



وزارة المالية والاقتصاد الوطني

Ministry of Finance
and National Economy

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Overview of Bahrain's Economy

Q2 2023

Real GDP Growth

(Year on Year)

Total GDP

▲ +2.0%

Non-oil GDP

▲ +2.0%

Oil GDP

▲ +2.2%

Top Growing Non-oil Sectors

Q2 2023 (YoY)



Transport
& Communication

▲ +13.3%



Hotels
& Restaurants

▲ +9.6%



Real Estate
& Business Activities

▲ +4.9%



Financial
Corporations

▲ +4.7%

Top Economic Indicators

Q2 2023 (YoY)



Air Passengers
Flow

▲ +20.2%



Hotel Occupancy
Rate (4 & 5 Star)

▲ +8.0%



Value of Real
Estate Trading

▲ +19.0%



Value of Electronic
Fund Transfers

▲ +12.4%

Bahrain's Performance in Global Competitiveness Indicators

IMD

World Talent
Ranking 2023

Ranked 27 Globally
Improved by 8 Spots



Global Innovation
Index 2023

Ranked 67 Globally
Improved by 5 Spots

FRASER
INSTITUTE

Economic Freedom of
the World 2023

Ranked 45 Globally
Improved by 2 Spots

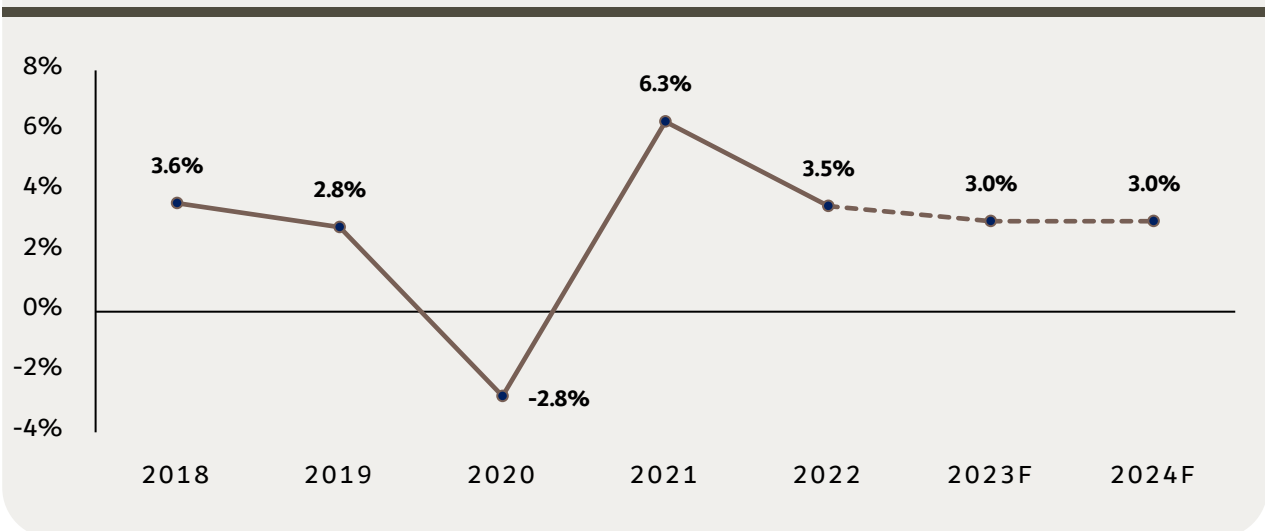
Global Economy

- ◆ Fears of a global recession have abated, with growth of 3.0% now seen as likely in 2023 and 2024
- ◆ Global inflationary pressures are gradually projected decline from 8.7% in 2022 to 6.8% in 2023 and further down to 5.2% in 2024

Despite projections of a gradual slowdown in global growth from 3.5% in 2022 to 3.0% in 2023, the IMF's World Economic Outlook of July 2023 reflects growing optimism about economic resilience even in a higher interest rate environment. Fears of a recession have largely abated and weakening inflationary pressures should begin to pave the way for gradual monetary loosening even if this is generally expected to be a slow process.

Growth this year looks set to be driven by the emerging market and developing economies, which are on track to post 4.0% growth, led by a 6.1% increase in India due to stronger domestic investments and a 5.2% rebound in China despite indications that the country's recovery has proven slower than previously projected. The advanced economies, on the other hand, will grow by a moderate 1.5% rate this year, down from 2.7% in 2022.

Global GDP Growth Projections (Constant Prices, YoY)



Source: World Economic Outlook July2023, International Monetary Fund (IMF)

The global inflation rate is estimated to decrease from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024, according to the WEO. This is attributed to energy and food prices significantly dropping from their peak levels in 2022, although food prices continue to remain relatively high. The combined effect of supply chains normalization and softening in global demand have also contributed to the decline in inflation.

Even as global oil prices have retreated from last year's peak levels, oil demand is continuing to show robust growth. The International Energy Agency expects global oil demand to grow by 2.2 mbd in 2023 to reach an all-time record of 102.2 mbd. Growth is driven by increased travel, higher oil use in power generation, and rising Chinese petrochemical activity. Amid continued output restraint by OPEC+, this is creating a tight demand-supply balance in the market and has begun to put renewed upward pressure on prices since the summer. According to the US Energy Information Administration, the oil price is expected to increase in the fourth quarter of the year to USD 93 per barrel, up from USD 86 recorded in August and average at USD 84.5 for the year as whole.

Gulf Cooperation Council Economy

Non-oil sector grew notably in the GCC, in line with regional economic growth and diversification strategies which promote investment. By contrast, oil sector activity remained limited due to the reductions in OPEC+ output quotas as well as some voluntary output cuts.

According to the General Authority for Statistics, Saudi Arabia's economy experienced a 1.2% YoY real GDP growth in Q2 2023. This growth was strongly led by the Non-oil sector which expanded by 6.1%. Government sector posted 2.3% YoY growth. The sharp moderation in headline growth from last year's levels reflected cuts in oil production in compliance with the OPEC+ quotas and the Kingdom's voluntary output cuts. As a result, the Oil sector experienced a 4.3% YoY decline.

The data released by Oman's National Center for Statistics and Information showed a small YoY contraction in the Sultanate's real GDP by 0.2% in Q2 2023. This decrease was attributed to a 0.7% drop in Oil sector. By contrast, Non-oil sector expanded by 0.1% YoY.

In the United Arab Emirates, preliminary reports published by the Federal Center for Competitiveness and Statistics revealed that real GDP for Q1 2023 increased by 3.8% compared to the same quarter in 2022, while Non-oil GDP increased by 4.5%YoY.

Bahrain's Economic Performance

According to the preliminary data released by the Information and eGovernment Authority, the Kingdom of Bahrain recorded a 2.0% YoY real GDP growth in the second quarter of 2023. This growth was supported by a 2.0% increase in the Non-oil sector and a 2.2% increase in the Oil sector.

In nominal terms, the GDP experienced a 9.5% YoY decline, primarily attributed to a 22.1% decrease in the Oil sector in reflection of the decline in the global oil prices, as well as a 6.6% decrease in the Non-oil sector.

The Ministry of Finance and National Economy projects real GDP growth of 2.9% during 2023. This is expected to accelerate 3.2% in 2024. Additionally, the Non-oil sector is projected to experience growth of 3.5% and 3.8%, respectively, during those years.

Forecasts of Key Economic Indicators

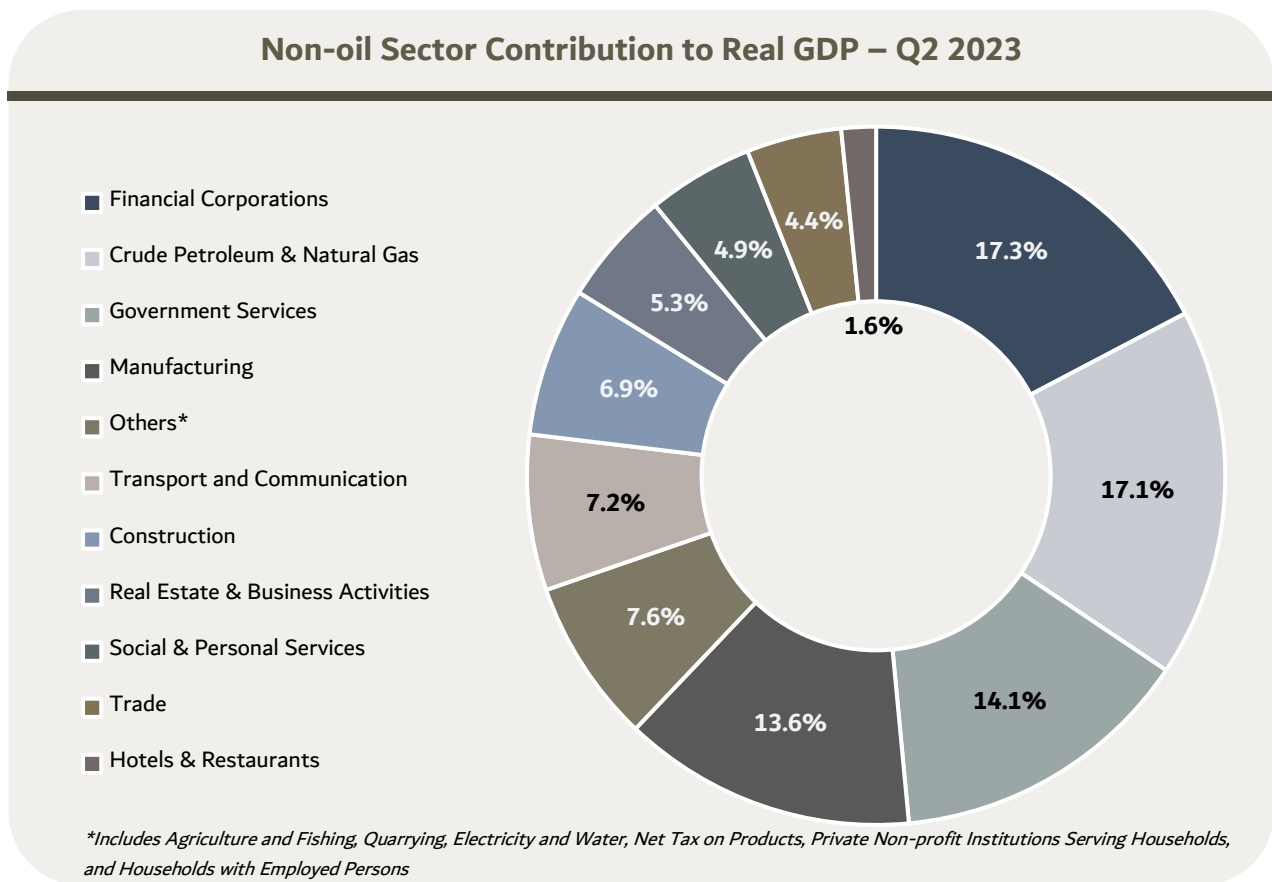
	2021*	2022*	2023	2024
	Actual	Prelim	Forecast	Forecast
Real GDP growth	2.6%	4.9%	2.9%	3.2%
Non-oil sector	3.2%	6.3%	3.5%	3.8%
Oil sector	-0.3%	-1.4%	0.0%	0.0%
Nominal GDP growth	13.5%	13.0%	0.9%	3.4%
CPI	-0.6%	3.6%	1.0%	2.5%
Current account (% of GDP)	6.6%	15.4%	8.2%	11.0%

