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Central Bank of Bahrain

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Financial Stability Directorate

# Economic Report

2009

Economic Report 2009

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## Table of Contents

<b>List of Tables.....</b>	<b>iii</b>
<b>List of Charts.....</b>	<b>v</b>
<b>Preface .....</b>	<b>vi</b>
<b>Executive Summary .....</b>	<b>vii</b>
<b>1. International and Regional Economic Developments.....</b>	<b>1</b>
Overview .....	2
World Output .....	2
Inflation .....	3
Unemployment.....	4
Interest Rates.....	4
Exchange Rates .....	5
Equity Markets .....	6
Commodity Markets.....	7
GCC Economies.....	7
<b>2. Bahrain's Economic Performance .....</b>	<b>11</b>
Overview .....	12
Gross Domestic Product and Economic Growth.....	12
Domestic Prices .....	15
Labour Force .....	16
International Rankings .....	17
<i>Credit Ratings .....</i>	<i>17</i>
<i>Rankings and International Indices .....</i>	<i>18</i>
Bahrain Policy Developments .....	19
<i>Labour Market .....</i>	<i>19</i>
<i>E-Government .....</i>	<i>19</i>
<i>Economic Agreements .....</i>	<i>20</i>
Private Sector Developments.....	21
<i>Property and Real Estate Developments .....</i>	<i>22</i>
<i>Bahrain Financial Exchange.....</i>	<i>23</i>
<i>Telecommunications .....</i>	<i>24</i>
<i>Industrial Developments .....</i>	<i>24</i>
<b>3. Monetary Developments .....</b>	<b>26</b>
Overview .....	27
Money Supply Developments.....	27
Domestic Interest Rates .....	30
<b>4. Financial Sector Developments.....</b>	<b>34</b>

Overview .....	35
Structure of the Bahrain Financial System.....	35
Consolidated Banking System.....	37
Retail Banks.....	41
Wholesale Banks.....	42
Islamic Banks .....	43
Domestic Credit.....	45
Credit Card Survey .....	48
Mutual Funds .....	49
Manpower Survey.....	51
<b>5. Public Finance .....</b>	<b>54</b>
Overview .....	55
Revenues.....	56
Expenditure.....	57
Issuance of Public Debt Instruments .....	58
<b>6. Foreign Trade and Balance of Payments .....</b>	<b>60</b>
Overview .....	61
Current Account.....	61
<i>Trade Balance</i> .....	63
Capital and Financial Account .....	63
International Investment Position (IIP).....	64
<b>7. The Bahrain Stock Exchange .....</b>	<b>66</b>
Overview .....	67
Main Trading Indices.....	67
Developments in Market Capitalisation and Share Issue Base .....	68
Trading Activities.....	70
Nationalities of Investors .....	72
Price Movements.....	73
New Companies Listed on the Bahrain Stock Exchange.....	74
<b>8. Statistical Appendix .....</b>	<b>76</b>
Economic Indicators .....	76
Financial Sector Indicators .....	80

## List of Tables

Table 1-1: Summary of World Output.....	2
Table 1-2 : Exchange Rates of Major Currencies against the SDR .....	5
Table 1-3: Commodity Prices .....	7
Table 1-4: Growth and Inflation for the GCC .....	8
Table 1-5: Fiscal indicators for the GCC, 2008 – 2010 .....	9
Table 2-1: Gross Domestic Product (GDP) at Current Prices, 2008-2009.....	13
Table 2-2: Gross Domestic Product (GDP) at Constant Prices, 2008-2009 .....	13
Table 2-3: Crude Oil Production and Refining.....	14
Table 2-4: Consumer Price Index (2006 = 100) .....	16
Table 2-5: Employment.....	17
Table 2-6: Government of Bahrain Foreign Currency Credit Ratings.....	18
Table 2-7: Bahrain Human Development Index, 2009.....	19
Table 2-8: Construction Permits by Type.....	22
Table 3-1: Money Supply .....	28
Table 3-2: Private Sector Deposits by Currency .....	29
Table 3-3: Factors Affecting Domestic Liquidity.....	29
Table 3-4: Deposit Interest Rates .....	30
Table 3-5: Interest Rates on Business Loans.....	31
Table 3-6: Interest Rates on Personal Loans.....	31
Table 3-7: BD Exchange Rate against major currencies.....	33
Table 4-1: Total Number of Licenses (2008 vs. 2009) .....	35
Table 4-2: New Licenses Issued (2008 vs. 2009) .....	36
Table 4-3: Consolidated Balance Sheet of the Banking System.....	37
Table 4-4: Geographical Classification of the Banking System's Assets/Liabilities ...	39
Table 4-5: Consolidated Balance Sheet of Retail Banks - Assets .....	41
Table 4-6: Consolidated Balance Sheet of Retail Banks - Liabilities .....	42
Table 4-7: Consolidated Balance Sheet of Wholesale Banks - Assets .....	42
Table 4-8: Consolidated Balance Sheet of Wholesale Banks-Liabilities .....	43
Table 4-9: Consolidated Balance Sheet of Islamic Banks - Assets.....	44
Table 4-10: Consolidated Balance Sheet of Islamic Banks – Liabilities .....	45
Table 4-11: Domestic Credit by Sector.....	46
Table 4-12: Business Loans by Sector.....	47
Table 4-13: Personal Loans by Sector.....	47
Table 4-14: Credit Card Data .....	48
Table 4-15: Mutual Funds – Total Outstanding Investments, 2009 .....	50
Table 4-16: Number of Employees in the Financial Sector .....	51
Table 6-1: Summary of Public Finance .....	55
Table 5-2: Government Revenue .....	56
Table 5-3: Government Current Expenditure (2008 vs. 2009) .....	57
Table 6-4: Summary of Public Debt Instruments .....	58
Table 6-5: Summary of Conventional Public Debt Instruments .....	58
Table 6-6: Summary of Islamic Public Debt Instruments .....	59
Table 6-1: Balance of Payments .....	62

Table 6-2: Foreign Trade .....	63
Table 6-3: International Investment Position (IIP) .....	64
Table 7-1: BSE Indices .....	68
Table 7-2: Market Capitalisation by Sector .....	69
Table 7-3: Table: Largest Companies by Market Capitalisation (2009).....	70
Table 7-4: Daily Traded Averages.....	70
Table 7-5: Most Active Companies by Value, 2009.....	72
Table 7-6: Most Active Companies by Volume, 2009 .....	72
Table 7-7: Market Breadth .....	74
Table 7-8: Top BSE Advancers, 2009 .....	74
Table 7-9: Top BSE Decliners, 2009 .....	74
Table 7-10: BSE Summary of Listings .....	75
Table 8-1: Gross Domestic Product .....	77
Table 8-2: Employment.....	77
Table 8-3: Domestic Public Debt.....	78
Table 8-4: BD Exchange Rates Against Major Currencies .....	78
Table 8-5: Bahrain Stock Exchange.....	79
Table 8-6: Money Supply .....	80
Table 8-7: Factors Affecting Domestic Liquidity.....	80
Table 8-8: Consolidated Balance Sheet of Banking System .....	80
Table 8-9: Geographical Classification of the Banking System's Assets/Liabilities ....	81
Table 8-10: Currency Structure of the Banking System's Assets/Liabilities.....	81
Table 8-11: Interest Rates on BD Deposits and Loans .....	81
Table 8-12: Outstanding Credit to Non-Bank Residents by Economic Sector .....	82
Table 8-13: Employment in the Banking and Financial Sector.....	82
Table 8-14: Selected Banking Indicators .....	83

## List of Charts

Chart 1-1: Consumer Prices.....	4
Chart 1-2: Policy Rates in Advanced Countries, 2004-2009.....	5
Chart 1-3: Real Effective Exchange Rates of Major Currencies (2000 = 100) .....	6
Chart 1-4: Current Account Balance for GCC Countries, 2005-2010.....	9
Chart 2-1: Total Number of Commercial Registration Licenses .....	22
Chart 3-1: Money Supply.....	27
Chart 3-2: Weighted Average Deposit Rates of Retail Banks.....	30
Chart 3-3: Personal and Business Interest Rates .....	32
Chart 3-4: Money Market Rate/Interbank Rate .....	32
Chart 3-5: Bahrain's Real Effective Exchange Rate (2000 = 100) .....	33
Chart 4-1: New Licenses Issued, 2009.....	36
Chart 4-2: Domestic and Foreign Assets of the Banking System.....	37
Chart 4-3: Domestic and Foreign Liabilities of the Banking System .....	38
Chart 4-4: Currency Structure of the Banking System's Assets, 2009 .....	40
Chart 4-5: Currency Structure of the Banking System's Liabilities, 2009 .....	40
Chart 4-6: Domestic Credit by Sectors.....	45
Chart 4-7: Total Limits and Amounts Outstanding.....	49
Chart 4-8: Individual and Institutional Mutual Fund Investments.....	50
Chart 4-9: Bahraini and Non-Bahraini Employment in the Financial Sector, 2009 .....	52
Chart 4-10: Employment in the Banking Sector .....	52
Chart 4-11: Employment in the Non-Banking Sector .....	53
Chart 5-1: Oil and Non-Oil Revenues as a % of Total Revenues .....	56
Chart 5-2: Current and Project Expenditure as a % of Total Expenditure .....	57
Chart 6-1: International Investment Position (IIP).....	65
Chart 7-1: Performance of Bahrain All Share Index, 2005-2009 .....	68
Chart 7-2: Market Capitalisation by Sector .....	69
Chart 7-3: Value of Shares Traded .....	71
Chart 7-4: Volume of Shares Traded.....	71
Chart 7-5: Trading Value of Investors' Participation (BD Thousand), 2008.....	73
Chart 7-6: Trading Value of Investors' Participation (BD Thousand), 2009.....	73
Chart 7-7: Share Ownership by Nationality (%), 2008 .....	73
Chart 7-8: Share Ownership by Nationality (%), 2009 .....	73

## 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 2009.



## Executive Summary

After an enduring period of turbulence, the global economy started to stabilise in 2009 with the help of a substantial amount of public intervention resulting in a rise in output and financial market rebound amidst higher levels of confidence and certainty. During 2009, world output declined by 0.6% and is expected to pick up during 2010. IMF projections for the year 2010 show that growth in advanced economies will rebound to 2.3% and developing economies by 6.3%.

With inflation concerns restrained and commodity prices rebounding from previously low levels, the global recovery is expected to proceed in 2010, albeit at varying speeds across regions. During 2009, inflation for advanced economies recorded a slight 0.1% growth, despite loose monetary policy and near zero interest rates. Consumer prices in emerging and developing markets had an inflation of 5.2% during the year.

Interest rates during 2009 were low and with inflation concerns being well anchored, rates remained mostly unchanged at similar levels in major advanced economies. Global equity markets witnessed an improvement; however the recovery was not to the same heights witnessed during the period leading up to the crisis.

The GCC was fortunate in bearing a relatively limited impact of the US sub-prime financial crisis. With a previously long period of high oil prices, the region has built strong financial buffers and healthy current and fiscal account surpluses as well as accumulating large foreign exchange reserves. For the year 2008, real GDP for the GCC grew by 6.4% and is estimated to have decelerated to a growth of 0.7% in 2009. For the year 2010, the region is estimated to grow at a rate of 5.2%. Inflation increased to 10.8% in 2008 but is estimated to have dropped to 3.7% in 2009 and 3.8% in 2010 according to IMF projections.

As a result of the intervention measures taken by the authorities to maintain growth, the overall fiscal balance of the GCC countries reduced sharply during 2009 to reach an estimated 5.3% of GDP; this will increase to 10.4% of GDP in 2010, however, as oil prices are expected to remain over USD 75 per barrel in 2010.

In 2009, the effects of the financial crisis affected the Bahrain economy. Nominal GDP registered negative growth and real GDP growth decelerated to half the rate achieved in 2008. However, in real terms, GDP continued to grow during the year, albeit at half the pace that was achieved in 2008. Real GDP registered a growth rate of 3.1% in 2009, down from 6.3% in 2008. Despite the slowdown in the financial sector, it remains one of the largest single contributors to GDP. At the end of 2009, the financial sector accounted for 25.1% of real GDP, down from 26.6% in 2008.

Consumer prices decreased from 2008 to reach 2.8%, influenced mainly by a fall in global commodity prices in the first half of 2009. However, total employment increased by 3.2%, but this rate was much lower than the 24.1% increase recorded in 2008.

In spite of this, and relative to the rest of the world, Bahrain weathered the critical phase of the global turmoil and as such is still recognised internationally for its prudent economic and public policies. In 2009, Bahrain's long term foreign and local currency debt ratings were unchanged by Fitch Ratings Agency at "A" (with a stable outlook) and local currency debt ratings remained at "A+" (stable). Standard and Poor's ratings for foreign and local currency debt also remained unchanged at "A" (stable) in 2009.

Supporting Bahrain's favourable credit ratings were many other positive reports such as the 2009-2010 Global Competitiveness Report by the World Economic Forum (WEF), the annual index of Economic Freedom published by the Heritage Foundation and the Wall Street Journal, and the 2009 Human Development Report.

Despite the financial crisis, the real estate and construction sector still embarked on and continued several projects with a total of 9,928 construction permits being issued in 2009. Many real estate projects continued to develop in 2009 such as Bahrain Bay, Diyar Al Muharraq, Amwaj Islands and Durrat Al Bahrain. Abraaj Al Lulu, a BD 95 million development, was completed in 2009.

Money supply continued to grow in 2009, but at a slower pace than in 2008. M1 (currency in circulation plus demand deposits) grew by 13.7% from BD 1,898.7 million in 2008 to BD 2,158.3 million in 2009. As a result of the growth in M1, M2 (M1 plus time and savings deposits) rose by BD 390.9 million (5.8% increase) at end-2009, compared with BD 1,045.8 million (18.4%) in 2008.

With global monetary policy remaining accommodative, interest rates in Bahrain remained stable and 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 25.1% of real GDP in 2009. The total assets of retail banks (including foreign assets) stood at BD 22.5 billion as at the end of the year. Total outstanding credit facilities extended by retail banks to the different sectors of the domestic economy remained stable and amounted to BD 5,884.9 million at end-2009, compared to BD 5,887.6 million at end-2008.

The consolidated balance sheet for wholesale banks decreased in 2009. Total wholesale bank assets fell by 14.2% to reach USD 162.0 billion at year-end, down from USD 188.9 billion in 2008.

Although the Bahrain economy has diversified away from oil, the governments' fiscal balance is oil reliant. Oil prices reached low levels during the year, and as a result, government revenues decreased by 36.2% while expenditure only marginally increased by 1.1% and as a result of these developments, Bahrain recorded a fiscal deficit before rollover of BD 466.0 million equating to 5.8% of GDP.

External sector indicators for 2009 reflected international prices. Bahrain's current account surplus narrowed to BD 210.6 million, compared to BD 848.6 million in 2008. The capital and financial account registered a net outflow of BD 185.9 million, while direct investment abroad reversed to become an inflow, reflecting tight business conditions and repatriation of capital from the rest of the world. Net international investment position rose by 3.7% at the end of the year.

With global bourses rebounding during the year, the majority of GCC indices closed the year 2009 on a positive note and the Bahrain All Share Index closed at the end of the year at 1,458.24 points recording a year on year decrease of 19.2%.

Chapter

1

# 1. International and Regional Economic Developments

*Overview*

*World Output*

*Inflation*

*Unemployment*

*Interest Rates*

*Exchange Rates*

*Equity Markets*

*Commodity Markets*

*GCC Economies*

## Overview

During 2009, the global economy started to stabilise after a long and enduring period of economic and financial turbulence. Since the summer of 2007, the global economic and financial systems have suffered the consequences of the largest recession since World War II. Advanced economies experienced recessions and emerging market growth slowed down significantly.

After a substantial amount of public intervention, the global economy recovered during 2009. Widespread fiscal stimulus programmes as well as expansionary monetary policy has resulted in a rise in production and trade. Furthermore, global financial markets rallied amidst higher levels of confidence and certainty.

However, despite the improvement in financial conditions, banks still remain averse to risk and credit growth is likely to remain subdued due to the tightening of lending standards as well as the rebuilding of bank balance sheets.

With inflation concerns restrained and commodity prices rebounding from their previously low levels, it is expected that the global recovery will proceed in 2010, albeit at varying speeds across regions. Given that the recovery was attributed to the intervention measures, much of the future outlook will depend on the residual strength of the private sector after the effects of government stimulus packages are withdrawn. The main policy challenge for authorities will be to time their exits from stimulus packages and maintain the pace of growth.

## World Output

During 2009, world output witnessed a decline of 0.6% as the effects of the crisis took hold of advanced economies during the first half of the year (Table 1-1). This outturn represents an upward revision from previous estimates as growth improved significantly in the second half of the year.

With the world economy expected to pick up during 2010, projections for the year show that growth for advanced economies will rebound to 2.3%, as will emerging market economies by 6.3%. This growth is expected to continue during 2011, with advanced and emerging economies growing at rates of 2.4% and 6.5% respectively. Growth for advanced economies will be lower by historical standards, aided by the policy response of governments whilst

emerging market economies are expected to benefit from the rebound in commodity prices and stronger internal demand.

**Table 1-1: Summary of World Output**

	2008	2009	2010*	2011*
World output	3.0	-0.6	4.2	4.3
Advanced Economies	0.5	-3.2	2.3	2.4
United States	0.4	-2.4	3.1	2.6
Euro Area	0.6	-4.1	1.0	1.5
Japan	-1.2	-5.2	1.9	2.0
Emerging & developing Economies	6.1	2.4	6.3	6.5
China	9.6	8.7	10.0	9.9
India	7.3	5.7	8.8	8.4
Middle East	5.1	2.4	4.5	4.8

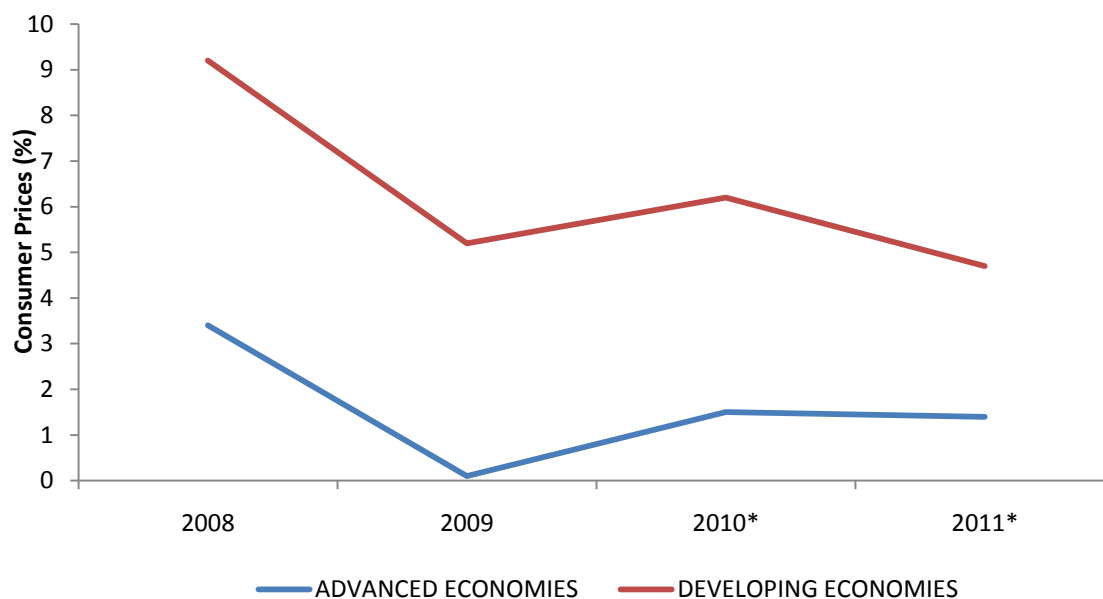
\* Forecasts

Source: IMF, *World Economic Outlook*, April 2010.

## Inflation

With the decline in global output and drop in demand, consumer price inflation decreased substantially during the year. For the year 2009, inflation as measured by consumer prices, for advanced economies recorded a slight 0.1% growth, despite loose monetary policy and near zero interest rates. Consumer prices in emerging and developing markets had an inflation of 5.2% during the year, much lower than the 9.2% inflation recorded in 2008 (Chart 1-1).

The IMF forecasts that the recovery in advanced economies in 2010 will lead to a 1.3% growth in consumer prices, whilst developing economies are expected to have an inflation of 6.2%.

**Chart 1-1: Consumer Prices**

\*Forecasts

Source: IMF, *World Economic Outlook*, April 2010.

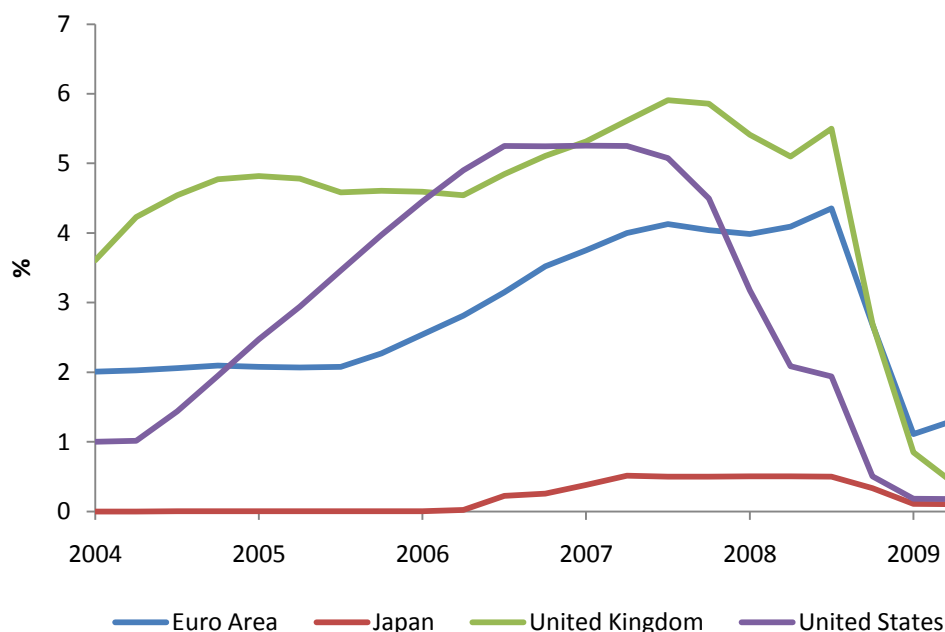
## Unemployment

The global downturn caused an increase in global unemployment. In advanced economies, unemployment during 2009 reached 8.0%, up from the 5.8% recorded in 2008. The IMF predicts that unemployment for the year 2010 will increase to 8.4% before declining to 8.0% in 2011. In the US, average unemployment increased from 5.8% in 2008 to 9.3% in 2009, while the Euro area also had an increase from 7.6% to 9.4% during the same period. Japan had a more moderate increase from 4.0% in 2008 to 5.1% in 2009.

Emerging market data is sparser, but trends indicate that increases in unemployment have been of a lesser magnitude compared to advanced economies. The main policy challenge for authorities for the coming years is to maintain the pace of recovery and support job creating simultaneously.

## Interest Rates

Interest rates during the course of 2009 were low due to monetary authorities' attempts to ease liquidity strains on their respective financial systems. Due to inflation expectations being well anchored, rates remained mostly unchanged at similar levels in major advanced economies (Chart 1-2).

**Chart 1-2: Policy Rates in Advanced Countries, 2004-2009**

Source: IMF, International Financial Statistics.

