BAHRAIN BOUNCES BACK

After a challenging decade or so, Bahrain's economy is now back on a strong footing, with the kingdom's plans to continue driving non-oil growth in key sectors, such as fintech and tourism, gathering momentum. **Nada Alameddine**, managing partner at Hodema Consulting Services, analyzes the reforms, partnerships and projects that are supporting the country's socioeconomic development against a competitive regional backdrop.

Nestled in the shadows of its powerful, rich neighbors – Saudi Arabia and the UAE – Bahrain, a GCC member, lies at the crossroads of the Gulf's main strategic sea routes. But this geographic asset also means that the archipelago, with its 66 islands, finds itself at the heart of the region's political tensions.

Recovery after years of instability

Bahrain has faced several challenges over the years, from the wave of social unrest in 2011 and the oil price plunge of 2014 to the Covid-19 pandemic in 2020. However, the kingdom is now in recovery, with a USD 10-billion aid loan from its neighbors having helped it to finally get back on track. This financial lending hand was combined with comprehensive fiscal reforms, implemented through the Fiscal Balance Program and strict cost-cutting measures. Ambitious real estate developments have also sprouted up across the country. In 2021, the authorities unveiled their most ambitious reform plan to date in the form of a USD 30-billion envelope to fund diversification programs and attract foreign investors. This far-reaching initiative is paying off, with the state budget deficit having fallen and new jobs created via the Tamkeen employment scheme, helping to put the economy back on a strong footing. Last year, with GDP up almost 5 percent, Bahrain attained its highest pace of economic growth since 2013, when it peaked at 6.9 percent in the second quarter. These strong results have been supported by non-oil activity, which accounted for 83.1 percent of real GDP.

A financial and tech hub

While Bahrain sits on significant oil and gas deposits, reserves are not high. The sector continues to generate around 75 percent of state revenues, although hydrocarbons represent only 18 percent of GDP. This is partly explained by the fact that its refining activities, despite being directly linked to oil, are considered a non-hydrocarbon business. Against this backdrop and in a trend witnessed across other oil-based Gulf states, the authorities have been channeling their efforts into diversifying the economy. Unlike other GCC members, however, Bahrain is not starting from scratch. Under British rule, which lasted until the 1970s, the country transformed itself into a financial services hub. The authorities are now moving to further develop this sector, which already accounts for the largest non-oil portion of national GDP. Digital banking is the latest focal point, as evidenced by a move currently underway by the British group Citi to set up a Global Technology Hub and hire 1,000 coders. Bahrain is also positioning itself as a cloud computing and data hub, building on a deal signed with Amazon Web Services in 2019 to host the company's data centers in the region. A key piece of legislation - the Data Embassy Law - is facilitating this expansion. The law allows foreigners to open data centers in the kingdom while retaining the legal jurisdiction of their country over the data. In July, the authorities struck two major economic deals with the UK - the first to create a digital partnership and another USD 1.27-billion agreement to support investment, with a focus on clean technology and services.

Longstanding sectoral support

Traditional industries continue to play a key part in economic growth. Aluminium Bahrain has become one of the main producers of the metal globally, with petrochemical activities growing. On the oil front, the country's main Bapco refinery is looking to increase its production from 240,000 barrels per day (BPD) to about 400,000 BPD by 2025. These combined efforts are integral elements of Bahrain Economic Vision 2030, the country's plan for diversifying and strengthening the economy. The kingdom also hosts a large American military base, with thousands of soldiers permanently residing there.

A positive outlook

A strong performance in 2022 is expected to have softened in 2023 and remain moderate in the current year, with oil prices dropping amid weaker global demand. The quarterly report from the Ministry of Finance and National Economy projects real GDP growth of 2.9 percent in 2023, followed by 3.2 percent in 2024. According to the IMF's forecasts, last year's 6.2 percent surge in non-oil GDP will moderate to around 3 percent in 2024. All the main indicators look set to support a positive outlook, though, with a shrinking fiscal deficit and an external balance surplus. However, there is caution from the IMF about the perils of global inflation, climate change and government debt-to-GDP ratio, which could reach 124 percent in 2024, according to Fitch Ratings. In addition, Bahrain faces the challenge of remaining competitive at a time when surrounding countries are also investing billions in diversification reforms.

Bolstering transport infrastructure

Bahrain's Vision 2030 plan also supports projects in logistics and tourism. Standout examples include a new airport terminal, launched in 2022 and built to accommodate up to 14 million passengers annually, although current traveler numbers are closer to 9 million. Thousands of visitors also enter Bahrain via the bridge from Saudi Arabia, its close neighbor. Saudis have long topped the list as the largest tourist group, traditionally visiting Bahrain for short breaks. The country's latest project for boosting transport infrastructure is its metro, with the authorities recently announcing plans to build two lines, alongside 20 stations and a 109-km rail network.

Boosting visitor numbers

Bahrain has garnered a specific niche in the region as a tourist destination in recent decades thanks, in part, to its movie theaters and the availability of liquor, which has led to visitors from the Gulf choosing it for short breaks. However, with Saudi Arabia relaxing its rules and the UAE positioning itself as a global tourism powerhouse, the kingdom faces new challenges in finding its niche. The government aims to increase tourism's contribution to GDP to 11.4 percent in 2026, up from 7 percent. Figures for 2023 suggested it could be the year in which tourism secured liftoff, with visitor numbers rocketing to 5.9 million in the first six months, up by 51 percent year-on-year. The total number of nights visitors stayed in Bahrain also increased significantly, up by 54 percent to 8.9 million. Translated into revenues, the increase reached 48 percent and generated nearly USD 2.5 billion. Both day-trip and overnight visitor numbers were up, alongside business and leisure stays. There is also a sharpened focus on regional tourism, with new tailored travel package offers in the works for Gulf citizens and residents. Against this backdrop, officials are calling for a 'Schengen-style' visa in the GCC to further boost touristic ties. Bahrain is expected to remain on a roll this year, after the UN World Tourism Organization (UNWTO) announced that it had chosen Manama to host the 9th edition of the World Forum on Gastronomy Tourism 2024. The city has also been selected by fellow GCC members as the capital of Gulf tourism for the year 2024.

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