An Assessment on the Impacts of Loan Deferrals in Bahrain

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Sara Bahman and Omar Al-Ubaydli

Abstract

In March 2020, and subsequently in September 2020 and January 2021, the Central Bank of Bahrain instructed banks operating in the Kingdom of Bahrain to offer Bahraini debtors the opportunity to defer the repayment of loans and, in the first of these three deferral decisions, to do so without incurring any interest. This paper analyzes the impact of the first two of these three deferrals on Bahraini households using a combination of quantitative and qualitative data gathered from telephone surveys with over 100 Bahrainis. It is also presents recommendations for future decisions.

Sara Bahman is a Development Coordination Officer at the UN Resident Coordinator's Office, Bahrain; Omar Al-Ubaydli is the Director of Research at Derasat.

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Executive Summary

In March 2020, and subsequently in September 2020 and January 2021, the Central Bank of Bahrain instructed banks operating in the Kingdom of Bahrain to offer Bahraini debtors the opportunity to defer the repayment of loans and, in the first of these three deferral decisions, to do so without incurring any interest. This paper analyzes the impact of the first two of these three deferrals on Bahraini households using a combination of quantitative and qualitative data gathered from telephone surveys with over 100 Bahrainis. The paper's main findings are as follows.

Finding 1: Most people were facing at least some difficulty in servicing their loans prior to the Covid-19 pandemic, while a significant proportion were facing severe difficulty.

Finding 2: Prior to the loan deferral decision, the pandemic had a moderately negative impact on people's optimism regarding their ability to service their loans, though a small percentage became more optimistic.

Finding 3: Participants who became more pessimistic about their ability to repay loans due to the pandemic generally attributed their pessimism to a combination of decreased income, increased expenditure. Those who were indifferent or who became more optimistic attributed that to decreased expenditure and to a secure job and/or savings.

Finding 4: The majority of participants experienced at least a moderate decrease in their likelihood of default due to the CBB's March 2020 deferral, and almost a third experienced a very large decrease. However, over 40% experienced virtually no effect.

Finding 5: The most common feeling expressed by participants in response to the March 2020 deferral – and the only one to arise in at least 30% of cases – was happiness and relief, even among those who did not experience a substantive decrease in their likelihood of defaulting due to the deferral.

Finding 6: Had the March 2020 deferral not been forthcoming, participants would have used a variety of alternate actions, including cutting spending and refinancing loans. The last resort of defaulting was cited by a small percentage.

Finding 7: There was a significant likelihood that participants had experienced a substantive change in their income during the period February-September 2020, though an increase and decrease were approximately equally likely.

Finding 8: A little under a half of participants experienced at least a moderate decrease in their likelihood of default due to the CBB's September 2020 deferral, and almost a fifth experienced a very large decrease. Just over half experienced virtually no effect.

Finding 9: The most common feeling expressed by participants in response to the September 2020 deferral was happiness and relief, but this was significantly tempered by expressions of concern about the interest accrual. Moreover, a majority of those who did not experience a substantive decrease in their likelihood of defaulting due to the deferral explicitly reported opting out, while frequently citing concerns about interest accrual.

Finding 10: Had the September 2020 deferral not been forthcoming, participants would have used a variety of alternate actions, including cutting spending and refinancing loans. The last resort of defaulting was cited by a small percentage.

Finding 11: While approximately half of the participants did not desire a further extension, approximately half did. Among those who did, most wanted an extension of six months or less, with only 8% of participants expressing a desire for an extension of over six months.

Finding 12: The most desired policy interventions represented different ways of decreasing the monthly and/or total financial burden associated with repaying loans. A small percentage also requested that benefits be means tested, while a significant percentage desired no further action.

Finding 13: The participants did not exhibit any significant optimism or pessimism regarding their income in a year's time compared to its current level.

Finding 14: Participants with a high level of financial strength were significantly less likely to report difficulty in servicing their debt prior to the onset of the Covid-19 pandemic than were those with a low level of financial strength.

Finding 15: Participants with a high level of financial strength were significantly less likely to report pessimism regarding the ability to repay their loans due to the pandemic, and prior to the March 2020 deferral announcement, than were those with a low level of financial strength.

