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Economic Report

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Table of Contents

List of Tables.....	iii
List of Charts.....	v
Preface	vi
Executive Summary	vii
1. International and Regional Economic Developments.....	1
Overview	2
World Output	2
Inflation	3
Unemployment.....	4
Interest Rates.....	5
Exchange Rates	6
Equity Markets	7
Commodity Markets.....	7
GCC Economies.....	8
2. Bahrain's Economic Performance	11
Overview	12
Gross Domestic Product and Economic Growth.....	12
Domestic Prices	14
Labour Force	15
International Rankings	16
<i>Credit Ratings</i>	<i>16</i>
<i>Rankings and International Indices</i>	<i>17</i>
Bahrain Policy Developments	18
<i>Labour Market</i>	<i>18</i>
<i>Structural Developments</i>	<i>18</i>
<i>E-Government</i>	<i>19</i>
<i>Economic Agreements</i>	<i>19</i>
Private Sector Developments.....	20
<i>Property and Real Estate Developments</i>	<i>21</i>
<i>Bahrain Stock Exchange</i>	<i>22</i>
<i>Telecommunications</i>	<i>22</i>
<i>Industrial Developments</i>	<i>23</i>
3. Monetary Developments	24
Overview	25
Money Supply Developments.....	25
Domestic Interest Rates	28
Exchange Rate Developments	31

4. Financial Sector Developments.....	33
Overview	34
Structure of the Bahrain Financial System.....	34
Consolidated Banking System.....	36
Retail Banks.....	40
Wholesale Banks.....	41
Islamic Banks	42
Domestic Credit.....	44
Credit Card Survey	47
Mutual Funds	50
Manpower Survey.....	51
5. Public Finance	55
Overview	56
Revenues.....	57
Expenditure.....	58
Issuance of Public Debt Instruments.....	59
6. Foreign Trade and Balance of Payments	61
Overview	62
Current Account.....	62
<i>Balance of Goods</i>	62
<i>Balance on Services, Income and Transfers</i>	62
<i>Trade Balance</i>	64
Capital and Financial Account	64
International Investment Position (IIP).....	65
7. The Bahrain Stock Exchange	67
Overview	68
Main Trading Indices.....	69
Developments in Market Capitalisation	70
Trading Activities.....	71
Nationalities of Investors	74
Price Movements.....	76
New Companies Listed on the Bahrain Stock Exchange.....	76
8. Statistical Appendix	78
Economic Indicators	79
Financial Sector Indicators.....	82

List of Tables

Table 1-1: Summary of World Output (% change)	3
Table 1-2: Exchange Rates of Major Currencies against the SDR	6
Table 1-3: Commodity Prices	8
Table 1-4: Growth and Inflation for the GCC	9
Table 1-5: Fiscal indicators for the GCC, 2009 – 2011	10
Table 2-1: Gross Domestic Product (GDP) at Current Prices, 2009-2010	12
Table 2-2: Gross Domestic Product (GDP) at Constant Prices, 2009-2010	13
Table 2-3: Crude Oil Production and Refining.....	14
Table 2-4: Consumer Price Index (2006 = 100).....	15
Table 2-5: Employment.....	16
Table 2-6: Government of Bahrain Foreign Currency Credit Ratings.....	17
Table 2-7: Bahrain Human Development Index, 2009-2010	17
Table 2-8: Construction Permits by Type	21
Table 3-1: Money Supply	26
Table 3-2: Private Sector Deposits by Currency	27
Table 3-3: Factors Affecting Domestic Liquidity.....	27
Table 3-4: Deposit Interest Rates	28
Table 3-5: Interest Rates on Business Loans.....	29
Table 3-6: Interest Rates on Personal Loans.....	29
Table 3-7: BD Exchange Rate against major currencies.....	31
Table 4-1: Total Number of Licenses (2009 vs. 2010)	34
Table 4-2: New Licenses Issued (2009 vs. 2010)	35
Table 4-3: Consolidated Balance Sheet of the Banking System.....	36
Table 4-4: Geographical Classification of the Banking System's Assets/Liabilities ...	38
Table 4-5: Consolidated Balance Sheet of Retail Banks - Assets	40
Table 4-6: Consolidated Balance Sheet of Retail Banks - Liabilities	41
Table 4-7: Consolidated Balance Sheet of Wholesale Banks - Assets	41
Table 4-8: Consolidated Balance Sheet of Wholesale Banks-Liabilities	42
Table 4-9: Consolidated Balance Sheet of Islamic Banks - Assets.....	43
Table 4-10: Consolidated Balance Sheet of Islamic Banks – Liabilities	44
Table 4-11: Domestic Credit by Sector	45
Table 4-12: Business Loans by Sector.....	46
Table 4-13: Personal Loans by Sector	47
Table 4-14: Credit Card Data	47
Table 4-15: Mutual Funds – Total Outstanding Investments, 2010	50
Table 4-16: Number of Employees in the Financial Sector	52
Table 5-1: Summary of Public Finance	56
Table 5-2: Government Revenue	57
Table 5-3: Government Current Expenditure (2008 vs. 2009)	58
Table 5-4: Summary of Public Debt Instruments	59
Table 5-5: Summary of Conventional Public Debt Instruments	59
Table 5-6: Summary of Islamic Public Debt Instruments	60
Table 6-1: Balance of Payments	63
Table 6-2: Foreign Trade	64
Table 6-3: International Investment Position (IIP)	65
Table 7-1: BSE Indices	69
Table 7-2: Market Capitalisation by Sector	70

Table 7-3: Table: Largest Companies by Market Capitalisation (2009).....	71
Table 7-4: Daily Traded Averages.....	71
Table 7-5: Trading Value by Sector	72
Table 7-6: Trading Volume by Sector	72
Table 7-7: Most Active Companies by Value, 2010.....	74
Table 7-8: Most Active Companies by Volume, 2010	74
Table 7-9: Market Breadth	76
Table 7-10: Top BSE Advancers, 2010	76
Table 7-11: Top BSE Decliners, 2010	76
Table 7-12: BSE Summary of Listings	77
Table 8-1: Gross Domestic Product	79
Table 8-2: Employment.....	79
Table 8-3: Public Debt	80
Table 8-4: BD Exchange Rates Against Major Currencies	80
Table 8-5: Bahrain Stock Exchange.....	81
Table 8-6: Money Supply.....	82
Table 8-7: Factors Affecting Domestic Liquidity.....	82
Table 8-8: Consolidated Balance Sheet of Banking System	82
Table 8-9: Geographical Classification of the Banking System's Assets/Liabilities ...	83
Table 8-10: Currency Structure of the Banking System's Assets/Liabilities.....	83
Table 8-11: Interest Rates on BD Deposits and Loans	83
Table 8-12: Outstanding Credit to Non-Bank Residents by Economic Sector	84
Table 8-13: Employment in the Banking and Financial Sector.....	84
Table 8-14: Selected Banking Indicators	85

List of Charts

Chart 1-1: Consumer Prices.....	4
Chart 1-2: Policy Rates in Advanced Countries, 2005-2010.....	5
Chart 1-3: Real Effective Exchange Rates of Major Currencies (2005 = 100)	6
Chart 2-1: Total Number of Commercial Registration Licenses	21
Chart 3-1: Money Supply.....	25
Chart 3-2: Weighted Average Deposit Rates of Retail Banks.....	28
Chart 3-3: Personal and Business Interest Rates	30
Chart 3-4: Money Market Rate/Interbank Rate	31
Chart 3-5: Bahrain's Real Effective Exchange Rate (2005 = 100)	32
Chart 4-1: New Licenses Issued, 2010.....	35
Chart 4-2: Domestic and Foreign Assets of the Banking System.....	37
Chart 4-3: Domestic and Foreign Liabilities of the Banking System.....	37
Chart 4-4: Currency Structure of the Banking System's Assets, 2010	39
Chart 4-5: Currency Structure of the Banking System's Liabilities, 2010	39
Chart 4-6: Domestic Credit by Sectors.....	45
Chart 5-1: Oil and Non-Oil Revenues as a % of Total Revenues	57
Chart 5-2: Current and Project Expenditure as a % of Total Expenditure	58
Chart 6-1: International Investment Position (IIP).....	66
Chart 7-1: Performance of Bahrain All Share Index, 2008-2010	69
Chart 7-2: Market Capitalisation by Sector, 2010	70
Chart 7-3: Value of Shares Traded	73
Chart 7-4: Volume of Shares Traded.....	73
Chart 7-5: Trading Value of Investors' Participation (BD Thousand), 2009.....	75
Chart 7-6: Trading Value of Investors' Participation (BD Thousand), 2010.....	75
Chart 7-7: Share Ownership by Nationality (%), 2009	75
Chart 7-8: Share Ownership by Nationality (%), 2010	75

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 2010.

Executive Summary

During 2010, the global economy underwent a recovery as world output and financial markets rebounded. World output grew by 5.0% compared to a contraction of 0.5% in 2009. The projections for 2011 and 2012 show that the world economy will continue to grow, albeit more modestly, with growth rates of 4.4% and 4.5% respectively.

In line with the rise in global output, consumer price inflation (CPI) increased in 2010 and is expected to increase further in 2011. Inflation in advanced economies grew by 1.6%, up from 0.1% in 2009. Consumer prices in emerging and developing markets increased by 6.2% during the year, higher than the 5.2% recorded in 2009. The IMF forecasts that in 2011 there will be a 2.2% growth in consumer prices for advanced economies, whilst the inflation rate in developing economies is expected to be 6.9%

Interest rates remained low in 2010 due to monetary authorities' attempts to ease liquidity strains on their respective financial systems and are not expected to rise significantly in 2011. With the international economy well into recovery in 2010, global equity markets continued their path to improvement which began in the second half of 2009.

The GCC was fortunate in experiencing a relatively limited impact of the US sub-prime financial crisis. With the recovery in the global economy and rising oil prices, prospects for the GCC region are estimated to have improved in 2010 and are expected to continue to improve in 2011. For the year 2010, real GDP growth for the GCC is estimated to have accelerated to 4.5%, compared with 0.4% in 2009. Inflation is also expected to increase to 4.2% in 2010 from 3.2% in 2009 and is projected to remain at that level in 2011.

In line with the rise in oil prices, total revenue for the GCC is projected to increase to 42.9% of GDP in 2010 and is expected to grow further to 43.6% of GDP in 2011. On the other hand, the non-oil fiscal deficit is estimated to have increased to 54.6% of non-oil GDP in 2010, as non-oil revenue declined to 20.8% of non-oil GDP for the same year.

In 2010, Bahrain's economy recovered, registering a *positive* 11.8% nominal GDP growth rate after experiencing a *negative* growth rate in 2009. Real GDP also grew by 4.5% in 2010. This economic recovery can be attributed to a

rebound in the financial sector along with the rising oil prices experienced in the second half of 2010.

Inflation decreased from 2.8% in 2009 to reach 2.0% in 2010, influenced in part by the general fall in rents in Bahrain. Total employment increased by 5.2% in 2010, higher than the 3.2% increase in 2009, due mainly to the increase in private sector employment.

Although the Bahraini economy has diversified away from oil, oil revenues continue to play a significant role in the government's fiscal balance. Oil prices increased significantly during the year 2010, and as a result, government revenues increased by 27.4%, though expenditures increased by 26.6% during the year. As a result of these developments, Bahrain recorded a fiscal deficit of BD 459.8 million (5.6% of GDP) before rollovers of maturing debt.

Money supply continued to grow in 2010, at a similar pace to 2009. M1 (currency in circulation plus demand deposits) grew by 6.7% from BD 2,158.3 million in 2009 to BD 2,303.9 million in 2010. M2 (M1 plus time and savings deposits) rose by BD 748.2 million (10.5% increase) from BD 7,119.3 million at end 2009 to BD 7,867.5 million at end 2010.

With global monetary policy remaining accommodative, interest rates in Bahrain remained low, in line with the operation of the currency peg. The depreciation of the US dollar, to which the Bahraini Dinar is pegged, resulted in a decrease in the real effective exchange rate against other major currencies.

The financial sector continues to be the largest contributor to Bahrain's economy, accounting for 24.6% of real GDP in 2010. The total assets of retail banks (including foreign assets) stood at BD 24,610.3 million at end-December 2010, an increase of BD 2,149.7 million or 9.6%. Total outstanding credit facilities by retail banks amounted to BD 5,676.6 million at end-2010, down 3.5% from the BD 5,884.9 million at end-2009 mainly due to a 4.0% decrease in outstanding facilities to the business sector.

The consolidated balance sheet for wholesale banks shrank in 2010. Aggregate data indicates that total wholesale bank assets decreased by 3.3% to reach USD 156.7 billion at the end of 2010, down from USD 162.1 billion at end of 2009.

The current account surplus expanded from BD 210.6 million in 2009 (2.9% of GDP) to BD 289.5 million in 2010 (3.5% of GDP). The capital and financial account registered a net outflow of BD 329.8 million in 2010, compared with

an outflow of BD 185.9 million in 2009. The net international investment position rose from BD 6,028.8 million at the end of 2009 to BD 6,375.0 million in 2009.

Globally, major financial markets continued to recover in 2010, but at a substantially slower pace than in 2009. The US market performed well while European stock markets were held back by sovereign debt concerns in the Euro area, although Germany and the U.K were exceptions and finished at two-year highs. The performances of stock markets in the GCC region ended the year on a mixed note. The Bahrain All Share Index posted a year on year decrease of 1.8% in 2010 closing at 1,432.26 points.

In 2010, 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 2010. 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 2010.

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 2010, the global economy underwent a recovery as world output and financial markets rebounded. After a significant amount of public intervention, private demand picked up in advanced economies. In emerging market economies, demand was strong with overheating becoming an increasing policy concern.

However, despite the improvement in financial conditions, advanced economies are still suffering from the effects of the financial crisis. Bank credit remains sluggish and unemployment is high and the Euro area still experienced relatively low growth. In contrast, emerging market economies do not seem to have suffered any major lasting effects of the financial crisis with a recovery in exports and increased domestic demand.

Inflation concerns remained restrained in 2010 despite commodity price increases. It is expected that in 2011 inflation will increase moderately as commodity prices rise further due to strong demand and supply shocks.

World Output

During 2010, world output recovered strongly growing by 5.0% compared to a contraction of 0.5% in 2009 (Table 1-1). This growth, however, was geographically uneven as it was more modest among advanced economies which grew at 3.0% in 2010 while emerging and developing economies experienced more robust growth with output rising by 7.3% in 2010.

The projections for 2011 and 2012 show that the world economy will continue to grow more modestly with growth rates of 4.4% and 4.5% respectively. Advanced economies are expected to grow by 2.4% in 2011 and 2.6% in 2012 while emerging and developing economies are forecast to experience sustained growth at 6.5% for 2011 and 2012.

Downside risks are greater than upside risks due to weak sovereign balance sheets in advanced economies and rising commodity prices, especially oil prices for emerging economies. There are also increased downside risks for emerging and developing countries due to geopolitical uncertainty and the potential for overheated asset markets.

Table 1-1: Summary of World Output (% change)

	2009	2010	2011*	2012*
World output	-0.5	5.0	4.4	4.5
Advanced Economies	-3.4	3.0	2.4	2.6
United States	-2.6	2.8	2.8	2.9
Euro Area	-4.1	1.7	1.6	1.8
Japan	-6.3	3.9	1.4	2.1
Emerging & developing Economies	2.7	7.3	6.5	6.5
China	9.2	10.3	9.6	9.5
India	6.8	10.4	8.2	7.8
Middle East and North Africa	1.8	3.8	4.1	4.2

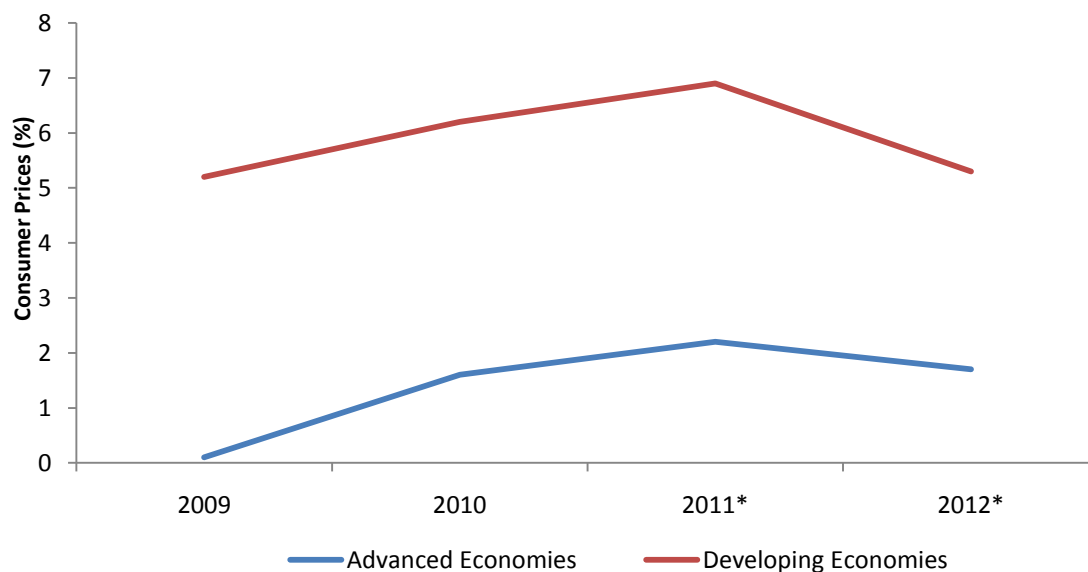
* Forecasts

Source: IMF, *World Economic Outlook*, April 2011.

Inflation

In line with the rise in global output, consumer price index (CPI) increased in 2010 and is expected to increase further in 2011. For the year 2010, inflation as measured by consumer prices, for advanced economies recorded a 1.6% growth, up from 0.1% in 2009 (Chart 1-1). Consumer prices in emerging and developing markets saw inflation of 6.2% during the year, higher than the 5.2% recorded in 2009.

The IMF forecasts that in 2011 there will be a 2.2% growth in consumer prices for advanced economies, whilst developing economies are expected to see inflation of 6.9%. This forecast rise in inflation is due to expected increases in food and energy prices. Consumer prices are expected to decrease in 2012 after inflation peaks in 2011.

Chart 1-1: Consumer Prices

*Forecasts

Source: IMF, World Economic Outlook, April 2011.

Unemployment

In 2010, unemployment remained high for advanced economies reaching 8.3%, up from the 8.0% recorded in 2009 (Table 1-2).

Table 1-2: Unemployment in Advanced Economies (%)

	2009	2010	2011*	2012*
Advanced Economies	8.0	8.3	7.8	7.4
United States	9.3	9.6	8.5	7.8
Euro Area	9.4	10.0	9.9	9.6
Japan	5.1	5.1	4.9	4.7

* Forecasts

Source: IMF, World Economic Outlook, April 2011.

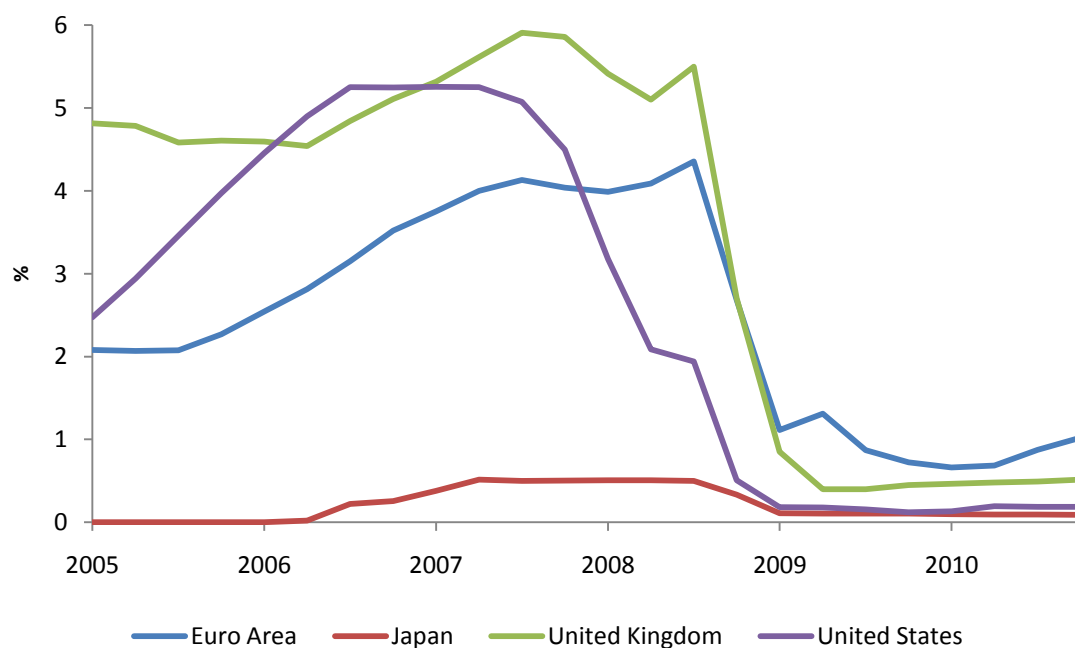
The IMF predicts that in 2011 unemployment for advanced economies will decrease to 7.8% and then on to 7.4% in 2012. In the US, average unemployment increased from 9.3% in 2009 to 9.6% in 2010 while the Euro area experienced a larger increase from 9.4% to a high 10.0% during the same period. Prolonged unemployment in these regions could exacerbate structural unemployment where there is an increased mismatch between labour skills supply and demand. Japan's unemployment rate remained at 5.1% in 2010.

Emerging market data is sparser, but trends indicate that increases in unemployment have been of lesser magnitude in comparison with advanced economies. The main issue facing emerging and developing economies is high youth unemployment which averaged 25.0% in the Middle East and North Africa region in 2010.

