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Financial Stability Directorate

Economic Report

2011

Economic Report 2011

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Preface

In addition to its regulatory functions, the Central Bank of Bahrain (CBB) monitors the performance of the Bahraini economy on a continuous basis. As part of this effort, the *Economic Report* is produced annually by the Financial Stability Directorate. It discusses international, regional, and domestic economic developments over the course of the year. It also covers monetary, financial, and capital market developments as well as public finances and the balance of payments. This edition focuses on macroeconomic developments in Bahrain during 2011.

Executive Summary

The year 2011 was a turbulent year, with uneven and unpredictable periods of growth across regions. The effects were aggravated by geopolitical uncertainties and events in the MENA region as well as European debt problems. During 2011, world output grew by 3.9%. The growth was more modest among advanced economies which grew at 1.6% in 2011 while emerging and developing economies experienced more robust growth with output rising by 6.2% in 2011.

Inflation in the world economy increased moderately for advanced economies, and more starkly in emerging markets. Inflation for advanced economies recorded a 2.7% growth. Consumer prices in emerging and developing markets rose by 7.1% during the year. The IMF forecasts that in 2012 there will be a 1.9% growth in consumer prices for advanced economies, whilst developing economies are expected to see inflation of 6.2%.

The GCC region was sheltered from the full effects of the sovereign debt crisis. The region performed strongly in 2011 due to high oil prices. Uncertainty associated with the debt crisis could affect the region. Capital flows to the region could be affected and there could be a decline in the valuations and earnings of GCC external assets. Despite feeling the effect of regional geopolitics, the current market environment in the GCC remains generally favourable due to the solid fiscal and economic performance of the region. GCC economies grew at 4.0%. The projection for 2012 shows that the regional economy will continue to grow reasonably, with an expected growth rate of 3.6%.

High oil prices have helped maintain healthy current account and fiscal surpluses. In 2011, the GCC general government fiscal balance witnessed an increase of 9.7%, however, due to the uncertainty of future oil prices, these surpluses may not be sustained into 2012 as oil prices are expected to decrease. Therefore, the IMF's projection for 2012 suggests that the general government fiscal balance for all GCC countries will reduce to 8.3%.

In 2011, Bahrain was subject to a cooling in the first quarter of the year due to domestic unrest. However, the growth in Bahrain exceeded IMF of 1.5% to achieve a 2.2% real GDP growth. This growth rate can be attributed to high oil prices, an increase in government spending by 5.6% in 2011, up from 3.2% in 2010, the rebound experienced in the second half of 2011 and the continued effort to promote diversified economic growth through different public policy and private sector initiatives.

Bahrain's nominal GDP grew by 17.8% in 2011, an increase from the 11.8% nominal growth rate experienced in 2010. The largest increase was in "crude petroleum & natural gas" which rose by 44.5% and contributed 30.4% of GDP in 2011.

Bahrain experienced minor deflation at a rate of -0.4% in 2011. The main reason for the decrease in the consumer price index (CPI) was due to the price of "housing, water, electricity, gas, and other fuels" which dropped by 12.4% as a result of a 15.7% fall in rent prices.

In 2011, monetary trends in Bahrain continued to reflect trends in the global economy as well as domestic economic developments. Money supply continued to grow with currency in circulation (currency outside banks) growing by 15.0% and M1 (currency in circulation plus demand deposits) growing by 14.5%. As a result of the growth in M1, M2 (M1 plus time and savings deposits) grew by 3.4% from BD 7,867.5 million at end 2010 to BD 8,135.1 million at end 2011. Interest rates in Bahrain have mainly followed US interest rates due to the dinar-dollar peg.

In 2011, the effects of the financial crisis continued to recede in Bahrain. There was an increase in the number of financial institutions, and credit facilities extended. However, the aggregate balance sheets of banks and the number of employees in the financial sector decreased in 2011. Nevertheless, the financial sector remains the largest single contributor to GDP accounting for 24.7% of real GDP.

The aggregated balance sheet for the banking system (conventional and Islamic retail and wholesale banks) decreased in total to reach USD 197.1 billion by the end of 2011. Wholesale banks represented 65.8% of the total, while retail banks accounted for 34.2%.

In total, domestic banking assets amounted to USD 47.4 billion at the end of 2011 compared to USD 45.8 billion at the end of 2010, registering an increase of USD 1.6 billion (3.5%). Foreign assets amounted to USD 149.7 billion at the end of 2011 compared to USD 176.4 billion at the end of 2010, a decrease of USD 26.7 billion (15.1%).

The total assets of retail banks (including foreign assets) stood at BD 25,335.2 million at end-December 2011 (increase of 2.9%). The aggregated balance sheet for wholesale banks shrank 17.2% to reach USD 129.7 billion at the end of 2011. Aggregated assets of Islamic banks (retail and wholesale banks) declined by 2.6% during 2011 with the overall drop being fuelled by foreign assets.

Credit facilities have been showing a modest increase 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 6,444.4 million at end-2011, up 13.5% from the BD 5,676.6 million at end-2010

Oil revenues continue to play a significant role in the governments' fiscal balance. Oil prices remained consistently high during the year 2011, and as a result, government revenues increased by 29.7% to reach BD 2,821.7 million compared to BD 2,175.6 million at the end of 2010. Government expenditure increased more modestly by 8.3% to reach BD 2,853.0 million during the same period, up from BD 2,635.4 million in 2010. Current expenditures amounted to BD 2,412.2 million. As a result of these developments, Bahrain recorded a slight fiscal deficit before rollover of BD 31.3 million, or 0.1% of GDP. The fiscal deficit after rollover as a percentage of GDP amounted to 3.2%.

With regard to the external sector, and with no trade and capital restrictions, Bahrain's current account surplus increased from BD 289.5 million in 2010 (3.5% of GDP) to 1,220.9 million in 2011 (12.6% of GDP). This was mainly due to higher oil prices during the year. The capital and financial account registered a net outflow of BD 1,248.1 million in 2011, compared with an outflow of BD 329.8 million in 2010. Bahrain continues to be a net exporter of capital to the rest of the world.

Bahrain's net international investment position rose by 20.6% from BD 6,375.0 million at the end of 2010 to BD 7,686.7 million in 2011. Foreign assets fell by 11.9% from BD 70,327.3 million at end-2010 to BD 61,985.8 million in 2011 as a result of the decrease in portfolio investment by 13.3%.

Globally, major financial markets had a turbulent year in 2011. The S&P 500 index finished close to where it ended 2010. The GCC markets were no different to global markets as they plunged due to weakness of international economic environments. Bahrain Bourse posted the steepest decline amongst its GCC peers, down by 20.1% for the year.

Chapter

1

1. International and Regional Economic Developments

Overview

A. World Economy

B. GCC Economies

Overview

The year 2011 was an eventful one for a global economy that had mixed fortunes. Three major factors had a significant impact on global macroeconomic developments, these were:

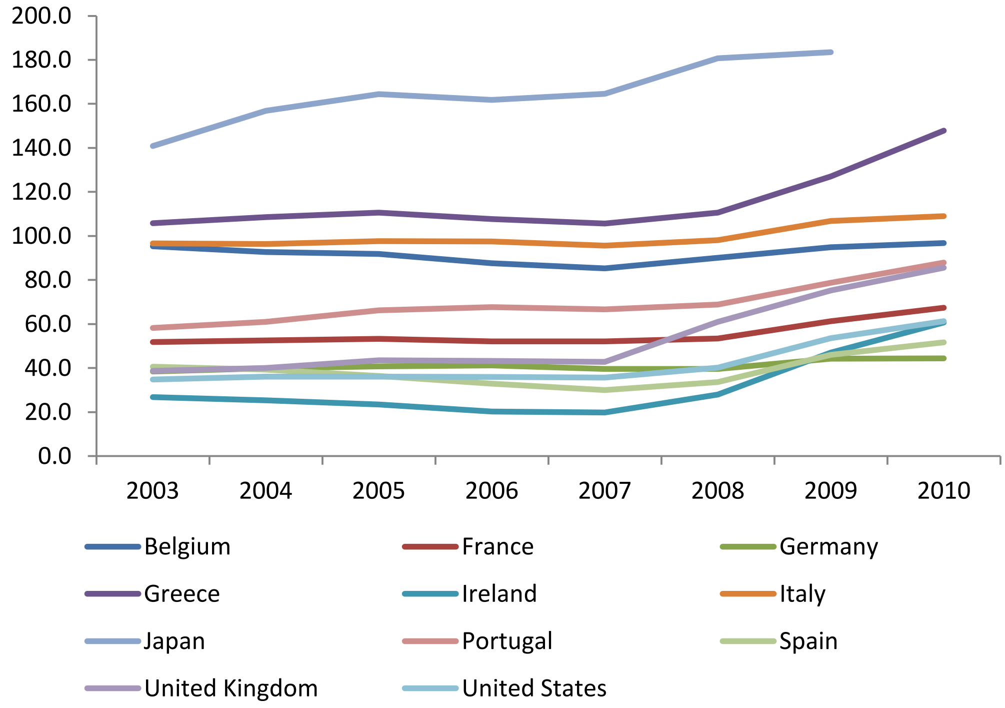
1. Widespread political turmoil
2. Environmental disasters, and
3. Economic instability.

The first event was the political and social unrest in some MENA countries which affected the stability of the region as a whole and threatened its economy. The second event was the devastating earthquake and tsunami that hit Japan in March 2011. According to the Japanese government's first estimate, the earthquake and tsunami caused some 16-25 trillion yen (3.3% to 5.2% of GDP) of damage to the capital stock in seven prefectures. The disaster caused the Japanese economy to freeze and affected international capital markets. The third significant event in 2011 was the European debt crisis which continues to disrupt the economy at an international level.

While the first two events have been resolved gradually (or are under resolution), the third event remains the most threatening to the global economy. In fact, problems relating to the persistence of sovereign debt in the Eurozone are becoming increasingly widespread and the risk of contagion is becoming a very serious issue.

As illustrated in Chart 1-1 on the next page, central government debt (as percentage of GDP) has increased drastically since 2007 in major advanced economies, especially in southern European countries. Several European countries are still under pressure with large budget deficits. Notably, the "PIIGS" countries, i.e. Portugal, Ireland, Italy, Greece and Spain. To help mitigate this position, all of the above countries implemented measures such as fiscal policy, labour market and pension system reforms alongside many others. Advanced economies, such as France, Germany and the US were also concerned by this risk and, as a result, also launched fiscal policy reforms.

Chart 1-1: Central Government Debt in selected countries since 2003 (as % of GDP)



Source: OECD National Accounts Statistics Database

With regard to emerging economies, they have still not experienced a significant rebound and have not yet reached pre-crisis growth levels. The drop in demand for commodities is the main factor behind the decrease in their growth rates. Moreover, the persistence of social and political unrest in some countries (Syria, Yemen, Egypt, Sudan and Libya) is also another reason behind the slowdown in MENA region.

Due to the ongoing European debt crisis, the IMF has revised its September 2011 outlook for the world economy given that *financial conditions have deteriorated, growth prospects have dimmed, and downside risks have escalated* (IMF World Economic Outlook 2012).

The Euro Area Crisis at a Glance

Euro Area. The years 1999-2007 was a period of strong capital flows to the European peripheral countries which is why the sharp reversal of these flows since then has become increasingly damaging to these economies. Limited intra-regional labour mobility and pooled fiscal resources puts the adjustment burden on countries' government finances and creditworthiness. Financing programs for troubled countries are currently funded by the European Financial Stability Fund (EFSF). The January summit agreed on a new set of fiscal rules and changes in the European Stability Mechanism (ESM), which will be launched a year earlier than initially envisaged in July 2012, complemented by EFSF resources. The European Central Bank (ECB) has tried to mitigate the effects of the debt crisis on the banking and financial markets in the Euro Area through direct (secondary market) bond purchases and long-term loans to banks. The European Banking Authority (EBA) has also established new requirements where banks need to meet 9% core capital ratios by June 2012. According to the regulator, 77% of banks intend to comply through direct capital impact measures.

France is seen as a key "middle ground" player. It was central to the creation of the European Monetary Union and is highly committed to the project. Its economy has slowed sharply, and a further slowdown is likely next year without entering recession.

Austria's banks have heavy exposure to Emerging Europe. The central bank took actions to limit future exposure of Austrian banks to Emerging Europe and bring forward implementation of Basel III.

Germany faced a trade downturn and problems in the external activities of banks, especially the *Landesbanks*, as a result of the financial crisis. It rebounded well in 2010-11, and enjoyed strong budget performance: federal deficit was about 1% of GDP in 2011. There were strong trade and current account surpluses (trade surplus about 6.5% of GDP in 2011). Combination of disciplined reforms and tendency to run lower inflation than trading partners has made the economy very competitive within the Euro Area (opposite of the situation in the decade after 1992).

Belgium has a high debt load (98.5% of GDP at the end of 2011). Its deficit overshot the target in 2011. Weak government structure: regional divergences meant that it took 541 days to form a new government (in December 2011) following elections in June 2010. Bank problems (Dexia) were caused mainly by issues outside of Belgium, but government takeover will add to its fiscal costs. Its economy is likely to slip into recession in 2012.

Spain suffered from a construction boom and (now) bust. Excess supply of housing created downward pressure on house prices. Construction bust has led to problems for banks, especially regional saving banks (*Cajas*), which were less well-managed than the main commercial banks in the expansion phase. It had a chronically high unemployment rate (22.9% and rising, up from 8.6% in 2007Q4; youth unemployment at 48.6%). Government went into downturn with relatively small debt-to-GDP ratio, but has been rising sharply because of persistent underperformance. Government deficit exceeded the target by a wide margin in 2011 mainly because of regional overspending.

Italy's main problems are the high debt load (119% of GDP at the end of 2011) and persistently low growth. This leaves Italy vulnerable to the risks associated with a heavy debt rollover burden and the impact of higher interest rates. Government has shifted borrowing to shorter maturities because of the steep upward sloping yield curve. The government pushed through aggressive reforms and an austerity package before Christmas. The new technocrat government currently enjoys widespread support, but could be vulnerable in an extended downturn. Banks are exposed to possible deterioration in parts of Emerging Europe.

Greece's sovereign lost bond market access in May 2010. Since then it has been dependent on official loans from the EU and IMF to fund its fiscal deficit and redeem maturing term debt. General government debt rose to about €360 billion at the end of 2011, of which €73 billion was owed to the IMF and EU. Eventual return to markets is considered doubtful despite €107 billion in debt reduction. Reduced interest costs and deferred maturities under debt restructuring terms have now been agreed upon with private bondholders. The economy is in deep recession; competitiveness is improving under the pressure of high unemployment and large reductions in public sector wages. However, lagging reforms continue to hamper adjustment and constrain activity. Implementation will remain difficult amid rising popular discontent and lost faith in political leadership.

Portugal's sovereign lost access to private financial markets in April 2011. Banks and corporations lost access to foreign funding in July. Structural rigidities and weak competitiveness have prevented the economy from growing solidly since the adoption of the Euro. The new government, which took over in June, cut the headline budget deficit by 4.8% of GDP in 2011, beating the IMF/EU target, but 3.5% of this was one-off receipts from the takeover by the government of pension assets of bank employees.

Ireland's sovereign lost access to private financial markets in late 2010. The banking sector collapse has been the main cause for the loss of market access.

The main weakness has been the property market's boom-bust, reinforced by profligate bank lending amid weak supervision. Resurging exports have enabled the economy to grow by 0.8% in 2011 after four years of recession. Together with an ambitious bank recapitalization program launched last year, the resumption of growth has reassured markets. Bond yields have narrowed to near their pre-November 2010 levels, enabling the government to rollover €5 billion in bonds initially due in early 2014. All targets under the EU/IMF program have been met, but fiscal adjustment was modest, with the headline deficit cut to 10.0% of GDP from 11.6% in 2010 (ex. bank recapitalization costs).

Finland, according to S&P, is one of the four remaining AAA countries (along with Germany, Luxemburg and the Netherlands). Although like Luxembourg and the Netherlandsm it is on negative watch.

Source: IIF, Euro Briefing. February 22, 2012

A. World Economy

1. Output

During 2011, world output grew by 3.9% (Table 1-1). This growth, however, was geographically uneven as it was more modest among advanced economies which grew at 1.6% in 2011 while emerging and developing economies experienced more robust growth with output rising by 6.2% in 2011.

Table 1-1: World Economic Growth Outlook

	2009	2010	2011*	2012*	2013*
World output	-0.5	5.3	3.9	3.5	4.1
Advanced Economies	-3.4	3.2	1.6	1.4	2.0
United States	-2.6	3.0	1.7	2.1	2.4
Euro Area	-4.1	1.9	1.4	-0.3	0.9
Japan	-6.3	-0.1	0.7	-1.8	0.1
Emerging & Developing Economies	2.7	7.5	6.2	5.7	6.0
China	9.2	10.4	9.2	8.2	8.8
India	6.8	10.6	7.2	6.9	7.3
Middle East and North Africa	1.8	4.9	3.5	4.2	3.7

** Forecasts*
Source: IMF, World Economic Outlook, April 2012.

The projections for 2012 and 2013 show that the world economy will continue to grow more modestly with growth rates of 3.5% and 4.1% respectively.

Advanced economies are expected to grow by 1.4% in 2012 and 2.0% in 2013 while emerging and developing economies are forecast to experience sustained growth at 5.7% for 2012 and 6.0% for 2013. According to the IMF, MENA countries will grow by 3.5% in 2011, 4.2% in 2012 and by 3.7% in 2013.

2. Inflation

For the year 2011, inflation, as measured by consumer prices, for advanced economies recorded a 2.7% growth, up from 1.5% in 2010 (Table 1-2). Consumer prices in emerging and developing markets rose by 7.1% during the year, higher than the 6.1% recorded in 2010.

The IMF forecasts that in 2012 there will be a 1.9% growth in consumer prices for advanced economies, while developing economies are expected to see inflation of 6.2%. The slowdown in inflation is due to expected decreases in food and energy prices which reached a record in 2011. Consumer prices are expected to decrease in 2013 for advanced economies and emerging and developing countries as well.

Table 1-2: Consumer Prices, All items

	2008	2009	2010	2011	2012*	2013*
Advanced Economies	3.4	0.1	1.5	2.7	1.9	1.7
Emerging and Developing Countries	9.5	5.3	6.1	7.1	6.2	5.6

**Forecasts*

Source: IMF, World Economic Outlook, April 2012.

3. Unemployment

In 2011, unemployment decreased substantially for advanced economies moving from 8.3% in 2010 to 7.9% in 2011 (Table 1-3). Unemployment rates in the United States and Japan have fallen in 2011 compared to their levels in 2010.

Unemployment rates are very high in various European economies that have been hit by the crisis. The sovereign debt crisis has considerably affected the labour market in Europe especially in Spain where unemployment reached the level of 21.6% in 2011 and is projected to be 24.2% in 2012.

Table 1-3: Unemployment in Advanced Economies (%)

	2009	2010	2011	2012*	2013*
Advanced Economies	8.0	8.3	7.9	7.9	7.8
United States	9.3	9.6	9.0	8.2	7.9
Euro Area	9.4	10.0	10.1	10.9	10.8
Japan	5.1	5.1	4.5	4.5	4.4

** Forecasts*

Source: IMF, World Economic Outlook, April 2012.

The IMF predicts that in 2012 unemployment rates for advanced economies will remain at the level of 7.9% and then decrease to 7.8% in 2013. In the US, average unemployment rate decreased from 9.0% in 2011 to 8.2% in 2012 and then 7.9% in 2013. Regarding the Euro area, unemployment rates will remain above 10% during the same period. By contrast, unemployment rates are relatively low in Japan where it was 4.5% in 2011 and is expected to remain at around that rate in 2012 and 2013.

4. Exchange Rates

At end-2011, the Euro and the pound sterling both depreciated against the SDR from their levels at the end of 2010. The Euro depreciated by 3.5% while the pound sterling depreciated more mildly by 1.0% (Table 1-4). The US dollar's rate at the end of 2011 was the same as at end-2010 while the Japanese Yen appreciated by 4.9%.

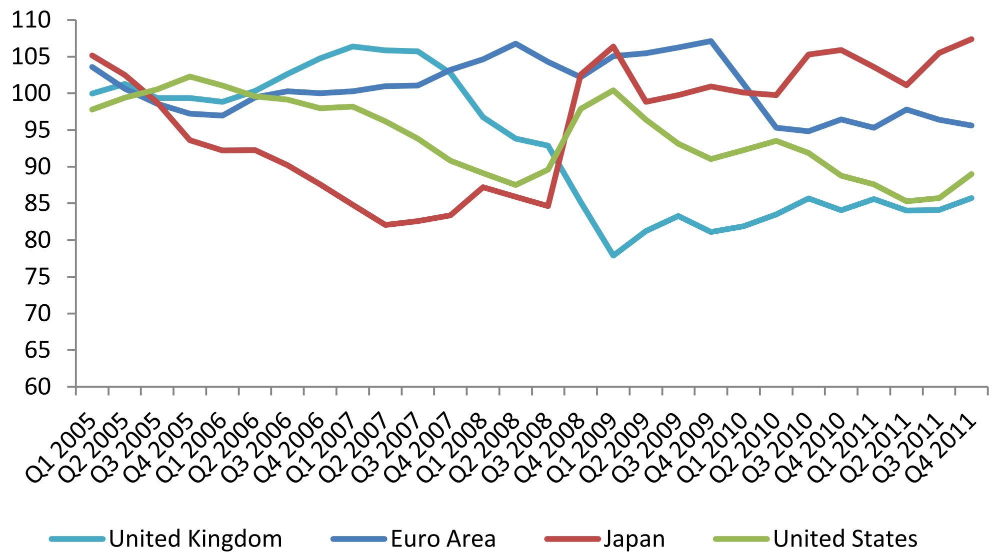
Table 1-4: Exchange Rates of Major Currencies against the SDR

Currencies	2010	2011			
		Q1	Q2	Q3	Q4
US dollar	1.54	1.59	1.60	1.56	1.54
Euro	1.15	1.12	1.11	1.16	1.19
Japanese Yen	125.44	131.80	129.19	119.67	119.32
Pound Sterling	0.98	0.99	1.00	1.00	0.99

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 2010 until the fourth quarter of 2011, the real effective exchange rates of all the major currencies appreciated except for the Euro which depreciated by 0.9% (Chart 1-2). The pound sterling appreciated by 1.9%, while the Japanese Yen appreciated by 1.4% and the US dollar appreciated more modestly by 0.3%.