**Revised figures by the Information & eGovernment Authority*

Source: Ministry of Finance and National Economy estimates

Non-oil Sector

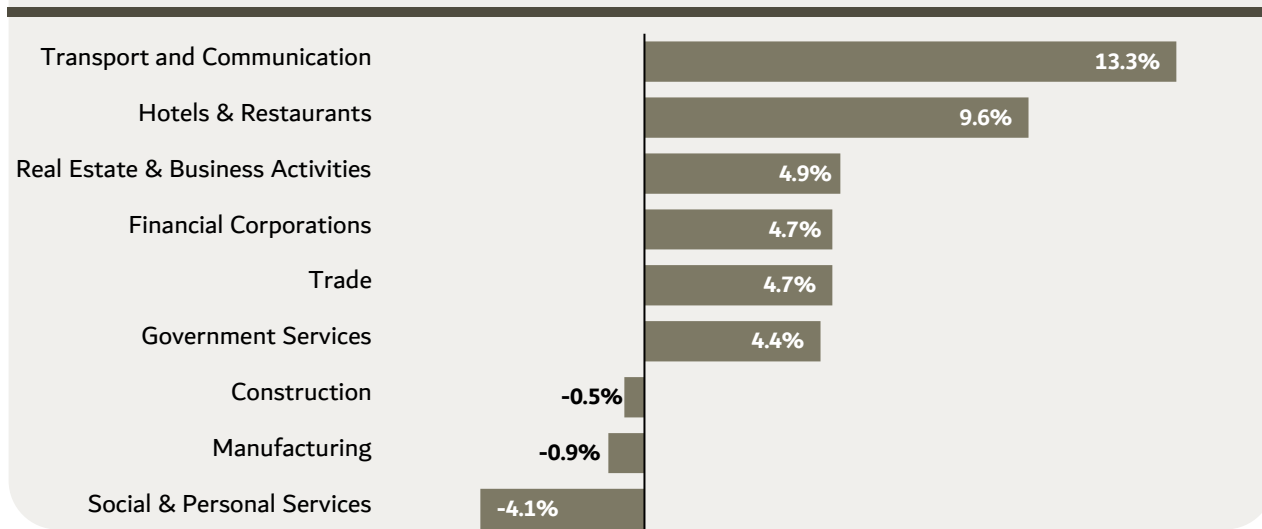
The continued growth and diversification of the economy brought the real GDP contribution of the Non-oil sector to 82.9% in Q2 2023. The Financial Corporations sector remains the largest single sector with a 17.3% share, which was once again slightly ahead of the Oil sector’s 17.1% contribution. Government Services accounted for 14.1% of the Kingdom’s real GDP, closely followed by the Manufacturing sector at 13.6%. The share of the Transportation and Telecommunications stood at 7.2%, and that of Construction at 6.9%. The Real Estate and Business Activities accounted for 5.3% of real GDP, the Social and Personal Activities 4.9%, Trade 4.4%, and Hotels and Restaurants 1.6%.



Source: Information & eGovernment Authority

According to the preliminary estimates, the Non-oil sector posted 2.0% YoY real growth during Q2 2023. Transport & Communications was the fastest growing sector at 13.3% in reflection to increased cross-border mobility. Hotels & Restaurants posted 9.6% YoY growth, partly driven by the normalization of regional travel flows. Several sectors recorded strong rates of expansion of 4-5% YoY such as Financial Corporations, Trade, and Government Services.

Real GDP Growth by Sector (Q2 2023, YoY)



Source: Information & eGovernment Authority

Real GDP Growth Rates by Sector (YoY)

Year	2022					2023		
	Annual	Q1	Q2	Q3	Q4	Q1	Q2	H1
Crude Pet. & Nat. Gas	-1.4%	-4.7%	-2.2%	1.2%	0.1%	-5.9%	2.2%	-1.6%
Manufacturing	4.9%	4.3%	6.6%	3.9%	4.9%	-1.1%	-0.9%	-1.0%
Electricity & Water	-0.2%	3.1%	0.0%	-0.7%	-2.7%	-1.5%	0.3%	-0.6%
Construction	1.4%	3.0%	2.6%	0.0%	0.1%	-1.3%	-0.5%	-0.9%
Trade	5.4%	1.6%	7.5%	5.9%	6.6%	4.2%	4.7%	4.5%
Hotels & Restaurants	13.9%	26.6%	18.1%	14.7%	0.6%	4.3%	9.6%	6.9%
Transp. & Comm's	4.5%	13.2%	12.1%	-1.3%	-2.4%	11.2%	13.3%	12.3%
Social & Pers. Serv.	-0.4%	-1.9%	-0.4%	0.5%	0.0%	1.1%	-4.1%	-1.5%
Real Est. & Business Act.	5.5%	4.7%	4.5%	6.8%	6.0%	5.3%	4.9%	5.1%
Financial Corporations	4.1%	3.9%	4.3%	0.0%	8.2%	4.9%	4.7%	4.8%
Government Services	6.9%	7.3%	6.1%	5.0%	9.3%	3.9%	4.4%	4.2%
Other	33.8%	46.7%	58.7%	26.2%	8.8%	8.0%	-12.1%	-2.4%
GDP	4.9%	5.4%	6.6%	3.4%	4.2%	2.0%	2.0%	2.0%
Non-oil GDP	6.3%	7.6%	8.7%	3.9%	5.0%	3.6%	2.0%	2.8%

Source: Information & eGovernment Authority

◆ **Transportation and Telecommunications**

The Transportation and Telecommunications sector experienced the fastest growth among Non-oil sector in Q2 2023, with an increase of 13.3% YoY. This growth reflected a strong 20.2% YoY increase in total passengers at Bahrain International Airport. Moreover, container vessel traffic at the seaport grew by 52.4% YoY, and there was an 8.7% YoY increase in commercial aircraft movements. Public transportation trips increased by 21.6% YoY during Q2 2023.

Growth in the telecommunications segment was underpinned by a 12.8% YoY increase in mobile subscribers to a total of 2.3 Mn. This took market penetration to record 146%, up from 130% a year earlier. Fixed broadband subscriptions grew by 5.0% YoY, while mobile broadband subscriptions saw a smaller 1.0% gain.

◆ **Hotels and Restaurants**

The Hotels and Restaurants sector experienced a significant annual real growth of 9.6% in Q2 2023. Most tourism indicators were strongly positive with total passenger numbers through all ports increased by 33.6% YoY. Which led to an increase of 29.3% YoY in the number of guests at 4- and 5-star hotels, as did the number of room sales which grew by 24.3% YoY. The occupancy rate at 4- and 5-star hotels increased by 8 percentage points.

◆ **Real Estate and Business Activities**

The Real Estate and Business Activities sector expanded by 4.9%YoY in real terms during Q2 2023. This growth was supported by a significant increase in the value of real estate trading by 19.0% YoY, as well as the increase in the volume of real estate transactions, which grew slightly by 0.6% YoY.

◆ **Financial Corporations**

The sector posted 4.7% real growth in Q2 YoY. The total value of Electronic Funds Transfer System (Fawri+, Fawri and Fawateer) increased by 12.4% YoY. The total value of deposits (by non-bank residents) saw growth of 5.2% YoY to a total of BHD 15.1 Bn. The broad M3 measure of money supply recorded 3.0% YoY growth to BHD 15.7 Bn. By contrast, credit growth has moderated in a higher rate environment, reaching an annual pace of 2.5% during the quarter.

◆ Trade

The Trade sector experienced a YoY real-term growth of 4.7% in Q2 2023. The growth is attributed to several factors, including a significant increase in total mall footfall which grew by 20.7%. Additionally, there was a 11.1% YoY increase in the number of new Company Commercial Registrations. Furthermore, the number of total trucks crossing the King Fahd Causeway saw a growth of 10.0%. In terms of the value of POS and e-commerce transactions increased by 5.2% YoY.

As for the indicators related to women entrepreneurship during Q2 2023, 45% of all active Individual Commercial Registrations were owned by Bahraini women, while 53% of all active Virtual Commercial Registrations (Sijili) were owned by Bahraini women, increasing by 5% since 2018. Furthermore, out of all active Company Commercial Registrations, 34% were owned by Bahraini women.

◆ Manufacturing

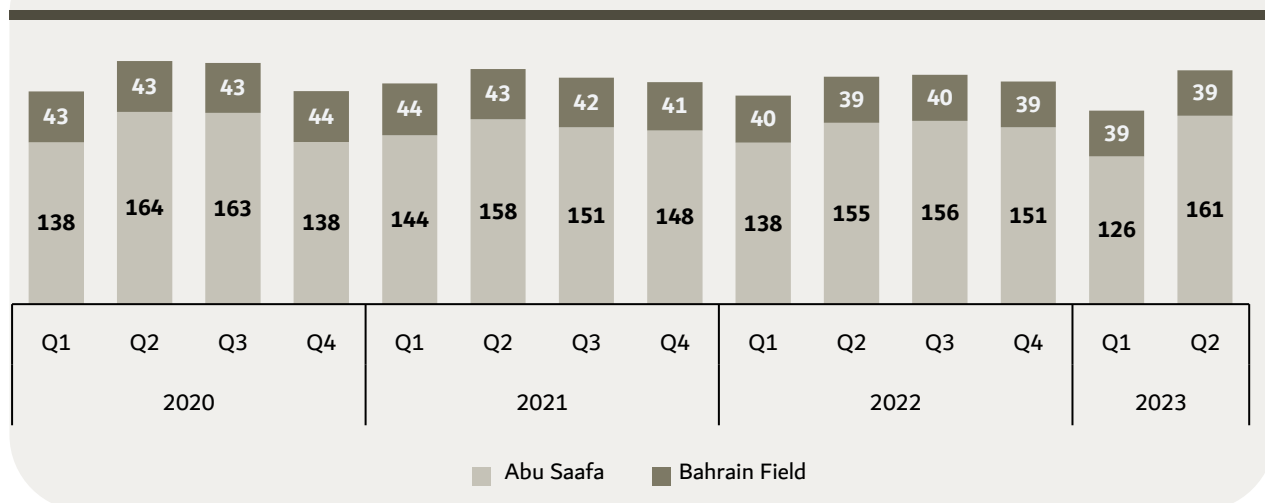
The Manufacturing sector experienced a slight decline of 0.9% YoY during Q2 2023. Bapco Refining witnessed a 2.7%YoY decrease in production, while the Gulf Petrochemical Industries Company (GPIC) posted a strong 6.5% YoY gain in their production, and Aluminum Bahrain (Alba) recorded a 2.3% YoY increase in production although global aluminum prices dropped by 21.5% YoY. Moreover, Bapco Modernization Program completion rate reached around 93.0% as of July 2023.

Oil Sector

- ◆ The Oil sector accounts for 17.1% of Bahrain’s real GDP
- ◆ The sector experienced a growth of 2.2% YoY, driven by YoY increases in total combined production from both Abu Sa’afa and Bahrain fields by 2.9%

Bahrain’s Oil sector experienced 2.2% YoY growth of during Q2 2023, contributing to 17.1% of real GDP. However, lower oil prices globally resulted in a 22.1% YoY decline in the sector’s nominal GDP. The average price of Brent crude in Q2 2023 were USD 77.99, compared to an average price of USD 113.93 in Q2 2022, a decrease of 31.5% YoY.

