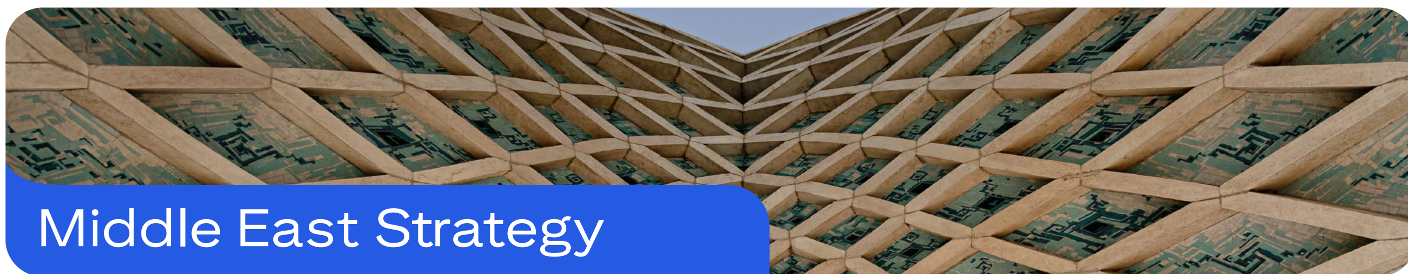

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Economic Diversification and the Reliance on Commodities

- **Fed Chair Jerome Powell's "*The Time Has Come*" speech** signalled the Fed's readiness to act at the next FOMC meeting on September 18th. Given the signals from the Fed, we expect that the central banks of the Gulf Cooperation Council (GCC) economies will follow suit by reducing their policy rates, potentially starting with a 25-basis point (bps) cut in September.
- **The success of economic diversification in the GCC rests on its funding**, which is largely derived from oil revenues. The reduction in oil volume and prices in recent years has had a notable effect on the GCC, with many member states running fiscal deficits rather than slow down investment in key areas of the economy.
- **Gold's relationship to real rates has broken down in recent years.** This has generally been attributed to rising demand from China offsetting lower demand from the west. However, Chinese demand has slowed, while gold prices continue to go up. Where is demand – and the price increase – coming from?
- **Is gold a safe haven?** The inflation-adjusted value of gold has risen to near historic levels. Conservative investors should consider the impact if demand were to pull back and gold reverted to its historical average inflation-adjusted price.
- **Copper demand has been disappointing.** In China, weak domestic demand has led to smelters selling refined copper overseas. Moreover, the manufacturing sector in Europe is still firmly in contraction. For copper, a base metal whose price depends on its usage in industrial activity, these developments have caused prices to retreat.

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An Easing Fed and the GCC

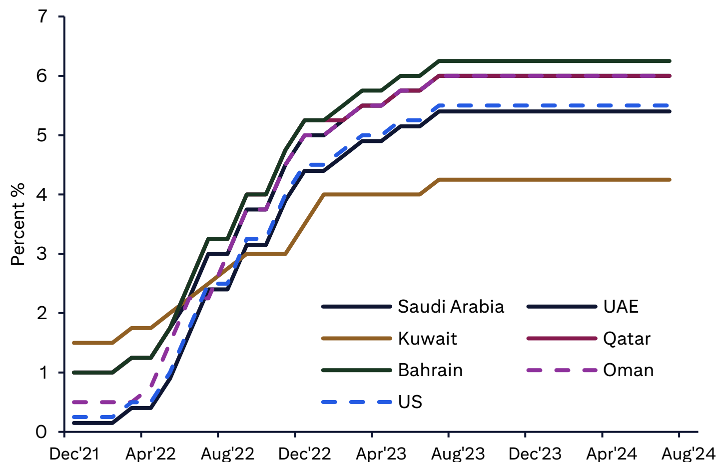
Fed Chair Jerome Powell's "*The Time Has Come*" speech at the Jackson Hole symposium emphasised the Fed's commitment to data-driven decisions, signalling the Fed's readiness to act at the next FOMC meeting on September 18th if economic conditions warrant such changes (see CIO Bulletin -August 17). This dovish stance has global implications, particularly for regions closely tied to US monetary policy, like the Gulf Cooperation Council (GCC).

Given the signals from the Fed, we expect that the central banks of the GCC economies, excluding Kuwait[1], will follow suit by reducing their policy rates, potentially starting with a 25-basis point (bps) cut in September (**FIGURE 1**). With markets pricing in 200 bps of cuts over the next 12 months, the Fed is expected to deliver a series of moves, ultimately bringing policy rates down to the 3.25-3.50% range. The alignment of GCC central banks with the US Federal Reserve is due mainly to their currencies being pegged to the US dollar, which requires mirrored monetary policy adjustments.

