EDB
ECONOMIC DEVELOPMENT BOARD
BAHRAIN

Bahrain Economic Quarterly

September 2018

SUMMARY

BAHRAINI GROWTH REBOUNDS IN Q2

The second quarter of 2018 saw a sharp acceleration in Bahrain's growth momentum from an unusually subdued Q1. The improvement took place against the backdrop of a stronger regional economy and a more benign oil price environment.

- **Headline growth in Bahrain accelerated sharply in Q2.** The overall annual real growth rate rebounded to 2.4% from a YoY contraction of 1.2% in Q1. The acceleration was led by the normalization of oil production but also benefited from markedly faster non-oil growth
- **Growth continues to be firmly led by the non-oil sector of the economy.** Non-oil growth in Q2 reached 2.8%. While still below the recent trend, a clear acceleration in construction activity points to somewhat stronger momentum in 2H18. During 1H18 as a whole, the non-oil economy expanded by 2.3%
- **Growth in the GCC is accelerating, although the non-oil rebound is proving weaker than expected.** Growth drivers are strengthening virtually across the board and benefiting from the renewed expansion in oil production along with higher prices. The non-oil sector is seeing faster growth but the adjustment to the new fiscal realities is proving uneven and gradual, which is prompting additional government stimulus in part of the region
- **The global backdrop, while generally benign, is beginning to look more challenging than in the recent past.** The strong performance of the US economy is driving monetary tightening by the Federal Reserve, which in turn is challenging capital flows to the emerging markets. Trade disputes have emerged as a serious source of uncertainty and have the potential to weaken the global growth momentum further

Bahrain economic outlook

	2016	2017e	2018f	2019f
Real GDP growth, %	3.5%	3.7%	3.1%	3.0%
Non-hydrocarbons sector	4.3%	4.8%	3.8%	3.6%
Hydrocarbons sector	-0.1%	-0.7%	-0.5%	0.0%
Nominal GDP growth, %	3.5%	9.6%	8.5%	5.6%
Inflation (CPI %)	2.8%	1.4%	2.7%	3.3%
Current account (% of GDP)	-4.6%	-3.8%	-1.5%	-1.2%
Fiscal balance (% of GDP)	-13.5%	-10.1%	-7.2%	-5.4%
Crude Oil Brent (USD)	44	53	73	73

Source: Bahrain Economic Development Board estimates

GLOBAL ECONOMY

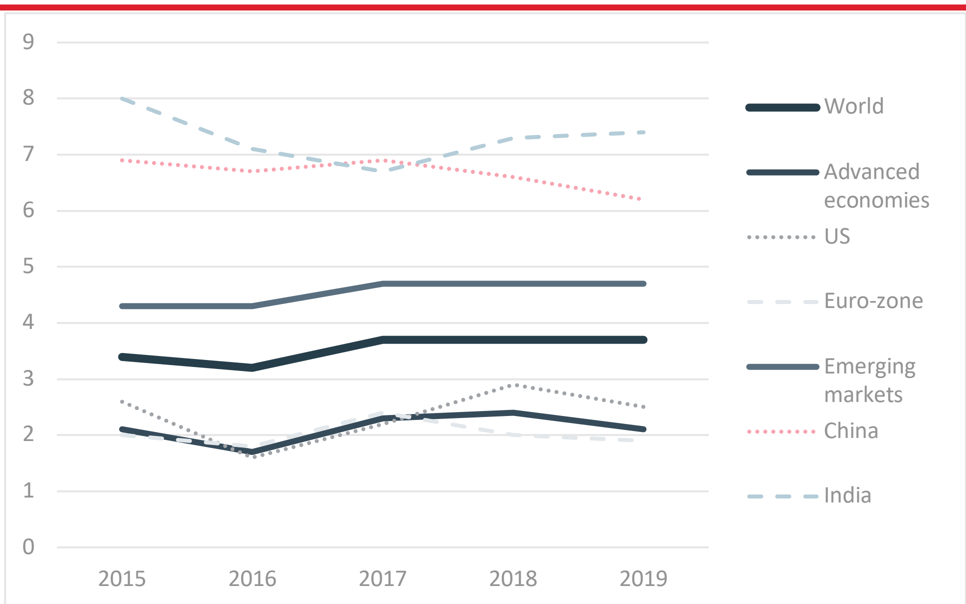
CLOUDS REAPPEAR

Monetary normalization and persistent trade disputes have led to some downward revisions of global growth projections

Financial markets globally have regained much of their forward momentum after a volatile summer. This rebound has been led above all by the advanced economies, especially the US markets continuing to test historic highs in spite an unusual backdrop in terms of political risk. Nonetheless, periodic market corrections have increased in frequency. While domestic political disputes remain a source of some concern, it is above the ongoing debates about international trade that are testing investor confidence. While the impact of these developments on financial markets has proven more muted than some had feared, they are nonetheless, along with the ongoing US monetary tightening, challenging market optimism about emerging markets. Especially countries with systemic current account deficits have been viewed as vulnerable and markets have come under particular strain in countries such as Argentina and Turkey.

While the global growth outlook remains generally favourable, the optimism of last year has become significantly more muted. The mounting economic risks and weaker growth performance of many countries have prompted some downward revisions in global growth projections. The International Monetary Fund recently reduced its global growth projections for the first time in two years. Global real growth of 3.7% is now projected for 2018 and 2019 alike, down by 0.2 percentage point on the previous forecast. The advanced economies are projected to grow by 2.4% this year, followed by 2.1% in 2019. Emerging market growth is expected to remain at 4.7%. Moreover, the global outlook is seen as subject to greater risks and uncertainty than before.

Global growth projections (%)



Source: World Economic Outlook, October 2018, International Monetary Fund

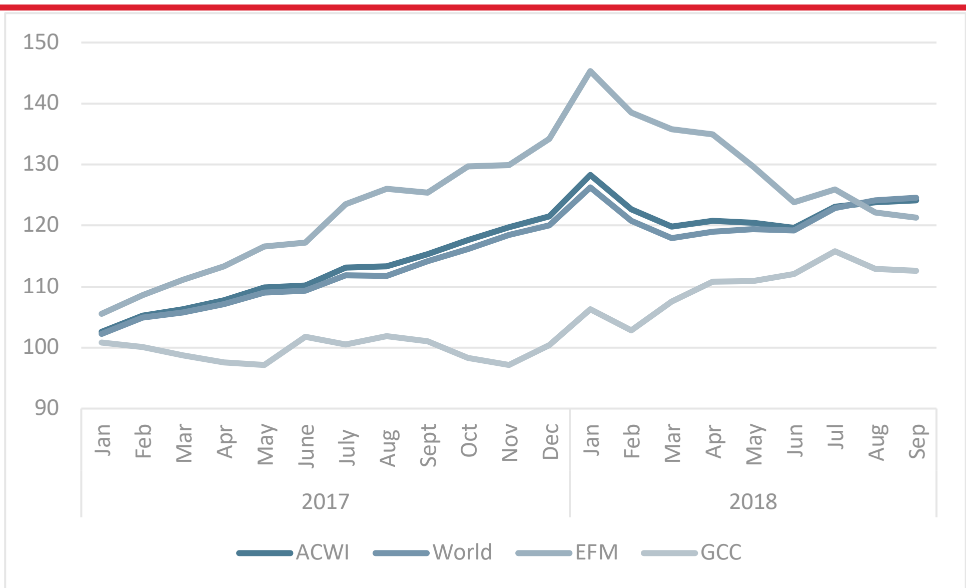
Mounting challenges

The outlook for the global markets is likely to be significantly shaped by the combination of gradual monetary normalization, notably in the US, and a continuing esclation in trade disputes. The Open Market Committee of the US Federal Reserve raised its policy rates by 25 basis points on 26 September, to a target range of 2-2.25%. With an optimistic growth projection foreseeing a 3.1% GDP expansion this year, the Fed maintained its hawkish bias. The long-term neutral rate was revised up to 3%. A further rate increase is viewed as likely in December. Furthermore, quantitative tightening is set to accelerate from a monthly pace of USD40bn to USD50bn in October.

The US Federal Reserve looks to set to continue its monetary tightening at a fairly brisk pace

The progressive withdrawal of the US monetary stimulus after a decade of ultra-loose monetary policy has exerted some negative pressure on emerging market assets since the beginning of the year. This has been particularly evident in countries with substantial or chronic current account deficits. In many emerging economies, foreign currency-denominated indebtedness grew rapidly during the long period of low rates, and the reversal of these capital flows now constitutes a potential vulnerability for many countries. At the same time, tighter liquidity conditions are likely to check emerging market growth. In some countries, currency depreciation has countered some of this impact but also increased the real value of external indebtedness.

Global equity market performance (Jan 2017 = 100)



Source: MSCI

Trade tensions between the US, China, and other countries have generally continued to mount in recent months. The one-time hope that higher tariffs on some products and trade partners might prove a temporary tactical maneuver have to date not been met. Especially the rhetoric between the US and China has escalated and periodic prospects of renewed negations have been thwarted.

President Trump imposed new tariffs on USD200bn worth of Chinese goods in late September. These are to be levied at a rate of 10%, which could rise to 25% next year unless a negotiated solution is found. China responded with a USD60bn package on some 5000 categories of goods, to be applied at 5-10%. The initial domestic impact of the Chinese tariffs is likely to be largely countered by the ongoing Renminbi depreciation. President Trump has continued to reiterate the possibility of further tariffs of Chinese products, mainly popular items such as consumer electronics which have been large excluded to date.

The potential economic impact of persistent trade tensions is significant. The IMF estimated that global growth could fall by more than 0.8% in 2020 and fall some 0.4% percentage points below its earlier trend in the longer run. The full implementation of the current plans risks reducing Chinese growth in 2019 by 1.6 percentage points while the US stands to lose 0.9 percentage points.

A higher price range for oil

The OPEC-led process of rebalancing the global oil markets was effectively accomplished this year and the benchmark oil prices have been rising fairly consistently throughout the year. Brent averaged just under USD79 per barrel in September, up 40.5% on just over USD56 a year earlier.

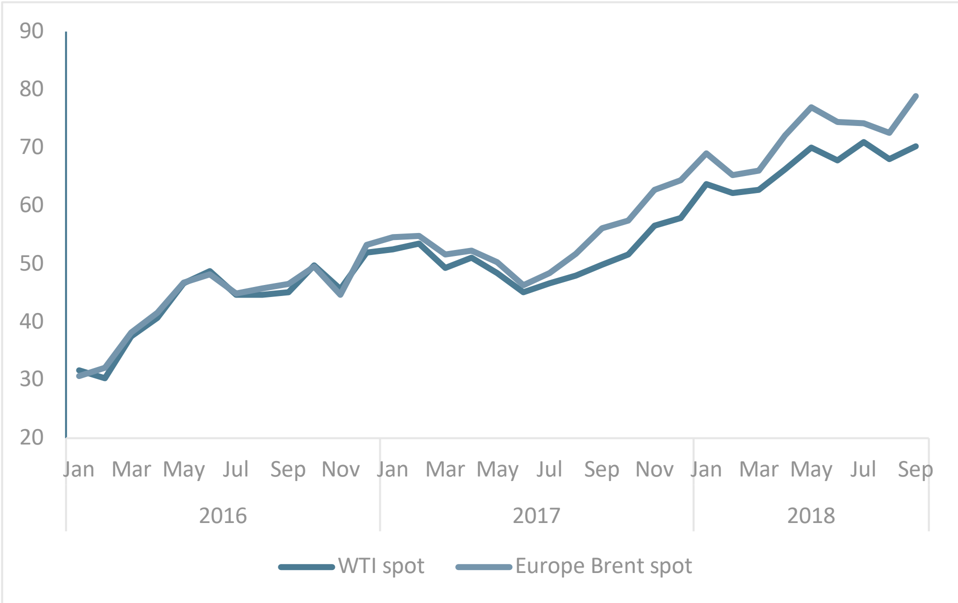
Oil prices have reached a higher range in Q3 and concerns about the demand outlook are for now being countered by worries about supply constraints

More recently, other factors have intervened to add further tightness into the markets:

- Significant supply disruptions have been observed in several countries and in many instances, these have proven more extensive and protracted than previously expected. These challenges have been particularly pronounced in Venezuela, Nigeria, and Libya. In combination, adverse developments in these three countries could reduce their collective exports by a total of 1.9 mbd. Venezuela alone is now producing less than 1.2 mbd, which is less than a third of the output level just two years ago. Further declines are expected
- The impending re-imposition of US sanctions against Iran will reduce the exports of a major OPEC producer. Some estimates now suggest that Iranian exports could fall below 1 mbd by November, which would mark a sharp drop from 2.3 mbd as recently as July
- There are significant limitations on the global spare capacity that can be both mobilized and brought to market in order to counter these downside supply risks. While the US is in a position to ramp up production, infrastructure constraints are making it difficult to export any incremental output. While erstwhile legal restrictions have been lifted, the US would struggle to expand exports much beyond the current level of 3.2 mbd. New investments are underway but unlikely to materially improve the situations less than two years from now. This will put an effective cap on near-term increases in US production.
- The sustainable spare capacity of OEPC is estimated at 2.8 mbd, most of it in Saudi Arabia. The Kingdom has indeed been ramping up its output close to all-time highs, but collectively, OPEC and its partners have been reluctant to boost production beyond the 1 mbd increment that was previously agreed

Going forward, the global demand outlook for oil is now looking more subdued, with weaker economic growth likely be reflected a slower expansion oil consumption. This may begin to exert some downward pressure on price next year. However, for instance the US Energy Information Authority projects a small increase in the Brent benchmark from USD74 per barrel this year to USD75 in 2018.

