



Kingdom of Bahrain
Bahrain Monetary Agency





His Highness
Shaikh Khalifa Bin Salman Al Khalifa
The Prime Minister



His Majesty
King Hamad Bin Isa Al Khalifa
King of Bahrain



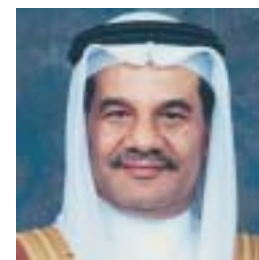
His Highness
Shaikh Salman Bin Hamad Al Khalifa
*The Crown Prince
Commander-in-Chief
of the Bahrain Defence Force*

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The Prime Minister
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Deputy Governor / Secretary to the Board



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FOREWORD



Ahmed Bin Mohammed Al-Khalifa
Governor

It is with great pleasure that I present the 29th Annual Report of the Bahrain Monetary Agency. The Report provides a brief summary of international economic and financial events in 2002, followed by a detailed review of domestic economic and financial developments and of the activities and operations of the Bahrain Monetary Agency over the course of the year. The Report also presents the statutory accounts and financial statements of the Agency for the year ended 31st December 2002, as The Report also presents the statutory accounts and financial statements of the Agency for the year ended 31st December 2002, as well as the significant Circulars and Regulations issued by the Agency during that year.

Bahrain's economy in 2002 continued to be constrained by international oil prices that, on average, were little changed year on year at around US\$ 24 per barrel. Inflation remained firmly under control with the Consumer Price Index continuing to fall (down 0.5% following a decline of 1.2% in 2001). In terms of economic growth, GDP at current prices increased by 6.2% and by 5.1% at constant prices. The overall balance of payments (increase in reserve assets) maintained a small surplus, while the budget deficit was 0.1% of GDP.

The outlook for the economy in 2003 remains positive; stable oil prices and continuing tight budgetary control will exert favourable influence on the economy. The continuation of the policy of diversification away from dependence on the hydro-carbon sector and the implementation of the privatisation programme will further strengthen the economy in the years ahead.

During 2002, the banking sector displayed great resilience in the face of the turmoil on the international financial markets. The combined balance sheet of the domestic banks continued to expand with assets/liabilities reaching an all-time high of BD 4021.5 million at the year-end. Likewise, the investment banks, where their combined balance sheets increased to US\$ 4.4 billion. In contrast, the assets of the off-shore banking units declined to US\$ 58.8 billion reflecting market uncertainties in the region. The performance of the Islamic banking sector was again most satisfactory with continued growth, particularly in the GCC region.

The year 2002 saw many significant changes for the Agency. In May, the Government of Bahrain announced the appointment of the Agency as sole regulator for the entire financial sector and with responsibility for the promotion of the sector to a wider international audience.

The transfer of regulatory responsibilities for the insurance and capital markets sectors took place in August and work on drafting a new Central Bank Law, incorporating an integrated financial services law, was undertaken jointly by the Agency and Freshfields Bruckhaus Deringer, international specialists in central bank legislation. Public consultations were held with the financial sector and draft legislation was submitted to Government at the year-end. In the interim, the Agency continued to apply existing sector-specific laws, notably the 1973 Bahrain Monetary Agency Law and the 1987 Insurance Law.

Further, and as a consequence of its wider responsibilities, the Agency re-organised its corporate structure into four divisions, each headed by an Executive Director, and four specialist Units. Two supervisory divisions

were created; Banking Supervision, incorporating on-site examinations, licensing and policy development; and Financial Institutions, comprising supervision of Islamic financial institutions, insurance houses and other non-bank financial institutions. The Banking Operations Division retained responsibility for the traditional central banking activities of management of foreign exchange reserves, domestic money markets, public debt issuance and the currency issue. Corporate Services Division administered the Agency's Human Resource, Information Technology and Accounting requirements, and provided economic research and analysis. Specialist Units were created to focus on Strategic Studies, Promotion & Media and Legal Affairs, with a separate Directorate to oversee the supervision and development of capital markets.

The Agency also took, or was involved in, four further major initiatives. First, McKinsey & Company were commissioned to conduct a detailed assessment of the financial sector, with the broad objectives to identify areas of high growth potential. The resultant benchmarking has produced an important tool in prioritising the thrust of future Agency development policies and for the individual institutions in the context of their own expansionary plans. As a consequence of the Assessment, seven asset classes were identified and particular emphasis is being placed on building Bahrain as the capital market centre of the region; expanding the insurance sector to achieve a more co-ordinate drive thrust into regional markets; and the further development of the Islamic financial industry embracing both conventional- and Islamic-structured institutions. Second, the Agency will work with major public relations companies to expand and enhance international appreciation of Bahrain's status as the Financial Capital of the Middle East Region. Third, in partnership with Government and industry, to establish a Human Resource Development Fund to finance specialised training in the financial sector. Fourth, to co-ordinate the establishment of an Islamic Finance Studies and Research Centre to stimulate further an effective development of the Islamic sector of the financial services industry, both in Bahrain and the wider Middle East region.

In June, the Agency established its own Sharia Supervisory Board, to provide advice on Islamic issues related to financial activity. The Agency also continued its programme of issuing Islamic compliant money instruments, with further offerings of Ijara sukuk totalling BD 75.2 million, and to further assist the commercial banking sector in its liquidity management, the Agency opened two discount windows for Government bonds and stock exchange listed corporate bonds.

A total of 339 banks, insurance companies, brokers and financial institutions were licensed by the Agency. 33 new licenses were issued during the year, including 3 full commercial banks, 4 investment banks, 3 representative offices, 5 investment advisers and 9 insurance firms. The Agency approved collective investment schemes and mutual funds, bringing the total to 1377 schemes sold and marketed by 43 financial institutions.

A number of significant regulatory and supervisory enhancements were initiated in 2002. With effect from June 2002, external auditors of each licensed institution are required to review all prudential returns prior to submission to the Agency, while the development phase of the risk-focussed inspection methodology, a core component of which entails the risk profiling of the Agency licensees, was completed. As a consequence of the strategic planning process, an unprecedented number of important projects aimed at enhancing the supervisory process have been evaluated and will be for implementation in 2003.

I should like to take this opportunity to express my deep gratitude to His Majesty King Hamad Bin Isa Al Khalifa, His Highness the Prime Minister, Shaikh Khalifa Bin Salman Al Khalifa, and His Highness the Crown Prince and Commander-in-Chief of the Bahrain Defence Force, Shaikh Salman Bin Hamad Al Khalifa, for their guidance to, and patronage of, the Agency. I also extend to all Government Ministries and Agencies my sincere appreciation for their continued support.

I am deeply grateful to Bahrain's financial community for its support and co-operation in 2002, and to the Agency's personnel for their substantial contribution towards further enhancing the effectiveness and efficiency of the Agency.

Ahmed Bin Mohammed Al-Khalifa
Governor

MAIN ECONOMIC INDICATORS 2002

Total Population (2002)	672.123
Bahraini	420.100
Non-Bahraini	252.023
Growth Rate (%)	2.7

Gross Domestic Product (GDP)	
Current GDP (BD Millions)	3164.7
Growth Rate (%)	6.2
Non-oil GDP Growth Rate (%)	6.5
Constant GDP (BD Millions)	2863.3
Growth Rate (%)	5.1
Non-oil GDP Growth Rate (%)	5.9
GDP per Capita (BD)	4.709

Public Finance (BD Millions)	
Total Revenue	1026.9
Oil Revenues	691.4
Non-oil Revenue	335.5
Total Expenditure	1031.0
Current Expenditure	740.0
Projects Expenditure	291.0
Surplus (Deficit)	-4.1
As a % of GDP	0.1

Prices	
Consumer Price Index (1994-1995=100)	100.9

Trade Balance	
Total Exports (BD Millions)	2175.4
Total Imports (BD Millions)	1874.5
Trade Balance (BD Millions)	300.9
As a % of GDP	9.5

Balance of Payment	
Current Account (BD Millions)	-156.7
As a % of GDP	5.0
Overall Balance (BD Millions)	13.1
As a % of GDP	0.4

Monetary Aggregates	
M2 (BD Millions)	2599.6
Banking System Total Assets/Liabilities (US\$ Billions)	74.0
Consolidated Balance Sheet of Commercial Banks (BD Millions)	4021.5
**Total Domestic Deposits (BD Millions)	2750.9
**Loans & Advances (BD Millions)	1629.8
Interest rates on Deposits	
Time (3-12 months)	0.91
Savings	0.60
Interest Rates on Loans	
Business	5.72
Personal	8.02
Consolidated Balance Sheet of Offshore Banking Units (US\$ Billions)	58.8
Consolidated Balance Sheet of Investment Banks (US\$ Billions)	4.5
Consolidated Balance Sheet of Islamic Banks (US\$ Billions)	2.9

Bahrain Stock Exchange (BSE)	
BSE Index (Points)	1821.5
Market Capitalisation (BD Millions)	2,850.5
As a % of GDP	90.1
Value of Shares Traded (BD Millions)	77.8
No. of Listed Companies	35

Insurance Sector	
No. of Policies Issued (Millions)	1.6
Gross Premiums (BD Millions)	68.0
Gross Claims (BD Millions)	33.2

CHAPTER ONE

INTERNATIONAL ECONOMIC PERSPECTIVE

1-1 Global Economic Developments

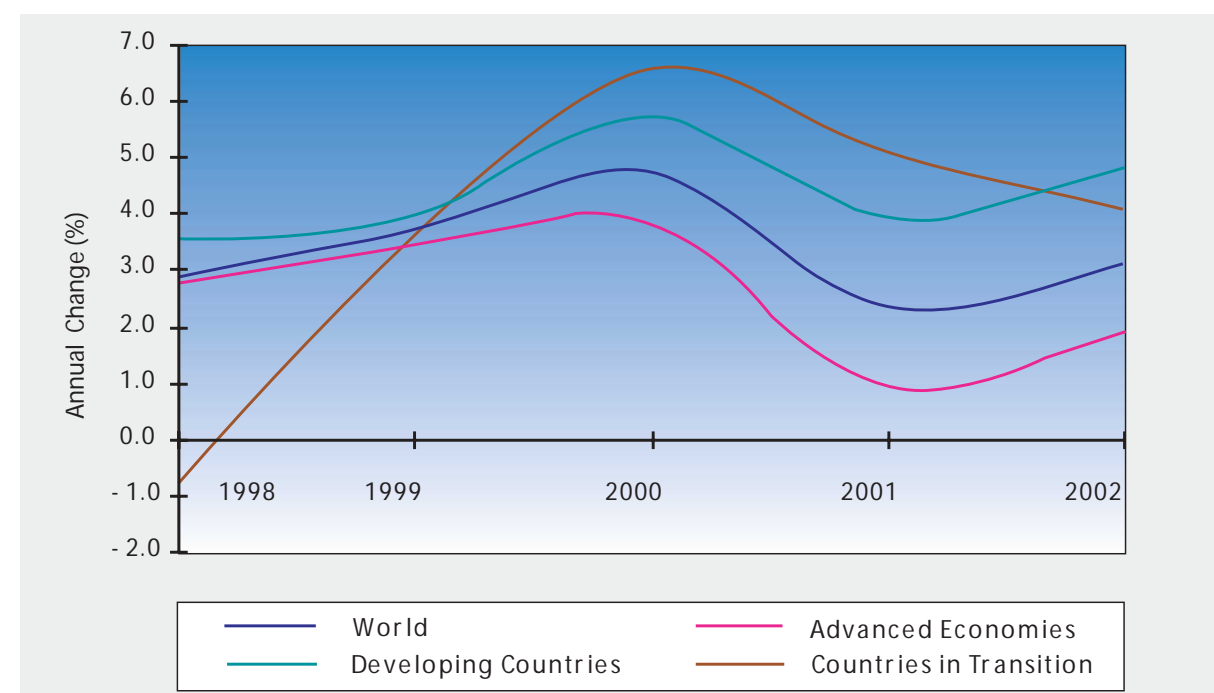
The year 2002 witnessed a number of significant developments. The global recovery has been in progress since late 2001, with trade and industrial production rising worldwide. However, the pace of the recovery started to slow down especially towards the second half of the year due to the rising tensions in the Middle East and an expectation of military action in Iraq. This in turn led to a decline in the industrial production of major advanced economies and a slowdown in global trade growth.

Global uncertainties had a significant impact on major economic developments in 2002 including the rise in oil and gold prices. In the foreign exchange market, the US dollar depreciated accompanied by the appreciation of other major currencies. In addition, the performance of the global capital markets deteriorated during the year.

Output

World output accelerated during 2002 to 3.0% compared with 2.3% in 2001. Average growth in advanced economies and developing countries picked up in 2002 to 1.8% and 4.6% against 0.9% and 3.9% respectively in 2001. However, average growth of the countries in transition decelerated in 2002 to 4.1% against 5.1% in the previous year.

• Chart 1-1: Summary of World Output



Source: IMF, World Economic Outlook, April 2003.

INTERNATIONAL ECONOMIC PERSPECTIVE

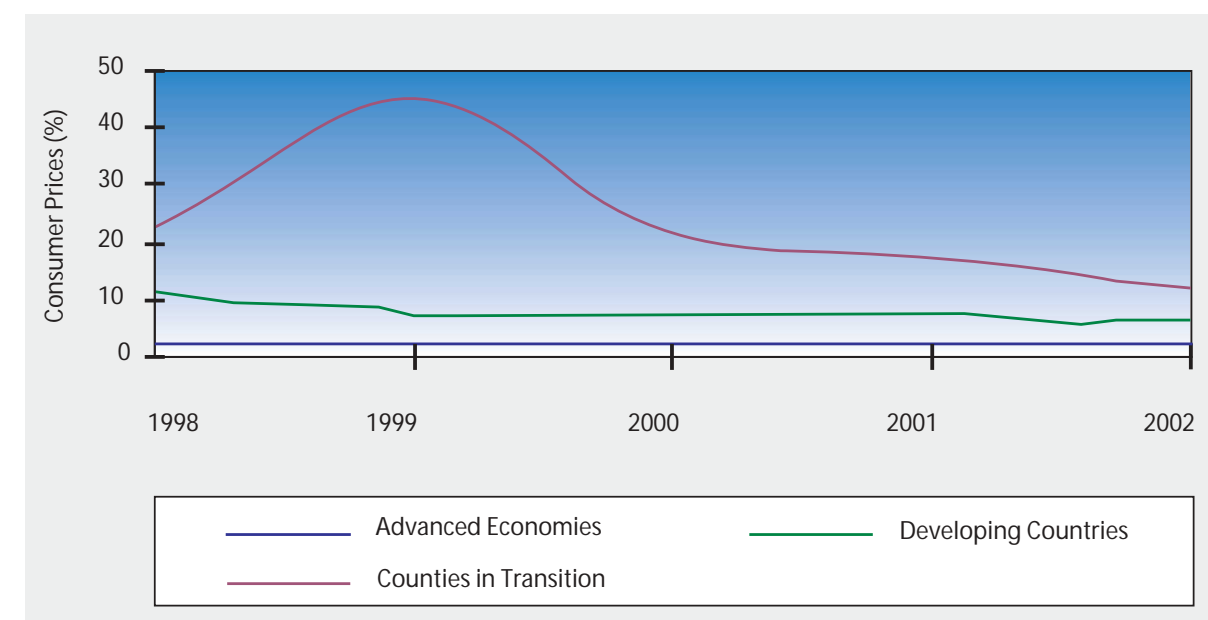
Unemployment

Unemployment rates in advanced economies have increased from 5.9% in 2001 to 6.4% in 2002. Unemployment in the United States, United Kingdom, and Germany increased from 4.8%, 5.1%, and 7.8% in 2001 to 5.8%, 5.2%, and 8.2% respectively in 2002. In Japan, the rate of unemployment also showed an increase from 5.0% in 2001 to 5.4% in 2002. It is evident that unemployment rates of almost all the major advanced economies followed an upward trend during 2002.

Inflation

Global inflation rates remained relatively low in 2002, reflecting the effectiveness of the increased anti-inflationary policy measures taken in varying global economies. Inflation rates in advanced economies, developing economies, as well as countries in transition fell during the year. Average inflation in the advanced economies fell from 2.2% in 2001 to 1.5% in 2002. Likewise, inflation rates in the developing countries and the countries in transition registered a decline from 5.8% and 16.3% in 2001 to 5.4% and 11.1% in 2002 respectively.

• Chart 1-2: Consumer Prices



Source: IMF, World Economic Outlook, April 2003.

1-2 Exchange Rates

An analysis of the foreign exchange rates using national currency units per SDR in 2002 indicates that the US Dollar depreciated by 8.2%. Conversely, the exchange rate of the other major currencies such as the Euro, Pound Sterling and the Japanese Yen appreciated by 11.0%, 2.7% and 1.6% respectively against the SDR during the year.

INTERNATIONAL ECONOMIC PERSPECTIVE

• Table 1-1: Exchange Rates of Major Currencies Against the SDR

Currencies	2001	2002			
	Q4	Q1	Q2	Q3	Q4
US Dollar	1.2567	1.2469	1.3305	1.3227	1.3595
Euro	1.4260	1.4293	1.3338	1.3415	1.2694
Japanese Yen	165.64	166.09	159.92	160.77	163.01
Pound Sterling	0.8665	0.8761	0.8657	0.8459	0.8435

Source: IMF, International Financial Statistics, February 2003.

1-3 Oil Prices

The average price of oil increased from US\$ 24.28 per barrel in 2001 to US\$ 24.94 per barrel in 2002, or by 2.7%. In the first quarter of 2002, the average oil price reached its minimum at US\$ 20.93 per barrel only to peak in the third quarter to US\$ 26.98 per barrel. Uncertainties in the Middle East and expected military action on Iraq have caused an upward pressure on oil prices especially towards the second half of the year. Furthermore, supply disruptions associated with the political crisis in Venezuela had a significant role in the rise of oil prices during the year. In addition, reductions in OPEC production targets have contributed to the increase in oil prices. Overall, the oil market remained strong in 2002 and in line with OPEC's regulatory system of the market.

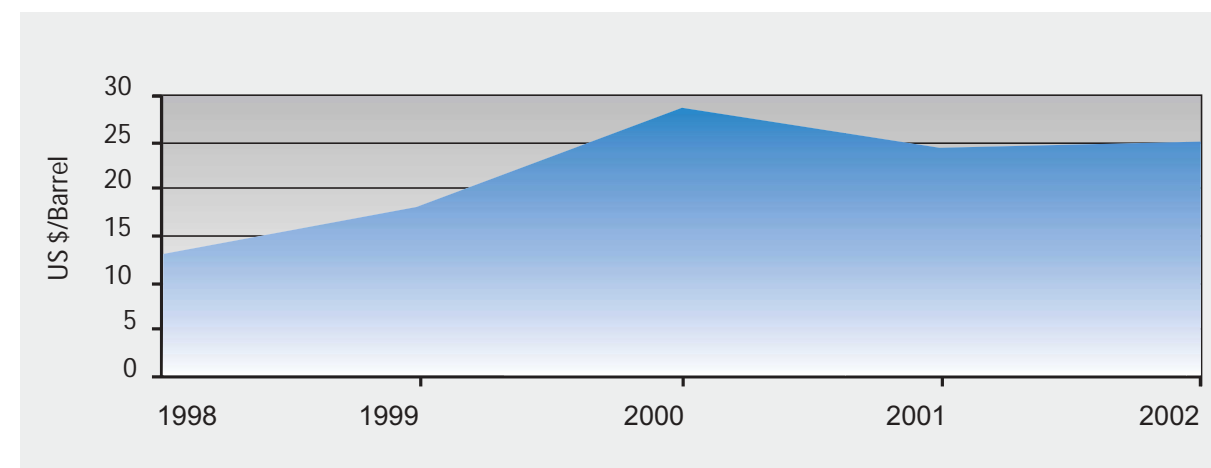
• Table 1-2: Average Oil Prices of Selected Crudes

(US\$ per barrel)

	1998	1999	2000	2001	2002
Average Crude Oil Price	13.07	17.98	28.24	24.28	24.94
UK Brent	12.72	17.70	28.31	24.41	24.97
Dubai	12.09	17.08	26.09	22.71	23.72
West-Texas	14.42	19.17	30.32	25.87	26.09

Source: IMF, International Financial Statistics, February 2003.

