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## Financial Stability Directorate

# Balance of Payments Report 2009

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## Preface

Bahrain is the leading financial centre in the Gulf and is one of the most open economies in the region. Therefore, international transactions are vital to the development of Bahrain's economy. Against this background, the Central Bank of Bahrain (CBB) regularly monitors Bahrain's external sector performance. The *Balance of Payments Report* (BOP Report) is one of the key instruments used for this purpose.

Produced annually by the Financial Stability Directorate (FSD), the BOP Report summarizes the economic transactions between residents of Bahrain and the rest of the world during a particular calendar year. It presents developments in various accounts of the Balance of Payments, highlighting key macroeconomic developments in both the global and domestic economy that have affected the balance of payment accounts during the review period. It also discusses movements in Bahrain's International Investment Position (IIP).

This edition of the BOP Report reviews Bahrain's international transactions during 2009. It is organized as follows: Section 1 focuses on the current account, discussing trends in the trade in goods and services, as well as developments in the income and current transfers accounts. Section 2 discusses the capital and financial account, covering changes in capital transfers, direct investment, portfolio investment, other investments and movements in reserve assets. Section 3 briefly examines the size and implication of the statistical discrepancy (errors and omissions) while Section 4 examines movements in Bahrain's International Investment Position (IIP). Section 5 presents an outlook for Bahrain's balance of payments.

**Please note that unless indicated otherwise, 2009 BOP and IIP data analyzed in this report are "provisional".**

## Overview

In early 2009, the world economy reached the peak of the global financial crises collapsing commodity prices to a record low. However, by the end of 2009 the world economy has witnessed a slow growth yet not enough to be called a recovery. In this unfavorable environment, Bahrain's external accounts came under pressure, resulting in a contraction of the current account surplus. Nonetheless, the amount of foreign direct investment still increased during the year and the net International Investment Position (IIP) widened further.

The *current account surplus* contracted to BD210.6 million, a decrease of 75.2% when compared to 2008. This situation was due mainly to a 159.8% increase in net payments on the *income account* as Bahraini residents saw a substantial fall in receipts from portfolio investments abroad. Although oil prices began to recover by the final quarter of the year, there was a discernible impact on overall oil export receipts which dropped by 35.4% compared to 2008.

Reflecting on the overall direction of the current account balance, the surplus on *services* increased to BD718.0 million in 2009 (from BD643.0 million in 2008), influenced largely by the growth witnessed on the "travel" account and "Communications" account. Net receipts on "sea transport" declined by BD67.1 million.

Net payments on the *income account* widened during 2009 to a disturbing BD902.3 million 150.8% higher than last year. Conversely, *current transfers* contracted to BD523.0 million due to a drop in remittances by expatriate workers residing in Bahrain.

Net outflows on the *capital and financial account* dropped to BD185.9 million in 2009 (compared BD837.2 million in 2008), as Bahraini residents lost the appetite for portfolio investments abroad in the wake of the global financial crisis.

The statistical discrepancy--*errors and omissions in recorded transactions*--was a negative BD24.7 million in 2009, equivalent to 0.3% of the combined value of exports and imports of goods, well within the internationally accepted benchmark of 5%.

At year-end 2009, the *net international investment position* (net IIP) showed that Bahrain was a net creditor to the rest of the world by BD6,028.8 million. In 2008, the net IIP was BD5,813.6 million, indicating that the net creditor position of Bahrain widened by BD215.2 million during 2009.

In terms of the *future outlook for the balance of payments*, we envisage that Bahrain's current account balance is likely to reverse to expansion in 2010 buoyed by the recovery in oil prices and the signs of the slow recovery in the global economy. However, higher oil prices should also increase Bahrain's import bill, thus suppressing the extent of the expansion. Overall, we expect the expansion in the current account surplus to be modest.

On the capital and financial account, the appetite for portfolio investments abroad is expected to remain dampened as residents await signs of a full turnaround in global financial markets. Further inflows of foreign direct investment are also expected, albeit at a slower pace.

