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Tamkeen

# Tamkeen Business Review

Taking Stock  
of 2022

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## Data Sources

Section	Data Indicators	Data Source	Released Date
Economic Development	Europe Brent Spot Oil Price	US Energy Information Administration	November 2022
	Crude Oil Spot Price	US Energy Information Administration	Q4-2022
	Real Gross Domestic Product (GDP)	National Accounts, Information & eGovernment Authority	Q4-2022
	Sector Growth	National Accounts, Information & eGovernment Authority	Q4-2022
	GDP Breakdown by Sector	National Accounts, Information & eGovernment Authority	Q4-2022
	Inflation	CPI, Information & eGovernment Authority	December 2022
	Foreign Trade	Foreign Trade, Information & eGovernment Authority	December 2022
	Average Rate on Interest Rates	Statistical Report, Central Bank of Bahrain	December 2022
	Bank Credits & Deposits	Statistical Report, Central Bank of Bahrain	December 2022
Labor Market	Inbound Visitors	Key Tourism Indicators, Information & eGovernment Authority	Q4-2022
	Total Workforce	Statistical Report, Social Insurance Organization	Q4-2022
	Private Sector Employment	Statistical Report, Social Insurance Organization	Q4-2022
	New Labor Market Entrants	Bahrain Labour Market Indicator Portal, Labour Market Regulatory Authority	Q4-2022
		Statistical Report, Social Insurance Organization	Q4-2022
Global Economic Context	Global Economic Prospects	Bahrain Labour Market Indicator Portal, Labour Market Regulatory Authority	Q4-2022
		World Bank Group Flagship Report	January 2023

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Bahrain's economic growth during the year had a broad-based recovery in the non-oil sectors, driven by strong consumer spending & high oil prices.

## Executive Summary

The GCC was one of the fastest growing parts of the global economy, amid global conflict, higher inflation, increased market volatility, and supply chain disruptions.

Bahrain's economic growth during the year had a broad-based recovery in the non-oil sectors, driven by strong consumer spending, as well as high oil prices.

The normalization of economic activity led to a sharp increase in recruitment by private sector businesses, with low-skilled expatriate labor leading the rebound. This suggests a potential reversal to pre-pandemic attitudes and behaviors.

### **Economic growth driven by non-oil sectors**

Bahrain's GDP posted a 4.9% real increase YoY. Non-oil sectors contributed 82% to Bahrain's real GDP in 2022. Hospitality, Government Services & Real Estate saw the sharpest gains.

Despite ongoing global challenges and an expected moderation of oil prices in 2023, the GCC economic outlook remains favorable thanks to continued strong growth momentum in the non-oil sectors.

### **Oil price gains drive macroeconomic rebalancing**

Bahrain's economy expanded in 2022 thanks to rising oil prices and increased non-oil growth. Bahrain has released its preliminary fiscal numbers for the year 2022 reflecting a deficit of BHD 178 million compared with BHD 952 million in 2021 which is a deficit reduction of 81%.

### **Labor market recovery**

Private sector employment increased by 9% in 2022 as the number of new entrants in the labor market jumped by 64% compared to the previous year. Bahraini labor market entrants increased by 10% YoY in Q4-2022 with 7,508 new employees, and non-Bahraini labor market entrants rose by 72% with 82,406 new employees compared to Q4-2021.

### **Global economic context**

The global growth dynamics weakened during 2022 due to historically high inflation and tighter monetary policy. Developing economies experienced slowed growth in 2022 due to a combination of global financial conditions and specific factors such as China's COVID restrictions during much of the year.

