Consumer price inflation remains soft despite VAT levy

Bahrain's non-oil growth expected to remain above 3% to 2021

Report prepared by NBK

Non-oil growth is expected to remain above 3% to 2021, with GCC investments supporting elevated infrastructure spending. This will offset continued oil sector weakness and keep headline growth at 2-3%. Inflation will moderate in 2019 as the VAT effect wears off, before rising next year. The budget deficit is projected to gradually narrow in line with reforms outlined in the Fiscal Balance Program. Adhering to this program will improve the external current account position and lessen the pressure on Bahrain's foreign reserves.

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Bahrain's economy is projected to continue to grow at a decent 2.5-3% over 2019-2021. While real oil GDP growth is constrained by Bahrain's participation in the recently-extended OPEC+ oil production cut agreement, the non-oil economy is expected to hold firm at around 3% over the forecast period thanks to high levels of infrastructure spending and an increase in manufacturing output.

The additional spending will likely be financed, at least in part, by the $10bn GCC support package announced in 4Q18, while manufacturing activity will be boosted by the $3bn expansion of the Alba aluminium smelter. This is one of the largest in the world, producing more than 2% of global output and 15% of Bahrain's GDP.

Headline inflation has so far surprised on the downside, with continued softness occurring across most subcomponents, including food. This softness can be attributed to a stronger US dollar against Bahrain's main trade partners' currencies, which has brought down imported inflation, and more than offset recent price rises in housing and in the retail sector more broadly following the implementation of the 5% VAT in January. We expect inflation to moderate in 2019 as the VAT effect fades, before picking up speed over 2020-21 on increasing demand. A potentially dovish Fed may also put downward pressure on the US dollar.

■ **Fiscal position to gradually improve in-line with FBP**

The fiscal deficit is projected to gradually narrow, as outlined in the kingdom's Fiscal Balance Program (FBP). A series of reforms were laid out in 4Q18 to balance the budget by 2022 from the current deficit of around 8% of GDP and reduce the public debt from the current 90% of GDP to 82% of GDP. Of particular note is the introduction of VAT in January.

However, in its recent budget report, Bahrain signaled that it may take longer to balance the budget.

In a further bid to ease the pressure on public finances and spur foreign investment inflows, Bahrain has reportedly approved a law that would allow foreign companies to set up independent subsidiaries and for these subsidiaries to also own 100% of domestic oil and natural gas extraction projects.

■ **Business lending holding firm**

Growth in credit to businesses continues to hold firm, underpinned by robust lending activity in the construction and manufacturing sectors.

Private sector deposit growth is catching up, likely thanks to the aid installments Bahrain has received so far, which were disbursed as loans, deposits and grants. As of 1H19, the kingdom has received almost half of the $10bn support package; another $2.3bn is due this year.

■ **Foreign reserves remain under pressure**

Given large fiscal and current account deficits, international reserves remain under pressure. Going forward, a gradual improvement in both the fiscal and current account positions and the $10bn GCC financial support package should offer foreign reserves some reprieve. Indeed, as of April, reserves were at $2.4bn (1.5 months of imports), up from $1.8bn at the start of the year and higher than the $1.7bn average in 2018.

■ **Economic outlook hinges on FBP reforms**

Soon after the announcement of the FBP, the kingdom's sovereign wealth fund issued a $600 million sukuk priced at 5.625%, 60 bps lower than what was expected. Bahrain is now in discussions to issue its first international bond since last year.