## Exchange Rates

Exchange rates for major currencies against the SDR remained mostly stable during the year. For the year 2009, the US dollar, pound sterling and Japanese Yen all depreciated against the SDR from their levels at the end of 2008. The dollar depreciated by 19.5%, the pound by 8.4%, and the Japanese Yen by 3.3% at the end of 2009 (Table 1-2). Conversely, the Euro appreciated slightly by 1.8%.

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

Currencies	2008	2009			
		Q1	Q2	Q3	Q4
US dollar	1.54	1.50	1.55	1.58	1.57
Euro	1.11	1.12	1.10	1.08	1.09
Japanese Yen	139.78	146.67	148.94	142.23	144.32
Pound Sterling	0.95	0.96	1.067	1.02	1.03

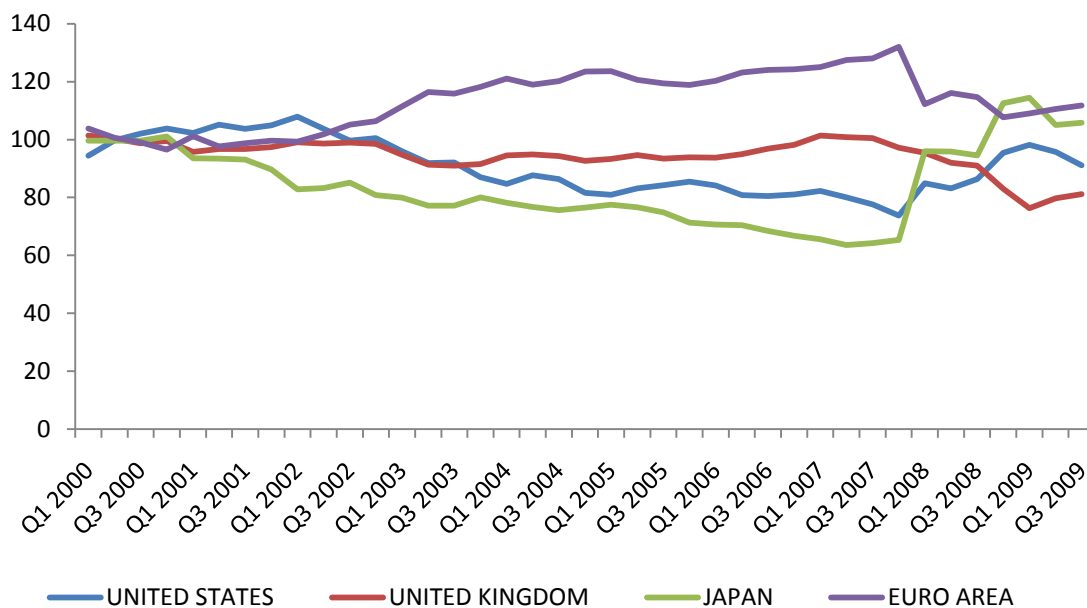
Source: IMF, International Financial Statistics Database.

The real effective exchange rate (REER) is the exchange rate of a currency against a basket of world currencies, adjusted for inflation. From the third quarter of 2008 until the third quarter of 2009, the real effective exchange rates (REER) of the US dollar and Japanese yen appreciated by 5.5% and 11.9%



respectively (Chart 1-3). Conversely, the euro and pound sterling depreciated by 10.9% and 2.5% respectively during the same period. Currencies that appreciated during the period did so mainly due to policy stimulus from their respective governments, with Japan's appreciation due to higher exports and the US was influenced by commodity price shifts.

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



Source: IMF, International Financial Statistics Database.

## Equity Markets

With global economic and financial conditions improving during the second half of 2009, global equity markets witnessed an improvement from their low levels. However, the recovery was not to the same heights witnessed during the period leading up to the crisis (Chart 1-4). During the year, the NASDAQ, S&P 500 and NIKKEI showed the highest recovery rates, growing at 39.0%, 19.7% and 19.0% respectively. The FTSE and the Dow Jones Industrial Average followed closely, growing at 18.7% and 15.4% respectively during the same period.

The outlook for equity markets in advanced economies is expected to be moderate against a backdrop of uncertainty in financial market conditions due to sovereign debt issues which could prove to be a potential constraint on a global rebound.

## Commodity Markets

During the first quarter of 2009, most key commodity prices continued to decline further from the low levels reached at the end of 2008. However, for the next three quarters of the year, main commodity prices like crude oil and aluminium rebounded to finish the year strongly.

The average world price of crude oil increased from USD 44.2 per barrel in the first quarter to reach a price of USD 75.5 per barrel in the fourth quarter of 2009. Aluminium and gold prices similarly increased, with the price of aluminium increasing from USD 1,365.5 to USD 2,004.5 per metric tonne and the price of gold increasing from USD 908.7 per troy ounce to 1,101.6 per troy ounce for the same period.

Unlike the rest of the commodities presented in Table 1-3 the price of wheat decreased to a low of USD 205.4 per metric tonne in the fourth quarter of 2009 despite an increase to USD 247.9 per metric tonne in the second quarter of 2009.

Nevertheless, the price levels reached at the end of 2009 were still lower than the averages recorded during 2008, with oil, wheat and aluminium recording average prices of USD 97.0 per barrel, USD 325.9 per metric tonne and USD 2,577.9 per metric tonne respectively. Gold on the other hand ended the year higher than the average in 2008 with it being a safe commodity due to its status as a haven during periods of market uncertainty (Table 1-3).

**Table 1-3: Commodity Prices**

Commodity	2008*	2009			
		Q1	Q2	Q3	Q4
Crude oil, avg, spot (\$/Barrel)	97.0	44.2	59.2	68.2	75.5
Wheat (\$/Metric Tonne)	325.9	231.7	247.9	208.8	205.4
Aluminium (\$/Metric Tonne)	2,577.9	1,365.5	1,494.2	1,812.5	2,004.5
Gold (\$/Troy Ounce)	871.7	908.7	921.5	960.1	1,101.6

\* Averages

Source: IMF, International Financial Statistics Database.

## GCC Economies

The GCC region has been fortunate in bearing a relatively limited impact of the crisis on their combined economies. With a previously long period of high oil prices, the region has enjoyed building strong financial buffers and

healthy current and fiscal account surpluses as well as accumulating large foreign exchange reserves.

Nevertheless, the global credit crunch, as well as a downswing in oil prices has proved troublesome. The booming private sector, in particular the real estate market, were disrupted by tight credit conditions, which then led to declines in asset prices and demand, subsequently resulting in a deceleration in economic activity. Fortunately, the GCC authorities were quick and decisive in responding to the effects of the crisis on their economic and financial sectors. In 2008, the Central Banks of the UAE and Kuwait provided banks with a credit facilities and government guarantees to cover bank deposits, while the rest of the GCC also cut reserve requirements and their repo rates.

For the year 2008, real GDP for the GCC grew by 6.4% and is estimated to decelerate to a growth of 0.7% in 2009 (Table 1-4). For the year 2010 it is estimated that the region will grow at a rate of 5.2%. After growing at a rate of 5.8% in 2008, real oil GDP is estimated to have shrunk by 5.2% in 2009 but is expected to grow strongly again at 5.5% in 2010. Non-oil GDP on the other hand continued to grow, and registered growth rates of 6.6%, 3.2% and 4.4% for 2008, 2009 and 2010 respectively. Inflation increased to a very high level of 10.8% in 2008 but is estimated to have dropped to 3.7% in 2009 and 3.8% in 2010.

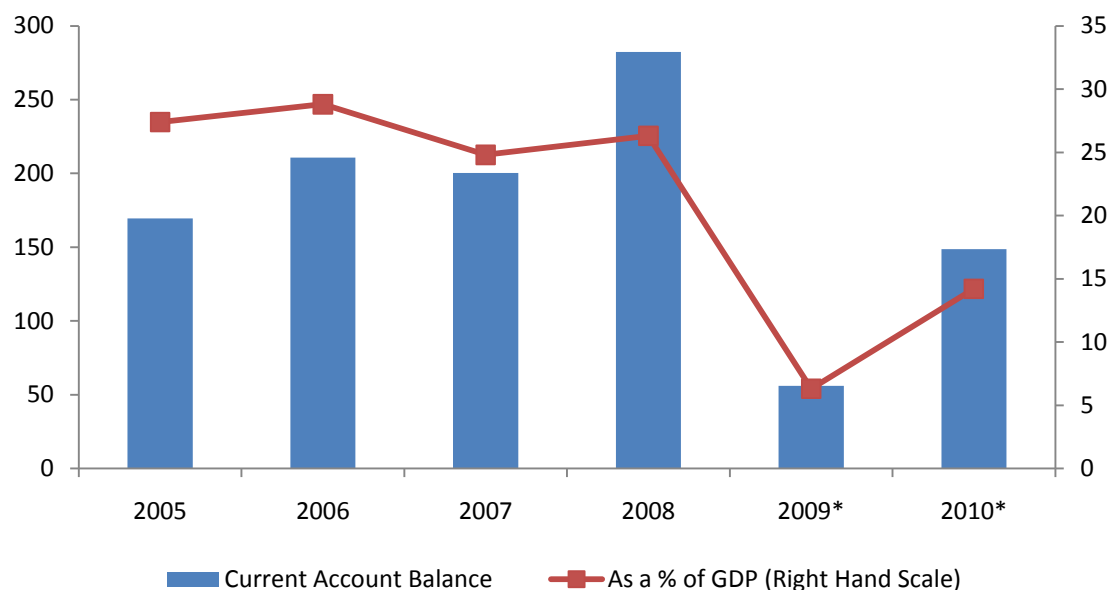
**Table 1-4: Growth and Inflation for the GCC**

	2008	2009*	2010*
Real GDP Growth (% change)	6.4	0.7	5.2
Oil GDP	5.8	-5.2	5.5
Non-Oil GDP	6.6	3.2	4.4
Inflation (average %)	10.8	3.7	3.8

\* IMF projections

Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2009.

The resulting impact of the crisis, coupled with increased government spending relative to lower oil export receipts, has resulted in a shrinkage of the current account surplus for the GCC during 2009. For the year 2009, estimates show that the combined current account balance has shrunk from a high of USD 282.3 billion in 2008 to USD 56.0 billion. Forecasts for 2010 expect the GCC current account balance to rebound strongly to reach USD 148.6 billion (Chart 1-5).

**Chart 1-4: Current Account Balance for GCC Countries, 2005-2010\***

\* IMF projections

Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2009.

As a result of the intervention measures taken by the authorities to maintain growth, the overall fiscal balance of the GCC countries reduced sharply during 2009 to reach an estimated 5.3% of GDP; this will increase to 10.4% of GDP in 2010, however, as oil prices are expected to remain over USD 75 per barrel in 2010. Similarly, total revenue dropped to an estimated 41.9% of GDP in 2009 and is expected to rise slightly to 43.5% of GDP in 2010. The non-oil fiscal deficit is estimated to have increased to 51.7% of non-oil GDP in 2009, as non-oil revenue declined to 14.7% of non-oil GDP for the same year. Nonetheless both are expected to rise to 15.5% and 49.9% respectively (Table 1-5).

**Table 1-5: Fiscal indicators for the GCC, 2008 – 2010**

	(% of GDP unless otherwise stated)		
	2008	2009*	2010*
Fiscal Balance	27.4	5.3	10.4
Total Revenue, Excluding Grants	56.1	41.9	43.5
Non-Oil Fiscal Balance (% of non-oil GDP)	-49.8	-51.7	-49.9
Non-Oil Revenue (% of non-oil GDP)	20.0*	14.7	15.5
Total Expenditure and Net Lending	28.8	36.6	33.1

\* IMF projections

*Source: International Monetary Fund, Regional Economic Outlook: Middle East and Central Asia, October 2009.*

While the GCC appears to have shown early signs of recovery, their economic outlook will be heavily dependent on future oil prices as well as the international economic environment.

Chapter

2

## 2. 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

In 2009, in line with the turmoil in the global economy, the Bahrain economy experienced a downturn. Nominal GDP registered negative growth and real GDP growth decelerated to grow at half the rate achieved in 2008. Nominal GDP declined by 6.0% during the year due to a shrinkage in oil output, while real GDP slowed down to record a growth rate of 3.1%. Consumer prices decreased from 3.5% in 2008 to reach 2.8%, influenced mainly by a fall in global commodity prices in the first half of 2009. However, total employment increased by 3.2%, but this rate was much lower than the 24.1% increase recorded in 2008.

Despite nominal GDP declining, Bahrain still recorded a real growth rate during 2009. The main challenge facing the economy is to continue promoting diversified economic growth to ensure that the economy weathers the critical phase of the global turmoil. Despite Bahrain's economic downturn, international agencies have continued to rate Bahrain at similar if not slightly improved levels to previous years.

## Gross Domestic Product and Economic Growth

After growing at a nominal rate of 18.6% in 2008, Bahrain's economic growth sharply decelerated in 2009 to record a negative growth rate of 6.0% mainly as a result of the low oil prices experienced in the first half of 2009. Consequently, the "oil" sector, which accounted for 20.7% of GDP in 2009, declined by 31.6%. As such the non-financial corporations sector which mainly comprises "oil" and "manufacturing" decreased by 11.0% and the financial corporations sector, which contributed 20.8% of GDP in 2009, declined by 4.2% (Table 2-1).

**Table 2-1: Gross Domestic Product (GDP) at Current Prices, 2008-2009**

(BD Million)

	2008	2009*	% Change	% Share (2009)
<b>GDP at Current Prices</b>	<b>8,235.3</b>	<b>7,743.6</b>	<b>-6.0</b>	<b>100.0</b>
Non-Financial Corporations	6,336.0	5,638.3	-11.0	72.8
<i>Of which:</i>				
-Oil	2,346.5	1,604.0	-31.6	20.7
-Manufacturing	1,266.3	1,224.5	-3.3	15.8
-Transportation and Communication	492.2	577.5	17.3	7.5
-Trade	654.0	646.7	-1.1	8.4
-Real Estate & Business Activities	556.8	509.1	-8.7	6.6
Financial Corporations	1,679.6	1,609.4	-4.2	20.8
Government Services	914.1	942.0	3.1	12.2

\* Provisional data

Source: Central Informatics Organisation (CIO)

However, in real terms, GDP continued to grow during the year 2009, albeit at half the pace that was achieved in 2008. Real GDP registered a growth rate of 3.1% in 2009, down from 6.3% in 2008 (Table 2-2). In absolute dinar terms, real GDP rose from BD 4,733.9 million to BD 4,881.0 million over the period.

**Table 2-2: Gross Domestic Product (GDP) at Constant Prices, 2008-2009**

(BD Million)

	2008	2009*	% Change	% Share (2009)
<b>GDP at Constant Prices</b>	<b>4,733.9</b>	<b>4,881.0</b>	<b>3.1</b>	<b>100.0</b>
Non-Financial Corporations	3,477.6	3,489.1	0.3	71.5
<i>Of which:</i>				
-Oil	605.1	603.3	-0.3	12.4
-Manufacturing	757.9	765.1	0.9	15.7
-Transportation and Communication	409.6	443.6	8.3	9.1
-Trade	368.8	367.5	-0.4	7.5
-Real Estate & Business Activities	466.8	425.8	-8.8	8.7
Financial Corporations	1,258.8	1,224.8	-2.7	25.1
Government Services	689.2	730.0	5.9	15.0

\* Provisional Data

Source: Central Informatics Organisation (CIO)

The non-financial corporations sector grew by only 0.3% in 2009, much lower than the 6.5% growth of 2008. The largest fall in the non-financial sector was in real estate and business activities segment, which decreased by 8.8%, a big change from its 7.5% growth in 2008. Manufacturing, the largest contributor



to the non-financial corporations segment, increased by only 0.9% in 2009, compared to the 7.3% growth it experienced in 2008. The transportation and communications segment grew at 8.3% in 2009, slightly down from its 8.8% growth in 2008. The deceleration in non-financial corporations' growth highlights the effect of the financial crisis on Bahrain's real sector in 2009.

Financial corporations recorded a negative growth rate of 2.7%, lower than the 5.6% positive growth in 2008. This large drop is a result of cost cutting undertaken by financial institutions and the lower profitability achieved in 2009 as a consequence of the global financial crisis. Government services however experienced positive growth, expanding by 5.9% during 2009, down from 9.3% in 2008.

Despite the slowdown in the financial sector, it remains one of the largest single contributors to GDP. At the end of 2009, the financial sector accounted for 25.1% of real GDP, down from 26.6% in 2008.

In real terms, following a 0.4% increase in 2008, oil GDP decreased by 0.3% in 2009. This is a reflection of the decrease in the price of crude oil experienced in the early part of 2009. Real non-oil GDP growth was stronger in comparison and registered a 3.6% growth in 2009. The non-oil GDP growth outlines 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.

**Table 2-3: Crude Oil Production and Refining**

(USD Barrels Thousands)

	2008	2009	2009			
			Q1	Q2	Q3	Q4
<b>Total Crude Oil</b>	<b>66,864</b>	<b>66,510</b>	<b>16,499</b>	<b>16,423</b>	<b>16,972</b>	<b>16,616</b>
Bahrain Oilfield	12,027	11,750	3,024	2,986	2,932	2,808
Abu Sa'afa Oilfield	54,837	54,760	13,475	13,437	14,040	13,808
<b>Refined Oil Production</b>	<b>96,368</b>	<b>95,598</b>	<b>20,637</b>	<b>24,959</b>	<b>25,126</b>	<b>24,876</b>

Source: National Oil and Gas Authority (NOGA)

Total crude oil production decreased slightly from 66,864 thousand barrels in 2008 to 66,510 thousand barrels in 2009. Production at Awali oil field (Bahrain Oilfield) decreased from a total of 12,027 thousand barrels at end 2008 to 11,750 thousand barrels at end 2009. Abu Sa'afa oil production also decreased marginally from 54,837 thousand barrels in 2008 to 54,760 thousand barrels in 2009. Similarly, refined oil production decreased slightly from 96,368 thousand barrels in 2008 to 95,598 thousand barrels in 2009, a 0.8% decrease (Table 2-3).

During 2009, recent initiatives have been pursued by the Bahrain authorities to increase domestic oil production. In November 2009, Tatweer Petroleum-Bahrain Field Development Company was established as a joint operating company by Occidental, Mubadala Development Company and the National Oil and Gas Authority of Bahrain (NOGA). Tatweer will serve as the operator for the Awali oil field and will operate under the Development and Production Sharing Agreement signed in April 2009 by all three partners.

Bahrain is also in talks with Saudi Aramco over plans to construct a new pipeline of more than 100km between Bahrain and Saudi Arabia. The pipeline is expected to carry around 350,000 barrels per day of crude between Bahrain and Saudi Arabia. Bahrain plans to steadily increase its own oil production over the next 20 years.

### **Domestic Prices**

During 2009, Bahrain recorded an inflation rate of 2.8%, down from 3.5% in 2008. This is in line with the global economy, where many countries experienced low inflation as a result of the decline in demand and output. In 2010, as the international economy recovers, inflation is expected to increase slightly.

The Central Informatics Organisation (CIO) revised the commodity basket groups included in the calculation of CPI. Instead of the group “food, beverages & tobacco”, two new groups were introduced, “food and non-alcoholic beverages” and “alcoholic beverages, tobacco”. In addition, the new group “restaurants” was included in the 2009 CPI (Table 2-4).

**Table 2-4: Consumer Price Index (2006 = 100)**

<b>Major Group of Commodities and Services</b>	<b>2009</b>
Food and Non-Alcoholic Beverages	126.4
Alcoholic Beverages, Tobacco	111.2
Clothing & Footwear	104.6
Housing, Water, Electricity & Fuels	109.5
Furnishing, Household Equipment and Maintenance	111.5
Healthcare Services	102.3
Transport	101.9
Communication	97.0
Recreation & Culture	105.4
Education	106.3
Restaurants	106.6
Miscellaneous	114.9
General Index	109.9
<b>Inflation</b>	<b>2.8</b>

Source: Central Informatics Organisation

## Labour Force

Total employment in Bahrain amounted to 486,071 at the end of 2009, 3.2% higher than in 2008. This was a significantly slower growth than the 24.1% increase in 2008 and can be attributed to the fact that corporates have taken cost cutting measures during the year.

Total employment accounted for 43.9% of the total population with the private sector and public sector accounting for 91.6% and 8.4% of total employment respectively (Table 2-5).

The public sector predominantly employed Bahraini nationals, who made up 87.2% of total public sector employment in 2009. Total public sector employment grew marginally by 1.3 % for the same year.

Conversely, the private sector mostly employed non-Bahrainis, who at the end of 2009 made up 81.9% of total private sector employment. Bahraini private sector employment decreased slightly by 1.5% in 2009 and Bahrainis accounted for 18.1% of total private sector employment.

Table 2-5: Employment

	2008	2009	2009			
			Q1	Q2	Q3	Q4
<b>Total Employment*</b>	471,088	486,071	483,777	485,333	485,834	486,071
Change (%)	24.1	3.2	2.7	0.3	0.1	0.05
<b>Private Sector</b>	430,882	445,330	443,638	445,330	446,018	445,330
As % of Total Employment	91.5	91.6	91.7	91.8	91.8	91.6
Male	389,802	403,499	401,040	403,499	371,808	403,499
Female	41,080	41,831	42,598	41,831	41,838	41,831
<b>Bahraini</b>	81,867	80,621	82,899	80,621	80,298	80,621
<b>Non-Bahraini</b>	349,015	364,709	360,739	364,709	365,720	364,709
<b>Public Sector**</b>	40,206	40,741	40,139	40,003	39,816	40,741
As % of Total Employment	8.5	8.4	8.3	8.2	8.2	8.4
Male	22,108	22,126	21,989	21,902	21,759	22,126
Female	18,098	18,615	18,150	18,101	18,057	18,615
<b>Bahraini</b>	35,204	35,528	35,106	34,973	34,900	35,528
<b>Non-Bahraini</b>	5,002	5,213	5,033	5,030	4,916	5,213

\*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.

The private sector, in comparison to the public sector, is the major employer in the economy and thus the future direction of the labour market will depend on the performance of this sector.

## International Rankings

Bahrain has maintained its international standing among credit rating agencies and has improved its position in various international assessments.

### Credit Ratings

In 2009, Bahrain's long term foreign and local currency debt ratings were unchanged by both Fitch Ratings Agency and Standard and Poor's. Fitch reaffirmed Bahrain's rating for long term foreign currency debt at "A" (with a stable outlook) in 2009. Local currency debt ratings remained at "A+" (stable) (Table 2-6). Standard and Poor's ratings for foreign and local currency debt also remained unchanged at "A" (stable) in 2009.

**Table 2-6: Government of Bahrain Foreign Currency Credit Ratings**

	2008		2009	
	Fitch	S&P	Fitch	S&P
<b>Foreign Currency</b>				
Long Term	A	A	A	A
Short Term	F1	A-1	F1	A-1
Outlook	Stable	Stable	Stable	Stable
<b>Local Currency</b>				
Long Term	A+	A	A+	A
Short Term	n/a	A-1	----	A-1
Outlook	Stable	Stable	Stable	Stable

Source: S&P, Fitch.

### *Rankings and International Indices*

The 2009-2010 Global Competitiveness Report published by the World Economic Forum (WEF) found Bahrain to be the fifth most economically stable country in the world. Furthermore, the annual index of Economic Freedom, published by the Heritage Foundation and the Wall Street Journal ranked Bahrain as the 16<sup>th</sup> freest economy in the world, and the freest economy in the Middle East and North Africa region.

In terms of human development, Bahrain has also enjoyed positive rankings. Since the 1990's, the United Nations Development Programme's Human Development Report has published the Human Development Index (HDI) and the Gender-related Development Index (GDI) 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.