Monthly average crude oil prices (USD/barrel)



Source: US Energy Information Administration

Global oil demand and supply dynamics (mbd)

	IEA	OPEC	EIA*
2018 Global oil demand (mbd)	99.2	98.8	100.1
Advanced economies	47.7	47.8	47.6
Developing economies	51.5	51.0	52.5
China	12.4	12.7	13.9
2019 Global oil demand (mbd)	100.7	100.2	101.6
Advanced economies	47.9	48.0	47.9
Developing economies	52.8	52.2	53.6
China	12.9	13.1	14.3
2018 Global oil supply (mbd)	-	-	99.9
OPEC	-	32.7*	39.1
Non-OPEC	60.2	59.8	60.8
2019 Global oil supply (mbd)	-	-	101.8
OPEC	-	31.8*	38.7
Non-OPEC	62.0	61.9	63.1

*Differential between projected and non-OEPC production as well as OPEC non-gaseous liquids

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

Implications for Bahrain

The global backdrop now presents somewhat increased challenges even as growth dynamics remain positive:

- The expectation of further US interest rates increases will drive up the cost of capital at least gradually and curb the liquidity available to emerging economies through capital flows
- The continued tension in international trade may, if they persist, weaken global growth somewhat

THE GCC REGION

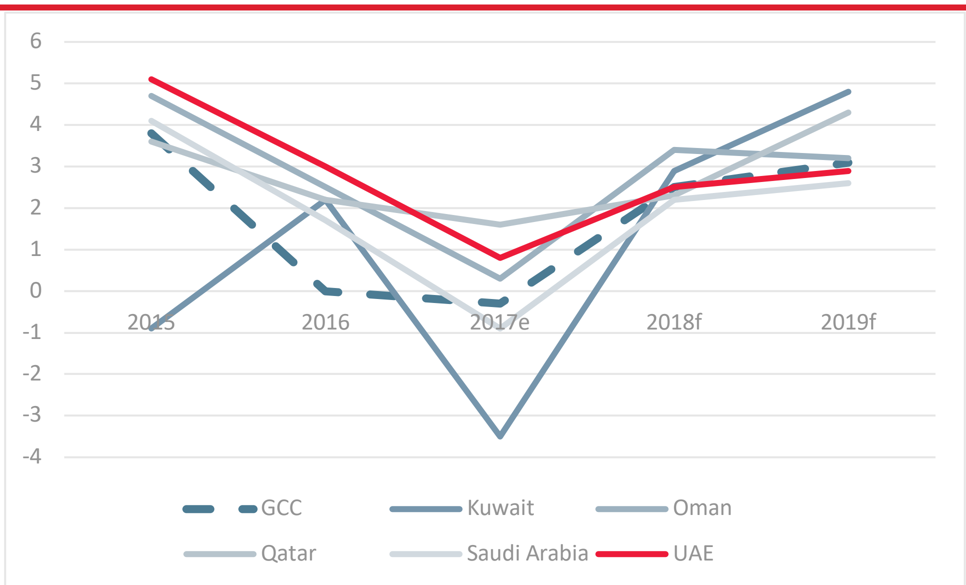
A GRADUAL RECOVERY

While a broad expansion is being observed across the GCC, the rebound is stronger in the oil sector of the economy

The GCC economies are amidst a clear recovery from the growth slowdown induced by lower oil prices and production levels in 2016-2017. The turnaround reflects the gradual adjustment of the private sector to the new, less permissive fiscal environment. However, the recovery has also benefited palpably from higher oil prices along with increased output by the regional OPEC heavyweights. Indeed, the acceleration in non-oil growth has proven fairly measured, which has prompted some of the regional governments to once again turn to fiscal and other stimulus measures.

Overall, headline GDP growth across the region is expected to accelerate from around zero in 2017 to the neighbourhood of 2.5% this year. This is likely to further accelerate to just above 3% in 2019. While these figures would mark a clear improvement on last year, they are not high by historical standards. This underscores the continued importance of structural reforms which are needed to strengthen the non-oil sector growth momentum and above all to boost the role of productivity-led growth.

GCC real growth dynamics, %



Source: Institute of International Finance

An uneven rebound

The GCC region is experiencing a robust cyclical recovery after a period of fiscal retrenchment. However, it is becoming increasingly obvious that the growth expectations articulated by observers earlier in the year are due a downward revision. While growth has benefited from the new, more favourable oil market realities, as well as some stimulus measures by the regional governments, non-oil growth has proven more lacklustre. Business confidence has rebounded but remains somewhat volatile whereas the growth in bank credit continues to be relative subdued by historical standards. At the same time, the progressive monetary tightening by the US Federal Reserve has been translated into a less permissive monetary environment also in the Gulf.

While most regional economies are expecting to see a clear acceleration in growth, the turnaround is set to be most pronounced in the countries with the largest oil sectors

All the regional economies can expect to post significantly faster growth this year than in 2017. The turnaround is particularly pronounced in Saudi Arabia where a 0.9% YoY contraction in 2017 is expected to give way to 2.2% growth this year. This can be expected to accelerate further toward 3% in 2019. Following a 3% contraction in the hydrocarbons sector last year, renewed growth of around 3% is projected for this year, to be likely followed by a further acceleration in 2019. Non-oil growth is due to pick from 0.9% in 2017 to the range of 2-2.5% this year and next.

Broadly comparable trends are likely to materialize in the UAE where historically subdued 0.8% growth last year is expected to accelerate to 2.5% this year and 2.9% in 2019. The Central Bank's Economic Composite Indicator pointed to 2.8% growth in Q2. The oil sector is set to rebound from a 3.0% drop last year to 1.5% growth this year. Non-oil growth should accelerate from last year's 2.5% to around 3% this year and 3.3% next.

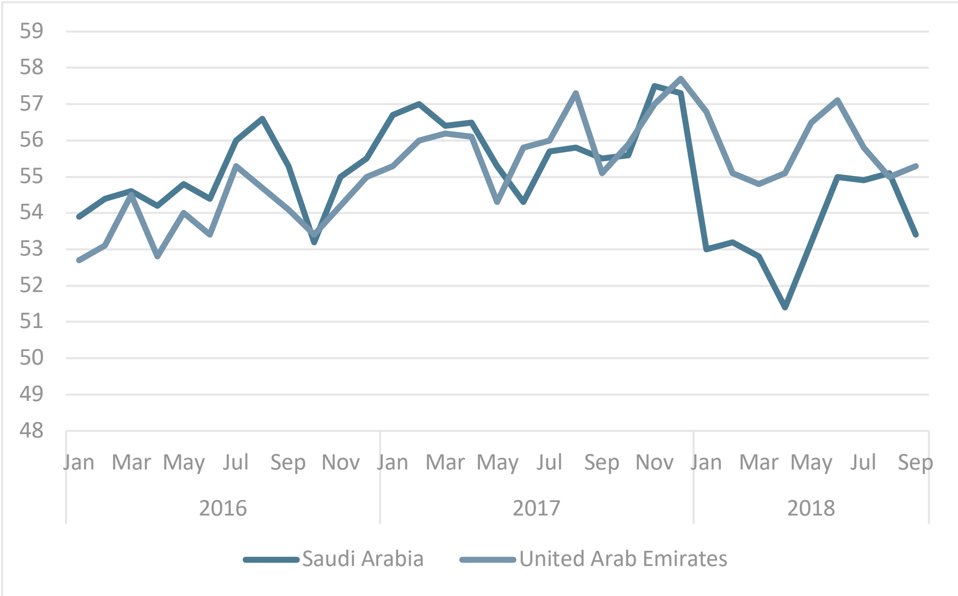
Kuwait experienced the largest correction in the region in its GDP last year. The 3.5% decline was due to the oil output cuts and he continued dominance of the oil sector in the country's GDP which contracted by 7.2%. The outlook for this year is much more favourable with headline growth set to accelerate to above 2.5% this year and further to some 3% next year. The Kuwaiti non-oil sector has been more resilient and, following 2.2% growth last year, is set to expand by around 3% this year and next.

The Omani economy experienced 0.3% growth last year but is on track for a clear rebound with 3.4% growth projected for this year. This is to be followed by 3.2% in 2019. Apart from relatively brisk, largely project-led, 3.5% growth in the non-oil sector, also the hydrocarbons sector is set to expand by 3.2% this year.

Growth in Qatar is set to mirror regional trends with an acceleration from 1.6% in 2017 to 2.5% this year. Non-oil growth, led by construction activity, is projected to accelerate from last year's 3.8% toward 4.5-5% this year. By contrast, the hydrocarbons sector, after a 0.7% contraction in 2017, will likely achieve only minimal growth this year.

Business confidence indicators in the region have mirrored the general trend of a gradual non-oil reocvery. The Markit Purchasing Managers' Indices fror both Saudi Arabia and the UAE have consistently pointed to a continued eocnomic expansion but have shown some volaitltiy. The Q3 average for Saudi Arabia was 54.5 and for the UAE 55.4. These figures were broadly in line with the 3Q17 reading but slightly lower in both cases. However, the Saudi reading compared favourable to the Q2 average of 53.2. BY contrast, the UAE reading for Q2 was slightly higher at 56.2. The Emirated NBD Dubai Economy Tracker reflected these trends. Its September reading of 54.4 was the lowest since April.

Emirates NBD Purchasing Managers' Index



Source: Emirates NBD, Markit

Oil production rebounds

Saudi oil production has rebounded to close to historic peak levels

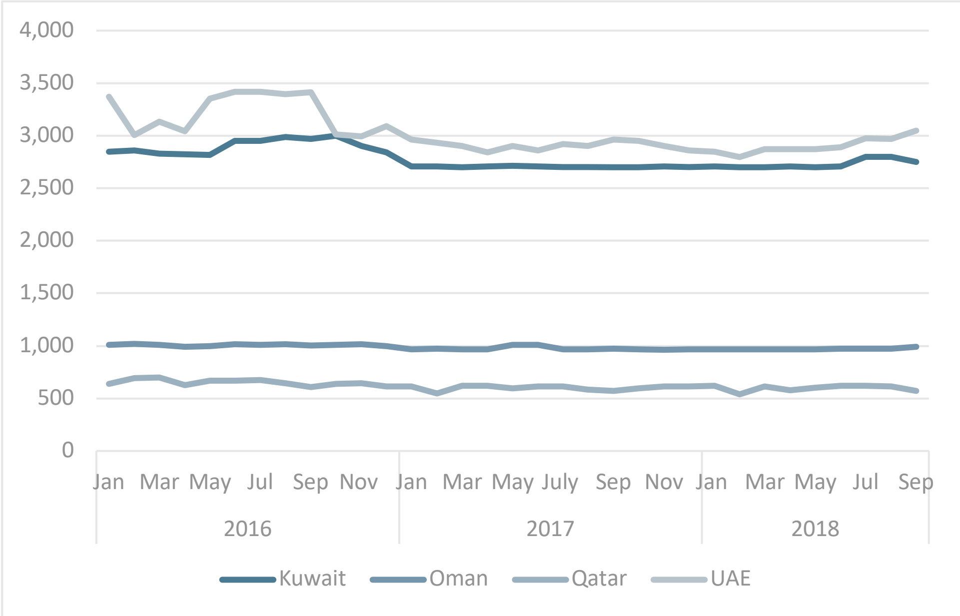
The oil sector has become an important driver and enabler of the regional recovery after OPEC and its partners achieved their objective of rebalancing the global oil markets. Following the group's decision to boost output by 1 mbd, Saudi Arabia has led the way in increasing production. Having hovered in the range of 9,800-10,000 mbd for more than a year, Saudi production rebounded to nearly 10.5 mbd in June and has remained close to those levels since.

