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## Financial Stability Directorate

# Balance of Payments Report 2010

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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 2010. 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, 2010 BOP and IIP data analyzed in this report are "provisional".**

## Overview

During 2010, the world economy started to witness a slow recovery. As a result, Bahrain's external accounts were positively affected, resulting in a growth in the current account surplus. In addition, the amount of foreign direct investment increased during the year and the net International Investment Position (IIP) credit widened further.

The *current account surplus* expanded to BD289.5 million, an increase of 37.5% when compared to 2009. This situation was due mainly to a 12.0% increase in net payments on the *services account* as tourism witnessed a recovery after the global slow down. Residents are still suffering from the substantial fall in receipts from portfolio investments abroad, however, the size of the net debit decreased slightly by 1.1% to reach BD892.3 million compared to the BD 902.3 million registered last year.

As a result of the recovery in oil prices in international markets, oil export receipts grew by 14.2% compared to last year.

Reflecting on the overall direction of the current account balance, the surplus on *services* was influenced largely by the growth witnessed in the "travel" account, "Communications" account and "financial services" account.

Net payments on the *income account* decreased slightly during 2010 to stand at BD892.3 million a decline of 1.1% compared to last year. Conversely, *current transfers* expanded to BD617.3 million due to an increase in remittances by expatriate workers residing in Bahrain.

Net outflows on the *capital and financial account* grew to BD329.8 million in 2010 (compared BD185.9 million in 2009), as the appetite for portfolio investments abroad is gradually recovering.

The statistical discrepancy--*errors and omissions in recorded transactions*--was a positive BD40.3 million in 2010, equivalent to 0.4% of the combined value of exports and imports of goods, well within the internationally accepted benchmark of 5%.

At year-end 2010, the *net international investment position* (net IIP) showed that Bahrain was a net creditor to the rest of the world by BD6,375.0 million. In 2009, the net IIP was BD6,028.8 million, indicating that the net creditor position of Bahrain widened by BD346.2 million during 2010.

In terms of the *future outlook for the balance of payments*, we envisage that Bahrain's current account balance is likely to expand further in 2011 buoyed by the elevated oil prices due to unrest in the Middle East. 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 expected to reduce due to unrest in Bahrain.