The Federal Reserve's aggressive tightening in 2022-23 aimed to regain control of inflation and prevent the US economy from overheating. In contrast, the GCC economies were not facing the same inflationary pressures. For example, while US inflation reached 9.1% YY in mid-2022, inflation in GCC countries such as Saudi Arabia and the United Arab Emirates (UAE) remained relatively low, averaging around 2.4% YY and 3.4% YY, respectively.

To reiterate, the decision of GCC central banks to raise interest rates in tandem with the Fed was more about maintaining currency stability and protecting their dollar pegs rather than addressing domestic inflation concerns. This helped preserve monetary stability and avoid capital flight but did not necessarily reflect local economic conditions, which were more stable.

FIGURE 1: GCC Central Banks Move in line with the Fed



Source: Bloomberg, National Central Banks as of August 28, 2024. They are shown for illustrative purposes only and do not represent performance of any specific investment. Past performance is no guarantee of future results. Results may vary.

[1] The Kuwaiti dinar is pegged to an undisclosed basket of currencies, allowing the country more flexibility in managing the exchange rate compared to a strict peg to a single currency.

Oil Prices: held up by OPEC+ cuts, dragged down by US supply growth and soft demand from China

Oil prices have been broadly rangebound between $76 and $88 per barrel this year, reflecting a delicate balance between supply restraints and demand uncertainties. OPEC+ members, led by Saudi Arabia and Russia, have committed to production cuts of around 3.66 million barrels per day (bpd), including the additional voluntary cuts announced in April 2023. These measures, expected to continue through the first half of 2025, have helped stabilise the oil market by curbing excess supply and supporting prices despite ongoing concerns about weak global economic growth.

However, non-OPEC+ supply has been rising, with the US alone increasing output to about 12.8m bpd, the highest level since the onset of the COVID-19 pandemic. This increase has somewhat offset the effects of the OPEC+ cuts, keeping the market in a narrow price band and eroding OPEC+ market share (see Middle East Strategy – July 2). Meanwhile, China's crude oil imports have fluctuated around 10 million bpd, a level that is below pre-pandemic levels and reflects the country's slower-than-expected economic recovery and subdued industrial activity. As a result, global demand growth is expected to be around 2 million bpd in 2024, according to the International Energy Agency (IEA).

Market participants are closely watching for signs of a demand revival in China and further shifts in non-OPEC+ supply dynamics, which could significantly influence prices. The market remains finely balanced for now, with both upside and downside risks in play.

The Effect of Oil Production Cuts on GCC Economies

The global oil market remains a central pillar of GCC economies, influencing fiscal budgets, investment strategies, and macroeconomic stability. Accordingly, the reduction in volume and prices in recent years has had a notable effect on the GCC, with particular emphasis on the OPEC+ member with the most significant production cut: Saudi Arabia.

Saudi Arabia's oil export revenues in June 2024 fell to a three-year low of $17.7bn, marking a significant decline from the highs reached in 2022 (**FIGURE 2**). This revenue decline raises questions about the sustainability of Saudi Arabia's Vision 2030 transformation plans, which hinge on steady oil income to finance diversification efforts (Middle East Strategy – July 2).