Char 1-2: Real Effective Exchange Rates of Major Currencies (2005 = 100)



Source: IMF, International Financial Statistics Database.

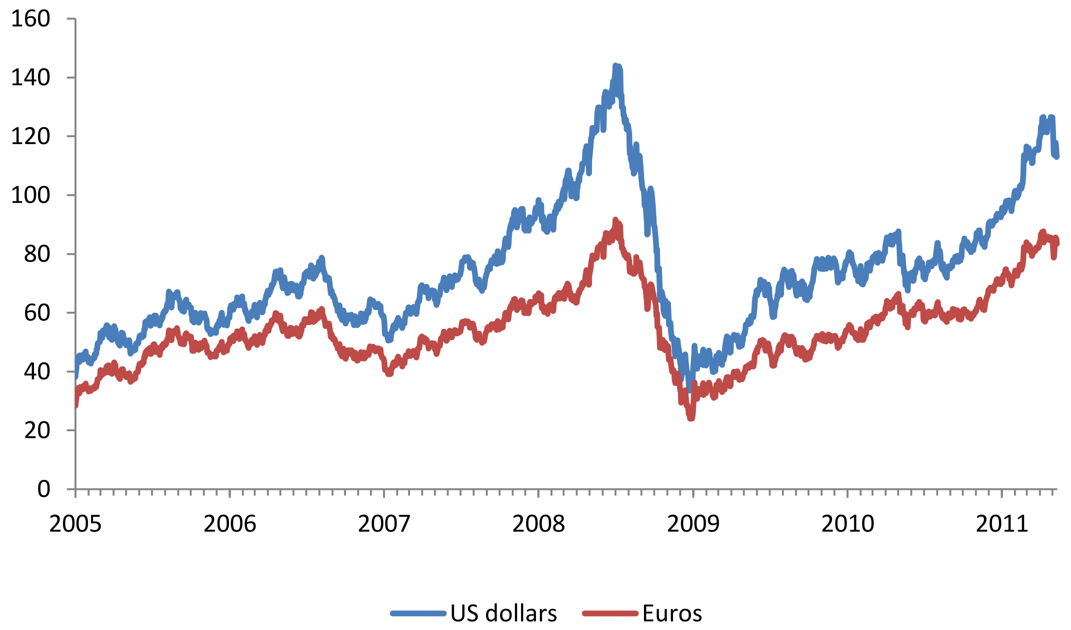
B. GCC Economies

The GCC region was to some extent sheltered from the full effects of the sovereign debt crisis. The region performed strongly in 2011 due to high oil prices which were above USD 100 for all of 2011 (see Chart 1-3). However, the uncertainty associated with the debt crisis could affect the region. Capital flows to the region could be affected and there could be a decline in the valuations and earnings of the GCC's external assets. Nevertheless, the current market environment in the GCC remains generally favourable due to the solid fiscal and economic performance of the region. Moreover, the liquidity of the GCC's financial institutions is expected to be sufficient to buffer regional asset sales from downsizing European banks.

1. Commodity Markets

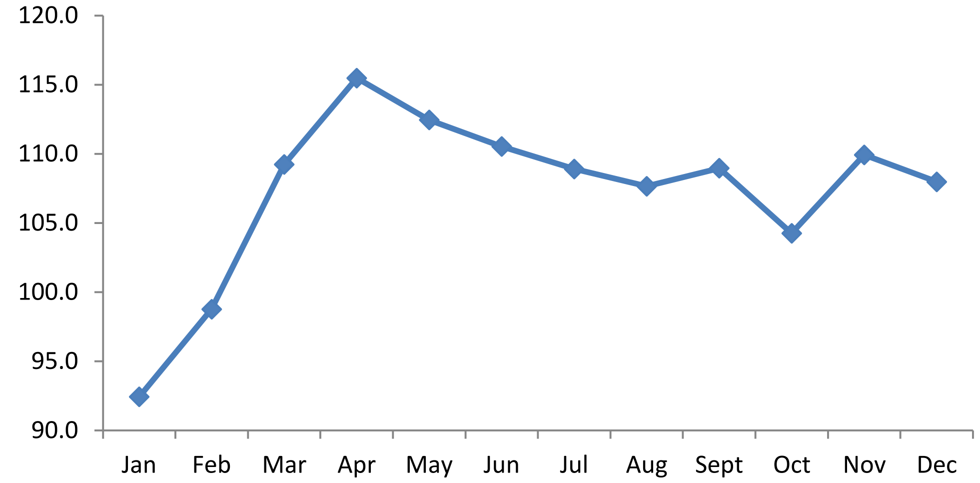
As Charts 1-3 and 1-4 below illustrate, oil is the most important commodity price that increased during the period 2009-2011. Following the political instability in some oil producing countries (Syria, Sudan and Libya) and tension due to the Iran oil embargo, the average world price of crude oil increased from USD 100.14 per barrel in the first quarter of 2011 to reach a price of USD 107.38 per barrel in the fourth quarter of 2011.

Chart 1-3: Crude Oil Prices (US dollars and Euro)



Source: Datastream, NOGA (2012)

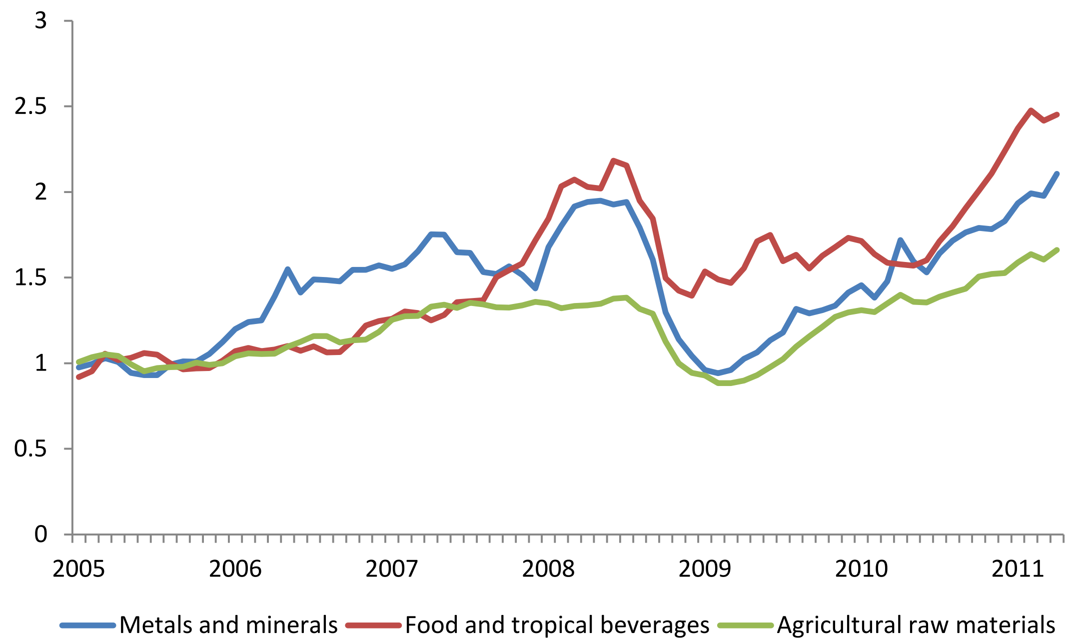
Chart 1-4: Crude Oil Prices (OPEC Basket) 2011



Source: Datastream, NOGA (2012)

The rise in oil prices and harsh weather conditions in many regions (drought, floods, and earthquakes for example) have led to an unprecedented rise in international food prices (raising food production costs). In spite of this, inflation levels have generally been subdued as a result of weak international growth. As shown in Chart 1-5 below, food and tropical beverages, agriculture raw material and metal and mineral prices have exceeded their record levels in 2008.

Chart 1-5: Non-oil Commodities Prices (Index 2005=1)



Source: Datastream

High oil prices during the year were mostly because of an approximate increase of 10% in GCC oil production. This was mainly due to Saudi Arabia ramping up production following the sudden stop in Libyan oil production. This in turn helped the GCC economies generate large windfalls that reduced the costs of importing non-oil commodities. Hence, in 2011, the GCC region enjoyed a large current account surplus and a robust macroeconomic performance.

2. Macroeconomic indicators of GCC Economies

Despite the political, economic and environmental turmoil that happened in 2011, the GCC economies experienced growth at a level of 4.0%. The projections for 2012 show that the regional economy will continue to grow reasonably, at an expected growth rate of 3.6%.

At the individual country level, Qatar experienced the highest growth rate at 18.7% followed by Saudi Arabia at 6.5%, Kuwait at 5.7%, Oman at 4.4%, the UAE at 3.3% and finally Bahrain which grew by 2.2% in 2011, which was due largely to the events of February and March 2011.

Similar to the projection of Saudi Arabia, Bahrain is projected to rebound in 2012 to a real GDP growth of 3.6%. This will boost Bahrain's economy and will help offset the losses in 2011.

With regard to non-oil GDP growth for the GCC, there was an increase from 4.5% in 2010 to 5.3% in 2011. All the GCC countries except for Bahrain experienced an increase from 2010 to 2011. Bahrain's non-oil growth went from 4.6% to 0.8% due to the effect of the 2011 events on sectors such as tourism and real estate.

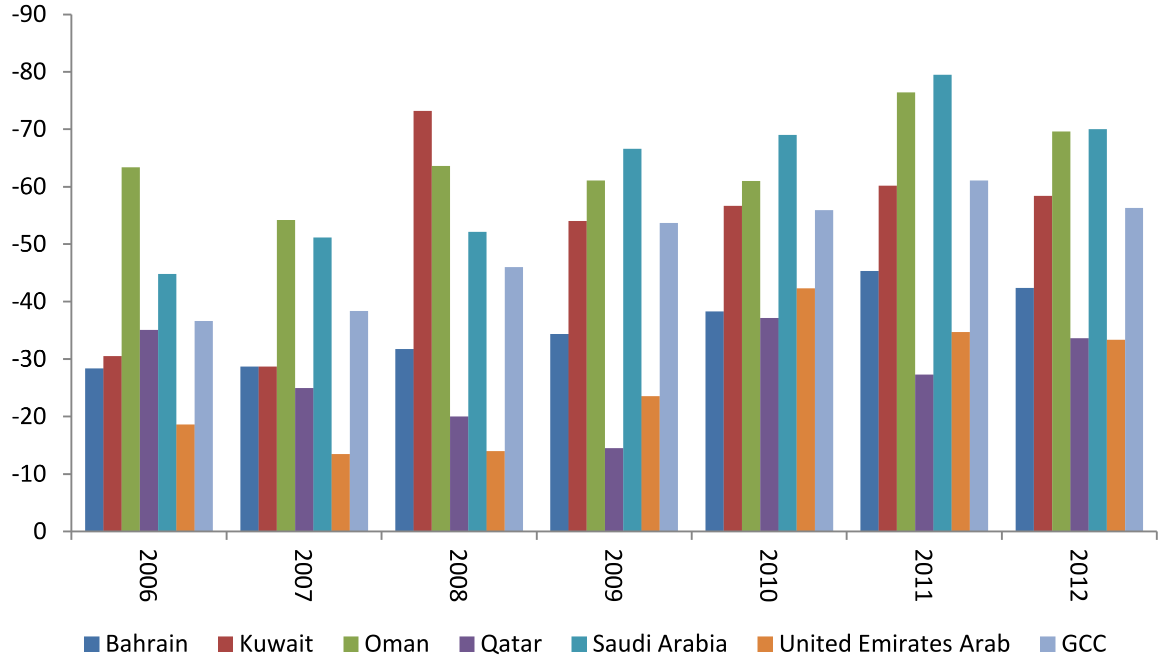
With regard to oil GDP, the GCC is projected a high growth rate of 10.4 % in 2011 compared to 6.3% in 2010 due to high oil prices. Projections of 1.5% oil GDP growth in 2012 indicate that the IMF expects oil prices to drop. At an individual country level, Qatar had the highest projected oil GDP growth at 31.0%, followed by Saudi Arabia at 9.4% then Bahrain at 6.2% for the year 2011. The UAE had the lowest oil GDP at 3.4% during 2011.

3. Fiscal Policy in GCC

The increase in oil prices has prompted a sharp rebound in regional current account surpluses. In 2011, the GCC general government fiscal balance witnessed an increase of 9.7% compared to its level in 2010 (6.1%). Nevertheless, due to the uncertainty of the future global outlook, the current strength in oil prices will not be sustained into 2012 and oil prices are expected to decrease. Therefore, the IMF's projection for 2012 suggests that the general government fiscal balance for all GCC countries will drop to 8.3%.

On the other hand, the GCC government non-oil fiscal balance is projected to continue to drop from -55.9% in 2010 to -61.1% in 2011. This illustrates the importance of oil for the fiscal balance and the low contribution of non-oil sectors towards the government budget.

Chart 1-6: General Government Non-oil Fiscal balance (% of non-oil GDP)



Source: IMF Regional Economic Outlook

Table 1-5: Crude Oil Production (million barrels per day)

	2006	2007	2008	2009	2010	Projections 2011*	Projections 2012*
Bahrain	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Kuwait	2.6	2.6	2.7	2.3	2.3	2.5	2.5
Oman	0.7	0.7	0.8	0.8	0.9	0.9	0.9
Qatar	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Saudi Arabia	9.2	8.8	9.2	8.4	8.4	9.3	9.3
United Arab Emirates	2.6	2.5	2.6	2.3	2.4	2.5	2.6
GCC	16.2	15.7	16.2	14.8	14.9	16.1	16.2

Source: IMF Regional Economic Outlook

Total government revenue (excluding grants) of the GCC is projected to increase to 45.1% of GDP in 2011 from 43.2% in 2010 and is expected to drop to 43.0% of GDP in 2012. Regarding general government non-oil revenue, it represented 17.8% of the GDP of the GCC countries in 2010 and is expected to grow to 19.1% in 2011 and then fall to 17.6% in 2012.

In line with the rise in oil prices, total government gross debt is expected to decrease to 12.2% of GDP in 2011 and is expected to drop further to 11.7% of GDP in 2012. At an individual level, all GCC countries, except Bahrain, are projected to witness a decrease in their gross debt to GDP in 2011 and 2012.

In 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 2011 reaching USD 278.9 billion which is 20.6% of GDP of all GCC countries.

The current account balance is expected to fall to 16.9% of GCC's GDP in 2012 reaching USD 237.9 billion. Bahrain is the only GCC country that is expected to undergo a rise in its current account balance (% of GDP) from 12.6% in 2011 to 13.7% in 2012.

4. Monetary Indicators

Aside from Kuwait, which is pegged to a basket of currencies, the monetary policy for the rest of the GCC countries is one of a fixed exchange rate regime with the US dollar. During previous years, the GCC countries have continuously guaranteed exchange rate stability.

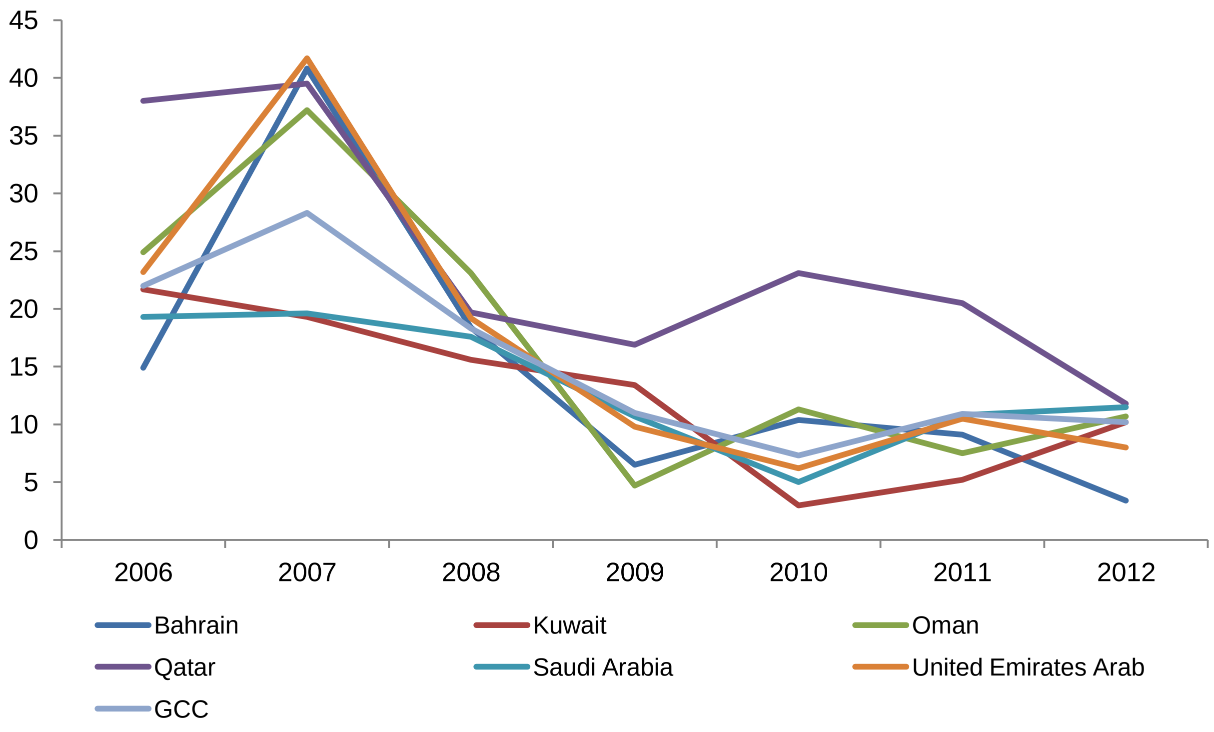
After a high 11.0% inflation rate in 2008, the GCC inflation rate has been moderating to 3.0% in 2009 and 3.2% in 2010, and is projected to increase by

4.3% in 2011. The IMF estimates that inflation will decelerate slightly to 4.2% in 2012. At an individual country level, the CPI in 2011 ranged between a low of 1.0% for Bahrain and a high of 6.2% in Kuwait.

Liquidity in the GCC is captured by broad money. From a monetary policy point of view, higher broad money reflects eased liquidity conditions in the financial system which reveals strong economic activity during the year.

As illustrated in Chart 1-7, broad money supply in the GCC decreased sharply from 2007 to 2010, from a growth rate of 28.3% to 7.3%. This is a consequence of the subprime crisis which contracted regional liquidity and reduced access to financing. In 2011, broad money is expected to grow to reach 10.9% and decline slightly to 10.2% in 2012. By country, Saudi Arabia, Kuwait and Oman are the only countries forecasted with a positive growth in broad money in 2012. The three other countries are expected to face negative growth.

Chart 1-7: Broad Money Growth (%)



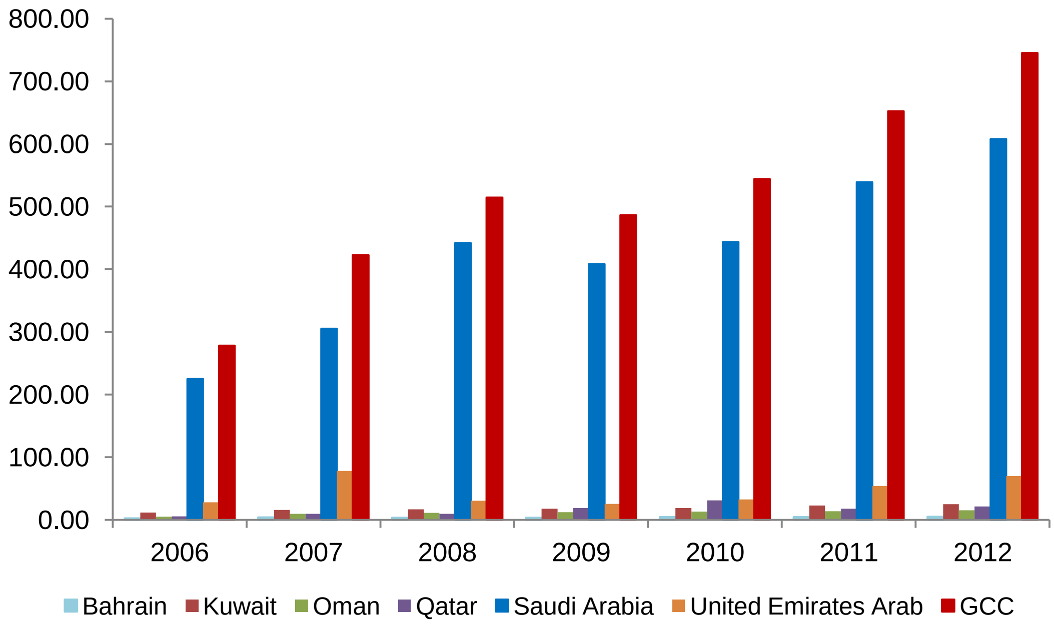
Source: IMF Regional Economic Outlook

The strength in oil prices and the huge oil-export revenues have allowed the GCC countries to earn ample foreign exchange reserves to counterbalance any currency fluctuation.

As Chart 1-8 illustrates, the level of gross official reserves for the GCC countries increased substantially during the period 2006-2010 (95.7%). The level increased from USD 278.1 billion in 2006 to USD 544.3 billion in 2010.

IMF projections show that gross official reserves will continue to grow by 19.8% in 2011 then and 14.3% in 2012 to reach the record level of USD745.0 billion.

Chart 1-8: Gross Official Reserves (Billion US dollars)



Source: IMF Regional Economic Outlook

Chapter
2

2. Bahrain's Economic Performance

Overview

Bahrain exceeded IMF growth expectations of 1.5% to achieve a 2.2% real GDP growth in 2011. This growth rate can be attributed to high oil prices and the rebound experienced in the second half of 2011. Bahrain experienced slight deflation in 2011 due to a decrease in the price of rents. Moreover, 2011 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.