## 1. The Current Account

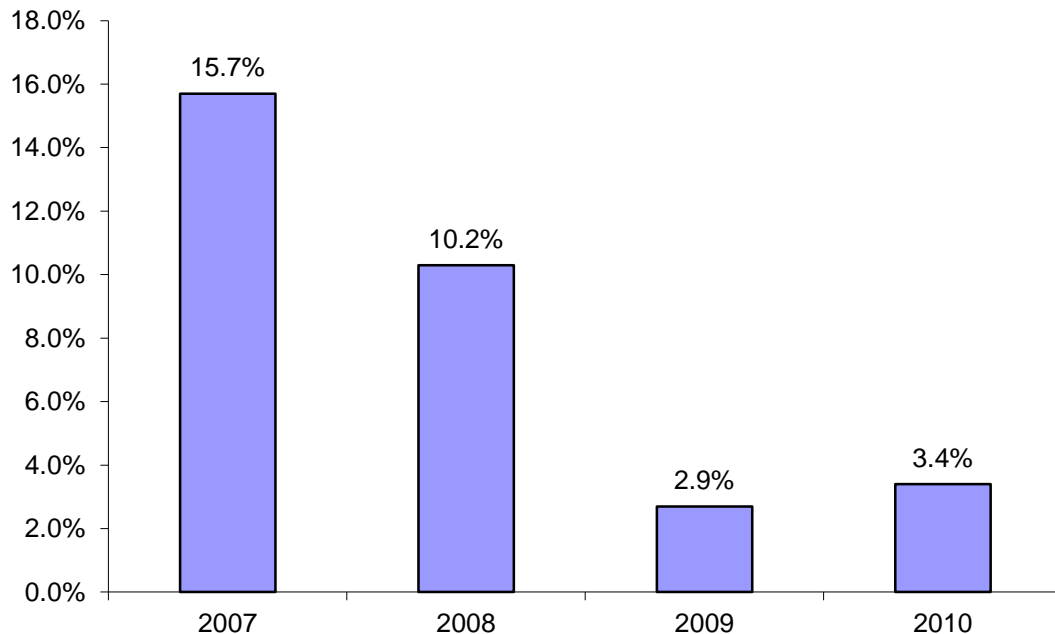
### *Current account surplus widened*

Reflecting the slow recovery in international markets, Bahrain's current account surplus widened in 2010, to an estimated BD289.5 million (3.4% of GDP). This was 37.5% higher than the BD210.6 surplus attained in 2009 (see Chart 1.1 and Table 1).

The increase in the current account surplus position was mainly due to the increase in *the services account* by 12.0% standing at (BD805.4 million) compared to (BD718.9 million) last year. Furthermore, the surplus on *trade in goods* grew by 8.4% to stand at BD993.7 million compared to BD917.0 million last year reflecting positively on Bahrain's current account growth.

On the contrary, the deficit on *current transfers* account widened by 18.0% to stand at (BD617.3 million) compared to (BD523.0 million).

**Chart 1.1: Bahrain's Current Account Balance (2007-2010; % of GDP)**



Source: Central Bank of Bahrain

**Table 1: Summary of Bahrain's Balance of Payments—2008-2010 (BD Million)\*\***

Items	2008	2009	2010
<b>1. Current Account (a+b+c+d)</b>	<b>848.6</b>	<b>210.6</b>	<b>289.5</b>
<b>a. Goods</b>	<b>1,220.1</b>	<b>917.0</b>	<b>993.7</b>
<b>General Merchandise</b>	<b>1154.1</b>	<b>850.0</b>	<b>923.7</b>
Exports (fob)	6,510.7	4464.5	5131.3
- Oil	5184.6	3351.5	3828.0
- Non-Oil	1326.1	1113.0	1303.3
Imports (fob)	-5,356.6	-3614.5	-4207.6
- Oil	-2708.8	-1637.2	-2,027.8
- Non-Oil	-2647.8	-1977.3	-2,179.8
<b>Repairs on goods</b>	<b>66.0</b>	<b>67.0</b>	<b>70.0</b>
<b>b. Services (net)</b>	<b>643.0</b>	<b>718.9</b>	<b>805.4</b>
- Transportation	-54.2	15.2	16.3
- Travel	249.2	267.1	321.9
- Communication services	250.1	263.2	282.8
- Financial services (including insurance)	183.0	163.1	178.3
- Other Business Services	14.9	10.3	6.1
<b>c. Income (net)</b>	<b>-347.3</b>	<b>-902.3</b>	<b>-892.3</b>
Investment Income	-347.3	-902.3	-892.3
- Direct Investment Income	-479.0	-110.8	-785.2
- Portfolio Income	408.7	6.0	-16.0
- Other Investment Income	-277.0	-797.5	-91.1
<b>d. Current Transfers (net)</b>	<b>-667.2</b>	<b>-523.0</b>	<b>-617.3</b>
- Workers' Remittances	-667.2	-523.0	-617.3
<b>2. Capital and Financial Account (net) (A+B)</b>	<b>-837.2</b>	<b>-185.9</b>	<b>-329.8</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>-856.0</b>	<b>-204.7</b>	<b>-348.6</b>
<b>1. Direct Investment</b>	<b>65.2</b>	<b>770.3</b>	<b>-67.0</b>
- Abroad	-609.3	673.6	-125.6
- In Bahrain	674.5	96.7	58.6
<b>2. Portfolio Investment (net)</b>	<b>3,488.1</b>	<b>3111.6</b>	<b>1788.2</b>
- Assets	2,363.8	2523.0	771.4
- Liabilities	1,124.3	588.6	1016.8
<b>3. Other Investment (net)</b>	<b>-4,519.9</b>	<b>-4131.3</b>	<b>-1588.7</b>
- Assets	-1,227.5	6814.5	1030.1
- Liabilities	-3,292.5	-10945.8	-2618.8
<b>4. Reserve Assets (net)</b>	<b>110.6</b>	<b>44.7</b>	<b>-481.1</b>
<b>3. Errors and Omissions</b>	<b>-11.4</b>	<b>-24.7</b>	<b>40.3</b>