# Bahrain in 2022

## Economic Insights

Data Source: IGA, Open Data Portal, Q4-2022 / LMRA, Table 43, Q4-2022



**BHD 13,337 M**

Real GDP, 2022



**4.9%**

YoY Growth In Real GDP



**BHD 10,971M**

Non-Oil Real GDP, 2022



**6.3%**

YoY Non-Oil Growth In Real GDP



**3.6%**

Inflation



**BHD 9.9M**

Inbound Visitors, 2022



**73,195**

Active CRs



**BHD 13.3 Bn**

Inward Foreign Direct Investment

## Fastest Growing Sectors, 2022

Data Source: IGA, National Accounts, Q4-2022



**13.9%**

Hotels & Restaurants



**10.3%**

Other Government Services



**5.5%**

Real Estate & Business Activities

## Public Sector Employment

Data Source: SIO, Statistical Report, Q4-2022



**3%**

YoY Increase in Public Sector Employment



**50,375**

Bahraini Employees



**BHD 869**

Average Wage of Bahrainis

## Private Sector Employment

Data Source: SIO, Statistical Report, Q4-2022



**99,945**

Bahraini Employees



**464,304**

Non-Bahraini Employees



**3%**

**64,506**

Total Male Employees



**4%**

**35,439**

Total Female Employees



**10%**

**422,968**

Total Male Employees



**14%**

**41,336**

Total Female Employees

**9%**

YoY Increase in Private Sector Employment



**BHD 780**

Average Wage of Bahrainis



**BHD 253**

Average Wage of Non-Bahrainis

# Economic Growth Driven By Non-Oil Sectors

## Key Takeaways

1. Despite the weakening global economy, the Bahraini economy experienced a robust recovery in 2022 as real GDP growth accelerated from 2.6% in 2021 to a decade high 4.9% in 2022.
2. Broad-based non-oil recovery was driven by strong consumer confidence linked to the post-pandemic rebound of repressed demand and the increase in oil prices. However, growth rates are moderating somewhat as the post-pandemic rebound comes to an end.
3. The favorable liquidity growth is attributed to the recent increase in oil prices.
4. Federal reserves dramatically tightened monetary policies due an increase due to inflation pressures. This has been reflected in higher rates also in Bahrain.

The non-oil sector grew by 6.3% YoY in real terms in 2022, thanks to the normalization and renewed expansion economic activities following the pandemic. The nominal non-oil GDP increased by 5% YoY during the same period.

Due to the normalization of activities in 2022, high-contact sectors such as Hotels & Restaurants achieved the biggest gains. Hotels & Restaurants recorded the highest YoY growth of approximately 14% in 2022 as compared with the previous year. This was supported by a sharp increase in the number of visitors arriving to Bahrain via King Fahad Causeway.

The number of inbound visitors continued to rise every quarter in 2022. According to iGA, inbound tourism flows to Bahrain recovered to 90% pre-pandemic levels in 2022, growing by 175% YoY.

Reflecting major investment in capacity, the Manufacturing sector posted annual growth of around 5%. This positive performance can be attributed to the full operation of Alba Line 6, which added both production and export capacity, as well as the Bapco modernization project.

The Transport & Communication sector posted approximately 4.5% growth in 2022. This is mainly due normalization of activity with Saudi Arabia and international travel more generally.

The non-oil sectors contributed 82% to Bahrain's real GDP in 2022. Financial & Insurance Activities led with 18% contribution to GDP, followed by Manufacturing and Government Services at 14% and 9%, respectively.

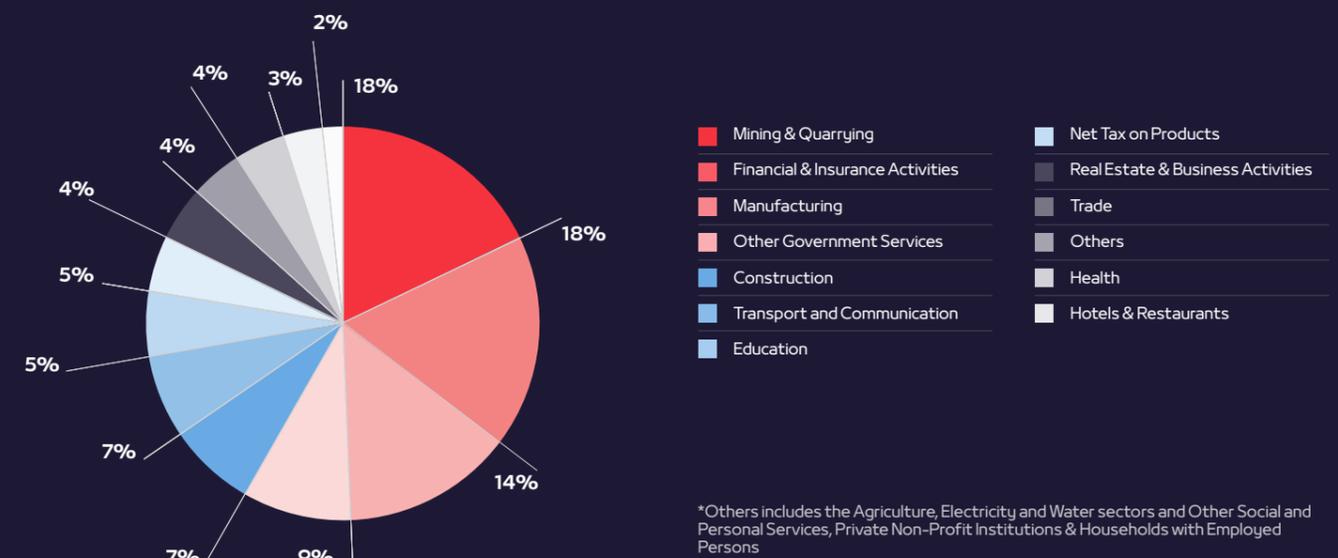
## Bahrain's YoY Real GDP Growth per Sector (% , 2022)