The Gender-related Development Index (GDI), measures achievements in the same dimensions using the same indicators as the HDI; however it also measures inequalities in achievements between men and women. The higher the percentage of GDI relative to HDI, the less gender disparity there is. In the 2009 Human Development Report, Bahrain's GDI had a value of 0.895 which is 99.9% of its HDI value.

**Table 2-7: Bahrain Human Development Index, 2008-2009**

Year	HDI Rank (Value)	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	Combined gross enrolment ratio (%)	GDP per capita (PPP \$)
2008	41 (0.866)	45 (75.2)	73 (86.5)	40 (86.1)	33 (21,482)
2009	39 (0.895)	44 (75.6)	76 (88.8)	28 (90.4)	30 (29,723)

Source: Human Development Report

The report also presented an improvement in Bahrain's HDI rankings. Bahrain's HDI in the 2009 Human Development Report was 0.895 up from 0.866 in the 2007/2008 report (Table 2-7). Bahrain ranked 39<sup>th</sup> out of 182 countries in 2009 compared to ranking 41<sup>st</sup> in the 2007/2008 report. This improvement was due to advances in life expectancy at birth, adult literacy, enrolment ratios, and GDP per capita.

## Bahrain Policy Developments

### *Labour Market*

On the 1<sup>st</sup> of August 2009, Bahrain became the first Gulf nation to revise its sponsorship system for foreign workers, enabling the free movement of labour. The main changes would mean that foreign workers will be directly sponsored by the Labour Authority and would no longer be forced rely on their employers. This new law brings Bahrain in line with developed countries and is part of a larger package of reforms.

Bahrain's efforts in improving its labour force are evident in the efforts of the Labour Fund "Tamkeen". Throughout 2009, Tamkeen promoted business growth and invested in the human capital through various programmes and initiatives. These initiatives focus on human capital and private sector.

### *E-Government*

Bahrain's e-Government Authority is planning to offer 200 basic government services to the public through 4 channels: e-Government National Portal,

Mobile Portal, Common Service Centres and the National Call Centre. In October 2009, the 100<sup>th</sup> eService was launched.

In May 2009, the mobile portal and the common service centres were opened. The Mobile Portal will provide government services to the public via mobile phones. In October 2009, 23 eServices were available through mobile phones. As for the common service centres, four have been established in 2009.

In July 2009, Bahrain and Cisco Systems signed an agreement under which Cisco will offer advisory and technical services to all the ministries and government agencies in Bahrain. This agreement is considered to be a first of its kind for the region and will be used as an example for future agreements between Cisco and governments around the world.

In November 2009, the e-Government Authority signed two MOUs with the Talal Abu Ghazaleh Organisation which will enable the Arab nations to benefit from the latest developments and innovations in the ICT field. The first MOU involves the establishment of a regional Global Alliance for ICT and Development (GAID) office in Bahrain which will serve all the GCC countries. The office will work on the development of the ICT sector for the region and it will work closely with neighbouring countries to achieve the United Nations' Millennium Development Goals. The second MOU aims at creating joint programs in Bahrain to promote e-Literacy and providing training programs.

At the first GCC e-Government Conference in December 2009, Bahrain topped the list of winners in all five categories which are: the best e-Government e-project, the e-Economics award, the eService award, the Gulf e-Maturity award and the excellence award for the best service.

### *Economic Agreements*

In 2009, 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 June 2009, a double taxation agreement was signed between Bahrain and Uzbekistan. The agreement aims to prevent fiscal evasion with respect to taxes on income and on property. According to the agreement, the profits of an enterprise of each country will only be taxable in that country unless it has a permanent establishment in another country where it carries out business.

Also, profits of an enterprise of one country from its operations in international traffic will only be taxable in that country.

Furthermore, Bahrain signed a convention with Austria in July 2009. The convention aims to eliminate double taxation between the two countries and allows for the exchange of tax information between them according to the standards set by the Organisation for Economic Co-operation and Development (OECD). Similarly, in October 2009, a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital gains was signed between Bahrain and Ireland. These conventions allow for good governance practices and help promote investment in Bahrain.

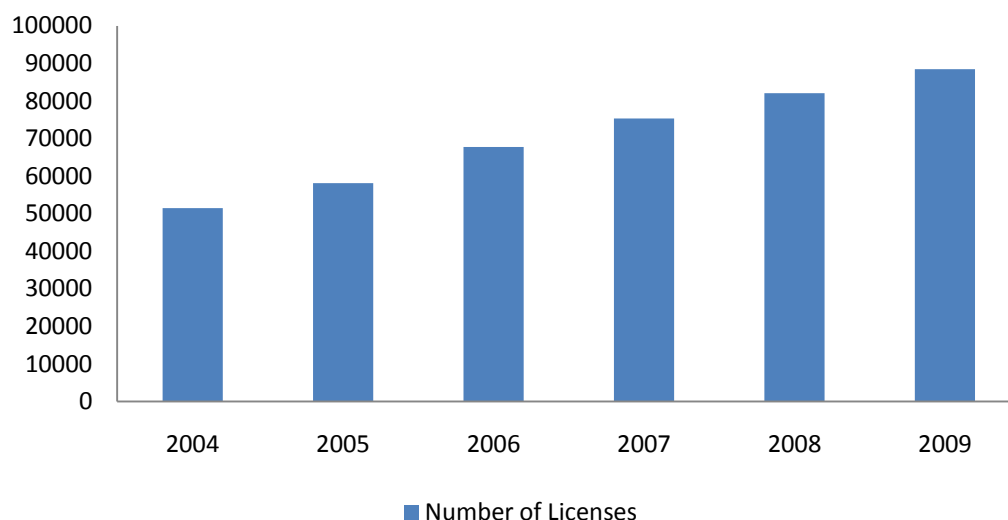
In June 2009, a MOU was signed between the Bahrain Ministry of Finance (MOF) and the Japan Bank for International Co-operation (JBIC), a public cooperation wholly owned by the Japanese Government. The MOU aims to increase economic operation between both countries and facilitate Japanese investment in Bahrain in areas such as clean power generation, efficient energy, and water transportation.

In December 2009, the Central Bank of Bahrain (CBB) signed a MOU with the Monetary Authority of Singapore (MAS). The MOU aims to foster the relationship between both regulatory authorities and aims to strengthen supervision of cross-border operations by sharing data and enabling cooperation in staff training.

### **Private Sector Developments**

The total number of commercial registration licenses increased during the period 2004-2009. In 2009, the total number of new commercial licenses issued totalled 6,275 taking the total number of commercial licenses to 88,426 (7.7% increase from 2008) (Chart 2-2). The largest numbers of licenses issued have been in the wholesale and retail trade (including repair of motor equipment) sub-segment, where 2,750 licenses were issued.



**Chart 2-1: Total Number of Commercial Registration Licenses**

Source: Ministry of Industry and Commerce

### *Property and Real Estate Developments*

Despite the financial crisis, the real estate and construction sector still embarked on and continued several projects.

In 2009, a total of 9,928 construction permits were issued, a decrease of 12.6%, over 2008 (Table 2-8). “Addition” permits constituted the majority of total construction permits in 2009 (56.3%), followed by 27.2% in the form of “new construction permits”.

**Table 2-8: Construction Permits by Type**

Construction Permits by Permit Type	2008	2009
Addition	5,172	5,595
Demolition	1,115	611
Demolition and New Construction	118	60
New Construction	3,700	2,705
Reclamation	35	8
Renovation	1,223	949
<b>Total</b>	<b>11,363</b>	<b>9,928</b>

Source: Ministry of Municipalities Affairs and Agriculture.

Many real estate projects continued to develop in 2009 such as Bahrain Bay, Diyar Al Muharraq, Amwaj Islands and Durrat Al Bahrain. Abraaj Al Lulu, a BD 95 million development, was completed in 2009. The towers will be occupied by around 500 families from Bahrain, GCC, and other nations.

Work on Bahrain Bay remained on track in 2009 despite the effects of the current economic climate. The landmark waterfront community is predicted to boost the national economy by USD 5 billion in the next decade. By November 2009, Bahrain Bay contributed \$230 million in infrastructure and utilities.

In 2009, Diyar Al Muharraq, one of the largest projects under construction in Bahrain, revealed that 3 km<sup>2</sup> of the project's 12km<sup>2</sup> total area is ready for access and building works to commence.

In June 2009, Manara Developments, the real estate company owned by Al Salam Bank Bahrain, finalised the master plan for the USD 1 billion Bahrain waterfront project. The Nurana project, which spans 2 million square meters of waterfront land overlooking the Bahrain Fort, will comprise a mix of coastal villas, water-view apartments, retail, entertainment, and tourism. Reclamation works for the site are estimated to cost USD 75 million.

In October 2009, work commenced on Amwaj Waves, the USD 396 million real estate project at Amwaj Islands. The first phase will include four contemporary residential buildings offering a total of 299 apartments, a landscaped pool area and the city. Amwaj Waves is expected to be completed by early 2012.

In 2009, phase 1 of Durrat Al Bahrain was completed and handed over to tenants. In August 2009, land reclamation for Durrat Marina islands, part of Durrat Al Bahrain residential resort, was also completed.

### *Bahrain Financial Exchange*

In January 2009, it was announced that the Bahrain Financial Exchange (BFX) will be launched.<sup>1</sup> It is regulated by the CBB and lists cash and derivative instruments on multiple asset classes such as equities, currencies, commodities, and debt related products for trading and clearing by its brokers. The BFX will also list and trade Islamic finance instruments or Sharia compliant products.

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<sup>1</sup> It is expected to begin operations in October 2010.

The BFX will be an international financial exchange giving access to its brokers from around the world to trade in multi asset products through a single venue.

### *Telecommunications*

According to the “Telecommunications Market Indicators Report” released by the Telecommunications Regulatory Authority (TRA) in June 2009, there was a 9% increase in industry revenue between 2007 and 2008. Mobile phone revenues represented the majority of telecommunications revenue at 51%. Figures also show that the telecommunications sector currently employs almost 2,470 workers, with Bahrainis constituting 88% of total employees. By the end of 2008, the total number of licenses issued by the TRA reached 171, with 15 new licenses issued in 2008.

Batelco and Zain are the current mobile network operators in Bahrain with a total number of over 1.4 million mobile subscribers at the end of 2008 (a 27.3% growth compared to 2007).

In January 2009, the TRA announced that the Saudi Telecommunications Company (STC) was the successful bidder for the 3<sup>rd</sup> mobile license in Bahrain with a bid of BD 86.7 million. Furthermore, STC is also establishing a USD 300 million venture capital fund to focus on the development of ICT in Bahrain.

### *Industrial Developments*

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

At the start of 2009, 97% of BIW was sold out. The remaining 3% is earmarked for a road network and accessory services. In April 2009, First Bahrain, a regional developer, expanded its warehouse complex at BIW to cope with demand from small and medium enterprises (SMEs). This brings the total mass of the project to 716,000 square feet. On completion, 200 warehouses will be available for lease. In addition to the physical warehousing space, the development will offer diverse value-added services, including round the clock security services and state of the art ICT provision.

In 2009, progress in BIIP continued. Manara Developments, a Bahrain-based real estate development company signed an agreement with Chase Perdana, a leading Malaysian construction firm, to develop the Investment Park in Hidd. They aim to create a business and investment community through developing different warehousing and logistics projects and services. On completion, the project hopes to bring job opportunities and fuel the logistics sector in Bahrain.

Other industrial developments include the plan to expand Bahrain Airport and to create an Airport City and the opening of the Khalifa Bin Salman Port. In June 2009, Bahrain Airport Company awarded Hill International a contract worth an estimated USD 36.5 million to manage the major expansion of the airport which includes the construction of two new passenger terminals, a people mover system, and a car park. The contract also includes the development of an Airport City which will include hotels, conference centres, and retail and recreational facilities.

The Khalifa Bin Salman Port was officially opened in December 2009 although it began operations in April 2009. The BD 136.3 million port provides services to shipping lines and logistic companies in accordance with international specifications and standards. The new port is four times the capacity of the Mina Salman Port, Bahrain's main port for almost 50 years.

Chapter

3

## 3. Monetary Developments

*Overview*

*Money Supply Developments*

*Domestic Interest Rates*

*Exchange Rate Developments*

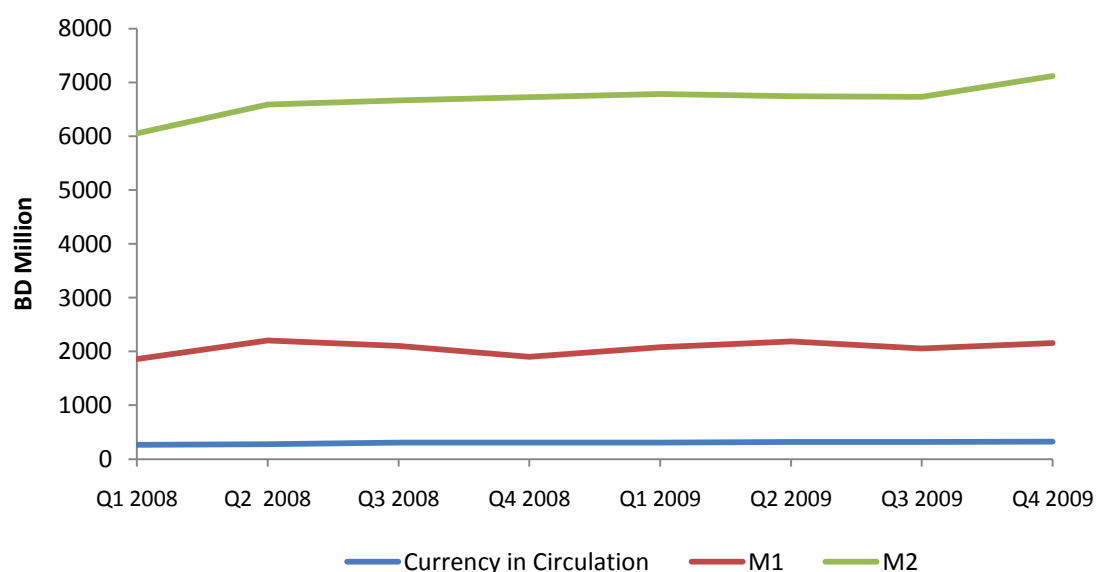
## Overview

In 2009, monetary trends in Bahrain continued to reflect trends in the global economy as well as in domestic economic developments. Given the Bahraini dinar's peg against the US dollar, domestic interest rates largely tracked US policy rates during the year which remained low as a measure to offset the economic downturn. Also, the exchange rate of the dinar against other currencies largely reflected the movements of the US dollar against those currencies.

## Money Supply Developments

Money supply continued to grow in 2009 but at a slower pace than in 2008. Currency in circulation (currency outside banks) registered an increase of BD 18.8 million (6.2% growth) to reach BD 323.0 million compared with BD 304.2 million in 2008 (Table 3-1). M1 (currency in circulation plus demand deposits) grew by 13.7% from BD 1,898.7 million in 2008 to BD 2,158.3 million in 2009. As a result of the growth in M1, M2 (M1 plus time and savings deposits) rose by BD 390.9 million (5.8% increase) at end 2009, compared with BD 1,045.8 million or 18.4% in 2008.

**Chart 3-1: Money Supply**



Source: Central Bank of Bahrain

The growth in money supply was driven by a rise in savings. Broad money (M2) growth was mainly due to increases in domestic and foreign currency private sector deposits. In 2009, total private sector deposits (demand deposits as well as time and savings deposits) amounted to BD 6,796.3 million and accounted for 95.5% of M2. Private sector demand deposits increased by 15.1% and largely contributed to the growth in M2. Time and saving deposits increased by 2.7% from BD 4,829.7 million at end 2008 to BD 4,961.0 million at end 2009 and total private sector deposits increased by 5.8% to reach BD 6,796.3 million at end 2009.

**Table 3-1: Money Supply**

(BD Million)

(BD Million)							
End of Period	Currency Outside Banks 1	Deposits <sup>1/</sup>			M1 (1+2)	M2 (M1+3)	M3 (M2+4)
		Private Sector		General Government <sup>2/</sup> 4			
		Demand 2	Time and Savings 3				
2008	304.2	1,594.5	4,829.7	1,316.1	1,898.7	6,728.4	8,044.5
2009	323.0	1,835.3	4,961.0	1,284.9	2,158.3	7,119.3	8,404.2

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 2009, Bahraini dinar time deposits at retail banks grew the most, increasing by BD 366.4 million or by 16.1% to reach BD 2,637.9 million. BD demand and saving deposits followed, growing by 13.7% and 6.1% respectively (Table 3-2). Foreign currency saving and demand deposits increased by 82.0% and 19.2% respectively during 2009, while foreign currency time deposits decreased by 21.5% for the same period.

At the end of 2009, the broadest measure of money (M3), increased by BD 359.7 million or by 4.5% from BD 8,044.5 million at end 2008 to BD 8,404.2 million at end 2009. From the context of deposits, M3 includes general government deposits (with both the Central Bank of Bahrain and retail banks) which decreased by BD 31.2 million or 2.4% from BD 1,316.1 million in 2008 to BD 1,284.9 million in 2009.

**Table 3-2: Private Sector Deposits by Currency**

(BD Million)

<b>Deposit Type</b>	<b>2008</b>	<b>2009</b>	<b>Change (%)</b>
<b>Demand</b>			
BD	1,199.1	1,363.9	13.7
Foreign Currency	395.4	471.4	19.2
<b>Savings</b>			
BD	962.9	1,021.5	6.1
Foreign Currency	74.6	135.8	82.0
<b>Time</b>			
BD	2,271.5	2,637.9	16.1
Foreign Currency	1,427.9	1,120.9	-21.5
<b>CBB Liabilities to Non-Banks (BD and Foreign Currency)</b>	92.8	44.9	-51.6
<b>Total</b>	<b>6,424.2</b>	<b>6,796.3</b>	<b>5.8</b>
<b>As a Share of M2 (%)</b>	<b>95.5</b>	<b>95.5</b>	<b>0.0</b>

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 2009, domestic assets increased by BD 960.9 million or 17.9% to reach a total of BD 6,316.2 million. In contrast, net foreign assets decreased by BD 601.2 million or 22.4% to reach a total of BD 2,088.0 million (Table 3-3).

At the end of 2009, 75.2% of M3 was in the form of domestic assets and 24.8% in the form of net foreign assets. In terms of domestic assets, government claims, private sector claims, and other assets accounted for 15.6%, 73.3% and -13.7% of M3 respectively. Retail banks' net foreign assets account for 9.0% of M3.

**Table 3-3: Factors Affecting Domestic Liquidity**

(BD Million)

<b>Factor</b>	<b>End-2008</b>	<b>End-2009</b>	<b>Change (%)</b>
<b>Domestic Liquidity (M3)</b>	<b>8,044.5</b>	<b>8,404.2</b>	<b>4.5</b>
<b>Factors Affecting Liquidity</b>			
<b>Net Foreign Assets</b>	<b>2,689.2</b>	<b>2,088.0</b>	<b>-22.4</b>
a) CBB	1,433.9	1,331.1	-7.2
b) Retail Banks	1,255.3	756.9	-39.7
<b>Domestic Claims</b>	<b>5,355.3</b>	<b>6,316.2</b>	<b>17.9</b>
c) Claims on Government	691.1	1,310.9	89.7
d) Claims on Private Sector <sup>1/</sup>	6,207.8	6,161.3	-0.7
e) Other Assets (Net)	-1,543.6	-1,156.0	25.1

<sup>1/</sup> Includes Loans and Holdings of Securities

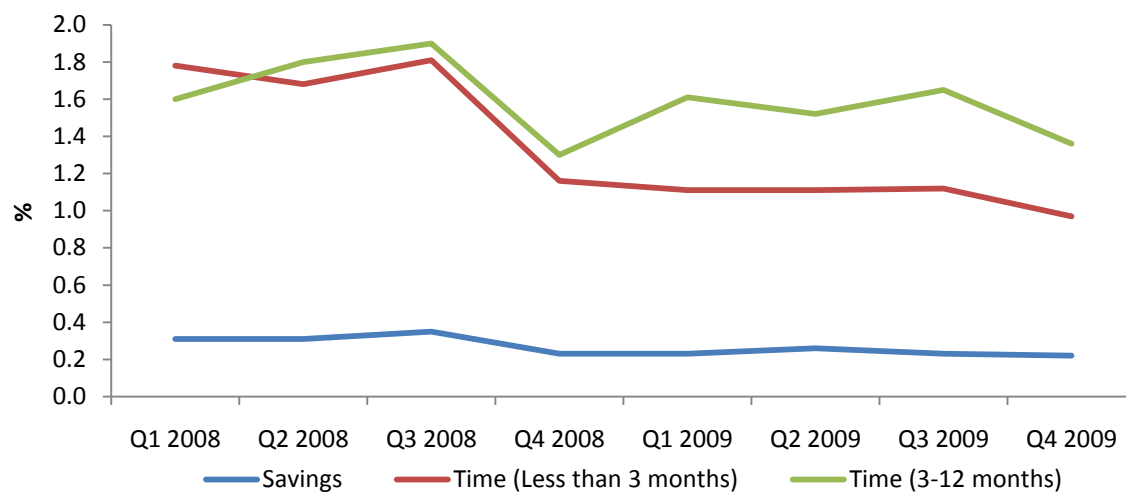
Source: Central Bank of Bahrain



## Domestic Interest Rates

Interest rates in Bahrain have mainly followed US interest rates due to the dinar-dollar peg. In terms of deposits, weighted average retail bank rates on long term time deposits (3-12 months) decreased from 1.61% at the start of 2009 to 1.36% by the end of the year; shorter term time deposits (less than 3 months) also decreased from 1.11% to 0.97% for the same period (Table 3-4). Rates on savings accounts decreased slightly, from 0.23% to 0.22%.

**Chart 3-2: Weighted Average Deposit Rates of Retail Banks**



Source: Central Bank of Bahrain

In general, deposit rates in Bahrain have been shown to be sensitive to US monetary policy. Time deposits of less than 3 months were higher at the end of 2008 and have subsequently reduced sharply during 2009.

**Table 3-4: Deposit Interest Rates**

Deposits	End-2008	2009 (% per annum)			
		Q1	Q2	Q3	Q4
Time <sup>1/</sup>					
a) <3 months	1.16	1.11	1.11	1.12	0.97
b) 3-12 months	1.29	1.61	1.52	1.65	1.36
Savings	0.23	0.23	0.26	0.23	0.22

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

Source: Central Bank of Bahrain

On the lending side, weighted average rates for total business loans decreased from 6.96% at the beginning of 2009 to 6.84% by year-end (Table 3-5). Rates for all sectors showed a mix trend and fluctuated around the quarters.

**Table 3-5: Interest Rates on Business Loans**

(% per annum)

Sector	End-2008	2009			
		Q1	Q2	Q3	Q4
Construction and real estate	8.60	6.74	7.11	6.38	6.40
Manufacturing	7.54	6.68	8.07	3.99	4.00
Trade	8.17	7.70	6.80	7.01	7.05
Other <sup>1/</sup>	6.72	6.73	6.07	7.10	7.12
<b>Total Business <sup>2/</sup></b>	<b>7.43</b>	<b>6.96</b>	<b>6.87</b>	<b>6.82</b>	<b>6.84</b>

<sup>1/</sup> Includes non-banks financial and other services<sup>2/</sup> Includes overdraft approvals

Source: Central Bank of Bahrain

Similarly, weighted average rates for total personal loans decreased from 7.89% to 7.70% for the same period (Table 3-6). This is due to decreases in rates for loans secured by mortgages and deposits. Loans secured by vehicle title increased for the period, as well as unsecured lending which experienced an increase in both salary assigned and other loans.

