

Bahrain to grow at four per cent in 2010

Bahrain managed its economy reasonably well through the crisis and expects to grow at four per cent in 2010. A **MONEYworks** report from Manama.

Bahrain's economy is expected to grow at four per cent in 2010, up from the actual growth rate of 3.2 per cent recorded last year.

While this is an indication that Bahrain managed its economy considerably well during the economic downturn, senior government officials are now on record saying that they are by no means letting their guards down as volatility in the global markets continues.

The state of Bahrain's economy was part of a panel discussion arranged by BNP Paribas in Manama last month. Attended by senior government officials, the panel noted that Bahrain's transparent policy regime, sound and prudent regulatory framework and conservative fiscal measures helped the Kingdom steer through the crisis with minimum damage.

"With a conservative approach to growth, no extra leverage and certain counter cyclical measures, we have been able to weather the crisis better," argued Sheikh Ahmed bin Mohammed Al Khalifa, Bahrain's minister of finance.

Bahrain has more than 400 conventional and Islamic financial providers. Although a number of these have been affected by the meltdown, the existing regulatory policy regime helped them to stave off a potentially bigger problem, said Sheikh Ahmed.

"The local financial institutions have weathered the storm mainly on their own and we do not feel the need to support the financial institutions here," he added.

Rasheed Al Meraj, governor of the Bahrain central bank, was of the same view. He said: "With a consensus building mechanism in place, there is no issue of transparency in Bahrain. In fact, a part and parcel of our regulation norm is disclosure standard."

Al Meraj also highlighted important measures taken by

the government and the central bank that, according to him, ensured the smooth landing of the economy. Bahrain's parliament had approved a supplementary budget proposal by the government last year, allowing the state to provide additional funding for existing projects, in particular infrastructure work, according to a report by the Oxford Business Group. Not only did the parliament vote to approve the US\$880 million requested, but also it allocated an additional US\$66 million while lifting the government's loan ceiling, allowing the latter to borrow another US\$2.6 billion if required.

Al Meraj also drew attention to certain measures introduced in 2005, giving instances of caps set on leverage for both industrial sector borrowing and individuals to a certain multiple of their salaries. He added that banks in Bahrain were instructed to diversify exposure away from the particular sector, including real estate, to help them maintain a healthy retail domestic business with provisioning and other issues.

Al Meraj pointed to the conservative loan-to-deposit ratio of Bahraini banks, varying in the range of 75-80 per cent. He said that this conservative approach of the industry ensured reasonable liquidity with the local banks. Regulations that barred distribution of dividends and profits during the crisis period also helped, he noted.

Further, the presence of a credit reference bureau and national audit

bureau, as well as strict disclosure norms regarding bank charges, ensured very low delinquency, he said.

The wholesale investment portfolios might have faced some challenges, though, as their focus is across other markets. But Al Meraj added that the total exposure of Bahrain-based banks to Dubai-based corporations adds up to less than 0.1 per cent of their combined assets.

He also said that the Bahraini government has planned for provisions for a slight increase in the debt-to-GDP ratio (with a maximum of 60 per cent) from the present 27 per cent, which is already much higher than the Kingdom's usual 18.5 per cent.

Bahrain had issued bonds totalling US\$500 billion last year that was oversubscribed. The government plans to borrow another US\$1 billion this year through a 10-year bond to narrow the gap in the national budget, Al Meraj said.

Speaking at the panel discussion, Sheikh Mohammed bin Essa Al Khalifa, CEO of the Bahrain Economic Development Board, said that the government also ensured in this period that job creation remained positive. He said that Bahrain's unemployment rate was 3.8 per cent.

According to the senior officials from the ministry, economy and central bank, Bahrain witnessed slower growth in the last quarter of 2008 and first quarter of 2009, while gross investments saw a significant drop. However, private and international investments have started flowing again and a number of projects that were held back last year due to uncertainty and the economic crisis are back on track, Sheikh Mohammed said.

Jean Christophe Durand, managing director of BNP Paribas, also spoke at the panel discussion and lauded the strong support of the government to the banking industry.



From left to right: Sheikh Ahmed bin Mohammed Al Khalifa; Rasheed Al Meraj; Sheikh Mohammed bin Essa Al Khalifa; Antoine Sire, BNP Paribas' global head of communications and Jean-Christophe Durand, regional director of BNP Paribas