

Bahrain Economic Quarterly

September 2015



SUMMARY

NON-OIL MOMENTUM CONTINUES

The summer of 2015 was characterized by exceptional volatility in the global markets due to a range of persistent uncertainties from the Greek debt crisis to worries about monetary tightening in the US. In spite of the increased pessimism this has engendered about the global growth outlook, confidence in the GCC economy has held up well. Activity in Bahrain has continued to benefit from the ongoing implementation of a substantial infrastructure project pipeline.

- ▶ **Bahrain's non-oil growth remained robust in Q2 while the oil sector rebounded sharply from Q1.** The performance of the non-oil sector looks consistent with growth of approximately 4.5% during the year as a whole, while we expect the oil sector output to remain more or less flat.
- ▶ **Growth is supported by a substantial project pipeline which is supporting confidence in the face of unusual market volatility.** As reflected by robust construction sector growth (7% YoY in 1H15), increased infrastructure spending - some of it funded by the GCC Development Fund- is underpinning activity. Historically, the construction sector has had strong forward and backward linkages to other sectors.
- ▶ **The GCC economy remains robust thanks to a combination of strong non-oil growth drivers and higher-than-expected activity in the oil sector.** Economic confidence across the GCC has remained strong and non-oil activity continues to benefit from substantial infrastructure spending. The oil sector has continued to grow thanks to OPEC's market share-oriented policy.
- ▶ **Oil prices have been tested by global oversupply concerns and worries about Chinese demand.** A rebound in prices was reversed in the summer as markets worried about China's growth outlook and a substantial ramp-up in production. While volatility is likely to continue, a rebalancing appears to be underway with renewed demand growth and cutbacks in investment.

Bahrain economic outlook

	2014	2015f	2016f	2017f
Real GDP growth, %	4.5%	3.6%	3.2%	2.8%
Non-hydrocarbons sector	4.9%	4.6%	3.9%	3.4%
Hydrocarbons sector	3.0%	0.0%	0.4%	0.5%
Nominal GDP growth, %	2.9%	-3.2%	8.6%	7.9%
Inflation (CPI %)	2.8%	3.0%	3.0%	3.0%
Current account (% of GDP)	3.3%	-2.6%	-0.5%	1.3%
Fiscal balance (% of GDP)	-3.6%	-7.5%	-3.4%	-0.6%
Crude Oil Arabian Medium (USD)	96.0	60.0	70.0	80.0

Source: Bahrain Economic Development Board

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GLOBAL ECONOMY

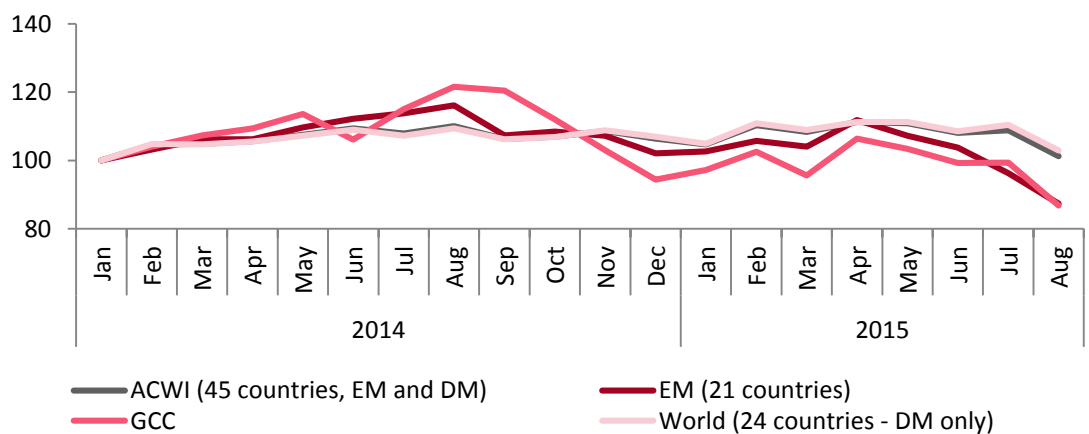
AN UNEASY SUMMER

The pace of global growth in the first half of the year fell short of expectations

The summer months have been characterized by an unusual cluster of pressure points for the global economy and financial markets. Exceptional volatility in securities and commodities markets has been linked to bouts of often protracted uncertainty around a range of issues. The most notable cases in point include the Greek debt crisis, the Iranian nuclear negotiations, expectations of a US interest rate hike, and worries about a Chinese slowdown. While this has tested investor sentiment, it also seems to be paving the way for renewed loosening of monetary and fiscal policy in a number of economies ranging from Europe to China. Even as risks continue to abound, this has the potential to put something of a floor under the volatile markets and boost confidence.

Overall, the period of uncertainty has led to increased caution about the near-term outlook for the global economy. The US economy seems to be a relatively isolated case of generally strengthening performance, although the Euro-zone has also experienced a slight pick-up in growth. In its July *World Economic Outlook* (WEO), the International Monetary Fund (IMF) projected global growth of 3.3% in a slight deceleration from the pace seen in 2014. In a clear departure from the pattern seen in recent years, global growth is expected to be driven by a gradual pick-up in the advanced economies whereas emerging markets appear to be losing steam. The IMF gathering in Istanbul noted, however, that the WEO for 2015 projection looks optimistic in view of the recent performance of key economies. Global growth in 2016 is projected to accelerate to 3.8%. The Organisation for Economic Co-operation and Development (OECD) this month reduced its global growth forecast for this year from 3.1% to 3% and the 2016 figure from 3.8% to 3.6%.

MSCI regional indices (Base Jan 2014=100)



Source: MSCI

The return of currency wars?

One of the main challenges facing the global economy in the current environment of generally lackluster growth is an apparent return of the so-called currency wars. Central banks around the

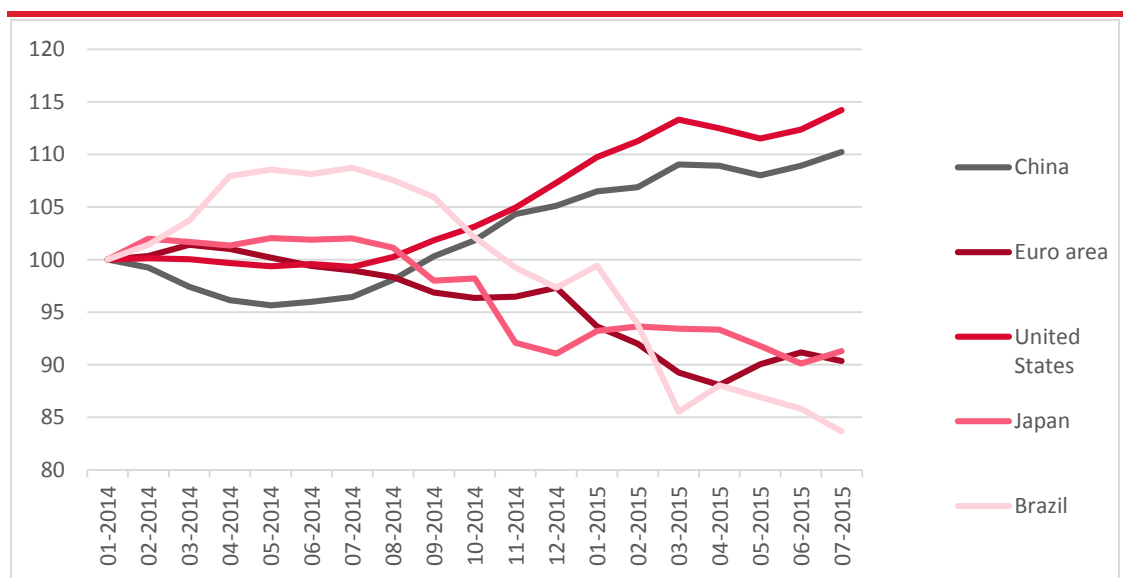
While expectations of US monetary tightening persist, actual steps in this direction have been repeatedly delayed

world are in many cases loosening their monetary policy stances or working to devalue their currencies more directly in a bid to stimulate growth. At the same time, recurrent speculation around US monetary tightening has tended to amplify the appreciation of the US Dollar vis-à-vis most other major currencies.

This year has been characterized by elevated exchange rate volatility:

- ▶ The European Central Bank has been pursuing quantitative easing for the past six months, which has exerted downward pressure on the Euro
- ▶ The Bank of Japan is committed to boosting its asset base at an annual base of JPY80trn. The Yen has declined by more than 50% vis-à-vis the US Dollar over the past two and a half years
- ▶ China on 11 August permitted a small devaluation of the Renminbi and indicated its willingness to move toward a more market-determined exchange rate regime. However, the People's Bank of China (PBoC) subsequently intervened to contain further depreciation and steps have been taken to discourage speculation in the market
- ▶ Several emerging market currencies have depreciated due a combination of factors ranging from lower commodity prices to political uncertainties. Taken together, the value of emerging market currencies has fallen to its lowest level in relation to the Dollar since 2002. The Brazilian Real has depreciated by nearly a third vis-à-vis the Dollar while the Turkish Lira has lost more than 20%. Several other emerging market currencies have posted double-digit declines. The recent Kazakh Tenge devaluation reduced the value of the currency by more than 20%. This is leaving many policy-makers with a dilemma where monetary tightening would be needed to support the currency but would also risk curbing growth

Nominal effective exchange rates, Jan 2014=100



Source: Bank for International Settlements

The case for monetary tightening in the US remains ambiguous at best with subdued inflation

Actual tightening steps in the US would likely accentuate this dynamic by pushing up the expected interest rate curve in the US and increasing the differential vis-à-vis other currencies. However, there are significant doubts as to the preparedness of the US economy for much tighter monetary conditions. On the face of it, the case for a rate rise remains ambiguous, as reflected in the Fed deliberations in September. Open unemployment in the US has trended down and is now quite close to the 5% mark identified by the Fed as a threshold for rate rises. However, labor market participation remains low by historical standards. On the other hand, inflationary pressures have remained persistently subdued and a pure inflation targeting approach would not create an obvious case for rate rises. Also, the ability of the US corporate sector to bear higher rates has been countered by a renewed build-up in leverage. Corporate leverage in the US has reached its highest level since 2008.

Moreover, the mere speculation about rate rises has tightened monetary conditions, as it did earlier in the year when it ultimately prompted the US authorities to abandon their plans for a rate hike. This time around, leading international economic agencies, most notably the IMF, directly called on the Fed to delay any tightening plans in view of the global economic vulnerabilities which a US rate hike might further accentuate. The Fund also urged the ECB to expand its program of quantitative easing while advising the Bank of Japan to stand ready for further easing. The mere speculation about a Fed rate rise once again led to renewed outflows of capital from emerging markets. According to IIF estimates, the scale of the flows reached 70% of that observed during the 2013 ‘temper tantrum.’

The risk facing the Fed is that delayed action will not only create imbalances at home, it also risks fostering market volatility globally by creating the prospect of recurrent speculation around US tightening which, as recent experience has shown, can be disruptive to many markets.

Chinese chequers

China has in recent weeks emerged as an increasingly important source of perceived economic uncertainty. Financial and commodity markets have been rattled by worries about the country’s growth prospects as the government seeks to engineer a transition to what it has described as the ‘new normal.’ The stakes are high as China last year accounted for approximately 40% of global growth and is the main source of incremental demand for many commodities.