• Chart 1-3: Average Crude Oil Prices



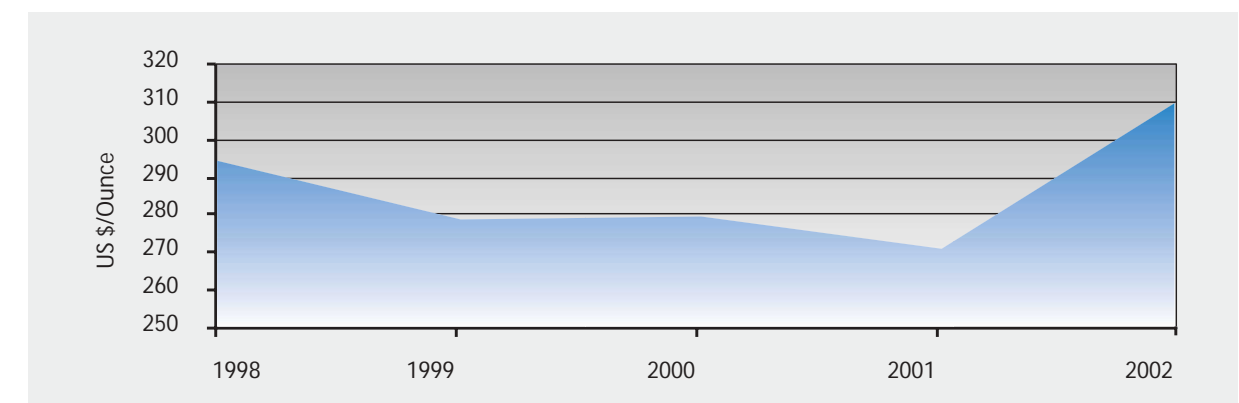
Source: IMF, International Financial Statistics, February 2003.

INTERNATIONAL ECONOMIC PERSPECTIVE

1-4 Gold Prices

Average gold prices climbed from US\$ 271.1 per ounce in 2001 to US\$ 310.0 per ounce in 2002 showing an increase of 14.3%. The prices of gold ascended steadily in 2002 to reach US\$ 322.8 per ounce in the fourth quarter against US\$ 290.1 per ounce in the first quarter, an increase of 11.3%. This reflects the rise in the investment demand for the metal during the year as a consequence of global economic uncertainties.

• Chart 1-4: Average Gold Prices

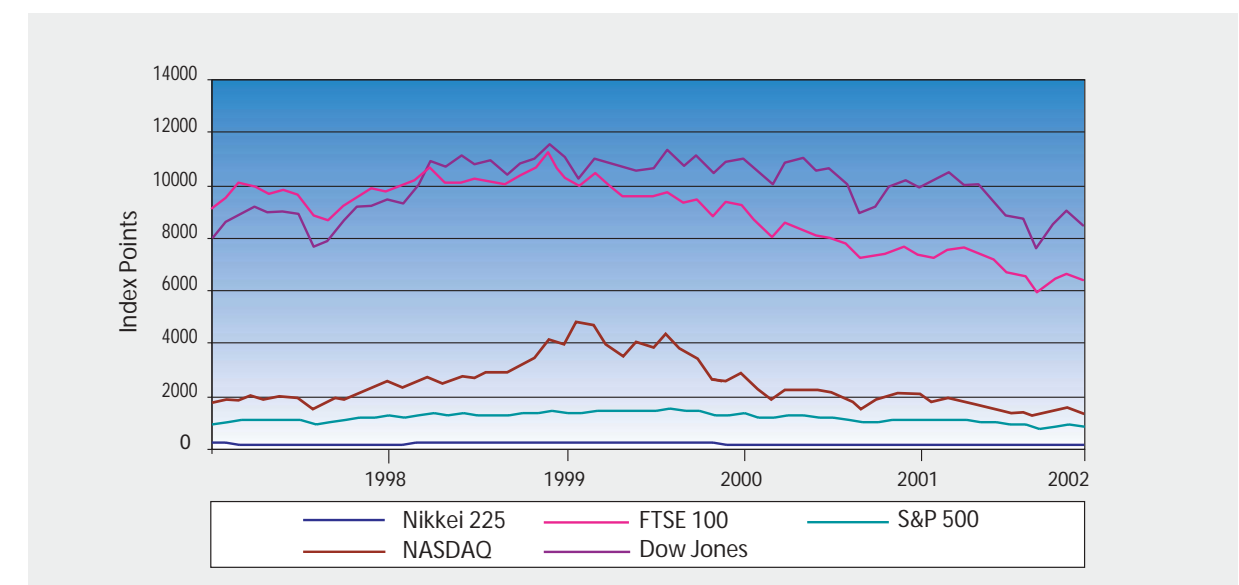


Source: IMF, International Financial Statistics, February 2003.

1-5 Capital Market Developments

The global capital market has been volatile in the last five years. All the major indices such as Dow Jones, NASDAQ, FTSE, S&P and Nikkei have been fluctuating following a downward trend in response to the global economic developments. However, in 2002 all indices deteriorated to their lowest level of trading mainly due to financial uncertainties and risks involved in the capital market on account of poor return on investments. Moreover, many industrial and blue chip stocks registered a decline due to the loss of consumer confidence and accounting scandals in Western economies. This reflects the economic downfall and minimum growth in the industrial sector experienced in the year 2002. Over the period as a whole, the indices continued to move together, suggesting that some of the factors driving equity prices remained global.

• Chart 1-5: Major World Indices

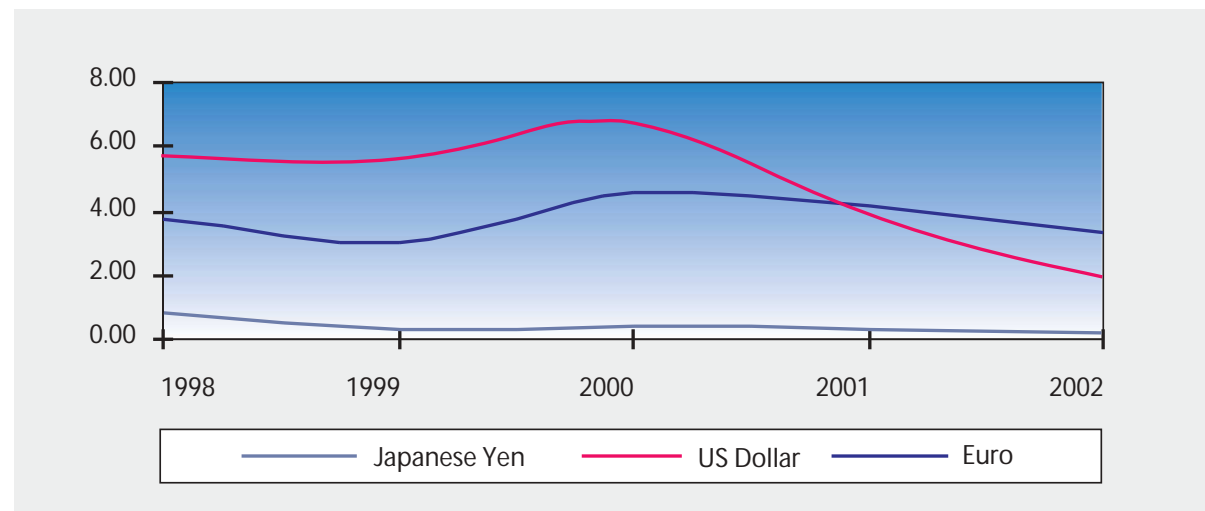


INTERNATIONAL ECONOMIC PERSPECTIVE

1-6 Interest Rates Developments

In response to the global economic slowdown many central banks have decided to cut their interest rates. The US Federal Reserve aggressively cut their rate by 50 basis points reaching 1.25%, the lowest in 41 years. In addition, the rates on the Japanese Yen and the euro have also fallen during the year from 0.2% and 4.2% in 2001 to 0.1% and 3.3% respectively.

• *Chart 1-6: Interest Rate on Major Currency Deposits (6-month LIBOR)*



Source: IMF, World Economic Outlook, April 2003.

CHAPTER TWO
DOMESTIC ECONOMIC DEVELOPMENTS

2-1 Domestic Output

GDP at Current Prices

Gross Domestic Product (GDP) at current prices recorded a growth of 6.2% in 2002 compared with a decline of 0.5% in 2001.

The value added of the non-financial corporations sector rose by 7.5% in 2002 compared with a decline of 1.3% in 2001. This is mainly due to growth in the crude petroleum and natural gas sector by 5.1%, as a result of higher oil prices. In addition, manufacturing, trade and transport and communications grew by 4.8%, 13.8% and 11.0% respectively. The contribution of this sector to GDP increased from 72.6% in 2001 to 73.6% in 2002.

The value added of the financial corporations sector fell by 0.8% in 2002 compared with a decline of 13.0% in 2001. This is mainly due to the increase in the value added of the local financial institutions by 10.2%. Whereas, the value added of the offshore financial institutions and the insurance sector decreased by 3.0% and 13.3% respectively. The relative share of the financial corporations sector to GDP declined from 18.7% in 2001 to 17.5% in 2002.

Growth in the government service sector increased from 2.0% in 2001 to 4.6% in 2002. The government sector's contribution to GDP declined slightly from 10.8% to 10.6%.

DOMESTIC ECONOMIC DEVELOPMENTS

• Table 2-1 : Gross Domestic Product at Current Prices

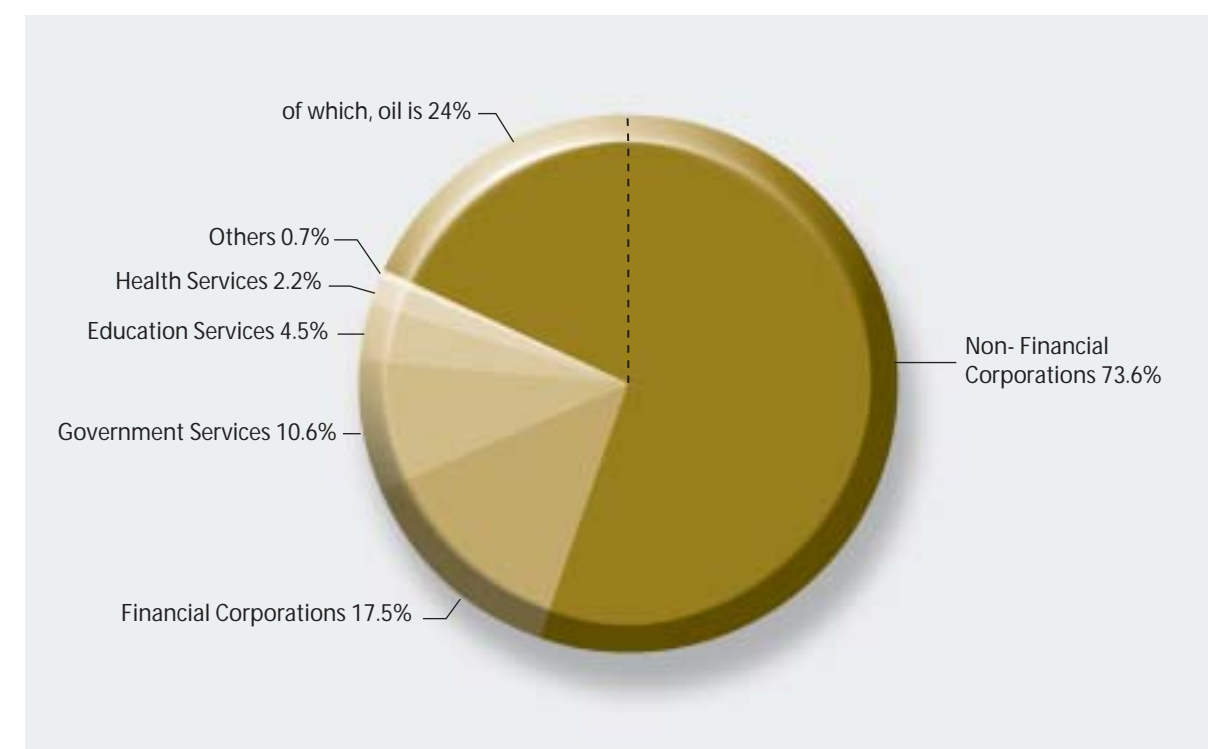
Sectors	BD Millions		Annual Growth(%)		Relative Share(%)	
	2001	2002*	2001	2002	2001	2002
1- The Non-Financial Corporations	2165.3	2327.7	(1.3)	7.5	72.6	73.6
- Agriculture & Fishing	21.7	21.0	(1.9)	(3.2)	0.7	0.7
- Mining & Quarrying	740.0	779.7	(12.0)	5.4	24.8	24.6
- Crude Petroleum & Natural Gas	731.8	769.4	(12.4)	5.1	24.5	24.3
- Manufacturing	358.0	375.3	4.5	4.8	12.0	11.9
- Electricity & Water	42.8	43.8	(0.1)	2.5	1.4	1.4
- Construction	119.4	134.3	11.6	12.5	4.0	4.2
- Trade	252.4	287.2	4.9	13.8	8.5	9.1
- Hotels & Restaurants	64.6	66.5	8.3	3.1	2.2	2.1
- Transport and Communication	224.2	248.9	6.3	11.0	7.5	7.9
- Social & Personal Services	56.9	61.1	7.0	7.4	1.9	1.9
- Real Estate & Business Activities	285.3	309.9	4.5	8.6	9.6	9.8
2- The Financial Corporations	556.9	552.3	(13.0)	(0.8)	18.7	17.5
- Financial Institutions	165.2	182.0	(1.4)	10.2	5.5	5.7
- Offshore Financial Institutions	296.4	287.7	(14.0)	(3.0)	9.9	9.1
- Insurance	95.3	82.6	(25.5)	(13.3)	3.2	2.6
3- Government Services	321.3	336.2	2.0	4.6	10.8	10.6
4- Education Services	121.7	143.1	11.5	17.5	4.1	4.5
5- Health Services	62.7	70.9	5.8	13.1	2.1	2.2
6- Private Non-Profit Institutions Serving Households	2.6	3.5	68.8	34.4	0.1	0.1
7- Households with Employed Persons	18.9	20.0	3.3	5.5	0.6	0.6
8- Minus Financial Intermediation Services Indirectly Measured	(325.8)	(335.8)	(17.6)	3.1	(10.9)	(10.6)
9- GDP at Producer Prices	2923.7	3117.9	(0.6)	6.6	98.1	98.5
10- Import Duties	57.6	46.9	3.2	(18.6)	1.9	1.5
TOTAL GDP	2981.2	3164.7	(0.5)	6.2	100.0	100.0

Source: Ministry of Finance and National Economy.

* Provisional data

DOMESTIC ECONOMIC DEVELOPMENTS

• Chart 2-1: Sector Contribution to GDP at Current Prices - 2002



GDP at Constant Prices

Gross Domestic Product (GDP) at constant prices (1989=100) grew by 5.1% in 2002 compared with 4.6% in 2001.

The value added of the non-financial corporations sector increased by 6.4% in 2002 compared with 5.4% in the previous year. This development is attributed to growth in manufacturing, trade, transport and communication, and real estate and business activities by 5.6%, 9.6%, 8.8% and 9.0% respectively. Accordingly, the contribution of the non-financial corporations sector to GDP increased from 70.7% in 2001 to 71.5% in 2002.

Similarly, the value added of the financial corporations sector grew by 0.6% in 2002 compared with a decline of 9.7% in 2001. This was primarily a result of an increase in the value added of the local financial institutions by 22.5%, which overshadowed the decline in the value added of the offshore financial institutions and the insurance sector by 11.0% and 3.1% respectively. The contribution of the financial corporations sector to GDP fell from 16.4% in 2001 to 15.7% in 2002.

The government service sector registered a growth of 3.6% in 2002 compared with 2.1% in 2001. The government services sector's contribution to GDP fell from 10.5% in 2001 to 10.4% in 2002.

DOMESTIC ECONOMIC DEVELOPMENTS

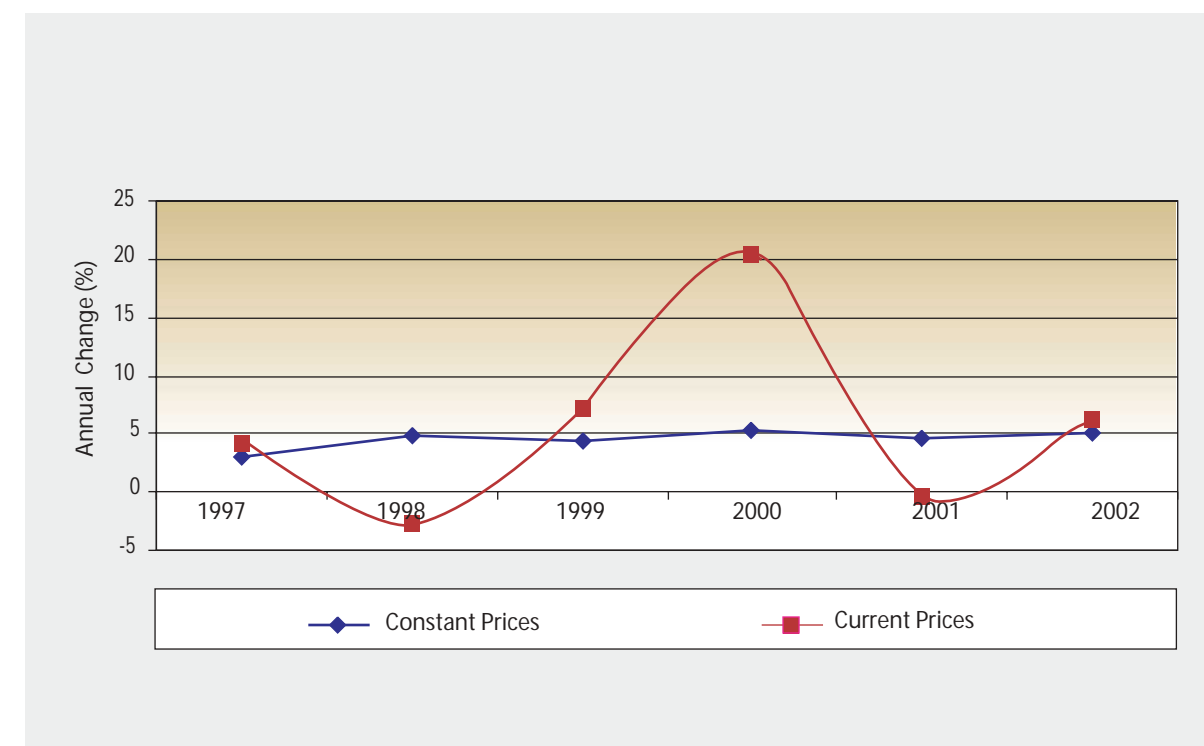
• Table 2-2: Gross Domestic Product at Constant Prices (1989=100)

Sectors	BD Millions		Annual Growth(%)		Relative Share(%)	
	2001	2002*	2001	2002	2001	2002
1- The Non-Financial Corporations	1924.3	2048.4	5.4	6.4	70.7	71.5
- Agriculture & Fishing	22.1	21.0	(7.4)	(4.8)	0.8	0.7
- Mining & Quarrying	470.4	477.2	0.9	1.4	17.3	16.7
- Crude Petroleum & Natural Gas	467.9	474.0	0.8	1.3	17.2	16.6
- Manufacturing	332.3	350.9	6.7	5.6	12.2	12.2
- Electricity & Water	57.5	62.4	7.8	8.5	2.1	2.2
- Construction	108.5	121.2	9.3	11.7	4.0	4.2
- Trade	348.4	381.7	4.9	9.6	12.8	13.3
- Hotels & Restaurants	63.5	64.9	9.0	2.2	2.3	2.3
- Transport and Communication	233.2	253.7	13.2	8.8	8.6	8.9
- Social & Personal Services	45.4	50.6	3.4	11.5	1.7	1.8
- Real Estate & Business Activities	243.0	264.8	5.3	9.0	8.9	9.2
2- The Financial Corporations	446.4	448.9	(9.7)	0.6	16.4	15.7
- Financial Institutions	134.9	165.2	(8.3)	22.5	5.0	5.8
- Offshore Financial Institutions	229.3	204.0	(4.2)	(11.0)	8.4	7.1
- Insurance	82.2	79.7	(24.0)	(3.1)	3.0	2.8
3- Government Services	287.3	297.5	2.1	3.6	10.5	10.4
4- Education Services	103.1	124.0	14.5	20.3	3.8	4.3
5- Health Services	53.5	58.0	5.4	8.4	2.0	2.0
6- Private Non-Profit Institutions Serving Households	1.2	1.4	4.4	10.7	0.0	0.1
7- Households with Employed Persons	16.9	18.0	2.7	6.1	0.6	0.6
8- Minus Financial Intermediation Services Indirectly Measured	(163.7)	(177.1)	(21.6)	8.2	(6.0)	(6.1)
9- GDP at Producer Prices	2669.1	2819.1	4.6	5.6	98.0	98.5
10- Import Duties	54.1	44.2	4.5	(18.2)	2.0	1.5
TOTAL GDP	2723.2	2863.3	4.6	5.1	100.0	100.0

Source: Ministry of Finance and National Economy.
* Provisional data

DOMESTIC ECONOMIC DEVELOPMENTS

• Chart 2-2: GDP Growth



GDP Oil and Non-Oil Sectors

The oil sector at current prices registered a growth of 5.1% in 2002 compared with a decline of 12.4% in 2001. The contribution of the oil sector to GDP at current prices fell from 24.5% in 2001 to 24.3% in 2002. On the other hand, the value added of the oil sector to GDP at constant prices increased by 1.3% in 2002 compared with 0.8% in 2001. The contribution of the oil sector to GDP at constant prices decreased from 17.2% to 16.6%.