Interest Rates

Interest rates remained low in 2010 due to monetary authorities' attempts to increase liquidity in their respective financial systems (Chart 1-2). Interest rates are not expected to rise significantly in 2011 as the Federal Reserve and Bank of Japan are expected to keep interest rates very low in light of restrained wages and high output gaps. However, the European Central Bank is expected to raise its policy rate in 2011.

Chart 1-2: Policy Rates in Advanced Countries, 2005-2010



Source: IMF, International Financial Statistics.

Exchange Rates

At end-2010, the US dollar and the Japanese Yen both depreciated against the SDR from their levels at the end of 2009. The Japanese Yen depreciated by 13.1% while the dollar depreciated more mildly by 1.9% (Table 1-2). Conversely, the Euro and the pound sterling slightly appreciated by 5.5% and 1.0% respectively.

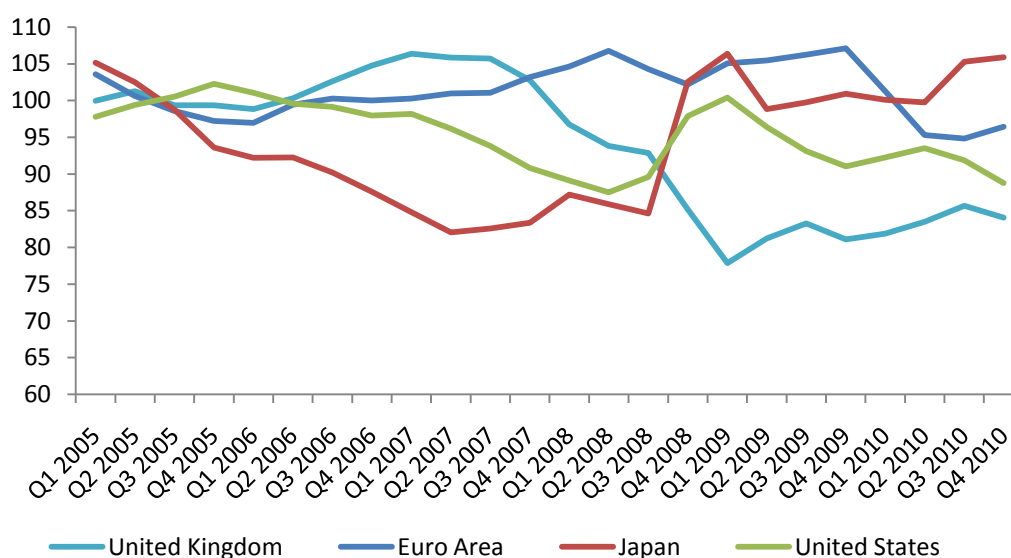
Table 1-2 : Exchange Rates of Major Currencies against the SDR

Currencies	2009	2010			
		Q1	Q2	Q3	Q4
US dollar	1.57	1.52	1.48	1.56	1.54
Euro	1.09	1.13	1.21	1.14	1.15
Japanese Yen	144.32	141.58	131.03	129.79	125.44
Pound Sterling	0.97	1.00	0.98	0.98	0.98

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 fourth quarter of 2009 until the fourth quarter of 2010, the real effective exchange rates (REER) of the Japanese yen and the pound sterling appreciated by 4.9% and 3.6% respectively, whilst the Euro and the US dollar depreciated by 10.0% and 2.5% respectively during the same period (Chart 1-3).

Chart 1-3: Real Effective Exchange Rates of Major Currencies (2005 = 100)

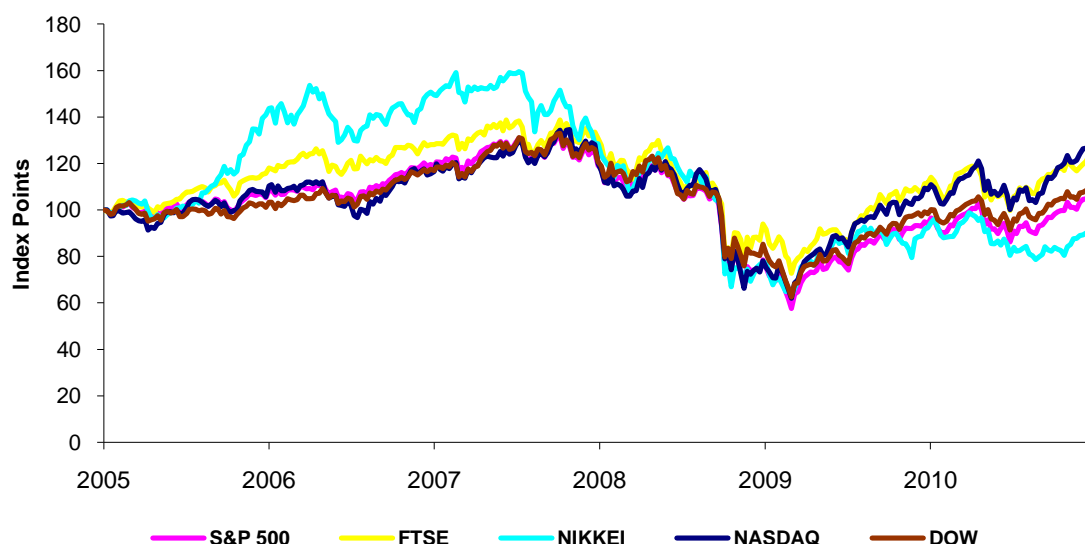


Source: IMF, International Financial Statistics Database.

Equity Markets

With the international economy into recovery in 2010, global equity markets continued their path to improvement which began in the second half of 2009. (Chart 1-4). During the year, all major world stock market indices grew except for the NIKKEI index which dropped by 3.0%. The highest gainer was NASDAQ which grew by 16.9%, followed by S&P 500 with 12.8%, the Dow Jones Industrial Average with 11.0% and the FTSE which increased by 9.0%. Yet, in general, the major indices are still lower than the highs achieved before the financial crisis.

Chart 1-4: Major World Stock Market Indices (January 2005 = 100)



US equity prices are expected to achieve close to pre-crisis levels while equity prices may lag behind in Europe given the concerns over the financial sector and the uncertainty regarding sovereign debt issues.

Commodity Markets

In 2010, main commodity prices such as those of crude oil, wheat, aluminium, and gold continued to increase following the rebound in prices that began in the second quarter of 2009. The average world price of crude oil increased from USD 77.0 per barrel in the first quarter of 2010 to reach a price of USD 85.4 per barrel in the fourth quarter of 2010 (Table 1-3). Aluminium and gold prices also saw significant increases, with the price of aluminium moving

from USD 2,164.7 to USD 2,341.0 per metric tonne and the price of gold increasing from USD 1,108.9 per troy ounce to a high of 1,367.5 per troy ounce for the same period.

The price of wheat also rose from USD 195.7 per metric tonne in the first quarter of 2010 to USD 283.6 per metric tonne in the last quarter. However, unlike the other commodities, the price of wheat began the year with lower prices than in 2009 only to begin increasing in the second half of 2010. The wheat price increase is due in part to Russia's ban on grain exports in the third quarter of 2010 in response to a severe drought.

Overall, all the main commodities saw substantially higher price levels at the end of 2010 than those achieved in 2009. The price of gold increased by 40.5% from the 2009 average while aluminium prices similarly grew by 40.2% followed by crude oil prices which increased by 38.2% and finally the price of wheat grew by 26.9% at the end of 2010 compared to the 2009 average.

Table 1-3: Commodity Prices

Commodity	2009*	2010			
		Q1	Q2	Q3	Q4
Crude oil, avg, spot (\$/Barrel)	61.8	77.0	78.1	75.5	85.4
Wheat (\$/Metric Tonne)	223.4	195.7	177.5	237.9	283.6
Aluminium (\$/Metric Tonne)	1,669.2	2,164.7	2,096.1	2,090.2	2,341.0
Gold (\$/Troy Ounce)	973.0	1,108.9	1,195.7	1,226.6	1,367.5

* Averages

Source: IMF, International Financial Statistics Database.

GCC Economies

With the recovery in the global economy and rising oil prices, prospects for the GCC region are estimated to have improved in 2010 and are expected to continue to do so in 2011. The anticipated increase in oil prices in 2010 and 2011 will lead to notable improvements in the fiscal and external balances of the GCC countries. Non-oil activity is estimated to rise more gradually due to insufficient domestic credit and low investment demand, despite being counteracted by supportive policies. Average inflation is projected to increase in line with the expected recovery in commodity prices but still remain below pre-crisis levels.

For the year 2010, real GDP growth for the GCC is estimated to accelerate to 4.5%, up from a low of 0.4% in 2009 (Table 1-4). It is projected that the region

will grow at a rate of 5.9% in 2011. After shrinking by 5.4% in 2009, real oil GDP is estimated to have grown in 2010 by 3.8% and expected to increase to 6.5% in 2011. Non-oil GDP is also projected to keep growing from 3.2% in 2009 to an estimated 4.2% and 5.1% in 2010 and 2011. Inflation is also expected to increase to 4.2% in 2010 from 3.2% in 2009 and is projected to remain at that level in 2011.

Table 1-4: Growth and Inflation for the GCC

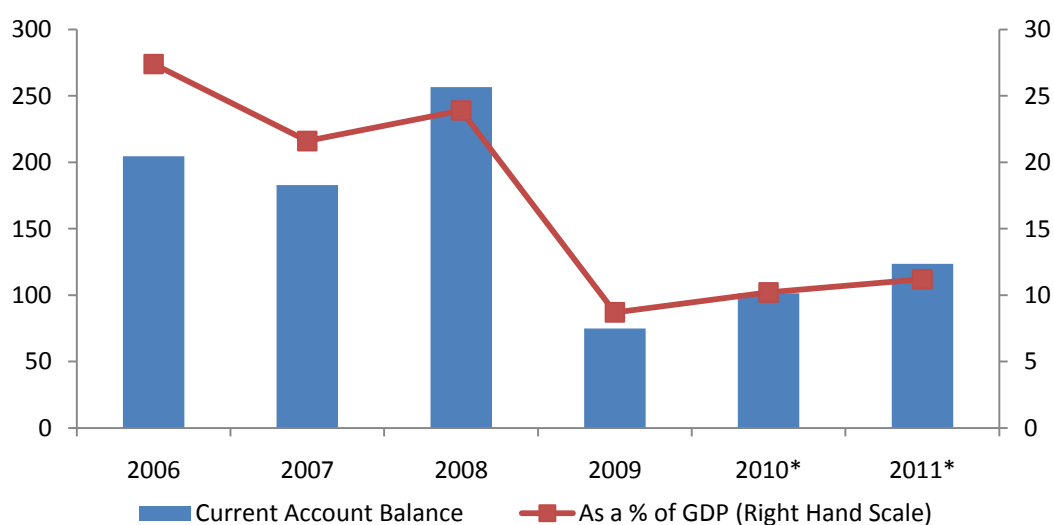
	2009	2010*	2011*
Real GDP Growth (% change)	0.4	4.5	5.9
Oil GDP	-5.4	3.8	6.5
Non-Oil GDP	3.2	4.5	5.1
Inflation (average %)	3.2	4.2	4.2

* IMF projections

Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2010.

In 2010 and 2011, the current account balance for the GCC countries is estimated to see significant improvements due to rising oil prices and production levels. The GCC current account surplus is projected to increase in 2010 to reach USD 101.3 billion after the 2009 low of USD 74.9 billion. The current account balance is expected to recover further in 2011 reaching USD 123.6 billion (Chart 1-5).

Chart 1-5: Current Account Balance for GCC Countries, 2005-2011*



* IMF projections

Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2010.

Also as a result of rising oil prices, the fiscal balance of the GCC countries is forecast to improve significantly in 2010 and 2011. The overall fiscal surplus of the GCC countries increased from a low of 0.3% of GDP in 2009 to a projected 4.0% in 2010 and 6.9% of GDP in 2011 (Table 1-5). The GCC countries in general have substantial fiscal space due to low debt levels and large buffers from the years before the crisis. This allowed them to implement stimulus plans for the years 2009-2011.

Table 1-5: Fiscal indicators for the GCC, 2009 – 2011

(% of GDP unless otherwise stated)

	2009	2010*	2011*
Fiscal Balance	0.3	4.0	6.9
Total Revenue, Excluding Grants	42.0	42.9	43.6
Non-Oil Fiscal Balance (% of non-oil GDP)	-53.5	-54.6	-51.1
Non-Oil Revenue (% of non-oil GDP)	21.5	20.8	20.1
Total Expenditure and Net Lending	41.7	38.9	36.7

* IMF projections

Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2010.

In line with the rise in oil prices, total revenue is projected to increase to 42.9% of GDP in 2010 and is expected to grow further to 43.6% of GDP in 2011. However, the non-oil fiscal deficit is estimated to have increased to 54.6% of non-oil GDP in 2010, as non-oil revenue declined to 20.8% of non-oil GDP for the same year, and the non-oil fiscal deficit is projected to decrease to 51.1% of GDP in 2011 despite a decrease in non-oil revenue to 20.1% of GDP in 2011.

Chapter

2

2. Bahrain's Economic Performance

Overview

Gross Domestic Product and Economic Growth

Domestic Prices

Labour Force

International Rankings

Bahrain Policy Developments

Private Sector Developments

Overview

In 2010, Bahrain's economy rebounded registering a *positive* 11.8% nominal GDP growth rate after experiencing a *negative* growth rate in 2009. Real GDP also grew by 4.5% in 2010. This economic recovery can be attributed to a rebound in the financial sector along with the rising oil prices experienced in the second half of 2010. Inflation decreased from 2.8% in 2009 to 2.0% in 2010 while total employment increased by 5.2%, up from the 3.2% in 2009. In 2010, Bahrain maintained its credit ratings, and was ranked highly in various international economic rankings. Moreover, 2010 saw a continued effort to promote diversified economic growth through different public policy and private sector initiatives. The main challenge facing the economy is to continue promoting diversified economic output thereby ensuring sustainable economic growth.

Gross Domestic Product and Economic Growth

Bahrain's economy rebounded in 2010 recording 11.8% nominal growth rate after experiencing a negative growth rate of 11.4% in 2009. "Crude petroleum & natural gas" experienced a major increase growing by 22.5% and contributed 23.7% of GDP in 2010. "Manufacturing" also increased substantially growing by 20.5% in 2010 and contributing 15.4% of GDP. As for the "Non-financial corporations" sector (73.9% of GDP) which mainly comprises "Crude petroleum & natural gas" and "Manufacturing" increased by 14.4% and the financial corporations sector, which contributed 20.6% of GDP in 2010, also rose by 5.8% (Table 2-1).

Table 2-1: Gross Domestic Product (GDP) at Current Prices, 2009-2010

(BD Million)

	2009*	2010*	% Change	% Share (2010)
GDP at Current Prices	7,377.5	8,245.6	11.8	100.0
Non-Financial Corporations	5,325.3	6,089.5	14.4	73.9
<i>Of which:</i>				
-Crude Petroleum & Natural Gas	1,666.6	2,041.9	22.5	24.8
-Manufacturing	1,056.5	1,273.0	20.5	15.4
-Transportation and Communication	516.8	563.7	9.1	6.8
-Trade	554.2	597.6	7.8	7.2
-Real Estate & Business Activities	513.9	529.6	3.0	6.4
Financial Corporations	1,605.0	1,698.6	5.8	20.6
Government Services	962.1	998.2	3.8	12.1

* Provisional data

Source: Central Informatics Organisation (CIO)

In real terms, GDP grew by 4.5%, up from the 3.1% recorded in 2009 (Table 2-2). In absolute dinar terms, real GDP rose from BD 4,880.5 million to BD 5,100.2 million over the period.

Table 2-2: Gross Domestic Product (GDP) at Constant Prices, 2009-2010

(BD Million)

	2009*	2010*	% Change	% Share (2010)
GDP at Constant Prices	4,880.5	5,100.2	4.5	100.0
Non-Financial Corporations	3,393.0	3,590.2	5.8	70.4
<i>Of which:</i>				
-Crude Petroleum & Natural Gas	600.3	611.2	1.8	12.0
-Manufacturing	750.5	836.4	11.4	16.4
-Transportation and Communication	431.3	458.5	6.3	9.0
-Trade	331.9	350.6	5.6	6.9
-Real Estate & Business Activities	425.9	435.7	2.3	8.5
Financial Corporations	1,205.1	1,255.6	4.2	24.6
Government Services	724.7	747.8	3.2	14.7

* Provisional Data

Source: Central Informatics Organisation (CIO)

The “non-financial corporations” sector, which accounts for 70.4% of real GDP, grew by 5.8% in 2010, significantly above the -1.8% witnessed in 2009. The largest increase in the non-financial sector was in “Manufacturing” which grew by 11.4%, up from the -1.0% in 2009. The growth of the “non-financial corporations” sector highlights the fact that Bahrain’s real economic sector is on the mend.

Financial corporations rebounded in 2010, growing by 4.2% after the negative growth rate of 4.3% experienced in 2009. This growth is significant for Bahrain’s economy given that the financial sector is one of the largest single contributors to GDP. At the end of 2010, the financial sector accounted for 24.6% of real GDP. Government services continued its positive growth from 2009, expanding by 3.2% in 2010 down from 5.2% during 2009.

In real terms, “crude petroleum & natural gas” grew by only 1.8% in 2010, compared to a nominal growth rate of 22.5% indicating that high oil prices contributed to economic growth rather than a rise in oil production. Real non-oil GDP growth was stronger in comparison and registered a 4.8% growth in 2010. 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 still constitutes a large segment of fiscal revenues and exports.

Table 2-3: Crude Oil Production and Refining

(Barrels Thousands)

	2009	2010	2010			
			Q1	Q2	Q3	Q4
Total Crude Oil	66,510	66,376	16,436	16,224	16,786	16,930
Bahrain Oilfield	11,750	11,635	2,731	2,804	2,841	3,259
Abu Sa'afa Oilfield	54,760	54,741	13,705	13,420	13,945	13,671
Refined Oil Production	95,598	99,362	24,329	24,447	25,537	25,049

Source: National Oil and Gas Authority (NOGA)

Total crude oil production decreased slightly from 66,510 thousand barrels in 2009 to 66,376 thousand barrels in 2010. Production at Awali oil field (Bahrain Oilfield) declined marginally from a total of 11,750 thousand barrels at end 2009 to 11,635 thousand barrels at end 2010. Abu Sa'afa oil production also decreased from 54,760 thousand barrels in 2009 to 54,741 thousand barrels in 2010. However, refined oil production increased from 95,598 thousand barrels in 2009 to 99,362 thousand barrels in 2010, a 3.8% increase (Table 2-3).

During 2010, the Bahrain authorities continued to pursue initiatives to increase domestic oil production. In January 2010, a new-Bahrain based multinational oil development firm launched its operations. Tatweer Development (Tatweer Petroleum), is a joint agreement between UAE's Mubadala Development Co., National Oil and Gas Authority (NOGA), and US-based Occidental Petroleum Corp.

In May 2010, Tatweer Petroleum received its first service rig to repair and maintain existing oil wells and to complete new oil wells. Tatweer planned to workover 150 wells in 2010.

Domestic Prices

During 2010, Bahrain recorded an inflation rate of 2.0%, down from 2.8% in 2009 (Table 2-4). This reduction can be attributed in part to the general fall in the price of rents in Bahrain which is captured by the group "Housing, Water, and Electricity & Fuels". This group experienced a 1.2% drop. In contrast, the price for "education" and "restaurants" experienced the largest increase rising 6.0% and 5.9% respectively. With the continuous rise in global commodity prices, inflation is expected to increase in 2011, but not dramatically.

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

Major Group of Commodities and Services	2009	2010
Food and Non-Alcoholic Beverages	126.4	132.5
Alcoholic Beverages, Tobacco	111.2	117.3
Clothing & Footwear	104.6	106.4
Housing, Water, Electricity & Fuels	109.5	108.2
Furnishing, Household Equipment and Maintenance	111.5	113.2
Healthcare Services	102.3	105.9
Transport	101.9	105.4
Communication	97.0	94.7
Recreation & Culture	105.4	105.5
Education	106.3	112.7
Restaurants	106.6	112.9
Miscellaneous	114.9	117.5
General Index	109.9	112.1
Inflation	2.8	2.0

Source: Central Informatics Organisation

Labour Force

Total employment in Bahrain amounted to 511,559 at the end of 2010, 5.2% higher than in 2009 (Table 2-5). This increase was due mostly to the increase in employment in the private sector by 5.7% to reach 470,685 employees at end 2010.

The private sector accounts for 92.0% of total employment in Bahrain and mostly employed non-Bahrainis, who at the end of 2010 made up 82.2% of total private sector employment. Bahraini private sector employment accounted for 17.8% of total private sector employment and increased by 3.8% in 2010.

Conversely, the public sector only accounts for 8.0% of total employment and predominantly employs Bahraini nationals, who made up 87.0% of total public sector employment in 2010. Total public sector employment grew marginally by 0.3% for the same year.

Table 2-5: Employment

	2009	2010	2010			
			Q1	Q2	Q3	Q4
Total Employment*	486,071	511,559	489,657	489,623	492,019	511,559
Change (%)	3.2	5.2	0.7	0.0	0.5	4.0
Private Sector	445,330	470,685	449,010	449,422	452,008	470,685
As % of Total Employment	91.6	92.0	91.7	91.8	91.9	92.0
Male	403,499	423,763	405,216	405,561	407,561	423,763
Female	41,831	46,922	43,794	43,861	44,575	46,922
Bahraini	80,621	83,709	81,406	81,156	81,940	83,709
Non-Bahraini	364,709	386,976	367,604	368,266	370,068	386,976
Public Sector**	40,741	40,874	40,647	40,201	40,011	40,874
As % of Total Employment	8.4	8.0	8.3	8.2	8.1	8.0
Male	22,126	21,778	22,027	21,623	21,493	21,778
Female	18,615	19,096	18,620	18,578	18,518	19,096
Bahraini	35,528	35,547	35,429	34,987	34,915	35,547
Non-Bahraini	5,213	5,327	5,218	5,214	5,096	5,327

*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 preserved its position in various international assessments.