The available evidence fairly consistently points to a gradual slowdown in Chinese growth. The authorities in Beijing have reduced their growth target for the economy from 7.4% during much of 2014 to ‘around 7%.’ Actual growth reached an annual 7% in the first half of the year, exactly in line with the official target. Other economic data has been generally indicative of slight cooling, for instance, the main Purchasing Manager’s Index dipping narrowly into contractionary territory in recent months. Similarly, weaker trade data in August has heightened concern about ripple effects in developed economies. In a tenth consecutive monthly decline, imports (in Renminbi terms) fell 14.3 per cent YoY, versus -8.6 per cent in July. The performance of the Chinese stock market has mirrored this anxiety with a sharp reversal of a spectacular rally in May.

Discerning the way forward for China is complicated by the fact that the authorities appear committed to two partially conflicting objectives. On the one hand, the Government has

Much of the market anxiety in recent months has been prompted by worries of a slowdown in China

The Chinese authorities are working to reduce the reliance of the economy on industrial exports

repeatedly indicated its determination to push for structural reforms designed to transition the economy away from its heavy reliance of manufacturing investment and exports to a more consumption-led model. This, in turn, is expected to provide the basis for a new sustainable growth pattern in the medium term. The available data suggests that some progress is indeed materializing. The share of the service sector in the country's GDP has risen from 41.3% in 2001 to 49.5% in 1H15, while that of industry fell from 45.4% to 43.7%. Even this year (Q1-2), manufacturing sector growth reached an annual 6.1%, whereas the service sector expanded by 8.4%.

On the other hand, however, the government's commitment to supporting growth at close to its current levels remains firm and this seems to be translating into greater willingness to use stimulus measures to boost economic activity. In some instances, however, such short-term considerations risk delaying the steps needed to address some of the structural weaknesses of the economy. Policies adopted over the past year include several steps of monetary easing and especially lower reserve requirements should allow Chinese banks to significantly boost lending. Similarly, Beijing is increasing central government capital expenditure while allowing the local authorities to restructure their often short-term loans into longer-term bonds. Local government debt is estimated to have risen to some USD3.7trn – or 36% of GDP – by the end of 2014 and most of it was due to mature this year. Administrative steps have also been taken to support the real estate markets.

The recent modification of the exchange rate policy points to a greater willingness to move toward more market-led exchange rate determination. China, like many emerging markets with Dollar-link exchange rates, has been affected by the appreciation of the US Dollar. This has hit the competitiveness of Chinese exports in key markets such as Europe and Japan. The option of countering some of that is important in the current environment. To date, however, the PBoC has indicated that it will contain the Renminbi depreciation.

Volatility returns to oil markets

Following a pronounced recovery in oil prices during spring, prices relapsed again during the summer months. At their trough, a Brent price of USD42.23 recorded on 24 August, they plunged below the lowest levels recorded in early January.

A number of factors contributed to this reversal in price dynamics, but chief among them seem to be the following:

Oil prices have continued to recover even with OPEC firmly committed to defending its market share

- ▶ As of now, the market remains plentifully supplied with oil. OPEC nations have been consistently producing well above their 30 mbd quota since May 2014, with survey estimates putting the cartel's aggregate output in August at 31.5-32.3 mbd. Production has held up in most non-OPEC countries as well, including the US where the shale industry has generally surprised observers with its resilience thanks to lower costs and greater efficiency
- ▶ The mid-July deal between the P5+1 countries and Iran has potentially paved the way for the Islamic Republic's return to the global oil markets. Any increase in

exports is formally linked to the removal of sanctions, a process that will take at least several months. However, Iranian production already reached 2.9 million b/d in August, the fastest rate in three years. Their further growth is generally expected to be gradual – some 300-500,000 b/d within six months – as a result of years of underinvestment in the sector. Iran recently set a production capacity target of 5 mbd by 2021, up from a reported 3.8 mbd at present. Of course, it remains unclear how other producers will respond to growing Iranian exports. This cluster of uncertainties has, at least for now, fueled worries about a continued glut in the market

- ▶ The intense speculation about China's economic health has heightened anxiety about the prospects for Chinese oil consumption. Any decrease in Chinese oil imports would be of global significance, given the country's leading position as a source of incremental demand. These concerns are being countered by the ongoing efforts by the Chinese authorities to stimulate economic activity by a variety of means as well as the continued build-up China's strategic oil reserves. China's January-July crude throughput was 301.3mn mt, up 4.7% YoY
- ▶ Even if the expectations of Fed rate increases have been revised down, the US Dollar has remained strong compared to most other major currencies. A strong Dollar is historically bad for commodity prices. Moreover, the recurrent bouts of market speculation of Fed tightening have tended to adversely affect commodity prices
- ▶ There is persistent speculation in the US that the export embargo might be lifted or modified at some point. This would probably boost WTI prices somewhat, improving the investment environment in the US while also allowing US producers to compete for market share internationally. The current limits fall short of a blanket ban and US crude oil exports have been rising in recent years. In the first five months of 2015, they averaged 491,000 barrels per day, according to the Energy Information Administration

While the expected market normalization has been delayed, there are growing indications of gradual convergence of demand and supply:

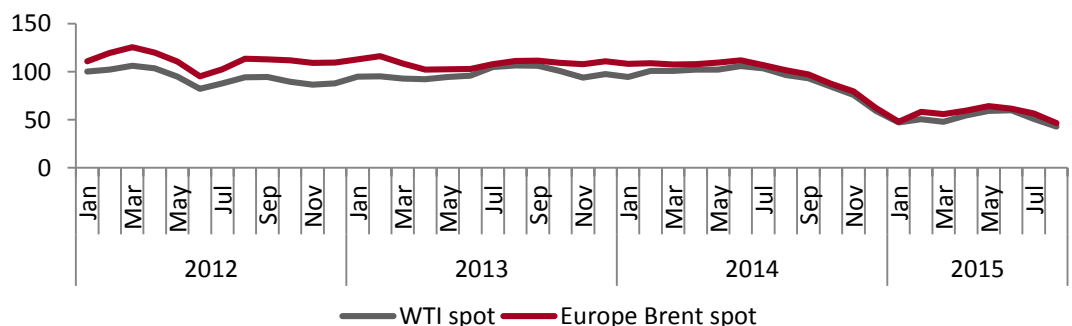
- ▶ The basic outlook for oil demand has improved, partly as a result of the price correction. The International Energy Agency (IEA) expects oil demand growth of 1.6 mbd this year, which would mark the fastest pace in five years. 2016 is expected to see further rise by 1.4 mbd. This would translate into a 2016 'call on OPEC' at 30.8 mbd. Some of the demand growth may be linked to strategic buying with, for instance, the IEA expecting China to fill emergency crude stockpiles at a rate of 380,000 b/d until the end of this year with two new storage facilities coming on line. China's apparent oil demand has generally exceeded analyst expectations in recent months due to stockpiling and new refinery capacity. It rose by an annual 7% in July
- ▶ The renewed price volatility has depressed investment in the oil sector. Recent estimates by the oil consultancy Wood Mackenzie suggest that as much as USD1.5trn of potential oil investment globally is unprofitable at current prices and unlikely to

go ahead. Projects worth USD220bn have been deferred since June 2014 with industry-wide capital spending set to drop by as much as 30%. This is also affecting many national oil companies. For instance, the IEA expects Russian production to fall from 10.99 mbd this year to 10.85 mbd in 2016. The peak of upstream hydrocarbons investment was reached in 2013 with some USD900bn spent on exploration, drilling, and maintenance. This drove an increase in the global supply of oil products rose from 90 mbd in 2013 to 94 mbd now

- Even though the US oil producers have demonstrated considerable resilience this year, their ability to maintain the current output levels in this environment is in considerable doubt. A recent Moody's estimate put the median full-cycle cost of US producers at about USD51/barrel. Every year since 2010, the US upstream sector has outspent the cash flows it generates with new money raised sharply declining in recent months. Having increased marginally during the summer, the US rig count is once again declining. IEA data show monthly output contractions of 90,000 b/d in July and almost 200,000 b/d in August with all main production areas affected. The IEA predicts that the US production of light tight oil will fall by 400,000 b/d next year. The EIA has reduced its US crude production forecast to 9.22 mbd this year, down from the 9.47 mbd estimate in July. 2016 production is seen at 8.82 mbd in contrast to an earlier projection of 9.32 mbd. Production is also dropping in Canada and stands below 4 mbd for the first time in 20 months. Overall, the IEA now expected non-OPEC production to contract by 500,000 b/d in 2016, which would mark the sharpest fall since the collapse of the Soviet Union

Even as opinions differ as to the near- to medium-term outlook for oil prices, most recent estimates have tended toward the bearish end of the spectrum. The EIA expected the Brent benchmark to average USD54/barrel this year followed by USD59 in 2016. The corresponding prices for WTI are projected to be USD49 and USD54, respectively. However, even the price estimates have been characterized by volatility and any change in the position of the main producing nations could potentially begin to change the outlook fairly quickly. Recent statements by several policymakers have suggested USD70-80/barrel as a reasonable price for oil.

Crude oil prices (USD/barrel)



Source: U.S. Energy Information Administration

Source: US Energy Information Administration

Global oil demand and supply dynamics (mbd)

	IEA	OPEC	EIA
2013 Global oil demand (mbd)	91.8	90.2	90.5
Advanced economies	46.1	46.0	46.1
Emerging economies		29.0	
China	10.1	10.1	10.6
2014 Global oil demand (mbd)	92.4	91.1	91.4
Advanced economies	45.6	45.7	45.8
Emerging economies		29.8	
China	10.3	10.4	11.0
2015 Global oil demand (mbd)	93.3	92.3	92.3
Advanced economies	45.6	45.6	45.8
Emerging economies		30.6	
China	10.6	10.7	11.3
2013 Global oil supply (mbd)	91.4	90.2	90.2
OPEC	30.5	30.3	30.0
Non-OPEC	60.9	54.2	54.1
2014 Global oil supply (mbd)		91.1	92.0
OPEC	30.2	29.4	29.8
Non-OPEC		56.0	56.0
2015 Global oil supply (mbd)		92.3	92.8
OPEC		28.9	29.7
Non-OPEC		57.3	56.8

Source: International Energy Agency, Organization of the Petroleum Exporting Countries, US Energy Information Administration

Implications for Bahrain

Even as the global economic outlook is overshadowed by multiple uncertainties, the general policy backdrop looks likely to remain permissive.

