Euler Hermes Economic Research

Country Report

Bahrain

Continuing (but different) growth constraints

General Information

GDP	USD33.869bn (World ranking 97, World Bank 2014)
Population	1.34mn (World ranking 153, World Bank 2014)
Form of state	Constitutional Monarchy
Head of government	H.R.H. Prince Khalifa bin Salman bin Hamad Al Khalifa
Next elections	2018, legislative (Council of Representatives)

Strengths

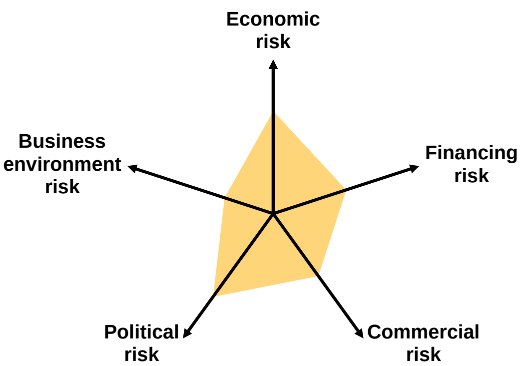
- Relatively (in a regional context) diversified economy, with oil, manufacturing (including aluminium and petro-chemicals) and financial sectors.
- Pro-business stance and commercial and trading environment rated highly by independent international assessments.
- Financial and other support from larger regional states, particularly Saudi Arabia.
- High incomes.

Weaknesses

- Tensions between the ruling Sunni community and the Shia majority.
- Regional volatility, including potential for adverse contagion stemming from events in neighbouring Iran, Iraq and/or Syria.
- Despite economic diversification, there is still a dependence on oil revenues, directly (own output) and indirectly (regional influence).
- Poor data transparency.

Country Rating

B2



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
Saudi Arabia	12%	1	30%	Saudi Arabia
United Arab Emirates	7%	2	9%	United States
India	7%	3	9%	China
Korea, Republic of	6%	4	6%	Japan
Qatar	6%	5	5%	France

By product (% of total)

Exports		Rank		Imports
Petroleum, petroleum products and related materials	38%	1	23%	Petroleum, petroleum products and related materials
Non-ferrous metals	18%	2	10%	Road vehicles
Metalliferous ores and metal scrap	10%	3	5%	Other transport equipment
Manufactures of metal, n.e.s.	4%	4	4%	Other industrial machinery and parts

Source: UNCTAD

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Growth recovered from weakness in 2011 but is now constrained by weak oil prices

Annual GDP growth reached a recent low of +2.1% in 2011, partly resulting from domestic political unrest and weak external markets. The recovery was a result of a rebound in non-oil output (manufacturing, hotels and restaurants, insurance and, to a lesser extent, construction and banking). Even so, the oil sector remains the cornerstone of the economy and the source of overall growth. Unlike the rest of the GCC, Bahrain has limited crude oil reserves but it has a large refinery (Sitra) and imports oil from its neighbours, which it processes and exports as value-added products.

EH expects GDP growth of around +3% in 2015 and +3.5% in 2016. Higher rates of growth are constrained by current weak oil prices that have direct (own output) and indirect (regional commerce) effects on Bahrain. Maintaining investor confidence, particularly in relation to the country's banking sector, requires improved security and domestic stability.

Despite domestic and regional strains, expect exchange rate stability

EH does not envisage that the exchange rate regime will be changed in the review period to end-2016 and we expect the fixed peg of BHD0.376 = USD1 throughout that period. Bahrain is unlikely to take unilateral action on its exchange rate, preferring to await the onset (timing indeterminate) of the Gulf monetary union and single currency. EH does not expect the introduction of an effective common GCC currency before end-2016.

Weak oil prices weigh against the current account but surpluses will continue and FX reserves will remain supportive

Despite the political and social turmoil in 2011, the current account of the balance of payments still registered a surplus, +11.2% of GDP, partly because the protests and demonstrations weakened growth in import demand. In addition to exports of refined oil products, Bahrain trades extensively in non-oil goods (mainly aluminium, rebar and petrochemicals). In 2012-14, current account surpluses equivalent to +7% of GDP were recorded. Tourism revenues (mainly from people driving over the King Fahd Causeway from Saudi Arabia) have improved somewhat from 2011-12 but long-range visitors still appear somewhat reticent about travelling to the country. Given weaker oil prices, EH expects current account surpluses will decline to around +3.5% of GDP in 2015 and +3.7% in 2016.

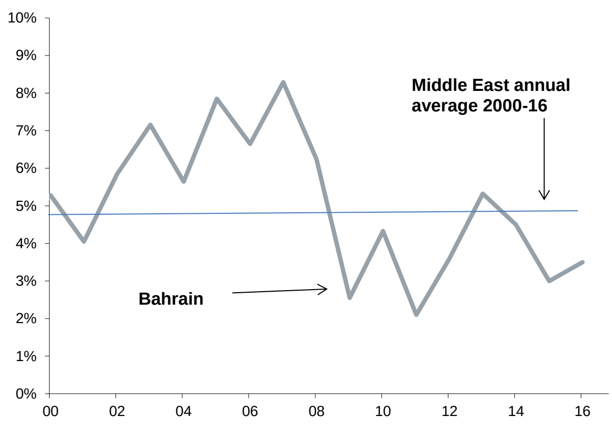
FX reserves of around USD5 bn provide import cover of around four months, which is above the international benchmark comfort level. In addition, Bahrain has an oil stabilisation fund for use in times of economic hardship and Saudi Arabia remains ready to supply further support, in need.

Key economic forecasts

	2013	2014	2015f	2016f
GDP growth (% change)	5.3	4.5	3.0	3.5
Inflation (%, end-year)	4.0	2.5	1.9	2.2
Fiscal balance (% of GDP)	-3.4	-3.6	-7.9	-6.9
Public debt (% of GDP)	43.9	44.2	57.4	62.9
Current account (% of GDP)	7.9	7.7	3.5	3.7
External debt (% of GDP)	54.9	55.9	56.5	57.1

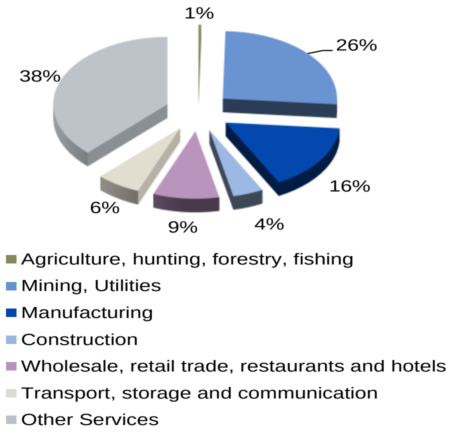
Sources: IHS, national sources, Euler Hermes

GDP Profile (% growth)



Sources: IHS, national sources, Euler Hermes

GDP Breakdown



Sources: UNCTAD

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