Credit Ratings

In 2010, 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 2010. 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 2010.

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

	2009		2010	
	Fitch	S&P	Fitch	S&P
Foreign Currency				
Long Term	A	A	A	A
Short Term	F1	A-1	F1	A-1
Outlook	Stable	Stable	Stable	Stable
Local Currency				
Long Term	A+	A	A+	A
Short Term	----	A-1	----	A-1
Outlook	Stable	Stable	Stable	Stable

Source: S&P, Fitch.

Rankings and International Indices

Bahrain entered the top 30 economies ranked in the Global Information Technology Report published by the World Economic Forum (WEF) in March 2010 ranking 29th out of 133 economies worldwide. This is 8 places above its 2009 ranking. This report is the most comprehensive and authoritative international assessment of the impact of Information and Communication Technology (ICT) on development and competitiveness. Furthermore, Bahrain was ranked as the most economically free Arab nation in a report by the Fraser Institute, a leading international think tank. Moreover, Bahrain was named “Best Financial Centre” by the Global Investor magazine, a flagship publication of Euromoney Institutional Investor Plc.

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

Table 2-7: Bahrain Human Development Index, 2009-2010

Year	HDI Rank (Value)	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	Combined gross enrolment ratio (%)	GDP per capita (PPP \$)
2009	39 (0.798)	75.6	88.8	90.4	29,723
2010	39 (0.801)	76.0	90.8	90.4	27,838

Source: Human Development Report

Bahrain's HDI rankings remained at the 39th place out of 169 countries in 2010 however, the HDI value improved from 0.798 to 0.801 from 2009 to 2010 (Table 2-7). This improvement was due mainly to advances in life expectancy at birth which went from 75.6 years to 76.0 in 2010 and adult literacy rates which rose from 88.8% of ages 15 and older to 90.8% of ages 15 and older from 2009 to 2010.

Bahrain Policy Developments

Labour Market

Bahrain's efforts in improving its labour force are evident in the work of the Labour Fund "Tamkeen". Throughout 2010, Tamkeen promoted business growth and invested in the human capital through various programmes and initiatives. These initiatives focus on human capital and private sector.

In December 2010, Bahrain's Ministry of Labour launched the National Employment Program on the eGovernment portal for unemployed job seekers. This program provides job seekers with eServices such as "unemployment registration", "training for job seekers", "insurance for job seekers" and "unemployment job search". These eServices provided by the Ministry of Labour are part of an initiative to provide better services for job seekers and to enhance the quality of services in general.

Structural Developments

Infrastructure is fundamental to sustainable economic development. Significant progress in improving the infrastructure and the execution of planned projects will have a direct impact on the daily life of the people and play a crucial role in fostering an investment-friendly environment.

In 2010, work began on the BD 2.65 million revamp of the King Faisal Highway. This project will include family rest areas, children's rides and a 1km walkway. Furthermore, work was also underway for a new coastal bridge over that road.

E-Government

Bahrain's e-Government Authority plans 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 addition, it is working on executing the plans contained within Bahrain's e-government strategy to achieve Bahrain's e-initiatives.

In the United Nations e-Government Readiness Report 2010, Bahrain ranked 1st among GCC and Arab countries and 13th at the world level, a jump of 29 positions from the 42nd ranking it had in 2008. Bahrain also achieved 3rd place among Asian countries outperforming countries like Japan and Malaysia. This report issued by the United Nations assesses the readiness of countries for the application of ICT in their e-government and the extent of access to the public.

In May 2010, Bahrain won the United Nations Public Service Award 2010 and was among the top 20 countries worldwide according to the United Nations Department of Economic and Social Affairs (UNDESA) index for public service. The award comes under four categories: 1. improving transparency, accountability and responsiveness in the public service, 2. improving the delivery of services, 3. Fostering participation in policy-making decisions through innovative mechanisms, 4. Advanced knowledge management in government. Bahrain also won two other awards: one for the eGovernment portal for improving transparency, accountability and responsiveness in the public service and the other for the national Enterprise Architecture project.

In February 2010, the Talal Abu Ghazaleh Organization (TAG-Org) announced that it will set up its regional headquarters in Bahrain. TAG-Org is a global leader with 71 offices across the world which provides professional services in ICT development, business advisory, intellectual property rights protection, domain name registration, among other things.

Economic Agreements

In 2010, Bahrain signed a number of Memorandums of Understanding (MOU) and agreements with other countries. The bilateral MOU's were agreed upon to stimulate business and investment between Bahrain and the respective countries by reducing legislative barriers to economic activity.

In January 2010, an MOU was signed between the Ministry of Finance (MOF) of Bahrain and Luxembourg. The MOU aims to strengthen and develop economic, trade and technical co-operation between them on the basis of

equity and mutual benefit. The MOU establishes a Joint Economic Committee to co-ordinate the implementation of this goal.

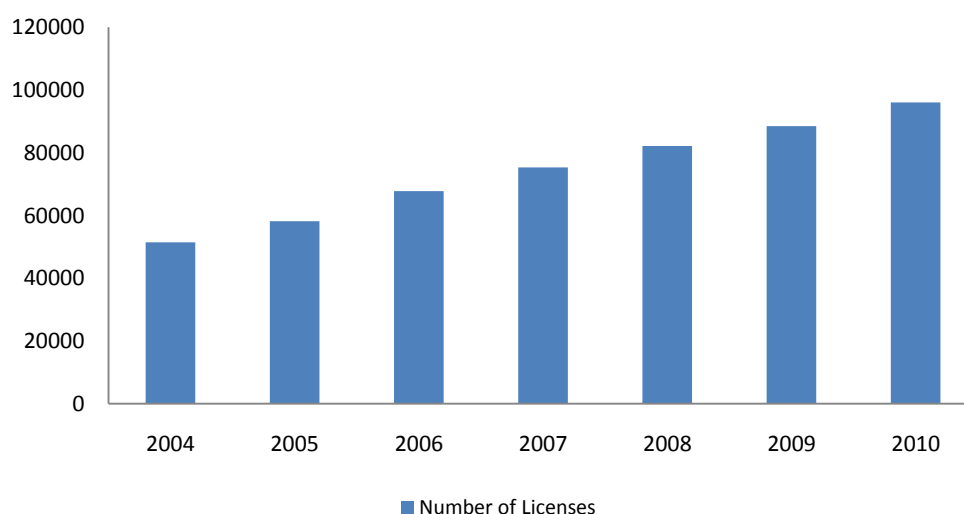
In March 2010 a double taxation agreement was signed between Bahrain and the United Kingdom. This agreement ensures the elimination of double taxation on income and capital gains for enterprises operating in both countries. Similarly, in April 2010, Bahrain and Malta signed a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to income taxes.

Moreover, in April 2010, Bahrain signed a number of agreements and MOUs. An agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to income taxes and an MOU on economic, trade and technical co-operation was signed with Bermuda. Bahrain also signed a double taxation agreement with the Seychelles. Furthermore, Bahrain signed a framework agreement to enhance co-operation with the International Bank for Reconstruction and Development (IBRD).

In May 2010, Bahrain and Mexico signed a double taxation convention, while in October 2010, a protocol for a Bahrain-Malaysia double taxation agreement was signed. The protocol amends the existing Double Taxation agreement by inserting a new article which allows the authorities of both countries to exchange relevant tax information.

Private Sector Developments

The total number of commercial registration licenses increased during the period 2004-2010. In 2010, the total number of new commercial licenses issued totalled 7,519 taking the total number of commercial licenses to 96,039 (8.6% increase from 2009) (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 3,294 licenses were issued.

Chart 2-1: Total Number of Commercial Registration Licenses

Source: Ministry of Industry and Commerce

Property and Real Estate Developments

The real estate and construction sector embarked on new projects in 2010 while also continuing several projects.

In 2010, a total of 9,339 construction permits were issued, a decrease of 10.0%, over 2009 (Table 2-8). “Addition” permits constituted the majority of total construction permits in 2010 (55.2%), followed by 26.7% in the form of “new construction permits”.

Table 2-8: Construction Permits by Type

Construction Permits by Permit Type	2009	2010
Addition	5,737	5,156
Demolition	650	732
Demolition and New Construction	64	67
New Construction	2,936	2,493
Reclamation	9	12
Renovation	984	879
Total	10,380	9,339

Source: Ministry of Municipalities Affairs and Agriculture.

Many real estate projects continued to develop in 2010 such as Bahrain Bay and Riffa Views.

Work on Bahrain Bay, the USD 2.5 billion waterfront community located off the north shore of Manama, remained on track in 2010. During the year, work on the Four Seasons Hotel and Spa, which is to be located on Bahrain Bay, started. Also during 2010, infrastructure work on the two main north and south islands almost reached completion.

In 2010, Riffa Views, Bahrain's golf residential development, handed over 50% of its luxury villas to homeowners (400 villas). Moreover, The Royal Country Club, which will offer sporting facilities such as a swimming pool and an all purpose court neared completion.

Bahrain Stock Exchange

In October 2010, an initial public offering (IPO) of Aluminium Bahrain (Alba), the world's fourth largest smelter, opened. The IPO aimed to raise BD 160 million. Mumtalakat, which owns around a 77% stake in Alba, offered around 11.5% of its stake to the public. The IPO was open to all Bahrainis and GCC nationals including expatriates. In November 2010, the Alba shares were listed on the Bahrain Stock Exchange and in the London Stock Exchange.

In December 2010, the Central Bank of Bahrain stopped managing the Bahrain Stock Exchange to instead focus on its role of regulating the bourse.

Telecommunications

According to the "Telecommunications Market Indicators Report" released by the Telecommunications Regulatory Authority (TRA) in December 2010, there was an 11.6% increase in industry revenue between 2008 and 2009 with mobile phone revenues representing the majority of telecommunications revenue. Revenues in the telecommunications sector contribute 4.7% of GDP. Figures also show that the telecommunications sector in 2009 employed almost 2,500 workers, with Bahrainis constituting 85% of total employees.

The Saudi Telecom Co (STC) launched the operations of its Bahraini unit, Viva Bahrain, in March 2010. Together with Bahrain's other two mobile phone companies, Batelco and Zain they had about 1.6 million mobile subscribers in the third quarter of 2010. Most mobile subscriptions are prepaid representing 84.0% of total mobile subscribers in the third quarter of 2010.

In June 2010, the global VoIP service provider, Skype, decided to open its representative office for the Middle East and Africa region in Bahrain. Skype undertook this decision mainly due to Bahrain's liberal and advanced ICT infrastructure and skilled local workforce.

Industrial Developments

The industrial sector is an important part of Bahrain's economy contributing approximately 16% of Bahrain's GDP. In 2010, Bahrain's industrial sector continued to develop and grow.

Bahrain's flagship industrial development, the Bahrain Investment Wharf (BIW) is designed to attract small, medium and large-sized manufacturing companies. With a modern infrastructure developed with a deepwater port and power station, the goal is to promote Bahrain as a manufacturing hub. In January 2010, Tameer, a Bahrain-based developer, signed an agreement allowing it to develop the infrastructure at the BIW. Tameer is investing BD 94.5 million in the project and will be responsible for creating the entire infrastructure and the installation of all services.

In January 2010, Bahrain-based Gulf Petrochemical Industries Co opened a new BD 20.7 million hi-tech carbon dioxide extraction plant. This environmentally friendly unit aims to extract 450 metric tonnes of carbon dioxide per day, which in turn will reduce gas emission substantially. The extracted carbon dioxide will boost the production of ammonia and methanol by 200 tonnes daily.

Chapter

3

3. Monetary Developments

Overview

Money Supply Developments

Domestic Interest Rates

Exchange Rate Developments

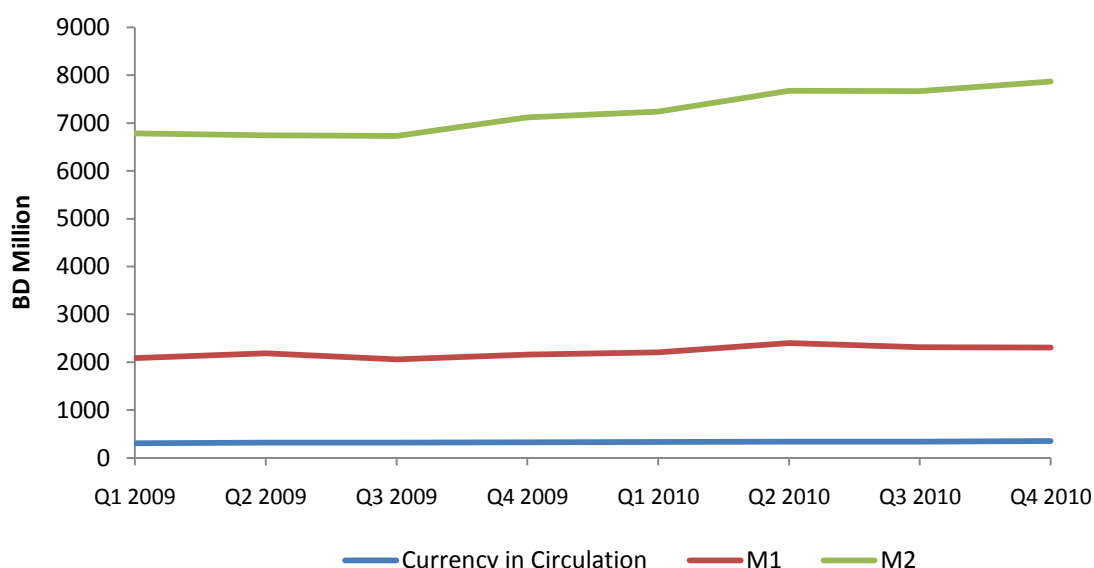
Overview

In 2010, monetary trends in Bahrain continued to reflect trends in the global economy as well as domestic economic developments. Given the Bahraini dinar's peg against the US dollar, domestic interest rates largely tracked US policy rates during the year 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 2010 but at a steady pace witnessed as in 2009. Currency in circulation (currency outside banks) registered an increase of BD 26.6 million (8.2% growth) to reach BD 349.6 million compared with BD 323.0 million in 2009 (Table 3-1). M1 (currency in circulation plus demand deposits) grew by 6.7% from BD 2,158.3 million in 2009 to BD 2,303.9 million in 2010. As a result of the growth in M1, M2 (M1 plus time and savings deposits) rose by BD 748.2 million (10.5% increase) from BD 7,119.3 million at end 2009 to BD 7,867.5 million at end 2010.

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 2010, total private sector deposits (demand deposits as well as time and savings deposits) amounted to BD 7,517.9 million and accounted for 95.6% of M2. Private sector Time and saving deposits increased by 12.1% and largely contributed to the growth in M2. Demand deposits increased by 6.5% from BD 1,835.3 million at end 2009 to BD 1,954.3 million at end 2010 and total private sector deposits increased by 10.6% to reach BD 7,517.9 million at end 2010.

Table 3-1: Money Supply

(BD Million)

End of Period	Currency Outside Banks 1	Deposits ^{1/}			M1 (1+2)	M2 (M1+3)	M3 (M2+4)
		Private Sector		General Government ^{2/} 4			
		Demand 2	Time and Savings 3				
2009	323.0	1,835.3	4,961.0	1,284.9	2,158.3	7,119.3	8,404.2
2010	349.6	1,954.3	5,563.6	1,628.2	2,303.9	7,867.5	9,495.7

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 Bahraini dinar deposits of all types (demand, saving and time).

During 2010, Bahraini dinar time deposits, which formed the majority of total private sector deposits, grew by 13.1% increasing by BD 345.6 million to reach BD 2,983.5 million. Bahraini dinar saving and demand deposits followed, growing by 29.5% and 10.1% respectively (Table 3-2). All categories of foreign currency deposits decreased during the year. Foreign currency demand, saving and time deposits decreased by 4.1%, 7.4% and 6.3% respectively.

At the end of 2010, the broadest measure of money (M3), increased by BD 1,091.5 million or by 13.0% from BD 8,404.2 million at end 2009 to BD 9,495.7 million at end 2010. From the context of deposits, M3 includes general government deposits (with both the Central Bank of Bahrain and retail banks) which increased by BD 343.3 million or 26.7% from BD 1,284.9 million in 2009 to BD 1,628.2 million in 2010.

Table 3-2: Private Sector Deposits by Currency

(BD Million)

Deposit Type	2009	2010	Change (%)
Demand			
<i>BD</i>	1,363.9	1,502.2	10.1
<i>Foreign Currency</i>	471.4	452.1	-4.1
Savings			
<i>BD</i>	1,021.5	1,323.2	29.5
<i>Foreign Currency</i>	135.8	125.8	-7.4
Time			
<i>BD</i>	2,637.9	2,983.5	13.1
<i>Foreign Currency</i>	1,120.9	1,050.4	-6.3
CBB Liabilities to Non-Banks (BD and Foreign Currency)	44.9	80.7	79.7
Total	6,796.3	7,517.9	10.6
As a Share of M2 (%)	95.5	95.6	0.1

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 2010, domestic assets increased by BD 1,160.7 million or 18.4% to reach a total of BD 7,476.9 million. In contrast, net foreign assets decreased by BD 69.2 million or 3.3% to reach a total of BD 2,018.8 million (Table 3-3).

Table 3-3: Factors Affecting Domestic Liquidity

(BD Million)

Factor	2009	2010	Change (%)
Domestic Liquidity (M3)	8,404.2	9,495.7	13.0
Factors Affecting Liquidity			
Net Foreign Assets	2,088.0	2,018.8	-3.3
a) CBB	1,331.1	1,800.6	35.3
b) Retail Banks	756.9	218.2	-71.2
Domestic Claims	6,316.2	7,476.9	18.4
c) Claims on Government	1,310.9	1,645.1	25.5
d) Claims on Private Sector ^{1/}	6,161.3	6,545.1	6.2
e) Other Assets (Net)	-1,156.0	-713.3	38.3

^{1/} Includes Loans and Holdings of Securities

Source: Central Bank of Bahrain

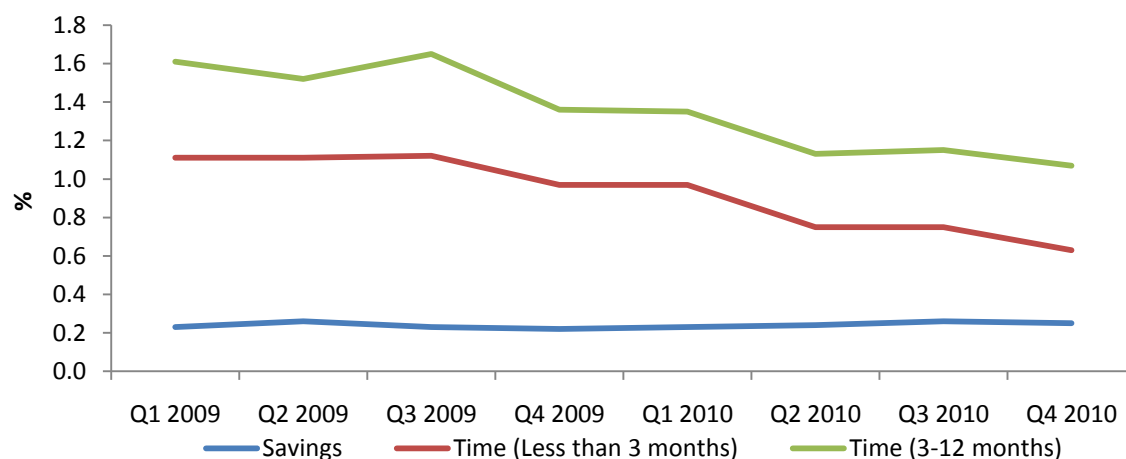
At the end of 2010, 78.7% of M3 was in the form of domestic assets and 21.3% in the form of net foreign assets. In terms of domestic assets, government claims, private sector claims, and other assets accounted for 17.3%, 68.9% and

-7.5%¹ of M3 respectively. Retail banks' net foreign assets account for 2.3% of M3.

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 1.36% at the start of 2010 to 1.07% by the end of the year; shorter term time deposits (less than 3 months) also decreased from 0.90% to 0.63% for the same period (Table 3-4). Rates on savings accounts increased slightly, from 0.24% to 0.25%.

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. Long term time deposits (3-12 months) were higher at the end of 2009 and have subsequently reduced during 2010.

Table 3-4: Deposit Interest Rates

Deposits	End-2009	2010 (% per annum)			
		Q1	Q2	Q3	Q4
Time ^{1/}					
a) <3 months	0.97	0.90	0.75	0.73	0.63
b) 3-12 months	1.36	1.36	1.13	1.13	1.07
Savings	0.22	0.24	0.24	0.24	0.25

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

Source: Central Bank of Bahrain

¹ Figure is mines because assets exceeded liabilities on the "other assets (net)" category.

On the lending side, weighted average rates for total business loans increased from 6.47% at the beginning of 2010 to 7.30% by year-end (Table 3-5). Rates for all sectors showed an increased by end of the year except for the trade sector which registered a decrease.

