



IIRA Reaffirms Sovereign Ratings of the Kingdom of Bahrain

Manama, August 17, 2021 – The Islamic International Rating Agency (“IIRA”) has reaffirmed the local and foreign currency ratings of The Kingdom of Bahrain (“Bahrain” or “the Country” or “the Kingdom”) at ‘BB+/A3’ (Double B Plus / Single A-Three) on the international scale. Outlook on the ratings is maintained at ‘Negative’.

Bahrain is classified as a ‘high income’ economy with a strong social and physical infrastructure and compares favorably on the UN human development index. The assigned ratings on the Country are underpinned by existing vulnerabilities due to hydrocarbon dependence of the fiscal and external positions; however, IIRA remains cognizant of the national strategy for continued diversification of the economic base and the Fiscal Balance Program. In tandem with global trends, the economy posted contraction in 2020 challenged by adverse implications of the ongoing Covid-19 pandemic. Following cues of global recovery aided by large-scale inoculation and gradual normalization of activity may translate into range bound expansion in the ongoing year given also the low base effect. The local banking sector remained resilient with capital and liquidity buffers remaining above the minimum regulatory requirements. Reflective of weak global trade activity, the Country’s oil related surplus declined and combined non-oil goods and services deficit widened in 2020. Recent recovery in hydrocarbon prices and commodity prices may buffer oil and aluminum exports in the current year. Services trade balance may also benefit from relative normalization in travel and transportation activity. The current account is expected to recover in 2021 with deficit expected to narrow to below 4%, yet remain above pre-pandemic level of 2019.

The onset of Covid-19 pandemic has interrupted pace of consolidation planned under the ‘Fiscal Balance Program’. Allocation of large fiscal support measures and sharp decline in revenues in 2020 is evident from a fiscal deficit of -13% of GDP for the year. Improvement in budgetary constraints may be expected over the current year with higher oil prices and later due to resumption of consolidation trends from 2022.

Bahrain’s indebtedness has continued to rise largely met through external financing. Overall gross Government debt (excluding state-owned entities’) exceeded 130% of GDP at end-2020. Foreign exchange reserves have reduced in absolute terms and in relation to debt repayments due within one year period. Bahrain is expected to continue to tap the capital markets with financing requirements remaining in the range of US\$3bn – US\$4bn in 2021, although the pace of incremental debt creation is likely to begin reducing, post 2021, with improved effectiveness of fiscal consolidation efforts, and once meaningful support due to the pandemic is not required. Present higher hydrocarbon prices would also support the recovery in the near-term.

Outlook

IIRA has assessed Bahrain’s outlook as ‘Negative’, reflective of persisting macroeconomic challenges in the Kingdom. Following considerations may lead to IIRA lowering the ratings:

- a. Slower pace of economic recovery than anticipated;

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- b. Lower than expected contraction in external imbalance and fiscal deficits;
- c. Material deterioration in banking sector indicators;

An upward shift in ratings may be unlikely over the next 12-18 months unless stemming from noteworthy progressive shift in core economic fundamentals. Outlook may be revised to 'Stable' if there is:

- a. Continued commitment towards the 'Fiscal Balance Program' and recovery in core fiscal measures;
- b. Gradual reduction in the pace of incremental debt creation over the next 12-18 months;
- c. Continued stability in the capital and liquidity reserves of the banking sector.

For further information on this rating announcement, please contact IIRA at iira@iirating.com.

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