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Strategic Change
"Franco Fontana"

GEOPOLITICAL RISK OBSERVATORY

Bahrain

An overview

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GRO Country Profile: Bahrain

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

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Summary

- Bahrain is a constitutional monarchy ruled by the Al Khalifa family, with power concentrated within the monarchy. Institutional stability is supported by strong GCC ties and a close security partnership with the United States. Sectarian divisions between the Sunni-led government and the predominantly Shi'a population constrain political inclusiveness and social cohesion.
- Bahrain has one of the Gulf's most diversified economies, supported by financial services, logistics, manufacturing, tourism, and digital industries. Its strategic location and connectivity to Saudi Arabia attract regional investment, while limited oil reserves, high public debt, a small domestic market, and reliance on expatriate labour constrain long-term growth.
- Key business challenges include high security risks arising from sectarian tensions, regional instability, maritime vulnerabilities, and growing cybersecurity exposure. Regulatory and governance challenges are assessed as moderate and relate primarily to fiscal sustainability, labour-market reforms, digital regulation, political centralization, transparency, and the effective implementation of economic policies.

Basic Parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	78.67	113.62 (2025)
Population (mn)	1.47	1.60 (2025)
Population under 25 (%)	32	30.8 (2025)
Population over 65 (%)	3.28	4.02 (2025)
Urban population (%)	100	100 (2025)
Unemployment rate (%)	1.8	1.1 (2025)
Youth unemployment 15–24 (%)	6.389	5.416 (2025)
CPI inflation (% annual average)	-2.3	-0.1 (2025)
General government debt (% of GDP)	125.7	148.4 (2025)
FDI inward flows (USD bn)	1.02	2.4 (2024)

Sources: World Bank- World Development Indicators (GDP PPP, population, urban population, unemployment rate-% of total labour force-, CPI inflation both 2020 and latest values); International Labour Organization-ILO (youth unemployment rate both 2020 and latest value); IMF – World Economic Outlook, Apr 2026 (General government debt both 2020 and latest value); UNCTAD – World Investment Report 2025 (FDI inward flows both 2020 and latest value); Information & eGovernment Authority (Kingdom of Bahrain). (2025)-Bahrain Open Data Portal (Population under 25, Population over 65 both 2020 and latest values).

Historical context

Bahrain's contemporary trajectory has been shaped by its transition from a British protectorate to an independent Gulf monarchy closely aligned with Western powers. Following the Second World War, the expansion of the oil industry accelerated economic development and strengthened the position of the ruling Al Khalifa family. Bahrain gained independence from the United Kingdom on 15 August 1971, establishing itself as a sovereign state and, during the Cold War, aligning with pro-Western Gulf monarchies while developing close strategic ties with the United States and Saudi Arabia.

The 1979 Iranian Revolution marked a turning point in Bahrain's security outlook. The emergence of a revolutionary Shi'a regime in Iran heightened concerns among Gulf governments, particularly given Bahrain's predominantly Shi'a population and Sunni-led ruling establishment. In response, Bahrain deepened its cooperation with regional partners through the Gulf Cooperation Council (GCC), established in 1981, while strengthening its security partnership with the United States.

A second major milestone came with the accession of King Hamad bin Isa Al Khalifa in 1999. His reform agenda led to the National Action Charter (2001) and the transformation of Bahrain into a constitutional monarchy in 2002, restoring parliamentary institutions and expanding political participation. However, political tensions persisted as demands for greater representation continued among parts of the population.

The most significant challenge to domestic stability emerged during the 2011 Arab Spring, when anti-government protests were suppressed with support from GCC forces led by Saudi Arabia. More recently, Bahrain signed the Abraham Accords in 2020, normalizing relations with Israel and reinforcing its alignment with key Western and regional partners. In early 2026, missile and drone attacks targeting the Kingdom, alongside disruptions to maritime traffic through the Strait of Hormuz, underscored Bahrain's continued exposure to regional geopolitical tensions and vulnerabilities affecting trade, energy exports, and economic activity.

Institutional Set-Up and Structural Challenges

Bahrain is a unitary constitutional monarchy governed by the Al Khalifa family since 1783. Although parliamentary institutions exist, the political system remains closer to the authoritarian end of the spectrum than to a liberal democracy. The King retains extensive executive powers, including the appointment of the Prime Minister, cabinet members, senior judges, and the 40-member Shura Council. The bicameral legislature comprises an elected Council of Representatives and an appointed Shura Council, limiting the ability of elected institutions to independently shape policy.