## 1. The Current Account

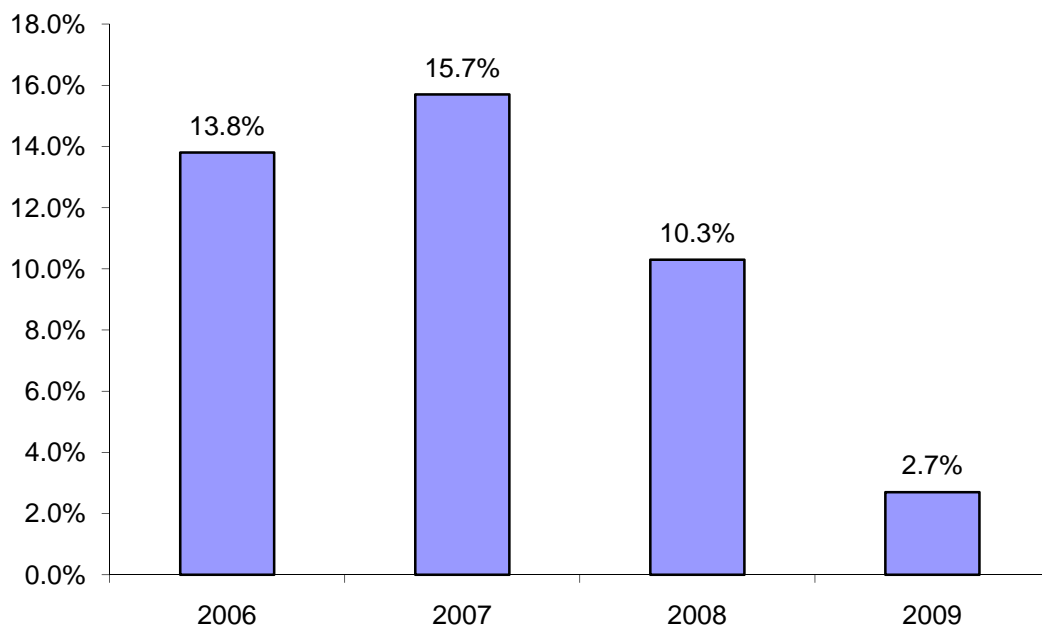
### *Current account surplus contracts*

Pressured by the global downturn, Bahrain's current account surplus further shrank in 2009, to an estimated BD210.6 million (2.7% of GDP). This was 75.2% lower than the BD848.6 surplus attained in 2008 (see Chart 1.1 and Table 1).

The contraction in the current account surplus position was mainly due to the increase on *deficit on income* by 159.8% standing at (BD902.3 million) compared to (BD347.3 million) last year, a reaction to the substantial fall in receipts from Bahraini investments abroad. Furthermore, the surplus on *trade in goods* reduced by 24.8% to stand at BD917.0 million compared to BD1,220.1 million last year putting further pressure on Bahrain's current account.

On the contrary, the *services account* rose by 11.8% to stand at BD718.9 million while *current transfers* account reduced by 21.6% to stand at (BD523.0 million) compared to (BD667.2 million).

