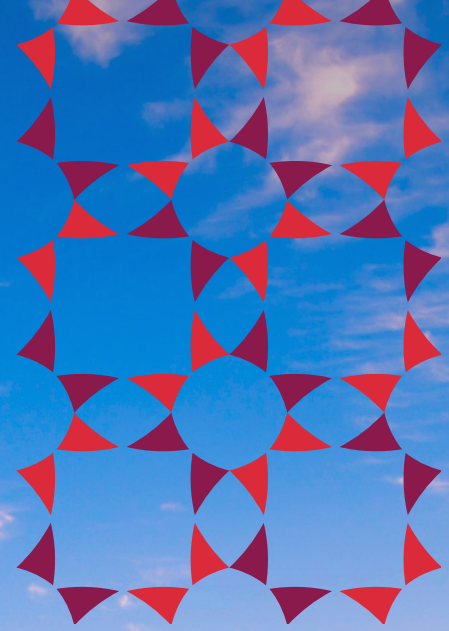


غرفة البحرين
BAHRAIN CHAMBER



Overview of the Local Economy

Q2 2021



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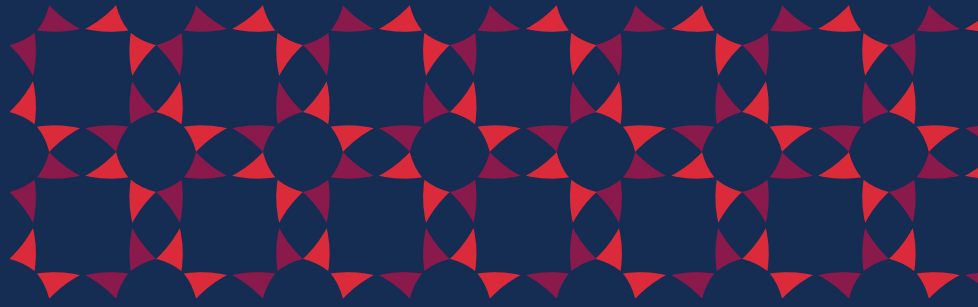
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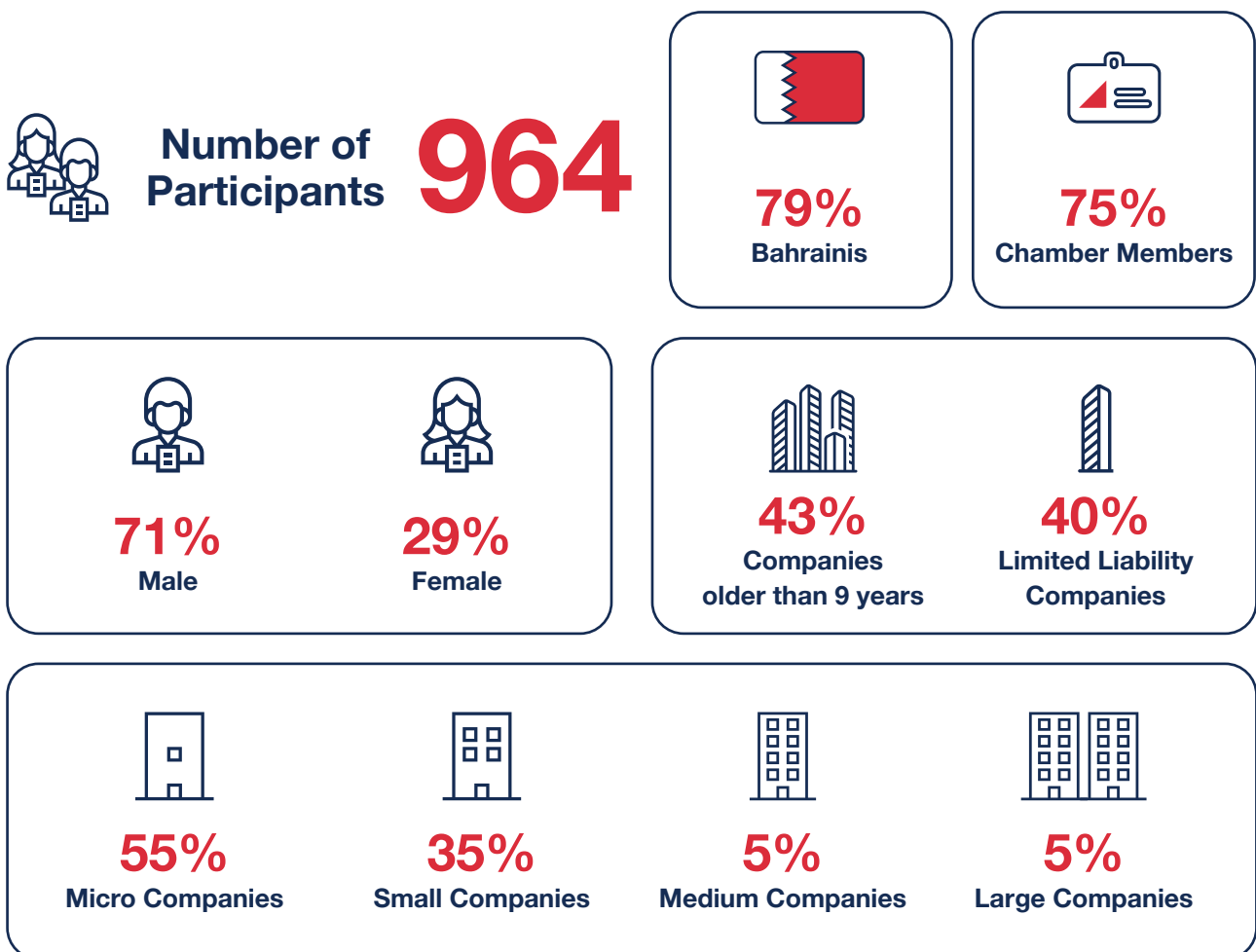
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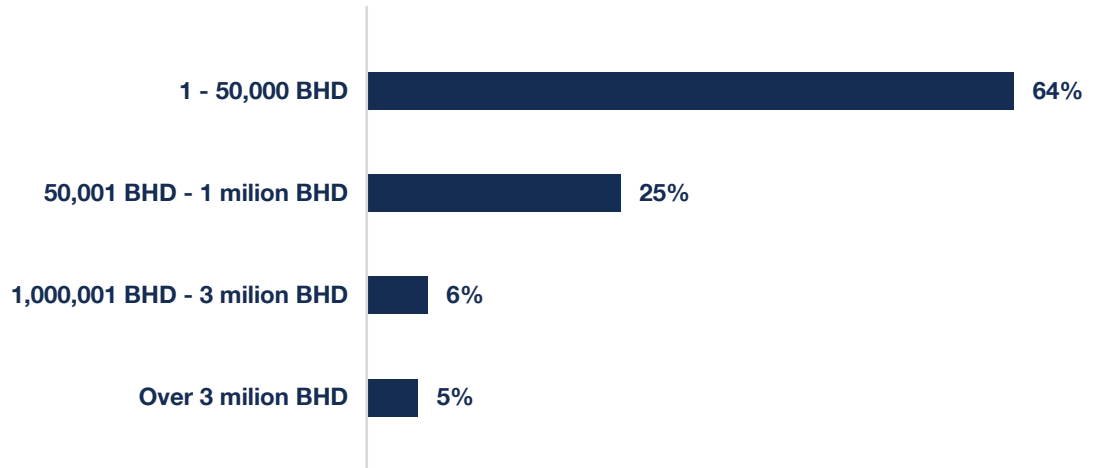
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Introduction

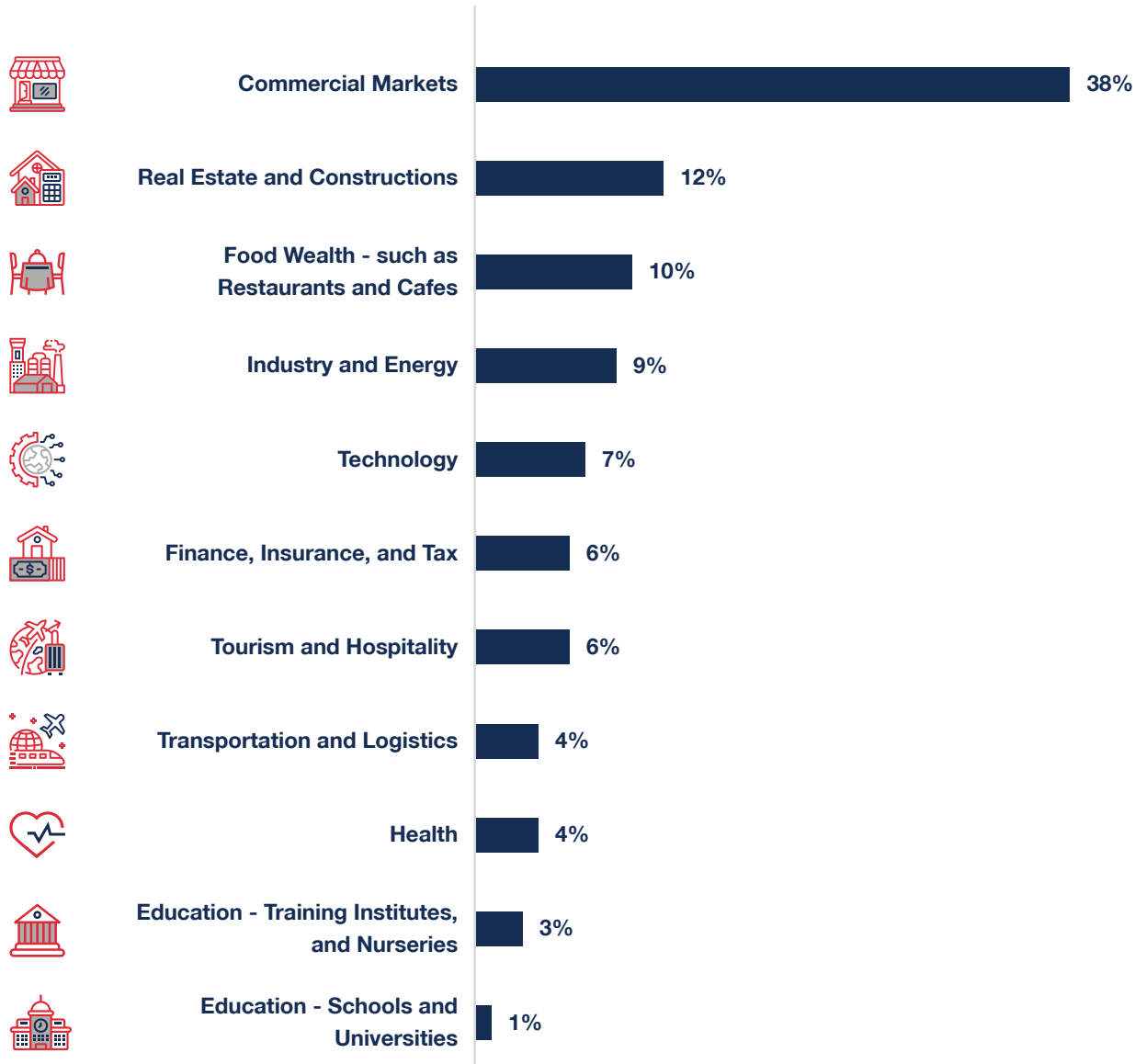
- The Studies and Initiatives Center at Bahrain Chamber launched a survey titled “Private Sector Business Performance and Future Expectations” from April to June 2021.
- The aim of the survey is to monitor the performance of business owners throughout the first half of 2021. This survey was conducted during the precautionary closure of companies and measures the economic impact of the decision.
- The results of this survey were compared with the results of the surveys launched in June and September 2020 to determine the main trends and changes that have occurred over the past year.
- Subsequently, the Chamber can raise recommendations to the government to ensure business continuity.
- The survey results reflect the opinions of participants from the private sector.



Revenue

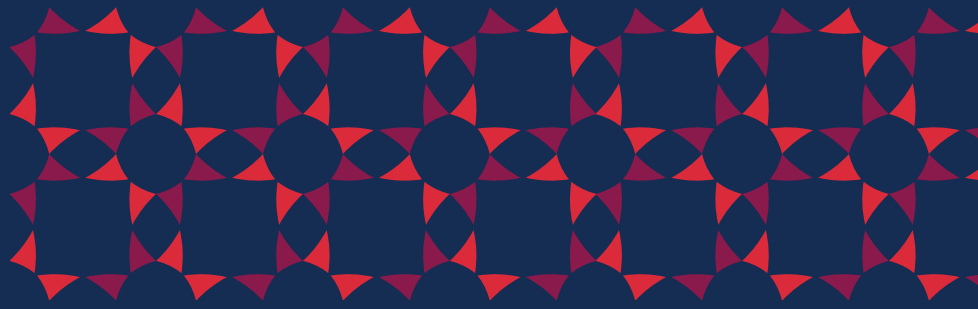


Participation of Economic Sectors



*This analysis is accurate at the 95% confidence interval with a 3% margin of error.





2

Economic Overview

Top business owner concerns remain consistent from June 2020 to June 2021

Since the Covid-19 pandemic began in early 2020, it has left businesses struggling to cope with a collection of supply-chain, logistical, and liquidity disruptions. During this time, the Bahrain Chamber has been in constant communication with the private sector in order to identify the pandemic's impact on businesses, and to understand business owners concerns as they navigate the new normal.

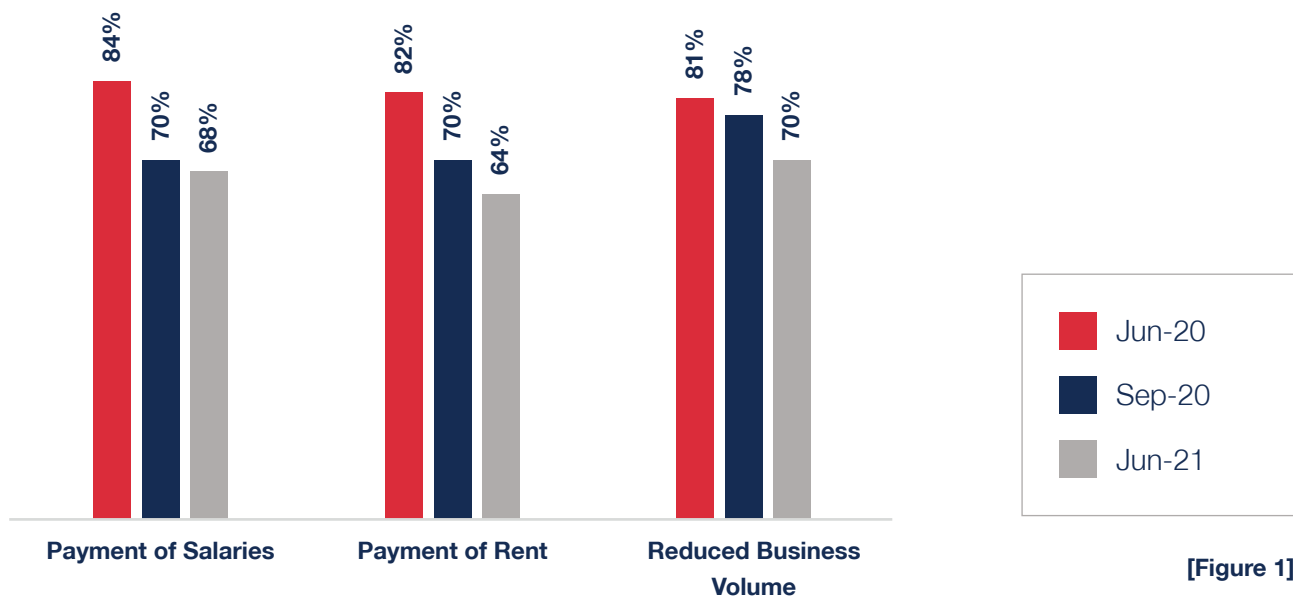
In order to explore the pandemic's impact further, the Bahrain Chamber has conducted surveys in June 2020, September 2020, and June 2021, with over 2700 business owners and representatives participating throughout the period of study.

As Bahrain's economy tries to adapt to a new normal, business owner concerns have remained consistent from Q2 2020 to Q2 2021. In these three surveys, business owners have consistently expressed that salary payments, reduction in business volume, and rent payments are their top three concerns.

These three major concerns can be condensed into the larger theme of liquidity issues and the need for capital access in order to meet financial obligations.

In 2021 survey conducted by Goldman Sachs probing 2700 small business in the United States, there is a similar result in regards to the main concerns expressed by businesses. Access to capital remains fundamental to many, with 50% of respondents expressing unpredictable cashflow prevents them from retaining and paying new employees.