Table 3-5: Interest Rates on Business Loans

(% per annum)

Sector	End-2009	2010			
		Q1	Q2	Q3	Q4
Construction and real estate	9.44	7.08	6.06	5.58	8.17
Manufacturing	8.24	5.22	7.16	5.18	4.78
Trade	6.67	6.88	5.85	6.98	6.33
Other ^{1/}	4.85	5.23	4.91	3.70	7.54
Total Business ^{2/}	7.17	6.47	5.56	5.59	7.30

1/ Includes non-banks financial and other services

2/ Includes overdraft approvals

Source: Central Bank of Bahrain

In contrast, weighted average rates for total personal loans decreased from 7.72% to 7.10% for the same period (Table 3-6). This is due to decreases in rates for loans secured by mortgages and vehicle title and unsecured loans by salary assignment. Loans secured by deposits increased for the period, as well as other loans.

Table 3-6: Interest Rates on Personal Loans

(% per annum)

Personal Lending Type	End-2009	2010			
		Q1	Q2	Q3	Q4
Secured by:					
by Mortgages	7.49	7.20	7.83	7.87	7.02
Vehicles Title	8.23	8.58	8.27	7.22	8.31
By Deposits	6.58	5.97	5.91	4.88	6.38
Unsecured:					
Salary Assignment	7.83	7.99	7.08	6.88	7.06
Other	18.50	13.25	18.50	11.16	17.74
Total Personal ^{1/}	7.67	7.72	7.05	6.82	7.10
Credit Cards	21.32	21.31	21.40	20.45	20.66

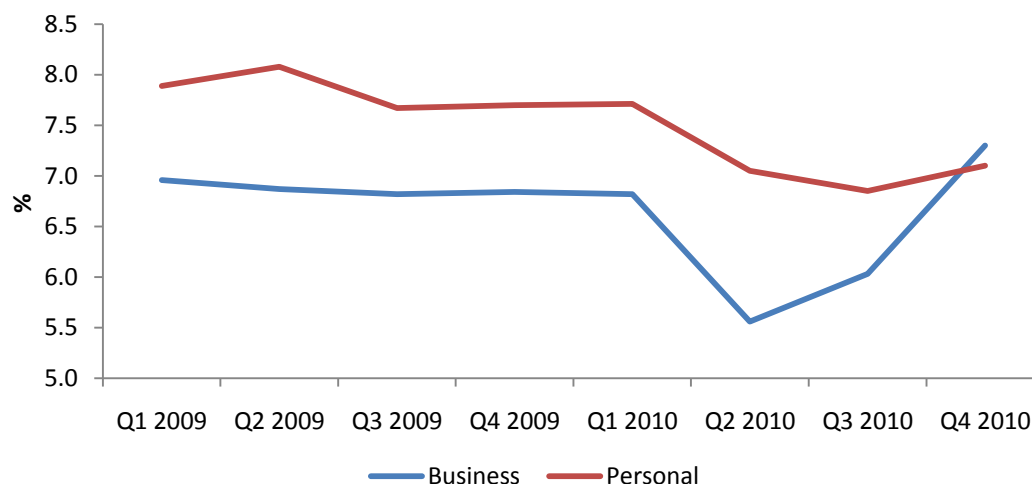
1/ Includes other types of personal loans not shown separately

Source: Central Bank of Bahrain

According to the data, personal loans unsecured by salary assignment were affected most by the interest rate reduction, as rates decreased from 7.99% at the beginning of 2010 to 7.06% by year-end. Rates on personal loans secured by mortgages also decreased from 7.20% to 7.02% for the same period. Personal loans secured by vehicle title decreased from 8.58% to 8.31% by end-2010.

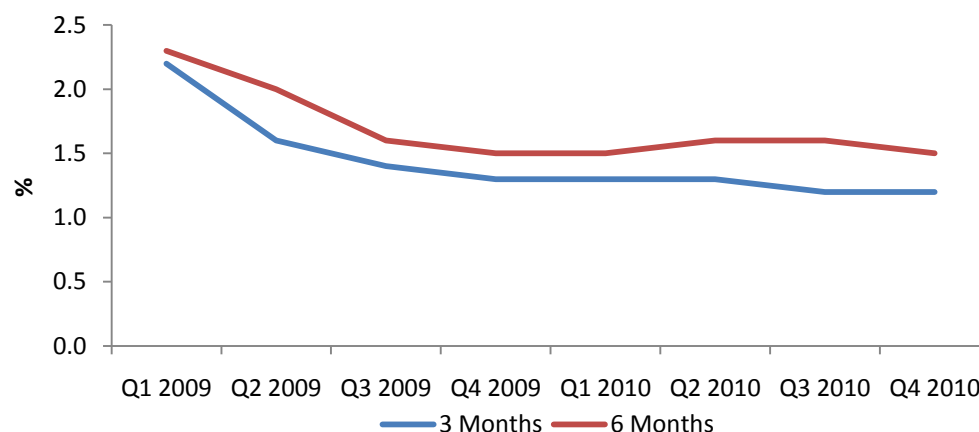
Rates on loans secured by deposits increased from 5.97% to 6.38%. Lending rates on “other” forms of unsecured lending increased also from 13.25% to 17.74%.

Chart 3-3: Personal and Business Interest Rates



Source: Central Bank of Bahrain

Average interbank rates remained stable during the course of 2010 and are reflective of retail banks' demand for liquidity in Bahrain. The fixed rates are also a result of unchanged US monetary policy during 2010.

Chart 3-4: Money Market Rate/Interbank Rate

Source: Central Bank of Bahrain

Average short term interbank rates (3 month) fell slightly from 1.3% in the first quarter of 2010 to 1.2% in the third quarter and remained at that level till the end of the year. Longer term interbank rates (6 month) remained at the same rate for the year at 1.5% (Chart 3-4).

Exchange Rate Developments

During 2010, the Bahraini dinar appreciated against the Pound Sterling and Euro while it depreciated against Japanese yen and Swiss Franc (Table 3-7).

Table 3-7: BD Exchange Rate against major currencies

	End-2009	2010			
		Q1	Q2	Q3	Q4
Saudi Riyal	0.100	0.100	0.100	0.100	0.100
Kuwaiti dinar	1.311	1.304	1.293	1.322	1.335
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	0.604	0.566	0.567	0.595	0.583
Euro	0.540	0.503	0.459	0.511	0.497
Japanese Yen ^{1/}	4.070	4.020	4.240	4.500	4.610
Swiss Franc	0.363	0.352	0.348	0.385	0.399

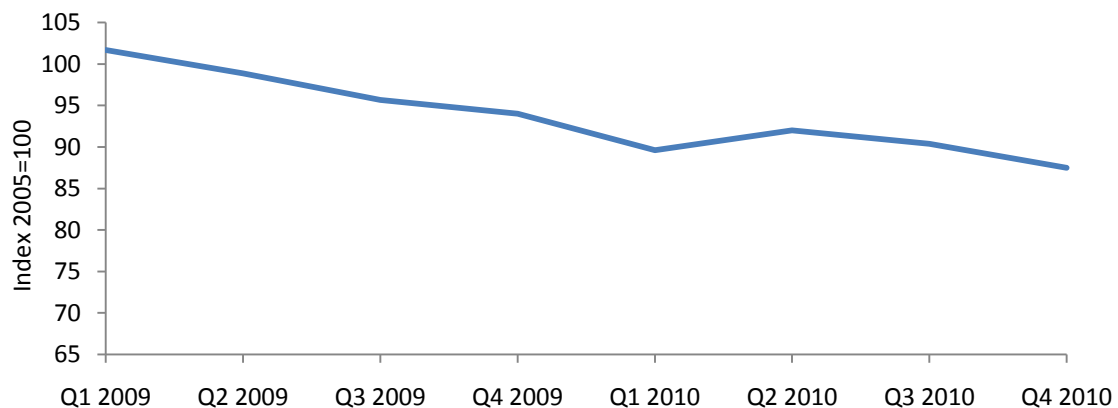
Interest rates as at the last working day of each period

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 2010, Bahrain's REER has decreased by 2.9 points (3.2%) compared to the previous quarter, and lower by 6.5 points (6.9%) compared to the fourth quarter of 2009 (Chart 3-5).

Chart 3-5: Bahrain's Real Effective Exchange Rate (2005 = 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 2010, the effects of the financial crisis started to gradually recede in Bahrain. There was a decrease in the number of financial institutions, and the credit facilities extended. However, the consolidated balance sheets of banks and the number of employees in the financial sector increased slightly in 2010.

Structure of the Bahrain Financial System

At the end of 2010, the financial sector remained the largest contributor to Bahrain's economy, accounting for 25.1% of real GDP. There were 406 banks and financial institutions operating in Bahrain in 2010 compared to 410 at end 2009 (Table 4-1).

Table 4-1: Total Number of Licenses (2009 vs. 2010)

License Type	2009	2010
Retail Banks	32	30
<i>Islamic</i>	6	6
<i>Conventional</i>	26	24
Wholesale Banks	78	77
<i>Islamic</i>	21	21
<i>Conventional</i>	57	56
Insurance Companies and Organisations	167	165
Investment Business Firms	47	46
Specialised Licensees	80	81
<i>Money Changers</i>	19	18
<i>Administrators</i>	5	5
<i>Registrar License</i>	0	1
<i>Financing Companies</i>	9	9
<i>Representative Offices</i>	30	27
<i>Islamic</i>	4	3
<i>Conventional</i>	26	24
Microfinance Companies	0	2
Trust Service Providers	3	3
Provider of Ancillary Services	13	13
Societies	1	2
Registered Professional Body	0	1
Capital Market Brokers	6	7
<i>Licensed Exchanges</i>	0	1
<i>Licensed Clearing, Settlement and Central Depository system</i>	0	1
<i>Stockbrokers</i>	6	5
Total	410	406

Source: Central Bank of Bahrain

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.

Despite the instability of the international markets during 2010, the CBB received several applications of various license categories, where 14 new licenses were granted by the CBB compared to 13 in 2009 (Table 4-2).

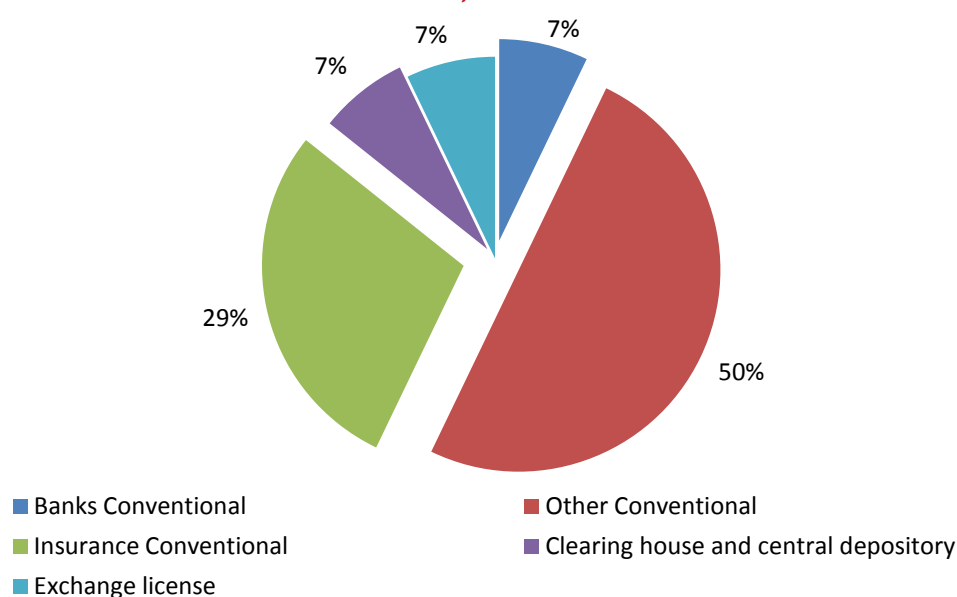
Table 4-2: New Licenses Issued (2009 vs. 2010)

License Type	2009	2010
Banks	2	1
<i>Islamic</i>	0	0
<i>Conventional</i>	2	1
Insurance Companies	8	4
<i>Islamic</i>	0	0
<i>Conventional</i>	8	4
Other Financial Institutions	3	7
<i>Islamic</i>	1	0
<i>Conventional</i>	2	7
Clearing house and central depository*	-	1
Exchange license*	-	1
Total	13	14

Source: Central Bank of Bahrain

*New categories were added in 2010.

Chart 4-1: New Licenses Issued, 2010



Source: Central Bank of Bahrain

Licenses have mostly been granted to other financial companies as shown in the graph above (50%). However, there was also growth in the number of insurance companies. In 2010, the CBB introduced new license categories under capital markets, which are “Clearing House and Central Depository” and “Exchange License”.

Moreover, in January 2010, Bahrain launched the dispute resolution chamber which aims to resolve commercial disputes in the region. The chamber specifically deals with Bahrain’s financial sector and disputes between Islamic banks and investment houses in particular.

Consolidated Banking System

The consolidated balance sheet for the banking system (conventional and Islamic retail and wholesale banks) increased slightly in total to reach USD 222.2 billion by the end of 2010, compared to USD 221.8 billion at the end of 2009, an increase of USD 0.4 billion, or 0.2% (Table 4-3). Wholesale banks represented 70.5% of the total, while retail banks accounted for 29.5%.

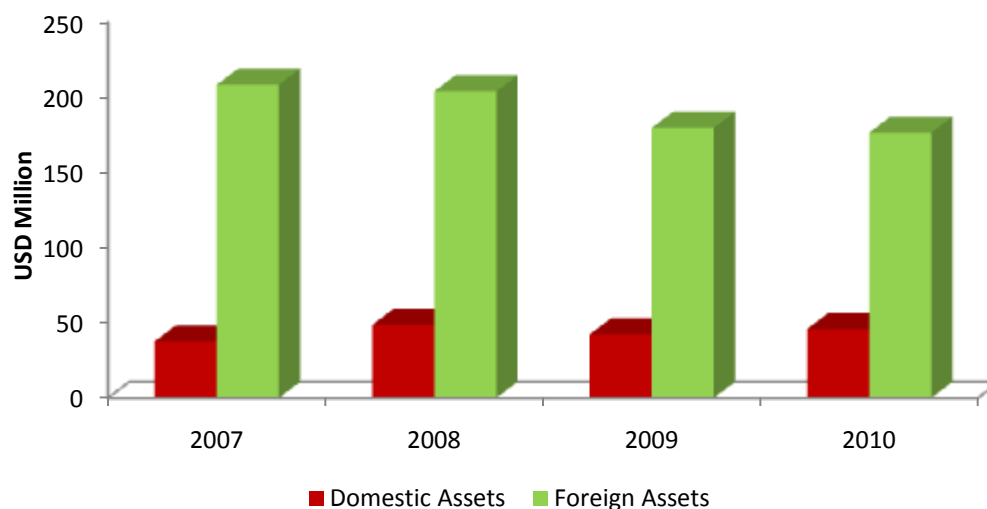
Table 4-3: Consolidated Balance Sheet of the Banking System

(USD Billion)

Items	Year-end		% Change
	2009	2010	
Retail Banks	59.7	65.5	9.7
Wholesale Banks	162.1	156.7	-3.3
Total	221.8	222.2	0.2

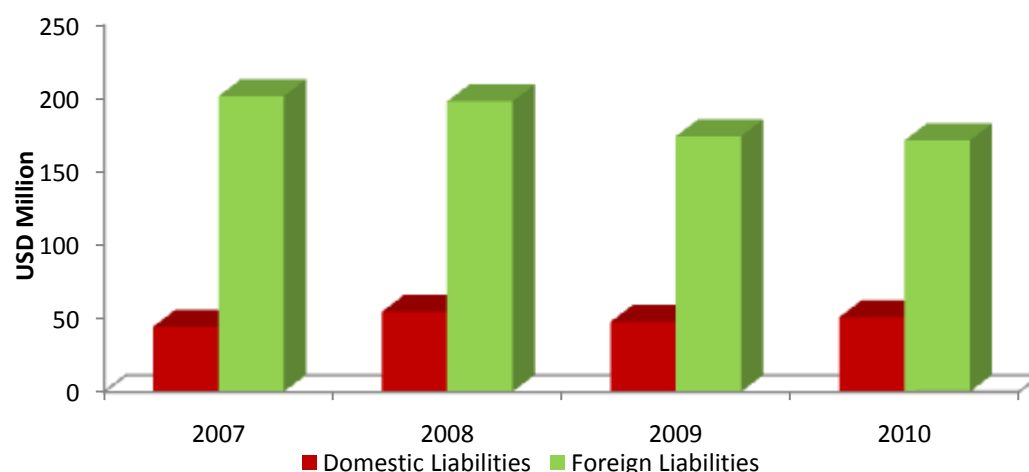
Source: Central Bank of Bahrain

In total, domestic banking assets amounted to USD 45.8 billion at the end of 2010 compared to USD 42.2 billion at the end of 2009, registering an increase of USD 3.6 billion (8.5%). Foreign assets amounted to USD 176.4 billion at the end of 2010 compared to USD 179.6 billion at the end of 2009, a decrease of USD 3.2 billion (1.8%).

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

Source: Central Bank of Bahrain

Domestic liabilities grew to USD 50.8 billion at the end of 2010 compared to USD 47.7 billion at the end of 2009, an increase of USD 3.1 billion (6.5%). Total foreign liabilities decreased at the end of 2010 by USD 2.7 billion (1.6%) to reach USD 171.4 billion against USD 174.1 billion at the end of 2009.

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

Source: Central Bank of Bahrain

Geographically, the banking systems' balance sheet for 2010 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. However, over the period 2008-2010, the GCC

share of total assets decreased from 33.6% to 29.5%. Europe's share of total assets increased from 26.3% to 29.3% for the same period (Table 4-4). GCC assets experienced the largest decrease from 2008-2010. Assets in the Americas also decreased from 9.2% in 2008 to 8.9% in 2010, while assets in Asia increased from 7.0% to 7.6% for the same period.

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

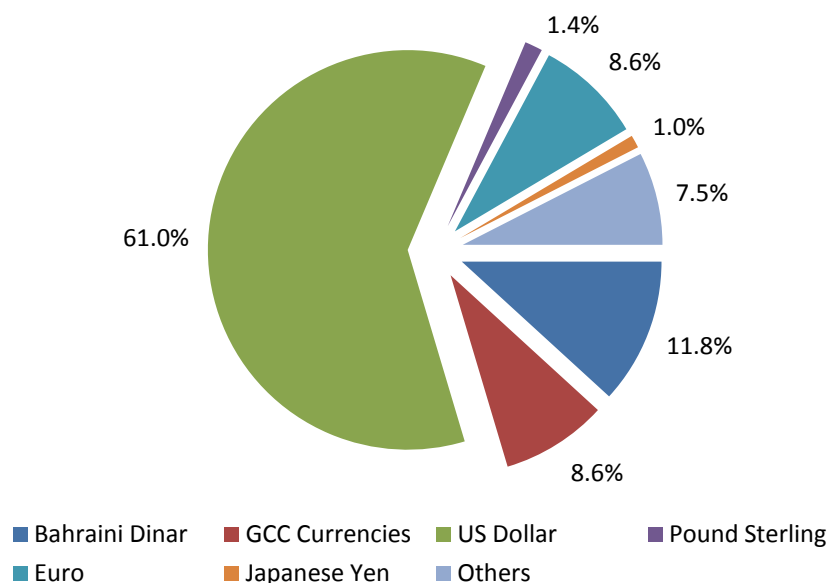
(USD Billion)

Items	Year					
	2008		2009		2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	48.5	54.5	42.2	47.7	45.8	50.8
GCC	87.2	67.2	74.7	58.0	65.5	54.6
Other Arab Countries	5.2	13.0	7.0	12.6	6.8	14.1
Americas	23.8	14.4	20.3	8.6	19.7	12.9
Western Europe	69.3	80.7	58.3	70.9	65.0	71.3
Asia	13.4	20.4	15.5	21.9	16.9	16.1
Other	5.0	2.2	3.8	2.1	2.5	2.3
Total	252.4	252.4	221.8	221.8	222.2	222.2

Source: Central Bank of Bahrain

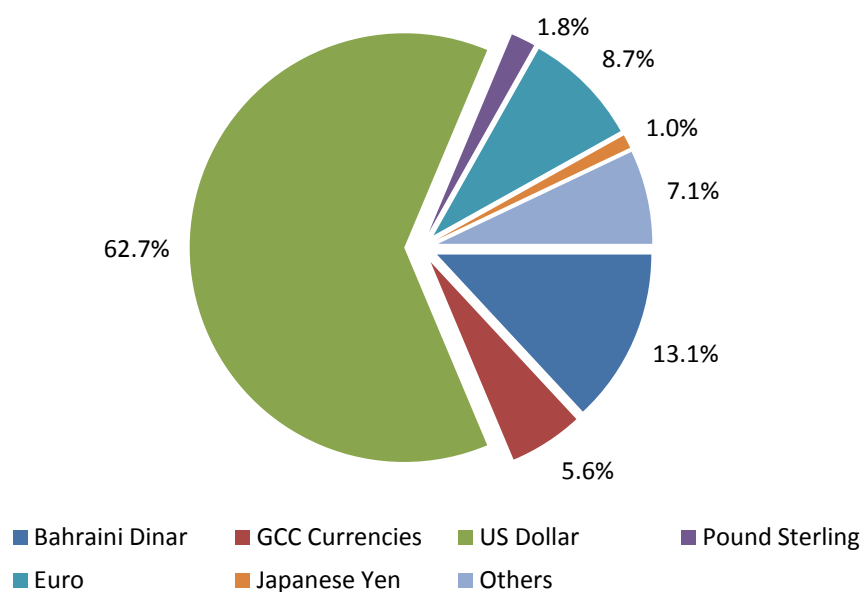
The trends for liabilities during 2008-2010 indicate that Europe at 32.1% accounts for the largest percentage of total liabilities. This is followed by the GCC and Bahrain which in 2010 account for 24.6% and 22.9% of total liabilities respectively.