FIGURE 2: Saudi Arabia's export revenues peaked alongside oil prices in 2022

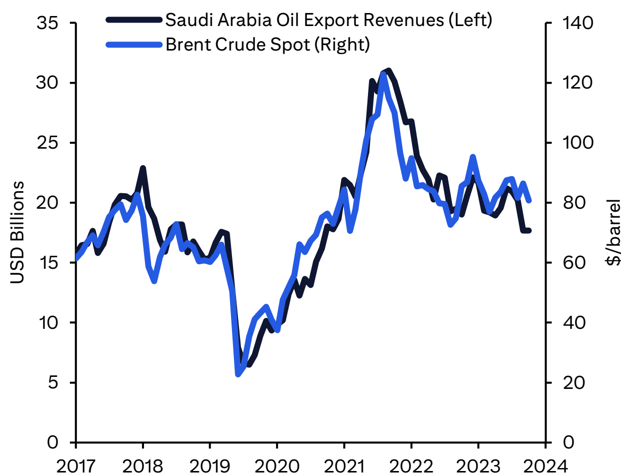
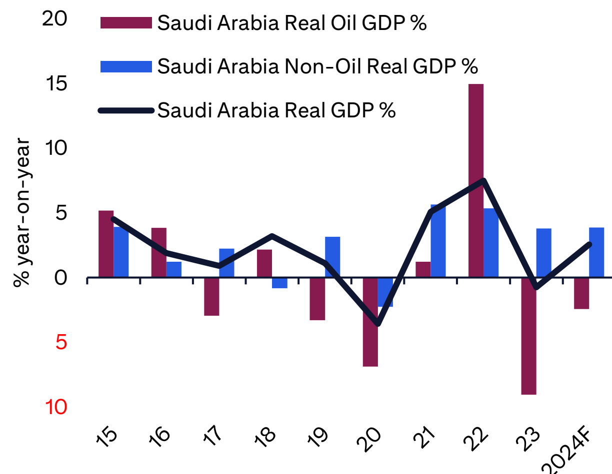


FIGURE 3: Saudi Arabia's GDP growth is sustained by non-oil growth



Source: Bloomberg, as of August 28, 2024. They are shown for illustrative purposes only and do not represent performance of any specific investment. Past performance is no guarantee of future results. Results may vary.

Voluntary production cuts from 11 million barrels per day in 2022 to an average of 9mb/d in 2024, coupled with weaker oil prices, led to a contraction in Saudi Arabia's Oil-GDP by 9% YY in 2023 (**FIGURE 3**), though it is expected to moderate in 2024 to a decline of 2.4% YY according to the International Monetary Fund (IMF), which revised down its 2024 GDP growth projection for Saudi Arabia to 2.6% YY from 4.0% YY, citing cuts in oil production. Expectations for non-oil GDP growth remain robust at 3.9% YY in 2024, up slightly from 3.8% YY in 2023. The IMF estimates the kingdom would need oil prices to average around $96 per barrel in 2024 to meet its fiscal spending needs, a target that no longer seems feasible given the current market dynamics.

This outlook is similar to the broader regional trend, where subdued oil output is weighing on growth across the GCC. Real GDP is expected to rise 2.4% YY in 2024, with expectations revised down from 3.7% YY. GCC Non-Oil GDP is projected to grow by 3.6% YY this year, while GCC Oil-GDP is anticipated to contract by 1.1% YY.

Regional Economic Vulnerabilities and Structural Reforms

The shift to a more conservative oil price environment could have substantial implications for the GCC region's fiscal budgets, investment strategies, and diversification efforts. Economic diversification is progressing – evident in the expansion of non-oil sectors like technology, tourism, and manufacturing – but key structural areas still require further development.

- **High exposure to oil prices:** Even with diversification strategies, oil revenues dominate fiscal revenues and export earnings. This directly links global oil prices and the region's economic stability. A significant decline in oil prices could lead to larger budget deficits, delayed infrastructure projects, and reduced spending on social programs.
- **Geopolitical risks:** The GCC's proximity to geopolitical flashpoints, coupled with a more complex backdrop (e.g. rising protectionism, supply chain disruptions, and shifts in global energy demand), adds layers of risk to the region's macroeconomic environment.

Given these vulnerabilities, policy efforts should focus on several key areas:

- **Enhancing labour market efficiency:** Reforming labour markets to better align with the needs of a diversified economy is crucial. This includes promoting skills and developing local talent to reduce reliance on expatriate labour.
- **Improving institutional and regulatory environments:** Strengthening governance frameworks, reducing bureaucratic inefficiencies, and promoting transparency are essential for attracting foreign investment and fostering entrepreneurship.
- **Accelerating Green Growth initiatives:** With global energy transitions gaining momentum, the GCC must accelerate its shift towards renewable energy, sustainable industries, and green technologies. This will mitigate risks associated with stranded oil assets and position the region as a leader in the emerging green economy.

For detailed country discussions, please click here.

Gold: Beware of Hidden Risks

Since our May publication discussing the rally in gold and copper, the performances of the precious and base metals have diverged significantly. Gold has managed to hold on to its gains, even increasing modestly but steadily until it finally broke the $2500/oz barrier in mid-August. On the other hand, copper has fallen from testing the $10k/mt barrier to a little over $9k/mt. To investors concerned about the performance of these commodities in rising markets, we would reinforce the differing nature of gold and copper – and thus the different functions they serve in a globally diversified portfolio.

