
IIRA assigns first-time credit ratings to the Kingdom of Bahrain.

Manama, 12 Feb, 2007 – IIRA has assigned first-time credit ratings to the financial obligations of the Kingdom of Bahrain. These ratings include:

A+ for medium to long-term foreign currency debt
A-1 for short-term foreign currency debt
AAA for medium to long-term national scale and
A-1+ for short-term national scale

The outlook for all these ratings is stable.

The ratings indicate a strong and diversifying economy which is reflected in real GDP growth of 5.6% for the past four years coupled with a low inflation rate of 2.6% in 2005. (Average for 2001-2004 remained 0.6%)

Government finances have shown a healthy surplus of 7.6% in 2005 (1.4% in 2004), and the country's current account balance is also very robust at 11% of GDP in 2005 (4% in 2004).

Though high compared to its oil rich neighbors, total government debt at 28.9% of GDP in 2005 (35.1% in 2004) is considered low relative to international norms. External debt is also low at 47.1% of current account receipts in 2005 (51.9% in 2004). With a low debt to GDP ratio and low external debt to current account receipts ratio, government debt servicing also remained low. Government debt servicing remained at 47.8% of government revenues, whereas external debt servicing remained 7.9% of current account receipts.

The government has been utilizing the recent surge in oil revenues to diversify the economy through investment in infrastructure and industrial development. Oil revenues comprise around 25% of nominal GDP and 75% of revenues. For budgeting purposes, the Government has taken a very conservative view of future oil prices, assuming a price of USD 30 per barrel. This assumption results in an expected budget deficit of around 3% of GDP. However, realistically speaking IIRA expects oil prices to range between 40-55 USD per barrel in the near term. As a result, IIRA forecasts that the government will end up with a financial surplus of 3.6% of GDP in 2007.

Bahrain faces a number of issues in ensuring continuity in growth. First, its relatively limited resource base compared to peers and heavy reliance on the hydrocarbon sector for revenues, which are sensitive to fluctuations in international oil prices. Going forward IIRA will continue to monitor oil prices in the international market since this could have substantial bearing on the credit standing.

Second, the government has implemented various programs to alleviate the consequences of unemployment by enhancing development expenditure, with emphasis on skills development. The unemployment rate is estimated anywhere between official estimate of 4% to 18% as quoted by independent organizations.

Finally, the process and schedule of release of government data lags performance seen in other countries because of the lengthy approval process involved. This hinders timely analysis of true economic performance and hampers reliable forecasting.

For further information on this rating announcement, please contact Mr. Umer Zuberi (Senior Financial Analyst) or Mr. Abbas Khalil (Senior Financial Analyst) or Mr. J. M. McMullen (Senior Vice President- Ratings) at +973-1721 1606 or fax no +973 1721 1605

Jamal Abbas Zaidi
Chief Executive Officer
Islamic International Rating Agency

12 day of Feb, 2007

All of the information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. IIRA's rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.

IIRA assigns first-time credit ratings to the Kingdom of Bahrain.

RATED ISSUES

Domestic Debt	Classification	Outstanding 2005 In mn BD
Treasury Bills	Short-Term	130.0
Development Bonds	Medium to Long-Term	-
Al Salam Securities	Short-Term	45.1
Islamic Leasing	Medium to Long-Term	442.0
Syndicate Loan	Medium to Long-Term	373.3
Total		990.4

External Debt	Classification	Outstanding 2005 In mn BD
External Government Debt	Long-Term	462.00

12 day of Feb, 2007

All of the information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. IIRA's rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.