Bahrain’s Average Crude Oil Production (Thousands bpd)

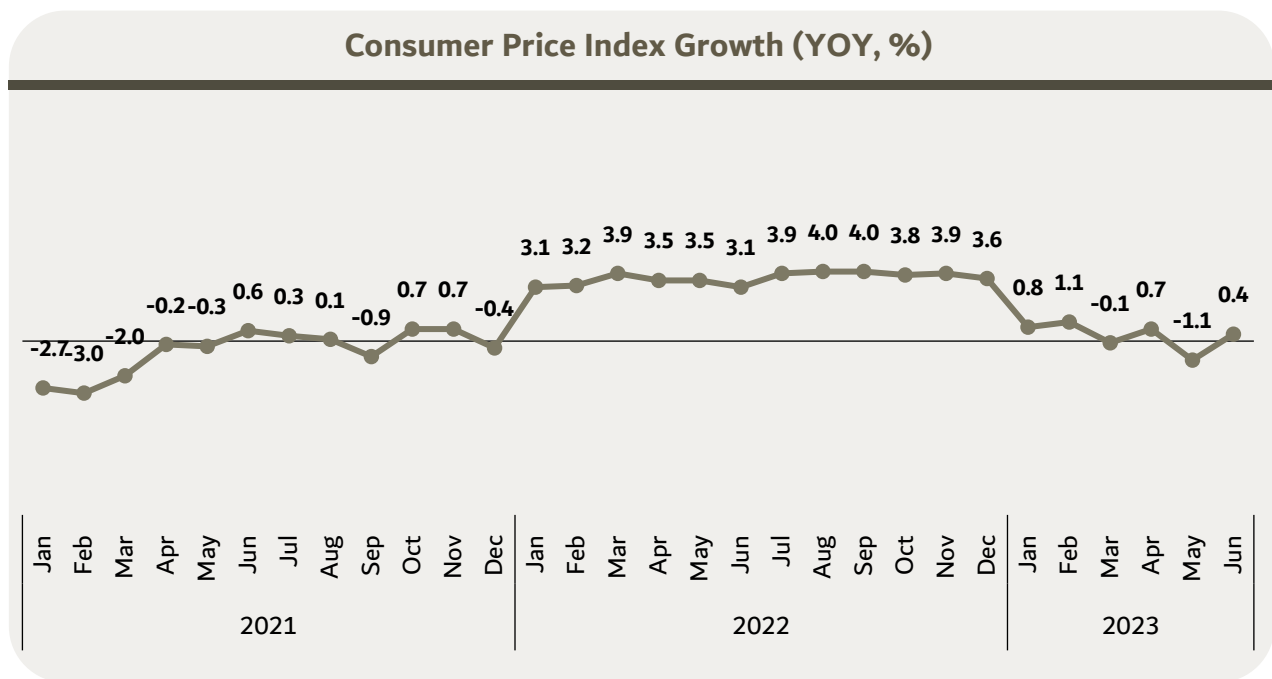


Source: Ministry of Oil and Environment

The average oil production from the offshore Abu Sa’afa field reached 160,892 barrels per day, a YoY increase of 3.9%. Extraction from the onshore Bahrain field declined saw a small 1.4% YoY decline to 38,867 barrels per day. The production of natural and associated gas during the quarter amounted to 234,514 Mn cubic feet. This marked a 0.6% YoY increase. Approximately 36.8% of the total gas produced was reinjected.

Consumer Price Index

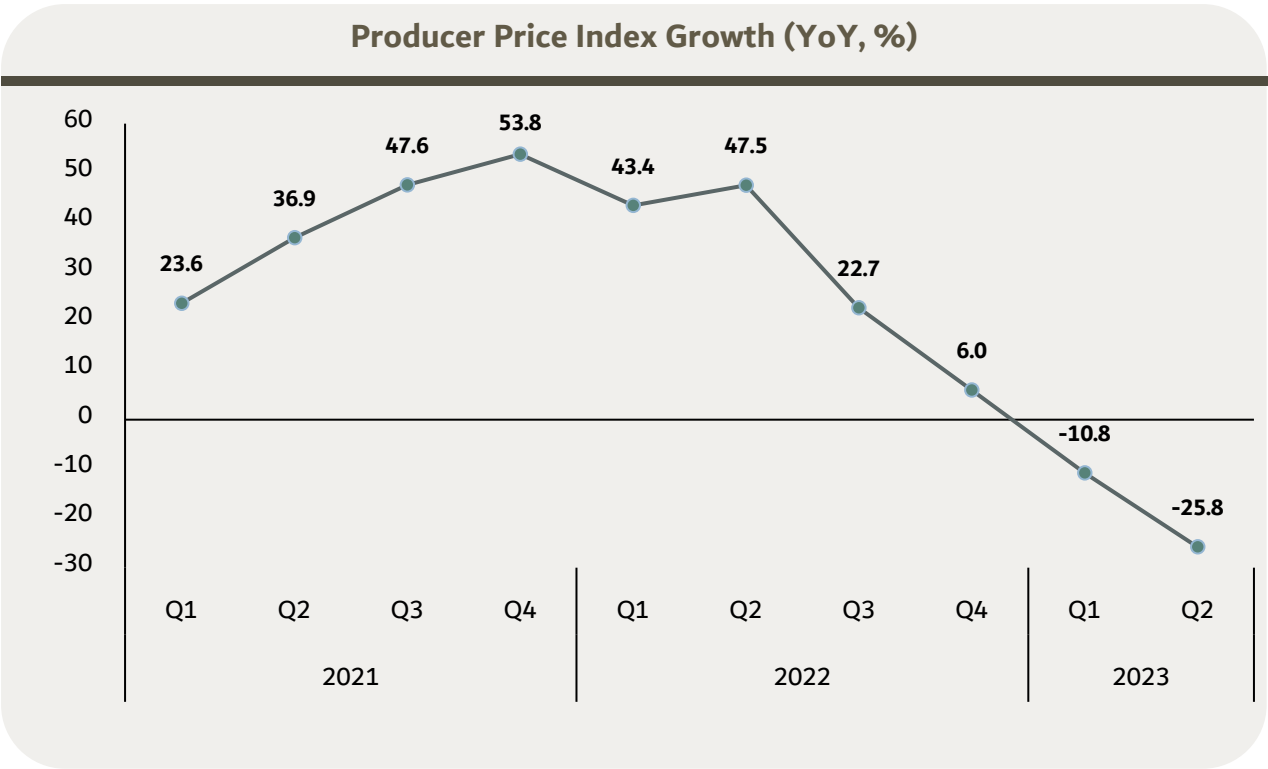
Following a clear increase in price pressures during 2022, the Consumer Price Index has moderated markedly this year and remained fairly steady. This reflects broader regional and global trends of weaker price pressures and supply chains normalization. According to the Information & eGovernment Authority, Consumer Price Index in Bahrain stood at 0.7% in April 2023, followed by a decrease of 1.1% in May 2023, and a renewed small increase of 0.4% in June 2023. The track record of price stability has benefited from the strength of the US Dollar, which has limited imported inflation. Moreover, the government has proactively worked to ensure price stability through some continued subsidies and rigorous monitoring of consumer prices.



Source: Information & eGovernment Authority

Producer Price Index

According to the preliminary data released by the Information and eGovernment Authority, the Producer Price Index (PPI) experienced a decline of 25.8% YoY in Q2 2023. This decline was primarily driven by the mining and quarrying industry which recorded a drop of 26.9% YoY due to the decrease in global oil prices. Additionally, the prices of refined petroleum products decreased by 30.6%, while the prices of basic metals – which includes aluminum – decreased by 24.2% YoY, due to the decline in global aluminum prices.

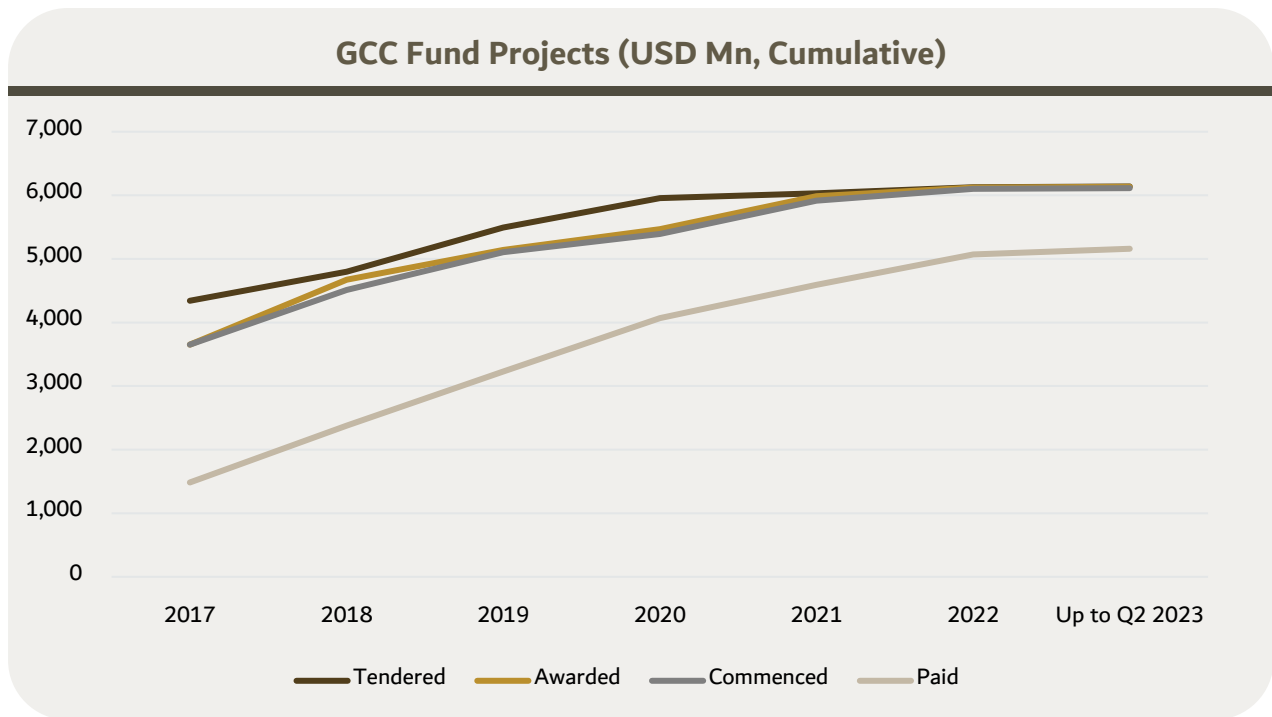


Source: Information & eGovernment Authority

Developmental Projects

The USD 7.5Bn GCC Development Fund finances and executes vital projects across various sectors in the Kingdom that driver the non-oil growth and economic diversification in Bahrain. Progress on major development projects funded by the GCC Development Fund continued during Q2 2023, with projects awarded worth USD 4Mn, bringing the total value of projects awarded to approximately USD 6.14Bn.

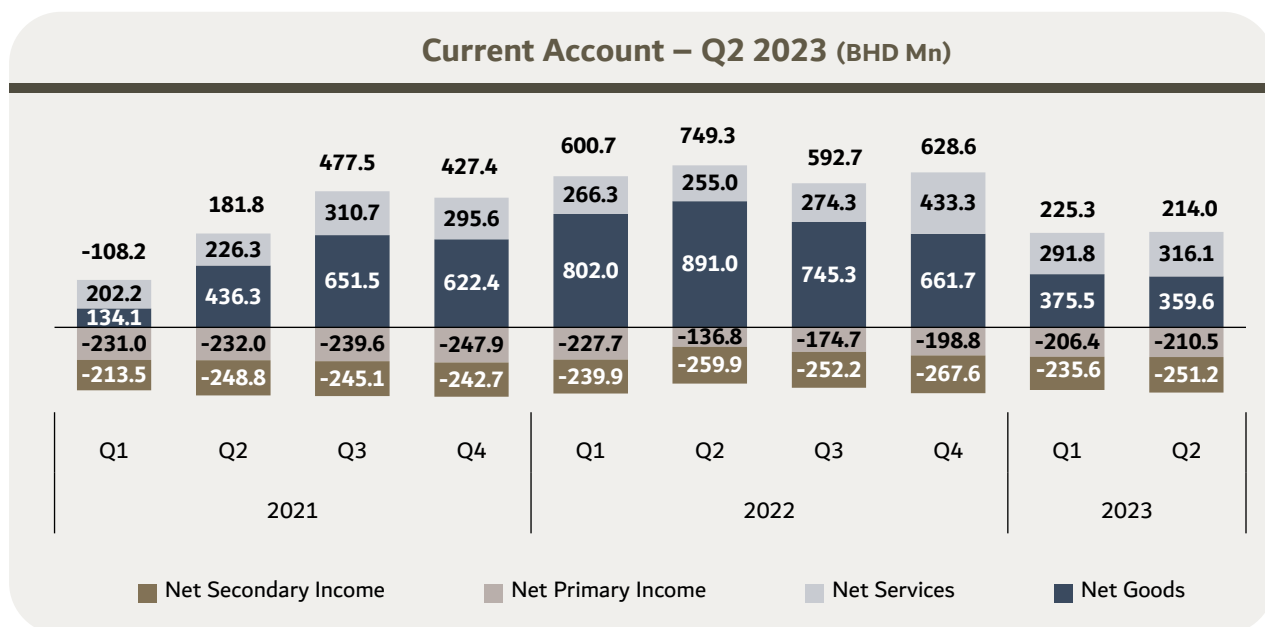
In Q2 2023, the initial contract for Madinat Khalifa housing project was awarded. This project involves the construction of 1,595 housing units with a total budget of USD 80Mn and is expected to be completed by December 2024. Contracts were also awarded during Q2 2023 for the Long Stay Care Center project in Muharraq, which is expected to be completed by the end of this year.