Data Source: iGA, National Accounts, Q4-2022



## GDP Breakdown by Sector (% , 2022)

Data Source: iGA, National Accounts, Q4-2022



# Economic Growth Driven By Non-Oil Sectors

## Monetary tightening in response to rising inflationary pressures

During the pandemic, oil consumption plunged to a level well below production, resulting in significant drops in prices to under \$25 per barrel in 2020. However, oil demand and production rebounded in 2022, causing oil prices to surge by over 65% and hitting prices over \$120 in June. Since then, prices have dropped below \$100 due to recession fears, OPEC+'s 2 million oil quota cut in November, and the Russian oil price cap implemented in December.

The downward trend in oil prices has resulted in a plateauing of inflation, as well as an increase in interest rates.

Bahrain's Central Bank raised its key interest rates in 2022 mirroring the decisions of the US Federal Reserve and other GCC central banks, all of which totaled +125 bp of hikes in November and December 2022. This has increased the cost of borrowing in 2022 as a result of the global tightening of the monetary policies thus commercial loans average interest rate peaked at 8.16% in November.

Bank deposits by non-bank institutions also witnessed an improvement in 2022, recording an increase by 1.6%, reaching a total value of BHD 19Bn. Despite deposit growth and growing market liquidity, bank lending has not increased proportionally. This can be attributed in part to the rise in interest rates, which has increased the cost of capital.

## Bahrain's economic outlook remains positive

Economic growth in Bahrain is likely to decelerate somewhat with the post-COVID rebound wearing off. Meanwhile, oil prices have declined from their recent peaks while interest rate hikes globally have pushed up the cost of capital.

The increase in the Federal Reserve rate which has been mirrored in the GCC put significant pressure on market liquidity but is anticipated to ease as banks seek longer-term sources of funding in 2023.

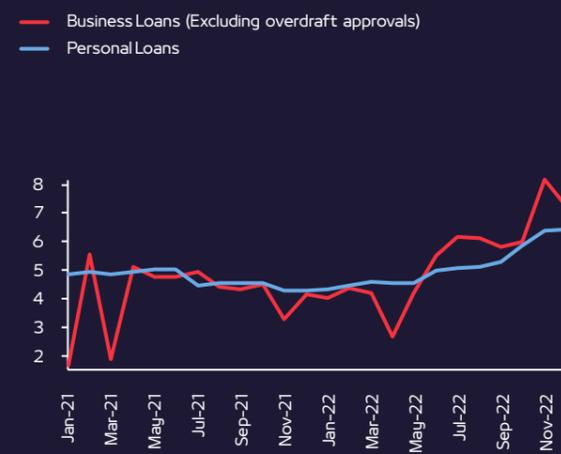
Bahrain also has a large pipeline of infrastructure projects several of which are expected to be awarded over the coming year, providing a positive outlook of business opportunities for the private sector.

Europe Brent Spot Price (\$/bbl, Jan 2021 – Nov 2022)



Data Source: US Energy Information Administration, November 2022

Average Rate of Interest on Credit Facilities (% , Jan 2021 – Dec 2022)



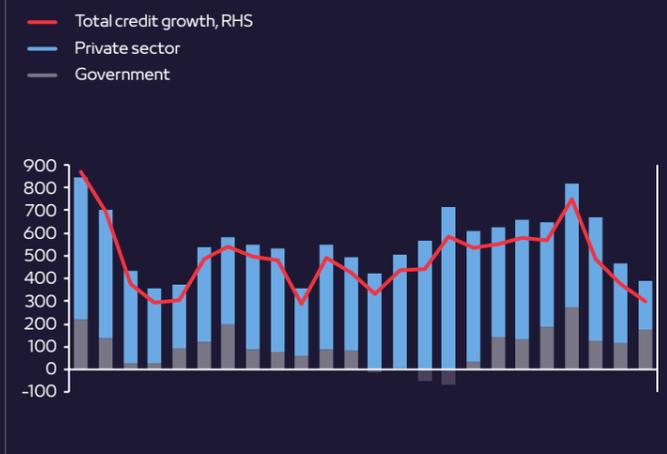
Data Source: CBB, Statistical Bulletin Table 7, December 2022

