bahrain Stock Exchange

Developments in Market Capitalisation and Share Issue Base

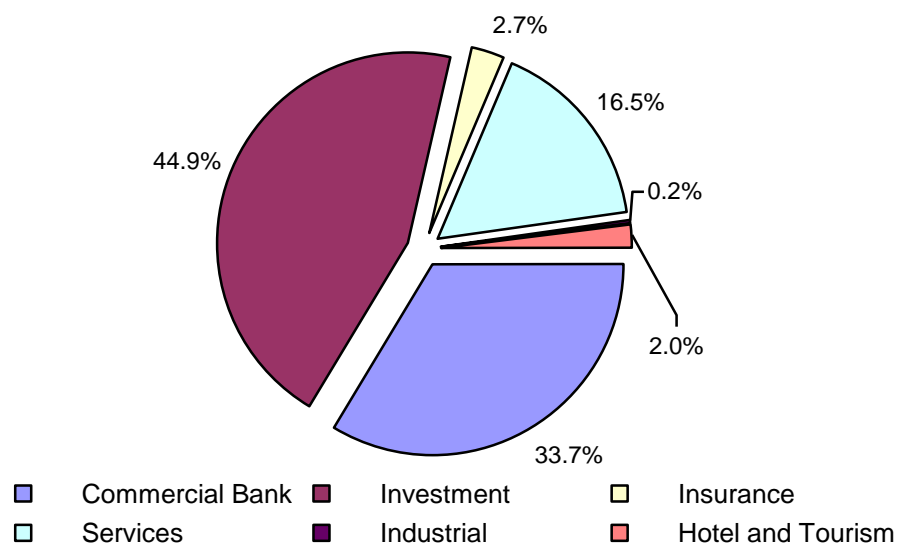
Market Capitalisation of the BSE stood at BD 7.52 billion by the end of 2008, down from BD 10.19 billion in 2007, a decrease of 26.2% (Table 8-2). The decline affected all sectors with the biggest in the investment sector, where market capitalisation fell by 32.2% decreasing from BD 4,983.6 billion in Q4 2007 to BD 3,376.8 billion at the end of 2008.

Table 8-2: Market Capitalisation by Sector

	(BD Million)		
	2007	2008	Change (%)
Total Market Capitalisation	10,185.2	7,520.1	-26.2
Commercial Banks	3,313.7	2,531.3	-23.6
Investment	4,983.6	3,376.8	-32.2
Insurance	205.2	201.8	-1.7
Services	1,542.0	1,242.9	-19.4
Industrial	16.6	14.3	-13.9
Hotels and Tourism	124.0	152.7	23.1

Source: Bahrain Stock Exchange

The investment, commercial bank and services sectors remained the largest sectors in terms of market capitalisation in 2008 accounting for 95.1% of total market capitalisation.

Chart 8-2: Market Capitalisation among Sectors

Source: Bahrain Stock Exchange

As for companies, the largest company in terms of market capitalisation at end-2008 was Ahli United Bank with BD 1.07 billion, accounting for 14.2% of total market capitalisation. In 2008, the 5 largest companies accounted for 51.3% of total market capitalisation (Table 8-3).

Table 8-3: Table: Largest Companies by Market Capitalisation

Company	Market Capitalisation (BD)	% of Total Market
AUB	1,070,297,024	14.2
BATELCO	901,440,000	12.0
ABC	693,680,000	9.2
BARAKA	675,800,775	9.0
NBB	517,104,000	6.9
Total	3,858,321,799	51.3

Source: Bahrain Stock Exchange

Trading Activities

The volume of shares traded in 2008 increased in comparison to the previous year, increasing to 1,675.8 million shares in 2008 up from 851.1 million shares in 2007, achieving a growth of 96.9% (Table 8-4). The value of shares traded increased in comparison to the year before by 95.3%, reaching BD 787.4 million in 2008 compared to BD 403.1 million shares in 2007.