A. Growth in Bahrain

1. GDP Growth

Bahrain's nominal GDP grew by 17.8% in 2011, an increase from the 11.8% nominal growth rate experienced in 2010. The largest increase was in "crude petroleum & natural gas" sector which rose by 44.5% and contributed 30.4% of GDP in 2011. "Manufacturing" also increased substantially growing by 27.9% in 2011 and contributing 16.8% of GDP. "Financial corporations", which contributed 17.7% of GDP in 2011, grew more modestly at 1.1 % (Table 2-1).

Table 2-1: Gross Domestic Product (GDP) at Current Prices, 2010-2011

(BD Million)

	2010*	2011*	% Change	% Share (2011)
GDP at Current Prices	**8,245.6**	**9,710.3**	**17.8**	**100.0**
Non-Financial Corporations	6,089.5	7,409.7	21.7	76.3
Of which:				
-Crude Petroleum & Natural Gas	2,041.9	2,951.5	44.5	30.4
-Manufacturing	1,273.0	1628.1	27.9	16.8
-Construction	346.7	331.1	-4.5	3.4
-Transportation and Communication	563.7	628.1	11.4	6.5
-Trade	597.6	608.6	1.8	6.3
-Hotels & Restaurants	194.9	163.8	-16.0	1.7
-Real Estate & Business Activities	529.6	500.1	-5.6	5.2
Financial Corporations	1,698.6	1,717.5	1.1	17.7
Government Services	998.2	1,133.0	13.5	11.7

** Provisional data*

Source: Central Informatics Organisation (CIO)

The "Construction", "hotels & restaurants" and "real estate & business activities" sectors were the most affected by the events in February and March 2011 and as a result experienced negative growth. However, their contribution to nominal GDP is not very significant with "real estate & business activities" having the largest share at 5.2% of total nominal GDP.

In real terms, GDP grew by 2.2%, down from 4.5%in 2010 (Table 2-2). In absolute dinar terms, real GDP rose from BD 5,100.2 million to BD 5,213.7 million over the period.

Table 2-2: Gross Domestic Product (GDP) at Constant Prices, 2010-2011

(BD Million)

	2010*	2011*	% Change	% Share (2011)
GDP at Constant Prices	**5,100.2**	**5,213.7**	**2.2**	**100.0**
Non-Financial Corporations	3,590.2	3,676.1	2.4	70.5
Of which:				
-Crude Petroleum & Natural Gas	611.2	631.9	3.4	12.1
-Manufacturing	836.4	868.6	3.8	16.7
-Construction	283.2	272.5	-3.8	5.2
-Transportation and Communication	458.5	508.8	11.0	9.8
-Trade	350.6	354.7	1.2	6.8
-Hotels & Restaurants	172.4	149.7	-13.2	2.9
-Real Estate & Business Activities	435.7	414.0	-5.0	7.9
Financial Corporations	1,255.6	1,288.7	2.6	24.7
Government Services	747.8	789.4	5.6	15.1

** Provisional Data*

Source: Central Informatics Organisation (CIO)

The "non-financial corporations" sector, which accounts for 70.5% of real GDP, grew by 2.4% in 2011. The largest increase in the non-financial sector was in the "transport and communication" segment, which grew by 11.0%. The largest contraction in growth was in the "hotels & restaurants" sector which shrunk by 13.2% and which contributed only 2.9% to 2011 real GDP.

Financial corporations, one of the largest single contributors to GDP grew by 2.6% in 2011. At the end of 2011, the financial sector accounted for 24.7% of real GDP. "Government services" expanded by 5.6% in 2011, up from 3.2% in 2010.

In real terms, "crude petroleum & natural gas" grew by 3.4% in 2011. Real non-oil GDP growth was more modest registering a 2.1% growth, down from

4.8% in 2010, mainly as a result of the political events of the first quarter of 2011.

2. Hydrocarbon Sector

Total crude oil production increased from 66.4 million barrels in 2010 to 69.5 million barrels in 2011, as a result of a rise in the production at Awali oil field (Bahrain Oilfield). Production at the Bahrain Oilfield rose from a total of 11.6 million barrels at end 2010 to 15.5 million barrels at end 2011, a 33.4% increase. Alternatively, Abu Sa'afa oil production dropped from 54.7 million barrels in 2010 to 53.9 million barrels in 2011. Refined oil production also decreased from 99.4 million barrels in 2010 to 96.0 million barrels in 2011, a 3.4% decrease (Table 2-3).

Table 2-3: Crude Oil Production and Refining

(Barrels Thousands)

	2010	2011	2011			
			Q1	Q2	Q3	Q4
Total Crude Oil	**66,376**	**69,452**	**16,545**	**16,774**	**17,559**	**18,574**
Bahrain Oilfield	11,635	15,516	3,503	3,724	4,104	4,185
Abu Sa'afa Oilfield	54,741	53,936	13,042	13,050	13,455	14,389
Refined Oil Production	**99,362**	**96,026**	**21,661**	**24,065**	**24,983**	**25,317**

Source: National Oil and Gas Authority (NOGA)

During 2011, the Bahrain authorities continued to pursue initiatives to increase domestic oil production. In January 2011, Bahrain National Oil and Gas Authority (NOGA) completed the drilling of 25 new wells, which will be the first of nearly 3,500 wells to be drilled at the Bahrain Oilfield in the next twenty years. Moreover, in 2011 the Lube Base Oil Plant (LBOP), a joint venture of BAPCO, Neste Oil of Finland and NOGA Holding was officially opened. This is line with the Economic Vision 2030 and Bahrain's strategy of moving towards diversifying its source of income.

3. Domestic Prices

During 2011 Bahrain experienced minor deflation at a rate of -0.4%, down from a *positive* 2.0% in 2010 (Table 2-4). The main reason for the decrease in the consumer price index (CPI) was due to the price of "housing, water, electricity, gas, and other fuels" which dropped by 12.4% as a result of a 15.7% fall in rent prices. Moreover, "communication" decreased by 2.1% in 2011 because of a reduction in the telecommunication services provided.

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

Major Group of Commodities and Services	2010	2011
Food and Non-Alcoholic Beverages	132.5	135.5
Alcoholic Beverages, Tobacco	117.3	124.5
Clothing & Footwear	106.4	108.7
Housing, Water, Electricity & Fuels	108.2	94.8
Furnishing, Household Equipment and Maintenance	113.2	115.4
Healthcare Services	105.9	109.2
Transport	105.4	107.3
Communication	94.7	92.3
Recreation & Culture	105.5	112.8
Education	112.7	114.8
Restaurants	112.9	113.9
Miscellaneous	117.5	131.2
General Index	112.1	111.6
Inflation	**2.0**	**-0.4**

Source: Central Informatics Organisation

Alternatively, other groups experienced price increases in 2011, notably, "recreation and culture" and "miscellaneous" which increased by 6.9% and 11.7% respectively. "Food and non-alcoholic beverages" also increased on average by 2.3% in 2011. As Bahrain's economy is expected to revive in 2012, prices are projected to rise modestly.

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B. Bahrain Policy Developments

1. Labour Market

Bahrain's efforts in improving it labour force are evident in the work of the Labour Fund "Tamkeen". Throughout 2011, Tamkeen promoted business growth and invested in the human capital through various programmes and initiatives. These initiatives focus on human capital and the private sector.

In June 2011, Tamkeen set up a BD 10 million support fund to assist 2,000 small and medium enterprises (SMEs) combat the effects of the global financial crisis and the 2011 political events. This is in line with other measures taken by the government to support the Labour market in 2011 such as the temporary suspension of the BD 10 Labour Market Regulatory Authority (LMRA) fees for every expat worker and the halting of the 5% training levy for the hospitality industry.

Moreover, His Majesty the King of Bahrain announced in August 2011 that public sector employees will receive a 15.0% salary increase and the lowest ranked civil servants will have their salaries increased by 36.5%. This pay rise package will affect 35,000 employees and aims at improving the standard of living of Bahraini public sector employees.

2. Structural Developments and International Indices

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 2011, Bahrain launched a BD 2.5 billion housing program to meet a gap in social housing. The three year program will be developed in partnership with the private sector.

With regards to international indices, Bahrain was ranked as one of the world's top ten economically free nations according to the index of Economic Freedom published by the Heritage Foundation and the Wall Street Journal in 2011. Bahrain ranked ten out of 183 countries this year, 3 places up from 2010, one place below the United States and six spots ahead of the United Kingdom. Bahrain remains the top country out of the 17 MENA countries in terms of economic freedom. The index of economic freedom measures ten freedoms such as: trade, business, fiscal, and financial. The report mentions Bahrain's commitment to structural reforms, openness to international commerce, sophisticated financial sector and reliable regulatory structure.

Moreover, in 2011 Bahrain was ranked as the most economically free Arab country in the *Economic Freedom of the Arab World* report by the think tank the Fraser Institute. Bahrain has topped this index for the past seven years.

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 2-5: Bahrain Human Development Index, 2010-2011

Year	HDI Rank (Value)	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	GDP per capita (PPP $)
2010	42 (0.805)	76.0	90.8	27,838
2011	42 (0.806)	75.1	91.4	32,233

Source: Human Development Report

Bahrain's HDI rankings remained at the 42nd place out of 169 countries in 2011 while the HDI value improved from 0.805 in 2010 to 0.806 in 2011(Table 2-7). This improvement was due in part to advances in adult literacy rates which rose from 90.8% of ages 15 and older to 91.4% of ages 15 and older from 2010 to 2011 and the rise in GDP per capita from PPP $27,838 to PPP $32,233.

In terms of ICT usage, according to the World Economic Forum's (WEF) Global Technology Report 2012, produced in cooperation with INSEAD, Bahrain's ranking rose three places to reach 27th out of 133 countries worldwide. The report emphasised Bahrain's ideal investment environment and the government's use of IT, which ranked 4th. Bahrain also offers good ICT readiness (25th place) with regards to infrastructure, affordability and overall skills, and an advanced platform for entrepreneurship and innovation (11th place).

3. 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 2011, Bahrain's e-Government Authority received the "Security Strategist 2011's Award" for its role in spreading awareness of online risk and fraud in addition to its adherence of best practices and international standards in the field of Information Security. In line with this award, the e-Government Authority also received an (ISO 27001) certificate which is considered an international quality criteria for information security protection. This makes Bahrain the first country in the Middle East to receive an ISO certificate in the e-Government sector.

Also in 2011, the e-Government Authority received the e-World Forum 2011 Award for "Best Innovative Initiative in Governance" in recognition for the National Enterprise Architecture project which was launched in 2009. The National Enterprise Architecture (NEA) project aims to integrate ICT infrastructures, databases, policies, standards and information systems among different government entities under one platform. It also strives to ease the processes and service deliveries and manage technology expenditure in the government sector.

4. Economic Agreements

In 2011, 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 February 2011, an agreement for the avoidance of double taxation and the prevention of fiscal evasion with regards to taxes on income (DTA) and an MOU on economic, trade and technical co-operation were signed between the governments of Bahrain and the Isle of Man. The DTA will address taxation issues in relation to the flow of business and the movement of people between Bahrain and the Isle of Man. It follows the model double taxation treaty published by the Organisation for Economic Cooperation and Development (OECD). The MOU is a declaration that the two governments will work closely to develop bilateral economic activity on the basis of equity and mutual benefit.

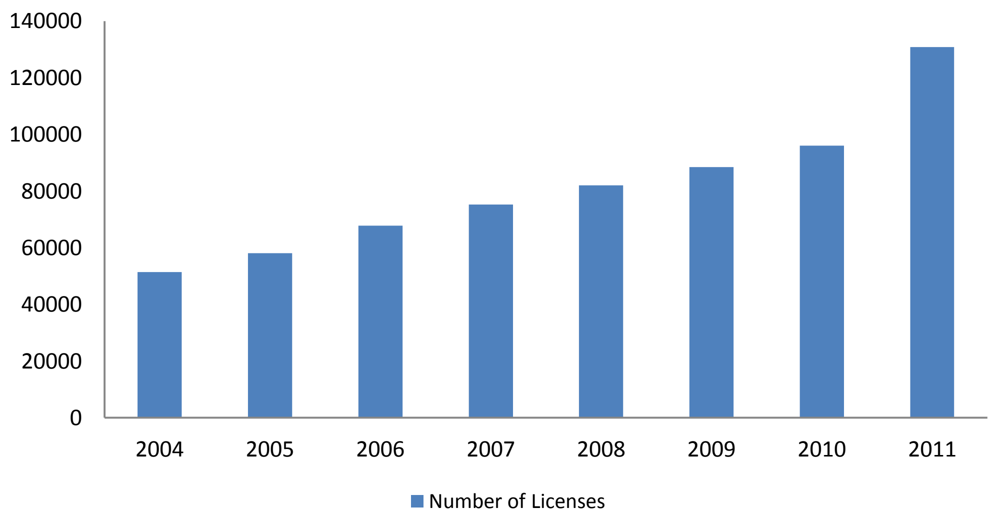
In May 2011, an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income was signed between Bahrain and the Czech Republic. This agreement will eliminate the double payment of taxes by nationals and enterprises of each of the two countries in the territory of the other. In June 2011 a similar agreement was signed between Bahrain and Sri Lanka. While in July, an agreement for the avoidance of double taxation was signed between Bahrain and Georgia.

C. Private Sector Developments

1. Property and Real Estate Developments

The total number of commercial registration licenses increased during the period 2004-2011. In 2011, there was a significant increase in the total number of commercial licences, rising by 32.2% compared to 2010 and amounting to a total of 130,852 commercial licenses (Chart 2-1). The number of new commercial licenses issued in 2011 was 6,581. The largest numbers of licenses issued have been in the wholesale and retail trade (including repair of motor equipment) sub-segment, where 3,025 licenses were issued.

Chart 2-1: Total Number of Commercial Registration Licenses



Source: Ministry of Industry and Commerce

The real estate and construction sector embarked on new projects in 2011 while also continuing several projects.

In 2011, a total of 7,563 construction permits were issued, a decrease of 24.2%, over 2010 (Table 2-8). "Addition" permits constituted the majority of total construction permits in 2011 (53.4%), followed by 27.0% in the form of "new construction permits".

Table 2-6: Construction Permits by Type

Construction Permits by Permit Type	2010	2011
Addition	5,414	4,041
Demolition	780	591
Demolition and New Construction	69	53
New Construction	2,773	2,043
Reclamation	14	7
Renovation	923	828
Total	**9,973**	**7,563**

Source: Ministry of Municipalities Affairs and Agriculture.

Many real estate projects continued to develop in 2011 such as Riffa Views and Diyaar Al Muharraq. In 2011, Riffa Views, Bahrain's golf residential development, handed over 555 villas, which represents over 72% of its sales.

Diyaar Al Muharraq is a unique self-contained master planned city that will provide a mix of residential and commercial properties with housing opportunities for over 100,000 people in 30,000 units, with an area of 12 square kilometres. Construction for the first phase units is expected to begin in the third quarter of 2011. The cost of the project is estimated at around BD 200 million.

Also, in April 2011, Bahrain's Manara Developments declared its plans to build nearly 3,845 affordable villas and apartments at six different locations in Bahrain. Construction has already started at Tubli Gardens while it is also expected to begin in Janayin Al Hamala, Wahat al Muharraq and the Bridge, Kenaz Al Bahrain in Jiblat Habashi and Darari near Durrat al Bahrain.

2. Bahrain Financial Exchange

Bahrain Financial Exchange (BFX) was officially launched in February 2011. It is a wholly-owned subsidiary of the Financial Technologies Group, a global leader in creating and operating technology for next generation financial markets. The BFX is MENA's first multi-asset exchange which is internationally accessible to trade securities, derivatives, structured products and Shari'a-compliant financial instruments. The BFX also includes an internationally accredited training institute, the BFX-TI. The exchange also offers Bait Al Bursa, its Islamic finance division.

3. Telecommunications

According to the "Telecommunications Market Indicators Report" released by the Telecommunications Regulatory Authority (TRA) in December 2011, there was a 6.5% increase in industry revenue between 2009 and 2010 with mobile services representing the majority of the telecommunications revenue. Revenues in the telecommunications sector contributed 4.4% of GDP. Figures also show that in 2010 the telecommunications sector employed around 2,600 workers, with Bahrainis constituting 82% of total employees.

At the end of 2011, there were around 1.7 million mobile subscribers in Bahrain, with mobile penetration at 133%. Moreover, there were 290,000 internet subscribers, all of whom were broadband subscribers. This is an increase of 42% from 2010. In 2011, about 95% of households have fixed broadband. This makes Bahrain the highest in the GCC in terms of fixed broadband penetration.

4. Industrial Developments

The industrial sector is an important part of Bahrain's economy contributing approximately 17% of Bahrain's GDP. In 2011, Bahrain's industrial sector continued to develop and grow.

In April 2011, RMA, a leading German industrial firm, announced that it planned to set up a pipeline equipment manufacturing plant in Bahrain.

In August 2011, a major regional petroleum and chemicals products company, MENA Energy DMCC, selected Bahrain Logistics Zone as the headquarters for its "Pörner Bitumen Packing System" project in the MENA region. The project will offer logistic solutions that facilitate economic production and the delivery of bitumen for refineries and end users.

In November 2011, Imerys, a French mineral conglomerate announced that they will establish a joint venture with Al Zayani Investments for the construction of a new production plant in Bahrain. The joint venture will produce white fused aluminium oxide for the global market.

Chapter

3

3. Monetary Developments

Overview

A. *Money Supply Developments*

B. *Domestic Interest Rates*

C. *Exchange Rate Developments*

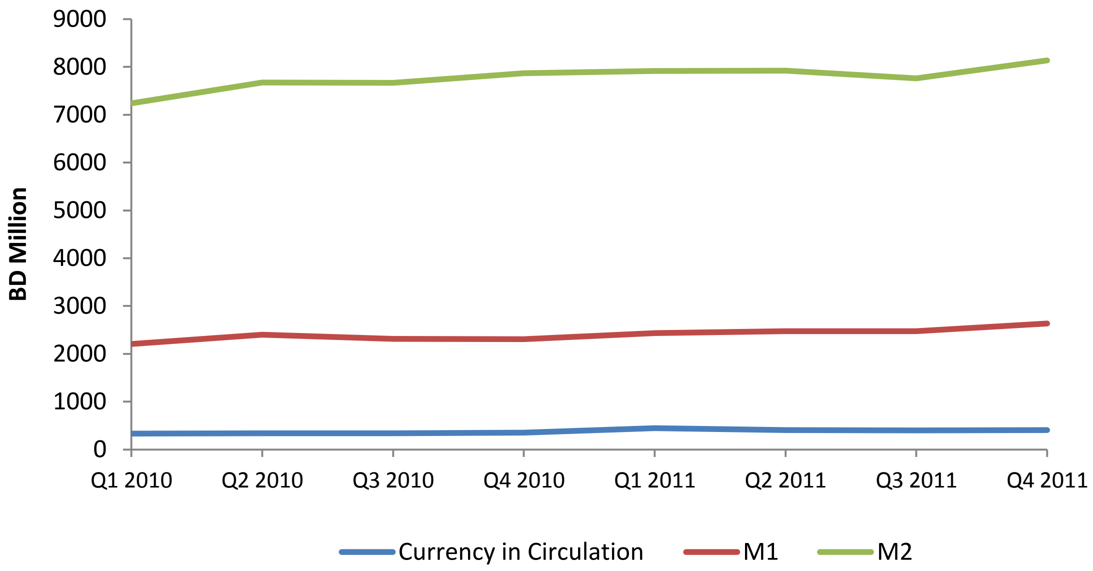
Overview

In 2011, 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.

A. Money Supply Developments

Money supply continued to grow in 2011 following the increases witnessed in 2010. Currency in circulation (currency outside banks) registered an increase of BD 52.6 million (15.0% growth) to reach BD 402.2 million in 2011 compared with BD 349.6 million in 2010 (Table 3-1). M1 (currency in circulation plus demand deposits) grew by 14.5% from BD 2,303.9 million in 2010 to BD 2,636.9 million in 2011. As a result of the growth in M1, M2 (M1 plus time and savings deposits) rose by BD 267.6 million (3.4% increase) from BD 7,867.5 million at end 2010 to BD 8,135.1 million at end 2011.

Chart 3-1: Money Supply



Source: Central Bank of Bahrain

The growth in money supply, M2 growth, was mainly due to increases in private sector demand deposits (local and foreign currency). In 2011, total private sector deposits (demand deposits as well as time and savings deposits) amounted to BD 7,732.9 million an increase of 2.9% and accounted for 95.1% of M2. Private sector demand deposits increased by 14.3% and largely contributed to the growth of M2. Time and saving deposits, however, decreased by 1.2% from BD 5,563.6 million at end 2010 to BD 5,498.2 million at end 2011.

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				
2010	349.6	1,954.3	5,563.6	1,628.2	2,303.9	7,867.5	9,495.7
2011	402.2	2,234.7	5,498.2	1,858.9	2,636.9	8,135.1	9,994.0

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 demand deposits denominated in both Bahraini dinar and foreign currency while time deposits were driven by deposits denominated in foreign currency.

During 2011, foreign currency demand deposits grew by 52.1% increasing by BD 235.4 million to reach BD 687.5 million. Foreign currency time deposits followed, growing by 4.9% (Table 3-2). Bahraini dinar and foreign currency saving deposits decreased by 1.2% and 14.9% respectively during the same period. Bahraini dinar time deposits also decreased by 3.5%.

At the end of 2011, the broadest measure of money (M3), increased by BD 498.3 million or by 5.2% from BD 9,495.7 million at end 2010 to BD 9,994.0 million at end 2011. From the context of deposits, M3 includes general government deposits (with both the Central Bank of Bahrain and retail banks) which increased by BD 230.7 million or 14.2% from BD 1,628.2 million in 2010 to BD 1,858.9 million in 2011.

Table 3-2: Private Sector Deposits by Currency

(BD Million)

Deposit Type	2010	2011	Change (%)
Demand			
BD	1,502.2	1,547.2	3.0
Foreign Currency	452.1	687.5	52.1
Savings			
BD	1,323.2	1,307.5	-1.2
Foreign Currency	125.8	107.0	-14.9
Time			
BD	2,983.5	2,877.8	-3.5
Foreign Currency	1,050.4	1,101.9	4.9
CBB Liabilities to Non-Banks (BD and Foreign Currency)	80.7	104.0	28.9
Total	**7,517.9**	**7,732.9**	**2.9**
As a Share of M2 (%)	**95.6**	**95.1**	**-0.5**

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 claims. During 2011, domestic claims increased by BD 919.0 million or 12.3% to reach a total of BD 8,395.9 million. In contrast, net foreign assets decreased by BD 420.7 million or 20.8% to reach a total of BD 1,598.1 million (Table 3-3).

