Fiscal Balance Program
Fiscal Balance Program
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Overview

In recent years, the Government of the Kingdom of Bahrain has launched a number of initiatives and programs that have contributed to ongoing economic development and promoted investment into the Kingdom’s economy. These efforts, underpinned by the principles of sustainability, competitiveness and fairness enshrined within Bahrain’s Economic Vision 2030, have led to the strengthening of the national economy, the maintenance of low unemployment rates, and sectoral diversification.

In order to address the current fiscal challenge, the Government began implementing an integrated program aimed at achieving fiscal balance by restructuring the government budget to capitalise on economic growth. As part of this process, a number of initiatives has been implemented to reduce government expenditure and increase revenues, whilst enhancing service delivery to citizens. The next phase of the program will focus on increasing these efforts with the objective of balancing the government budget by the end of 2022.

The Government will establish a governance framework to support the effective implementation of the Fiscal Balance Program, ensure the program is responsive to local and global economic developments, and align government revenues with positive economic growth.
Economic Development
Economic Development

Developing the economy and promoting investment

The Kingdom of Bahrain’s economy has expanded positively over the past years in response to a long-standing policy of economic and sectoral diversification and government-led efforts to empower the private sector. Bahrain’s Economic Vision 2030, which aims to achieve growth and prosperity for all members of society and to enhance the role of the private sector as the main driver of development, played a central role in this journey and has achieved significant results to date. Between 2002 and 2017, overall GDP more than doubled, with the growth of the non-oil sector increasing by an average of 7.5% annually, outperforming growth in the oil sector over the same period.
In support of these efforts, the Government has undertaken a number of initiatives to promote economic development and investment. These initiatives have focused on enhancing the investment environment and infrastructure, streamlining business procedures, intensifying efforts to attract foreign investment, supporting the labour market and private sector institutions, and strengthening oversight over all government bodies.

Initiatives include:

1. Enhancing infrastructure and the regulatory environment

In recent years, Bahrain has fostered an environment conducive to economic development, investment, high-quality employment, and the attraction of capital through the creation of strategic projects including:

- The launch of a number of priority development projects which are due to be completed in the coming years and will contribute to job creation and economic growth.

### Priority Development Projects

#### Funding contributions:

- **Private Sector**
  - USD 15 billion

- **Government-Owned Companies**
  - USD 10 billion

- **GCC Fund**
  - USD 7.5 billion

**USD 32.5 billion**
• The launch of several major infrastructure projects as part of the USD 7.5 billion GCC Fund committed in 2011 by the Kingdom of Saudi Arabia, the United Arab Emirates and the State of Kuwait. These include the creation of King Abdullah Medical City, the development of major roads such as Shaikh Zayed and Shaikh Jaber highways, the establishment of the Khalifa Town and Salman Town housing cities, as well as the construction of a number of public schools and the expansion of the electricity grid.

GCC Fund allocation by sector

- Roads USD 1,046 mn
- Airport USD 1,000 mn
- Housing USD 2,183 mn
- Electricity and Water USD 1,571 mn
- Other Sectors USD 1,700 mn

- Sports
- Sewage
- Health
- Reclamation
- Education
- Social Welfare
- Industry
- Other
• The launch of the **Bahrain International Airport** expansion and modernisation project at a total cost of USD 1 billion with the support of the Abu Dhabi Fund for Development. The capacity of the airport will increase threefold after expansion to reach 14 million passengers per annum and phase 1 of the project is expected to be inaugurated in 2019.

![Airport Expansion Project](image1)

<table>
<thead>
<tr>
<th>Project cost</th>
<th>Launch of Phase 1 in 2019</th>
<th>Capacity of the airport will increase threefold after expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 1 billion</td>
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• The commissioning of the USD 4.2 billion **Bapco Modernisation Program**, which is the single largest investment in Bapco’s history and will see the refinery’s capacity increase from 265,000 to 360,000 barrels per day.