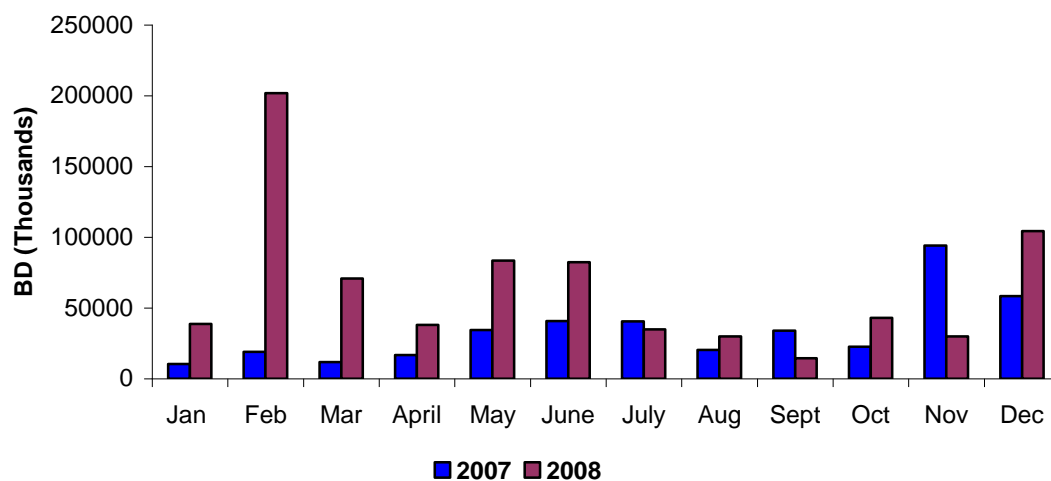
Moreover, most of the trading activity was concentrated in the commercial banks sector with a value of BD 441.2 million comprising 56.0% of the total value of shares traded during 2008 and 56.4% of the total volume of shares traded in the market. February and December of 2008 had the highest volume of shares traded and value of shares traded in 2008.

Table 8-4: Daily Traded Averages

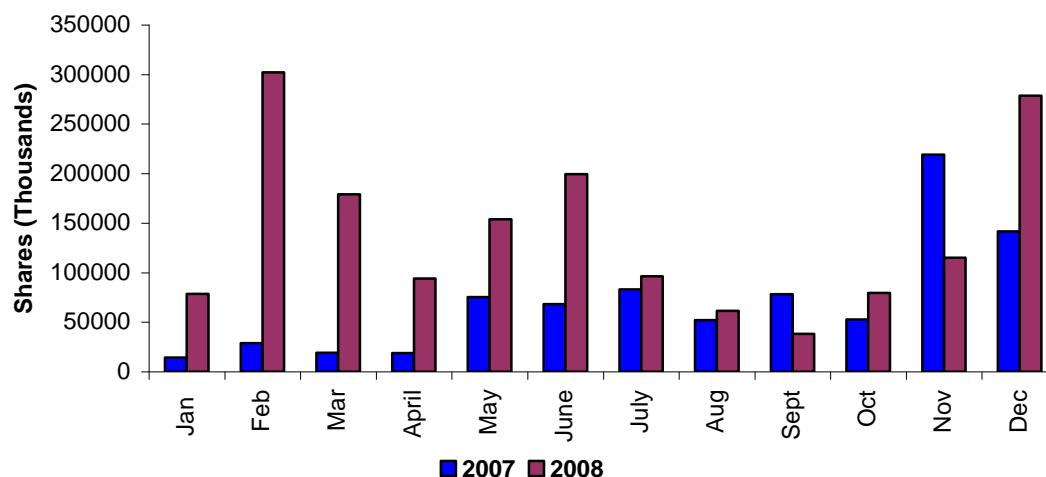
	2007	2008	Change (%)
Total Trading Days	249	246	-1.2
Value of Shared Traded (BD Million)	403.1	787.4	95.3
Daily Average of Value of Shared Traded (BD Million)	1.6	3.2	100.0
Volume of Shares Traded (Million)	851.1	1,675.8	96.9
Daily Average No. of Shares Traded (Million)	3.4	6.8	100.0
Number of Transactions	27,707	43,540	57.1
Daily Average No. of Transactions	111	177	59.5

Source: Bahrain Stock Exchange

Chart 8-3: Value of Shares Traded



Source: Bahrain Stock Exchange

Chart 8-4: Volume of Shares Traded

Source: Bahrain Stock Exchange

In terms of listed companies, the most active company by value was the Bank of Bahrain and Kuwait, with BD 301.5 million traded (38.3% of total value of shares traded). Next came Gulf Finance House with BD 88.5 million constituting 11.2% of the total value of shares traded, then Batelco with BD 80.9 million and 10.3% of total value of shares traded, followed by Al Salam Bank with BD 74.2 million constituting 7.5% of the total value of shares traded, and finally came Ithmaar Bank with BD 59.3 million constituting 7.5% of the total value of shares traded (Table 8-5).