Meanwhile, the non-oil sector recorded a growth at current prices of 6.5% in 2002 compared with 4.1% in 2001. The relative share of the non-oil sector to GDP at current prices increased from 75.5% in 2001 to 75.7% in 2002. The non-oil sector grew at constant prices by 5.9% compared with 5.4% in 2001. The share of the sector to GDP at constant prices increased from 82.8% to 83.4%.

DOMESTIC ECONOMIC DEVELOPMENTS

• Table 2-3: GDP at Current Prices: Oil and Non-Oil Sectors

Year	BD Millions			Annual Change (%)		Relative Share (%)	
	GDP-Current Prices	Oil Sector	Non-Oil Sector	Oil Sector	Non-Oil Sector	Oil Sector	Non-Oil Sector
1997	2387.3	441.7	1945.6	7.3	3.4	18.5	81.5
1998	2325.2	311.4	2013.8	-29.5	3.5	13.4	86.6
1999	2489.3	448.1	2041.2	43.9	1.4	18.0	82.0
2000	2996.9	835.7	2161.2	86.5	5.9	27.9	72.1
2001	2981.2	731.8	2249.4	-12.4	4.1	24.5	75.5
2002*	3164.7	769.4	2395.3	5.1	6.5	24.3	75.7

Source: Ministry of Finance and National Economy.

* Provisional data

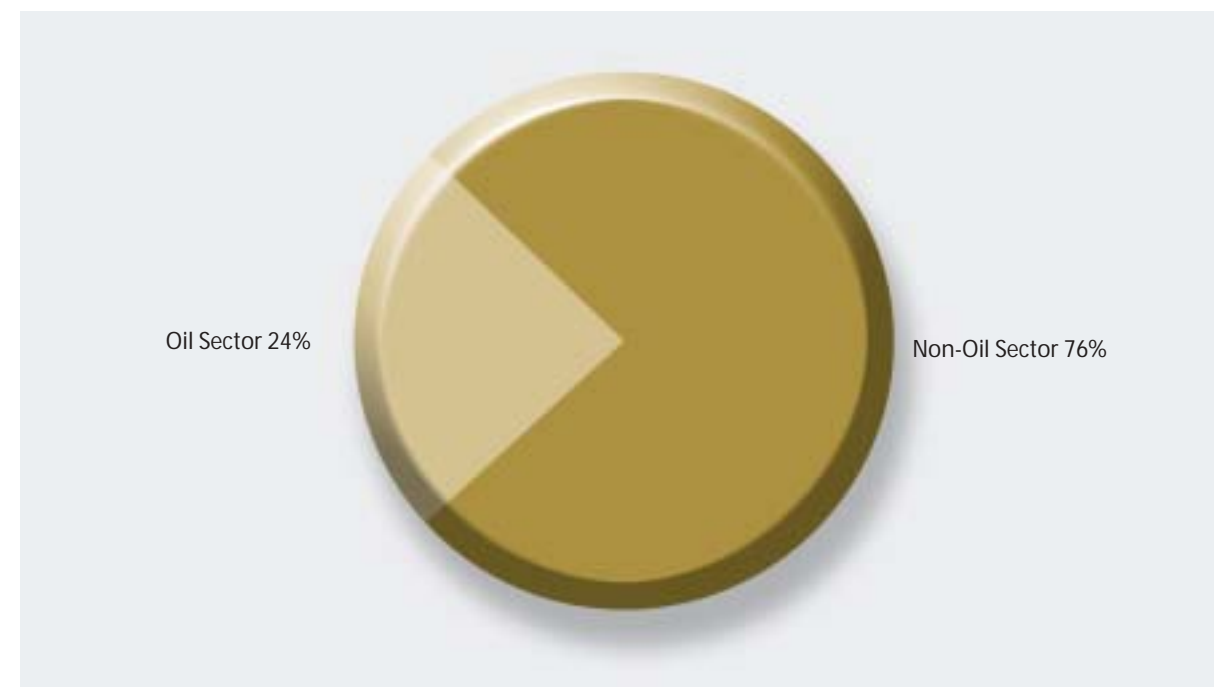
• Table 2-4: GDP at Constant Prices: Oil and Non-Oil Sectors

Year	BD Millions			Annual Change (%)		Relative Share (%)	
	GDP-Constant Prices	Oil Sector	Non-Oil Sector	Oil Sector	Non-Oil Sector	Oil Sector	Non-Oil Sector
1997	2261.4	335.3	1926.1	2.9	2.8	14.8	85.2
1998	2369.6	373.4	1996.2	11.4	3.6	15.8	84.2
1999	2471.9	417.2	2054.7	11.7	2.9	16.9	83.1
2000	2603.3	464.1	2139.2	11.2	4.1	17.8	82.2
2001	2723.2	467.9	2255.3	0.8	5.4	17.2	82.8
2002*	2863.3	474.0	2389.3	1.3	5.9	16.6	83.4

Source: Ministry of Finance and National Economy.

* Provisional data

• Chart 2-3: GDP at Current Prices - 2002 : Oil and Non-Oil Sectors



DOMESTIC ECONOMIC DEVELOPMENTS

Crude Oil Production and Refining

Crude oil production rose marginally to 86.5 million barrels in 2002 compared with 85.4 million barrels in 2001. The offshore Abu-Sa'afa oil field production level reached 72.7 million barrels, accounting for 84.0% of total crude oil production.

The daily average production of crude oil from Abu-Sa'afa field was 199.6 thousand barrels, while the daily average from the Bahrain field was 37.0 thousand barrels. Imports of Saudi Arabian Crude Oil increased by 3.6% to reach 76.8 million barrels in 2002.

• Table 2-5: Selected Oil Statistics

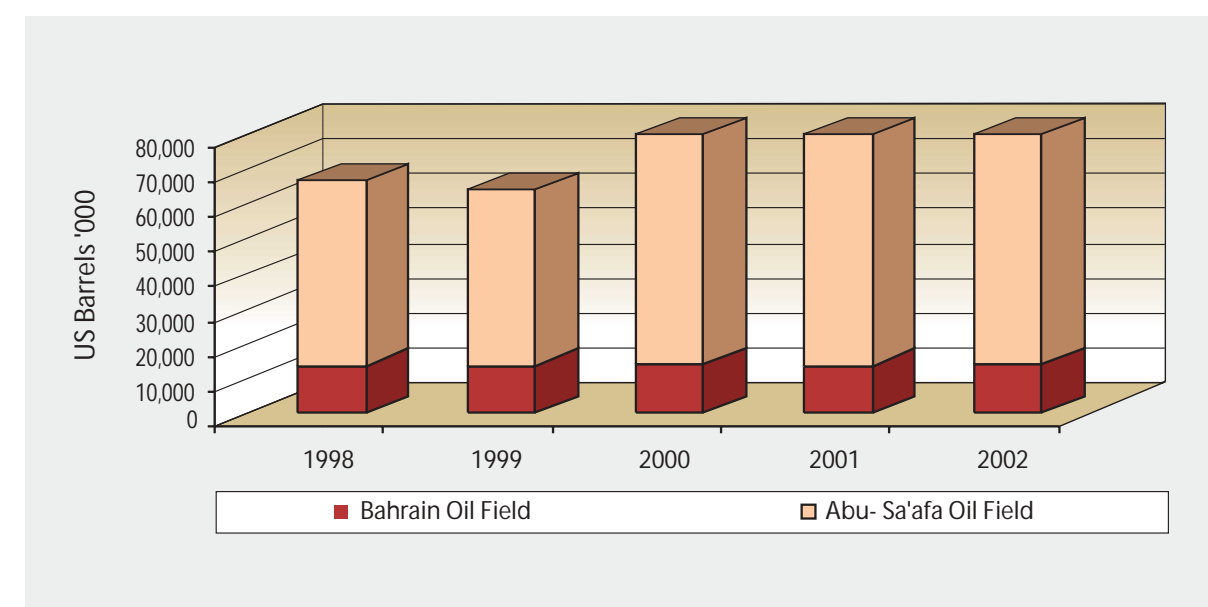
Description	U.S. Barrels (Thousands)		Change %	
	2001	2002	2001	2002
Bahrain Crude Oil Production	85,380	86,500	0.6	1.3
• Bahrain Oilfield	13,656	13,800	-0.8	1.1
• Abu-Sa'afa Oilfield	71,724	72,700	1.2	1.4
Imports of Saudi Arabian Crude Oil 1/	74,084	76,768	-7.7	3.6
Production of Refined Oil	87,765	91,122	-6.4	3.8
Local Sales of Refined Products	4,885	5,415	4.1	10.8
Exports	161,127	164,298	-1.3	2.0
• Oil Products 2/	89,293	91,472	-1.8	2.4
• Abu-Sa'afa Oilfield	71,834	72,826	1.7	1.4

Source: Ministry of Oil.

1/ Imported crude oil used in refined products for export.

2/ Includes exports by Bapco and Banagas.

• Chart 2-4 Crude Oil Production



DOMESTIC ECONOMIC DEVELOPMENTS

Gas Production and Utilisation

Bahrain's total gas production registered an increase of 1.1% in 2002 to reach 429.2 billion cubic feet. The production of natural gas rose by 1.6%. Aluminium Bahrain (ALBA) remained the largest consumer of natural gas with 26.9% of total gas utilisation. The second and third largest consumers of gas were power stations with 26.2% of total utilisation, and oilfield re-injection with 22.2% of total utilisation.

• Table 2-6: Gas Production and Utilisation

Items	Billions of Cubic feet		Change %		Relative Share %	
	2001	2002	2001	2002	2001	2002
Gas Production	424.4	429.2	3.0	1.1	100.0	100.0
Natural Gas	327.9	333.0	3.5	1.6	77.3	77.6
Associated Gas	96.5	96.2	1.3	-0.3	22.7	22.4
Gas Utilisation	424.4	429.2	3.0	1.1	100.0	100.0
Alba	112.2	115.3	3.9	2.8	26.4	26.9
Power Stations	105.4	112.5	4.2	6.7	24.8	26.2
Oilfield Re-Injection	102.0	95.2	0.4	-6.7	24.0	22.2
GPIC	43.8	43.0	6.8	-1.8	10.3	10.0
Bapco Refinery	36.0	37.1	-0.8	3.1	8.5	8.6
Others	25.0	26.1	4.2	4.4	6.0	6.1

Source: Ministry of Oil.

Aluminium Production

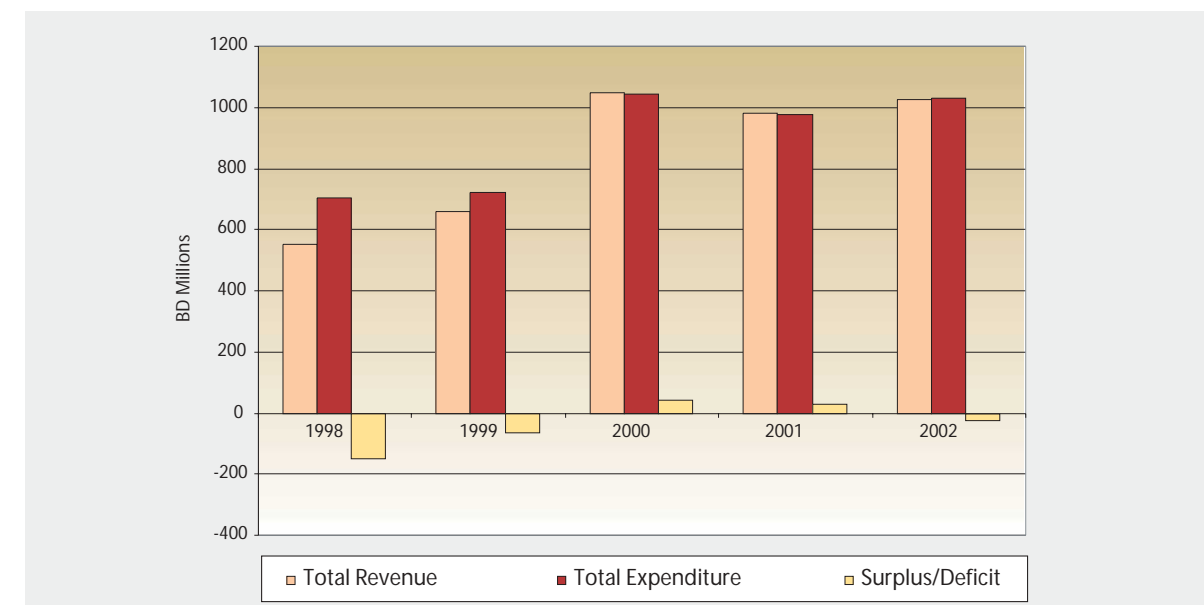
Alba's production fell marginally by 0.7% to 518,924 metric tonnes in 2002 from 522,749 metric tonnes in the previous year, with 51.0% of total production being exported.

2-2 Government Finance

The fiscal account registered a slight deficit of BD 4.1 million in 2002, or 0.1% of GDP, compared with a surplus of BD 3.1 million in 2001.

DOMESTIC ECONOMIC DEVELOPMENTS

• Chart 2-5: Government Finance



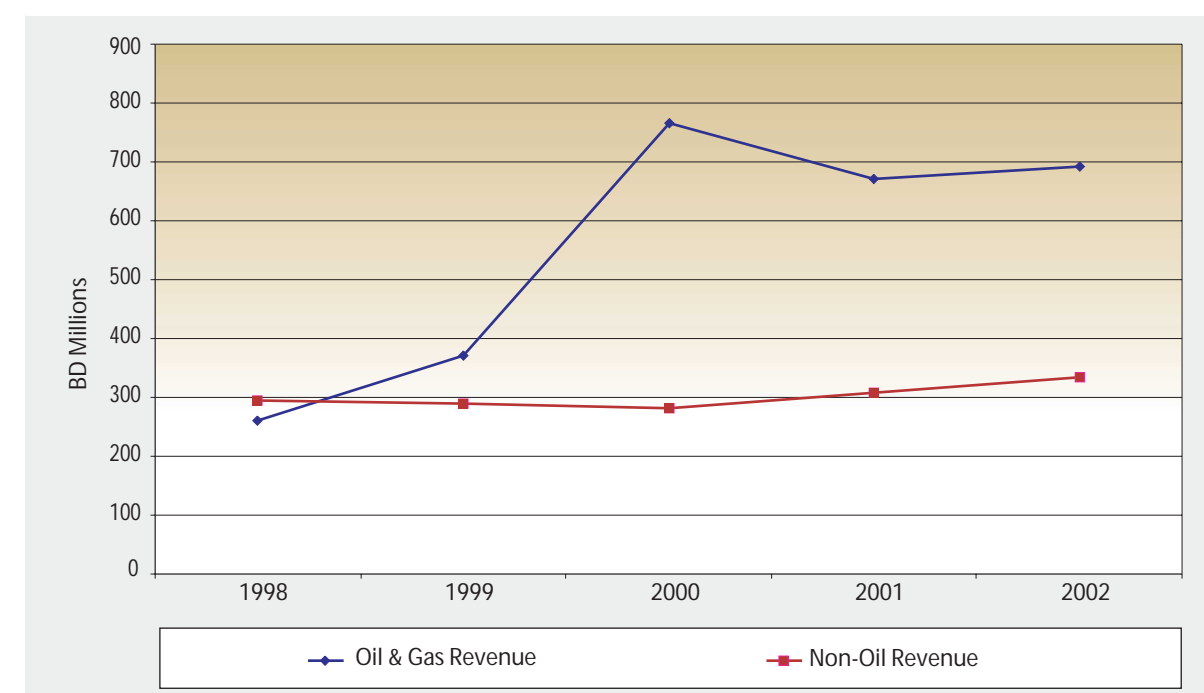
Revenues

Total revenue increased from BD 980.9 million in 2001 to BD 1026.9 million in 2002, or by 4.7%.

Oil and gas revenue registered a growth of 2.9% from BD 672.1 million to BD 691.4 million in 2002, while its contribution to total revenue decreased from 68.5% in 2001 to 67.3% in 2002.

Non-oil revenue rose from BD 308.8 million in 2001 to BD 335.5 million in 2002, or by 8.6%. As a result, the share of non-oil revenue in total revenue increased from 31.5% in 2001 to 32.7% in 2002.

• Chart 2-6: Revenue Trends



DOMESTIC ECONOMIC DEVELOPMENTS

Expenditures

Total expenditure rose by 23.8% from BD 832.8 million in 2001 to BD 1031.0 million in 2002. Both current expenditure and project expenditure rose during the year.

Current expenditure increased by 10.5%, from BD 669.8 million in 2001 to BD 740.0 million in 2002. This rise reflected increases in manpower and transfers. Current expenditure represented 71.8% of total expenditure in 2002.

Projects expenditure increased from BD 163.0 million in 2001 to BD 291.0 million in 2002, or by 78.5%.

• Table 2-7: Government Finance

Description	BD Millions		Annual Growth (%)		Relative Share (%)	
	2001	2002	2001	2002	2001	2002
A. Total Revenue	980.9	1026.9	-6.3	4.7	100.0	100.0
Oil & Gas Revenue	672.1	691.4	-12.1	2.9	68.5	67.3
Non-Oil Revenue	308.8	335.5	9.2	8.6	31.5	32.7
Taxation and Fees	118.6	118.7	3.4	0.1	12.1	11.6
Government Goods & Services	96.5	124.2	1.2	28.7	9.8	12.1
Investments & Govt. Properties	48.5	47.3	20.3	-2.5	5.0	4.6
Grants	37.6	38.2	100.0	1.6	3.9	3.7
Sale of Capital Assets	0.3	0.3	0.0	0.0	0.0	0.0
Miscellaneous	7.3	6.8	-44.7	-6.8	0.7	0.7
B. Total Expenditure	832.8	1031.0	5.8	23.8	100.0	100.0
Current Expenditure	669.8	740.0	0.8	10.5	80.4	71.8
Manpower	414.1	467.1	4.5	12.8	49.7	45.3
Services	68.7	70.9	16.6	3.2	8.2	6.9
Consumables	33.9	38.9	0.6	14.7	4.1	3.8
Assets	9.8	12.5	27.3	27.6	1.2	1.2
Maintenance	24.0	21.5	-0.8	-10.4	2.9	2.1
Transfers	60.7	84.7	-30.6	39.5	7.3	8.2
Grants, Subsidies and Repayment of Loan Interest	58.6	44.4	5.2	-24.2	7.0	4.3
Projects Expenditure	163.0	291.0	32.6	78.5	19.6	28.2
Sovereign and Strategic Projects	145.0	0.0				
Surplus / Deficit	3.1	-4.1				

Source: Ministry of Finance and National Economy.

