



مصرف البحرين المركزي  
Central Bank of Bahrain

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## Financial Stability Directorate

# Balance of Payments Report 2011

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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 2011. 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, 2011 BOP and IIP data analyzed in this report are "provisional".**

## Overview

During 2011, international financial markets have witnessed a 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 BD1,220.9 million, an increase of 321.7% when compared to 2010. This situation was due mainly to a 195.1% increase in net payments on the *goods account* as oil prices soared in the international markets. The size of the net debit increased during 2011 by 58.6% to reach BD1,415.5 million compared to the BD892.3 million registered last year.

As a result of the rising oil prices in international markets, oil export receipts grew by 52.2% compared to last year.

Reflecting on the overall direction of the current account balance, the surplus on *goods* was influenced largely by the growth witnessed in the "oil exports" account and "non-oil exports" account.

Net payments on the *income account* increased significantly during 2011 to stand at BD1,415.5 million a growth of 58.7% compared to last year. *Current transfers* expanded to BD770.8 million due to an increase in remittances by expatriate workers residing in Bahrain.

Net outflows on the *capital and financial account* grew to BD 1,248.1 million in 2011 (compared BD329.8 million in 2010), as the appetite for portfolio investments abroad is gradually recovering.

The statistical discrepancy--*errors and omissions in recorded transactions*--was a positive BD27.2 million in 2011, equivalent to 0.1% of the combined value of exports and imports of goods, well within the internationally accepted benchmark of 5%.

At year-end 2011, the *net international investment position* (net IIP) showed that Bahrain was a net creditor to the rest of the world by BD7,686.7

million. In 2010, the net IIP was BD6,375.0 million, indicating that the net creditor position of Bahrain widened by BD1,311.7 million during 2011.

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 2012 buoyed by the elevated oil prices due mainly 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 witness a moderate recovery as there are signs of recovery in the Asian and the American market. Further inflows of foreign direct investment are expected to reduce due to unrest in Bahrain.

## 1. The Current Account

### *Current account surplus widened*

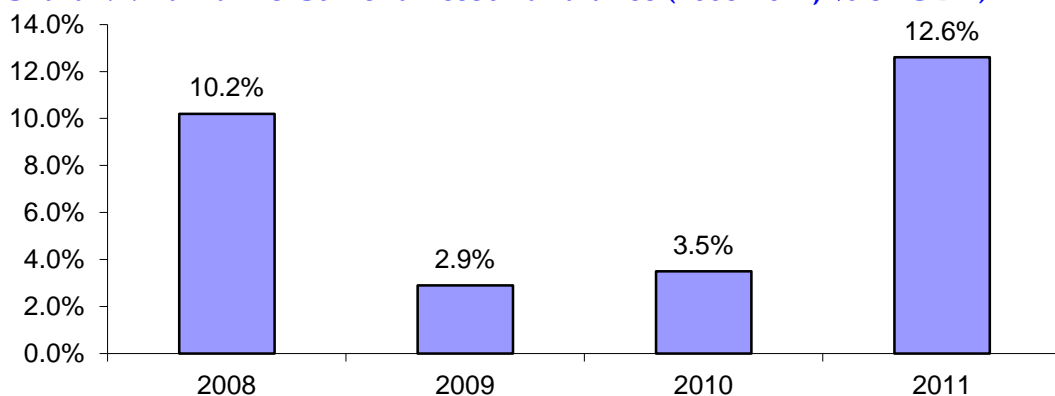
Reflecting the rise in oil prices in the international markets, Bahrain's current account surplus widened significantly in 2011, to an estimated BD1,220.9 million (12.6% of GDP). This was 321.3% higher than the BD289.8 surplus attained in 2010 (see Chart 1.1 and Table 1).

The increase in the current account surplus position was mainly due to the increase in *the goods account* by 195.1% standing at (BD2,932.9 million) compared to (BD993.7 million) last year. The huge increase is mainly due to soaring oil prices in the global markets.