Table 8-5: Most Active Companies by Value, 2008

Company	Value (BD)	% From Total Market
BBK	301,548,222	38.3
GFH	88,452,682	11.2
BATELCO	80,852,794	10.3
SALAM	74,152,787	9.4
ITHMR	59,342,429	7.5
Total	604,348,914	76.8

Source: Bahrain Stock Exchange

As for most active companies by volume, BBK had the most traded shares with 436.7 million shares traded translating to 26.1% of total volume, then came Al Salam Bank with 337.6 million constituting 20.2% of the total volume of shares traded, then Ithmaar Bank with 240.4 million and 14.3% of total volume of shares traded, followed by Batelco with BD 112.0 million constituting 6.7% of the total volume of shares traded, and finally came

Khaleeji Commercial Bank with BD 93.6 million constituting 5.6% of the total volume of shares traded (Table 8-6).

Table 8-6: Most Active Companies by Volume, 2008

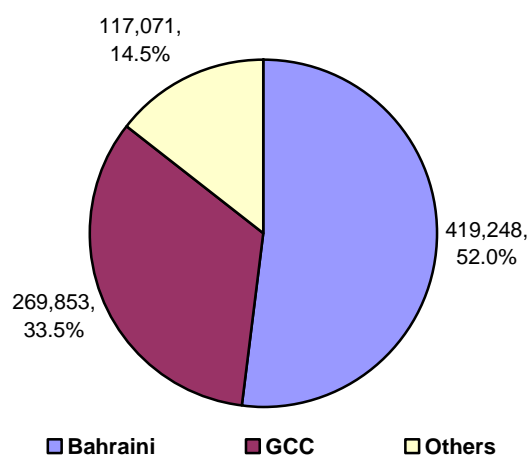
Company	Volume	% of Total Market
BBK	436,721,066	26.1
SALAM	337,757,896	20.2
ITHMR	240,396,502	14.3
BATELCO	112,044,594	6.7
KHCB	93,557,515	5.6
Total	1,220,477,573	72.8

Source: Bahrain Stock Exchange

Nationalities of Investors

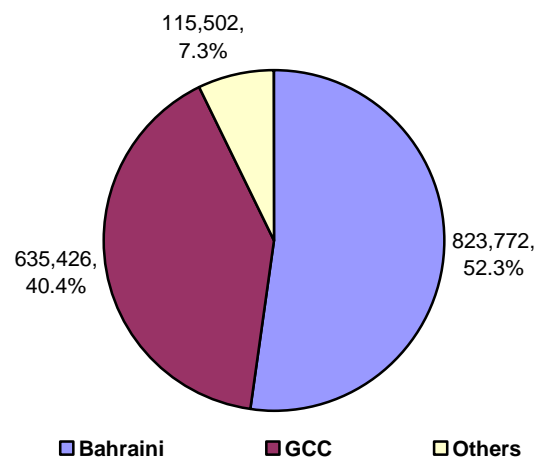
Bahraini investors accounted for 52.3% of the total value of traded shares in 2008, while GCC and non-GCC investors accounted for 40.35% and 7.33% respectively (Chart 8-5 and 8-6). Bahraini and GCC trading activity increased in 2008 compared to 2007, where the market witnessed a total of BD 823.8 million in the value of shares traded by Bahraini investors and BD 635.43 million by GCC investors, resulting in an increase of 96.5% and 135.5% respectively. On the other hand, the non-GCC trading activity decreased by 1.3% to reach BD 115.5 million.

