



وزارة المالية والاقتصاد الوطني

Ministry of Finance  
and National Economy



# Bahrain Economic Quarterly Q2 2019

2030  
البحرين  
BAHRAIN

## SUMMARY

### GROWTH CONTINUITY

The positive performance of the Kingdom of Bahrain's economy during the second quarter of 2019<sup>1</sup> was reflective of the continuing resilience in the non-oil private sector with the ongoing implementation of the Fiscal Balance Program initiatives.

- ◆ **Bahrain's headline real growth<sup>2</sup> stood at 0.8% year on year (YoY) in Q2 2019.** The total GDP recorded during Q2 2019 was BHD 3,244.2 million, the highest quarterly figure to date. Furthermore, real GDP grew by 3.4% compared to Q1 2019. The Q2 2019 GDP growth was driven by the growth of the non-oil sectors which reached 1.2% YoY. On the other hand, the Oil sector saw a slight decline in growth by 0.8% YoY which is consistent with usual seasonal volatility in the sector.
- ◆ **Non-oil growth showed encouraging continuity.** The Hotels and Restaurants sector continued its strong growth at 8.7% compared to Q2 2018. The other highest growing non-oil sectors included Construction at 4%, Transportation and Communication at 3.4% and Financial Corporations at 2.6%. Meanwhile, the Manufacturing and Government Services Sectors saw declines of 0.5% and 2.2%, respectively. In terms of the contribution of the non-oil sector to GDP, the Financial Corporations sector contributed the most at around 16.4% followed by the Manufacturing (14.1%) and Government Services sectors (13.3%).
- ◆ **Bahrain's versatile infrastructure project pipeline continues to see positive progress.** Q2 2019 saw a number of milestones being achieved by key strategic projects including the ramping up of Alba's Line 6 to full capacity this year, the completion of 25% of Bapco's Modernisation Project and the completion of the financial close of the second phase of the Al Dur independent water and power project.
- ◆ **The regional context is showing signs of gradual improvement.** While the OPEC oil output cuts are impacting headline growth, non-oil dynamics seem to be strengthening across the region. Forward-looking confidence indicators are pointing to stronger growth and liquidity conditions are generally better than last year. This should support regional investment and tourism.

<sup>1</sup> Q2 2019 results are preliminary and not final.

<sup>2</sup> All references to growth in this report refer to the growth of the real (inflation-adjusted) GDP.

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**Bahrain Economic Outlook**

	2017	2018	2019f	2020f
Real GDP growth (%)	4.1%	2.2%	2.1%	2.7%
Non-hydrocarbons sector	5.2%	3.0%	2.3%	3.1%
Hydrocarbons sector	-0.7%	-1.3%	1.4%	0.5%
Nominal GDP growth (%)	10.2%	6.5%	3.1%	5.0%
Inflation (CPI %)	1.4%	2.1%	1.0%	2.5%
Current account (% of GDP)	-4.5%	-5.9%	-3.2%	-2.0%
Fiscal balance (% of GDP)	-10.0%	-6.3%	-4.7%	-3.9%
Crude Oil Brent (USD)	54.1	71.3	63.4	62.0

## EXTERNAL CONTEXT

### *Global Prospects*

There is mounting evidence that the global economic cycle is turning. With the partial exception of the US, most major economies have reported markedly weaker economic data in recent months. In July 2019, the International Monetary Fund (IMF) once again revised its global growth forecast down for this year, projecting a global growth rate of 3.2% in 2019, down 0.1% from its expectations published in April 2019, and 3.5% in 2020. US YoY growth in Q2 reached 2.0%, down from 3.1% in Q1. China's 6.2% YoY growth in Q2 was the slowest in more than two decades, while India saw its growth decelerate to 5% during the first half of the fiscal year. Forward-looking indicators of manufacturing point to a contraction in most leading EU economies. Weaker conditions are at least partly linked to unusual political risk factors, above all the continuing trade dispute between the US and China, as well as discussions around Brexit. The most recent round of new tariffs in the US-China trade dispute, imposed in August 2019, have caused the Renminbi to depreciate above 7 per Dollar.

The weaker growth outlook has been followed by a return to monetary stimulus policy. The US Federal Reserve led the way with a 25 basis points (bps) rate cut at the end of July 2019, followed by an additional 25 bps drop in September 2019, in order to support the financial and commodity markets.

Oil prices have manifested ongoing volatility around a slight downtrend, partly because of a deteriorating demand outlook. OPEC and its partners have persisted with their output controls, while US production continues to increase, reaching 12.5 million barrels per day (mbd) in August 2019, up 1.5 mbd compared to the same period a year earlier.

### *GCC Economic Outlook*

Overall economic growth in the Gulf region has been held back by the OPEC+<sup>3</sup> production quotas as well as ongoing fiscal adjustments across non-oil sectors. Forward-looking growth indicators have been generally favourable, albeit with some volatility.

The Kingdom of Saudi Arabia recently released its results for Q2 2019 showing YoY GDP growth of 0.5% with the non-oil sectors growing by 3%; the highest growth rate recorded since 2015. The United Arab Emirates recorded YoY growth of 3.7% in Q1 2019, Kuwait saw a 2.6% growth over the same period, fuelled by a clear rebound in the non-oil sector, while Oman recorded a 1.6% drop in its GDP during Q1 2019.

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<sup>3</sup> OPEC+ includes the original 14 member (35% of global supply) and 10 non-OPEC nations (20% global supply)