Governance is generally effective by regional standards, particularly in economic administration and public-service delivery. However, decision-making remains highly centralized, while concerns persist regarding political pluralism, transparency, and the independence of judicial and security institutions. Since the 2011 unrest, authorities have prioritized stability and security over further political liberalization, reducing the likelihood of abrupt regime change but limiting political participation. The probability of major political instability is assessed as medium, while the risk of regime collapse remains low.

A key structural challenge stems from the country's demographic composition, as the Sunni-led ruling establishment governs a predominantly Shi'a population. This sectarian divide has periodically generated tensions, most notably during the 2011 Arab Spring protests, when demonstrations demanding political reform were suppressed with support from GCC forces led by Saudi Arabia. Although large-scale unrest has not re-emerged, social cohesion and political inclusiveness remain long-term governance concerns, particularly during periods of heightened regional tensions involving Iran.

Bahrain possesses one of the Gulf's most diversified economies, with financial services, logistics, manufacturing, tourism, and digital industries contributing significantly to output. Nonetheless, the economy remains exposed to limited hydrocarbon reserves, high public debt, a relatively small domestic market, and reliance on expatriate labour. The state continues to play an important role in economic development through public investment and reform programmes aimed at attracting foreign capital and promoting private-sector growth.

Despite low headline unemployment, labour-market segmentation between Bahraini nationals and expatriate workers remains a structural issue. The availability of education and healthcare supports human development, but access to high-quality private-sector employment and differences in economic opportunity remain relevant to long-term social cohesion.

Internationally, Bahrain is closely aligned with Saudi Arabia, the United States, and other GCC members. The Kingdom hosts the headquarters of the U.S. Navy's Fifth Fleet, making it a key component of the Gulf security architecture and increasing its reliance on external security guarantees. Although not a party to any active conflict, but directly targeted by Iranian strikes, Bahrain remains exposed to regional geopolitical tensions, particularly Iran-GCC rivalry, maritime security risks, and potential disruptions to energy and trade routes. Consequently, external security risks are assessed as medium-to-high, while the likelihood of significant economic disruption from regional instability remains moderate. Key indicators to monitor include renewed sectarian mobilization, changes in political participation, further fiscal consolidation measures, disruptions to Gulf maritime routes, and any escalation in Iran-GCC tensions.

Business implications

Opportunities

Bahrain offers attractive opportunities for foreign investors thanks to its strategic location in the Gulf, business-friendly regulatory environment, and long-standing commitment to economic diversification. Direct access to the Saudi market through the King Fahd Causeway, competitive operating costs, and a relatively open investment regime make the Kingdom an attractive platform for serving the wider GCC region. Government initiatives aimed at attracting FDI, streamlining administrative procedures, and supporting private-sector development continue to strengthen its investment appeal.

Promising sectors include financial services, Islamic banking, fintech, logistics, advanced manufacturing, and digital technologies. Bahrain has established itself as a regional financial hub and developed a supportive ecosystem for digital innovation, benefiting from regulatory flexibility and ongoing digitalization efforts. Investments in logistics infrastructure and industrial development are also expected to benefit from the country's role as a regional trade and distribution gateway.

Further opportunities are expected in renewable energy, digital infrastructure, healthcare, education, and other knowledge-based industries supporting the Kingdom's diversification agenda. Compared with hydrocarbon-related activities, these sectors are generally more resilient to energy price volatility and regional geopolitical shocks. Continued efforts to attract foreign capital, enhance competitiveness, and expand non-oil economic activity are likely to support sustainable growth and create additional opportunities for international investors.

Challenges

- *Security challenges:* Bahrain enjoys a relatively stable domestic security environment compared with several regional peers, with limited levels of terrorism, organized crime, and violent unrest. Nonetheless, security risks remain elevated due to domestic sectarian tensions and broader geopolitical instability in the Gulf. The main internal vulnerability stems from the country's sectarian composition, as a Sunni-led ruling establishment governs a predominantly Shi'a population. Although large-scale unrest has not re-emerged since the 2011 Arab Spring, periodic tensions continue to pose a potential source of political and social instability.