Gold's relationship to real rates has broken down in recent years. Are we witnessing a restoration or unrestricted optimism? The attractiveness – and thus price – of gold, a zero-income producing asset, has historically risen when real rates in the US were low and the dollar weak (**FIGURE 4**). The opposite is also true. However, despite rates being at historically restrictive levels since the US Fed hiked rates in 2022-2023, gold has continued to perform well. The breaking down of this relationship – at least, on the surface – between gold and rates has been attributed mainly to strengthening Chinese demand.

What led to the rise in Chinese demand? Though China's domestic spending has been relatively weak across the board, the supply picture has remained robust, resulting in excess supply. This has led to a rise in exports and a substantial trade surplus, boosting its already high FX reserves, which the country has been using to purchase gold. Weakness in the Chinese property and equity markets has led to increased gold investment demand from retail buyers as well, limiting the downside from US monetary policy.

However, while that may have been a strengthening trend in 1Q-24, the picture looked a lot different in the second quarter of this year. The People's Bank of China (PBoC) ended an 18-month purchasing streak in May, leading overall central bank demand to fall from 300 tonnes (t) in 1Q-24 to 183t in 2Q-24. Influenced by central bank actions, Chinese retail buyers also slowed purchases, with non-monetary bullion imports falling from 566t in 1Q-24 to 334t in 2Q. Despite that, gold prices did not collapse, trading range-bound between $2300/oz -$2500/ oz from April to July and just recently breaking through that range to trade around $2500/oz (**FIGURE 5**).

What is the cause of this resilience? Look to the US. Physically backed gold ETFs have been net selling gold since 2020, with average net redemptions of over 180t/year for 2021-2023. Recently, however, that trend seems to be reversing. ETF outflows slowed from 113t in 1Q-24 to 7t in 2Q, with July having a monthly net positive inflow of 47.7t. Most of that reversal has come from the US, where outflows slowed from 66t in 1Q to 9t in 2Q, turning heavily positive at 26t in July. While not yet enough to make up for the gap in overall Chinese demand, the trend of greater demand from the West amidst rate cut expectations – the SNB, ECB and have already cut rates, and the Fed is expected to follow in September – has supported higher gold prices. Furthermore, with gold making up only 5% of China's gold reserves – far below the EM average – it is likely that the PBoC will not keep gold purchases on hold for long, especially with the threat of US tariffs looming. And where the central bank goes, China's retail buyers often follow.

FIGURE 4: Gold and real Treasury yields have historically been correlated

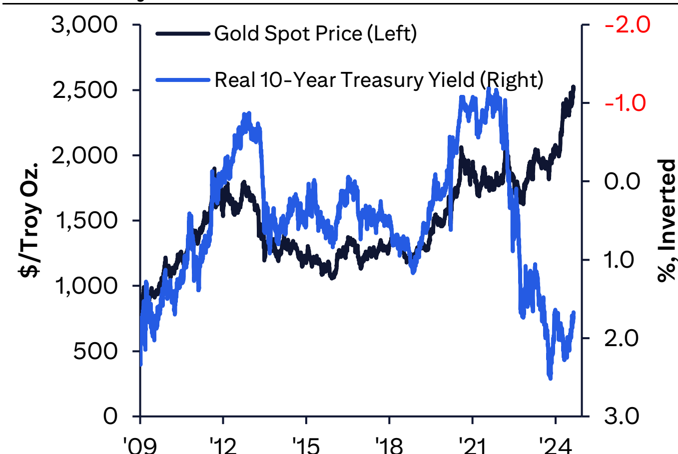
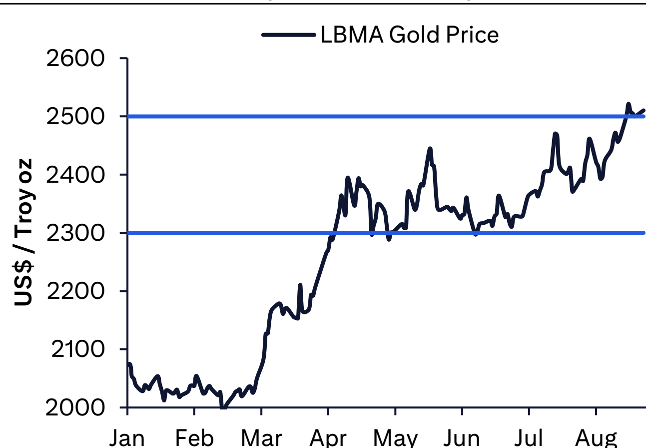


