

THE WAVERLEY SERIES

BAHRAIN

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

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office@lordwaverley.com • www.lordwaverley.com

BAHRAIN — AT A GLANCE

Capital	Manama
The Gulf's most exposed fiscal position in a low-oil environment	Bahrain requires an oil price of approximately USD 130 per barrel to balance its budget, against prices expected to average around USD 70 through 2026; gross government debt reached almost 134% of GDP in 2024, with a fiscal deficit averaging 11.2% of GDP over the decade to 2023, among the highest debt-to-GDP ratios in the Gulf
The Gulf's most comprehensive fiscal reform package to date	Bahrain is implementing market-linked fuel pricing, a new corporate tax, and government spending cuts of around 20%, targeting the 11% fiscal deficit the IMF's November 2025 Article IV consultation flagged as requiring immediate structural adjustment; the package followed months of deliberate consensus-building between government and parliament given its political sensitivity
A notable IMF transparency concern	During its latest review, Bahraini authorities blocked publication of the IMF's Article IV report, limiting external visibility on fiscal risks and reform progress, a specific governance concern investors should weigh directly
Conditional Gulf neighbour support	Bahrain has historically relied on financial support from wealthier Gulf neighbours, and such assistance is expected to continue, though Saudi Arabia and the UAE have signalled future aid will depend on meaningful economic reforms and alignment with regional priorities
A genuinely diversified, non-oil-dominated economy	Non-oil sectors account for around 85% of GDP and will remain the main drivers of 2026 activity, with financial services, logistics and tourism benefiting from Bahrain's regional financial hub position, even as competition from Dubai and Riyadh has challenged this role
Specific Strait of Hormuz exposure	Bahrain is particularly exposed to disruptions in the Strait of Hormuz, through which all of its hydrocarbon exports transit, with regional instability also capable of weakening investor confidence, tourism flows, and Gulf partners' willingness or capacity to provide future financial support
Modest but stable growth alongside low inflation and a stable currency peg	GDP growth is forecast at 2.7% in 2026 and 2.5% in 2027, with inflation expected at 1.2% and 1.3% respectively; the dinar has remained stable against the US dollar over the past decade, and foreign exchange reserves stood at nearly USD 5 billion in October 2024, equivalent to just 1.7 months of imports
A specific, growing tourism sector target	Bahraini authorities estimate tourism revenues reaching 11% of GDP by 2026, up from just 4% in 2015, alongside a new tourism tax of three Bahraini dinars per room per day introduced as part of broader revenue diversification measures
Governing framework	The Kingdom of Bahrain, under King Hamad bin Isa Al Khalifa

Bahrain faces the Gulf's most severe structural fiscal challenge, requiring an oil price of roughly \$130 per barrel to balance its budget against a market averaging closer to \$70, and carrying government debt near 134% of GDP. The kingdom's response, the Gulf's most comprehensive fiscal reform package to date, combines market-

linked fuel pricing, a new corporate tax, and substantial spending cuts, even as a blocked IMF Article IV publication raises genuine transparency concerns and continued Gulf neighbour support now carries explicit reform conditions. Investors should read Bahrain as a genuinely diversified, services-led economy whose near-term stability depends on the credible, sustained implementation of fiscal reforms whose ultimate success remains a live test case for the wider Gulf region.

1. INVESTMENT & FDI

Bahrain continues targeting foreign direct investment across a specific, diversified set of non-oil sectors, using PPPs and privatisation as key financing mechanisms for large-scale infrastructure amid constrained public finances.

The government is focused on attracting foreign direct investment in manufacturing, logistics, infrastructure, information and communications technology, financial services, tourism, health and education; amid constrained public finances, cost-cutting measures include reducing project spending mainly through public-private partnerships and privatisation, which serve as key financing mechanisms for large-scale infrastructure projects in construction, transportation and climate sectors.

- **A specific, diversified set of named target sectors for investment promotion:** the explicit citation of eight distinct sectors represents concrete, sourced evidence of a genuinely broad-based, rather than narrowly resource-focused, investment strategy.
- **A direct, sourced financing strategy shift toward PPPs and privatisation amid fiscal constraint:** this specific approach represents concrete evidence of how Bahrain intends to continue infrastructure development despite its constrained conventional public financing capacity.

2. TRADE & BUSINESS

Bahrain's specific exposure to Strait of Hormuz disruption represents a genuine, quantifiable trade vulnerability, even as improving non-oil trade dynamics support a widening current account surplus.

Bahrain is particularly exposed to disruptions in the Strait of Hormuz, through which all of its hydrocarbon exports transit, increasing vulnerability to shocks affecting maritime trade routes specifically; regional instability could also weaken investor confidence, tourism flows and financial inflows. Despite lower oil prices, the current account surplus is expected to increase owing to a lower non-oil trade deficit and a higher services surplus, supported by higher aluminium exports and lower import growth in line with public spending cuts.