Deposits Liabilities to Non-Banks (BHD Million, %, Jan 2021 – Dec 2022)



Data Source: US Energy Information Administration, November 2022

YoY Growth in Credit Issued by Retail Banks (BHD Million, %, Jan 2021 – Dec 2022)



Data Source: US Energy Information Administration, November 2022

# Oil Price Gains Drive Macroeconomic Rebalancing

## Key Takeaways

1. Bahrain's economy recovered in 2022 due to rising oil prices and increased non-oil growth. This has strengthened the government's credit rating and could lead to a balanced budget by 2024. The increase in oil & gas prices was a significant factor to Bahrain's improving trade position.
2. Bahrain's merchandise trade position has improved with a shrinking trade deficit, largely due to Alba's increased production capacity.

### Non-Oil trade balance gap decreased

Bahrain's foreign trade continued to grow along with a steady increase in the non-oil trade balance during 2022.

The non-oil trade balance gap shrank by 76% from a BHD 643 million deficit in 2021 to a substantially-reduced shortfall of approximately BHD 155 million in 2022.

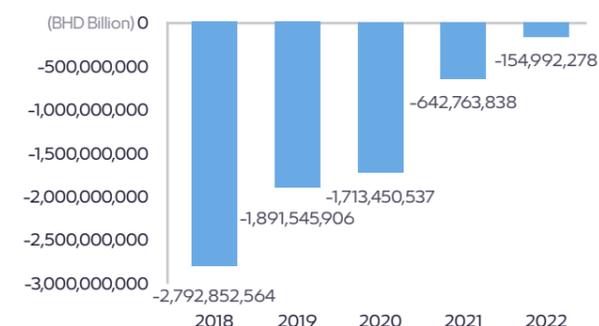
In 2022, the value of non-oil imports rose by 10% YoY to BHD 5.84 billion and the value of non-oil exports of national origin was BHD 4.97 billion, an increase of 24% YoY. This was mainly due to the rise in aluminum prices that surpassed \$3,500 per ton in Q2 because of the Russia-Ukraine conflict.

The current account balance in the balance of payments data issued by CBB has recorded a surplus of BHD2,571 Mn in 2022 which is an increase of 162.8% from BHD978.5Mn in 2021.

### Bahrain preliminary fiscal numbers

Bahrain's preliminary fiscal figures for 2022 have been released, indicating a deficit of BHD 178 million. Compared to a deficit of BHD 952 million the previous year, this marks a reduction of 81% in the deficit.

### Non-Oil Trade Balance (Billion BHD)



Data Source: IGA, Foreign Trade, December 2022

### Foreign Trade (Billion BHD, %, 2022)

2022	Total (YoY change %)	
Non-oil National Origin Exports	BHD 4.97 Bn (24%)	↑
Re-Exports	BHD 720 Mn (6%)	↑
Non-Oil Imports	BHD 5.84 Bn (10%)	↑
Non-Oil Trade Balance	BHD -155Mn (-76%)	↓

Data Source: IGA, Foreign Trade, December 2022



The increase in oil and gas prices was a significant factor to Bahrain's improving trade position.

# Labor Market Recovery

## Key Takeaways

1. The normalization of economic activity has led to a YoY 9% increase in recruitment by private sector businesses in 2022. This indicates that this is a broad-based recovery for the labor market for all its segments hence going back to pre-pandemic levels in terms of overall formal labor market.
2. The average wages of Bahrainis in the private sector has slowly increased by 3% compared to previous years.
3. Despite the good progress achieved in 2021 with digitalization and business model overhauls, low-skilled expatriate labor is now leading the labor market rebound. This suggests a potential reversal to pre-pandemic behaviors.

Private sector employment increased to 564,249 in 2022 from 516,372 in 2021. The number of new entrants in the labor market surged 64% in the 2022 compared to the previous year. Bahraini labor market entrants increased by 10% in 2022 with 7,508 new employees and non-Bahraini labor market entrants jumped by 72% with 82,406 new employees.

The total number of employees registered with the SIO expanded by 9% to reach a total of 564,249 employees in 2022 compared to Q4-2021. However, the total number of private sector employees is still slightly lower than pre-pandemic levels. Regardless, the number of Bahraini employees in the private sector is rising and surpassing pre-pandemic levels.

Bahraini male employment in the private sector increased by 3% and female employment by 4% in 2022 compared to 2021.

Bahraini women's participation in the private sector was flat at 13.6% in 2022 compared to 2021.

The monthly average wage of Bahraini employees increased by 3% in 2022 compared to 2021; however, the average wage of non-Bahrainis in the private sector dropped by 4%.