Source: Ministry of Finance and National Economy

Current Account

According to the preliminary balance of payments data released by the Central Bank of Bahrain, the current account recorded a surplus of BHD 214.0Mn during Q2 2023 compared to a surplus of BHD 749.3Mn recorded in Q2 2022. This largely reflected lower commodity prices. Consequently, the current account balance as share of nominal GDP ratio stood at 5.3% during Q2 2023.

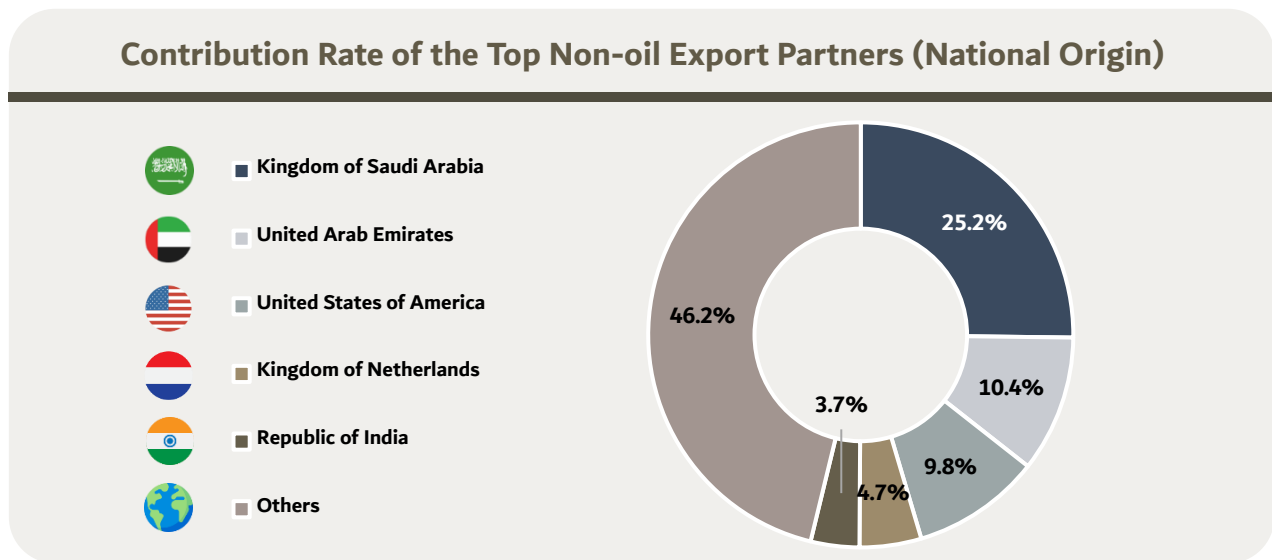


Source: Central Bank of Bahrain

The Kingdom of Bahrain witnessed a decline in its Oil and Non-oil exports during Q2 2023. Where the value of Oil exports amounted to BHD 1,118.2Mn, which entailed an annual decline of 34.2%. Non-oil exports totaled to BHD 1,147.0Mn, down 25.3% YoY. The total exports of the Kingdom of Bahrain recorded an annual decline of approximately 29.9% and stood at BHD 2,265.2Mn in Q2 2023.

According to foreign trade statistics released by the Information and e-Government Authority, basic metals and basic metal classes accounted for 58.8% of the total Non-oil goods exports of national origin during Q2 2023. In second place were mineral products, which contributed 17.8% of the total value. Chemicals ranked third at 6.3%. Animal and animal products came in fourth place, while natural pearls, precious and semi-precious stones and metals held fifth place with a respective contribution of 3.9% and 3.5%.

The Kingdom of Saudi Arabia was the main destination of Non-oil merchandise exports of national origin with a 25.2% share. The United Arab Emirates accounted for 10.4% of the total. The United States of America ranked third with a contribution of 9.8%. The Kingdom of Netherlands came in fourth place with a contribution of 4.7% of the total value of Non-oil exports. The Republic of India secured the fifth position with a contribution of 3.7%.

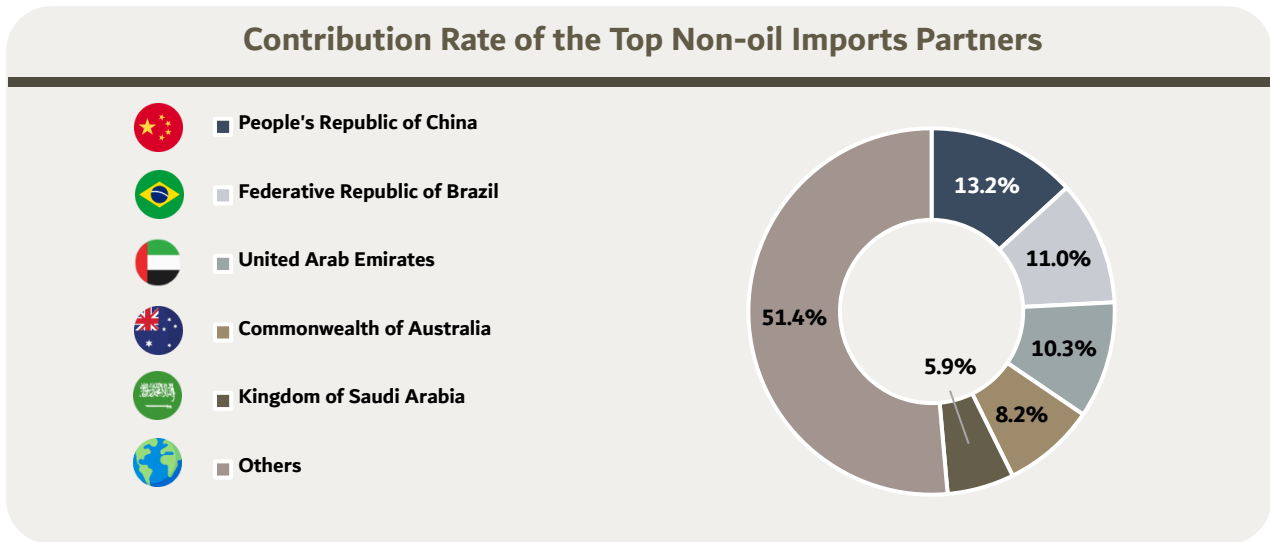


Source: Information & eGovernment Authority

The total value of merchandise imports amounted to BHD 1,905.6Mn, which marked an 18.6% annual decrease. This decline was driven by a decrease in oil imports, which saw a significant drop of 35.4% -driven above all by lower prices- and amounted to BHD 583.6Mn. Non-oil imports also experienced a decrease of 8.1%, totaling BHD 1,322.0Mn. Mechanical and electrical equipment was the most imported category of goods import, accounting for 19.0% of the total Non-oil imports. Mineral products followed closely with a contribution of 16.2%, while chemicals accounted for 15.5%. Vehicles and transport equipment, as well as natural pearls, precious and semi-precious stones and metals also made contributions, comprising 8.5% and 6.4%, respectively, of the total value of Non-oil imports.

The People’s Republic of China was once again the leading source of imports, contributing 13.2% to the total value of Non-oil imports. The Federative Republic of Brazil was second with a 11.0% share, while the United Arab Emirates came in third place with about 10.3%. The Commonwealth of Australia

ranked fourth with 8.2%, and the Kingdom of Saudi Arabia ranked fifth with a contribution of 5.9% to the total value of Non-oil imports.



Source: Information & eGovernment Authority

During Q2 2023, the net value of services exports recorded a sharp annual increase of 24.0%. The value surpassed BHD 316.1Mn compared to BHD 255.0Mn in Q2 2022. On the other hand, the net value of primary income, which includes investment income also saw a substantial increase of 53.9% during the same period, reaching BHD 210.5Mn. By contrast, workers' remittances sent abroad experienced a 3.3% decline to a total of BHD 251.2Mn in Q2 2023.

Small and Medium Enterprises (SMEs) Performance

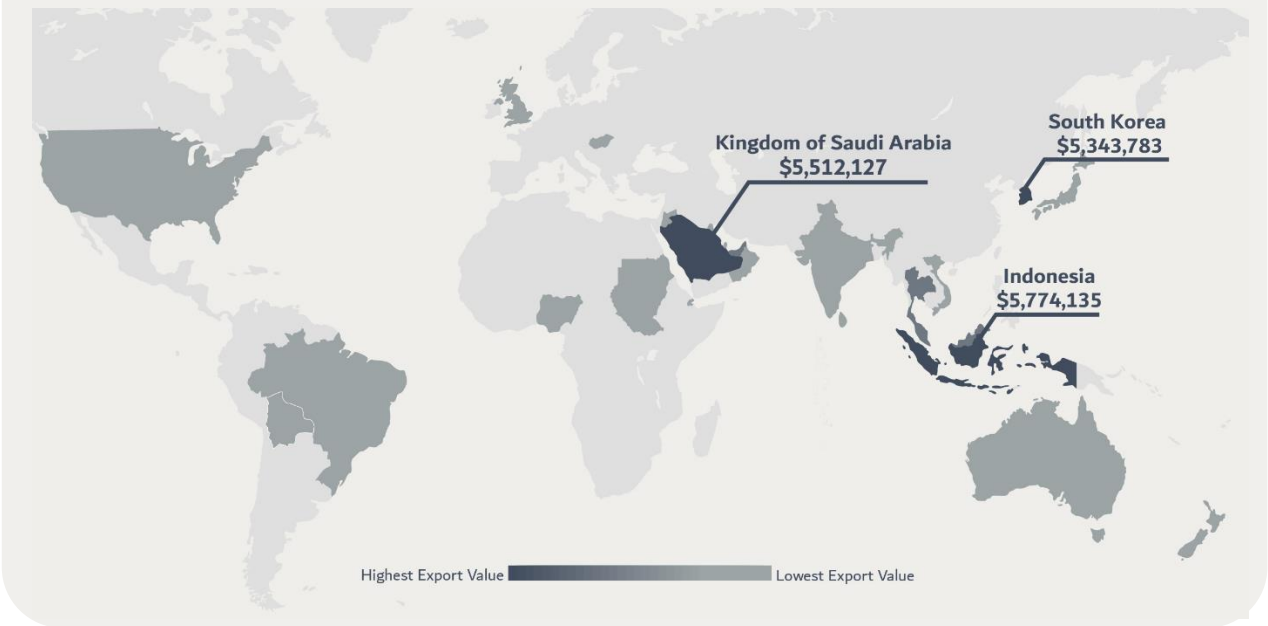
SMEs in Bahrain play a vital role in driving economic diversification and contributing to the country's economy. The SMEs Development Board (SDB) is tasked with supporting their growth and enhancing their economic value by facilitating access to financing, markets, creating a streamlined business environment, promoting skills development, and encouraging innovation.