**Chart 1.1: Bahrain's Current Account Balance (2006-2009; % of GDP)**



Source: Central Bank of Bahrain

**Table 1: Summary of Bahrain's Balance of Payments—2007-2009 (BD Million)\*\***

Items	2007	2008	2009
<b>1. Current Account (a+b+c+d)</b>	<b>1092.9</b>	<b>848.6</b>	<b>210.6</b>
<b>a. Goods</b>	<b>1077.1</b>	<b>1,220.1</b>	<b>917.0</b>
<b>General Merchandise</b>	<b>1018.2</b>	<b>1154.1</b>	<b>850.0</b>
Exports (fob)	5126.2	6,510.7	<b>4464.5</b>
- Oil	4059.3	5184.6	3351.5
- Non-Oil	1066.9	1326.1	1113.0
Imports (fob)	-4108.0	-5,356.6	-3614.5
- Oil	-2204.9	-2708.8	-1637.2
- Non-Oil	-1903.1	-2647.8	-1977.3
<b>Repairs on goods</b>	<b>58.9</b>	<b>66.0</b>	<b>67.0</b>
<b>b. Services (net)</b>	<b>685.6</b>	<b>643.0</b>	<b>718.9</b>
- Transportation	19.1	-54.2	15.2
- Travel	235.5	249.2	267.1
- Communication services	241.7	250.1	263.2
- Financial services (including insurance)	175.7	183.0	163.1
- Other Business Services	13.6	14.9	10.3
<b>c. Income (net)</b>	<b>-112.3</b>	<b>-347.3</b>	<b>-902.3</b>
Investment Income	-112.3	-347.3	-902.3
- Direct Investment Income	-447.5	-479.0	-110.8
- Portfolio Income	772.4	408.7	6.0
- Other Investment Income	-437.2	-277.0	-797.5
<b>d. Current Transfers (net)</b>	<b>-557.5</b>	<b>-667.2</b>	<b>-523.0</b>
- Workers' Remittances	-557.5	-667.2	-523.0
<b>2. Capital and Financial Account (net) (A+B)</b>	<b>-1096.7</b>	<b>-837.2</b>	<b>-185.9</b>
<b>A. Capital Account (net)</b>	<b>18.8</b>	<b>18.8</b>	<b>18.8</b>
- Capital Transfers	18.8	18.8	18.8
<b>B. Financial Account (1+2+3+4)*</b>	<b>-1115.5</b>	<b>-856.0</b>	<b>-204.7</b>
<b>1. Direct Investment</b>	<b>32.8</b>	<b>65.2</b>	<b>770.3</b>
- Abroad	-627.6	-609.3	673.6
- In Bahrain	660.4	674.5	96.7
<b>2. Portfolio Investment (net)</b>	<b>-3218.5</b>	<b>3,488.1</b>	<b>3111.6</b>
- Assets	-3718.7	2,363.8	2523.0
- Liabilities	500.2	1,124.3	588.6
<b>3. Other Investment (net)</b>	<b>2602.1</b>	<b>-4,519.9</b>	<b>-4131.3</b>
- Assets	-14477.8	-1,227.5	6814.5
- Liabilities	17079.9	-3,292.5	-10945.8
<b>4. Reserve Assets (net)</b>	<b>-531.9</b>	<b>110.6</b>	<b>44.7</b>
<b>3. Errors and Omissions</b>	<b>3.8</b>	<b>-11.4</b>	<b>-24.7</b>

\*Financial transactions. A negative sign means net outflows/increases in external assets

