

Bahrain Business Forecast Report Q1 2015

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Abstracts

Core Views

In light of record oil revenues and the weakness of private investment, we expect public spending to outperform over the coming quarters, which should support activity in the non-hydrocarbon economy. Efforts to address the shortage of affordable housing will see government CAPEX accelerate.

We do not believe that weaker oil prices will derail the Bahraini government's investment plans, ensuring a continued source of support for the country's economy. Real GDP growth will reach 3.8% in 2015 and 2016, compared to an annual average of 3.6% between 2009 and 2013.

Bahrain's reputation as a stable and welcoming location to do business in the Gulf has suffered as a result of the volatile political climate. At the moment, it remains to be seen if Manama will be able to compete with Doha and Dubai in attracting investment into the all-important hospitality and financial services industry.

The economy's medium-term outlook remains contingent upon a lasting solution being found to the current political crisis. Unfortunately, we maintain our relatively guarded outlook on the prospects that the government and opposition can come to some form of agreement in the near term.

Bahrain's weak medium-term fiscal prospects will force the government to make difficult choices. We believe that Manama will have little option but to introduce new taxes over the coming years, while the issue of spending consolidation will loom large on the agenda. Support from Saudi Arabia could delay these pressures, but would entail a significant loss of sovereignty.

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More Deadlock Ahead After Election Boycott

Bahrain's political stalemate is set to persist after parliamentary elections scheduled for November 22, which the opposition has pledged to boycott. We expect the Khalifa regime to remain in power, yet the deadlock and the regime's limited support base will constrain the prospects for political and economic reform.

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Bahrain's political future is complicated by growing tensions between the Sunni elite and the Shi'a majority, labour and population imbalances, the need to stay on side with both Iran and Saudi Arabia, and economic vulnerability. We believe the most likely long-term scenario is for democratisation to be brought about by political and economic necessity, although there is no guarantee that this would be peaceful.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Public Investment To Hold, Supporting Growth

We do not believe that weaker oil prices will derail the Bahraini government's investment plans, ensuring a continued source of support for the country's economy.

Real GDP growth will reach 3.8% in 2015 and 2016, compared to an annual average of 3.6% between 2009 and 2013.

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Banking Sector

Banking Sector: Geographic Diversification Crucial

We expect profitability and asset quality at the largest Bahraini conventional banks to hold up well over the coming quarters, and project asset growth to accelerate over 2015. That said, we caution that the operating environment in Bahrain will remain subject to downside risks, both on the political and economic fronts. Geographically diversified banks will outperform lenders predominantly focused on the Bahraini market.

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Assuming oil prices do not collapse and political stability is eventually restored, Bahrain's economy will be able to post relatively moderate levels of real GDP growth over the coming decade. That said, the ongoing political crisis has raised a host of questions surrounding Bahrain's long-term outlook, with concerns growing that the country's financial services and tourism sectors will suffer heavily.

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