FIGURE 5: Gold has been trading range-bound between $2300/oz and $2500/oz

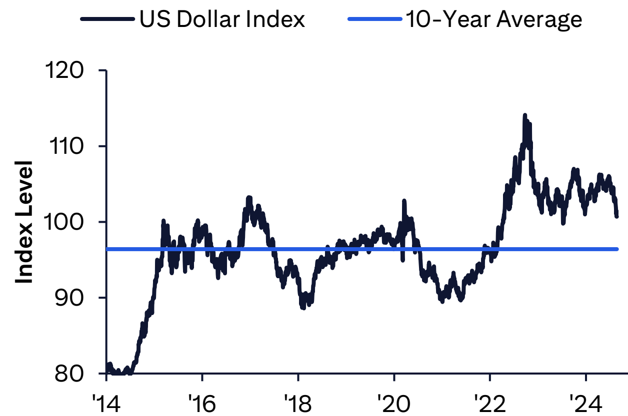


Source: Haver Analytics, as of August 28, 2024. They are shown for illustrative purposes only and do not represent performance of any specific investment. Past performance is no guarantee of future results. Results may vary.

Regardless, downside risks remain. As we pointed out in our [Mid-Year Outlook] 2024, the inflation-adjusted value of gold has risen to near historic levels (**FIGURE 6**). Key to that rise is continued growth in demand, which raises the question: what happens if demand falters? With equity markets at all-time highs and some market participants speaking of recessionary fears, it is not difficult to imagine why some investors would feel compelled to consider investing in gold to protect against possible market pullbacks. However, with today's price levels, conservative investors should consider the impact if demand were to pull back and gold reverted to its historical average inflation-adjusted price.

FIGURE 6: The real value of gold has risen in recent years

FIGURE 7: Dollar index is currently at an elevated level, even if below the highs seen in 2022.



Source: Bloomberg, FactSet, as of August 27, 2024. They are shown for illustrative purposes only and do not represent performance of any specific investment. Past performance is no guarantee of future results. Results may vary.

The looming spectre of rate cuts. With the US Federal Reserve Chairman Jerome Powell signalling on August 23 at the Jackson Hole Symposium that rate cuts may begin in September, the question is no longer 'when' but 'how many' rate cuts will we see this year. The dollar index, reacting to news of imminent monetary policy easing, has already begun weakening back to its long-term average (**FIGURE 7**). This could boost the attractiveness of gold given the lower opportunity cost for conservative investors, increasing demand and restoring the link between gold price and real rates. That is assuming, of course, maintenance of the current trade balance, which allows for the export revenue central banks need to buy gold. As we know, that may not be the case.

The Trump effect. News of ex-President Trump's intention to enact, if elected, a universal trade tariff of 10% on all imported goods, rising to 60% for imports from China, has dominated conversation among economists and investors. As highlighted in our CIO Bulletin (US Election: Looking for Risks Hiding in Plain Sight – July 27), the scale of these tariffs could set it apart from the 2018 tariffs, which had limited effect. Lower exports to the US could lower China's trade surplus, possibly (but not likely) slowing the rate of gold purchases. On the other hand, the impact of such a large tariff on the US economy remains to be seen, particularly as much of Big Tech may be sensitive to a trade war. It is also possible for China to lean stronger into diversifying FX reserves in reaction to US trade aggression, increasing the rate of gold purchases. Simply put, measuring the impact of such large tariffs is hard.

As always, concentration presents a problem to the risk-averse investor. Gold broke the crucial $2500/oz barrier in mid-August, promptly after Reuters announced that China issued new import quotas on gold in anticipation of higher demand. This signals how strong Chinese demand, despite falling in 2Q-24, is still baked into the current price. Despite market analysts expecting Chinese demand to pick up again toward the end of the year, the assumptions built into the current price should tell investors – whether bullish or bearish on the precious metal – to position gold very carefully into their portfolios as an asset not immune to market volatility.

Lastly, a note on gold as a store of value. A common perception among experienced and novice investors alike is that gold acts as a good long-term store of value. While we concede that the short-term volatility of the precious metal has been attractively low, the long-term prospect has historically been worse than investors believe. As with the current situation, there have been many periods where gold's inflation-adjusted price has risen far above its historical average, with investors seeing double-digit growth. However, that has often been followed by periods of weakness, with mild decreases in prices lasting for long enough for inflation to erode long-term value. For example, if you had bought gold

at the beginning of 2013, you wouldn't have made your money back (even nominally) until sometime in 2020. The key takeaway here is gold is not a risk-free asset. Timing matters heavily for the precious metal.