DOMESTIC ECONOMIC DEVELOPMENTS

2-3 Consumer Price Index

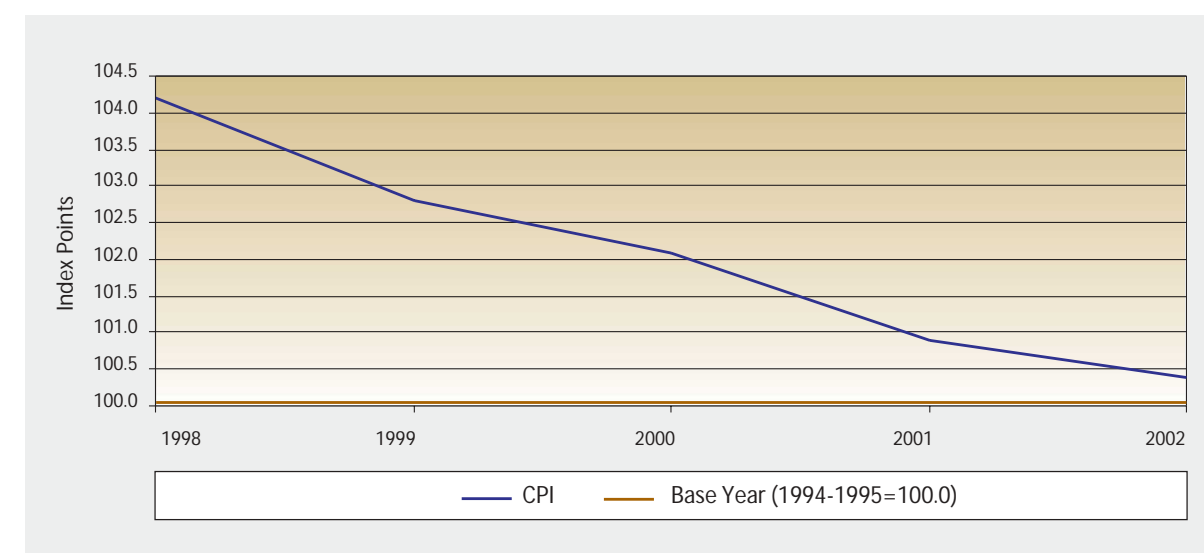
Consumer price index (CPI) fell by 0.5% year on year, the sixth consecutive annual decline to 100.4. The two main groups affected were transportation services, which fell by 5.9%, and education, which rose by 8.3%.

• Table 2-8: Consumer Price Index (CPI) (1994 - 1995 = 100)

Groups	2000	2001	2002	Annual Change %	
				2001	2002
1. Food, Beverages and Tobacco	101.8	100.4	99.4	-1.4	-1.0
2. Ready-made Clothes, Textiles and Foot-wear	100.3	102.1	102.2	1.8	0.1
3. House-Related Expenses, Fuel Lighting and Water	99.6	98.9	99.6	-0.7	0.7
4. Goods for Home Services	95.0	90.4	90.6	-4.8	0.2
5. Transportation Services	101.4	102.6	96.5	1.2	-5.9
6. Education	127.4	110.0	119.1	-13.6	8.3
7. Medical Care & Health Services	108.4	110.9	109.4	2.3	-1.4
8. Service Requirements of Personal Care	90.0	87.6	89.1	-2.7	1.7
9. Culture, Entertainment and Recreation	111.7	114.4	114.1	2.4	-0.3
General C.P.I.	102.1	100.9	100.4	-1.2	-0.5

Source: Central Informatics Organisation.

• Chart 2-7: Consumer Price Index Trend



CHAPTER THREE

FOREIGN TRADE AND BALANCE OF PAYMENTS

3-1 Trade Balance

The trade balance continued in surplus for the fourth successive year. However, the surplus declined from BD 477.9 million in 2001 to BD 300.9 million in 2002. Oil trade balance surplus rose from BD 805.7 million in 2001 to BD 858.8 million in 2002. Similarly, non-oil trade balance deficit increased from BD 327.8 million in 2001 to BD 557.9 million in 2002.

Exports

The value of total exports increased by 3.7% from BD 2096.9 million in 2001 to BD 2175.4 million in 2002. Oil exports rose from BD 1384.1 million in 2001 to BD 1487.6 million in 2002, or by 7.5%. Exports of petroleum products and of Abu-Sa'afa crude oil increased by 7.5% and 7.4% respectively.

Non-oil exports declined from BD 712.8 million in 2001 to BD 687.8 million in 2002 as a result of the decrease in the exports of base metals and articles thereof by 6.7%.

• Table 3-1: Foreign Trade

Main Groups	BD Millions		Change (%)		Relative Share (%)	
	2001	2002*	(2001 vs. 2000)	(2002 vs. 2001)	2001	2002
Total Exports	2096.9	2175.4	-10.0	3.7	100.0	100.0
Oil Exports	1384.1	1487.6	-17.8	7.5	66.0	68.4
Abu-Sa'afa	606.6	651.7	-12.8	7.4	28.9	30.0
Petroleum Products	777.5	835.9	-21.3	7.5	37.1	38.4
Non-Oil Exports (fob) 1/	712.8	687.8	10.4	-3.5	34.0	31.6
of which, Base Metals and Articles Thereof (includes Aluminum)	323.9	302.1	4.2	-6.7	15.4	13.9
Textiles and Textile Articles	159.4	171.1	25.9	7.3	7.6	7.9
Products of Chemical and Allied Industries	53.7	57.1	2.3	6.3	2.6	2.6
Machinery and Appliances, Electrical Equipment	16.7	20.8	11.3	24.6	0.8	1.0
Total Imports	1619.0	1874.5	-7.1	15.8	100.0	100.0
Oil Imports	578.4	628.8	-25.0	8.7	35.7	33.5
Non-Oil Imports (cif)	1040.6	1245.7	7.2	19.7	64.3	66.5
of which, Machinery and Appliances, Electrical Equipment	194.3	277.8	-0.4	43.0	12.0	14.8
Products of Chemical and Allied Industries	149.7	153.8	6.8	2.7	9.2	8.2
Transport Equipment	109.9	164.8	33.9	50.0	6.8	8.8
Textiles and Textile Articles	94.7	95.6	8.1	1.0	5.8	5.1
Base Metals and Articles Thereof	60.6	86.7	-10.6	43.1	3.7	4.6
Trade Balance	477.9	300.9				

Source: Ministry of Oil and Central Informatics Organisation.

* Provisional data

1/ Includes re-exports.

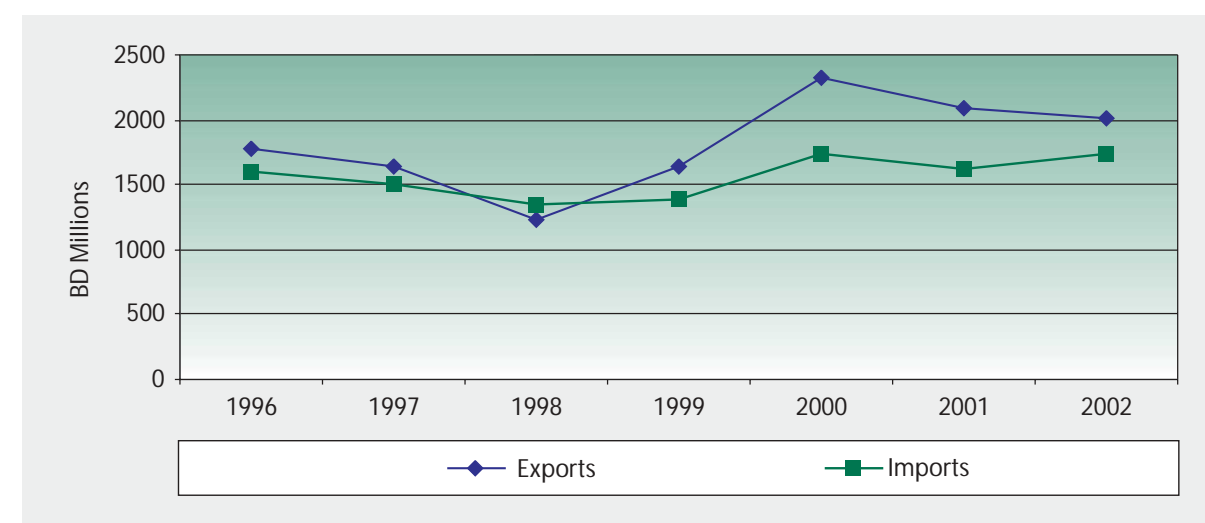
FOREIGN TRADE AND BALANCE OF PAYMENTS

Imports

The value of total imports rose from BD 1619.0 million in 2001 to BD 1874.5 million in 2002, or by 15.8%. The value of oil imports increased from BD 578.4 million in 2001 to BD 628.8 million in 2002, or by 8.7%.

The value of non-oil imports increased by 19.7% from BD 1040.6 million in 2001 to BD 1245.7 million in 2002; imports of machinery, appliances and electrical equipment rose by 43.0%; transport equipment by 50.0%.

• Chart 3-1: Foreign Trade



3-2 Direction of Non-Oil Trade

An analysis of the trade data indicates an increase in the value of non-oil trade with the main trading partners. Overall, the non-oil trade balance surplus with the Arab countries declined by 53.8%, while the surplus with the Americas rose by 30.0%. On the other hand, the non-oil trade balance deficit with Asia and Europe rose by 160.7% and 42.5% respectively, as a result of the increase in imports from these regions.

• Table 3-2: Direction of Non-Oil Trade

(BD Millions)

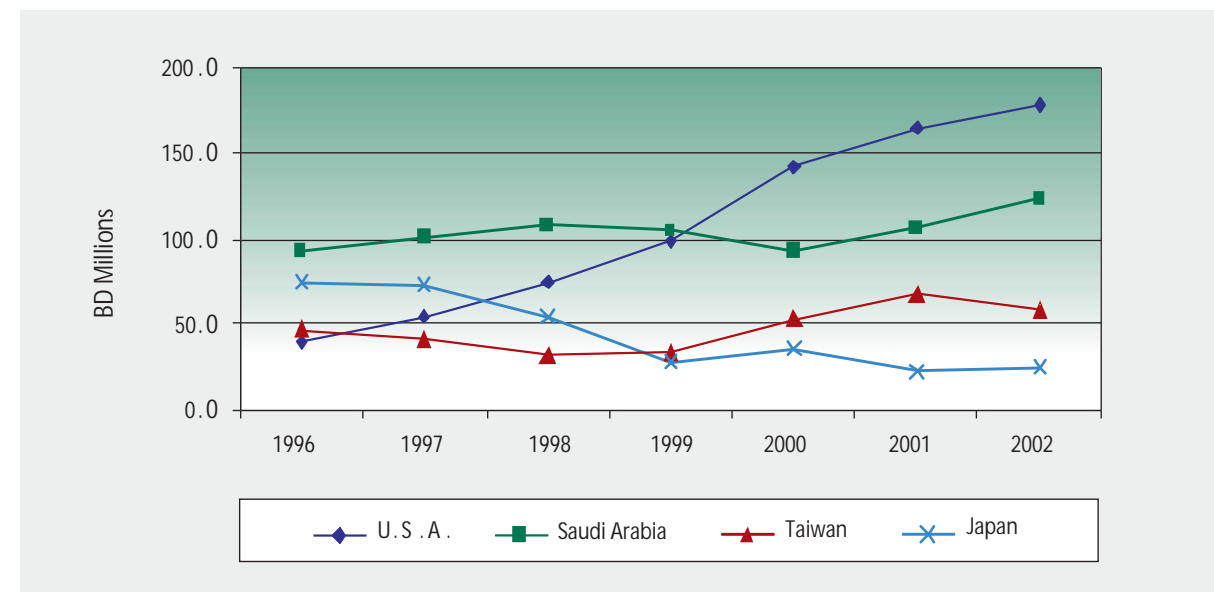
Country Groups	2001			2002*		
	Exports	Imports	Balance	Exports	Imports	Balance
Arab Countries	231.4	176.6	54.8	240.2	214.9	25.3
Africa	2.3	3.4	-1.1	2.6	6.5	-3.9
Asia	237.6	307.3	-69.7	197.5	379.2	-181.7
Europe	58.8	313.2	-254.4	52.5	415.1	-362.6
Americas	172.1	128.8	43.3	181.5	125.2	56.3
Oceania	7.9	110.6	-102.7	8.5	104.4	-95.9
Other Countries	2.7	0.7	2.0	5.0	0.4	4.6
Total	712.8	1040.6	-327.8	687.8	1245.7	-557.9

Source: Central Informatics Organisation.

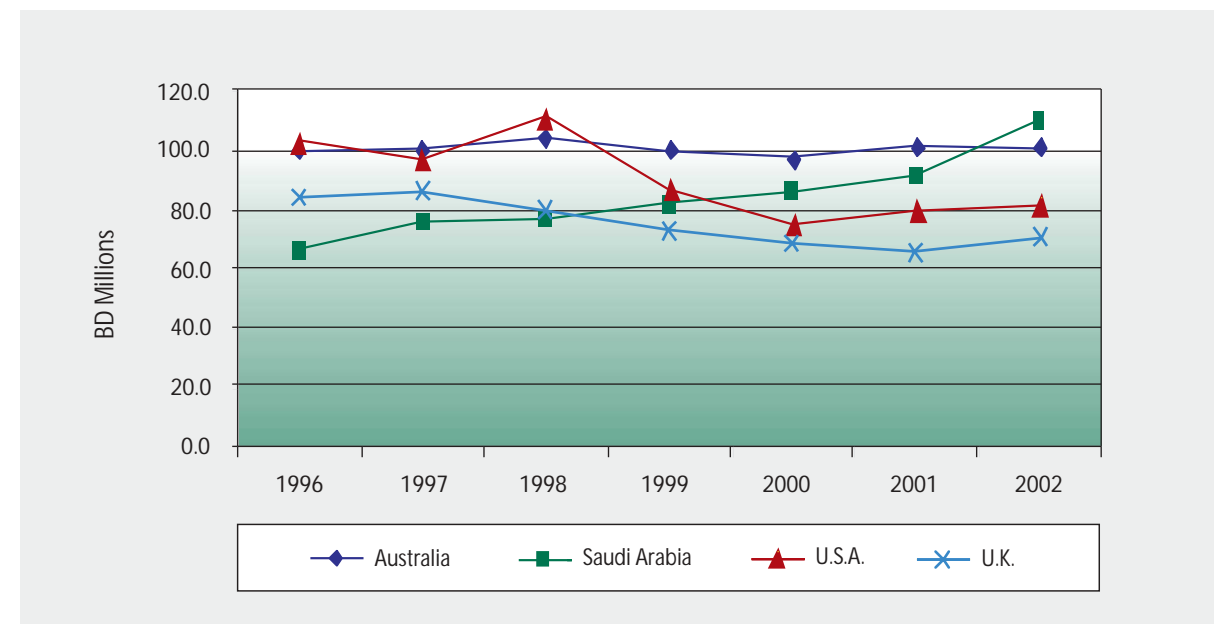
* Provisional data

FOREIGN TRADE AND BALANCE OF PAYMENTS

• Chart 3-2(a): Direction of Non-Oil Trade - Exports



• Chart 3-2(b): Direction of Non-Oil Trade - Imports



FOREIGN TRADE AND BALANCE OF PAYMENTS

3-3 Non-Oil Trade with GCC Countries

Bahrain non-oil trade surplus with the GCC countries decreased from BD 37.2 million in 2001 to BD 15.5 million in 2002. This decrease was a result of an increase in non-oil imports of BD 40.3 million or 27.5%. Non-oil exports to GCC countries accounted for 29.4% of total non-oil exports, while imports from them represented 15.0%. Saudi Arabia and United Arab Emirates are the main trading partners amongst the GCC countries.

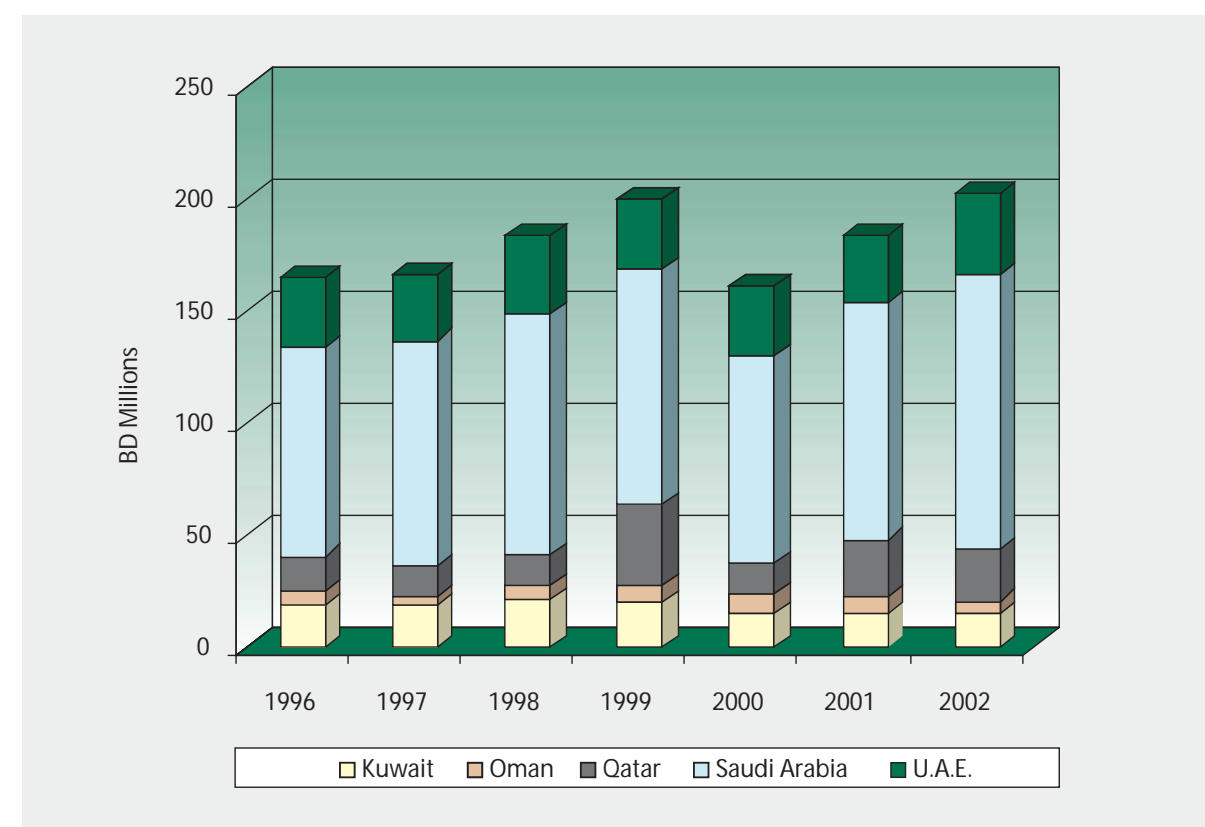
• Table 3-3: Non-Oil Trade with GCC Countries – 2002*

Countries	Exports			Imports			Trade Balance
	BD Millions	Annual Change (%)	Relative Share (%)	BD Millions	Annual Change (%)	Relative Share (%)	
Kuwait	15.1	0.0	7.5	10.8	61.2	5.8	4.3
Oman	5.3	-29.3	2.6	7.7	63.8	4.1	-2.4
Qatar	23.1	-9.1	11.4	6.5	66.7	3.5	16.6
Saudi Arabia	122.7	15.8	60.6	109.7	20.3	58.7	13.0
U.A.E.	36.3	21.4	17.9	52.3	30.1	27.9	-16.0
Total	202.5	10.1	100.0	187.0	27.5	100.0	15.5

Source: Central Informatics Organisation.