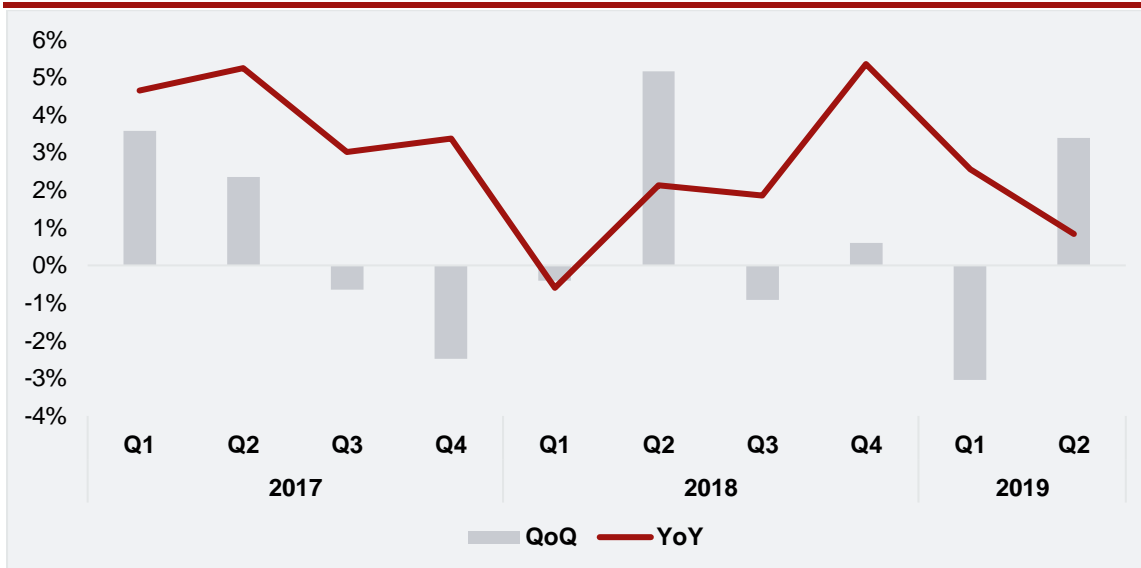
## BAHRAIN

According to the preliminary National Accounts data for Q2 2019 published by the Information and e-Government Authority, real GDP growth reached 0.8% compared to the same period in 2018; and 3.4% compared to Q1 2019, reflecting the continued resilience of the economy with the ongoing implementation of the Fiscal Balance Program Initiatives.

The Q2 2019 data further indicates the non-oil sector has been the key driver to GDP growth, as was the case in recent quarters. The non-oil sector grew by 1.2% YoY and 1.8% compared to the previous quarter. Conversely, the Oil sector declined by 0.8% year on year despite growing by 11.1% compared to the previous quarter.

The annual pace of growth during the first half of 2019 was 1.7%. The non-oil economy expanded by 1.3%, while the Oil sector posted 3.7% growth, as a result of its robust rebound in Q1 2019.

### Real GDP Growth (%)



Source: Information & e-Government Authority

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## Non-oil Sector

The non-oil sector recorded an annual growth of 1.2% during Q2 2019, in line with the annual growth recorded during Q1 2019 of 1.3%. It is worth noting that the private<sup>4</sup> non-oil sector recorded an annual growth of 1.9% in Q2 2019.

The Hotels and Restaurants sector again recorded the highest growth rate at 8.7% in Q2 2019 compared to the same period in 2018. The positive results were evident in the economic indicators for Q2 2019 and the first half of 2019 (H1 2019). The total number of passengers travelling through King Fahad Causeway increased from 13.1mn to 14.2mn, an increase of 8.1% in H1 2019 compared to H1 2018 with five-star hotel occupancy also improving during H1 2019 to 50%, up from 48% during H1 2018. Furthermore, the number of tourists arriving through the Bahrain International Airport increased by 4% in Q2 2019 compared to the same period in 2018 while the total number of tourist nights and the total value of tourist spending increased by 10% and 16%, respectively, over the same period.

In reflection of the significant pipeline of infrastructure projects, the Construction sector grew by 4% YoY growth in Q2 2019. The Transportation and Communication sector also recorded high growth at 3.4% in Q2, driven by the positive results recorded by Gulf Air. The company's decision to increase its destinations, frequencies and fleet led to an increase in the load in seat factor from 74.3% in H1 2018 to 77.4% in H1 2019 and an increase in the number of passengers from 2.6 million to 3.2 million during the same period.

Financial Corporations sector also performed strongly with 2.6% YoY growth. The annual financial results published by the Central Bank of Bahrain (CBB) for Q2 2019 mirrored this growth with a 9.2% increase in the M3 measure of money supply, a 10.2% increase in local non-bank deposits and a 7.4% increase in the value of outstanding loans by retail banks. The value of point of sales transactions increased by 18.5% and the total assets of the banking system aggregated balance sheet increased by 8.1% as of Q2 2019.

The Social and Personal Services and Retail sectors also recorded positive YoY growth of 1.7% and 1.1%, respectively.

By contrast, the Manufacturing sector saw a decline of -0.5% in Q2 2019 compared to Q2 2018. This drop is almost certain to prove temporary with Alba Line 6 ramping up to full capacity. The Real Estate & Business Activities sector also saw a decline of -4.7 YoY, impacted by the discrepancies in the supply and demand and increasing utility prices. The growth of Government Services sector declined by an annual 2.2% due to a decline in manpower spending by government during 2019.

Looking at the first half of 2019, the non-oil economy expanded by 1.3%. The fastest growing sectors were Hotels & Restaurants (9.7%), Construction (3.4%) and Financial Services (3.1%). At the other end of the spectrum, Real Estate & Business Activities

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<sup>4</sup> The private non-oil sector refers to the non-oil sector excluding the government services sector.

contracted by an annual 4.8%, as did the Manufacturing sector by 1.8% and Government Services by 1.7%.