## Labor Market Indicators



**BHD 780**

AVG Wages of Bahrainis in the private sector

YoY (3%)



**BHD 253**

AVG Wages of Non-Bahrainis in the private sector

YoY (-4%)



**564,249**

Total Employees in the private sector

YoY (9%)



**89,914**

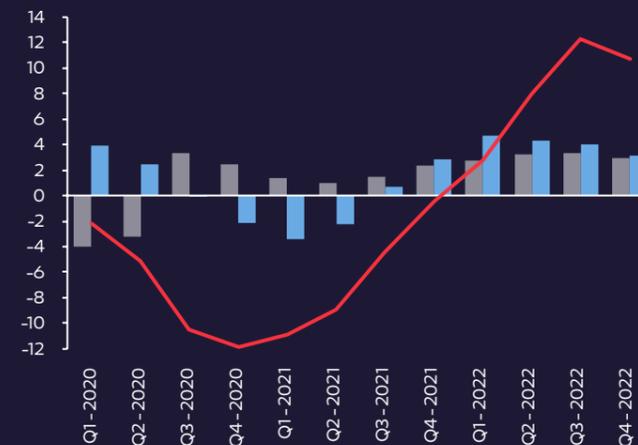
New Labor Market Entrants in the private sector

YoY (64%)

Data Source: SIO, Statistical Report, Q4-2022

## YoY Changes in Employment by Labor Market Segment (% , 2020 – 2022)

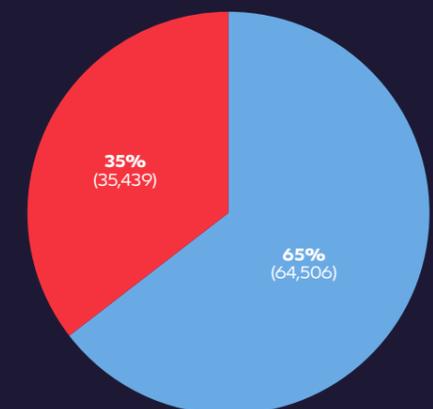
- Bahraini Employees (%) - Public Sector
- Bahraini Employees % - Private Sector
- Non-Bahraini Employees (%) - Private Sector



Data Source: SIO, Statistical Report, Q4-2022

## Total Bahraini Employment by Gender in the Private Sector (% , Q2022)

- Male Employees
- Female Employees



Data Source: SIO, Statistical Report, Q4-2022

# Labor Market Recovery

## New Employment in the private sector

In 2022, there has been 23,511 new jobs in the private sector, of which around 9% were Bahrainis, and 91% non-Bahrainis. More than 23% (5,312) of the newly registered employees were recruited in the construction sector.

## A focus on upskilling talent

The trend of employing low-skilled employees will likely be minimized through the continued implementation of the new labor market reforms.

The new reforms streamline companies' registration of workers and include measures to link work permits to vocational and occupational standards, enhancing workers' protection while reversing excess unskilled labor.