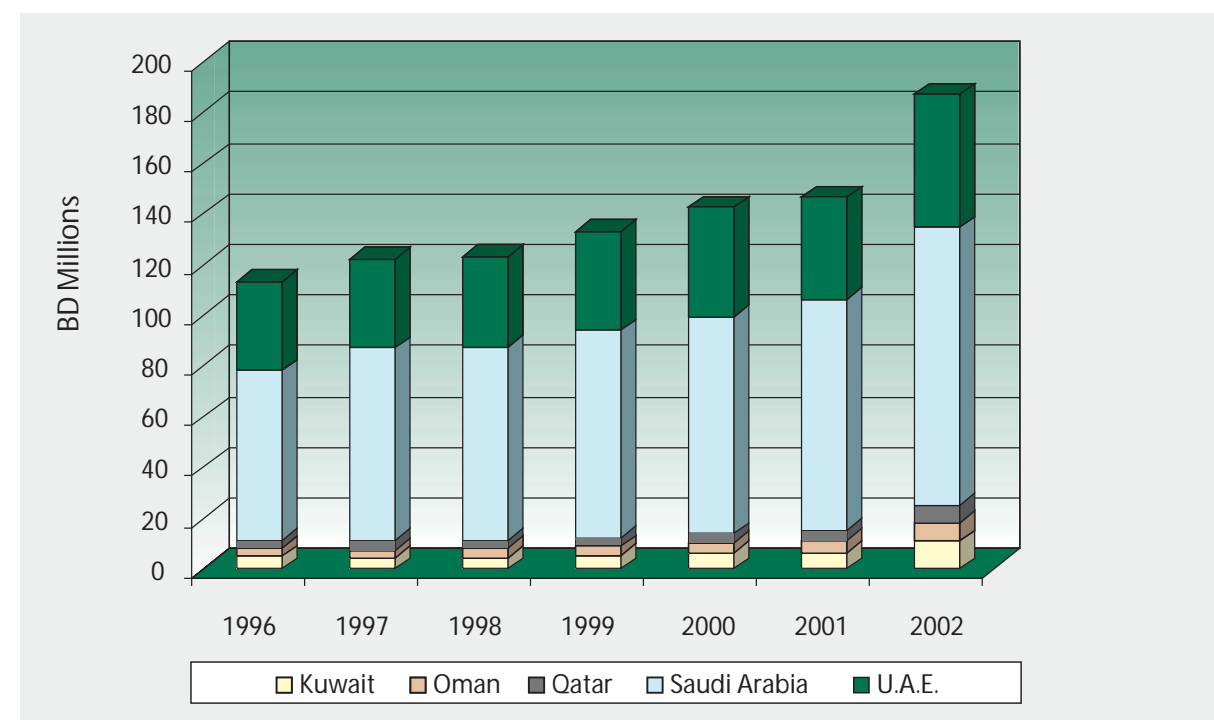
* Provisional data

• Chart 3-3(a): Non-Oil Trade with GCC Countries - Exports



FOREIGN TRADE AND BALANCE OF PAYMENTS

• Chart 3-3(b): Non-Oil Trade with GCC Countries - Imports



3-4 Balance of Payments (BOP)

Current Account

The current account registered a deficit of BD 156.7 million in 2002 compared with a surplus of BD 85.4 million in 2001. This was due to decreases in the goods balance surplus and net services receipts by BD 149.6 million and BD 26.7 million respectively, and an increase in net investment income paid to non-resident investors and net current transfers payments by BD 45.0 million and BD 20.8 million respectively. Net services decreased by BD 26.7 million due to the increase in transportation (freight) costs paid on non-oil imported goods by BD 18.3 million and the decline in net income on travel by BD 6.9 million.

Net investment income payments increased from BD 120.9 million in 2001 to BD 165.9 million in 2002 or by 37.2%. Net current transfers abroad increased by 4.4% from BD 475.3 million in 2001 to BD 496.1 million in 2002, as a result of the increase in workers' remittances by 3.7%.

Capital and Financial Account

The capital and financial account registered a net outflow of BD 331.2 million in 2002, compared with a net outflow of BD 166.3 million in 2001. Capital transfers decreased from BD 37.6 million in 2001 to BD 10.0 million in 2002 or by 73.4%. These transfers comprise official grants received by the Government.

FOREIGN TRADE AND BALANCE OF PAYMENTS

The financial account registered a net outflow – for the third consecutive year – of BD 341.2 million in 2002. This is due to the increase in Bahrain portfolio assets by BD 2,110.4 million as a result of the increase in banks portfolio assets and total outstanding investments in mutual funds by BD 1,627.7 million and BD 390.5 million respectively.

The year 2002 witnessed a sharp decrease in other investments assets and liabilities by BD 12,566.6 million and BD 11,143.5 million respectively to end with a net inflow of BD 1,423.1 million compared with a net inflow of BD 449.1 million in 2001. Other investment comprise mainly of currency and deposits.

The overall balance of payments (reserve assets) registered a surplus for the fourth consecutive year, although the net surplus declined from BD 46.4 million in 2001 to BD 13.1 million in 2002.

FOREIGN TRADE AND BALANCE OF PAYMENTS

•Table 3-4: Balance of Payments

(BD Millions)

Items	2000	2001	2002**
1. Current Account (a+b+c+d)	312.1	85.4	-156.7
a. Goods	695.2	605.4	455.8
General Merchandise	677.3	575.1	418.4
Exports (fob)	2329.3	2096.9	2175.4
- Oil and oil products	1762.6	1475.0	1561.3
- Non-Oil	566.7	621.9	614.1
Imports (fob)	-1652.0	-1521.8	-1757.0
- Oil and oil products	-840.0	-646.5	-699.1
- Non-Oil	-812.0	-875.3	-1057.9
Repairs on goods	17.9	30.3	37.4
b. Services (net)	73.3	76.2	49.5
- Transportation	-51.1	-56.2	-74.5
- Travel	131.4	143.0	136.1
- Insurance Services	-9.0	-9.7	-11.8
- Other Business Services	2.0	-0.9	-0.3
c. Income (net)	-84.1	-120.9	-165.9
Investment Income	-84.1	-120.9	-165.9
- Direct Investment Income	-252.7	-268.2	-264.8
- Portfolio Income	299.1	180.4	106.5
- Other Investment Income	-130.5	-33.1	-7.6
d. Current Transfers (net)	-372.3	-475.3	-496.1
- Workers' Remittances	-380.8	-483.9	-501.7
2. Capital & Financial Account (net) (A+B)	-67.6	-166.3	-331.2
A. Capital Account (net)	18.8	37.6	10.0
- Capital Transfers	18.8	37.6	10.0
B. Financial Account (1+2+3+4)*	-86.4	-203.9	-341.2
1. Direct Investment	133.1	-50.6	15.1
- Abroad	-3.6	-81.2	-67.0
- In Bahrain	136.7	30.6	82.1
2. Portfolio Investment (net)	73.0	-556.0	-1766.3
Assets	-33.2	-544.5	-2110.4
Liabilities	106.2	-11.5	344.1
3. Other Investment (net)	-217.3	449.1	1423.1
Assets	-1441.5	2113.7	12566.6
Liabilities	1224.2	-1664.6	-11143.5
4. Reserve Assets (net)	-75.2	-46.4	-13.1
3. Errors and Omissions	-244.5	80.9	487.9

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

** Provisional Data

FOREIGN TRADE AND BALANCE OF PAYMENTS

3-5 International Investment Position (IIP)

IIP provisional data for the year 2002 indicates that Bahrain continued to enjoy the position of net external creditor. Net international investment position increased from BD 2.0 billion at end-2001 to BD 2.3 billion at end-2002.

Foreign assets declined by 29.9% from BD 35.1 billion at end-2001 to BD 24.6 billion at end-2002 as a result of decreases in other investment assets by 44.2%.

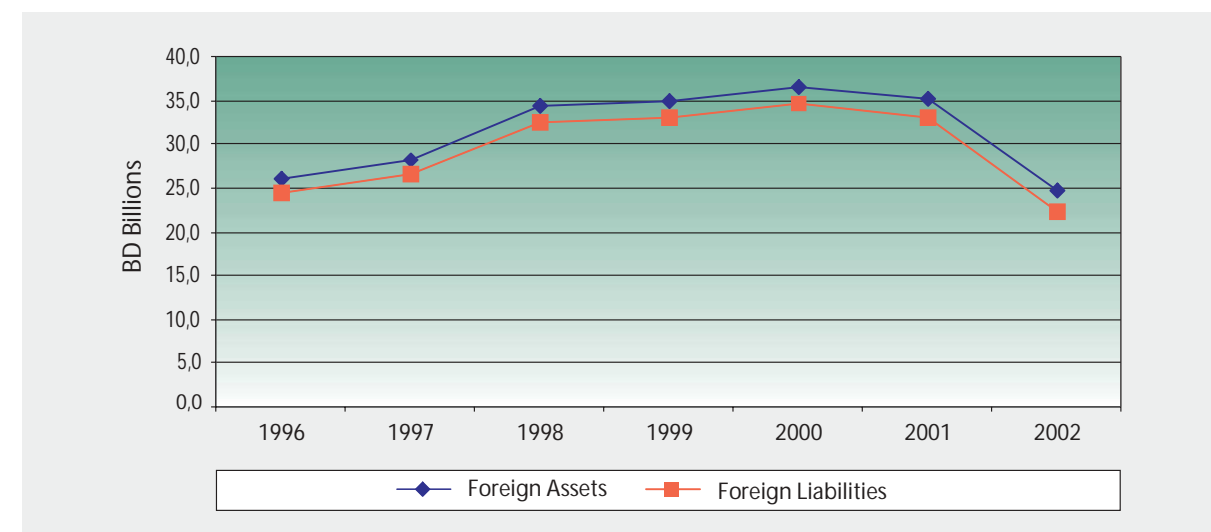
Similarly, foreign liabilities declined from BD 33.1 billion at end-2001 to BD 22.3 billion at end-2002 or by 32.6% due to the decrease in other investment liabilities by 36.6%.

• Table 3-5: International Investment Position (IIP)

(BD Billions)

Items	2000	2001	2002 (Prov.)
IIP, net	2.0	2.0	2.3
Foreign Assets	36.6	35.1	24.6
Direct Investment Abroad	0.7	0.7	0.8
Portfolio Investment	4.8	5.3	7.3
Other Investment	30.5	28.5	15.9
Reserve Assets	0.6	0.6	0.6
Foreign Liabilities	34.6	33.1	22.3
Direct Investment in Bahrain	2.2	2.3	2.3
Portfolio Investment	0.2	0.2	0.6
Other Investment	32.2	30.6	19.4

• Chart 3-4: International Investment Position (IIP)



CHAPTER FOUR

MONEY AND BANKING

4-1 The Banking and Financial System

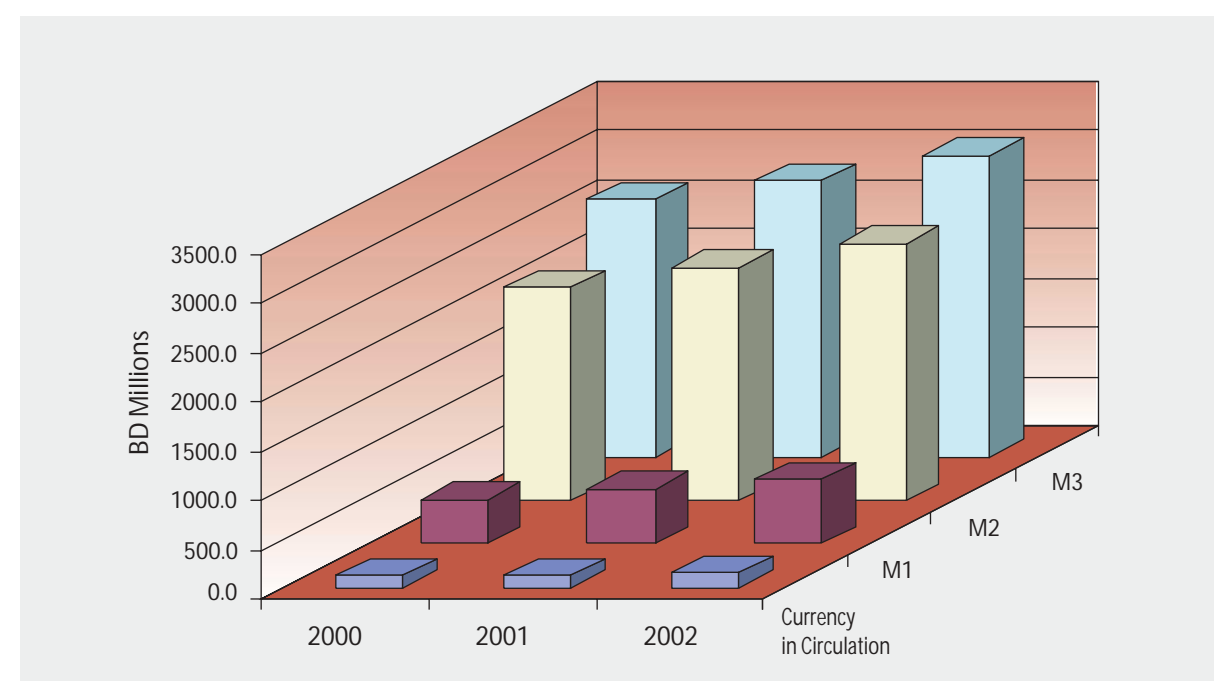
The number of banks and financial institutions licensed by the Agency amounted to 339 at end-2002, compared with 324 at end-2001. 24 new licenses were issued to the banking sector during the year, including 4 full commercial banks, 4 investment banks, 8 offshore banking units, 3 representative offices and 5 investment/brokers.

4-2 Money Supply and Liquidity

Currency in circulation registered an increase of BD 19.1 million or by 15.5% at end 2002, to reach BD 142.0 million.

M1 (Currency in circulation plus private demand deposits) increased by BD 95.2 million, or 17.2%, to reach BD 647.2 million at end-2002. As a result of the increase in M1 and growth in private sector saving deposits by 22.0%, M2 (M1 plus private sector savings and time deposits) rose by 10.3% from BD 2,356.0 million at end-2001 to BD 2,599.6 million at end-2002. At the same time, M3 (M2 plus government deposits) rose by 9.2%, to reach BD 3,040.5 million at end-2002.

• Chart 4-1: Domestic Liquidity



• Table 4-1: Domestic Liquidity

(BD Millions)

Items	Year-end			Change (2002 vs. 2001)	
	2000	2001	2002	Absolute	%
Currency in Circulation	120.7	122.9	142.0	19.1	15.5
M1	445.7	552.0	647.2	95.2	17.2
M2	2,156.7	2,356.0	2,599.6	243.6	10.3
M3	2,602.6	2,783.7	3,040.5	256.8	9.2

MONEY AND BANKING

Factors Affecting Domestic Liquidity

Changes in the major factors affecting domestic liquidity over the period 2000-2002 are illustrated in Table 4-2.

• Table 4-2: Factors Affecting Domestic Liquidity

(BD Millions)

Factors	Year-end			Changes	
	2000	2001	2002	(2001 vs.2000)	(2002 vs.2001)
A. Total Domestic Liquidity (M3)	2,602.6	2,783.7	3,040.5	181.1	256.8
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	1,122.1	1,205.7	1,219.6	83.6	13.9
(a) BMA	465.2	510.9	523.3	45.7	12.4
(b) Commercial Banks	656.9	694.8	696.3	37.9	1.5
2. Domestic Claims (a+b+c)	1,480.5	1,578.0	1,820.9	97.5	242.9
(a) Claims on government	343.0	375.2	425.2	32.2	50.0
(b) Claims on private sector 1/	1,380.5	1,410.9	1,606.6	30.4	195.7
(c) Other assets (net)	-243.0	-208.1	-210.9	34.9	-2.8

1/ Loans and holdings of securities.

Total domestic liquidity (M3) registered an increase of BD 256.8 million, or 9.2% at end-2002.

Net foreign assets registered a rise of BD 13.9 million, or 1.2%, at end-2002. This was mainly a result of an increase in BMA's net foreign assets by BD 12.4 million.

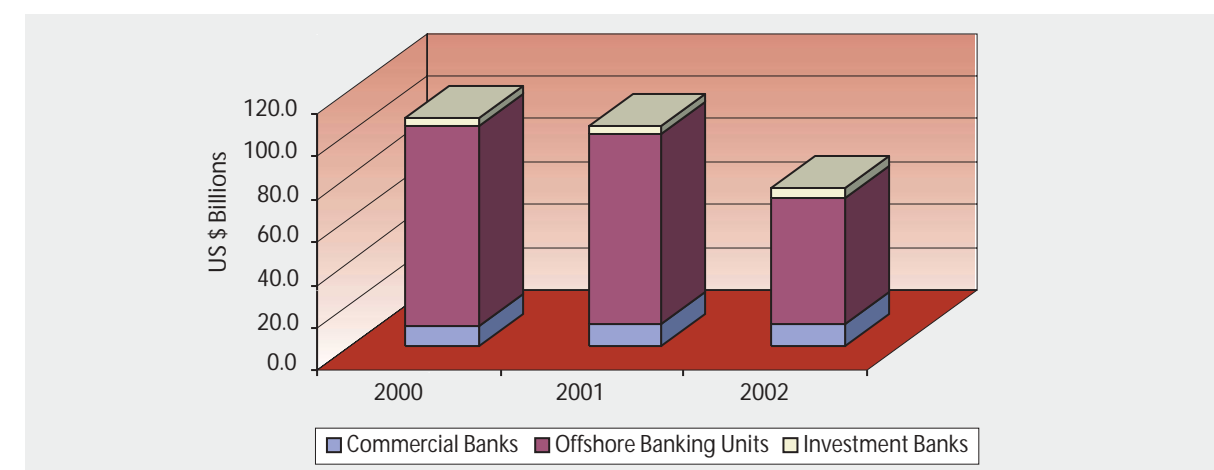
Total domestic claims rose by BD 242.9 million, or 15.4%, at end-2002. This was due to an increase in claims on the private sector and on the government by BD 195.7 million and BD 50.0 million respectively.

4-3 The Banking System

The consolidated balance sheet of the banking system in Bahrain (commercial banks, offshore banking units, and investment banks) declined from US\$ 102.7 billion at end-2001 to US\$ 74.0 billion at end-2002, or by 27.9%.

Offshore banking units accounted for 79.5% of the total balance sheet at end-2002, while commercial and investment banks accounted for 14.4% and 6.1% respectively.

• Chart 4-2: Consolidated Balance Sheet of the Banking System



MONEY AND BANKING

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

(US\$ Billions)

Items	2001	2002	Change %
Commercial Banks	10.3	10.7	3.6
Offshore Banking Units	88.4	58.8	-33.5
Investment Banks	4.0	4.5	12.5
Total	102.7	74.0	-27.9

The geographical distribution of the banking system assets and liabilities at end-2002 is illustrated in Table 4-4.

• Table 4-4: Geographical Classification of the Banking System's Assets and Liabilities at End-2002 (US\$ Millions)

Countries	Assets			Liabilities		
	FCBs	OBU's	IBs	FCBs	OBU's	IBs
Arab Countries	8,764.9	22,646.9	1,578.2	10,273.4	33,185.2	3,240.4
Asia	182.4	4,662.1	106.9	87.7	3,456.4	17.1
Americas	564.1	12,423.7	1,503.9	57.7	1,701.9	786.2
Western Europe	1,161.9	18,514.0	1,286.7	276.3	20,266.2	388.5
Others	22.1	569.1	9.1	0.3	206.1	52.6
Total	10,695.4	58,815.8	4,484.8	10,695.4	58,815.8	4,484.8

4-4 Commercial Banks

At end-2002, Bahrain's commercial banking sector comprised of 23 Full Commercial Banks (FCBs), four of which were Islamic banks.

The consolidated balance sheet of the commercial banks continued its upward trend in 2002 to reach BD 4,021.5 million, as against BD 3,882.2 million at end-2001, an increase of 3.6%.

Foreign Assets and Liabilities

Total foreign assets of the commercial banks increased from BD 1,251.3 million at end-2001 to BD 1,273.9 million at end-2002, or by 1.8%. In addition, total foreign liabilities rose by 3.8%, from BD 556.5 million at end-2001 to BD 577.6 million at end-2002. Net foreign assets rose slightly by BD 1.5 million to reach BD 696.3 million at end-2002.

Domestic Deposits

(a) Private Sector Deposits

Total private sector deposits (Bahraini Dinars plus other currencies) amounted to BD 2,311.5 million at end-2002, an increase of BD 118.7 million or 5.4%, over end-2001. Savings and demand deposits increased by 22.0% and 17.7% respectively.