The Top Three Concerns Expressed by Participants



Top business owner concerns in June 2021



70%

of business owners are concerned with the reduction of business volume



68%

of business owners are concerned with salary payments



64%

of business owners are concerned with rent payments



53%

of business owners are concerned with the payment of government fees



41%

of business owners are concerned with delays in cash flow and receivables



36%

of business owners are concerned with increased difficulties in financing

Government support to reduce impact of the pandemic

- The Kingdom of Bahrain, like other oil-exporting countries, was affected by two simultaneous shocks: the outbreak of the global epidemic and the drop in oil prices. On the other hand, the recent precautionary closure decisions had a severe impact on business owners.
- The government responded quickly to mitigate the economic consequences of the crisis by launching a package of measures to maintain financial stability, support the affected sectors and groups, and stimulate demand to prevent a long-term economic recession. Business owners have been negatively impacted by the recent precautionary closure decision, but the government has announced a BD485 million (\$1.28 Billion) economic stimulus package to maintain business continuity.

- The government announced that financial support to businesses affected by the coronavirus (COVID-19) pandemic is extended by an additional three months—from June 2021 through August 2021. This will help address major business owner concerns, such as the payment of salaries and the reduction of business volume.
- Bahrain offers support through bill suspensions and direct grants or funds which no doubt offers relief to not have to repay. These decisions highlight the Government of Bahrain's generosity and sincerity in supporting individuals, businesses, and its economy.
- The majority of the UK and US Covid-19 relief schemes are through loans meant to be repaid, or tax credits.



- Industry Payroll Relief Programmes: 50% of employee payroll as tax credits of up to \$10'000 of wages paid. (Equivalent to BHD 3,800)
- Small Business Tax Credit Programmes: 50% of employee payroll as tax credits up to \$7'000 per employee per quarter.
- Payroll Tax Deferral for Social Security Tax obligations – to be paid by Dec 2022.

Recovery Loan Scheme



- Loans between £25'001 - £10m per business.

Coronavirus Job Retention Scheme

- 80-60% of employee wage paid by government to maximum cap between £2500 - £2187

* Source: US Treasury and UK government

Global Initiatives

Central bank extends some stimulus measures until mid-2022



Financial institutions will continue to be eligible to access the collateralised AED50 billion (\$13.6 billion) zero-cost liquidity facility up to [June 30, 2022] to provide new loans and financing to individuals, small and medium-sized enterprises, and other private corporates affected by COVID-19 repercussions.

New Initiative To Enable \$1.33T Private Sector Investments By 2030



A new program to strengthen collaboration between the government and private sector, which would enable private investment of \$1.33 trillion (5 trillion riyals) until 2030. The program is also aimed at helping the world's largest oil exporter reduce its dependence on crude and achieving the ambitious goals outlined in Vision 2030.

Unveils \$9.7 Billion Aid Package Ahead of Lockdown



Malaysia unveiled a \$9.7 billion package to help people and companies through the two-week nationwide lockdown from 01Jun/2021.

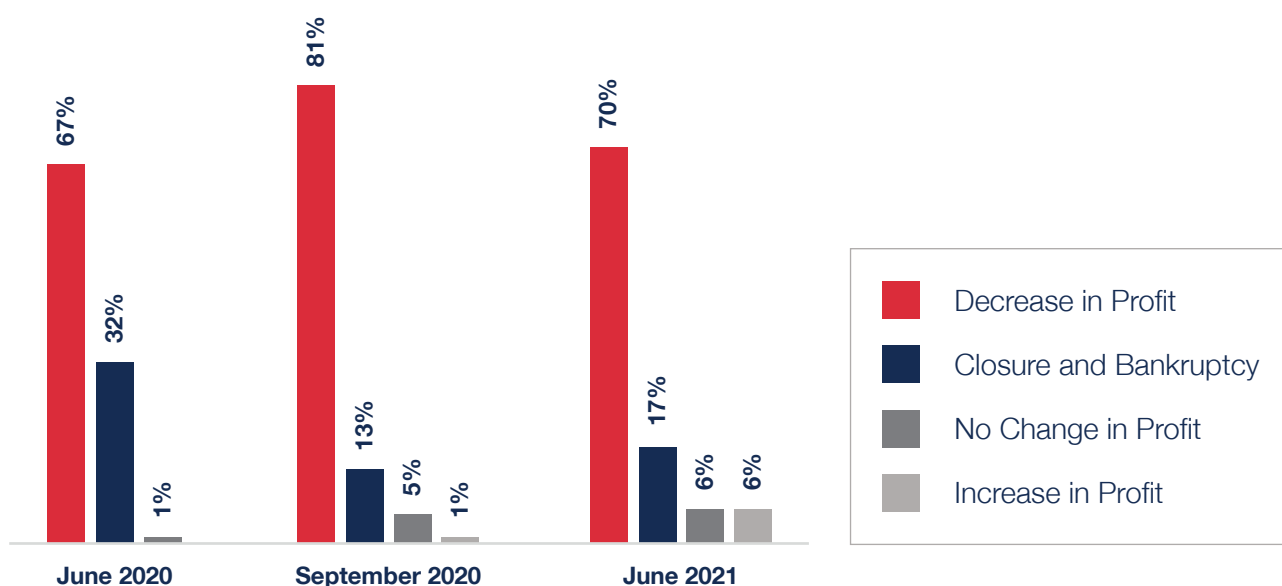
The package is aimed at boosting the nation's health-care capacity, increasing cash aid and ensuring business continuity.

* Source: US Department of Treasury, Financial Times, BNN Bloomberg, Zawya, Forbes

Decrease in percentage of business owners that expect bankruptcy and closure

- Business performance shifts during the pandemic depending on factors such as lockdowns, closing and reopening of borders, and vaccine rollouts. As a result, profit expectations are not consistent.
- Business owners are more optimistic with regards to bankruptcy and closure. In June 2021, only 17% of business owners expect bankruptcy and closure, compared to 32% at the start of the pandemic [Figure 2].
- 70% of business owners expect their profits to decrease during the upcoming period, compared to 67% in June 2020 and 81% in September 2020 [Figure 2].

Business Owners Expectations Regarding Impact on Profits [Figure 2]

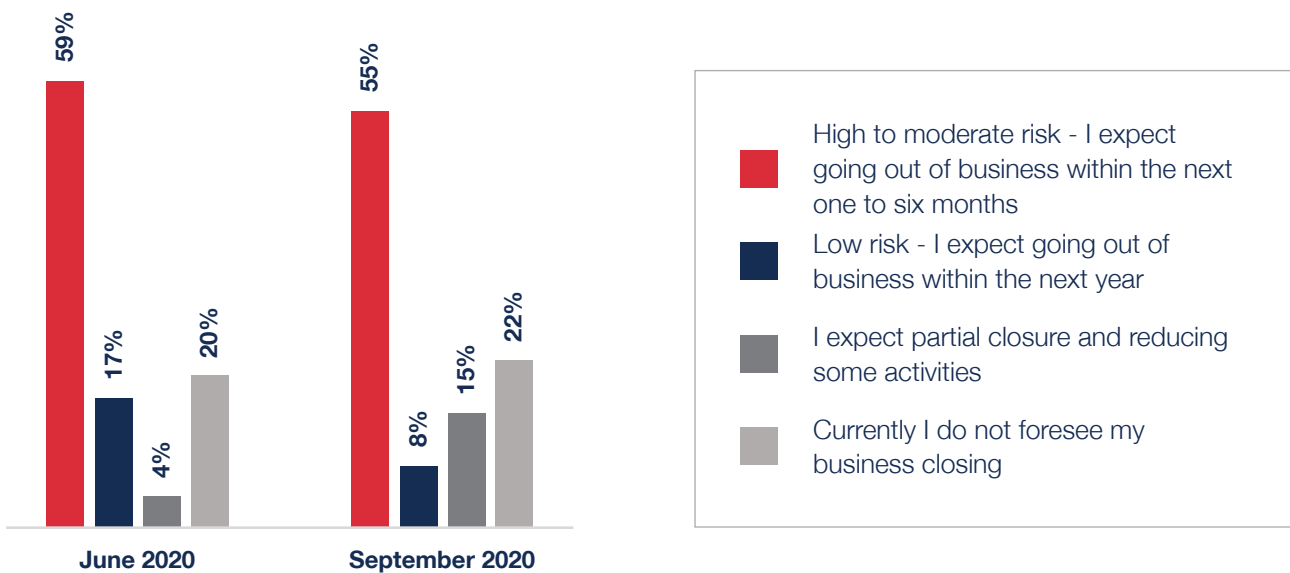


Decrease in percentage of companies that expect closure in June 2021 compared to June 2020

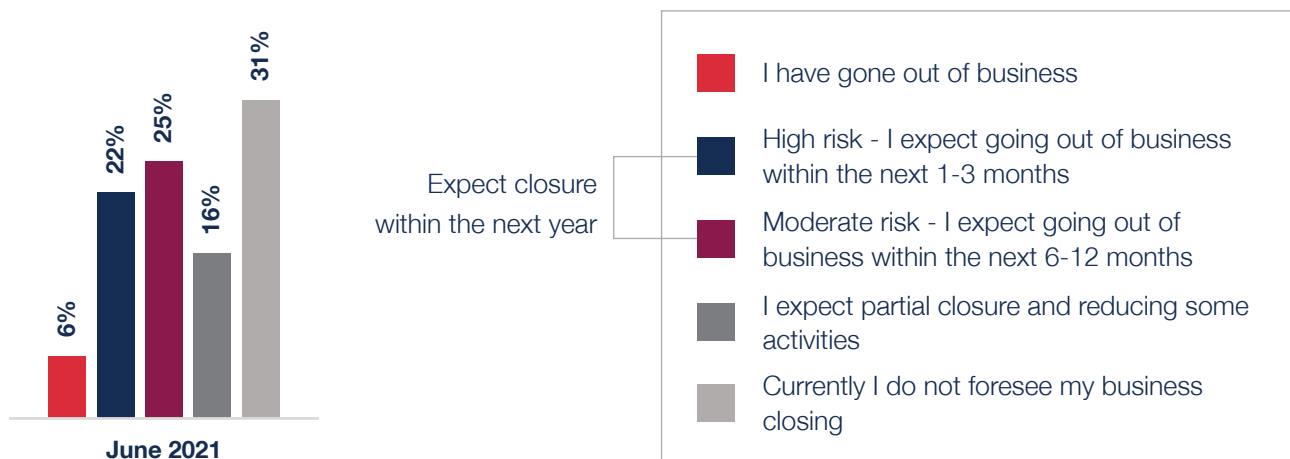
- In June 2021, 47% of companies indicated that they expect to go out of business in the next year [Figure 4], compared to 63% and 76% of business owners that expected that in September and June 2020 [Figure 3].
- Despite the expectations of participants in the surveys from 2020, only 6% of respondents in the current survey indicated that they have actually gone out of business [Figure 4].

- 31% of companies do not currently foresee their business closing in June 2021, compared to 22% and 20% of companies that expected that in September and June 2020 [Figures 3 and 4]. Government support throughout the pandemic has allowed companies to remain afloat, despite the negative impact of the temporary precautionary decision. Additionally, companies have learned to be more flexible to adapt to the current business and economic conditions through increased digitalization and amending their company structure. As such, companies have a slightly more optimistic outlook than they did at the beginning of the pandemic.

Previous Survey [Figure 3]



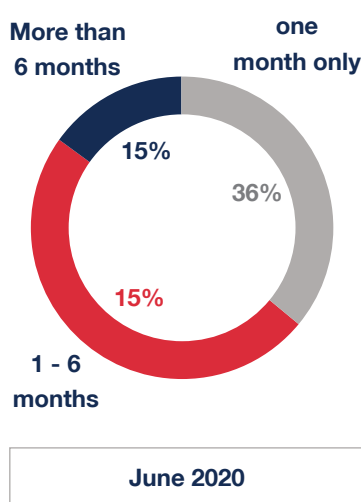
Current Survey [Figure 4]



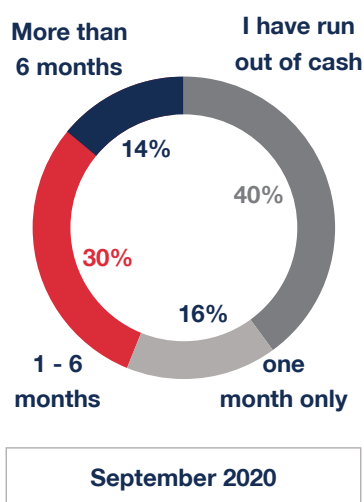
Expect closure within the next year

Increase in number of business owners that expect cash flow to last for more than 6 months

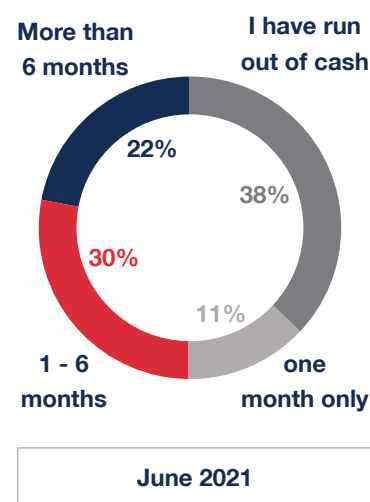
- 38% of business owners have run out of cash, while 11% of business owners expect their cash flow to maintain their operations for one month, and 30% of business owners expect cash flow to maintain their operations between 1-6 months[Figure 7].
- According to KPMG, the economic downturn and COVID-19 has negatively affected most key business segments and worsened the existing stress in the economy as business models were largely trade finance dependent or working capital intensive. As businesses face challenges in recovering outstanding receivables in a timely manner, the working capital positions are being stretched.
- GCC countries provided stimulus packages during the early stages of the pandemic, and included several common policy actions, such as interest rate cuts, liquidity enhancing measures, support for local employees, and deferment of loans. They extended support to SMEs and sectors most affected by the pandemic such as tourism, hospitality, and service providers.



[Figure 5]



[Figure 6]



[Figure 7]

Main financial actions business owners will take to maintain sustainability despite limited liquidity



58%

Reduction of Operating Expenses (e.g. Salaries, training, marketing, inventory)



34%

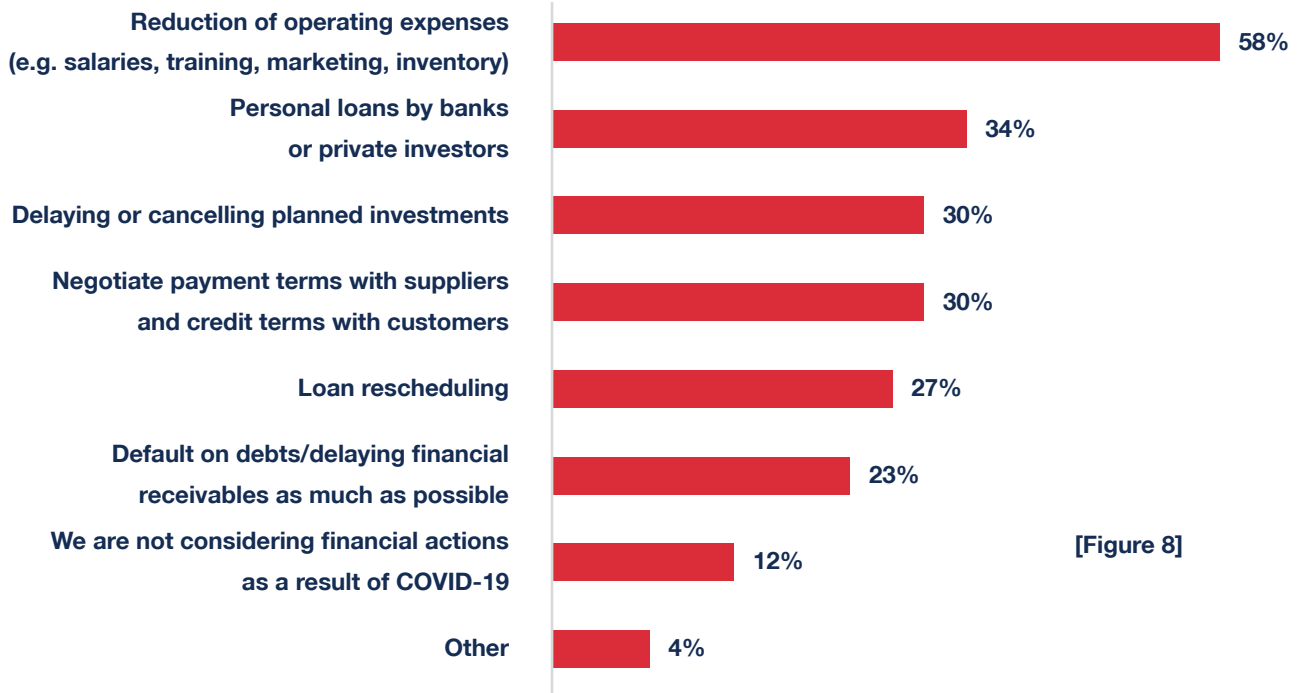
Personal loans by banks or private investors



30%

Delaying or cancelling planned investments

Main Financial Actions Business Owners Will Take



Top financial actions business owners have taken over past year

- In June 2020, most business owners relied on government support in order to maintain business continuity and the support was particularly important considering the extended precautionary closure of businesses during that time period [Figure 9].
- In September 2020 and June 2021, business owners mainly relied on the reduction of operating expenses [Figure 10 - 11].

