# BAHRAIN

| Table 1 | 2018 |
|---|---|
| Population, million | 1.6 |
| GDP, current US$ billion | 38.3 |
| GDP per capita, current US$ | 24435 |
| School enrollment, primary (% gross)[a] | 101.0 |
| Life expectancy at birth, years[a] | 77.0 |

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

*The non-oil economy is expected to grow 2.2 on average percent over 2019-2021, with GCC investment supporting elevated infrastructure spending. This will offset continued oil sector weakness and keep headline growth around 2 percent. Inflation is expected to pick up this year to 3.3 percent as a result of the introduction of the VAT. The budget deficit is projected to gradually narrow in line with reforms outlined in the Fiscal Balance Program. Adhering to this program will improve the external current account position and lessen the pressure on Bahrain's foreign reserves.*

## Recent developments

Overall growth is estimated to remain at 1.8 percent in 2019, and non-oil growth to slow to 2.2 percent, from 2.5 percent in 2018, driven by the planned fiscal consolidation measures under the Fiscal Balance Program (FBP), including the VAT. The oil sector is estimated to grow by just 0.2 percent following a 1.2 percent contraction in 2018 capped by OPEC+ output cut agreement and weaker crude production. However, according to figures released by Bahrain's Ministry of Finance and National Economy (MOFNE), Bahrain's economy grew by 2.7 percent in Q1-2019 boosted by expansion in the non-oil sector and higher spending on infrastructure thanks to the Gulf financial support package. Inflation is estimated to pick up in 2019 to 3.3 percent given the introduction of VAT in January 2019.

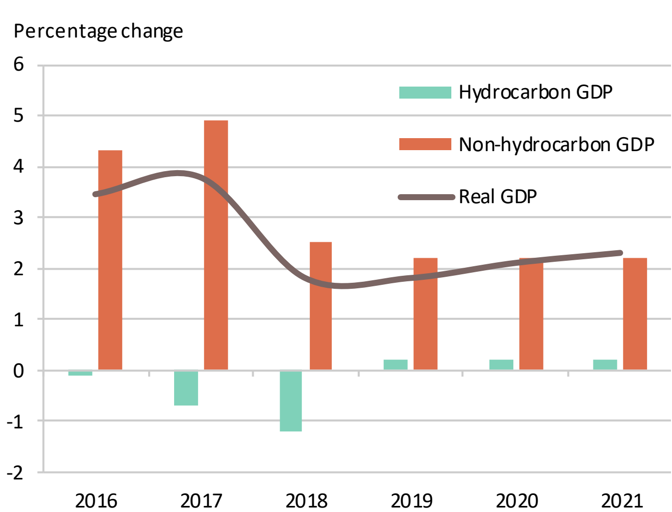
While narrowing, fiscal and external positions remained inimical to sustainability. Bahrain adopted a Fiscal Balance Program (FBP) which aims to achieve a balanced budget by 2022. This plan is supported by US$10 billion in financing from other GCC countries. The program is being monitored by the Arab Monetary Fund. Bahrain outlined a path for deficit reduction under the FBP, with the deficit falling from 12 percent of GDP in 2018, to 8 percent in 2019 and further to 2.1 and 1 percent in 2020 and 2021, respectively. Bahrain introduced the VAT in 2019. This is estimated to boost non-oil revenue by 2 percentage points of non-oil GDP this year compared to 2018.

While balances have improved, preliminary spending estimates do not provide confidence that the planned deficit reduction will be on track, due to higher expenditure. On August 6th, the MOFNE announced that the budget deficit during H1/2019 declined by 37.8 percent (y-o-y) driven by increase in revenue and marginal reduction in spending (2.5 percent y-o-y). Meanwhile, updated data released by MOFNE late May 2019, show that total public spending was 24 percent and 23 percent of GDP in 2019 and 2020, respectively, above FBP targets of 22.6 percent and 21.6 percent. The current account deficit is estimated to narrow to 3.6 percent of GDP in 2019 compared to 5.8 percent of GDP in 2018, driven by growth in services exports. Reserves are estimated to stay low at US$2 billion in 2019 (or one month of non-oil imports).

Persistent large fiscal and current account deficits have led to a rapid rise in the public debt-to-GDP ratio, estimated to increase to 100 percent in 2019, from 93 percent in 2018. However, the FBP, accompanied by US$10 billion in regional support, has reduced market stress and led to a significant decline in bond spreads.

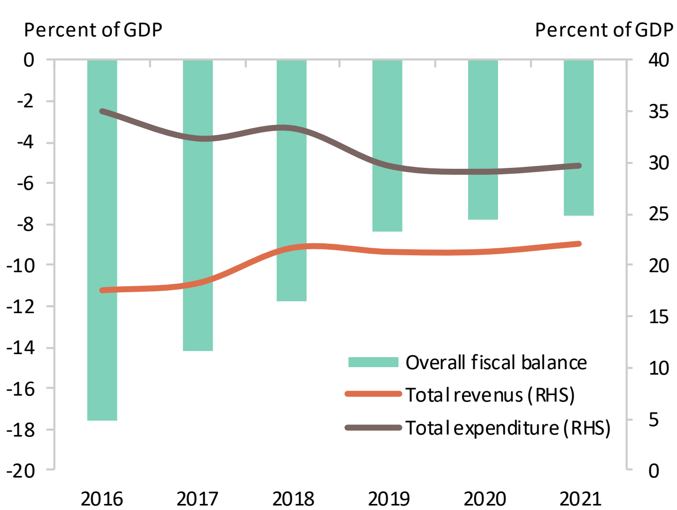
Like other GCC members, Bahrain has high share of working-age population. The country has sought to encourage the recruitment of its citizens in the private sector by subsidizing salaries and providing financial support for businesses. However, latest data available from the Labor Market Regulatory Authority (LMRA) for the Q2 2018 show that expatriates still accounted for 79 percent of the country's total workforce, despite a 4.6 percent contraction in the foreign workforce since its previous