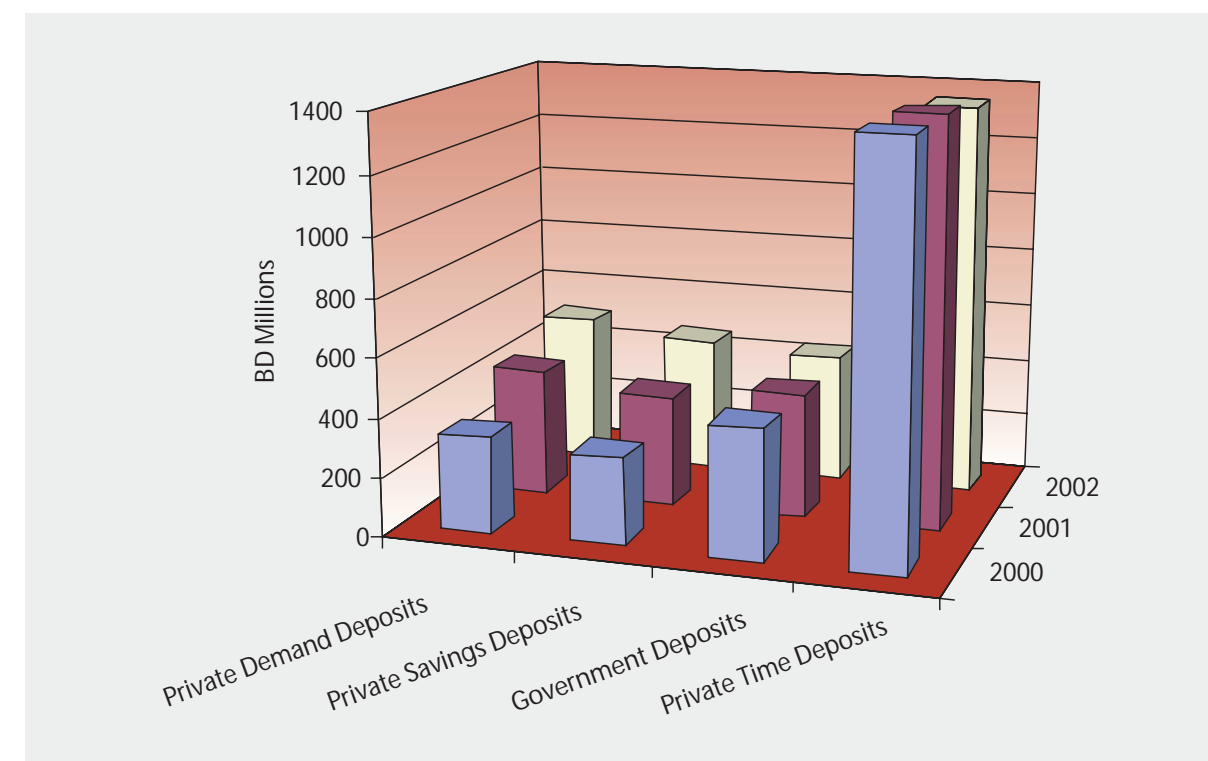
MONEY AND BANKING

Private sector deposits denominated in Bahraini Dinars increased by 11.0%, while those denominated in foreign currencies decreased by 3.9%. Deposits denominated in Bahraini Dinars represented 65.9% of the total private sector deposits.

(b) Government Deposits 1/

Government deposits (Bahraini Dinars plus other currencies) amounted to BD 439.4 million at end-2002, compared with BD 426.3 million at end-2001, an increase of 3.1%. This was a result of a rise in Bahraini Dinars deposits by BD 22.4 million, or 12.6%, and a fall in foreign currency deposits BD 9.3 million, or 3.7%.

• Chart 4-3: FCB Deposit Trends



• Table 4-5: Domestic Deposits at Commercial Banks (Excluding Interbank Deposits)

(BD Millions)

Items	End-2001			End-2002			(2002 vs. 2001) %
	BD	OC	Total	BD	OC	Total	
1. Private Sector Deposits	1,372.5	820.3	2,192.8	1,523.6	787.9	2,311.5	5.4
Demand Deposits	321.3	107.8	429.1	392.4	112.8	505.2	17.7
Time Deposits	683.7	701.8	1,385.5	682.2	662.6	1,344.8	-2.9
Savings Deposits	367.5	10.7	378.2	449.0	12.5	461.5	22.0
2. Government Deposits	177.4	248.9	426.3	199.8	239.6	439.4	3.1
Total Domestic Deposits	1,549.9	1,069.2	2,619.1	1,723.4	1,027.5	2,750.9	5.0

1/ Includes the Central Government and the Social Insurance System.

MONEY AND BANKING

Credit

Outstanding credit facilities extended by commercial banks to the different sectors of the domestic economy amounted to BD 1,629.8 million at end-2002, compared with BD 1,448.2 million at end-2001, an increase of 12.5%.

(a) Business Sectors

Credit facilities to the business sector rose by 5.3%, from BD 800.4 million at end-2001 to BD 842.7 million at end-2002. Credit to manufacturing and trade sectors increased by 15.4% and 5.2% respectively. The business sector's share of total outstanding credit facilities was 51.7%.

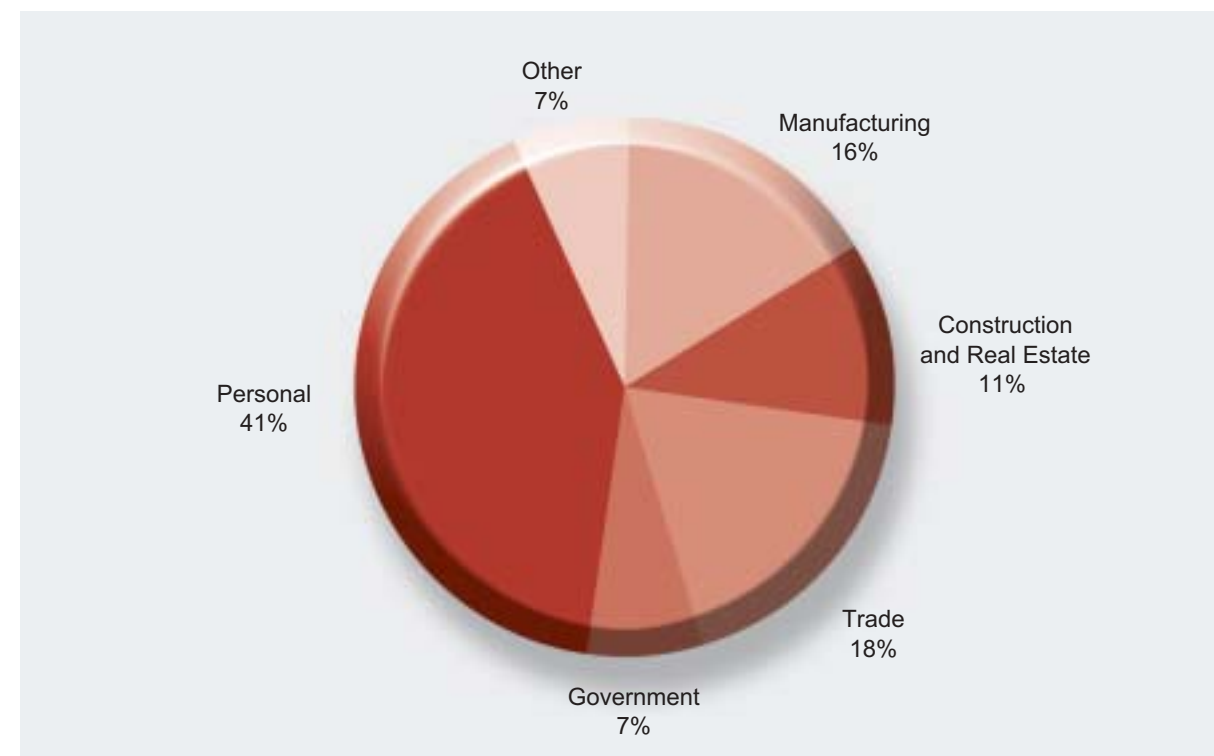
(b) Personal Sector

Credit facilities extended to the personal sector increased by 27.6%, from BD 531.7 million at end-2001 to BD 678.7 million at end-2002. The personal sector's share of total outstanding credit facilities was 41.6%.

(c) Government

Credit to the government declined by 6.6%, to BD 108.4 million at end-2002, compared with BD 116.1 million at end-2001. The government sector's share of total outstanding credit facilities was 6.7%.

• *Chart 4-4: Outstanding Credit to Non-Bank Residents by Economic Sector in 2002*



MONEY AND BANKING

• *Table 4-6: Outstanding Credit to Non-Bank Residents by Economic Sector*

(BD Millions)

Sectors	Year-end				Change (2002 vs. 2001)	
	2001		2002		Absolute	%
	Absolute	%	Absolute	%		
1. Business	800.4	55.3	842.7	51.7	42.3	5.3
Manufacturing	221.5	15.3	255.7	15.7	34.2	15.4
Mining and Quarrying	0.2	0.0	0.6	0.0	0.4	200.0
Agriculture, Fishing and Dairy	6.5	0.5	5.9	0.4	-0.6	-9.2
Construction & Real Estate	168.5	11.6	176.9	10.8	8.4	5.0
Trade	284.8	19.7	299.6	18.4	14.8	5.2
Non-Bank Financial	21.9	1.5	27.9	1.7	6.0	27.4
Other Business	97.0	6.7	76.1	4.7	-20.9	-21.5
2. Government	116.1	8.0	108.4	6.7	-7.7	-6.6
3. Personal	531.7	36.7	678.7	41.6	147.0	27.6
Total	1,448.2	100.0	1,629.8	100.0	181.6	12.5

Credit Cards

Total number of customers using credit cards increased from 111,127 at end-2001 to 116,538 at end-2002 or by 4.9%. Number of Bahraini customers accounted for 78.2% of total customers.

Total outstanding credit rose by 9.8% to reach BD 53.9 million at end-2002, compared with BD 49.1 million at end-2001.

The weighted average interest rate on credit cards rose from 17.21% at end-2001 to 17.40% at end-2002.

• *Table 4-7: Credit Card Survey*

Items	2001	2002	Change %
Number of Customers	111,127	116,538	4.9
Number of Accounts	81,900	82,418	0.6
of which: Rollover Accounts	64,424	74,873	16.2
Overdue Accounts	10,332	8,437	-18.3
Total Outstanding (BD Millions)	49.1	53.9	9.8
of which: Delinquency Amounts	5.0	5.8	16.0
Rollover Amounts	40.6	47.2	16.3

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BD Interest Rates

The weighted average time deposit rate (3-12 months) declined from 1.54% at end-2001 to 0.91% at end-2002. Also, the weighted average saving rate declined from 1.16% to 0.60%.

The weighted average interest rate on business loans fell from 6.76% at end-2001 to 5.72% at end-2002, and that on personal loans from 9.41% to 8.02% .

• *Table 4-8: Interest Rates on BD Deposits & Loans*

Items	End 2000	End 2001	2002			
			Q1	Q2	Q3	Q4
1. Deposits						
Time/1	5.45	1.54	1.59	1.64	1.20	0.91
Savings	2.22	1.16	1.12	1.05	0.82	0.60
2. Loans						
Business	9.04	6.76	5.74	6.07	6.26	5.72
Personal	11.28	9.41	8.53	8.41	8.24	8.02
3. Credit Cards	17.02	17.21	17.24	19.03	19.83	17.40

1/ Time deposits of 3-12 months.

4-5 Offshore Banking Units

The number of licensed Offshore Banking Units (OBUs) totaled 50 at end-2002. The aggregate assets/liabilities of the OBUs decreased from US\$ 88.4 billion at end-2001 to US\$ 58.8 billion at end-2002, or by 33.5%.

Foreign Assets and Liabilities

Total foreign assets of the OBUs decreased by 34.9%, to reach US\$ 54.8 billion at end-2002, compared with US\$ 84.2 billion at end-2001. Total foreign liabilities also decreased from US\$ 82.8 billion at end-2001 to US\$ 53.5 billion at end-2002, or by 35.4%. As a result, net foreign assets of the OBUs remained stable at US\$ 1.3 billion at end-2002.

A classification by currencies indicates that the US dollar, GCC currencies, and the Euro accounted for 73.7%, 12.0% and 8.6% of total assets, and for 72.1%, 14.7% and 8.4% of total liabilities respectively at end-2002.

4-6 Investment Banks

The number of licensed Investment Banks (IBs) at end-2002 totaled 36. The aggregate assets/liabilities of the IBs increased by 12.5%, from US\$ 4.0 billion at end-2001 to US\$ 4.5 billion at end-2002.

Foreign Assets and Liabilities

Total foreign assets of the IBs increased from US\$ 3.4 billion at end-2001 to US\$ 3.8 billion at end-2002, or by 11.8%. Similarly, total foreign liabilities increased from US\$ 2.8 billion at end-2001 to US\$ 3.2 billion at end-2002, or by 14.3%. As a result, net foreign assets of the IBs amounted to US\$ 0.6 billion at end-2002.

MONEY AND BANKING

A classification by currencies indicates that the US dollar and GCC currencies accounted for 87.2% and 9.2% of total assets, and for 91.5% and 5.6% of total liabilities respectively at end-2002.

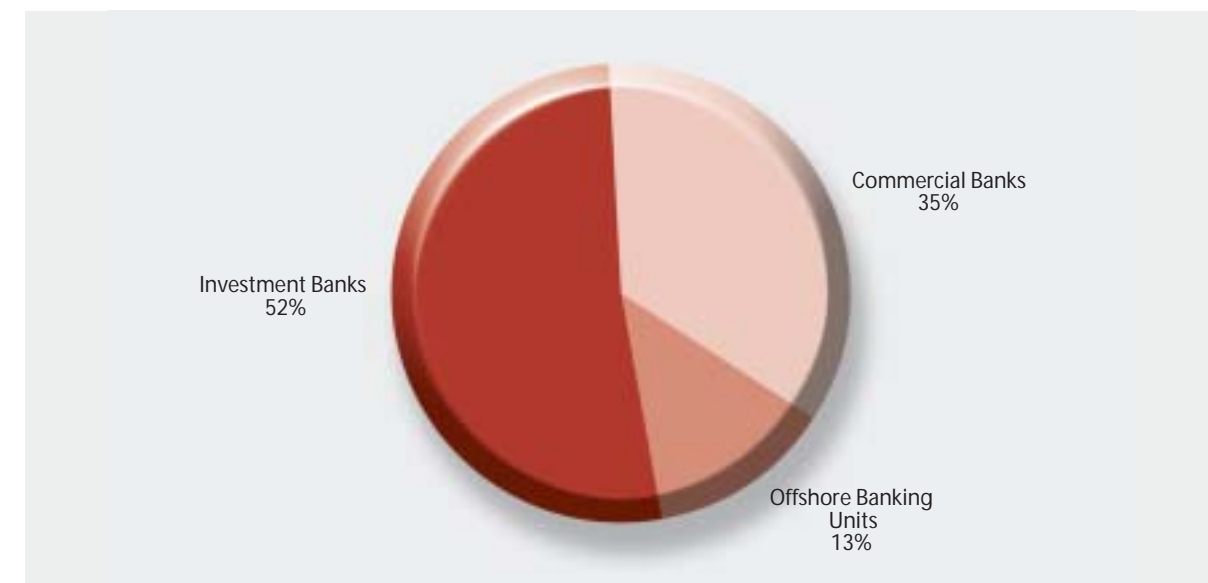
4-7 Islamic Banks

The number of licensed Islamic banks (commercial banks, offshore banking units, and investment banks) at end-2002 totaled 23. The consolidated assets/liabilities* of the Islamic banks increased from US\$ 2.5 billion at end-2001 to US\$ 2.9 billion at end-2002, or by 16.0%.

Foreign Assets and Liabilities

Total foreign assets of the Islamic banks increased from US\$ 1.3 billion at end-2001 to US\$ 1.6 billion at end-2002, or by 23.1%. Similarly, total foreign liabilities increased from US\$ 1.2 billion at end-2001 to US\$ 1.3 billion at end-2002, or by 8.3%. As a result, net foreign assets of the Islamic banks amounted to US\$ 0.3 billion at end-2002.

• *Chart 4-5: Islamic Banks Balance Sheet - 2002*



The geographical distribution of Islamic banks assets and liabilities at end-2002 is illustrated in Table 4-9.

• *Table 4-9: Geographical Classification of Islamic Banks' Assets and Liabilities at End-2002* (US\$ Millions)

Countries	Assets	Liabilities
Arab countries	2,052.2	2,526.3
Asia	127.3	10.6
Americas	526.1	194.5
Western Europe	200.9	180.4
Others	5.3	0.0
Total	2,911.8	2,911.8

* Unrestricted Investment Accounts only.

MONEY AND BANKING

A classification by currencies indicates that the US dollar and GCC currencies accounted for 79.8% and 19.1% of total assets, and for 68.7% and 31.0% of total liabilities respectively at end-2002.

4-8 Employment in the Banking & Financial Sector

Total employment in the banking and financial sector was 6,215 at end-2002, compared with 6,015 at end-2001, a growth of 3.3%. Bahraini nationals represented 73.2% of the total number of employees in the banking and financial sector at end-2002.

The Banking Sector

Total employment in the banking sector (commercial banks, offshore banking units, investment banks and representative offices) was 4,945 at end-2002, compared with 4,794 at end-2001, an increase of 3.1%. Bahraini nationals represented 77.4% of the total.

Employment in commercial banks represented 43.5% of the total, while offshore banking units, investment banks and representative offices accounted for 34.1%, 21.1% and 1.4% respectively.

The Financial Sector

The financial sector consists of insurance companies, money changers, money brokers and investment advisories and other financial services.

Total employment in the financial sector was 1,270 at end-2002, compared with 1,221 at end-2001, an increase of 4.0%. Bahraini nationals accounted for 57.2% of the total.

• Table 4-10: Employment in the Banking & Financial Sector

Sectors	2001			2002		
	Bahraini	Non Bahraini	Total	Bahraini	Non Bahraini	Total
Banking Sector						
Commercial Banks	1,857	265	2,122	1,919	232	2,151
Offshore Banking Units	1,097	512	1,609	1,118	567	1,685
Investment Banks	707	275	982	764	278	1,042
Representative Offices	27	54	81	24	43	67
Total	3,688	1,106	4,794	3,825	1,120	4,945
Financial Sector						
Insurance Companies	511	272	783	484	260	744
Money Changers	123	196	319	164	213	377
Money Brokers	32	25	57	33	23	56
Investment Advisory & Other Financial Services	31	31	62	46	47	93
Total	697	524	1,221	727	543	1,270
Grand Total	4,385	1,630	6,015	4,552	1,663	6,215

CHAPTER FIVE BAHRAIN STOCK EXCHANGE

5-1 Bahrain Stock Exchange (BSE)

The last two years have seen some important changes and developments at the Bahrain Stock Exchange, notably back in 2001 as the BMA was the first monetary agency or central bank to launch Islamic bonds on behalf of the Government, which are now traded on the exchange. However, by far the most important development took place during 2002 as the Exchange was brought under the regulatory authority of the Bahrain Monetary Agency. The year also saw the launch of the Exchange's remote trading service, designed to provide users with a more flexible trading facility using the latest state-of-the-art technology.

5-2 Statistical Highlights

Bahrain's equity market in 2002, recorded a good performance compared to the previous year. The Bahrain index closed at 1821.5 points at the end of the year, an increase of 3.4% compared with the end of 2001. Market capitalisation rose by 14.54% to BD 2.8 billion in 2002, compared with BD 2.5 billion in 2001.

The volume of shares traded rose from 335.3 million in 2001 to 352.9 million in 2002, or by 5.3%, and their value increased from BD 72.2 million in 2001 to BD 77.8 million in 2002, or by 7.8%

• Table 5-1: Trading Activity on the Bahrain Stock Exchange

	2001	2002	Change %
Volume of Shares Traded (million)	335.3	352.9	5.26
Average Daily Volume Traded (million)	1.3	1.4	4.42
Value of Shares Traded (BD millions)	72.2	77.8	7.70
Average Daily Value Traded (BD Thousands)	290	310	6.84
No. of Transactions	13,110	12,757	-2.69
Average Daily Transactions	53	51	-3.47
Bahrain Stock Exchange Index (points)	1761.46	1821.49	3.41
No. of Listed Companies	36	35	-2.7
Market Capitalisation (BD billions)	2.5	2.8	14.54
Market Capitalisation /GDP	83.5	90.1	7.9
Turnover Ratio (%)*	2.90	2.73	-5.97

Source: BSE.

* Turnover Ratio: (Turnover value/Market Capitalisation *100)

The overall market Price Earnings Ratio reached 16.73 multiple in 2002, showing a higher investor interest to purchase stocks than last year. Furthermore, the dividend yield of the market remained healthy at 4.92%. The price to Book Value (P/BV) increased to 1.02 times in 2002, compared to 0.99 times in 2001, showing the higher premium the market is willing to pay above actual hard assets. In addition, the growth in Return to Equity increased from 5.83% in 2001 to 6.11% in 2002, indicating the market's ability to reinvest earnings.