Table 3-3: Factors Affecting Domestic Liquidity

(BD Million)

Factor	2010	2011	Change (%)
Domestic Liquidity (M3)	**9,495.7**	**9,994.0**	**5.2**
Factors Affecting Liquidity			
Net Foreign Assets	**2,018.8**	**1,598.1**	**-20.8**
a) CBB	1,800.6	1,596.2	-11.4
b) Retail Banks	218.2	1.9	-99.1
Domestic Claims	**7,476.9**	**8,395.9**	**12.3**
c) Claims on Government	1,645.1	2,114.2	28.5
d) Claims on Private Sector [1/]	6,545.1	7,525.6	15.0
e) Other Assets (Net)	-713.3	-1,243.9	-74.4

1/ Includes Loans and Holdings of Securities
Source: Central Bank of Bahrain

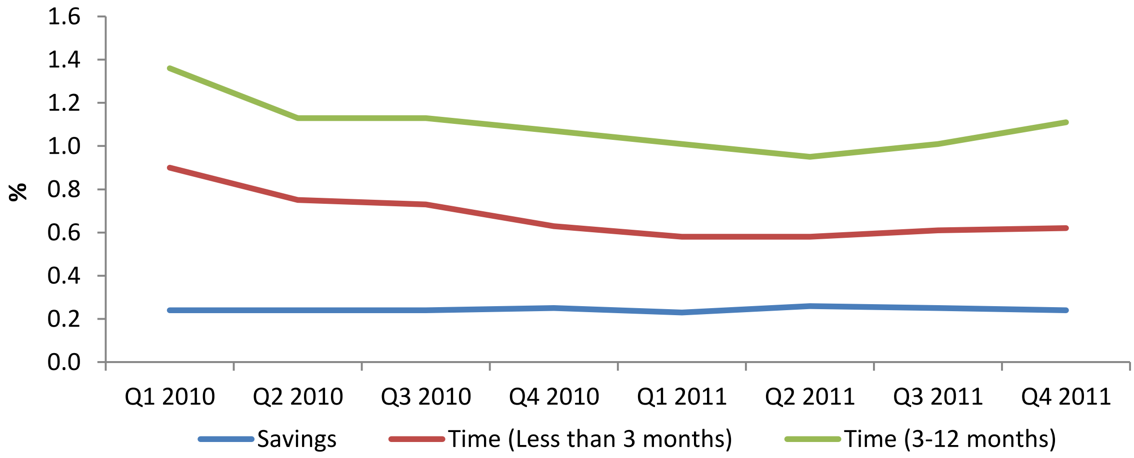
At the end of 2011, 84.0% of M3 was in the form of domestic claims and 16.0% in the form of net foreign assets. In terms of domestic claims, claims on government, claims on the private sector, and other assets accounted for

21.1%, 75.3% and -12.4%[1] of M3 respectively. Retail banks' net foreign assets account for 0.02% of M3.

B. 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) increased slightly from 1.01% at the start of 2011 to 1.11% by the end of the year; shorter term time deposits (less than 3 months) also increased from 0.58% to 0.62% for the same period (Table 3-4). Rates on savings accounts increased slightly, from 0.23% to 0.24%.

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. Short term time deposits (less than 3 months) were higher at the end of 2010 and have subsequently reduced during 2011.

Table 3-4: Deposit Interest Rates

(% per annum)

Deposits	End-2010	2011			
		Q1	Q2	Q3	Q4
Time 1/					
a) <3 months	0.63	0.58	0.58	0.61	0.62
b) 3-12 months	1.07	1.01	0.95	1.01	1.11
Savings	0.25	0.23	0.26	0.25	0.24

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 decreased slightly from 5.94% at the beginning of 2011 to 4.86% by year-end (Table 3-5). Rates for all sectors showed a decrease by end of the year except for the manufacturing sector which registered an increase.

Table 3-5: Interest Rates on Business Loans

(% per annum)

Sector	End-2010	2011			
		Q1	Q2	Q3	Q4
Construction and real estate	8.17	6.95	6.32	4.99	5.04
Manufacturing	4.78	4.11	5.08	4.58	4.81
Trade	6.33	6.60	5.14	4.79	4.94
Other [1/]	7.54	4.60	5.72	7.01	4.11
Total Business [2/]	**7.17**	**5.94**	**5.45**	**5.32**	**4.86**

1/ Includes non-banks financial and other services
2/ Excludes overdraft approvals
Source: Central Bank of Bahrain

In addition, weighted average rates for total personal loans decreased from 7.17% to 6.28% for the same period (Table 3-6). This is due to decreases in rates for loans secured by deposits and unsecured loans by salary assignment. Loans secured by vehicle titles and other loans increased for the period.

Table 3-6: Interest Rates on Personal Loans

(% per annum)

Personal Lending Type	End-2010	2011			
		Q1	Q2	Q3	Q4
Secured by:					
by Mortgages	7.02	6.72	7.65	7.67	6.71
Vehicles Title	8.31	8.24	8.25	6.84	8.41
By Deposits	6.38	9.12	5.47	4.34	7.03
Unsecured:					
Salary Assignment	7.06	7.05	6.84	6.11	6.21
Other	17.74	18.36	18.49	18.49	18.49
Total Personal [1/]	**7.10**	**7.17**	**6.93**	**6.16**	**6.28**
Credit Cards	**20.66**	**20.69**	**20.63**	**20.67**	**20.38**

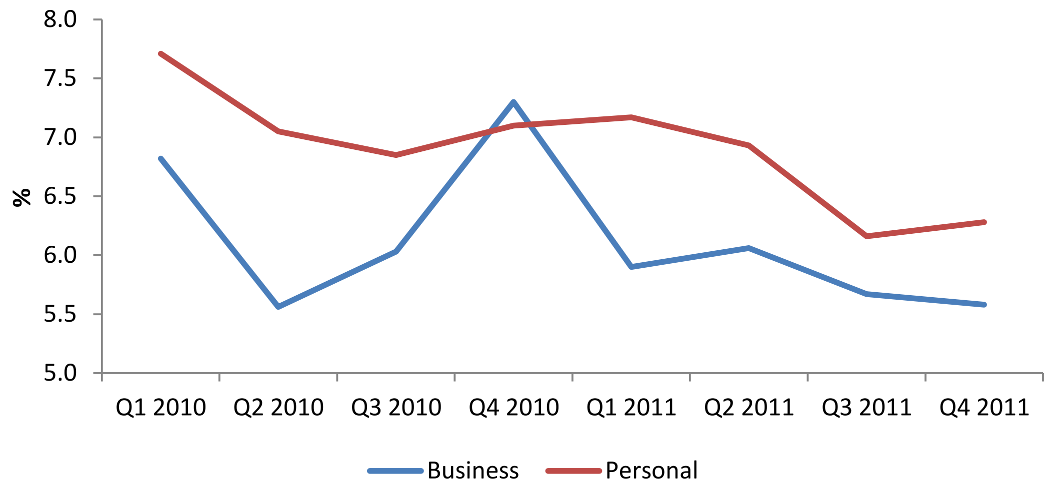
1/ Includes other types of personal loans not shown separately
Source: Central Bank of Bahrain

According to the data, personal loans secured by deposits were affected most by the interest rate reduction, as rates decreased from 9.12% at the beginning of 2011 to 7.03% by year-end. Rates on unsecured personal loans (by salary assignment) also decreased from 7.05% to 6.21% for the same period.

Personal loans secured by mortgage decreased slightly from 6.72% to 6.71% by end-2011.

Rates on loans secured by vehicle titles increased from 8.24% to 8.41%. Lending rates on "other" forms of unsecured lending increased also from 18.36% to 18.49%.

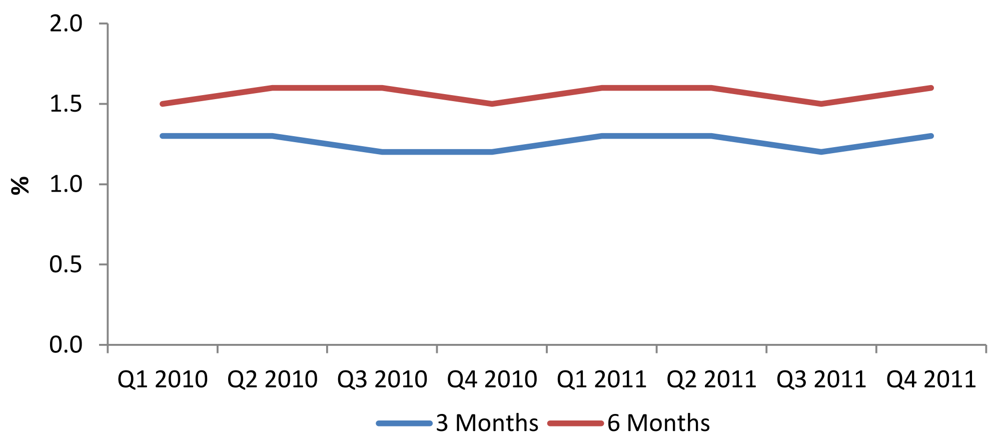
Chart 3-3: Personal and Business Interest Rates



Source: Central Bank of Bahrain

Average interbank rates remained stable during the course of 2011 and are reflective of retail banks' demand for liquidity in Bahrain. The fixed rates are also a result of unchanged US monetary policy during 2011.

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 2011 to 1.2% in the third quarter and increased again to 1.3% at the end of the year. Longer term interbank rates (6 month) fell from 1.6% in the first quarter to 1.5% in the third quarter and returned to 1.6% by end of the year (Chart 3-4).

C. Exchange Rate Developments

During 2011, the Bahraini dinar appreciated against the Pound Sterling and Euro while it depreciated against Japanese yen and remained unchanged regarding Swiss Franc (Table 3-7).

Table 3-7: BD Exchange Rate against major currencies 1/

	End-2010	2011			
		Q1	Q2	Q3	Q4
Saudi Riyal	0.100	0.100	0.100	0.100	0.100
Kuwaiti dinar	1.335	1.357	1.369	1.363	1.349
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	0.583	0.605	0.606	0.583	0.581
Euro	0.497	0.531	0.545	0.512	0.486
Japanese Yen 2/	4.610	4.540	4.700	4.900	4.800
Swiss Franc	0.399	0.410	0.453	0.424	0.399

1/Interest rates as at the last working day of each period
2/ Per 1000 Units
Source: Central Bank of Bahrain

Chapter

4

4. Financial Sector Developments

Overview

A. Structure Bahrain Financial System

B. Aggregated Banking System

1. Retail Banks

2. Wholesale Banks

3. Islamic Banks

C. Domestic Credit

D. Mutual Funds

E. Manpower Survey

Overview

In 2011, the effects of the financial crisis continued to recede in Bahrain. There was an increase in the number of financial institutions, and credit facilities extended. However, the aggregate balance sheets of banks and the number of employees in the financial sector decreased in 2011..

A. Bahrain Financial System

There were 415 banks and financial institutions operating in Bahrain in 2011 compared to 406 in 2010 (Table 4-1).

Table 4-1: Total Number of Licenses (2010 vs. 2011)

License Type	2010	2011
Retail Banks	**30**	**30**
Islamic	*6*	*6*
Conventional	*24*	*24*
Wholesale Banks	**77**	**76**
Islamic	21	20
Conventional	56	56
Insurance Companies and Organisations	**165**	**162**
Investment Business Firms	**46**	**49**
Specialised Licensees	**81**	**81**
Money Changers	18	18
Administrators	5	4
Registrar License	1	1
Financing Companies	9	8
Representative Offices	27	28
Islamic	*3*	*4*
Conventional	*24*	*24*
Microfinance Companies	2	2
Trust Service Providers	3	3
Provider of Ancillary Services	13	14
Islamic		
Conventional		
Societies	2	2
Registered Professional Body	1	1
Capital Market Brokers	**7**	**17**
Licensed Exchanges	1	2
Licensed Clearing, Settlement and Central Depository system	1	1
Licensed Securities Dealer	0	1
Licensed Securities Broker-Dealer	0	5
Licensed Securities Clearing Member	0	3
Stockbrokers	5	5
Total	**406**	**415**

Source: Central Bank of Bahrain

The licensing framework for banks and financial institutions operating in Bahrain has remained largely unchanged, with an introduction of new license categories mainly within the capital market sector.

Subsequent to the establishment of a Licensed Exchanges "BFX" and a Licensed Clearing, Settlement & Central Depository system "BCDC" in year 2010, the Central Bank of Bahrain ("CBB") received several applications from local and international applicants to be members of BFX and BCDC.

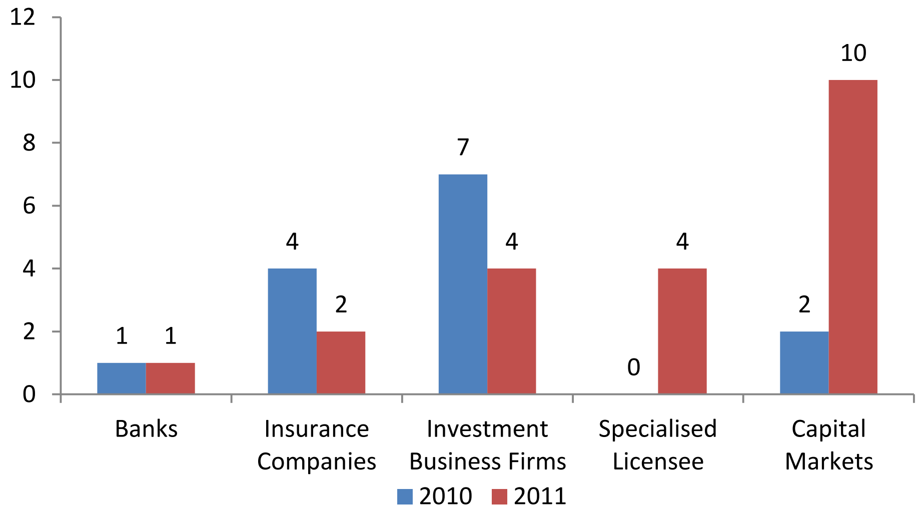
The CBB has provided licenses for 21 new institutions in 2011 versus 14 new institutions in 2010. The majority of license provided were for "Licensed Securities Broker-Dealer" as members of BFX (Table 4-2).

Table 4-2: New Licenses Issued (2010 vs. 2011)

License Type	2010	2011
Banks	**1**	**1**
Islamic	0	0
Conventional	1	1
Insurance Companies	**4**	**2**
Islamic	0	0
Conventional	4	2
Investment Business Firms	**7**	**4**
Islamic	0	1
Conventional	7	3
Specialised Licensee	**0**	**4**
Capital Markets	**2**	**10**
Total	**14**	**21**

Source: Central Bank of Bahrain

Chart 4-1: New Licenses Provided, 2011



Source: Central Bank of Bahrain

B. Aggregated Banking System

The aggregate balance sheet for the banking system (conventional and Islamic retail and wholesale banks) decreased in total to reach USD 197.1 billion by the end of 2011, compared to USD 222.2 billion at the end of 2010, a decrease of USD 25.1 billion, or 11.3% (Table 4-3). Wholesale banks represented 65.8% of the total, while retail banks accounted for 34.2%.

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

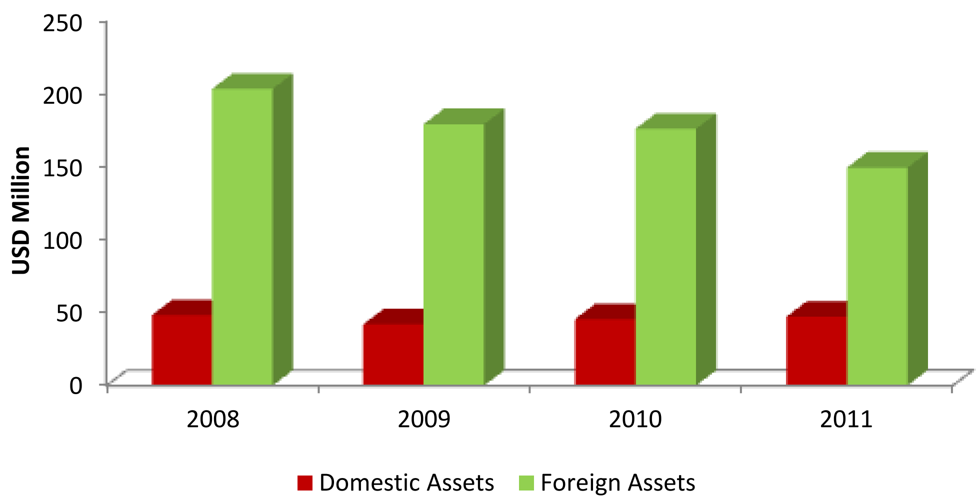
(USD Billion)

Items	Year-end		% Change
	2010	2011	
Retail Banks	65.5	67.4	2.9
Wholesale Banks	156.7	129.7	-17.2
Total	**222.2**	**197.1**	**-11.3**

Source: Central Bank of Bahrain

In total, domestic banking assets amounted to USD 47.4 billion at the end of 2011 compared to USD 45.8 billion at the end of 2010, registering an increase of USD 1.6 billion (3.5%). Foreign assets amounted to USD 149.7 billion at the end of 2011 compared to USD 176.4 billion at the end of 2010, a decrease of USD 26.7 billion (15.1%).

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

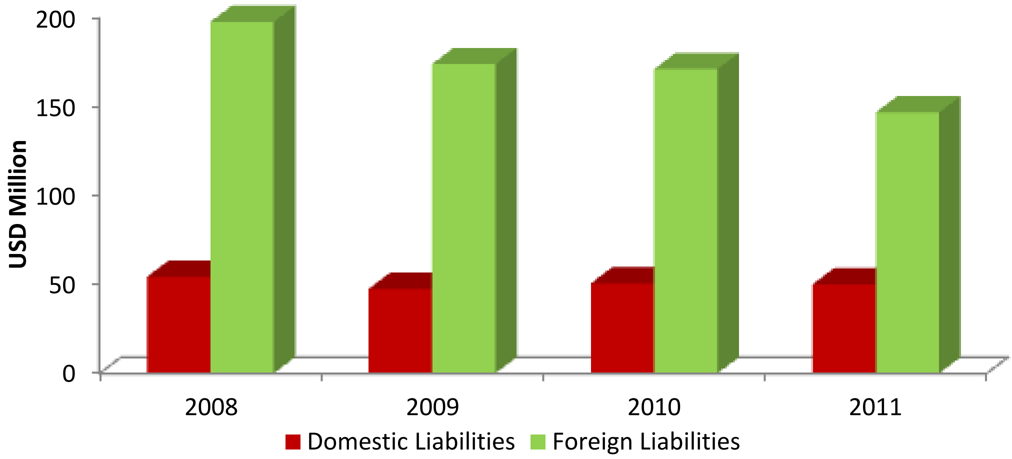


Source: Central Bank of Bahrain

Domestic liabilities declined to USD 50.2 billion at the end of 2011 compared to USD 50.8 billion at the end of 2010, a decrease of USD 0.6 billion (1.2%).

Total foreign liabilities decreased at the end of 2011 by USD 24.5 billion (14.3%) to reach USD 146.9 billion against USD 171.4 billion at the end of 2010.

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



Source: Central Bank of Bahrain

The banking system assets over time have been mainly concentrated in GCC and European economies. However, over the period 2009-2011, the GCC share of total assets decreased from 33.7% to 28.9%. Europe's share of total assets increased from 26.3% to 26.8% for the same period (Table 4-4). GCC assets experienced the largest decrease from 2009-2011. Assets in the Asia region also decreased from 7.0% in 2009 to 6.0% in 2011, while assets in the Americas increased from 9.2% to 9.8% for the same period.

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

(USD Billion)

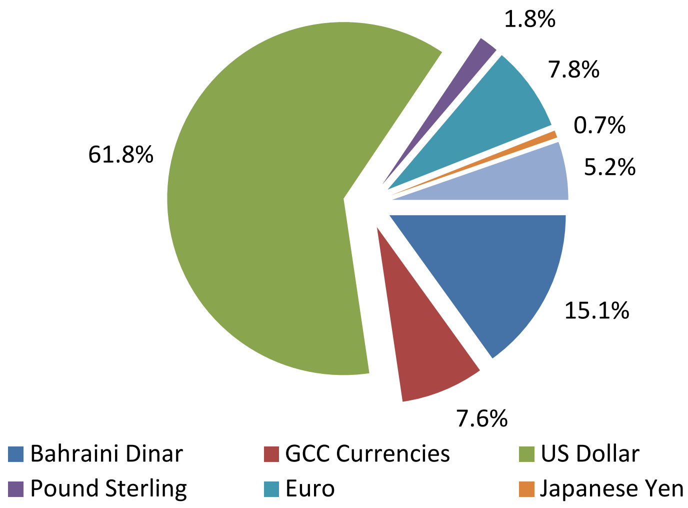
Items	Year					
	2009		2010		2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	42.2	47.7	45.8	50.8	47.5	50.2
GCC	74.7	58.0	65.5	54.6	57.0	53.5
Other Arab Countries	7.0	12.6	6.8	14.1	6.6	12.1
Americas	20.3	8.6	19.7	13.0	19.3	8.6
Western Europe	58.3	70.9	65.0	71.3	52.8	55.9
Asia	15.5	21.9	16.9	16.1	11.9	14.7
Other	3.8	2.1	2.5	2.3	2.0	2.1
Total	**221.8**	**221.8**	**222.2**	**222.2**	**197.1**	**197.1**

Source: Central Bank of Bahrain

The trends for liabilities between end-2009 and end-2011 indicate that Europe at 28.4% accounts for the largest percentage of total liabilities. This is followed by the GCC and Bahrain which in 2011 account for 27.1% and 25.5% of total liabilities respectively.