Chart 8-5: Trading Value of Investors' Participation (BD Thousand), 2007



Source: Bahrain Stock Exchange

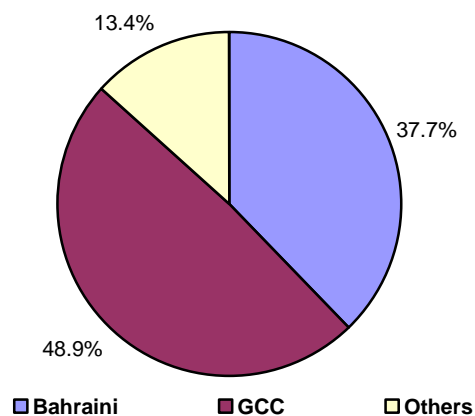
Chart 8-6: Trading Value of Investors' Participation (BD Thousand), 2008



Source: Bahrain Stock Exchange

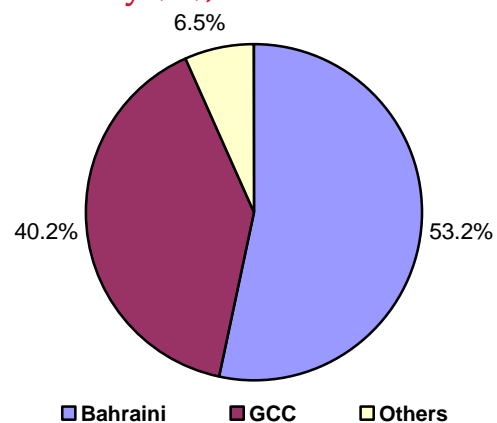
As for ownership of the shares, Bahrainis accounted for 53.2% of the total shares traded in 2008 a significant increase compared to the 37.7% in 2007. On the other hand, GCC and non-GCC share ownership declined from 48.9% and 13.4% respectively in 2007 to 40.2% and 6.5% respectively in 2008 (Chart 8-7 and 8-8).

Chart 8-7: Share Ownership by Nationality (%), 2007



Source: Bahrain Stock Exchange

Chart 8-8: Share Ownership by Nationality (%), 2008



Source: Bahrain Stock Exchange

Price Movements

During 2008, the price of nine stocks went up, thirty one went down and eleven remained unchanged compared to thirty that went up, eleven that went down, and ten unchanged for 2007 (Table 8-7).

Table 8-7: Market Breadth, 2008

Advancers	9
Decliners	31
Unchanged	11
Total	51

Source: Bahrain Stock Exchange

Bahrain Family Leisure Co. was ranked the top advancer in 2008 with 55.6% in price change followed by National Hotels Co. (44.83%), Banader Hotels Co. (40.8%), Al-Ahlia Insurance Co. (19.0%), and Gulf Hotel Group (8.4%) (Table 8-8). As for the top 5 decliners, Gulf Finance House was the biggest decliner with a 72.5% annual decrease in price followed by Arab Banking Corporation

(67.5%), Esterad Investment Co. (59.0%), Al Salam Bank (57.1%), and Global Investment House (55.3%) (Table 8-9).

Table 8-8: Top BSE Advancers, 2008

Advancers	%	Rank
FAMILY	55.6	1
NHOTEL	44.8	2
BANADER	40.8	3
AHLIA	19.0	4
BHOTEL	8.4	5

Source: Bahrain Stock Exchange

Table 8-9: Top BSE Decliners, 2008

Decliners	%	Rank
GFH	(72.5)	1
ABC	(67.5)	2
ESTERAD	(59.0)	3
SALAM	(57.1)	4
GLOBAL	(55.3)	5

Source: Bahrain Stock Exchange

New Companies Listed on the Bahrain Stock Exchange

The number of listed companies (including international cross-listings) at the end of 2008 was 51, unchanged to the previous year (Table 8-10). On the other hand, the number of mutual funds increased from 32 to 39 in 2008. Bonds and Sukuk decreased from 17 in 2007 to 15 in 2008. Only one preference share was listed on the exchange.