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

\*\*Provisional Data

Sources: Central Bank of Bahrain

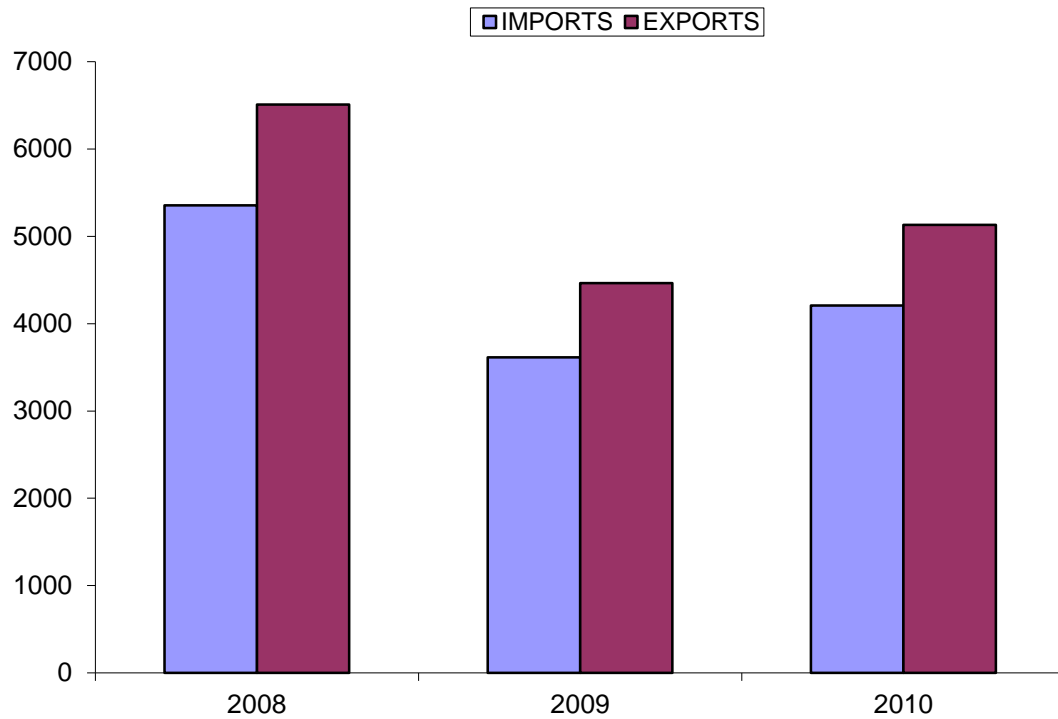
### 1.1. Trade in Goods

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

Propelled by a 14.2% growth in oil export receipts, total earning from merchandise exports (f.o.b) increased from BD3,351.5 in 2009 to BD3,828.0 in 2010, 14.2% increase (Table 1). Non-oil export earnings were also up by 17.1%, reversing the decline shown last year. *Non-oil exports* also grew by 17.1% since last year.

Payments for merchandise imports (f.o.b) increased by 16.4%. The increase was evident in the *oil imports* which rose by 23.9% and the non-oil imports which rose by 10.2%. The overall surplus on goods increased by 8.4%.

