



Decide with Confidence

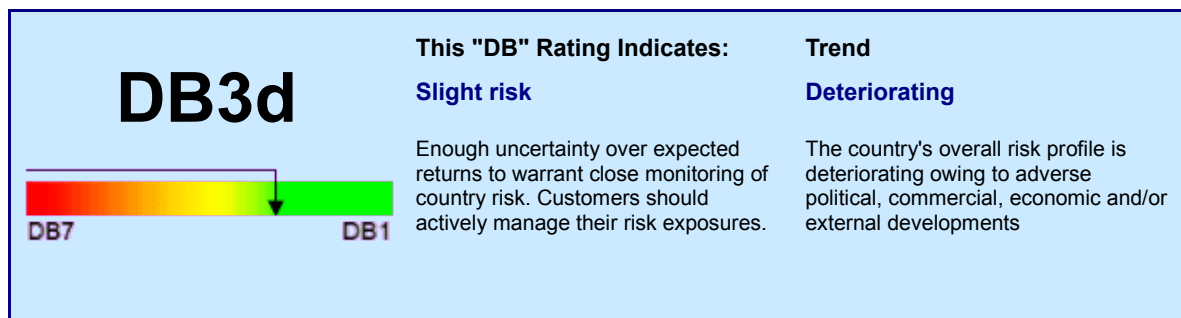
D&B Country RiskLine Report

BAHRAIN

Region : Middle East

Edition : April 2011

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	0.8m
Surface area (sq km):	710
Capital:	Manama
Timezone:	GMT +03:00
Official language:	Arabic
Head of state:	King HAMAD bin Isa al-Khalifa
GDP (USD):	20.8bn
GDP per capita (USD):	25,765
Life expectancy (years):	75
Literacy (% of adult pop.):	86.5

Country Overview:

Bahrain is made up of a group of islands located in the Persian Gulf, and has been ruled by the al-Khalifa family since the 1780s. The kingdom gained independence from the UK in 1971 and is a member of the Gulf Co-operation Council.

Bahrain was the first Arab Gulf state to export oil commercially (1932), and petroleum production and processing still dominate the economy. However, Bahrain was also the first Gulf country to start the transition away from oil dependency. This transition has not been smooth; in the mid-1990s social and economic problems led to growing disillusionment and frustration, particularly among the majority Shi'a population (which has long complained of being discriminated against by the ruling Sunnis). These socio-economic problems, combined with calls for greater political freedom, have led to protests and sporadic anti-government violence, and have been one of the spurs for the economic and political reforms adopted in recent years.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	SD
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30-60 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-3 months
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

Helped by the fact that commercial law and bankruptcy proceedings are based on UK practice, the commercial environment will continue to be strengthened by significant regulatory improvements. This should also bolster transparency and confidence in the banking sector during this difficult economic period; some domestic banks are suffering from exposure to the regional problems created by the US sub-prime crisis. Other factors underpinning confidence in the banking sector include a relatively low loan-to-deposit ratio and healthy capital adequacy ratios. In view of the payments performance of companies operating in Bahrain, D&B recommends the use of SD terms when trading with counterparties in the country.

Export Credit Agencies

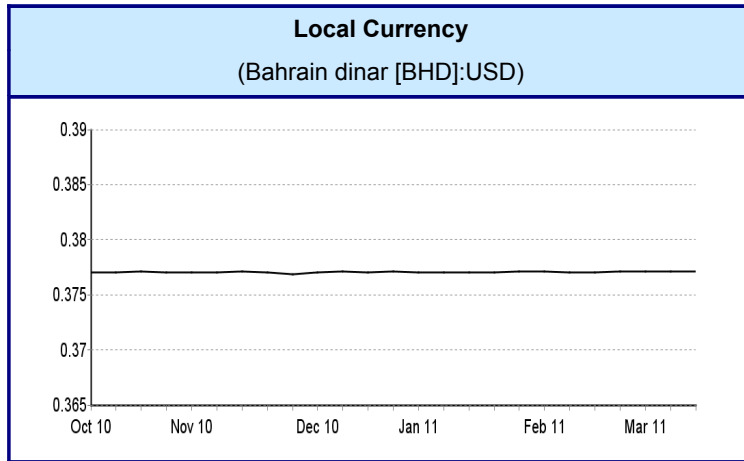
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	ST and MT cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	6.3	3.1	4.1	4.6	5.3
Inflation, annual ave, %	3.5	2.5	3.5	3.1	2.9
Govt balance, % GDP	2.0	-9.4	-3.5	-1.3	-0.5
Oil price, USD/b	96.6	61.8	79.6	109.8	121.3
C/A balance, % GDP	9.4	0.5	1.2	0.4	1.2