Finding 16: Participants with a high level of financial strength were significantly less likely to evaluate the March 2020 deferral as decreasing the likelihood of default than were those with a low level of financial strength.

Finding 17: Participants with a high level of financial strength were significantly less likely to evaluate the September 2020 deferral as decreasing the likelihood of default than were those with a low level of financial strength.

Finding 18: Participants with a high level of financial strength were significantly less likely to express a desire for a third deferral than were those with a low level of financial strength.

Finding 19: Among participants, there was a strong relationship between the effectiveness of the March 2020 deferral, the effectiveness of the September 2020 deferral, and the desired size of the third deferral.

The data indicated that making future forms of support means tested, rather than universal, could be desirable. This is especially important in the case of interest accrual, as a significant proportion of participants found this element to be decisive in determining the usefulness of the first deferral compared to the second. In this regard, variables such as income and debt service as a percentage of income are potentially useful for determining the groups that most merit financial assistance in dealing with the pandemic's challenges.

1. Introduction

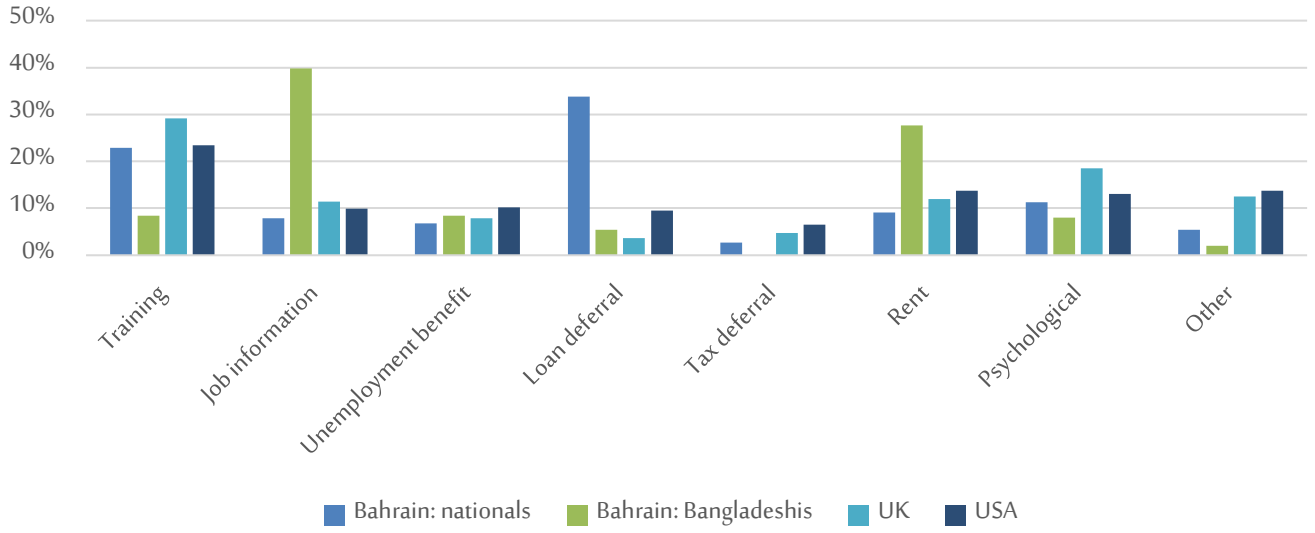
The Covid-19 pandemic has had a profound health and socioeconomic impact on the Kingdom of Bahrain (Abdulla et al., 2020). During 2020, Bahrain suffered 53,000 Covid-19 cases per million, and 200 Covid-19 deaths per million (Worldometer, 2021), while real GDP contracted by 8.9% during the second quarter of 2020, and by 6.9% during the third quarter.

In response to the grave threat posed by the pandemic, the government introduced a wide range of health and economic measures, including a deferral of loan repayments: in March 2020, the Central Bank of Bahrain (CBB) instructed banks operating in Bahrain to offer Bahraini debtors the option of deferring their loans for a period of six months without the accumulation of interest. This decision was subsequently extended for four months in September 2020, though without the clause on the non-accumulation of interest.

The CBB's decision was driven by a desire to avoid a liquidity crunch caused by the inability of debtors to repay their debts, and to support the living standards of Bahrainis. Many Bahrainis chose to exercise this option, providing indirect evidence of its importance to households in dealing with the challenges posed by the pandemic.