In 2010, as in previous years, most assets are denominated in US dollars (61.0%). This is due to the fixed exchange rate regime, which adds to the certainty and predictability of banking business. Bahraini dinar assets accounted for 11.8% of total assets followed by the GCC currencies and the Euro which contributed each for 8.6% of total assets (Chart 4-4).

Chart 4-4: Currency Structure of the Banking System's Assets, 2010

Source: Central Bank of Bahrain

Similarly, the liabilities by currency are mostly of US dollar, accounting for 62.7% of total liabilities, up from 61.2% in 2009. This is followed by the Bahraini dinar and the Euro currencies which accounted for 13.1% and 8.7% of total liabilities respectively (Chart 4-5).

Chart 4-5: Currency Structure of the Banking System's Liabilities, 2010

Source: Central Bank of Bahrain

Retail Banks

The total assets of retail banks (including foreign assets) stood at BD 24,610.3 million at end-December 2010, an increase of BD 2,149.7 million or 9.6% over 2009 (Table 4-5). This growth is due to an increase in domestic assets, which expanded by 20.1% from BD 10,910.3 million at end-2009 to BD 13,107.2 million at end-2010.

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

(BD Million)

Items	2009	2010	% Change
Total Domestic Assets	10,910.3	13,107.2	20.1
Cash	82.6	87.4	5.8
CBB	980.2	1,264.6	29.0
Banks ^{1/}	1,924.1	2,842.2	47.7
Private Non-Banks ^{2/}	6,161.3	6,545.1	6.2
General Government			
Loans	392.0	261.5	-33.3
Securities	816.5	1,353.7	65.8
Other	553.6	752.7	36.0
Foreign Assets	11,550.3	11,503.1	-0.4
Total Assets	22,460.6	24,610.3	9.6

1/ Includes Head Offices and Affiliates

2/ Loans and Holdings of Securities

Source: Central Bank of Bahrain

The major contributor to the growth in domestic assets were claims on general government securities, which increased by BD 537.2 million from BD 816.5 million at end-2009 to BD 1,353.7 million at end-2010, an increase of 65.8%. Claims on banks also increased by BD 918.1 million (47.7%) from BD 1,924.1 million at end-2009 to BD 2,842.2 million at end-2010. In contrast, foreign assets decreased by BD 47.2 million (0.4%) to reach BD 11,503.1 million.

At the end of 2010, total domestic liabilities stood at BD 13,325.4 million, 14.2% higher than the BD 11,667.2 million recorded in 2009 (Table 4-6). Total foreign liabilities (including capital and reserves) grew by 4.6% from BD 10,793.4 million at end-2009 to BD 11,284.9 million at end-2010. Most of the expansion in domestic liabilities were in liabilities to banks which increased by 29.7% amounting to BD 1,976.0 million at end-2010 and liabilities to general government which increased by 26.7% to reach BD 1,629.0 million.

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

(BD Million)

Items	2009	2010	% Change
Total Domestic Liabilities	11,667.2	13,325.4	14.2
Central Bank of Bahrain	167.5	206.7	23.4
Banks	1,524.1	1,976.0	29.7
Private Non-Banks ^{2/}	6,777.5	7,447.0	9.9
General Government ^{2/}	1,286.1	1,629.0	26.7
Other	249.5	303.3	21.6
Capital & Reserves	1,662.5	1,763.4	6.1
Foreign Liabilities ^{1/}	10,793.4	11,284.9	4.6
Total Liabilities	22,460.6	24,610.3	9.6

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

Source: Central Bank of Bahrain

Wholesale Banks

The consolidated balance sheet for wholesale banks shrank in 2010. Aggregate data indicates that total wholesale bank assets decreased by 3.3% to reach USD 156.7 billion at the end of 2010, down from USD 162.1 billion at end of 2009 (Table 4-7). The decrease in total assets was mainly due to a decrease in total domestic assets, which decreased from USD 13.2 billion at end-2009 to USD 11.0 billion at end-2010 or by 16.7%.

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

(USD Million)

Items	2009	2010	% Change
Total Domestic Assets	13,163.2	10,967.0	-16.7
Banks ^{1/}	7,768.6	6,171.5	-20.6
Private Non-Banks ^{2/}	3,686.3	2,959.2	-19.7
General Government ^{2/}	346.9	221.9	-36.0
Other	1,361.4	1,614.4	18.6
Total Foreign Assets	148,878.9	145,757.8	-2.1
Banks	13,700.9	20,951.3	52.9
Non-Banks	63,199.8	55,053.6	-12.9
Securities	28,026.6	27,012.0	-3.6
H.O. & Affiliates	39,634.4	38,809.5	-2.1
Other	4,317.2	3,931.4	-8.9
Total Assets	162,042.1	156,724.8	-3.3

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

Source: Central Bank of Bahrain

Claims on general government decreased by 36.0% from USD 346.9 million in 2009 to USD 221.9 million in 2010. Claims on banks and private non-banks also decreased to reach USD 6,171.5 million (20.6%) and USD 2,959.2 million (19.7%) respectively for the same period.

Similarly, total foreign assets declined by 2.1% during the same period, from USD 148.9 billion in 2009 to USD 145.8 billion in 2010. The decrease was driven mainly by a drop in claims on non-banks by 12.9%.

With regard to wholesale bank liabilities, most of the decrease during 2010 was in domestic liabilities, which declined by 7.4% from USD 16,632.1 million at end-2009 to USD 15,398.0 million at end-2010 (Table 4-8).

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

(USD Million)

Items	2009	2010	% Change
Total Domestic Liabilities	16,632.1	15,398.0	-7.4
Banks ^{1/}	8,630.5	8,624.2	-0.1
Private Non-Banks	966.5	994.7	2.9
General Government	244.8	550.7	125.0
Other ^{2/}	6,790.3	5,228.4	-23.0
Total Foreign Liabilities	145,410.0	141,326.8	-2.8
Banks	41,896.6	41,553.4	-0.8
Non-Banks	25,224.6	32,292.2	28.0
Securities	4,462.5	4,297.6	-3.7
H.O. & Affiliates	60,207.9	46,960.5	-22.0
Other ^{2/}	13,618.4	16,223.1	19.1
Total Liabilities	162,042.1	156,724.8	-3.3

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 47.0 billion at the end of 2010 and decreased by 22.0%. This was followed by securities, which reached USD 4.3 billion and decreased by 3.7%.

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. In 2010, the CBB has authorised the formation and marketing of

“Hyperion Australian Equity Islamic Fund”, the first Shari’a-compliant offshore fund comprised of the country’s stocks.

Consolidated assets of Islamic banks (retail and wholesale banks) declined by 0.6% during 2010 with the overall drop being fuelled by foreign assets (Table 4-9).

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

(USD Million)

Items	2009	2010	% Change
Total Domestic Assets	12,218.3	12,363.3	1.2
Cash	58.2	62.2	6.9
Investment with Banks ^{2/}	4,123.3	3,515.0	-14.8
Investment with Private Non-Banks	6,320.7	6,372.0	0.8
Investment with Government	318.2	340.1	6.9
Other	1,397.9	2,074.0	48.4
Total Foreign Assets	13,301.2	12,993.2	-2.3
Investment with Banks	2,015.6	1,730.2	-14.2
Investment with Private Non-Banks	3,372.7	2,414.5	-28.4
Securities	2,632.6	3,042.5	15.6
H.O. & Affiliates	5,080.2	5,440.6	7.1
Other	200.1	365.4	82.6
Total Assets ^{1/}	25,519.5	25,356.5	-0.6

1/ Includes Unrestricted Investment Accounts

2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

Foreign investment with private non-bank decreased, dropping by 28.4%, from USD 3,372.7 million in 2009 to USD 2,414.5 million in 2010. Foreign investment with banks also decreased by 14.2% from USD 2,015.6 million to USD 1,730.2 million for the same period.

In terms of domestic assets, investments with government and cash have been the major contributors, growing at 6.9% for both. In contrast, investments with banks had a decrease, declining by 14.8% to reach USD 3,515.0 million.

Unlike assets, liabilities are growing faster on the foreign side increasing by 1.9%, mostly led by increases in non-bank liabilities and capital and reserves (Table 4-10). Liabilities to non-banks grew by 16.3% from USD 1,800.2 million in 2009 to 2,093.0 million in 2010, while capital and reserve liabilities increased from USD 5,209.6 million in 2009 to 5,477.3 million in 2010, a growth of 5.1%.

Domestic liabilities declined by a total of 2.8%, led predominantly by capital and reserves, which decreased by 15.5% from USD 4,233.2 million in 2009 to 3,575.7 million in 2010. Liabilities to banks also decreased by 12.9% while general government and private non-banks increased by a relatively high 8.7% and 8.2% respectively.

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

(USD Million)

Items	2009	2010	% Change
Total Domestic Liabilities	13,909.5	13,524.0	-2.8
Banks ^{2/}	3,173.7	2,764.7	-12.9
Private Non-Banks	5,773.1	6,248.6	8.2
General Government	461.1	501.1	8.7
Capital and Reserves	4,233.2	3,575.7	-15.5
Other	268.4	433.9	61.7
Total Foreign Liabilities	11,610.0	11,832.5	1.9
Banks	3,902.2	3,597.5	-7.8
Non-Banks	1,800.2	2,093.0	16.3
H.O. & Affiliates	681.3	643.7	-5.5
Capital and Reserves	5,209.6	5,477.3	5.1
Other	16.7	21.0	25.7
Total Liabilities ^{1/}	25,519.5	25,356.5	-0.6

1/ Includes Unrestricted Investment Accounts

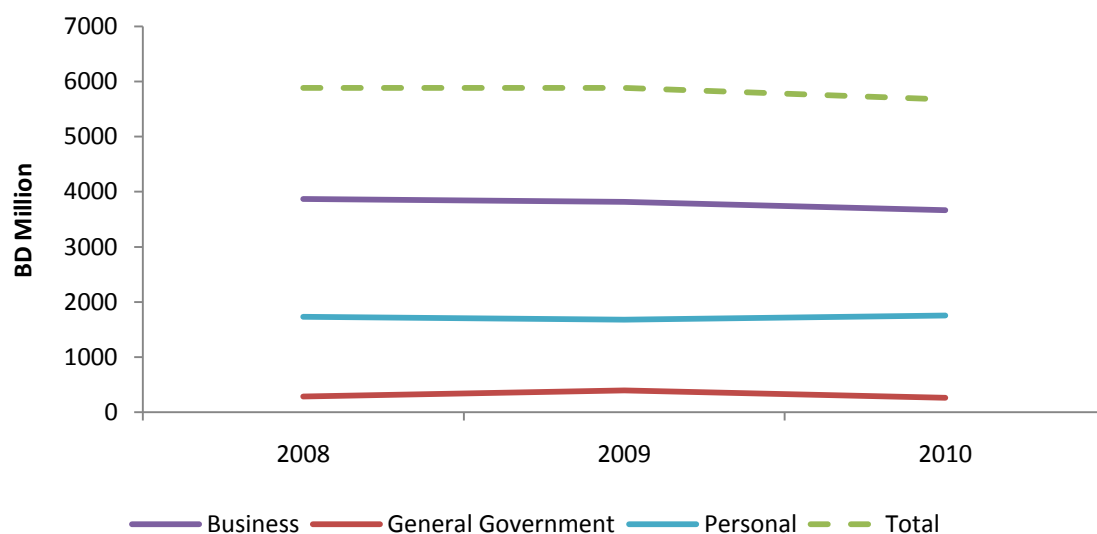
2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

Domestic Credit

Credit facilities have been showing a very modest decrease for the majority of economic sectors in Bahrain. Total outstanding credit facilities extended by retail banks to the different sectors of the domestic economy amounted to BD 5,676.6 million at end-2010, down 3.5% from the BD 5,884.9 million at end-2009 (Chart 4-6).

Total domestic credit decreased by 0.1% by end-2009 and decreased by 3.5% at end-2010 with the highest decrease being a 2.9% decline in the fourth quarter. Private sector credit (business and personal) shows a similar pattern, with a yearly drop of 2.0% in 2009 followed by a decline of 1.4% in 2010, indicating that the lending to households and business enterprises has remained sluggish.

Chart 4-6: Domestic Credit by Sectors

Source: Central Bank of Bahrain

Outstanding facilities to the business sector decreased by 4.0% from BD 3,816.6 million at end-2009 to BD 3,663.7 at end-2010. During 2010, business lending narrowed by 3.8% from BD 3,809.7 million in the first quarter of 2010 to BD 3,663.7 million in the last, concurrently decreasing its share of total domestic credit to 64.5%. Business credit showed a decrease of 4.6% during the second quarter of 2010.

In terms of composition, the private sector (business and personal combined) received the bulk of domestic credit, ranging from 93.3% to 95.4% of total loans from end-2009 to end-2010 (Table 4-11). The business sector accounts for the majority of credit facilities extended, yet its share of total credit has been declining. As a percentage of total credit facilities, outstanding business sector credit accounted for 64.5% at end-2010, down from 64.8% in 2009 and down from 65.7% in 2008.

Table 4-11: Domestic Credit by Sector

(BD Million)

Sectors	End-2008		End-2009		End-2010	
	Value	% Share	Value	% Share	Value	% Share
Business	3,870.5	65.7	3,816.6	64.8	3,663.7	64.5
General Government	283.2	4.8	392.0	6.7	261.5	4.6
Personal	1,733.9	29.5	1,676.3	28.5	1,751.4	30.9
Total	5,887.6	100.0	5,884.9	100.0	5,676.6	100.0

Source: Central Bank of Bahrain

Outstanding credit facilities to the personal sector increased by 4.5% from BD 1,676.3 million at end-2009 to BD 1,751.4 million at end-2010. Personal loans showed a 5.4% increase in the second quarter of 2010.

Personal sector credit facilities accounted for 30.9% at end-2010, increasing from 28.5% in 2009 and 29.5% in 2008. Credit to general government is typically low in comparison, accounting for 4.6% in 2010, lower than the 6.7% in 2009 and 4.8% in 2008.

Outstanding government credit increased by 38.4% to BD 392.0 million at end-2009, compared with BD 283.2 million at end-2008. However, by the end of 2010, lending to general government decreased by 33.3% to reach BD 261.5 million.

Table 4-12: Business Loans by Sector

(BD Million)

Sectors	2010*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Manufacturing	379.5	6.6	448.2	7.9	434.5	7.4	407.5	7.2
Mining & Quarrying	7.8	0.1	7.2	0.1	9.4	0.2	9.9	0.2
Agriculture, Fishing & Dairy	6.7	0.1	5.7	0.1	5.2	0.1	5.3	0.1
Construction & Real Estate	1,654.9	28.7	1,767.4	31.0	1,920.2	32.8	1,740.6	30.6
Trade	968.6	16.8	726.9	12.8	760.1	13.0	772.9	13.6
Non-Bank Financial	233.6	4.1	224.3	3.9	269.2	4.6	235.1	4.1
Other Sectors, of which:	558.6	9.7	454.6	8.0	483.3	8.3	492.4	8.7
Transport & Comm.	171.9	3.0	113.1	2.0	114.8	2.0	100.2	1.8
Hotels & Restaurants	67.4	1.2	64.7	1.1	80.8	1.4	88.7	1.6
Total Business Loans	3,809.7	66.1	3,634.3	63.8	3,881.9	66.4	3,663.7	64.5

*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

In the fourth quarter of 2010, loans to the construction and real estate segment accounted for the largest share of business loans (47.5%), with the trade sector being in second place at 21.1%. Most of the drop in business loans in 2010 occurred in the transport and communication and trade sectors.

Salary assigned loans represented the largest proportion of personal loans throughout 2010, reaching highs of 50.6% at the end of the year. Salary assigned loans and those secured by property mortgage made up for 70.0% of all personal loans by the end of 2010.

Table 4-13: Personal Loans by Sector

(BD Million)

Sectors	2010*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Secured by:								
<i>Property Mortgage</i>	337.4	5.9	327.6	5.7	347.2	5.9	339.7	6.0
<i>Vehicle Title</i>	135.4	2.4	120.3	2.1	96.7	1.6	106.7	1.9
<i>Deposits</i>	25.5	0.4	26.6	0.5	27.6	0.5	22.9	0.4
<i>Salary Assignment</i>	843.9	14.6	869.5	15.2	899.1	15.4	886.1	15.6
<i>Credit Card Receivables</i>	51.5	0.9	51.7	0.9	50.0	0.9	51.5	0.9
<i>Other</i>	177.6	3.1	259.8	4.6	276.6	4.7	344.5	6.1
Total personal loans	1,571.3	27.3	1,655.5	29.0	1,697.2	29.0	1,751.4	30.9

*Percentages are expressed as a share of total loans

Source: Central Bank of Bahrain

Credit Card Survey

The CBB conducted its semi-annual credit card survey in December 2010. The survey showed an increase in the total number of credit card customers by 3.7%, registering a total of 218,243 customers at December 2010 (Table 4-14). This increase follows a 16.3% increase reported in 2009. The number of credit card accounts increased by 2.3% from 164,082 in 2009 to 167,900 in 2010.

Table 4-14: Credit Card Data

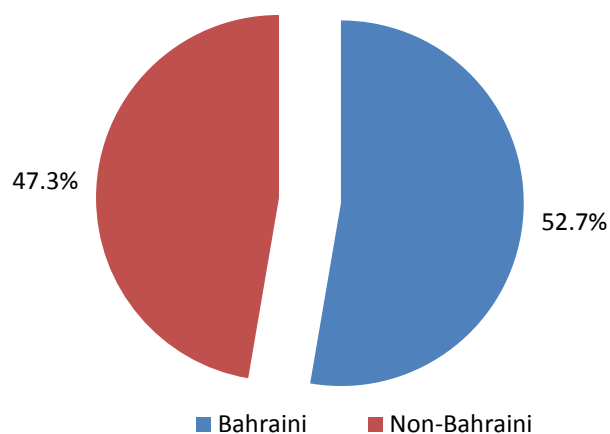
	Dec. 2009	Dec. 2010	% Change
Total Number of Customers	210,462	218,243	3.7
<i>Bahraini</i>	110,113	115,002	4.4
<i>Non Bahraini</i>	100,349	103,242	2.9
Number of Accounts	164,082	167,900	2.3
<i>of which: Rollover Accounts</i>	99,159	102,502	3.4
<i>Overdue Accounts</i>	19,102	18,626	-2.5
Total Limits (BD Million)	276.3	283.2	2.5
Total Outstanding (BD Million)	115.8	129.4	11.7
<i>of which: Delinquency Amounts</i>	36.7	47.0	28.1
<i>Amount of Credit Card written-off</i>	7.4	7.7	4.1
<i>Rollover Amounts</i>	66.0	70.0	6.1
Interest Rates	21.78	20.66	-5.1

Source: Central Bank of Bahrain

Bahrainis represented 52.7% of the total number of credit card holders in 2010 showing a slight increase from the 52.3% in 2009 (Chart 4-7). In recent years non-Bahraini credit card customers have also increased reaching a share of 47.3% in 2010. This is in contrast to the year 2000, where the Bahraini customers accounted for 78.1% and non-Bahrainis 21.9%.

The number of rollover accounts with outstanding balances at the end of 2010 increased by 3.4%, and totaled 102,502 accounts. Overdue accounts decreased by 2.5% or 476 accounts at end-2010, compared with end-2009 signaling improved payment by customers.

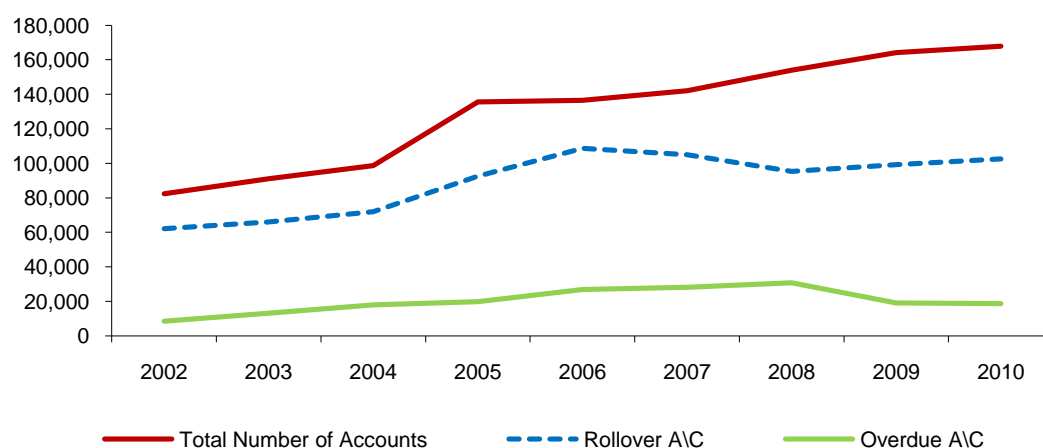
Chart 4-7: Credit Card Customers, 2010



Source: Central Bank of Bahrain

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

Chart 4-8: Credit Card Accounts

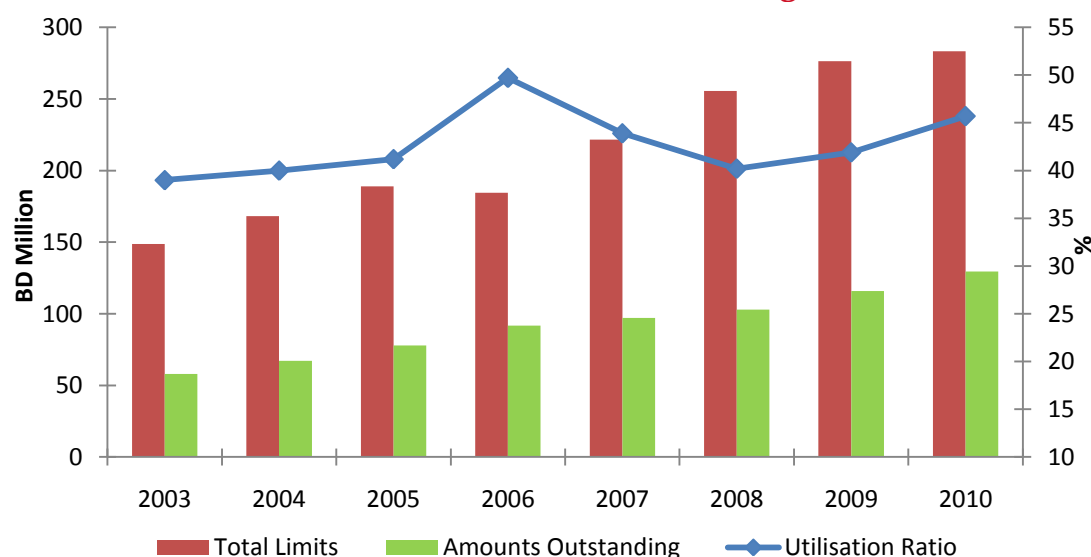


Source: Central Bank of Bahrain

Trends indicate that the total number of accounts have been increasing since 2002. Rollover accounts have generally been increasing as a percentage of total accounts while overdue accounts have been decreasing in the last two years (Chart 4-8). The increase in total accounts indicates growth in the credit card market, while the higher numbers of rollover accounts has shown more card usage.