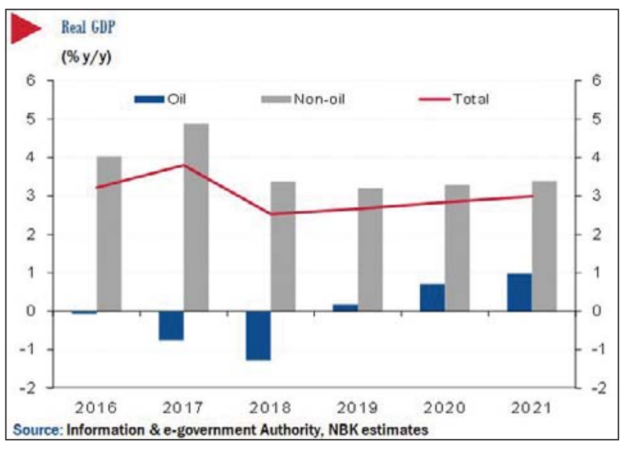
However, the kingdom's economic outlook hinges on its execution of the FBP. Any further deviation from the balanced budget target would adversely affect investors' confidence, the level of reserves (which remain low by international standards), and the rate at which they can borrow in the future.

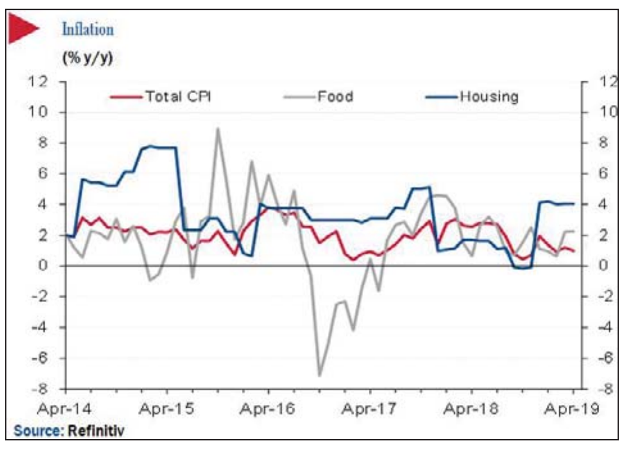
On the other hand, Bahrain's pledge to monetize newly-discovered hydrocarbon reserves of up to 80 billion barrels of tight shale oil and around 20 trillion cubic feet of tight natural gas within the next five years will improve its outlook.

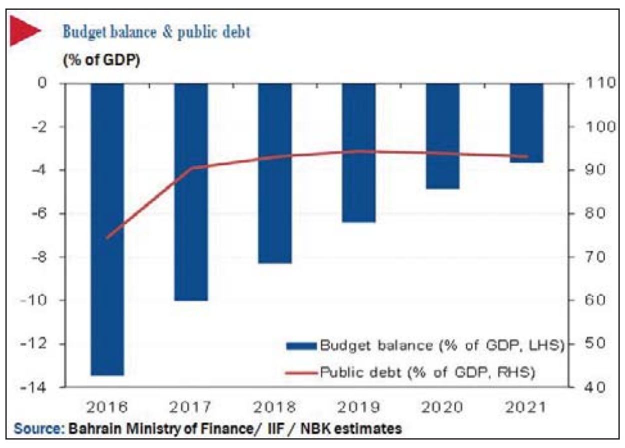
Key economic indicators

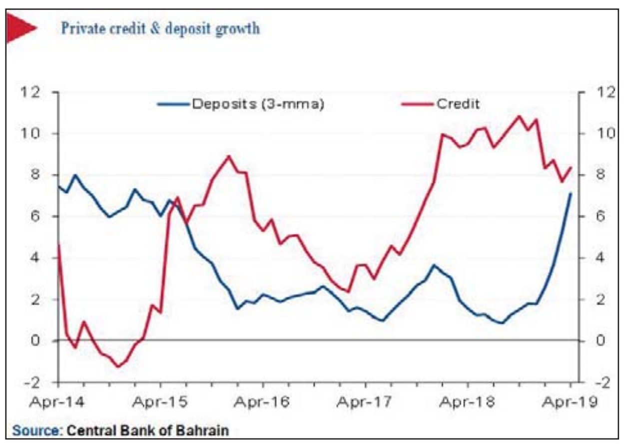
		2017	2018	2019f	2020f	2021f
Real GDP	% y/y	3.8	2.5	2.7	2.8	3.0
- Oil	% y/y	-0.7	-1.3	0.2	0.7	1.0
- Non-oil	% y/y	4.9	3.4	3.2	3.3	3.4
Inflation	% y/y	1.4	2.1	1.5	2.0	2.5
Budget balance	% of GDP	-10.0	-8.3	-6.4	-4.8	-3.7
Current account	% of GDP	-4.5	-5.9	-4.4	-4.1	-3.8