- ▶ Recurrent market uncertainty looks likely in view of structural market concerns. While this may test financial markets, it is also likely to contribute to a loose monetary policy stance globally
- ▶ The stimulus measures being adopted to China are likely to stimulate Chinese demand for important exports and ultimately allay fears of a growth slowdown
- ▶ An oil market rebalancing is underway, although several factors can contribute to continued market volatility in the near term

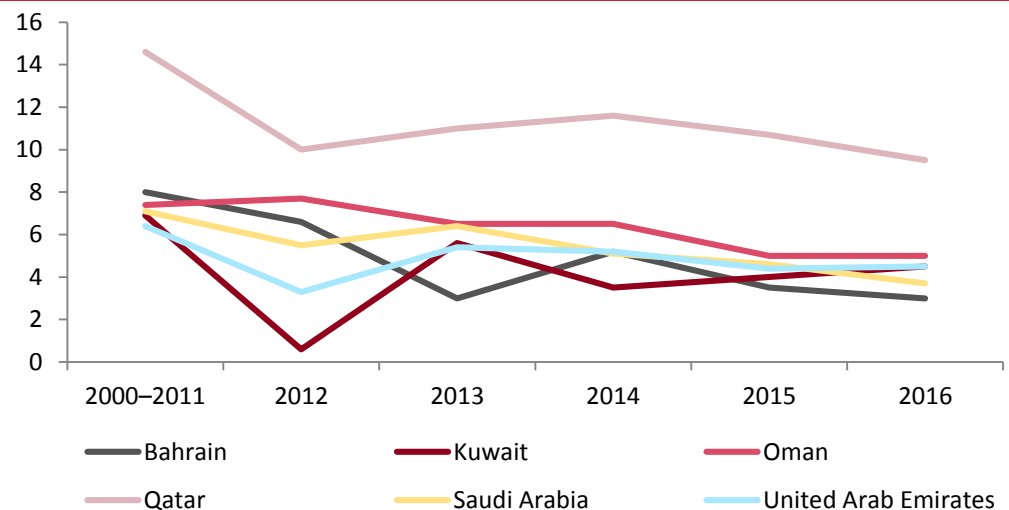
THE GCC REGION

GROWTH MOMENTUM CONTINUES

The momentum of the regional non-oil economy remains robust in spite of the recent oil price volatility

The growth momentum in the GCC region has generally held up well even during the months of elevated market uncertainty. This is reflective of the strong structural growth drivers and the sizeable infrastructure project pipeline, but also the decision by the region's leading OPEC producers to maintain or even increase production. This has in fact improved the growth outlook for the largest regional economies in recent months. Headline GDP growth across the region is generally expected to come in at close to 3.5% during this year as a whole. Most indicators of investor confidence remain favourable and financial sector activity continues to be robust in the face of market volatility. In some cases, efforts by the regional governments to redesign their fiscal models are triggering new funding solutions for projects as well as encouraging investment in more efficient technologies.

GCC non-oil real GDP growth, %



Source: International Monetary Fund, World Economic Outlook Database, April 2015

Economic activity shows continued resilience

Economic activity across the GCC region is holding up well in the face of several months of global market turmoil. Even though momentum in the private sector appears to have decelerated somewhat in the spring, the more recent data points to a renewed pick-up in Q3. Beyond this, economic activity has benefited from the stronger-than-expected performance of the oil sector. The resilience of the regional economies reflects the strength of the structural growth drivers as well as the robust infrastructure project pipeline, much of which is strategically anchored or in some cases linked to particular events. The most salient cases in point include the World Expo 2020 in Dubai and FIFA 2022 World Cup in Qatar.

Earnings data (collated by Markaz of Kuwait) on the regional corporate sector points to some loss of momentum, albeit with considerable variation across the region. Overall, GCC companies experienced a 7.2% YoY fall in earnings to a total of USD34bn during the first half of 2015. The

Key indicators of economic activity in the largest regional economies point to continued strong expansion

sharpest falls were recorded in Kuwait (19%) and Saudi Arabia (16%). Oman saw a 7% drop while a 2% decline was recorded in the UAE. Qatar, by contrast, registered brisk growth of 13%. In general, the regional financial services and real estate sectors were the strongest performer. The aggregate net profits for banks was USD16.7bn in the first half, a 9% increase over the same period last year. Earnings in real estate totalled USD3.7bn – a 44.5% YoY gain. Overall GCC corporate earnings are expected to reach USD69.7bn during 2015 as whole. In general, the regional exporters have been affected somewhat by an appreciating effective exchange rate whereas the closed sector has tended to remain very dynamic.

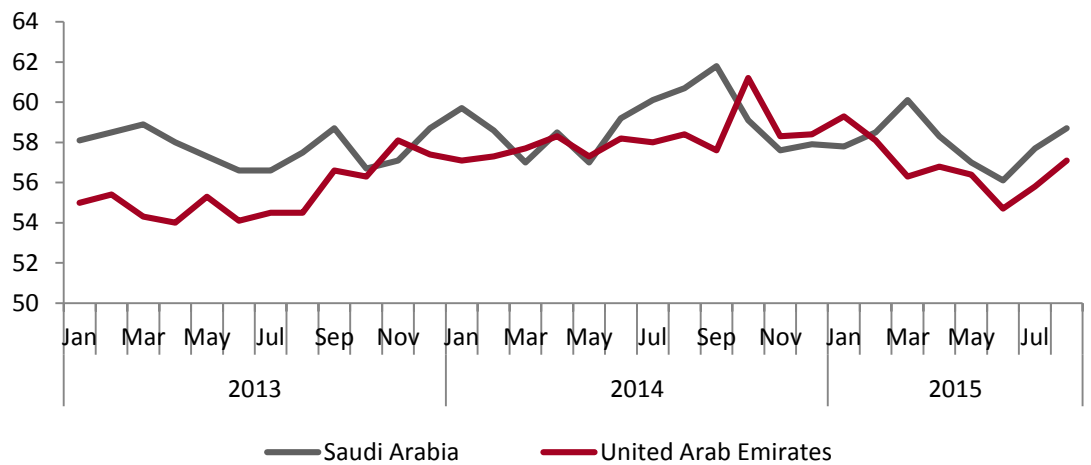
The performance of the individual regional economies remains robust. Contrary to earlier projections of a growth slowdown in Saudi Arabia, there are growing indications that robust oil production is helping keep real growth above 3% this year. Both oil and non-oil private sector growth are on track to exceed 3%. The same dynamic appears to be supporting growth in the UAE where growth of close to 4% now seems achievable this year. Tourist flows are continuing to expand, which is benefiting the hospitality sector. And while the real estate price correction is underway in the face of growing supply, rents have generally remained on an uptrend. The real estate market has to an extent been affected by regional economic fundamentals and the appreciation of the US Dollar vis-à-vis most emerging market currencies has been another factor dampening demand somewhat.

Qatar has in recent years seen the fastest non-oil growth in the region. Having expanded by 10.6%, the non-oil economy looks likely to post comparable growth rates this year and next, supported by a projected USD182bn of capital spending in 2014-2018. Headline growth is expected to exceed 4.5% this year. Also the Kuwaiti non-oil economy posted annual growth of 5.6% in 2014 and is expected to remain at or above 3% this year and next. The 2015-2020 development plan is expected to target USD130bn in new project spending in various sectors.

The main forward-looking indicators of economic activity in the GCC support the narrative of considerable resilience. The Emirates NBD/Markit Purchasing Managers' Indices for Saudi Arabia and the UAE point to continued strong expansion in the two largest regional economies. Indeed, the index readings for both economies increased in August in relation to the earlier summer. The UAE PMI rose from 54.7 in June to 55.8 in July and 57.1 in August, the highest since February. The Saudi PMI experienced a similar performance rising to 55.8 in July and 57.1 in August from 54.7 in June. In general, however, the readings of the indices during the first eight months of the year have been somewhat lower than during the corresponding period in 2014. This is consistent with other evidence of a slight deceleration in non-oil growth.

Oil production gains have further improved the outlook for the regional economy this year

HSBC/Markit Purchasing Managers' Index



Source: HSBC, SABB

Revamping the fiscal model

While the GCC governments have continued to support economic activity in the face of the global market turbulence, the increased oil price volatility is clearly triggering new thinking on the role and nature of government spending. Virtually all regional economies are posting fiscal deficits which are being funded in the short-term through draw-downs of accumulated savings or debt issuance. Most recently, Kuwait posted a KWD2.3bn (USD8.0bn) deficit for the 2014/15 fiscal year, the first shortfall since FY 1999/2000. Oil revenues in the fiscal year ending on 31 March were down by nearly KWD7bn at KWD22.5bn. The FY 2015/16 budget projects a KWD8.2bn (USD27bn) deficit, albeit on a low oil price assumption of USD45/barrel. Oman's 2014 deficit reached OMR1bn (USD2.75bn) in 2014, up from OMR 83bn a year earlier. The Sultanate has approved a deficit of OMR2.5bn this year with an oil price assumption of USD75.

GCC governments are currently pursuing a number of approaches to fiscal restructuring:

- ▶ Governments are cutting expenditure with for instance Kuwait cutting outlays by a nominal 9% to KWD19.2bn in its FY 2015/16 budget. The UAE authorities recently announced plans to cut spending by 4.2% this year. Consolidated government spending (federal and the individual emirates) is set to reach AED460.6bn this year from AED480.8bn in 2014.
- ▶ Revenue diversification is mounting in importance as some regional economies still raise more than 90% of their government revenues from hydrocarbons. Some regional governments are reportedly drafting legislation for corporate and value added taxes. The UAE has increased a range of taxes and levies linked to areas such as visas, traffic fines, and municipal charges.
- ▶ Concrete steps are being taken to rationalize the system of subsidies. The UAE as of August implemented a 25% price increase for the most commonly used petrol to

The discussion of rationalizing the fiscal systems of the GCC countries is continuing

AED2.14/liter (USD0.58). Other varieties increased by 23-29% to AED2.07-2.25. Environmental factors contributed to the decision with the transportation sector estimated to account for 22% of UAE greenhouse gas emissions in 2013. The IMF recently highlighted the fiscal and environmental burden of energy subsidies which are estimated to cost USD5.3tr globally this year. Using a more inclusive definition that the GCC governments, the IMF estimates the burden of subsidies at USD29bn in the UAE and USD106.6bn in Saudi Arabia.

Regional oil production remains at record levels

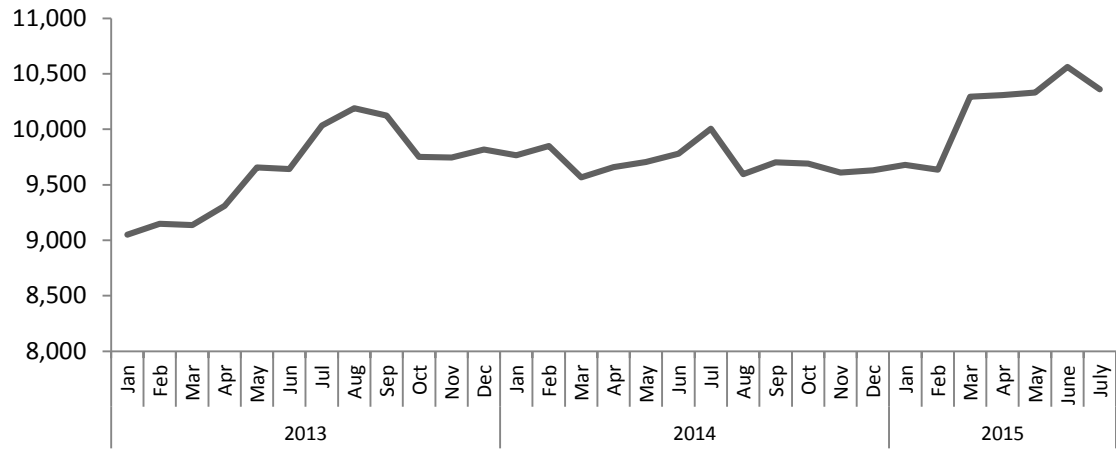
The regional economies have generally continued to produce oil at or near historic record levels. Saudi Arabia has been pumping more than 10 mbd for the past six months and in July accounted for 32% of all global oil production. Based on reports to OPEC, the Kingdom produced 10.3 mbd in August in a small drop on July. The UAE's output rose to record 2.91 mbd in July, up on 2.88 mbd just a month earlier. Also Oman's oil production is up sharply this year and reached 992,700 b/d in June. The H1 average of 970,000 represented a YoY increase of 26,000 YoY. Exports in H1 rose to 871,000 b/d from 800,000 in 2014. Oman is targeting production of 980,000 b/d for the year as a whole. Kuwait has bucked the trend with its 2.74 mbd output in July the lowest in more than two years. Also, Qatar has seen some disruptions in recent months.