In 2011, as in previous years, most assets are denominated in US dollars (61.8%). This is due to the fixed exchange rate regime, which adds to the certainty and predictability of banking business. Bahraini dinar assets accounted for 15.1% of total assets followed by the Euro and the GCC currencies which contributed for 7.8% and 7.6% of total assets respectively (Chart 4-4).

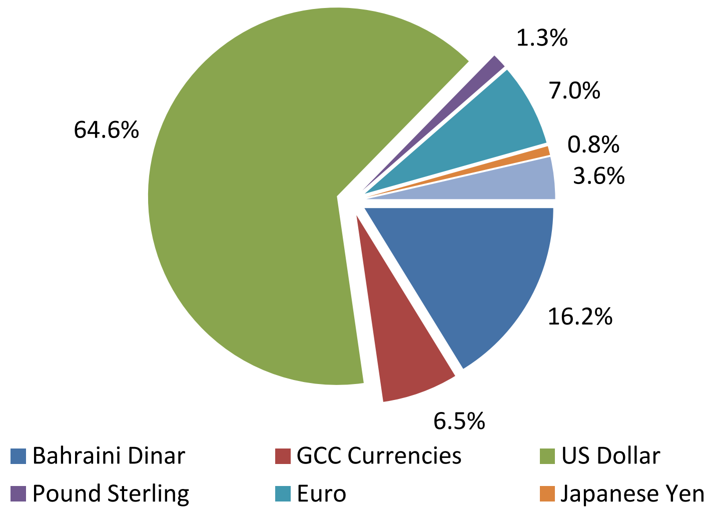
Chart 4-4: Currency Structure of the Banking System's Assets, 2011



Source: Central Bank of Bahrain

Similarly, the liabilities by currency are mostly of US dollar, accounting for 64.6% of total liabilities, up from 62.7% in 2010. This is followed by the Bahraini dinar and the Euro currencies which accounted for 16.2% and 7.0% of total liabilities respectively (Chart 4-5).

Chart 4-5: Currency Structure of the Banking System's Liabilities, 2011



Source: Central Bank of Bahrain

1. Retail Banks

The total assets of retail banks (including foreign assets) stood at BD 25,335.2 million at end-December 2011, an increase of BD 724.9 million or 2.9% over 2010 (Table 4-5). This growth is due to an increase in domestic assets, which expanded by 7.2% from BD 13,107.2 million at end-2010 to BD 14,057.0 million at end-2011.

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

(BD Million)

Items	2010	2011	Change (amount)	Change (%)
Total Domestic Assets	**13,107.2**	**14,057.0**	**949.8**	**7.2**
Cash	87.4	106.8	19.4	22.2
CBB	1,264.6	1,005.4	-259.2	-20.5
Banks [1/]	2,842.2	2,576.5	-265.7	-9.3
Private Non-Banks [2/]	6,545.1	7,525.6	980.5	15.0
General Government				
Loans	261.5	225.4	-36.1	-13.8
Securities	1,353.7	1,888.8	535.1	39.5
Other	752.7	728.5	-24.2	-3.2
Foreign Assets	**11,503.1**	**11,278.2**	**-224.9**	**-2.0**
Total Assets	**24,610.3**	**25,335.2**	**724.9**	**2.9**

1/ Includes Head Offices and Affiliates
2/ Loans and Holdings of Securities
Source: Central Bank of Bahrain

The major contributors to the growth in domestic assets were claims on private non-banks, which increased by BD 980.5 million (15.0%) from BD 6,545.1 million at end-2010 to BD 7,525.6 million at end-2011 followed by claims on general government securities, which increased by BD 535.1 million (39.5%) from BD 1,353.7 million at end-2010 to BD 1,888.8 million at end-2011. Cash positions also increased by 22.2% to reach BD 106.8 million for the same period. In contrast, foreign assets decreased by BD 224.9 million (2.0%) to reach BD 11,278.2 million.

At the end of 2011, total domestic liabilities stood at BD 14,058.9 million, 5.5% higher than the BD 13,325.4 million recorded in 2010 (Table 4-6). Total foreign liabilities (including capital and reserves) decreased by 0.1% from BD 11,284.9 million at end-2010 to BD 11,276.3 million at end-2011. Most of the expansion in domestic liabilities were in liabilities to the general government, which increased by BD 310.6 million (19.1%) followed by private non-banks, which increased by BD 204.2 million (2.7%). Liabilities to capital and reserves and to the CBB also increased by BD 160.0 million (9.1%) and BD 56.8 (27.5%) respectively.

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

(BD Million)

Items	2010	2011	Change (amount)	Change (%)
Total Domestic Liabilities	**13,325.4**	**14,058.9**	**733.5**	**5.5**
Central Bank of Bahrain	206.7	263.5	56.8	27.5
Banks	1,976.0	1,999.0	23.0	1.2
Private Non-Banks 2/	7,447.0	7,651.2	204.2	2.7
General Government 2/	1,629.0	1,939.6	310.6	19.1
Other	303.3	282.2	-21.1	-7.0
Capital & Reserves	1,763.4	1,923.4	160.0	9.1
Foreign Liabilities 1/	**11,284.9**	**11,276.3**	**-8.6**	**-0.1**
Total Liabilities	**24,610.3**	**25,335.2**	**724.9**	**2.9**

1/ Includes Capital and Reserves.

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

Source: Central Bank of Bahrain

2. Wholesale Banks

The aggregate balance sheet for wholesale banks shrank in 2011. Aggregate data indicates that total wholesale bank assets decreased by 17.2% to reach USD 129.7 billion at the end of 2011, down from USD 156.7 billion at end of 2010 (Table 4-7). The decrease in total assets was mainly due to a decrease in total foreign assets, which decreased from USD 145.8 billion at end-2010 to USD 119.7 billion at end-2011 or by 17.9%.

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

(USD Million)

Items	2010	2011	Change (amount)	Change (%)
Total Domestic Assets	**10,967.0**	**10,068.7**	**-898.3**	**-8.2**
Banks [1/]	6,171.5	4,547.1	-1,624.4	-26.3
Private Non-Banks [2/]	2,959.2	2,354.7	-604.5	-20.4
General Government [2/]	221.9	241.6	19.7	8.9
Other	1,614.4	2,925.3	1,310.9	81.2
Total Foreign Assets	**145,757.8**	**119,667.5**	**-26,090.3**	**-17.9**
Banks	20,951.3	13,211.9	-7,739.4	-36.9
Non-Banks	55,053.6	45,590.7	-9,462.9	-17.2
Securities	27,012.0	26,750.1	-261.9	-1.0
H.O. & Affiliates	38,809.5	29,436.6	-9,372.9	-24.2
Other	3,931.4	4,678.2	746.8	19.0
Total Assets	**156,724.8**	**129,736.2**	**-26,988.6**	**-17.2**

1/ Includes Head Offices and Affiliates
2/ Includes Securities
Source: Central Bank of Bahrain

On the foreign side, claims on banks decreased by 36.9% from USD 21.0 billion in 2010 to USD 13.2 billion in 2010. Claims on non-banks, which decreased by USD 9,462.9 million (17.5%) to reach USD 45.6 billion was the biggest contributor to the decrease in foreign assets followed by head office and affiliates decreasing by USD 9,372.9 million (24.2%) to reach USD 29.4 billion.

Similarly, total domestic assets declined by 8.2% during the same period, from USD 11.0 billion in 2010 to USD 10.1 billion in 2011. The decrease was driven by a drop in claims on banks and private non-banks by USD 1624.4 million (26.3%) and USD 604.5 million (20.4%) respectively.

With regard to wholesale bank liabilities, most of the decrease during 2011 was also in foreign liabilities, which declined by 17.3% from USD 141.3 billion at end-2010 to USD 116.9 billion at end-2011 (Table 4-8). The main contributors to that decrease in foreign liabilities were liabilities to non-banks, banks and head office and affiliates which decreased by 38.9%, 18.9% and 8.8% respectively.

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

(USD Million)

Items	2010	2011	Change (amount)	Change (%)
Total Domestic Liabilities	**15,398.0**	**12,826.6**	**-2,571.4**	**-16.7**
Banks 1/	8,624.2	5,614.9	-3,009.3	-34.9
Private Non-Banks	994.7	935.9	-58.8	-5.9
General Government	550.7	313.8	-236.9	-43.0
Other 2/	5,228.4	5,962.0	733.6	14.0
Total Foreign Liabilities	**141,326.8**	**116,909.6**	**-24,417.2**	**-17.3**
Banks	41,553.4	33,697.6	-7,855.8	-18.9
Non-Banks	32,292.2	19,728.5	-12,563.7	-38.9
Securities	4,297.6	3,640.3	-657.3	-15.3
H.O. & Affiliates	46,960.5	42,821.6	-4,138.9	-8.8
Other 2/	16,223.1	17,021.6	798.5	4.9
Total Liabilities	**156,724.8**	**129,736.2**	**-26,988.6**	**-17.2**

1/ Includes Head Offices and Affiliates
2/ Includes Capital and Reserves
Source: Central Bank of Bahrain

Domestic liabilities decreased by 16.7% to reach USD 12,826.6 million. The decrease in domestic liabilities were in the liabilities to banks and general government which decreased by 43.0% and 34.9% respectively.

3. 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.

Aggregated assets of Islamic banks (retail and wholesale banks) declined by 2.6% during 2011 with the overall drop being fuelled by a reduction in foreign assets (Table 4-9).

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

(USD Million)

Items	2010	2011	Change (amount)	Change (%)
Total Domestic Assets	**12,363.3**	**12,646.5**	**283.0**	**2.3**
Cash	62.2	67.2	5.0	8.0
Investment with Banks 2/	3,515.0	3,809.9	294.0	8.4
Investment with Private Non-Banks	6,372.0	6,559.0	187.0	2.9
Investment with Government	340.1	556.2	216.0	63.5
Other	2,074.0	1,654.2	-419.0	-20.2
Total Foreign Assets	**12,993.2**	**12,050.8**	**-942.0**	**-7.3**
Investment with Banks	1,730.2	1,588.0	-142.0	-8.2
Investment with Private Non-Banks	2,414.5	1,821.6	-592.0	-24.6
Securities	3,042.5	2,341.2	-701.0	-23.1
H.O. & Affiliates	5,440.6	5,961.7	521.0	9.6
Other	365.4	338.3	-27.0	-7.4
Total Assets 1/	**25,356.5**	**24,697.3**	**-659.0**	**-2.6**

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

Foreign securities decreased by 23.1% from USD 3,042.5 million to USD 2,341.2 million for the same period. Foreign investment with private non-banks also decreased, dropping by 24.6%, from USD 2,414.5 million in 2010 to USD 1,821.6 million in 2011.

In terms of domestic assets, investments with banks and government have been the major contributors growing by 8.4% and 63.5% respectively. In contrast, claims on other domestic assets had a decrease, declining by 20.2% to reach USD 1,654.2 million.

Unlike assets, liabilities are growing faster on the foreign side increasing by 0.4%, mostly led by increases in head office and affiliates (Table 4-10). Liabilities to head office and affiliates grew by 61.6% from USD 643.7 million in 2010 to 1,040.5 million in 2011.

Domestic liabilities declined by a total of 5.2%, led predominantly by capital and reserves, which decreased by 16.1% from USD 3,575.7 million in 2010 to 3,001.7 million in 2011. Liabilities to banks also decreased by 12.0% while private non-banks and general government increased by 2.4% and 15.8% respectively.

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

(USD Million)

Items	2010	2011	Change (amount)	Change (%)
Total Domestic Liabilities	**13,524.0**	**12,821.8**	**-702.2**	**-5.2**
Banks [2/]	2,764.7	2,432.9	-331.8	-12.0
Private Non-Banks	6,248.6	6,399.0	150.4	2.4
General Government	501.1	580.4	79.3	15.8
Capital and Reserves	3,575.7	3,001.7	-574.0	-16.1
Other	433.9	407.8	-26.1	-6.0
Total Foreign Liabilities	**11,832.5**	**11,875.5**	**43.0**	**0.4**
Banks	3,597.5	3,180.2	-417.3	-11.6
Non-Banks	2,093.0	1,918.2	-174.8	-8.4
H.O. & Affiliates	643.7	1,040.5	396.8	61.6
Capital and Reserves	5,477.3	5,421.6	-55.7	-1.0
Other	21.0	315.0	294.0	1400.0
Total Liabilities [1/]	**25,356.5**	**24,697.3**	**-659.2**	**-2.6**

1/ Includes Unrestricted Investment Accounts

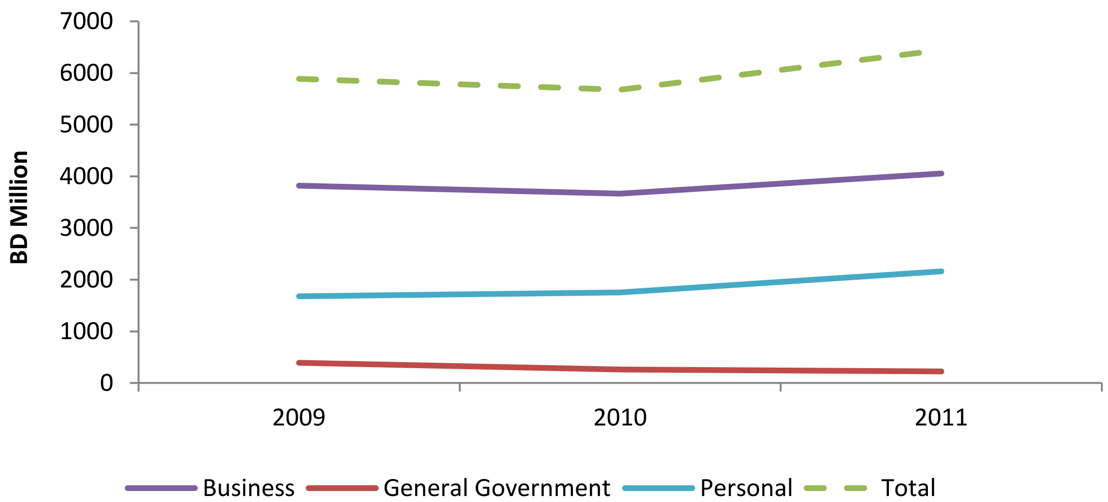
2/ Includes Head Offices and Affiliates

Source: Central Bank of Bahrain

C. Domestic Credit

Credit facilities have been showing a modest increase 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 6,444.4 million at end-2011, up 13.5% from the BD 5,676.6 million at end-2010 (Chart 4-6).

Chart 4-6: Domestic Credit by Sectors



Source: Central Bank of Bahrain

Total domestic credit decreased by 3.5% by end-2010 and increased by 13.5% at end-2011. Private sector credit (business and personal) shows a similar pattern, with an increase of 10.7% and 23.4% respectively in 2011, indicating that the lending to households and business enterprises has expanded.

Outstanding facilities to the business sector increased by 10.7% from BD 3,663.7 million at end-2010 to BD 4,056.8 at end-2011. During 2011, business lending expanded by 9.6% from BD 3,701.9 million in the first quarter of 2011 to BD 4,056.8 million in the last, despite the increases; it decreased the share of total domestic credit to 63.0%. Business credit showed increases during the all quarters of 2011.

In terms of composition, the private sector (business and personal combined) received the bulk of domestic credit, ranging from 95.4% to 96.5% of total loans from end-2010 to end-2011 (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 63.0% at end-2011, down from 64.5% in 2010 and down from 64.8% in 2009.

Table 4-11: Domestic Credit by Sector 1/

(BD Million)

Sectors	End-2009		End-2010		End-2011	
	Value	% Share	Value	% Share	Value	% Share
Business	3,816.6	64.8	3,663.7	64.5	4,056.8	63.0
General Government	392.0	6.7	261.5	4.6	225.5	3.5
Personal	1,676.3	28.5	1,751.4	30.9	2,162.1	33.5
Total	**5,884.9**	**100.0**	**5,676.6**	**100.0**	**6,444.4**	**100.0**

1/ Excluding Securities
Source: Central Bank of Bahrain

Outstanding credit facilities to the personal sector increased by 23.4% from BD 1,751.4 million at end-2010 to BD 2,162.1 million at end-2011. Personal loans showed a 21.9% increase in the third quarter of 2011 compared to second quarter. Personal sector credit facilities accounted for 33.5% at end-2011, increasing from 30.9% in 2010 and 28.5% in 2009. Credit to general government is typically low in comparison, accounting for 3.5% in 2011, lower than the 4.6% in 2010 and 6.7% in 2009. Outstanding government credit decreased by 33.3% to BD 261.5 million at end-2010, compared with BD 392.0 million at end-2009. However, by the end of 2011, lending to general government decreased by 13.8% to reach BD 225.5 million.

Table 4-12: Business Loans by Sector

(BD Million)

Sectors	2011*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Manufacturing	440.5	7.7	508.4	8.8	541.1	8.6	557.0	8.7
Mining & Quarrying	8.7	0.2	9.0	0.2	9.8	0.2	11.2	0.2
Agriculture, Fishing & Dairy	5.2	0.1	5.9	0.1	8.5	0.1	8.8	0.1
Construction & Real Estate	1,687.2	29.7	1,655.9	28.7	1,720.6	27.4	1,684.6	26.1
Trade	762.7	13.4	757.3	13.1	818.0	13.0	852.0	13.2
Non-Bank Financial	257.9	4.5	257.5	4.5	247.0	3.9	249.4	3.9
Other Sectors, of which:	539.7	9.5	632.3	11.0	620.5	9.9	693.8	10.8
Transport & Comm.	113.8	2.0	114.0	2.0	103.0	1.6	170.7	2.6
Hotels & Restaurants	88.2	1.6	129.4	2.2	138.1	2.2	143.2	2.2
Total Business Loans	**3,701.9**	**65.1**	**3,826.3**	**66.4**	**3,965.5**	**63.1**	**4,056.8**	**63.0**

**Percentages are expressed as a share of total loans*
Source: Central Bank of Bahrain

In the fourth quarter of 2011, loans to the construction and real estate segment accounted for the largest share of business loans (41.5%), with the trade sector being in second place at 21.0%. Most of the growth in business loans in 2011 occurred in the manufacturing and trade sectors.

Salary assigned loans represented the largest proportion of personal loans throughout 2011, reaching highs of 43.2% at the end of the year. Salary assigned loans and those secured by property mortgage made up for 74.6% of all personal loans by the end of 2011.

Table 4-13: Personal Loans by Sector

(BD Million)

Sectors	2011*							
	Q1		Q2		Q3		Q4	
	Value	%	Value	%	Value	%	Value	%
Secured by:								
Property Mortgage	356.4	6.3	355.4	6.2	642.7	10.2	679.8	10.5
Vehicle Title	83.8	1.5	87.1	1.5	88.1	1.4	86.5	1.3
Deposits	21.8	0.4	20.8	0.4	29.0	0.5	27.5	0.4
Salary Assignment	911.1	16.0	894.4	15.5	921.2	14.7	934.1	14.5
Credit Card Receivables	46.0	0.8	53.8	0.9	55.8	0.9	56.3	0.9
Other	334.2	5.9	314.0	5.4	366.3	5.8	377.9	5.9
Total personal loans	**1,753.3**	**30.9**	**1,725.5**	**29.9**	**2,103.1**	**33.5**	**2,162.1**	**33.5**

**Percentages are expressed as a share of total loans*
Source: Central Bank of Bahrain

D. 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 decreased by 8.7%, from USD 9,172.9 million in 2010 to USD 8,378.2 million in 2011 (Table 4-14). The drop in the value of mutual funds reflected the decline in the global value of securities.

Table 4-14: Mutual Funds – Total Outstanding Investments, 2011

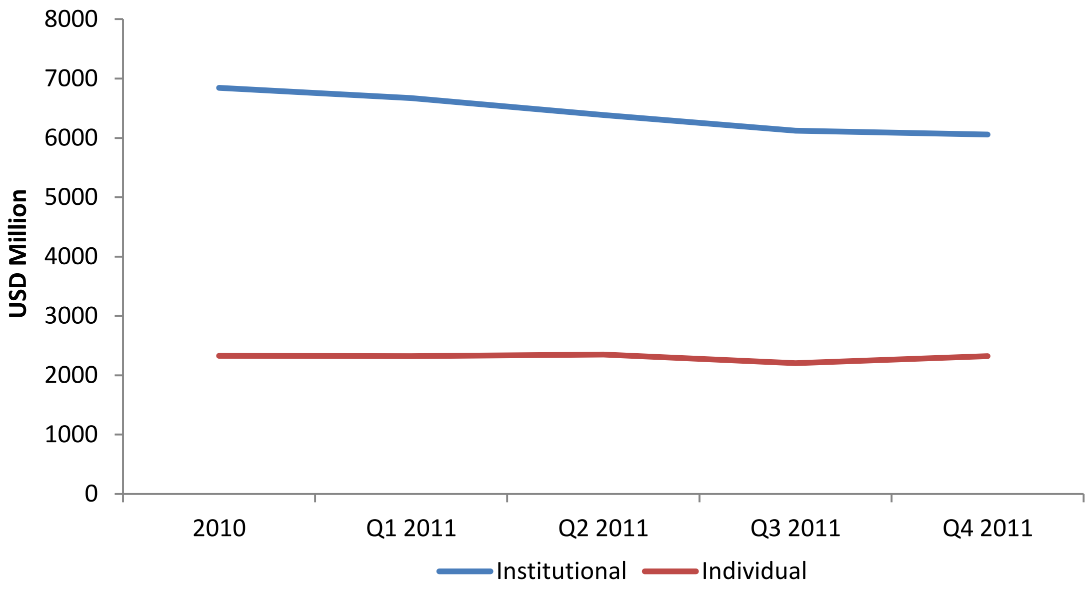
(USD Million)

Type of Institution	2010	2011			
		Q1	Q2	Q3	Q4
Retail Banks	2,385.5	2,391.9	2,364.4	2,311.1	2,356.8
Wholesale Banks	1,945.7	1,980.9	1,922.7	1,751.6	1,710.0
Investment Business Firms	940.0	937.4	946.5	939.0	1,017.3
Representative Offices	0.0	0.0	0.0	0.0	0.0
Foreign Licensed Banks and Financial Institutions	3,876.3	3659.7	3,478.1	3,299.3	3,271.4
Insurance	25.4	24.1	25.7	22.9	22.7
Grand Total	**9,172.9**	**8,994.0**	**8,737.4**	**8,324.0**	**8,378.2**

Source: Central Bank of Bahrain

At the end of 2011, retail banks had USD 2,356.8 million outstanding in mutual fund investments, wholesale banks had USD 1,710.0 million outstanding, and other institutions (excluding retail and wholesale banks) had USD 4,311.4 million outstanding. The biggest year on year decreases were in foreign licensed banks and financial institutions (15.6%), wholesale banks (12.1%) and insurance (10.6%) categories. On the other hand, investment business firms increased by 8.2% for the period.