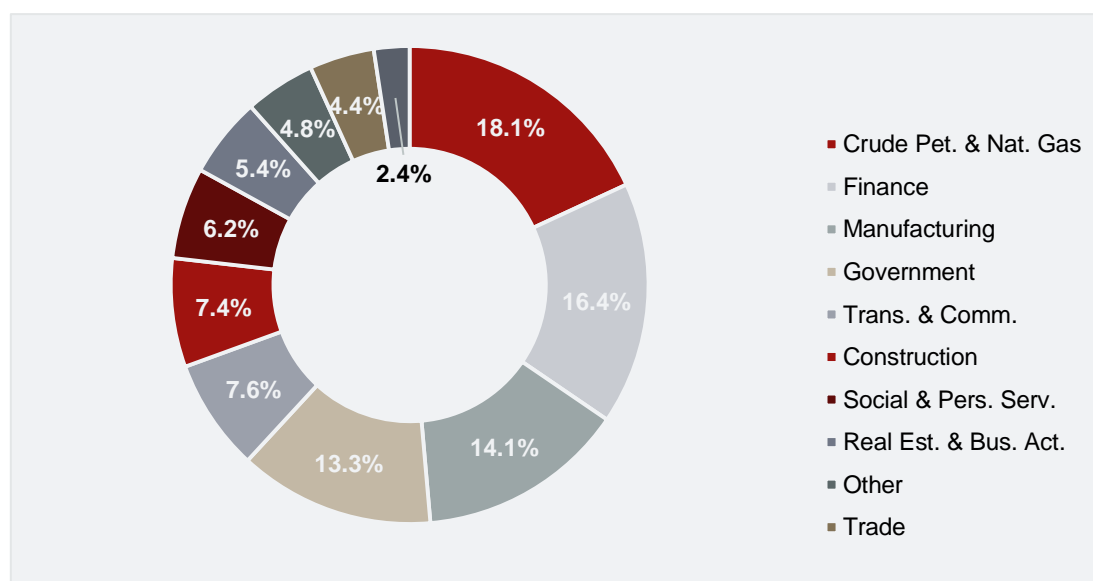
### Sector Real Growth Rates, YoY

YoY growth (%)	2018			2019		
	Annual	Q3	Q4	Q1	Q2	1H
Crude Pet. & Nat. Gas	-1.3%	-1.5%	11.3%	9.2%	-0.8%	3.7%
Manufacturing	1.9%	1.3%	0.8%	-3.2%	-0.5%	-1.8%
Construction	5.6%	5.4%	4.0%	2.9%	4.0%	3.4%
Trade	0.1%	-0.5%	2.1%	1.3%	1.1%	1.2%
Hotels & Restaurants	-1.1%	-1.4%	6.1%	10.7%	8.7%	9.7%
Transp. & Comm's	4.0%	1.8%	4.1%	-0.4%	3.4%	1.5%
Social & Pers. Serv.	3.0%	3.1%	1.7%	1.3%	1.7%	1.5%
Real Est. & Bus. Act.	2.8%	2.9%	1.5%	-5.0%	-4.7%	-4.8%
Finance	0.9%	0.8%	2.7%	3.5%	2.6%	3.1%
Government	5.0%	6.6%	6.7%	-1.3%	-2.2%	-1.7%
Other	8.0%	5.7%	24.2%	18.7%	6.9%	12.7%
<b>GDP</b>	<b>2.2%</b>	<b>2.2%</b>	<b>5.3%</b>	<b>2.6%</b>	<b>0.8%</b>	<b>1.7%</b>
<i>Non-oil GDP</i>	<i>3.0%</i>	<i>3.1%</i>	<i>4.1%</i>	<i>1.3%</i>	<i>1.2%</i>	<i>1.3%</i>

Source: Information & e-Government Authority

In terms of the non-oil sector contributions to overall GDP for Q2 2019, the Financial Corporations sector continued to be the highest contributing sector with a 16.4% share of GDP. The other high contributing sectors were the Manufacturing sector with a contribution of 14.1% and the Government Services sector with a contribution of 13.3%. These were followed by the Transportation and Communication and the Construction sectors with contributions of 7.4% each.

### Sector Contribution to GDP – Q2 2019



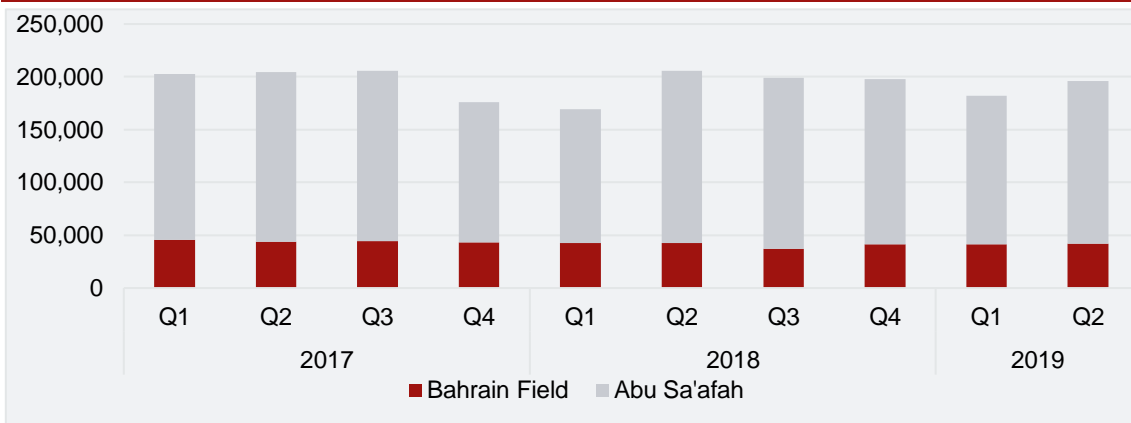
Source: Information & eGovernment Authority

### Oil Sector

The Oil sector saw a decline in its annual growth rate during Q2 2019, recording -0.8% growth. The main driver behind this is the 5.8% decline in the production of oil from the Abu Sa'afah field, meanwhile, the Bahrain field production was almost unchanged YoY. Despite this result, the total oil production from both fields in Q2 2019 exceeded their levels in Q1 2019 by 7.5%.

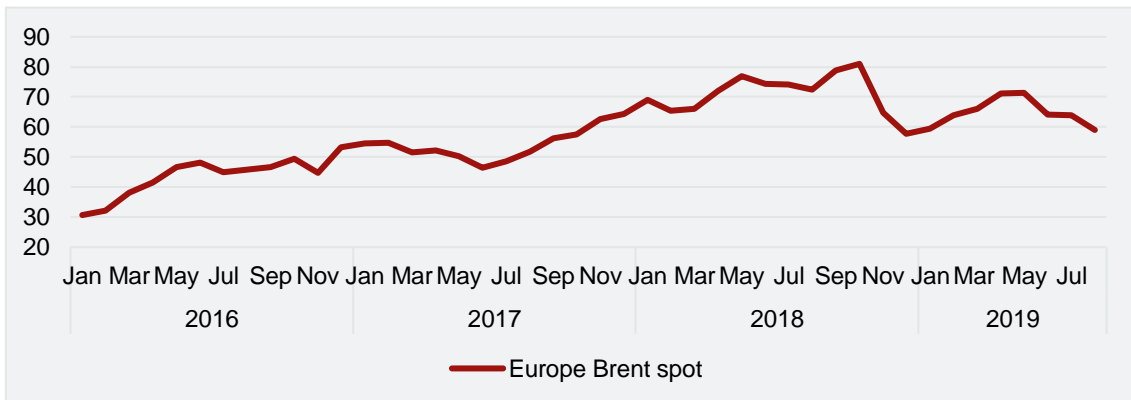
His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa issued a new edict in June 2019 allowing foreign oil and gas companies to own 100% of oil and gas drilling activities in the kingdom, provided that the parent company has signed or is in the process of entering an agreement on the exploration and production of oil and natural gas with the Government of Bahrain. Noga holding, the investment and business development arm of National Oil and Gas Authority (NOGA), recently signed a memorandum of understanding with Baker Hughes, the US-based energy services firm. This follows earlier agreements with Eni of Italy in January 2019 and with Total of France in April 2019.