One of the drivers for the growing GCC production is increasing domestic demand. Some of this is seasonal with the hot summer months when air conditioning needs peak. Oil demand hence has a clear link to population growth, partly due to the growing requirements of power utilities. However, it also reflects the growing scale and sophistication of the regional downstream sector. For instance in Saudi Arabia, refinery intake is expected to grow by some 12% YoY as the 400,000 b/d Yasref refinery reaches full capacity. Domestic oil consumption in the Kingdom is now hovering around 3 mbd and is expected to average 2.7 mbd during 2015 as a whole. These figures compare to 2.06 mbd as recently as 2013. On other hand, the downstream investments are pushing up oil product exports to the highest levels since 2002. Total product exports reached 1.32 mbd in May.

Elsewhere in the region, Kuwait is reportedly proceeding with the USD16bn al Zour refinery with a planned capacity of 615,000 b/d. Also Oman is expanding its downstream capacity.

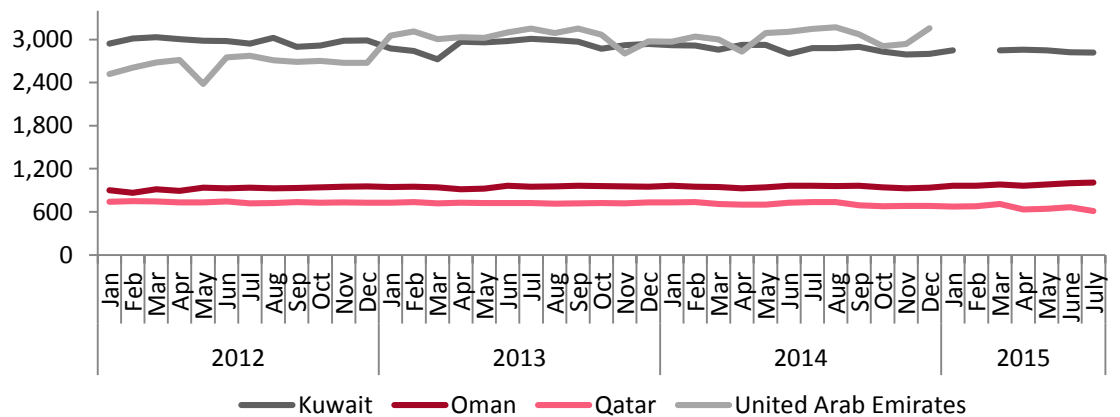
The region has seen unexpectedly strong momentum in the oil sector, both upstream and downstream

Monthly oil production by Saudi Arabia ('000 b/d)



Source: Joint Organisations Data Initiative

Monthly oil production by other GCC producers ('000 b/d)



Source: Joint Organisations Data Initiative

Inflationary pressures trending down

A number of factors appear to be putting an effective ceiling on consumer price inflation across the GCC region:

- ▶ The strength of the US Dollar and the depreciation of a range of currencies has tended to reduce the cost of imports
- ▶ The oil price volatility is curbing liquidity growth
- ▶ The regional housing markets, while robust, are also continuing to see new supply, which is containing price growth in many instances
- ▶ Food prices seem to be largely echoing the global downtrend of commodity prices and there have not been significant weather-related disruption of the production

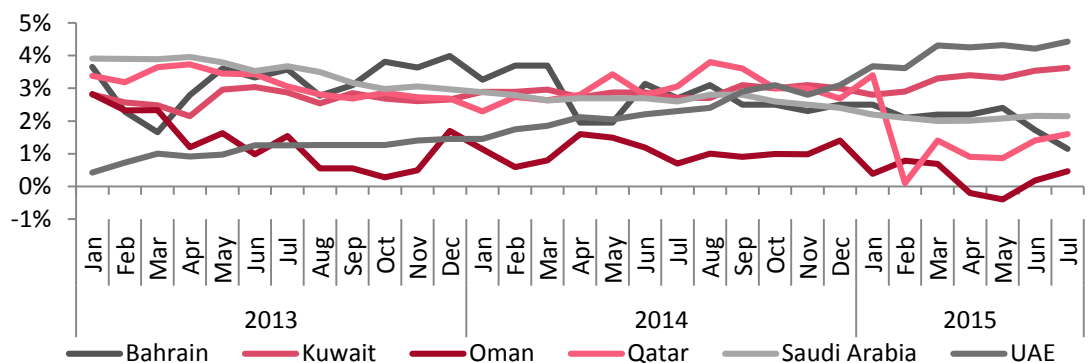
side, although the Indian monsoon has fallen short of expectations and may begin to change the situation in the months ahead. The UN Food and Agriculture Organization's (FAO) monthly food index posted a record 5.2% MoM fall in August and now stands at its lowest level since April 2009

The most recent inflation data, nonetheless, still continues to point to significant divergence across the region. Inflation has held generally stable in Saudi Arabia with readings of 2.16% and 2.15% in June and July, respectively.

Consumer prices dynamics in the regional remain generally stable although a clear divergence has opened up

In July, the UAE recorded the highest reading at 4.43% followed by Kuwait at 3.6%. Price pressures in both cases were primarily driven by housing and costs which rose by an annual pace of 10% and 6.5%, respectively, in the two economies. Also Qatar has seen some renewed pick-up in price pressures with CPI advancing from 0.1% in February to 1.6% in July, led by education by 11.1% and transportation costs. Also Oman, which recently experienced a bout of deflation, has seen price growth turn positive with June and July registering headline increases of 0.18 and 0.46%, respectively. Nonetheless, Omani inflation remains lowest in the region.

Consumer price inflation in GCC countries (% YoY)



Source: National statistical offices

Bank lending remains stable

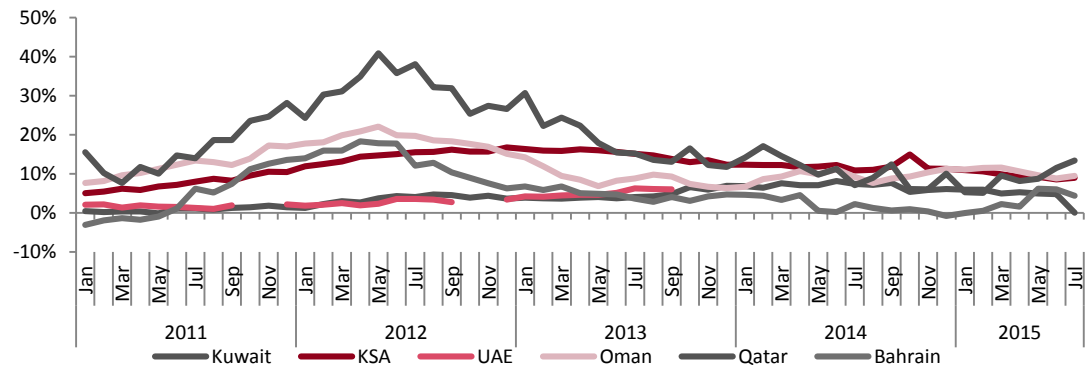
Bank lending growth in the region remains robust with healthy institutions. This is serving as an important source of continuity in the face of oil price volatility

Despite the vagaries of the oil price, the regional banking system remains in generally rude health and highly liquid. Bank profitability has continued to improve further in most cases. The resilience of the financial sector is reflected in healthy increases in bank credit across the GCC. However, for instance, the UAE and Saudi Arabia have seen some upward pressure on interbank rates of late. Generally speaking, deposit growth has decelerated, although it remained in or close to the double digits during the first half of the year across the region, bar the UAE.

Qatar continues to see the fastest increase in domestic bank credit this year with a 13.4% gain in July. This was led by a 17% increase in credit to the private sector credit. Most analysts expect this pace to be sustained in the coming years. Also the UAE has continued to post strong gains in bank credit (9.8% YoY in June), in spite of deposit growth stagnating during the first half (albeit following strong growth up to then). Saudi Arabia and Oman are seeing bank loans grow at close to 10% YoY,

whereas the rate in Kuwait has tended to be somewhat lower, a 5% YoY increase in June which translated into a 6.5% YTD gain.

YoY growth of domestic bank credit (%)



Source: National central banks

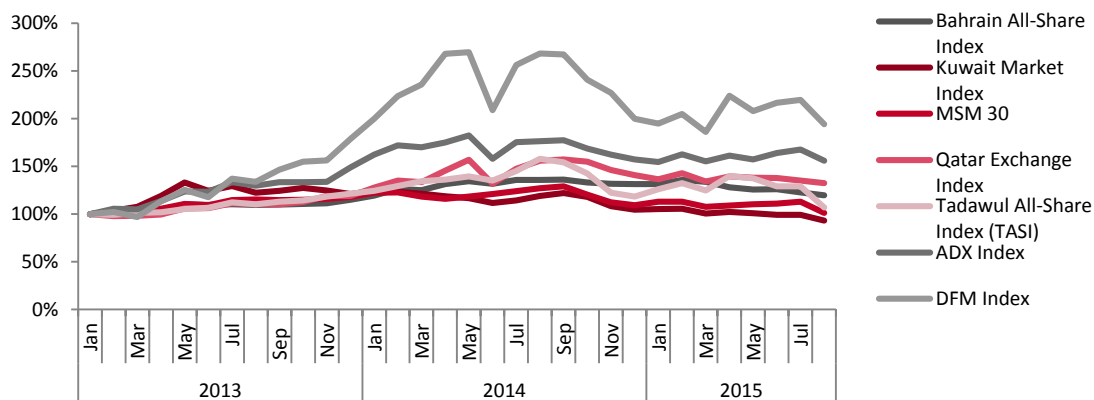
Oil relapse tests equity markets

The performance of the regional bourses has been fairly uneven in recent months

The vagaries of the oil price and the broader uncertainties of the global economy have created a challenging backdrop for the GCC equity market during the past quarter. As of the end of September, all regional indices were in the red, both in YTD and QTD terms. The largest declines YTD have been posted in Kuwait (12.4%), Saudi Arabia (11.1%), Oman (8.8%), and Qatar (6.7%). The UAE exchanges have been the most resilient in the region during the year as a whole. Dubai posted a 4.8% drop while Abu Dhabi saw the smallest decline among all the regional exchanges – 0.6%.

The spring and summer months saw a small improvement in the primary markets. In total, Q2 of the year experienced four IPOs, three of them in Saudi Arabia. The Saudi offerings raised USD1bn of a total of USD1.15bn raised in Q2. By contrast, no new issuance took place in Q3.

GCC equity market indices (Jan 2013=100)



Source: Bahrain Bourse, Kuwait Stock Exchange, Muscat Securities Market, Qatar Exchange, Tadawul, Abu Dhabi Securities Exchange, Dubai Financial Market

Sovereign issuance increases

Sovereign issuance has dominated the regional fixed income market

The performance of the regional bond and sukuk markets has remained subdued in the face of the generally challenging market conditions. In the conventional bonds space, the region saw a total of 20 issues in Q3. This represented a slight decline from 23 offerings in Q2. The total value of bond offerings in Q3 stood at USD20,931.1mn, up markedly on USD7,270mn in the previous quarter. Most of the primary market activity involved sovereign issuance with Saudi government paper accounting for 70.1% of the regional total. Qatar offerings made up a further 13.9%.