On the other hand, the surplus on *Services* contracted by 41.1% to stand at BD474.3 million compared to BD805.4 million last year. The contraction was mainly due to the drop of receipts on the travel account (63%), financial services (43.6%) and communication services by 23.9%. The drop of receipts on the travel sector can be mainly attributed to the unrest in Bahrain during the first quarter of 2011, which severely affected the tourism industry and other services sectors.

The deficit on *current transfers* account widened by 24.9% to stand at (BD770.8 million) compared to (BD617.3 million).

**Chart 1.1: Bahrain's Current Account Balance (2008-2011; % of GDP)**



Source: Central Bank of Bahrain

**Table 1: Summary of Bahrain's Balance of Payments—2009-2011 (BD Million)\*\***

Items	2009	2010	2011
<b>1. Current Account (a+b+c+d)</b>	<b>210.6</b>	<b>289.8</b>	<b>1220.9</b>
<b>a. Goods</b>	<b>917.0</b>	<b>993.7</b>	<b>2932.9</b>
<b>General Merchandise</b>	<b>850.0</b>	<b>923.7</b>	<b>2836.7</b>
Exports (fob)	4464.5	5131.3	7388.5
- Oil	3351.5	3828.0	5824.5
- Non-Oil	1113.0	1303.3	1564.0
Imports (fob)	-3614.5	-4207.6	-4551.8
- Oil	-1637.2	-2027.8	-2808.5
- Non-Oil	-1977.3	-2179.8	-1743.3
<b>Repairs on goods</b>	<b>67.0</b>	<b>70.0</b>	<b>96.2</b>
<b>b. Services (net)</b>	<b>718.9</b>	<b>805.4</b>	<b>474.3</b>
- Transportation	15.2	16.3	32.7
- Travel	267.1	321.9	119.0
- Communication services	263.2	282.8	215.1
- Financial services (including insurance)	163.1	178.3	100.5
- Other Business Services	10.3	6.1	7.0
<b>c. Income (net)</b>	<b>-902.3</b>	<b>-892.0</b>	<b>-1415.5</b>
Investment Income	-902.3	-892.0	-1415.5
- Direct Investment Income	-110.8	-785.2	-1274.8
- Portfolio Income	6.0	-15.8	132.0
- Other Investment Income	-797.5	-91.0	-272.7
<b>d. Current Transfers (net)</b>	<b>-523.0</b>	<b>-617.3</b>	<b>-770.8</b>
- Workers' Remittances	-523.0	-617.3	-770.8
<b>2. Capital and Financial Account (net) (A+B)</b>	<b>-185.9</b>	<b>-329.8</b>	<b>-1248.1</b>
<b>A. Capital Account (net)</b>	<b>18.8</b>	<b>18.8</b>	<b>28.6</b>
- Capital Transfers	18.8	18.8	28.6
<b>B. Financial Account (1+2+3+4)*</b>	<b>-204.7</b>	<b>-348.6</b>	<b>-1276.7</b>
<b>1. Direct Investment</b>	<b>770.3</b>	<b>-67.0</b>	<b>-42.4</b>
- Abroad	673.6	-125.6	-336.0
- In Bahrain	96.7	58.6	293.6
<b>2. Portfolio Investment (net)</b>	<b>3111.6</b>	<b>1788.2</b>	<b>2099.2</b>
- Assets	2523.0	771.4	1941.7
- Liabilities	588.6	1016.8	157.6
<b>3. Other Investment (net)</b>	<b>-4131.3</b>	<b>-1588.7</b>	<b>-3554.3</b>
- Assets	6814.5	1030.1	6515.1
- Liabilities	-10945.8	-2618.8	-10069.3
<b>4. Reserve Assets (net)</b>	<b>44.7</b>	<b>-481.1</b>	<b>220.8</b>
<b>3. Errors and Omissions</b>	<b>-24.7</b>	<b>40.0</b>	<b>27.2</b>

