

Bahrainomics

The latest economic news, articles and researches

In This Issue


Bahrain's nominal GDP grows by 1.5% in Q1 2021

GCC governments deficit to fall to \$80 billion in 2021

Is the US Dollar losing its position as a dominant reserve currency?




**BAHRAIN
ECONOMISTS
SOCIETY**


 (973) 6690 7992

 bahraineconomicsociety@gmail.com

 bahraineconomists

 bah_economists

 Bahrain Economists Society

 www.bahraineconomists.com

WELCOME TO BAHRAINOMICS

by Dr Ali AlMoulani, BES President

Dear BES Members & Friends,

Welcome to the first edition of Bahrainomics.

The global economic landscape has exhibited considerable changes and increased challenges in recent years. The laissez faire economic policies and the globalisation movement of the 1980s to the 2000s got retracted following the Global Financial Crisis of 2008 as governments across the world adopted interventionist economic policies to safeguard the global economy from the worst economic crisis since the Great Depression of the 1930s.

This was subsequently accompanied with the rise in the nationalists ideas and powers that extended the role of governments in economic activities. The latest economic shock posed by the COVID-19 pandemic resulted in an unprecedented disruption to the global economy and invited unconventional measures and policies to face it.

Those changes to the global system and environment along with its challenges include the adverse effect on the health of the private sector, global supply chain and economic growth, the increase in poverty and the derailment of economic development projects, the deterioration in governments fiscal positions and increased debt levels, and the acceleration in inflation rates among others require closer attention by economists.

Since its inception in 1992, BES has contributed to the broadening of the understanding and awareness of economics as a discipline and its current affairs whether locally or globally through holding seminars and conferences, conducting research, and collaborating with legislators and policymakers to name a few.

Bahrainomics is the society's latest initiative that is aimed at inducing discussions and encouraging exchange of different views among our members and the society's friends on the current economic affairs to enrich our understanding of the economic landscape

and its challenges while informing business leaders, policymakers, and the public alike on those matters.

I would like to take this opportunity to express my sincere gratitude to the team behind this initiative for their ongoing dedication and contributions to BES.

Wishing you all an intellectually exciting and enriching experience with Bahrainomics.

Best regards,

Dr. Ali J. Al-Moulani
President, BES

QUARTERLY NEWS UPDATE

Local News

CBB INSTRUCTS BANKS TO POSTPONE INSTALMENTS UNTIL YEAR END

The Central Bank of Bahrain issued a circular to all retail banks and finance companies on 27 May 2021 to provide the option to defer loan repayments for an additional period of six months until 31 December 2021.

It will apply without deferral fees or any increase in the amount of instalments or in the interest or profit rate, provided that the interest rates applied by banks are calculated on these loans during the deferral period.

MUMTALAKAT EXPLORES THE ESTABLISHMENT OF VACCINE PRODUCTION FACILITY IN BAHRAIN

Mumtalakat Holding Company signed a Memorandum of Understanding with the Russian Direct Investment Fund (RDIF) and Binnopharm Group to explore the establishment of a new vaccine production facility in Bahrain to manufacture and distribute the Sputnik V Covid-19 vaccine across the GCC and Mena region.

In 2014, Mumtalakat signed an agreement with RDIF to strengthen economic and investment cooperation, and promote the exchange of information and expertise in areas of common interest for both entities.

QUARTERLY NEWS UPDATE

Regional News

KUWAIT TO CUT DOWN THE NUMBER OF ITS GOVERNMENT OIL COMPANIES TO THREE

In 2020, State oil operator Kuwait Petroleum Corporation (KPC) appointed the US-based consultant Strategy& to carry out a study for restructuring which involves mergers to reduce the eight operating oil firms in the country.

After restructuring, KPC will supervise three autonomous companies covering crude production and exploration, refining and other downstream operations inside Kuwait, and oil industry operations abroad.

GCC GOVERNMENT DEFICIT TO FALL TO \$80 BILLION IN 2021

S&P expects the aggregate GCC central government deficit to fall sharply to about \$80 billion in 2021 (5% of GDP) from \$143 billion in 2020 (10% of GDP).

It also estimates the government deficits to reach about \$355 billion cumulatively between 2021 and 2022. About 60 per cent of this relates to Saudi Arabia, the GCC's largest economy, followed by Kuwait with 25 per cent, the UAE with 7 per cent, and Oman with 4 per cent.

International News

IMF SUGGESTS HIGHER TAXES ON THE WEALTHY TO PAY FOR THE COST OF THE PANDEMIC

The International Monetary Fund suggests that governments should consider levying higher taxes on the income or wealth of the rich to help pay for the enormous cost of tackling the Covid-19 pandemic,

Inequality had widened in the year since the virus first hit the global economy, the IMF said, and there was a case for the better off being asked to pay more on a temporary basis to meet crisis-related financial costs.

GLOBAL HOME PRICES RISE MOST SINCE 2006, FUELING BUBBLE CONCERNS

Housing prices worldwide are rising the most since before the global financial crisis, following a market frenzy seen in places from New Zealand to Canada to Singapore during the pandemic.

