

October 2019

## MARMORE FIRST TAKE

**Bahrain raises  
USD2 billion with  
first dollar bond  
issue since bailout**



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# HIGHLIGHTS

For the first time in about a year after securing the bailout package Bahrain has tapped into the international bond market by selling USD2bn worth of bonds in a two-part deal.

- USD 1 billion Sukuk due 2027 at a yield of 4.5% versus initial price thoughts of between 4.875% and 5%
- USD 1 billion Conventional bonds due 2031 at a yield of 5.625% versus indicative price range of 5.875% to 6%

This event assumes significance, as earlier in March 2018, the government canceled plans to go ahead with the issuance of conventional bonds as it found the pricing demands of some investors to be very costly. Investors were concerned about the mounting public debt level and the impact of rising U.S. interest rates on its debt.

Bahrain was then promised a five-year aid worth USD10 billion in October of 2018 from regional allies namely Saudi Arabia, UAE and Kuwait to ensure fiscal stability of its financial institutions and relieve pressure in its currency and debt markets.

Bahrain saw finances take a turn for the worse amid the low oil price environment, forcing the government to raise debt in order to plug its budget deficit and maintain public spending. The country's debt to GDP ratio in 2018 is expected to rise to 93% and the IMF expects it to climb further to 104% of the GDP by the year 2020 (Appendix: Chart 1). S&P Global Ratings rate Bahrain sovereign debt at a junk rating of B+, which is four notches below the investment grade.

This was not the first time GCC member states have come together to financially help their peers. In March 2011 KSA, UAE and Kuwait extended a USD20 billion aid package for Bahrain and Oman to support their economies, upgrade housing and infrastructure and create new jobs.

The move by the three Gulf States was aimed at alleviating market fears on Bahrain's debt issues. There was concern among international investors about the ability of the government to meet its financial obligations such as payment of debt instalments. The explicit support from the three Gulf countries helped boost investor confidence and enable Bahrain to further tap into the debt market as per its needs (Appendix: Chart 2).

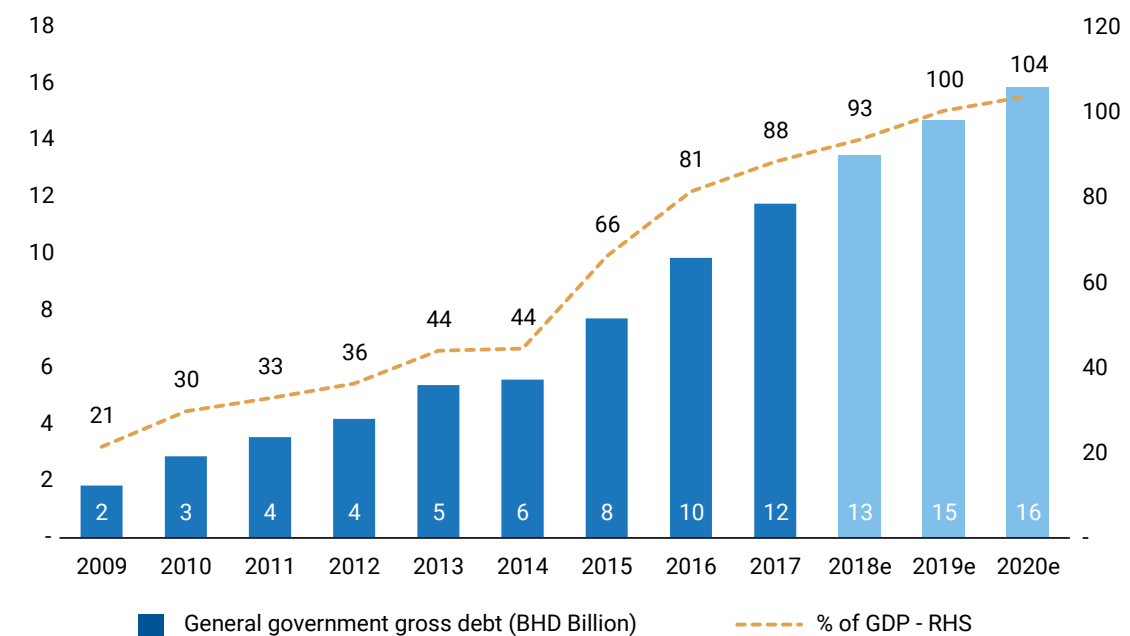
The recent debt issuance by Bahrain comes amid a sudden surge in debt sales by frontier and emerging sovereigns after the cost of borrowing declined (Appendix: Chart 3). According to Damodaran, Bahrain's

adjusted default spread is 6.21%<sup>1</sup> and therefore, the conventional bond offering a yield of 5.625% has been issued at a premium. Financial support from GCC allies and a strong demand for high-yielding securities in a global low interest rate environment has helped Bahrain lower yields for its bond issues. BNP Paribas SA, Citigroup Inc., Gulf International Bank BSC, JPMorgan Chase & Co., National Bank of Bahrain BSC and Standard Chartered have helped manage the offering.