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

Source: Joint Organisations Data Initiative, OPEC, Reuters

Production levels have edged up also elsewhere in the region. Kuwaiti production moved from its recent level of 2.7 mbd to 2.8 mbd in Q3. UAE production reached up to 3 mbd having averaged just over 2.8 mbd during the first half of the year. Even Oman increased its output from 967,000 b/d to around 990,000 by September. The three largest GCC producers will likely have a key role to play in rebalancing the market should the market balance become tighter for whatever reason.

Crude oil production in other GCC countries, '000 b/d



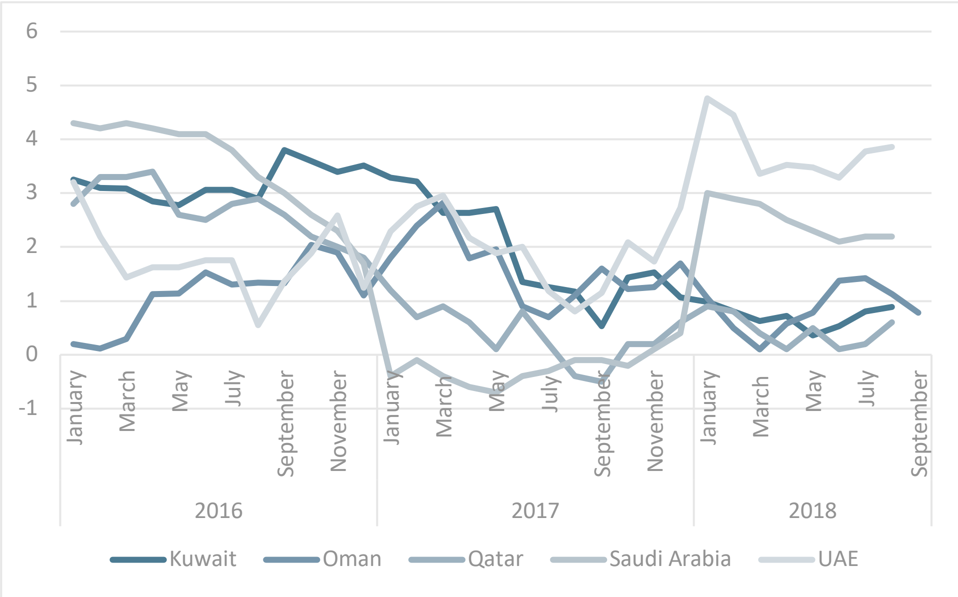
Source: Joint Organisations Data Initiative, OPEC, Bloomberg

Subdued price pressures

Regional inflation has remained fairly minimal outside of countries that introduced VAT. But they have seen a general deceleration in price pressures

Consumer price inflation in the region has remained relatively subdued. The most recent readings where below 1% in Kuwait, Oman, and Qatar alike. Saudi Arabia and the UAE, by contrast, have posted higher readings following the introduction of VAT at the beginning of the year. Nonetheless, even in Saudi Arabia, the CPI index, having hit 3% at the beginning of the year, has gradually declined to just over 2%. Inflation in the UAE has been more volatile and hovered between 3 and 4% in recent months.

Consumer price inflation, %



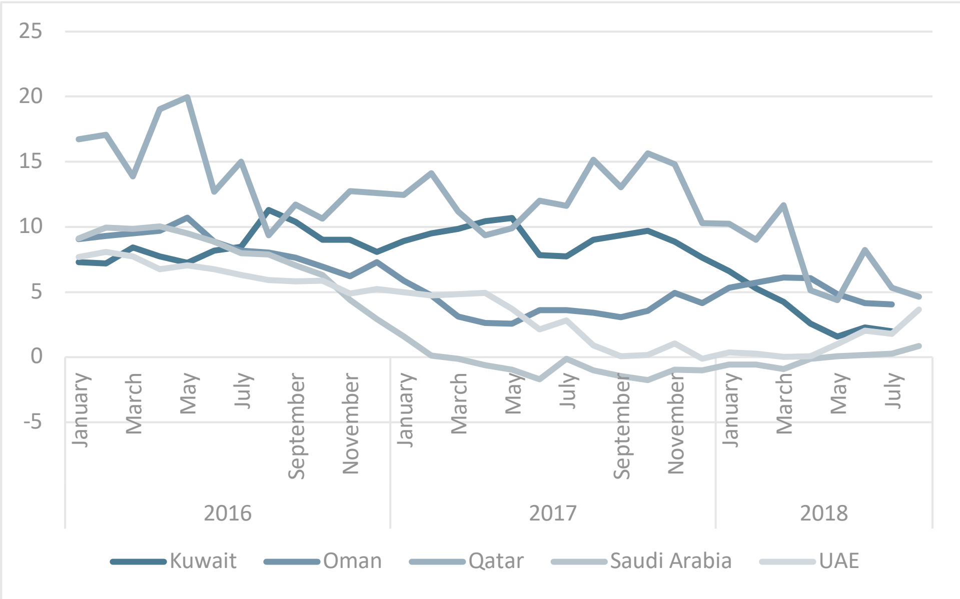
Source: National statistical agencies

Liquidity constraints begin to ease

The recent deterioration in liquidity conditions may be over

After a period of low oil prices and fiscal austerity, the liquidity situation in the region is beginning to show signs of improvement. This turnaround is particularly evident in Saudi Arabia and the UAE, both of which saw the annual growth rate of lending stall or even turn slightly negative. In the UAE, for instance, the YoY growth of domestic credit has accelerated from 0.3% in January to 3.7% in August. The other regional economies have observed gradual declines in recent months, albeit from a higher base. In general, the growth rates in the region are showing signs of converging and, other than Bahrain, are now all in the range of 0-5%.

Bank credit growth, %



Source: Regional central banks

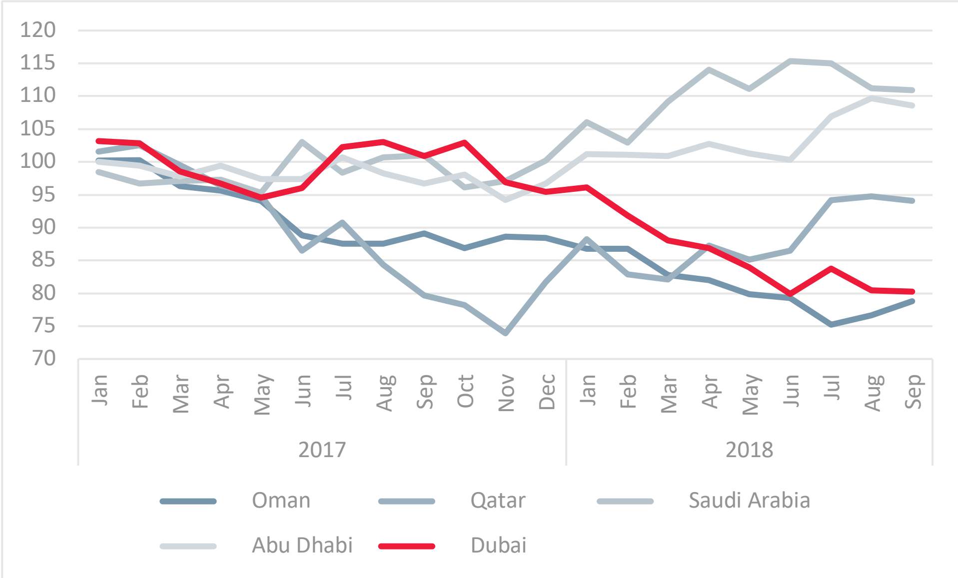
The performance of the regional equity markets has been very uneven

The regional stock markets had a mixed third quarter. The UAE and Qatar exchanges posted gains during the quarter, whereas others saw declines. The Qatari and Abu Dhabi exchanges led the way with an 8.7% and 8.2% gain, respectively. Saudi Arabia's TASI, by contrast, declined by 3.8% while Kuwait shed 2.6% and Oman 0.6%.

A similarly mixed picture obtains in terms of year-to-date gains. Qatar advanced by 15.1% during the first three quarters of the year. Aby Dhabi posted a 12.2% gain while Saudi Arabia's TASI increased by 10.7%. By contrast, Dubai led the declines with 15.9%. The Omani index shed 10.9% and Kuwait 1.9%.

In a major move toward increasing the diversity of the regional equity markets, Abu Dhabi Securities Excchange is planning to introduce futures contracts on single stocks in 2019. Tadawul planning to do the same bny 2020. Future are available on Nasdaq Dubai on UAE equities but little trading has taken place to date.

GCC equity market indices (end-December 2016=100)



Source: Regional stock exchanges

In the primary equity markets, August saw the SAR817mn (USD218mn) IPO of the Leejam Sport Company in Saudi Arabia. The company listed 30% of its capital and achieved a 245% oversubscription rate. Leejam is the largest fitness centre operator in the region. The company was taken public by Bahrain-domiciled Investcorp which had acquired a 25% stake in 2013.

In the fixed income space, substantial benchmark issues have continued to take place in the sovereign ad corporate segments alike, although the more benign oil price environment is clearing limited sovereign borrowing needs as compared to last year. For instance, global sukuk issuance in 1H18 reached USD442.bn, down 15.3% YoY, largely due to lower GCC activity. S&P Global expected regional sukuk issuance to reach USD70-80bn this year, as compared to USD95.9bn last year.

Saudi Arabia in September raised USD2bn through ten-year sukuk notes. The offering attracted total orders of more than USD10bn. In July, Saudi Arabia placed its first domestic sukuk issuance under its new primary dealer program. Issuance totaled SAR3.5bn (USD925mn). The Minister of Finance has so far designed five local banks as primary dealers. Saudi Arabia's Public Investment Fund raised USD11bn through an international syndicated loan facility.

Fixed income activity is being scaled back because of reduced sovereign borrowing needs

Abu Dhabi placed a USD10bn international bond in October. The issuance was three times oversubscribed. The bonds was structures in three tranches of maturities of up to 2047. The UAE has now als issued a law allowing sovereign debt issuance by the federal government. The law further supports establishment of a structured market for government securities. Seen as an important way fo managing bank liquidfity. The IMF estimates the UIAE's cosnolidated governmetn defict at 1.6% of GDP this year.

In the corporate space, key regional issues included a USD2bn dual-tranche issue by SABIC. Saudi Electrocity in September placed USD2bn dual-tracnche sukuk. DP World placed a USD1.5bn two-tranch offering. Arab Petroleum Investments Corporation rasied a USD750mn five-year bond. Aldar Investment Properties raised USD500mn through a debt sukuk. Regional banks remained important issuers. Abu Dhabi Islamic Bank raised as USD750mn sukuk and Al Hilal Bank a USD500m nsukuk. National Bank of Oman rasied USD500mn. Subsceiption levels were typically high, several multiples, reflecting foreign investor appetite for GCC yield.

JP Morgan announced the inclusion of sovereign and sovereign-related issuers from the region its EMBI Global Diversified (EMBIGD), EMBI Global (EMBIG), and Euro-EMBIG nob indices starting next year. The indices will cover conventional and sukuk issuance provided the latter are rated. GCC issuers are expected to account for some 11% of the.