[Figure 9]



June 2020

[Figure 9]

[Figure 10]



September 2020

[Figure 10]

[Figure 11]



June 2021

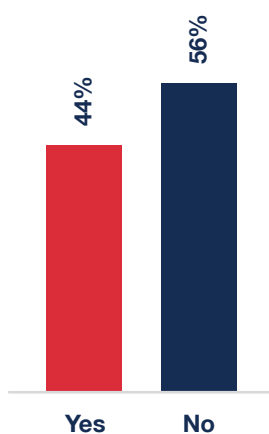
[Figure 11]



Layoffs have continued since the start of the pandemic

- The unprecedented nature of the pandemic, including extensive lockdowns, has forced companies worldwide to scale back or shut down operations and lay off workers.
- 44% of business owners in Bahrain have laid off employees in 2020 [Figure 12].
- The high percentage of layoffs in the private sector is reflected in local employment data, such that the total number of workers decreased by 7% in Q4 2020 compared to Q4 2019 [Figure 13].

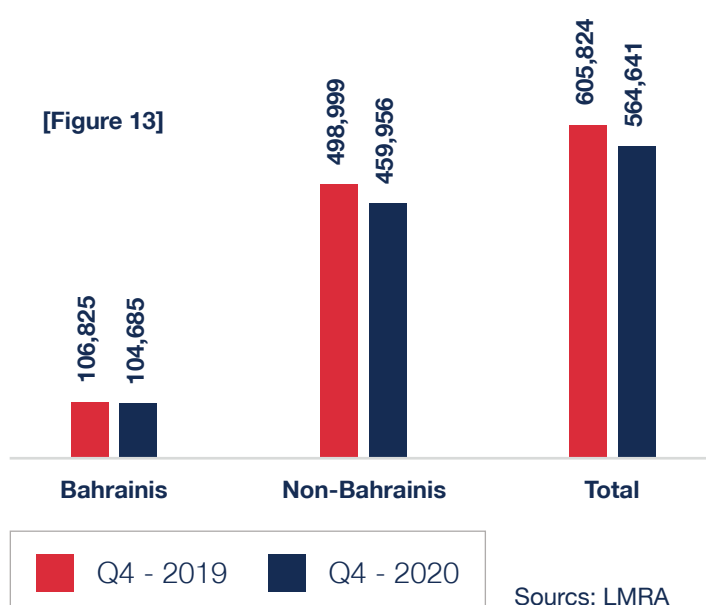
Have you laid off employees in 2020?



[Figure 12]

Sources: BCCI Survey

Total Number of Workers in Private Sector



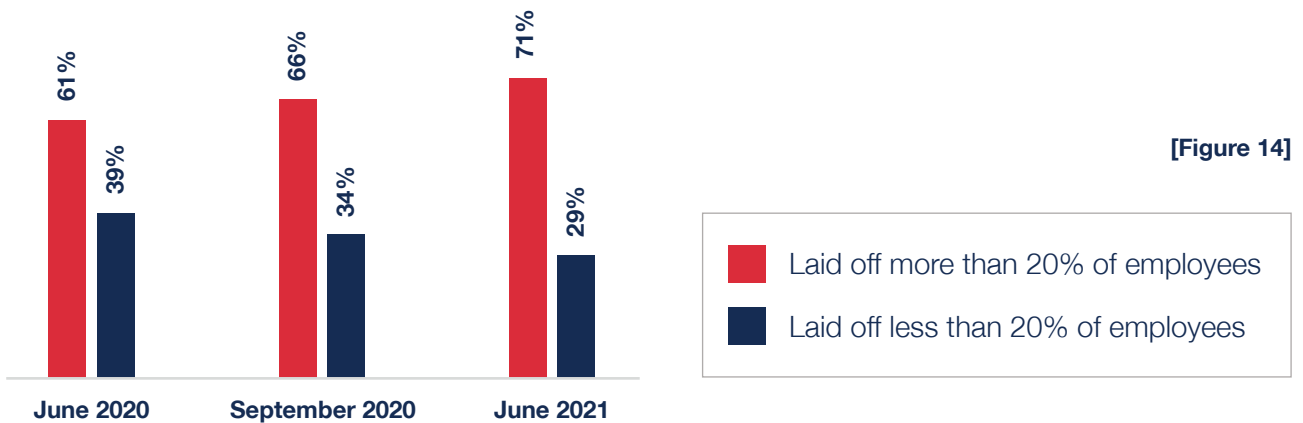
Sources: LMRA

Decrease in percentage of business owners that have laid off more than 20% of employees

- According to the results of the June 2021 survey, 29% of business owners have laid off more than 20% of employees in 2020.
- Comparatively in September 2020 and June 2020, 34% and 39% of businesses owners indicated that they have laid off more than 20% of their employees.
- Business uncertainty in the beginning of the pandemic may have led to the layoff spike in June 2020.
- However, in the June 2021 survey, many business owners indicated that they are optimistic and aware that the current situation is temporary. The percentage of layoffs may have also fallen as a result of businesses re-employing and adjusting to a “new normal”

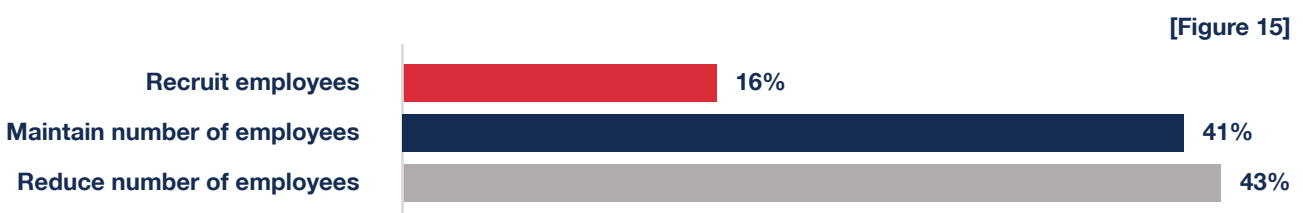
- The Minister of Labor and Social Development of Bahrain, HE Jameel Humaidan, has stated that the unemployment rate exceeding 5% in 2020 is temporary and exceptional and that the stimulus packages and business support the government provided to boost employment and spending has reduced layoffs and unemployment.

Percentage of Employees Laid Off



Upcoming Workforce Plans

- 43% of business owners plan to reduce the number of employees in their businesses in 2021 [Figure 15].
- Conversely, 41% of business owners plan to maintain the number of employees and only 16% plan to recruit more employees [Figure 15].
- Due to uncertainty surrounding the pandemic, many business owners anticipate a need to layoff employees in the upcoming period. The unexpected closures of businesses in Bahrain in 2021 increased business owner concerns regarding their operating expenses.
- If the economic recession persists in the upcoming period, there will be significant and long-term consequences for the reallocation of jobs, workers, and capital across firms and locations.

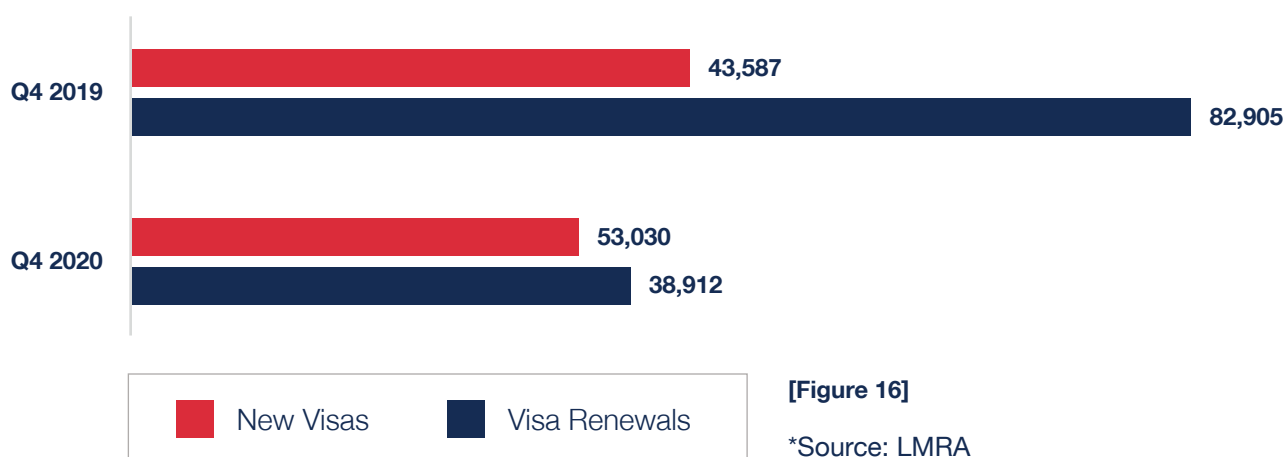


Source: Albilad Newspaper

New work permits decreased by 19% in Q4 2020 compared to 2019

- The LMRA issued 35,030 new Visas in Q4 2020 - a decrease of -20% compared to Q4 2019 [Figure 16].
- Visa renewals were down by -53% compared to Q4 2019, with 38,912 being issued in Q4 2020 [Figure 16].
- This is indicative of how the coronavirus pandemic has reduced recruitment, as companies try to cut their operating expenses to stay in the market.
- The pandemic has also made the feasibility of international travel and seeking employment abroad more challenging, and countries have been focusing more on local hires.

Number of Work Permits



Bahrain's unemployment rate is still below the world average, although unemployment reached 4.1% in 2020

- The pandemic has led to an increase in unemployment across the world. The global unemployment rate increased from 5.37% in 2019 to 6.47% in 2020 - a change of 1.1%.
- The highest unemployment rate was in South Africa at 28.7%, while the lowest was in Cambodia with about 0.3%.
- It is noteworthy that the unemployment rate in Bahrain reached 4.1% in 2020 - compared to 1.56% in 2019.



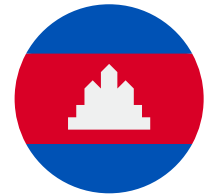
Global
6.47%



Bahrain
4.1%



South Africa
28.7%



Cambodia
0.3%

Loss of 3.7 trillion of global labor income in 2020

- In monetary terms, global labor income fell by an estimated US\$3.7 trillion in 2020 relative to 2019 - (using 2019 market exchange rates)
- This corresponds to 4.4% of global GDP in 2019. Those sizeable labor income losses could push households into poverty and cause them to reduce their consumption once savings have been used up, further diminishing aggregate demand.

Estimates for 2021

- Under the baseline scenario, estimated global working-hour losses will amount to 3.0% in 2021 (relative to the fourth quarter of 2019), which is equivalent **to 90 million full-time job losses in 2021.**

Loss of Labor income in 2020



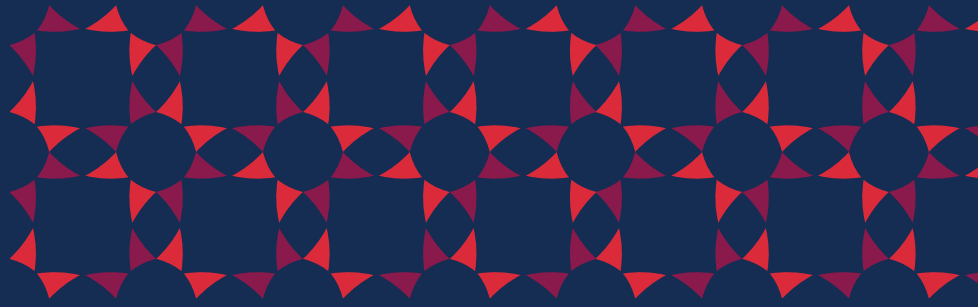
\$3.7 Tn



-4.4% of Global GDP

*Source: International Labor Organization





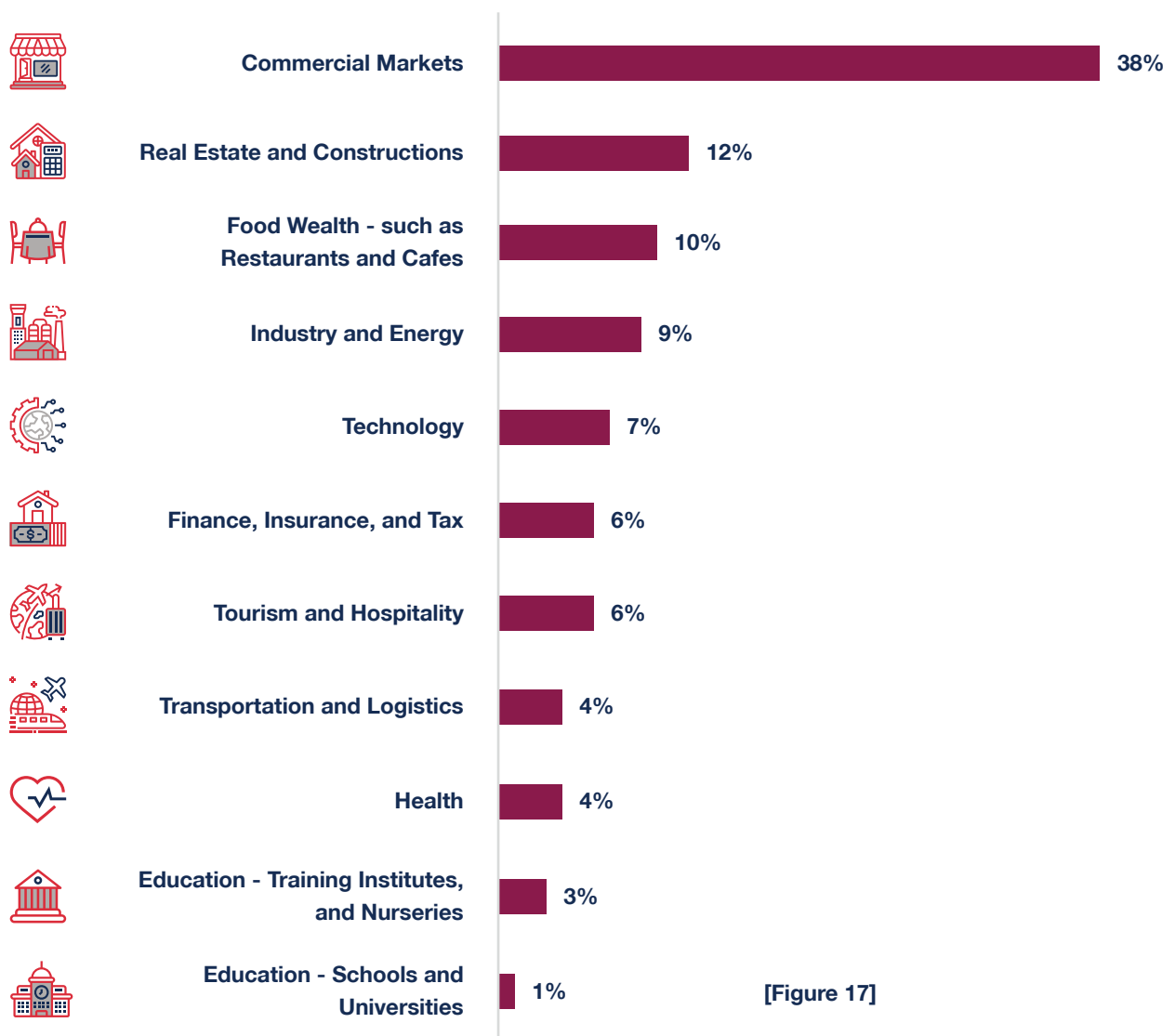
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Performance by Sector

Performance by sector

- Survey participants operate in all sectors and provide a representative sample of the economy. 38% of participants are from the commercial markets sector, which includes retail and wholesale stores, salons, gyms, advertising and PR, game and activity halls.
- Companies from the real estate and construction sectors constitute 12% of participants and companies from the food wealth sector constitute 10% of participants.
- Sectors such as tourism and food wealth have been significantly impacted by the pandemic due to the closure of borders and lockdowns.

