

GSN Risk Grade – C+3↑: More rallies, more wounded as clashes with security forces continue

Political and social developments

Overview: Bahrain has been headed by King Hamad Bin Isa Al-Khalifa since 1999, when he succeeded his father, Sheikh Isa Bin Salman Al-Khalifa. In the first half of the last decade, King Hamad introduced major political changes, including moves to establish a constitutional monarchy, parliamentary elections and votes for women, but a full constitutional monarchy has not been formed. Although the lower national assembly chamber, the Majlis Al-Nuwab, is elected, power to implement constitutional reform lies with the royally appointed government and upper chamber, the Majlis Al-Shura.

Crisis: Bahrain is in the midst of a political crisis that began in February 2011, when protesters, inspired by events elsewhere in the region, took to the streets to demand political change. The uprising was largely crushed, but protests have continued on a smaller scale, and political demands on the side of the protesters have, if anything, hardened. On the side of the rulers, hardliners also seem to have gained influence at the expense of more reformist family members such as Crown Prince Salman Bin Hamad Al-Khalifa, who observers say has been sidelined since his attempts to negotiate with protesters last year failed. Clashes between protesters and security forces continue almost nightly and, as frustration at the lack of reform grows, the mainly Shiite youth protesters have become increasingly confrontational.

Rallies: Opposition parties submitted a request to hold 25 rallies on 20 July, which the interior ministry rejected on the basis that they would be too disruptive. The ministry said organisers had planned the rallies on the first day of Ramadan to maximise disruption. In a statement later that day, the main opposition party Al-Wefaq said many people had turned out despite the ban, and that it had been “one of the toughest days yet in the democratic uprising”. The statement said there were clashes with regime forces in 72 places, and that scores of people were injured and many homes raided.

Rajab imprisoned: Prominent activist Nabeel Rajab was jailed for three months on 9 July, following remarks made on *Twitter* that “cast doubts on the patriotism” of a number of retired army and security officers (GSN 928/7). His lawyer said he would appeal.

Boy released: An 11-year-old boy who spent a month in custody after being accused of taking part in protests has been allowed to stay at home, but will be monitored by the authorities. In May, Ali Hassan became one of the youngest demonstrators to be taken into custody, on charges including joining an illegal gathering. His defence says he was playing in the street, not blocking roads. On 11 June, he was allowed to return home and, on 5 July, a juvenile court ruled that he must be monitored by a social worker for a year, according to *Associated Press (AP)*. It was not clear whether he had been found guilty, though his lawyer said the charges against him had not been dropped. “The decision today condemns him indirectly,” she told *AP*. “This boy is innocent.”

Economic and commercial outlook

Overview: The political crisis has weighed heavy on the economy. The International Monetary Fund (IMF) estimates that growth for 2011 will reach around 2%, softened by weak financial and tourism sectors. Oil and gas-related revenues account for almost 90% of total revenues; high oil prices and a stable aluminium sector have limited the macroeconomic damage of the unrest. Capital outflows have increased significantly, leading to a decline in official reserves. The private sector has continued to build up overseas assets; the IMF estimates the overall net international investment position increasing to \$19.6bn in Q3 2011 from \$17bn at the end of 2010. Bahrain was the Gulf’s traditional banking hub but, even before the crisis, it was increasingly overshadowed by the rise of financial centres in Dubai, Qatar and Saudi Arabia. The country’s financial institutions are seen as resilient, though, and the combination of fiscal and monetary easing and high oil prices has protected Bahrain to some extent from the Eurozone crisis.

Stalled reform? Many observers say economic reform has also stalled, pointing to a series of changes of senior personnel. The head of the Economic Development Board, who was close to Crown Prince Salman, was removed in March, and the body’s role reduced (GSN 922/3). According to *Reuters*, senior officials have also been removed from the Labour Market Regulatory Authority and job training and labour fund Tamkeen, which together oversaw labour market reforms, and from sovereign wealth fund Mumtalakat, Bahrain Polytechnic and the Bahrain Teachers College. But in an interview published on 5 July, the head of Bahrain’s \$9bn fund Mumtalakat, Mahmood Al-Kooheji, told *Reuters* economic reforms remained on track. He said the fund, which has been hindered by losses at Gulf Air, would be focusing on regional investments. “We are not shying away from international investment but really our focus is Bahrain and maybe the GCC, because we find big demand and growth from the GCC market,” he said.

Rating: On 20 July, Standard & Poor’s (S&P) ratings agency affirmed its long-term foreign and local currency sovereign credit ratings for Bahrain at BBB, and raised the short-term ratings to A-2 from A-3. The outlook remained negative, however. “The ratings on Bahrain are supported by the country’s net external and fiscal asset positions, which are underpinned by the renewed development of hydrocarbon resources. The ratings are constrained by our view of severe domestic political tensions, high geopolitical risks, stagnating real GDP per capita, and the fiscal dependency on sustained high oil prices,” S&P said in a statement. The agency predicted growth of 3.2% in 2012, 1% higher than in 2011, and that general government debt would rise to 42% of GDP in 2012, from 24% in 2009. “We could lower the ratings if political turmoil further weakens economic prospects and threatens external and fiscal performance. We could also lower the ratings if oil prices remain below \$100/bbl for a sustained period, if difficulties arise in securing GCC development funds, or if other government expenditures arise that worsen the fiscal profile,” the statement said.

BAHRAIN: Alba appoints BNP Paribas

SIXTH POTLINE: Aluminium Bahrain (Alba) announced on 23 July that it had appointed BNP Paribas to advise on financing options for its project to expand Bahrain’s smelter and include a sixth potline. The project will need an estimated \$2.5bn for completion. Alba said “consummation of the project and the related financing” would be subject to a feasibility study, government and board approvals and other “conditions customary for a project of this nature”. Work on the feasibility study is expected to start by year-end.

EARLY 2015: Alba has said the new line – which will add 400,000 t/yr to current production of 881,000 t/yr – could be completed by early 2015. The company’s last major expansion project was in 2005, when a fifth potline was added to the smelter, requiring financing of \$1.7bn. Alba chairman Mahmood Al-Kooheji and senior representatives from BNP Paribas attended the signing ceremony in Paris. Alba said it had selected BNP Paribas as adviser because of its “strong presence in Bahrain along with its extensive experience within the aluminium sector”.

BAHRAIN: Selected economic indicators

	2010	2011	2012f	2013f	2014f
GDP (constant prices)**	4.5	1.8f	2.0	2.8	2.6
GDP (cur prices, \$bn)	22.4	26.1f	27.8	28.7	29.1
Gross nat savings*	33.1	28.6f	33.0	35.5	35.0
CPI inflation**	2.0	1.0	1.0	1.5	2.0
Value of oil exports (\$bn)	10.2	13.0	14.6	14.3	13.4
Gen govt gross debt*	34.1	36.5f	31.6	31.3	34.1
Current a/c bal (\$bn)	0.8	1.1	2.0	2.7	2.6

* % of GDP, ** % change, f = forecast

Source: IMF, World Economic Outlook Database, April 2012