Implications for Bahrain

The regional backdrop promises to remain a source of positive spill-overs for Bahrain:

- Faster growth and increased spending power in neighbouring countries should be supportive of continued growth in visitors and business activity
- More benign fiscal and liquidity conditions should support financial market and investment activity

BAHRAIN

GROWTH REBOUNDS IN Q2

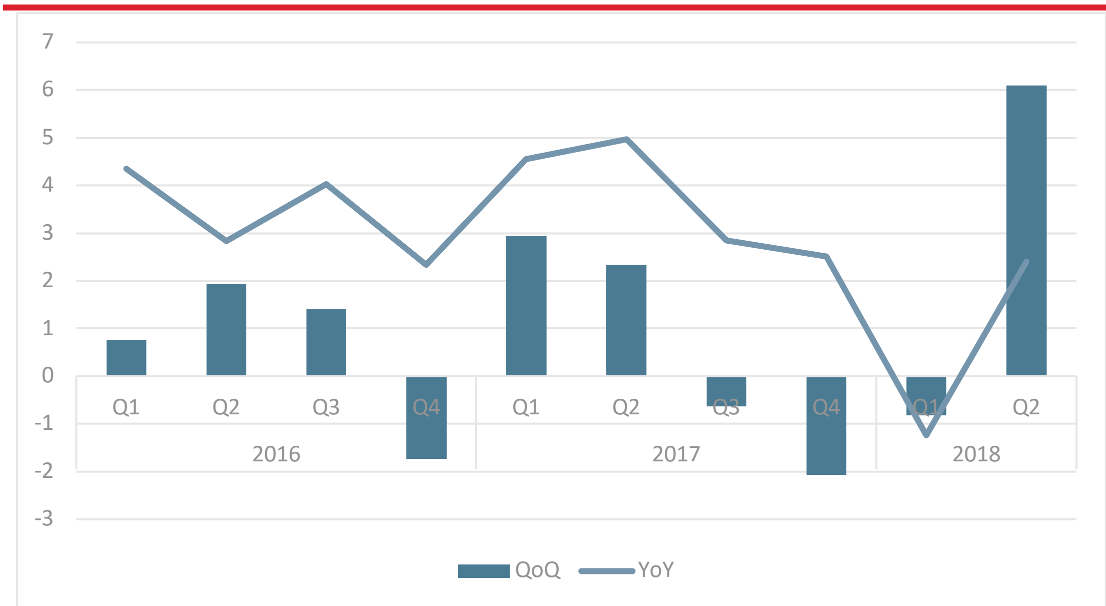
Economic growth rebounded to 2.4% led by a 2.8% YoY pace of expansion in the non-oil sector

After an unusually subdued start to the year, economic growth in Bahrain rebounded sharply in Q2. The YoY real rate of growth was 2.4% in a marked reversal from the 1.2% YoY drop seen in Q1. The sharpness of the rebound in Q2 was reflected in the quarter-on quarter growth rate which, even in real terms, reached an exceptional 6.1%. In nominal terms, Q2 growth rose to an annual 8.25%, thanks in large part to higher oil prices.

Growth continued to be led by the non-oil sector which expanded by an annual 2.8% in Q2. While still below the recent trend, this marked a clear acceleration over the 1.8% pace seen in Q2. Also the oil sector posted a small YoY real gain of 0.8% which compares to a 14.7% drop in Q1. The updated statistics for 2017 point to a gradual growth deceleration during much of the year, but the 2Q18 now suggests that that negative trend has likely been reversed.

During the first half of the year taken together, the annual pace of growth was still historically modest at 0.6%. The main reason was a 6.8% YoY drop in the oil sector as a consequence of maintenance on the offshore oil field during 4Q17 and 1Q18. The YoY rate of non-oil growth during the first half of the year was 2.3% in real terms.

Real GDP growth, %



Source: Information & e-Government Authority

Forecast: Evolving growth drivers

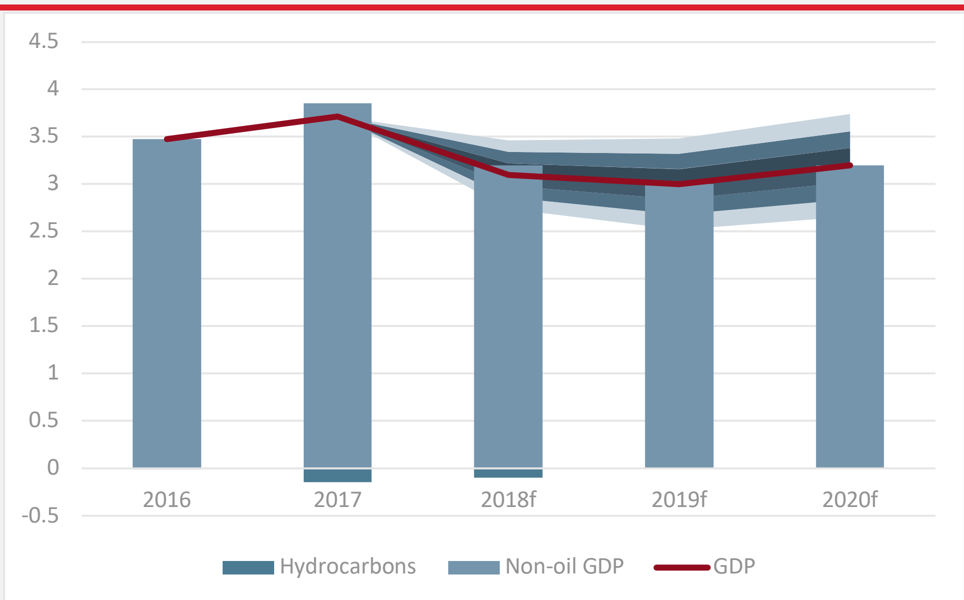
Bahrain economic outlook

	2016	2017e	2018f	2019f
Real GDP growth, %	3.5%	3.7%	3.1%	3.0%
Non-hydrocarbons sector	4.3%	4.8%	3.8%	3.6%
Hydrocarbons sector	-0.1%	-0.7%	-0.5%	0.0%
Nominal GDP growth, %	3.5%	9.6%	8.5%	5.6%
Inflation (CPI %)	2.8%	1.4%	2.7%	3.3%
Current account (% of GDP)	-4.6%	-3.8%	-1.5%	-1.2%
Fiscal balance (% of GDP)	-13.5%	-10.1%	-7.2%	-5.4%
Crude Oil Brent (USD)	44	53	73	73

Source: Bahrain Economic Development Board

Although the forward-looking indicators for growth remain encouraging, the most recent national accounts data points to a slight loss of growth momentum in line with region-wide trends. The impending introduction of VAT is likely to curb the infrastructure-led rebound somewhat as it has elsewhere in the region as companies adjust to new fiscal realities. In general, however, the impact of fiscal consolidation should be relatively measured, and some positive confidence effects will likely emanate from the strengthening fiscal position. In the near-terms, the economy will be influenced by the conflicting forces of fiscal consolidation and continued infrastructure spending. By next year, new significant growth drivers will emerge from the launch of Alba Line 6, among others. Under the circumstances, the near-term outlooks are likely to be one of relatively stable growth around the 3% mark.

Real GDP growth composition



Source: Bahrain Economic Development Board, Information & eGovernment Authority

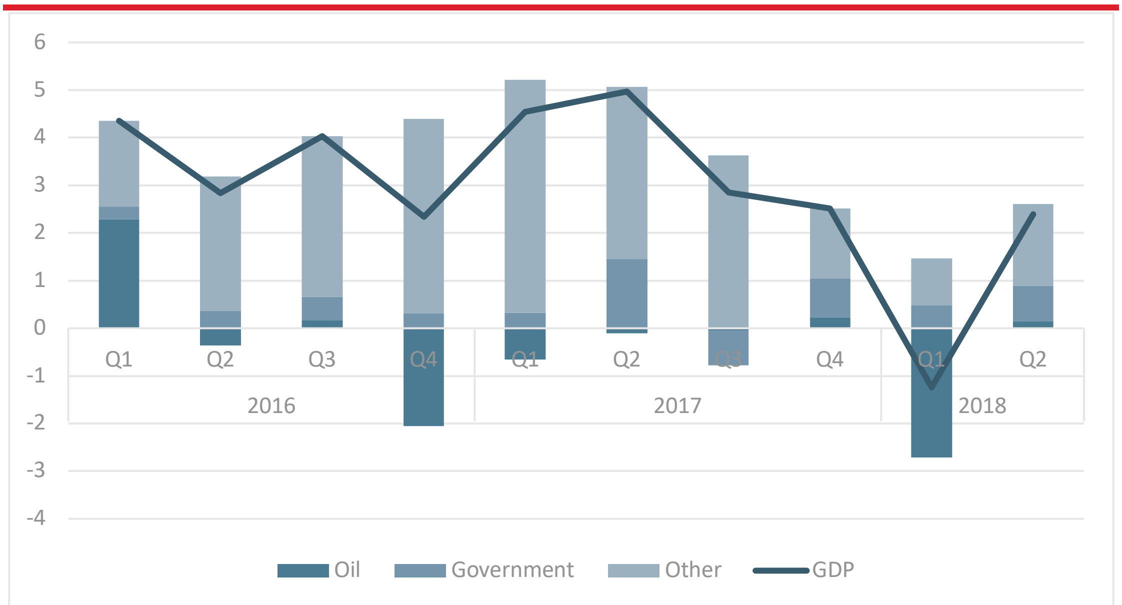
A broad-based growth acceleration

The non-oil economy expanded by an annual 2.3%. The fastest growth was observed in the Construction sector

The rebound in the economy during Q2 was relatively broad-based. The fastest growth was observed in the Construction sector – an annual expansion of 6.7%, almost exactly in line with Q1. Indeed, the Construction sector expanded by an annual 6.7% during the first two quarters taken together. The Manufacturing sector achieved a 4.5% annual pace of growth in Q2 and 4.3% during the first half of the year. Government Services grew by 3.9% during Q1 and Q2 alike. The Social & Personal Services sector rose by 3.2% in Q2 and by 3.4% during the first half. Partly reflecting the momentum in the Construction sector, the Real Estate & Business Services sector expanded by 3.0% in Q2 and by 3.4% during 1H18.

Three sectors still posted negative YoY growth. The Hotels & Restaurants sector declined by 9.7% during Q2 and by 9.5% during the first half of the year. The Trade sector contracted by 0.8% in Q2 and by 1.7% during 1H18. The Transportation & Communications sector posted a small 0.2% drop in Q2 following a 0.3% contraction during 1H18. A. These figures appear to reflect somewhat lower discretionary spending in Bahrain and regionally. They are also partly a result of significant capacity additions in these sectors at a time of historically lower demand growth, which has resulted in some companies overhauling their business models.

Real GDP growth composition



Source: Information & eGovernment Authority

Sector-specific real growth rates, YoY (%)

	2016	2017	2018		
YoY growth, %	Annual	Annual	Q1	Q2	Q1-2
Crude Pet. & Nat. Gas	-0.1	-0.8	-14.7	0.8	-6.8
Manufacturing	5.2	1.1	4.2	4.5	4.3
Construction	5.7	1.8	6.7	6.6	6.7
Trade	3.0	8.5	-2.7	-0.8	-1.7
Hotels & Restaurants	1.8	9.5	-9.4	-9.7	-9.5
Transp. & Comm's	2.5	5.4	-0.4	-0.2	-0.3
Social & Pers. Serv.	7.8	9.4	4.1	3.2	3.6
Real Est. & Bus. Act.	7.4	6.4	3.7	3.0	3.4
Finance	4.5	5.0	-0.1	0.1	0.0
Government	2.7	3.7	3.9	3.9	3.9
Other	0.9	10.4	-3.6	12.2	4.1
GDP	**3.4**	**3.7**	**-1.2**	**2.4**	**0.6**
Non-oil GDP	*4.3*	*4.8*	*1.8*	*2.8*	*2.3*

Source: Information & e-Government Authority

Foreign purchases of Bahraini properties have accelerated markedly

The real estate market in Bahrain had an uneven first half of the year. The overall number of transactions rose by an annual 7% to reach 3,705. However, their aggregate value declined by 16% to BHD444.8mn. This was led by a decline in sales to Bahraini nationals, which fell by 22% to BHD388.9mn – 87% of the total. By contrast, sales to non-nationals rose sharply. Buyers from the rest of the GCC more than doubled their purchases as compared to 1H17 to a total of BHD38.6mn. Other foreign buyers saw a nearly 50% increase to BHD17.3mn.