An analysis of the total amounts outstanding reveals that rollover amounts as well as delinquency and credit card write offs have all increased in 2010. Rollover amounts reached BD 70.0 million at end-December 2010, making up 54.1% of the total amount outstanding, up by BD 4.0 million from the end of 2009. The rollover amount is a reflection of borrowed credit by customers on their accounts. The utilisation ratio, measured by dividing total outstanding by total limits, indicates how much of the created limits are used by cardholders. The utilisation ratio for credit cards in Bahrain have been fluctuating around 41.7% from 2003-2010, reaching a high of 49.7% in 2006, in part due to the fall in total limits. The utilisation ratio in 2010 was 45.7%, up from 41.9% in 2009.

Chart 4-9: Total Limits and Amounts Outstanding



Source: Central Bank of Bahrain

Delinquency amounts in the survey represent overdue amounts that have exceeded 90 days. The amount of delinquent credit increased by BD 10.3 million (28.1%) reaching a total of BD 47.0 million at end-December 2010 compared with BD 36.7 at the end of 2009. Amounts of credit card debt

written off increased by 4.1% in 2010, recording BD 7.7 million, compared with BD 7.4 million at end of 2009.

Mutual Funds

The mutual funds industry in Bahrain has been growing 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 increased by 5.0%, from USD 8,733.4 million in 2009 to USD 9,172.9 million in 2010 (Table 4-15). The number of mutual fund schemes increased from 2,711 to 2,767 during the same period, the growth in the value of mutual funds reflected the expansion in the global value of securities.

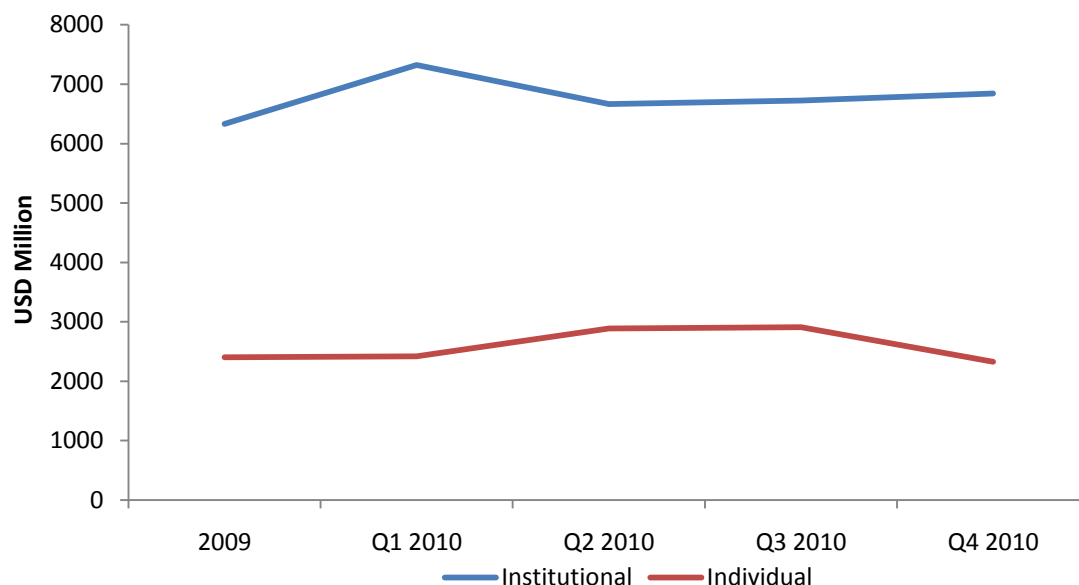
Table 4-15: Mutual Funds – Total Outstanding Investments, 2010

(USD Million)

Type of Institution	2009	2010			
		Q1	Q2	Q3	Q4
Retail Banks	2,425.0	2,410.4	2,908.5	2,949.5	2,385.5
Wholesale Banks	1,960.9	1,830.3	1,861.9	1,898.8	1,945.7
Investment Business Firms	933.1	930.0	931.3	926.0	940.0
Representative Offices	59.5	69.4	54.3	55.8	0.0
Foreign Licensed Banks and Financial Institutions	3,323.8	4,470.7	3,780.8	3,775.6	3,876.3
Insurance	31.1	29.8	26.6	27.4	25.4
Grand Total	8,733.4	9,740.6	9,563.4	9,633.1	9,172.9

Source: Central Bank of Bahrain

At the end of 2010, retail banks had USD 2,385.5 million outstanding in mutual funds investments, wholesale banks had USD 1,945.7 million outstanding, and other institutions (excluding retail and wholesale banks) had USD 4,841.7 million outstanding. The biggest year on year decreases were in insurance (18.3%) and retail banks (1.6%) categories. On the other hand, foreign licensed banks and financial institutions witnessed noticeable increases.

Chart 4-10: Individual and Institutional Mutual Fund Investments

Source: Central Bank of Bahrain

During 2010, mutual fund investments to institutional investors increased while investment to individual investors witnessed a drop (Chart 4-10). Amounts invested in by institutional investors increased by 8.1% from USD 6,331.6 million in 2009 to USD 6,844.3 million in 2010. In contrast to institutional investors, individual investments have shown a fluctuation during the year. During 2010, individual investments in mutual funds fell overall by 3.0%, from USD 2,401.7 million in 2009 to USD 2,328.6 million in 2010 mainly due to a 5.7% decrease in individual retail bank investments in mutual funds.

Manpower Survey

The CBB annual manpower survey showed an increase in the number of employees in the financial sector (banks and non-banks) of 1.5% following the 1.5% increase in 2009 (Table 4-16). Total employment in banks (retail banks, wholesale banks and representative offices only) reached 8,782 at the end of 2010, compared to 8,946 at the end of 2009, indicating a decrease of 1.8%. Bahrainis represented 73.7% of the work force in the banking sector compared with 72.8% in 2009.

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

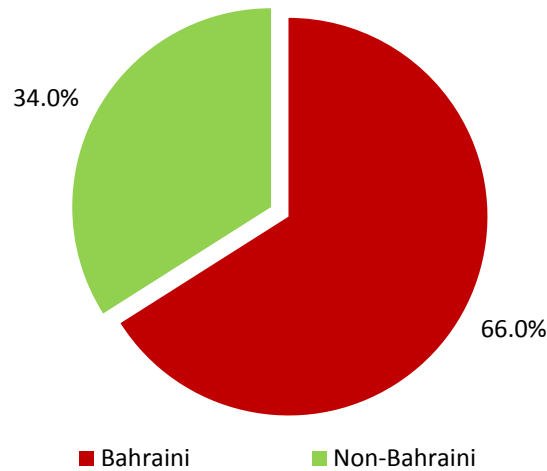
Sectors	2009			2010			% Change
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total	
Banks	6,509	2,437	8,946	6,473	2,309	8,782	-1.8
Retail Banks	4,314	1,009	5,323	4,481	1,034	5,515	3.6
Wholesale Banks	2,127	1,354	3,481	1,931	1,203	3,134	-10.0
Representative Offices	68	74	142	61	72	133	-6.3
Non-Banks	2,391	2,330	4,721	2,572	2,505	5,077	7.5
Insurance Companies	934	590	1,524	968	586	1,554	2.0
Insurance Related Activities Companies	203	333	536	279	464	743	38.6
Money Changers	243	728	971	229	789	1,018	4.8
Stock Brokers	30	7	37	28	5	33	-10.8
Financing Companies	490	114	604	541	124	665	10.1
Investment Business Firms	218	279	497	271	279	550	10.7
Other *	273	279	552	256	258	514	-6.9
Other Institutions	413	57	470	422	61	483	2.8
Total	9,313	4,824	14,137	9,467	4,875	14,342	1.5

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

Source: Central Bank of Bahrain

Bahraini employment in the financial sector increased by 1.7% while non-Bahraini employment increased by 1.1%. Bahrainis represented 66.0% of the total number of employees in the financial sector, indicating a slight increase from the 65.9% share in 2009 (Chart- 4-11).

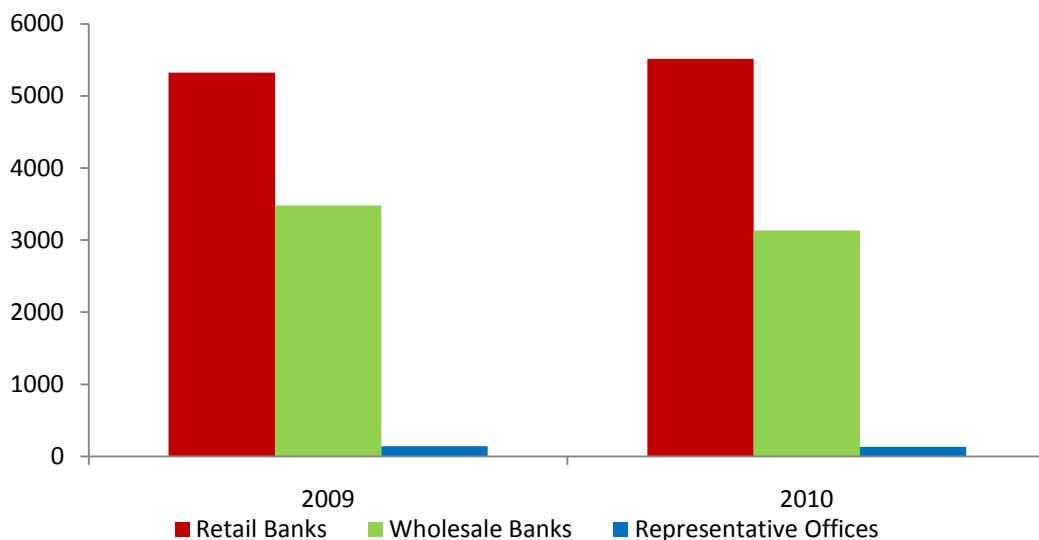
Chart 4-11: Bahraini and Non-Bahraini Employment in the Financial Sector, 2010



Source: Central Bank of Bahrain

The chart below (Chart 4-12) breaks down the banking sector into retail banks, wholesale banks, and representative offices. Wholesale banks and representative offices had significant decreases in employment in 2010, 10.0% and 6.3% respectively, while retail banks had a moderate increase.

Chart 4-12: Employment in the Banking Sector

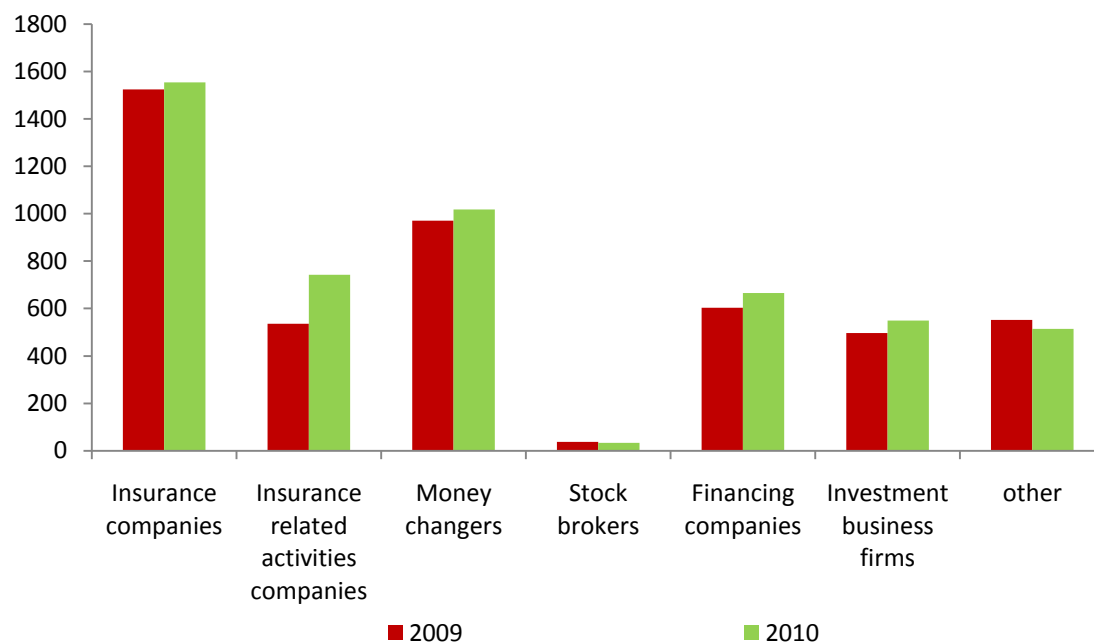


Source: Central Bank of Bahrain

Total employment in the non-bank financial sector reached 5,077 at end-2010, compared with 4,721 at end-2009, an increase of 7.5%. Bahrainis accounted for 50.7% of the total in the non-bank financial sector. The biggest increases in employment in the non-banking sector were in insurance related activities

companies, investment business firms and financing companies which grew in 2010 by 38.6%, 10.7% and 10.1% respectively (Chart 4-13).

Chart 4-13: 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 increased significantly during the year 2010, and as a result, government revenues increased by 27.4% to reach BD 2,175.6 million compared to BD 1,708.2 million at the end of 2009. Government expenditure increased by 26.6% to reach BD 2,635.4 million during the same period, up from BD 2,082.2 million in 2009.

As a result of these developments, Bahrain recorded a fiscal deficit before rollover of BD 459.8 million (Table 5-1). However, despite GDP recording a growth of 11.8%, the fiscal deficit as a percentage of GDP amounted to 5.6% before rollover and 9.4% after rollover.

Table 5-1: Summary of Public Finance

(BD Million)

	2006	2007	2008	2009*	2010*
Revenues	1,839.6	2,036.7	2,677.6	1,708.2	2,175.6
Oil & Gas	1,416.7	1,630.5	2,284.5	1,417.8	1,852.1
Non-Oil	422.9	406.2	393.1	290.4	323.5
Grants	28.2	35.9	29.4	28.4	28.6
Expenditure	1,558.5	1,818.1	2,060.3	2,082.2	2,635.4
Current	1,101.3	1,331.1	1,552.0	1,692.3	1,868.0
Project	457.2	487.0	508.3	389.9	767.4
Strategic Projects	0.0	0.0	70.0	72.0	0.0
Surplus/Deficit Before Rollover	281.1	218.6	547.3	(446.0)	(459.8)
As a % of GDP	4.7	3.1	6.6	6.0	5.6
Rollover for the Period					
Project	135.8	171.9	150.0	206.9	291.0
Current	3.7	3.8	25.2	72.6	22.4
Total Rollover	139.5	175.7	175.2	279.5	313.4
Net Surplus/Deficit After Rollover	141.6	42.9	372.1	(725.5)	(773.2)
As a % of GDP	2.4	0.6	4.5	9.9	9.4

* Provisional data

Source: Ministry of Finance

Revenues

Total revenue increased in 2010 by 27.4% to reach BD 2,175.6 million compared to 36.2% decrease in 2009 (Table 5-2). Fines, penalties, and miscellaneous items increased the most by 33.2% followed by oil and gas (30.6%). On the other hand, the biggest decline was in sale of capital assets and investment and government properties by 55.6% and 18.8% respectively.

Table 5-2: Government Revenue

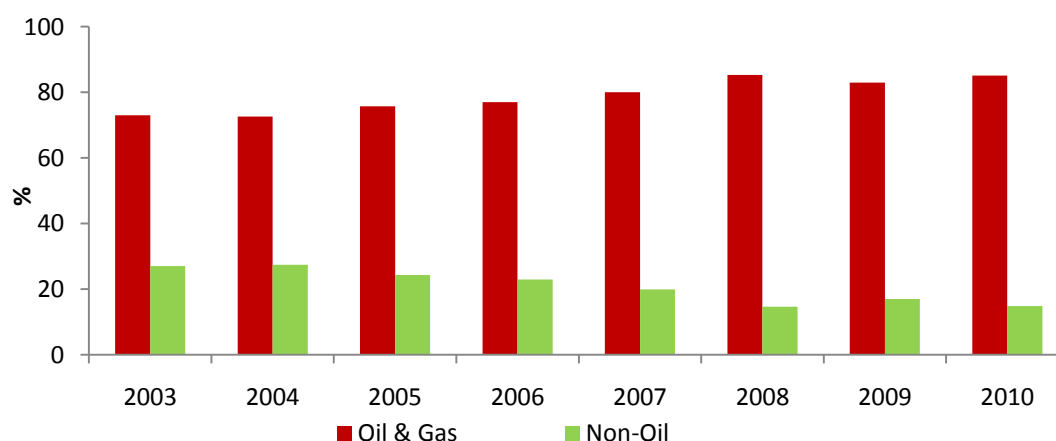
(BD Million)

Items	2009	2010	Change (%)
Oil & Gas	1,417.8	1,852.1	30.6
Taxation & Fees	159.3	179.0	12.4
Government Goods & Services	44.8	52.0	16.1
Investments & Government Properties	23.9	19.4	-18.8
Grants	28.4	28.6	0.7
Sale of Capital Assets	0.9	0.4	-55.6
Fines, Penalties & Misc.	33.1	44.1	33.2
Total Revenue	1,708.2	2,175.6	27.4

Source: Ministry of Finance

Oil and gas revenues amounted to BD 1,852.1 million (85.1% of total revenues) in 2010 compared with BD 1,417.8 million (83.0% of total revenues) in 2009 (Chart 5-1). These numbers indicate that the contribution of oil to total revenues increased 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 2011.

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



Source: Ministry of Finance

Expenditure

Total expenditures increased by 26.6% in 2010 to reach BD 2,635.4 million. Total current expenditure amounted to BD 1,868.0 million. The fastest growing component of current expenditure was grants and subsidies, which grew by 41.6%. This was followed by transfers and manpower which increased by 19.2% and 4.1% respectively (Table 5-3). Maintenance was the biggest decline in total expenditures, falling by 6.3%, followed by assets (-1.4%).

As for project expenditure, it amounted to BD 767.4 million.

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

(BD Million)

Items	2009	2010	Change (%)
Manpower	833.9	868.1	4.1
Services	129.7	130.5	0.6
Consumables	78.2	79.7	1.9
Assets	21.1	20.8	-1.4
Maintenance	47.4	44.4	-6.3
Transfers	444.1	529.4	19.2
Grants and Subsidies	137.8	195.1	41.6
Total Current Expenditure	1,692.2	1,868.0	10.4

Source: Ministry of Finance

Expenditure data for 2010 shows that most of government spending was in the form of current expenditure, which constituted 70.9% of total expenditure, down from 81.2% in 2009.

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 2010. Total debt outstanding at the end of 2010 amounted to BD 2,441.0 million, 81.1% higher than the level at the end of 2009 and accounted for 29.6% of GDP (Table 5-4). This significant increase can be attributed to the issuance of BD 920 million development bonds in 2010.

Table 5-4: Summary of Public Debt Instruments

(BD Million)

	2009	2010			
		Q1	Q2	Q3	Q4
Total Outstanding	1,348.0	1,871.0	1,981.0	2,031.0	2,441.0
% of GDP	18.3	22.7	24.0	24.6	29.6
Development Bonds	55.0	525.0	525.0	525.0	975.0
Treasury Bills	415.0	465.0	560.0	610.0	570.0
Islamic Leasing Securities	860.0	845.0	860.0	860.0	860.0
Al Salam Islamic Securities	18.0	36.0	36.0	36.0	36.0

Source: Central Bank of Bahrain

The 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 of development bonds was BD 975.0 million compared to BD 55.0 million in 2009. The total outstanding amount for T-bills (short and long term) as of December 31, 2010 was BD 570.0 million which is a 37.3% growth from the outstanding balance as of the same time the previous year (Table 5-5). During 2010, new T-bill issues amounted to BD 1,440.0 million as BD 1,285.0 million matured, leaving an outstanding balance of BD 1,545.0 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	
2008	0.0	0.0	0.0	498.0	588.0	180.0	180.0
2009	0.0	55.0	55.0	930.0	1,165.0	415.0	470.0
2010	0.0	920.0	975.0	1,285.0	1,440.0	570.0	1,545.0

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, 2010 was BD 896.0 million, a 2.1% increase from the BD 878.0 million as of December 31, 2009 (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.

The balance on the Islamic leasing securities remained unchanged at BD 860.0 million as an equivalent amount of matured securities were issued (BD 120.0 million). Newly issued Al Salam Islamic Securities amounted to BD 144.0 million while BD 126.0 million matured in 2010, leaving a balance of BD 36.0 million outstanding.