• The commissioning of **Alba’s Line 6** project, on track to launch in January 2019, which will result in Alba becoming the world’s largest aluminium smelter producing 1.5 million metric tonnes of aluminium each year - a 52% expansion of current production levels. The project is set to create 3,200 jobs for Bahrainis.
Fiscal Balance Program

- The implementation of **228 road construction projects**, worth over USD 2.6 billion, to reduce traffic congestion, increase the flow of traffic and facilitate the transportation of goods.

- The adoption of the **National Planning Development Strategy 2030**, which emphasises an integrated approach to urban development, increases transparency in land usage and contributes to the development of Bahrain’s investment environment.

- The establishment of the **Real Estate Regulatory Authority (RERA)**, designed to deliver a transparent and sustainable regulatory environment for the real estate sector, promoting investment and protecting the rights of consumers.

- The launch of a comprehensive **health sector reform** program, transforming the role of the Ministry of Health from an operator to a regulator, and introducing a new national health insurance system.

- The expansion of the social housing finance scheme, **Mazaya**, whereby beneficiaries obtain government-supported bank financing to purchase housing units, accelerating access to housing.

- The adoption of the **Fourth National Telecoms Plan** in 2016 with the aim of ensuring the continued development and efficient management of telecoms infrastructure, creating the conditions necessary to enable investments and businesses as well as maintain healthy competition in the telecoms market. In line with the plan, a national ultra-fast broadband network has been rolled out using fibre-optic cables.
• The establishment of a dedicated FinTech Unit in the Central Bank of Bahrain to keep abreast of the digital transformation of the banking industry, and the launch of the FinTech Bay incubator and co-working space. This is enabled by the creation of a regulatory sandbox that allows fintech firms and start-ups to safely develop innovative banking applications.

• The issuance of new legislation to support investment, such as the Reorganisation and Bankruptcy law, the Competition law, and amendments to the Commercial Companies and Notarisation laws.
2. Development and simplification of government procedures

The Government has redoubled its efforts to simplify trade and industry regulations and procedures, including those that require approvals from multiple agencies, to increase investment opportunities and enhance returns.

Initiatives undertaken include:

- The implementation of a new online commercial registration portal, **Sijilat**, which provides an integrated system that simplifies commercial registrations. The system includes all the necessary services and information to obtain a commercial registration and business license in Bahrain. The portal and its services are continuously updated to serve more users.

  - Features:
    - Integrated system that works round-the-clock
    - Simplifies the process to obtain commercial registrations
    - Provides all necessary information and services to start a business
    - Covers more than 550 business activities

- The launch of a new initiative, **Sijili**, designed to simplify registration procedures for Bahraini one-person companies whose owners work without a commercial address or fixed headquarters. The initiative includes 39 diverse activities aimed at encouraging start-ups.

- The launch of an e-transformation project for government services, making more than 90 services available online and via smart device applications, including traffic, utilities and Civil Service Bureau services.
• Under the umbrella of the Handara program, the reengineering of 28 government services and the simplification of procedures related to municipal licensing, education, transport, and land registration among others.

• The introduction of measures to increase capacity on King Fahad Causeway for heavy and special vehicles, reducing the average travel time for heavy vehicles from five days to less than ten hours. This is in addition to new routes and simplified procedures for passengers.

• The launch of a program to evaluate government service centres, implementing new criteria to improve the quality of services and increase customer satisfaction.

• The establishment of a government auction company, Mazad, which hosts public and online auctions, increasing transparency and competitiveness within the sector.

• The privatisation of a number of government services, including the maintenance and delivery of infrastructure, public transport services, and certain healthcare and administrative services, increasing efficiency and improving service delivery.
3. Attracting investments

The Government has adopted a strategic plan to develop six key economic sectors, namely financial services, information and communication technology, industry, logistics, tourism, and oil. The Economic Development Board has enhanced engagement with investors at home and abroad by highlighting the investment opportunities offered by the Kingdom in these areas. As a result, the volume of foreign direct investment into the Kingdom of Bahrain reached USD 17 billion between 2002 and 2017.

