



Bahrain Economic Quarterly (BEQ) Q4 2020 - Issued April 2021

The BEQ report is issued by the Ministry of Finance & National Economy. It summarizes the key economic developments during the fourth quarter of 2020 as well as the year 2020 as a whole.





External Context

- The International Monetary Fund, in its latest World Economic Outlook report released in April 2021, expected the world economy to grow by 6% in 2021, up from its 5.5% forecast in January 2021.
- A number of countries witnessed growth during Q4 2020:



Real GDP increased by 4% in Q4 2020 but contracted by 3.5% for the year 2020.



Real GDP increased in Q4 2020 and in 2020 by 6.5% and 2.3% respectively.



Seasonally adjusted GDP decreased by 0.5% in Q4 2020 and by 6.4% for the year 2020.

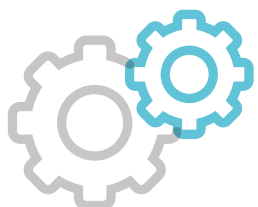


Seasonally adjusted real GDP growing by 2.5% in Q4 2020 but declined by 4.1% for the year 2020.



Internal Context

- On a quarterly basis, Bahrain's real GDP remained constant while nominal GDP grew by 0.2%.
- On a yearly basis, Bahrain's real GDP declined by 5.8% and by 10.2% in nominal terms.



Non-oil Sector

- On a quarterly basis, the non-oil sector recorded an increase of 3.3% in real terms and 2.1% in nominal terms.
- The growth has been backed by economic stimulus packages, which have supported workers and businesses impacted by the pandemic for the majority of 2020, as well as the adherence to the precautionary measures and launch of the COVID-19 vaccination campaign.



Biggest Winners in Q4 2020

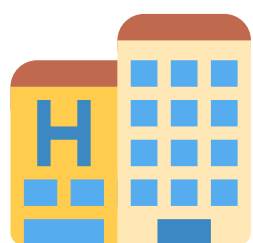
1. **Financial Services:** growing by 11.6%
2. **Transport and Communications:** growing by 9.4%. The sector began to show signs of strong recovery, with the total amount of trucks travelling through King Fahd Causeway increasing by 19.2% during the quarter.
3. **Government Services:** growing by 5.3%.



Biggest Losers in Q4 2020

1. **Construction:** declining by 0.8% although the number of applications for building permits increased by 43.3% on a quarterly basis.
2. **Manufacturing:** declining by 1.8% due to seasonal changes in production, with production in Bapco's (Bahrain Petroleum Company) refinery and Bahrain National Gas Company (Banagas) decreasing by 20% and 3.8%, respectively.
3. **Hotels and Restaurants:** declining by 13.6%. Several indicators have begun to show positive growth - Four-star hotels registered a 23% occupancy rate, while five-star hotels totaled 29% at the end of Q4 2020, amounting to quarterly growths of 53.3% and 20.8%, respectively.

- On a yearly basis, the non-oil sector recorded a 7% decline largely due to the effects of the Covid-19 pandemic.



Hotels and Restaurants registered the largest decline of 43.9% YoY.



Financial Services was the only sector to register a growth with an increase of 1% YoY



Non-oil sectors contributed 82.3% to GDP

- The Financial Corporations sector continues to be the largest non-oil sector during Q4 2020, accounting for 19%, followed by the Manufacturing sector (14.5%) and the Government Services sector (13.0%).



Oil Sector

- On a quarterly basis, the Oil sector saw a 13.0% drop in real GDP due to regular seasonal maintenance on the offshore Abu Sa'afah oil field. The nominal QoQ decline was 12.9%.
- The aggregate crude oil output during the three-month period averaged 181,777 bpd, 11.8% lower than a quarter earlier.
- The extraction of natural and associated gas saw a 10.7% decrease. About 31.4% of the total gas produced was re-injected into the oil sector.
- On a yearly basis, the Oil sector posted a small 0.1% real decline YoY.



Oil Sector











Investment activity in the oil and gas sector continued to grow despite the COVID-19-related disruptions to economic activity:

1. The construction on **Bapco's** oil refinery expansion project, the largest in the Kingdom's history, reached 65% completion and is on track for completion by the fourth quarter of 2022.
2. **The National Oil and Gas Authority** and Eni Rewind, the environmental services subsidiary of the Italian oil company Eni, signed a Memorandum of Understanding to identify and promote opportunities for water, soil and landfill management and repurposing in Bahrain. This will contribute to the implementation of the United Nations 2030 Global Goals for sustainable development.
3. **Nogaholding** signed a memorandum of understanding with the US chemicals company Air Products & Chemicals to assess the feasibility of developing a hydrogen economy in the kingdom.
4. **Nogaholding** signed a joint study agreement with Chevron Middle East with the objective of assessing the future demand for gas in the Kingdom and identifying potential sources of supply to meet these requirements as well as to support potential future supply chains linked to the LNG terminal.