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

\*\*Provisional Data

Sources: Central Bank of Bahrain

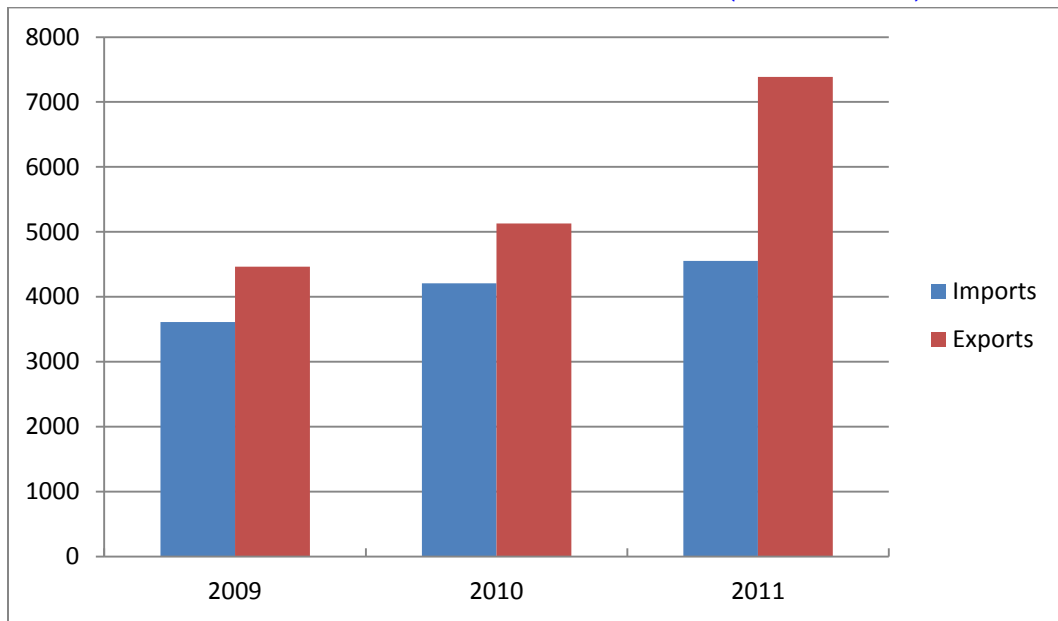
## 1.1. Trade in Goods

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

Propelled by a 44.0% growth in export receipts, total earning from merchandise exports (f.o.b) increased from BD5,131.3 in 2010 to BD7,388.5 in 2011 (Table 1). Non-oil export earnings were also up by 20.0%.

Payments for merchandise imports (f.o.b) increased by 8.2%. The increase was evident in the *oil imports* which rose by 38.5% while non-oil imports contracted by 20.0%. The overall surplus on goods increased by 195.1%.