### Crude Oil Production (bpd)



Source: National Oil and Gas Authority

### Brent Oil Price (USD per barrel)



Source: US Energy Information Administration



## *Infrastructure Projects*

Bahrain's versatile infrastructure project pipeline continues to see positive progress with transaction consultancies being prepared for the King Hamad Causeway and the national Light Rail system. Additionally, regulatory reform and agreements with foreign service companies are paving the way for new upstream activity in the hydrocarbons sector following the recent announcement of the Khaleej al Bahrain discovery. Major milestones were also recently passed in other areas:

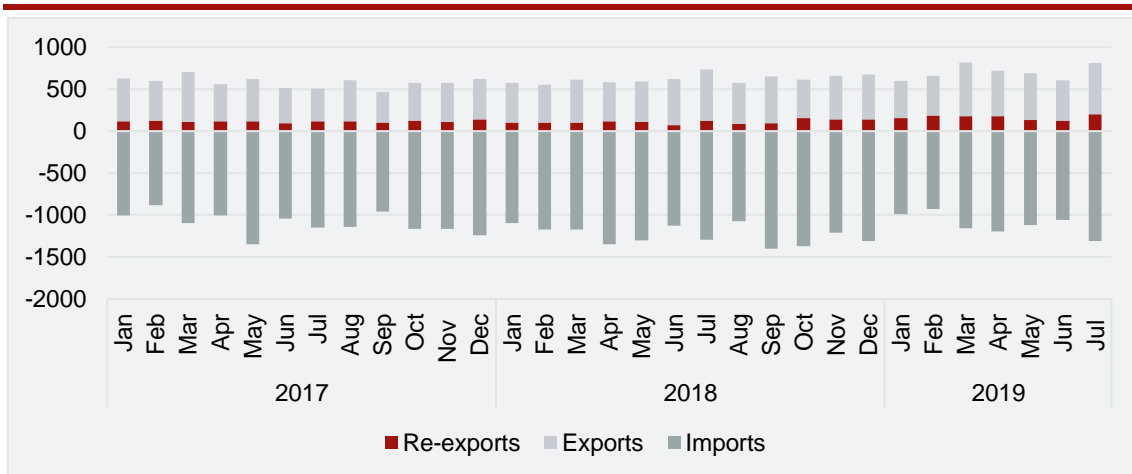
- ◆ Alba Line 6 ramped up to full capacity at the end of Q2 2019.
- ◆ The Bapco Modernisation Project, the largest single infrastructure investment in Bahrain's history, is 25% complete with total spending to date reaching USD1 billion. The project involves the construction of 21 new operating units, which will increase the capacity of the refinery from 267,000 to 380,000 b/d. The completed work includes 80% of engineering works, 62% of purchasing and 4% of construction.
- ◆ A financial close for the USD1.5 billion second phase of the Al Dur 2 independent water and power project was reached in June 2019, with the project expected to break ground in October. The new facility is being developed by a consortium which includes Acwa Power of Saudi Arabia and Mitsui of Japan. Al Dur 2 will have a capacity of 1,500 MW of power and 50 million imperial gallons of desalinated water per day.
- ◆ Eight contractors have submitted bids for the construction of a new exhibition centre in Sakhir, next to the Formula 1 circuit. The facility is designed to have a convention centre of some 15,000 sqm, 10 exhibition halls providing a total of 100,000 sqm, as well as 4,000-seat auditorium and 27 meeting rooms with capacities ranging from 50 to 1,000.
- ◆ A BHD23.4 million development of Shaikh Zayed Highway began in August, with work expected to continue for 24 months.
- ◆ The total value of government infrastructure projects currently underway stands at BHD300 million. These include: 31 road projects worth BHD138 million, 50 sewerage projects worth BHD124 million, and 23 construction projects worth BHD35 million. In addition, 43 public tenders worth BHD76 million were awarded during the first half of the year.

## International Trade

During the second quarter of 2019, Bahrain's overall non-oil exports reached just over BHD 774.9 million, representing a robust 14.8% increase over the same period in 2018. Exports of national origin saw a 6.1% annual increase to an aggregate total of BHD 595.3 million over the same period. There has been a particularly pronounced jump in re-exports, which have risen by 57.2% YoY to nearly BHD 179.6 million.

Conversely, the Q2 2019 tally of non-oil merchandise imports reached around BHD 1.3 billion, a drop of 10.8% compared to the same period of 2018. The YoY decline on the import side represented an unusual trend reversal from recent years. This was partly a reflection of weaker domestic demand growth at a time of fiscal consolidation but also likely reflected the completion of some key infrastructure projects.

### Non-oil Trade (USD million)



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

### Main Non-oil Trading Partners to the Kingdom of Bahrain - Q2 2019

Imports		Exports	
Country	Share of Total Imports (%)	Country	Share of Total Exports (%)
China	13.5	Kingdom of Saudi Arabia	25.2
Australia	8.3	United Arab Emirates	15.1
Brazil	8.2	United States	11.6
United Arab Emirates	7.2	Sultanate of Oman	6.3
United States	6.6	Egypt	5.6

## Inflation

In line with regional trends, consumer price inflationary pressures in Bahrain have continued to weaken markedly despite the introduction of VAT in January 2019. The headline Consumer Price Index (CPI) in June 2019 recorded an annual reading of 0.2% with the average CPI during Q2 2019 reaching 0.6%.

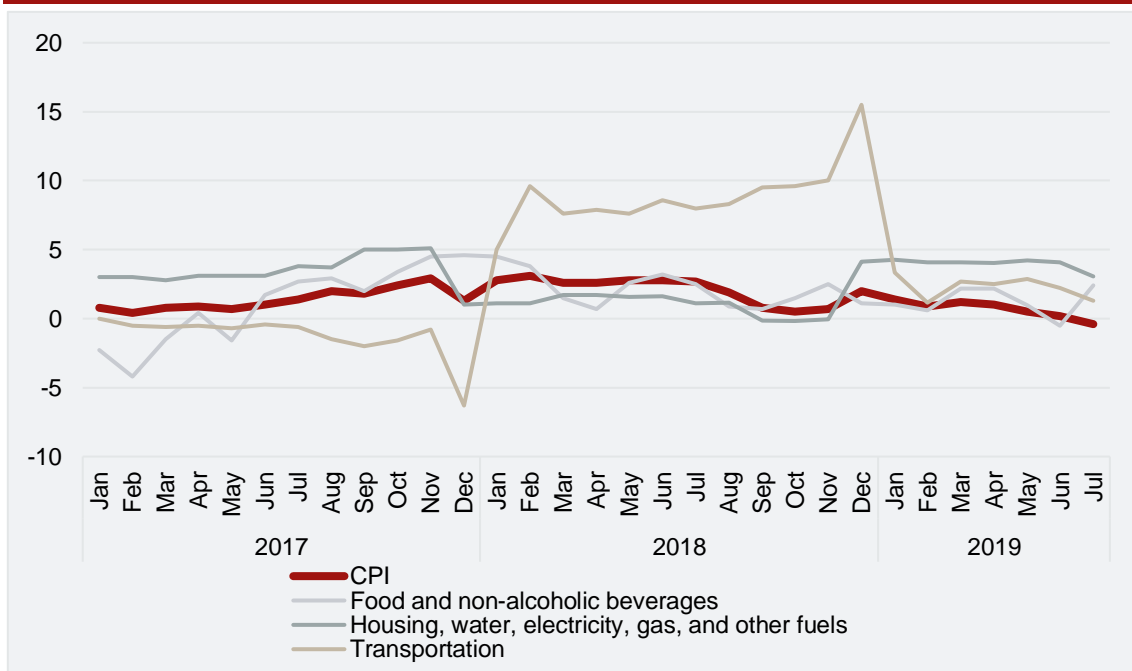
The weakening inflationary dynamics reflect the absence of structural price pressures in key categories of the CPI Index, suggesting that businesses are in many cases not passing on the full effect of the VAT at a time of historically subdued demand growth.