Real estate transactions by nationality, 1H17-1H18 (BHD mn)

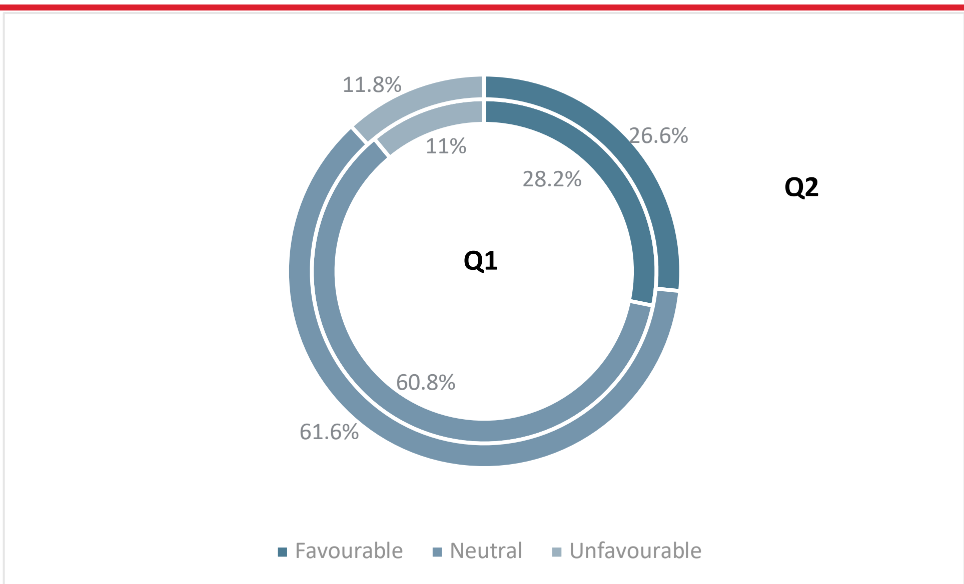
Nationality	Total value, 1H18	Share of total, %	Total value, 1H17	YoY change, %
Bahraini	388.88	87	498.22	-22
Other GCC	38.59	9	18.21	112
Other	17.29	4	11.64	49
Total	444.76	100	528.07	-16

Source: Survey & Land Registration Bureau

Optimistic near-term business expectations

The Business Perceptions Survey undertaken by the Information & eGovernment Authority suggest that companies in the country foresee relative continuity in the business environment. The respondents' assessment of the current situation was largely unchanged between Q1 and Q2. A clear majority continue to hold a neutral view and just over a quarter express a positive option. The share of pessimists was a relatively modest 11.8%.

Bahrain QBPS opinions regarding current business performance, 1-2Q18

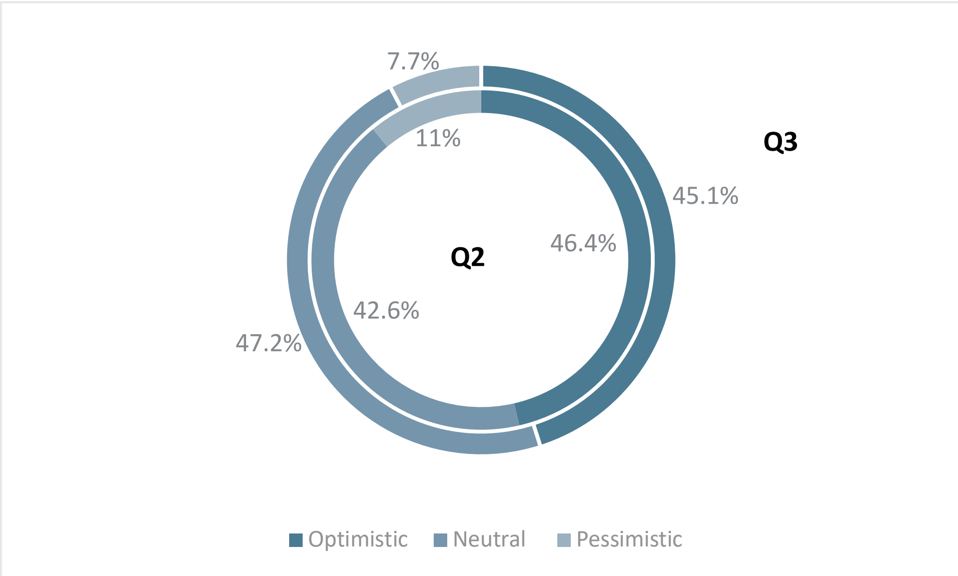


Source: Information & eGovernment Authority

Business confidence has held up well with most companies foreseeing continuity

Forward-looking expectations were, similarly, largely unchanged. The share of respondents expecting continuity was just under a half of the total. A significant minority – 45.1% -- expect an improvement over the coming months. The share of pessimists shrank somewhat to 7.7%.

Bahrain Business Confidence Index, forward-looking expectations for 2-3Q18



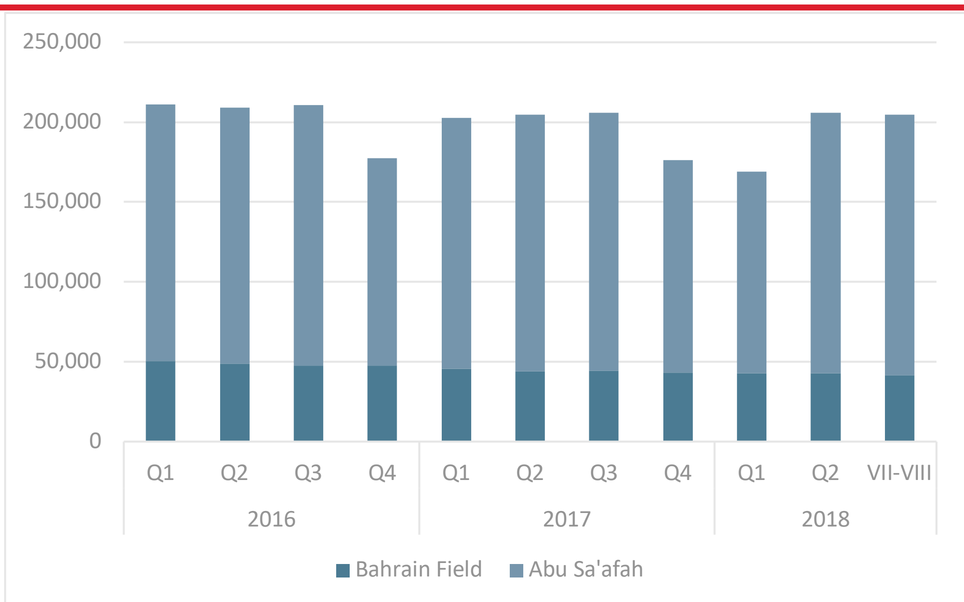
Source: Information & eGovernment Authority

Oil production normalizes in Q2

Oil production has remained closed to Q2 levels

The oil sector saw a sharp improvement in its performance in Q2 following seasonal maintenance-related shutdowns in 4Q17 and 1Q18. The strong performance of Q2 carried over largely unchanged into Q3. Production from the offshore Abu Sa'afah field reached a historically high average of 162,869 b/d, in line with Q2. The average of the onshore Bahrain Field reached 41,678 b/d.

Crude oil production, b/d



Source: National Oil and Gas Authority

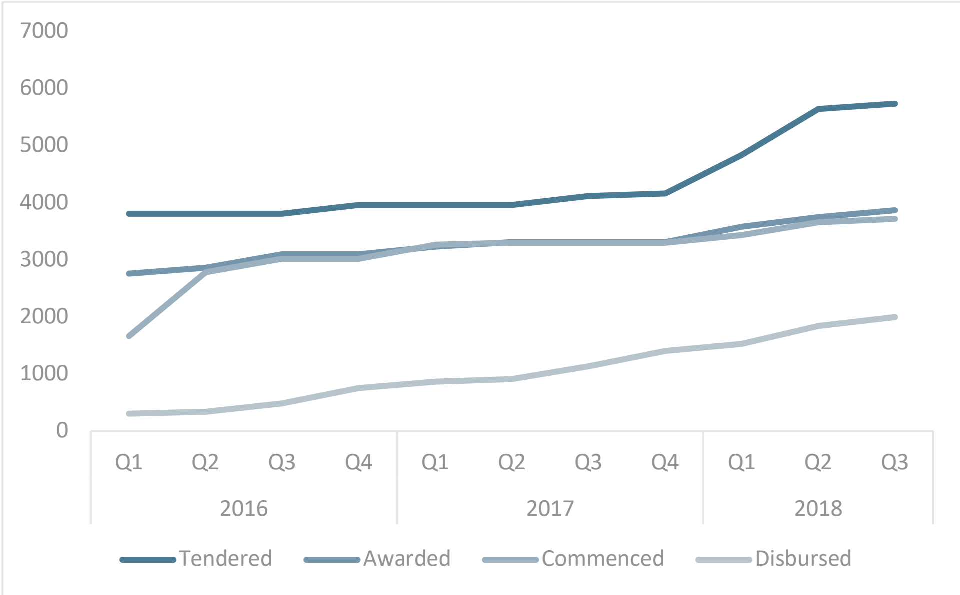
Project implementation accelerating again

Infrastructure projects have provided an important counter-cyclical growth driver for the economy in recent years and are set to remain an important factor in the foreseeable future as well. The total pipeline of infrastructure projects in Bahrain, according to MEED Projects, stood at USD87.3bn in mid-September. This represented a 3.8% YoY increase.

The GCC Development Find is seeing a major acceleration in project implementation

The active project pipeline supported by the GCC Development Fund is undergoing another phase of acceleration with the cumulative volume of tendered projects up 39.3% In YoY terms as of Q3. It now stands at just over USD5.7bn. The cumulative value of projects that have broken ground rose by an annual 12.7% to USD3.7bn. This suggest that the current build-up in activity is still at a relatively early stage and should be a key growth driver during the coming quarters. The cumulative cashflow reached just under USD2bn, up a remarkable 73.4% YoY.

GCC Development Program project pipeline, USD mn (cumulative totals)



Source: Government sources

Important projects are taking place in the energy space, led by the USD4.2bn Bapco Modernization Program:

- Haliburton has been engaged to drill two wells on the Khalij al Bahrain field. The work is currently at the design stage with drilling expected to commence toward the end of the year. One possibility under consideration is splitting the fairly large concessions. Work is also starting on the pre-Khuff gas where recovery is expected to exceed 5tn cu ft, out a total reserve of up to 20tn

The energy sector will be a major driver of project activity in Bahrain

- A 6mn tn capacity LNG terminal will be launched by the end of 1Q19. Likely to be needed at peak times even after the deep gas reserves are tapped
- The new AB-4 Saudi pipeline is being hydrotested and should be ready for commissioning by the beginning of 2019. The pipeline is designed for Arabian Light which is expected to continue to be imported as domestic production builds up. The USD400mn pipeline has a diameter of

30 inches and a daily capacity of 350,000 b/d. It connects Abqaiq and Sitrah as before but avoids settled areas

- A consortium led by Saudi Arabia's Acwa Power and Japan's Mitsui has been selected as the preferred bidder for Al Dur 2 IWPP. The plan will have a capacity of 1,500 MW along with desalinated water output of 50mn imperial gallons a day. EWA will buy the production under a 20-year power purchase agreement
- A 100 MW solar IPP is being planned for Askar with bids due in November. The photovoltaic plant will be built on a landfill site in the south of the main island. Bahrain is planning to generate 5% (some 250 MW) of its power from renewable energy by 2025. The government is seeking to boost this further to 700MW by 2030.