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



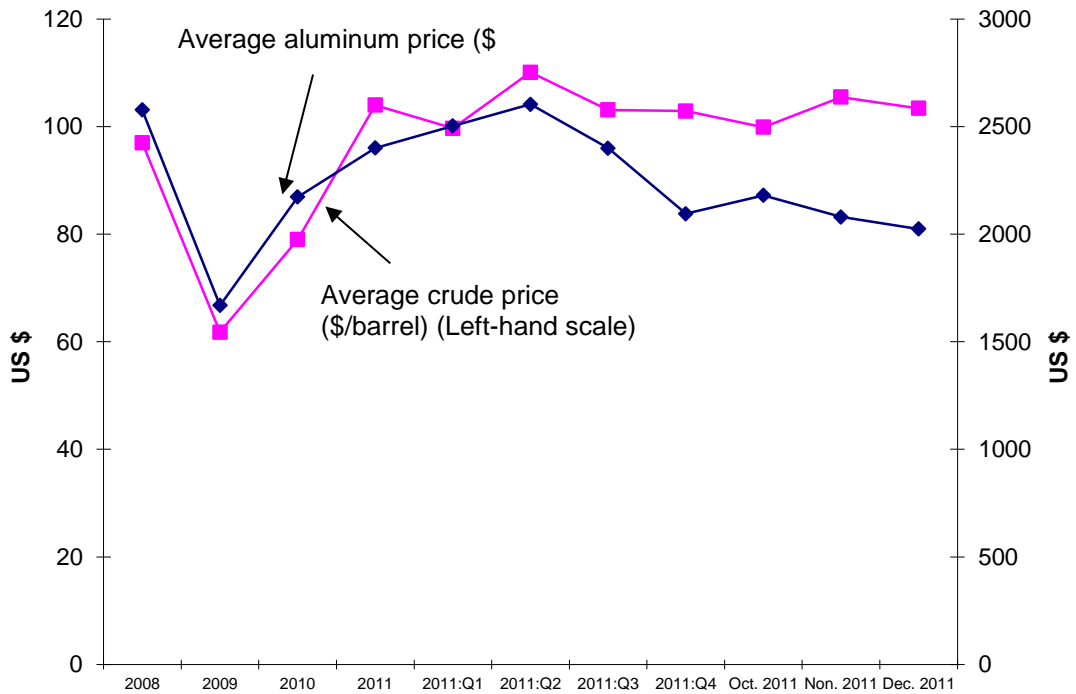
Sources: Central Informatics Organization and National Oil and Gas Authority



*Recovery in prices of major exports*

Focusing on two commodities of importance to Bahrain (oil and aluminum), average crude prices peaked at \$105.4 per barrel in November 2011. The lowest point reached was \$99.7 in the first quarter of 2011.

**Chart 1.3: Trends in Aluminum and Crude Oil Prices (2008-2011)**



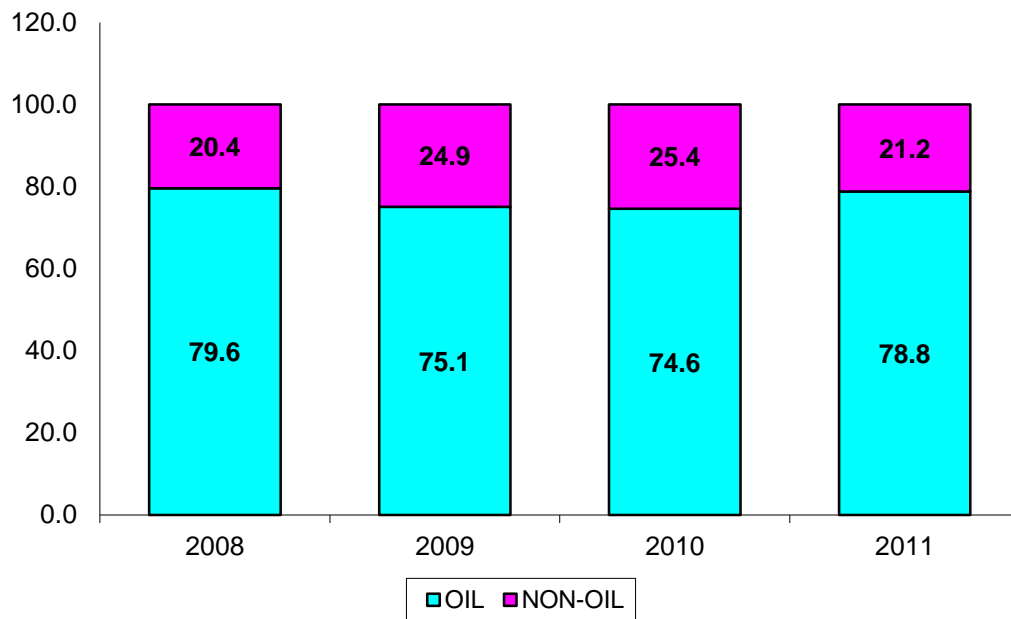
Sources: IMF, International Financial Statistics and World Bank Commodity Prices Database

Aluminum prices averaged \$2,024.4 per metric ton by end 2011, 6.8% lower than the \$2,173.0 reached by end 2010.