During Q2 2023, Small and Medium-sized Enterprises (SMEs) contributed almost 34.6% of Bahrain's total nominal GDP, equating to BHD 1.4Bn. SMEs also contributed 11% of total national origin exports, exporting almost BHD 102Mn worth of exports during the quarter. As of the end of Q2, the total number of Bahrainis employed in SMEs totaled 45,602 employees.

SMEs accounted for a remarkable 93.1% of all enterprises in Bahrain as of Q2 2023, totaling 75,652 businesses. This marks a 4% increase compared to the same period in 2022. Among these enterprises, 80% are owned by Bahrainis, 39% by women, and 24% by young entrepreneurs -both genders. Notably, the trade sector showed the highest contribution to SMEs with 37.2%, followed by professional, scientist, and technical activities with 12.3%, construction sector with 9.0%, then manufacturing sector with 7.6%. To further promote innovation, the Ministry of Industry and Commerce granted 31 licenses to 12 business incubators, which has led to incubating more than 1,200 startup companies.

"Export Bahrain" has played a significant role in facilitating exports from Bahrain. Ever since its inception in November 2018, it has facilitated over BHD 214Mn in total export value, exports coming from Bahrain-based SMEs across various sectors. In Q2 2023, "Export Bahrain" achieved a significant increase of over 800% in export value compared to the same quarter in 2022. Since its inception, "Export Bahrain" has accessed over 91 markets worldwide, with 4 new markets being accessed for the first time during Q2 2023. The top exporting destinations for "Export Bahrain" in Q2 were Indonesia, followed by Kingdom of Saudi Arabia, and South Korea. Manufacturing was the leading sector in Q2 2023 accounting for USD 27Mn, representing 90% of total exports. In terms of commodities, followed by manufactured and packaged food products with a value of approximately USD 20Mn. While women entrepreneurs accounted for more than 20% of all exporters availing "Export Bahrain's" services. Over 15% of total exporters represented service exports.

Primary Markets for “Export Bahrain” Partners - Q2 2023

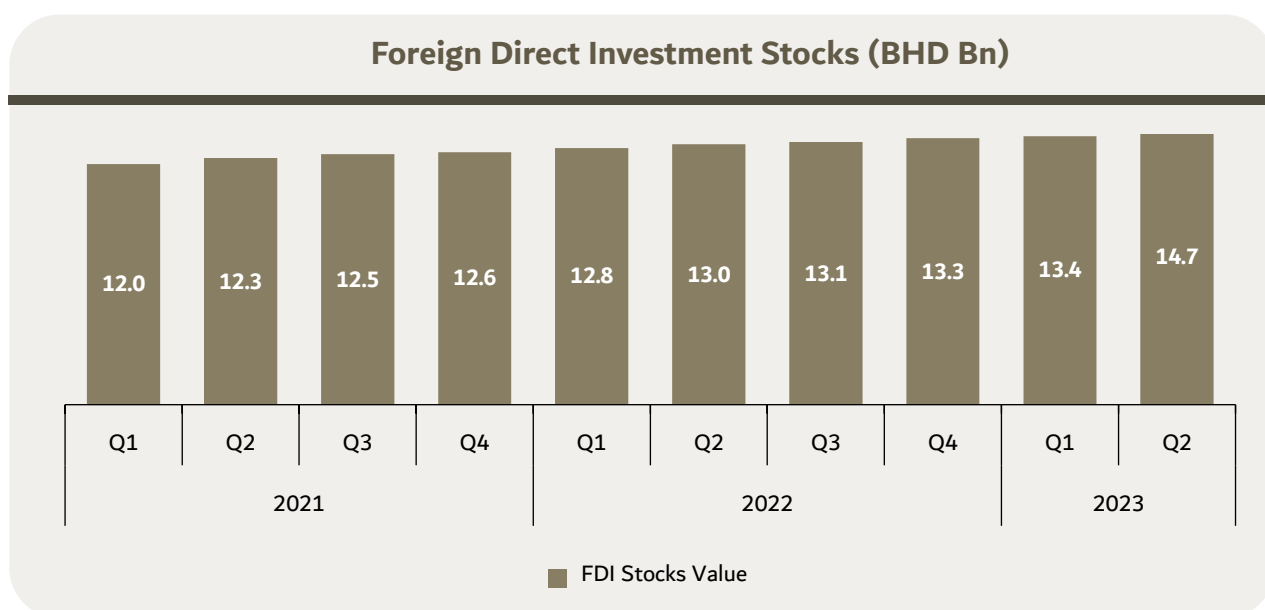


Source: Export Bahrain

Foreign Direct Investment (FDI)

Inward investments into the Kingdom of Bahrain continued to increase in Q2 2023, according to the preliminary results of the FDI survey carried out by the Information and eGovernment Authority in collaboration with the Central Bank of Bahrain. The cumulative inward FDI stock reached BHD 14.7Bn, growing by 13.9% YoY from BHD 13.0Bn in Q2 2022.

The total FDI flows during Q2 2023 reached BHD 1.3Bn. This marked 752.5% YoY increase. The Financial and Insurance Services posted the highest increase with FDI flows of BHD 982.9Mn. The Real Estate Activities sector posted flows of BHD 129.2Mn during the quarter and Manufacturing recorded inward foreign investments of BHD 74.6Mn.

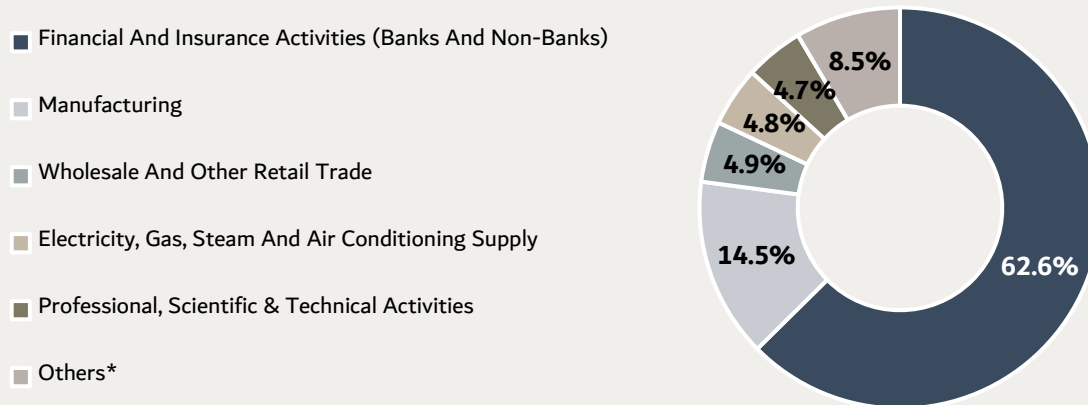


In terms of economic activities, Financial and Insurance Services contributed around 62.6% of the total inward FDI stock at BHD 9.2Bn as of the end of Q2 2023. This marked an annual increase of 13.5%, mainly driven by acquisition of Ahli United Bank by Kuwait Finance House towards the end of last year. The Manufacturing sector contributed approximately 14.5% of the total inward FDI stocks at BHD 2.1Bn, an increase of 3.8% YoY.

The Mining and Quarrying sector recorded the fastest growth in inward FDI during Q2 2023 – a 432% YoY gain compared to the same period in 2022 – which took the total to BHD 80.4Mn. Real Estate activities posted a 46% YoY increase to BHD 412.1Mn, followed by Human Health and Social Work Activities, which grew by 41% YoY to reach a total of BHD 21.5Mn.

The inward investments of the State of Kuwait were BHD 4.8Bn, contributing 32.7% of total FDI stocks. Followed by the Kingdom of Saudi Arabia with investments of BHD 3.6Bn, contributing 24.7% of total FDI stocks, and the United Arab Emirates with investments worth BHD 1.6Bn, contributing 11.2% of total FDI stocks.

Economic Activities' Share of FDI Stock – Q2 2023

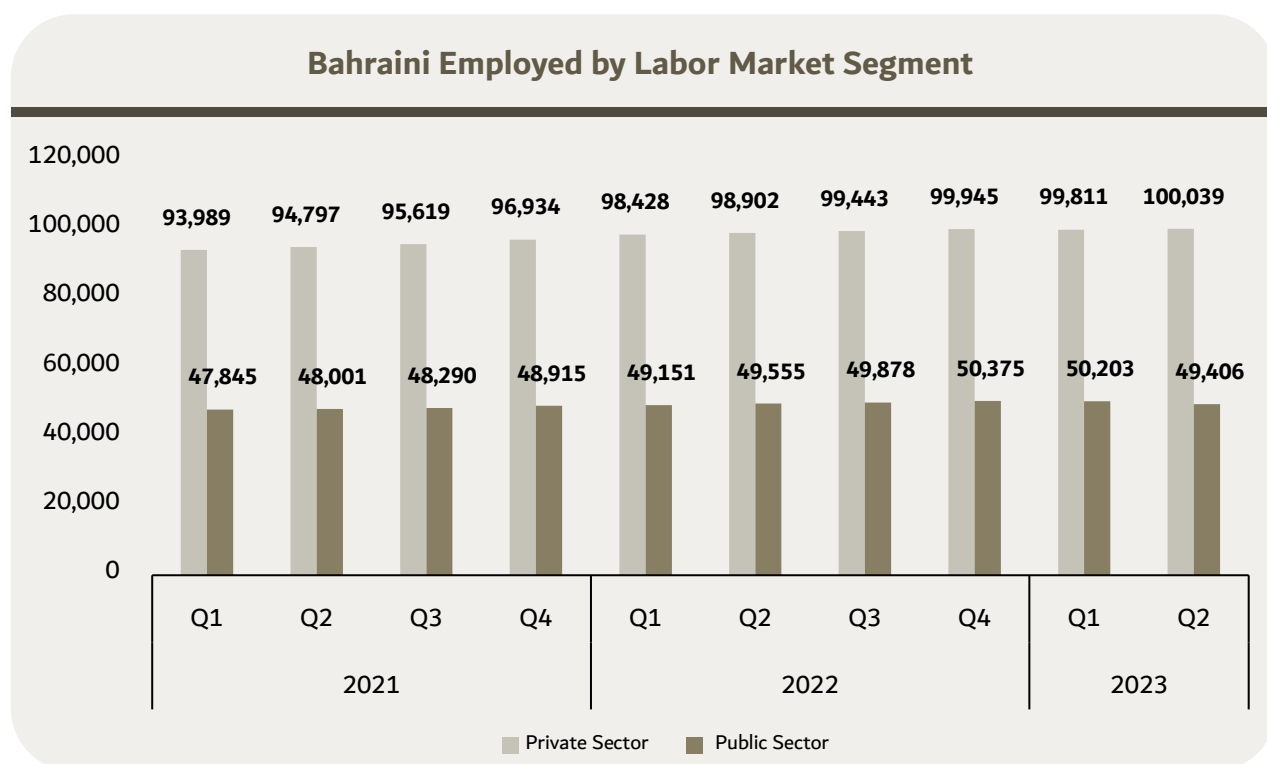


**Includes 13 other activities such as Real Estate, Mining and Quarrying, Education, Construction, and Art, Entertainment and Recreation*

Source: Information & eGovernment Authority

Labor Market

According to data published by the Social Insurance Organization for Q2 2023, the total number of Bahrainis employed in the private sector grew by 1.1% YoY, to reach 100,039 registered workers – the first time this figure has exceeded 100,000. The total number of Bahrainis employed in the public sector dropped by 0.3% YoY to a total of 49,406. Accordingly, the combined number of Bahrainis working in both sectors reached 149,445 workers, reflecting an increase of 0.7% YoY. The private sector now employs 66.9% of the total national workforce. On the other hand, total non-Bahrainis in the workforce totaled 467,788 workers, an increase of 4.1% YoY.