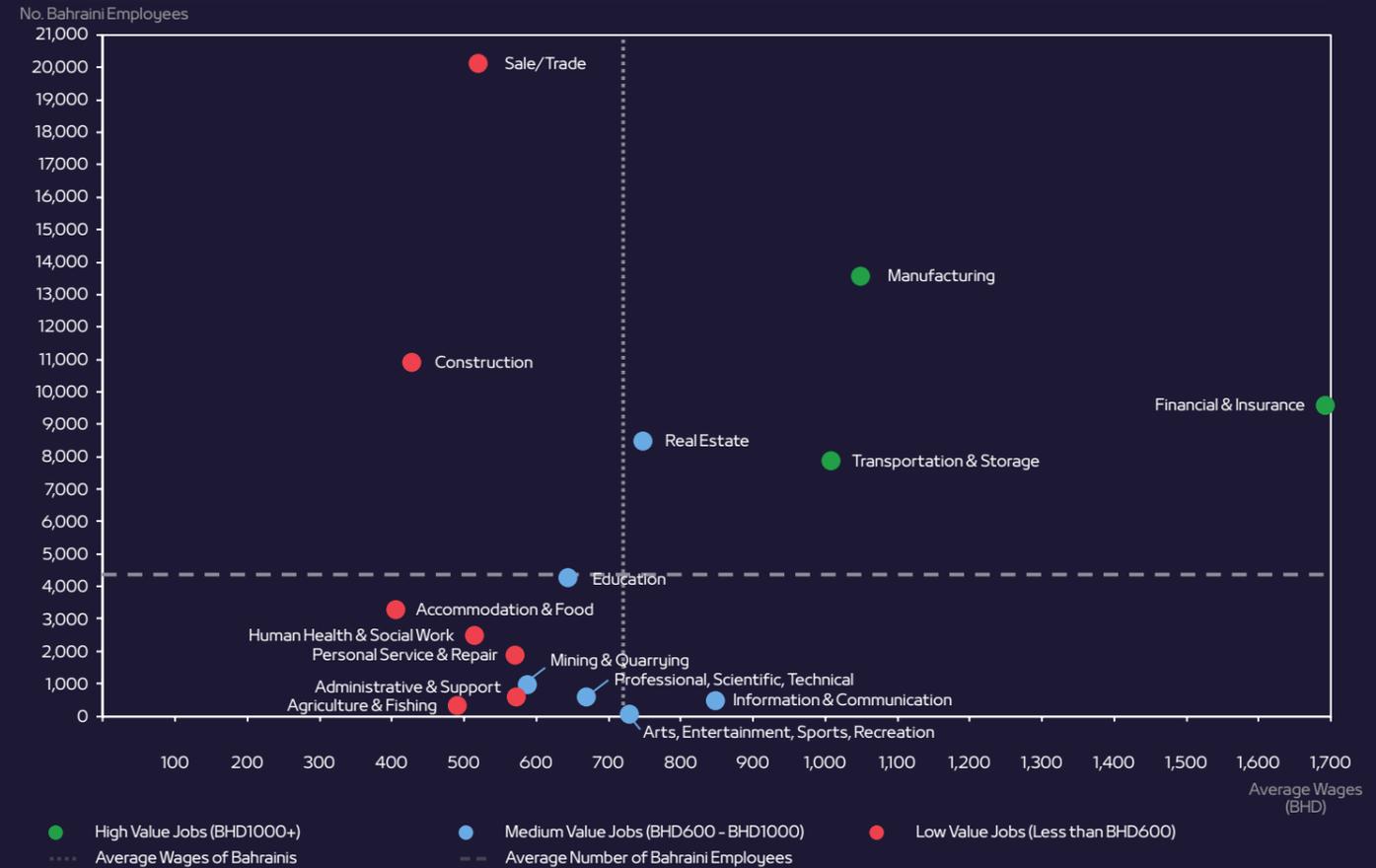
With inflation in Bahrain likely to be temporary, focusing on upskilling workers will be beneficial, as it will reduce cost pressures for businesses and offer higher future income growth. As cost pressures fall and productivity rises, this will be reflected in future wages and purchasing power.



Number of new entrants in the labor market surged 64% in 2022 compared to the previous year

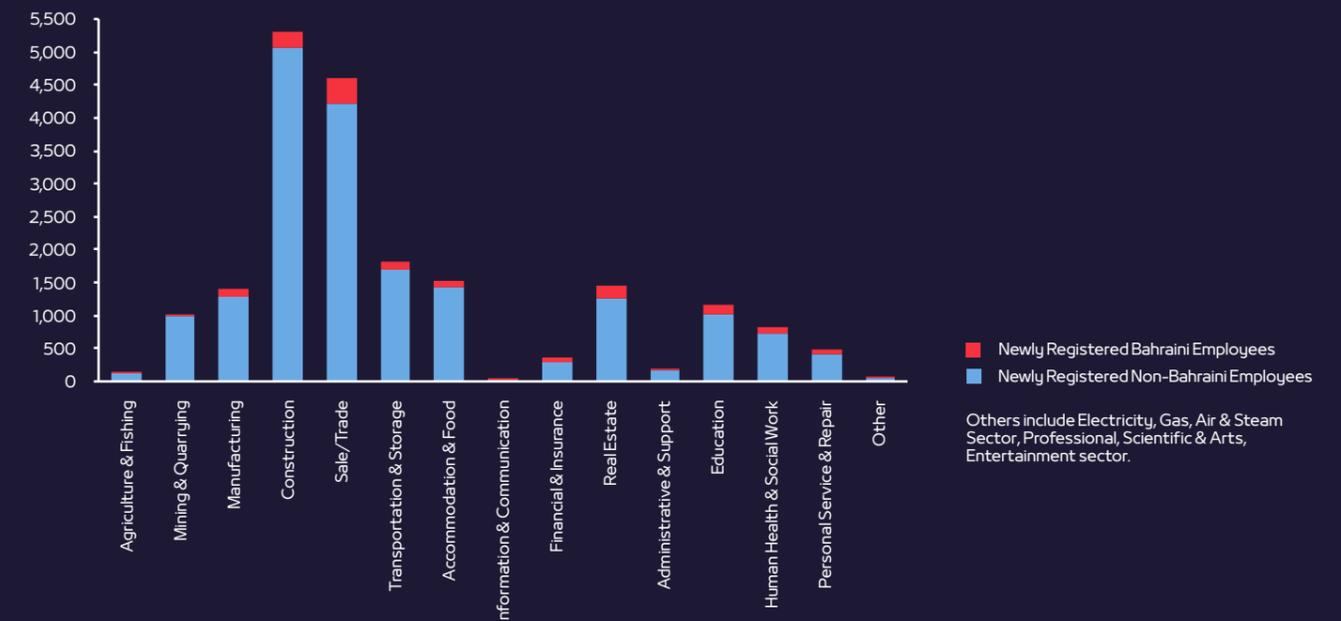
## Bahraini Employment in the Private Sector (BHD, 2022)