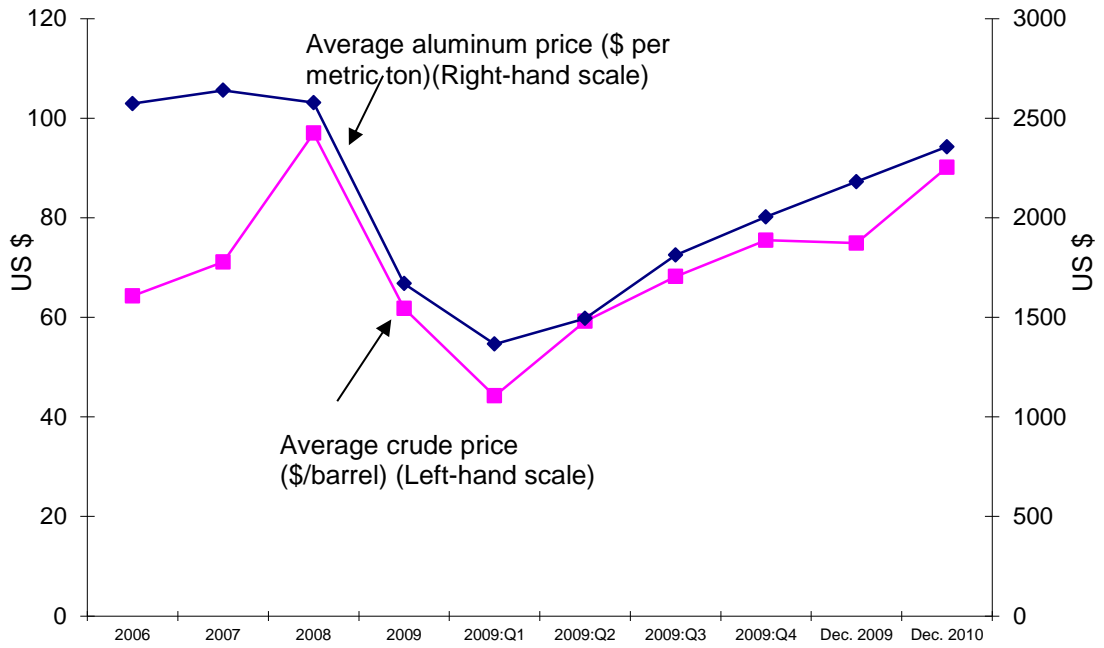


**Chart 1.2: Trends in Merchandise Trade (BD millions)**

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 \$90.1 per barrel in December 2010. The lowest point reached was \$75.5 in the second quarter of 2010.

**Chart 1.3: Trends in Aluminum and Crude Oil Prices (2006-2010)**



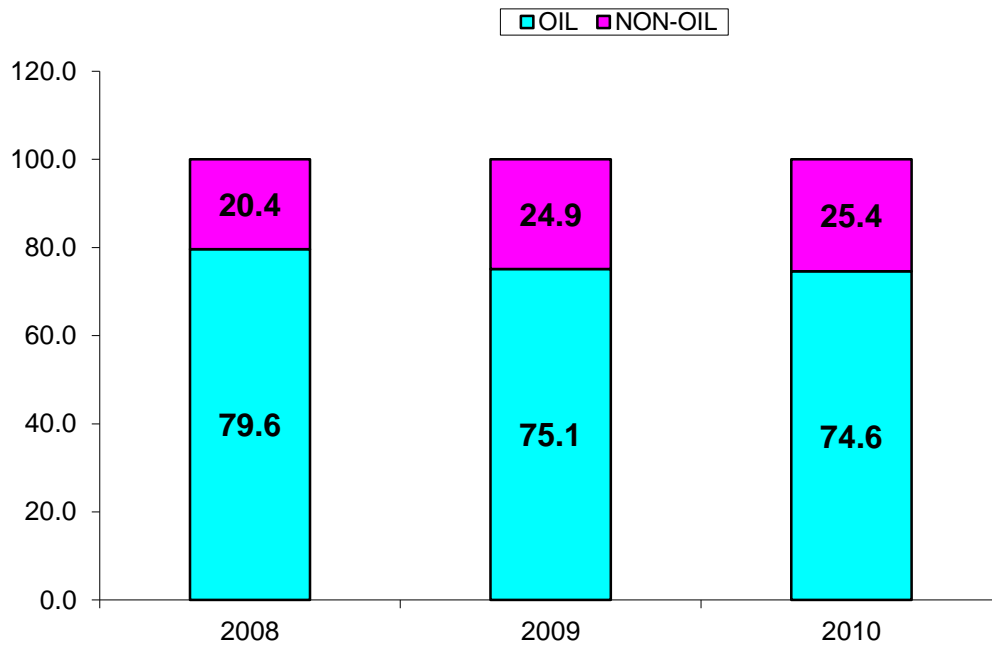
Sources: IMF, International Financial Statistics and World Bank Commodity Prices Database

Aluminum prices averaged \$2356.7 per metric ton by end 2010, 8.0% higher than the \$2181.3 reached by end 2009.