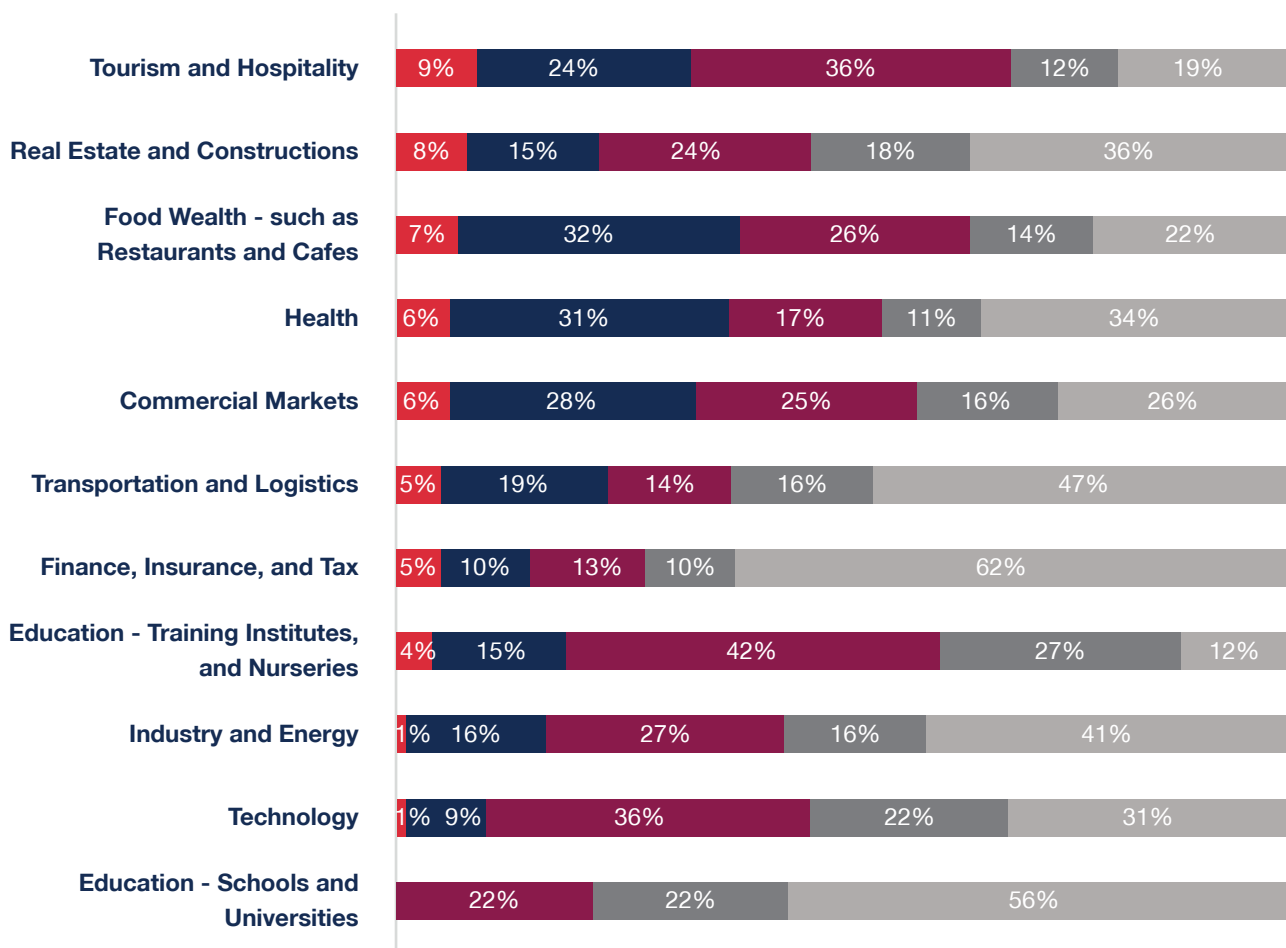
Participation of Economic Sectors



[Figure 17]

56% of schools and universities do not currently foresee their business closing

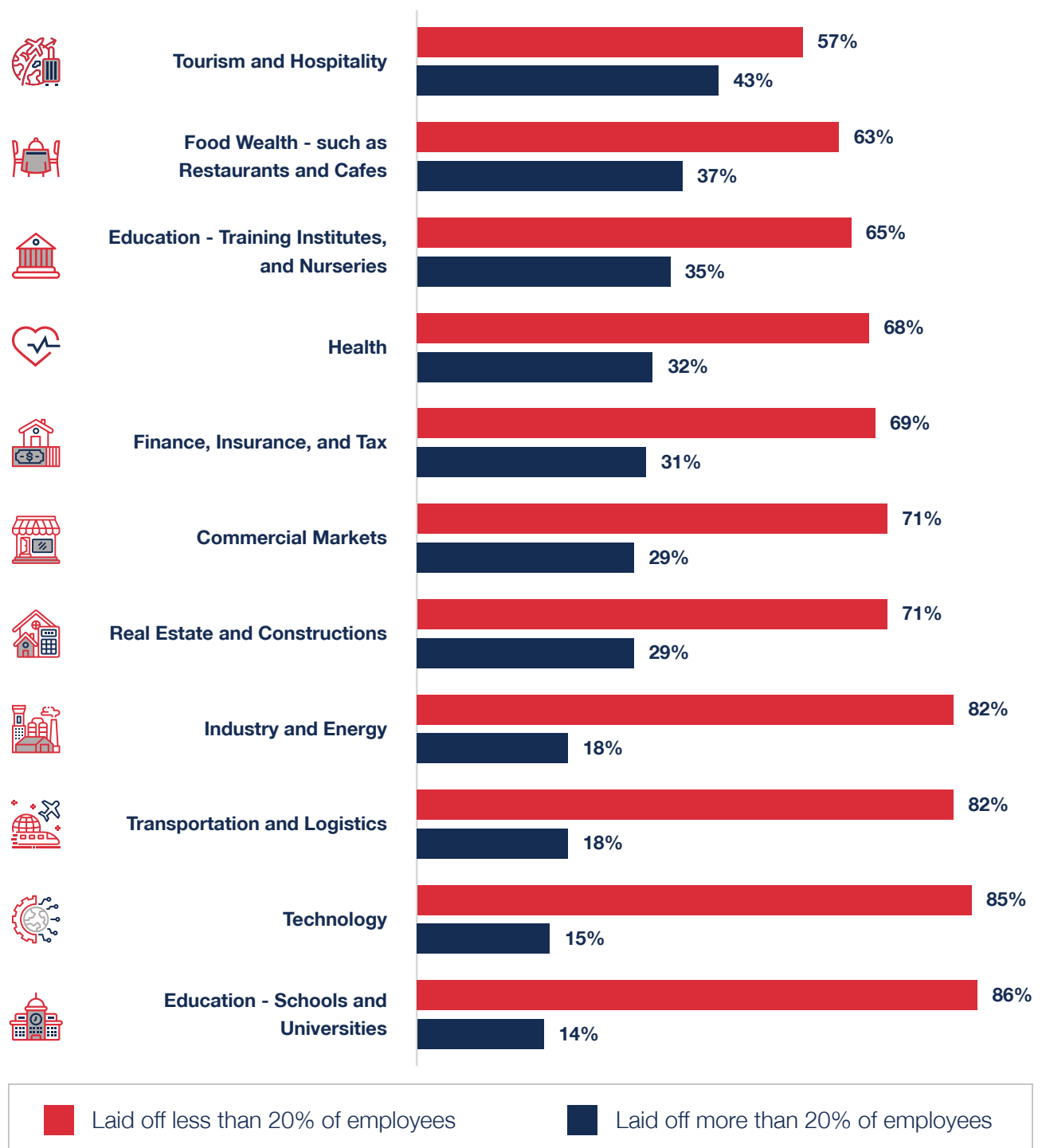
- The top 3 sectors that have a high percentage of companies that have gone out of business are tourism at 9%, real estate and construction at 8%, and food wealth at 7%.
- 58% of companies in the food wealth sector expect to go out of business within the next year, while 7% of them have already closed.
- 57% of companies in the education (training institutes and nurseries) sector expect to go out of business within the next year.
- The finance and education (schools and universities) sectors are more optimistic as 62% and 56% of business owners in these sectors, respectively, do not currently foresee their business closing.



[Figure 18]

Tourism and hospitality sector has highest percentage of layoffs

- As shown in figure 18, 9% of companies in the tourism and hospitality sector have gone out of business, and as a result, 43% of business owners in this sector have laid off more than 20% of their employees [Figure 19].
- 7% of companies in the food wealth sector have gone out of business [Figure 18], and consequently 37% of business owners in the food wealth sector have laid off more than 20% of employees.



[Figure 19]

Tourism sector consistently has the highest percentage of layoffs over the past year

Sectors with Highest Percentage Layoffs (More than 20%)

[Figure 20]



June 2020

[Figure 21]



September 2020

[Figure 22]



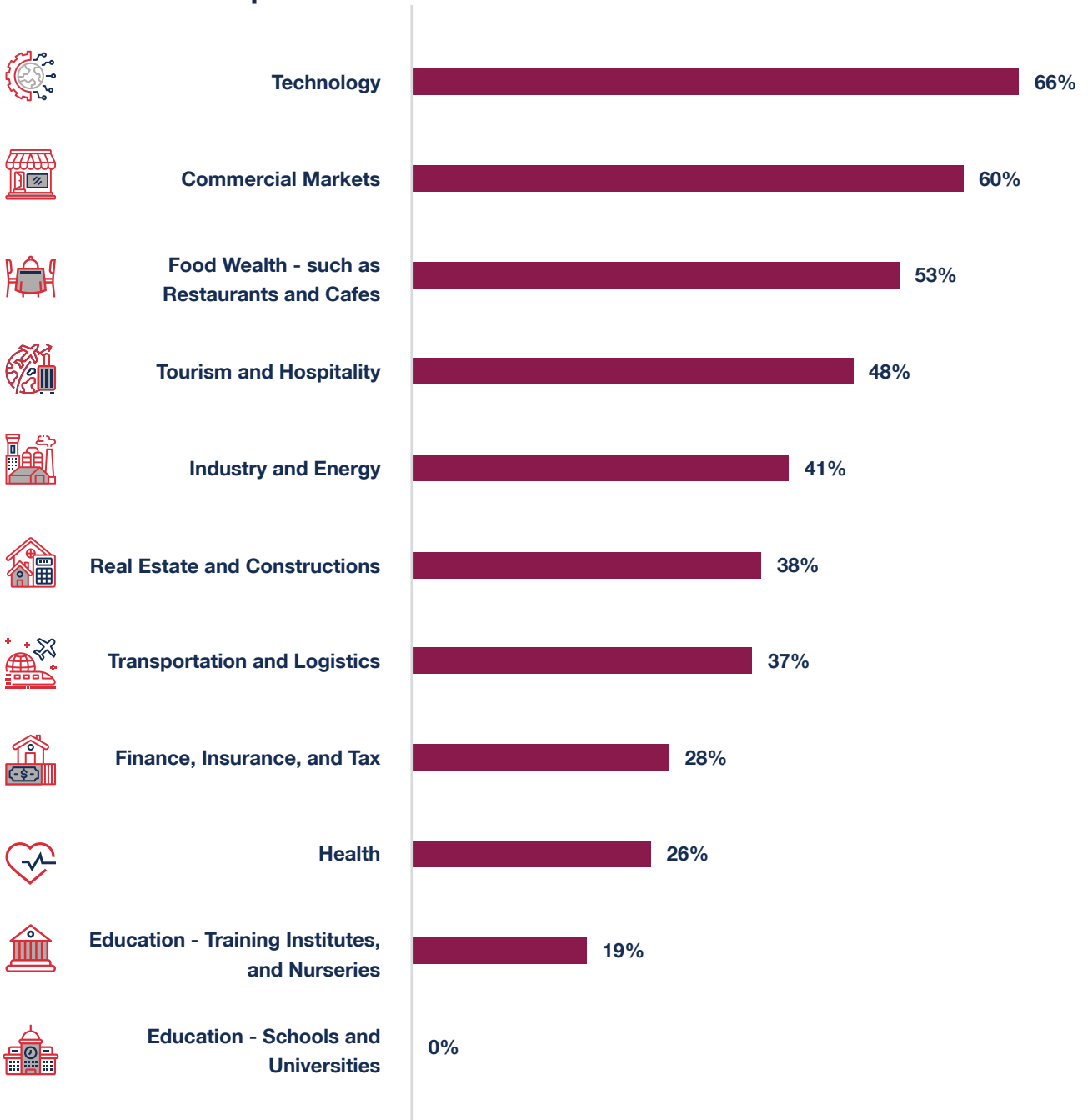
June 2021

More than 50% of companies in the technology, commercial markets, and food wealth sectors are planning to adopt e-commerce

- The coronavirus pandemic is quickening an expansion of e-commerce towards new firms, customers and types of products, likely involving a long-term shift of e-commerce transactions from luxury goods and services to everyday necessities. E-commerce has enabled firms to continue operation in spite of contact restrictions and other confinement measures.

- 66% of companies in the technology sector plan to adopt e-commerce, followed by 60% of companies in the commercial markets sector, and 53% of companies in the food wealth sector.

E-Commerce Adoption Plans



[Figure 23]

62% of business owners have an optimistic or neutral outlook towards opportunities in their economic sectors

- While the economic consequences of COVID-19 have extended to most industries, certain sectors were particularly vulnerable to the impact of lockdowns and supply chain disruptions. Overall, 38% of business owners have a pessimistic outlook towards opportunities in their sectors in the current economic climate, while 24% maintain an optimistic outlook. On the other hand, 38% of business owners have a neutral outlook towards business opportunities.
- The tourism and food wealth sectors have particularly suffered as a result of closure decisions. 60% of companies in the tourism and hospitality sector are pessimistic towards opportunities in their sector, while only 12% are optimistic. Additionally, 45% of companies in the food wealth sector are pessimistic, while only 18% are optimistic.
- Certain sectors have not been as impacted by the negative economic fallout of the pandemic. 36% of the finance sector are optimistic about the opportunities in their sector, while 18% are pessimistic. 44% of companies in the education (schools and universities) sector are optimistic, while 11% are pessimistic.
- Some trends that will shape the post-coronavirus landscape include increased reliance on digitization, including e-grocery shopping and telemedicine. Additionally, more people are likely travel as borders open up, particularly after being stuck at home for so long. This could help revitalize the tourism sector.
- Companies are more likely to focus on recovery and developing more resilient supply chains. According to a McKinsey Global Institute survey, companies in the top quartile for growth invested more in research, technology, software, advertising and branding, and human capital than other companies.

What is your Outlook on Sectorial Business Opportunities in 2021?



[Figure 24]

Bahrain Chamber's survey results are aligned with official data in the hotels and restaurants and transport and communications sectors

- The Bahrain Economic Quarterly report, published by the Ministry of Finance and National Economy, is aligned with Bahrain Chamber's survey results in the hotels and restaurants and transport and communications sectors. The hotels and restaurants sector is still suffering from the effects of the Covid-19 pandemic, as it witnessed a 2.5% decline in Q1 2021. According to Bahrain Chamber's survey, 58% of companies in the food wealth sector expect to go out of business within the next year, while 7% of them have already closed. Additionally, 60% of companies in the tourism sector expect to go out of business within the next year and 9% have closed.
- According to MOFNE's report, the transport and communications sector led the way in terms of growth, registering a 8.2% increase in Q1 2021 compared to the previous quarter. Bahrain Chamber's report indicates that 47% of companies in the transportation and logistics sector do not currently foresee their business closing, which is an optimistic expectation compared to other sectors.

Q1 Sector Growth Rates

Year	2020					2021
	Annual	Q1	Q2	Q3	Q4	Q1
Financial Corporations	6.1%	-2.4%	-1.0%	+24%	-7.4%	-5.5%
Transport and Communications	-32.0%	-10.0%	-42.6%	+22.4%	+9.4%	+8.2%
Government Services	0.0%	11.8%	9.3%	-12.4%	+5.3%	+2.4%
Real Estate and Business Activities	-6.9%	-6.4%	-3.9%	+0.4%	+1.7%	+0.9%
Construction	-0.9%	-1.0%	-0.7%	+0.3%	-0.8%	+0.3%
Manufacturing	-5.7%	-8.3%	-3.2%	+4.2%	-1.8%	-0.9%
Hotels and Restaurants	-43.5%	-31.7%	-44.8%	+71.1%	-13.6%	-2.5%

*Source: Ministry of Finance and National Economy

[Figure 25]

Overall sector performance

- The impact of the pandemic on the various sectors of the economy is apparent when examining the number of layoffs and the closure of various businesses in these sectors.
- Through the Bahrain Chamber survey, it appears that the most affected sectors are tourism and hospitality, food wealth, and education (training institutes and nurseries).
- The transportation and logistics, finance, insurance and tax, and education (schools and universities) sectors are comparatively less affected by the economic recession.

Most Affected Sectors



Tourism and Hospitality



**Education (Training Institutes,
and Nurseries)**



Food Wealth

Least Affected Sectors



Transportation and Logistics



**Education - Schools and
Universities**



Finance, Insurance, and Tax

Government support for most affected sectors

- The government has identified the sectors that are struggling to survive as a result of covid-19 and has provided them with a three-month extended lifeline to help cover the cost of paying Bahraini employees.
- Twelve sectors are expected to benefit from 100% wage payments to Bahraini employees for June and a further 50% to cover July and August. These sectors have been devastated by closures as the country implemented urgent measures to tackle a spike in Covid-19 cases. The most affected sectors identified in the Chamber's survey are included in the below list.