A number of initiatives has been implemented to increase the volume of foreign and local investments, and create job opportunities:

- The Economic Development Board continues to target international markets, operating through more than 22 global offices. The board’s efforts contributed to an average annual increase of 79% in foreign direct investment between 2002 and 2017.

- New legislation was introduced to allow foreign investors 100% business ownership in various sectors, with the objective of making Bahrain the first choice for investors and creating quality employment opportunities for Bahrainis.

- Measures were implemented to streamline visa procedures, aimed at increasing tourism and business activities. Currently, more than 117 nationalities are able to obtain an electronic visa, with 68 nationalities able to obtain a visa on arrival.

- A new tourism strategy - **Ours, Yours. Bahrain** - was launched aimed at developing tourist attractions, increasing the number of events and activities, easing access to Bahrain through all entry ports (sea, land and air), and providing quality accommodation for tourists.
• A national strategy to revive the pearling industry was launched to strengthen and capitalise on Bahrain’s historic status as a global pearling centre, providing the necessary services and infrastructure to encourage pearl diving trips for locals and tourists. The strategy also established the Bahrain Institute for Pearls and Gemstones (DANAT), which aims to serve as an international hub for gemological research and expertise.

• “Start Up Bahrain” was launched in 2016, with the aim to stimulate and encourage entrepreneurial culture in the Kingdom. The initiative focuses on six pillars: the start-up community, incubators and accelerators, finance, education, regulation, and corporate partnership.

• A comprehensive strategy for the development of the logistics sector was implemented to ensure Bahrain capitalises on its strategic location as a logistics hub for the region.

• Bahrain hosted the first Gateway Gulf investment forum, which highlighted significant investment opportunities in vital economic sectors. The inaugural event was attended by more than 850 international investors, business leaders and public sector officials from more than 40 countries, and showcased USD 26 billion worth of investment projects.
4. Supporting the labour market and strengthening the role of the private sector

In 2006, the Government launched a program to develop and restructure the labour market with the aim of making Bahraini citizens the first choice for employers. The program included the establishment of the Labour Fund (Tamkeen) to support Bahraini employees and private sector institutions. In addition, the Labour Market Regulatory Authority (LMRA) was established to regulate and oversee the sector in line with international best practices.

- **Tamkeen** continues to make an important contribution to the development of the national economy through private sector development programs. Since its inception in 2006, Tamkeen has injected more than USD 2 billion into the national economy. To date, Tamkeen’s support has benefited over 125,000 individuals and 45,000 businesses. One in every three Bahrainis in the private sector has benefited from Tamkeen’s training programs. More than half of Tamkeen’s projects are aimed at supporting small and medium enterprises.

Tamkeen has injected more than

USD 2 billion

into the national economy

125,000 individuals

45,000 businesses

have benefited from Tamkeen
• Several labour market regulatory programs have been introduced, key among which is the **Flexible Worker System**, which permits foreign workers to live in the Kingdom of Bahrain without a sponsor and work in a number of fields with multiple employers on a full or part-time basis.

• **The Export Development Centre** is being established to encourage and promote Bahrain’s exports and to strengthen the Kingdom’s position as a global trading partner by providing the necessary tools and services to develop non-oil exports.

**Impact**

These initiatives will continue to contribute to positive growth in the Kingdom’s non-oil sector, strengthening its contribution to GDP, increasing sustainable development and further enhancing diversification while reinforcing the pivotal role of the private sector as the major driver of growth.

The Government will continue to develop vital economic sectors, attracting the required investment to generate quality jobs and facilitate the transfer of technology and global expertise to the Kingdom.

These efforts continue to have a direct impact on citizens, demonstrated by the fact that between the 2008 launch of the Bahrain Economic Vision 2030 and 2016, average household income increased by 47%.