Chart 4-7: Individual and Institutional Mutual Fund Investments



Source: Central Bank of Bahrain

During 2011, mutual fund investments to institutional investors and investment to individual investors witnessed a drop (Chart 4-7). Amounts invested in by institutional investors decreased by 11.5% from USD 6,844.3 million in 2010 to USD 6,055.1 million in 2010. Similarly, individual investments have shown the same pattern during the year. During 2011, individual investments in mutual funds fell by 0.2%, from USD 2,328.6 million in 2010 to USD 2,323.1 million in 2011 mainly due to a 32.7% decrease in individual wholesale bank investments in mutual funds.

E. Manpower Survey

The CBB annual manpower survey showed a drop in the number of employees in the financial sector (banks and non-banks) of 2.0% compared to the 1.5% increase in 2010 (Table 4-15). Total employment in banks (retail banks, wholesale banks and representative offices only) reached 8,468 at the end of 2011, compared to 8,782 at the end of 2010, indicating a decrease of 3.6%. Bahrainis represented 73.6% of the work force in the banking sector compared with 73.7% in 2010.

Table 4-15: Number of Employees in the Financial Sector 2011

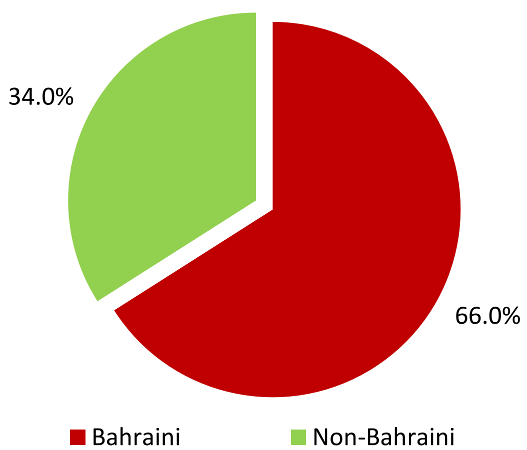
Institution Type	Bahraini		Non-Bahraini		Total
	Male	Female	Male	Female	
Banking Sector	3,926	2,309	1,830	403	8,468
Retail Banks	2,787	1,597	780	196	5,360
Wholesale Banks	1,119	697	1,017	196	3,029
Representative Offices	20	15	33	11	79
Non-Bank Financial Sector	1,647	1,015	1,941	552	5,155
Locally Incorporated Insurance Firms	583	393	447	113	1,536
Insurance Related Activities	148	134	357	84	723
Specialised Licensees*	693	354	920	309	2,276
Of which: Money Changers	166	45	634	212	1,057
Financing Companies / Microfinance Institutions	316	227	103	25	671
Capital Markets	51	38	23	3	115
Of which:Stock Brokers	19	4	5	1	29
Investment Business Firms	172	96	194	43	505
Other Institutions	201	180	42	16	439
Total	5,774	3,504	3,813	971	14,062

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

Source: Central Bank of Bahrain

Bahraini employment in the financial sector decreased by 2.0% while non-Bahraini employment decreased by 1.9%. Bahrainis represented 66.0% of the total number of employees in the financial sector (Chart- 4-8).

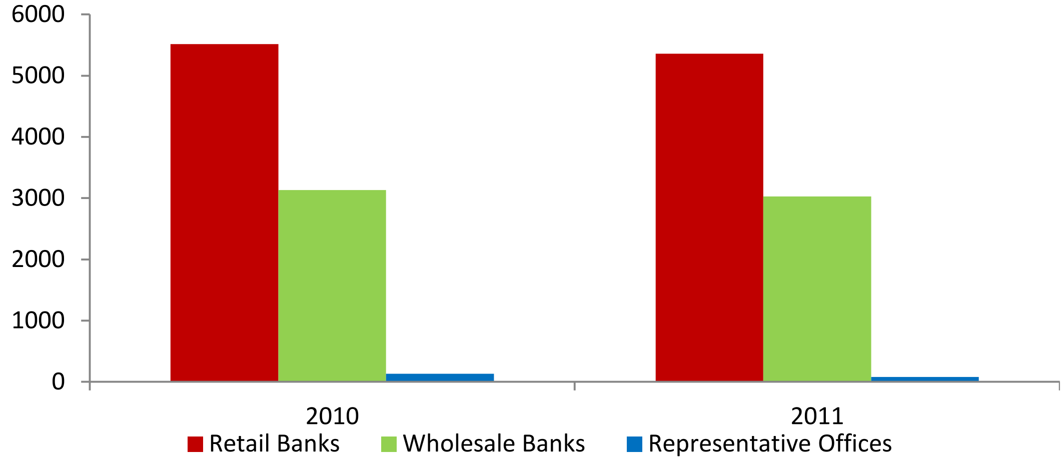
Chart 4-8: Bahraini and Non-Bahraini Employment in the Financial Sector, 2011



Source: Central Bank of Bahrain

The chart below (Chart 4-9) breaks down the banking sector into retail banks, wholesale banks, and representative offices. Wholesale banks, retail banks and representative had decreases in employment of 3.4%, 2.8% and 40.6% respectively.

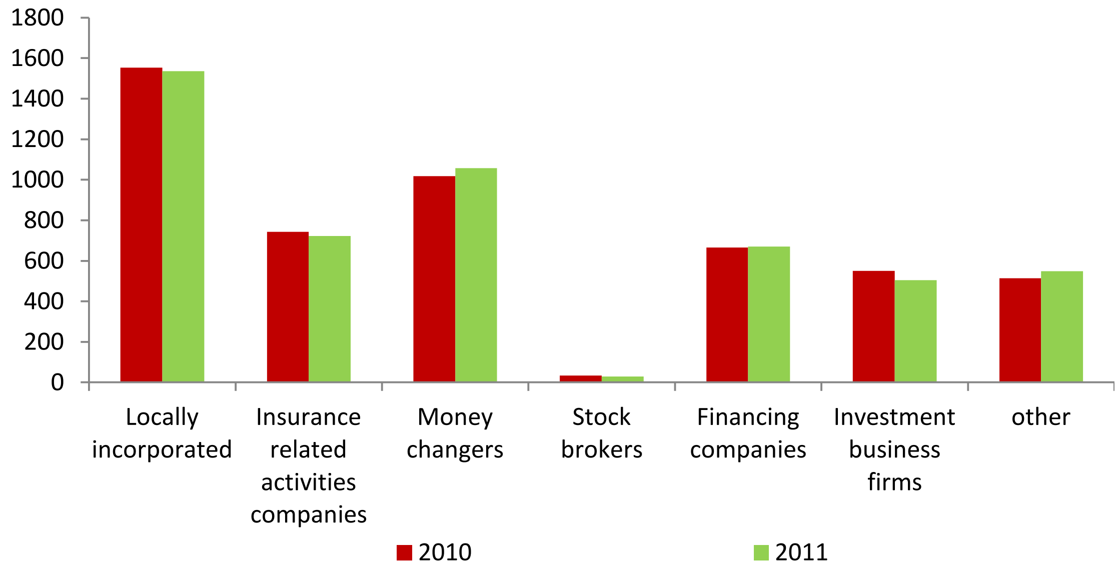
Chart 4-9: Employment in the Banking Sector



Source: Central Bank of Bahrain

Total employment in the non-bank financial sector reached 5,155 at end-2011, compared with 5,140 at end-2010, an increase of 0.3%. Bahrainis accounted for 51.6% of the total in the non-bank financial sector. The biggest increase in employment in the non-banking sector was in money changers which increased by 3.8%, while investment business firms decreased the most by 8.2% (Chart 4-10).

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



Source: Central Bank of Bahrain.

Chapter

5

5. Bahrain Bourse

Overview

A. Main Trading Indices

B. Developments in Market Capitalisation and Share Issue Base

C. Trading Activities

D. Nationalities of Investors

E. Price Movements

F. New Companies Listed on the Bahrain Bourse

Overview

Globally, major financial markets had a turbulent year in 2011. The S&P 500 index finished less than a point away from where it ended 2010 (0.04 points), which is considered the smallest annual change in its history. The Dow Jones rose 5.5% for the year, and the Nasdaq lost 1.8%. Investors are looking carefully into the European debt crisis, as well as the potential for change after the upcoming US elections in November 2012. In Europe, Britain's FTSE 100 lost 5.6% in 2011, while Germany's DAX and France's CAC 40 dropped more than 15%. In Asia, the Nikkei tumbled 17%, while the Shanghai Composite and Hang Seng decreased more than 20%. The debt crisis in Europe has stirred fears of sovereign defaults and imposed severe financing strains on banks making investors question whether it will be a replay of the 2008 financial crisis.

Stock markets worldwide had a turbulent time in the year 2011 and the GCC markets were no different as they plunged. Additionally, political tension that spread throughout the Middle East added to the markets' woes. Consequently, all GCC bourses ended the financial year on a lower note with the exception of the Qatari market which was the only stock market in the GCC to record gains for three consecutive years.

Bahrain Bourse posted the steepest decline amongst its GCC peers, down by 20.1% for the year. Performance amongst the sectors all suffered decreases, according to the Bahrain All Share Sub-Indices. The biggest decline was in the investment sector (28.8%) while the smallest decrease was in the insurance sector (3.7%).

The index decreased from January 2011 to October 2011. The biggest decrease was in September where the index decreased 92.50 (7.4%) points. The index increased by 15.45 points in November 2011 (1.3%) to end the year with a decrease of 19.42 points (1.7%). One explanation of why increasing oil prices did not reinstate investor confidence is that the Bahraini economy is not heavily oil-related.

The Bahrain Bourse continues to make efforts to strengthen its ties with other stock markets in an effort to offer a more attractive and profitable investment environment especially after the events that the Kingdom witnessed.

The number of companies traded on the exchange in 2011 remained at 49.

A. Main Trading Indices

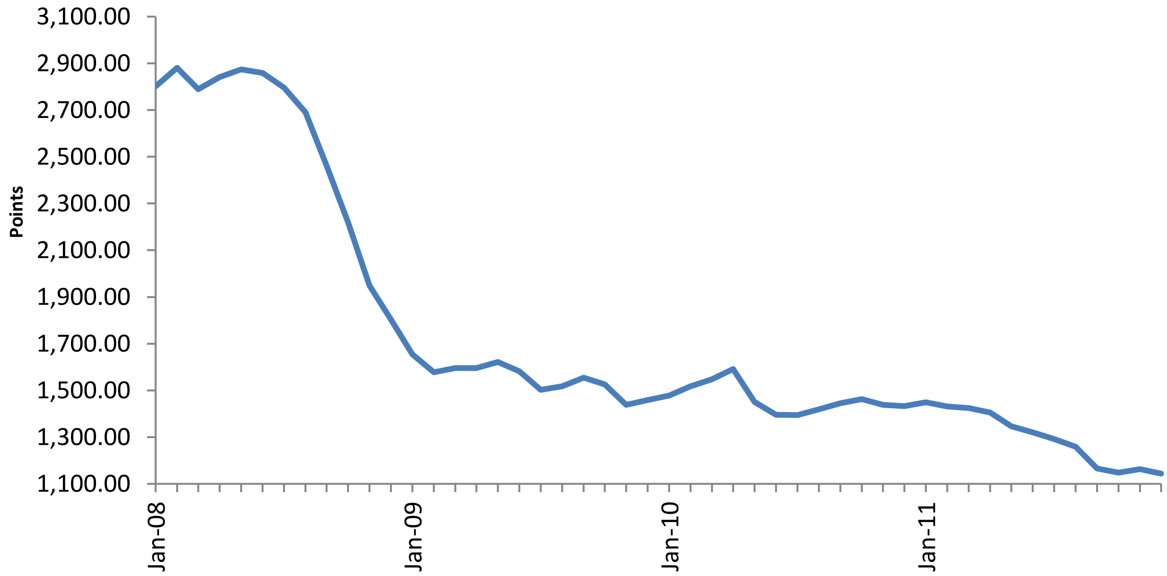
The Bahrain All Share Index closed at the end of the year at 1,143.69 points recording a year on year decrease of 20.1%. All sectors witnessed a year on year decrease in 2011 with the "investment" and "industrial" sectors reporting the biggest declines of 28.8% and 26.7% respectively. The Dow Jones Bahrain and Esterad Indices decreased by 22.85 points (0.6%) and 291.34 points (19.3%) from end-2010 respectively.

Table 5-1: Bahrain Bourse Indices

BSE Indices	Q4 2010	Q4 2011	Change (Point)	Change (%)
Bahrain All Share Index	**1,432.26**	**1,143.69**	**-288.57**	**-20.1**
Commercial Banks	2,005.59	1,814.05	-191.54	-9.6
Investment	978.79	697.30	-281.49	-28.8
Insurance	1,922.94	1,852.03	-70.91	-3.7
Services	1,405.30	1,148.99	-256.31	-18.2
Industrial	1,440.05	1,055.17	-384.88	-26.7
Hotels and Tourism	4,010.80	3,573.71	-437.09	-10.9
Dow Jones Bahrain Index	121.05	98.20	-22.85	-18.9
Esterad Index	**1,509.60**	**1,218.26**	**-291.34**	**-19.3**

Source: Bahrain Bourse

Chart 5-1: Performance of Bahrain All Share Index, 2008-2011



Source: Bahrain Bourse

B. Developments in Market Capitalisation

Market Capitalisation of the BSE stood at BD 6.3 billion by the end of 2011, down from the BD 7.6 billion million in 2010, a decrease of 17.3% (Table 5-2). The decrease affected all sectors with the largest being in "commercial banks" sector with a decrease of 38.3% from BD 2.6 billion in 2010 to BD 2.4 billion at end of 2011.

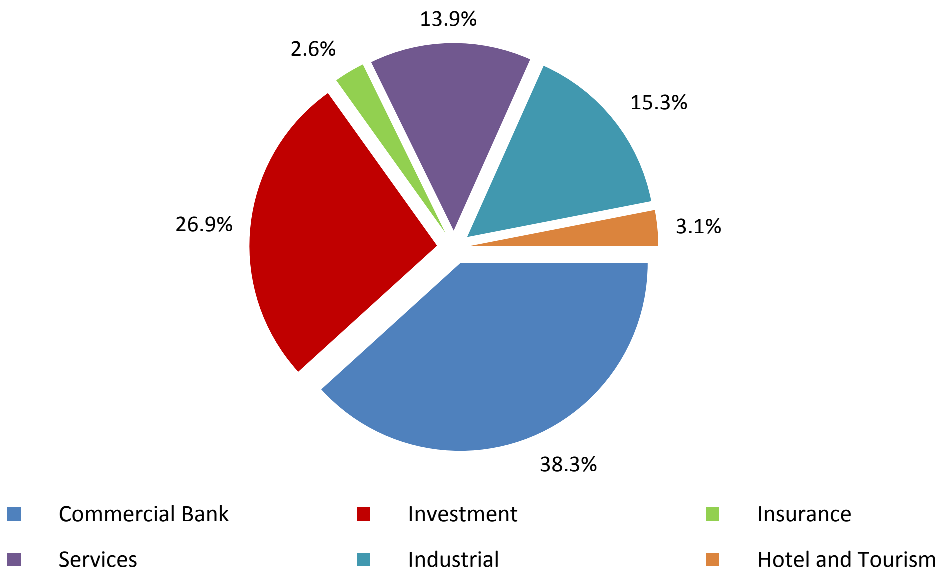
Table 5-2: Market Capitalisation by Sector

	2010	2011	Change (%)	% Weight (Current Year)
Total Market Capitalisation	**7,562,517,045**	**6,254,410,719**	**-17.3**	**100.0**
Commercial Banks	2,567,870,918	2,393,210,243	-6.8	38.3
Investment	2,240,966,826	1,679,550,059	-25.1	26.9
Insurance	170,767,112	164,480,545	-3.7	2.6
Services	1,066,167,618	871,781,382	-18.2	13.9
Industrial	1,301,742,995	953,842,995	-26.7	15.3
Hotels and Tourism	215,001,576	191,545,495	-10.9	3.1

Source: Bahrain Bourse

The "Commercial Bank", "Investment" and "Industrial" sectors are the largest sectors in terms of market capitalisation in 2011 accounting for 80.5% of total market capitalisation (Chart 5-2).

Chart 5-2: Market Capitalisation by Sector, 2011



Source: Bahrain Bourse

As for companies, the largest company in terms of market capitalisation at end-2011 was Ahli United Bank (AUB) with BD 1.2 billion, accounting for 20.0% of total market capitalisation. In 2011, the 5 largest companies accounted for 59.7% of total market capitalisation (Table 5-3).

Table 5-3: Table: Largest Companies by Market Capitalisation (2011)

Company	Market Capitalisation (BD)	% of Total Market
AUB	1,249,598,626	20.0
ALBH	937,200,000	15.0
BATELCO	564,480,000	9.0
ABC	492,437,400	7.9
NBB	491,832,000	7.9
Total	**3,735,548,026**	**59.7**

Source: Bahrain Bourse

C. Trading Activities

The volume of shares traded in 2011 decreased when to 520.2 million shares (15.0%) compared to BD 612.2 million shares in 2010 (Table 5-4). The value of shares traded declined by 3.1% in comparison to the previous year, reaching BD 105.0 million in 2011 compared from BD 108.4 million in 2010.

Table 5-4: Daily Traded Averages

	2010	2011	Change (%)
Total Trading Days	**247**	**245**	**-0.8**
Value of Shares Traded (BD Million)	108.4	105.0	-3.1
Daily Average Value of Shares Traded (BD)	**438,911**	**428,433**	**-2.4**
Volume of Shares Traded (Million)	612.2	520.2	-15.0
Daily Average No. of Shares Traded (Million)	**2.5**	**2.1**	**-16.0**
Number of Transactions	19,647	11,818	-39.8
Daily Average No. of Transactions	**80**	**48**	**-40.0**

Source: Bahrain Bourse

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 50.0 million comprising 47.6% of the total value of shares trading and a trading volume of 269.8 million shares comprising 51.9% of the volume of shares traded in the market (Table 5-5 and Table 5-6). The value of shares traded for the sector increased by 13.3% compared with 2010 whilst the volume of shares decreased by 18.7% (Table 5-5 and Table 5-6).

Table 5-5: Trading Value by Sector

	2010	2011	Change (%)	% Weight (Current Year)
Total Trading Value (BD)	**108,410,906**	**104,966,160**	**-3.2**	**100.0**
Commercial Banks	44,125,606	50,003,570	13.3	47.6
Investment	25,990,910	20,346,887	-21.7	19.4
Insurance	10,140,860	1,164,081	-88.5	1.1
Services	25,279,551	20,008,379	-20.9	19.1
Industrial	1,558,388	9,236,238	492.7	8.8
Hotels and Tourism	1,314,591	1,186,604	-9.7	1.1
Non-Bahraini	1,000	0	-100.0	0.0
Closed	0	0		0.0
Preferred Shares	0	3,020,401		2.9

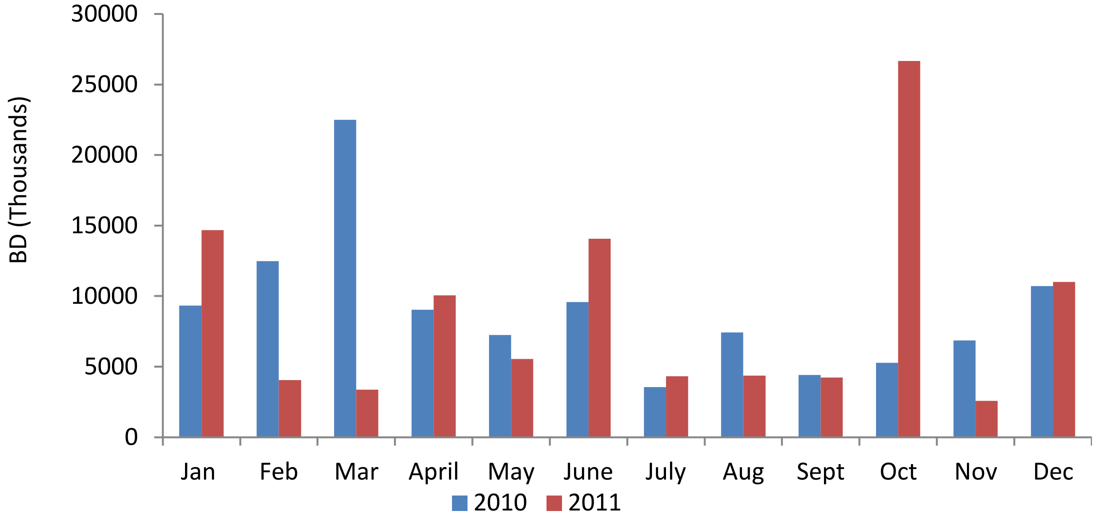
Source: Bahrain Bourse

Table 5-6: Trading Volume by Sector

	2009	2011	Change (%)	% Weight (Current Year)
Total Trading Volume (shares)	**612,188,517**	**520,223,918**	**-15.0**	**100.0**
Commercial Banks	331,692,558	269,771,059	-18.7	51.9
Investment	172,390,533	144,727,582	-16.0	27.8
Insurance	31,989,117	3,799,574	-88.1	0.7
Services	67,196,265	60,848,874	-9.4	11.7
Industrial	1,746,191	13,635,740	680.9	2.6
Hotels and Tourism	7,163,853	7,411,146	3.5	1.4
Non-Bahraini	10,000	0	-100.0	0.0
Closed	0.0	0		0.0
Preferred Shares	0.0	20,029,943		3.9

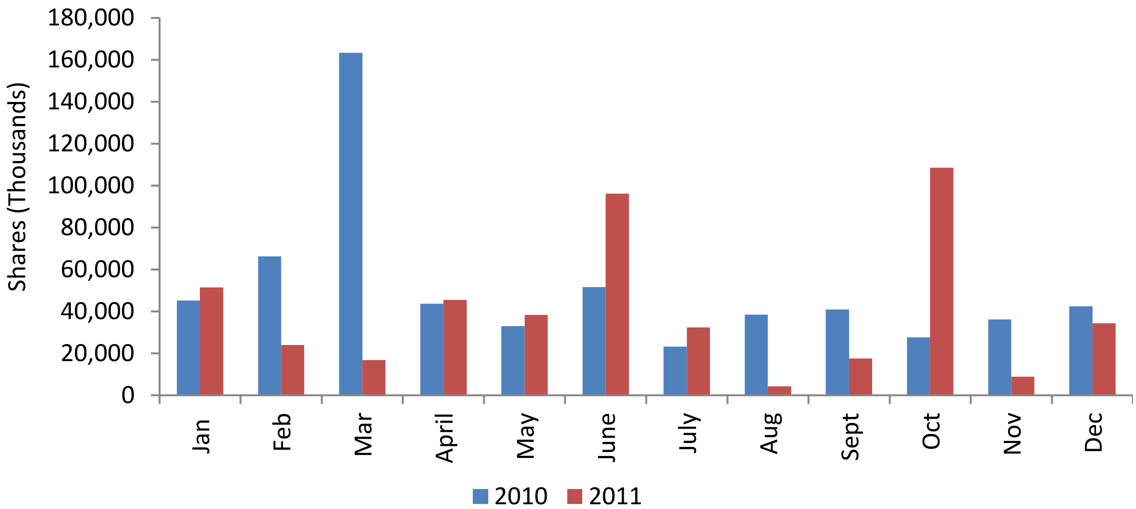
Source: Bahrain Bourse

Chart 5-3: Value of Shares Traded



Source: Bahrain Bourse

Chart 5-4: Volume of Shares Traded



Source: Bahrain Bourse

In terms of listed companies, the most active company by value was Ahli United Bank (AUB), with BD 39.8 million traded (37.9% of total value of shares traded). Next came Bahrain Telecommunication Company (BATELCO) with BD 13.2 million constituting 12.6% of the total value of shares traded, then Gulf Finance House (GFH) with BD 12.4 million and 11.8% of total value of shares traded, followed Alamunium Bahrain (ALBH) with BD 9.2 million constituting 8.8% of the total value of shares traded, and finally came Al Baraka Banking Group (BARKA) with BD 6.1 million constituting 5.8% of the total value of shares traded (Table 5-7).