BAHRAIN STOCK EXCHANGE

• Table 5-2: Fundamental Ratio Analysis

Sectors	P/E Ratio (Times)*		Dividend Yield (%)*		P/BV (Times)*	
	2001	2002**	2001	2002**	2001	2002**
Market	17.02	16.73	5.77	4.92	0.99	1.02
Commercial Banking	11.54	12.89	6.85	5.74	1.24	1.29
Investment	20.37	90.30	4.36	2.20	0.66	0.66
Insurance	-2.89	27.10	2.65	2.37	0.90	0.80
Services	10.73	10.32	6.85	7.42	2.04	1.95
Industries	-46.90	10.21	6.21	6.47	0.60	0.59
Hotel & Tourism	9.89	10.90	6.96	6.33	0.68	0.71

Source: BSE

* P/E Ratio = Market Price of Share/Earnings per Share

Dividend Yield = Total Paid Dividends/Number of Shares Outstanding

P/BV = Market value (per share) of a stock/book value (per share)

**Provisional data

• Chart 5-1: BSE Daily Index

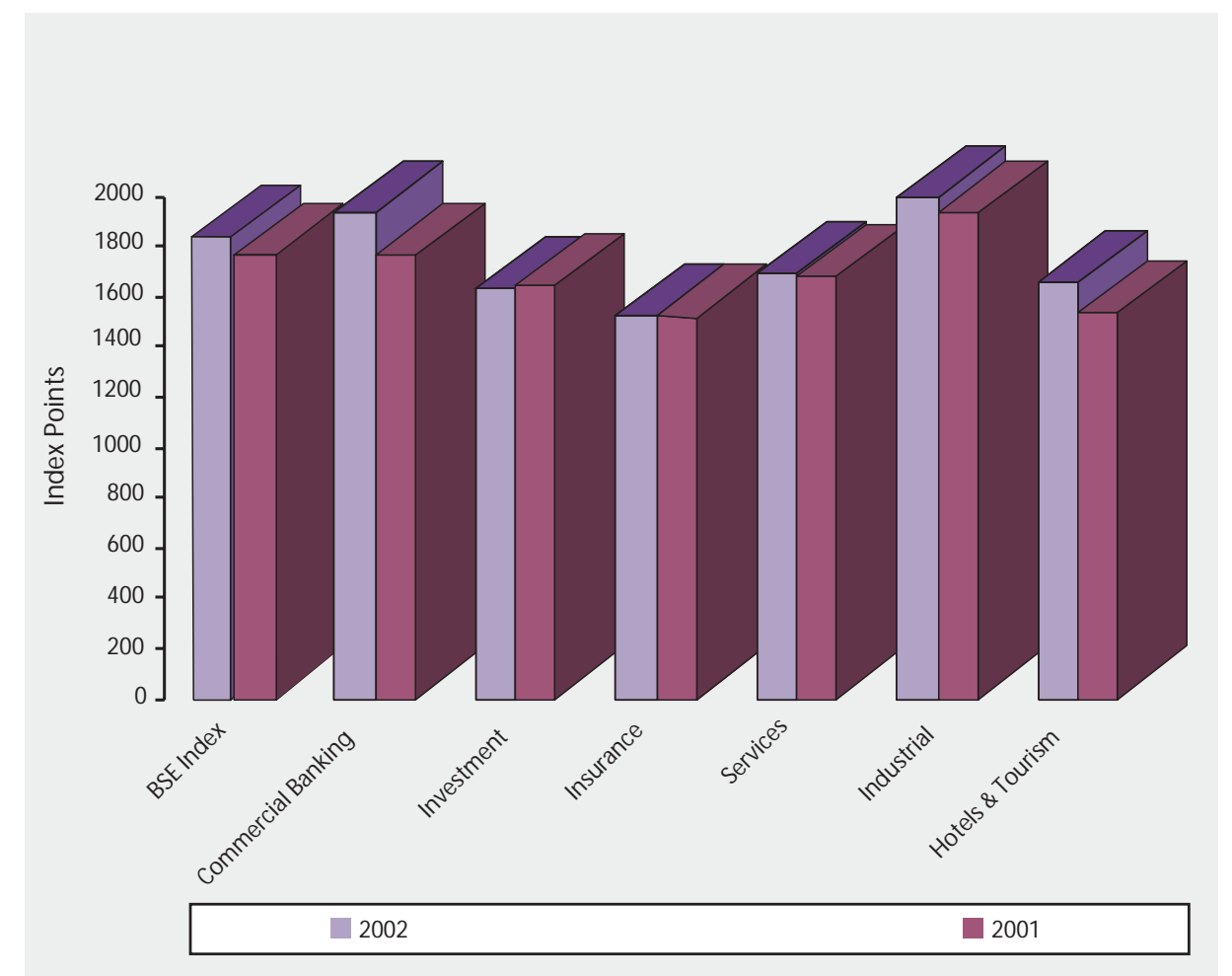


BAHRAIN STOCK EXCHANGE

5-3 Sector Performance

An analysis by sector reveals that the majority of shares traded were in the commercial banking sector, amounting to BD 36.1 million, or 46.4% of the value of total shares traded. The shares traded in the services sector amounted to BD 19.0 million or 24.4% of the total, followed by the investment sector with BD 18.6 million, or 23.9% of the total.

• Chart 5-2: Development in Sector Indices



5-4 Bonds and Sukuk

The Bahrain Monetary Agency was the first central bank to issue Islamic bonds internationally in 2001, in an attempt to stimulate the demand for bonds and provide new financial instruments. Raising money through the bond market allows the Bahraini Government to capture a broader base of investors and enables the Kingdom to reinforce its position as an international financial center. The Sukuk received wide spread interest by many Islamic and non-Islamic Financial institutions, as they were seen as an attractive financial instrument. The first issue of Sukuk, valued at BD 37.7 million (\$100.0 million), was launched in 2001 and was fully-subscribed. In 2002, two further issues were launched. The second issue of BD 26.3 million (\$70.0 million) was over-subscribed by 1.6 times, whilst the third issue of BD 30.1 million (\$80.0 million) was over-subscribed by 2.1 times. Further, other listed Bonds include the Bahrain Government Fixed Rate Bonds, and the Long-term Government Bonds. The total outstanding amount was BD 140.0 million at end 2002.

BAHRAIN STOCK EXCHANGE

• Table 5-3: Bonds and Sukuk

	2000		2001		2002	
	No. of Issue	Amount (BD Millions)	No. of Issue	Amount (BD Millions)	No. of Issue	Amount (BD Millions)
Government	2	140.0	2	140.0	2	140.0
Corporate	2	45.7	2	15.0	2	15.0
Sukuk			1	37.7	3	94.2
Total	4	185.7	5	192.7	7	249.2

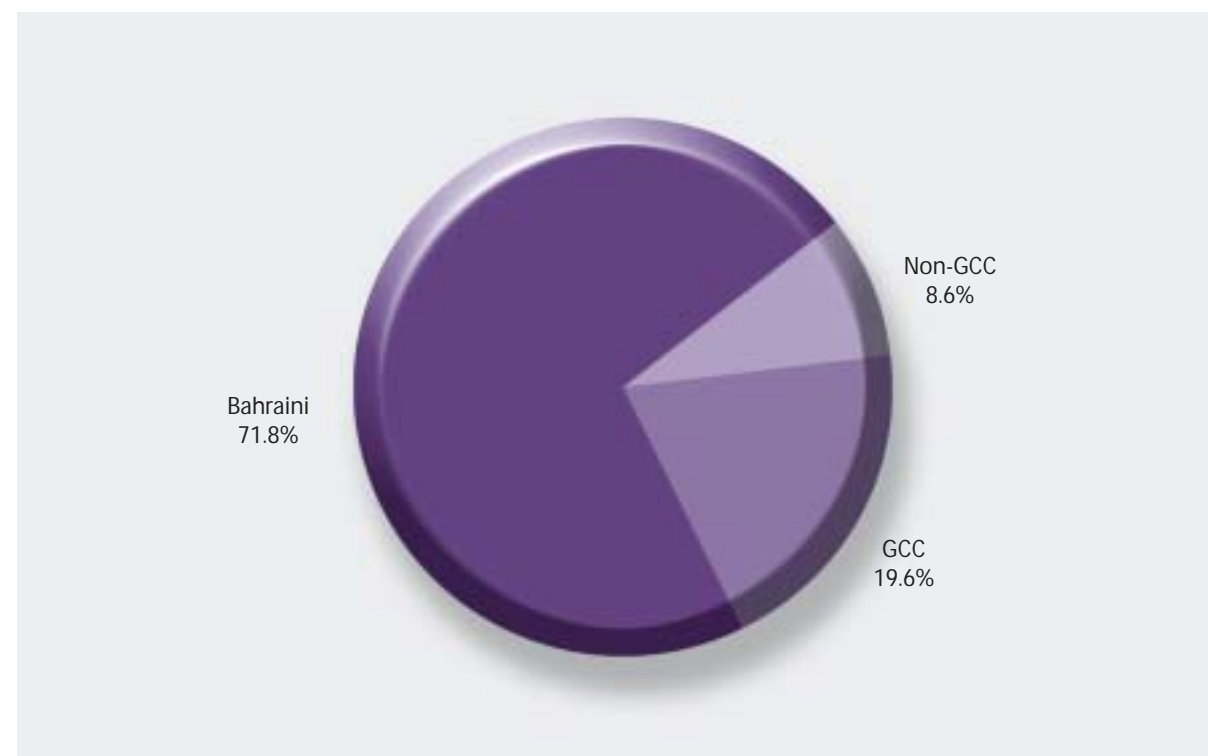
5-5 Mutual Funds

In 2002, the total number of Mutual Funds listed on the BSE totalled 29, of which 22 were open-ended while the remaining 7 were closed-ended. During the year, 13 funds were newly listed, while 5 were discontinued.

5-6 Investment in the Equity Market by Nationalities

In addition to Bahraini investors, other GCC and non-GCC nationals traded on the BSE. Bahrainis represented 71.8% of the total value traded, while GCC nationals accounted for 19.6%, and non-GCC investors amounted to 8.6%.

• Chart 5-3: Trading by Nationality (Value) - 2002

CHAPTER SIX
INSURANCE SECTOR

6-1 Insurance Market Structure

Bahrain's insurance industry comprised of 149 insurance companies and organisations at end-2002, compared with 147 at end-2001. Nine new licenses were issued in 2002. Table 6-1 shows the number of insurance companies and organisations.

• Table 6-1: Insurance Companies and Organisations

	2000	2001	2002
National Insurance Companies & Reinsurance Companies	10	10	9
Branches of Foreign Insurance Companies	9	9	9
Offshore Insurance Companies	74	83	81
Representative Offices	6	7	7
Insurance Brokers	22	22	23
Surveyors and Loss Adjusters	7	7	7
Insurance Consultants	4	4	6
Actuaries	5	5	7
Total	137	147	149

6-2 The Local Insurance Market (National & Branches of Foreign Insurance companies)

Our emphasis will be on the local insurance market which comprises of 17 insurance companies, 8 are national companies (of which one is an Islamic insurance company), while the remaining 9 are branches of foreign insurance companies. The total assets of the local insurance market reached BD 139.0 million at end-2002. While the total assets of the reinsurance company reached BD 255.6 million at end-2002. Six of the national holding companies are shareholding companies listed on the Bahrain Stock Exchange (BSE), and account for 3.3% of the total market capitalisation of the BSE.

6-3 Employment in Insurance Market

Total employment in insurance market was 838 at end-2002 compared with 854 at end-2001. Bahrainis represented 60% of the total employment in insurance market at end-2002.

• Table 6-2: Employment in Insurance Market*

	Bahraini	Relative Share %	Non-Bahraini	Relative Share %	Total*
2001	519	61	335	39	854
2002	499	60	339	40	838

*Above Figures include employees of BKIC & Arig abroad.

INSURANCE SECTOR

6-4 Number of Insurance Policies Issued

The number of policies issued in 2002 was 1.6 million, compared with 1.5 million policies in 2001, an increase of 9.2%. The motor sector represented 95.8% of the total policies issued in 2002.

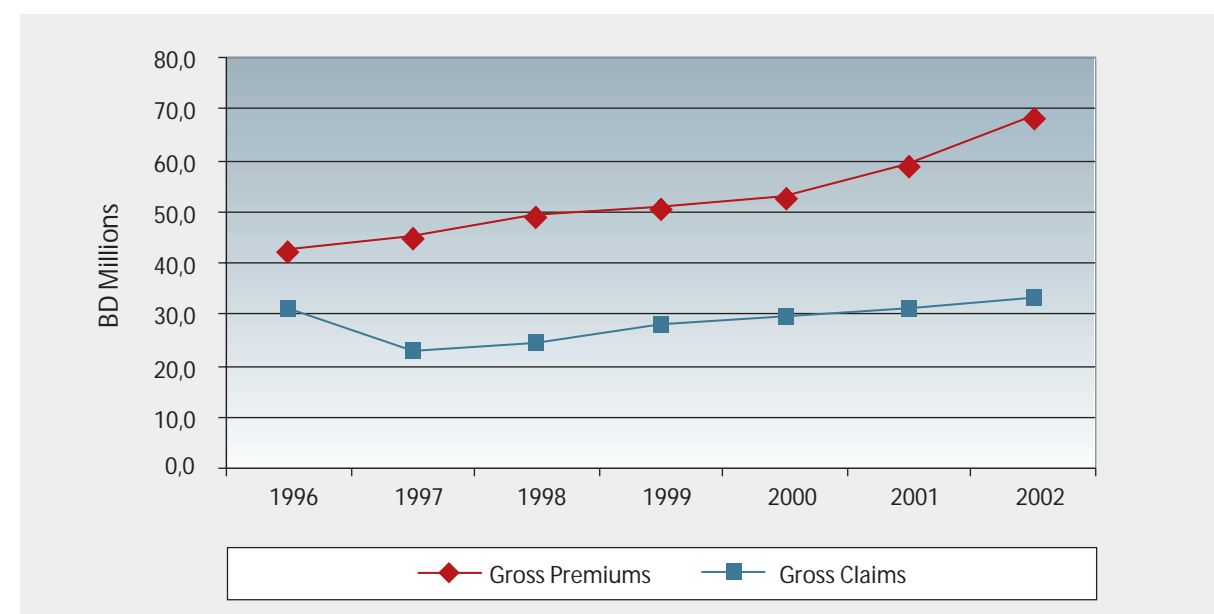
• Table 6-3: Number of Insurance Policies Issued

	2000	2001	2002
Life	14,508	15,096	15,613
General	1,303,923	1,482,437	1,619,654
Fire	9,662	9,185	9,363
Marine	23,323	31,289	30,853
Motor	1,260,214	1,431,822	1,566,623
Miscellaneous	10,724	10,141	12,815
Total	1,318,431	1,497,533	1,635,267

6-5 Gross Premiums and Gross Claims

Total gross premiums from general and life insurance increased from BD 58.6 million in 2001 to BD 68.0 million in 2002, or by 16%. Gross claims increased from BD 31.0 million in 2001 to BD 33.2 million in 2002.

• Graph 6-1: Gross Premiums and Gross Claims of Local Market



INSURANCE SECTOR

• Table 6-4: Gross Premiums & Claims of Bahrain Local Insurance Market (by segment) (BD '000)

	Gross Premiums		Gross Claims	
	2001	2002	2001	2002
Life	13,003	14,331	5,554	6,482
General	45,589	53,706	25,526	26,755
Fire	8,665	13,018	3,622	3,889
Marine	4,069	4,518	36	628
Motor	23,473	25,687	18,367	19,030
Miscellaneous	9,382	10,483	3,501	3,208
Total	58,592	68,037	31,080	33,237
Growth Rate (%)	11.7	16.0	5.5	6.9

Life

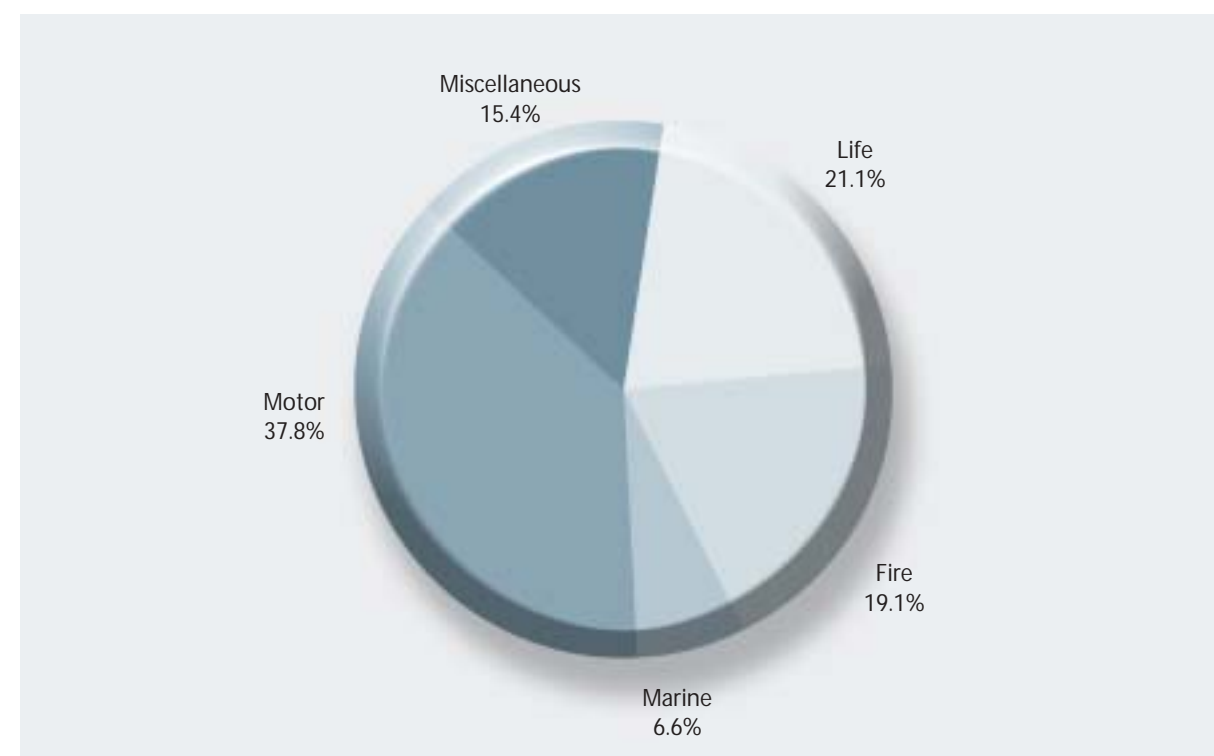
Gross premiums from life insurance increased from BD 13.0 million in 2001 to BD 14.3 million in 2002. The gross claims increased from BD 5.5 million in 2001 to BD 6.5 million in 2002.

General

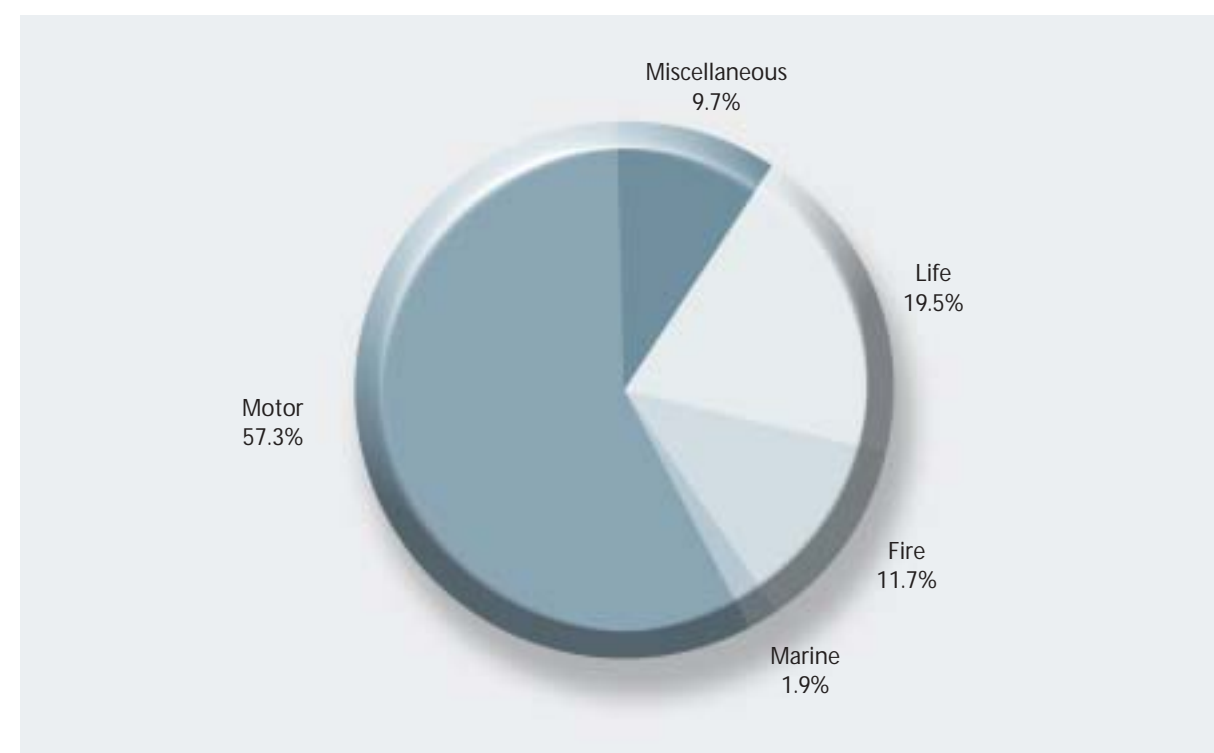
Gross premiums from general insurance (fire, marine, motor, and miscellaneous) increased from BD 45.6 million in 2001 to BD 53.7 million in 2002, or by 17.7%. The largest growth was recorded in fire insurance segment due to the increase in insurance rates following the September 11th events. Gross claims from general insurance rose from BD 25.5 million in 2001 to BD 26.7 million in 2002, or by 4.8%.