**FIGURE 1 Bahrain** / Real annual GDP growth




Sources: Bahrain authorities, World Bank; and IMF staff projections.

**FIGURE 2 Bahrain** / General government operations




Sources: Bahrain authorities, World Bank; and IMF staff projections.

peak in Q4 2016. Bahraini employment only increased by 1 percent in Q2 2018 compared to same quarter 2017. According to ILO (2019), labor force participation among female youth (% of female labor force ages 15-24) remains low at 29 percent compared to 57 percent among male youth. Similarly, although overall unemployment rates are low at around 1 percent, female unemployment rate is 12.8 percent among women aged 15-24 years old. In late 2018, the government announced a series of reforms under the FBP to induce greater participation by nationals in the private sector, including the Voluntary Retirement Scheme (VRS). Furthermore, Bahrain's Labor Fund (Tamkeen) is providing retraining initiatives to enable skill upgrading, increase female labor participation. The recently announced National Employment Program in Feb. 2019, is designed to make citizens the first choice of employment in the private and public sectors, and increase the fees on expatriate labor.

## Outlook

Bahrain's economy is projected to post a moderate level of growth at an average of 2.2 percent over 2020-2021 as the economy continues to rely on its limited oil revenues to underpin the safety net for citizens while furthering diversification. The non-oil economy is expected to grow at 3 percent over the same period thanks to high levels of infrastructure spending and an increase in manufacturing output.

Continuing fiscal reforms and emphasizing better-targeted subsidies under the FBP will help to narrow the fiscal deficit to 7.7 percent of GDP in 2020, assuming the costs of the VRS is financed off budget. Public debt is expected to remain high over 103 percent of GDP in the forecast period, with sizable gross financing needs. The non-oil primary balance is expected to keep improving on the back of higher non -oil revenues projected at 6.7 percent of non-oil GDP in 2020. The current account deficit is likely to persist, albeit at moderate levels. Reserves are expected to stay low at one month of prospective non-oil imports. The government's VRS, which now covers around 8,000 people, could also reduce the wage bill by BD122 million by end-2019, assuming no new hiring takes place.

While implementing the FBP, the country faces tough public policy choices deriving from the cuts in social spending that may have a negative impact on the delivery of public services and safety net programs. Designing a reform program that protects the most vulnerable is, thus, critical to ensuring sustained progress and to enhance the welfare of the population.

## Risks and challenges

While regional financial support has reduced near-term pressures, delays in fiscal adjustment and tightening of global financing conditions continue to pose downside risks to the outlook. Any deviation from the balanced budget target, a delay in implementing fiscal consolidation or a decline in global oil prices could lead to higher financing needs, intensify pressures on reserves, and reduce investor confidence. Achieving a balanced fiscal position by 2022 will require stronger fiscal measures than those currently planned. Continuing fiscal reforms, including further subsidy cuts and saving associated with the VRS, rising oil prices and improving spending efficiency will help to narrow these risks.

**TABLE 2 Bahrain** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

| | 2016 | 2017 | 2018 | 2019 e | 2020 f | 2021 f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 3.5 | 3.8 | 1.8 | 1.8 | 2.1 | 2.3 |
| Private Consumption | 0.5 | -1.4 | 2.6 | 2.4 | 1.6 | 2.3 |
| Government Consumption | -0.6 | 3.1 | -0.4 | -0.5 | -0.1 | 0.8 |
| Gross Fixed Capital Investment | 10.8 | 11.0 | 6.0 | 5.0 | 3.4 | 4.1 |
| Exports, Goods and Services | -1.8 | 2.8 | 3.4 | 4.5 | 4.2 | 4.6 |
| Imports, Goods and Services | -3.4 | 7.8 | 1.2 | 4.0 | 4.8 | 4.5 |
| **Real GDP growth, at constant factor prices** | 3.5 | 3.8 | 1.8 | 1.8 | 2.1 | 2.3 |
| Agriculture | 6.9 | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 |
| Industry | 2.8 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Services | 4.0 | 6.3 | 2.7 | 2.7 | 3.2 | 3.5 |
| **Inflation (Consumer Price Index)** | 2.8 | 1.4 | 2.1 | 3.3 | 3.2 | 2.3 |
| **Current Account Balance (% of GDP)** | -4.6 | -4.5 | -5.8 | -3.6 | -3.4 | -3.7 |
| **Net Foreign Direct Investment (% of GDP)** | 3.5 | 0.8 | 1.9 | 1.9 | 1.9 | 1.9 |
| **Fiscal Balance (% of GDP)** | -17.6 | -14.2 | -11.7 | -8.4 | -7.7 | -7.6 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.