  At the regional level, Bahrain remains exposed to risks associated with its proximity to Iran and the wider rivalry between Iran and the Gulf Arab states. While not a party to the conflict, but directly targeted by Iranian strikes, the Kingdom's close alignment with Saudi Arabia and the United States places it within the Gulf security architecture and exposes it to spillover effects from regional crises and military escalation. Its dependence on maritime trade routes also creates vulnerabilities to shipping disruptions and threats to critical infrastructure. The 2026 escalation demonstrated that regional military tensions can generate direct economic and operational consequences for Bahrain, particularly through disruptions to maritime traffic and energy exports.

  For businesses, the main security concerns relate to operational continuity rather than physical violence. Regional tensions can affect investor confidence, supply chains, logistics networks, and trade flows through Gulf shipping routes. In addition, Bahrain's growing role as a financial and digital hub has increased exposure to cybersecurity threats, particularly for financial institutions, government entities, and critical infrastructure operators. Overall, business conditions remain moderately stable, but companies face high risks arising from geopolitical developments, conflict proximity, and cyber threats.

  Bahrain's security risk is assessed as Band 4 (high challenges).

- *Regulatory challenges:* Bahrain maintains one of the Gulf's most business-friendly regulatory environments and faces no significant sanctions, export restrictions, or trade barriers that materially constrain foreign investment. Nevertheless, businesses continue to face several regulatory challenges. A key issue is balancing economic liberalization with fiscal sustainability. As the government seeks to reduce dependence on hydrocarbon revenues and address high public debt, reforms aimed at strengthening public finances may increase compliance requirements and operating costs in some sectors.

  Labour market regulation represents another challenge for foreign investors. Efforts to increase the employment of Bahraini nationals require companies to balance workforce localization objectives with the need to recruit specialized expatriate talent. While Bahrain remains relatively open to foreign workers, labour regulations can affect recruitment strategies, labour costs, and the availability of skilled personnel.

  As Bahrain strengthens its position as a regional financial, fintech, and digital hub, businesses must also adapt to evolving rules covering financial services, data protection, cybersecurity, digital payments, and emerging technologies. Although compliance costs remain manageable, companies in highly regulated sectors must continuously monitor

regulatory developments. Furthermore, the growing emphasis on ESG standards, climate resilience, and sustainability reporting is expected to gradually expand regulatory requirements.

Overall, Bahrain's regulatory burden remains moderate by regional standards and does not significantly hinder profit repatriation, trade flows, or market access. However, companies must navigate evolving fiscal, labour, digital, and sustainability regulations that may influence operating costs, workforce management, and long-term investment decisions.

Bahrain's regulatory risk is assessed as Band 3 (medium challenges).

- *Governance challenges:* Bahrain's governance environment is characterized by relatively effective public administration and a stable institutional framework, but also by a significant concentration of political authority within the ruling establishment. While reforms have improved administrative efficiency and the business environment, concerns remain regarding political accountability, institutional transparency, and the independence of certain regulatory, judicial, and oversight bodies. As a result, state influence remains significant, particularly in strategic sectors and areas involving government decision-making.

  Corruption levels are generally lower than in many regional peers, and Bahrain has strengthened regulatory oversight and public-sector governance. However, concerns related to transparency, conflicts of interest, and the potential preferential treatment of well-connected actors persist, particularly where the state plays a major economic role. For foreign investors, compliance with international anti-corruption and corporate governance standards remains especially important in public procurement and partnerships involving state-linked entities.

  From a business perspective, governance challenges are more likely to affect competitive neutrality, regulatory predictability, and dispute resolution than day-to-day operations. Although Bahrain generally provides a reliable legal framework for commercial activities, companies may perceive limits in institutional independence and decision-making transparency. Contractual rights, intellectual property, and commercial interests are generally protected, but businesses often rely on strong local partnerships and a sound understanding of the regulatory environment.

  Looking ahead, further improvements in transparency, accountability, and regulatory consistency will be important for sustaining investor confidence and supporting Bahrain's ambition to remain a leading financial and business hub in the Gulf. Overall, governance risks are assessed as moderate, with limited impact on business continuity but a potentially greater influence on market access, public-sector opportunities, and long-term investment decisions.

  Bahrain's governance risk is assessed as Band 3 (medium challenges).

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