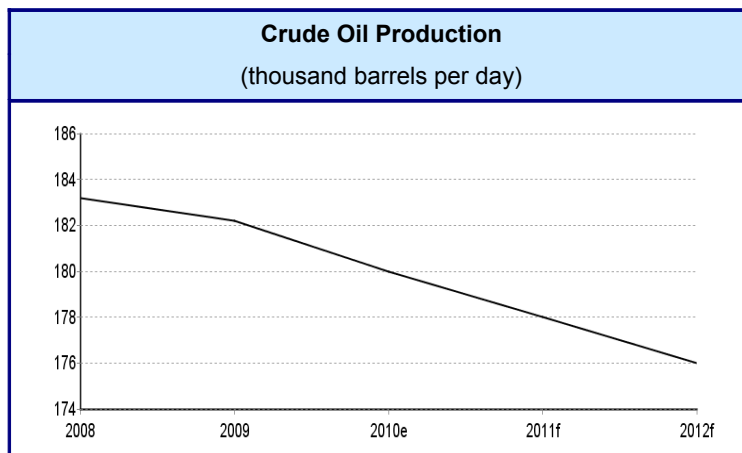
Currency Information

Exchange Rates	
(London, 14 Mar 11)	
EUR	0.5218
GBP	0.6039
JPY*	0.4609
USD	0.3771
*(x 100)	



Local Currency (Bahrain dinar [BHD]:USD)						
	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11
Week 1	0.377	0.377	0.377	0.377	0.377	0.377
Week 2	0.377	0.377	0.377	0.377	0.377	0.377
Week 3	0.377	0.377	0.377	0.377	0.377	0.377
Week 4	0.377	0.377	0.377	0.377	0.377	
Week 5		0.377		0.377		

Crude Oil Production



Data Table				
2008	2009	2010e	2011f	2012f
183.2	182.2	180.0	178.0	176.0

Risk Factor

Regional revolutionary fervour has triggered a series of demonstrations over long-standing domestic political grievances, resulting in D&B downgrading Bahrain's risk rating by two quartiles to DB3d. The protests, which have resulted in a number of fatalities, have been exacerbated since mid-March by the decision to call in Saudi troops for extra support. The gravity of recent events is such that the government is likely to be forced into making wide-ranging political concessions, including reforms long demanded by the majority Shi'a community (which has tended to be marginalised politically, economically and socially by the ruling Sunni regime). The events will entail continued political uncertainty for some months to come, and highlight the high level of political risk in Bahrain. While we believe the rule of King Hamad bin Isa al-Khalifa will remain intact, reform may see his authority diminished, with more power transferred to the legislature.

The unrest has already taken its toll on the economy. The Bahrain Formula 1 Grand Prix (scheduled for 14 March) was postponed, and it is unlikely to be rescheduled during this season, costing Bahrain up to USD700m in lost revenues. In the longer term (should political uncertainty persist), Bahrain may forfeit the right to stage the event, wreaking untold damage on its reputation as a stable, business-friendly investment destination. Although the governor of the Central Bank, Rasheed al-Maraj, insisted that Bahrain had not suffered from capital flight during the unrest, Bahrain will find it harder to attract investment in the future. Certainly, Bahrain's competitiveness in relation to its more politically stable neighbours, Qatar and the UAE, will have diminished considerably. As it is, Bahrain's sovereign ratings were downgraded by S&P, while both Moody's and Fitch placed Bahrain on review.

As yet, the immediate impact of the protests on the country's economic performance is unclear. In an effort to forestall further unrest, the King offered a cash handout of BD1,000 (USD2,653) to every citizen and also reduced the monthly repayments of those receiving housing support by 25%. This will have budgetary implications and the government is to launch a USD1bn bond to help pay for it. However, the cost of borrowing has inevitably increased following the ratings downgrades; Bahrain's five-year credit default swaps have almost doubled since January, while Islamic bond yields rose to their highest level of a year. However, Maraj believes that Bahrain will still reach real GDP growth of around 4%-5% this year, while consumer prices are unlikely to rise any faster than at present. Bahrain imports much of its food, so inflationary pressures are mostly external, while the government will keep its raft of subsidies in place in order to avoid any price-related discontent.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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