\*\*Provisional Data

Sources: Central Bank of Bahrain

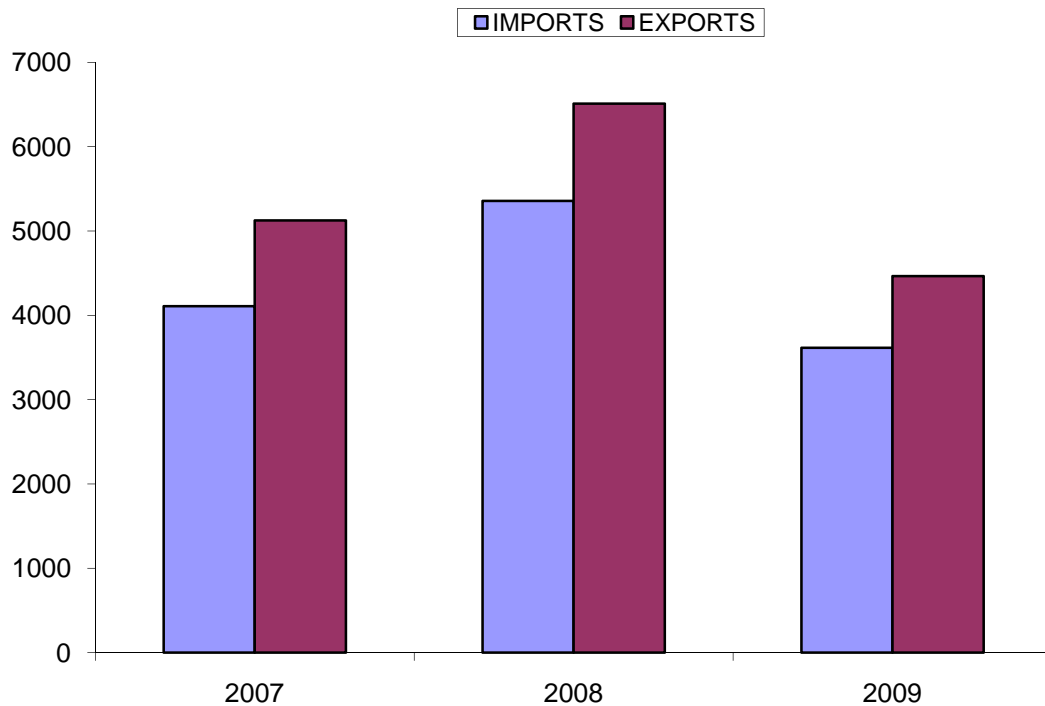
## 1.1. Trade in Goods

### *Export earnings contribute to goods account surplus*

Due to the collapse in world aggregate demand, oil price plunged in 2009 leading to a 35.4% drop in *oil exports* from last year. *Non-oil exports* also contracted by 16.1% since last year. Overall, *Merchandise exports (f.o.b)* dropped by 31.4% a reversal of the growth shown in 2008.

Payments for merchandise imports (f.o.b) decreased by 32.5%. The highest drop was witnessed in the *oil imports* which contracted by 39.6% followed by a 25.3% in the *non-oil imports*. Although exports earnings managed to outstrip import payments, the overall surplus on goods declined by 24.8% which can be attributed to the drop in commodities prices in international markets.

**Chart 1.2: Trends in Merchandise Trade (BD millions)**



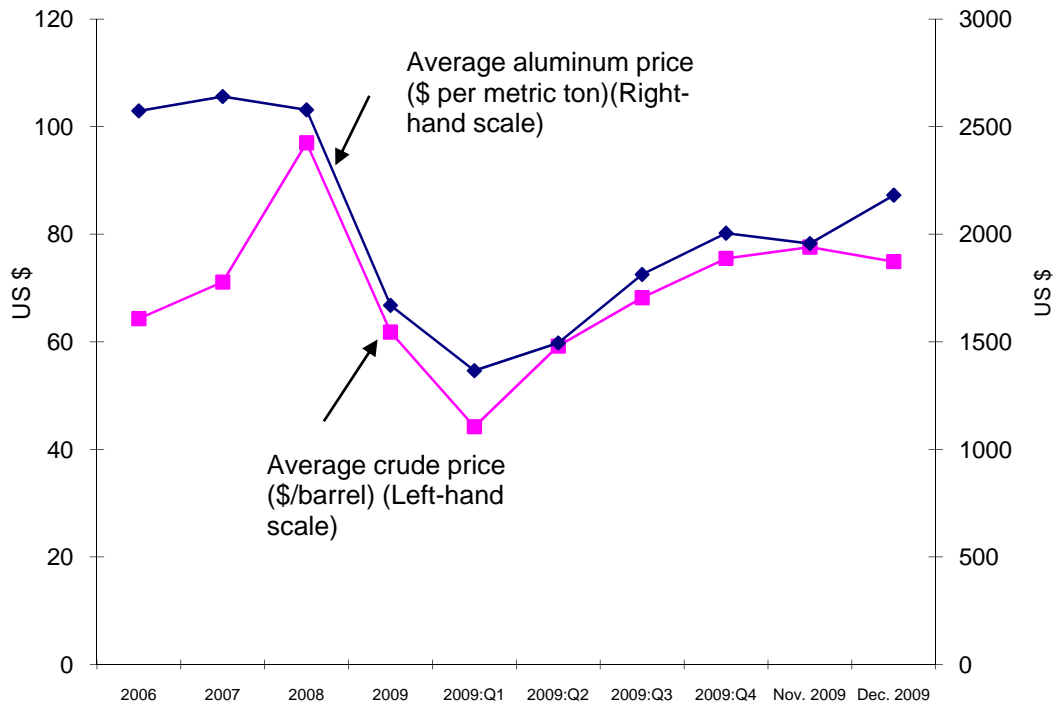
Sources: Central Informatics Organization and National Oil and Gas Authority



### Recovery in prices of major exports

Focusing on two commodities of importance to Bahrain (oil and aluminum), average crude prices peaked at \$77.6 per barrel in November 2009. The lowest point reached was \$44.2 in the first quarter of 2009. By end-December 2009, oil prices averaged \$74.9 per barrel, 69.5% higher from the record low at the first quarter of 2009.