Data Source: LMRA, GOSI Table 6 & 22, Q4-2022



## Newly Registered Employees by Sector & Citizenship (2022)

Data Source: LMRA, GOSI Table 55, Q4-2022



# Global Economic Context



## Economic Developments

- Growth has decelerated sharply due to high inflation and tighter monetary policy.
- Developing economies experienced slowed growth in 2022 due to a combination of global financial conditions and the Russia-Ukraine war.
- Global inflation impacted private consumption and increased government expenditures to support demand.



## Monetary & Fiscal Policy Challenges

- Monetary policy is expected to continue tightening as slowing inflation causes global real policy rates to gradually rise from current negative levels.
- Emerging market and developing economies are vulnerable to rising borrowing costs, especially those servicing already-high costs of debt and large external or foreign-currency denominated debt.



## Global Trade

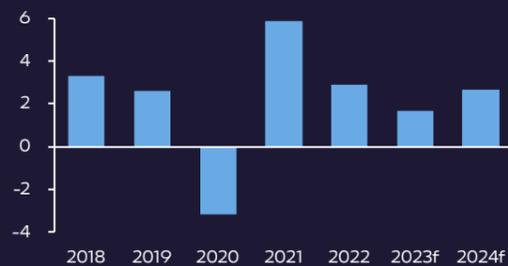
- Supply chain pressures are easing, returning to historical averages with rising inventories and falling shipping costs, while supplier delivery times are increasing at a slower pace.
- Risk and uncertainty continue to be high for global supply chains overall, but efforts towards forging a greener global economy, are expected to spur demand for environmentally sustainable products, said UNCTAD.



## Investments

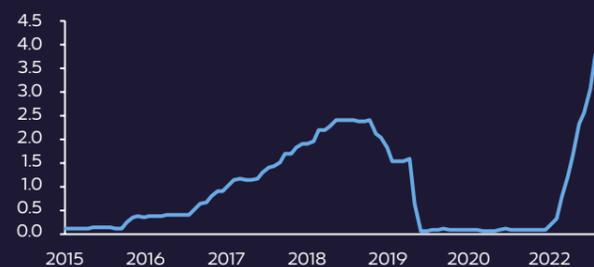
- Investment growth in (EMDE)s is expected to fall below its average rate of the past two decades, which could reduce potential growth.
- In 2020, due to the pandemic, EMDEs excluding China experienced a large and sharper drop in investment than advanced economies.

**Global Growth (% , 2018 - 2024f)**



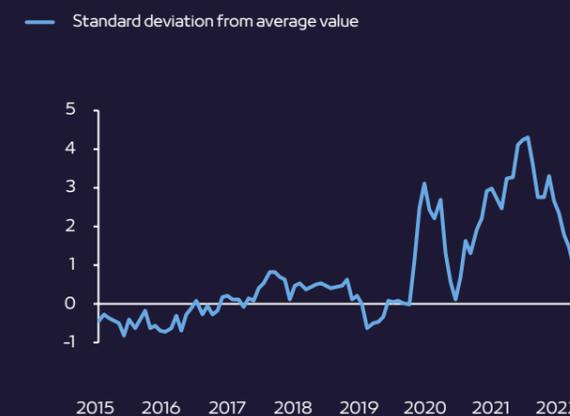
Data Source: Global Economic Prospects, World Bank Group, January 2023