Several other landmark projects are making headway:

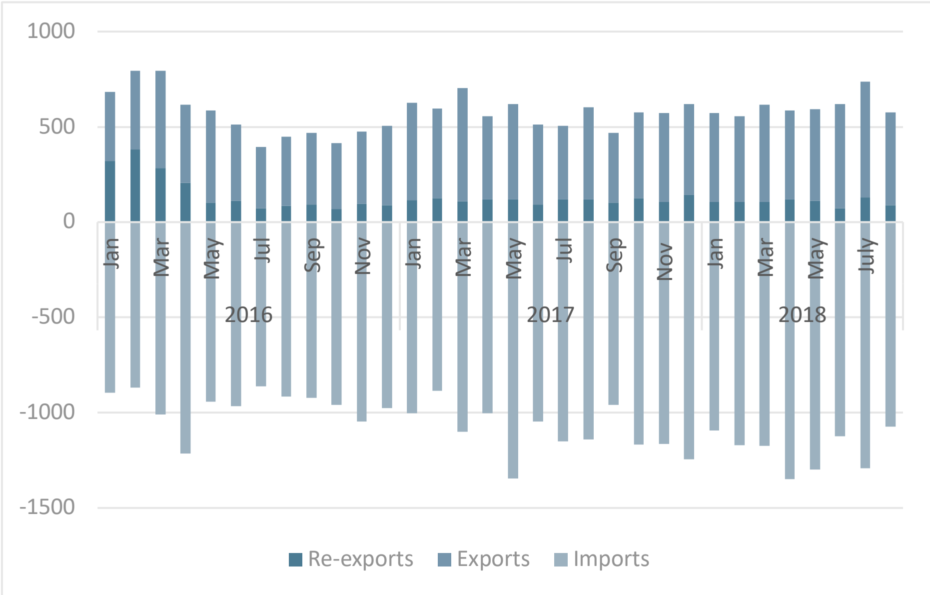
- The tender for the new King Hamad Causeway is expected to be issued early next year. The project is expected to be valued at USD3-4bn with construction set to start in 2021. The project is expected to take three years to complete
- Bahrain has adopted a National Planning Development Strategy 2030, which seeks to achieve integration between urban development and transparency around land utilization for development while boosting investment. This will further benefit from the launch of the Real Estate Regulatory Authority (RERA). Among other things, the country is planning 228 road construction projects with an aggregate value of more than USD2.6bn
- A USD364mn project for the expansion of the Tubli wastewater plant was awarded to a Saudi-Emirati-German consortium. The expansion will double capacity to 400,000 cu m per day
- A cargo village is to be built at BIC. Bahrain Airport Company recently received bids to supervise the design and construction of the facility. The project consists of warehouses, parking facilities, and related infrastructure. Also the capacity of the Khalifa bin Salman port is being expanded following a 12% increase in cargo and a 7% gain contained volumes in 2017

Trade volumes stable

Non-oil trade volumes have seen relatively little change over the past year. Exports of national origin totalled just over USD4bn during the January-August period, up 5.6% YoY. Re-exports reached just over USD0.8bn, down 9.1% YoY. Non-oil imports during the first eight months of the year totalled just under USD9.6bn, up 10.4% over the same period a year earlier.

Among the key initiatives to diversify the economy and drive non-oil growth, the Government is this year launching an Export Development Centre. The new facility is designed to encourage and support the expansion of Bahraini companies regionally and internationally. In partnership with other entities, it will provide a combination of financial solutions, market intelligence, and advisory services to existing and potential exporters.

Non-oil trade, USD mn



Source: Information & eGovernment Authority, preliminary data from Customs Affairs

Unveiling a fiscal plan

The Government has unveiled a major fiscal plan in line with its objective to achieve a sustainable balance by 2022

The beginning of Q4 saw important developments in terms of articulating the Government's fiscal strategy in more detail. The stated objective is to achieve a sustainable fiscal balance by the end of 2022. The medium-term road map will involve the implementation of a multi-year Fiscal Balance Program (FBP), which will in turn be supported by a USD10bn fund made available by Bahrain's neighbours Saudi Arabia, the UAE, and Kuwait.

The newly unveiled program builds further on a number of initiatives that were introduced between 2015 and 2017 and achieved annual savings of BHD854mn. Budgetary non-interest expenditure has declined by 11% since 2014. The focus of these initiatives was threefold:

- Rationalize and streamline public sector expenditure through savings and efficiency gains within the public sector, including mergers of Government organizations
- Diversify revenues through new levies and the introduction of the GCC-wide excise duty
- Redirect government subsidies toward eligible citizens through gradual elimination of universal subsidies in favour a social support model targeting eligible citizens

While substantial, these measures were insufficient during a period of low oil prices to reverse a build-up in Government debt which has risen from 13% of GDP in 2008 to 87% in 1H18. The FBP program seeks to stabilize this proportion before reducing it. It is designed to achieve further annual savings of some BHD800mn over the coming years through a range of initiatives around key focus areas:

- Reduce operational expenditures of the Government
- Simplify government processes

- Boost non-oil revenues
- Enhance the efficiency of government expenditure
- Introduce a voluntary retirement scheme for government employees
- Streamline the distribution of government subsidies to needy citizens
- Balance the expenditures and revenues of the Electricity and Water Authority over the plan period

The plan presents a holistic strategy to reduce government expenditure to its historic norm while boosting efficiency and reducing reliance on oil revenues. Government expenditure in Bahrain peaked at 30.4% of GDP in 2015. The program seeks to reduce this proportion to its past norm of approximately 20%.

Among key near-term steps, Bahrain, in line with the GCC Framework Agreement, will introduce a 5% value added tax on non-essential goods and services starting in January 2019. The decision was endorsed by Parliament at the beginning of October. This will be a major landmark in creating a broad revenue base in the non-oil economy which now accounts for more than 80% of the Kingdom's GDP. The program seeks to double the contribution of non-oil revenues to the government budget by 2022.

Beyond this, six task forces will be responsible for rationalizing government expenditure by centralizing the evaluation of public sector spending requests and setting procurement criteria. Fees for government services will be reviewed with a view to achieving full cost recovery. The plan further stipulates the establishment of a Debt Management Office with the mandate to develop a debt management strategy and achieving cost-effective financing for public sector needs.

Stable price pressures

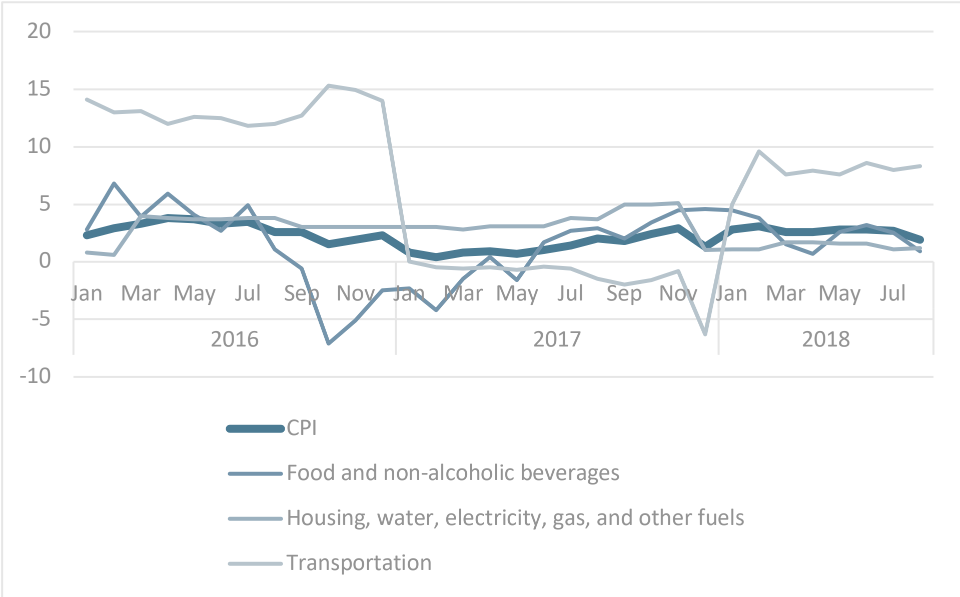
In line with regional trends, inflationary pressures have remained subdued in Bahrain

Consumer Price Inflation in Bahrain remains subdued with recent months witnessing further moderation. The headline reading in August fell below the 2% mark for the first time this year. The year-to-date pace of inflation during the first eight months of the year was 2.7%.

Little added inflationary pressure was observed from the main categories of the CPI basked, namely food and housing costs. Food price inflation fell bank to below 1% in August following a seasonal bump around Ramadhan. Food price inflation has been contained by the absence of significant supply constraints globally as well as the strong US Dollar which has limited imported inflation.

Housing costs, similarly, remain fairly stable with a reading of 1.2% in August. While the ongoing subsidy modifications are continuing to exert some upward pressure on costs, underlying housing costs are fairly static. This is largely reflective of the changing market dynamics with a significant new supply continuing to come up at a time of relatively measured demand growth.

Consumer price inflation, % YoY



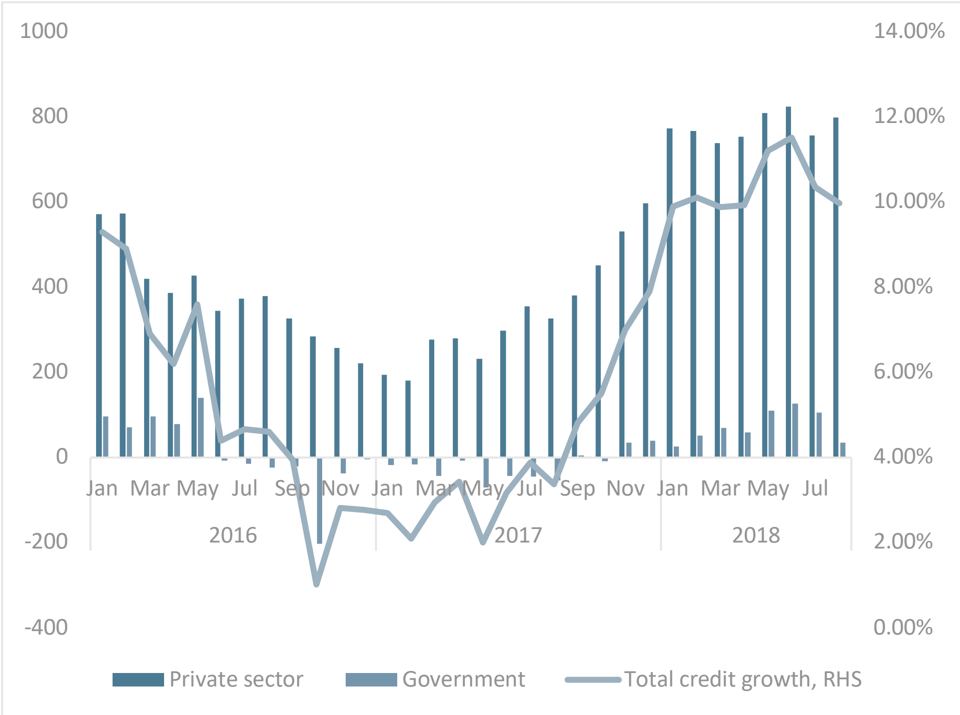
Source: Information & e-Government Authority

Bank credit growth showing signs of plateauing

After a period of brisk acceleration, bank lending growth is normalizing somewhat

In recent months, Bahrain has seen the fastest pace of credit growth by retail banks in the entire GCC region. The most recent data suggests that this rapid escalation is new giving way to a period of greater stability. The YoY rate of credit growth by retail banks, having peaked at 11.5% in June, moderated to just under 10% in August. Nonetheless, this represents the fastest pace in the GCC region. Encouragingly, new lending continues to be led by the corporate sector with business loans growing by 10.8% YoY in August and making up 53.7% of the entire outstanding portfolio of retail banks. Personal loans grew by an annual 8.6% and made up 43.4% of the total. Lending to the Government sector expanded by an annual 15.2% but only accounted for 2.9% of total retail bank lending.

YoY growth in credit issued by retail banks, BHD mn

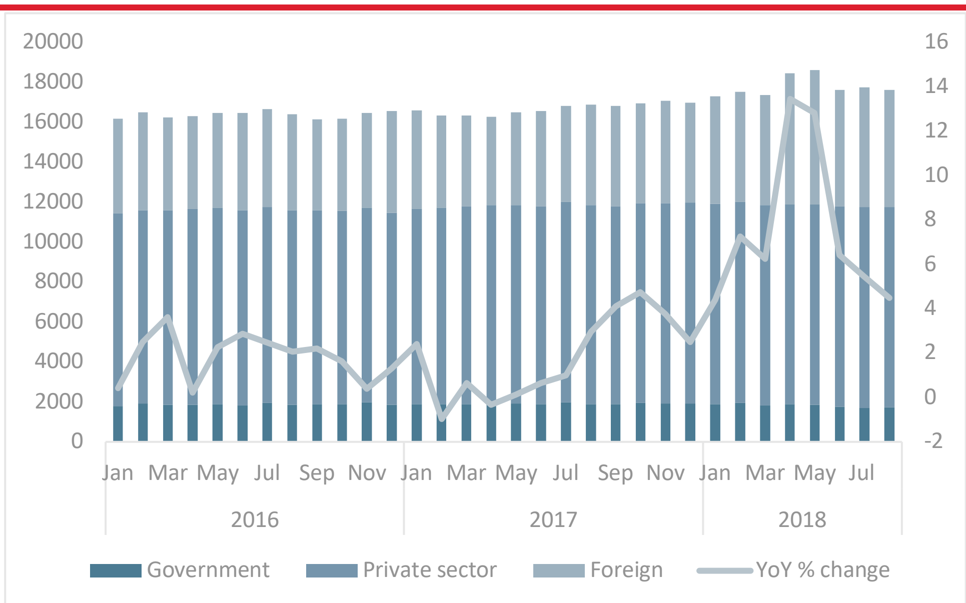


Source: Central Bank of Bahrain

Deposit growth has decelerated from the peak seen in the spring

The brisk loan growth in recent months has in part been underpinned by a robust expansion of the banks' deposit base. The YoY pace of deposit growth at retail banks peaked at 13.5% in April but has since moderated markedly to reach 4.5% in August. While sharply lower, this figure is still markedly ahead of the pace seen a year earlier. Nonetheless, in spite of continuing low loan-to-deposit ratios, the increased gap between loan and deposit growth likely points to some further moderation of new loan growth in coming months.