INSURANCE SECTOR

• Graph 6-2: Gross Premiums by Line of Business - 2002



• Graph 6-3: Gross Claims by Line of Business - 2002



CHAPTER SEVEN

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

BMA's Main Developments and Activities

The BMA becomes an integrated regulator

The year 2002 marked a year of significant change for the Agency. In May, the Government of Bahrain announced its intention to overhaul the regulation of the Kingdom's financial sector, by adding insurance and capital markets to the Agency's existing regulatory responsibilities for the banking sector. Bahrain thus became the first country in the GCC region to adopt a single regulator model, in a move aimed at further enhancing the effectiveness and efficiency of its regulatory system.

Re-organisation of the BMA

H.H. The Prime Minister and Chairman of the Board of Directors of BMA, Shaikh Khalifa Bin Salman Al Khalifa, has approved a new organisational structure for the BMA. The new structure takes into account the additional duties and responsibilities of the BMA as a single regulator of the banking and financial sector, including insurance companies and the Bahrain Stock Exchange. New additions include newly formed directorates and units that assist H.E. The Governor and H.E. the Deputy Governor, which are the Strategic Planning Unit, Promotion and Media Unit, and Capital Markets Supervision.

New Law

Work on drafting a new integrated financial services law to replace the existing sector-based legislation was undertaken by the Agency during the second half of the year. This included a round of public consultations with the financial services industry. A draft text was finalised by the end of the year and forwarded to the Government to be reviewed and submitted to the Kingdom's legislative process.

New Regulatory and Supervisory Framework for Insurance Sector

A major project was initiated to develop a completely new regulatory and supervisory framework for the insurance sector, to be consistent with international standards. Regulatory specialists from PriceWaterhouseCoopers were engaged by the Agency to assist in this project.

Licensing

In 2002, 33 new licenses were issued. They comprised of 4 full commercial banks, 8 offshore banking units, 4 investment banks, 3 representative offices, 5 investment advisers/brokers and 9 insurance firms.

Discount Windows

The Agency introduced an additional facility to the commercial banks known as 'Discount Windows'. Banks are allowed to borrow against their Government Bonds held with the BMA. In addition, the Agency introduced a 'Corporate Discount Windows' facility, in which the commercial banks can borrow from the Agency against their corporate bonds listed on the Bahrain Stock Exchange.

New Risk-Focused Inspection Methodology

The development phase of a new risk-focused inspection methodology was completed. This is considered as a core component, which will involve the systematic risk profiling of all BMA licensees in co-ordination with off-site supervision directorates. As part of the project, new software was acquired and tailored to help examiners undertake relevant examination procedures and record the results whilst working on-site.

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Sharia Advisory Board

The Agency formed its own Sharia Advisory Board in order to provide advice on issues relating to Islamic Finances.

Leasing Company

The Agency set standard conditions and licensing criteria for a new conventional as well as Islamic leasing company.

Islamic Banks & Takaful Committee

In an effort to boost the performance of Islamic Banks and Takaful Companies, an Islamic Banks & Takaful Committee was set up. The Committee will discuss ways of developing the industry by initiating new ideas and concepts.

Online Registration of Collective Investment Schemes

As part of its on-going effort to streamline the registration process of Collective Investment Schemes, the Agency has developed an on-line application system for the registration of Collective Investment Schemes that are locally incorporated and/or marketed in/from Bahrain. This new service is introduced through the newly devised Internet site www.bma.gov.bh. The introduction of the above service will facilitate the registration of these schemes and shorten the processing time.

Arab Monetary Fund Annual Meeting

During the year 2002, the annual meeting of the AMF was held in Bahrain. The meeting was attended by 22 Governors from Arab Central Banks. The agency was responsible for planning and organising the meeting.

World Trade Organisation Commitments

The WTO commitments of the Kingdom were revised and updated in light of new changes, such as the inclusion of the BSE and the insurance sector under BMA's regulatory umbrella as well as various developments in the financial sector.

Credit Card Survey

The first credit card survey was conducted to discover spending patterns and trends of credit card holders. A number of banks participated in the survey, of which 5 were full commercial banks and 3 investment banks.

Coordinated Portfolio Investment Survey

For the first year, the BMA participated in the Coordinated Portfolio Investment Survey (CPIS) carried out by the IMF. The survey was carried out during late 2001, whilst the results were released during 2002 and were published on the BMA's website. The number of financial institutions that have participated in this survey was 62, of which 10 were FCB's, 24 OBU's, 16 IB's, 9 insurance companies, 2 pension funds, and 1 representative office.

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

New Website

The Agency's website was completely re-designed in order to provide comprehensive information about the Kingdom's financial services industry, as well as the BMA itself. A significant addition relates to online registration of mutual funds, even by institutions and investors not licensed by the BMA.

A Strategic Review

The Agency, in co-ordination with McKinsey & Company has conducted a strategic review of the financial sector of Bahrain. The project started in May 2002 and is now in the implementation stage. Seven asset class task forces have been set up to study means of developing areas of strategic importance, in addition to two support task forces. Following are achievements that have been made at end 2002.

- The establishment of the Human Resource Development Fund to serve the development of the Financial Sector.
- Launch of the BMA scholarship and Internship Programmes.
- Establishing a platform for the development of remote service activities out of the Kingdom of Bahrain.
- Establishing a platform for the development of the Kingdom's equity capital markets.
- The issuance of Debt Capital Markets calendar for all issuance out of the Kingdom of Bahrain.
- Establishing a platform for the development of the Kingdom's Debt Capital Markets.
- The establishment of the International Islamic Rating Agency.

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Number of Banks & Financial Institutions End - 2002

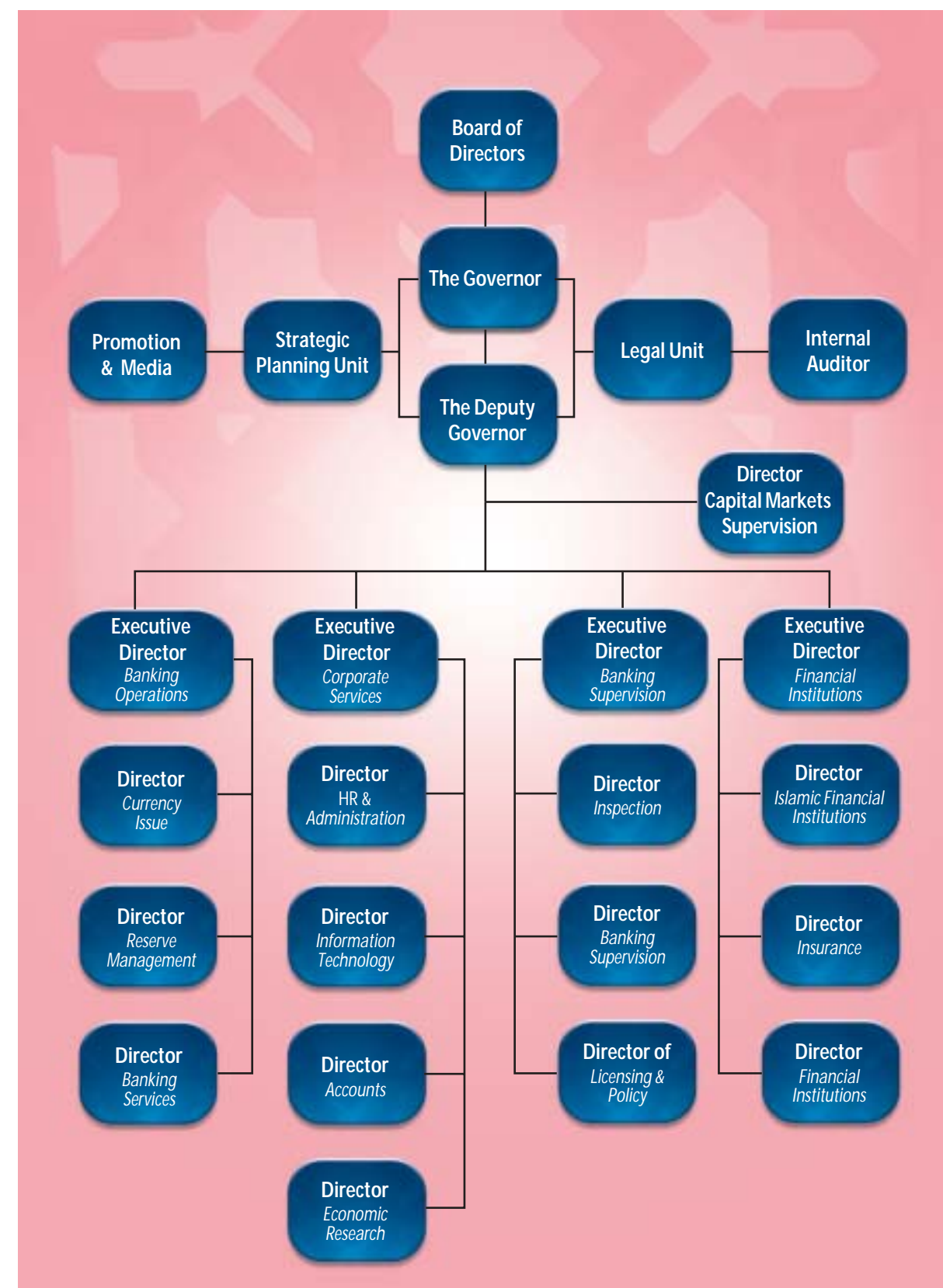
Commercial Banks	23
of which Islamic banks	4
Offshore Banking Units	51
of which Islamic banks	3
Investment Banks	36
of which Islamic banks	16
Representative Offices	31
Specialised Banks	2
Money Exchange	17
Investment Advisory and other Financial Services	14
Money Brokers	4
Capital Market Brokers	12
Insurance Companies and Organisations	149
National Insurance Companies and Reinsurance Companies	9
Foreign Insurance Companies	9
Offshore Insurance Companies	81
Representative Offices	7
Insurance Brokers	23
Surveyors and Loss Adjusters	7
Insurance Consultants	6
Actuaries	7
Total	339

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

List of BMA Officers

H.E. Shaikh Ahmed Bin Mohammed Al Khalifa	Governor
H.E. Mr. Khalid Abdulla Al Bassam	Deputy Governor
Dr. Naser M. Y. Al Belooshi	Executive Director - Corporate Services
Dr. Khalid Abdulla Ateeq	Executive Director - Banking Supervision
Mr. Anwar Khalifa Al-Sadah	Executive Director - Financial Institutions Supervision
Mr. Waleed Abdulla Rashdan	Executive Director - Banking Operations
Sh. Salman Bin Khalifa Al Khalifa	Director, Banking Services Directorate
Mr. Ahmed Isa Al Somaim	Director, Reserve Management Directorate
Mr. Khalid Hamad Abdul Rahman	Director, Banking Supervision Directorate
Dr. Abdul Rahman Ali Saif	Director, Economic Research Directorate
Mrs. Raqia Ebrahim Bardooli	Director, Accounts Directorate
Mr. Yousif Rashid Al Fadhel	Director, Information Technology Directorate
Mr. Ali Salman Thamer	Director, Capital Markets Supervision Directorate
Dr. Huda Hussain Al-Maskati	Director, Inspection Directorate
Mr. Ahmed A. Aziz Al-Bassam	Director, Licensing & Policy Directorate
Sh. Salman Bin Isa Al-Khalifa	Director, Islamic Financial Institutions Directorate
Mr. Tawfiq Isa Shehab	Director, Insurance Supervision Directorate
Mr. Abdul Rahman Mohammed Al-Baker	Director, Financial Institutions Supervision Directorate

Organisational Chart



Bahrain Monetary Agency
FINANCIAL STATEMENTS
31 DECEMBER 2002

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

AUDITORS' REPORT TO H.H. THE CHAIRMAN OF THE BOARD OF DIRECTORS
OF THE BAHRAIN MONETARY AGENCY

Your Highness,

We have audited the financial statements of the Bahrain Monetary Agency (the Agency) for the year ended 31 December 2002. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Agency as of 31 December 2002 and the results of its operations for the year then ended in accordance with the Amiri Decree No. 23 of 1973.

Ernst & Young

17 February 2003

Manama, Kingdom of Bahrain

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency
BALANCE SHEET
31 DECEMBER 2002

	Note	2002 BD '000	2001 BD '000
ASSETS			
Gold		2,500	2,500
Kingdom of Bahrain bonds and treasury bills		12,200	15,660
Foreign exchange	3 & 4	627,517	596,310
Cash and due from Bahraini banks		40,828	12,755
Due from other central banks		-	4
Fixed assets		1,069	898
Other assets		5,940	6,014
		<u>690,054</u>	<u>634,141</u>
LIABILITIES AND CAPITAL FUNDS			
LIABILITIES			
Notes and coins in circulation	4	174,159	149,881
Bahraini Dinar deposits		172,368	154,579
Due to other central banks		45	-
Other payables		8,943	8,778
		<u>355,515</u>	<u>313,238</u>
CAPITAL FUNDS			
Capital	5	200,000	200,000
General reserve	6	103,830	95,194
Special reserve	7	18,000	13,000
Re-evaluation reserve	8	12,709	12,709
		<u>334,539</u>	<u>320,903</u>
		<u>690,054</u>	<u>634,141</u>

Chairman

Governor

The attached notes 1 to 8 form part of these financial statements.

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

PROFIT AND LOSS ACCOUNT AND APPROPRIATION

Year ended 31 December 2002

	Note	2002 BD '000	2001 BD '000
INCOME			
Net interest income		28,525	31,986
License fees		763	741
Net investment trading gain		4,303	3,905
Other		212	184
		<u>33,803</u>	<u>36,816</u>
EXPENDITURE			
General and administration expenses		6,626	4,802
Note issue expenses		336	600
Brokerage fees		26	55
		<u>6,988</u>	<u>5,457</u>
PROFIT FOR THE YEAR		26,815	31,359
Transfer to special reserve	7	5,000	5,000
TRANSFER TO GENERAL RESERVE	6	<u>21,815</u>	<u>26,359</u>

The attached notes 1 to 8 form part of these financial statements.

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

1 - ACTIVITIES

The Bahrain Monetary Agency ("the Agency") is the central monetary authority of the Kingdom of Bahrain and operates under the Amiri Decree No. (23) of 1973. The Agency is responsible to organise the issue and circulation of the currency of the Kingdom of Bahrain as well as its foreign exchange, manage the value of the currency of Bahrain, endeavour to ensure monetary stability, direct the banking business, supervise the banking system, control and direct bank credit so as to realise the objectives of the economic policy of the Kingdom of Bahrain, and participate in the creation of a developed money and financial market. The Agency acts as the fiscal agent on behalf of the Government of the Kingdom of Bahrain and is the supervisory authority for banking and investment institutions in the Kingdom of Bahrain. The Agency has no branches or operations abroad.

The Agency's registered address is P O Box 27, located at the BMA building, Diplomatic Area, Kingdom of Bahrain, and employed 270 staff as of 31 December 2002 (2001: 221).

The financial statements of the Agency for the year ended 31 December 2002 were authorised for issue in accordance with the approval of H.H. The Chairman and H.E. The Governor.

2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in compliance with the Amiri Decree No. 23 of 1973.

Accounting convention

The financial statements are prepared under the historical cost convention.

Foreign exchange

Foreign exchange comprises deposits placed, net of deposits taken, and investments denominated in foreign currencies.

Investments are purchased with the intention of being held for the long term or to maturity and are treated as long term investments. Accordingly, short term market fluctuations are not taken into account and investments are carried at amortised cost less provision for impairment, where necessary. Premiums or discounts on purchase are amortised on a straight-line basis over the remaining life of the investment and included under net interest income in the profit and loss account.

Depreciation

The cost of the building and any addition thereto is expensed in the year in which the cost is incurred. The cost of other fixed assets is depreciated by equal annual instalments over the estimated useful lives of the assets.

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated on the basis of the official par value of the Bahraini dinar in relation to the United States dollar and the closing market rates of exchange for the other currencies against the United States dollar at the year end.

In accordance with Article 32 (a) of the Amiri Decree No. 23 of 1973, gains and losses on retranslation of foreign currencies, other than US dollars, into Bahraini dinars are taken direct to re-evaluation reserve account. The deficit, if any, in this account is made good by the Government of the Kingdom of Bahrain by the issue of non-negotiable interest free bonds.

Gold

In accordance with Article 27 (a) of the Amiri Decree No.23 of 1973, gold is valued at BD 1.86621 per one gram of fine gold.

Notes and coins in circulation

Notes and coins in circulation are stated net of the Bahraini dinar notes and coins held in banking stock.

Revenue recognition

Interest income is recognised on a time apportioned basis, taking into account the principal outstanding and the rate applicable. Licence fees, investment trading results and other income are recognised when received or realised.

Note issue expenses

These are recognised when incurred.

3 - FOREIGN EXCHANGE

Included in foreign exchange are marketable securities carried at their cost of BD 77.73 million (2001: BD 81.714 million). The market value of these investments as of 31 December 2002 was BD 75.631 million (2001: BD 82.963 million).

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

4 - EXCESS OF AUTHORISED BACKING FOR CURRENCY IN CIRCULATION

	2002 BD '000	2001 BD '000
Authorised backing:		
Gold	2,500	2,500
Net foreign currency balances	627,517	596,310
	<u>630,017</u>	<u>598,810</u>
Currency in circulation:		
Notes and coins	(174,159)	(149,881)
	<u>(174,159)</u>	<u>(149,881)</u>
Excess of authorised backing over currency in circulation	<u>455,858</u>	<u>448,929</u>

The excess of authorised backing for currency in circulation is calculated in accordance with Articles 28 and 29 of the Amiri Decree No. 23 of 1973.

5 - CAPITAL

	2002 BD '000	2001 BD '000
Authorised	400,000	400,000
Issued and fully paid up	<u>200,000</u>	<u>200,000</u>

6 - GENERAL RESERVE

	2002 BD '000	2001 BD '000
Balance at beginning of the year	95,194	80,576
Transfer from profit and loss account	21,815	26,359
Transfer to the Government of the Kingdom of Bahrain	(13,179)	(11,741)
	<u>103,830</u>	<u>95,194</u>

Transfer to the Government of the Kingdom of Bahrain relates to the transfer made in accordance with Article 18 of the Amiri Decree No. 23 of 1973.

BMA - MAIN DEVELOPMENTS AND ACTIVITIES, AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

7 - SPECIAL RESERVE

	2002 BD '000	2001 BD '000
Balance at beginning of the year	13,000	8,000
Transfer during the year	5,000	5,000
Balance at end of the year	<u>18,000</u>	<u>13,000</u>

The special reserve has been established to meet any future contingencies.

8 - RE-EVALUATION RESERVE

	2002 BD '000	2001 BD '000
Balance at beginning of the year	12,709	12,712
Movement during the year	-	(3)
Balance at end of the year	<u>12,709</u>	<u>12,709</u>

Re-evaluation reserve represents the net unrealised surplus arising from the translation of foreign currencies, included in foreign exchange, at the exchange rates ruling on 31 December 2002.



Bahrain Monetary Agency

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