

BAHRAIN

Table 1 **2023**

Population, million	1.5
GDP, current US\$ billion	44.9
GDP per capita, current US\$	30221.9
School enrollment, primary (% gross) ^a	92.3
Life expectancy at birth, years ^a	78.8
Total GHG emissions (mtCO2e)	57.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2022); Life expectancy (2021).

Notwithstanding the advancement of the diversification agenda, hydrocarbon revenues still account for more than 60 percent of total budget revenues which exposes the economy to the volatility of energy prices. Bahrain continues to face structural challenges, notably these relating to fiscal sustainability, as debt and gross financing needs remain elevated. Despite progress, female labor force participation is low and public sector remains the largest employer. Larger than forecasted drop in oil prices, potential delays in implementing fiscal reforms, and climate change, pose significant risks to Bahrain's economic outlook.

Key conditions and challenges

The non-oil sector remains the driving force of the economy thanks to ongoing diversification efforts. Fiscal consolidation is on track, notably helped by contained spending and increased revenue—thanks notably to the doubling of the VAT rate to 10 percent in 2022—as the government remains committed to its Fiscal Balance Program (FBP). The new four-year program 2023-26 prioritizes several objectives that aim to raise living standards, including improving infrastructure and accelerating digital transformation. A new National Labor Market Plan (NLMP) has also been approved in July 2023 to encourage Bahraini employment in the private sector. In November 2023, the kingdom unveiled the national energy strategy, aiming for a 30 percent reduction in emissions by 2035 and net-zero emissions by 2060, while ensuring reliable and affordable access to energy.

Downside risks to the outlook are mostly linked to a drop in hydrocarbon prices and tightening global financial conditions, which could put pressure on the fiscal position and delay implementation of fiscal reforms. The depletion of underground water resources could have serious long-term growth implications. On the upside, sustained high oil prices and enacting additional fiscal reforms would reduce fiscal and external vulnerabilities and put debt on a firm downward path while rebuilding fiscal buffers. Advancing

structural reforms including those related to increase employment opportunities among youth, would ensure a private sector-led inclusive recovery.

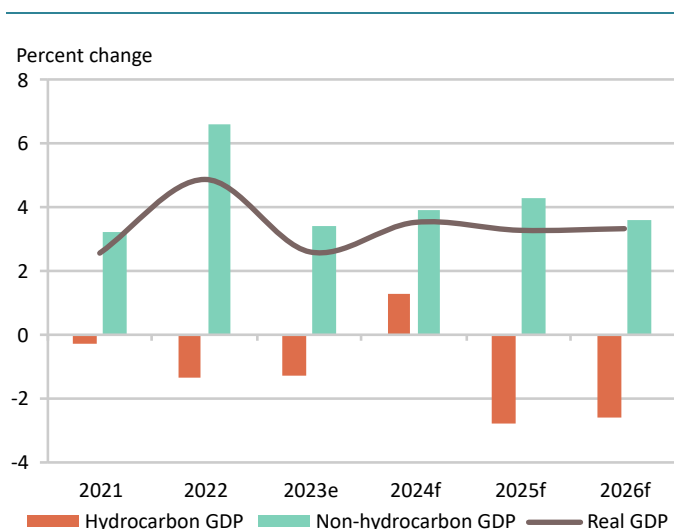
Recent developments

Bahrain's economy has moderated in 2023, amid limited hydrocarbon sector growth, and tight fiscal and monetary policies. Following a strong performance in 2022, economic growth has slowed down to an estimated 2.6 percent in 2023. Preliminary official data reveals that the economy grew by 2 percent in the first nine months of 2023 (9M-2023 y/y), driven primarily by 3.1 percent expansion in the non-oil sectors as a result of the ongoing diversification efforts. Manufacturing, construction, and government services led the growth in non-oil activities, which outpaced the contraction in the oil sector (falling by 3.4 percent) due to seasonal operational maintenance. Inflation decelerated to 0.1 percent in 2023, mainly owing to fading base effects, lower global commodity prices, and lower transportation costs.

Official fiscal data for 2023 have not been released yet. However, the state budget for 2023-2024 aims for public finances to remain on a stable footing, as part of the government's multi-year Fiscal Balance Program. This includes the progress so far to enhance non-hydrocarbon revenue mobilization and the continued spending restraint.