Deposit liabilities to non-banks, BHD mn



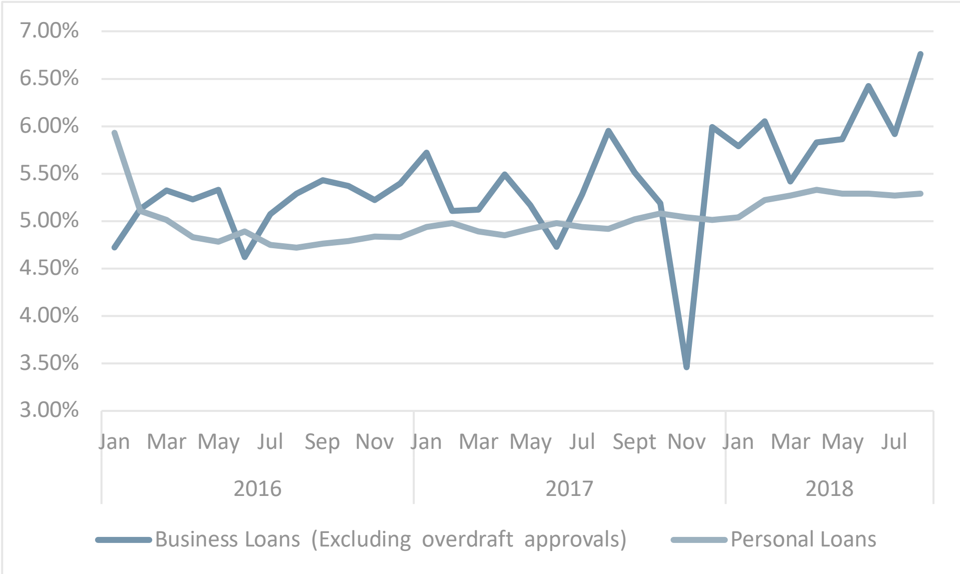
Source: Central Bank of Bahrain

Lending costs have continued to edge up, albeit very gradually

In spite of the ongoing interest rate increases by the US Federal Reserve, which the Central Bank of Bahrain has matched, the cost of borrowing has been edging up at a fairly gradual pace. However, something of a gap has opened up in the cost business and personal loans, perhaps reflecting stronger demand for the former. The average cost of conventional personal loans was 5.3% in August, much line with the range observed since February. The cost of business loans has been more volatile and rose to an average of 6.8% in August.

The average cost of personal loans during the first eight months of 2018 was close to 5.3% which compared to 4.9% a year earlier. The average cost of business loans rose from 5.3% during the first eight months of 2017 to 6% during the corresponding period this year.

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



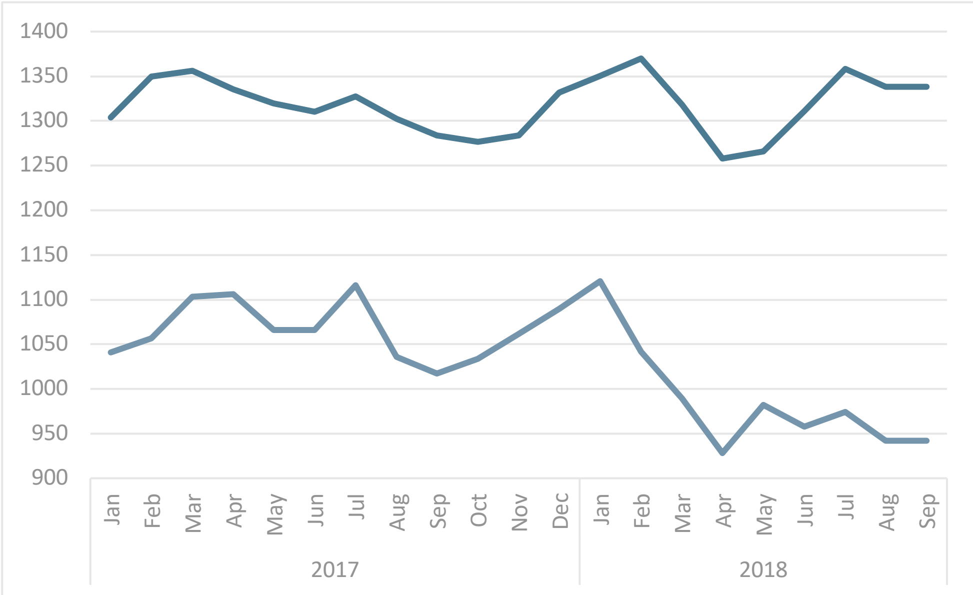
Source: Central Bank of Bahrain

Continued stability at the Bourse

The Bahraini equity markets made little headway during the first three quarters of the year but Bahrain Bourse was nonetheless one of the regional exchanges to close the period in the black with a small 0.5% YTD gain. In YoY terms, the Bahrain All-Share Index was up 4.3%.

The Bahrain Islamic Index, by contrast, declined during the quarter and was down for the year to date, as well. In YoY terms, it fell by 7.4%.

Bahrain All Share Index and Bahrain Islamic Index

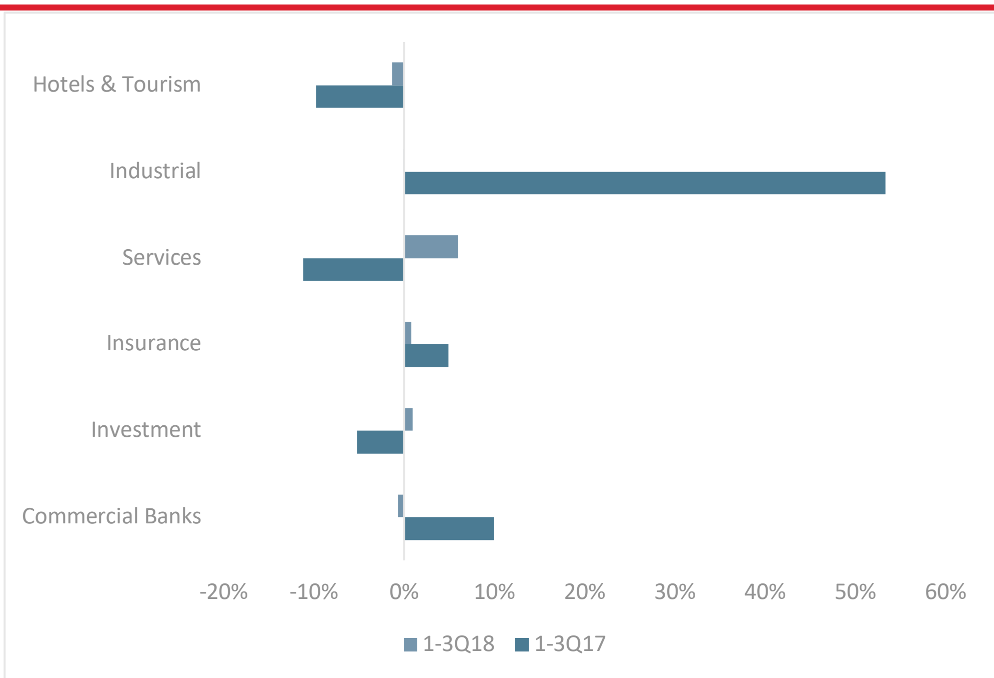


Source: Bahrain Bourse

Services remain the strongest subsector after three quarter of generally stable index readings on the Bourse

The performance of the sector indices during year to date has been largely unchanged with the exception of the Services sub-index which gain just under 6% in a marked reversal from its 11.2% decline during the corresponding period of 2017. The Investment index gained 0.9% and the Insurance index 0.8%. The other sectors saw very small declines.

YTD changes in sectoral stock market indices, 1H2017 and 1H2018



Source: Bahrain Bourse

The fixed income market has been dominated by short-term issuance by the Central Bank of Bahrain. Most issues were moderately oversubscribed and there was an increase in interest rates in line with the tighter monetary policy conditions. The Central Bank of Bahrain on 26 September

Interest rates on CBB-issued securities are edging up line with gradual monetary tightening

increased its interest rates in the wake of the latest rate increase by the US Federal Reserve. Bahrain's key policy rate, the one-week deposit rate, rose from 2.25% to 2.50%. The overnight rate was increased from 2.00% to 2.25%. The one-month deposit rate rose from 3.00% to 3.25%. The lending rate was lifted from 4.00% to 4.25%.

On 1 August, the Central Bank announced the full subscription of the latest 3-year Government Development Bond No. 17. The bond has a three-year term and an expected interest rate of 6.55%.

Short-term bond and sukuk issues arranged by the Central Bank of Bahrain

Issue date	Issue	Value, BHD mn	Maturity, days	Average interest/ profit rate, %	Average price, %	Over-subscription, %
1 Jul 2018	Treasury bill No. 1710	35	182	4.17	97.936	129
4 Jul 2018	Treasury bill No. 1711	70	91	3.93	99.017	127
11 Jul 2018	Treasury bill No. 1712	70	91	3.94	99.013	123
12 Jul 2018	Sukuk al ijarah No. 155	26	182	4.14		100
18 Jul 2018	Sukuk al salam No. 207	43	91	3.94		100
25 Jul 2018	Treasury bill No. 1713	70	91	3.94	99.014	118
26 Jul 2018	12-month Treasury bill No. 47	100	365	4.56	95.591	100
1 Aug 2018	Treasury bill No. 1714	70	91	3.98	99.004	101
5 Aug 2018	Treasury bill No. 1715	35	182	4.19	97.927	100
8 Aug 2018	Treasury bill No. 1716	70	91	3.99	99.001	119
9 Aug 2018	Sukuk al ijarah No. 156	26	182	4.19		100
15 Aug 2018	Treasury bill No. 1717	70	91	4.02	98.993	101
22 Aug 2018	Sukuk al salam No. 208	43	91	4.02		100
29 Aug 2018	Treasury bill No. 1718	70	91	4.06	98.983	120
30 Aug 2018	12-month Treasury bill No. 48	100	365	4.75	95.420	113
2 Sep 2018	Treasury bill No. 1719	35	182	4.35	97.848	100
5 Sep 2018	Treasury bill No. 1720	70	91	4.08	98.978	106
12 Sep 2018	Treasury bill No. 1721	70	91	4.13	98.966	121
13 Sep 2018	Sukuk al ijarah No. 157	26	182	4.35		100
19 Sep 2018	Sukuk al salam No. 209	43	91	4.13		100
26 Sep 2018	Treasury bill No. 1722	70	91	4.17	98.957	110
27 Sep 2018	12-month Treasury bill No. 49	100	365	4.81	95.361	122
30 Sep 2018	Treasury bill No. 1723	35	182	4.37	97.836	109
4 Oct 2018	Treasury bill No. 1724	70	91	4.18	98.955	131
10 Oct 2018	Treasury bill No. 1725	70	91	4.20	98.950	138
11 Oct 2018	Sukuk al ijarah No. 158	26	182	4.37		100
17 Oct 2018	Sukuk al salam No. 210	43	91	4.20		100

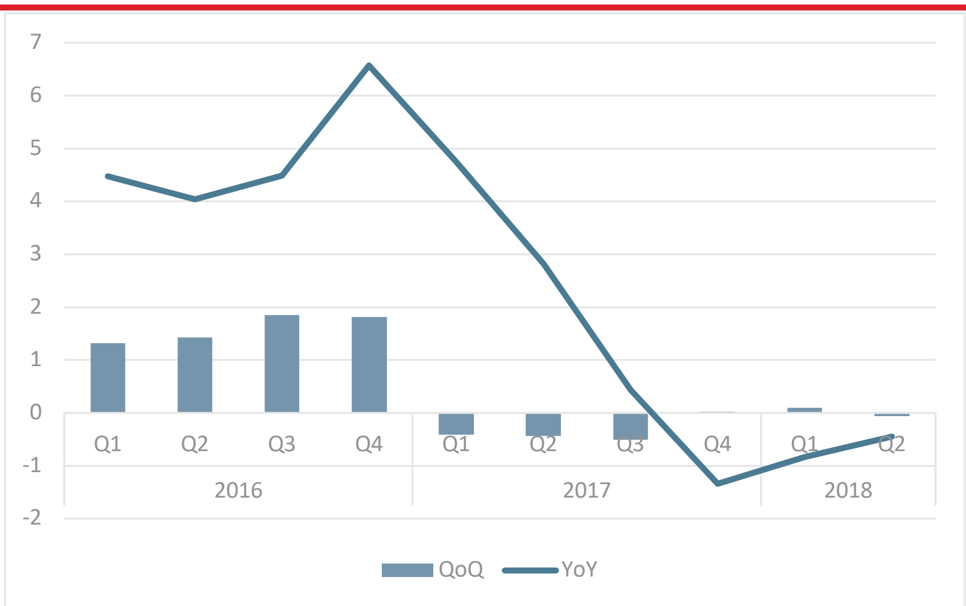
Source: Central Bank of Bahrain

Labour markets largely unchanged

The recent negative trend in job growth is showing signs of reversing

The marked slowdown in new job creation last year has been reversed with minimal changes observed during the first half of this year. According to the Social Insurance Organisation data, the number of registered employees posted a small YoY decline of less than 0.5%. The number of registered employees was virtually unchanged from Q1.