Mirroring the situation in other regional economies, Bahrain has seen minimal price pressure in rentals following a period of brisk supply growth. Although overall housing<sup>5</sup> cost inflation has remained positive at 4.1% in Q2 2019, actual rentals for housing turned marginally negative at -0.1% following half a year of stagnation.

Food price inflation has manifested some volatility dropping from 2.3% in April to 1% in May to -0.5% in June 2019 YoY. However, the market has not seen significant supply disruptions and the price of imported food has been contained by the strong US Dollar. Most basic foodstuffs are VAT exempt and were not affected by the introduction of the new tax.

The sharpest YoY drops in prices in June 2019 were observed in the categories of 'Recreation and Culture' (-10.4%), 'Furnishings, Household Equipment and Routine Household Maintenance' (-3.2%) and 'Clothing and Footwear' (-2.8%).

### Consumer Price Inflation (%) YoY



Source: Information & e-Government Authority

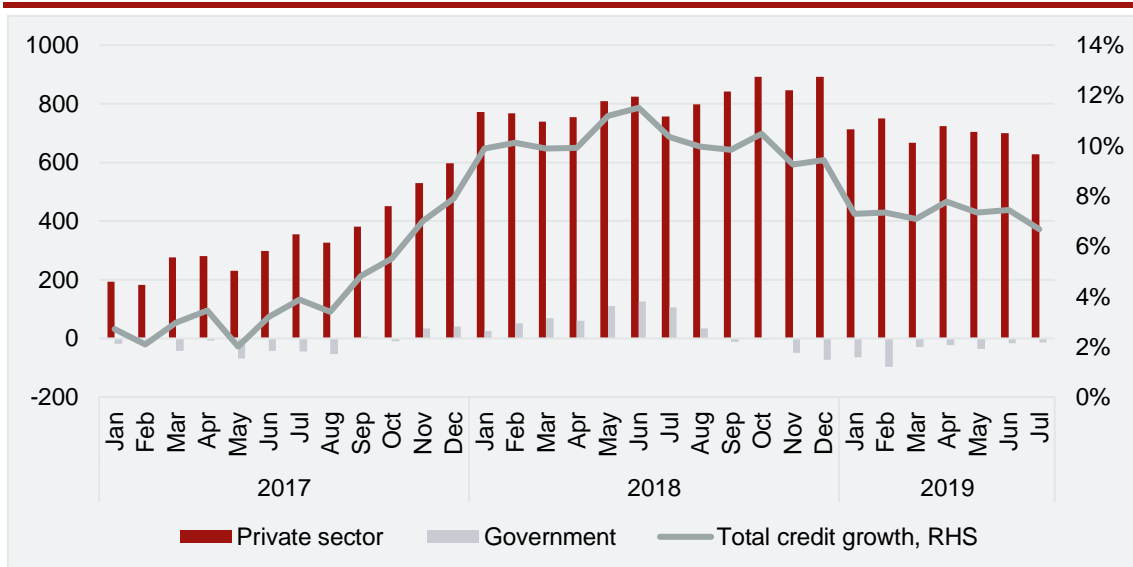
<sup>5</sup> Housing sub-categories includes rent, water, electricity and maintenance cost.

## Bank Credit and Deposits

Retail bank credit growth in Bahrain remains strong by regional and historical standards despite some moderation from the sharp acceleration recorded roughly a year ago. The overall value of outstanding retail bank credit in Bahrain reached BHD9.9 billion in June 2019, an increase of 7.4% compared to June 2018. Business loans made up 53% of total credit in June 2019, with a total value of BHD5.2 billion, 6.7% higher than their level in June 2018. While sectors such as hotels and restaurants and retail have seen some declines in outstanding credit in recent months, growth remains strong in manufacturing, which reached an annual pace of 32%, and transportation and communication, which saw an annual increase of 21%.

Consumer credit rose by an annual 9.4% to an aggregate total of just over BHD4.3 billion in June 2019. Loans to the government sector continued to decline, falling by 4.3% between June 2019, when the total value of loans stood at BHD342.2 million, and June 2018.

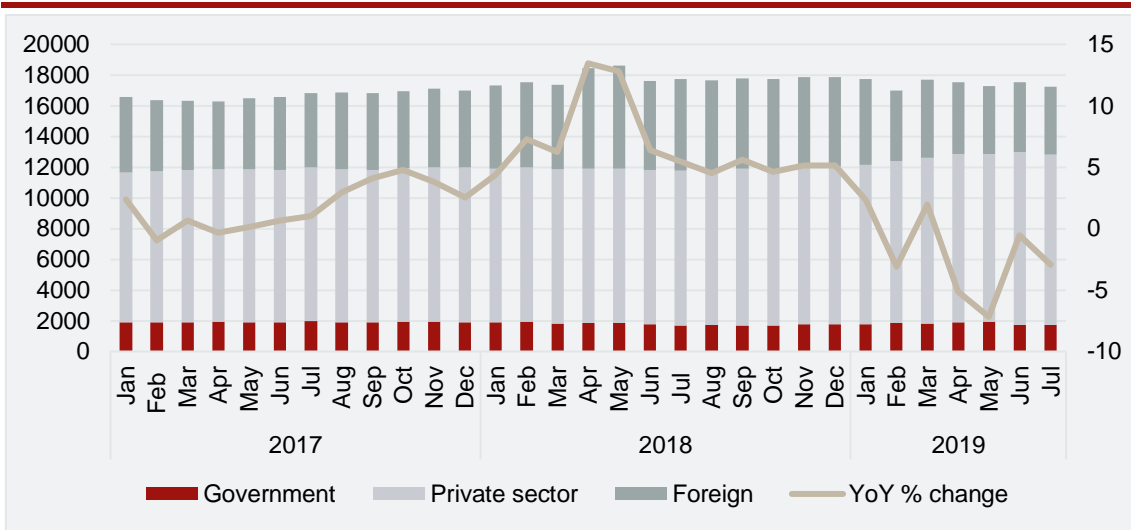
### YoY Growth in Credit Issued by Retail Banks (BHD million)



Source: Central Bank of Bahrain

Total value retail bank deposits reached BHD17.5 billion in June 2019, 0.5% lower YoY. Despite foreign currency deposits declining by 8.6%, private sector deposits denominated in Bahraini Dinars rose by an annual 6.8% to a total of BHD9.9 billion in June 2019.

