

BAHRAIN ECONOMY EXPERTS' SURVEY



INTRODUCTION

At the start of October 2021, the Bahrain Economists Society (BES) ran its monthly survey on the Bahrain economy, with the participation of 41 members from the Bahrain Economy Experts Panel. This month, the survey looked at the possible impact of one of the proposed alternatives to an increase in VAT.

QUESTION 1: BUSINESS CONFIDENCE

Context

Panel members were asked the following primary and secondary question:

- **Excluding normal seasonal changes, do you think that the overall level of economic activity in Bahrain during the next six months will be: higher / unchanged / lower?**
- **Rate your confidence in your answer on a scale of 1-to-7.**

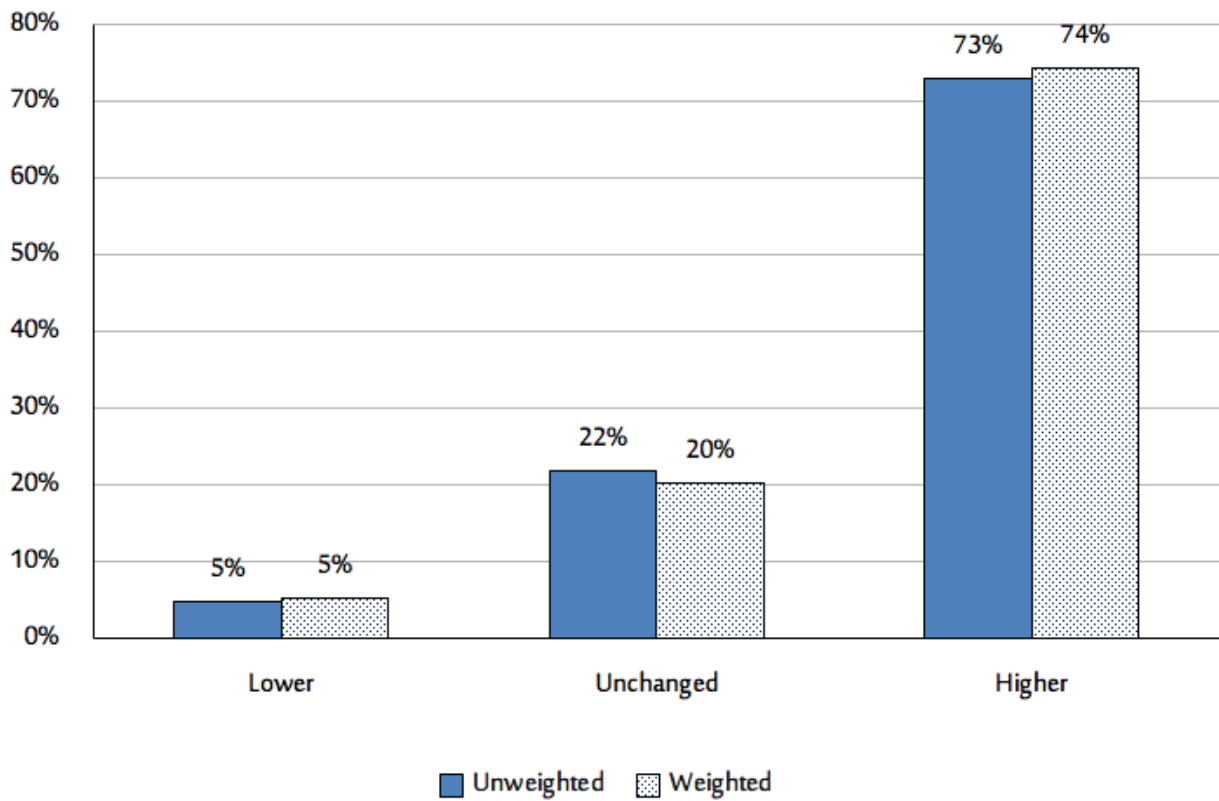
This question comes at a time when the health-based restrictions on economic activity are being lifted, and following a period of rising oil prices. However, fiscal pressures have forced the government to raise VAT from 5% to 10% starting from January 2022.

Results

The results are shown in Figure 1. The unweighted results are the responses based on the first question. The weighted results are the responses to the first question modified to take into account the participant's level of confidence.

- **Conclusion 1a:** Overall, the experts are optimistic about the level of economic activity in the next six months. Almost 75% expect an increase, and only 5% expect a decrease, with about 20% expecting no change.
- **Conclusion 1b:** The experts are close to having a consensus on this issue.

Figure 1: Excluding normal seasonal changes, do you think that the overall level of economic activity in Bahrain during the next six months will be:



- **Conclusion 1c:** Adjusting the responses to take into account each participant's level of confidence does not affect these conclusions.

Interpretation

The experts generally feel that the economic boost from the continuing Covid-19 recovery will play a more positive role than will the negative effect of raising VAT. However, it remains to be seen if this optimism will continue when the economy returns to a natural state, and social distancing restrictions have been removed for an extended period of time.