Table 8-10: BSE Summary of Listings

	Q4 2007	Q4 2008
Number of Companies	51	51
Number of Mutual Funds	32	39
Number of Bonds and Sukuks	17	15
Preferred Shares	1	1

Source: Bahrain Stock Exchange

Chapter

9

9. Statistical Appendix

Economic Indicators

Financial Sector Indicators

Economic Indicators

Table 9-1: Employment

	2007	2008	2008			
			Q1	Q2	Q3	Q4
Total Employment*	379,471	471,088	410,162	432,638	458,456	471,088
As % of Total Population	36.5	45.3	39.5	41.6	44.1	45.3
Change (%)	7.8	24.1	8.1	5.5	6.0	2.8
Private Sector	340,217	430,882	370,825	393,279	419,268	430,882
As % of Total Employment	89.7	91.5	90.4	90.9	91.5	91.5
Male	310,019	389,802	336,913	357,311	380,961	389,802
Female	30,198	41,080	33,912	35,968	38,307	41,080
Bahraini	66,834	81,867	72,864	75,679	78,191	81,867
Non-Bahraini	273,383	349,015	297,961	317,600	341,077	349,015
Public Sector**	39,254	40,206	39,337	39,359	39,188	40,206
As % of Total Employment	10.3	8.5	9.6	9.1	8.5	8.5
Male	21,906	22,108	21,904	21,820	21,638	22,108
Female	17,348	18,098	17,433	17,539	17,550	18,098
Bahraini	34,847	35,204	34,846	34,843	34,769	35,204
Non-Bahraini	4,407	5,002	4,491	4,516	4,419	5,002

*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 9-2: Foreign Trade

(BD Million)

	2007*	2008* 1/
Total Exports	5,126.2	5,494.4
Oil Exports	4,059.3	4,490.1
Non-oil Exports	1,066.9	1,004.3
Total Imports	4,319.4	3,361.3
Oil Imports	2,204.9	2,371.6
Non-oil Imports	2,114.5	989.7
Trade Balance	806.8	2,133.1

*Provisional Data

1/ Figures up to 3rd quarter 2008

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

Table 9-3: Domestic Public Debt

(BD Million)

	2007*	2008*	2008*			
			Q1	Q2	Q3	Q4
Total Outstanding	616.6	705.0	764.6	705.0	705.0	705.0
As % of GDP	8.9	8.6	9.3	8.6	8.6	8.6
Development Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bills	90.0	180.0	108.0	180.0	180.0	180.0
Islamic Leasing Securities	508.6	507.0	638.6	507.0	507.0	507.0
Al Salam Islamic Securities	18.0	18.0	18.0	18.0	18.0	18.0

*Provisional GDP

Source: Central Bank of Bahrain

Table 9-4: BD Exchange Rates Against Major Currencies ^{1/}

	2007	2008
Saudi Riyal	0.100	0.100
Kuwaiti dinar	1.377	1.363
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	0.751	0.543
Euro	0.554	0.530
Japanese Yen ^{2/}	3.360	4.160
Swiss Franc	0.335	0.355

^{1/} Last working day of each period.^{2/} Per 1000 Units

Source: Central Bank of Bahrain

Table 9-5: Bahrain Stock Exchange

	2007	2008	Change (%)
Market Capitalisation by Sector (BD Million)			
Total Market Capitalisation	10,185.14	7,520.15	-26.2
Commercial Bank	3,313.7	2,531.3	-23.6
Investment	4,983.5	3,376.8	-32.2
Insurance	205.2	201.8	-1.7
Services	1,542.0	1,242.9	-19.4
Industrial	16.6	14.3	-13.9
Hotel and Tourism	124.0	152.7	23.1
Trading Activities in The Market			
Bahrain All Share Index (Points)	2,755.27	1,804.07	-34.5
Dow Jones Bahrain Index (Points)	233.82	151.90	-35.0
Esterad Index (Points)	2,929.35	1,829.60	-37.5
Value of Shares Traded (BD Million)	403.1	787.4	95.3
Daily Average of Value of Shares Traded (BD Million)	1.6	3.2	100.0
Share Turnover	3.81	10.11	165.4
Volume of Shares Traded (Million)	851.1	1,675.8	96.9
Daily Average No. of Shares Traded (Million)	3.42	6.81	99.1
Number of Transactions	27,707	4,3540	57.1
Daily Average No. of Transactions	111	177	59.5
Number of listed Companies *	51	51	0.0

*Includes Non-Bahraini Companies

Source: Bahrain Stock Exchange

Financial Sector Indicators

Table 9-6: Money Supply

(BD Million)