According to the data, personal loans secured by deposits were affected most by the interest rate reductions, as rates decreased from 6.83% at the beginning of 2009 to 4.19% by year-end. Rates on personal loans secured by mortgage also decreased from 8.33% to 7.78%.

**Table 3-6: Interest Rates on Personal Loans**

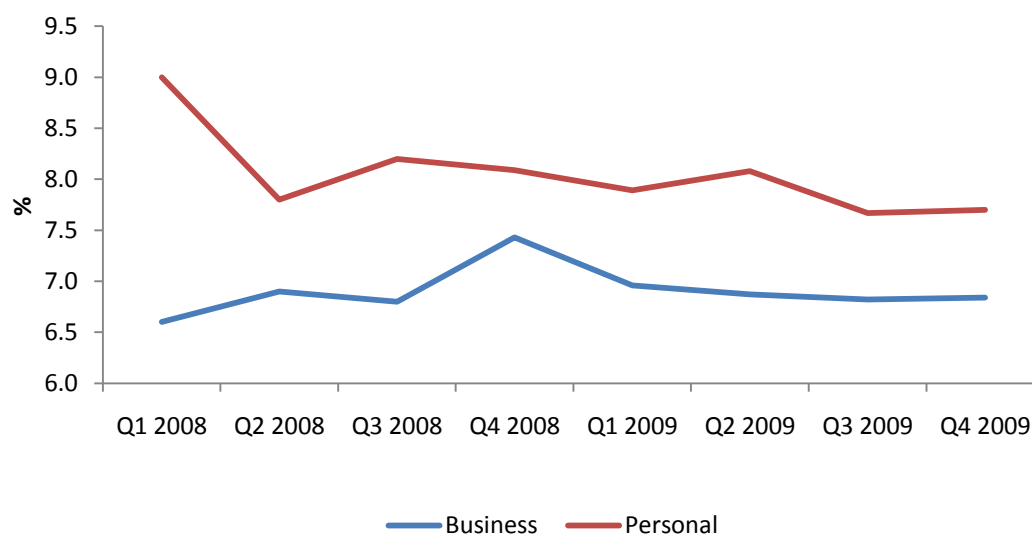
(% per annum)

Personal Lending Type	End-2008	2009			
		Q1	Q2	Q3	Q4
Secured by:					
by Mortgages	8.24	8.33	8.25	7.73	7.78
Vehicles Title	7.54	8.43	8.84	8.53	8.52
By Deposits	6.72	6.83	6.60	4.17	4.19
Unsecured:					
Salary Assignment	8.37	7.73	8.07	8.05	8.07
Other	20.51	10.02	16.89	17.03	17.01
<b>Total Personal <sup>1/</sup></b>	<b>8.09</b>	<b>7.89</b>	<b>8.08</b>	<b>7.67</b>	<b>7.70</b>
<b>Credit Cards</b>	<b>21.78</b>	<b>21.99</b>	<b>21.76</b>	<b>21.76</b>	<b>21.77</b>

<sup>1/</sup> Includes other types of personal loans not shown separately

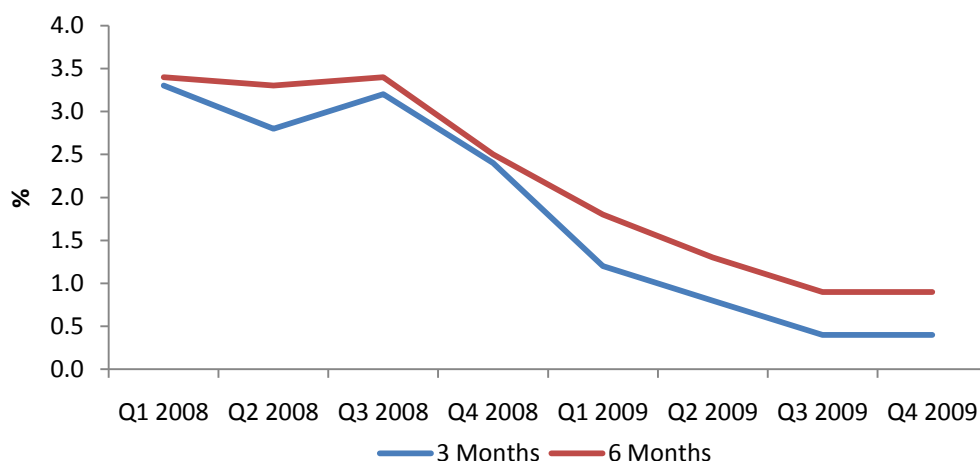
Source: Central Bank of Bahrain

Rates on loans secured by vehicle title increased from 8.43% to 8.52%. Lending rates against unsecured salary assignments increased from 7.73% to 8.07% with "other" forms of unsecured lending increased also from 10.02% to 17.01%.

**Chart 3-3: Personal and Business Interest Rates**

Source: Central Bank of Bahrain

Average interbank rates continued to decrease during the course of 2009 and are reflective of retail banks' demand for liquidity in Bahrain. The low rates are also a result of loose US monetary policy during 2009.

**Chart 3-4: Money Market Rate/Interbank Rate**

Source: Central Bank of Bahrain

Average short term interbank rates (3 month) fell from 1.2% in the first quarter of 2009 to 0.4% in the third quarter and remained at that level till the end of the year. Similarly, longer term interbank rates (6 month) also decreased from 1.8% to 0.9% in the third and fourth quarter (Chart 3-4).

## Exchange Rate Developments

During 2009, the Bahraini dinar appreciated against the Japanese yen and depreciated against all other major currencies (Pound Sterling, Euro, and Swiss Franc) (Table 3-7).

**Table 3-7: BD Exchange Rate against major currencies**

	End-2008	2009			
		Q1	Q2	Q3	Q4
Saudi Riyal	0.100	0.100	0.100	0.100	0.100
Kuwaiti dinar	1.363	1.291	1.308	1.312	1.311
UAE Dirham	0.102	0.102	0.102	0.102	0.102
Omani Riyal	0.977	0.977	0.977	0.977	0.977
Qatari Riyal	0.103	0.103	0.103	0.103	0.103
US dollar	0.376	0.376	0.376	0.376	0.376
Pound Sterling	0.543	0.538	0.625	0.603	0.604
Euro	0.530	0.499	0.530	0.550	0.540
Japanese Yen <sup>1/</sup>	4.160	3.820	3.940	4.200	4.070
Swiss Franc	0.355	0.328	0.348	0.364	0.363

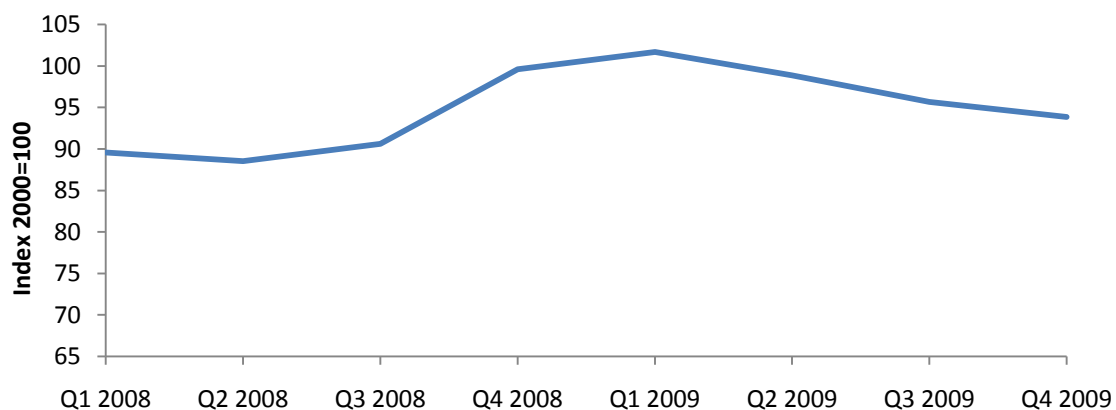
Interest rates as at the last working day of each period

1/ Per 1000 Units

Source: Central Bank of Bahrain

As a 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 2009, Bahrain's REER has decreased by 1.8 points (1.9%) compared to the previous quarter, and lower by 5.8 points (5.8%) compared to the fourth quarter of 2008 (Chart 3-5).

**Chart 3-5: Bahrain's Real Effective Exchange Rate (2000 = 100)**



Source: IMF: International Financial Statistics

Chapter

4

## 4. 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

In 2009, the financial crisis continued to affect the financial sector in Bahrain. There was a decrease in the number of financial institutions, the consolidated balance sheets of banks, and the credit facilities extended. However, the number of employees in the financial sector increased slightly in 2009 but it was a much smaller increase than that witnessed in 2008.

## Structure of the Bahrain Financial System

At the end of 2009, the financial sector remained the largest contributor to Bahrain's economy, accounting for 25.1% of real GDP. There were 410 banks and financial institutions operating in Bahrain in 2009 compared to 416 at end 2008 (Table 4-1). 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.

**Table 4-1: Total Number of Licenses (2008 vs. 2009)**

License Type	2008	2009
<b>Retail Banks</b>	<b>30</b>	<b>32</b>
<i>Islamic</i>	6	6
<i>Conventional</i>	24	26
<b>Wholesale Banks</b>	<b>84</b>	<b>78</b>
<i>Islamic</i>	20	21
<i>Conventional</i>	64	57
<b>Representative Offices</b>	<b>36</b>	<b>30</b>
<i>Islamic</i>	4	4
<i>Conventional</i>	32	26
<b>Money Changers</b>	<b>19</b>	<b>19</b>
<b>Financing Companies</b>	<b>5</b>	<b>9</b>
<b>Investment Business Firms</b>	<b>49</b>	<b>47</b>
<i>Microfinance Companies</i>	-	2
<b>Provider of Ancillary Services</b>	<b>14</b>	<b>13</b>
<b>Administrators</b>	<b>5</b>	<b>5</b>
<b>Trust Service Providers</b>	<b>3</b>	<b>3</b>
<b>Capital Market Brokers</b>	<b>7</b>	<b>6</b>
<b>Insurance Companies and Organisations</b>	<b>164</b>	<b>168</b>
<b>Total</b>	<b>416</b>	<b>410</b>

Source: Central Bank of Bahrain

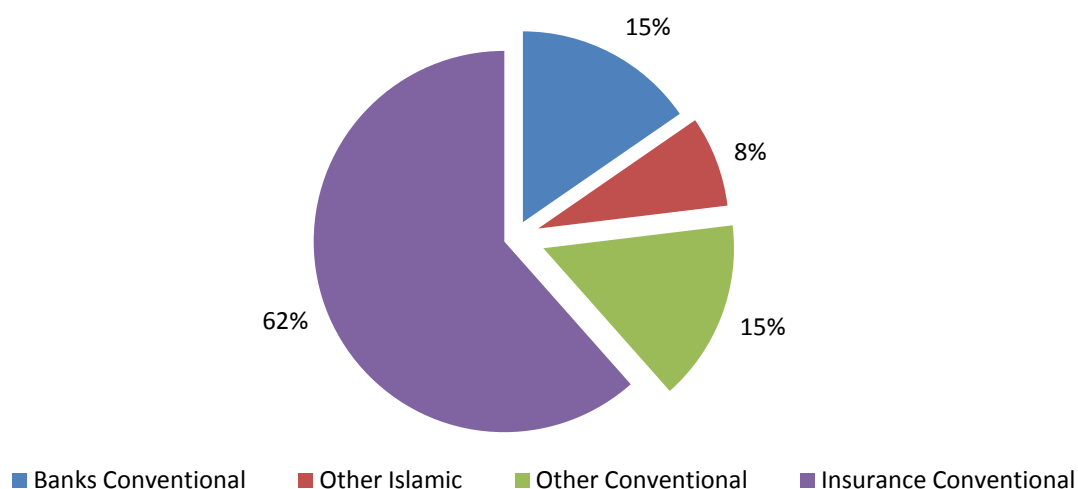
During 2009, the CBB issued a total of 13 new licenses compared to 45 in 2008 (Table 4-2), in spite of the current status of the market. In addition, the drop in total Wholesale Banks was due to reallocating some of them to either Financing Companies or Investment Business Firms.

**Table 4-2: New Licenses Issued (2008 vs. 2009)**

License Type	2008	2009
<b>Banks</b>	<b>3</b>	<b>2</b>
<i>Islamic</i>	1	0
<i>Conventional</i>	2	2
<b>Other Financial Institutions</b>	<b>29</b>	<b>3</b>
<i>Islamic</i>	8	1
<i>Conventional</i>	21	2
<b>Insurance Companies</b>	<b>13</b>	<b>8</b>
<i>Islamic</i>	4	-
<i>Conventional</i>	9	8
<b>Total</b>	<b>45</b>	<b>13</b>

Source: Central Bank of Bahrain

**Chart 4-1: New Licenses Issued, 2009**



Source: Central Bank of Bahrain

Licenses have mostly been granted to insurance companies as shown in the graph above (62%). However, there was also slight growth in the number of banks and other financial institutions. In 2009, the CBB introduced a new license category, "Microfinance Companies". Two financial institutions have been licensed to provide this service, one is conventional the other is based on Islamic principles.

## Consolidated Banking System

The consolidated balance sheet for the banking system (conventional and Islamic retail and wholesale banks) decreased in total to reach USD 221.8 billion by the end of 2009, compared to USD 252.4 billion at the end of 2008, a decrease of USD 30.6 billion, or 12.1% (Table 4-3). Wholesale banks represented 73.0% of the total, while retail banks accounted for 27.0%.

**Table 4-3: Consolidated Balance Sheet of the Banking System**

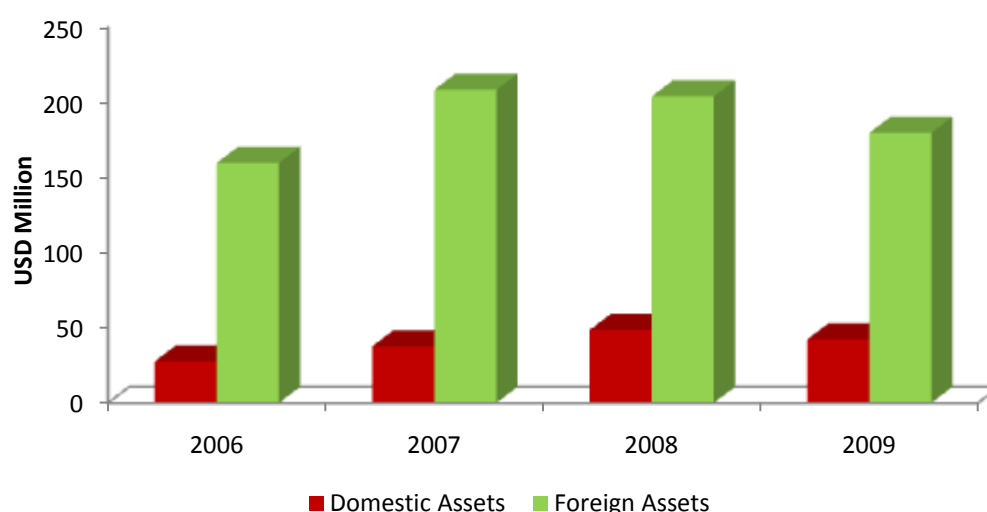
(USD Billion)

Items	Year-end		% Change
	2008	2009	
Retail Banks	63.5	59.8	-5.8
Wholesale Banks	188.9	162.0	-14.2
<b>Total</b>	<b>252.4</b>	<b>221.8</b>	<b>-12.1</b>

Source: Central Bank of Bahrain

In total, domestic banking assets amounted to USD 42.2 billion at the end of 2009 compared to USD 48.5 billion at the end of 2008, registering a decrease of USD 6.3 billion (13.0%). Foreign assets amounted to USD 179.6 billion at the end of 2009 compared to USD 203.9 billion at the end of 2008, a decrease of USD 24.3 billion (11.9%).

**Chart 4-2: Domestic and Foreign Assets of the Banking System**



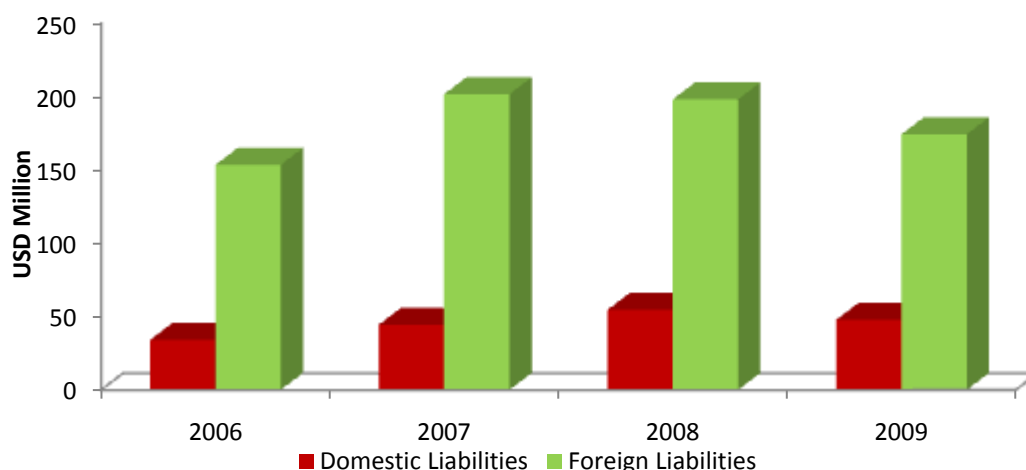
Source: Central Bank of Bahrain

Domestic liabilities dropped to USD 47.7 billion at the end of 2009 compared to USD 54.5 billion at the end of 2008, a decrease of USD 6.8 billion (12.5%).



Total foreign liabilities decreased at the end of 2009 by USD 23.8 billion (12.0%) to reach USD 174.1 billion against USD 197.9 billion at the end of 2008.

**Chart 4-3: Domestic and Foreign Liabilities of the Banking System**



Source: Central Bank of Bahrain

Geographically, the banking systems' balance sheet for 2009 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. Over the period 2007-2009, the GCC share of total assets increased from 32.5% to 33.7%. However, Europe's share of total assets decreased from 30.9% to 26.3% for the same period (Table 4-4). European assets experienced the largest decrease from 2007-2009 which may be due to banks reducing their exposure to Europe in response to the effects of the financial crisis. Assets in the Americas also decreased from 10.9% in 2007 to 9.2% in 2009.

**Table 4-4: Geographical Classification of the Banking System's Assets/Liabilities**

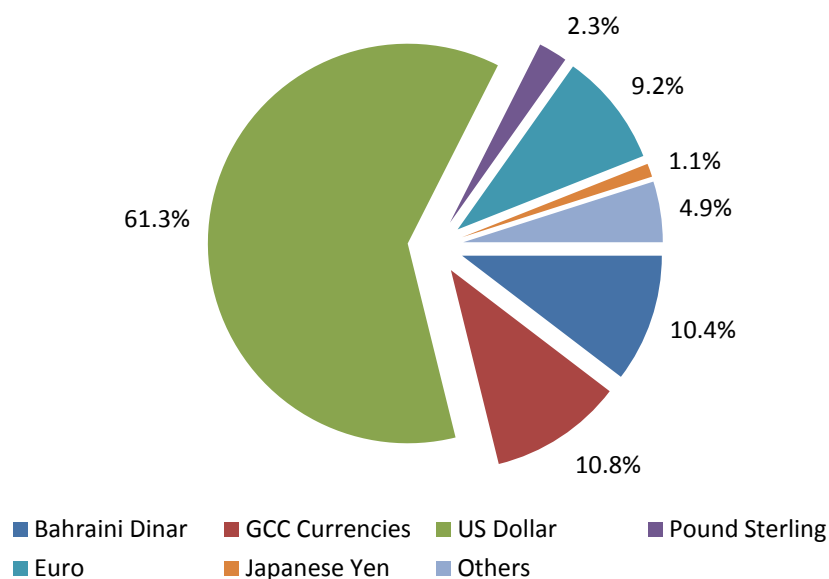
(USD Billion)

Items	Year					
	2007		2008		2009	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	37.5	44.4	48.5	54.5	42.2	47.7
GCC	80.0	67.4	87.2	67.2	74.7	58.0
Other Arab Countries	5.3	16.2	5.2	13.0	7.0	12.6
Americas	26.9	15.6	23.8	14.4	20.3	8.6
Western Europe	75.9	78.7	69.3	80.7	58.3	70.9
Asia	15.1	21.5	13.4	20.4	15.5	21.9
Other	5.1	2.0	5.0	2.2	3.8	2.1
<b>Total</b>	<b>245.8</b>	<b>245.8</b>	<b>252.4</b>	<b>252.4</b>	<b>221.8</b>	<b>221.8</b>

Source: Central Bank of Bahrain

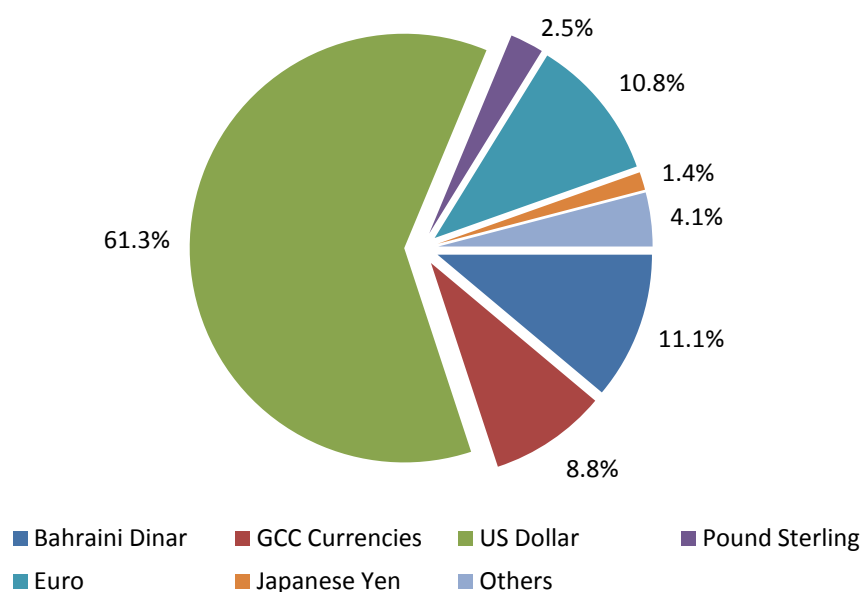
The trends for liabilities during 2007-2009 indicate that Europe at 32.0% accounts for the largest percentage of total liabilities. This is followed by the GCC and Bahrain which in 2009 account for 26.1% and 21.5% of total liabilities respectively.

In 2009, as in previous years, most assets are denominated in US dollars (61.3%). This is due to the fixed exchange rate regime, which adds to the certainty and predictability of banking business, and to the international status of the US dollar as a main trading currency. GCC currencies accounted for 10.8% of total assets followed closely by the Bahraini dinar which contributed 10.4% of total assets (Chart 4-4). The Euro accounted for 9.2% of total assets.

**Chart 4-4: Currency Structure of the Banking System's Assets, 2009**

Source: Central Bank of Bahrain

Similarly, the liabilities by currency are mostly of US dollar, accounting for 61.3% of total liabilities, down from 62.3% in 2008. This is followed by the Bahraini dinar and GCC currencies which accounted for 11.1% and 8.8% of total liabilities respectively (Chart 4-5). BD denominated liabilities were higher than assets, registering 11.1% of total liabilities compared to 10.4% of total assets.