Source: Social Insurance Organization

The overall average monthly wage of Bahrainis in both sectors increased by 7.2% YoY to reach BHD 866 by the end of Q2 2023. In the public sector, the average monthly wage of Bahrainis was BHD 950, representing an increase of 9.2% YoY. In the private sector, the average monthly wage amounted to BHD 826, following a 6.0% increase YoY. Average non-Bahraini wages increased by 0.4% to BHD 260.

The monthly median wage of Bahraini women in the public sector during Q2 2023 equaled BHD 801, while the monthly median wage for Bahraini men in the public sector was BHD 768. The private sector average for Bahraini women was BHD 450, while Bahraini men averaged BHD 464.

Women constituted approximately 42% of the total number of Bahraini contributors in the public and private sectors (55% of total Bahrainis in the public sector, and 35% of total Bahrainis in the private sector). A total of 62,323 Bahraini women were registered as contributors by the Social Insurance Organization as of Q2 2023. Women comprised 58.8% of new recruits in the public sector and 50.9% of new recruits in the private sector, reflecting their growing economic participation and contribution to development.

One of the main pillars of the Economic Recovery Plan is to increase the employment opportunities of Bahraini citizens, targeting a recruitment of 20,000 Bahrainis and providing training for 10,000 Bahrainis on an annual basis until 2024. In Q2 2023, 7,062 Bahrainis have been recruited in the private sector under the National Employment Program 2.0, bringing the cumulative total to 14,163 Bahrainis by the end of H1 2023. This represents 71% of the set target. Additionally, 5,153 Bahrainis were trained during Q2 2023, bringing the total up to 7,237 Bahrainis by the end of H1 2023, accounting for 72% of the target set.

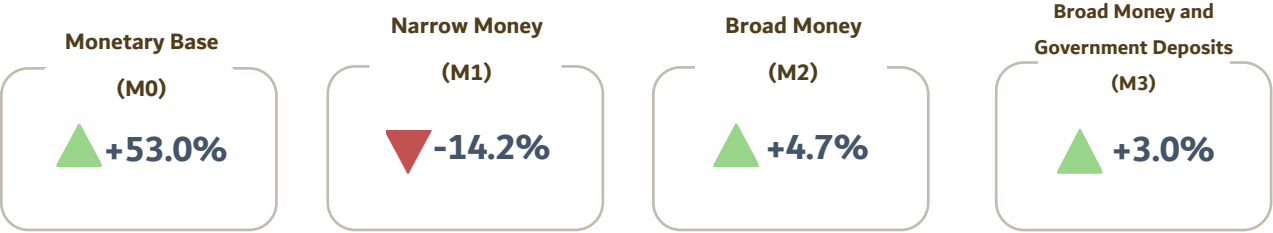
Monetary Policy and Financial Sector Developments

Interest Rates



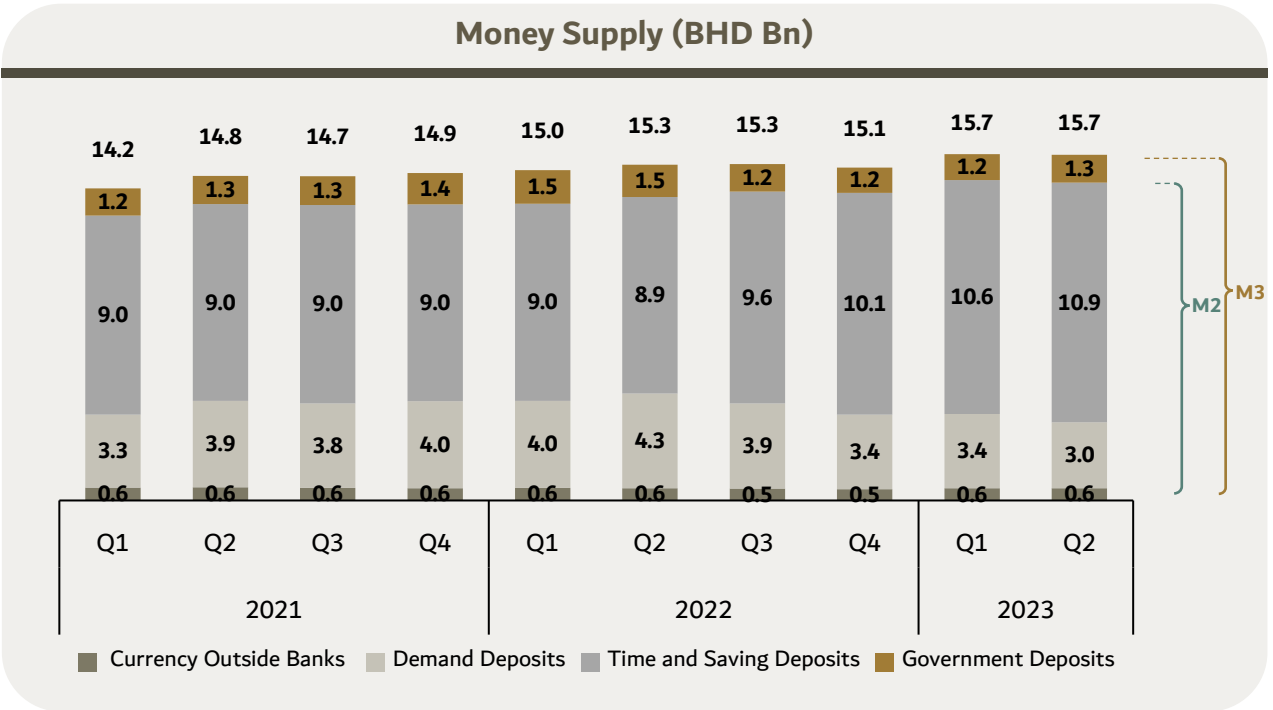
During Q2 2023, the Central Bank of Bahrain implemented one interest rate increase by 25 basis points in May 2023, in line with other regional central banks following the US Federal Reserve policy rate increase. The interest rate on one-week deposits was raised from 5.75% to 6.00%. The rate on overnight deposits rose to 5.75%. The interest rate on four-week deposits increased from 6.50% to 6.75%. The interest rate on retail banks' lending facilities increased by 25 basis points from 6.75% to 7.00%.

Money Supply



According to data from the Central Bank of Bahrain, the monetary base (M0) continued to grow in Q2 2023 reaching BHD 4.8 Bn, a growth rate of 53.0% YoY, influenced by the increase in CBB bank deposits. In contrast, M1 decreased by 14.2% YoY to BHD 2.9 Bn, due to a decrease in demand deposits in the local currency.

The broader M2 measure of money supply, recorded 4.7% YoY growth to BHD 14.5 Bn. This growth was supported by Time and Savings Deposits, which amounted to BHD 10.9 Bn. The broadest indicator of money supply, M3, reached BHD 15.7 Bn following 3.0% YoY growth.

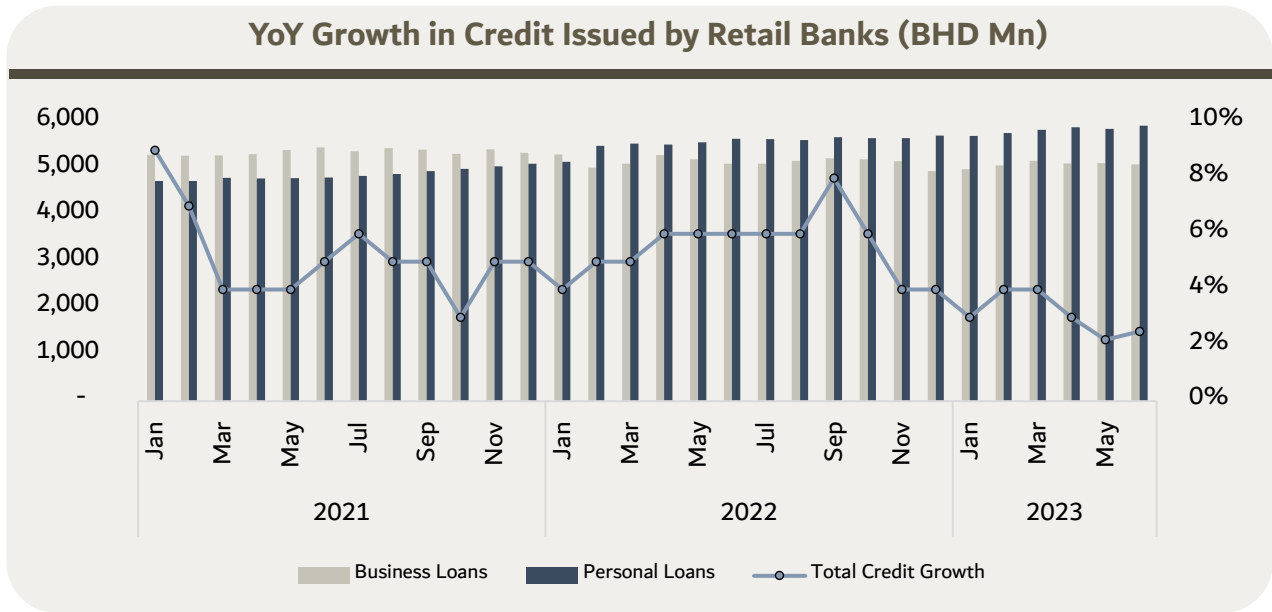


Source: Central Bank of Bahrain (CBB)

Bank Credit and Deposits

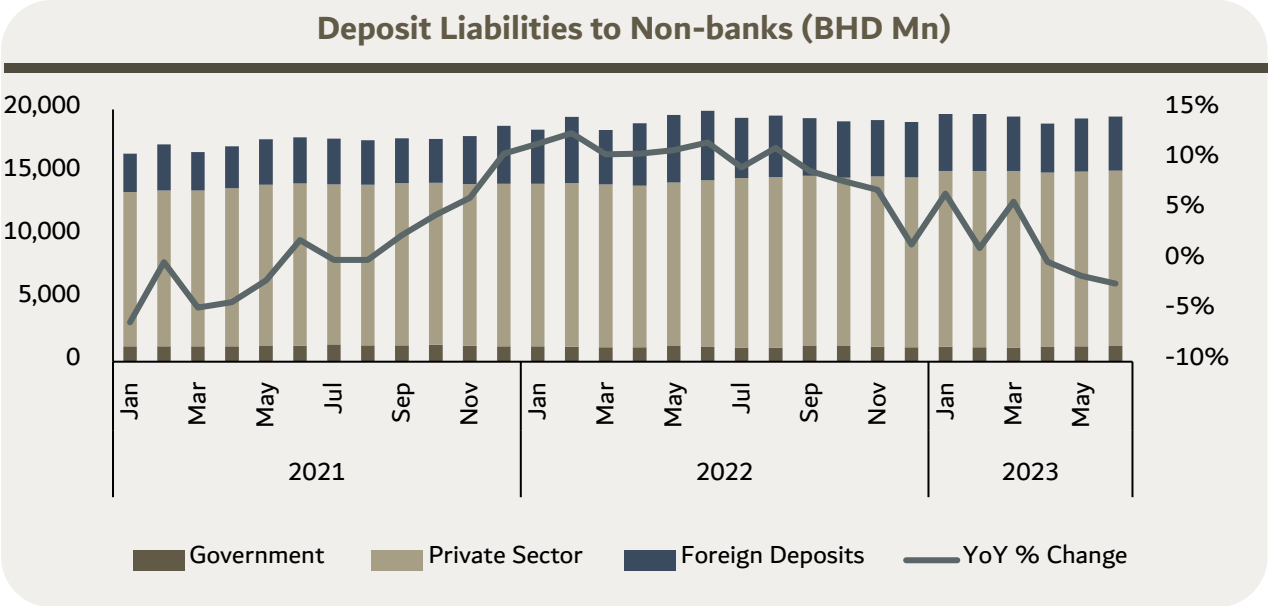


The total value of outstanding loans provided by retail banks increased by 2.5% YoY to approximately BHD 11.6Bn in Q2 2023. Loans offered to individuals led the way with a 5.0% YoY increase to a total of BHD 5.9Bn. Loans to individuals constituted 51.0% of the total value of outstanding loans provided by retail banks in Bahrain. Loans to the business sector experienced a slight 0.3% YoY decline to BHD 5.1 Bn in a markedly higher rate environment. They now account for 43% of total loans provided by retail banks.



