

Bahrain's economy may face further contraction this year as the country's growth rate is expected to decline to 1.7 percent in 2017, from 2 percent in 2016. However, despite the slowdown in economic conditions, sectors such as real estate witnessed significant stability during the second half of 2016, and according to economic reports, this is likely to continue in 2017.

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# Bahrain

## Hope of Stability





The non-oil sector in the Bahraini economy grew at an annualized rate of 4.7% in the third quarter of 2016, an acceleration from the second quarter growth of 3.6%, according to the latest statistics and figures published in the quarterly economic report issued by the Economic Development Council in Bahrain. The economy grew by 3.6% in the first three quarters of 2016, surpassing its overall growth of 2.9% in 2015.

However, various reports of 2016 indicate uneven results in terms of economic landscape in Bahrain in 2017. For its part, Coface, a specialist in areas of commercial credit management and risk information services, predicted that GCC economies (except Oman and Bahrain) will witness a relative improvement in 2017, following a sharp slowdown in growth rates across the region with the exception of Kuwait (in 2016) due to a decline in public sector spending, liquidity pressures and investor uncertainty. The report predicts further contraction in the Bahraini economy, 1.7% in 2017.

### Away from Oil

The third quarter of 2016 witnessed booming in the non-oil economy which gained momentum despite volatile oil prices and international volatility that put pressure on regional and global growth. There was an increase in a number of sectors that performed strongly - social and personal services, construction and financial services. The economy strong performance reflected the strong structural drivers of growth in Bahrain's diverse economy, and the legislative reforms provided by Bahrain, to support the Kingdom to cope with regional changes and to promote innovation and growth.

Reforms included the development of a number of standards that reduced the time for exporting goods to Saudi Arabia through King Fahd Causeway. These standards also reduced the minimum capital required for emerging projects, and created necessary legislations to support the establishment of limited investment partnerships

and protected cells companies. The package of large infrastructure projects has emerged as the most important driver of the non-oil sector's economic momentum, accelerated over last year, including the \$3 billion Sixth Line Alba Project, \$800 million Power Plant Contract, \$1 billion contract to upgrade Bahrain International Airport and a new gas plant at Banagas with a value of \$355 million.

The project portfolio and investments funded by the Gulf Development Program played a key role in bringing the non-oil economy to a booming momentum. The value of the infrastructure projects has more than doubled to \$3.1 billion by the end of 2015, 20.5% to more than \$4.3 billion. Dr. Yarmo Keutelian, economic adviser to the Economic Development Board says: "There is strong growth in the non-oil sector as the economy continues to grow at an average rate more than the average global and regional growth rates. We have witnessed many infrastructure projects that not only stimulate growth in the short term, but also support diversification and growth in productivity in the long-term".







▲ The Seef Mall is one of the largest commercial complexes in Bahrain, with nearly 200 stores.

Keutelian added: "While we are aware of the vital importance of solid infrastructure, it is not enough. We need the soft infrastructure of laws and regulations that will encourage investment and facilitate business completion and growth for companies. We have made progress. In the last few months and there are a number of projects that we expect to see in the near future".

### Indicators of Optimism for Banks

S&P Global Credit Ratings said the weak economic environment will continue to

weigh on the financial conditions in the GCC. The end of the major commodity price boom has led to a significant drop in the economic outlook of the GCC region, which means a decline in growth opportunities and a decrease in liquidity in their banking systems. The end of the surge in commodity prices also led to increased pressure on the quality of assets and profitability indicators of banks in the GCC.

Although some of these indicators are expected to fall further in the 2017 and 2018 years, the agency believes that

GCC banks have collected sufficient margins to deal with the overall impact on their financial position.

"GCC-rated banks continued to deliver good quality, profitability and capitalization indicators in 2016 according to international standards, although there are signs of a decline starting in 2015. Last year, we lowered our credit ratings and adjusting the outlook for many banks in the GCC. Most of these banks were in Bahrain, Oman and Saudi Arabia. While we





▲ Households in Qalali, a village in Muharraq Governorate in the Kingdom of Bahrain.