### Deposit Liabilities to Non-banks (BHD million)



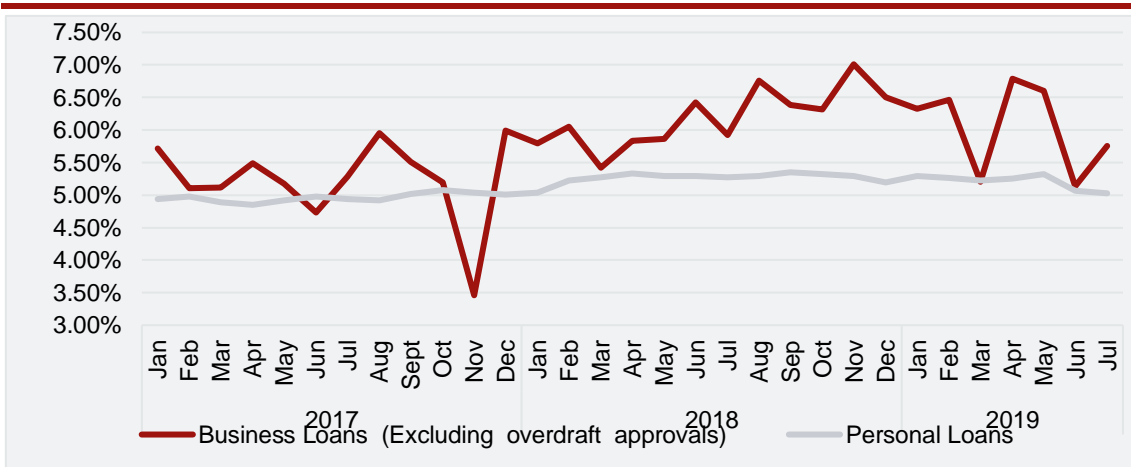
Source: Central Bank of Bahrain

Despite the credit growth outpacing deposit growth, liquidity conditions remain favourable. The M3 measure of money supply stood at BHD13.5 billion as of June 2019, a 9.2% YoY increase.

The cost of borrowing has generally trended down in recent months. The CBB in July 2019 mirrored the Fed's rate cuts by reducing its key policy rate by 25 bps. The rate of the one-week deposit facility was cut from 2.75% to 2.50%. The overnight deposit rate fell from 2.50% to 2.25%, the one-month deposit rate from 3.10% to 2.85%, and the lending rate from 4.50% to 4.25%.

The average cost of business loans charged by conventional retail banks dropped sharply from a peak of 6.8% in April 2019 to 5.1% in June 2019 before rebounding to 5.8% July 2019. The cost of credit to retail customers has been more stable, having peaked at 5.3% in May 2019 and trended down to 5.1% in June 2019.

### Average Rate of Interest on Credit Facilities - Conventional Retail Banks



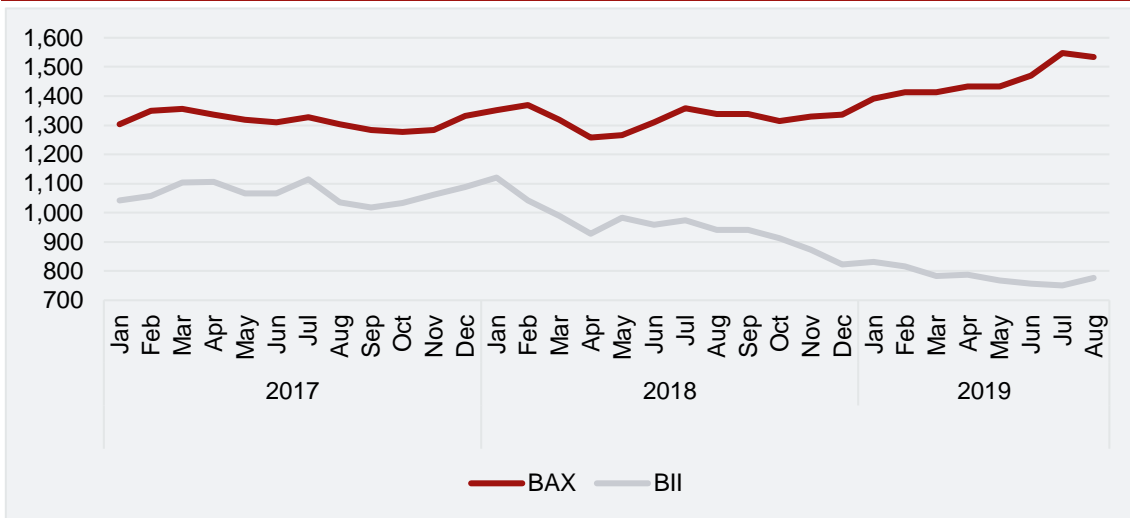
Source: Central Bank of Bahrain

## Financial Markets

Bahrain Bourse enjoyed a strong first half of 2019. The All Share Index (BAX) was up by 5.7% over the first half of 2019 and up 12.2% in June 2019 compared to June. The performance of the Bahrain Islamic Index has in some ways proved the mirror image of BAX, posting an 8.9% YTD drop and an annual drop of 20.9% at the end of June 2019.

The total market capitalisation of the Bourse stood at BHD9.2 billion at the end of June 2019. This marked a 14.7% YoY increase.

### Bahrain All Share Index and Bahrain Islamic Index



Source: Bahrain Bourse

The CBB continued with its regular issuance of short-term Treasury bills and sukuk. There has been a continued, marked decline in the interest rate while the quarter has witnessed record high oversubscription rates, especially in regards to Sukuk.