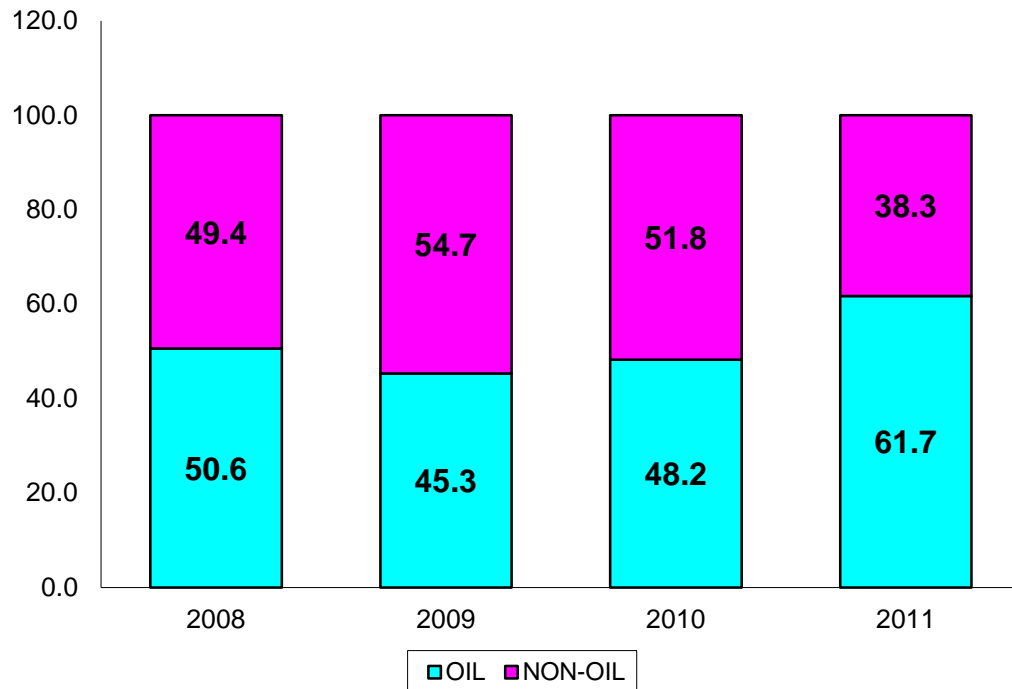
### *Dominance of oil in both merchandise exports and imports*

Bahrain's exports continue to be dominated by oil-related items, which accounted for 78.8% of total export earnings in 2011. Unlike the previous years, in 2011, non-oil imports accounted for 38.3% of the import bill in 2011 compared to 51.8% in 2010. Oil payments represented 61.7% of the total compared to 48.2% in 2010.

**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

### *Contraction in surplus on services*

Bahrain surplus on services contracted to BD474.3 million, a drop of 41.1%. This was mainly due to a decrease on *Travel account* by 63.0% and *Financial services* by 43.6%.

### *1.3. Income Account*

#### *Increase in net payments*

As in previous years, Bahrain's income account showed a net debit for 2011. However, the size of the net debit increased by 58.7% to reach BD1,415.5 million compared to the BD892.0 million registered last year.

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

#### *Increase in current transfers*

Net current transfers to the rest of the world expanded to BD770.8 million compared to BD617.3 million in 2010. This is due to the increase in the number of foreign workers in Bahrain which rose from 392,303 in 2010 to 417,362 in Q3 2011.

