

Marmore First Take

Bahrain's \$3b issue

5x Investor Interest

September, 2017

- Bahrain has issued a three-part international bonds equivalent to USD 3bn which is almost c. 9.3% of its nominal GDP in 2016. The details of the issuance are as follows:
 - » USD 850mn with 7.5-year maturity at 5.25% 323bps excess to US 7yr Treasury yield
 - » USD 1.25bn with 12-year maturity at 6.75%, 454bps excess to US 12yr Treasury yield
 - » USD 900mn with 30-year maturity at 7.5%, 500bps excess to US 30yr Treasury yield
- Bahrain is rated BB- by S&P and BB+ by Fitch, both with a negative outlook. Similarly, in July-2017, Moody's downgraded the Government of Bahrain's long-term issuer rating to B1 from Ba2, and maintained the negative outlook.
- Despite the rating downgrade the issuance appears to have received strong response from the investors driving the oversubscription by 5x. Moreover, the investors were not discouraged by the controversy over Dana Gas's legal battle or the regional dispute between Qatar and its regional neighbours.
- As per IMF, the government's debt-to-GDP ratio increased to more than 82% at the end of 2016 compared to 66% at the end of 2015, this is expected to reach in-excess of 100% by 2019. Since Bahrain has no sizable and liquid sovereign wealth fund assets for drawdown, it depends mainly on debt funding to finance its fiscal deficits.
- Bahrain's interest payments during 2017 may account to almost 21% of budgetary revenue, up from about 13% in 2015 (Moody's). Bahrain may need to raise its market interest rates to protect its currency due to rising global interest rates.
- The rapid increase in the debt levels and projected increases in Bahrain's funding costs will lead to a strain in the country's debt affordability.
- Bahrain's international investments of around 75% of GDP at the end of 2016, do provide some relief. However, increase in external liabilities is expected to be faster than growth in assets. Bahrain has forex reserves equivalent to one month of goods and services imports. The increase in global interest rate would further exert pressure on these reserves as Bahrain would have to maintain the currency peg.
- Stats for fiscal year 2017 suggest expenditures of USD 11.9bn and revenues of USD 7.7bn, for a projected deficit of USD 4.2bn c. 12% of GDP. For fiscal year 2018 suggested expenditures of USD 11.9bn and revenues of USD 8bn, and a deficit of USD 3.9bn. Both the fiscal deficit levels and the debt levels exceed the norms set under of the Gulf Monetary Union (GMU) scheme. The GMU restricts budgetary deficit to 3% of GDP, while the debt to GDP levels at 60%.

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Policy Research

- An Innovation driven Economic Diversification Strategy for Kuwait (KFAS)
- Kuwait – Starting Business
- Kuwait Reforms (series): Education (2015)
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- GCC Countries & Asia: Bolstering Energy Ties (2014)
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- Kuwait: Sustainable Power Strategy (2012)
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