**Training and rehabilitation
(including kindergartens)**



**Local newspapers and
magazines**



**Personal services (salons, gyms,
play areas and entertainment)**



Restaurants and hospitality



Travel and tourism



Retail sector (excluding foodstuff)



Industrial



Real estate and engineering



Transportation



**Health (excluding clinics
and hospitals)**

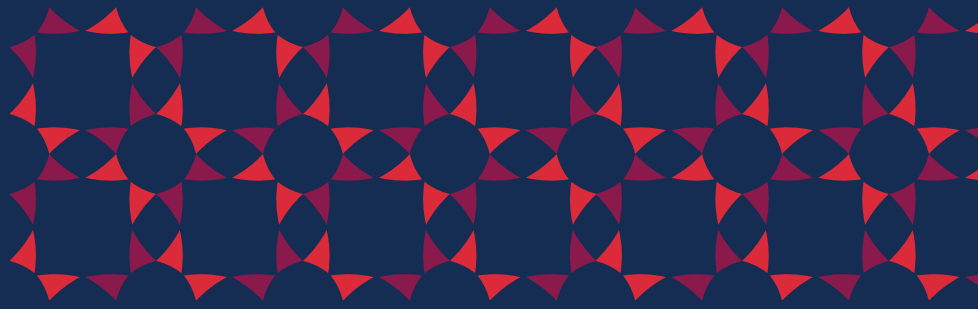


**Administrative services (public
relations, media and event organizers)**



**Technical and
construction offices**

Eligibility: Other businesses that can prove eligibility for wage support will also be helped, apart from those operating in the financial, telecommunications, scientific, professional and technology sectors, alongside private universities and schools.



4

Performance by Company Size and Age

The impact of the pandemic, and the difficulty of challenges it brings forward to businesses, depends on company age, size, and sector. Generally, younger businesses are more likely to encounter operational challenges and market barriers than older businesses. These challenges increase in difficulty during a pandemic, where access to capital, logistical issues, supply chain disruptions, limited cashflow, and lockdowns severely affect younger businesses.

Company size also matters when it comes to business resilience, as larger companies in manufacturing and industry rely on economies of scale to sustain their operations and are likely to be affected through supply chain disruptions, coronavirus outbreaks among staff, and lockdown disruptions to operations.

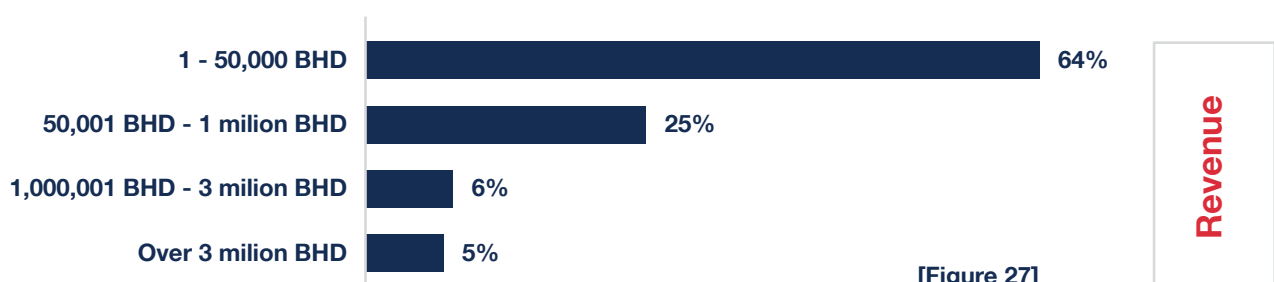
95% of survey participants are SMEs

- 95% of survey participants are SMEs, which is reflective of the breakdown of businesses in Bahrain. Micro companies constitute 55% of participants, while small, medium, and large companies constitute 35%, 4% and 5% of participants, respectively.



[Figure 26]

- 64% of companies have a revenue that ranges between 1-50,000 BHD, and 25% of companies have a revenue between 50,0001- 1 million BHD

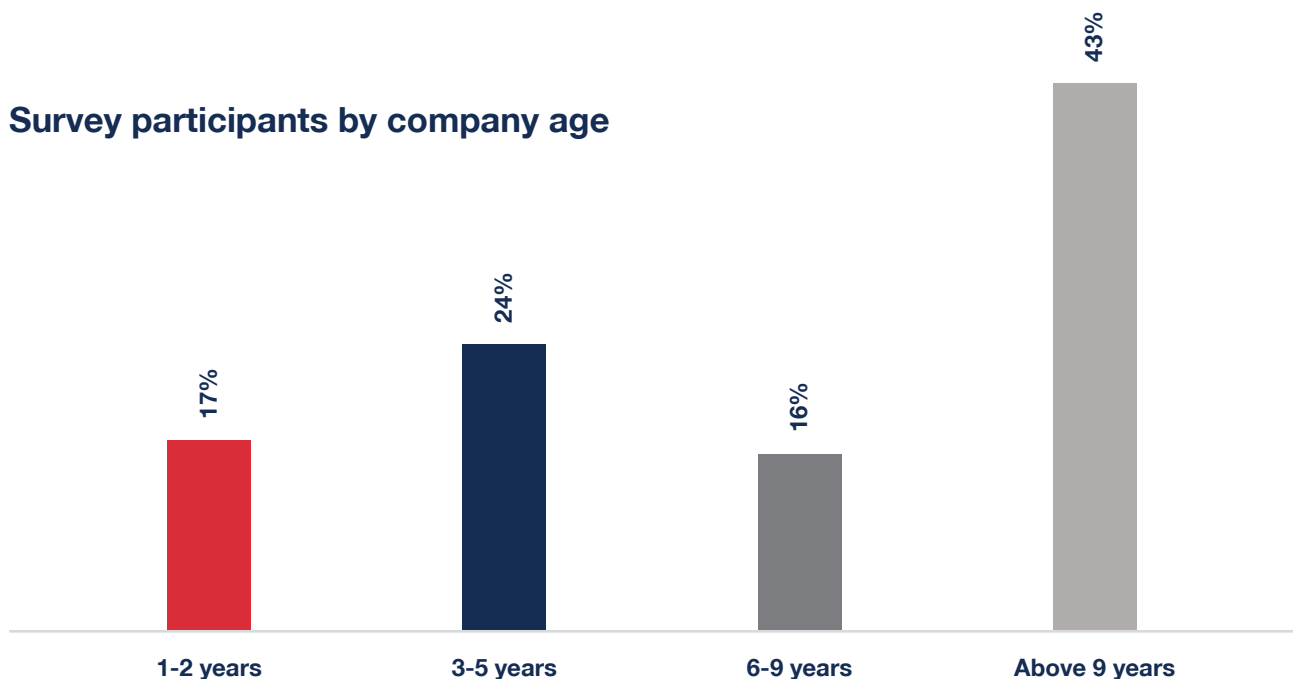


[Figure 27]

- Companies of all sizes are severely affected by the pandemic, but company size can intensify certain issues. Small and medium enterprises sales shrink and drain cash faster than large companies in the same sector and country.
- Companies with more growth and an international reach may experience a reduced demand shock, but they are more prone to experiencing international trade disruption, supply, and finance shocks.

43% of survey participants have companies that are above 9 years old

- The impact of the pandemic appears even more significant as liquidity issues, closures and layoffs extend to companies of all ages, including established companies that have been operating in the market for a long time.
- Almost half of survey respondents have companies that are more than 9 years old, while 16% of participating companies are between 6-9 years old, 24% are between 3-5 years old, and 17% are relatively new entrants to the market at 1-2 years old.



[Figure 28]

29% of companies of all ages do not expect to go out of business

When asked about risk of closure, businesses across all age groups responded somewhat similarly. 9% of young businesses aged 1-2 years responded that they have gone out of business, with another 28% expecting to go out of business within the next 1-3 months.

When looked at accumulatively, an average of 29% of businesses across all age groups do not currently see their businesses closing. However, this leaves an overwhelming average 71% of businesses across all age groups risking closure within or before the coming year.

By company age



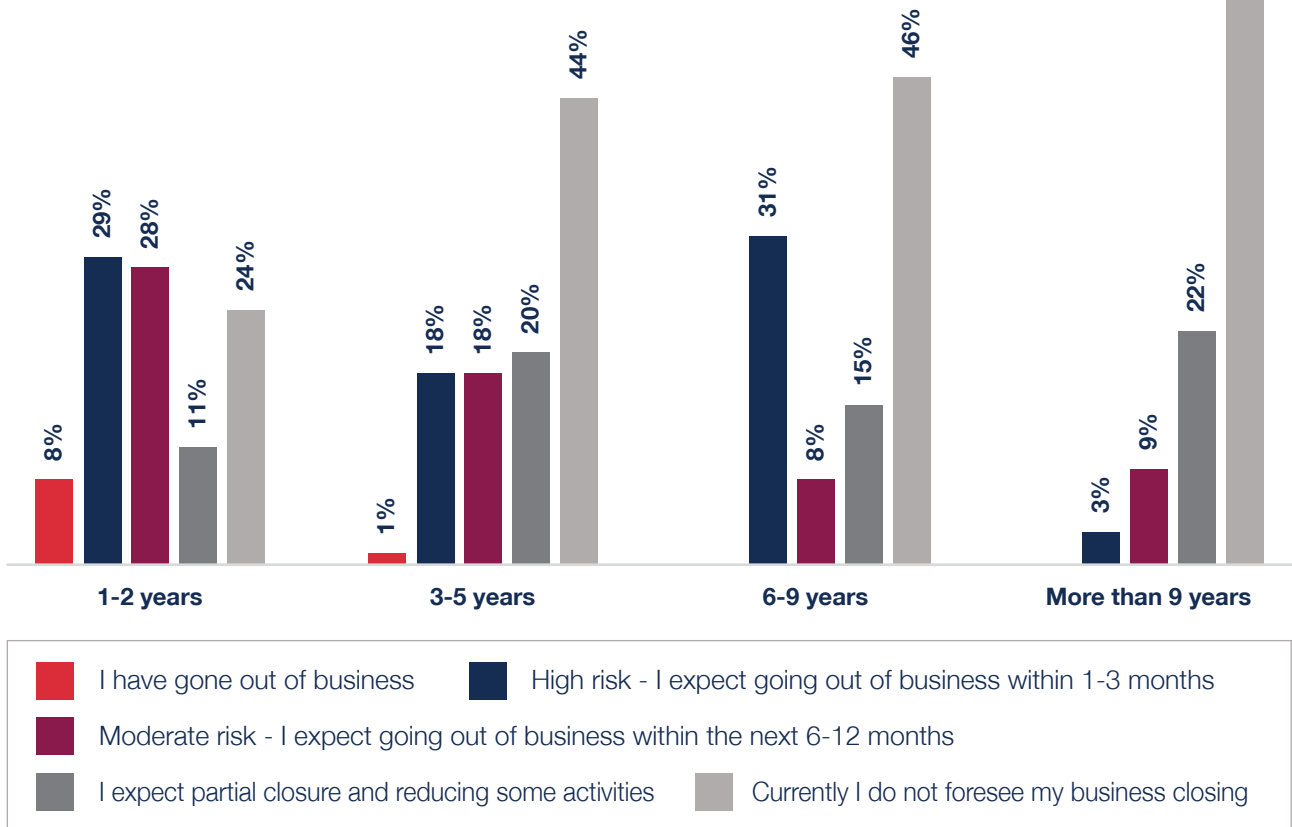
[Figure 29]

Inverse relationship between company size and risk of closure

- 8% of micro companies have gone out of business and 29% expect to go out of business within the next 1-3 months, while only 3% of large companies expect to go out of business within the next 1-3 months [Figure 30].

- There is a positive correlation between company size and risk of closure, considering 24% of micro companies do not currently foresee their business closing compared to 66% of large companies [Figure 30].

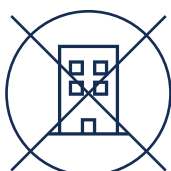
By company size



*Source: BCCI Survey

[Figure 30]

Of the 1,000 SMEs that ILO surveyed from eight countries across four continents:



70%

Have had to shut down operations.



50%

have temporarily closed their business while following instructions from the authorities.



50%

have temporarily closed due to a reduction in business volume, or cases of staff contracting COVID-19.

*Source: ILO Survey

Impact of coronavirus pandemic on SMEs worldwide

- Many SMEs closed temporarily or permanently as a result of the pandemic and containment measures, particularly in the case of non-essential businesses that were forced to close during lockdowns.
- Challenges in supply chains and sales also caused many SMEs to close their business, at least temporarily. Data from selected countries indicate that closure rates of SMEs largely increased during the first wave of the pandemic but did not decline after the first wave of the pandemic and containment measures were gradually lifted.



In the United States, the number of small businesses that were open declined continuously in the second half of 2020 and the number was 33.6% lower in January 2021 compared to January 2020.



1 million small and medium-sized businesses, constituting 20.8% of the SME population, have closed permanently in Mexico in 2020.



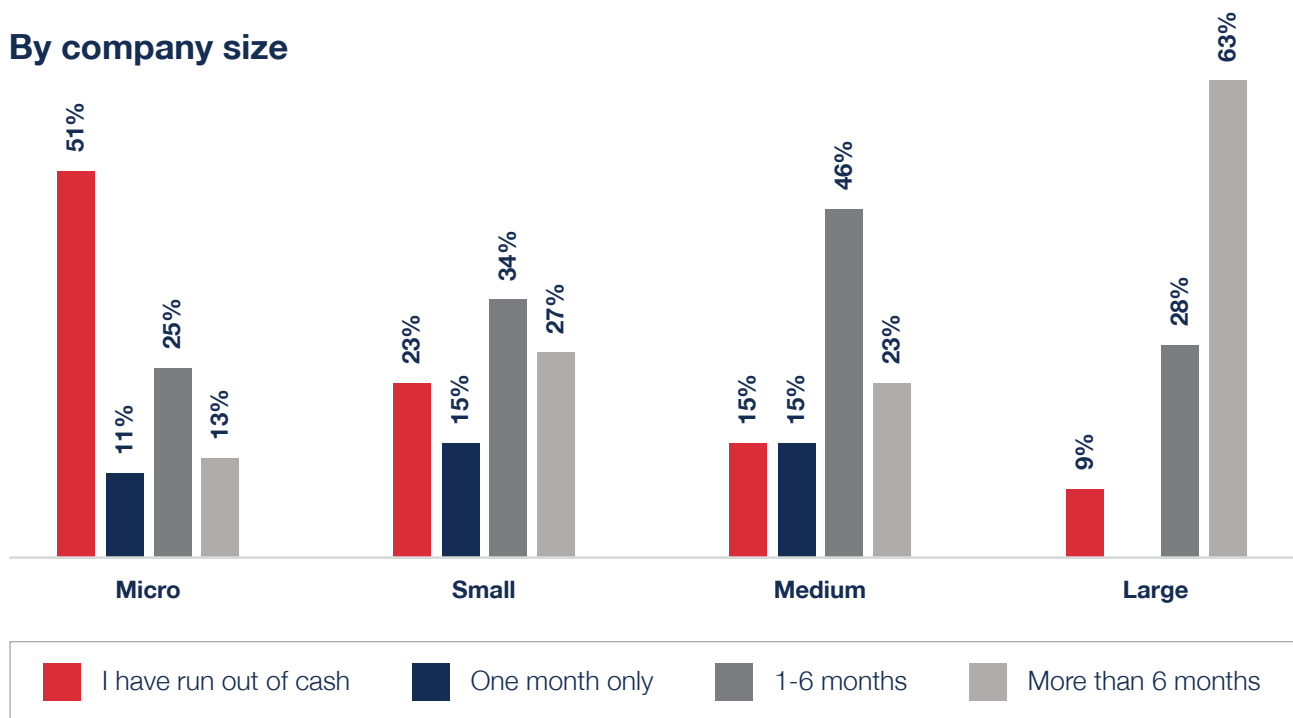
While the pandemic caused many SMEs to stop their operations, in most cases this did not translate into an upsurge in insolvencies in 2020. Although some countries witnessed a significant rise in bankruptcies (such as Japan and the United States), one year into the pandemic, for most countries this was not the case.

***Source: OECD**

63% of large companies expect their cash flow to last more than 6 months

- Large companies have the most liquidity compared to companies of other sizes. Only 9% of large companies have run out of cash and 63% expect their cash flow to last more than 6 months.
- 51% of micro companies have run out of cash, followed by 23% of small companies and 15% of medium companies.
- 46% of medium companies expect to run out of cash in 1-6 months.