## 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 BD1,248.1 million in 2011 (from BD329.8 million in 2010) (Table 1, next page). While the net inflow of BD28.6 million on the *capital account* increased to the last in 2010, an increment in the net outflow on the *financial account* to BD1,276.7 million (from BD348.6 million in 2010), 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 BD42.4 million compared to a net outflow of BD67.0 million in 2010. The outflow is due to an increase in Bahraini’s “direct investment Abroad” to reach BD336.0 million (compared to BD125.6 million in 2010) from one side, and a BD293.6 million in “foreign direct investment in Bahrain” (compared to a BD58.6 million in 2010) from the other side.

### *Net inflow position on portfolio investments*

During 2011, the “portfolio investment” component of the financial account registered a net inflow of BD2,099.2 million compared to a net inflow of BD1,788.2 million recorded in 2010. On the asset side of the portfolio account, holding of *foreign equities* and debt securities by residents grow to reach BD1,941.7 million (Table 2, next page).

On the liability side, inflow of portfolio investments into Bahrain from non-residents amounted to BD157.6 million, 84.5% lower than the BD1,016.8 million inflow recorded in 2010. This plunge was principally influenced by a sharp decrease in debt securities which recorded a decline.

Table 2: Details of the Financial Account—2009-2011(BD Million)\*\*

Items	2009	2010	2011
<b>Overall Financial Account (1+2+3+4)*</b>	<b>-204.7</b>	<b>-348.6</b>	<b>-1,276.7</b>
<b>1. Direct Investment (net)</b>	<b>770.3</b>	<b>-67.0</b>	<b>-42.4</b>
<b>(A) Abroad</b>	<b>673.6</b>	<b>-125.6</b>	<b>-336.0</b>
- Equity capital	968.2	112.4	653.7
- Reinvested earnings	-294.6	-238.0	-989.7
<b>(B) In Bahrain</b>	<b>96.7</b>	<b>58.6</b>	<b>293.6</b>
- Equity capital	-242.3	-628.4	-1,458.6
- Reinvested earnings	339.0	687.0	1,752.2
<b>2. Portfolio Investment (net)</b>	<b>3,111.6</b>	<b>1,788.2</b>	<b>2,099.2</b>
<b>(A) Assets</b>	<b>2,523.0</b>	<b>771.4</b>	<b>1,941.7</b>
- Equity securities	617.2	95.2	1,782.4
<i>Banks</i>	43.2	-119.7	-3.7
<i>Other sectors</i>	574.0	214.9	1,786.1
- Debt securities	1,905.7	676.2	159.3
Bonds and Notes	1,905.7	676.2	159.3
<i>Banks</i>	1,578.9	718.9	-252.1
<i>Other sectors</i>	326.8	-42.7	411.4
<b>(B) Liabilities</b>	<b>588.6</b>	<b>1,016.8</b>	<b>157.6</b>
- Equity securities	-183.2	621.4	369.2
<i>Banks</i>	0	0	0
<i>Other sectors</i>	-183.2	621.4	369.2
- Debt securities	771.8	395.4	-211.6
Bonds and Notes	771.8	395.4	-211.6
<i>Government</i>	282	470.0	283.0
<i>Banks</i>	489.8	-74.6	-494.6
<b>3. Other Investment (net)</b>	<b>-4,131.2</b>	<b>-1,588.7</b>	<b>-3,554.3</b>
<b>(A) Assets</b>	<b>6,814.5</b>	<b>1,030.1</b>	<b>6,515.1</b>
- Trade Credits	0	0	0
- Loans	4,531.5	2,940.4	2,957.3
<i>Banks</i>	4,531.5	2,940.4	2,957.3
- Currency and deposits	2,296.8	-1,908.0	3,552.6
<i>Banks</i>	2,296.8	-1,908.0	3,552.6
- Other assets	-13.8	-2.3	5.2
<b>(B) Liabilities</b>	<b>-10,945.8</b>	<b>-2,618.8</b>	<b>-10,069.3</b>
- Trade Credits	-2.9	-2.9	-8.6
- Loans	33.6	2.8	104.0
<i>Government</i>	7.5	-23.3	-5.4
<i>Long term</i>	7.5	-23.3	-5.4
<i>Short term</i>	0	0	0
<i>Other sectors</i>	26.1	26.1	109.4
<i>Long term</i>	26.1	26.1	109.4
<i>Short term</i>	0	0	0
- Currency and deposits	-10,973.3	-2,615.5	-10,152.9
<i>Banks</i>	-10,973.3	-2,615.5	-10,152.9
- Other liabilities	-3.2	-3.2	-11.8
<b>4. Reserve Assets</b>	<b>44.7</b>	<b>-481.1</b>	<b>220.8</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 BD3,554.3 million in 2011, compared with a net outflow of BD1,588.7 in 2010.