The only private company to issue bonds this quarter was Oman's Renaissance Group. It priced a USUSD125mn dual-currency subordinated perpetual bond issuance raised through a wholly owned overseas subsidiary. The bond carried a coupon of 7.9% and it will be listed on the Irish Stock Exchange. The issuance marks the first-ever dual-currency bond from the GCC.

Primary sukuk issuance during Q3 involved 11 offerings with activity confined to Saudi Arabia and Bahrain. The total value of issuance was USD3,345.1mn in total. Saudi Arabia contributed to 67.88% of the total regional sukuk issuance in value terms. Regional issuance in Q2 was confined to five Saudi offerings worth USD2,106.6mn. The aggregate value of Saudi issuance was hence virtually constant from Q2 to Q3. In the largest Q3 offering, the National Shipping Company of Saudi Arabia placed a seven-year USD1,040mn Riyal-denominated issue. The National Commercial Bank placed a USD533.3mn perpetual sukuk. Almarai closed a seven-year new senior sukuk in a private offering worth USD427mn. Abdulla Al-Othaim Real Estate Investment and Development Company (OREIDCO) successfully placed a USD266.7mn five-year sukuk.

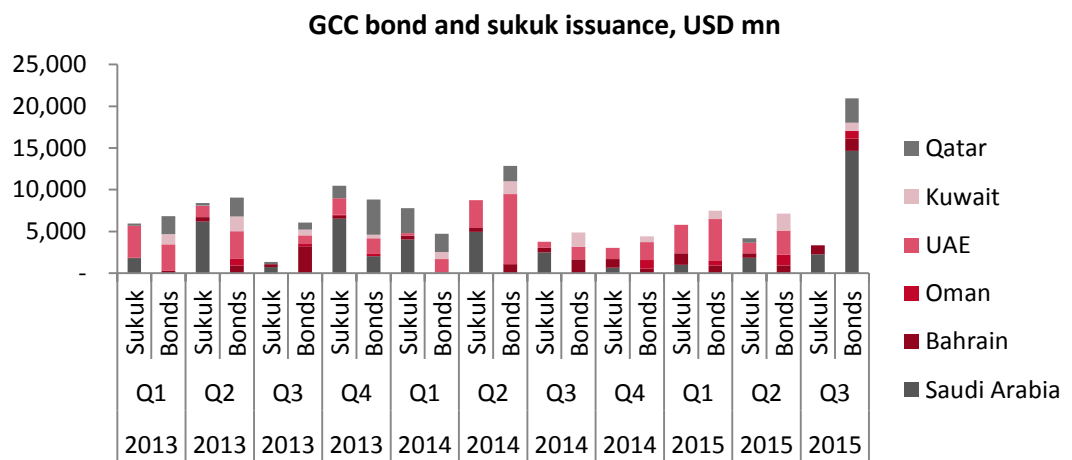
At a time of slower corporate issuance, however, the regional sovereigns have become much more active issuers:

- The Saudi government has resumed regular local currency issuance for the first time since 2007. Such bonds reportedly raised roughly USD15bn in July and SAR20bn in August and issuance is expected to continue on a monthly basis. The third monthly

issue – SAR20bn – in September reportedly involved five-, seven-, and ten-year tranches

- ▶ Oman has announced plans to float its first sovereign sukuk in the local market
- ▶ Kuwait is preparing regulations for sovereign sukuk issuance

GCC bond and sukuk issuance (USD mn)



Source: Zawya

Implications for Bahrain

The regional economy looks likely to remain resilient. This should support activity in the highly regionally integrated Bahraini economy.

- ▶ Regional tourist flows have remained strong
- ▶ Investor interest in new real estate and infrastructure projects is likely to continue even if oil price volatility curbs liquidity somewhat

BAHRAIN

GROWTH ACCELERATES IN Q2

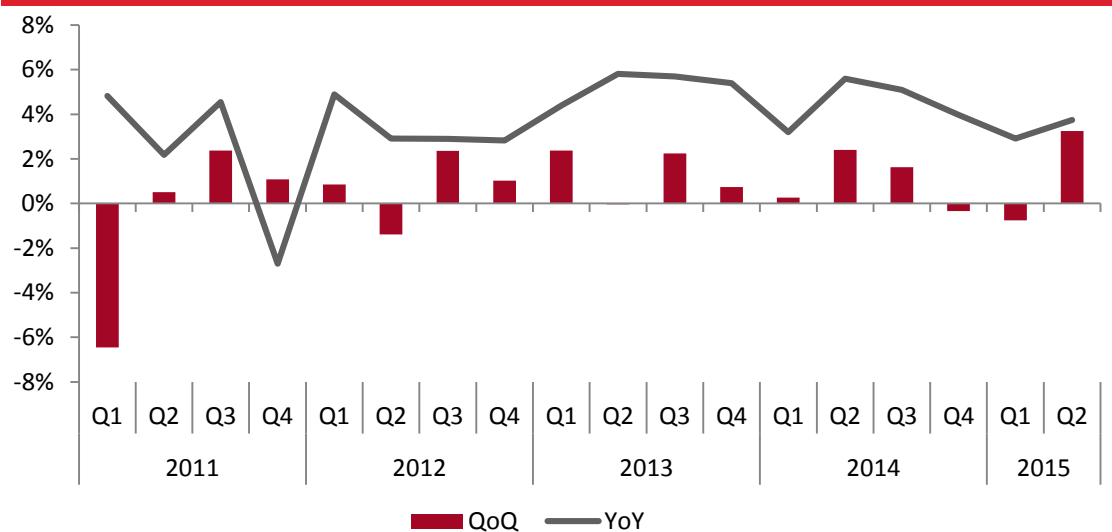
The Bahraini economy saw a clear acceleration in growth during Q2 led by a seasonal improvement in the oil and gas sector

Bahrain's economy picked up momentum in the second quarter in the year as headline real GDP expanded by an annual 3.7% YoY. This marked a clear acceleration from the 2.9% growth registered during the beginning three months of the year. The QoQ growth rate saw a sharp reversal from a 0.8% contraction in Q1 to 3.3% growth in Q2. The annual pace of growth during the first half of the year taken as a whole was 3.3%.

Growth in the non-hydrocarbons sector has remained fairly consistent so far this year. Bahrain's non-oil economy expanded by an annual 4.9% in Q1 and by 4.4% YoY in Q2. The annual pace of growth during the first six months of the year taken together was 4.7%.

By contrast, the performance of the oil sector has seen much more seasonal variation due to maintenance-related issues. After a 5.6% YoY contraction, the sector posted 1.4% YoY growth in Q2. During the first half of the year, the oil and gas sector contracted by 2% as compared to the first half of 2014.

Real GDP quarterly growth



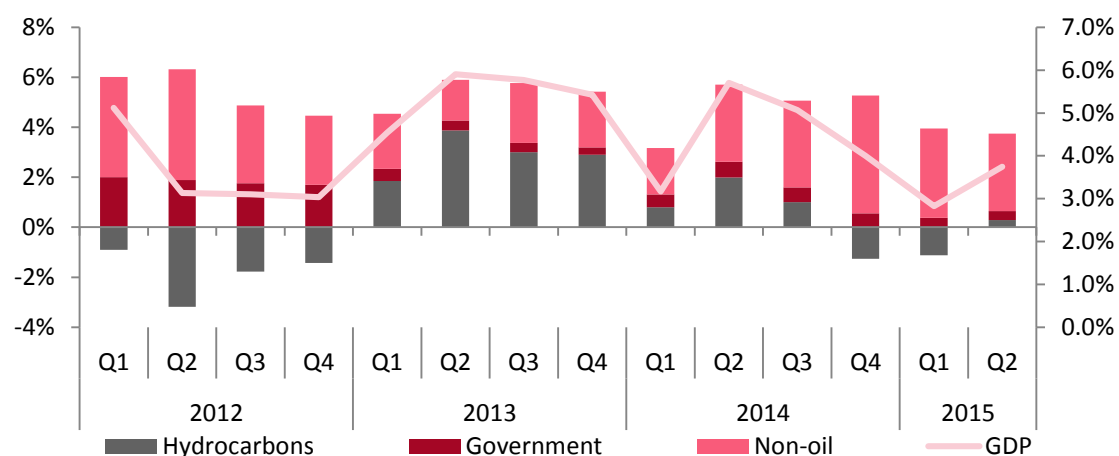
Source: Central Informatics Organisation

Non-oil growth remains firm

Non-oil growth has remained consistent and broad-based during the first half of the year

The non-hydrocarbons sector has been consistently at the forefront of growth in Bahrain since early 2014. This pattern was observed also in Q2 even in the face of a clear turnaround in oil and gas production. The non-oil private sector accounted for 3.1 percentage points of YoY growth in Q2 as compared to a mere 0.3 percentage point contribution for oil and gas. The proportion coming from government services was 0.4 percentage points, much in line with the variation between 0.3 and 0.6 percentage points seen since 2013.

Breakdown of quarterly growth (in real terms, YoY)



Source: Central Informatics Organisation

Reflecting the pattern of recent years, growth in Bahrain was very broad-based during Q2. Transportation and communications emerged as the fastest growing single sector with a YoY growth rate of 6.7%. Reflecting the positive momentum in the communications segment, Bahrain Telecommunications Co (Batelco) reported a 27.5% increase in its profit in Q2. In line with established trends, the construction sector as well as social and personal services (mainly private health care and education) were once again among the top performers expanding at 6.4% and 6.2% YoY respectively. Hotels and restaurants grew by 5.7% between April and June compared to the same period in 2014. The real estate and business activities sector registered a 3.7% YoY growth rate.

YoY real growth of key sectors, 2012-2014

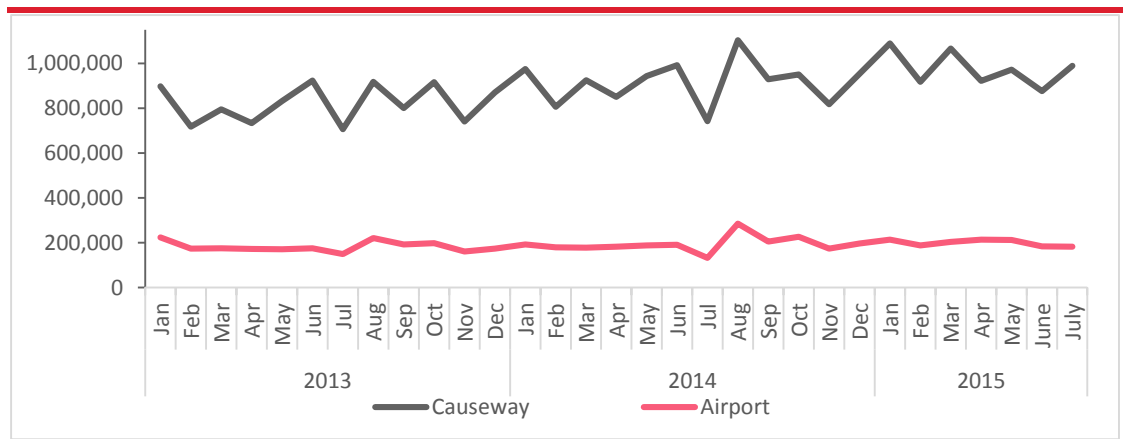
	2012			2013				2014				2015	
YoY growth	Annual	Annual	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Crude Pet. & Nat. Gas	-8.5%	15.3%	3.0%	4.1%	9.9%	4.7%	-5.9%	-5.6%	1.4%				
Manufacturing	4.7%	3.6%	3.8%	0.4%	3.8%	3.5%	7.4%	5.9%	4.1%				
Construction	4.1%	2.7%	7.1%	1.2%	3.4%	12.1%	12.3%	7.7%	6.4%				
Trade	5.9%	1.6%	4.0%	3.9%	3.1%	4.4%	4.4%	2.7%	2.8%				
Hotel & Rest.	11.2%	5.6%	4.1%	1.1%	5.5%	2.7%	7.1%	9.4%	5.7%				
Trans. & Comm.	4.3%	3.2%	6.5%	5.3%	6.9%	4.4%	9.7%	6.9%	6.7%				
Social & Pers. Serv.	12.4%	6.6%	7.7%	7.4%	8.2%	6.7%	8.7%	7.6%	6.2%				
Real Est. & Bus. Act.	3.6%	2.4%	4.0%	3.7%	3.8%	3.9%	4.6%	3.8%	3.7%				
Finance	4.0%	2.3%	3.6%	2.2%	4.1%	3.8%	4.3%	1.6%	2.1%				
Government	15.7%	3.0%	4.5%	3.9%	4.9%	4.6%	4.4%	2.8%	2.8%				
Other	7.0%	1.6%	7.7%	4.7%	4.8%	10.7%	10.2%	11.6%	11.4%				
GDP	3.6%	5.4%	4.5%	3.2%	5.7%	5.1%	4.0%	2.8%	3.7%				