By company size



[Figure 31]

Companies that have run out of cash since September

- 54% of micro companies in September 2020 and 51% of micro companies in June 2021 reported that they have run out of cash.

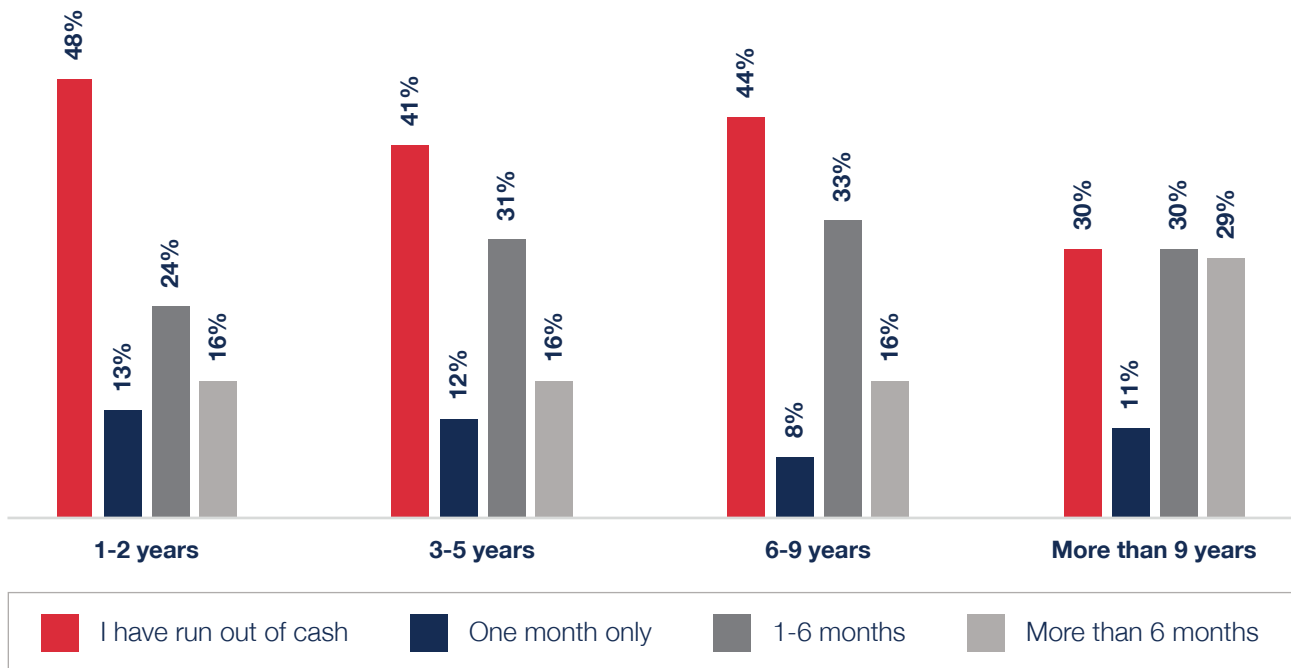


[Figure 32]

29% of companies that are more than 9 years old expect their cash flow to last more than 6 months

Cashflow is a central concern to businesses throughout all 3 of the Bahrain Chamber surveys. An average of ~41% of businesses across all age groups have run out of cash, with an average of ~40% expecting to run out of cash within the next 1-6 months. Addressing cashflow has been a central focus of the Government of Bahrain's stimulus packages, as showcased by fee exemptions, loan deferrals, and Tamkeen liquidity funds.

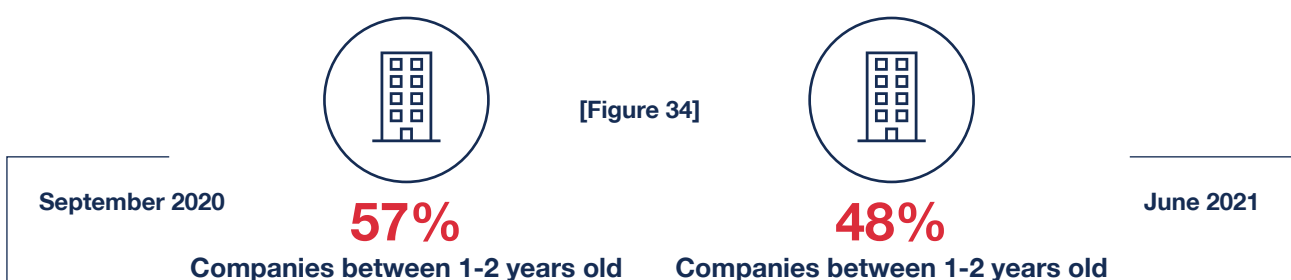
By company age



[Figure 33]

High percentage of new companies have run out of cash since September

- Companies aged between 1-2 years old have been most affected by cash shortages in both September 2020 and June 2021, with 57% and 48% of these companies reporting that they have run out of cash during these time periods.

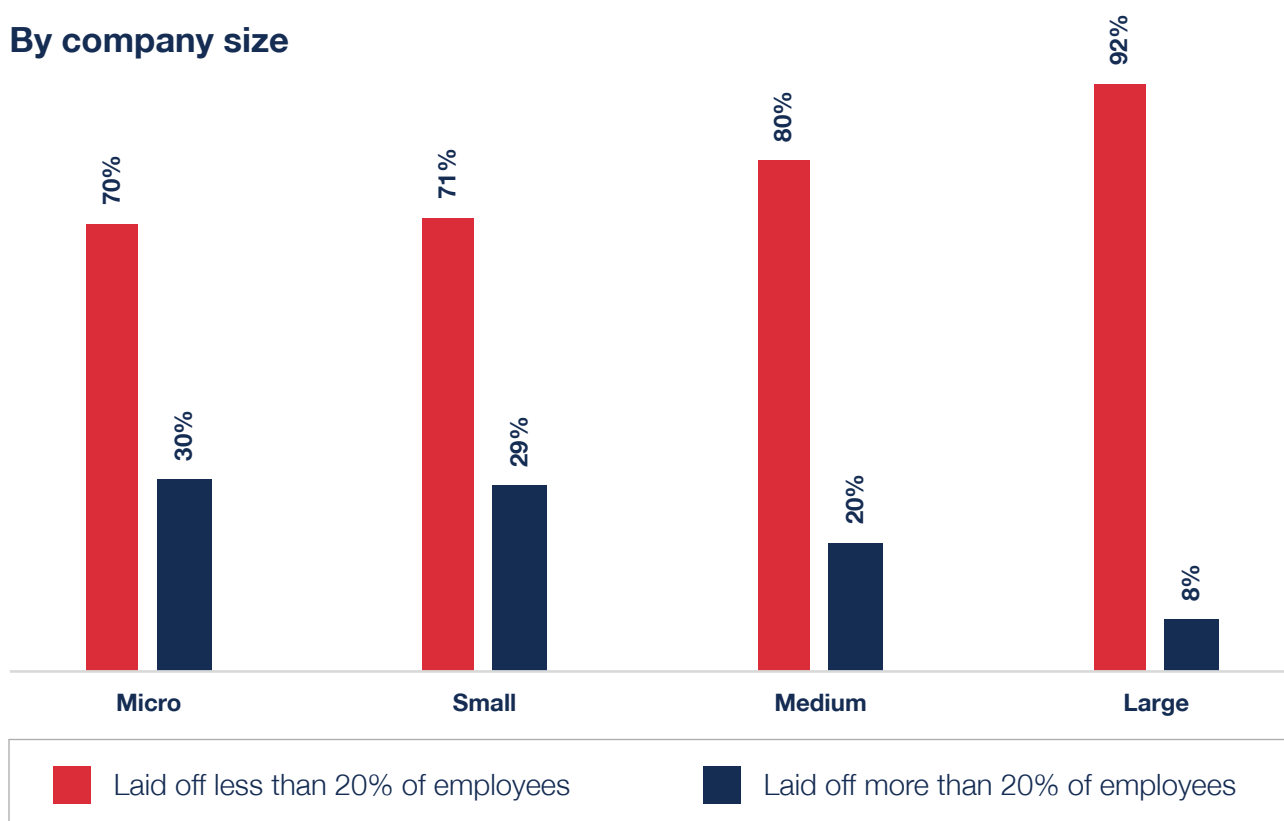


Only 8% of large companies have laid off more than 20% of their staff

Another major concern for businesses across all 3 of the Bahrain Chamber surveys was inability to meet salary payment obligations. This led some companies to downsize activities, and layoff staff. The survey responses show that ~30% of small and micro companies have laid off more than 20% of their staff. In comparison, 20% of medium sized companies have responded that they had laid off more than 20% of their staff. Only 8% of large companies have laid off more than 20% of their staff.

However the impact of the pandemic on the workforce is not fully captured through layoffs alone. Company strategies for handling its talent and workforce are complex, and layoffs do not account for pay cuts, or negotiations between employer and employee to forgo salary payments until recovery. It is important that stimulus policies account for the grey areas of operational strategies when it comes to businesses as they cope with cashflow shortages for employee salaries. Commendably, the Government of Bahrain has also accounted for these scenarios, and have offered salary payments for Bahraini insured employees.

By company size



[Figure 35]

Layoffs by company size over past year

- Medium companies had the highest percentage of layoffs during June 2020 and September 2020, with 67% and 56% of medium companies laying off more than 20% of employees during those time periods.
- In June 2021, micro companies had the highest percentage of layoffs with 30% of companies laying off more than 20% of their employees.

Company Size with Highest Percentage Layoffs (More than 20%)

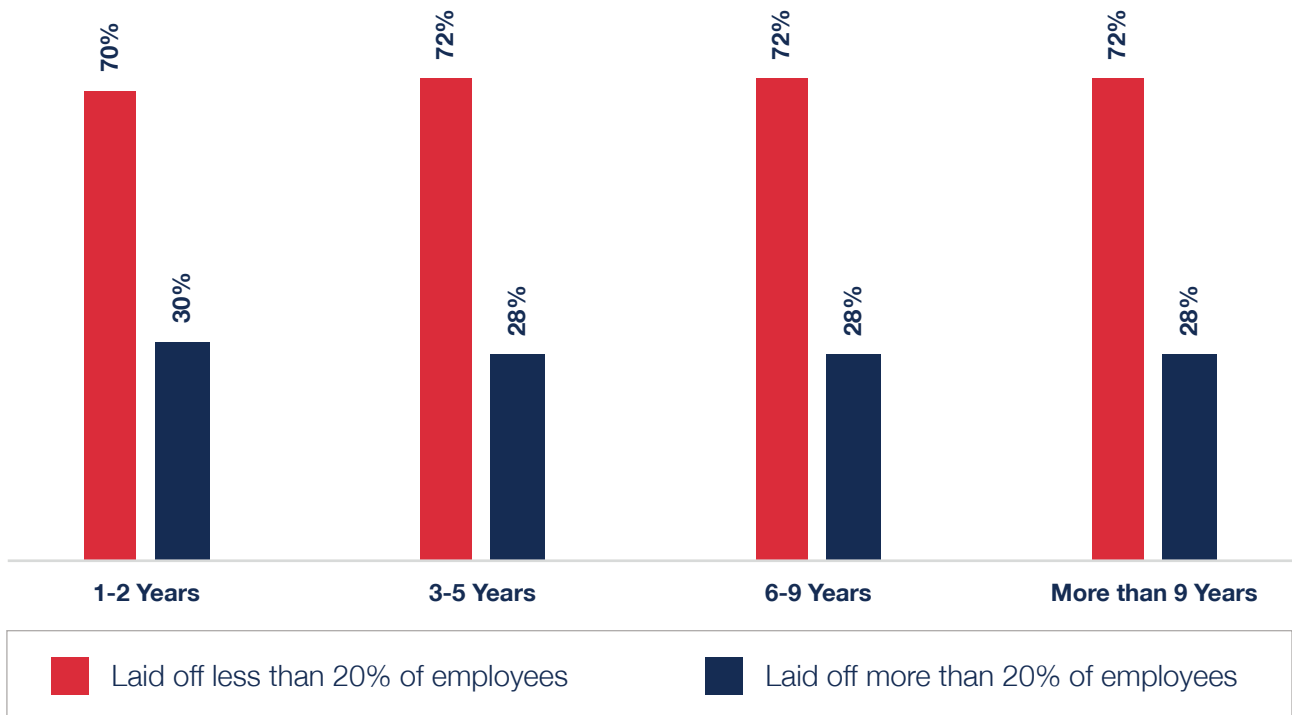


[Figure 36]

Layoffs extend to companies of all ages

- Both new entrants to the market, and companies that have been established for more than 9 years, have laid off a high percentage of employees during 2020.
- 30% of companies between 1-2 years have laid off more than 20% of their employees.
- 28% of companies from all other age categories have laid off more than 20% of their employees.

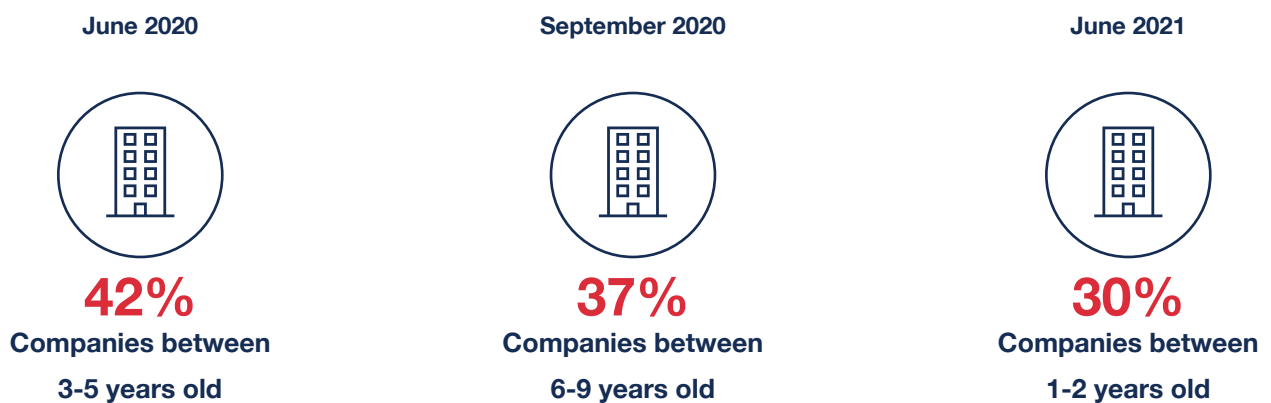
By company age



[Figure 37]

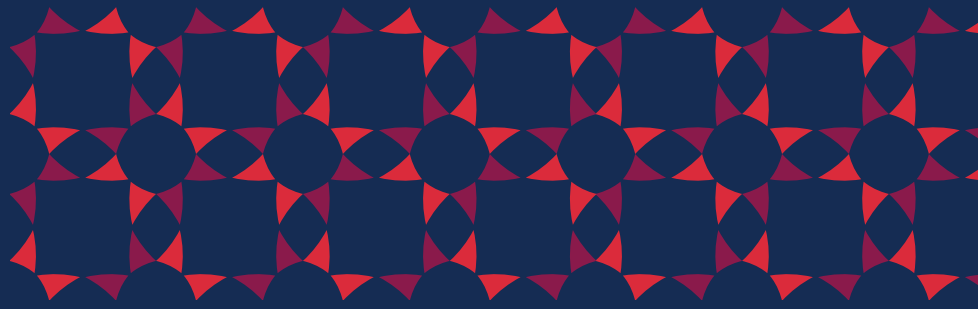
Layoffs over past year

- In June 2021, new companies aged 1-2 years old have reported more layoffs than older companies.
- On the other hand, companies between 3-5 years old and between 6-9 years old had a higher percentage of layoffs in June 2020 and September 2020.