Question 2: Taxes on Foreign Transfers

Context

The September 2021 decision to raise VAT from 5% to 10% has led to an open debate regarding the alternative methods for raising revenues. One of the proposals is a tax on foreign transfers. This poses a risk to Bahrain's status as a financial hub,

and may cause capital outflows if investors perceive this is the start of a program of intrusive capital controls.

For the second question, participants were asked to express the extent to which they agreed with the following statement:

- **If Bahrain imposes a tax on foreign transfers, which is a form of capital control, this will significantly decrease Bahrain's ability to attract and retain foreign investment, causing considerable damage to the economy.**

They were also asked:

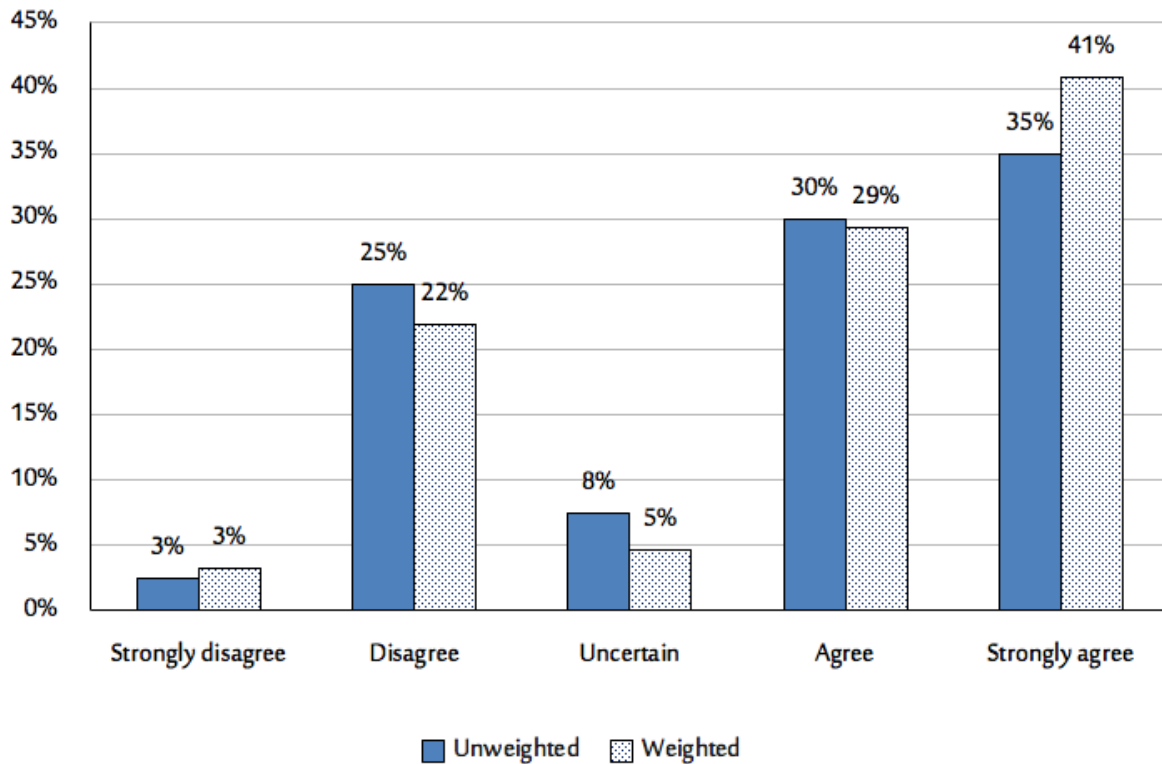
- **Rate your confidence in your answer on a scale of 1-to-7.**

Results

The results are shown in Figure 2. The unweighted results are the responses based on

Figure 2: To what extent do you agree with the following statement?

"If Bahrain imposes a tax on foreign transfers, which is a form of capital control, this will significantly decrease Bahrain's ability to attract and retain foreign investment, causing considerable damage to the economy?"



the second question. The weighted results are the responses to the second question modified to take into account the participant's level of confidence.

- **Conclusion 2a:** Overall, the experts expressed agreement with the statement, with 65% responding "agree" or "strongly agree", and only 28% responding "disagree" or "strongly disagree".
- **Conclusion 2b:** Despite generally expressing agreement, there was still a large degree of variation in the opinions of experts, who remain some way from forging a consensus.
- **Conclusion 2c:** Adjusting the responses to take into account each participant's level of confidence strengthens conclusion 2a and weakens conclusion 2b, because the participants who were more confident in their answers were more likely to agree with the statement.

Interpretation

Those proposing a tax on foreign transfers as an alternative to an increase in VAT should be

cautious because the panel generally perceive such a tax to be a threat to investment in the Bahrain economy.

Nevertheless, the experts do not have a consensus on the issue, indicating that any policy decision would benefit greatly from a rigorous scientific study of the different options and their likely impact.


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