**Chart 1.3: Trends in Aluminum and Crude Oil Prices (2006-2009)**



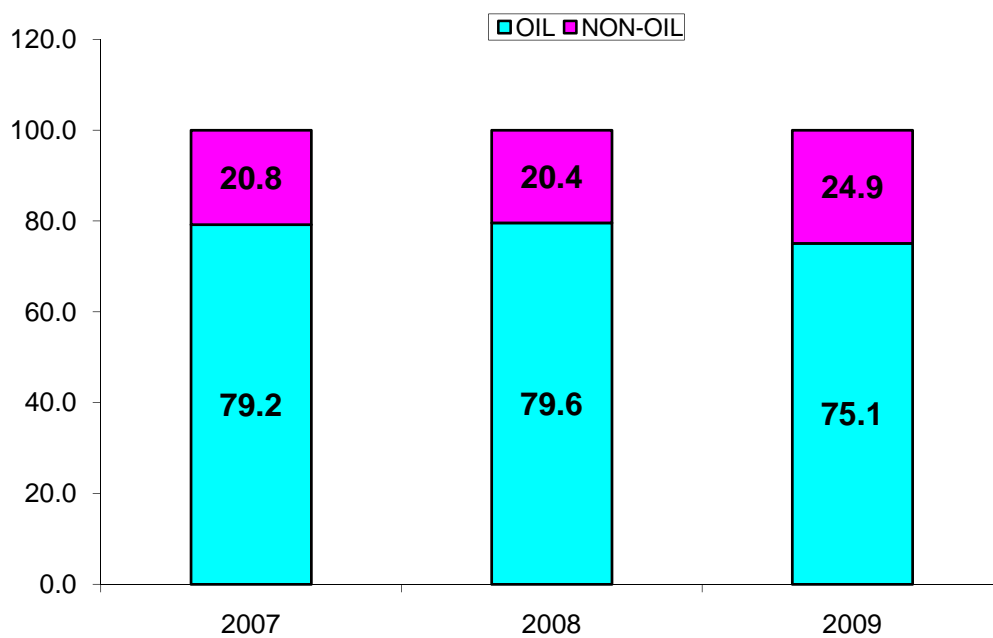
Sources: IMF, International Financial Statistics and World Bank Commodity Prices Database

Aluminum prices have risen in end 2009, a revival of the record low reached in Q1: 2009. By end December 2009, aluminum prices averaged \$2181.3 per metric ton, 59.7% higher than the \$1365.5 reached in the first quarter of 2009.