Copper has pulled back amidst softening growth

In contrast to gold, copper has not done nearly as well in recent months, giving back much of the progress made during 1H-24's rally (**FIGURE 8**). While gold's demand is derived from its function as a safe haven for investment in times of economic weakness, copper's demand stems from its manufacturing usage and energy transition. Softening growth in China and weak manufacturing indicators for major economies (Germany in particular) have caused the base metal to struggle to hold on to its gains.

What drove the rally? Unlike gold, whose rally was caused by evidence of strong investment demand across China, copper demand has not seen such significant growth in usage. Much of 2024's rally has instead been caused by expectations that the growth in demand – due to the energy transition and AI – would exceed the growth in supply. This bet was built partly because copper mines have become increasingly difficult to build and operate, with development costs climbing significantly in recent years.

While that remains true, demand has thus far not met expectations. In China, weak domestic demand has led to smelters selling refined copper overseas. Net exports doubled from May to June, reaching 158K tons in shipments abroad, smashing the previous all-time high of 102K tons set in 2012, though exports have since dropped in July. Moreover, the manufacturing sector in Europe is still firmly in contraction, with the final eurozone manufacturing PMI most recently recorded at a low of 45.8 (**FIGURE 9**). Germany, one of the world's largest manufacturing sectors, sank to a level of 42.4. That said, global copper demand has not exactly weakened. It just hasn't grown fast enough to support the speculative pricing seen earlier in the year.

In the bull case, the supply picture still looks precarious in the longer term. Efforts to mine new supply, including more substantial investment in Argentina, will likely take years to yield notable production. Furthermore, rate cuts are coming, and when they do, we expect to see a pickup globally in manufacturing activity and general demand for copper. If seen, a pickup in the Chinese property sector would also lend weight to promoting copper demand, propelling prices higher.

FIGURE 8: Copper has retreated from the highs observed in May

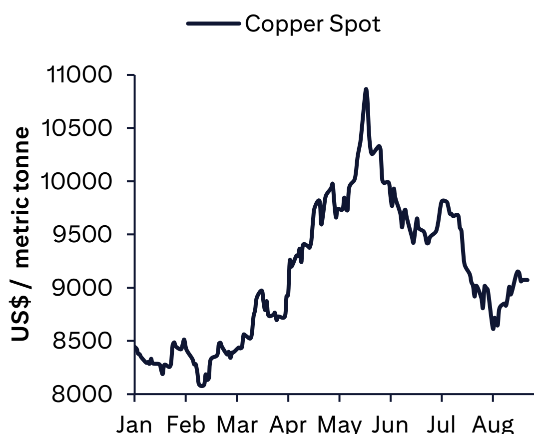
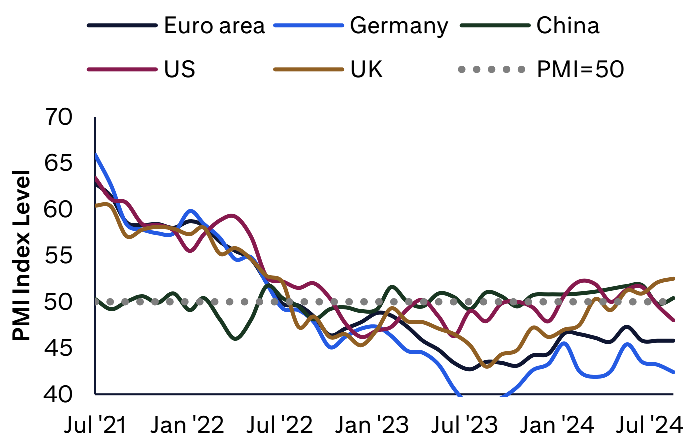


FIGURE 9: Manufacturing is still depressed in many major economies, especially Germany



LHS Source: FactSet, as of August 28, 2024. RHS Source: Bloomberg, as of September 2, 2024. US Manufacturing PMI for August is a preliminary estimate subject to revision. A PMI index level above 50 indicates expansion, while a level below 50 indicates contraction. They are shown for illustrative purposes only and do not represent performance of any specific investment. Past performance is no guarantee of future results. Results may vary.

