

Sovereign Rating

New Update

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Analyst

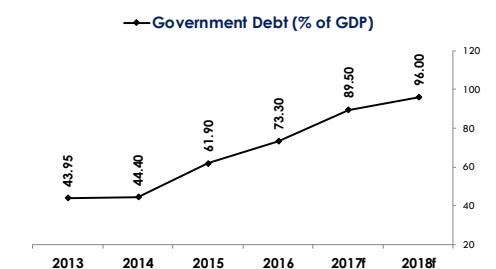
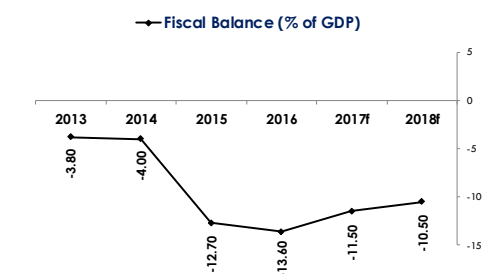
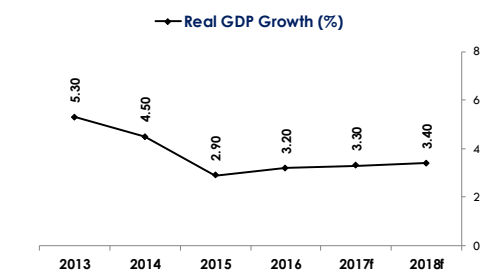
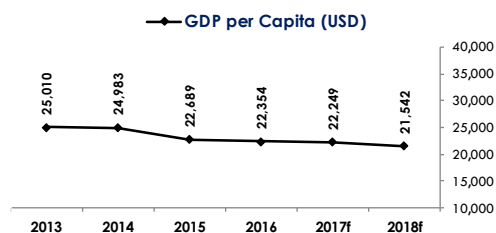
Ozan Sivaci

+90 212 352 56 73-74

ozan.sivaci@jcrer.com.tr

RATINGS

		Long	Short
Sovereign	Foreign Currency	BB-	B
	Local Currency	BB-	B
	Outlook	FC	Stable
LC		Stable	Stable



Kingdom of Bahrain Macroeconomic Variables

Data	2017**	2016*	2015*	2014*	2013*
GDP Current Prices (BHD bn)	12.49	12.10	11.70	12.55	12.24
GDP Current Prices (USD bn)	33.21	32.18	31.13	33.39	32.54
Population (mn)	1.49	1.42	1.37	1.31	1.25
Unemployment (% of labor force)	3.77	3.70	3.36	3.77	4.39
Annual Inflation (CPI) (%)	1.40	2.80	1.80	2.80	3.30
Real GDP Growth (%)	3.3	3.2	2.9	4.5	5.3
Current Account Balance/GDP (%)	-3.6	-4.6	-2.4	3.3	7.8
Foreign Debt (% of GDP)	110.7	108.9	88.9	92.5	107.1
Off. International Reserves (USD bn)	2.0	2.4	3.4	6.1	5.4
Exchange Rate BHD per USD	0.38	0.38	0.38	0.38	0.38

* End of year, ** Actual end of year or estimated figures if not available. Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.

Bn: Billion, mn: million

One of the major vulnerabilities of the Bahraini Government stems from its large fiscal deficits, arising due to subsidies provided to sustain the welfare state and creating an unsustainable debt burden. Accordingly, the government's debt to GDP ratio rose to more than 89% by the end of 2017 from 62% in 2015 and is forecasted to further increase over the coming two years. Hence, the government's debt burden and debt affordability is expected to further deteriorate over the coming two years. Despite some fiscal reform efforts in previous periods, a clear and comprehensive consolidation strategy for reducing fiscal deficits does not exist. Bahrain government's debt payment capacity is further challenged by its over-reliance on oil production as a major source of revenue, making the country particularly vulnerable to prolonged periods of low oil prices. As a small island state, Bahrain has the smallest oil and gas reserves among GCC countries, only covering approximately 15 to 20 years of its exports.

In addition, foreign exchange reserves at the Central Bank of Bahrain are low and volatile, covering only around one month of goods and services imports. Data disclosed by the central bank shows a material decline in foreign exchange reserves over the last two years, increasing the country's liquidity related risk factors. In these regards, JCR Eurasia Rating has assigned the Long-Term Foreign and Local Currency Sovereign Ratings of the Kingdom of Bahrain as **"BB-"** with **"Stable"** outlooks.

Strengths

- Relatively diversified economy
- Pro-business environment
- Regional operational financial hub status
- Investment-led growth
- The existence of oil and gas reserves and recently increasing oil prices
- High per capita GDP level (PPP)
- Political and economic support from Saudi Arabia and GCC countries

Constraints

- Ongoing high budget deficits
- Relatively high and increasing government debts
- Low international reserves in Central Bank
- High external debts compared to GDP
- Fiscal dependence on oil and low oil reserves
- Difficulty in implementing fiscal reforms due to inherent political, cultural and social conflicts