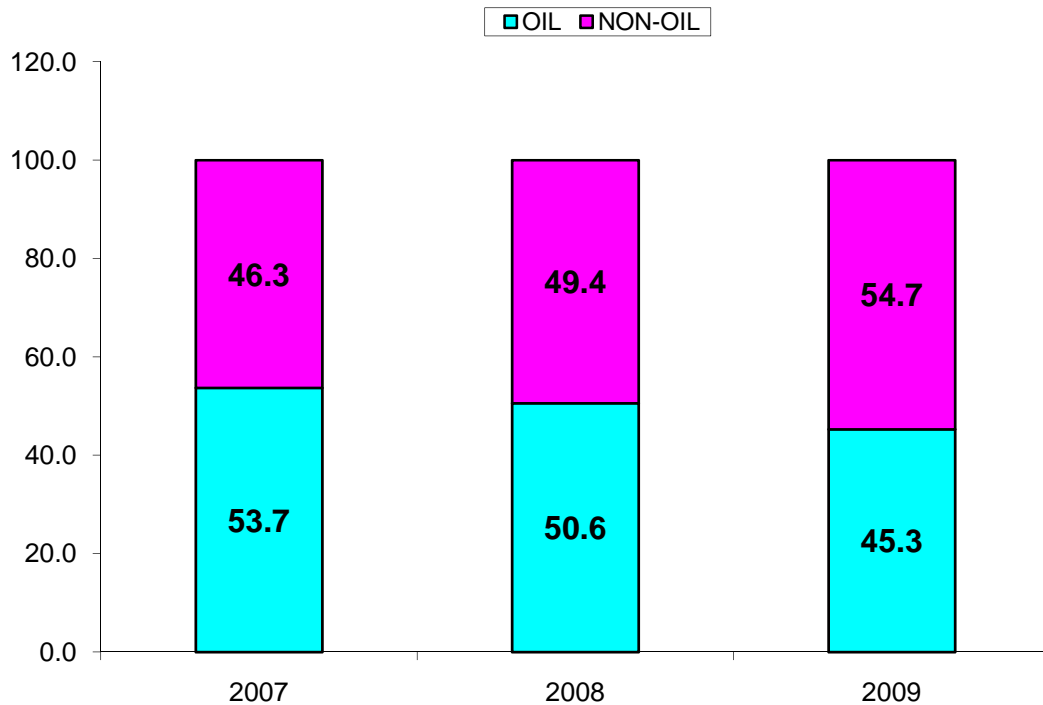
### *Dominance of oil in both merchandise exports and imports*

Bahrain's exports continue to be dominated by oil-related items, which accounted for 75.1% of total export earnings in 2009. On the contrary, in the import side non-oil imports outweigh oil-imports. While non-oil accounted for 54.7% of the import bill in 2009, oil payments represented 45.3% of the total.

**Chart 1.4: Composition of Exports—Oil vs. Non-Oil (% shares)**



*Sources: Central Informatics Organisation and National Oil and Gas Authority*

**Chart 1.5: Composition of Imports—Oil vs. Non-Oil (% shares)**

Sources: Central Informatics Organisation and National Oil and Gas Authority

## 1.2. Trade in Services

### *Growth in surplus on services*

Bahrain *surplus on services* increased to BD718.9 million an increase of 11.8%. This was mainly due to increase on *Travel account* by 7.2% and *Communications services* by 5.2%. Furthermore the deficit on sea transport reduced by BD67.1 million.

### ***1.3. Income Account***

#### ***Significant increase in net outflows on income account***

As in previous years, Bahrain's income account showed a net debit for 2009. However, the size of the net debit expanded to a disturbing BD902.3 million, 150.8% higher than the BD347.3 million net payments recorded in 2008.

The expansion in the size of the net payments was due principally to a substantial fall in receipts from Bahrain Portfolio Investments abroad (Stocks and Bonds), a result of the financial meltdown.

### ***1.4. Current Transfers (net)***

#### ***Decrease in current transfers***

Net current transfers to the rest of the world contracted to BD523.0 million compared to BD667.2 million in 2009. Ironically, the number of foreign workers in Bahrain saw a reversal trend where it rose from 354,017 in 2008 to reach 369,922 in 2009.

## 2. Capital and Financial Account

### *Fall in net outflows on the capital and financial account*

Although Bahrain continues to be a net exporter of capital to the rest of the world, net outflows on the capital and financial account fell to BD185.9 million in 2009 (from BD837.2 million in 2008) (Table 1, next page). While the net inflow of BD18.8 million on the *capital account* was the same as in 2008, a reduction in the net outflow on the *financial account* to BD204.7 million (from BD856.0 million in 2008), helped to reduce the overall net position on the capital and financial account.

### *Increased inflows of foreign direct investment*

The “direct investment” account registered a net inflow of BD770.3 million, up from BD65.2 million in 2008. This was due to the combined effect of a decline in Bahraini’s “direct investment Abroad” by BD673.6 million (compared to an increase of BD609.3 million in 2008) from one side, and a decline of BD96.7 million in “foreign direct investment in Bahrain” (compared to a BD674.5 million increase in 2008) from the other side.

