

BAHRAIN

Table 1 **2023**

Population, million	1.5
GDP, current US\$ billion	46.1
GDP per capita, current US\$	31019.6
School enrollment, primary (% gross) ^a	92.3
Life expectancy at birth, years ^a	79.2
Total GHG emissions (mtCO2e)	59.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2022).

Diversification efforts are well underway, with a robust performance of the non-hydrocarbon sector. Sustained fiscal reforms have helped improving fiscal and current account balances in 2024, yet Bahrain continues to face fiscal challenges, notably the elevated debt levels and gross financing needs. Under current commodity price projections, additional consolidation measures are needed to ensure a sustainable fiscal position over the medium term. Downside risks to the outlook include oil market volatility, climate change risks, and the impact of heightened geopolitical tensions.

Key conditions and challenges

Despite the limited oil wealth, Bahrain has one of the most diversified economies in the GCC region, led by construction and manufacturing activities, and robust services sector. The non-oil sector remains the driving force of the economy. The four-year (2023-26) government plan prioritizes several objectives that aim to raise standards of living, improve infrastructure, and accelerate digital transformation, among others. On the fiscal side, efforts under the Fiscal Balance Program (FBP) have focused on revenue mobilization, in addition to controlling government spending. Key reforms include the doubling of VAT rate to 10 percent in 2022, and most recently the adoption in September 2024 of the domestic minimum top-up tax (DMTT) to levy a minimum 15 percent rate of tax on the profits of multinational enterprises with global revenue exceeding €750 (US\$828 million), effective January 1, 2025. The new law marks a significant milestone, with Bahrain being the first Gulf Cooperation Council (GCC) country to legislate the implementation of a DMTT in line with its commitment to the OECD/G20's Inclusive Framework on BEPS 2.0 project. Efforts are also underway to address labor market frictions, supported by the National Labor Market Plan approved in 2023, aiming at encouraging employment in the private sector and reducing public sector fiscal pressures. The national

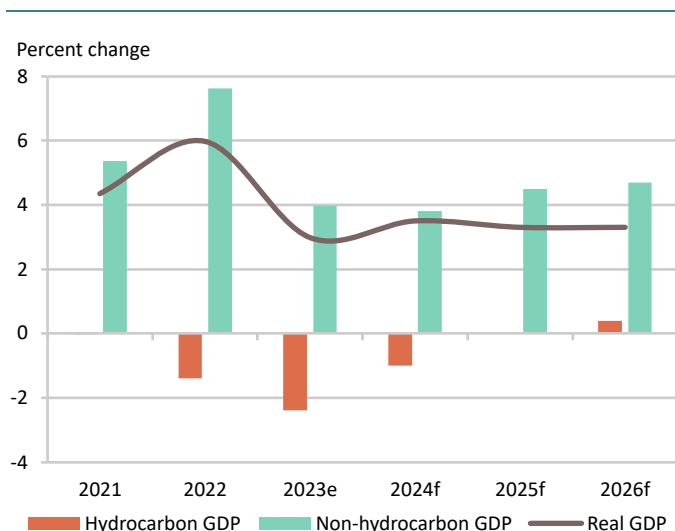
energy strategy, adopted in November 2023, supports the Kingdom's sustainability goals and aims for a 30 percent reduction in emissions by 2035 and net-zero emissions by 2060 while ensuring reliable and affordable access to energy.

However, fiscal challenges remain as public debt stays stubbornly high and the reserves low, highlighting the remaining fiscal and external vulnerabilities over the medium term. Absent additional fiscal reforms and amid expected low commodity prices and monetary tightening, fiscal and external accounts will remain under pressure. Lack of reporting high frequency data regarding the fiscal stance is another challenge considering its importance for macroeconomic monitoring and transparency. More ambitious fiscal reforms would boost external buffers and ensure an adequate level of reserves to support the exchange rate peg. Climate challenges, including the depletion of underground water resources as the only natural water source, amid, rising population and high consumption patterns, could have serious long-term growth implications.

Recent developments

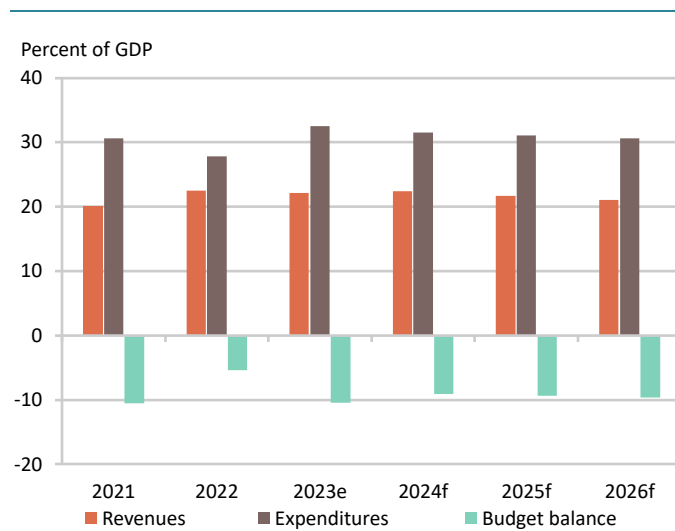
Having moderated to 3 percent last year amid tighter financial conditions and negative oil sector growth, preliminary data reveals that the economy grew by 3.3 percent y-o-y in Q1-2024. Oil sector picked up by 3.4 percent y-o-y supported by the return online of the offshore Abu Safah oil field. Non-oil sector maintained its

FIGURE 1 Bahrain / Real annual GDP growth



Sources: Bahrain authorities and World Bank staff estimates.