**Chart 4-5: Currency Structure of the Banking System's Liabilities, 2009**

Source: Central Bank of Bahrain

## Retail Banks

The total assets of retail banks (including foreign assets) stood at BD 22,460.6 million as at end December 2009, a decrease of BD 1,412.3 million or 5.9% over 2008 (Table 4-5). This drop is due to a decrease in foreign assets, which declined by 9.3% from BD 12,738.5 million at end-2008 to BD 11,550.3 million at end-2009.

**Table 4-5: Consolidated Balance Sheet of Retail Banks - Assets**

(BD Million)

Items	2008	2009	% Change
<b>Total Domestic Assets</b>	<b>11,134.4</b>	<b>10,910.3</b>	<b>-2.0</b>
Cash	66.6	82.6	24.0
CBB	931.7	980.2	5.2
Banks <sup>1/</sup>	2,591.3	1,924.1	-25.7
Private Non-Banks <sup>2/</sup>	6,207.8	6,161.3	-0.7
General Government			
Loans	283.2	392.0	38.4
Securities	407.9	816.5	100.2
Other	645.9	553.6	-14.3
<b>Foreign Assets</b>	<b>12,738.5</b>	<b>11,550.3</b>	<b>-9.3</b>
<b>Total Assets</b>	<b>23,872.9</b>	<b>22,460.6</b>	<b>-5.9</b>

*1/ Includes Head Offices and Affiliates*

*2/ Loans and Holdings of Securities*

*Source: Central Bank of Bahrain*

Total domestic assets decreased from BD 11,134.4 million at end-2008 to BD 10,910.3 million at end-2009, a decrease of 2.0%. The major contributor to the decline in domestic assets was claims on banks, which decreased by BD 667.2 million from BD 2,591.3 million at end-2008 to BD 1,924.1 million at end-2009, a decrease of 25.7%.

At the end of 2009, total domestic liabilities stood at BD 11,667.2 million, 5.8% lower than the BD 12,389.7 million recorded in 2008 (Table 4-6). Total foreign liabilities (including capital and reserves) dropped by 6.0% from BD 11,483.2 million at end-2008 to BD 10,793.4 million at end-2009. Most of the reduction in domestic liabilities was in liabilities to banks which dropped by 42.9% amounting to BD 1,524.1 million at end-2009.

**Table 4-6: Consolidated Balance Sheet of Retail Banks - Liabilities**

(BD Million)

Items	2008	2009	% Change
<b>Total Domestic Liabilities</b>	<b>12,389.7</b>	<b>11,667.2</b>	<b>-5.8</b>
Central Bank of Bahrain	222.6	167.5	-24.8
Banks	2,669.8	1,524.1	-42.9
Private Non-Banks <sup>2/</sup>	6,343.3	6,777.5	6.8
General Government <sup>2/</sup>	1,329.4	1,286.1	-3.3
Other	403.9	249.5	-38.2
Capital & Reserves	1,420.7	1,662.5	17.0
<b>Foreign Liabilities <sup>1/</sup></b>	<b>11,483.2</b>	<b>10,793.4</b>	<b>-6.0</b>
<b>Total Liabilities</b>	<b>23,872.9</b>	<b>22,460.6</b>	<b>-5.9</b>

<sup>1/</sup> Includes Capital and Reserves.<sup>2/</sup> Includes some non-deposit (non-monetary) liabilities.

Source: Central Bank of Bahrain

## Wholesale Banks

The consolidated balance sheet for wholesale banks shrank in 2009. Aggregate data indicates that total wholesale bank assets decreased by 14.2% to reach USD 162.0 billion at the end of 2009, down from USD 188.9 billion at end of 2008 (Table 4-7). The decrease in total assets was mainly due to a decrease in total domestic assets, which decreased from USD 18.9 billion at end-2008 to USD 13.2 billion at end-2009 or by 30.3%. Claims on general government decreased by 34.1% from USD 526.6 million in 2008 to USD 346.9 million in 2009, as well as claims on banks by 25.1%.

**Table 4-7: Consolidated Balance Sheet of Wholesale Banks - Assets**

(USD Million)

Items	2008	2009	% Change
<b>Total Domestic Assets</b>	<b>18,879.3</b>	<b>13,163.2</b>	<b>-30.3</b>
Banks <sup>1/</sup>	10,370.0	7,768.6	-25.1
Private Non-Banks <sup>2/</sup>	3,524.7	3,686.3	4.6
General Government <sup>2/</sup>	526.6	346.9	-34.1
Other	4,458.0	1,361.4	-69.5
<b>Total Foreign Assets</b>	<b>169,983.3</b>	<b>148,878.9</b>	<b>-12.4</b>
Banks	18,281.1	13,700.9	-25.1
Non-Banks	70,096.1	63,199.8	-9.8
Securities	34,216.7	28,026.6	-18.1
H.O. & Affiliates	43,278.3	39,634.4	-8.4
Other	4,111.1	4,317.2	5.0
<b>Total Assets</b>	<b>188,862.6</b>	<b>162,042.1</b>	<b>-14.2</b>

<sup>1/</sup> Includes Head Offices and Affiliates<sup>2/</sup> Includes Securities

Source: Central Bank of Bahrain

Similarly, total foreign assets declined by 12.4% during the same period, from USD 170.0 billion in 2008 to USD 148.9 billion in 2009. The decrease was driven mainly by a drop in claims on banks, securities, and head office and affiliates by 25.1%, 18.1%, and 8.4% respectively

With regard to wholesale bank liabilities, most of the decrease during 2009 was from liabilities to domestic private non-banks and general government, which fell by 48.6% and 39.8% respectively (Table 4-8).

**Table 4-8: Consolidated Balance Sheet of Wholesale Banks-Liabilities**

(USD Million)

Items	2008	2009	% Change
<b>Total Domestic Liabilities</b>	<b>21,528.7</b>	<b>16,632.1</b>	<b>-22.7</b>
Banks <sup>1/</sup>	11,140.5	8,630.5	-22.5
Private Non-Banks	1,881.2	966.5	-48.6
General Government	406.8	244.8	-39.8
Other <sup>2/</sup>	8,100.2	6,790.3	-16.2
<b>Total Foreign Liabilities</b>	<b>167,333.9</b>	<b>145,410.0</b>	<b>-13.1</b>
Banks	49,843.1	41,896.6	-15.9
Non-Banks	25,779.6	25,224.6	-2.2
Securities	3,926.7	4,462.5	13.6
H.O. & Affiliates	74,297.6	60,207.9	-19.0
Other <sup>2/</sup>	13,486.9	13,618.4	1.0
<b>Total Liabilities</b>	<b>188,862.6</b>	<b>162,042.1</b>	<b>-14.2</b>

*1/ Includes Head Offices and Affiliates*

*2/ Includes Capital and Reserves*

*Source: Central Bank of Bahrain*

The largest component of foreign liabilities were in the head office and affiliates category, which reached USD 60.2 billion at the end of 2009 and decreased by 19.0%. This was followed by liabilities to banks, which reached USD 41.9 billion and decreased by 15.9%.

## 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.

Consolidated assets of Islamic banks (retail and wholesale banks) grew by 3.5% during 2009 with the overall growth being fuelled by foreign assets (Table 4-9).

**Table 4-9: Consolidated Balance Sheet of Islamic Banks - Assets**

(USD Million)

Items	2008	2009	% Change
<b>Total Domestic Assets</b>	<b>11,839.7</b>	<b>12,218.3</b>	<b>3.2</b>
Cash	37.1	58.2	56.9
Investment with Banks <sup>2/</sup>	3,578.5	4,123.3	15.2
Investment with Private Non-Banks	6,079.3	6,320.7	4.0
Investment with Government	332.9	318.2	-4.4
Other	1,811.9	1,397.9	-22.8
<b>Total Foreign Assets</b>	<b>12,812.5</b>	<b>13,301.2</b>	<b>3.8</b>
Investment with Banks	2,621.0	2,015.6	-23.1
Investment with Private Non-Banks	3,241.3	3,372.7	4.1
Securities	2,392.6	2,632.6	10.0
H.O. & Affiliates	4,463.9	5,080.2	13.8
Other	93.7	200.1	113.6
<b>Total Assets <sup>1/</sup></b>	<b>24,652.2</b>	<b>25,519.5</b>	<b>3.5</b>

*1/ Includes Unrestricted Investment Accounts**2/ Includes Head Offices and Affiliates**Source: Central Bank of Bahrain*

Foreign assets in head offices and affiliates increased, growing by 13.8%, from USD 4,463.9 million in 2008 to USD 5,080.2 million in 2009. Foreign securities also increased by 10.0% from USD 2,392.6 million to USD 2,632.6 million for the same period; 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 banks have been the major contributor, growing at 15.2% from USD 3,578.5 million in 2008 to USD 4,123.3 million in 2009. Investments with private non-banks also had an increase, growing by 4.0% to reach USD 6,320.7 million.

Unlike assets, liabilities are growing faster on the domestic side increasing by 10.0%, mostly led by increases in capital and reserves and private non-banks (Table 4-10). Capital and reserve liabilities grew by 38.1% from USD 3,065.6 million in 2008 to 4,233.2 million in 2009, while liabilities to private non-banks increased from USD 4,786.7 million in 2008 to 5,773.1 million in 2009, a growth of 20.6%.

Foreign liabilities dropped by a total of 3.3%, led predominantly by other liabilities, which decreased by 64.2% from USD 46.6 million in 2008 to 16.7 million in 2009. Liabilities to banks also decreased by 27.7% while head office and affiliates and capital and reserves increased by an outstanding 407.7% and 11.4% respectively.

**Table 4-10: Consolidated Balance Sheet of Islamic Banks – Liabilities**

(USD Million)

Items	2008	2009	% Change
<b>Total Domestic Liabilities</b>	<b>12,642.0</b>	<b>13,909.5</b>	<b>10.0</b>
Banks <sup>2/</sup>	3,591.3	3,173.7	-11.6
Private Non-Banks	4,786.7	5,773.1	20.6
General Government	802.2	461.1	-42.5
Capital and Reserves	3,065.6	4,233.2	38.1
Other	396.2	268.4	-32.3
<b>Total Foreign Liabilities</b>	<b>12,010.2</b>	<b>11,610.0</b>	<b>-3.3</b>
Banks	5,399.0	3,902.2	-27.7
Non-Banks	1,754.3	1,800.2	2.6
H.O. & Affiliates	134.2	681.3	407.7
Capital and Reserves	4,676.1	5,209.6	11.4
Other	46.6	16.7	-64.2
<b>Total Liabilities <sup>1/</sup></b>	<b>24,652.2</b>	<b>25,519.5</b>	<b>3.5</b>

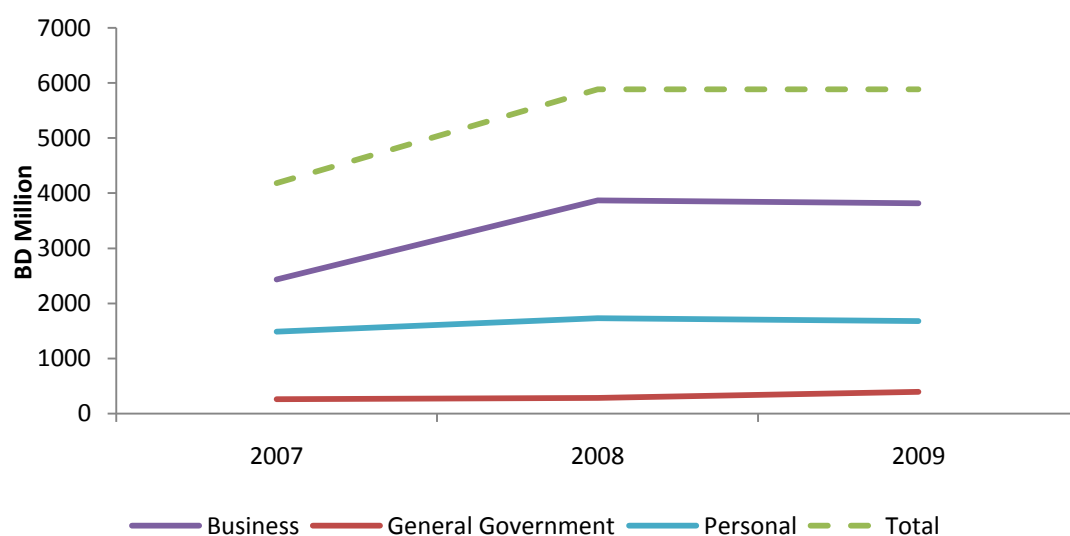
1/ Includes Unrestricted Investment Accounts

2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

## Domestic Credit

Credit facilities have been showing a very modest decrease 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 5,884.9 million at end-2009, a 0.05% decrease from the BD 5,887.6 million at end-2008 (Chart 4-6).

**Chart 4-6: Domestic Credit by Sectors**

Source: Central Bank of Bahrain



Total domestic credit increased by 40.7% by end-2008 and decreased by 0.05% at end-2009 with the highest decrease being a 1.8% decline in the third quarter. Private sector credit (business and personal) shows a similar pattern, with a yearly growth of 42.9% in 2008 followed by a decline of 2.0% in 2009, indicating that the lending to households and business enterprises has decreased.

Outstanding facilities to the business sector decreased by 1.4% from BD 3,870.5 million at end-2008 to BD 3,816.6 at end-2009. During 2009, business lending narrowed by 1.4% from BD 3,869.4 million in the first quarter of 2009 to BD 3,816.6 million in the last, concurrently decreasing its share of total domestic credit from 66.4% to 64.8%. Business credit showed a decrease of 3.1% during the third quarter of 2009.

In terms of composition, the private sector (business and personal combined) received the bulk of domestic credit, ranging from 95.2% to 93.3% of total loans from end-2008 to end-2009 (Table 4-11). 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 64.8% at end-2009, down from 65.7% in 2008 and up from 58.1% in 2007.

**Table 4-11: Domestic Credit by Sector**

(BD Million)

Sectors	End-2007		End-2008		End-2009	
	Value	% Share	Value	% Share	Value	% Share
Business	2,432.0	58.1	3,870.5	65.7	3,816.6	64.8
General Government	262.3	6.3	283.2	4.8	392.0	6.7
Personal	1,489.6	35.6	1,733.9	29.5	1,676.3	28.5
<b>Total</b>	<b>4,183.9</b>	<b>100.0</b>	<b>5,887.6</b>	<b>100.0</b>	<b>5,884.9</b>	<b>100.0</b>

Source: Central Bank of Bahrain

Outstanding credit facilities to the personal sector decreased by 3.3% from BD 1,733.9 million at end-2008 to BD 1,676.3 million at end-2009. Personal loans showed a 4.8% decrease in the first quarter of 2009. Personal loans share of total domestic credit stayed nearly the same at 28.5% during 2009.

Personal sector credit facilities accounted for 28.5% at end-2009, decreasing from 29.5% in 2008 and 35.6% in 2007. General government credit is typically low in comparison, accounting for 6.7% in 2009, higher than the 4.8% in 2008 and 6.3% in 2007.

Outstanding government credit increased by 8.0% to BD 283.2 million at end-2008, compared with BD 262.3 million at end-2007. By the end of 2009, lending to general government increased by 38.4%.

**Table 4-12: Business Loans by Sector**

(BD Million)

Sectors	2009*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Manufacturing	415.6	7.1	401.8	6.8	367.0	6.3	389.5	6.6
Mining & Quarrying	9.7	0.2	13.1	0.2	6.9	0.1	7.7	0.1
Agriculture, Fishing & Dairy	4.9	0.1	5.5	0.1	5.2	0.1	5.4	0.1
Construction & Real Estate	1,504.4	25.8	1,576.7	26.9	1,604.9	27.8	1,659.5	28.2
Trade	1,088.4	18.7	1,057.1	18.0	1,017.8	17.7	998.7	17.0
Non-Bank Financial	276.9	4.8	268.5	4.6	231.7	4.0	211.3	3.6
Other Sectors, of which:	569.5	9.8	537.3	9.2	507.2	8.8	544.5	9.2
Transport & Comm.	124.2	2.1	132.4	2.3	137.4	2.4	178.3	3.0
Hotels & Restaurants	67.4	1.2	72.1	1.2	72.8	1.3	65.2	1.1
<b>Total Business Loans</b>	<b>3,869.4</b>	<b>66.4</b>	<b>3,860.0</b>	<b>65.8</b>	<b>3,740.7</b>	<b>65.0</b>	<b>3,816.6</b>	<b>64.8</b>

\*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

In the fourth quarter of 2009, loans to the construction and real estate segment accounted for the largest share of business loans (43.5%), with the trade sector being in second place at 26.2%. Most of the drop in business loans in 2009 occurred in the manufacturing and trade sectors.

**Table 4-13: Personal Loans by Sector**

(BD Million)

	2009*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Secured by:								
Property Mortgage	326.7	5.6	342.9	5.9	349.0	6.1	360.3	6.1
Vehicle Title	127.4	2.2	129.8	2.2	149.5	2.6	138.3	2.4
Deposits	28.6	0.5	25.1	0.4	26.7	0.5	26.9	0.5
Salary Assignment	877.8	15.0	868.9	14.8	901.5	15.6	890.6	15.1
Credit Card Receivables	76.1	1.3	76.6	1.3	79.7	1.4	52.0	0.9
Other	214.5	3.7	219.8	3.8	190.1	3.3	208.2	3.5
<b>Total</b>	<b>1,651.1</b>	<b>28.4</b>	<b>1,663.1</b>	<b>28.4</b>	<b>1,696.5</b>	<b>29.5</b>	<b>1,676.3</b>	<b>28.5</b>

\*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

Salary assigned loans represented the largest proportion of personal loans throughout 2009, reaching highs of 53.1% in the third quarter of 2009 and at the end of the year. Salary assigned loans and those secured by property mortgage made up for 74.6% of all personal loans by the end of 2009.

## Credit Card Survey

The CBB conducted its semi-annual credit card survey in December 2009. The survey showed an increase in the total limits by 10.1% compared to 2008 with total limits reaching BD 281.0 million and an increase in total receivables outstanding by 12.5% (Table 4-14).

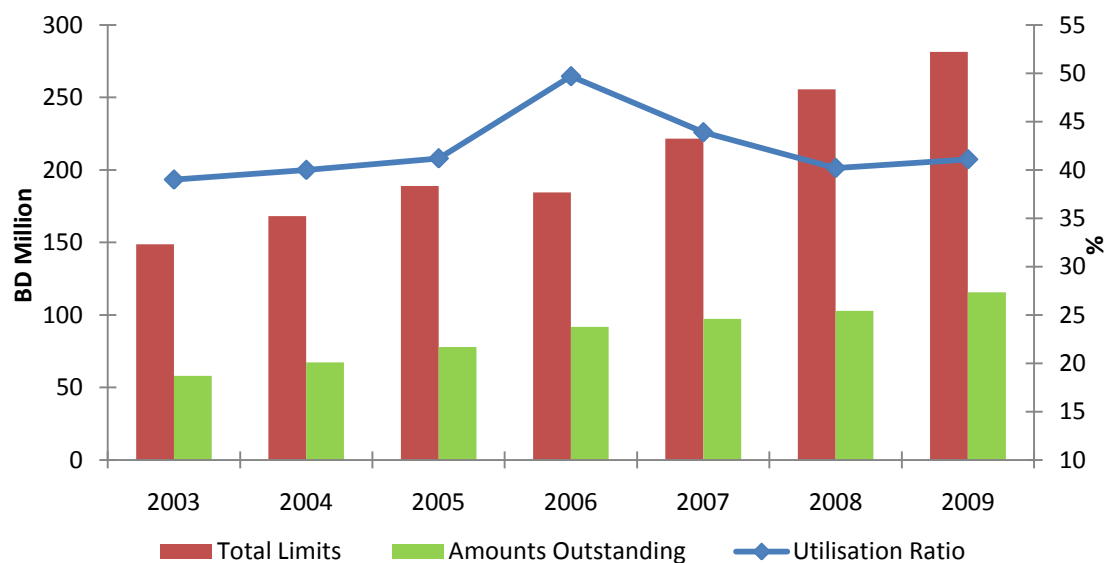
**Table 4-14: Credit Card Data**

	Dec. 2008	June 2009	Dec. 2009	Dec 2008- Dec 2009 % Change
<b>Total Limits (BD Million)</b>	255.6	280.4	281.4	10.1
<b>Total Outstanding (BD Million)</b>	102.8	105.9	115.7	12.5
of which: Delinquency Amounts	37.5	28.4	36.9	-1.6
Amount of Credit Card written-off	9.2	5.5	6.4	-30.4
<b>Interest Rates</b>	21.78	21.76	21.77	-0.05

Source: Central Bank of Bahrain

While total receivables outstanding increased, the delinquency and written off ratios decreased. The delinquency ratio (delinquency amounts as a percentage of total amounts outstanding) stood at 31.9% in 2009, down from 36.5% in 2008. The written off ratio (written off amounts as percentage of total outstanding) reached 5.5% in 2009, down from 8.9% in 2008. Alternatively, interest rates decreased slightly changed from 2008, dropping by a mere 0.05%.

Total amounts outstanding have continued to increase steadily from BD 58.0 million in 2003 to reach BD 115.7 million in 2009 (Chart 4-7). Total limits increased from BD 148.7 million in 2003 until BD 189.0 million 2005 thereafter falling to BD 184.6 million in 2006 and then continuing its annual increase to reach BD 281.4 million in 2009.

**Chart 4-7: Total Limits and Amounts Outstanding**

Source: Central Bank of Bahrain

The utilisation ratio, measured by dividing total outstanding by total limits, indicates how much of the created limits are used by cardholders. The utilization ratio for credit cards in Bahrain have been fluctuating around 42% from 2003-2009, reaching a high of 49.7% in 2006, in part due to the fall in total limits. The utilisation ratio in 2009 was 41.1%, up from 40.2% in 2008.

## Mutual Funds

The mutual funds industry in Bahrain has been affected by the repercussions of the financial crisis in line with the rest of the financial sector. Retail and wholesale banks, representative offices, investment business firms, and other institutions market their approved mutual funds to both individual and institutional investors.

The total amount of outstanding investments for all institutions decreased by 18.6%, from USD 10,726.5 million in 2008 to USD 8,733.4 million in 2009 (Table 4-15). Despite an increase in the number of mutual fund schemes from 2,617 to 2,711 during the same period, the decline in the value of mutual funds reflected the decline in the global value of securities.