Table 5-7: Most Active Companies by Value, 2011

Company	Value (BD)	% From Total Market
AUB	39,756,246	37.9
BATELCO	13,185,888	12.6
GFH	12,387,076	11.8
ALBH	9,233,654	8.8
BARKA	6,109,986	5.8
Total	**80,672,851**	**76.9**

Source: Bahrain Bourse

As for most active companies by volume, Ahli United Bank (AUB) had the most traded shares with 147.0 million shares traded translating to 28.3% of total volume, then came Gulf Finance House (GFH) with 123.5 million constituting 23.8% of the total volume of shares traded, then Ithmaar Bank (ITHMR) with 45.4 million and 8.7% of total volume of shares traded, followed by Al Salam Bank (SALAM) with 42.9 million constituting 8.2% of the total volume of shares traded, and finally came Bahrain telecommunications Company (BATELCO) with 30.6 million constituting 5.9% of the total volume of shares traded (Table 5-8).

Table 5-8: Most Active Companies by Volume, 2011

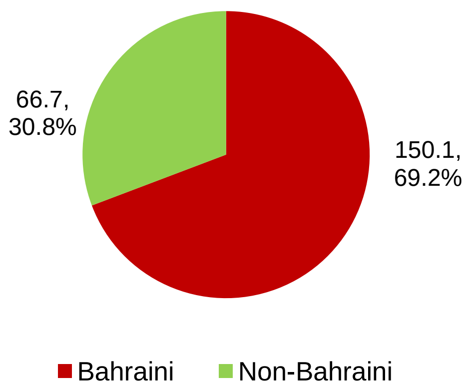
Company	Volume	% of Total Market
AUB	146,996,231	28.3
GFH	123,533,929	23.8
ITHMR	45,433,873	8.7
SALAM	42,865,448	8.2
BATELCO	30,556,143	5.9
Total	**389,385,624**	**74.9**

Source: Bahrain Bourse

D. Nationalities of Investors

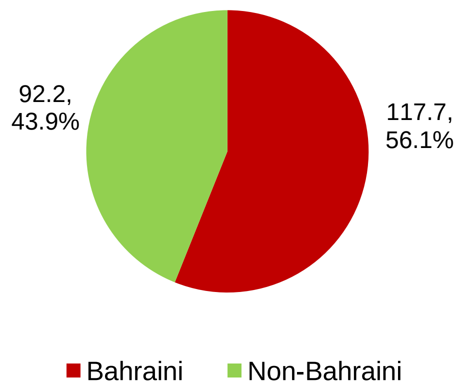
Bahraini investors accounted for 56.1% of the total value of traded shares (buy and sell) in 2011 a decrease from 69.2% in 2010 (Chart 5-5 and 5-6). The market witnessed a total of BD 117.7 million in the value of shares traded by Bahraini investors compared to BD 150.1 million in 2010. On the other hand, the total value of traded shares (buy and sell) for non-Bahrainis increased from 30.8% (BD 66.7 million) in 2010 to 43.9% (BD 92.2 million) in 2011.

Chart 5-5: Trading Value of Investors' Participation (BD million), 2010



Source: Bahrain Bourse

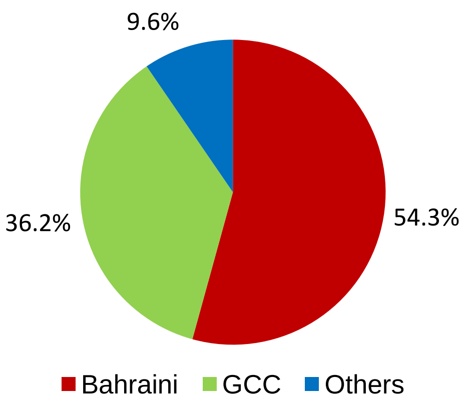
Chart 5-6: Trading Value of Investors' Participation (BD million), 2011



Source: Bahrain Bourse

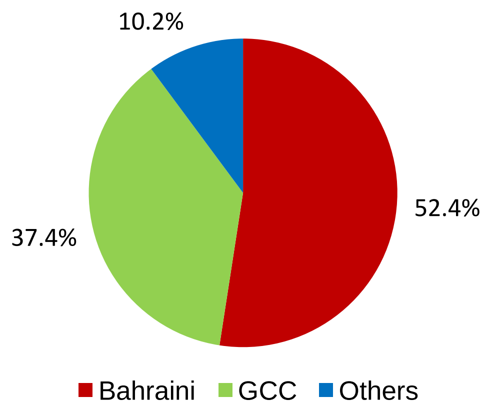
As for ownership of the shares, Bahrainis accounted for 52.4% of the total shares traded in 2011 a decrease compared to the 54.3% in 2010. GCC share ownership increased from 36.2% in 2010 to 37.4%. Similarly, share ownership of other nationalities increased from 9.6% in 2010 to 10.2% in 2011 (Chart 5-7 and 5-8).

Chart 5-7: Share Ownership by Nationality (%), 2010



Source: Bahrain Bourse

Chart 5-8: Share Ownership by Nationality (%), 2011



Source: Bahrain Bourse

E. Price Movements

During 2011, the market breadth showed that the decliners outperformed the advancers by a margin of 30:3 (the price of 3 stocks went up, 30 went down) and 16 remained unchanged compared to the decliners outperforming the advancers by a margin of 25:12 and 12 unchanged for 2011 (Table 5-9).

Table 5-9: Market Breadth

	2010	2011
Advancers	12	3
Decliners	25	30
Unchanged	12	16
Total	**49**	**49**

Source: Bahrain Bourse

Bahrain Family Leisure Company (FAMILY) was ranked the top advancer in 2011 with 14.1% in price change followed by Bahrain Ship Repair and Engineering Company (BASREC) (4.3%), and Bahrain National Holding (BNH) (0.5%) (Table 5-10). As for the top 5 decliners, Gulf Finance House (GFH) was the biggest decliner with 71.0% annual decrease in price followed by Ithmaar Bank (ITHMR)(-48.0%), Esterad Investment Company (ESTERAD) (-45.9%), and Inovest (INOVEST) (-39.6%), and Bahrain Family Leisure Company (FAMILY) (-38.5%) (Table 5-11).

Table 5-10: Top Bahrain Bourse Advancers, 2011

Advancers	%	Rank
FAMILY	14.1	1
BASREC	4.3	2
BNH	0.5	3
		4
		5

Source: Bahrain Bourse

Table 5-11: Top Bahrain Bourse Decliners, 2011

Decliners	%	Rank
GFH	71.0	1
ITHMR	48.0	2
ESTERAD	45.9	3
INOVEST	39.6	4
KHCB	38.5	5

Source: Bahrain Bourse

F. New Companies Listed on the Bahrain Bourse

The number of listed companies (including international cross-listings) at the end of 2011 remained 49, unchanged from the previous year (Table 5-10). The number of mutual funds also decreased to 31. Bonds and Sukuk remained 11. Only one preference share was listed on the exchange in 2011 similar to 2010.

Table 5-12: Bahrain Bourse Summary of Listings

	Q4 2010	Q4 2011
Number of Companies	49	49
Number of Mutual Funds	35	31
Number of Bonds and Sukuks	11	11
Preferred Shares	1	1

Source: Bahrain Bourse

Chapter
6

6. Public Finance

Overview

A. Revenues

B. Expenditure

C. Issuance of Public Debt Instruments

Overview

Although the Bahrain economy has diversified away from the oil sector, oil revenues continue to play a significant role in the governments' fiscal balance. Oil prices remained consistently high during the year 2011, and as a result, government revenues increased by 29.7% to reach BD 2,821.7 million compared to BD 2,175.6 million at the end of 2010. Government expenditure increased more modestly by 8.3% to reach BD 2,853.0 million during the same period, up from BD 2,635.4 million in 2010.

As a result of these developments, Bahrain recorded a slight fiscal deficit before rollover of BD 31.3 million, or 0.1% of GDP (Table 5-1). The fiscal deficit after rollover as a percentage of GDP amounted to 3.2%.

Table 6-1: Summary of Public Finance

(BD Million)

	2007	2008	2009	2010	2011*
Revenues	**2,036.7**	**2,677.6**	**1,708.2**	**2,175.6**	**2,821.7**
Oil & Gas	1,630.5	2,284.5	1,417.8	1,852.1	2,479.1
Non-Oil	406.2	393.1	290.4	323.5	555.2
Grants	35.9	29.4	28.4	28.6	100.0
Expenditure	**1,818.1**	**2,060.3**	**2,082.2**	**2,635.4**	**2,853.0**
Current	1,331.1	1,552.0	1,692.3	1,868.0	2,412.2
Project	487.0	508.3	389.9	767.4	440.8
Strategic Projects	**0.0**	**70.0**	**72.0**	**0.0**	**0.0**
Surplus/Deficit Before Rollover	**218.6**	**547.3**	**(446.0)**	**(459.8)**	**(31.3)**
As a % of GDP	**3.1**	**6.6**	**6.0**	**5.6**	**0.1**
Rollover for the Period					
Project	171.9	150.0	206.9	291.0	279.8
Current	3.8	25.2	72.6	22.4	20.0
Total Rollover	**175.7**	**175.2**	**279.5**	**313.4**	**299.8**
Net Surplus/Deficit After Rollover	**42.9**	**372.1**	**(725.5)**	**(773.2)**	**(311.1)**
As a % of GDP	**0.6**	**4.5**	**9.9**	**9.4**	**3.2**

** Provisional data*

Source: Ministry of Finance

A. Revenues

Total revenues increased in 2011 by 29.7% to reach BD 2,821.7 million following the 27.4% increase in 2010 (Table 6-2). The increases on the revenue side came from the Oil and Gas and Grants segments, which increased by 33.9% and 249.7% respectively. All other revenue sub-segments witnessed a decline in 2011, indicating an increased reliance on oil revenue throughout the year. However, given the cooling of growth during the year 2011, it was expected that other sources of non-oil revenue would have also declined. The main categories that are linked to economic activity are the "Government Goods and Services" and "Fines, Penalties & Misc." sub-segments, which had decreases of 22.3% and 59.4% respectively.

Table 6-2: Government Revenue

(BD Million)

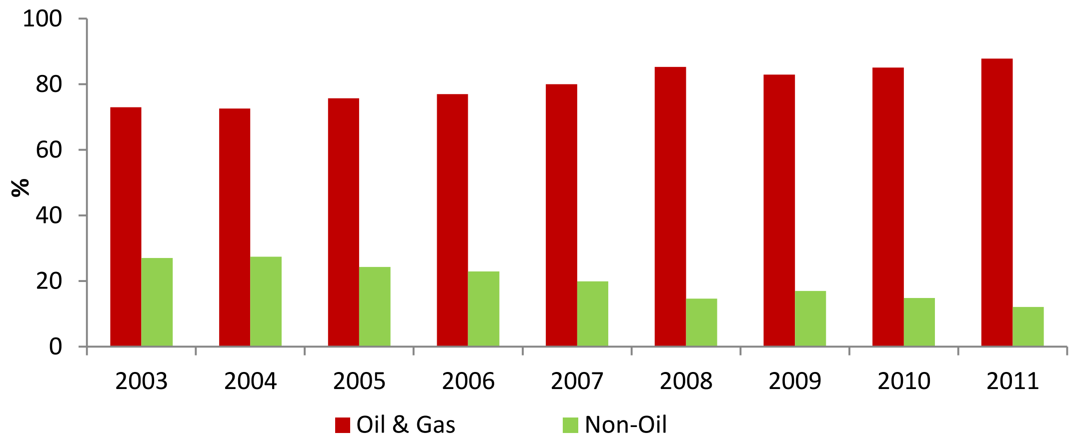
Items	2010	2011	Change (%)
Oil & Gas	1,852.1	2,479.1	33.9
Taxation & Fees	179.0	168.7	-5.8
Government Goods & Services	52.0	40.4	-22.3
Investments & Government Properties	19.4	15.3	-21.1
Grants	28.6	100.0	249.7
Sale of Capital Assets	0.4	0.3	-25.0
Fines, Penalties & Misc.	44.1	17.9	-59.4
Total Revenue	**2,175.6**	**2,821.7**	**29.7**

Source: Ministry of Finance

Oil and gas revenues amounted to BD 2,479.1 million (87.9% of total revenues) in 2011 compared with BD 1,852.1 million (85.1% of total revenues) in 2010 (Chart 6-1). These numbers indicate that the contribution of oil to total revenues increased further compared to last year.

Notwithstanding ongoing efforts to diversify sources of revenue, oil and gas remains the largest contributor to total revenue. It is anticipated that this increased share of revenue will be offset with higher economic activity, and the subsequent increases in non-oil revenue from the other categories, however the increased production from the Bahrain oilfield will also contribute to the revenue side even further; highlighting even more dependence on hydrocarbons going forward.

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



Source: Ministry of Finance

B. Expenditure

Total expenditures increased by 8.3% in 2011 to reach BD 2,853.0 million. Total current expenditure amounted to BD 2,412.2 million. The fastest growing component of current expenditure was grants and subsidies, which grew by 114.9%. This was followed by assets and maintenance which increase by 45.7% and 32.9% respectively (Table 6-3).

As for project expenditure, it amounted to BD 440.8 million.

Table 6-3: Government Current Expenditure (2010 vs. 2011)

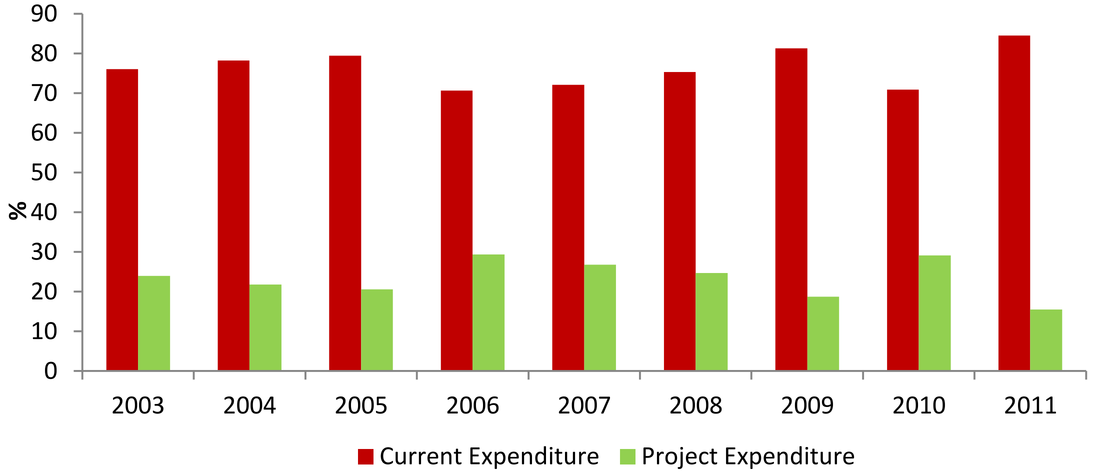
(BD Million)

Items	2010	2011	Change (%)
Manpower	868.1	1,005.0	15.8
Services	130.5	170.1	30.3
Consumables	79.7	93.7	17.6
Assets	20.8	30.3	45.7
Maintenance	44.4	59.0	32.9
Transfers	529.4	634.8	19.9
Grants and Subsidies	195.1	419.2	114.9
Total Current Expenditure	**1,868.0**	**2,412.2**	**29.1**

Source: Ministry of Finance

Expenditure data for 2011 shows that most of government spending was in the form of current expenditure, which constituted 84.5% of total expenditure, up significantly from 70.9% in 2010.

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



Source: Ministry of Finance

C. Issuance of Public Debt Instruments

The size of Bahrain's public debt (securities only) has increased during the year 2011. Total debt outstanding at the end of 2011 amounted to BD 3,169.5 million, 29.8% higher than the level at the end of 2010 and accounted for 32.6% of GDP (Table 6-4). This significant increase can be attributed to the increased issuances of Treasury Bills and Islamic Leasing Securities during 2011.

Table 6-4: Summary of Public Debt Instruments

(BD Million)

	2010	2011			
		Q1	Q2	Q3	Q4
Total Outstanding	**2441.0**	**2,441.0**	**2,747.0**	**2,939.0**	**3,169.5**
% of GDP	25.1	25.1	28.3	30.3	32.6
Development Bonds	975.0	975.0	975.0	975.0	920.0
Treasury Bills	570.0	570.0	660.0	810.0	880.0
Islamic Leasing Securities	860.0	860.0	1,070.0	1,100.0	1,315.5
Al Salam Islamic Securities	36.0	36.0	42.0	54.0	54.0

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 920.0 million compared to BD 975.0 million in 2010, due to BD 55.0

million of the bonds maturing in 2011. The total outstanding amount for T-bills (short and long term) as of December 31, 2011 was BD 880.0 million which is a 54.4% growth from the outstanding balance as of the same time the previous year (Table 6-5). During 2011, new T-bill issues amounted to BD 1,890.0 million as BD 1,580.0 million matured, leaving an outstanding balance of BD 880.0 million.

Table 6-5: 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	
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
2011	55.0	0.0	920.0	1,580.0	1,890.0	880.0	1,800.0

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, 2011 was BD 1,369.5 million, a 52.8% increase from the BD 896.0 million as of December 31, 2010 (Table 6-6). 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.

Table 6-6: 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	
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
2011	216.5	672.0	1,315.5	168.0	186.0	54.0	1,369.5

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

The balance on the Islamic leasing securities increased to BD 1,315.5 million in December 2011 compared to BD 860.0 million in December 2010. This is due to a lower amount of securities maturing (BD 216.5 million) in comparison to new securities that were issued (BD 672.0 million).

The level of Al Salam Islamic Securities outstanding was BD 54.0 million at December 2011 compared to BD 36.0 million in December 2010. Similar to the trend in Islamic leasing securities, the amount of Al Salam Islamic securities increased due to a lower number of securities maturing in comparison to the amount issued. The amount of Al Salam securities that matured in 2011 was BD 168.0 million, while the amount issued during the year reached a total of BD 186.0 million.

Chapter

7

7. Foreign Trade and Balance of Payments

Overview

A. Current Account

B. Capital and Financial Account

C. 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.

A. Current Account

Due to the improvement in global output and a revival of oil prices, Bahrain's current account surplus increased from BD 289.5 million in 2010 (3.5% of GDP) to 1,220.9 million in 2011 (12.6% of GDP) (Table 1-1).

1. Balance of Goods

The expansion in the current account surplus was mainly due to an increase in the balance on goods by BD 1,939.2 million to reach a surplus of BD 2,932.9 million at the end of 2011. Net services receipts decreased by BD 331.1 million in 2011 mainly due to a decrease on the travel account by BD 202.9 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.

2. Balance on Services, Income and Transfers

On the income account, net income payments increased by 58.6% from BD 892.3 million in 2010 to BD 1,415.5 million in 2011. The notable trend in the income account is the expansion of the direct investment outflows from BD 785.2 million in 2010 to BD 1,274.8 million in 2011. Net current transfers abroad, which comprises of workers' remittances, increased by 24.9% from BD 617.3 million in 2010 to BD 770.8 million in 2011.