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities and World Bank projections.

strong expansion, growing by 3.3 percent and driven by ongoing diversification efforts. Services, manufacturing, government services, and construction, are the largest contributors to overall growth. Inflation remains contained at 1.2 percent in H1-2024, despite a slight acceleration owing to higher food prices.

Official fiscal data for 2024 have not been released yet. However, the fiscal deficit is estimated to slightly narrow in 2024, amid fiscal consolidation efforts.

Despite higher imports in Q1-2024, the current account balance posted a surplus of US\$0.6 billion (4.9 percent of GDP), reflecting higher oil and non-oil exports (up by 14.2 and 2.8 percent y-o-y), respectively. In addition, the value of non-oil exports (national origin excluding re-exports) increased by 4 percent in July 2024 y-o-y. This helped boosting official reserves which reached US\$4 billion in Q1-2024—an increase of US\$476 million compared to Q1-2023.

Employment increased by about 1.4 percent in 2023 relative to 2022 and is projected to continue increasing at roughly the same rate in 2024, according to ILO estimates. Employment growth continues to be twice as fast among women compared to men, possibly thanks to the Riyadat program aimed at providing access to financing for Bahraini women entrepreneurs to grow their businesses. The unemployment rate is expected to decrease to around 1.1 percent in 2024, with the rate among

women estimated at 3.7 percent and among men at 0.4 percent. Young women ages 15-24 continue to face more challenges in securing a job relative to young men: the unemployment rate is projected at 12.3 percent among young women and at 2.6 percent among young men.

Outlook

Bahrain's economic outlook hangs on oil prospects developments and accelerated implementation of structural reforms. Growth is estimated to pick up to 3.5 percent in 2024 largely driven by a diverse range of non-oil activity. The hydrocarbon sector is expected to witness a marginal improvement in 2024 attributed to higher oil production in Abu Safah oilfield. A stronger expansion of 3.8 percent in the non-oil sector is underpinned by tourism and the service sectors, in addition to the continuation of infrastructure projects. Growth is expected to moderate, hovering around 3 percent in the medium-term, impacted by the still elevated interest rates and fiscal consolidation. Inflation is estimated to remain low at 1.3 percent in 2024 and to converge to less than 2 percent in the medium term on strong domestic demand, but the positive impact of tighter monetary policy in line with the currency peg to the U.S. dollar will contain a higher price surge.

Limited spending growth under the FBP and higher oil revenues are expected to result in a lower fiscal deficit of 9 percent of GDP in 2024, down from over 10 percent of GDP in 2023, while achieving fiscal balance would likely require higher oil prices. Non-hydrocarbon revenues are expected to increase in 2025-26 along with the implementation of the newly announced corporate tax and the expanding capacity of Sitra oil refinery. However, declining oil prices and high interest burden will continue to pressure fiscal balances and public debt in 2025-26.

The current account surplus is forecast to expand to over 7 percent of GDP in 2024, helped by higher oil export prices, but would narrow down during 2025-26, in line with the oil price outlook. This will boost foreign reserves and strengthen resilience against future external shocks.

Key downside risks to the outlook stem from oil price volatility and elevated spending which could undermine ongoing fiscal consolidation, and lead to higher external financing costs. Pressing ahead with climate mitigation is crucial to address climate risks and the needed energy transition. Spillover from escalating conflict in the Middle East could undermine investor confidence, disrupt trade, and impede growth. However, more ambitious fiscal reforms to boost external buffers and support the exchange rate peg, higher oil prices and a stronger than expected payoff from economic reforms are key upside risks.

TABLE 2 Bahrain / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.4	6.0	3.0	3.5	3.3	3.3
Private consumption	5.8	6.9	4.9	5.1	5.3	4.1
Government consumption	7.0	2.1	7.3	4.4	4.1	3.5
Gross fixed capital investment	-3.3	18.7	2.1	4.1	5.0	5.5
Exports, goods and services	29.5	9.2	-9.1	-6.0	4.2	4.2
Imports, goods and services	15.2	11.9	2.6	2.4	3.1	2.7
Real GDP growth, at constant factor prices	4.2	4.5	3.0	3.5	3.3	3.3
Agriculture	7.2	4.4	4.7	2.2	3.1	2.8
Industry	3.9	1.7	-0.4	2.4	3.9	4.1
Services	4.5	6.7	5.4	4.3	2.8	2.8
Inflation (consumer price index)	-0.6	3.6	0.1	1.3	1.5	2.0
Current account balance (% of GDP)	6.4	14.6	5.9	7.3	6.7	5.5
Net foreign direct investment inflow (% of GDP)	-4.2	0.0	-12.4	-2.6	-2.7	-2.7
Fiscal balance (% of GDP)	-10.6	-5.4	-10.4	-9.1	-9.4	-9.6
Revenues (% of GDP)	20.1	22.5	22.1	22.4	21.6	21.0
Debt (% of GDP)	127.0	117.4	123.2	128.4	130.0	130.9
Primary balance (% of GDP)	-6.0	-1.2	-4.1	-4.5	-4.5	-4.9
GHG emissions growth (mtCO2e)	1.7	4.9	2.9	3.9	4.3	3.1
Energy related GHG emissions (% of total)	59.4	60.1	60.2	60.5	60.9	60.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.