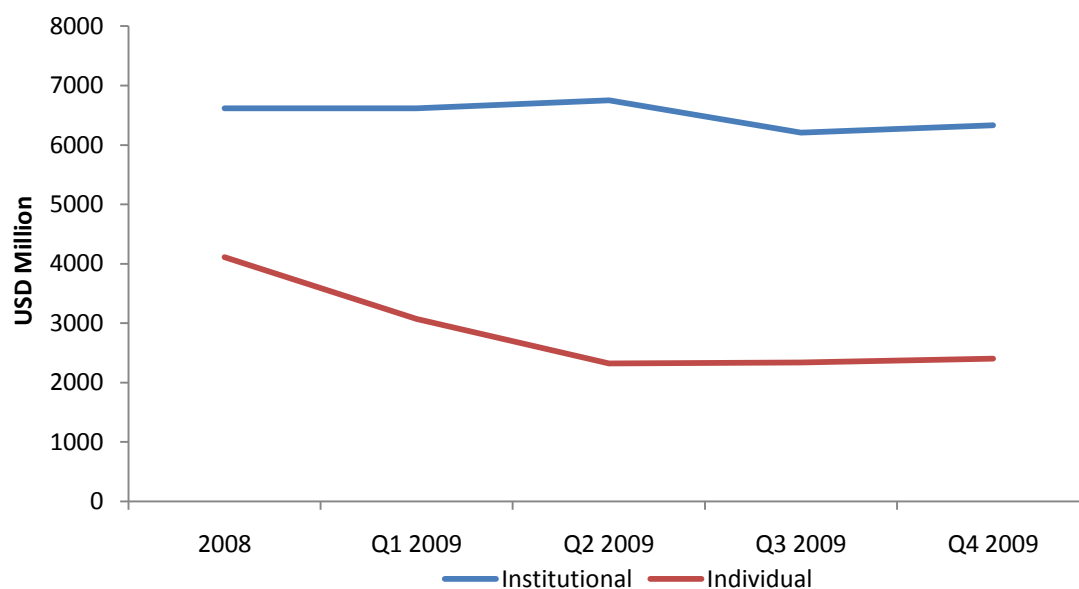
**Table 4-15: Mutual Funds – Total Outstanding Investments, 2009**

(USD Million)

Type of Institution	2008	2009			
		Q1	Q2	Q3	Q4
Retail Banks	1,694.8	2,835.8	2,476.2	1,975.4	2,425.0
Wholesale Banks	4,278.4	2,461.5	2,268.2	2,182.0	1,960.9
Investment Business Firms	1,118.6	1,055.2	955.5	949.6	933.0
Representative Offices	23.7	21.0	53.8	56.6	59.5
Foreign Licensed Banks and Financial Institutions	3,576.5	3,277.9	3,283.2	3,350.6	3,323.8
Insurance	34.5	34.0	34.0	34.5	31.1
<b>Grand Total</b>	<b>10,726.5</b>	<b>9,685.4</b>	<b>9,070.9</b>	<b>8,548.7</b>	<b>8,733.4</b>

Source: Central Bank of Bahrain

At the end of 2009, retail banks had USD 2,425.0 million outstanding in mutual funds investments, wholesale banks had USD 1,960.9 million outstanding, and other institutions (excluding retail and wholesale banks) had USD 4,347.5 million outstanding. The biggest year on year decreases were in the wholesale banks (54.2%) and investment business firms (16.6%) categories. On the other hand, retail banks and representative offices witnessed noticeable increases.

**Chart 4-8: Individual and Institutional Mutual Fund Investments**

Source: Central Bank of Bahrain

During 2009, mutual fund investments to both institutional and individual investors witnessed a significant drop (Chart 4-8). Amounts invested in by institutional investors decreased by 4.3% from USD 6,616.6 million in 2008 to

USD 6,331.6 million in 2009. Relative to institutional investors, individual investments have been on a downward path since the beginning of the year. During 2009, individual investments in mutual funds fell by 41.6%, from USD 4,109.9 million in 2008 to USD 2,401.7 million in 2009.

## Manpower Survey

The CBB annual manpower survey showed a slight increase in the number of employees in the financial sector (banks and non-banks) of 1.5% compared with the 14.2% increase in 2008 (Table 4-16). Total employment in banks (retail banks, wholesale banks and representative offices only) reached 8,946 at the end of 2009, compared to 9,582 at the end of 2008, indicating a decrease of 6.6%. Bahrainis represented 72.8% of the work force in the banking sector compared with 72.2% in 2008.

**Table 4-16: Number of Employees in the Financial Sector**

Sectors	2008			2009			% Change
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total	
<b>Banks</b>	<b>6,916</b>	<b>2,666</b>	<b>9,582</b>	<b>6,509</b>	<b>2,437</b>	<b>8,946</b>	<b>-6.6</b>
Retail Banks	4,294	1,048	5,342	4,314	1,009	5,323	-0.4
Wholesale Banks	2,546	1,536	4,082	2,127	1,354	3,481	-14.7
Representative Offices	76	82	158	68	74	142	-10.1
<b>Non-Banks</b>	<b>1,966</b>	<b>1,924</b>	<b>3,890</b>	<b>2,391</b>	<b>2,330</b>	<b>4,721</b>	<b>21.4</b>
Insurance Companies	854	524	1,378	934	590	1,524	10.6
Insurance Related Activities Companies	208	344	552	203	333	536	-2.9
Money Changers	238	567	805	243	728	971	20.6
Stock Brokers	33	7	40	30	7	37	-7.5
Financing Companies	203	12	215	490	114	604	180.9
Investment Business Firms	207	249	456	218	279	497	9.0
Other *	223	221	444	273	279	552	24.3
<b>Other Institutions</b>	<b>401</b>	<b>49</b>	<b>450</b>	<b>413</b>	<b>57</b>	<b>470</b>	<b>4.4</b>
<b>Total</b>	<b>9,283</b>	<b>4,639</b>	<b>13,922</b>	<b>9,313</b>	<b>4,824</b>	<b>14,137</b>	<b>1.5</b>

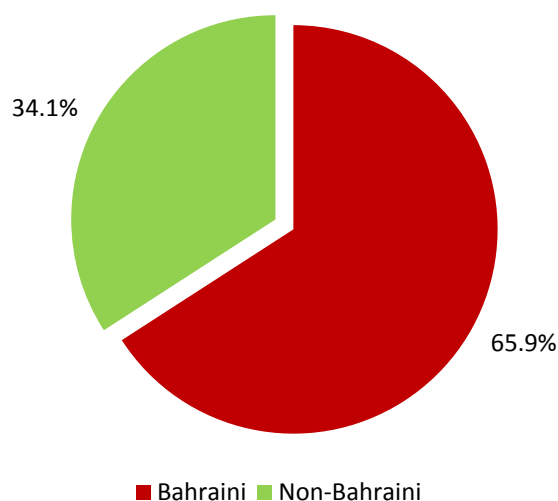
\* Includes provider of Ancillary Services, Trust Service Providers and Registered Administrators

Source: Central Bank of Bahrain

Bahraini employment in the financial sector increased by 0.3% while non-Bahraini employment increased by 4.0%. Even though there was an increase

in Bahraini employment in 2009, Bahrainis represented 65.9% of the total number of employees, indicating a decrease from the 66.7% share in 2008 (Chart- 4-9).

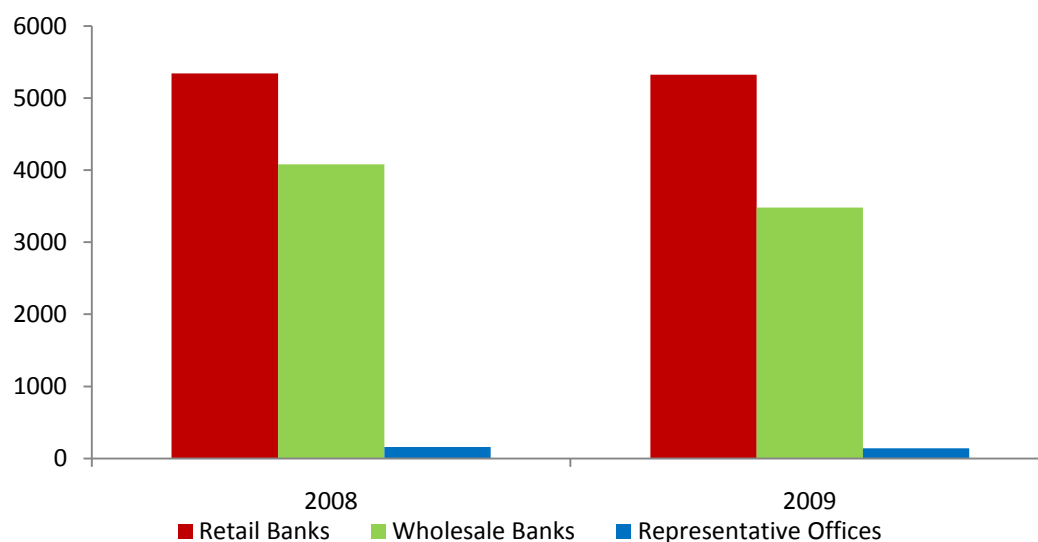
**Chart 4-9: Bahraini and Non-Bahraini Employment in the Financial Sector, 2009**



Source: Central Bank of Bahrain

In 2009, the majority of the employees in the financial sector (banks and non-banks) were also Bahraini at 65.9%. This is slightly down from 2008 where Bahrainis contributed 66.7% of total employment in the financial sector.

**Chart 4-10: Employment in the Banking Sector**



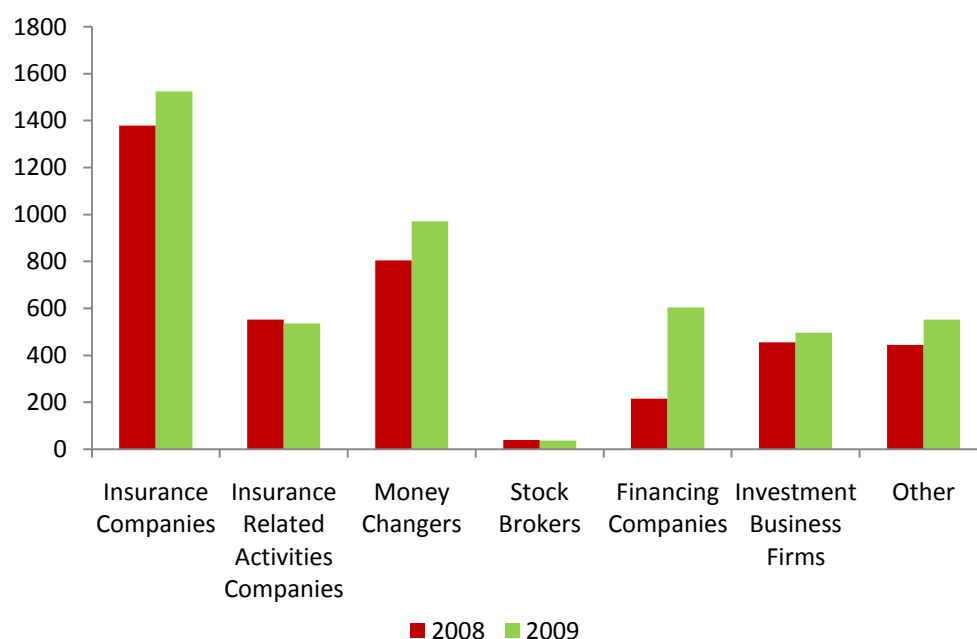
Source: Central Bank of Bahrain

The chart above (Chart 4-10) breaks down the banking sector into retail banks, wholesale banks, and representative offices. Wholesale banks and representative offices had double digit decreases in employment in 2009, 14.7% and 10.1% respectively, while retail banks had a moderate decrease.

Total employment in the non-bank financial sector reached 4,721 at end-2009, compared with 3,890 at end-2008, an increase of 21.4%. Bahrainis accounted for 50.6% of the total in the non-bank financial sector.

The biggest increases in employment in the non-banking sector were in financing companies and money changers which grew in 2009 by 180.9% and 20.6% respectively (Chart 4-11). The increases were mainly non-Bahrainis, where the number of non-Bahrainis grew tenth-fold for financing companies and by 28.4% for money changers

**Chart 4-11: Employment in the Non-Banking Sector**



Source: Central Bank of Bahrain.



Chapter

5

## 5. Public Finance

*Overview*

*Revenues*

*Expenditure*

*Issuance of Public Debt Instruments*

## Overview

Although the Bahrain economy has diversified away from oil, oil revenues continue to play a significant role in the governments' fiscal balance. Oil prices reached low levels during the year 2009, and as a result, government revenues decreased by 36.2% to reach BD 1,708.2 million compared to BD 2,677.6 million at the end of 2008. Government expenditure only marginally increased by 1.1% to reach BD 2,082.2 million during the same period, up from BD 2,060.3 million in 2008.

As a result of these developments, Bahrain recorded a fiscal deficit before rollover of BD 446.0 million (Table 5-1). However, despite GDP recording a decline of 6.0%, the fiscal deficit as a percentage of GDP amounted to 5.8% before rollover and 9.4% after rollover.

**Table 5-1: Summary of Public Finance**

	(BD Million)				
	2005	2006	2007	2008	2009*
<b>Revenues</b>	<b>1,671.4</b>	<b>1,839.6</b>	<b>2,036.7</b>	<b>2,677.6</b>	<b>1,708.2</b>
Oil & Gas	1,265.3	1,416.7	1,630.5	2,284.5	1,417.8
Non-Oil	406.1	422.9	406.2	393.1	290.4
Grants	39.7	28.2	35.9	29.4	28.4
<b>Expenditure</b>	<b>1,289.2</b>	<b>1,558.5</b>	<b>1,818.1</b>	<b>2,060.3</b>	<b>2,082.2</b>
Current	1,024.2	1,101.3	1,331.1	1,552.0	1,692.3
Project	265.0	457.2	487.0	508.3	389.9
<b>Strategic Projects</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>70.0</b>	<b>72.0</b>
<b>Surplus/Deficit Before Rollover</b>	<b>382.2</b>	<b>281.1</b>	<b>218.6</b>	<b>547.3</b>	<b>(446.0)</b>
<b>As a % of GDP</b>	<b>7.6</b>	<b>4.7</b>	<b>3.1</b>	<b>6.6</b>	<b>5.8</b>
<b>Rollover for the Period</b>					
Project	114.7	135.8	171.9	150.0	206.9
Current	10.2	3.7	3.8	25.2	72.6
<b>Total Rollover</b>	<b>124.9</b>	<b>139.5</b>	<b>175.7</b>	<b>175.2</b>	<b>279.5</b>
<b>Net Surplus/Deficit After Rollover</b>	<b>257.3</b>	<b>141.6</b>	<b>42.9</b>	<b>372.1</b>	<b>(725.5)</b>
<b>As a % of GDP</b>	<b>5.1</b>	<b>2.4</b>	<b>0.6</b>	<b>4.5</b>	<b>(9.4)</b>

\* Provisional data

Source: Ministry of Finance

## Revenues

Total revenue decreased in 2009 by 36.2% to reach BD 1,708.2 million (Table 5-2). Fines, penalties, and miscellaneous items increased the most by 95.9% followed by Sales of Capital Assets (12.5%). On the other hand, the biggest decline was in Governments goods and services (67.4%). Compared to 2008, oil & gas revenue decreased by 37.9%.

**Table 5-2: Government Revenue**

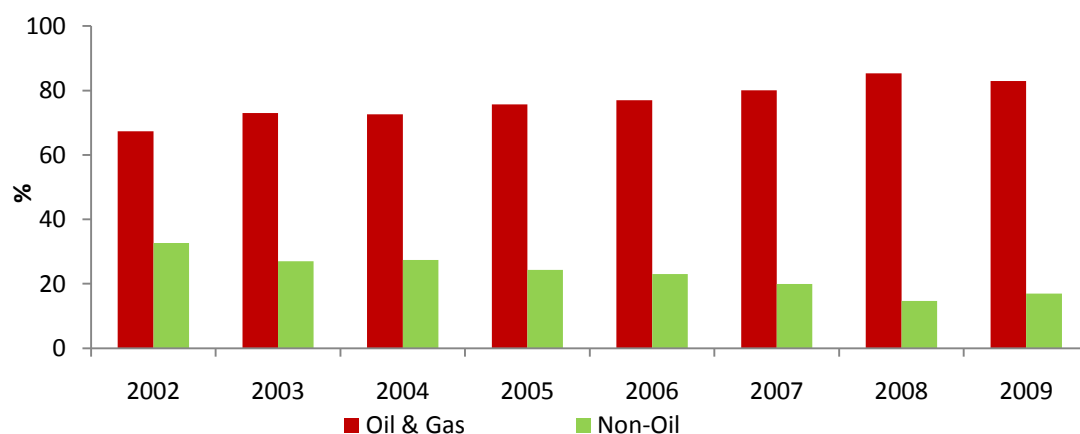
(BD Million)

Items	2008	2009	Change (%)
Oil & Gas	2,284.5	1,417.8	-37.9
Taxation & Fees	183.0	159.3	-13.0
Government Goods & Services	137.3	44.8	-67.4
Investments & Government Properties	25.6	23.9	-6.6
Grants	29.5	28.4	-3.7
Sale of Capital Assets	0.8	0.9	12.5
Fines, Penalties & Misc.	16.9	33.1	95.9
<b>Total Revenue</b>	<b>2,677.6</b>	<b>1,708.2</b>	<b>-36.2</b>

Source: Ministry of Finance

Oil and gas revenues amounted to BD 1,417.8 million (83.0% of total revenues) in 2009 compared with BD 2,284.5 million (85.3% of total revenues) in 2008 (Chart 5-1). These numbers indicate that the contribution of oil to total revenues decreased compared to last year. Notwithstanding ongoing efforts to diversify sources of revenue, oil and gas remains the largest contributor to total revenue. There is however a positive outlook for the future of government revenues, with oil prices expected to rise in 2010.

**Chart 5-1: Oil and Non-Oil Revenues as a % of Total Revenues**



Source: Ministry of Finance

## Expenditure

Total expenditures increased by 1.1% in 2009 to reach BD 2,082.2 million. Total current expenditure amounted to BD 1,692.2 million. The fastest growing component of current expenditure was transfers, which grew by 108.7%. This was followed by services, assets, maintenance, and manpower which increased by 13.3%, 9.3%, 7.0%, and 1.4% respectively (Table 5-3). Consumables was the biggest decline in total expenditures, falling by 55.8%, followed by grants and subsidies (-14.9%).

As for project expenditure, it amounted to BD 389.9 million.

**Table 5-3: Government Current Expenditure (2008 vs. 2009)**

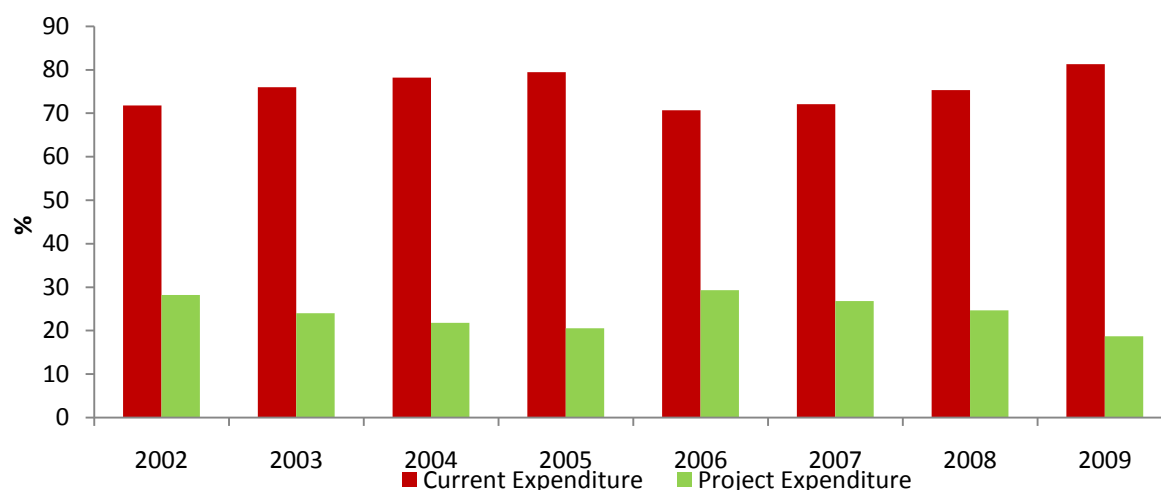
(BD Million)

Items	2008	2009	Change (%)
Manpower	822.1	833.9	1.4
Services	114.5	129.7	13.3
Consumables	177.0	78.2	-55.8
Assets	19.3	21.1	9.3
Maintenance	44.3	47.4	7.0
Transfers	212.8	444.1	108.7
Grants and Subsidies	162.0	137.8	-14.9
<b>Total Current Expenditure</b>	<b>1,552.0</b>	<b>1,692.2</b>	<b>9.0</b>

Source: Ministry of Finance

Expenditure data for 2009 shows that most of government spending was in the form of current expenditure, which constituted 81.2% of total expenditure, up from 75.3% in 2008.

**Chart 5-2: Current and Project Expenditure as a % of Total Expenditure**



Source: Ministry of Finance

## Issuance of Public Debt Instruments

The size of Bahrain's public debt (securities only) has increased during the year 2009. Total debt outstanding at the end of 2009 amounted to BD 1,348.0 million, 91.2% higher than the level at the end of 2008 and accounted for 17.4% of GDP (Table 5-4).

**Table 5-4: Summary of Public Debt Instruments**

(BD Million)

	2008	2009			
		Q1	Q2	Q3	Q4
<b>Total Outstanding</b>	<b>705.0</b>	<b>820.0</b>	<b>1,038.0</b>	<b>1,203.0</b>	<b>1,348.0</b>
<b>% of GDP</b>	<b>8.6</b>	<b>10.6</b>	<b>13.4</b>	<b>15.5</b>	<b>17.4</b>
<b>Development Bonds</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>55.0</b>
<b>Treasury Bills</b>	<b>180.0</b>	<b>295.0</b>	<b>325.0</b>	<b>325.0</b>	<b>415.0</b>
<b>Islamic Leasing Securities</b>	<b>507.0</b>	<b>507.0</b>	<b>695.0</b>	<b>860.0</b>	<b>860.0</b>
<b>Al Salam Islamic Securities</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>

Source: Central Bank of Bahrain

The range of conventional instruments includes three month (91 day) treasury bills which are issued on a weekly basis, six month (182 day) treasury bills, which are issued on a monthly basis and development bonds, which are issued when required. The total outstanding amount for T-bills (short and long term) as of December 31, 2009 was BD 415.0 million which is a 130.6% growth from the outstanding balance as of the same time the previous year (Table 5-5). During 2009, new T-bill issues amounted to BD 1,165.0 million as BD 930.0 million matured, leaving an outstanding balance of BD 470.0 million.

**Table 5-5: Summary of Conventional Public Debt Instruments**

(BD Million)

End of Period	Development Bonds 1/			Treasury Bills 2/			Outstanding Balance
	Matured	New Issue	Balance	Matured	New Issue	Balance	
<b>2007</b>	0.0	0.0	0.0	367.0	295.0	90.0	90.0
<b>2008</b>	0.0	0.0	0.0	498.0	588.0	180.0	180.0
<b>2009</b>	0.0	0.0	55.0	930.0	1,165.0	415.0	470.0

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, 2009 was BD 878.0 million, a 67.2% increase from the BD 525.0 million as of December 31, 2008 (Table 5-6). Islamic securities are comprised of Islamic Leasing (Ijara) Securities, which are short term and can be denominated in either US dollar or Bahrain dinar, and Al Salam Islamic Securities, which are long term and dinar denominated.

Newly issued Islamic Leasing Securities amounted to BD 507.0 million while BD 154.0 million matured in 2009, leaving a balance of BD 860.0 million outstanding. The balance on Al Salam Islamic Securities remained unchanged at BD 18.0 million as an equivalent amount of matured securities were issued (BD 72.0 million) during the year.

**Table 5-6: Summary of Islamic Public 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	
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
2009	154.0	507.0	860.0	72.0	72.0	18.0	878.0

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

6

## 6. Foreign Trade and Balance of Payments

*Overview*

*Current Account*

*Capital and Financial Account*

*International Investment Position (IIP)*

## Overview

Bahrain, as a free market economy with no trade and capital restrictions, is one of the major trade hubs in the region. Bahrain's location, as well as a strong transport and communications infrastructure has helped boost Bahrain's international trade and capital movements.

Therefore, 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.