With rising debt levels, Bahrain's economy is poised to grow at a pace of 1.8% in 2018 and is forecasted to cut its fiscal deficit to -8.4% of the GDP in 2019, from -11.7% in 2018. The shortfall was as high as -18.4% in 2015 (Appendix: Chart 4). Bahrain is aiming to balance its budgets by the year 2023, a target that it has set for itself as part of the 2018 bailout when it initiated a series of reforms including further cuts in subsidies and the introduction of the 5% value-added tax.

## Appendix

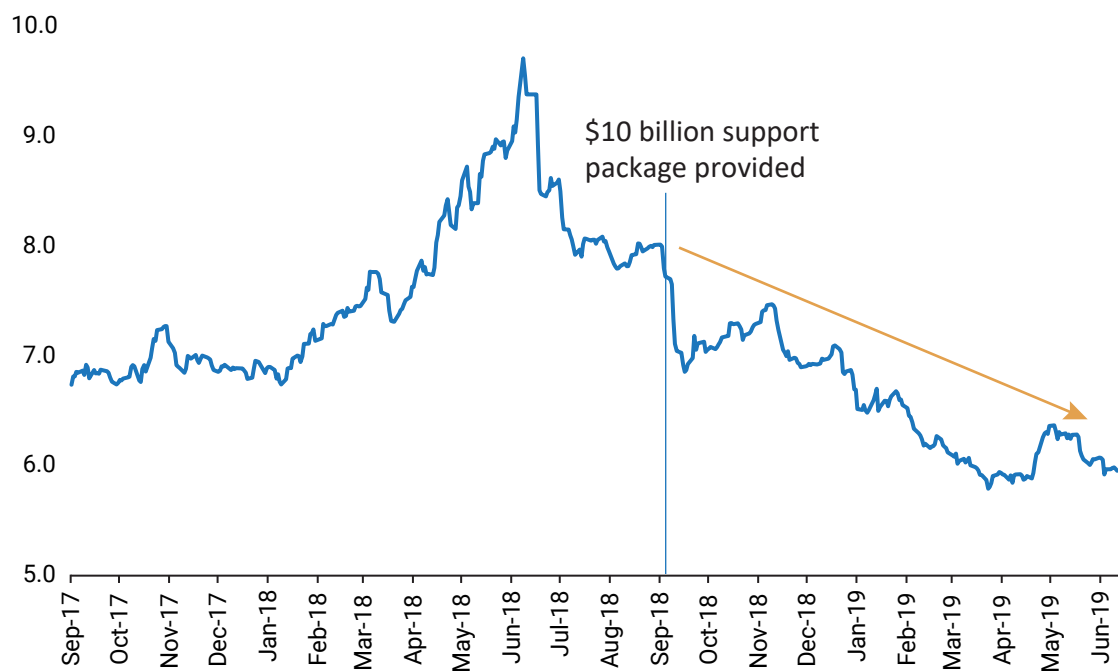
**Chart 1: Bahrain Government Gross Debt**



Source: IMF

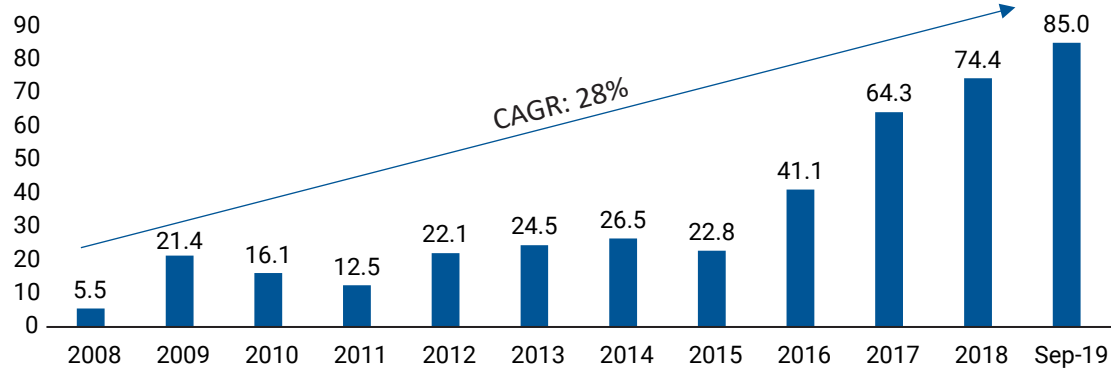
<sup>1</sup> Country Default Spreads and Risk Premiums