[Figure 38]





5

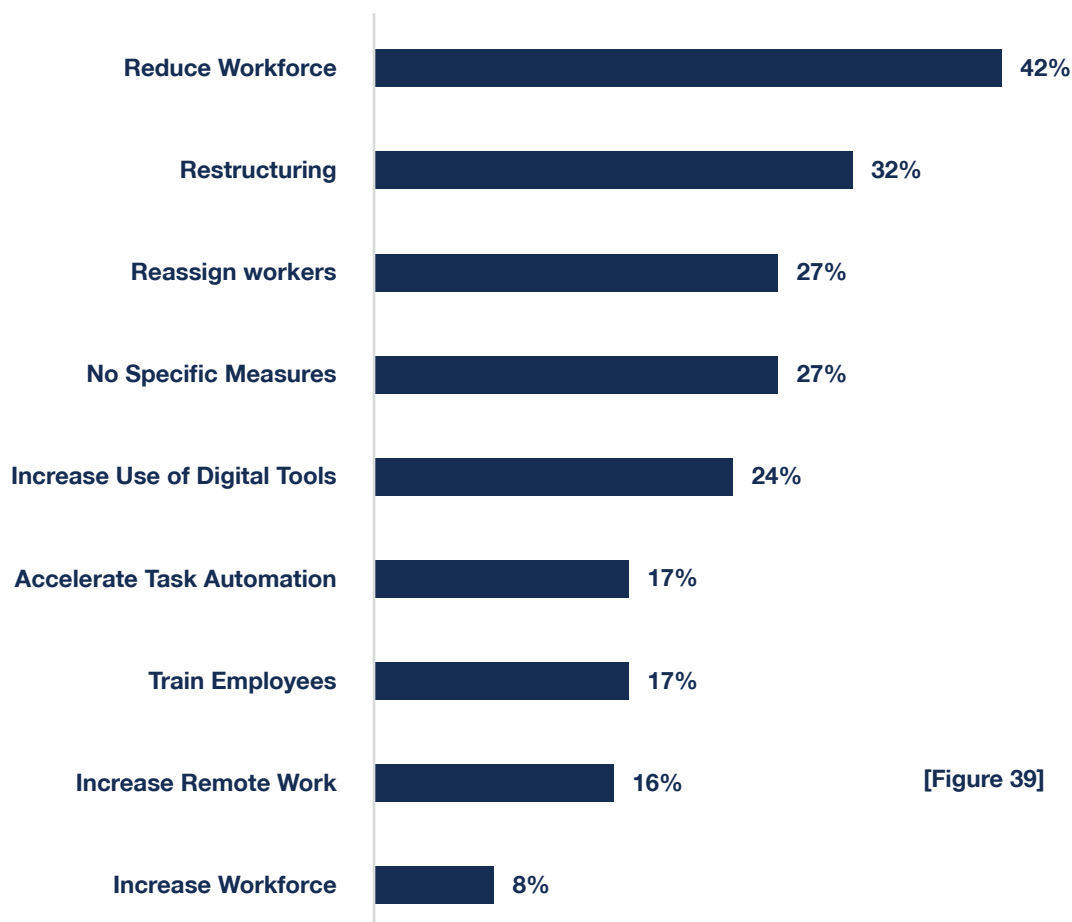
Economic Outlook

How businesses plan to adapt workforce to changes in the economy

- 42% of businesses plan to adapt to the changes in the economy through adjustments to their workforce. They will do this primarily through reductions in their workforce and restructuring or reassigning workers.
- 24% of businesses plan to increase usage of digital tools.



Planned Changes to Workforce

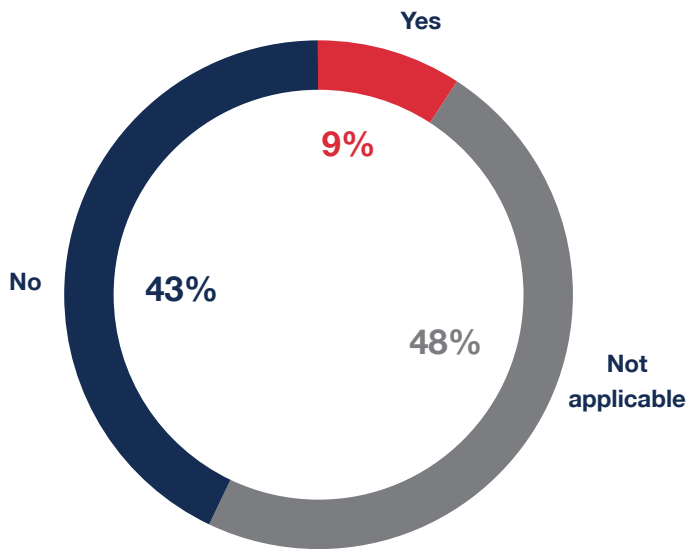


[Figure 39]

48% of business owners did not report an increase in productivity during work from home

- 48% of business owners did not report an increase in productivity during work from home

Has Productivity Increased During Work from Home?



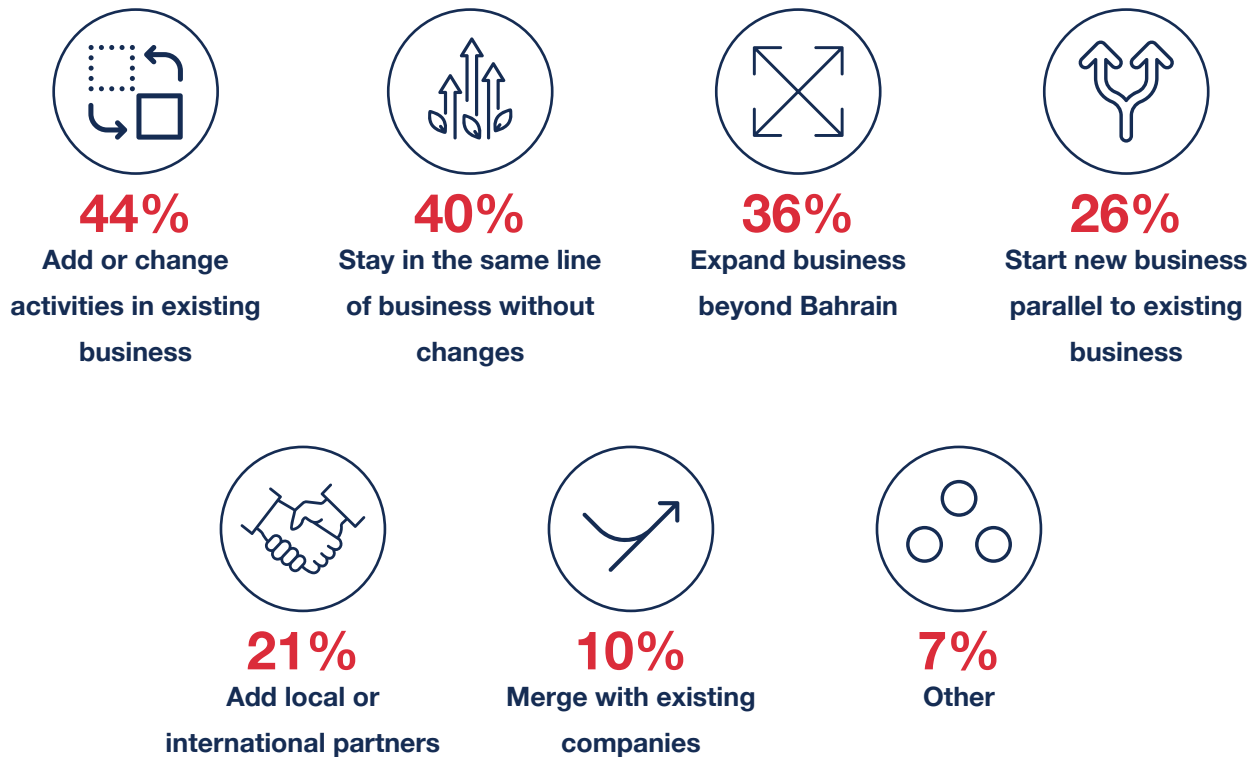
[Figure 40]

Changes that business owners will make in their company structure to adapt to current situation

The survey results highlight 3 major changes regarding structure and operations that companies across all sectors are taking.

First, our survey has revealed that 44% of respondents plan to add or change some of their business activities to adapt to the new economic climate. Second, 40% of respondents have revealed their intent on staying in the same line of business without any significant changes to their company structure. Third, a further 36% are seeking to expand their activities to new markets.

Further changes could be interpreted as strategies for liquidity or mitigating of impact through cost sharing and cooperation. 26% of business owners are considering starting new businesses or seeking additional revenue streams. 21% are seeking international partners, and 10% are seeking mergers.



Changes that business owners will make in their company structure to adapt to current situation

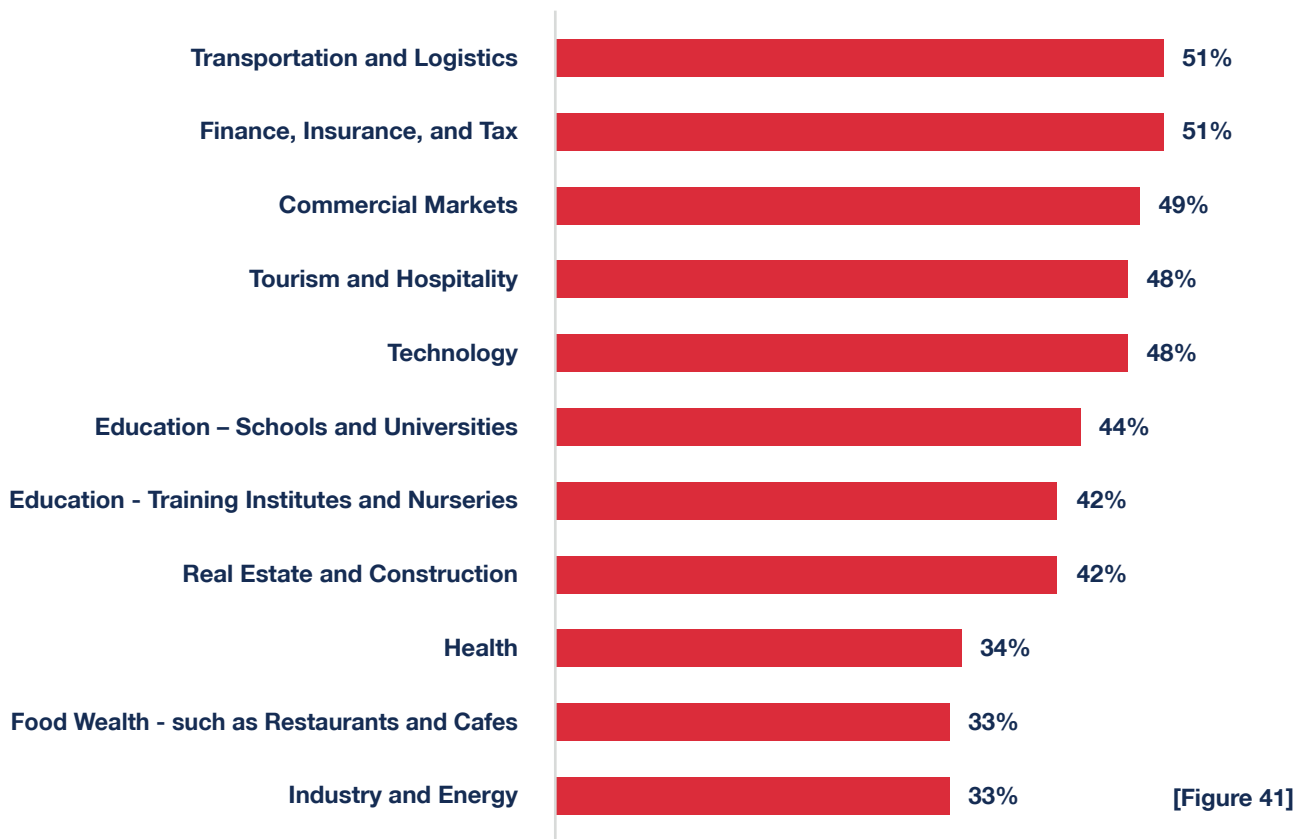
Commercial Markets

The Commercial Markets sector includes both retail and wholesale stores, but also includes salons, gyms, advertising and PR (such as photography and events establishments), in addition to activity halls. ~48% of respondents in this sector have expressed plans to add or amend their activities in their existing business. This could mean that businesses are also planning on downscaling their operation, and should not be mistaken for business innovation.

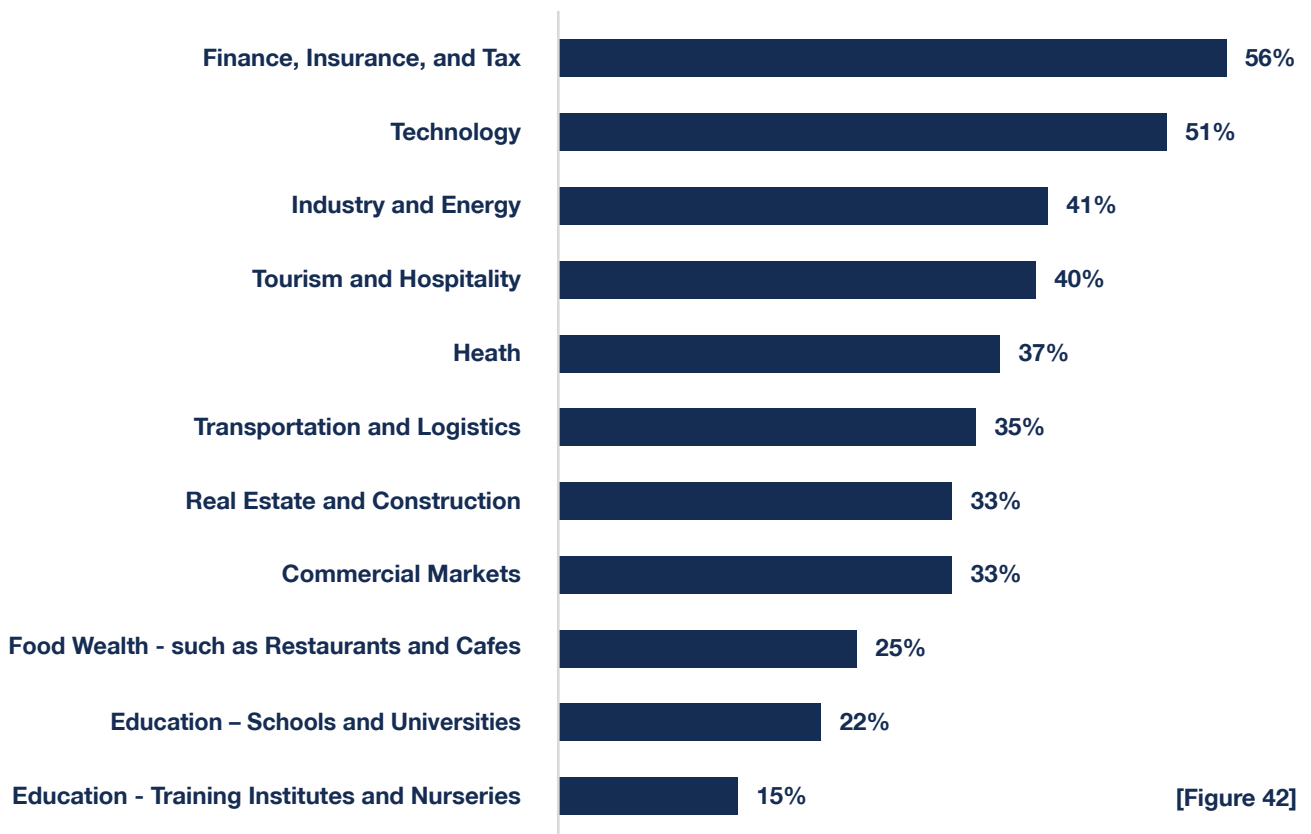
The retail and wholesale subsector can greatly benefit from adopting E-commerce activities to offset the impact of shop closures. Additionally, the services subsector can also benefit from digital innovation and offering their services online.

Around 40% of Commercial Markets respondents have also expressed that they will continue in the same line of business without any changes. This is understandable for certain subsectors that rely on physical spaces being open such as Gyms, Activity Halls, and Events Services.

Business Owners that will Add or Change Activities in Existing Business



Business Owners that will Expand Business Beyond Bahrain



Changes that business owners will make in their company structure to adapt to current situation

Financial Sector

The financial sector's plans for their business differs greatly compared to other sectors. For one, the main plan that the sector seems to focus on is to expand activities to markets outside of Bahrain, around 55% of respondents have expressed this. Financial markets have a significantly easier time pursuing this strategy due to their unique access to capital and the ability to offer services without being pinned to geography. ~50% of respondents have also expressed plans to add new activities to their operations, and over 35% plan on bringing new investors.