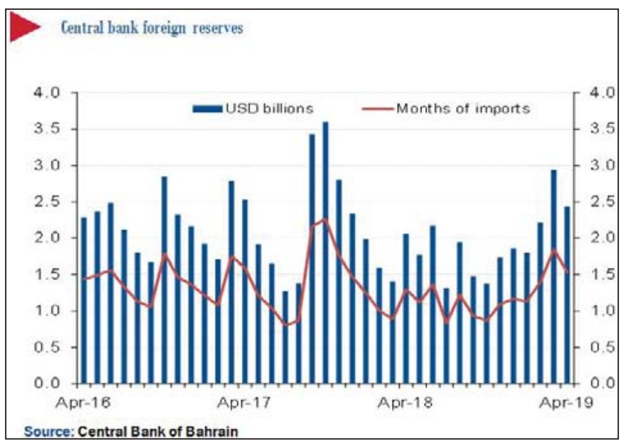
Source: Official sources, NBK estimates











China Q2 GDP growth slows to 27-yr low as trade war 'bites', more stimulus seen

June industrial output rises 6.3%, retail sales jump 9.8%

BEIJING, July 15, (RTRS): China's economic growth slowed to 6.2% in the second quarter, its weakest pace in at least 27 years, as demand at home and abroad faltered in the face of mounting US trade pressure.

While more upbeat June factory output and retail sales offered signs of improvement, some analysts cautioned the gains may not be sustainable, and expect Beijing will continue to roll out more support measures in coming months.

China's trading partners and financial markets are closely watching the health of the world's second-largest economy as the Sino-US trade war gets longer and costlier, fuelling worries of a global recession.

Monday's growth data marked a loss of momentum for the economy from the first quarter's 6.4%, adding to expectations that Beijing needs to do more to boost consumption and investment and restore business confidence.

The April-June pace, in line with analysts' expectations, was the slowest since the first quarter of 1992, the earliest quarterly data on record.

"China's growth could slow to 6% to 6.1% in the second half," said Nie Wen, an economist at Hwabao Trust. That would test the lower end of Beijing's 2019 target range of 6-6.5%.

Cutting banks' reserve requirement ratios (RRR) "is still very likely as the authorities want to support the real economy in the long run," he said, predicting the economy would continue to slow before stabilising around mid-2020.

China has already slashed RRR six times since early 2018 to free up more funds for lending, and analysts polled by Reuters forecast two more cuts by the end of this year.

Beijing has leaned largely on fiscal stimulus to underpin growth this year, announcing massive tax cuts worth nearly 2 trillion yuan ($291 billion) and a quota of 2.15 trillion yuan for special bond issuance by local governments aimed at boosting infrastructure construction.

The economy has been slow to respond, however, and business sentiment remains cautious.

Trade pressures have intensified since Washington sharply raised tariffs on Chinese goods in May. While the two sides have since agreed to resume trade talks and hold off on further punitive action, they remain at odds over significant issues needed for an agreement.

A man buys clothes from an American clothing store having a promotion sale at a shopping mall in Beijing, July 15. China's economic growth sank to its lowest level in at least 26 years in the quarter ending in June, adding to pressure on Chinese leaders as they fight a tariff war with Washington. (AP)

US President Donald Trump in a tweet linked China's slowing growth to the US tariffs.

"The United States Tariffs are having a major effect on companies wanting to leave China for non-tariffed countries," Trump wrote. "These Tariffs are paid for by China devaluing & pumping, not by the US taxpayer!"

Despite the trade dispute, Chinese net exports accounted for a striking 20.7% of the first-half GDP growth, as exporters had rushed to sell ahead of higher US tariffs and imports had weakened more sharply amid sagging domestic demand.