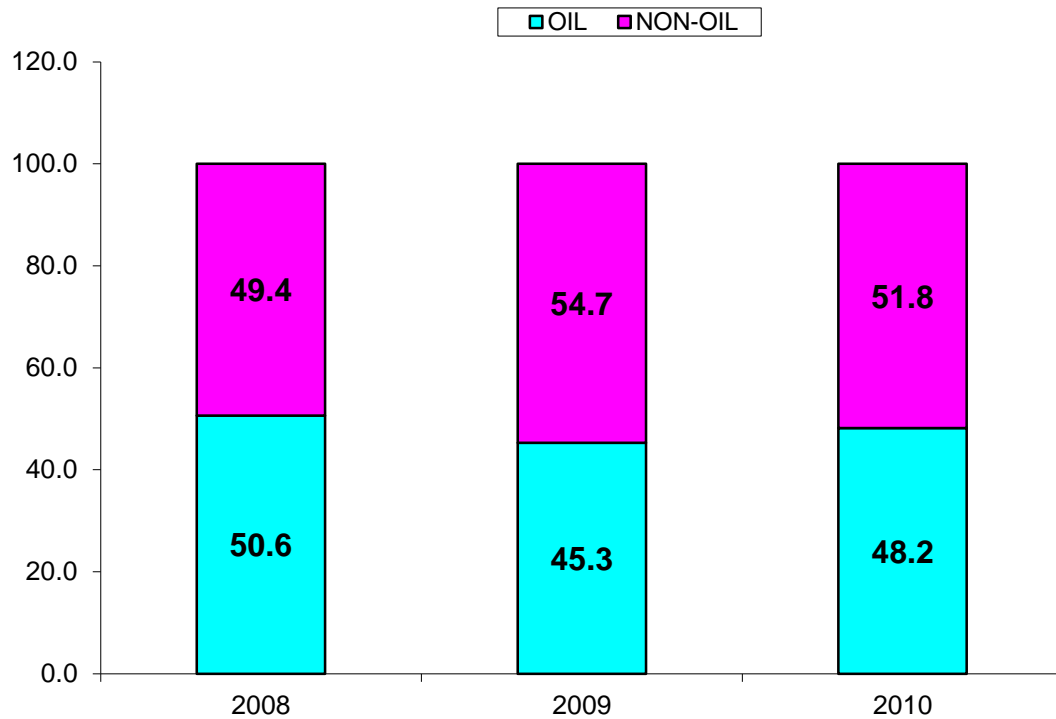
### *Dominance of oil in both merchandise exports and imports*

Bahrain's exports continue to be dominated by oil-related items, which accounted for 74.6% of total export earnings in 2010. On the contrary, in the import side non-oil imports outweigh oil-imports. While non-oil accounted for 51.8% of the import bill in 2010, oil payments represented 48.2% 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 BD805.4 million, an increase of 12.0%. This was mainly due to increase on *Travel account* by 20.5% and *Communications services* by 7.4%. On the contrary, the deficit on sea transport increased to reach BD218 million.

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

#### ***Slight decrease in net payments***

As in previous years, Bahrain's income account showed a net debit for 2010. However, the size of the net debit decreased slightly by 1.1% to reach BD892.3 million compared to the BD 902.3 million registered last year, which suggest that international financial markets are not in a good shape yet.

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

#### ***Increase in current transfers***

Net current transfers to the rest of the world expanded to BD617.3 million compared to BD523.0 million in 2009. This is due to the increase in the number of foreign workers in Bahrain which rose from 369,922 in 2009 to 392,303 in 2010.