## Current Account

As a result of the global financial crisis, and the decline in oil prices, the current account surplus narrowed from BD 848.6 million in 2008 (11.0% of GDP) to BD 210.6 million in 2009 (2.7% of GDP) (Table 6-1). There was also a decrease in the goods surplus by BD 303.1 million. Net services receipts increased by BD 75.9 million in 2009 mainly due to an increase in net transportation services by BD 69.4 million. As a result of its significant oil exports, Bahrain has been a net exporter in each of the last four years, ending 2009.

Net income payments increased significantly by 159.8% from BD 347.3 million in 2008 to BD 902.3 million in 2009. On the other hand, net current transfers abroad decreased by 21.6% from BD 667.2 million in 2008 to BD 523.0 million in 2009.



Table 6-1: Balance of Payments\*

Items	BD Million		
	2007	2008	2009
<b>1. Current Account (a+b+c+d)</b>	<b>1,092.9</b>	<b>848.6</b>	<b>210.6</b>
<b>a. Goods</b>	<b>1,077.1</b>	<b>1,220.1</b>	<b>917.0</b>
<b>General Merchandise</b>	<b>1,018.2</b>	<b>1,154.1</b>	<b>850.0</b>
Exports (fob)	5,126.2	6,510.7	4,464.5
- Oil	4,059.3	5,184.6	3,351.5
- Non-Oil	1,066.9	1,326.1	1,113.0
Imports (fob)	-4,108.0	-5,356.6	-3,614.5
- Oil	-2,204.9	-2,708.8	-1,637.2
- Non-Oil	-1,903.1	-2,647.8	-1,977.3
Repairs on goods	58.9	66.0	67.0
<b>b. Services (net)</b>	<b>685.6</b>	<b>643.0</b>	<b>718.9</b>
- Transportation	19.1	-54.2	1,373.5
- Travel	235.5	249.2	-654.6
- Communication Services	241.7	250.1	15.2
- Financial Services (Including Insurance)	175.7	183.0	267.1
- Other Business Services	13.6	14.9	263.2
<b>c. Income (net)</b>	<b>-112.3</b>	<b>-347.3</b>	<b>-902.3</b>
Investment Income	-112.3	-347.3	-902.3
- Direct Investment Income	-447.5	-479.0	-110.8
- Portfolio Income	772.4	408.7	6.0
- Other Investment Income	-437.2	-277.0	-797.5
<b>d. Current Transfers (net)</b>	<b>-557.5</b>	<b>-667.2</b>	<b>-523.0</b>
- Workers' Remittances	-557.5	-667.2	-523.0
<b>2. Capital and Financial Account (net) (a+b)</b>	<b>-1,096.7</b>	<b>-837.2</b>	<b>-185.9</b>
<b>a. Capital Account (net)</b>	<b>18.8</b>	<b>18.8</b>	<b>18.8</b>
- Capital Transfers	18.8	18.8	18.8
<b>b. Financial Account (1+2+3+4)<sup>1/</sup></b>	<b>-1,115.5</b>	<b>-856.0</b>	<b>-204.7</b>
<b>1. Direct Investment</b>	<b>32.8</b>	<b>65.2</b>	<b>770.3</b>
- Abroad	-627.6	-609.3	673.6
- In Bahrain	660.4	674.5	96.7
<b>2. Portfolio Investment (net)</b>	<b>-3218.5</b>	<b>3,488.1</b>	<b>3,111.6</b>
- Assets	-3,718.7	2,363.8	2,523.0
- Liabilities	500.2	1,124.3	588.6
<b>3. Other Investment (net)</b>	<b>2,602.1</b>	<b>-4,519.9</b>	<b>-4,131.3</b>
- Assets	-14,477.8	-1,227.5	6,814.5
- Liabilities	17,079.9	-3,292.4	-10,945.8
<b>4. Reserve Assets (net)</b>	<b>-531.9</b>	<b>110.6</b>	<b>44.7</b>
<b>3. Errors and Omissions</b>	<b>3.8</b>	<b>-11.4</b>	<b>-24.7</b>

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

\* Provisional Data

Source: Central Bank of Bahrain

### Trade Balance

Due to a reduction in international demand and a decline in oil prices, the overall level of trade in Bahrain witnessed a decline. Import expenses have shrunk due to a cooling of international commodity prices while the price of oil mainly reduced the volume of export receipts.

As a result, the trade surplus contracted to BD 850.0 million in 2009 (Table 6-2), down from a surplus of BD 1,154.1 million in 2008. The oil trade surplus decreased to BD 1,714.3 million in 2009 from 2,475.8 million in 2008. The non-oil trade balance was in deficit, but this deficit narrowed from BD 1,321.7 million in 2008 to BD 864.3 million in 2009.

Bahrain's trade composition shows that oil is a significant contributor, although the trend in imports suggests a move away from oil. Oil exports accounted for 75.1% of total exports, down from 79.6% of total exports in 2008. In terms of imports, oil imports accounted for 45.3% of total imports in 2009, a decline from the 50.6% ratio in 2008. As a result, the share of non-oil exports and imports increased, accounting for 24.9% and 54.7% of total exports and imports respectively for the year end 2009.

**Table 6-2: Foreign Trade\***

(BD Million)

Main Groups	2008	2009	% Change	Relative Share 2009 (%)
<b>Total Exports</b>	<b>6,510.7</b>	<b>4,464.5</b>	<b>-31.4</b>	<b>100.0</b>
Oil Exports	5,184.6	3,351.5	-35.4	75.1
Non-Oil Exports	1,326.1	1,113.0	-16.1	24.9
<b>Total Imports</b>	<b>5,356.6</b>	<b>3,614.5</b>	<b>-32.5</b>	<b>100.0</b>
Oil Imports	2,708.8	1,637.2	-39.6	45.3
Non-Oil Imports	2,647.8	1,977.3	-25.3	54.7
<b>Trade Balance</b>	<b>1,154.1</b>	<b>850.0</b>	<b>-26.3</b>	<b>-</b>

\* 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 185.9 million in 2009, compared with an outflow of BD 837.2 million in 2008. 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 2009, unchanged from 2008, while the financial account registered a net outflow of BD 204.7 million in 2009 compared to BD 856.0 million in 2008.

Direct investment abroad reversed to become an inflow, reflecting tight business conditions and repatriation of capital from the rest of the world. During 2009, direct investment abroad and in Bahrain showed net inflows of BD 673.6 million and BD 96.7 million respectively.

Bahraini portfolio investments showed a net inflow of BD 3,111.6 million in 2009 compared to a BD 3,488.1 million net inflow recorded in 2008. The other investments category showed a net outflow of BD 4,131.3 million. The net reserve assets registered a deficit of BD 44.7 million in 2009 lower from the deficit of BD 110.6 million recorded in 2008.

### International Investment Position (IIP)

Bahrain's net international investment position rose from BD 5,813.6 million at the end of 2008 to BD 6,028.8 million in 2009 (a 3.7% increase) (Table 6-3). Foreign assets fell by 12.3% from BD 81,600.4 million at end-2008 to BD 71,524.7 million in 2009 as a result of the decrease in other investment assets by 11.6%.

Similarly, foreign liabilities decreased from BD 75,786.8 million in 2008 to BD 65,495.9 million in 2009 or by 13.6% due to the decrease in other investment liabilities by 16.6%.

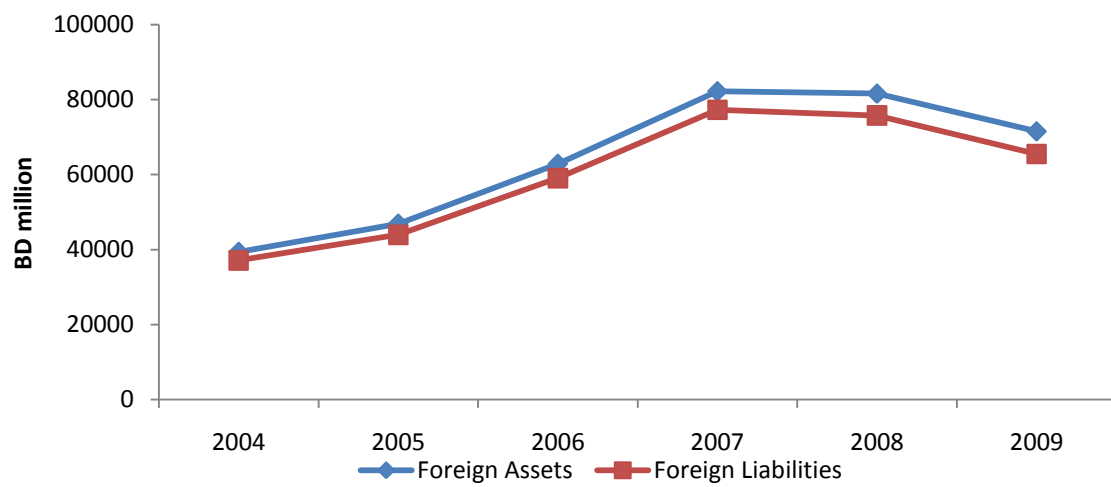
**Table 6-3: International Investment Position (IIP) \*\***

(BD Million)			
Items	2007	2008	2009
<b>IIP, net</b>	<b>4,949.4</b>	<b>5,813.6</b>	<b>6,028.8</b>
<b>Foreign Assets</b>	<b>82,234.5</b>	<b>81,600.4</b>	<b>71,524.7</b>
Direct Investment Abroad	2,902.6	3,511.9	2,838.3
Portfolio Investment	20,209.7	17,846.3	15,323.7
Other Investment*	57,531.6	58,759.3	51,931.0
Reserve Assets	1,590.6	1,482.9	1,431.7
<b>Foreign Liabilities</b>	<b>77,285.1</b>	<b>75,786.8</b>	<b>65,495.9</b>
Direct Investment in Bahrain	4,868.1	5,542.7	5,639.3
Portfolio Investment	3,017.3	4,141.6	4,730.2
Other Investment*	69,399.7	66,102.5	55,126.4

\* Includes loans, currency, and deposits.

\*\* Provisional data.

Source: Central Bank of Bahrain.

**Chart 6-1: International Investment Position (IIP)**

Source: Central Bank of Bahrain.

Chapter

7

## 7. 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

During the global financial crisis, 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 gains and some bourses even experienced a larger drop than those of America and Europe. Stock markets in the Gulf region have been negatively affected with indices and equities losing a significant amount of their value. The decline in GCC equity markets was considered a reflection of the global financial crisis and the associated loss of investor confidence in both developed and emerging markets.

With the increase in oil prices during 2009, the majority of GCC indices closed the year 2009 on a positive note. Performance of GCC indices was in strong correlation to the movement in oil prices, which reached close to USD 80 per barrel at the end of 2009.

While many of the GCC indices increased in 2009, the Bahrain All Share Index posted a 19.2% loss during 2009. This was mainly due to the financial sector having a large weighting in the index. The index increased in March 2009 to take a downturn in June 2009 and increased again in August 2009 to decrease in October 2009 (Chart 7-1). One explanation of why increasing oil prices did not reinstate investor confidence is that the Bahraini economy is not heavily oil-related.

Despite the developments, the Bahrain Stock Exchange (BSE) continues to make efforts to strengthen its ties with other stock markets in an effort to offer a more attractive and profitable investment environment. With investors' confidence being restored in the GCC stock markets, it is expected that the BSE will also show signs of growth and recovery in the future.

The number of companies traded on the exchange was 49 in 2009, down from 52 in 2008.

## Main Trading Indices

The Bahrain All Share Index closed at the end of the year at 1,458.24 points recording a year on year decrease of 19.2%. The best performer among the sectors was the "Industrial" sector which increased by 20.1% followed by the "Hotels and Tourism" sector which increased by 15.4%. All other sectors reported a year on year decrease in 2009 with the "Investment" and

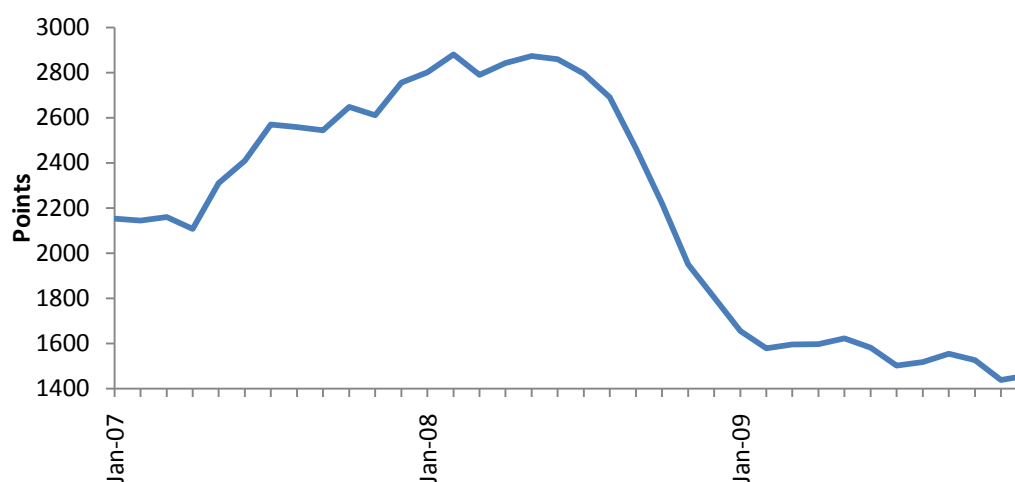
“Commercial Banks” and sectors reporting the biggest declines of 25.8% and 20.7% respectively. The Dow Jones Bahrain Index decreased by 30.16 points (19.9%) and Esterad Index decreased by 373.51 points (20.4%) from end-2008.

**Table 7-1: BSE Indices**

BSE Indices	Q4 2008	Q4 2009	Change (Point)	Change (%)
<b>Bahrain All Share Index</b>	<b>1,804.07</b>	<b>1,458.24</b>	<b>-345.83</b>	<b>-19.2</b>
Commercial Banks	2,117.04	1,679.17	-437.87	-20.7
Investment	1,582.53	1,173.53	-409.00	-25.8
Insurance	2,275.97	1,915.92	-360.05	-15.8
Services	1,638.30	1,553.69	-84.61	-5.2
Industrial	1,273.93	1,529.80	255.87	20.1
Hotels and Tourism	2,848.57	3,287.74	439.17	15.4
<b>Dow Jones Bahrain Index</b>	<b>151.90</b>	<b>121.74</b>	<b>-30.16</b>	<b>-19.9</b>
<b>Esterad Index</b>	<b>1,829.60</b>	<b>1,456.09</b>	<b>-373.51</b>	<b>-20.4</b>

Source: Bahrain Stock Exchange

**Chart 7-1: Performance of Bahrain All Share Index, 2007-2009**



Source: Bahrain Stock Exchange

## Developments in Market Capitalisation and Share Issue Base

Market Capitalisation of the BSE stood at BD 6,131.0 million by the end of 2009, down from BD 7,520.1 billion in 2008, a decrease of 18.5% (Table 7-2). The decline affected almost all sectors with the largest being in the

“investment” sector, where market capitalisation fell by 24.6% decreasing from BD 3,376.8 million at the end of 2008 to BD 2,546.6 million at end of 2009.

**Table 7-2: Market Capitalisation by Sector**

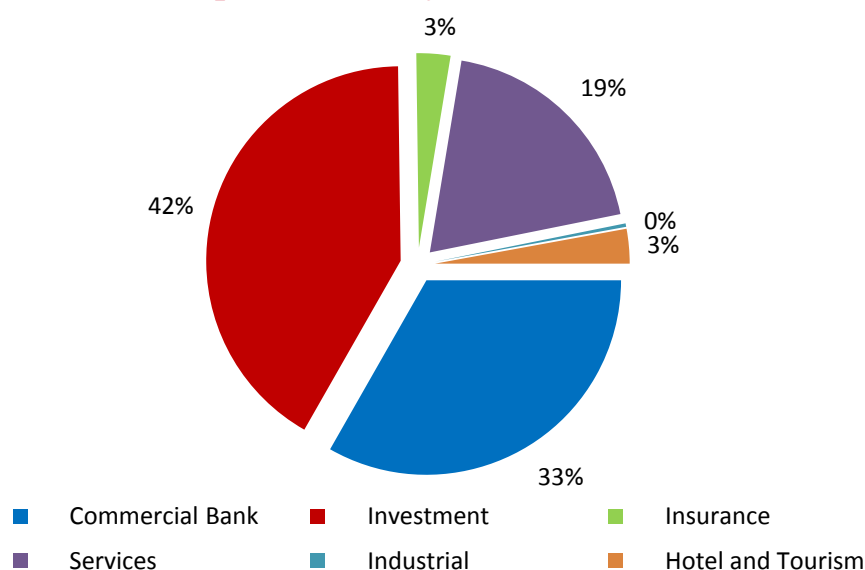
(BD Million)

	2008	2009	Change (%)
<b>Total Market Capitalisation</b>	<b>7,520.1</b>	<b>6,131.0</b>	<b>-18.5</b>
Commercial Banks	2,531.3	2,038.5	-19.5
Investment	3,376.8	2,546.6	-24.6
Insurance	201.8	173.3	-14.1
Services	1,242.9	1,178.8	-5.2
Industrial	14.3	17.7	23.7
Hotels and Tourism	152.7	176.2	15.4

Source: Bahrain Stock Exchange

The “investment”, “commercial bank” and “services” sectors remained the largest sectors in terms of market capitalisation in 2009 accounting for 94.0% of total market capitalisation (Chart 7-2).

**Chart 7-2: Market Capitalisation by Sector, 2009**



Source: Bahrain Stock Exchange

As for companies, the largest company in terms of market capitalisation at end-2009 was Batelco with BD 849.6 million, accounting for 13.9% of total market capitalisation. In 2009, the 5 largest companies accounted for 50.6% of total market capitalisation (Table 7-3).



**Table 7-3: Table: Largest Companies by Market Capitalisation (2009)**

<b>Company</b>	<b>Market Capitalisation (BD)</b>	<b>% of Total Market</b>
BATELCO	849,600,000	13.9
AUB	784,062,920	12.8
ABC	505,180,000	8.2
BARAKA	504,878,400	8.2
NBB	458,784,000	7.5
<b>Total</b>	<b>3,102,505,320</b>	<b>50.6</b>

Source: Bahrain Stock Exchange

## Trading Activities

The volume of shares traded in 2009 decreased significantly compared to the previous year, decreasing to 852.3 million shares (-49.1%) compared to 1,675.8 million shares in 2008 (Table 7-4). The value of shares traded also declined noticeably in comparison to the year before by 77.3%, reaching BD 178.4 million in 2009 compared to BD 787.3 million shares in 2008.

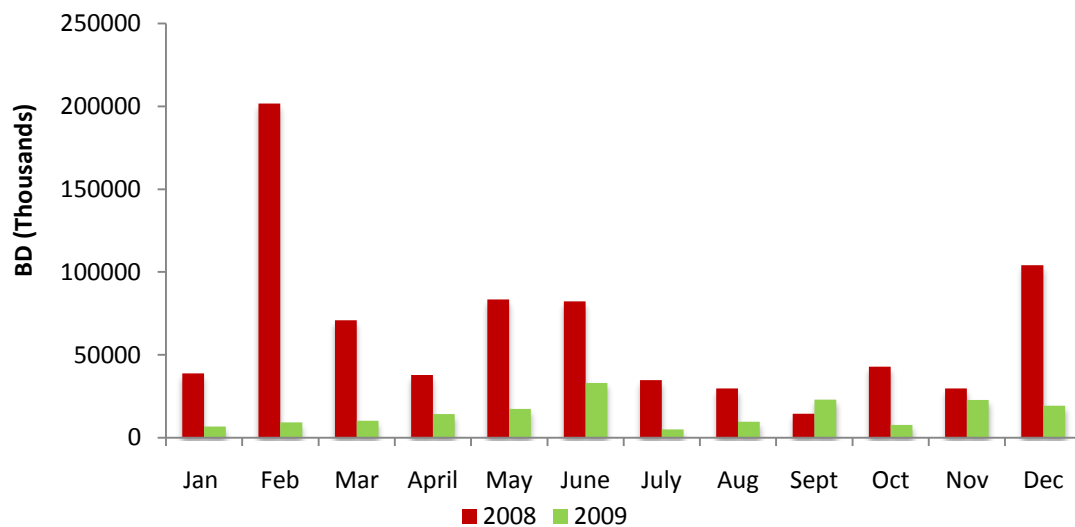
Moreover, most of the trading activity was concentrated in the “commercial banks” sector with a value of BD 96.4 million comprising 54.1% of the total value of shares traded during 2009 and 56.8% of the total volume of shares traded in the market.

February and December had the highest volume of shares traded and value of shares traded in 2009.

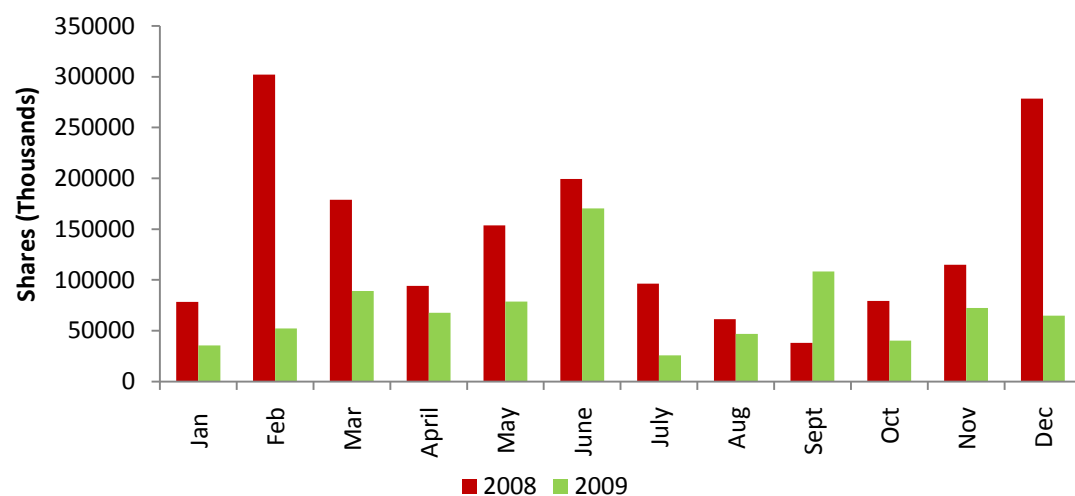
**Table 7-4: Daily Traded Averages**

	<b>2008</b>	<b>2009</b>	<b>Change (%)</b>
<b>Total Trading Days</b>	<b>246</b>	245	-0.4
Value of Shares Traded (BD Million)	787.3	178.4	-77.3
<b>Daily Average Value of Shares Traded (BD Million)</b>	<b>3.2</b>	<b>7.27</b>	127.2
Volume of Shares Traded (Million)	1,675.8	852.3	-49.1
<b>Daily Average No. of Shares Traded (Million)</b>	<b>6.8</b>	<b>3.5</b>	-48.5
Number of Transactions	43,540	30,317	-30.4
<b>Daily Average No. of Transactions</b>	<b>177</b>	<b>124</b>	<b>-29.9</b>

Source: Bahrain Stock Exchange

**Chart 7-3: Value of Shares Traded**

Source: Bahrain Stock Exchange

**Chart 7-4: Volume of Shares Traded**

Source: Bahrain Stock Exchange

In terms of listed companies, the most active company by value was Ahli United Bank, with BD 43.9 million traded (24.6% of total value of shares traded). Next came Bank of Bahrain and Kuwait with BD 26.2 million constituting 14.7% of the total value of shares traded, then Gulf Finance House with BD 19.5 million and 10.9% of total value of shares traded, followed by Batelco BD 17.8 million constituting 10.0% of the total value of shares traded, and finally came Al Salam Bank with BD 17.0 million constituting 9.5% of the total value of shares traded (Table 7-5).