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	
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
2010	120.0	120.0	860.0	126.0	144.0	36.0	896.0

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

Due to improvement in global output and a revival of oil prices, Bahrain's current account surplus widened from BD 210.6 million in 2009 (2.9% of GDP) to 289.5 million in 2010 (3.5% of GDP) (Table 6-1).

Balance of Goods

The expansion in the current account surplus was mainly due to an increase in the balance on goods by BD 76.7 million to reach a surplus of BD 923.7 million at the end of 2010. Net services receipts also increased by BD 86.5 million in 2010 mainly due to an increase on travel account by BD 54.8 million. Oil prices remain the major source of oil export receipts, and thus Bahrain has remained a net exporter, as a reinforced by the continual current account surpluses during the past decade.

Balance on Services, Income and Transfers

On the income account, net income payments decreased slightly by 1.1% from BD 902.3 million in 2009 to BD 892.3 million in 2010. The notable trend in the income account is the expansion of the direct investment outflows from BD 110.8 million in 2009 to BD 785.2 million in 2010. Net current transfers abroad, which comprises of workers remittances, increased by 18.0% from BD 523.0 million in 2009 to BD 617.3 million in 2010.

Table 6-1: Balance of Payments*

Items	BD Million		
	2008	2009	2010
1. Current Account (a+b+c+d)	848.6	210.6	289.5
a. Goods	1,220.1	917.0	993.7
General Merchandise	1,154.1	850.0	923.7
Exports (fob)	6,510.7	4,464.5	5131.3
- Oil	5,184.6	3,351.5	3828.0
- Non-Oil	1,326.1	1,113.0	1303.3
Imports (fob)	-5,356.6	-3,614.5	-4207.6
- Oil	-2,708.8	-1,637.2	-2027.8
- Non-Oil	-2,647.8	-1,977.3	-2179.8
Repairs on goods	66.0	67.0	70.0
b. Services (net)	643.0	718.9	805.4
- Transportation	-54.2	15.2	16.3
- Travel	249.2	267.1	321.9
- Communication Services	250.1	263.2	282.8
- Financial Services (Including Insurance)	183.0	163.1	178.3
- Other Business Services	14.9	10.3	6.1
c. Income (net)	-347.3	-902.3	-892.3
Investment Income	-347.3	-902.3	-892.3
- Direct Investment Income	-479.0	-110.8	-785.2
- Portfolio Income	408.7	6.0	-16.0
- Other Investment Income	-277.0	-797.5	-91.1
d. Current Transfers (net)	-667.2	-523.0	-617.3
- Workers' Remittances	-667.2	-523.0	-617.3
2. Capital and Financial Account (net) (a+b)	-837.2	-185.9	-329.8
a. Capital Account (net)	18.8	18.8	18.8
- Capital Transfers	18.8	18.8	18.8
b. Financial Account (1+2+3+4)^{1/}	-856.0	-204.7	-348.6
1. Direct Investment	65.2	770.3	-67.0
- Abroad	-609.3	673.6	-125.6
- In Bahrain	674.5	96.7	58.6
2. Portfolio Investment (net)	3,488.1	3,111.6	1788.2
- Assets	2,363.8	2,523.0	771.4
- Liabilities	1,124.3	588.6	1016.8
3. Other Investment (net)	-4,519.9	-4,131.3	-1588.7
- Assets	-1,227.5	6,814.5	1030.1
- Liabilities	-3,292.4	-10,945.8	-2618.8
4. Reserve Assets (net)	110.6	44.7	-481.1
3. Errors and Omissions	-11.4	-24.7	40.3

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

* Provisional Data

Source: Central Bank of Bahrain

Trade Balance

The overall level of trade in Bahrain witnessed growth driven by the rise in oil prices and the modest recovery in international markets. Import costs also witnessed growth mainly due to the increase in international commodity prices.

As a result, the trade surplus expanded to BD 923.7 million in 2010 (Table 6-2), up from a surplus of BD 850.0 million in 2009. The oil trade surplus increased to BD 1,800.2 million in 2010 from 1,714.3 million in 2009. The non-oil trade balance deficit expanded, from BD 864.3 million in 2009 to BD 876.5 million in 2010.

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 74.6% of total exports, down from 75.1% of total exports in 2009. In terms of imports, oil imports accounted for 48.2% of total imports in 2009, an increase from the 45.3% ratio in 2009. As a result, the share of non-oil exports increased while non oil imports decreased, accounting for 25.4% and 51.8% of total exports and imports respectively for the year end 2010.

Table 6-2: Foreign Trade*

(BD Million)

Main Groups	2009	2010	% Change	Relative Share 2010 (%)
Total Exports	4,464.5	5,131.3	14.9	100.0
Oil Exports	3,351.5	3,828.0	14.2	74.6
Non-Oil Exports	1,113.0	1,303.3	17.1	25.4
Total Imports	3,614.5	4,207.6	16.4	100.0
Oil Imports	1,637.2	2,027.8	23.9	48.2
Non-Oil Imports	1,977.3	2,179.8	10.2	51.8
Trade Balance	850.0	923.7	8.7	-

* 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 329.8 million in 2010, compared with an outflow of BD 185.9 million in 2009. 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 2010, unchanged from 2009, while the financial account registered a net outflow of BD 348.6 million in 2010 compared to BD 204.7 million in 2009.

Direct investment abroad reversed to become an outflow, reflecting a modest return of appetite to invest abroad. During 2009, direct investment abroad and in Bahrain showed net outflows of BD 125.6 million and BD 58.6 million respectively.

Bahraini portfolio investments showed a net inflow of BD 1,788.2 million in 2010 compared to a BD 3,111.6 million net inflows recorded in 2009. The other investments category showed a net outflow of BD 1,588.7 million. The net reserve assets registered a surplus of BD 481.1 million in 2010 higher from the deficit of BD 44.7 million recorded in 2009.

International Investment Position (IIP)

Bahrain's net international investment position rose from BD 6,028.8 million at the end of 2009 to BD 6,375.0 million in 2009 (a 5.7% increase) (Table 6-3). Foreign assets fell by 1.7% from BD 71,524.7 million at end-2009 to BD 70,327.3 million in 2010 as a result of the decrease in portfolio investment by 5.0%.

On the other hand, foreign liabilities decreased from BD 65,495.9 million in 2009 to BD 63,952.3 million in 2010 or by 2.4% due to the decrease in other investment liabilities by 4.8%.

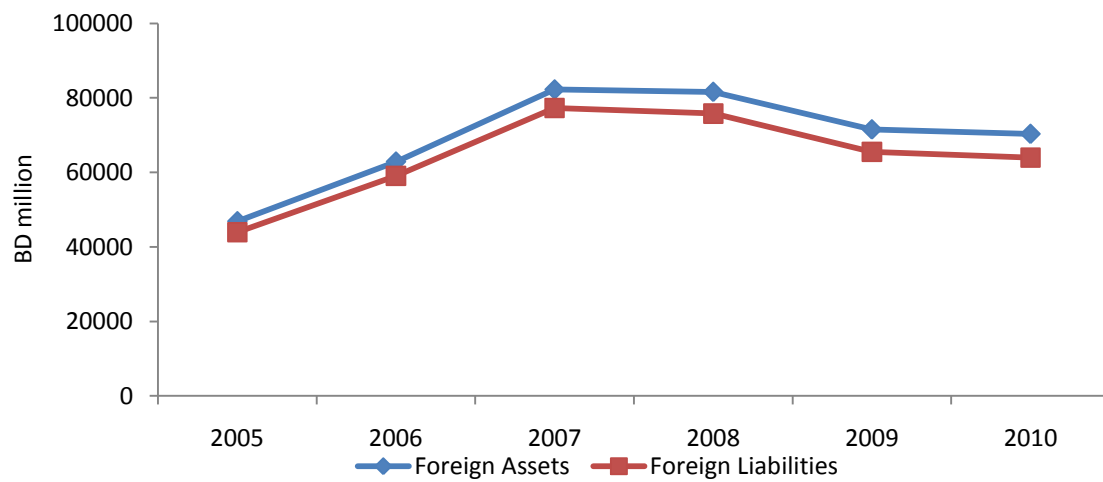
Table 6-3: International Investment Position (IIP) **

(BD Million)			
Items	2008	2009	2010
IIP, net	5,813.6	6,028.8	6,375.0
Foreign Assets	81,600.4	71,524.7	70,327.3
Direct Investment Abroad	3,511.9	2,838.3	2,963.9
Portfolio Investment	17,846.3	15,323.7	14,552.3
Other Investment*	58,759.3	51,931.0	50,897.3
Reserve Assets	1,482.9	1,431.7	1,913.8
Foreign Liabilities	75,786.8	65,495.9	63,952.3
Direct Investment in Bahrain	5,542.7	5,639.3	5,697.9
Portfolio Investment	4,141.6	4,730.2	5,747.0
Other Investment*	66,102.5	55,126.4	52,507.4

* 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

Globally, major financial markets continued to recover in 2010, but at a substantially slower pace than in 2009. The US market performed well with the Dow Jones Industrial Average up 11% for 2010, The S&P 500 index finished up 13% and the Nasdaq also rose 17%.

European stock markets were mainly held back by continuing sovereign debt problems in the area, but the key markets of Germany and the U.K. showed clear rises, finishing at 2-year highs. Even though emerging markets were considered to be the best performers in 2009, their performance was subdued in 2010. Asian markets traded to end the year on a mixed note. Generally Asian markets sold down mid-year but recovered to end the year flat to positive.

The performances of stock markets in the GCC region ended the year on a mixed note. While markets in Qatar, Oman and Saudi Arabia posted yearly gains, those in the UAE, Bahrain and Kuwait ended with declines.

The Bahrain All Share Index posted a year-on-year decrease of 1.8% in 2010. This was mainly due to the financial sector having a large weighting in the index. Even though the index is not close to the levels it reached in 2007 and 2008, the index's performance was stable throughout the year with no major fluctuations.

The best performance amongst the sectors, according to the Bahrain All Share Sub-Indices was the "Hotels and Tourism" sector with a year on year increase of 22.0% while the "Investment" sector had a year on year decrease of 16.6%.

The index increased from January 2010 to April 2010 before taking a downturn in May 2010 and increased again in August 2010 to decrease in November 2010 (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.

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 more signs of growth and recovery in the future.

The number of companies traded on the exchange in 2010 remained at 49.

Main Trading Indices

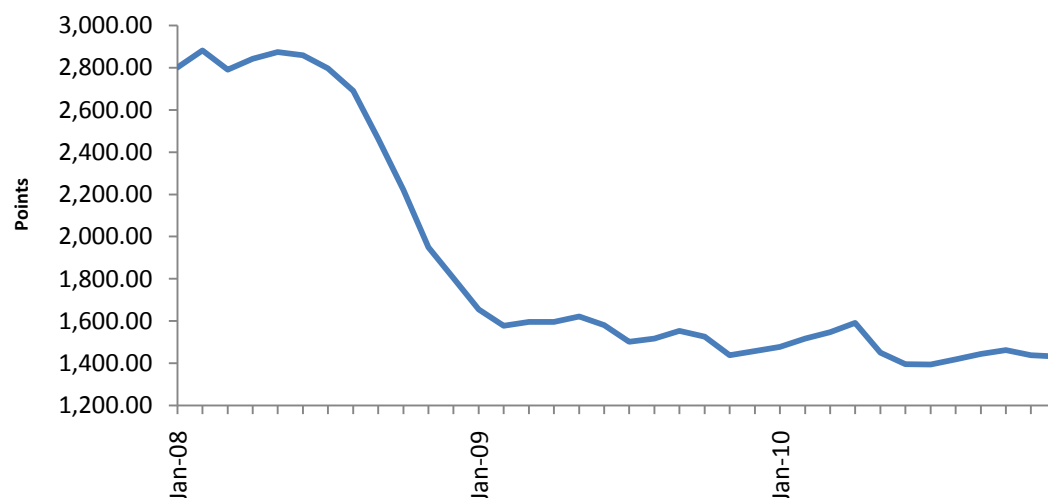
The Bahrain All Share Index closed at the end of the year at 1,432.26 points recording a year on year decrease of 1.8%. The best performer among the sectors was “Hotels and Tourism” which increased by 22.0% followed by “Commercial Banks” which increased by 19.4% and “Insurance” which increased by a minimal 0.4%. All other sectors reported a year on year decrease in 2010 with the “Investment” and “Services” and sectors reporting the biggest declines of 16.6% and 9.6% respectively. The Dow Jones Bahrain Index decreased by 0.69 points (0.6%) and Esterad Index increased by 53.51 points (3.7%) from end-2009.

Table 7-1: BSE Indices

BSE Indices	Q4 2009	Q4 2010	Change (Point)	Change (%)
Bahrain All Share Index	1,458.24	1,432.26	-25.98	-1.8
Commercial Banks	1,679.17	2,005.59	326.42	19.4
Investment	1,173.53	978.79	-194.74	-16.6
Insurance	1,915.92	1,922.94	7.02	0.4
Services	1,553.69	1,405.30	-148.39	-9.6
Industrial	1,529.80	1,440.05	-89.75	-5.9
Hotels and Tourism	3,287.74	4,010.80	723.06	22.0
Dow Jones Bahrain Index	121.74	121.05	-0.69	-0.6
Esterad Index	1,456.09	1,509.60	53.51	3.7

Source: Bahrain Stock Exchange

Chart 7-1: Performance of Bahrain All Share Index, 2008-2010



Source: Bahrain Stock Exchange

Developments in Market Capitalisation

Market Capitalisation of the BSE stood at BD 7,562.5 million by the end of 2010, up from the BD 6,131.0 million in 2009, an increase of 23.3% (Table 7-2). The increase affected almost all sectors with the largest being in “Industrial” sector, where the increase was 7,254.2% increasing from BD 17.7 million in 2009 to BD 1,301.7 million at end of 2010.

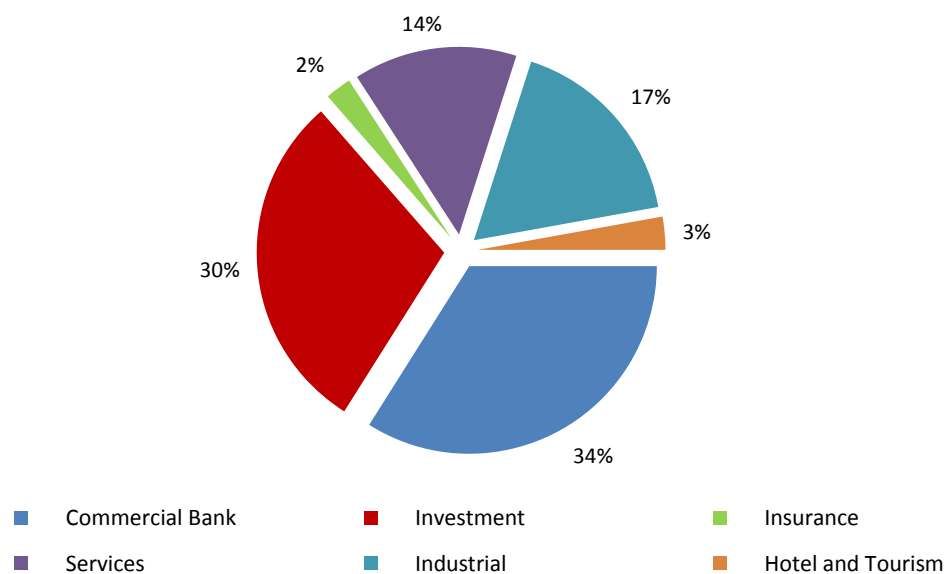
Table 7-2: Market Capitalisation by Sector

				(BD Million)
	2009	2010	Change (%)	% Weight (Current Year)
Total Market Capitalisation	6,131.0	7,562.5	23.3	100.0
Commercial Banks	2,038.5	2,567.9	26.0	34.0
Investment	2,546.6	2,241.0	-12.0	29.6
Insurance	173.3	170.8	-1.4	2.3
Services	1,178.8	1,066.2	-9.6	14.1
Industrial	17.7	1,301.7	7,254.2	17.2
Hotels and Tourism	176.2	215.0	22.0	2.8

Source: Bahrain Stock Exchange

The “Commercial Bank”, “Investment” and “Industrial” sectors are the largest sectors in terms of market capitalisation in 2010 accounting for 81.0% of total market capitalisation (Chart 7-2).

Chart 7-2: Market Capitalisation by Sector, 2010



Source: Bahrain Stock Exchange

As for companies, the largest company in terms of market capitalisation at end-2010 was Aluminium Bahrain (ALBH) with BD 1,285.1 million, accounting for 17.0% of total market capitalisation. In 2010, the 5 largest companies accounted for 58.0% of total market capitalisation (Table 7-3).

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

Company	Market Capitalisation (BD)	% of Total Market
ALBH	1,285,100,000	17.0
AUB	1,279,734,881	16.9
BATELCO	734,400,000	9.7
ABC	597,959,700	7.9
NBB	482,112,000	6.4
Total	4,379,306,581	57.9

Source: Bahrain Stock Exchange

Trading Activities

The volume of shares traded in 2010 was on the downside this year when compared to the previous year, decreasing to significantly to BD 612.2 million shares (-28.2%) compared to BD 852.3 million shares in 2009 (Table 7-4). The value of shares traded also declined noticeably in comparison to the year before by 39.2%, reaching BD 108.4 million in 2010 compared to BD 178.4 million shares in 2009.

Table 7-4: Daily Traded Averages

	2009	2010	Change (%)
Total Trading Days	245	247	0.8
Value of Shares Traded (BD Million)	178.4	108.4	-39.2
Daily Average Value of Shares Traded (BD Million)	0.728	0.438	-39.8
Volume of Shares Traded (Million)	852.3	612.2	-28.2
Daily Average No. of Shares Traded (Million)	3.5	2.5	-31.4
Number of Transactions	30,317	19,647	-35.2
Daily Average No. of Transactions	124	80	-35.5

Source: Bahrain Stock Exchange

Moreover, most of the trading activity in terms of value and volume was concentrated in the “Commercial Banks” sector with a trading value of BD 44.1 million compromising 40.7% of the total value of shares trading and a trading volume of 331.7 million shares compromising 54.2% of the volume of shares traded in the market (Table 7-5 and Table 7-6). The value of shares

traded for the sector decreased by 54.2% compared to last 2009 while the volume of shares decreased by 31.5% (Table 7-5 and Table 7-6).

Table 7-5: Trading Value by Sector

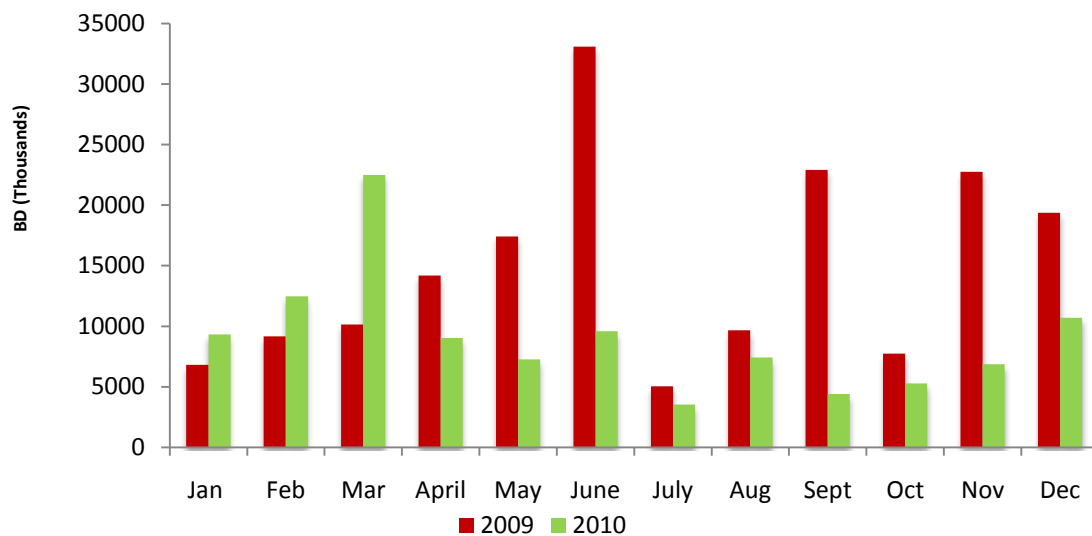
	2009	2010	Change (%)	% Weight (Current Year)
Total Trading Value (BD)	178,356,792	108,410,906	-39.2	100.0
Commercial Banks	96,437,857	44,125,606	-54.2	40.7
Investment	47,010,863	25,990,910	-44.7	24.0
Insurance	1,228,042	10,140,860	725.8	9.4
Services	29,206,124	25,279,551	-13.4	23.3
Industrial	53,558	1,558,388	2809.7	1.4
Hotels and Tourism	1,760,595	1,314,591	-25.3	1.2
Non-Bahraini	2569503	1,000	0.0	0.0
Closed	8,975	0	0.0	0.0
Preferred Shares	81,275	0	0.0	0.0

Source: Bahrain Stock Exchange

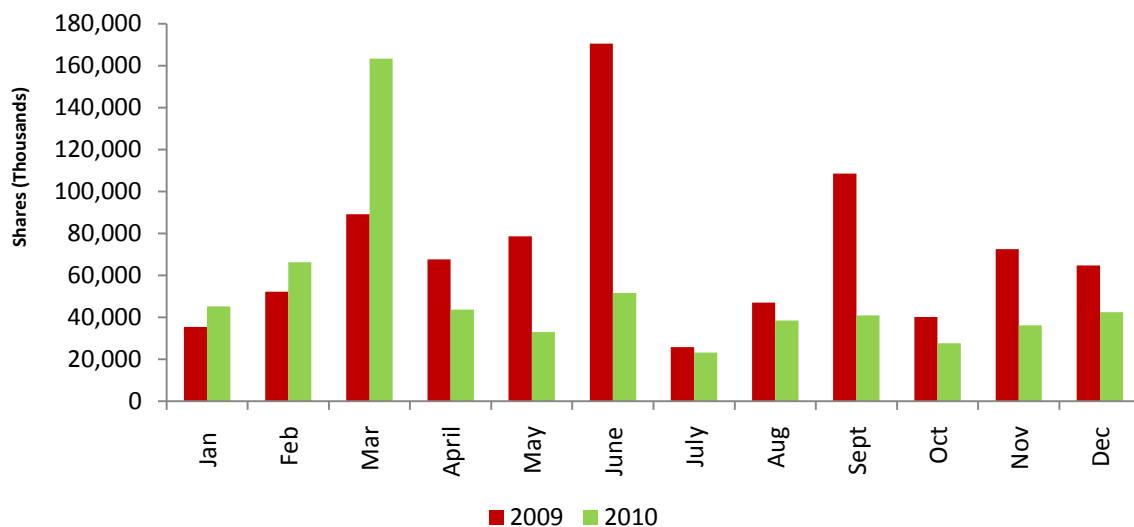
Table 7-6: Trading Volume by Sector

	2009	2010	Change (%)	% Weight (Current Year)
Total Trading Volume (shares)	852,249,480	612,188,517	-28.2	100.0
Commercial Banks	484,114,289	331,692,558	-31.5	54.2
Investment	261,291,928	172,390,533	-34.0	28.2
Insurance	3,734,826	31,989,117	756.5	5.2
Services	84,205,034	67,196,265	-20.2	11.0
Industrial	182,189	1,746,191	858.5	0.3
Hotels and Tourism	6,580,462	7,163,853	8.9	1.2
Non-Bahraini	11,616,734	10,000	-99.9	0.0
Closed	22,690	0.0	0.0	0.0
Preferred Shares	501,328	0.0	0.0	0.0

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 (AUB), with BD 21.8 million traded (20.1% of total value of shares traded). Next came Gulf Finance House (GFH) with BD 14.1 million constituting 13.0% of the total value of shares traded, then Bahrain Telecommunications Co. (BATELCO) with BD 14.0 million and 12.9% of total value of shares traded, followed by Ithmaar Bank (ITHMR) with BD 7.1 million constituting 6.6% of the total value of shares traded, and finally came

Al Salam Bank (SALAM) with BD 7.0 million constituting 6.5% of the total value of shares traded (Table 7-7).