**Monthly Federal Funds Effective Rate (% , 2015 - 2022)**



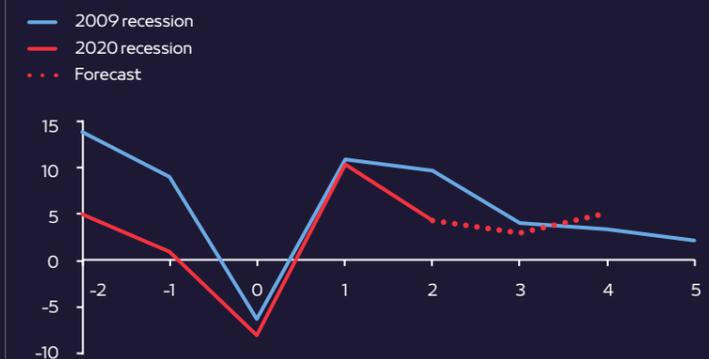
Data Source: Federal Reserve Bank of St. Louis, Economic Research Division, December 2022

**Global Supply Chain Pressures Index (% , 2015 - 2022)**



Data Source: Global Economic Prospects, World Bank Group, January 2023

**Investment Growth in EMDES, excluding. China (Index, Year= 1 = 100, 2009 & 2020)**



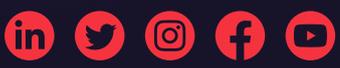
Note: Emerging market and developing economies. Investment refers to gross fixed capital formation. Investment growth is calculated with countries' real annual investment in constant U.S. dollars as weights. On the x-axis, year zero refers to the year of global recessions in 2009 and 2020. Dotted portions of lines are forecasts. Sample includes 68 EMDEs.

Data Source: Global Economic Prospects, World Bank Group, January 2023

# Economic Indicators and Definitions

Indicator	Name	Definition
	Economic Indicator	A set of data that serves as a tool for analyzing current economic conditions and future prospects. Usually classified according to their timing in relationship to the ups and downs of the business cycle, that is, whether they anticipate (lead), coincide with, or lag behind general business conditions.
GDP	Gross Domestic Product	A primary indicator of macroeconomic performance that shows the overall health and size of an economy. It is the monetary value of all finished goods and services produced within a country during a specific time period.  The GDP consists of four components: Consumption (C), Investment (I), Government Expenditure (G) and Net Exports (NX).
GDP <sub>r</sub>	Gross Domestic Product at Current Price	GDP at current price is the GDP unadjusted for the effects of inflation; thus, this is at current market prices and known as the nominal GDP.
GDP <sub>c</sub>	Gross Domestic Product at Constant Price	GDP at constant price is the GDP adjusted for the effects of inflation and known as the real GDP.
GDP Growth Rate	Gross Domestic Product – Growth Rate	The GDP growth rate (also refers to the percent change in real GDP) compares the year-over-year (or quarterly) change in a country's economic output, to measure how fast (or slow) an economy is growing.
N	Inflation	The rate at which the value of a currency is falling and, consequently, the general level of prices for goods and services is rising.
CPI	Consumer Price Index	One of the most followed indicators to measure inflation.  The Consumer Price Index measures the average change in prices over time that consumers pay for goods and services.
IM	Imports	Imports are defined as goods produced outside the boundaries of one country, which are then purchased by that country.
EX	Exports	Exports are defined as movable goods produced within the boundaries of one country, which are traded with another country.
NX	Trade Balance (or Net Exports)	The net difference between a country's value of imports and exports, showing whether there is a trade surplus or a trade deficit.  A country's trade balance is positive (meaning that it registers a surplus) if the value of exports exceeds the value of imports. Conversely, a country's trade balance is negative, or registers a deficit, if the value of imports exceeds that of exports.  The trade balance is the official term that is used for net exports in the current account.
LMI	Labor Market Information	Data on job seekers, employment, unemployment, changes in industrial structure, technological changes, conditions of employment, wage rates, and other related data.

Indicator	Name	Definition
L	Labor Force	All employed and unemployed people within a country's economy.
LM	Labor Market	Known as the job market and relates to the supply and labor demand in which the supply is provided by the workers and demand by the employers.
LF- Participation Rate	Labor Force Participation Rate	A measure of the proportion of a country's working-age population that engages actively in the labor market, either by working or looking for work.  Provides an indication of the size of the supply of labor available to engage in the production of goods and services, relative to the population at working age.
R	Unemployment Rate	The total number of unemployed as a percent of the total labor force (employed plus unemployed).  Workers are considered unemployed if they currently do not work, even though they are able and willing to do so.
LP	Labor Productivity	Represents the total volume of output (measured in terms of GDP) produced per unit of labor (measured in terms of the number of employed persons) during a given time reference period.  In a nutshell, it is the hourly output of a country's economy.  Economic growth in a country can be ascribed either to increased employment or to more effective work by those who are employed. The latter effect can be described as an increase in labor productivity.  Labor productivity therefore is a key measure of economic performance and is largely driven by investment in capital, technological progress, and human capital development.



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