## 2. Capital and Financial Account

### *Increased net outflows on the capital and financial account*

Bahrain continues to be a net exporter of capital to the rest of the world, as net outflows on the capital and financial account grew to BD329.8 million in 2010 (from BD185.9 million in 2009) (Table 1, next page). While the net inflow of BD18.8 million on the *capital account* was the same as in 2009, an increment in the net outflow on the *financial account* to BD348.6 million (from BD204.7 million in 2009), helped to grow the overall net position on the capital and financial account.

### *Outflow on the foreign direct investment*

The “direct investment” account registered a net outflow of BD67.0 million compared to a net inflow of BD770.3 million in 2009. This was due to an increase in Bahraini’s “direct investment Abroad” by BD125.6 million (compared to a decline of BD673.6 million in 2009) from one side, and a decline of BD58.6 million in “foreign direct investment in Bahrain” (compared to a BD96.7 million decrease in 2009) from the other side.

### *Net inflow position on portfolio investments*

During 2010, the “portfolio investment” component of the financial account registered a net inflow of BD1,788.2 million compared to a net inflow of BD3,111.6 million recorded in 2009. On the asset side of the portfolio account, holding of *foreign equities* and debt securities by residents declined by BD771.4 million (Table 2, next page).

On the liability side, inflow of portfolio investments into Bahrain from non-residents amounted to BD1,016.8 million, 72.7% higher than the BD588.6 million inflow recorded in 2009. This spike was principally influenced by a sharp increase in equity securities which recorded a grow of BD621.4 million in 2010, compared to a decline of BD183.2 million in 2009.

Table 2: Details of the Financial Account – 2008-2010\*\*

Items	2008	2009	2010
<b>Overall Financial Account (1+2+3+4)*</b>	<b>-856.0</b>	<b>-204.7</b>	<b>-348.6</b>
<b>1. Direct Investment (net)</b>	<b>65.2</b>	<b>770.3</b>	<b>-67.0</b>
(A) <i>Abroad</i>	<b>-609.3</b>	<b>673.6</b>	<b>-125.6</b>
- Equity capital	-400.6	968.2	112.4
- Reinvested earnings	-208.7	-294.6	-238.0
(B) <i>In Bahrain</i>	<b>674.5</b>	<b>96.7</b>	<b>58.6</b>
- Equity capital	200.6	-242.3	-628.4
- Reinvested earnings	473.9	339.0	687.0
<b>2. Portfolio Investment (net)</b>	<b>3,488.1</b>	<b>3,111.6</b>	<b>1,788.2</b>
(A) Assets	2,363.8	2,523.0	771.4
- Equity securities	-298.2	617.2	95.2
<i>Banks</i>	534.4	43.2	-119.7
<i>Other sectors</i>	-832.7	574.0	214.9
- Debt securities	2,662.1	1,905.7	676.2
Bonds and Notes	2,662.1	1,905.7	676.2
<i>Banks</i>	2,955.9	1,578.9	718.9
<i>Other sectors</i>	-293.8	326.8	-42.7
(B) Liabilities	1,124.3	588.6	1,016.8
- Equity securities	58.8	-183.2	621.4
<i>Banks</i>	0	0	0
<i>Other sectors</i>	58.8	-183.2	621.4
- Debt securities	1,065.5	771.8	395.4
Bonds and Notes	1,065.5	771.8	395.4
<i>Banks</i>	1,253.5	489.8	-74.6
<i>Other sectors</i>	-188.0	282.0	470.0
<b>3. Other Investment (net)</b>	<b>-4,519.9</b>	<b>-4,131.2</b>	<b>-1,588.7</b>
(A) Assets	-1,227.5	6,814.5	1,030.1
- Trade Credits	0	0	0
- Loans	-6,154.6	4,531.5	2,940.4
<i>Banks</i>	-6,154.6	4,531.5	2,940.4
- Currency and deposits	4,926.9	2,296.8	-1,908.0
<i>Banks</i>	4,926.9	2,296.8	-1,908.0
- Other assets	0.2	-13.8	-2.3
(B) Liabilities	-3,292.4	-10,945.8	-2,618.8
- Trade Credits	-2.9	-2.9	-2.9
- Loans	48.7	33.6	2.8
<i>Government</i>	22.6	7.5	-23.3
<i>Long term</i>	22.6	7.5	-23.3
<i>Short term</i>	0	0	0
<i>Other sectors</i>	26.1	26.1	26.1
<i>Long term</i>	26.1	26.1	26.1
<i>Short term</i>	0	0	0
- Currency and deposits	-3,335.0	-10,973.3	-2,615.5
<i>Banks</i>	-3,335.0	-10,973.3	-2,615.5
- Other liabilities	-3.2	-3.2	-3.2
<b>4. Reserve Assets</b>	<b>110.6</b>	<b>44.7</b>	<b>-481.1</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 BD1,588.7 million, compared with a net outflow of BD4,131.3 in 2009.

