Best's Country Risk Report

Bahrain

CRT-4

August 22, 2018

Region: Middle East & North Africa

Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Bahrain is a CRT-4 country with a high level of economic risk and moderate levels of political and financial system risk.
- Bahrain's debt level has grown owing to commodity price softness, which has affected the government's ability to stimulate the economy. GDP growth was 3.2% in 2017 and is expected to slow slightly, to 3.0%, in 2018.
- The map depicts countries in the region that A.M. Best evaluates for country risk. The region contains countries with risk levels ranging from CRT-3 to CRT-5.

Vital Statistics 2017		
Nominal GDP	USD bn	34.90
Population	mil	1.5
GDP Per Capita	USD	24,029
Real GDP Growth	%	3.2
Inflation Rate	%	1.4
United Nations Estimates		
Literacy Rate	%	95.7
Urbanization	%	88.9
Dependency Ratio	%	30.2
Life Expectancy	Years	79.0
Median Age	Years	32.3
Insurance Statistics		
Insurance Regulator	The Central Bank of Bahrain	
Premiums Written (Life)	USD mil	138
Premiums Written (Non-Life)	USD mil	623
Premiums Growth (2016 - 2017)	%	3.8
Regional Comparison		
	Country Risk Tier	
Bahrain	CRT-4	
Kuwait	CRT-3	
Oman	CRT-4	
Qatar	CRT-3	
Saudi Arabia	CRT-3	
United Arab Emirates	CRT-3	

Source: IMF, UN, Swiss Re, Axco and A.M. Best

Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk

Country Risk Tier 2 (CRT-2) Low Level of Country Risk

Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk

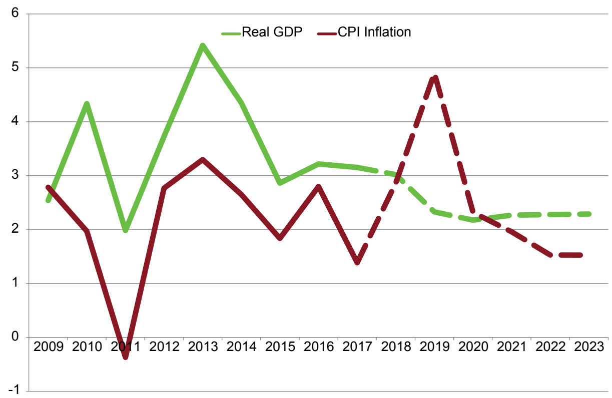
Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Middle East & North Africa

- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries financing large fiscal deficits through increased borrowing and draw downs of fiscal buffers.
- Economic growth for the region is estimated to increase in 2018 on strengthening global growth, a moderate rise in oil prices, easing fiscal adjustment, reforms to promote non-oil sector growth, and growing infrastructure investment.
- Fiscal consolidation and revenue generating programs implemented over the last few years continue, albeit at a slower pace. Revenue measures include the introduction of a value-added tax (January 2018) in Saudi Arabia and the United Arab Emirates, with other countries likely to implement similar measures by the end of the year. Improving the efficiency of public spending (via a bill that lowers the government wage bill, for example) on the expenditure side is also a priority.

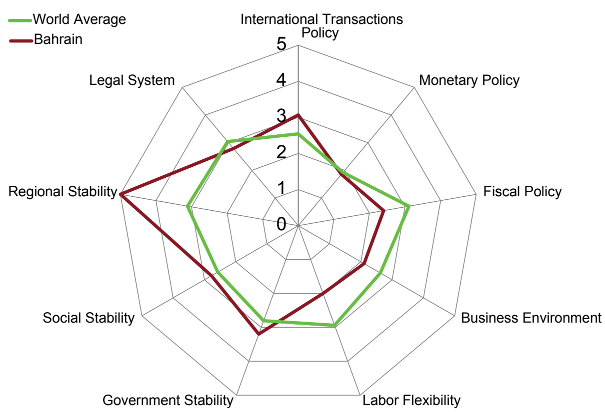
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

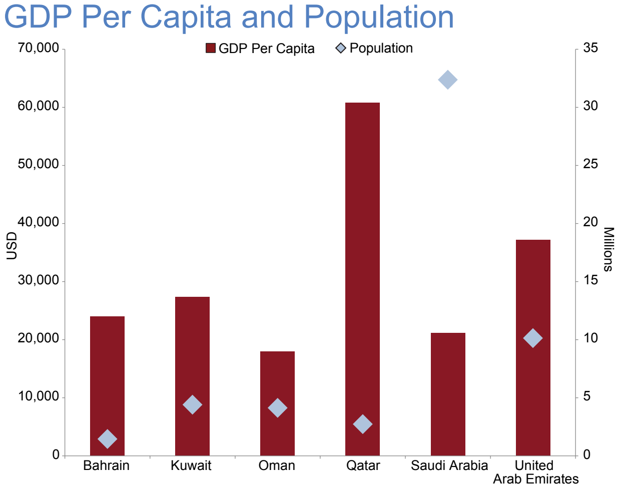
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Bahrain has a small and undiversified economy that is vulnerable to oil price volatility. It has fewer oil reserves than many other Middle Eastern countries, making it less resilient and in greater need of economic diversification. The country derives approximately 85% of its fiscal revenue from the oil and gas sector.
- Fiscal consolidation efforts are planned, owing to persistent fiscal and external deficits. Low oil prices in recent years have depleted the government's reserves.
- Inflation is expected to rise on an increase in taxes on tobacco, soft drinks, and energy drinks. A value-added tax to be implemented in 2019 and the elimination or reduction of subsidies will also increase future prices.

Political Risk: Moderate

- Bahrain is a constitutional monarchy and is ruled directly by the executive branch of government, which is dominated by the ruling Al Khalifa family.
- Sectarian tensions have arisen between the ruling Al Khalifa family and the general population. The government frequently cracks down on opposition groups, which increases the likelihood of civil unrest.
- The government is facing many challenges, including rising levels of public debt, growing fiscal deficits, and declining reserve levels. Several sovereign downgrades have brought the country below investment grade, and financing options are now more expensive.
- The country receives additional support from the Gulf Cooperation Council (GCC), particularly from Saudi Arabia, to help support financial and fiscal stability. Bahrain is also an ally of the United States, with the US headquartering its Naval Forces Central Command in the country.

Financial System Risk: Moderate

- In September 2006, the Central Bank of Bahrain (CBB) became the sole regulator of the financial services industry. In 2014, the CBB revised and enhanced its solvency framework for the takaful and retakaful industry.
- Bahrain raised USD1 billion in March 2018 via sukuk (Islamic bonds), compliant with Sharia law. However, the kingdom decided not to go forward with a conventional issue owing to investors requiring a higher yield.
- By regional standards, Bahrain is a good place to conduct business given its relatively streamlined regulatory framework and fairly liberal tax system.
- The currency is pegged to the US dollar. Because of Bahrain's declining reserve levels, its ability to maintain the peg without external assistance has come into question.
- Recommendations by the IMF to improve financial sector stability include strengthening the regulation and supervision of the sector and improving liquidity.