## Short-term Bond and Sukuk Issues Arranged by the Central Bank of Bahrain

Issue date	Issue	Value, BHD million	Maturity Days	Average Interest/ Profit Rate (%)	Avg Price (%)	Over-subscription (%)
2 Jun 2019	Treasury bill No. 1758	35	182	3.22	98.396	358
5 Jun 2019	Treasury bill No. 1759	70	91	3.18	99.303	109
12 Jun 2019	Treasury bill No. 1760	70	91	3.13	99.216	153
13 Jun 2019	Sukuk al ijarah No. 166	26	182	3.35	-	672
19 Jun 2019	Sukuk al salam No. 218	43	91	3.18	-	390
26 Jun 2019	Treasury bill No. 1761	70	91	3.12	99.216	139
27 Jun 2019	12-month Treasury bill No. 58	100	365	3.26	96.810	233
30 Jun 2019	Treasury bill No. 1762	35	182	3.11	98.451	295
3 Jul 2019	Treasury bill No. 1763	70	91	3.12	99.219	114
10 Jul 2019	Treasury bill No. 1764	70	91	3.09	99.226	155
11 Jul 2019	Sukuk al ijarah No. 167	26	182	3.18	-	507
17 Jul 2019	Sukuk al salam No. 219	43	91	3.09	-	320
24 Jul 2018	Treasury bill No. 1765	70	91	3.05	99.234	164
25 Jul 2019	12-month Treasury bill No. 59	100	365	3.12	96.939	167
31 Jul 2019	Treasury bill No. 1766	70	91	3.08	99.226	103
4 Aug 2019	Treasury bill No. 1767	35	182	2.93	98.540	276
7 Aug 2019	Treasury bill No. 1768	70	91	2.98	99.253	114
8 Aug 2019	Sukuk al ijarah No. 168	26	182	2.95	-	335
14 Aug 2019	Treasury bill No. 1769	70	91	2.95	99.261	165
21 Aug 2019	Sukuk al salam No. 220	43	91	2.90	-	194
28 Aug 2019	Treasury bill No. 1770	70	91	2.90	99.272	110
29 Aug 2019	12-month Treasury bill No. 60	100	365	2.95	97.100	218
1 Sep 2019	Treasury bill No. 1771	35	182	2.85	98.580	243
4 Sep 2018	Treasury bill No. 1772	70	91	2.84	99.288	194
11 Sep 2018	Treasury bill No. 1773	70	91	2.79	99.285	152
12 Sep 2019	Sukuk al ijarah No. 169	26	182	2.85	-	532

Source: Central Bank of Bahrain

The financial sector continues to witness important innovations. August 2019 saw the licensing of Rain by the CBB, the first regulated cryptocurrency exchange in the Middle East. The company obtained the crypto-asset module from the CBB, while also securing USD 2.5 million of seed funding. The funding round was led by BitMEX Ventures, linked to the world's leading cryptocurrency derivatives trading platform, and Blockwater, a Kuwait-based cryptocurrency fund. Founded in 2016, Rain subsequently became the first exchange to enter the CBB's Regulatory Sandbox.

Also in August 2019, the CBB issued rules for insurance aggregators as a key step toward supporting Insurtech. Insurance aggregators are licensed as insurance brokers to operate an on-line platform that provides price comparisons and facilitates the purchase of insurance solutions from multiple providers. Taken together, these moves place the CBB among the most forward-looking and innovative central banks in the world.

## Labour Markets

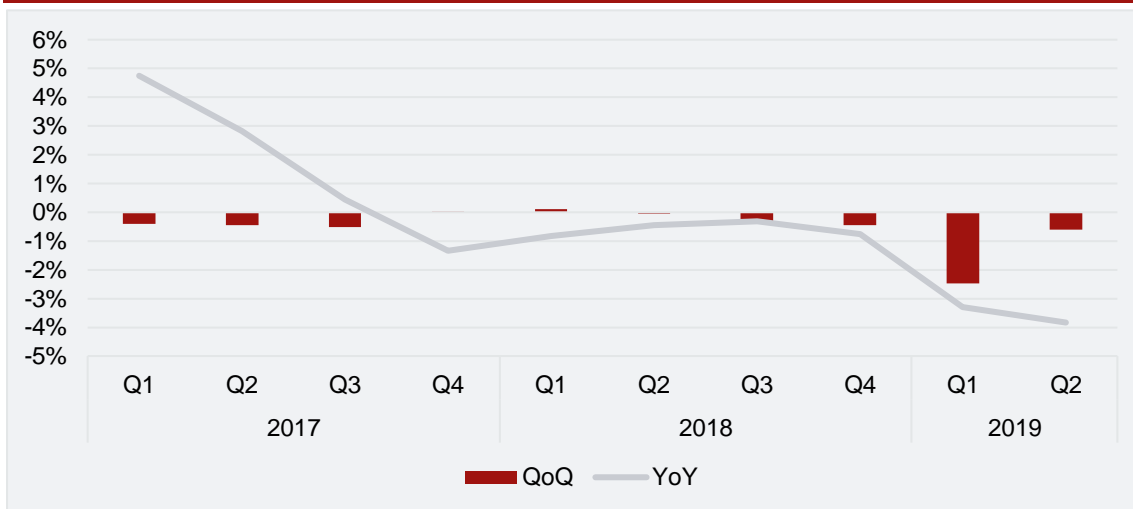
According to the quarterly data published by the Social Insurance Authority, the total number of registered employees decreased by 3.8% between Q2 2019 and Q2 2018, mainly reflecting the decrease in the number of public sector employees of 8.5%, due to the voluntary retirement program.

Private sector Bahraini employment increased by 1.8% between the second quarter of this year and the same period of the previous year and the respective average monthly salary increased by 4.3%. The number of Bahraini females in the private sector saw the biggest increase at 3.4%, with an increase of 6.3% in their average monthly salaries.

On the other hand, the number of registered non-Bahrainis working in the private sector decreased by 4.4%, and their respective average monthly salary increased by 5.6%.

Despite the challenges facing the labor market, the National Employment Program, which was launched in February 2019, has contributed to the creation of many job opportunities for researchers. 5,918<sup>6</sup> Bahraini employees were employed during the first six months of the year, most of whom had previous experience, while new job seekers represented 30%

### Change in Contributors to the Social Insurance Organization (%)



Source: Social Insurance Organization

<sup>6</sup> Amended data from initial release.



## *International Rankings*

The **Travel and Tourism Competitiveness Report 2019** by the World Economic Forum evaluates the travel and tourism sector on the basis of its enabling environment, infrastructure, and natural and cultural resources. Bahrain scored 3.9 out of 7, a 0.4% increase over 2017. Bahrain was ranked 64<sup>th</sup> globally and fourth in the Middle East-North Africa region. Bahrain recorded improvements in areas such as qualifications of the labour force, business costs of crime and violence, enforcement of environmental regulations, and comprehensive annual tourism data.