For June, both exports and imports fell, and an official survey showed factories were shedding jobs at the fastest pace since the global crisis a decade ago.

"Due to the global slowdown and impact from the trade war, our exports will continue to fall and it's possible they may post zero growth for the year," said Zhu Baoliang, chief economist at the State Information Centre, a top government think-tank.

The contribution from net exports will decline as domestic demand gradually recovers, Zhu told the official Financial News ahead of the Q2 data, adding that he expects economic growth to slow to 5.8% next year.

A string of downbeat data in recent months and the sudden escalation in the trade row had sparked questions over whether more forceful easing may be needed to get the economy back on steadier footing, including some form of interest rate cuts.

China has "tremendous" room to adjust policies if the trade war worsens, the central bank governor was quoted as saying in June.

Premier Li Keqiang said this month that China will make timely use of cuts in banks' reserve ratios and other financing tools to support smaller firms, while repeating a vow not to use "flood-like" stimulus.

Analysts believe room for more aggressive monetary policy easing is being limited by fears of adding to high debt levels and structural risks.

Moreover, June industrial production, retail sales and fixed-asset investment data all beat analysts' forecasts, suggesting that Beijing's earlier growth-boosting efforts may be starting to have an effect.

Industrial output climbed 6.3% from a year earlier, data from the National Bureau of Statistics showed, picking up from May's 17-year low and handily beating an expected 5.2%.

Daily output for crude steel and aluminium both rose to record levels.

Retail sales jumped 9.8% - the fastest since March 2018 - and confounding expectations for a slight pullback to 8.3%. Gains were led by a 17.2% surge in car sales.

Mao Shengyong, a spokesman at the National Bureau of Statistics, told a briefing that he expected the benefits of policy measures will be more obvious in the second half.

Some analysts, however, questioned the apparent recovery in both output and sales.

Capital Economics said its in-house model suggested slower industrial growth last month, while the jump in car sales may have been partly due to a one-off factor.

Car dealers in China are offering big discounts to customers to reduce high inventories that have built up due to changing emission standards. Motor vehicle production actually fell 15.2%, the 11th monthly decline in a row, suggesting automakers don't expect a sustained bounce in demand any time soon.

Fixed-asset investment for the first half of the year rose 5.8% from a year earlier, compared with a 5.5% forecast and 5.6% in the first five months. Infrastructure expanded 4.1%, with railways continuing to grow in the double digits.

Huawei to 'invest' $3.1 billion in Italy

MILAN, July 15, (RTRS): China's Huawei Technologies said it would invest $3.1 billion in Italy over the next three years, as the Chinese telecoms giant called on Rome to ensure the "transparent, efficient and fair" use of its 'golden power' on 5G network development.

Speaking at an event in Milan on Monday, the chief executive of the telecoms giant's Italian unit, Thomas Miao, said Italy's golden power - which allows the state to intervene in the private sector in the defence of national security - should be extended to all vendors in the European Union.

Italy recently beefed up the measure due partly to concerns over the potential involvement of Huawei and fellow Chinese company ZTE Corp in the development of 5G networks, a government source said on Friday. Miao said Huawei would add 1,000 jobs in the country over the next three years.

He also confirmed the Chinese company would cut 1,000 jobs in the United States. He said if the company is kept on a blacklist in August by Washington, it has "a plan B" to guarantee supplies of components.

The United States has lobbied Italy and other European allies to avoid Huawei equipment and also to closely scrutinise ZTE, alleging the vendors could pose a security risk. Both companies have strongly denied any such risk.

Italy's ruling coalition, forged a year ago between the anti-establishment 5-Star Movement and the far-right League, endorsed China's ambitious "Belt and Road" infrastructure plan in March, becoming the first major Western power to back the initiative to help revive the struggling Italian economy.

The rapprochement has angered Washington and alarmed some European Union allies, who fear it could see Beijing gain access to sensitive technologies.