![Increase in Household Income](chart)
Fiscal Situation
**Fiscal Situation**

Bahrain’s long-standing commitment to economic diversification has delivered tangible results across key sectors. However, to date, non-oil government revenues have not kept pace with economic growth.

**Economic Diversification**

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Sector</th>
<th>Non-oil Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>2017</td>
<td>18%</td>
<td>82%</td>
</tr>
</tbody>
</table>

2002: BHD 6.1 billion  
2017: BHD 12.4 billion

**Government Revenues**

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Revenues</th>
<th>Non-oil Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>2017</td>
<td>75%</td>
<td>25%</td>
</tr>
</tbody>
</table>

2002: BHD 1.0 billion  
2017: BHD 2.2 billion

- Non-oil sector  
- Oil sector
The government’s dependence on oil revenues and the low growth rate of non-oil government revenue has led to successive budget deficits.
Successive budget deficits in recent years have seen public debt reach 87% of GDP in the first half of 2018.

Recognising the importance of restructuring government expenditures and revenues to align with positive economic growth, stabilising debt and strengthening fiscal sustainability, the Government introduced several initiatives between 2015 and 2017 which ultimately yield fiscal savings worth **BHD 854 million** annually. These initiatives were centred around three key priorities: streamlining government expenditure, increasing revenues, and redirecting government subsidies towards eligible citizens.

Nevertheless, further initiatives are required to achieve fiscal balance, which has led the Government to prepare a Fiscal Balance Program expected to reduce the deficit by **BHD 800 million** annually over the coming years.
Fiscal Balance Program
Fiscal Balance Program

Building on existing initiatives, the Government has launched the Fiscal Balance Program with the overall objective to achieve:

A balanced budget by 2022

These initiatives include:

- Reducing government operational expenditure
- Introducing a voluntary retirement scheme for government employees
- Balancing the Electricity and Water Authority’s expenditures and revenues by 2022
- Streamlining the distribution of cash subsidies to citizens in need
- Improving the efficiency of government expenditure
- Simplifying government processes and increasing non-oil revenues

Projected impact of the Fiscal Balance Program on an annual basis

BHD 800 million
Reducing government operational expenditure

Six government task forces will be activated to identify and implement savings in government operational expenditure, with a focused scope including:

- Evaluating and recommending approvals or rejections for all expenditure requests by government entities.
- Setting criteria for the procurement of standard products and services.

![Streamlining Operational Government Expenses](image)

**Working mechanism**

- **Purchase requests from government entities** are submitted to the Ministerial Committee for Financial Affairs and Rationalisation of Expenditure, and then referred to the relevant task force.
- **Task forces review the purchase requests and submit their recommendations to the Ministerial Committee.**
- **The Ministerial Committee** approves or rejects the purchase request based on the task force’s recommendations.
Introducing a voluntary retirement scheme for government employees

A voluntary retirement scheme will be offered to civil servants, providing them with the opportunity to contribute to the Kingdom’s economic growth through entrepreneurship or participation in the private sector. The scheme encompasses various incentives, key among which is granting up to 5 years of service, a one-off direct cash compensation equal to the cost of purchasing 5 additional years of service, an end-of-service promotion for those eligible, plus an end-of-service indemnity.
Balancing the Electricity and Water Authority’s expenditures and revenues by 2022

This initiative includes gradual adjustments to electricity and water tariffs while preserving benefits for Bahrainis in their primary households, with the aim of enhancing efficiency and reducing spending to balance the Authority’s expenditures and revenues by 2022.

Streamlining the distribution of cash subsidies to citizens in need

The current cash subsidies program comprises multiple allowances typically regulated and allocated by multiple entities. The consolidation and redirection of cash subsidies towards eligible citizens is an important part of ensuring fairness and improving quality of life.
Improving the efficiency of government expenditure

Furthermore, the Government has designed outcome-driven measures to improve spending efficiency and strengthen accountability within government departments. These include:

- **Addressing cases highlighted in the National Audit Office report:**
  - Administrative violations requiring swift action
  - Cases requiring internal investigation
  - Potential corruption cases to be transferred to the Anti-corruption and Economic and Electronic Security General Directorate at the Ministry of Interior

- **Establishing a internal audit unit at the Ministry of Finance** to improve accountability and transparency. This unit is primarily responsible for scrutinising internal procurement and administrative procedures across government departments.