**Table 7-5: Most Active Companies by Value, 2009**

Company	Value (BD)	% From Total Market
AUB	43,856,195	24.6
BBK	26,198,622	14.7
GFH	19,506,300	10.9
BATELCO	17,770,609	10.0
SALAM	17,010,485	9.5
<b>Total</b>	<b>124,342,212</b>	<b>69.7</b>

Source: Bahrain Stock Exchange

As for most active companies by volume, Ahli United Bank had the most traded shares with 217.0 million shares traded translating to 25.5% of total volume, then came Al Salam Bank with 152.4 million constituting 17.9% of the total volume of shares traded, then Ithmaar Bank with 151.3 million and 17.8% of total volume of shares traded, followed by Gulf Finance House with 66.9 million constituting 7.8% of the total volume of shares traded, and finally came Bank of Bahrain and Kuwait with 65.2 million constituting 7.7% of the total volume of shares traded (Table 7-6).

**Table 7-6: Most Active Companies by Volume, 2009**

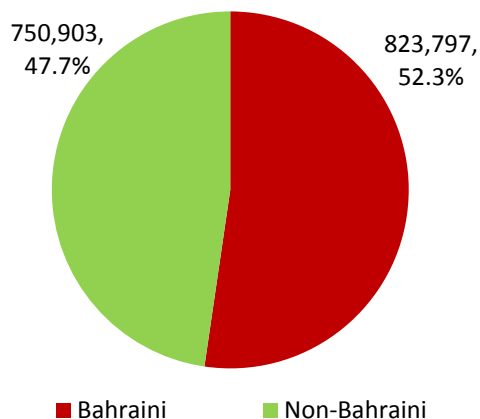
Company	Volume	% of Total Market
AUB	216,991,638	25.5
SALAM	152,240,593	17.9
ITHMR	151,351,853	17.8
GFH	66,888,936	7.8
BBK	65,236,801	7.7
<b>Total</b>	<b>652,709,821</b>	<b>76.6</b>

Source: Bahrain Stock Exchange

## Nationalities of Investors

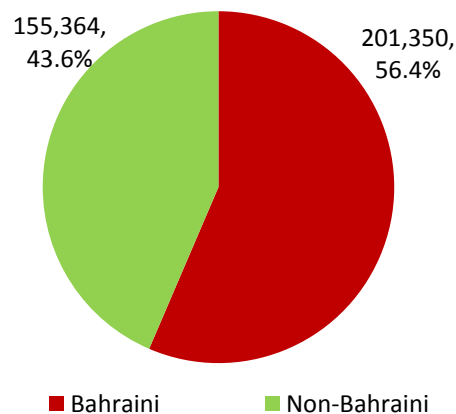
Bahraini investors accounted for 56.4% of the total value of traded shares in 2009 an increase from the 52.3% in 2008 (Chart 7-5 and 7-6). Bahraini and non-Bahraini trading activity decreased in 2009 compared to 2008, where the market witnessed a total of BD 201.3 million in the value of shares traded by Bahraini investors and BD 155.4 million by non-Bahraini investors, resulting in a decrease of 75.6% and 79.3% respectively.

**Chart 7-5: Trading Value of Investors' Participation (BD Thousand), 2008**



Source: Bahrain Stock Exchange

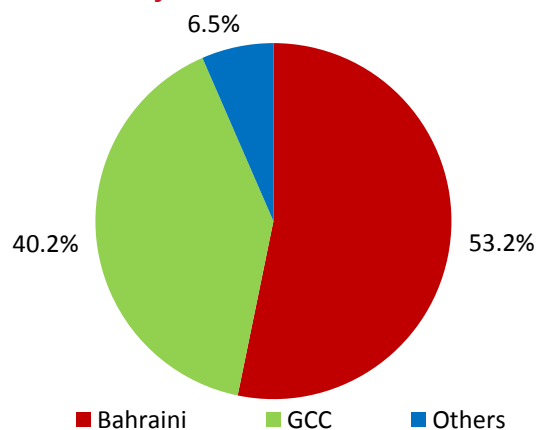
**Chart 7-6: Trading Value of Investors' Participation (BD Thousand), 2009**



Source: Bahrain Stock Exchange

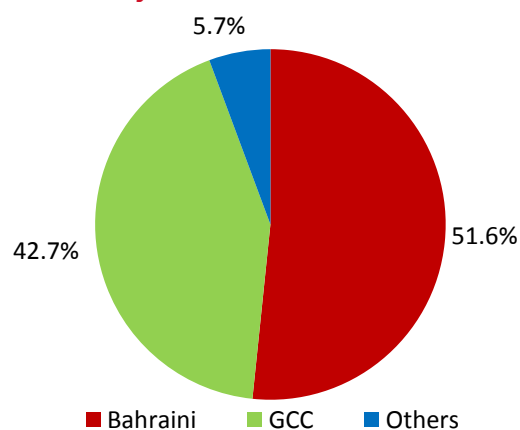
As for ownership of the shares, Bahrainis accounted for 51.6% of the total shares traded in 2009 a slight decrease compared to the 53.2% in 2008. GCC share ownership increased from 40.2% in 2008 to 42.7% in 2009 while non-GCC ownership decreased from 6.5% in 2008 to 5.7% in 2009 (Chart 7-7 and 7-8).

**Chart 7-7: Share Ownership by Nationality (%), 2008**



Source: Bahrain Stock Exchange

**Chart 7-8: Share Ownership by Nationality (%), 2009**



Source: Bahrain Stock Exchange

## Price Movements

During 2009, the price of ten stocks went up, thirty went down and nine remained unchanged compared to nine that went up, 31 that went down, and 11 unchanged for 2008 (Table 7-7).

**Table 7-7: Market Breadth**

	2008	2009
Advancers	9	10
Decliners	31	30
Unchanged	11	9
<b>Total</b>	<b>51</b>	<b>49</b>

Source: Bahrain Stock Exchange

Bahrain Flour Mills Co. was ranked the top advancer in 2008 with 45.0% in price change followed by Gulf Hotel Group (33.3%), Bahrain Ship Repairing and Eng. Co. (11.3%), Bahrain Kuwait Insurance Co. (10.1%), and United Finance Co (8.8%) (Table 7-8). As for the top 5 decliners, Global Investment House was the biggest decliner with 76.7% annual decrease in price followed by Gulf Finance House (-69.6%), Inovent (-43.5%), Bahrain Commercial Credit Co. (-40.3), and Arab Insurance Group (-35.7) (Table 7-9).

**Table 7-8: Top BSE Advancers, 2009      Table 7-9: Top BSE Decliners, 2009**

Advancers	%	Rank
BFM	45.0	1
BHOTEL	33.3	2
BASREC	11.3	3
BKIC	10.1	4
UFC	8.8	5

Source: Bahrain Stock Exchange

Decliners	%	Rank
GLOBAL	-76.7	1
GFH	-69.6	2
INOVEST	-43.5	3
BCFC	-40.3	4
ARIG	-35.7	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 2009 was 49, down from the 51 listed in the previous year (Table 7-10). The number of mutual funds decreased from 39 to 35 in 2009. Bonds and Sukuk decreased from 15 in 2008 to 14 in 2009. Only one preference share was listed on the exchange in 2009 similar to 2008.

**Table 7-10: BSE Summary of Listings**

	Q4 2008	Q4 2009
Number of Companies	51	49
Number of Mutual Funds	39	35
Number of Bonds and Sukuks	15	14
Preferred Shares	1	1

*Source: Bahrain Stock Exchange*

Chapter

8

## 8. Statistical Appendix

*Economic Indicators*

*Financial Sector Indicators*

### Economic Indicators

Table 8-1: Gross Domestic Product

(BD Million)

	2008	2009*	% Share (2009)
<b>GDP at Current Prices</b>	<b>8,235.3</b>	<b>7,743.6</b>	<b>100.0</b>
Non-Financial Corporations	6,336.0	5,638.3	72.8
<i>Of which:</i>			
-Oil	2,346.5	1,604.0	20.7
-Manufacturing	1,266.3	1,224.5	15.8
-Transportation and Communication	492.2	577.5	7.5
-Trade	654.0	646.7	8.4
-Real Estate & Business Activities	556.8	509.1	6.6
Financial Corporations	1,679.6	1,609.4	20.8
Government Services	914.1	942.0	12.2
<b>GDP at Constant Prices</b>	<b>4,733.9</b>	<b>4,881.0</b>	<b>100.0</b>
Non-Financial Corporations	3,477.6	3,489.1	71.5
<i>Of which:</i>			
-Oil	605.1	603.3	12.4
-Manufacturing	757.9	765.1	15.7
-Transportation and Communication	409.6	443.6	9.1
-Trade	368.8	367.5	7.5
-Real Estate & Business Activities	466.8	425.8	8.7
Financial Corporations	1,258.8	1,224.8	25.1
Government Services	689.2	730.0	15.0

\*Provisional

Source: Central Informatics Organisation

Table 8-2: Employment

	2008	2009	2009			
			Q1	Q2	Q3	Q4
<b>Total Employment*</b>	<b>471,088</b>	<b>486,071</b>	<b>483,777</b>	<b>485,333</b>	<b>485,834</b>	<b>486,071</b>
As % of Total Population	42.6	43.9	43.7	43.9	43.9	43.9
Change (%)	24.1	3.2	2.7	0.3	0.1	0.0
<b>Private Sector</b>	<b>430,882</b>	<b>445,330</b>	<b>443,638</b>	<b>445,330</b>	<b>446,018</b>	<b>445,330</b>
As % of Total Employment	91.5	91.6	91.7	91.8	91.8	91.6
Male	389,802	403,499	401,040	403,499	371,808	403,499
Female	41,080	41,831	42,598	41,831	41,838	41,831
<b>Bahraini</b>	<b>81,867</b>	<b>80,621</b>	<b>82,899</b>	<b>80,621</b>	<b>80,298</b>	<b>80,621</b>
<b>Non-Bahraini</b>	<b>349,015</b>	<b>364,709</b>	<b>360,739</b>	<b>364,709</b>	<b>365,720</b>	<b>364,709</b>
<b>Public Sector**</b>	<b>40,206</b>	<b>40,741</b>	<b>40,139</b>	<b>40,003</b>	<b>39,816</b>	<b>40,741</b>
As % of Total Employment	8.5	8.4	8.3	8.2	8.2	8.4
Male	22,108	22,126	21,989	21,902	21,759	22,126
Female	18,098	18,615	18,150	18,101	18,057	18,615
<b>Bahraini</b>	<b>35,204</b>	<b>35,528</b>	<b>35,106</b>	<b>34,973</b>	<b>34,900</b>	<b>35,528</b>
<b>Non-Bahraini</b>	<b>5,002</b>	<b>5,213</b>	<b>5,033</b>	<b>5,030</b>	<b>4,916</b>	<b>5,213</b>

\*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 8-3: Public Debt

(BD Million)

	2008*	2009*	2009*			
			Q1	Q2	Q3	Q4
<b>Total Outstanding</b>	<b>705.0</b>	<b>1,348.0</b>	<b>820.0</b>	<b>1,038.0</b>	<b>1,203.0</b>	<b>1,348.0</b>
As % of GDP	8.6	17.4	10.6	13.4	15.5	17.4
Development Bonds	0.0	55.0	0.0	0.0	0.0	55.0
Treasury Bills	180.0	415.0	295.0	325.0	325.0	415.0
Al Salam Islamic Securities	18.0	18.0	18.0	18.0	18.0	18.0
Islamic Leasing Securities	507.0	860.0	507.0	695.0	860.0	860.0

\*Provisional GDP

Source: Central Bank of Bahrain

Table 8-4: BD Exchange Rates Against Major Currencies <sup>1/</sup>

	2008	2009
Saudi Riyal	0.100	0.100
Kuwaiti dinar	1.363	1.311
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	0.543	0.604
Euro	0.530	0.540
Japanese Yen <sup>2/</sup>	4.160	4.070
Swiss Franc	0.355	0.363

<sup>1/</sup> Last working day of each period.<sup>2/</sup> Per 1000 Units

Source: Central Bank of Bahrain

Table 8-5: Bahrain Stock Exchange

	2008	2009	Change (%)
<b>Market Capitalisation by Sector (BD Million)</b>			
<b>Total Market Capitalisation</b>	<b>7,520.2</b>	<b>6,131.0</b>	<b>-18.5</b>
Commercial Bank	2,531.3	2,038.5	-19.5
Investment	3,376.8	2,546.6	-24.6
Insurance	201.8	173.3	-14.1
Services	1,242.9	1,178.8	-5.2
Industrial	14.3	17.7	23.8
Hotel and Tourism	152.7	176.2	15.4
<b>Trading Activities in The Market</b>			
Bahrain All Share Index (Points)	1,804.07	1,458.24	-19.2
Dow Jones Bahrain Index (Points)	151.90	121.74	-19.9
Esterad Index (Points)	1,829.60	1,456.09	-20.4
Value of Shares Traded (BD Million)	787.4	178.4	-77.3
Daily Average of Value of Shares Traded (BD Million)	3.2	7.3	128.1
Share Turnover	10.11	2.87	-71.6
Volume of Shares Traded (Million)	1,675.8	852.2	-49.1
Daily Average No. of Shares Traded (Million)	6.8	3.5	-48.5
Number of Transactions	43,540	30,317	-30.4
Daily Average No. of Transactions	177	124	-29.9
Number of listed Companies *	51	49	-3.9

\*Includes Non-Bahraini Companies

Source: Bahrain Stock Exchange

## Financial Sector Indicators

**Table 8-6: Money Supply**

(BD Million)

Items	Year- end			Change 2009	
	2007	2008	2009	Absolute	%
Currency in Circulation	256.2	304.2	323.0	18.8	6.2
M1	1,572.6	1,898.7	2,158.3	259.6	13.7
M2	5,682.6	6,728.4	7,119.3	390.9	5.8
M3	6,657.1	8,044.5	8,404.2	359.7	4.5

Source: Central Bank of Bahrain

**Table 8-7: Factors Affecting Domestic Liquidity**

(BD Million)

Factors	Year- end			Change	
	2007	2008	2009	2007 vs. 2008	2008 vs. 2009
<b>A. Total Domestic Liquidity (M3)</b>	<b>6,657.1</b>	<b>8,044.5</b>	<b>8,404.2</b>	<b>1,387.4</b>	<b>359.7</b>
<b>B. Factors Affecting Liquidity</b>					
<b>1. Net Foreign Assets (a+b)</b>	<b>3,701.1</b>	<b>2,689.2</b>	<b>2,088.0</b>	<b>-1,011.9</b>	<b>-601.2</b>
(a) Central Bank	1,546.1	1,433.9	1,331.1	-112.2	-102.8
(b) Commercial Banks	2,155.0	1,255.3	756.9	-899.7	-498.4
<b>2. Domestic Claims (a+b+c)</b>	<b>2,956.0</b>	<b>5,355.3</b>	<b>6,316.2</b>	<b>2,399.3</b>	<b>960.9</b>
(a) Claims on government	612.8	691.1	1,310.9	78.3	619.8
(b) Claims on private sector <sup>1/</sup>	4,323.7	6,207.8	6,161.3	1,884.1	-46.5
(c) Other Assets (net)	-1,980.5	-1,543.6	-1,156.0	436.9	387.6

<sup>1/</sup> Loans and holding of securities

Source: Central Bank of Bahrain

**Table 8-8: Consolidated Balance Sheet of Banking System**

(USD Billion)

Items	Year-End			Change % 2009
	2007	2008	2009	
Retail Banks	49.5	63.5	59.8	-5.8
Wholesale Banks	196.3	188.9	162.0	-14.2
<b>Total</b>	<b>245.8</b>	<b>252.4</b>	<b>221.8</b>	<b>-12.1</b>

Source: Central Bank of Bahrain

**Table 8-9: Geographical Classification of the Banking System's Assets/Liabilities**

(USD Billion)

Items	Year					
	2007		2008		2009	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	37.5	44.4	48.5	54.5	42.2	47.7
GCC	80.0	67.4	87.2	67.2	74.6	58.0
Other Arab Countries	5.3	16.1	5.2	13.0	7.0	12.6
Americas	26.9	15.6	23.8	14.4	20.3	8.6
Western Europe	75.9	78.9	69.3	80.7	58.3	70.9
Asia	15.1	21.5	13.4	20.4	15.5	21.9
Other	5.1	2.0	5.0	2.2	3.8	2.1
<b>Total</b>	<b>245.8</b>	<b>245.8</b>	<b>252.4</b>	<b>252.4</b>	<b>221.8</b>	<b>221.8</b>

Source: Central Bank of Bahrain

**Table 8-10: Currency Structure of the Banking System's Assets/Liabilities**

(USD Billion)

Currencies	Year					
	2007		2008		2009	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Bahraini Dinar	17.5	18.7	23.1	23.9	23.0	24.6
GCC Currencies	29.7	22.4	34.0	27.3	23.9	19.6
US Dollar	153.6	157.8	147.4	157.2	136.0	135.9
Pound Sterling	7.6	7.9	5.4	5.2	5.2	5.6
EURO	24.6	24.4	25.7	24.5	20.4	23.9
Japanese Yen	3.6	3.8	3.3	4.1	2.4	3.1
Others	9.2	10.8	13.5	10.2	10.9	9.0
<b>Total</b>	<b>245.8</b>	<b>245.8</b>	<b>252.4</b>	<b>252.4</b>	<b>221.8</b>	<b>221.8</b>

Source: Central Bank of Bahrain

**Table 8-11: Interest Rates on BD Deposits and Loans**

Items	End 2008	End 2009	2009			
			Q1	Q2	Q3	Q4
<b>1. Deposits</b>						
Time <sup>1/</sup>	1.29	1.36	1.61	1.52	1.65	1.36
Savings	0.23	0.22	0.23	0.26	0.23	0.22
<b>2. Loans</b>						
Business	7.43	6.84	6.96	6.87	6.82	6.84
Personal	8.09	7.70	7.89	8.08	7.67	7.70
<b>3. Credit Cards</b>	21.78	21.77	21.99	21.76	21.76	21.77

<sup>1/</sup> Time deposits 3-12 months.

Source: Central Bank of Bahrain

Table 8-12: Outstanding Credit to Non-Bank Residents by Economic Sector

(BD Million)

Sectors	Year-end						Change 2009	
	2007		2008		2009			
	Value	%	Value	%	Value	%	Value	%
1. Business	2,432.0	58.1	3,870.5	65.7	3,816.6	64.9	-53.9	-1.4
Manufacturing	425.4	10.1	464.3	7.9	389.5	6.6	-74.8	-16.1
Mining and Quarrying	8.0	0.2	8.1	0.1	7.7	0.1	-0.4	-4.9
Agriculture, Fishing and Dairy	6.4	0.1	8.7	0.1	5.4	0.1	-3.3	-37.9
Construction and Real Estate	776.6	18.6	1,539.7	26.2	1,659.5	28.2	119.8	7.8
Trade	735.3	17.6	1,065.4	18.1	998.7	17.0	-66.7	-6.3
Non-Bank Financial	171.0	4.1	226.5	3.8	211.3	3.6	-15.2	-6.7
Other Sectors	309.3	7.4	557.8	9.5	544.5	9.3	-13.3	-2.4
2. General Government	262.3	6.3	283.2	4.8	392.0	6.7	108.8	38.4
3. Personal	1,489.6	35.6	1,733.9	29.5	1,676.3	28.5	-57.6	-3.3
Total	4,183.9	100	5,887.6	100	5,884.9	100	-2.7	

Source: Central Bank of Bahrain

Table 8-13: Employment in the Banking and Financial Sector

Sectors	2008			2009		
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total
<b>Banking Sector</b>	<b>6,916</b>	<b>2,666</b>	<b>9,582</b>	<b>6,509</b>	<b>2,437</b>	<b>8,946</b>
Retail Banks	4,294	1,048	5,342	4,314	1,009	5,323
Wholesale Banks	2,546	1,536	4,082	2,127	1,354	3,481
Rep. Offices	76	82	158	68	74	142
<b>Non-Bank Financial</b>	<b>1,966</b>	<b>1,924</b>	<b>3,890</b>	<b>2,391</b>	<b>2,330</b>	<b>4,721</b>
Insurance Companies	854	542	1378	934	590	1524
Insurance Related Activities	208	344	552	203	333	536
Money Changers	238	567	805	243	728	971
Stock Brokers	33	7	40	30	7	37
Financing Companies	203	12	215	490	114	604
Investment Business Firms	207	249	456	218	279	497
Other*	223	221	444	273	279	552
<b>Other Institutions</b>	<b>401</b>	<b>49</b>	<b>450</b>	<b>413</b>	<b>57</b>	<b>470</b>
<b>Total</b>	<b>9,283</b>	<b>4,639</b>	<b>13,922</b>	<b>9,313</b>	<b>4,824</b>	<b>14,137</b>

\* 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 8-14: Selected Banking Indicators

End of Period (%)	2008	2009	2009			
			Q1	Q2	Q3	Q4
Loans to Non-Banks / Total Assets	24.7	26.2	24.2	25.6	26.4	26.2
Loans to Private Non-Banks / Total Assets	23.5	24.5	22.9	24.1	24.9	24.5
Loans to Non-Banks / Total Deposits	62.0	61.8	59.5	63.3	63.1	61.8
Foreign Assets / Total Assets	53.4	51.4	51.7	52.3	50.9	51.4
Foreign Liabilities / Total Liabilities	48.1	48.1	48.9	49.2	47.7	48.1
Total Deposits / Total Liabilities	39.8	42.4	40.6	40.4	41.8	42.4
BD Deposits / Total Deposits	53.2	63.8	54.1	60.0	62.3	63.8
Private Sector Deposits / Total Deposits	66.6	70.9	65.2	69.2	69.8	70.9
Private Sector Demand Deposits / Total Deposits	16.8	19.3	18.1	20.2	19.1	19.3

Source: Central Bank of Bahrain

## Number of Banks and Financial Institutions End 2009

<b>Retail Banks</b>	<b>32</b>
of which Islamic banks	6
<b>Wholesale Banks</b>	<b>78</b>
of which Islamic banks	21
<b>Representative Offices</b>	<b>30</b>
of which Islamic Institutions Rep. Offices	4
<b>Money Changers</b>	<b>19</b>
<b>Financing Companies</b>	<b>9</b>
<b>Investment Business Firms</b>	<b>47</b>
Category 1	14
of which Islamic Investment Business Firms	5
Category 2	15
of which Islamic Investment Business Firms	0
Category 3	18
of which Islamic Investment Business Firms	4
<b>Provider of Ancillary Services</b>	<b>13</b>
<b>Administrators</b>	<b>5</b>
<b>Trust Service Providers</b>	<b>3</b>
<b>Capital Market Brokers</b>	<b>6</b>
<b>Insurance Companies and Organisations</b>	<b>167</b>
Locally Incorporated Insurance and Reinsurance Companies	27
Branches Insurance Companies	11
Restricted Insurance Companies	38
Insurance Representative Offices	6
Insurance Brokers (including restricted to business outside Bahrain)	37
Surveyors and Loss Adjusters	11
Insurance Consultants (including restricted to business outside Bahrain)	6
Actuaries	24
Insurance Ancillary Services	2
Insurance Manager	3
Insurance Pools and Syndicates	2
<b>Societies</b>	<b>1</b>
<b>Total</b>	<b>410</b>