Bahrain’s Economic Outlook - Spring 2016

The latest MENA Economic Monitor Report - Spring 2016, expects Bahrain’s growth to be at 2.2% in 2016, as continuing low oil prices depress consumption.

**The growth momentum has slowed, following the drop in oil prices.** GDP growth has slowed to 3.2 % in 2015 from its 5.4 % level in 2013 and 4.6 % in 2014, reflecting a slowdown in both the hydrocarbon and non-hydrocarbon sectors. Non-oil GDP slowed during 2015 to 3.9 from 4.9 % in 2014, despite resilience in hotels and restaurants sectors. Hydrocarbon GDP remained constant in 2015. Inflation was subdued at an average rate of 1.8 % in 2015 reflecting lower international food prices and appreciation of the US Dollar. The current account surplus turned into a deficit of 3.2 % of GDP in 2015. Reserves declined to 2.6 months of imports. Unemployment fell to 3.1 % in September 2015, from 3.8 % at end-2014.

**The government maintained an expansionary fiscal stance since 2009 resulting in budget deficits and rising debt.** However, the situation has worsened in 2015 with a decline in oil revenues by about 10 % of GDP and a general fiscal deficit estimated at 12.5 % of GDP (from 3.3 % in 2014). Public debt to GDP ratio has increased to 63 % (compared to 8 % in 2008). This was financed through GCC grants (which increased by 85 % to $3.7 billion during 2015) and the issuance of a $1.5 million bond. The government had to raise the public debt ceiling to BD10 billion, representing 80 % of GDP to enable additional borrowing. The new debt ceiling is well over the GCC-agreed debt-threshold criterion of 60 %. S&P downgraded Bahrain’s rating to BBB/-A-3 in 2015 with a negative outlook, and further downgraded it in 2016 to BB/B, but with a stable outlook.

**The government took significant fiscal consolidation measures in 2015.** Revenue enhancing measures, such as higher tobacco and alcohol taxes and government services fees were introduced. A cost-cutting program entailed the raising of petrol prices by up to 60 % in January 2016 (likely to create savings worth $148.4 million), the gradual phasing-in of price increases for electricity, water, diesel, and kerosene subsidies by 2019, an increase and unification of natural gas prices for industrial users, and the removal of meat subsidies. Lower oil prices are forcing the government to cut back on capital spending, since restraining current spending may exacerbate the already tense political scene. Parliamentarians have proposed a law to privatize several state-owned businesses to help curb the deficit.

**The outlook is for growth to decline in the next few years.** Real GDP growth is projected at 2.2 and 2.0 % in 2016 and 2017 respectively, as continuing low oil prices depress private and government consumption. Beyond 2018, growth is expected to pick up as new aluminum and refinery capacity comes on stream, and as other projects are completed, including the Airport expansion, retail and GCC Development Fund social housing projects. Bahrain National Gas Company signed a $355 million deal with a Japanese company for a new gas plant, which is expected to increase capacity by 350 million cubic feet, starting 2018. Average inflation is expected to increase to 3.2 % in 2016, reflecting subsidy reform and moderate to 2.3 % thereafter. The current account is likely to record a deficit of 8.2 % of GDP in 2016 projected to trend downwards thereafter, as oil prices recover and global demand for aluminum rises. International reserves are expected to reach 2.3 months of imports in 2016, down from 2.6 in 2015 and 3.2 in 2014.

### Key Economic Indicators

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<th>2014</th>
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<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>4.5</td>
<td>3.2</td>
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<td>Inflation Rate (%)</td>
<td>2.7</td>
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<td>Fiscal Balance (% of GDP)</td>
<td>-3.3</td>
<td>-12.5</td>
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<tr>
<td>Current Account Balance (% of GDP)</td>
<td>4.5</td>
<td>-3.2</td>
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