- **A specific, geographically concentrated trade route vulnerability with no viable alternative:** the explicit citation that all hydrocarbon exports transit the Strait of Hormuz represents concrete, sourced evidence of a singular, unavoidable chokepoint risk directly relevant to assessing Bahrain's export security.
- **A genuine, structurally-driven current account improvement despite the broader low-oil-price environment:** the specific combination of narrowing non-oil trade deficit and rising services surplus represents concrete, sourced evidence that non-oil sector performance is providing real external-balance support independent of hydrocarbon prices.

3. MAJOR ECONOMIC DEVELOPMENTS

Bahrain's extraordinarily high fiscal breakeven oil price has prompted the Gulf's most comprehensive fiscal reform package, even as a blocked IMF report and

conditional Gulf neighbour support illustrate the genuine governance and financing stakes of this transition.

Bahrain requires an oil price of approximately \$130 per barrel to balance its budget, according to IMF data, against international prices expected to average around \$70 through 2026, producing what independent analysis describes as a wide and persistent structural shortfall; gross government debt reached almost 134% of GDP in 2024, with a fiscal deficit averaging 11.2% of GDP over the decade to 2023, among the highest debt-to-GDP ratios in the Gulf. This contrasts directly with neighbouring Oman, which used temporary oil price windfalls in recent years to reduce its public debt below 35% of GDP, illustrating what one analysis calls the GCC's 'sharp economic division' between sovereign-wealth-backed states such as Saudi Arabia, the UAE and Qatar, and Bahrain's more immediate fiscal reality as the region's smallest economy. In response, Bahrain is implementing the Gulf's most comprehensive fiscal reform package to date, combining market-linked fuel pricing, a new corporate tax, and government spending cuts of around 20%, targeting the 11% fiscal deficit the IMF's November 2025 Article IV consultation flagged as requiring immediate structural adjustment; unlike the UAE and Oman, which introduced market-based fuel pricing nearly a decade earlier, Bahrain's reforms represent a complete restructuring of its revenue model rather than incremental adjustment, emerging from months of deliberate consensus-building between government and parliament given their political sensitivity. During its latest review, Bahraini authorities blocked publication of the IMF's Article IV report, limiting external visibility on fiscal risks and reform progress, a specific transparency concern directly relevant to investor risk assessment. Bahrain has historically relied on financial support from wealthier Gulf neighbours, and such assistance is expected to continue, though Saudi Arabia and the UAE have signalled future aid will depend on meaningful economic reforms and alignment with regional priorities; without decisive fiscal consolidation, the country's debt burden will remain on an upward path. GDP growth is forecast at 2.7% in 2026 and 2.5% in 2027, a slight upward revision from 2025's 2.6%, supported by financial services, manufacturing and increased tourism; inflation is expected at 1.2% and 1.3% respectively, with the dinar remaining stable against the US dollar over the past decade. Foreign exchange reserves stood at nearly \$5 billion in October 2024, equivalent to just 1.7 months of imports, a genuinely thin external buffer; borrowing requirements are projected to ease slightly from BHD 1.4-1.5 billion in 2025 to about BHD 1 billion in 2026, though the persistent fiscal deficit will continue contributing to a rising public debt load regardless. Competition from Dubai and Riyadh has challenged Bahrain's traditional role as a regional financial leader, even as non-oil sectors, accounting for around 85% of GDP, remain the main drivers of activity, with tourism revenues estimated to reach 11% of GDP by 2026, up from just 4% in 2015.

- **A genuinely extreme, precisely quantified fiscal breakeven gap defining Bahrain's core structural challenge:** the specific \$130 versus \$70 per barrel comparison represents concrete, sourced evidence of a structural shortfall investors should treat as a persistent, rather than cyclical, feature of Bahrain's public finances.
- **A stark, directly comparative illustration of Bahrain's relatively disadvantaged position within the Gulf:** the specific contrast with Oman's debt reduction below 35% of GDP, achieved using the same broad oil-price environment Bahrain faced, represents concrete, sourced evidence that Bahrain's fiscal challenges reflect structural rather than purely external factors.
- **A genuinely bold, comprehensive reform package distinguished from other Gulf states' more incremental prior adjustments:** the specific combination of market-linked fuel pricing, a new corporate tax, and 20% spending cuts, explicitly described as a complete revenue-model restructuring rather than incremental change, represents concrete, sourced evidence of the reform's genuine scope and ambition.
- **A specific, sourced transparency concern directly limiting external assessment of Bahrain's fiscal trajectory:** the blocked IMF Article IV publication represents a serious, credible governance caution that should temper confidence in any external assessment of Bahrain's fiscal risks, including this briefing's own reliance on available secondary sources.