- **Implementing a strategic plan to improve the Tender Board’s services, rules, and procedures** and ensure greater efficiency through the use of electronic systems.

- **Establishing a central procurement unit** to oversee the procurement process across government, while identifying ways to increase efficiency of government purchases in coordination with the government task forces to streamline operational expenses.

- **Establishing a centralised unit at the Ministry of Finance** to independently evaluate purchase orders submitted by government entities. The new unit will also be responsible for: collecting and analysing data pertaining to government expenditure, providing technical support to the Ministerial Committee for Financial Affairs and Rationalising Expenditure, and setting guidelines for reducing expenditure.

- **Establishing a Debt Management Office** to develop a strategy to manage the public debt and manage annual debt borrowing with the aim of securing fair pricing for the Government’s financing requirements over the short, medium and long term.
Simplifying government processes and increasing non-oil revenues

The Government will continue its efforts to increase non-oil revenues and align them with positive economic growth through the following initiatives:

• **Streamlining and simplifying government processes**
  The Government will continue to streamline processes and services and review legislation with the aim of improving its performance and keeping up with the pace of economic growth and technological advancements.

• **Introducing Value-Added Tax in line with GCC Agreement**
  A 5% VAT will be applied to non-essential goods and services, in line with the GCC VAT Agreement.

• **Reviewing government services and fees**
  In order to ensure sustainability and quality of government services offered, service fees will be reviewed to ensure they are commensurate with the value of the service offered, while also achieving full cost recovery.
Targeted Outcomes
Targeted Outcomes

The government of Bahrain continues to deliver advanced levels of development across all sectors. Efforts to encourage investment, develop key sectors and diversify the economy have created a fertile environment for growth thereby delivering quality opportunities for citizens and raising the standard of living.

To sustain this positive growth and development, the fiscal challenge facing the government of Bahrain needs to be addressed in a sustainable manner that ensures economic development continues to benefit citizens and future generations.

To achieve this, the Fiscal Balance Program includes a series of initiatives designed to build on previous efforts to stabilise the government’s finances and align it with growth in the broader economy.

These efforts will have a direct positive impact on citizens as registered below:
Key Performance Indicators

The Government has set targets to regularly assess the effectiveness of the Fiscal Balance Program and its role in achieving a balanced budget by 2022.

The dependence of government revenues on oil and the global drop in oil prices has led to successive budget deficits. Initiatives launched between 2015 and 2017 successfully reduced the deficit in 2017, and further initiatives under the Fiscal Balance Program will put the Government on track to achieve a balanced budget by 2022.

Debt as a percentage of GDP increased significantly in recent years reaching 87% in the first half of 2018 compared to only 13% in 2008. Initiatives launched between 2015 and 2017 successfully reduced the debt trajectory over the same period. Further initiatives under the Fiscal Balance Program will aim to stabilise debt as a percentage of GDP and place it on a downward trajectory.
Despite positive growth in the non-oil sector’s contribution to GDP, non-oil government revenues have not kept pace with economic growth. With the implementation of the Fiscal Balance Program, government non-oil revenues will be restructured to positively align with growth in the non-oil sector.

Government spending increased over past years to peak in 2015 at 30.4% of GDP. With the implementation of several initiatives between 2015 and 2017, the government was able to reduce expenditure. The Fiscal Balance Program aims to further reduce expenditure to its previous levels of less than 20% of GDP.
The contribution of non-oil revenues to recurrent government expenditure decreased from 30.5% in 2007 to 11.9% in 2013. The Fiscal Balance Program will reduce budget reliance on oil revenues and **double the contribution of the non-oil sector to government expenditure by 2022.**