Table 7-7: Most Active Companies by Value, 2010

Company	Value (BD)	% From Total Market
AUB	21,810,902	20.1
GFH	14,053,039	13.0
BATELCO	14,030,917	12.9
ITHMR	7,123,652	6.6
SALAM	7,020,545	6.5
Total	64,039,055	59.1

Source: Bahrain Stock Exchange

As for most active companies by volume, Gulf Finance House (GFH) had the most traded shares with 141.4 million shares traded translating to 23.1% of total volume, then came Ithmaar Bank (ITHMR) with 125.7 million constituting 20.5% of the total volume of shares traded, then Ahli United Bank (AUB) with 86.1 million and 14.1% of total volume of shares traded, followed by Al Salam Bank (SALAM) with 83.5 million constituting 13.6% of the total volume of shares traded, and finally came Bahrain telecommunications Co. (BATELCO) with 25.4 million constituting 4.1% of the total volume of shares traded (Table 7-8).

Table 7-8: Most Active Companies by Volume, 2010

Company	Volume	% of Total Market
GFH	141,362,185	23.1
ITHMR	125,708,423	20.5
AUB	86,138,082	14.1
SALAM	83,468,374	13.6
BATELCO	25,358,024	4.1
Total	462,035,088	75.5

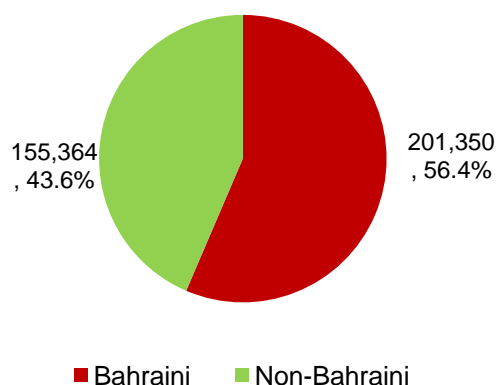
Source: Bahrain Stock Exchange

Nationalities of Investors

Bahraini investors accounted for 69.2% of the total value of traded shares in 2010 an increase from the 56.4% in 2009 (Chart 7-5 and 7-6). Bahraini and non-Bahraini trading activity decreased in 2010 compared to 2009, where the market witnessed a total of BD 150.1 million in the value of shares traded by

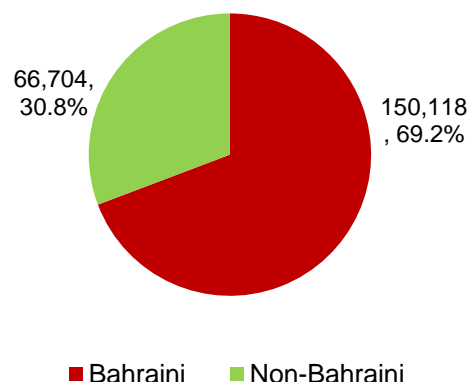
Bahraini investors and BD 66.7 million by non-Bahraini investors, resulting in a decrease of 25.4% and 57.1% respectively.

Chart 7-5: Trading Value of Investors' Participation (BD Thousand), 2009



Source: Bahrain Stock Exchange

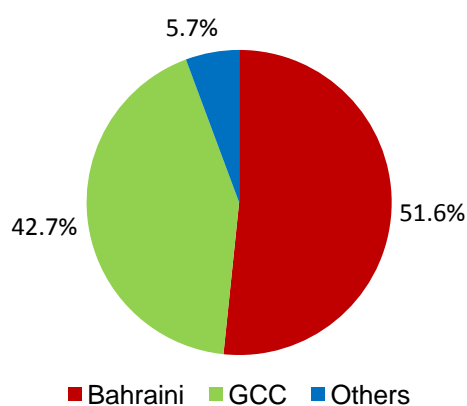
Chart 7-6: Trading Value of Investors' Participation (BD Thousand), 2010



Source: Bahrain Stock Exchange

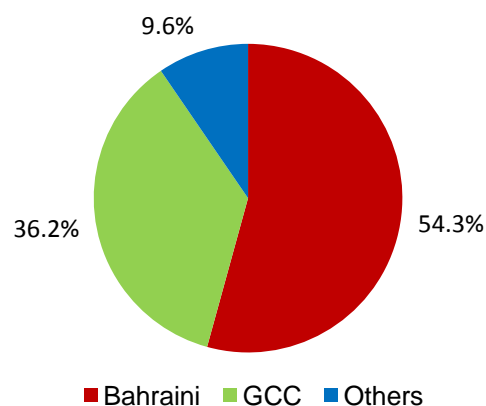
As for ownership of the shares, Bahrainis accounted for 54.3% of the total shares traded in 2010 an increase compared to the 51.6% in 2009. GCC share ownership decreased from 42.7% in 2009 to 36.2% while non-GCC ownership increased from 5.7% in 2009 to 9.6% in 2010 (Chart 7-7 and 7-8).

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



Source: Bahrain Stock Exchange

Chart 7-8: Share Ownership by Nationality (%), 2010



Source: Bahrain Stock Exchange

Price Movements

During 2010, the market breadth showed that the decliners outperformed the advancers by a margin of 25:12 (the price of 12 stocks went up, 25 went down) and 12 remained unchanged compared to the decliners outperforming the advancers by a margin of 30:10 in 2009 and 9 unchanged for 2009 (Table 7-9).

Table 7-9: Market Breadth

	2009	2010
Advancers	10	12
Decliners	30	25
Unchanged	9	12
Total	49	49

Source: Bahrain Stock Exchange

Ahli United Bank was ranked the top advancer in 2010 with 63.2% in price change followed by Gulf Hotels Group (BHOTEL) (24.1%), Bahrain Tourism Co. (BTC) (20.3%), Bahrain Cinema Co. (CINEMA) (20.0%), and Banader Hotels Co. (BANADER) (20.0%) (Table 7-10). As for the top 5 decliners, Gulf Finance House (GFH) was the biggest decliner with 55.4% annual decrease in price followed by Khaleeji Commercial Bank (KHCB) (-50.0%), Ithmar Bank (ITHMR) (-48.0%), Bahrain Family Leisure Co. (FAMILY) (-34.3%), and Bahrain Islamic Bank (-34.2) (Table 7-11).

Table 7-10: Top BSE Advancers, 2010 Table 7-11: Top BSE Decliners, 2010

Advancers	%	Rank
AUB	63.2	1
BHOTEL	24.1	2
BTC	20.3	3
CINEMA	20.0	4
BANADER	20.0	5

Source: Bahrain Stock Exchange

Decliners	%	Rank
GFH	-55.4	1
KHCB	-50.0	2
ITHMR	-48.0	3
FAMILY	-34.3	4
BISB	-34.2	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 2010 was 49, unchanged from the previous year (Table 7-10). Similarly, the number of mutual funds also remained unchanged at 35. Bonds and

Sukuk decreased from 14 in 2009 to 11 in 2010. Only one preference share was listed on the exchange in 2010 similar to 2009.

Table 7-12: BSE Summary of Listings

	Q4 2009	Q4 2010
Number of Companies	49	49
Number of Mutual Funds	35	35
Number of Bonds and Sukuks	14	11
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)

	2009	2010*	% Share (2010)
GDP at Current Prices	7,377.5	8,245.6	100
Non-Financial Corporations	5,325.3	6,089.5	73.9
<i>Of which:</i>			
-Oil	1,666.6	2,041.9	24.8
-Manufacturing	1,056.5	1,273.0	15.4
-Transportation and Communication	516.9	563.7	6.8
-Trade	554.2	597.6	7.2
-Real Estate & Business Activities	513.9	529.6	6.4
Financial Corporations	1,605.0	1,698.6	20.6
Government Services	962.1	998.2	12.1
GDP at Constant Prices	4,880.5	5,100.2	100
Non-Financial Corporations	3,393.1	3,590.2	70.4
<i>Of which:</i>			
-Oil	600.3	611.3	12.0
-Manufacturing	750.5	836.4	16.4
-Transportation and Communication	431.3	458.5	9.0
-Trade	331.9	350.6	6.9
-Real Estate & Business Activities	425.9	435.7	8.5
Financial Corporations	1,205.1	1,255.6	24.6
Government Services	724.7	747.8	14.7

*Provisional

Source: Central Informatics Organisation

Table 8-2: Employment

	2009	2010	2010			
			Q1	Q2	Q3	Q4
Total Employment*	486,071	511,559	489,657	489,623	492,019	511,559
Change (%)	3.2	5.2	0.7	0.0	0.5	4.0
Private Sector	445,330	470,685	449,010	449,422	452,008	470,685
As % of Total Employment	91.6	92.0	91.7	91.8	91.9	92.0
Male	403,499	423,763	405,216	405,561	407,561	423,763
Female	41,831	46,922	43,794	43,861	44,575	46,922
Bahraini	80,621	83,709	81,406	81,156	81,940	83,709
Non-Bahraini	364,709	386,976	367,604	368,266	370,068	386,976
Public Sector**	40,741	40,874	40,647	40,201	40,011	40,874
As % of Total Employment	8.4	8.0	8.3	8.2	8.1	8.0
Male	22,126	21,778	22,027	21,623	21,493	21,778
Female	18,615	19,096	18,620	18,578	18,518	19,096
Bahraini	35,528	35,547	35,429	34,987	34,915	35,547
Non-Bahraini	5,213	5,327	5,218	5,214	5,096	5,327

*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)

	2009	2010*	2010*			
			Q1	Q2	Q3	Q4
Total Outstanding	1,348.0	2441.0	1871.0	1981.0	2031.0	2441.0
As % of GDP	18.3	29.6	22.7	24.0	24.6	29.6
Development Bonds	55.0	975.0	525.0	525.0	525.0	975.0
Treasury Bills	415.0	570.0	465.0	560.0	610.0	570.0
Al Salam Islamic Securities	18.0	36.0	36.0	36.0	36.0	36.0
Islamic Leasing Securities	860.0	860.0	845.0	860.0	860.0	860.0

*Provisional GDP

Source: Central Bank of Bahrain

Table 8-4: BD Exchange Rates Against Major Currencies ^{1/}

	2009	2010
Saudi Riyal	0.100	0.100
Kuwaiti dinar	1.311	1.335
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	0.604	0.583
Euro	0.540	0.497
Japanese Yen ^{2/}	4.070	4.610
Swiss Franc	0.363	0.399

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

Source: Central Bank of Bahrain

Table 8-5: Bahrain Stock Exchange

	2009	2010	Change (%)
Market Capitalisation by Sector (BD Million)			
Total Market Capitalisation	6,131.0	7,562.5	23.3
Commercial Bank	2,038.5	2,567.9	26.0
Investment	2,546.6	2,241.0	-12.0
Insurance	173.3	170.8	-1.4
Services	1,178.8	1,066.2	-9.6
Industrial	17.7	1,301.7	7,254.2
Hotel and Tourism	176.2	215.0	22.0
Trading Activities in The Market			
Bahrain All Share Index (Points)	1,458.24	1,432.26	-1.8
Dow Jones Bahrain Index (Points)	121.74	121.05	-0.6
Esterad Index (Points)	1,456.09	1,509.60	3.7
Value of Shares Traded (BD Million)	178.4	108.4	-39.2
Daily Average of Value of Shares Traded (BD Million)	7.3	4.4	-39.7
Share Turnover	2.87	1.43	-50.2
Volume of Shares Traded (Million)	852.2	612.2	-28.2
Daily Average No. of Shares Traded (Million)	3.5	2.5	-28.6
Number of Transactions	30,317	19,647	-35.2
Daily Average No. of Transactions	124	80	-35.5
Number of listed Companies *	49	49	0

*Includes Non-Bahraini Companies

Source: Bahrain Stock Exchange

Financial Sector Indicators

Table 8-6: Money Supply

(BD Million)

Items	Year- end			Change 2009	
	2008	2009	2010	Absolute	%
Currency in Circulation	304.2	323.0	349.6	26.6	8.2
M1	1,898.7	2,158.3	2,303.9	145.6	6.7
M2	6,728.4	7,119.3	7,867.5	748.2	10.5
M3	8,044.5	8,404.2	9,495.7	1,091.5	13.0

Source: Central Bank of Bahrain

Table 8-7: Factors Affecting Domestic Liquidity

(BD Million)

Factors	Year- end			Change	
	2008	2009	2010	2009 vs. 2008	2010 vs. 2009
A. Total Domestic Liquidity (M3)	8,044.5	8,404.2	9,495.7	359.7	1,091.5
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	2,689.2	2,088.0	2018.8	-601.2	-69.2
(a) Central Bank	1,433.9	1,331.1	1800.6	-102.8	469.5
(b) Commercial Banks	1,255.3	756.9	218.2	-498.4	-538.7
2. Domestic Claims (a+b+c)	5,355.3	6,316.2	7476.9	960.9	1,160.7
(a) Claims on government	691.1	1,310.9	1645.1	619.8	334.2
(b) Claims on private sector ^{1/}	6,207.8	6,161.3	6545.1	-46.5	383.8
(c) Other Assets (net)	-1,543.6	-1,156.0	-713.3	387.6	442.7

^{1/} 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 % 2010
	2008	2009	2010	
Retail Banks	63.5	59.8	65.5	9.5
Wholesale Banks	188.9	162.0	156.7	-3.3
Total	252.4	221.8	222.2	0.2

Source: Central Bank of Bahrain

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

(USD Billion)

Items	Year					
	2008		2009		2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	48.5	54.5	42.2	47.7	45.8	50.8
GCC	87.2	67.2	74.7	58.0	65.5	54.6
Other Arab Countries	5.2	13.0	7.0	12.6	6.8	14.1
Americas	23.8	14.4	20.3	8.6	19.7	13.0
Western Europe	69.3	80.7	58.3	70.9	65.0	71.3
Asia	13.4	20.4	15.5	21.9	16.9	16.1
Other	5.0	2.2	3.8	2.1	2.5	2.3
Total	252.4	252.4	221.8	221.8	222.2	222.2

Source: Central Bank of Bahrain

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

(USD Billion)

Currencies	Year					
	2008		2009		2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Bahraini Dinar	23.1	23.9	23.0	24.6	26.2	29.1
GCC Currencies	34.0	27.3	23.9	19.6	19.1	12.4
US Dollar	147.4	157.2	136.0	135.9	135.5	139.3
Pound Sterling	5.4	5.2	5.2	5.7	3.2	4.1
EURO	25.7	24.5	20.4	23.9	19.2	19.3
Japanese Yen	3.3	4.1	2.4	3.1	2.3	2.3
Others	13.5	10.2	10.9	9.0	16.7	15.7
Total	252.4	252.4	221.8	221.8	222.2	222.2

Source: Central Bank of Bahrain

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

Items	End 2009	End 2010	2010			
			Q1	Q2	Q3	Q4
1. Deposits						
Time ^{/1}	1.36	1.07	1.36	1.13	1.13	1.07
Savings	0.22	0.25	0.24	0.24	0.24	0.25
2. Loans						
Business ^{/2}	7.17	7.30	6.47	5.56	5.59	7.30
Personal	7.67	7.10	7.72	7.05	6.82	7.10
3. Credit Cards	21.32	20.66	21.31	21.40	20.45	20.66

^{1/} Time deposits 3-12 months.^{2/} Includes overdraft approvals

Source: Central Bank of Bahrain

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

(BD Million)

Sectors	Year-end						Change 2010	
	2008		2009		2010			
	Value	%	Value	%	Value	%	Value	%
1. Business	3,870.5	65.7	3,816.6	64.9	3,663.7	64.5	-152.9	-4.0
Manufacturing	464.3	7.9	389.5	6.6	407.5	7.2	18.0	4.6
Mining and Quarrying	8.1	0.1	7.7	0.1	9.9	0.2	2.2	28.6
Agriculture, Fishing and Dairy	8.7	0.1	5.4	0.1	5.3	0.1	-0.1	-1.9
Construction and Real Estate	1,539.7	26.2	1,659.5	28.2	1,740.6	30.6	81.1	4.9
Trade	1,065.4	18.1	998.7	17.0	772.9	13.6	-225.8	-22.6
Non-Bank Financial	226.5	3.8	211.3	3.6	235.1	4.1	23.8	11.3
Other Sectors	557.8	9.5	544.5	9.3	492.4	8.7	-52.1	-9.6
2. General Government	283.2	4.8	392.0	6.7	261.5	4.6	-130.5	-33.3
3. Personal	1,733.9	29.5	1,676.3	28.5	1,751.4	30.9	75.1	4.5
Total	5,887.6	100	5,884.9	100	5,676.6	100	-208.3	-3.5

Source: Central Bank of Bahrain

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

Sectors	2009			2010		
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total
Banking Sector	6,509	2,437	8,946	6,473	2,309	8,782
Retail Banks	4,314	1,009	5,323	4,481	1,034	5,515
Wholesale Banks	2,127	1,354	3,481	1,931	1,203	3,134
Rep. Offices	68	74	142	61	72	133
Non-Bank Financial	2,391	2,330	4,721	2,572	2,505	5,077
Insurance Companies	934	590	1524	968	586	1,554
Insurance Related Activities	203	333	536	279	464	743
Money Changers	243	728	971	229	789	1,018
Stock Brokers	30	7	37	28	5	33
Financing Companies	490	114	604	541	124	665
Investment Business Firms	218	279	497	271	279	550
Other*	273	279	552	256	258	514
Other Institutions	413	57	470	422	61	483
Total	9,313	4,824	14,137	9,467	4,875	14,342

* 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 (%)	2009	2010	2010			
			Q1	Q2	Q3	Q4
Loans to Non-Banks / Total Assets	26.2	23.1	25.4	24.5	24.6	23.1
Loans to Private Non-Banks / Total Assets	24.5	22.0	23.7	22.8	23.4	22.0
Loans to Non-Banks / Total Deposits	61.8	52.8	60.4	56.2	55.7	52.8
Foreign Assets / Total Assets	51.4	46.7	48.4	46.8	46.6	46.7
Foreign Liabilities / Total Liabilities	48.1	45.9	46.1	44.0	46.0	45.9
Total Deposits / Total Liabilities	42.4	43.7	42.1	43.6	44.1	43.7
BD Deposits / Total Deposits	63.8	67.7	68.4	67.0	66.4	67.7
Private Sector Deposits / Total Deposits	70.9	69.1	71.7	71.9	69.1	69.1
Private Sector Demand Deposits / Total Deposits	19.3	18.2	19.7	20.3	18.8	18.2

Source: Central Bank of Bahrain

Number of Banks and Financial Institutions End 2010

Retail Banks	30
<i>Islamic</i>	6
<i>Conventional</i>	24
Wholesale Banks	77
<i>Islamic</i>	21
<i>Conventional</i>	56
Insurance Companies and Organisations	165
Investment Business Firms	46
Specialised Licensees	81
<i>Money Changers</i>	18
<i>Administrators</i>	5
<i>Registrar License</i>	1
<i>Financing Companies</i>	9
<i>Representative Offices</i>	27
<i>Islamic</i>	3
<i>Conventional</i>	24
Microfinance Companies	2
Trust Service Providers	3
Provider of Ancillary Services	13
Societies	2
Registered Professional Body	1
Capital Market Brokers	7
<i>Licensed Exchanges</i>	1
<i>Licensed Clearing, Settlement and Central Depository system</i>	1
<i>Stockbrokers</i>	5
Total	406