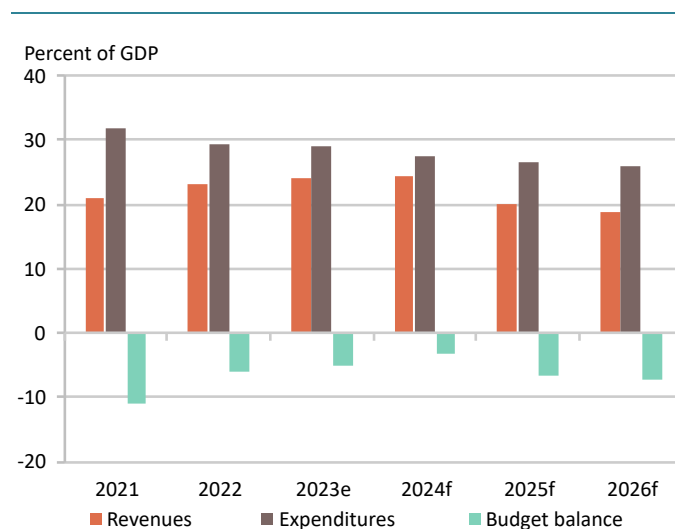
The current account balance posted a small surplus of US\$2 billion (6.4 percent of GDP) in the 9M-2023, versus 15.4 percent of GDP

FIGURE 1 Bahrain / Real annual GDP growth



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

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities and World Bank projections.

same period in 2022, reflecting lower oil exports (down by 22.8 percent y/y). However, official reserve assets remained stable at around US\$4 billion in 2023—an increase of US\$297 million compared to 2022. According to the most recent International Labor Organization (ILO modeled) estimates, the labor force participation rate and employment-to-population ratio are projected at 71.8 percent (-0.1 ppt relative to 2023) and 70.9 percent (+0.1 ppt relative to 2023) respectively in 2024. The unemployment rate is expected to hold steady at around 1.4 percent in 2024, with the rate among women at 4.1 percent and among men at 0.5 percent.

Outlook

Bahrain's economic outlook hangs on oil market prospects and the accelerated

implementation of structural reforms. Growth is estimated to pick up to 3.5 percent in 2024 in line with higher oil output, while the non-oil sector remains the main growth driver. The hydrocarbon sector is expected to expand by 1.3 percent in 2024, far below the non-hydrocarbon sectors' projected growth of almost 4 percent supported by the recovery in tourism and the service sectors, in addition to the continuation of infrastructure projects. In the medium term, growth is expected to slow down—hovering slightly above 3 percent—as fiscal consolidation accelerates while the non-oil economy stays resilient. Inflation is estimated to remain low at 1.5 percent in 2024 and to converge to less than 2 percent in the medium term reflecting the positive impact of tighter monetary policy and in line with the currency peg to U.S. dollar.

Limited spending growth under the FBP and higher oil and non-oil revenues are expected to result in a lower fiscal deficit of 3.2 percent in 2024, down from more than 5 percent in 2023. Achieving fiscal balance would require higher oil prices. The budget deficit is expected to increase in 2025-26 reflecting projected lower oil prices and higher interest burden. The debt-to-GDP ratio is projected to slightly decline in 2024 but remains elevated (above 100 percent) in the medium term—requiring deeper fiscal consolidation measures.

The current account surplus is forecast to expand to 7.3 percent of GDP in 2024, helped by higher oil export prices but would narrow down during 2025-26, in line with the projected oil price outlook. The comfortable external position is expected to boost foreign reserves and strengthen resilience against future external shocks.

TABLE 2 Bahrain / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.6	4.9	2.6	3.5	3.3	3.4
Private consumption	18.9	2.8	2.4	2.6	2.5	2.7
Government consumption	6.5	3.3	2.5	2.0	1.5	1.7
Gross fixed capital investment	-4.2	2.3	3.6	4.1	4.4	4.7
Exports, goods and services	29.5	4.5	1.6	2.6	2.5	2.3
Imports, goods and services	15.2	3.5	2.7	3.0	3.1	3.0
Real GDP growth, at constant factor prices	2.4	3.3	2.6	3.5	3.3	3.4
Agriculture	7.2	4.4	3.8	3.4	3.3	3.3
Industry	0.5	1.2	0.7	2.3	3.9	3.5
Services	3.9	4.9	4.1	4.4	2.9	3.3
Inflation (consumer price index)	-0.6	3.6	0.1	1.5	1.8	2.1
Current account balance (% of GDP)	6.6	15.4	6.7	7.3	6.6	5.3
Net foreign direct investment inflow (% of GDP)	-4.4	0.0	-2.6	-2.6	-2.7	-2.7
Fiscal balance (% of GDP)	-11.0	-6.2	-5.1	-3.2	-6.5	-7.3
Revenues (% of GDP)	20.8	23.1	24.0	24.4	20.0	18.7
Debt (% of GDP)	127.2	117.4	120.9	118.7	121.2	124.0
Primary balance (% of GDP)	-6.3	-1.8	-0.6	1.4	-1.9	-2.2
GHG emissions growth (mtCO₂e)	-5.6	0.8	7.2	4.0	0.7	0.3
Energy related GHG emissions (% of total)	58.6	58.4	60.2	60.9	60.3	60.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD. Notes: e = estimate, f = forecast.