Table 7-1: Balance of Payments*

Items	BD Million		
	2009*	2010*	2011*
1. Current Account (a+b+c+d)	**210.6**	**289.5**	**1,220.9**
a. Goods	**917.0**	**993.7**	**2,932.9**
General Merchandise	**850.0**	**923.7**	**2,836.7**
Exports (fob)	4,464.5	5,131.3	7,388.5
- Oil	3,351.5	3,828.0	5,824.5
- Non-Oil	1,113.0	1,303.3	1,564.0
Imports (fob)	-3,614.5	-4,207.6	-4,551.8
- Oil	-1,637.2	-2,027.8	-2,808.5
- Non-Oil	-1,977.3	-2,179.8	-1,743.3
Repairs on goods	**67.0**	**70.0**	**96.2**
b. Services (net)	**718.9**	**805.4**	**474.3**
- Transportation	15.2	16.3	32.7
- Travel	267.1	321.9	119.0
- Communication Services	263.2	282.8	215.1
- Financial Services (Including Insurance)	163.1	178.3	100.5
- Other Business Services	10.3	6.1	7.0
c. Income (net)	**-902.3**	**-892.3**	**-1,415.5**
Investment Income	-902.3	-892.3	-1,415.5
- Direct Investment Income	-110.8	-785.2	-1,274.8
- Portfolio Income	6.0	-16.0	132.0
- Other Investment Income	-797.5	-91.1	-272.7
d. Current Transfers (net)	**-523.0**	**-617.3**	**-770.8**
- Workers' Remittances	-523.0	-617.3	-770.8
2. Capital and Financial Account (net) (a+b)	**-185.9**	**-329.8**	**-1,248.1**
a. Capital Account (net)	**18.8**	**18.8**	**28.6**
- Capital Transfers	18.8	18.8	28.6
b. Financial Account (1+2+3+4)1/	**-204.7**	**-348.6**	**-1,276.7**
1. Direct Investment	**770.3**	**-67.0**	**-42.4**
- Abroad	673.6	-125.6	-336.0
- In Bahrain	96.7	58.6	293.6
2. Portfolio Investment (net)	**3,111.6**	**1,788.2**	**2,099.2**
- Assets	2,523.0	771.4	1,941.7
- Liabilities	588.6	1,016.8	157.6
3. Other Investment (net)	**-4,131.3**	**-1,588.7**	**-3,554.3**
- Assets	6,814.5	1,030.1	6,515.1
- Liabilities	-10,945.8	-2,618.8	-10,069.3
4. Reserve Assets (net)	**44.7**	**-481.1**	**220.8**
3. Errors and Omissions	**-24.7**	**40.3**	**27.2**

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

** Provisional Data*

Source: Central Bank of Bahrain

3. 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 2,836.7 million in 2011 (Table 1-2), up from a surplus of BD 923.7 million in 2010. The oil trade surplus increased to BD 3,016.0 million in 2011 from 1,800.2 million in 2010. The non-oil trade balance deficit decreased, from BD 876.5 million in 2010 to BD 179.3 million in 2011.

Oil exports accounted for 78.8% of total exports, an increase from 74.6% of total exports in 2010. In terms of imports, oil imports accounted for 61.7% of total imports in 2010, an increase from the 48.2% ratio in 2010. As a result, the share of non-oil exports and non-oil imports decreased by 21.2% and 38.3% of total exports and imports respectively for the year end 2011.

Table 7-2: Foreign Trade*

(BD Million)

Main Groups	2010	2011	% Change	Relative Share 2011 (%)
Total Exports	**5,131.3**	**7,388.5**	**44.0**	**100.0**
Oil Exports	3,828.0	5,824.5	52.2	78.8
Non-Oil Exports	1,303.3	1,564.0	20.0	21.2
Total Imports	**4,207.6**	**4,551.8**	**8.2**	**100.0**
Oil Imports	2,027.8	2,808.5	38.5	61.7
Non-Oil Imports	2,179.8	1,743.3	-20.0	38.3
Trade Balance	**923.7**	**2,836.7**	**207.1**	**-**

** Provisional data*

Source: National Oil and Gas Authority and Central Informatics Organisation

B. Capital and Financial Account

The capital and financial account registered a net outflow of BD 1,248.1 million in 2011, compared with an outflow of BD 329.8 million in 2010. Bahrain continues to be a net exporter of capital to the rest of the world.

The capital account showed a net inflow of BD 28.6 million in 2011 compared to BD18.8 million in 2010. The financial account registered a net outflow of BD 1,276.7 million in 2011 compared to BD 348.6 million in 2010.

Direct investment abroad showed an outflow, reflecting a modest return of appetite to invest abroad. During 2011, direct investment abroad and in Bahrain also showed net outflows of BD 336.0 million and BD 293.6 million respectively.

Bahraini portfolio investments showed a net inflow of BD 2,099.2 million in 2011 compared to a BD 1,788.2 million net inflows recorded in 2010. The other investments category showed a net outflow of BD 3,554.3 million. The net reserve assets registered a deficit of BD 220.8 million in 2011 compared to surplus of BD 481.1 million recorded in 2010.

C. International Investment Position (IIP)

Bahrain's net international investment position rose from BD 6,375.0 million at the end of 2010 to BD 7,686.7 million in 2011 (a 20.6% increase) (Table 7-3). Foreign assets fell by 11.9% from BD 70,327.3 million at end-2010 to BD 61,985.8 million in 2011 as a result of the decrease in portfolio investment by 13.3%.

On the other hand, foreign liabilities decreased from BD 63,952.3 million in 2010 to BD 54,299.1 million in 2011 or by 15.1% due to the decrease in other investment liabilities by 19.2%.

Table 7-3: International Investment Position (IIP) **

(BD Million)

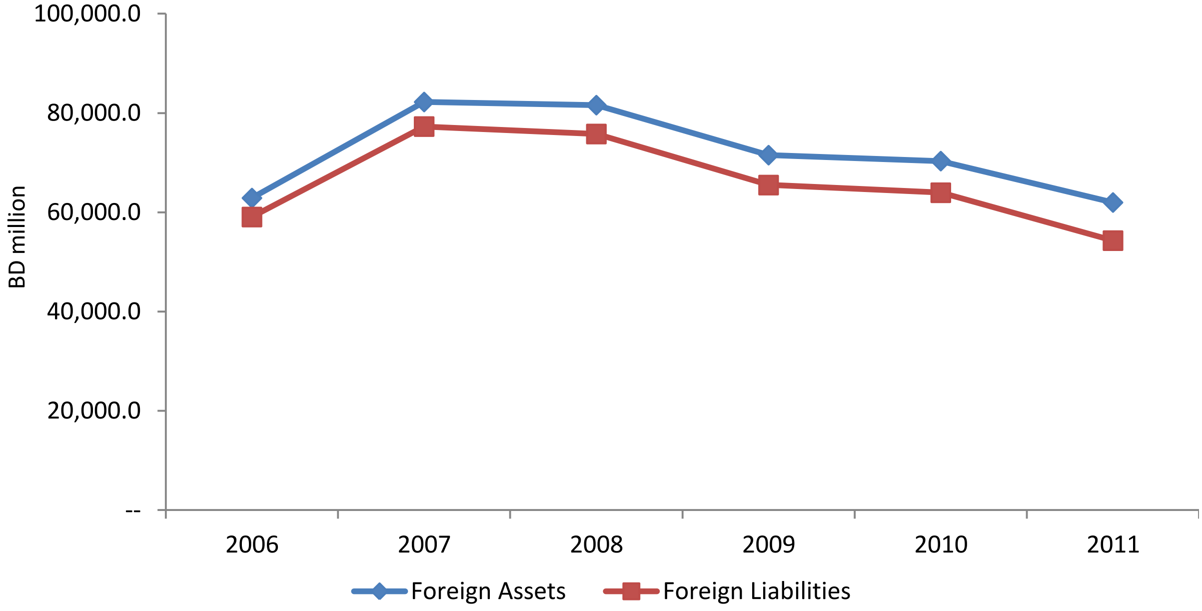
Items	2009	2010	2011
IIP, net	**6,028.8**	**6,375.0**	**7,686.7**
Foreign Assets	**71,524.7**	**70,327.3**	**61,985.8**
Direct Investment Abroad	2,838.3	2,963.9	3,299.9
Portfolio Investment	15,323.7	14,552.3	12,610.6
Other Investment*	51,931.0	50,897.3	44,374.1
Reserve Assets	1,431.7	1,913.8	1,701.2
Foreign Liabilities	**65,495.9**	**63,952.3**	**54,299.1**
Direct Investment in Bahrain	5,639.3	5,697.9	5,991.5
Portfolio Investment	4,730.2	5,747.0	5,904.6
Other Investment*	55,126.4	52,507.4	42,403.0

* *Includes loans, currency, and deposits.*

** *Provisional data.*

Source: Central Bank of Bahrain.

Chart 7-1: International Investment Position (IIP)



Source: Central Bank of Bahrain.

A

Appendix

A. Economic Indicators

B. Financial Sector Indicators

A. Economic Indicators

Appendix Table 1: Gross Domestic Product

(BD Million)

	2010	2011*	% Share (2010)
GDP at Current Prices	**8,245.6**	**9,710.3**	**100.0**
Non-Financial Corporations	6,089.5	7,350.8	75.7
Of which:			
-Oil	2,041.9	2,877.5	29.6
-Manufacturing	1,273.0	1,627.6	16.8
-Transportation and Communication	563.7	641.5	6.6
-Trade	597.6	608.6	6.3
-Real Estate & Business Activities	529.6	500.0	5.1
Financial Corporations	1,698.6	1,717.2	17.7
Government Services	998.2	1,104.8	11.4
GDP at Constant Prices	**5,100.2**	**5,213.7**	100.0
Non-Financial Corporations	3,590.2	3680.9	70.6
Of which:			
-Oil	611.2	631.7	12.1
-Manufacturing	836.4	870.7	16.7
-Transportation and Communication	458.5	508.9	9.8
-Trade	350.6	354.8	6.8
-Real Estate & Business Activities	435.7	413.2	7.9
Financial Corporations	1,255.6	1288.7	24.7
Government Services	747.8	791.4	15.2

**Provisional*

Source: Central Informatics Organisation

Appendix Table 2: Employment

	2010	2011	2011			
			Q1	Q2	Q3	Q4
Total Employment*	**511,559**		**514,230**	**514,555**	**541,318**	
Change (%)	5.2					
Private Sector	**470,685**		**473,421**	**473,049**	**498,603**	
As % of Total Employment	92.0		92.1	91.9	92.1	
Male	423,763		426,002	425,691	447,820	
Female	46,922		47,419	47,358	50,783	
Bahraini	**83,709**		**84,151**	**82,572**	**86,815**	
Non-Bahraini	**386,976**		**389,270**	**390,477**	**411,788**	
Public Sector**	**40,874**		**40,809**	**41,506**	**42,715**	
As % of Total Employment	8.0		7.9	8.1	7.9	
Male	21,778		21,696	22,286	23,291	
Female	19,096		19,113	19,220	19,424	
Bahraini	**35,547**		**35,467**	**36,163**	**37,141**	
Non-Bahraini	**5,327**		**5,342**	**5,343**	**5,574**	

**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.

Appendix Table 3: Public Debt

(BD Million)

	2010	2011*	2010*			
			Q1	Q2	Q3	Q4
Total Outstanding	**2,441.0**	**3,169.5**	**2,441.0**	**2,747.0**	**2,939.0**	**3,169.5**
As % of GDP	29.6	32.6	25.1	28.3	30.3	32.6
Development Bonds	975.0	920.0	975.0	975.0	975.0	920.0
Treasury Bills	570.0	880.0	570.0	660.0	810.0	880.0
Islamic Leasing Securities	860.0	1,315.5	860.0	1,070.0	1,100.0	1,315.5
Al Salam Islamic Securities	36.0	54.0	36.0	42.0	54.0	54.0

**Provisional GDP*

Source: Central Bank of Bahrain

Appendix Table 4: BD Exchange Rates Against Major Currencies 1/

	2010	2011
Saudi Riyal	0.100	0.100
Kuwaiti dinar	1.335	1.349
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	0.583	0.581
Euro	0.497	0.486
Japanese Yen 2/	4.610	4.800
Swiss Franc	0.399	0.399

1/ Last working day of each period.

2/ Per 1000 Units

Source: Central Bank of Bahrain

Appendix Table 5: Bahrain Bourse

	2010	2011	Change (%)
Total Market Capitalisation (BD million)	**7,562.5**	**6254.4**	**-17.3**
Commercial Bank	2,567.9	2393.2	-6.8
Investment	2,241.0	1679.6	-25.1
Insurance	170.8	164.5	-3.7
Services	1,066.2	871.8	-18.2
Industrial	1,301.7	953.8	-26.7
Hotel and Tourism	215.0	191.5	-10.9
Trading Activities in The Market			
Bahrain All Share Index (Points)	1,432.26	1,143.69	-20.1
Dow Jones Bahrain Index (Points)	121.05	98.2	-18.9
Esterad Index (Points)	1,509.60	1,218.26	-19.3
Value of Shares Traded (BD Million)	108.4	105.0	-3.1
Daily Average Value of Shares Traded (BD)	438,911	428,433	-2.4
Share Turnover	1.43	1.63	14.0
Volume of Shares Traded (Million)	612.2	520.2	-15.0
Daily Average No. of Shares Traded (Million)	2.5	2.1	-16.0
Number of Transactions	19,647	11,818	-39.8
Daily Average No. of Transactions	80	48	-40.0
Number of listed Companies *	49	49	0.0

**Includes Non-Bahraini Companies*
Source: Bahrain Bourse

B. Financial Sector Indicators

Appendix Table 6: Money Supply

(BD Million)

Items	Year- end			Change	
	2009	2010	2011	Absolute	%
Currency in Circulation	323.0	349.6	402.2	52.6	15.0
M1	2,158.3	2,303.9	2,636.9	333.0	14.5
M2	7,119.3	7,867.5	8,135.1	267.6	3.4
M3	8,404.2	9,495.7	9,994.0	498.3	5.2

Source: Central Bank of Bahrain

Appendix Table 7: Factors Affecting Domestic Liquidity

(BD Million)

Factors	Year- end			Change	
	2009	2010	2011	2010 vs. 2009	2011 vs. 2010
A. Total Domestic Liquidity (M3)	**8,404.2**	**9,495.7**	**9,994.0**	**1,091.5**	**498.3**
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	**2,088.0**	**2,018.8**	**1,598.1**	**-69.2**	**-420.7**
(a) Central Bank	1,331.1	1,800.6	1,596.2	469.5	-204.4
(b) Commercial Banks	756.9	218.2	1.9	-538.7	-216.3
2. Domestic Claims (a+b+c)	**6,316.2**	**7,476.9**	**8,395.9**	**1,160.7**	**919.0**
(a) Claims on government	1,310.9	1,645.1	2,114.2	334.2	469.1
(b) Claims on private sector [1/]	6,161.3	6,545.1	7,525.6	383.8	980.5
(c) Other Assets (net)	-1,156.0	-713.3	-1,243.9	442.7	-530.6

1/ Loans and holding of securities
Source: Central Bank of Bahrain

Appendix Table 8: Consolidated Balance Sheet of Banking System

(USD Billion)

Items	Year-End			Change 2011 (%)
	2009	2010	2011	
Retail Banks	59.8	65.5	67.4	2.9
Wholesale Banks	162.0	156.7	129.7	-17.2
Total	**221.8**	**222.2**	**197.1**	**-11.3**

Source: Central Bank of Bahrain

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

(USD Billion)

Items	Year					
	2009		2010		2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Kingdom of Bahrain	42.2	47.7	45.8	50.8	47.5	50.2
GCC	74.7	58.0	65.5	54.6	57.0	53.5
Other Arab Countries	7.0	12.6	6.8	14.1	6.6	12.1
Americas	20.3	8.6	19.7	13.0	19.3	8.6
Western Europe	58.3	70.9	65.0	71.3	52.8	55.8
Asia	15.5	21.9	16.9	16.1	11.9	14.4
Other	3.8	2.1	2.5	2.3	2.0	2.1
Total	**221.8**	**221.8**	**222.2**	**222.2**	**197.1**	**197.1**

Source: Central Bank of Bahrain

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

(USD Billion)

Currencies	Year					
	2009		2010		2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Bahraini Dinar	23.0	24.6	26.2	29.1	29.7	32.0
GCC Currencies	23.9	19.6	19.1	12.4	15.0	12.8
US Dollar	136.0	135.9	135.5	139.3	121.8	127.3
Pound Sterling	5.2	5.7	3.2	4.1	3.5	2.5
EURO	20.4	23.9	19.2	19.3	15.3	13.9
Japanese Yen	2.4	3.1	2.3	2.3	1.3	1.5
Others	10.9	9.0	16.7	15.7	10.5	7.1
Total	**221.8**	**221.8**	**222.2**	**222.2**	**197.1**	**197.1**

Source: Central Bank of Bahrain

Appendix Table 11: Interest Rates on BD Deposits and Loans

Items	End 2010	End 2011	2010			
			Q1	Q2	Q3	Q4
1. Deposits						
Time /1	1.07	1.11	1.01	0.95	1.01	1.11
Savings	0.25	0.24	0.23	0.26	0.25	0.24
2. Loans						
Business /2	7.30	5.58	5.90	6.06	5.67	5.58
Personal	7.10	6.28	7.17	6.93	6.16	6.28
3. Credit Cards	20.66	20.38	20.69	20.63	20.67	20.38

1/ Time deposits 3-12 months.
2/ Includes overdraft approvals
Source: Central Bank of Bahrain

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

(BD Million)

Sectors	Year-end						Change 2011	
	2009		2010		2011			
	Value	%	Value	%	Value	%	Value	%
1. Business	**3,816.6**	**64.8**	**3,663.7**	**64.5**	**4,056.8**	**63.0**	**393.1**	**10.7**
Manufacturing	389.5	6.6	407.5	7.2	557.0	8.7	149.5	36.7
Mining and Quarrying	7.7	0.1	9.9	0.2	11.2	0.2	1.3	13.1
Agriculture, Fishing and Dairy	5.4	0.1	5.3	0.1	8.8	0.1	3.5	66.0
Construction and Real Estate	1,659.5	28.2	1,740.6	30.6	1,684.6	26.1	-56.0	-3.2
Trade	998.7	17.0	772.9	13.6	852.0	13.2	79.1	10.2
Non-Bank Financial	211.3	3.6	235.1	4.1	249.4	3.9	14.3	6.1
Other Sectors	544.5	9.2	492.4	8.7	693.8	10.8	201.4	40.9
2. General Government	**392.0**	**6.7**	**261.5**	**4.6**	**225.5**	**3.5**	**-36.0**	**-13.8**
3. Personal	**1,676.3**	**28.5**	**1,751.4**	**30.9**	**2,162.1**	**33.5**	**410.7**	**23.4**
Total	**5,884.9**	**100.0**	**5,676.6**	**100.0**	**6,444.4**	**100.0**	**767.8**	**13.5**

Source: Central Bank of Bahrain

Appendix Table 13: Employment in the Banking and Financial Sector

Sectors	2010			2011			Change (%)
	Bahraini	Non-Bahraini	Total	Bahraini	Non-Bahraini	Total	
Banking Sector	**6,473**	**2,309**	**8,782**	**6,235**	**2,233**	**8,468**	**-3.6**
Retail Banks	4,481	1,034	5,515	4,384	976	5,360	-2.8
Wholesale Banks	1,931	1,203	3,134	1,816	1,213	3,029	-3.4
Representative Offices	61	72	133	35	44	79	-40.6
Non-Bank Financial Sector	**2,632**	**2,508**	**5,140**	**2,662**	**2,493**	**5,155**	**0.3**
Locally Incorporated Insurance Firms	968	586	1,554	976	560	1,536	-1.2
Insurance Related Activities Firms	279	464	743	282	441	723	-2.7
Specialised Licensees *	1,026	1,171	2,197	1,047	1,229	2,276	3.6
Of which: Money Changers	229	789	1,018	211	846	1,057	3.8
Financing Companies and Microfinance Institutions	541	124	665	543	128	671	0.9
Capital Markets **	88	8	96	89	26	115	19.8
Of which: Stock Brokers	28	5	33	23	6	29	-12.1
Investment Business Firms	271	279	550	268	237	505	-8.2
Other Institutions * **	**362**	**58**	**420**	**381**	**58**	**439**	**4.5**
Total	**9,467**	**4,875**	**14,342**	**9,278**	**4,784**	**14,062**	**-2.0**

* *Includes Ancillary Services, Trust Service Provider, Registered Administrators and Registrar License.*

** *Includes Bahrain Bourse, Licensed Exchange, Licensed Clearing (Settlement and Central), Licensed Securities Dealer, Licensed Securities Broker-Dealer and Licensed Securities Clearing Member.*

*** *Includes Central Bank of Bahrain, and Bahrain Institute of Banking and Finance.*

Source: Central Bank of Bahrain

Appendix Table 14: Selected Retail Banking Indicators

End of Period (%)	2010	2011	2011			
			Q1	Q2	Q3	Q4
Loans to Non-Banks / Total Assets	23.1	25.4	22.9	23.6	25.1	25.4
Loans to Private Non-Banks / Total Assets	22.0	24.5	22.0	22.8	24.2	24.5
Loans to Non-Banks / Total Deposits	52.8	54.0	48.3	50.6	55.4	54.0
Foreign Assets / Total Assets	46.7	44.5	49.5	46.9	44.8	44.5
Foreign Liabilities / Total Liabilities	45.9	44.5	46.7	45.0	45.0	44.5
Total Deposits / Total Liabilities	43.7	47.1	47.4	46.7	45.2	47.1
BD Deposits / Total Deposits	67.7	63.1	60.5	64.4	66.5	63.1
Private Sector Deposits / Total Deposits	69.1	63.9	62.7	65.4	64.1	63.9
Private Sector Demand Deposits / Total Deposits	18.2	18.7	16.9	18.1	18.3	18.7

Source: Central Bank of Bahrain

Number of Banks and Financial Institutions End 2011

Retail Banks	**30**
Islamic	*6*
Conventional	*24*
Wholesale Banks	**76**
Islamic	20
Conventional	56
Insurance Companies and Organisations	**162**
Investment Business Firms	**49**
Specialised Licensees	**81**
Money Changers	18
Administrators	4
Registrar License	1
Financing Companies	8
Representative Offices	28
Islamic	4
Conventional	24
Microfinance Companies	2
Trust Service Providers	3
Provider of Ancillary Services	14
Societies	2
Registered Professional Body	1
Capital Market Brokers	**17**
Licensed Exchanges	2
Licensed Clearing, Settlement and Central Depository system	1
Licensed Securities Dealer	1
Licensed Securities Broker-Dealer	5
Licensed Securities Clearing Member	3
Stockbrokers	5
Total	**415**