Change in Social Insurance Organisation contributors (%)



Source: Social Insurance Organisation

External assessments

Index/report	Description	Global rank	MENA rank	Key strengths highlighted
Arab World Competitiveness Report by World Economic Forum and International Finance Corporation	Based on WEF's *Global Competitiveness Report*.	44	4	Classified as an 'Innovation-driven economy.' Strong in: • Institutions • Infrastructure • Technological readiness • Goods market efficiency • Labour market efficiency
Global Location Trends by Plant Location International, IBM Business Services	Captures latest trends in company location decisions internationally.	8	1	Measured by jobs per 1mn population (1.774).
Human Development Report by UNDP	Measures human development based on: • Life expectancy • Mean and expected years of schooling • Gross National Income per capita	43 (out of 189)	4	Classified in the category of 'Very high human development.' Improved in terms of life expectancy, expected years of schooling, and GNI. Medium gender equality. Second-best regional standing in gender equality.
Global Financial Centres Index by Z/Yen	Uses other indices and surveys of industry representatives to review: • Business environment • Human capital • Reputation • Infrastructures • Financial sector development	59 (out of 100)	5	ICT development. Classified as an evolving centre.
International Property Rights Index by Property Rights Alliance	Uses open source data to evaluate: • Legal & political environment • Physical property rights • Intellectual property rights	45	6	Physical property rights with proper registration and easy access to loans. Intellectual property rights legally protected.
Economic Freedom of the World Report by Fraser Institute	Measures the degree to which policies and institutions are supportive of economic freedom based on: • Size of government	30 (out of 162)	1	Advanced 18 places since 2017. Government has become smaller and subsidies are being scaled back. No direct

	⧾ Legal system & property rights ⧾ Sound money ⧾ Freedom to trade internationally ⧾ Regulation			taxation, low inflation, full convertibility of currency.
The Human Capital Index by the World Bank Group	Measures the amount of human capital a child born today could expect to attain by the age of 18. The components of the index include: ⧾ Survival (under-5 mortality rate) ⧾ School (quantity and quality of education) ⧾ Health (healthy growth among under 5-year-olds, adult survival rate)	47 (out of 157)	1	⧾ Girls outperform boys ⧾ Highest number of years of schooling in MENA at 13.3 ⧾ Highest regional score in international student achievement testing programs
Expat Explorer Survey by HSBC	Based on a global survey of 22,000 expats. Summarizes views around three components: ⧾ Economics (careers, local economics, personal finance) ⧾ Experience (setting up, people, lifestyle) ⧾ Family (relationships, educations and childcare, raising children)	5 (out of 31)	1	Bahrain's rank improved from 9th in 2017. Main strength economics: personal finance, careers, job security, access to property, education and health care. Positive reviews of lifestyle.

KEY SECTORS

KEY PROJECTS RESHAPE THE ECONOMY

Strong investment momentum continues

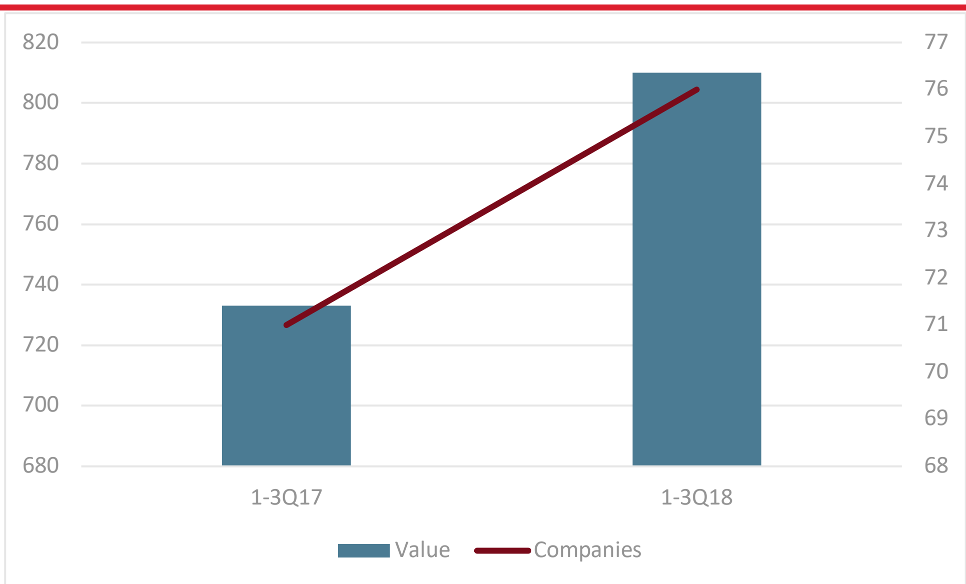
Following a marked build-up in foreign direct investment inflows over the past two years, the interim data for 2018 points to continued good progress. The aggregate value of the investment projects supported by the Economic Development Board more than doubled (+137%) YoY during the first three quarters of the year.

FDI flows are continuing to accelerate with 2018 set to exceed last year's levels

The EDB helped bring in a total of 76 companies to Bahrain with aggregate investments of USD810mn. This compared to 71 companies and total investments of USD733mn a year earlier. The investments seen during this year are expected to have a substantial impact of job creation. The projected employment impact over the coming three-year period is 4,200. More than a quarter of these are expected to command a salary in excess of USD1,850 a month.

In terms of the sectoral breakdown, Manufacturing and Logistics accounts for the largest proportion with a total of 31 companies. Services in the tourism, real estate, education, health care, and ICT sectors saw a total 15 new companies brought into the country.

EDB-supported FDI projects, USD mn



Source: Economic Development Board

Tech innovation makes headway

Early October saw the annual Bahrain Tech Week bring together a diversity of investors, innovators, and policymakers to push forward the wave of digital innovation that is shaping the economy. Key events included the AWS Summit and the MIT Innovation Forum.

The increasing adoption of cloud computing is an important case in point. Significant progress is materializing in part because of the Government's Cloud First initiative, which has reduced government ICT infrastructure spending by more than 60% since last year. But also companies are responding as there is a growing recognition of efficiency gains available form a more agile service, rather than an infrastructure-based solution. Cloud, thanks to is on-demand nature, offers companies flexibility and value for money. Easy scalability, but also access to a solution that capture technology and security advances on an ongoing basis. A number of the new initiatives around encouraging start-up entrepreneurship are attracting cloud-based operators, including ones for whom cloud services are at the heart of their business model.

Efforts to support cloud adoption by companies can now benefit from a Cloud Computing Services support program announced by Tamkeen at the Bahrain Tech Week. The scheme can cover 100% of the cost of cloud services supplied by Bahrain-based cloud operators to eligible companies over an 18-month period.

To encourage innovative entrepreneurship, Tamkeen also announced a new Minimum Viable Product scheme which provides start-up grant support for the purpose of developing, designing, and testing a new product.

In a bid to support human capital development for the sector, the Bahrain Institute of Banking and Finance announced the establishment of a Blockchain Academy.

The recent Global Startup Ecosystem Report (by the Global Entrepreneurship Network and Startup Genome) feature Bahrain has the only Arab country among 'ecosystems to watch' for Fintech and gaming.

A national health insurance framework adopted

Recent legislative innovations in Bahrain included a new Health Insurance Law (No. 23 of 2018) passed in August. The law creates an integrated nationwide healthcare system underpinned by an insurance framework. It makes it mandatory for health insurance to be provided to all citizens, residents, and visitors as of January 2019.

A new National Health Insurance Law will support investment in insurance and healthcare alike

The Supreme Council of Health (SCH) has the overall responsibility for implementation and will serve as the regulator of the new national health insurance system. The Government will establish a Health Insurance Fund to ensure effective pooling under a national umbrella and adequate coverage for beneficiaries. The law established a Unified Electronic Medical Record for each person enrolled in the system. The SCH will create a Health Information and Knowledge Management Centre under the new law. One of the key objectives is to ensure the adequate protection of personal data.

The new system will be funded through insurance subscriptions that will cover the benefits. Subscriptions for Bahraini citizens will be covered by the Government. Employers will enrol foreign nationals. Charges are made by the Labour Market Regulatory Authority when work permits are issued.

The new law established a sustainable financing mechanism for the rapidly growing sector and will in turn serve to attract new investment into health care and the insurance sector alike. It will encourage competition between the public and private sectors in health care provision. It will further reduce future Government spending commitments, by an estimated 20% by 2038.

Creating a Global Financial innovation Network

The Central Bank of Bahrain, along with UK regulator the Financial Conduct Authority, as well as 11 other financial regulators and related entities, has joined to create a new Global Financial Innovation Network. This is done in line with the FCA's recent proposal to create a 'global sandbox' for financial innovation.

The network will have multiple objective, chief among them to work toward more efficient communication between financial innovators and sector regulator. The network can also facilitate cross-border expansion into new jurisdictions. The network will further foster collaborate and knowledge sharing among regulators in different parts of the world. The network is currently conducting a consultation on the role it should play going forward.

Market participants are keen foster collaborative international responses to shared challenges, to increased the speed of taking innovations to market, and the need for greater transparency, especially for cross-border testing.

Bahrain has been operating its own Fintech sandbox since the middle of 2017.

Continued positive momentum in tourism

The tourism statistics released jointly by the Bahrain Tourism & Exhibitions Authority and Information &eGovernment Authority for the first half of 2018 attest to continued positive momentum within the sector:

The tourism sector is continuing see positive momentum in key indicators

- The total number of inbound tourist visitors reached 5.9mn, which represented a 5.8% YoY increase. The King Fahad Causeway continued to account for an overwhelming majority of these visitors – nearly 5.3mn. Arrivals through the Bahrain International Airport reached 570,074, whereas arrivals by sea totalled 49,864
- There has been a marked increase in the number of tourism nights spent in the country. These rose by an annual 21.6% to a total of 6.9mn. The average length of stay per tourist increased by 16% YoY to 3.2
- Holiday and leisure was the most important purpose of tourism visits and was the primary reason reported by 43.4% of all respondents. Shopping was the second most important reason cited by 35.2%. 9.2% of the visitors came to Bahrain to visit friends and family. 6.8% of the total were business visitors while 2.4% gave health care as the primary purpose of their visit
- Hotels were the preferred type of accommodation used by 73% of all inbound visitors. The share of furnished apartments was 14% while 10% stayed with friends and relatives. 2% stayed and apartments they own and 1% at rented apartments

- Total tourism expenditure during 1H18 reached BHD812/4mn, a daily average of BHD76 per visitor
- Hotel occupancy during 1H18 averaged 48% for five-star properties and 50% for four-star hotels

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