Items	Year- end			Change 2008	
	2006	2007	2008	Absolute	%
Currency in Circulation	227.7	256.2	304.2	48.0	18.7
M1	1,285.8	1,572.6	1,898.7	326.1	20.7
M2	4,035.2	5,682.6	6,728.4	1045.8	18.4
M3	4,892.6	6,657.1	8,044.5	1387.4	20.8

Source: Central Bank of Bahrain

Table 9-7: Factors Affecting Domestic Liquidity

(BD Million)

Factors	Year- end			Change	
	2006	2007	2008	2006 vs. 2007	2007 vs. 2008
A. Total Domestic Liquidity (M3)	4,892.6	6,657.1	8,044.5	1,764.5	1,387.4
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	2,240.2	3,701.1	2,689.2	1,460.9	-1,011.9
(a) Central Bank	1,015.7	1,546.1	1,433.9	530.4	-112.2
(b) Commercial Banks	1,224.5	2,155.0	1,255.3	930.5	-899.7
2. Domestic Claims (a+b+c)	2,652.4	2,956.0	5,355.3	303.6	2,399.3
(a) Claims on government	568.6	612.8	691.1	44.2	78.3
(b) Claims on private sector ^{1/}	3,122.5	4,323.7	6,207.8	1,201.2	1,884.1
(c) Other Assets (net)	-1,038.7	-1,980.5	-1,543.6	-941.8	436.9

^{1/} Loans and holding of securities

Source: Central Bank of Bahrain

Table 9-8: Consolidated Balance Sheet of Banking System

(USD Billion)

Items	Year-End			Change % 2008
	2006	2007	2008	
Retail Banks	23.0	49.5	63.5	28.3
Wholesale Banks	164.3	196.3	188.9	-3.8
Total	187.3	245.8	252.4	2.7

Source: Central Bank of Bahrain

Table 9-9: Geographical Classification of the Banking System's Assets/Liabilities

(USD Billion)

Items	Year					
	2006		2007		2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	27.6	34.1	37.5	44.4	48.5	54.5
GCC	54.2	56.0	80.0	67.4	87.2	67.2
Other Arab Countries	3.5	11.9	5.3	16.1	5.2	13.0
Americas	28.9	15.0	26.9	15.6	23.8	14.4
Western Europe	55.9	50.4	75.9	78.9	69.3	80.7
Asia	13.0	17.6	15.1	21.5	13.4	20.4
Other	4.2	2.3	5.1	2.0	5.0	2.2
Total	187.3	187.3	245.8	245.8	252.4	252.4

Source: Central Bank of Bahrain

Table 9-10: Currency Structure of the Banking System's Assets/Liabilities

(USD Billion)

Currencies	Year					
	2006		2007		2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Bahraini Dinar	10.9	13.1	17.5	18.7	23.1	23.9
GCC Currencies	17.8	17.4	29.7	22.4	34.0	27.3
US Dollar	125.2	123.1	153.6	157.8	147.4	157.2
Pound Sterling	5.1	5.8	7.6	7.9	5.4	5.2
EURO	17.4	17.6	24.6	24.4	25.7	24.5
Japanese Yen	3.0	3.2	3.6	3.8	3.3	4.1
Others	7.9	7.1	9.2	10.8	13.5	10.2
Total	187.3	187.3	245.8	245.8	252.4	252.4

Source: Central Bank of Bahrain

Table 9-11: Interest Rates on BD Deposits and Loans

Items	End 2007	End 2008	2008			
			Q1	Q2	Q3	Q4
1. Deposits						
Time ^{1/}	3.47	1.29	1.64	1.78	1.88	1.29
Savings	0.36	0.23	0.31	0.31	0.35	0.23
2. Loans						
Business	6.91	7.43	6.58	6.91	6.78	7.43
Personal	9.27	8.09	8.98	7.77	8.15	8.09
3. Credit Cards	20.97	21.78	20.89	21.79	21.80	21.78

^{1/} Time deposits 3-12 months.