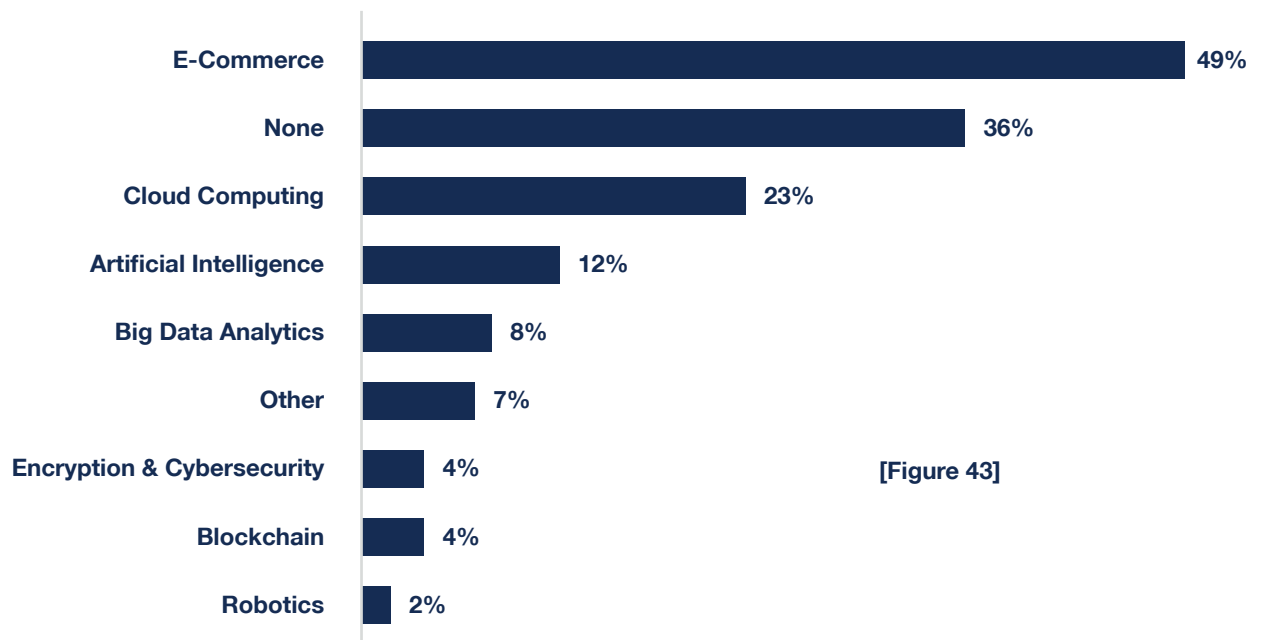
Tourism and Hospitality

Tourism and Hospitality sector is one greatly affected by the pandemic, and the outlook for this sector remains negative. Roughly 50% of respondents have expressed plans to add or change their operations, ~40% seeking other markets, and over 35% seeking to start new businesses for additional revenue streams. So long as borders remain closed and countries across the world handle the pandemic differently, the tourism sector remains largely affected by fluctuations in case numbers.

50% of participants plan to adopt e-commerce

- Almost 50% the respondents of the survey plan on adopting E-commerce for their business. This is a positive development that addresses one of the primary challenges of the pandemic and lockdowns.
 - > For businesses who have adopted E-commerce, 16% have expressed that they have witnessed no significant changes. This could point to a number of issues, ranging to the effectiveness of individual business implementation of E-commerce platforms, to established market shares. Meanwhile, 14% have noted a sales increase, with an additional 9% reporting sales decrease. It is important to consider that fluctuation in sales can be related to a multitude of factors and should not be directly correlated to the implementation of E-commerce.
 - > Finally, 8% of respondents have expressed that they now face increased competition since implementing E-commerce. Though methodologically, the survey does not account for the competition that individual businesses face. It could point towards the changing nature of consumer behaviour given the new availability of offerings in the market.
- Retail businesses need to seek ways to add value and offer the majority of their inventory through digital platforms. The survey methodology does not account for individual respondents meaning of E-commerce. The term could indicate a variety of meanings ranging from functional websites, offerings through delivery platforms such as Talabat, and implementing electronic financial payments such as BenefitPay.
- All of these meanings are positive, but streamlining the digitization, and encouraging the adoption of digital infrastructure to maintain health and safety protocols is imperative for continued efficiency of business operations and survival.

Technologies Business Owners Will Adopt

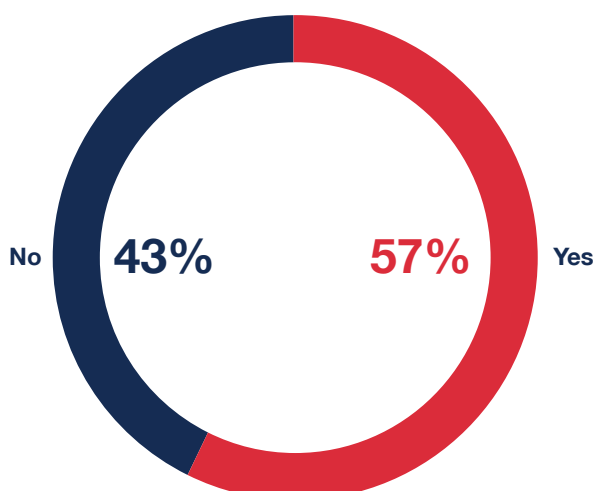


[Figure 43]

Businesses planning on investing in their own operations in 2021

- 43% of business owners do not plan on investing in their operations during 2021.
- On the contrary, 57% of business owners are planning on investing in their business during 2021.
- Respondents did not make a distinction between investment in hope of future growth, which could indicate optimistic outlook, or liquidity injections which could indicate negative outlooks.

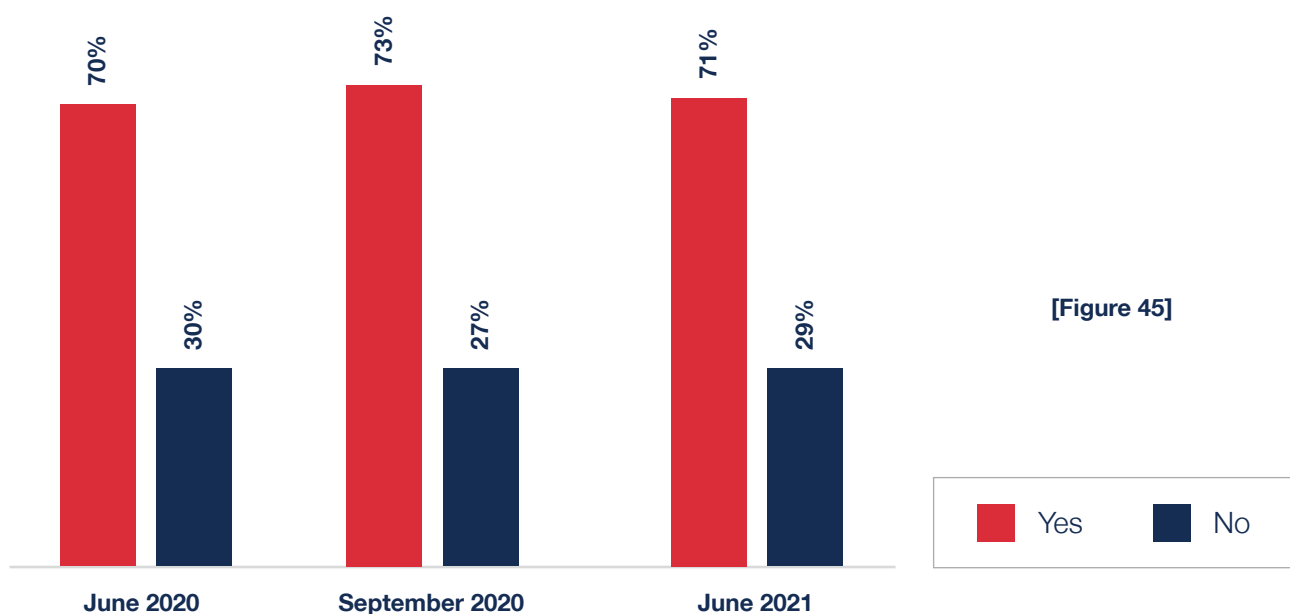
Are You Planning on Investing in Your Operations in 2021?



[Figure 44]

71% of business owners are optimistic about their business prospects over the next 2-3 years

- Across all three surveys conducted by the Bahrain Chamber since June 2020, business optimism has remained consistent. Around 70% of respondents maintain positive prospects for the next 2-3 years, while only ~30% are pessimistic.
- The sustained optimism despite the surge highlights the trust that business owners have in the Government of Bahrain, its commendable competence at crisis management, and its sustained support to the affected sectors in the economy.
- Oil prices have been on the rise, which is promising for the recovery of GCC economies. While GCC governments are focusing on diversifying away from oil, they remain highly dependent on the revenue regional they derive from crude exports.
- The breakeven price for oil in Bahrain is 50 USD per barrel, while Brent crude oil is averaging \$75.13 a barrel at the end of Q2 2021.
- An increase in oil revenue means that government does not need to increase tax and utilities revenues, which is reassuring to the private sector trying to survive the economic fallout of the pandemic.

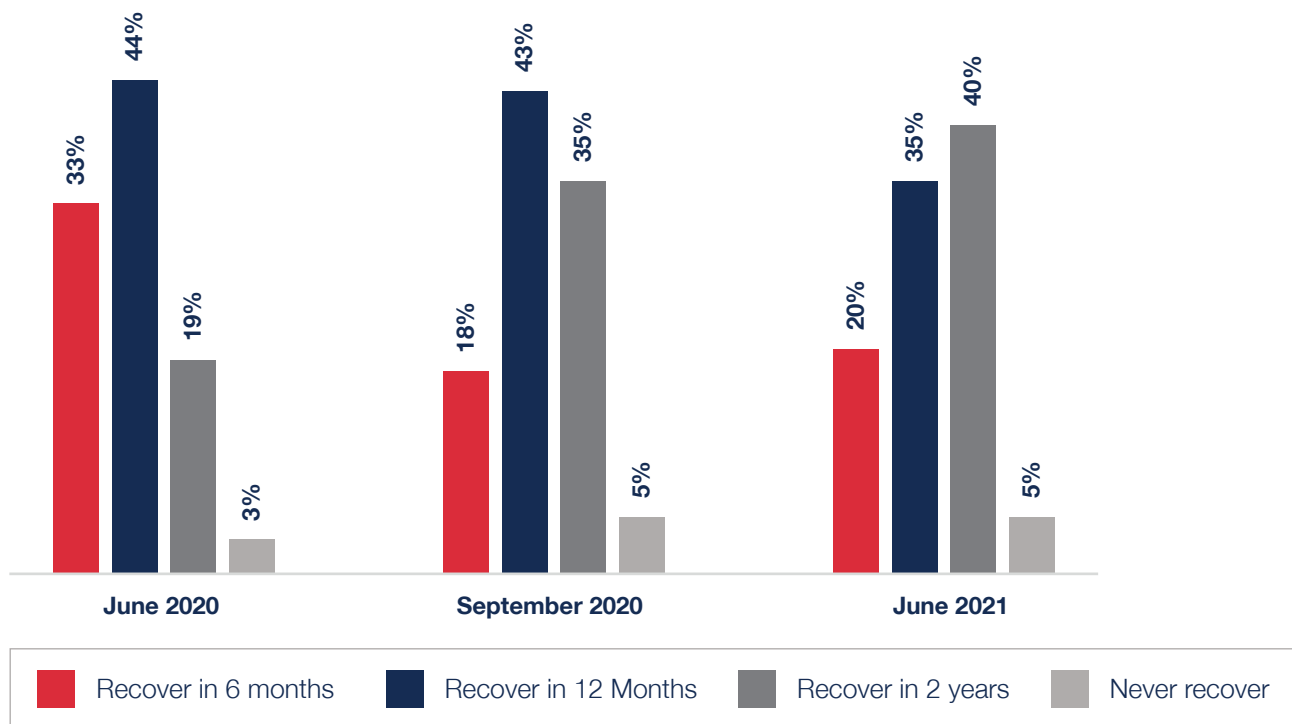


40% of respondents expect to recover from impact of pandemic in 2 years

Business owner optimism is also reflected in recovery expectations. As the Covid-19 pandemic continues to disrupt daily life in 2021, business recovery projections become longer, with 40% of businesses expecting recovery in 2 years, up from 19% June 2020.

Only ~5% of respondents have voiced that they would never recover from the impact of the pandemic, which could indicate the effectiveness of the Bahraini Government's stimulus packages, and business resilience/adaptation to life during the pandemic.

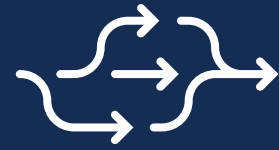
When do you Expect to Recover from Impact of the Pandemic?



[Figure 46]

Recommendations

1. Flexible Business Models



The COVID-19 pandemic created significant challenges in the private sector in both modeling and model-risk management.

Companies should use flexible strategies to update their models, including:

Upgrading data architecture:

- Modernizing data architecture and moving to the cloud to get the full value from data in the future. Business owners and decision makers will need to work with their risk leaders to ensure harnessed data follows strict privacy rules and cyber best practices.

Embracing automation.

- Companies who invested heavily in automation and artificial intelligence grew their workforce by 15%.

Adopting new funding and delivery models.

- Digital transformation in the financial sector is no longer a choice, moreover reporting forecasting and investment flexibility are an imperative for finance functions that want to thrive in today's world.

Re-design the supply-chain operating models.

- The pandemic reshaped what consumers buy and how they go about getting it. The challenge for consumer-packaged-goods companies is to redesign their supply-chain operating models to be resilient enough to meet new consumer demands.



Leasing and workplace models.

- Work places will never be the same, and it is unclear what future requirements for office spaces will look like. Owners/operators must take the lead by offering more flexible leasing models and redesigning layouts to accommodate partial work hours.

2. Increased Digitalization



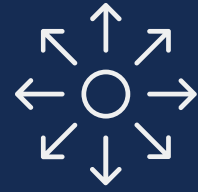
- Digitalization helps enterprises achieve growth and attain scalability by generating more employment. It has become important for large enterprises to invest more in digitalization to achieve business sustainability and growth. Investments in digitalization enable enterprises to discover new opportunities that will maximize customer experiences and operational efficiencies.

- Digitization often lowers entry barriers, causing long-established boundaries between sectors to tumble. At the same time, the “plug and play” nature of digital assets causes value chains to disaggregate, creating openings for focused, fast-moving competitors. New market entrants often scale up rapidly at lower costs than legacy players can, and returns may grow rapidly as more customers join the network.

- Digital capabilities will increasingly determine which companies create or lose value. The upshot is that digitization will change industry landscapes as it gives life to new sets of competitors.



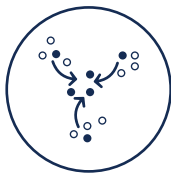
3. Diversify Business Line Investments



- A diversified company is a type of company that oversees several lines of business – most of which are unrelated to each other.
- Creating a diversified company is beneficial, as it provides several different product lines resulting in the company being shielded from any economic downturns or business fluctuations.

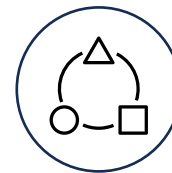
*Source: corporate finance institute

Diversification options for existing companies to maintain business continuity during economic downturns & business fluctuations



Related diversification

Diversifying into products or services where a company already runs an existing business or into businesses with some commonalities.



Unrelated diversification

A company merges or acquires another company without any commonalities.



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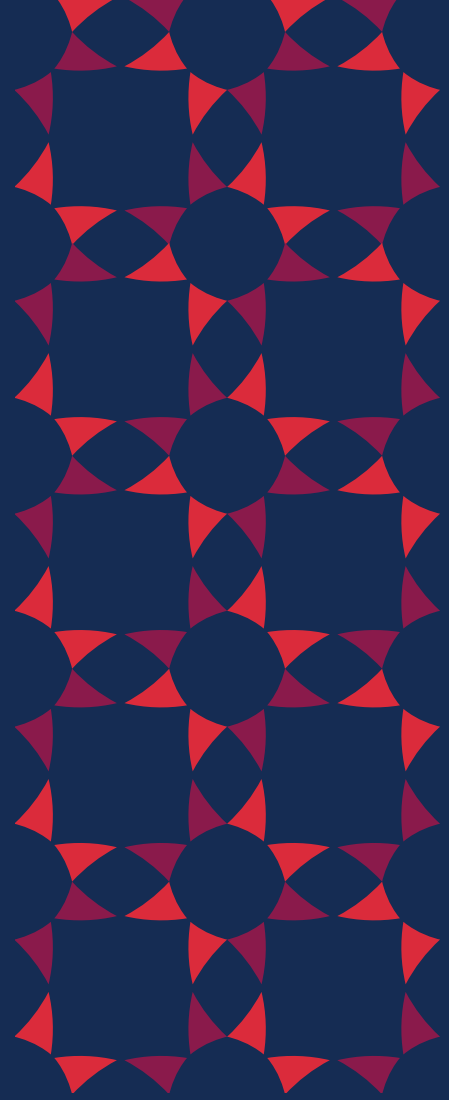
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غرفة البحرين BAHRAIN CHAMBER

Since its inception in 1939, the Bahrain Chamber of Commerce and Industry (BCCI) played a prominent role in shaping the national economy of Bahrain and creating a vigorous private sector.

It has kept abreast of the fast-paced economic and social developments, and consolidated its efforts to stimulate the growth and expansion of the private sector and empower its role in the economic development of the country alongside the public sector.

The confidence bestowed upon the chamber by the wise leadership reinforced its influence on economic decisions and streamlined its endeavor to create an attractive ecosystem that fosters the flourish of businesses. In addition, the growing base of its members contributed to reinstating its standing as the sole representative of the private sector and an advocate of its interest.