Lastly, Bahrain’s “official reserve assets” (gold, SDR, IMF reserve position and CBB foreign exchange) showed a surplus of BD481.1 million in 2010, compared to a deficit of BD44.7 million in 2009.

## 3. Errors and Omissions

The *net errors and omissions* in recorded transactions was a positive BD40.2 million in 2010, compared to a negative BD24.7 million in 2009. The net errors and omissions is equivalent to 0.4% of the combined value of exports and imports of goods, well within the internationally accepted benchmark of 5%.

## 4. International Investment Position (IIP)

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

At year-end 2010, Bahrain’s net international investment position (net IIP) showed a surplus of BD6,375.0 million, demonstrating that Bahrain is a net creditor to the rest of the world (i.e. the value of resident investments abroad exceeded the value of foreign investments in Bahrain) (Table 3).

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

	2008	2009	2010	2010 Change (BD million)
Foreign Assets	81,600.4	71,524.7	70,327.3	-1,197.4
Foreign Liabilities	75,786.8	65,495.9	63,952.3	-1,543.6
<b>Net Investment Position</b>	5,813.6	6,028.8	6,375.0	<b>346.2</b>

Source: Central Bank of Bahrain



With the net IIP in 2009 at BD6,028.8 million, the net creditor position of Bahrain widened by BD346.2 million during 2010. 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) shows that there were decreases in “portfolio assets” (by BD771.4 million) and “other assets” (by BD1,033.7 million). The contraction in foreign liabilities was largely due to the “other liabilities” category (includes loans, currency & deposits) which shrank by BD2,619.0 million.

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

	2008	2009	2010	2010 Change (BD million)
<b>Direct Investment Position</b>				
Direct Investment Abroad	3,511.9	2,838.3	2,963.9	125.6
Direct Investment in Bahrain	5,542.7	5,639.3	5,697.9	58.6
Net Position	-2,030.8	-2,801.0	-2,734.0	
<b>Portfolio Investment Position</b>				
Portfolio Assets	17,846.3	15,323.7	14,552.3	-771.4
Portfolio Liabilities	4,141.6	4,730.2	5,747.0	1,016.8
Net Position	13,704.7	10,593.5	8,805.3	
<b>Other Investment Position</b>				
Other Assets	58,759.3	51,931.0	50,897.3	-1,033.7
Other Liabilities	66,102.5	55,126.4	52,507.4	-2,619.0
<b>Net Position</b>	<b>-7,343.2</b>	<b>-3,195.4</b>	<b>-1,610.1</b>	

\* Provisional Data

Source: Central Bank of Bahrain

## 5. Balance of Payments Outlook for 2011

We envisage that Bahrain's current account balance will expand further in 2011, buoyed by elevated levels of oil prices due to the unrest in the Middle East. However, oil prices will also increase Bahrain's import bill, thus suppressing the extent of the expansion. Receipts on the *services account* are expected to contract due to the sad terrorist activities that took place in Bahrain since mid February until mid March, resulting in the cancelation of The Formula One racing event that was scheduled in March 2011. The level of Tourists from neighboring countries also witnessed a contraction thus putting further pressure on the "travel & tourism sector". However, we expect that the "travel account" will reverse to expansion after the government's steps to restore order.

We project that the pace of workers' remittances may be slightly higher somewhat during 2011, 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. Capital and financial account is expected to continue registering net outflows in 2011.

**END**