Average prices jumped 7.3% in the 12 months to March, the fastest pace since the fourth quarter of 2006, Knight Frank's Global House Price Index report showed. Turkey topped the list, registering 32% growth, followed by New Zealand at 22.1%. The U.S. took fifth spot at 13.2%, its steepest increase since December 2005.

RESERVE CURRENCIES IN AN EVOLVING INTERNATIONAL MONETARY SYSTEM

*Summary of an article published by
The International Monetary Fund
(IMF), November 2020*

The international monetary system has evolved over the past decades in response to major structural shifts in the global economy prompted by trade and financial integration, technological developments, and geopolitical events.

More recently, the sustained growth and rapid integration of emerging market and developing economies (EMDEs) have increased their economic heft and created a less-concentrated structure of global output and trade and a more multipolar global economy (IMF 2016).

Yet the currency composition of international reserves has remained remarkably stable.

Why hold reserve currencies?

- To finance balance of payments needs.
- Intervene in foreign exchange markets Provide foreign exchange liquidity to domestic economic agents.
- Maintaining confidence in the domestic currency and facilitating foreign borrowing.
- Used by the private sector for external trade invoicing and settlement, cross-border investment, and as a vehicle for financial transactions.

As such, reserves are generally denominated in currencies widely used for international payments and widely traded in global foreign exchange markets.



Which currency is the most dominant?

The US dollar is currently the dominant reserve currency, with a share of 61% of global reserves at the end of 2019.

It stands out as the currency most traded in the foreign exchange market (44% of turnover) and most used for trade invoicing (54% of global trade).

The US dollar has held this dominant position for more than 60 years, notwithstanding significant shifts in the international monetary system (IMS).

Some of these shifts have included:

- The creation of the SDR in the 1960s to help address the so-called Triffin dilemma.
- The collapse of the Bretton Woods system in the 1970s that diminished the link to the dollar in exchange rate arrangements.
- The emergence of Japan in the 1980s as a global creditor.
- The introduction of the euro in 1999.
- China's efforts to boost the internationalisation of the renminbi and promote its reserve currency status over the last decade.

Which elements determine reserve currency status?

- The economic size/dominance of reserve issuers.
- The credibility of reserve issuers.

- The transactional demand of reserve holders.
- The fact that reserve currency status tends to change very slowly, inducing inertia.

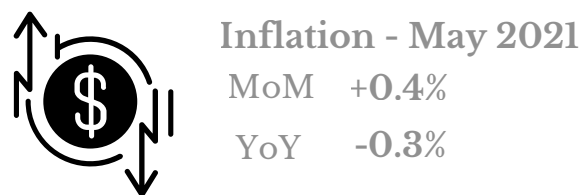
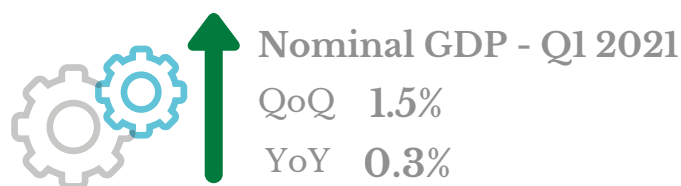
What is the current trend?

- COVID-19 crisis: The pandemic has led to a global flight to safe assets, and to the dollar in particular, supported by the US Federal Reserve’s actions to provide liquidity.
- Multipolar Global Economy: While China could overtake the United States as the world’s largest economy by 2030 and the share of EMDEs in global GDP is expected to exceed 50% by 2030, the high degree of inertia in the currency composition of global reserves suggests that the US dollar will remain the dominant reserve currency for the foreseeable future.
- Geopolitics as a Trigger of Currency Switches: Geopolitical or strategic considerations may trigger changes in reserve holdings beyond those driven by economic factors such as foreign policy considerations and security ties or military alliances. For example, the Bank of Russia implemented a significant reallocation of its reserve portfolio away from the US dollar, mostly into renminbi, following the imposition of US sanctions.
- Technology as a Disruptor: Advances in financial and payments technologies can reduce switching costs and informational asymmetries, and thus further reduce the strength of existing network effects and inertia. Technology might also facilitate the circumvention of capital controls and sanctions, potentially facilitating the use of alternative currencies.

- Digital Currencies: The implications of digital currencies for reserve holdings would depend on which kind of digital currency prevails. Many central banks are considering issuing a central bank digital currency (CBDC). A recent BIS survey of central banks indicates that about 80% are engaging in work related to CBDCs, and 40% have progressed to experiments or proof of concept.

RECAP ON KEY ECONOMIC INDICATORS

Local Indicators

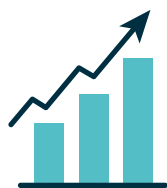


Regional Indicators



Arab Economies Growth

2021	2.8%
2022	3.6%



Stock Market Update - May 2021

S&P GCC Composite Index ended 1.6% higher in May 2021

GCC Stock Market Performance - May 2021



+8.5%



+1.6%



+2.9%



+1.3%



+2.4%



-1.5%

International Indicators



World Economic Growth

2021	6.0%
2022	4.4%

Advanced Economies' Growth **+5.1%**

Emerging Economies' Growth **+6.7%**

**POLITICAL ECONOMY
OR ECONOMICS IS A
STUDY OF MANKIND
IN THE ORDINARY
BUSINESS OF LIFE.**

-Alfred Marshall

SOURCES

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