Source: Central Informatics Organisation

The Transportation and Communications sector was the fastest growing in Q2

Growth within the tourism sector has remained brisk with continued gains in visitor numbers. The month of July marked the Eid al Fitr holiday seasons which helped push up the number of arrivals via the King Fahad causeway by 13% MoM. In YoY terms, growth in July reached 33%. Similarly, YoY growth in the number of arrivals via airport increased by 38% in July.

Monthly tourist arrivals in Bahrain by port of entry, 2013-2015



Source: Ministry of Interior

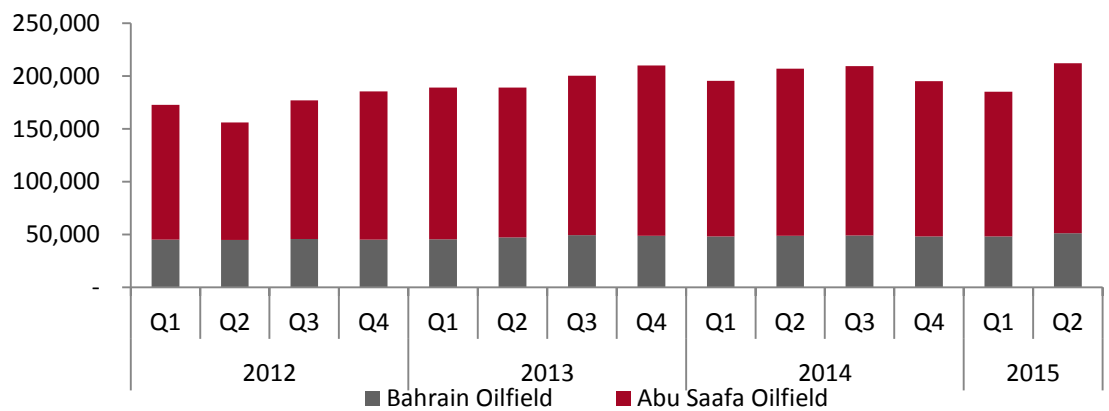
A sharp rebound in oil production

Following a seasonal maintenance-related slowdown in the offshore Abu Sa'afah Field in Q1, production rebounded sharply in Q2. The pronounced turnaround in fact took the Abu Sa'afah average output beyond the standard 150,000 b/d in a 1.4% YoY increase. This stood in marked contrast to the 5.6% YoY decline witnessed in Q1 and translated into a very high QoQ growth rate of 15.2%. This followed a fall of 7.3% in the first quarter.

The combined oil output from Abu Sa'afah and the onshore Bahrain Field reached 212,272 b/d in Q2, the highest figure recorded since the Bahrain Field rehabilitation efforts began. The average output from Abu Sa'afah during the quarter was 160,840 barrels, close to the 161,065 b/d peak seen in 4Q13. This marked a 17% increase on the 136,935 b/d average seen in Q1. The production of the Bahrain Field increased fairly sharply from 48,242 b/d in Q1 to 51,433 b/d in Q2, a figure that in fact marked the highest daily production recorded in years. In year-on-year terms, onshore oil production was up 5%.

While offshore oil extraction was affected by seasonal maintenance in Q2, onshore extraction has remained robust

Quarterly oil output (barrels per day)



Source: National Oil and Gas Authority

Non-oil growth to remain at the forefront

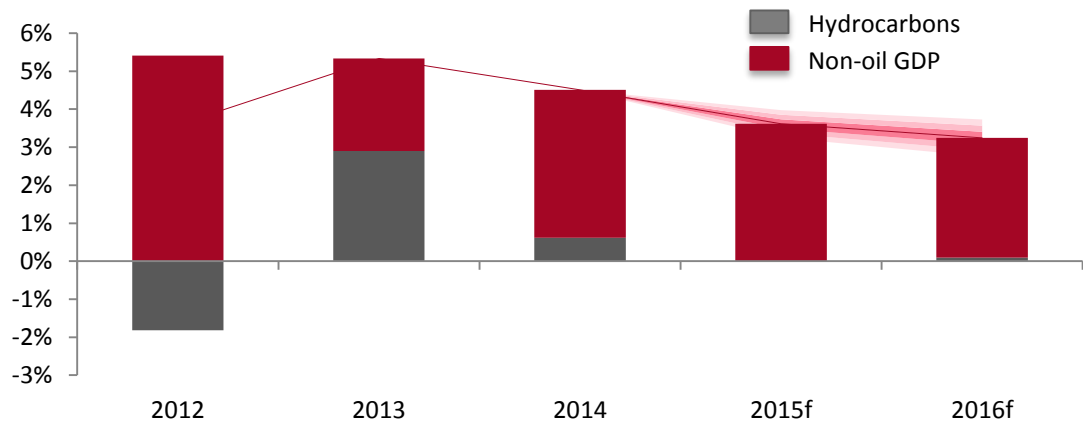
Economic growth in the Bahraini non-oil sectors has remained robust in the first half of the year and seems consistent with our overall projection of 4.6% for the year as a whole. Even as market volatility may have tested sentiment at times, growth is likely have benefited from the belated approval of the 2015/16 state budget as well as the progressive activation of the large infrastructure project pipeline. The continued strong momentum of the construction sector, with YoY growth in H1 of 7%, supports this assessment. Other sectors that are expected to lead growth include social and personal services, transportation and communications, and hotels and restaurants. In spite of the strong performance of the oil sector in Q2, we maintain our assumption of flat output during the year as a whole. This would translate into headline growth of 3.6% during the year as a whole.

In view of the renewed oil price relapse this summer, we have revised downward our price assumption for 2015 to USD 60/barrel in 2015. The lower export receipts are expected to reverse the current account position to a small deficit, much in line with regional trends. Similarly, we increase the fiscal deficit projection for 2015 to 7.5%.

	2013	2014	2015f	2016f	2017f
Real GDP growth, %	5.4%	4.5%	3.6%	3.2%	2.8%
Non-hydrocarbons sector	3.1%	4.9%	4.6%	3.9%	3.4%
Hydrocarbons sector	15.3%	3.0%	0.0%	0.4%	0.5%
Nominal GDP growth, %	8.4%	2.9%	-3.2%	8.6%	7.9%
Inflation (CPI %)	3.2%	2.8%	3.0%	3.0%	3.0%
Current account (% of GDP)	7.8%	3.3%	-2.6%	-0.5%	1.3%
Fiscal balance (% of GDP)	-3.3%	-3.6%	-7.5%	-3.4%	-0.6%
Crude Oil Arabian Medium (USD)	106.4	96.0	60.0	70.0	80.0

Momentum in the non-oil economy looks likely to hold up well due to the build-up of infrastructure spending

Projected GDP growth



Source: Central Informatics Organisation, EDB estimates

Important projects move ahead

Large infrastructure projects have emerged as an important pillar of non-oil activity in Bahrain, a pattern that is expected to further increase in importance in the near- to medium-term. In general, the positive price dynamics in the real estate sector are supporting a number of new projects. At the same time, a formal resolution mechanism for stalled projects has led to the re-initiation of several large-scale developments that had been put on hold following the economic downturn in 2008. The Ministerial Committee for Services and Infrastructure has engaged the developers of the Sunset Hills, Villamar, and Riffa Views project to develop a time frame for completion. Gulf Holding, the company developing Villamar, announced that it expects the central Manama project to be completed within the coming 24 months.

In another important sign of positive momentum in the real estate sector, the Bin Faqeeh Real Estate Investment Company in September announced the initiation of its “Water Bay” project, the first residential complex in the Bahrain Bay development. The project will feature three 10-storey residences with around 600 luxury apartments and a retail floor. Project construction is expected to start later in 2015 and is scheduled for completion in 2017.

In the tourism sector, the Government’s non-oil holding company Mumtalakat announced that it will open a luxury water front hotel in partnership with Thailand-based Minor Hotel Group. The facility will be located in the Durrat al Bahrain development in the south of Bahrain. The project is expected to be completed by 2018. In a landmark development for the downstream oil sector, Saudi Aramco and Bapco in September signed an agreement to build a larger pipeline to supply the Bapco refinery. The region’s first refinery is itself undergoing a capacity increase and continued modernization. The new pipeline will have a capacity of 350,000 b/d and an estimated budget of USD300mn. It will replace an older overland connection which carried 230,000 b/d. The Bapco refinery currently processes 260-280,000 b/d of crude and will see its capacity expanded to up to 400,000 b/d.

A number of high-profile construction projects received the green light in Q3

Foreign trade data reflects strong non-oil growth

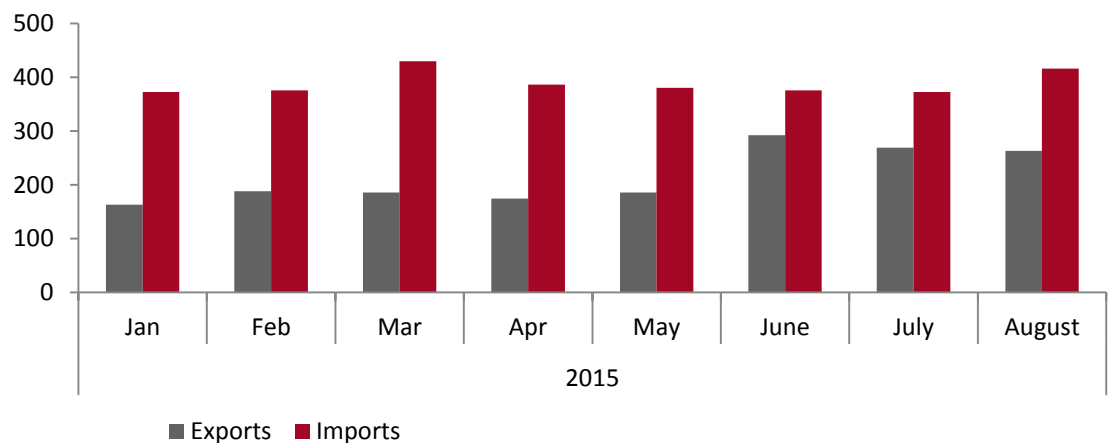
Growth in trade volumes has reflected the strength of the non-oil economy

Foreign trade volumes in recent months have remained on an upward trajectory, above all thanks to the increased non-oil exports. The increase in non-oil exports became particularly evident in a summer with a jump from BHD186mn in May to BHD292.6mn in June. The aggregate value of non-oil merchandise exports during the first eight months of the year reached BHD1.72bn.