Source: Central Bank of Bahrain

Table 9-12: Outstanding Credit to Non-Bank Residents by Economic Sector

(BD Million)

Sectors	Year-end						Change 2008	
	2006		2007		2008			
	Value	%	Value	%	Value	%	Value	%
1. Business	1,619.0	53.4	2,432.0	58.1	3,870.5	65.7	1,438.5	59.1
Manufacturing	312.3	10.3	425.4	10.1	464.3	7.9	38.9	9.1
Mining and Quarrying	1.8	0.1	8.0	0.2	8.1	0.1	0.1	1.3
Agriculture, Fishing and Dairy	6.5	0.2	6.4	0.1	8.7	0.1	2.3	35.9
Construction and Real Estate	484.2	15.9	776.6	18.6	1,539.7	26.2	763.1	98.3
Trade	551.5	18.2	735.3	17.6	1,065.4	18.1	330.1	44.9
Non-Bank Financial	75.1	2.5	171.0	4.1	226.5	3.8	55.5	32.5
Other Sectors	187.6	6.2	309.3	7.4	557.8	9.5	248.5	80.3
2. General Government	161.5	5.3	262.3	6.3	283.2	4.8	20.9	8.0
3. Personal	1,252.9	41.3	1,489.6	35.6	1,733.9	29.5	244.3	16.4
Total	3,033.4	100	4183.9	100.0	5,887.6	100.0	1,703.7	40.7

Source: Central Bank of Bahrain

Table 9-13: Employment in the Banking and Financial Sector

Sectors	2007			2008		
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total
Banking Sector	6,241	2,367	8,608	6,916	2,666	9,582
Retail Banks	3786	903	4689	4294	1048	5342
Wholesale Banks	2414	1409	3823	2546	1536	4082
Rep. Offices	41	55	96	76	82	158
Non-Bank Financial	1,676	1,487	3,163	1,966	1,924	3,890
Insurance Companies	719	388	1107	854	524	1378
Insurance Related Activities	157	237	394	208	344	552
Money Changers	244	444	688	238	567	805
Stock Brokers	47	15	62	33	7	40
Financing Companies	167	13	180	203	12	215
Investment Business Firms	135	181	316	207	249	456
Other*	207	209	416	223	221	444
Other Institutions	381	39	420	401	49	450
Total	8,298	3,893	1,2191	9283	4,639	1,3922

* 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 9-14: Selected Banking Indicators

End of Period (%)	2007	2008	2008			
			Q1	Q2	Q3	Q4
Loans to Non-Banks / Total Assets	22.5	24.7	22.7	22.2	23.9	24.7
Loans to Private Non-Banks / Total Assets	21.2	23.5	21.6	21.2	22.6	23.5
Loans to Non-Banks / Total Deposits	56.8	62.0	58.3	52.2	56.7	62.0
Foreign Assets / Total Assets	56.8	53.4	54.7	55.7	57.8	53.4
Foreign Liabilities / Total Liabilities	45.6	48.1	45.6	47.8	46.6	48.1
Total Deposits / Total Liabilities	39.6	39.8	38.8	42.6	42.1	39.8
BD Deposits / Total Deposits	55.1	53.2	56.6	51.5	51.3	53.2
Private Sector Deposits / Total Deposits	71.7	66.6	72.0	64.3	64.5	66.6
Private Sector Demand Deposits / Total Deposits	18.0	16.8	20.1	19.8	18.5	16.8

Source: Central Bank of Bahrain

Number of Banks and Financial Institutions End 2008

Retail Banks	30
of which Islamic banks	6
Wholesale Banks	84
of which Islamic banks	20
Representative Offices	36
of which Islamic Institutions Rep. Offices	4
Money Changers	19
Financing Companies	5
Investment Business Firms	49
Category 1	16
of which Islamic Investment Business Firms	8
Category 2	15
of which Islamic Investment Business Firms	0
Category 3	18
of which Islamic Investment Business Firms	3
Provider of Ancillary Services	14
Administrators	5
Trust Service Providers	3
Capital Market Brokers	7
Insurance Companies and Organisations	164
Locally Incorporated Insurance and Reinsurance Companies	26
Branches Insurance Companies	11
Restricted Insurance Companies	38
Insurance Representative Offices	6
Insurance Brokers (including restricted to business outside Bahrain)	38
Surveyors and Loss Adjusters	12
Insurance Consultants (including restricted to business outside Bahrain)	6
Actuaries	21
Insurance Ancillary Services	2
Insurance Manager	2
Insurance Pools and Syndicates	2
Total	416