Chart 2: Bahrain Sovereign Benchmark Yield



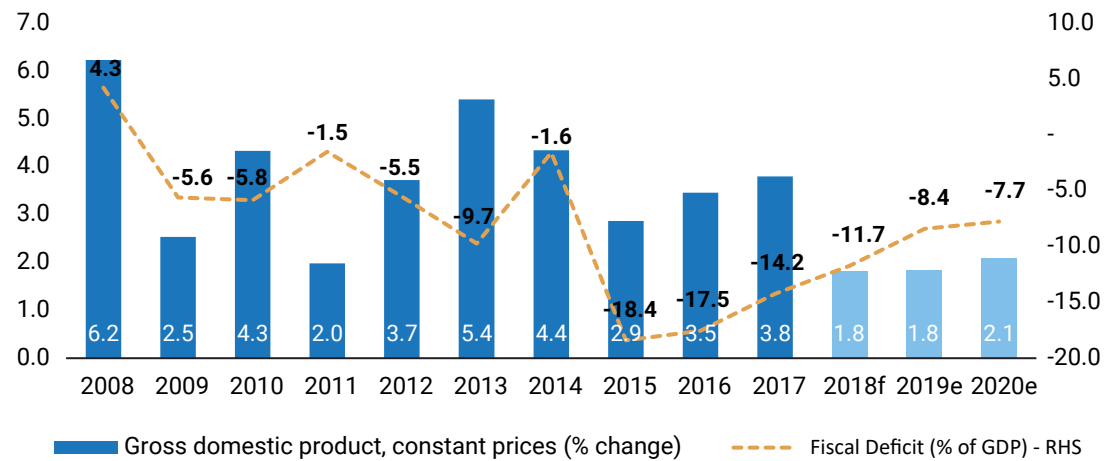
Source: Reuters

Chart 3: Dollar and euro issuance from Middle East and North Africa (USD bn)



Source: Bloomberg

Chart 4: Bahrain GDP Growth rate and Fiscal



Source: IMF

Table 1: Out of the USD10 billion aid promised by Gulf allies

USD 2.3 billion	2018 (received)
USD 2.28 billion	2019 (expected)
USD 1.76 billion	2020 (expected)
USD 1.85 billion	2021 (expected)
USD 1.42 billion	2022 (expected)
USD 650 million	2023 (expected)

Source: Reuters

Table 2: GCC sovereign bond issuance in 2019 (USD Million)

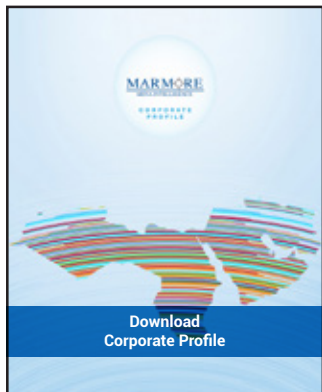
Issuer Name	Issue Date	Maturity Date	Issued Amount (USD Million)	Issuance Type
Saudi Arabia	09-Jul-2019	09-Jul-2027	1,108	Sovereign
Saudi Arabia	09-Jul-2019	09-Jul-2039	2,216	Sovereign
Saudi Arabia	16-Jan-2019	16-Apr-2029	4,051	Sovereign
Saudi Arabia	16-Jan-2019	16-Jan-2050	3,545	Sovereign
Qatar	14-Mar-2019	14-Mar-2024	1,966	Sovereign
Qatar	14-Mar-2019	14-Mar-2029	3,933	Sovereign
Qatar	14-Mar-2019	14-Mar-2049	5,899	Sovereign
Oman	01-Aug-2019	01-Feb-2025	749	Sovereign
Oman	01-Aug-2019	01-Aug-2029	2,246	Sovereign
Bahrain	30-Sep-2019	30-Sep-2031	998	Sovereign

Source: Reuters

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## Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please [click here](#))

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, [click here](#))

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company.** To learn more, visit [www.marmoremna.com](http://www.marmoremna.com)

## Experience/Qualifications

Marmore is the only regional firm providing niche research based on strong analytics in areas that are less researched. Marmore provides full range of financial market, sector specific and economic and policy researches, as well. The different types of researches are availed based on the client's requirements. It is notable that Marmore research reports have regularly been used by various renowned institutions to better understand the MENA region.

*Marmore's strengths can be summarized as follows:*

- » Consistent track record of quality, in-depth research offerings;
- » Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;
- » Deep understanding of MENA market and access to wide-ranging database
- » Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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