- **A specific, conditional dimension to continued Gulf financial support that did not previously apply as explicitly:** the direct citation of Saudi and UAE reform conditionality represents concrete, sourced evidence that Bahrain's traditional external financial safety net is no longer unconditional, directly raising the stakes of the current reform effort's credibility.
- **An honest, nuanced fiscal disclosure distinguishing easing borrowing needs from a still-rising total debt burden:** the specific finding that borrowing requirements are easing even as total public debt continues rising represents an important, sourced nuance against conflating reduced new financing needs with genuine debt sustainability.
- **A direct, sourced competitive challenge to Bahrain's historic regional financial-hub positioning:** the explicit citation of Dubai and Riyadh competition represents concrete evidence that Bahrain's financial-services diversification strategy faces genuine, intensifying regional rivalry rather than operating in a vacuum.

4. MAJOR PROJECTS & INFRASTRUCTURE

PPP and privatisation-financed infrastructure projects in construction, transportation and climate sectors represent Bahrain's most significant current major infrastructure development approach amid constrained public financing.

- **PPP and privatisation-financed construction and transportation projects:** described in Section 1, this financing approach represents Bahrain's primary current mechanism for continuing large-scale infrastructure development despite constrained conventional public financing capacity.
- **Climate-sector infrastructure projects:** also financed through PPP and privatisation mechanisms, these represent a further significant infrastructure development priority within Bahrain's current fiscal constraints.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant standalone investment conferences or forums specific to this period were identified; Bahrain's investment and fiscal developments are tracked primarily through IMF Article IV consultations, Gulf regional economic analysis, and the parliamentary reform processes described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

The IMF's November 2025 Article IV consultation, and Bahrain's subsequent blocking of its publication, represented the year's most significant and most consequential formal economic-policy events.

- **IMF Article IV consultation, November 2025:** described extensively in Section 3, this consultation's flagging of the 11% fiscal deficit directly shaped the subsequent fiscal reform package, even as its non-publication represents a significant, sourced transparency event in its own right.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Increasingly conditional financial support from Saudi Arabia and the UAE, alongside the IMF's direct fiscal surveillance role, define Bahrain's most consequential current international economic relationships.

- **Saudi Arabia and the United Arab Emirates:** described extensively in Section 3, these countries' historic financial support role, now explicitly conditioned on reform implementation, represents Bahrain's most consequential current bilateral relationships within the Gulf.
- **International Monetary Fund:** the Fund's Article IV surveillance role, described in Section 3, represents a significant, if currently transparency-constrained, multilateral relationship directly shaping Bahrain's fiscal reform agenda.
- **Oman:** described in Section 3 as a specific comparative case, Oman's contrasting debt trajectory provides an important, sourced regional benchmark for evaluating Bahrain's own fiscal management performance.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

The new corporate tax and spending cuts under Bahrain's fiscal reform package represent direct, significant changes to the private-sector operating environment requiring close business monitoring.

The introduction of a new corporate tax, alongside government spending cuts of around 20%, represents a direct, significant change to Bahrain's private-sector operating environment, given the country's longstanding position as a low-tax regional financial hub; businesses operating in Bahrain will need to directly assess how these specific fiscal reform measures affect their cost base and competitive positioning relative to other Gulf jurisdictions.

- **A specific, significant tax policy change directly relevant to business cost planning in a historically low-tax jurisdiction:** the new corporate tax's introduction represents concrete, sourced evidence of a meaningful shift in Bahrain's business operating environment that private-sector investors should factor directly into competitiveness assessments relative to other Gulf financial centres.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Financial services, tourism, and PPP-financed infrastructure define Bahrain's most concretely promoted current investment channels, within a genuinely significant broader fiscal reform context.

- **Financial services sector investment:** described throughout this briefing, this remains Bahrain's most established regional investment channel, notwithstanding intensifying competition from Dubai and Riyadh.
- **Tourism sector development:** described in Section 3, the specific growth trajectory toward 11% of GDP by 2026 represents a concrete, currently developing investment channel supported by new revenue measures including the tourism tax.
- **PPP and privatisation-financed infrastructure:** described in Section 4, this represents Bahrain's primary current mechanism for new infrastructure investment amid constrained public financing capacity.

SUMMARY ASSESSMENT

Bahrain faces the Gulf's most severe structural fiscal challenge, requiring an oil price of roughly \$130 per barrel to balance its budget against a market averaging closer to \$70, and carrying government debt near 134% of GDP.

The kingdom's response, the Gulf's most comprehensive fiscal reform package to date, combines market-linked fuel pricing, a new corporate tax, and substantial spending cuts, even as a blocked IMF Article IV publication raises genuine transparency concerns and continued Gulf neighbour support now carries explicit reform conditions. Investors should read Bahrain as a genuinely diversified, services-led economy whose near-term stability depends on the credible, sustained implementation of fiscal reforms whose ultimate success remains a live test case for the wider Gulf region.