### *Net positive position on portfolio investments*

During 2009, the “portfolio investment” component of the financial account registered a net inflow of BD3,111.6 million compared to a net inflow of BD3,488.1 million recorded in 2008. On the asset side of the portfolio account, acquisition of *foreign equities* by Bahraini residents decreased by a meager BD617.2 million, compared to an increase of BD298.2 million in 2009 (Table 2, next page).

On the liability side, inflow of portfolio investments into Bahrain from non-residents amounted to BD588.6 million, 47.6% lower than the BD1,124.3 million inflow recorded in 2008. This spike was principally influenced by a sharp decrease in debt securities which recorded a decline of BD771.8 million in 2009, compared to a decline of BD1,065.5 million in 2008.

Table 2: Details of the Financial Account – 2007-2009\*\*

Items	2007	2008	2009
<b>Overall Financial Account (1+2+3+4)*</b>	<b>-1,115.5</b>	<b>-856.0</b>	<b>-204.7</b>
<b>1. Direct Investment (net)</b>	<b>32.8</b>	<b>65.2</b>	<b>770.3</b>
(A) <i>Abroad</i>	<b>-627.6</b>	<b>-609.3</b>	<b>673.6</b>
- Equity capital	-464.1	-400.6	968.2
- Reinvested earnings	-163.5	-208.7	294.6
(B) <i>In Bahrain</i>	<b>660.4</b>	<b>674.5</b>	<b>96.7</b>
- Equity capital	251.1	200.6	-242.3
- Reinvested earnings	409.3	473.9	339.0
<b>2. Portfolio Investment (net)</b>	<b>-3,218.5</b>	<b>3,488.1</b>	<b>3,111.6</b>
(A) Assets	-3,718.7	2,363.8	2,523.0
- Equity securities	-1,266.4	-298.2	617.2
<i>Banks</i>	-821.0	534.4	43.2
<i>Other sectors</i>	-445.4	-832.7	574.0
- Debt securities	-2,452.3	2,662.1	1,905.7
Bonds and Notes	-2,452.3	2,662.1	1,905.7
<i>Banks</i>	-2,341.3	2,955.9	1,578.9
<i>Other sectors</i>	-111.0	-293.8	326.8
(B) Liabilities	500.2	1,124.3	588.6
- Equity securities	52.2	58.8	-183.2
<i>Banks</i>	0	0	0
<i>Other sectors</i>	52.2	58.8	-183.2
- Debt securities	448.0	1,065.5	771.8
Bonds and Notes	448.0	1,065.5	771.8
<i>Banks</i>	448.0	1,253.5	489.8
<i>Other sectors</i>	0	-188.0	282.0
<b>3. Other Investment (net)</b>	<b>2,602.1</b>	<b>-4,519.9</b>	<b>-4,131.2</b>
(A) Assets	-14,477.8	-1,227.5	6,814.5
- Trade Credits	0	0	0
- Loans	-9,228.7	-6,154.6	4,531.5
<i>Banks</i>	-9,228.7	-6,154.6	4,531.5
- Currency and deposits	-5,246.3	4,926.9	2,296.8
<i>Banks</i>	-5,246.3	4,926.9	2,296.8
- Other assets	-2.8	0.2	-13.8
(B) Liabilities	17,079.9	-3,292.4	-10,945.8
- Trade Credits	-2.9	-2.9	-2.9
- Loans	41.3	48.7	33.6
<i>Government</i>	17.4	22.6	7.5
<i>Long term</i>	17.4	22.6	7.5
<i>Short term</i>	0	0	0
<i>Other sectors</i>	23.9	26.1	26.1
<i>Long term</i>	23.9	26.1	23.9
<i>Short term</i>	0	0	0
- Currency and deposits	17,044.7	-3,335.0	-10,973.3
<i>Banks</i>	17,044.7	-3,335.0	-10,973.3
- Other liabilities	-3.2	-3.2	-3.2
<b>4. Reserve Assets</b>	<b>-531.9</b>	<b>110.6</b>	<b>44.7</b>

\*Financial transactions. A negative sign means net outflows/increases in external assets

\*\* Provisional data

Source: Central Bank of Bahrain

### *Other investments and reserve assets*

The “other investment” category (including loans, currency and deposits) showed a net *outflow* of BD4,131.2 million, down from a net outflow of BD4,519.9 in 2008.