GCC Economic Update

Saudi Arabia

Despite the headwinds in the oil sector, Saudi Arabia's diversification efforts under Vision 2030 continue apace. The Public Investment Fund (PIF), with assets of $925 bn, remains a crucial driver of these efforts, investing in sectors ranging from technology and renewable energy to entertainment and tourism. The PIF has also shifted its focus inwards, prioritising domestic mega projects such as NEOM and the Red Sea Project. Such efforts are central to the kingdom's transformation efforts and symbolise its ambition to become a global hub for innovation, tourism and business (See Middle East Strategy – July 2).

However, with oil revenues declining, could such projects face delays or scaling back? The kingdom's ability to finance these initiatives will increasingly depend on the successful development of new industries.

Saudi Arabia is actively expanding into strategic sectors such as mining and manufacturing, with a focus on developing its capabilities in electric vehicles (EVs) and semiconductors. The establishment of the National Semiconductor Hub, for example, aims to foster fabless chip companies, drive semiconductor design, and attract chip manufacturers, targeting the presence of at least 50 companies by 2030. Additionally, the kingdom is hosting major international events like the Asian Winter Games in 2029 and has submitted a bid to host the FIFA (football) World Cup in 2034. These events are anticipated to boost economic activity and enhance global visibility.

The decline in oil revenues has already led to a widening fiscal deficit. The Saudi government posted a budget deficit of SAR -15.3bn in Q2 2024, a wider gap than in Q2 2023's SAR -5.3bn. The fiscal gap is expected to widen further by year-end, driven by lower oil revenues and increased spending on social programs and infrastructure.

In the near term, Saudi's fiscal strategy should focus on balancing the need for continued investment in diversification initiatives with fiscal prudence. Maintaining budgetary discipline in the face of oil price volatility will be crucial for macroeconomic stability and the success of the structural reform program.

Inflationary pressures in the kingdom remain relatively contained, with prices rising 1.53% YY in July, marginally higher than June's 1.50% YY print, though meaningfully below January 2023's 3.35% YY level. Price caps on essential goods like food, gasoline, and electricity have helped mitigate cost-of-living increases.

United Arab Emirates

The UAE's economic performance remains robust, supported by a dynamic non-oil sector and proactive government policies to foster entrepreneurship and innovation. Abu Dhabi's GDP grew by 3.3% YY in Q1 2024, primarily driven by non-oil sectors such as financial services, real estate, and tourism. Non-oil GDP increased 4.7% YY in Q1'24. Notably, the contribution of non-oil activities to the overall Abu Dhabi economy reached its highest level since 2015 at 54.1%. Dubai's economy, known for its diversification, registered 3.2% growth over the same period, reflecting steady momentum in trade, logistics and tourism.

However, the UAE's overall growth outlook for 2024 is slightly subdued, with economic expansion projected at 3.4%, down from 3.6% in 2023. The slowdown is primarily due to reduced oil output, with the UAE's oil production averaging 2.9 million barrels per day (bpd) in the first half of 2024—a 2.1% decline year-on-year. Oil GDP is expected to contract by 1.1% in 2024, reflecting the impact of production cuts and global supply-demand dynamics. Non-oil GDP is projected to grow by 5.0% in 2024, down from 6.2% in 2023.

The UAE's non-oil Purchasing Managers' Index (PMI), at 55.1 in Q2 2024, is still in expansion territory. This indicates moderate growth momentum compared to earlier quarters. The slowdown reflects the UAE's exposure to global economic conditions, given its major trade and financial hub position.

Dubai's inflation rate softened to 3.3% YY in July 2024, with inflation expected to hover around 2.5% for the full year. The UAE's current account surplus is projected to narrow to 7.8% of GDP in 2024 from an estimated 9.3% in 2023, reflecting lower oil export earnings and increased imports.

The UAE's ambitious structural reform agenda, which includes initiatives focused on green growth, private sector development, and strengthening governance frameworks, is expected to support long-term economic resilience. The government's commitment to attracting foreign direct investment (FDI) and fostering innovation positions the UAE well for sustained growth in a rapidly changing global economy.

Qatar

The IMF expects Qatar's economy to accelerate in 2024, with real GDP growth projected at 2% YY, up from 1.6% YY in 2023. Both the hydrocarbon and non-hydrocarbon sectors continue to drive economic momentum. The North Field East and South projects, part of Qatar's Liquefied Natural Gas (LNG) expansion plans, are expected to increase production capacity by 50%, positioning Qatar as a global leader in LNG exports.