▲ Growth in the non-oil sector reached 4.7% in the third quarter of 2016.

reduced credit ratings and adjusted the outlook for some banks in countries. But these factors were mainly related to bank-specific reasons. Overall, 31% of our rated banks in the GCC have negative outlooks or have been placed under credit control with a negative outlook", said Mohammed Damak, credit analyst at the agency.

### Real Estate Flexibility

The Bahrain "Real Estate Market Outlook" report for the 2016-2017 winter season shows that the high flexibility of rental budgets against the impact of economic and inflationary pressures still exceeds expectations.

In the office market, rents in all major markets in the Kingdom maintained their stability largely unchanged from the first nine months of 2016. The same applies to the retail market, which witnessed a significant recession with rents expected to remain stable in the coming months.

"The sluggish rent reflects the weak fundamentals of the market, resulting from the fragility of the economy and the continuing impact of the low oil price environment, which has reduced job creation levels and weakened overall market sentiment. This recession is likely to continue to impact the Kingdom's real estate market in the

first half of 2017, with the exception of the Amwaj Islands in the residential property market, the financial terminal in the office market and the city of Isa in the retail market, said Harry Judson Wicks, president of Cluttons in Bahrain. "From our market experience, quality and value offered by the property for money, are key elements that strengthen tenants' interest in newly launched projects, indicating that they are decision-makers and have the freedom to choose from a variety of options in the market, added Harry Judson Wicks. Faisal Durranu, Head of Research in Cluttons, said that "Bahraini families







### Standard & Poor's and Downgrade

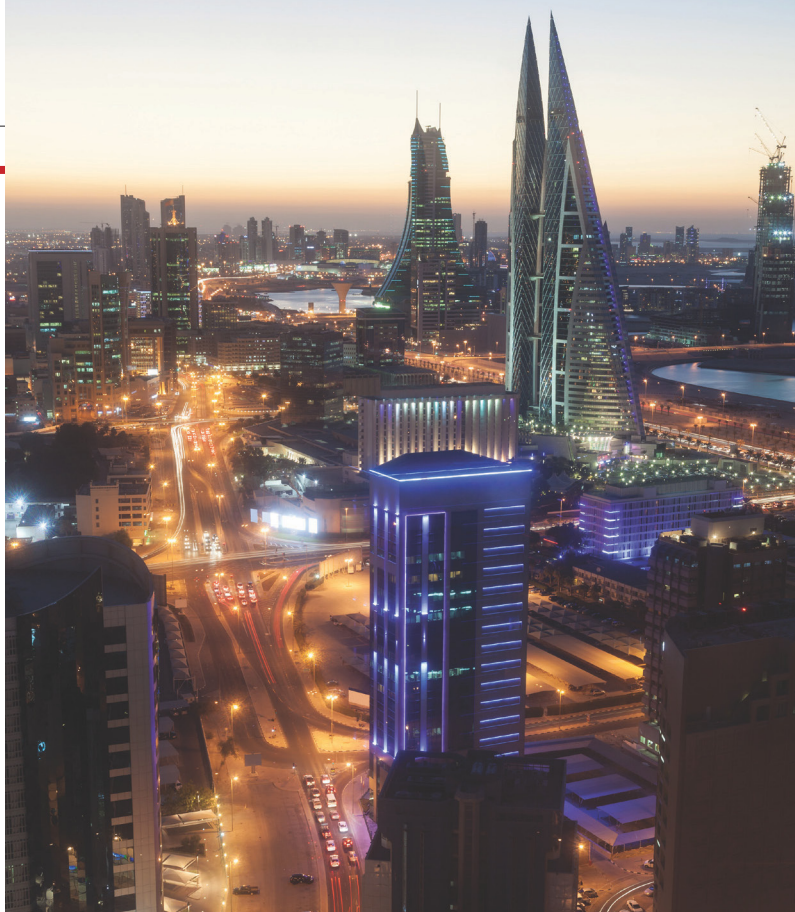
In 2016 Standard & Poor's Ratings has lowered, ratings of Saudi Arabia, Bahrain, Oman, Brazil and Kazakhstan, a second group lowering for oil countries by the agency.

The agency announced that the decision, which included the reduction of Saudi Arabia's rating to (-A) and the divestment of Bahrain, came as a result of pressure from falling oil prices.