Lastly, Bahrain’s “official reserve assets” (gold, SDR, IMF reserve position and CBB foreign exchange) showed a deficit of BD44.7 million in 2009, compared to the deficit of BD110.6 million in 2008.

## 3. Errors and Omissions

The *errors and omissions* in recorded transactions was a negative BD24.7 million in 2009, compared to a negative BD11.4 million in 2008.

## 4. International Investment Position (IIP)

### *Bahrain continues to be a net creditor to the rest of the world*

At year-end 2009, Bahrain’s net international investment position (net IIP) showed a surplus of BD6,028.8 million, demonstrating that Bahrain is a net creditor to the rest of the world (i.e. the value of Bahraini investments abroad exceeded the value of foreign investments in Bahrain) (Table 3).

**Table 3: Bahrain’s Net International Investment Position (BD millions)**

	2007	2008	2009	2009 Change (BD million)
Foreign Assets	82,234.5	81,600.4	71,524.7	-10,075.7
Foreign Liabilities	77,285.1	75,786.8	65,495.9	-10,290.9
<b>Net Investment Position</b>	4,949.4	5,813.6	6,028.8	<b>215.2</b>

Source: Central Bank of Bahrain

With the net IIP in 2008 at BD5,813.6 million, the net creditor position of Bahrain widened by BD215.2 million during 2009. Both foreign assets and liabilities contracted during the year by almost the same amount, thereby maintaining the net creditor position.

A breakdown of foreign assets (Table 4, next page) shows that there were decreases in “direct investment abroad” (by BD673.6 million), “portfolio assets” (by BD2,522.6 million) and “other assets” (by BD6,828.3 million). The contraction in foreign liabilities was largely due to the “other liabilities” category, which shrank by BD10,976.1 million.

**Table 4: Components of Bahrain’s Investment Position (BD millions)\***

	2007	2008	2009	2009 Change (BD million)
<b>Direct Investment Position</b>				
Direct Investment Abroad	2,902.6	3,511.9	2,838.3	<b>-673.6</b>
Direct Investment in Bahrain	4,868.1	5,542.6	5,639.3	<b>96.7</b>
Net Position	-1,965.5	-2,030.7	-2,801.0	
<b>Portfolio Investment Position</b>				
Portfolio Assets	20,209.7	17,846.3	15,323.7	<b>-2,522.6</b>
Portfolio Liabilities	3,017.3	4,141.6	4,730.2	<b>588.6</b>
Net Position	17,192.4	13,704.7	10,593.5	
<b>Other Investment Position</b>				
Other Assets	57,531.6	58,759.3	51,931.0	<b>-6,828.3</b>
Other Liabilities	69,399.7	66,102.5	55,126.4	<b>-10,976.1</b>
<b>Net Position</b>	<b>-11,868.1</b>	<b>-7,343.2</b>	<b>-3,195.4</b>	

\* Provisional Data

Source: Central Bank of Bahrain



## 5. Balance of Payments Outlook for 2010

It is expected that Bahrain's current account balance will reverse to expansion in 2010, as the *goods account* is impacted positively by higher oil prices and the signs of recovery in the global economy. However, oil prices will also increase Bahrain's import bill, thus suppressing the extent of the expansion. Receipts on the *services account* are also expected to increase, as the elevated oil prices will pump in liquidity to our neighboring countries, eventually increasing their appetite to spend in Bahrain. The Formula One racing event which took place in March 2010 should provide a further support to receipts on the "travel" account. Various exhibitions and conferences scheduled throughout 2010 should further boost the "services" account.

We project that the pace of workers' remittances may be slightly higher somewhat during 2010, given the ongoing demand for expatriate labor.

On the capital and financial account, the appetite for portfolio investments abroad is expected to remain dampened as Bahraini residents wait to see signs of a genuine turnaround in international financial markets and the global economy. Further inflows of foreign direct investment into Bahrain are also envisaged, although the pace will be slower, given the current global economic uncertainties.

**END**