The country recently signed a new 15-year LNG supply deal with Kuwait, marking a significant milestone in its efforts to expand market share and secure long-term revenues. This deal and others in the pipeline will be crucial in maintaining Qatar's fiscal health and funding its economic diversification initiatives.

Qatar's Third National Development Strategy (NDS3) sets out the government's long-term vision for economic transformation, which aims to further diversify the economy and reduce dependence on oil. Early signs are promising, as non-oil GDP is projected to grow by 2.0% YY in 2024, building on 2023's 1.0% YY growth.

The strategy prioritises high-value sectors, such as technology, manufacturing, and finance, while also supporting traditional industries like construction and real estate. Qatar is making big investments in sports and tourism, using the momentum from hosting the 2022 FIFA World Cup to grab global attention and boost investment in these areas. We're positive on Qatar's outlook in the medium-term, thanks to strong LNG market conditions, ongoing infrastructure projects, and business-friendly government policies.

Kuwait

Currently, Kuwait is experiencing a challenging outlook; the country's economy is estimated to shrink by 1.9% in 2024, following a 3.6% decline in 2023—the worst reading since 2020. This is partly led by oil production that averaged 2.4 million bpd in the first half of 2024, down by 7.8% YY. The decline in oil revenues has significantly impacted Kuwait's fiscal balance. The government's heavy reliance on oil exports to fund public sector wages, subsidies, and social programs has led to a widening budget deficit. Efforts to diversify the economy have been slow, with limited progress in developing non-oil sectors.

Political uncertainty has further complicated Kuwait's economic prospects. The government has shifted to implementing more pressing reforms in fiscal policies, subsidies, and public sector organisations. However, progress remains slow due to political gridlock. Kuwait's long-term economic outlook is reliant on the implementation of these reforms, particularly as global energy transitions accelerate.

Oman

Structural reforms, fiscal consolidation, and steady non-oil sector growth have supported Oman's economic recovery in 2024. The government's Vision 2040 strategy aims to reduce the country's dependence on oil by diversifying into tourism, manufacturing, and logistics sectors. The introduction of Value Added Tax (VAT), subsidies and public sector wage reforms have helped stabilise Oman's fiscal position, with the budget deficit narrowing significantly.

Oman's parliament has recently approved a law introducing personal income tax, which is now pending final approval from the State Council. If passed, estimates are for an income tax of 5-9% for expatriate workers earning Oman-sourced income over $100,000 and a flat tax of 5% for Omani citizens earning a global income of over $1MM. With high-income thresholds and a low tax range, it is unlikely that this proposal would significantly impact many within the sultanate, with Fitch Ratings estimating that this tax would only add 0.2% to Oman's GDP in 2026.

However, the GCC has long attracted wealthy expats on the promise of no taxes. Introducing a personal income tax – no matter how small – in a GCC state raises concerns about broader regional implementation. In the medium term, we would highlight that Saudi Arabia and the UAE's intense drive to attract top foreign talent and businesses makes it unlikely that an income tax would be levied anytime soon, with Oman's high debt-to-GDP ratio as the reason for its breaking away from the pack.

Real GDP growth is projected at 1.2% in 2024, with non-oil sector growth offsetting contraction in oil GDP (2.5% YY vs -0.9% YY in 2024, respectively). The government's focus on improving the business environment, attracting foreign investment, and promoting entrepreneurship has started to yield positive results, although challenges remain. High unemployment, particularly among the youth, and slow progress in implementing key reforms continue to weigh on the outlook.

Bahrain

Bahrain's economy is expected to grow by 3.6% YY in 2024, supported by strong non-oil sector activity (+4% YY in 2024) and continued fiscal consolidation under the Fiscal Balance Program. The non-oil sector, including financial services, tourism, and manufacturing, remains the primary growth driver. Bahrain's strategy of positioning itself as a regional fintech and digital innovation hub has attracted significant investment, with the sector showing strong growth prospects.

However, fiscal challenges persist. Bahrain's debt levels remain among the highest in the region – forecast at 126% of GDP in 2024 vs 124.6% in 2023 – and despite progress in narrowing the fiscal deficit, public debt sustainability remains a key concern. The government has committed to further fiscal reforms, including subsidy reform and expenditure cuts, but social pressures and political sensitivities could slow the pace of adjustment.

IMPORTANT INFORMATION

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Bond credit quality ratings	Rating agencies		
Credit risk	**Moody's[1]**	**Standard and Poor's[2]**	**Fitch Rating[2]**
Investment Grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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- lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

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