The top three countries receiving Bahrain's non-oil exports are Saudi Arabia, UAE, and the United States. Saudi Arabia is the main recipient of Bahrain's non-oil exports holding a share of 65% of total non-oil exports between January and August 2015. Total non-oil exports to Saudi Arabia YTD amounted BHD1.1bn. The UAE holds the second largest share at 17% followed by the United States (10%) which received a total of BHD179mn worth of non-oil goods during the first eight months of 2015.

Total imports of Bahrain reached BHD3.11bn during the first eight months of the year. In August, total value of goods imported stood at BHD416.5mn in a sharp 112% increase from July. China is the biggest importer to Bahrain as evident by the BHD407mn worth of good imported to Bahrain between January and August this year. China holds a share of 13% of total imports. The UAE is the second biggest importer to the country as its imports were valued at almost BHD3mn this year. The United States, Japan, Australia, and Saudi Arabia are within the top countries that import to Bahrain with each sending around BHD200-250mn worth of goods as of August 2015.

Non-oil merchandise exports and imports, 2015 (BHD mn)



Source: Central Bank of Bahrain

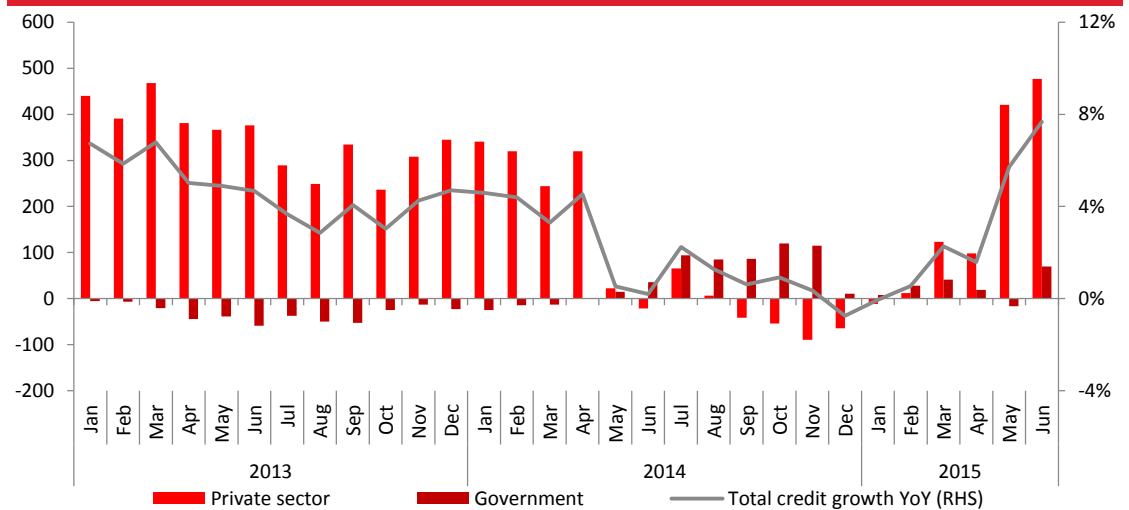
Credit activity shows momentum

Bahraini banks remain in a strong position to boost lending

The Bahrain banking has continued its strong performance in recent months. The summer months saw a pronounced increase in bank lending which accelerated from an annual pace of 5.7% in June to 7.7% in July. This was the fastest pace recorded since October 2012. Private sector loans had increased by 6.9% during the year to July and reached a total of BHD7,114.9mn. Lending to the general government sector increased in June to BHD281.2mn, a 33% gain in YoY. As of July, business loans made up 54.2% of the total loan book of Bahraini retail banks. The share of personal

loans was 42.1% and that of lending to the public sector 3.7%. These proportions have remained broadly static in recent months.

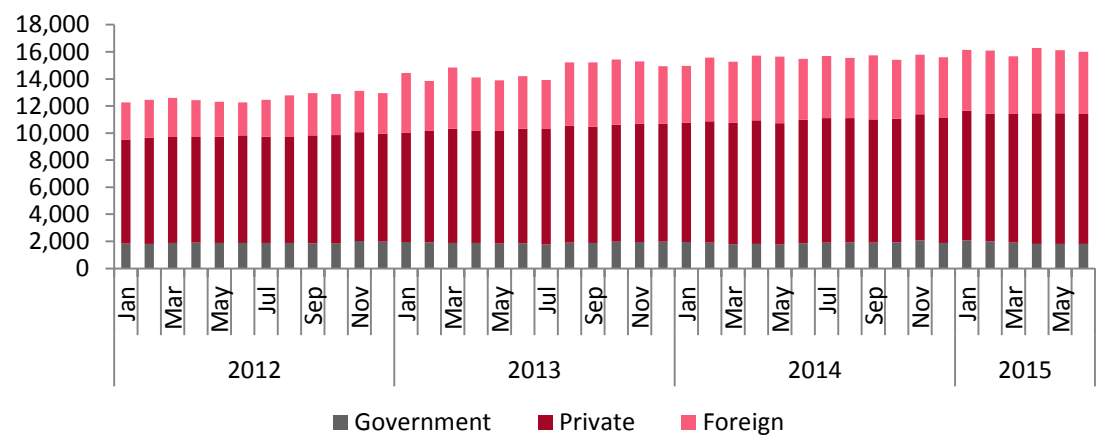
Year-on-year credit growth to the private sector and government (BHD mn)



Source: Central Bank of Bahrain

Banks deposit liabilities have remained generally stable throughout 2015. Total deposits slightly declined from their April peak of just under BHD16.3bn to BHD16bn in June, a figure that nonetheless still represented a 3.3% YoY increase. Private sector deposits, which constitute the largest share, have remained stable since April and stood at BHD9.6bn in June. This nonetheless marked a 5% increase as compared to the same period in 2014. Deposit liabilities to the Government declined by 3% YoY in June, having hovered around BHD1.8bn between April and June. The loan-to-deposit ration of Bahraini retail banks was 47.9% in June as compared to 45.9% a year earlier.

Deposit liabilities to non-banks (BHD mn)



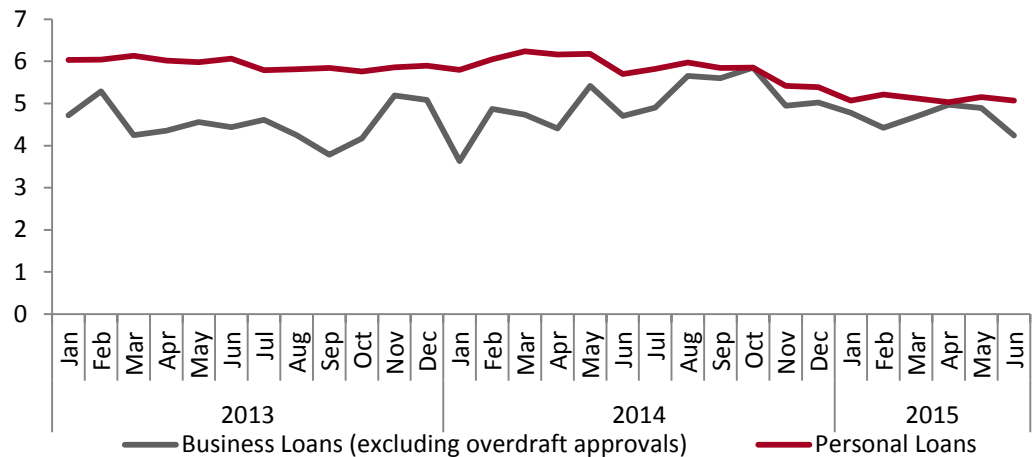
Source: Central Bank of Bahrain

The cost of borrowing has remained low

Interest rates on business and personal loans continued their slight downtrend since December 2014. After converging in April at around 5%, business loans declined to 4.2% in June, the lowest

average in 2015 so far. As for personal loans, interest rate increased slightly in May only to revert again to 5.1% in June.

Average rate of interest on credit facilities (conventional retail banks)



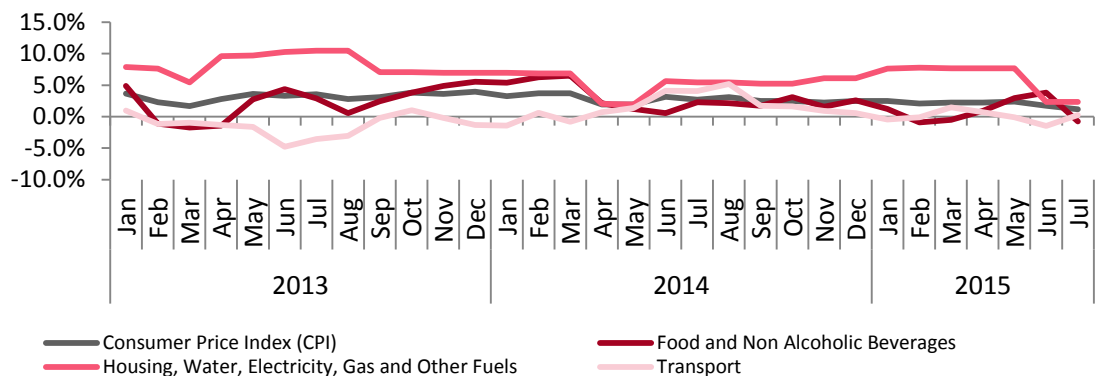
Source: Central Bank of Bahrain

Consumer price pressures remain subdued

Inflationary pressures have diminished clearly in the main areas of housing and food costs

Mirroring region-wide trends, price pressures in Bahrain have remained very moderate in recent months. The headline consumer price inflation has slowed down to 1.1% YoY in July, the lowest rate recorded in recent years and clearly below the 2% average recorded between January and July. The major decline was in the prices of food and non-alcoholic beverages which fell by 0.7% YoY in July down from a 3.8% YoY increase in June. As noted above, this is in line with the global disinflation seen in soft commodities. The inflation rate for the other main component of the CPI basket – housing, water, electricity, gas, and other fuels – remained flat at 2.3% in June and July following faster 6% average increases in the first half of the year. After declining by 1.5% in June, prices of the transport sector increased by 0.3% YoY in July.

