

# Bahrain: Regional conflict deepens macroeconomic challenges | Credendo

## Event

Bahrain is amongst the first countries that have been targeted by Iran attacks, which initially focused on US diplomatic and military assets in the country. As the attacks against Bahrain continue, they are now increasingly targeting critical infrastructure, including hydrocarbon facilities. It was reported that one desalination plant has been damaged.

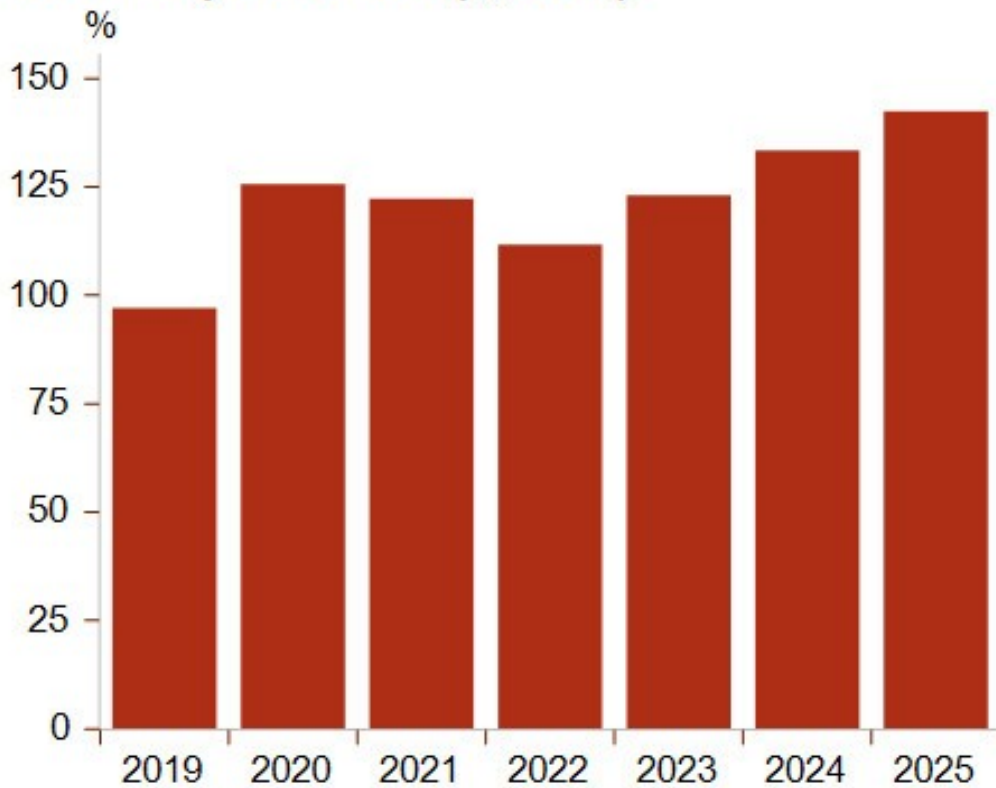
## Impact

Alongside Qatar and Kuwait, Bahrain is amongst the most vulnerable GCC countries to the spillovers of the regional conflict given its geographical and structural vulnerabilities. The Strait of Hormuz represents its only commercial maritime route, while crucial infrastructure, such as water desalination plants and energy facilities, are highly exposed to potential Iranian attacks.

Against this backdrop of heightened security risks and trade bottlenecks, the country is facing significant economic pressures. A few days after the outbreak of the conflict, Bapco (Bahrain Petroleum Company, the national oil company) and Alba (Aluminium Bahrain) declared force majeure. The tourism sector is also adversely impacted given the disruption of air traffic and security risk. The negative impact on tourism is, however, partially mitigated by the fact that the peak season is already passed.

Moreover, unlike its GCC peers, Bahrain has very limited fiscal and external buffers to absorb the impact of the current shocks. The country's liquidity position is weak with low foreign exchange reserves. Public finances are also under strain: in 2025, public debt levels were close to 150% of GDP, with a high share of external debt. Additionally, given the reliance of public revenues on the hydrocarbon sector, any prolonged disruption of hydrocarbon production or trade could raise further fiscal pressures. The financial system could also come under pressure, if regional turbulence were to lead to capital outflows, given the large share of foreign liabilities in the financial sector.

## Bahrain: public debt (% GDP)



Source: IMF

The main mitigating factor for Bahrain is the expected support of GCC countries, in particular Saudi Arabia, in the event of a crisis. Nevertheless, some uncertainty now surrounds the extent and timeliness of such support given the broader adverse impacts of the current conflict on the region as a whole.

In this context and considering the significant disruption caused by the conflict and the high degree of uncertainty regarding the evolution of the conflict, Credendo maintains a negative outlook for Bahrain.

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