International Trade

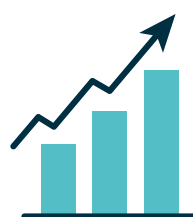
- The aggregate value of non-oil merchandise exports increased slightly, by 0.5%, in YoY terms, with the value of exports of national origin reaching BD 598.7mn, 10.5% lower than the preceding quarter but 12.5% higher than Q4 2019.
- The total value of non-oil imports grew by 2.1% QoQ to reach BD 1,191mn but remained 7.1% below the Q4 2019 level.
- For the year 2020 as a whole, the trade deficit narrowed to BD 1.7bn, down from BD 1.9bn in 2019.
- The following are the Kingdom's key trading partners over Q4 2020:

Imports		Exports	
% of Total	Country	% of Total	Country
13.9%	China 	21.1%	Kingdom of Saudi Arabia 
8.1%	Kingdom of Saudi Arabia 	8.7%	United States of America 
7.3%	Australia 	8.5%	United Arab Emirates 
7.2%	United Arab Emirates 	7.2%	India 
7.0%	United States of America 	6.6%	Egypt 



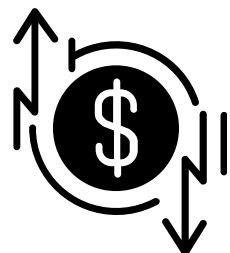
Foreign Direct Investment

- As per EDB, the inflows of foreign direct investment to Bahrain by end of 2020 amounted to about BD 378.5mn, increasing the value of the stocks to BD11.9bn by end of 2020.
- On the other hand, flows decreased during Q4 2020, by 1.7% compared to Q3 2020.
- FDI inflows during 2020 were dominated by professional:
 1. Scientific and technical activities (BD 370.1mn)
 2. Construction (BD 148.4mn)
 3. The wholesale and retail sectors (BD 139.4mn).



Financial Markets

- Bahrain All-Share Index was 3.9% higher than at the previous quarter, although it remained 7.5% below the level seen at the start of 2020.
- The gains in the index were led by the Services sub-index which rose by 48.6% during the year. It was followed by Commercial banks, which gained 21.4%.
- The capitalization of Bahrain Bourse reached BD 9.3bn at the end of Q4 2020, a drop of 8.5% from a year earlier and a gain of 4.2% on a quarterly basis.



Inflation

- On a quarterly basis, the Consumer Price Index recorded a 2.9% fall in Q4 2020 compared to the same period in 2019.
- The deflationary trend accelerated from 1.6% in October to 3.6% in November and December. The main driver of the decline was recreation and culture which saw an annual drop of 36.1% in Q4 2020, followed by restaurants and hotels which declined by 7.8%.
- On a yearly basis, CPI declined by 2.3%.
- The deflationary trend was led by a 2.6% fall in the housing, water, electricity, gas and other fuels category, which is the largest single component of the CPI basket. The recreation and culture category recorded the largest decline of 2020, largely as a result of the COVID-19 pandemic.



Bank Credit and Deposits

- Bank credit growth reached an annual pace of 7.0% by the end of Q4 2020. The total value of outstanding credit issued by local retail banks stood at BD 10.4bn at the end of 2020.
- Credit growth has been led by lending to individuals, which rose by an annual 9.8% to BD 4.7bn.
- Business loans, which totaled BD 5.3bn, made up 51% of the total outstanding portfolio and registered growth of 3.7% on an annual basis.
- Non-bank deposits decreased by 5.9% in Q4 2020 compared to the same period in 2019 and by 2.2% from their Q3 2020 total.
- Bank lending rates continued to decrease, reflecting the decisions of the Central Bank of Bahrain to reduce interest rates on facilities to retail banks. The average interest rate on personal loans held steady in recent years, reaching 4.8% in December 2020, which was marginally down in YoY terms (-2.9%).



Labour Markets

- The total number of registered Bahraini workers decreased slightly by 0.7% in Q4 2020, to reach 142,018.
- The number of Bahrainis in the public sector showed a small 2.5% YoY gain, which took their total number to 47,796. The average salary of Bahrainis in the public sector stood at BD 826, which marked a slight 0.6% YoY decrease.
- The number of Bahraini employees in the private sector decreased by 2.2% YoY to reach a total of 94,222. The average monthly salary increased by 2.3% YoY to reach BD 757.
- The expatriate labor market saw a 11.9% decline YoY, although the number of new registrants in Q4 2020 was 19.4% higher than a year earlier and 5.3% higher than in Q3 2020. These trends mirror the reduced activity in the labor-intensive sector affected by the pandemic-related disruptions, notably hospitality, retail, and construction.