Sector-specific consumer price inflation indicators (YoY, %)

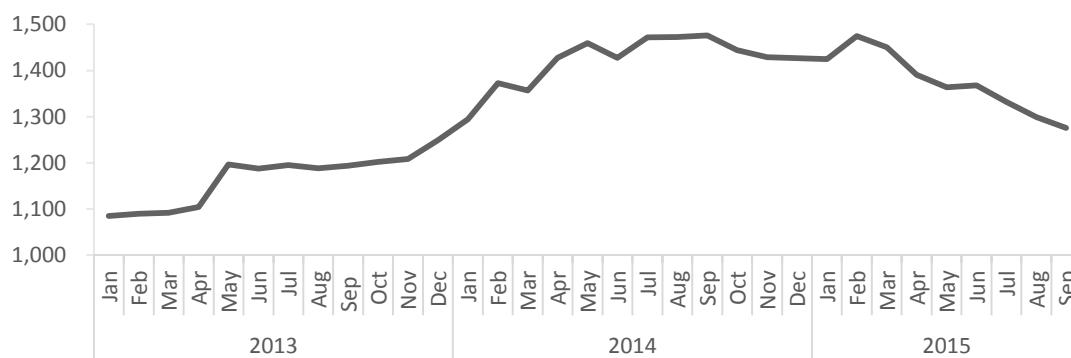


Source: Central Informatics Organisation

Capital market uncertainty

After a strong year in 2014, the Bahrain equities market has been affected by the region-wide pattern on volatility linked to lower oil prices. During the first nine months of the year, Bahrain Bourse saw a 10.6% decline in its benchmark index. The Bahrain All-Share Index fell to 1,275.89 points at the end of September down from a 1,450 point peak in March. Market capitalization slightly declined to BHD7,518.1mn by the end of Q2 from BHD8,539mn in Q1. The value of shares traded stood at BHD21.6mn in September.

Bahrain All-Share Index



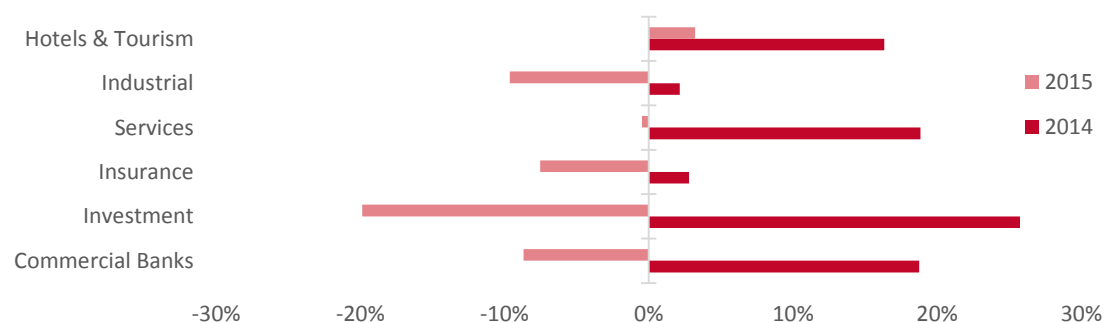
Source: Bahrain Bourse

Source: Bahrain Bourse

Reflecting the market-wide trend, most sectors on Bahrain Bourse have posted declines in 2015. The main exception to this trend was the Hotels and Tourism index which by increased by 3% YTD in September. A 20% YTD decline in the Investment sector reversed some of the 28% gain seen in 2014. Commercial banks declined by 9% in 2015 YTD while industrial sector declined by 10%

Bahrain Bourse recently launched the Bahrain Islamic Index, which includes the stocks of listed companies that operate in compliance with Shari'ah law. This index purports, among other things, to encourage Islamic Banks to take part in the capital market through mutual funds and securities that are Shari'ah compliant.

Sectoral stock market indices, 2014-2015 YTD September



Source: Bahrain Bourse

Tourism index registered the only growth in Bahrain Bourse in the months leading to September

In the fixed income market, the issuance of conventional treasury bills and Shari'ah compliant sukuk by the Central Bank of Bahrain has continued on an established pattern. Aside from the regular short-term issuances, Bahrain undertook significant sovereign issuance in the conventional bond space as the Central Bank issued three government development bonds in July and August valued at USD927.644mn. The average interest rate on these bonds ranged between 3-4%.

Bahrain was the only other GCC country to issue sukuk in Q3. The Central Bank of Bahrain was responsible for issuing seven sukuk offerings worth USD1,079.6mn in value, a 102% increase from a total value of USD533.2mn in Q2. The CBB issued a long-term *sukuk al ijarah* in July worth BHD200mn for a period of 10 years at an average interest rate of 5%.

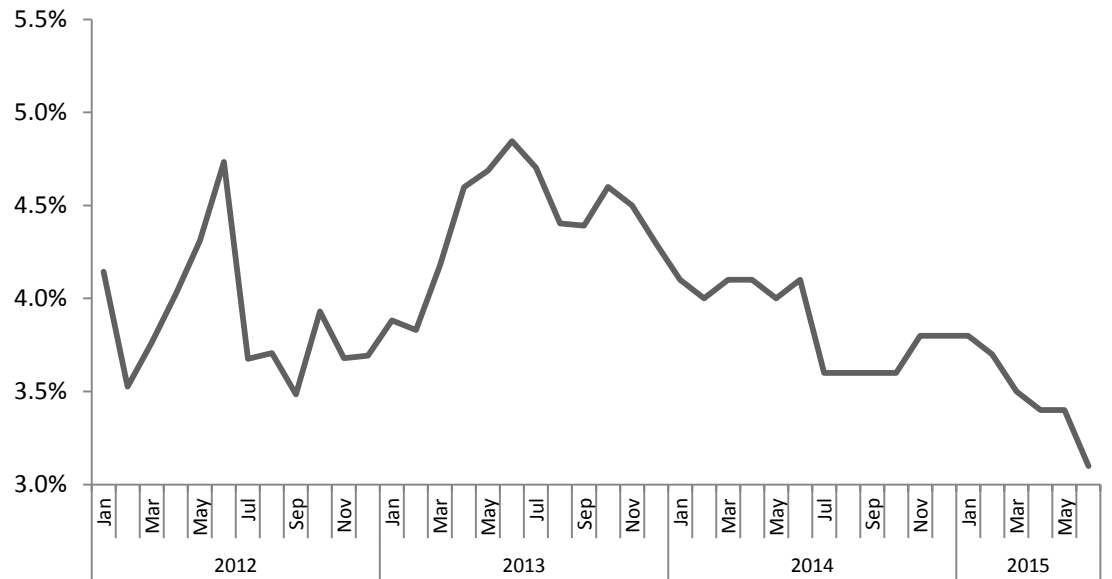
Issue Date	Issue	Value, BHD mn	Maturity, days	Average interest/ profit rate, %	Average price, %	Over- subscription , %
23 Sep 2015	Sukuk Al-Salam No.173	43	91	1.41		159
17 Sep 2015	Sukuk al ijarah No. 121	26	182	1.40		100
16 Sep 2015	Treasury bill No. 1565	70	91	1.41	99.646	109
9 Sep 2015	Treasury bill No. 1564	70	91	1.38	99.652	100
6 Sep 2015	Treasury bill No. 1563	35	182	1.39	99.301	133
2 Sep 2015	Treasury bill No. 1562	70	91	1.33	99.666	100
26 Aug 2015	Sukuk Al Salam No. 172	43	91	1.35		155
19 Aug 2015	Treasury bill No. 1561	70	91	1.31	99.669	100
13 Aug 2015	Sukuk al ijarah No. 120	26	182	1.31		105
12 Aug 2015	Treasury bill No. 1560	70	91	1.34	99.663	116
9 Aug 2015	Treasury bill No. 1559	35	182	1.31	99.344	200
5 Aug 2015	Treasury bill No. 1558	70	91	1.28	99.678	102
4 Aug 2015	Gov. Dev. Bond No. 10	100	3 years	3.00		168
30 Jul 2015	Gov. Dev. Bond No. 9	150	5 years	4.00		121
29 Jul 2015	Treasury bill No. 1557	70	91	1.20	99.697	100
22 Jul 2015	Sukuk Al Salam No. 171	43	91	1.20		330
16 Jul 2015	Sukuk al ijarah No. 119	26	182	1.28		194
15 Jul 2015	Treasury bill No. 1556	70	91	1.22	99.693	100
14 Jul 2015	Gov. Dev. Bond No. 8	100	2 years	2.75		302
9 Jul 2015	Long-term Sukuk al ijarah No. 23	200	10 years	5.00		100
8 Jul 2015	Treasury bill No. 1555	70	91	1.20	99.698	149
5 Jul 2015	Treasury bill No. 1554	35	182	1.28	99.359	147
1 Jul 2015	Treasury bill No. 1553	70	91	1.21	99.695	222

Source: Central Bank of Bahrain

Labour market strength

According to the Social Insurance Organization, the labor market expanded markedly in the second quarter of 2015. Private sector employment stood at 556,116, up 6.9% over the same period in 2014. This was mainly driven by the increase in expatriate labor, with growth at 7.6%. Bahraini employment in the private sector saw a robust increase of 3.6% YoY in Q2.

Unemployment rate (%)



Source: Ministry of Labour

Unemployment has declined sharply in recent months

The Bahraini labour market has generally continued to strengthen in recent month, mirroring the resilience of the non-oil economy and the build-up of infrastructure projects. The official unemployment rate fell to its lowest point in recent years in June, at 3.1%. The number of unemployment support claimants fell from almost 7,500 in January to just over 6,000 in June. Furthermore, the Ministry of Labour's vacancy bank reported 5,269 vacant positions in June, up 22% from January.

Number of vacancies reported by the Ministry of Labour



Source: Ministry of Labour

External assessments

The latest Global Competitiveness Report issued by the World Economic Forum ranked Bahrain in the 39th position globally. Bahrain improved five positions from 44th last year and advanced to the “Innovation-driven” stage of development alongside economies such as Singapore and Germany. The progress is a result of improvements in the *higher education and training, business sophistication and health and primary education* pillars. The Global Competitiveness Index assesses factors that drive productivity and prosperity in 140 economies.

Bahrain’s position improves in the latest international indices

The 2015 Global Innovation Index released in September measures innovation capabilities and performance of 141 economies. The index is an average of components of innovation input (institutions, human capital and research, infrastructure, market sophistication, and business sophistication) and innovation output (knowledge and technology, and creative outputs). The ranking of Bahrain improved three places from 62nd in 2014 to 59th in 2015. The country’s strongest areas included availability of government online services, widespread ICT usage and access, and ease of tax payments.

The Fraser Institute has published the 2015 edition of the Economic Freedom of the World report ranking 157 countries according to their economic freedom. The index assesses countries on several indicators, notably size of government, strength of legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulations of credit, labor, and businesses. The 2015 index ranks Bahrain in the 24th position globally. Bahrain’s strong position is attributed to the steady state of money supply growth and stability of the inflation rate, prevalence of banks and the freedom to won foreign currency bank accounts, and an efficient credit market and labour regulations. The Kingdom is ranked fourth in the Middle East and North Africa region.

Bahrain news

- ▶ In efforts to provide greater transparency within the banking sector, the CBB has announced that it is making the non-financial information provided by the licensees regarding activities, controllers, and approved persons publically available on its website.
- ▶ Gulf Air’s 2014 financial results indicated a reduction in their losses from BHD93.3mn to BHD62.7mn. Total revenue passengers increased by 15.4% during the year due to introducing 6 new routes.
- ▶ Gulf Air announced plans to acquire 50 new Airbus planes as part of its fleet development
- ▶ ALBA’s (Aluminium Bahrain) net income nearly doubled in Q2. Net income over the past three months rose to BHD29.8mn from BHD15.2mn

- ▶ The Municipalities and Urban Planning Ministry announced the construction of an interchange between Hamad Town roundabouts 13-18 to Shaikh Khalifa highway. The project is estimated to cost some BHD 7.5mn (USD19.9mn)
- ▶ The construction of a fourth causeway between Muharraq and Manama was announced in August

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CONTACT

Bahrain Economic Development Board
7th, 8th, 12th, 13th and 16th floor
Seef Tower
P.O. Box 11299
Manama
Bahrain

T: +973 17589962

Email: economic.quarterly@bahrainedb.com