Source: Central Bank of Bahrain (CBB)

Total deposits from non-banks in both Bahraini dinars and foreign currencies witnessed a 2.3% YoY decrease in Q2 2023, reaching a value of BHD 19.4 Bn. However, the value of total domestic deposits from non-banks increased by an annual 5.2% to approximately BHD 15.1 Bn. Foreign deposits, by contrast, decreased by 21.9% YoY, amounting to BHD 4.3 Bn by the end of Q2 2023. This partly reflected the commodity price dynamics. Government deposits reached approximately BHD 1.3 Bn, recording a yearly increase of 8.3%.



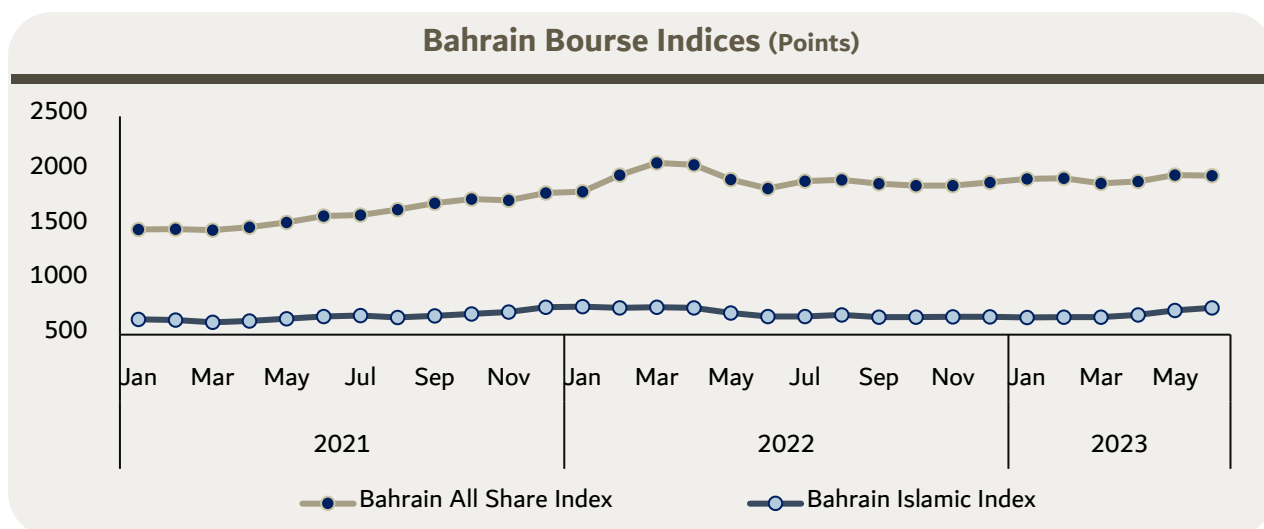
Source: Central Bank of Bahrain (CBB)

Capital Markets

The Bahrain All Share Index closed at 1,957.9 points in Q2 2023, recording an increase of 6.4% YoY. The Islamic Index of Bahrain closed at 746.9 points, marking an 11.9% YoY growth. However, the market capitalization declined to approximately BHD 7.6Bn due to the delisting of Ahli United Bank shares on the 26th of June 2023, as the bank transitioned to a closed Bahraini joint-stock company.

In Q2 2023, the Financial sector accounted for 39.7% of the total value of shares traded, amounting to BHD 21.6Mn. This sector constituted 74.0% of the total volume of shares traded in the market. Following closely was the Materials sector, contributing 38.6% of total volume of shares traded in the market.

In terms of total market capitalization, the Financial sector continued to lead the market, representing 60.5% of the Bahraini market. As for the 3 companies with the highest market capitalization, Bahrain Aluminum Company led the way with approximately BHD 1.5Bn, constituting 20.6% of the total market value in Bahrain Bourse. National Bank of Bahrain came in second, accounting for BHD 1.3Bn, representing 17.9% of total market capitalization. The third company is by the Bank of Bahrain and Kuwait, with a market capitalization of around BHD 0.8Bn, accounting for 11.5% of the total Bahraini capital market.



Source: Bahrain Bourse

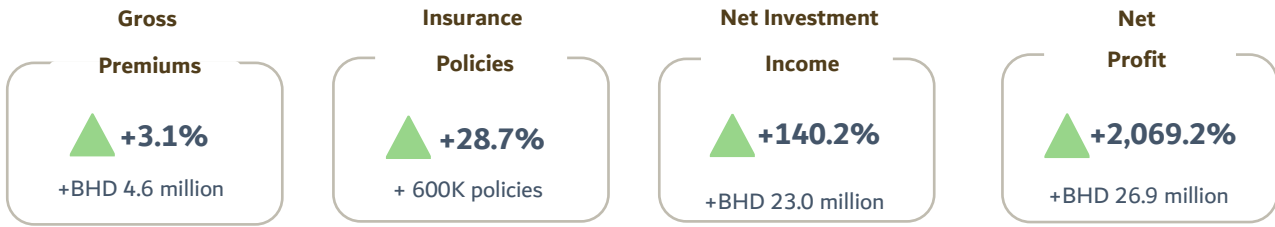
Short-term Bond and Sukuk Issued by the Central Bank of Bahrain

During Q2 2023, the CBB issued a total of 25 conventional bonds and Islamic Sukuk with a combined value of BHD 1.7Bn. The highest interest rate recorded during Q2 2023 was 6.36% for government treasury bills. For long-term government development bonds, the highest rate recorded was 6.25%. As for short-term government Islamic Sukuk, the highest rate was 6.15% for Sukuk Al-Salam, and 6.05% for Sukuk Al Ijarah. In addition, the highest over-subscription rate during this quarter was seen in Sukuk Al Ijarah issuance number 212, with a rate of 551%.

Issue date	Issue	Value, BHD Mn	Maturity Days	Average Interest/Profit Rate (%)	Average Price (%)	Over- subscription (%)
5-Apr-23	Treasury Bills No. 1959	70	91	5.83	98.547	172
6-Apr -23	Sukuk Al Ijarah No. 212	26	182	6.00	-	551
12-Apr -23	Sukuk Al Salam No. 264	43	91	5.80	-	197
13-Apr -23	Development Bond No. 31	100	1,092	6.00	-	291
19-Apr -23	Treasury Bills No. 1960	70	91	5.82	98.550	222
20-Apr -23	Treasury Bills No. 103	100	364	6.13	94.165	215
26-Apr -23	Treasury Bills No. 1961	70	91	5.92	98.526	111
3-May-23	Development Bond No. 32	200	728	5.875	-	100
3-May-23	Treasury Bills No. 1962	70	91	6.02	98.500	107
4-May-23	Sukuk Al Ijarah No. 213	26	182	6.05	-	403
7-May-23	Treasury Bills No. 1963	35	182	6.10	97.008	149
10-May -23	Treasury Bills No. 1964	70	91	6.17	98.465	102
17-May -23	Sukuk Al Salam No. 265	43	91	6.15	-	197
24-May -23	Treasury Bills No. 1965	70	91	6.21	98.454	173
25-May -23	Treasury Bills No. 104	100	364	6.13	94.168	180
28-May -23	Treasury Bills No. 1966	35	182	6.07	97.021	237
31-May -23	Treasury Bills No. 1967	70	91	6.24	98.439	158
7-Jun-23	Treasury Bills No. 1968	70	91	6.19	98.460	208
8-Jun -23	Sukuk Al Ijarah No. 214	26	182	6.05	-	338
14-Jun -23	Sukuk Al Salam No. 266	43	91	6.10	-	206
21-Jun -23	Treasury Bills No. 1969	70	91	6.11	98.478	174
22-Jun -23	Treasury Bills No. 105	100	364	6.36	93.957	143
25-Jun -23	Treasury Bills No. 1970	35	182	6.30	97.916	153
27-Jun -23	Development Bond No. 33	100	1,456	6.25	-	415
28-Jun -23	Treasury Bills No. 1971	70	91	6.15	98.469	109

Source: Central Bank of Bahrain (CBB)

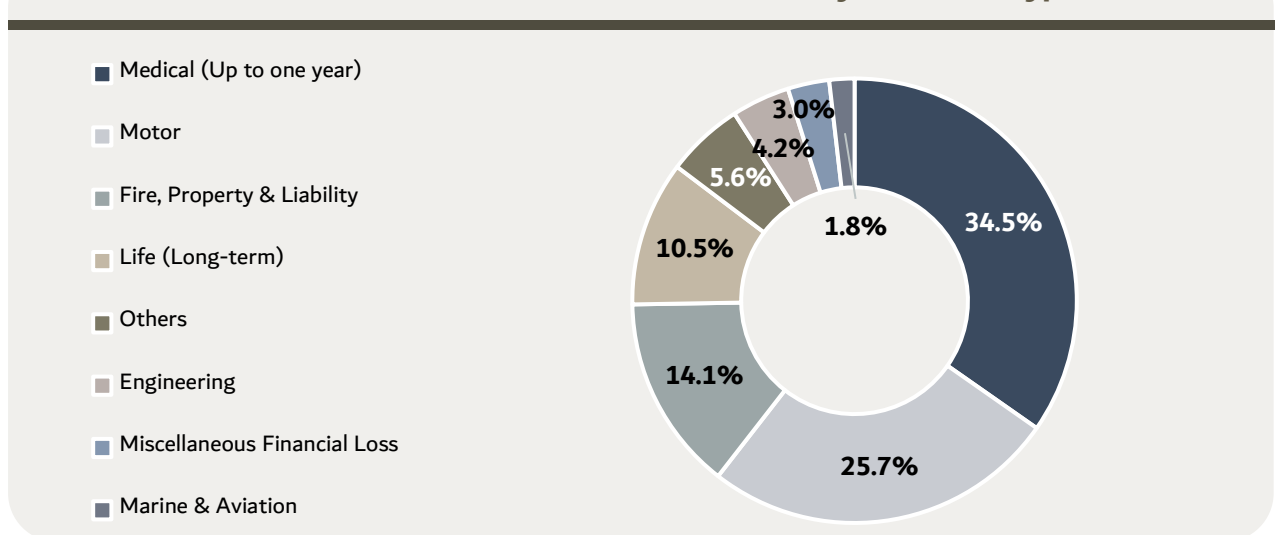
Insurance Sector



According to the data published by the Central Bank of Bahrain, the insurance sector witnessed robust growth in Q2 2023. The number of insurance policies reached 2.7Mn, up 28.7% YoY. The overall value of gross premiums rose by 3.1% YoY to BHD 151.5Mn, due to higher demand for insurance coverage. Notably, the financial loss insurance coverage recorded the highest YoY growth in the sector with a significant annual increase of 26.2% in its gross premiums value, reaching BHD 5.3Mn. Engineering insurance premiums saw substantial growth, with a 24.7% increase, reaching BHD 6.4Mn. Similarly, the gross premiums for Damage to property and medical (up to one year) witnessed a growth of 18.4% amounting to BHD 2.7Mn, and 11.8% to reach BHD 52.3Mn, respectively.