Lastly, Bahrain’s “official reserve assets” (gold, SDR, IMF reserve position and CBB foreign exchange) showed a deficit of BD220.8 million in 2011, compared to a surplus of BD481.1 million in 2010.

## 3. Errors and Omissions

The *net errors and omissions* in recorded transactions was a BD27.2 million in 2011, compared to a BD40.2 million in 2010. The net errors and omissions is equivalent to 0.01% 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 2011, Bahrain’s net international investment position (net IIP) showed a surplus of BD7,686.7 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)**

	2009	2010	2011	2011 Change (BD million)
Foreign Assets	71,524.7	70,327.3	61,985.8	-8,341.5
Foreign Liabilities	65,495.9	63,952.3	54,299.1	-9,653.2
<b>Net Investment Position</b>	6,028.8	6,375.0	7,686.7	<b>1,311.7</b>

Source: Central Bank of Bahrain

With the net IIP in 2010 at BD6,375.0 million, the net creditor position of Bahrain widened by BD1,311.7 million during 2011. Both foreign assets and liabilities contracted during the year by BD8,341.5 million and BD9,653.2 million consecutively, thereby maintaining the net creditor position.

A breakdown of foreign assets (Table 4) shows that there were decreases in “portfolio assets” (by BD1,941.7 million) and “other assets” (by BD6,523.2 million). The contraction in foreign liabilities was largely due to the “other liabilities” category (includes loans, currency & deposits) which shrank by BD10,104.4 million.

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

	2009	2010	2011	2011 Change (BD million)
<b>Direct Investment Position</b>				
Direct Investment Abroad	2,838.3	2,963.9	3,299.9	<b>336.0</b>
Direct Investment in Bahrain	5,639.3	5,697.9	5,991.5	<b>293.6</b>
Net Position	-2,801.0	-2,734.0	-2,691.6	
<b>Portfolio Investment Position</b>				
Portfolio Assets	15,323.7	14,552.3	12,610.6	<b>-1,941.7</b>
Portfolio Liabilities	4,730.2	5,747.0	5,904.6	<b>157.6</b>
Net Position	10,593.5	8,805.3	6,706	
<b>Other Investment Position</b>				
Other Assets	51,931.0	50,897.3	44,374.1	<b>-6,523.2</b>
Other Liabilities	55,126.4	52,507.4	42,403.0	<b>-10,104.4</b>
<b>Net Position</b>	-3,195.4	-1,610.1	1,971.1	

\* Provisional Data

Source: Central Bank of Bahrain



## 5. Balance of Payments Outlook for 2011

We envisage that Bahrain's current account balance will expand moderately in 2012, buoyed by elevated levels of oil prices due to the tensions 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 expand moderately, yet will remain relatively lower than the previous years as a result of the unrest in Bahrain which sparked in February 2011. However, we expect that the "travel account" will be heaved due to the Formula One racing event scheduled in April 2012, the Bahrain Air Show in February 2012 and many events scheduled in 2012.

We project that the pace of workers' remittances to keep growing during 2012, given the ongoing demand for expatriate labor.

On the capital and financial account, the appetite for portfolio investments abroad is expected to recover further as there are signs of recovery in Asia and the US. Capital and financial account is expected to continue registering net outflows in 2012.

**END**