Bahrain

**CRT-4**

August 22, 2019

**Region:** Middle East & North Africa

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers

- 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 1.8% in 2018 and is expected to register 1.8% again in 2019.
- The map depicts countries in the region that AM Best evaluates for country risk. The region contains countries with risk levels ranging from CRT-3 to CRT-5.

**Regional Summary: Middle East & North Africa**

- The slowdown in global growth will weigh on the region, dampening the prospects for the region’s oil exporters. Volatility in oil pricing (spurred in part by the re-imposition of US sanctions against Iran), combined with increased geopolitical tensions, has resulted in a soft outlook.
- Protests in Sudan and Algeria led to leadership changes in both countries in 2019. Rising instances of social unrest throughout the region highlight the need for inclusive structural reforms that diversify the region’s economies and address its high unemployment, especially among its youth.
- Growing debt may limit the ability of the region’s governments to insulate their economies from unfavorable financial conditions through pro-cyclical policies. The IMF reports that two thirds of the region’s countries had debt levels amounting to at least 70% of GDP in 2018.
- To the extent they can, countries in the region are likely to pursue supportive monetary policy, but several operate with a pegged currency, limiting their maneuverability.
Economic Risk: High

- Bahrain has a small and undiversified economy that is vulnerable to oil price volatility and global demand conditions. It has fewer oil reserves than many other Middle Eastern countries, making it less resilient and in greater need of economic diversification.
- Total debt levels have increased and are expected to remain high. Several members of the Gulf Cooperation Council (GCC) provided Bahrain with aid to help support its financial and fiscal stability. In October 2018, the GCC provided Bahrain with USD 10 billion in financial aid. Low oil prices in recent years have depleted the government’s reserves.
- In an effort to balance fiscal and external accounts, Bahrain implemented measures to reduce spending.
- Inflation levels are expected to increase as a result of the 5% value-added tax. However, forecasts are for inflation levels to increase only moderately due to tepid commodity price increases. Inflation was 2.1% in 2018 and is expected to increase to 3.3% in 2019.

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 between the ruling Al Khalifa family and the general population have arisen. 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 volatility in reserve levels. Several sovereign downgrades have brought the country below investment grade, and financing options are now more expensive.
- Bahrain is 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.
- 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. Prior to foreign aid provided by other GCC countries, there were concerns about the country’s ability to maintain the peg. The peg to the USD limits the country’s ability to implement an independent monetary policy.
- Recommendations by the IMF to improve financial sector stability include strengthening the regulation and supervision of the sector and improving liquidity.