

COUNTRY PROFILE:**KINGDOM OF BAHRAIN****DATED:****JUNE 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No Restrictions

Recent Political Highlights

- Bahrain is a constitutional monarchy headed by the King, Shaikh Hamad bin Isa al-Khalifa, with an elected legislative assembly. Parliamentary elections were held in November-December last year to elect Council Representatives serving four-year terms. The opening up of politics has seen gains for both Shia and Sunni Islamists in elections, which has given them a parliamentary platform to pursue their policies.

Recent Economic Highlights

- The country's financial services sector has been a major beneficiary of the policy to encourage private enterprises. The financial sector has now surpassed the oil sector, contributing 27.6% of GDP in 2005 compared with 11% of GDP for the oil and gas sector (exclusive of allied industries). However the petroleum sector accounted for 80% of total exports in 2006 and over 70% of government revenues. On the 7th of September last year, the Central Bank of Bahrain (CBB) replaced the Bahrain Monetary Agency (BMA), with the objective to monitor and enhance the banking sector regulations.
- Bahrain has launched a \$1.5bn financial development as part of its attempts to reassert itself as the natural financial centre of the Gulf region amid competition from Dubai, Qatar and Saudi Arabia. The opening of Bahrain Financial Harbour's first phase coincides with the central bank's efforts to fine-tune regulations to attract financial firms, especially those focusing on Islamic banking, asset management and insurance. Bahrain has been the hub for foreign banks to operate from to tap the Middle Eastern markets.
- Bahrain has managed to turn around the projected budget deficit of \$1.1bn to a resounding surplus of \$800m in the fiscal year 2006. This was achieved through a combination of higher revenue and declining expenditure. Total revenue increased by 44% to \$4.9bn on the back of firm oil prices in international markets. The petroleum sector accounted for 77% of total income.
- The country's labour minister has reacted angrily to criticism from opponents to a one percent tax on private and public sector employees to help fund a project offering benefits to thousands of unemployed. According to the plan, new job seekers who hold a diploma or degree will receive a monthly assistance of 150 Bahrain dinars, while undergraduates will get 120 dinars. Provisions will also be made for those who lose their jobs after paying contributions for at least one year. Several societies say the government has a duty to tackle unemployment and that it only should fund the scheme.
- More than \$500m will be invested in the latest expansion of Bahrain International Airport, helping to raise annual passenger forecasts to at least 25m in 2050 compared to 6.7m last year. The new airport areas will be built around existing facility, raising the total land area from 50,000 to 150,000m².
- Bahrain is in the middle of a major privatisation plan, opening up some of the state-owned enterprises to the private sector. Bahrain's Crown Prince inaugurated the first private power plant in Bahrain in mid-May. The \$500m plant was completed on time and in less than 30 months. The first phase was completed in April 2006 and made available 470 mega-watts of generating capacity to the Bahrain national grid. The second and final phase II will add 480MW bringing the total capacity to 950MW. As part of efforts to modernise fuel retail outlets, petrol stations in Bahrain will be privatised in a phased manner on the lines of Kuwait where the program is underway. Specialised firms will be asked to conduct a feasibility study. No specific time frame has been fixed for the implementation of the plan.
- Bahrain's pharmaceuticals market is expected to almost double by 2010, according to a market research company. Bahrain's drug market is still relatively small by regional standards, worth only \$49.2m in 2005, although growth is expected to be strong in the coming years supported by solid economic growth and the rapidly expanding population. The healthcare system is also undergoing rapid modernisation, with the government focusing on improving primary care. It has announced a scheme that will see all expatriate workers covered by private health insurance by 2013. Bahrain is second in place behind only the UAE in terms of market growth.

Latest Trade Developments

- Main exports: petroleum and petroleum products, aluminium and textiles.
- Main imports: crude oil, machinery and appliances, transport equipment and foodstuffs.
- Major trade partners: Japan, South Korea, US, France, UK and Germany.
- Bahrain's business people have not made any efforts to take advantage of the opportunities available through the country's free trade agreement with the US which was implemented in August 2006. The US interest is mainly in women's wear and that is Bahrain's speciality. Goods from the kingdom escape tariffs of up to 40% placed on other countries' exports.
- Bahrain and Bangladesh agreed to sign three agreements soon to boost bilateral trade and economic cooperation, including the much-awaited avoidance of Double Taxation Agreement. Bangladesh's exports to Bahrain worth a mere \$4m and imports of \$3.5m could get a major flip.