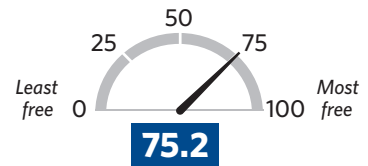


# BAHRAIN

## Economic Freedom Score



World Rank: **12** Regional Rank: **1**

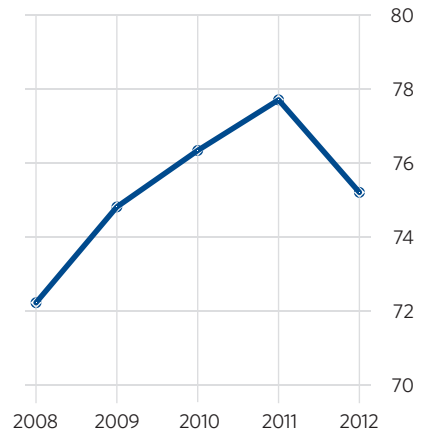
**B**ahrain's economic freedom score is 75.2, making its economy the 12th freest in the 2012 *Index*. Its overall score is 2.5 points worse than last year due to score declines in six of the 10 economic freedoms, including freedom from corruption, property rights, and government spending. Bahrain is ranked 1st out of 17 countries in the Middle East/North Africa (MENA) region, and its economic freedom score is well above the world average.

Bahrain has been undergoing a challenging transition to greater openness and transparency, more visibly since early 2011. Compared to many other countries, Bahrain performs quite well in many of the four pillars of economic freedom and represents the MENA region among the world's 20 freest economies. However, enhancing the foundations of economic freedom through improvements in property rights and corruption will be critical to ensuring success in the country's ongoing evolution.

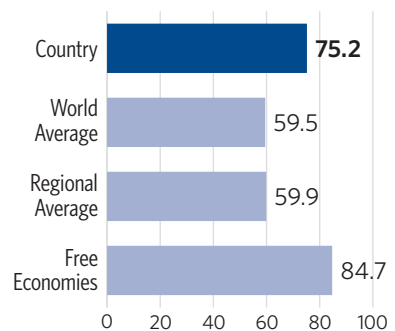
Despite the challenging environment, Bahrain continues to be a financial hub for dynamic economic activity. The kingdom's openness to global commerce is sustained by its competitive and efficient regulatory environment. On the downside, higher public spending, driven mainly by social spending, risks eroding traditional fiscal restraint.

**BACKGROUND:** Bahrain gained its independence from Great Britain in 1971 and became a constitutional monarchy in 2002. In February 2011, Shia activists demanded a new constitution and greater political power. After modest government concessions and efforts at dialogue failed to stem the demonstrations, King Hamad declared an emergency and authorized a crackdown supported by security forces deployed by allies in the Gulf Cooperation Council. The government has sought to ease tensions through a national dialogue led by the crown prince. Efforts have been made to reduce dependence on declining oil reserves and encourage foreign investment by diversifying the economy. Home to many multinational firms that do business in the region, Bahrain has a modern communications and transportation infrastructure, a cosmopolitan outlook, and a free trade agreement with the U.S.

## Freedom Trend



## Country Comparisons



## Quick Facts

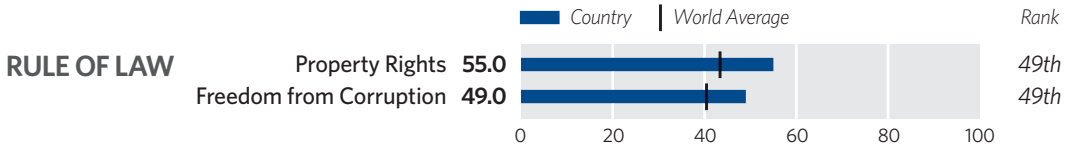
- Population:** 1.1 million
- GDP (PPP):** \$29.7 billion
- 4.1% growth in 2010
- 5-year compound annual growth 5.7%
- \$26,852 per capita
- Unemployment:** 15.0%
- Inflation (CPI):** 2.0%
- FDI Inflow:** \$155.9 million
- Public Debt:** 32% of GDP

### How Do We Measure Economic Freedom?

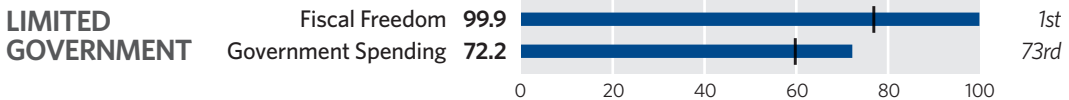
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
Data compiled as of September 2011.

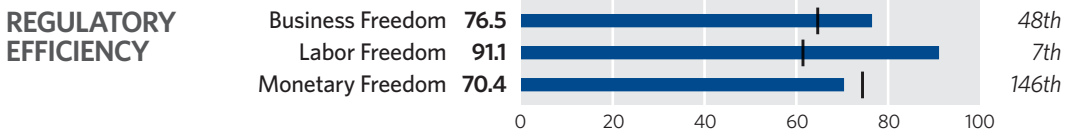
**THE TEN ECONOMIC FREEDOMS**



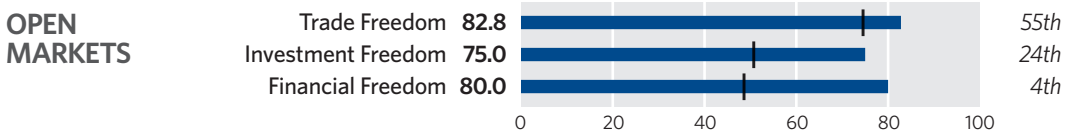
The king holds some decision-making authority within the legal system, but the judiciary is generally well regarded and unbiased. Expropriation, especially without compensation, is infrequent, and private property is secure. The trials of numerous people arrested after a government crackdown on pro-democracy protests have been held behind closed doors in “national safety courts,” but martial law has been lifted.



Bahrain imposes no taxes on personal income. Most companies are not subject to a corporate tax, but a 46 percent corporate tax is levied on oil companies. Other taxes include a small stamp duty and a new tax on property purchases, with overall tax revenue amounting to 4 percent of GDP. Government spending has been expansionary, reaching 30.4 percent of total domestic output. Public debt stands at 32 percent of GDP and has been rising.



Bahrain’s commercial law system is relatively straightforward, but the regulatory environment lacks coordination and efficient enforcement of regulations. A new Corporate Governance Code came into force in 2011, supplementing existing company laws. There is no nationally mandated minimum wage, but wages have increased, exceeding overall productivity growth. Proposals have been made to change Bahrain’s costly subsidy system.



The trade weighted tariff rate is 3.6 percent, and there are relatively few non-tariff barriers. There are no restrictions on repatriation of profits or capital, no exchange controls, and no restrictions on converting or transferring funds, whether associated with an investment or not. Bahrain’s more than 400 banks and financial institutions account for over 25 percent of GDP. Foreign and domestic investors have access to a wide range of financial services.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-5.0	Fiscal Freedom	+0.1	Business Freedom	-0.9	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	-8.0	Labor Freedom	-5.9	Investment Freedom	0
				Monetary Freedom	-3.6	Financial Freedom	0