In terms of the contribution of different types of insurance to the total value of insurance gross premiums, medical insurance maintained its position as the leading segment, where it accounted for BHD 52.3Mn, contributing 34.5% of the total gross premiums. Following closely were the motor insurance gross premiums which represented a share of 25.7% and a value of BHD 38.9Mn. Fire, property, and liability insurance premiums ranked third with a contribution of 14.1% and a value of BHD 21.4Mn.

Gross Premiums Contribution Rate by Insurance type



Source: Central Bank of Bahrain (CBB)

In Q2 2023, the insurance sector in Bahrain had an overall retention rate of 62.6%. The highest retention rates were observed in the motor, life (long-term) and medical insurance with rates of 97%, 83% and 66%, respectively.

The profitability of the sector improved sharply during Q2 2023. Net investment income saw a significant growth, increasing from BHD 16.4Mn in Q2 2022 to BHD 39.4Mn in Q2 2023, representing a growth rate of 140.2% YoY. Net profit of conventional insurance firms increased by BHD 26.9 from BHD 1.3Mn in Q2 2022 to BHD 28.2Mn in Q2 2023, an increase of 2,069.2% YoY.

Bahrain's Global Competitiveness

Economic Environment



- ◆ The freest Economy in the Arab World
- ◆ Leading the MENA region in “Freedom to enter Markets & compete” sub-indicator
- ◆ Leading GCC countries in 3 pillars

The Kingdom of Bahrain has maintained its leading position among Arab countries as the freest economy in the Arab World, according to the **2023 Economic Freedom of the World report** published by the Fraser Institute. Bahrain was ranked 45th globally among 165 countries. Regionally, the Kingdom of Bahrain showcased its effective Business-Friendly ecosystem, by leading the MENA region in the “Freedom to Enter Markets and Complete” sub-indicator. Additionally, Bahrain topped the GCC in three out of five main areas, including “Freedom to Trade Internationally”. It is also worth mentioning that Bahrain obtained full scores in 9 sub-indicators within the report.



- ◆ Leading the world in “Financial Attractiveness” sub-index for the fifth consecutive year

For the fifth consecutive year, Bahrain's capital Manama leads the world in the “Financial Attractiveness” sub-index in **AIRINC's 2023 Global 150 Cities Index**. The index evaluates salary levels, living costs, tax rates, and living conditions to assess the attractiveness of 150 cities across the globe. Overall, Manama maintained its global position, ranking 44th among 150 cities.

Human Capital



- ◆ Improving 8 spots in the overall ranking
- ◆ Ranking 2nd globally in the “Labor Force Growth” indicator
- ◆ Among the top 10 positions globally across 7 indicators

The Kingdom of Bahrain advanced in the **World Talent Ranking 2023** published by World Competitiveness Center – IMD, improving in the overall ranking by 8 spots to 27th globally out of 64 countries. Bahrain improved by 60 spots to rank 2nd globally in the Labor Force Growth indicator. Additionally, Bahrain saw its ranking increase by 23 spots to rank 10th globally in the Readiness factor, which is one of three main indicators the World Talent Ranking measures. Bahrain’s performance was marked with top rankings both globally and regionally placing it in the top 10 positions globally across 7 indicators including the Skilled Labor indicator. Additionally, Bahrain leads the MENA region in Finance Skills, Language Skills and Employee Training, ranking 6th globally in the first two indicators and 19th in the third indicator. Notably the Kingdom of Bahrain leads the Arab World in the indicator measuring the percentage of females in the labor force.

Innovation



- ◆ Improving by 12 spots since 2020
- ◆ Improving by 28 spots in the indicator measuring FDI net inflows as percentage of GDP

The Kingdom of Bahrain maintained its progress in the latest editions of the **Global Innovation Index** published by the World Intellectual Property Organization - WIPO and other partners, improving by 12 spots since the 2020 edition to rank 67th globally out of 132 countries in the 2023 index. Bahrain made a notable improvement across several indicators, one of which is FDI net inflows as a percentage of GDP, improving by 28 spots to rank 36th globally. Additionally, Bahrain ranks 2nd globally in the “General Infrastructure” indicator aided by Bahrain’s improvement in the Logistics Performance Index issued by the World Bank this year. It is worth mentioning that Bahrain ranks 10th globally in the “Policies for Doing Business” indicator.

List of Abbreviations

Acronym	Description
ALBA	Aluminium Bahrain
Bapco	Bahrain Petroleum Company
BHD	Bahraini Dinar
BMP	Bapco Modernization Programme
Bn	Billion
Bpd	Barrel per day
Bps	Basis Points
CBB	Central Bank of Bahrain
CPI	Consumer Price Index
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IGA	Information and eGovernment Authority
IMF	International Monetary Fund
Mbd	Million Barrels per Day
Mn	Million
MoM	Month on Month
OPEC	Organization of the Petroleum Exporting Countries
POS	Point of Sale
PPI	Producer Price Index
QoQ	Quarter on Quarter
RHS	Right Hand Side
SMEs	Small and Medium-sized Enterprises
Sqm	Square Meter
USD	United States Dollar
WEO	World Economic Outlook
YoY	Year on Year
YTD	Year to Date

Glossary

Term	Description
Economic Terms	
National Accounts	Description of coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules.
Gross Domestic Product by Production Approach	The total value of goods and services produced within a country, over a specified period, usually annual (and/or) quarterly GDP.
Gross Domestic Product by Expenditure Approach	The total value of the final private and public purchases within a country, over a specified period, usually annual (and/or) quarterly GDP.
Real Growth Rate	GDP growth rate at constant prices, which eliminate inflation's effect between the current year and the base year (2010).
Nominal Growth Rate	GDP growth rate at current market prices, which is affected by inflation.
Inflation	The overall increase in prices of goods and services within a specific period.
Consumer Price Index	The index measures the change in the average level of prices of consumptions goods and services acquired or used by households
Producer Price Index	The index measures the change in the average level of selling prices received by domestic producers for their output.
Economic Sectors	
Oil sector	Comprises of crude oil extracted as well as extraction of natural and associated gas.
Non-oil sector	Includes all economic activities excluding the oil sector activities.
Financial Corporations	Comprises units primarily engaged in financial transactions, i.e. transactions involving the creation, liquidation or change of ownership of financial assets. Also included are insurance and pension funding and activities facilitating financial transactions, and others.
Trade	Comprises wholesale and retail sale (sale without transformation) of any type of goods and rendering services incidental to the sale of merchandise.
Hotels and Restaurants	Comprises units providing customers with short-term lodging and/or preparing meals, snacks, and beverages for immediate consumption.
Manufacturing	Comprises units engaged in the physical or chemical transformation of materials, substances, or components into new products, such as plants, factories or mills, etc

Term	Description
	Examples of manufacturing sector activities: Manufacturing of food and beverages, tobacco products. Manufacturing of textiles, wood and paper products, refined petroleum products, chemicals, furniture, etc.
Government Services	Comprises of all ministries and authorities in the state budget and other attached and independent bodies as per the consolidated final accounts, such as those entities involved in security, education, culture, development, and other entities that provide collective services.
Transport and Communications	Transport sector comprises activities related to providing passenger or freight transport, whether scheduled or not, by pipeline, road, water, or air. As well as, postal activities, storage, and telecommunication, etc
Construction	Comprises general construction -residential and non- residential buildings and roads- and special trade construction for buildings and civil engineering, building installation and building completion. It includes new work, repair, additions, and alterations, and also construction of a temporary nature.
Social and Personal Services	Comprises services provided by businesses and government units to individuals, other businesses or the community as a whole, such as private health and education services, others such as sports and entertainment activities, repairing of computers and households' equipment, etc.
Real Estate and Business Activities	Comprises real estate activities such as purchase or lease, that are mainly linked to the business sector and services that can be provided to private households.
Economic Transactions	
Balance of Payments	A statistical statement that systematically summarizes, for a specific period, the economic transactions of an economy with the rest of the world.
Current Account	It covers all the imported and exported goods and services, primary and secondary income accounts in the balance of payments.
Capital Account	It covers capital transfers
Financial Account	It covers the changes in external financial assets and liabilities of a country and the corresponding records of these changes, it calculates the nets of the direct investment, portfolio investment, other investment, and reserve assets.
Trade Balance	The difference between the value of imports and exports during a certain period, which is a surplus if the value of exports exceeds imports, or a deficit in the opposite case.

Term	Description
Total exports	Includes national exports and exports of foreign goods (re-exports) from any part of the statistical territory.
National Exports	Exports include all commodities that were completely produced or manufactured locally, or on which industrial operations were made that changed the shape and value of the commodity.
Re-exports	Includes exports of foreign goods previously registered as imports.
Total Imports	Imports of foreign goods and re-importing of local goods.
Services Trade	The value of services exchanged between residents and non-residents of an economy, including services provided through foreign affiliates established abroad.
Commodity Trade	The process of sourcing, buying, transporting, storing, transforming and selling physical commodities, including the management of associated risks, as well as operating physical assets in this context.
Foreign Direct investment Survey	It is one of the IGA's most important publications, it helps identify foreign investment stocks and flows.
Point of Sales Transactions	Payments made by debit and credit cards (issued inside or outside Bahrain)
Monetary Terms	
Basis Point	A measurement unit equals to 0.01% used to measure interest rates and percentages. For example, 50 basis points equals 0.5%.
Standing Facilities	A set of deposit and lending instruments that retail banks can obtain from the Central Bank of Bahrain to meet their liquidity needs in Bahraini Dinars.
Deposit Liabilities to Non-Banks	Includes deposits in Bahraini Dinars or foreign currencies in retail banks, and includes local deposits from the government and private sectors (except for banks) and foreign deposits.
Aggregated Balance Sheet of the Banking System	The aggregate balance sheet covers all the banking system (Retail, wholesale, and Islamic) excluding the balance sheet of The Central Bank of Bahrain.
Public Debt Instruments	Treasury bills and securities issued by The Central Bank of Bahrain on behalf of The Government of Bahrain
Treasury Bills	Short-term debt instruments whose value is determined by the Ministry of Finance and National Economy for maturities not exceeding one year.

Term	Description
Government Development Bonds	Long-term bonds issued in Bahraini dinars or US dollars, with maturities from 2 to 30 years. The fixed interest rate is set by the Monetary Policy Committee of the Central Bank of Bahrain.
Al Salam Sukuk	An investment instrument issued in accordance with Islamic Sharia standards, with maturities of three months. The fixed return is determined by the Monetary Policy Committee of the Central Bank of Bahrain.
Short Term Ijara Sukuk	An investment instrument issued in accordance with Islamic Sharia standards, with maturities of six months. The fixed return is determined by the Monetary Policy Committee of the Central Bank of Bahrain.
Long Term Ijara Sukuk	An investment instrument issued in accordance with Islamic Sharia standards in Bahraini Dinar or US Dollars, with maturities from 2 to 10 years. The fixed return is determined by the Monetary Policy Committee of the Central Bank of Bahrain.
Money Supply	Money supply is the total value of money in an economy.
M0	Monetary base of the economy. (Currency in circulation + Bank deposits in the Central Bank of Bahrain)
M1	Money supply that consists of the most liquid portions of money. (Currency in Circulation + Demand deposits)
M2	Broader measure of money supply (M1 + Time and Saving deposits)
M3	The broadest definition of money supply and it includes the least liquid portions of money. (M2 + General Government Deposits).
Monetary Survey	It displays the components of M3 in terms of net foreign assets and domestic assets.
Retention rate	The insurance premiums retained by the company, calculated by dividing the net written premiums by the gross premiums.

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