In a move to soothe the US worries, Rome passed a decree last week strengthening its powers in infrastructure projects that involve the rollout of the country's 5G telecoms network.

The decree must be approved by parliament in the next 60 days or it will expire. Huawei Italia's Miao called for the 5G golden powers to be applied not only to non-EU companies but also to all EU vendors.

"It is very important that the 5G technology is neutral," Miao said adding that the new norms should apply "to all players to make sure that from day one we have a safe and reliable infrastructure".

He also asked the government to speed up its approval procedures.

"In the worst case scenario up to 165 days may be needed to get approval for deals regarding 5G," Miao told reporters, adding this was too long a period of time.

Telecom Italia and Vodafone Italia are expected to finalise soon a deal to jointly roll out 5G infrastructure in Italy. Both companies were waiting for the decree to decide how to deal with Chinese partners such as Huawei.

AUB congratulates winners of Al Hassad weekly draw

KUWAIT CITY, July 15: Ahli United Bank announced on the 10th of July 2019 the winners of its weekly draw of Al Hassad Islamic account which is the very first draw account in Islamic banking in Kuwait that has reshaped the lives of thousands lucky winners. Al Hassad has have over 850 prizes, over a 12 month period.

The weekly draw announced the grand prize winner of KD 10,000 as Azizah Nasser Abdullah.

20 other winners won prizes of KD 1,000 and are as follows: Ali Naser Al Attar, Hothamah Hasan Ali, Hani Nabeel Mohammad, Badriya Mattar Hassan, Jameelah Mubarak Al Daihani, Laila Ghloum Abbas, Ibrahim Ismaeil Al Sayyar, AlGhala Awadh Al Barak, Fazal Rehman Abdul Manan, Eman Mohammed Salam, Saad Mohammad Al Azmi, Shaikhah Abdulaziz Al Muzaini, Sanad Hamedi Al Sanad, Meshal Hammad Al Kafeef, Mustafa Ebrahim Ali, Abdul Redha Khalaf Ebrahim, Mariam A.Karim Makki, Rashid AbdulRahman Mandi, Salah Yousif and Sabah A. Hussain Hassan.

Al-Hassad Islamic Account presents also 4 quarterly mega prizes of KD 250,000 that will help the lucky winners achieve their dreams and aspirations in addition the monthly draw to win a prize of KD 100,000.

One powerful new aspect of the Al-Hassad Islamic Account is the prize draws on the holy occasion of both Eid ul Fitr and Eid Al Adha, when the winning customers will receive the eid prizes of KD 100,000 each. May the Eid always bring prosperity and blessings to the Islamic nation.

Al-Hassad Islamic Account presents also 21 weekly prizes comprised of a grand prize of KD 10,000 and 20 prizes of KD 1,000 each

In addition to the highly attractive package of the prizes, there will be the annual expected profits on, which makes the Al Hassad Account a useful tool; for family and other savings, both for the short term and for the longer term – a fact which well appreciated by a large multitude of new and old customers.

To be eligible to participate in the draw, the customer should have a minimum balance of KD 100, whereby the customer has two chances to participate, with a maximum of 30,000 chances per draw, in addition to annual profits for all participants. Every KD 50 invested for at least 15 days entitles the customer to one chance in the each draw. The longer the customer keeps his balance the bigger the changes of participation in the draw. Draws are held every Wednesday at AUB Kuwait or AUB Bahrain depending on the draw plan.

On the occasion Ahli United Bank congratulate its winning customers, and commented that there are many chances to win waiting for our customers

For more information on Ahli United Bank's products and services, customers are invited to visit any of the Bank's branches or dial the customer service "Hayakom" on 1812000, or log on the Bank's website www.ahliunited.com.kw

Worth KD 240mn

CBK issues bonds, related Tawarruq

KUWAIT CITY, July 15: The Central Bank of Kuwait (CBK) announced the most recent issues of CBK Bonds and related Tawarruq at a total value of KWD (240) millions for (3) months with Rate of Return (3.000%).