"The decline in oil prices will have a significant and sustainable impact on Saudi Arabia's financial and economic indicators, given its high reliance on oil, S&P said in a statement.

Bahrain's rating was downgraded to (BB) and Oman to (-BBB). The agency affirmed Qatar's rating at AA with a stable outlook, as the Agency expects continued robust in macro-economic fundamentals.

Two years ago, the agency lowered a number of oil countries, notably Saudi Arabia, Russia, Brazil and Venezuela, after their economies were hit by global oil prices falling from mid-2014.



▲ Most banks in GCC countries have collected sufficient capital margins in order to maintain its ability to cope with the downturn in its operational environment.

Faced some very adverse and difficult conditions over the first 9 months of 2016, with the abolition of government support and the fear of job losses. This has negatively affected confidence and led to a decline in budgets, but it seems that we will enter into a period of stability with the start of the stability state in the market.

### Demand for Retail

A recent report by Savant Data Systems, a leading provider of business information services and services for the retail sector in the GCC region, shows a sharp increase in the attitude of Bahrain residents towards retailers in malls.

The report said that the number of visitors to malls in Bahrain in 2016 reached 3 million and 600 thousand visitors, compared to one million and 400 thousand visitors in 2015. The report also indicates that the number of visitors to malls in 2017 reached to 42,000 visitors by February, and this figure is expected to be equal or above 2016 results.

Savant Data Systems survey earlier

in 2016 confirmed a high distribution of shopping and retail visitors in the GCC region overall in 2016 compared to the previous year. "This is a positive story in the region, with visitors up by 5.8% in 2016 compared to 2015. While figures are reassuring, it is important for retailers to see this change in footprint and develop encouraging strategies that will develop their business. It is therefore important to understand consumer behavior and changing trends and to prepare the strategy accordingly, said Vic Bageria, CEO and Chief Innovation Officer, Savant Data Systems.

### Investment and Employment Opportunities

In 2016, the Economic Development Board succeeded in attracting 40 companies to the Kingdom of Bahrain. These companies will invest US \$281 million, and provide 1647 job opportunities in the Kingdom market for the next three years, within the framework of the Council's work in attracting and encouraging investments in the Kingdom of Bahrain.



▲ Quality and value offered by the property for money remain two elements that enhance tenants' interest in projects which were recently launched without significant change during the first nine months of 2016.

Some companies represent regional and global business organizations in a number of countries including India, China, United States of America and Germany. These companies are engaged in various sectors and specialties. 17 companies were registered in the manufacturing and logistics sector, 7 in the financial services sector, 7 in the tourism and leisure sector, 7 in the specialized services sector and two in the information technology sector.

Investment in the tourism sector accounts for 75% of the value of the investment, followed by the industrial and logistics sector by 15% and the financial services sector by 9%.

This investment represents an increase of about 100% compared to the year 2015, \$142 million through 22 companies.

Khalid Al Rumaihi, CEO of the Economic Development Board, said: "We are proud of what has been achieved in 2016. Our success in

doubling the value of investments during the year reflects the success of the joint efforts between the Council and government entities in providing a stimulating and supportive investment environment for investors to attract more projects and companies.

### The Need to Involve the "Private" Sector

Recently Member of the House of Representatives Khalifa Al-Ghanim demanded to involve the private sector in the management of some state service institutions, such as electricity, water, health and education, with the development of those services, before imposing any additional fees, so that the citizen and resident can benefit from those services.

Al-Ghanim said according to Al Watan newspaper, "Bahrain has great national talents in the private sector, which has achieved great successes, so why we invest these competencies and their ideas in the development of government work



▲ The large infrastructure projects package emerged as the most important supporting factors for the non-oil sector.

towards further development? He stressed that the role of the private sector is important, successful sector, both through its investments within the Kingdom and abroad".

"It is now necessary to transform the structure of the Bahraini economy from government to an economy based on small and medium-sized enterprises. This shift will create new employment opportunities for the young, but it depends on how the government manages the private sector, added Khalifa Al-Ghanim.

He also called on the government to diversify projects that meet the need and desire of citizens to diversify sources of income, employ youth capacities, and develop the educational system by providing education outputs that meet the real needs of the labor market, as well as developing the economy by encouraging large investments to enter the local market, and focusing on renewable energy sources. ■