The **InterNations Expat Insider Survey** ranked Bahrain as the seventh-best destination globally for expatriates to work, live, and raise a family. This was the highest ranking in the Middle East and North Africa region. Bahrain ranked second globally as an easy place to settle in.

The **Global Innovation Index** is published by Cornell University, INSEAD, the UN World Intellectual Property Organisation, and GII Knowledge Partners. The index ranks 129 countries based on seven indicators: institutions, human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs, and creative outputs. This year's edition of the index ranks Bahrain 78<sup>th</sup> globally and seventh in the Middle East-North Africa region. Bahrain saw a clear improvement in the area of regulatory environment, rising from a ranking of 121 globally to 39<sup>th</sup>.

The **Economic Freedom of the World** Report by Fraser Institute measures the effectiveness of a country's regulatory and legislative framework and how they support economic freedom. In the 2019 report, Bahrain is ranked 50th globally and 1st in the GCC. The report ranks 162 nations based on five pillars. Bahrain scored well under the regulations pillar comparing with the previous report, specifically under the Business regulations index, Credit market regulations index, and the labour market regulations index.

The **World Happiness Report** is published by the Sustainable Development Solutions Network in cooperation with Ernesto Illy and other partners. The report ranks 156 countries by how happy their citizens based on six pillars. Bahrain is ranked 37th globally and 4th amongst GCC. Bahrain scored well in the generosity pillar (23<sup>rd</sup> globally) and (24<sup>th</sup> globally) in the freedom pillar.

The **Global Talent Competitiveness Index** published by INSEAD ranks 125 countries on their ability to attract, grow, and retain talent. In the 2019 edition, Bahrain is ranked 40th globally, and 4th in the GCC. Notably the report mentioned that Bahrain is among the top-performing countries when it comes to attracting talent.

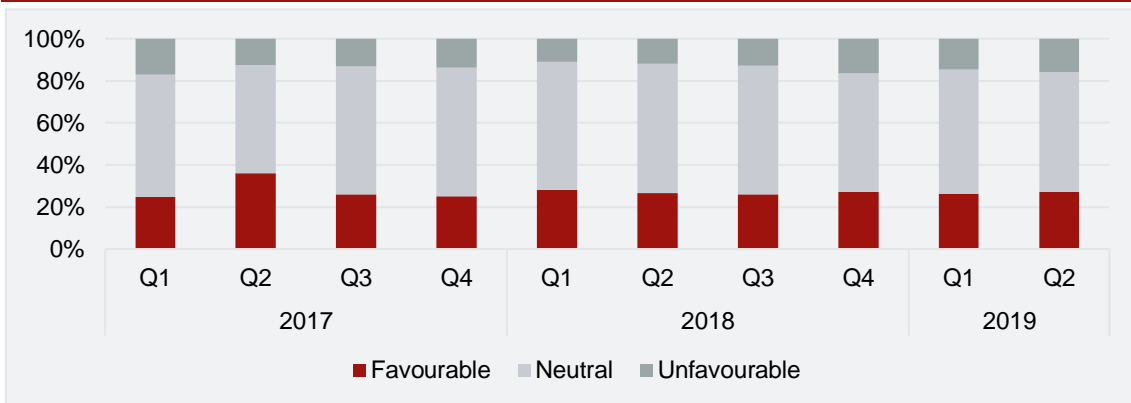
The **Legatum Prosperity Index** published by the Legatum Institute ranks 149 countries by measuring different factors such as economic quality, business environment, governance, education, health, safety & security, personal freedom, social capital and natural environment. In the latest edition published in 2018, Bahrain ranked 51st globally and 3rd in the GCC. Bahrain performed well in the economic quality pillar and was ranked 9th, as well as being ranked 19th under the social capital pillar which is an improvement by 6 spots in comparison to the previous report.

### Business Confidence

Indicators of business confidence in Bahrain suggest a high degree of resilience and continuity, even in the face of slower regional growth and fiscal consolidation. A large majority of respondents in the Information & eGovernment Authority’s Quarterly Business Perceptions Survey continue to hold neutral or positive views, whether regarding the current situation or the Kingdom’s future economic outlook. While the balance of opinion has deteriorated somewhat as compared to last year, the survey recorded a slight net improvement from Q1 to Q2. In particular, 40.8% of all businesses surveyed in the spring expected their performance to be favourable in Q3. 49.1% expected stability and only 10% expressed a negative view.

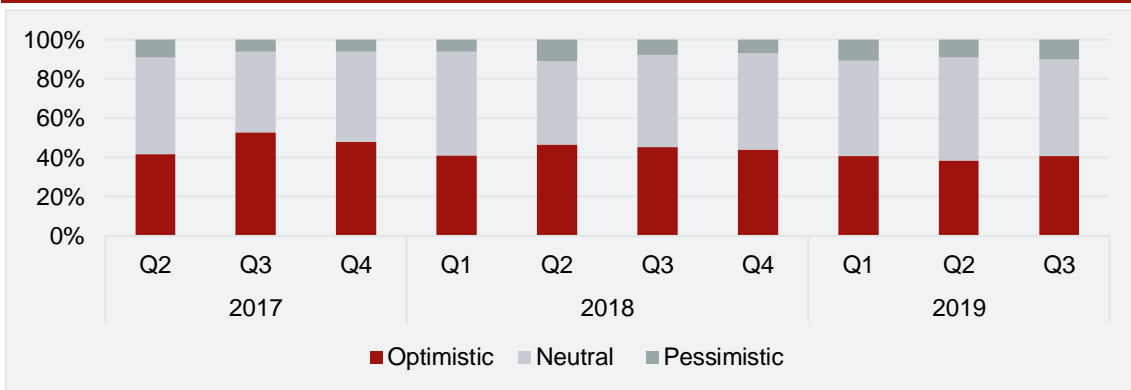
The greatest business optimism was observed in the Trade, Real Estate, and Construction sectors. In general, the larger companies were more optimistic. This was also the case with companies that represented inward or outward foreign direct investment. Accommodation & food services was the most pessimistic sector and the only one with a negative net balance of responses.

### Assessment of the Current Situation



Source: Information and eGovernment Authority

### Forward-Looking Expectations



Source: US Energy Information Administration

In August 2019, the Bahrain CEO Survey by the Oxford Business Group found that 75% of the 60 respondents described the business conditions in the country as positive or very positive. This marked a clear improvement from the 58.5% recorded last year. 66% of the executive respondents said they expected to make a significant capital investment during the coming year.

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