Further evidence of the importance of this measure from the perspective of Bahraini households emerged from the nationally representative survey jointly conducted by Derasat and UNDP Bahrain during September 2020 (Abdulla et al., 2020): participants were posed the question "What kind of support do you think would be most useful to you", and were given seven options, in addition to "Other – please specify". Figure 1.1 shows the results for four nationally representative groups of participants: Bahrainis residing in Bahrain, Bangladeshis residing in Bahrain, UK residents, and US residents.

Figure 1.1: The most desired form of support in light of the pandemic



Source: Abdulla et al. (2020)

In the case of Bahrainis residing in Bahrain, the modal response was a loan deferral, which registered almost 35%. In contrast, all three remaining groups registered less than 10% for this option. The popularity of the loan deferral option among Bahrainis, both in isolation and when compared to other groups, motivated us to gather additional data regarding the loan deferrals. In particular, we wanted to answer the following questions.

1. How effective was the loan deferral in assisting Bahraini households to deal with the economic challenges posed by Covid-19?
2. Had the CBB not issued the loan deferral option, what would Bahraini households have chosen to do?
3. Did households support further extensions of the loan deferral program?

Due to the open-ended nature of some of these inquiries, we selected phone interviews as the method of data collection. This paper analyzes the data gathered from over 100 participants and presents recommendations for policymakers and for future research. It is part of a broader collaboration between Derasat and UNDP Bahrain to evaluate the socioeconomic impact of Covid-19 in the Kingdom of Bahrain.

The rest of this paper is organized as follows. Section 2 describes the method, including information regarding the survey questions, the participants, and the distribution method. Section 3 presents the statistical analysis and the results. Section 4 summarizes the findings and presents recommendations.

2. Survey Method

2.1. Survey Questions

In all surveys, there is a tradeoff between the length of the survey and the participation/completion rate. In the aforementioned nationally representative survey (Abdulla et al., 2020), the survey was designed to take approximately five minutes to complete, in an attempt to secure a high rate of participation. This goal was successfully realized, though it came at the expense of gathering detailed data. Therefore in this survey, we decided to ask more questions, including ones with open-ended responses, knowing that this would lead to a small number of participants, because the goal was to gather data that would complement the preceding data. The questions were divided into six groups. The full list of questions can be found in the Appendix.

The first group was to ensure that the participant qualified for the survey. After selecting their preferred language (Arabic or English), the participant was asked to confirm being a Bahraini citizen who is at least 18 years of age, and who has a loan either in their name or in the name of their spouse. The participant was also asked to confirm if they were married; those responding in the affirmative were asked to answer questions about income and loans based on the total of them and their spouse. Finally, participants were asked to focus exclusively on personal loans, rather than those registered in the name of commercial entities that they owned. Participants were also instructed to consider average monthly borrowing in the case of credit card debt.

The second group of questions assessed the participant's loan situation prior to the CBB's decision in March 2020 to offer citizens the opportunity to defer loans. These included questions about the specifications of the participant's loans, the difficulty they faced in paying those loans prior to the onset of the pandemic, and the effect of the pandemic on their optimism regarding repayment.

The third group of questions focused on the March 2020 loan deferral decision: how did it affect the participant emotionally and in terms of their ability to settle their debts, and what alternative arrangements would they have made had the CBB's decree not been forthcoming.

The fourth group of questions focused on the September 2020 loan deferral decision. The questions mimicked those for the March 2020 decision, with the addition of an inquiry about how the pandemic has affected the participant's income.

The fifth group of questions focused on the participant's plans and expectations for the future: did they want a renewal in January 2021, what other actions did they want from the government, and how did they expect their income to be in the coming year compared to 2020.

The sixth and final group of questions were about the participant's socio-demographic characteristics: their gender, their age, their governorate (the sub-national geographical grouping), their education, and their income.

To generate quantitative insights, most of the questions involved responses based on a Likert scale. Other questions were open ended to allow for a deeper range of responses. Participating in the survey took approximately 15 minutes. We decided to conduct the survey using phone interviews to generate a higher participation rate, and also due to the open-ended nature of several questions.

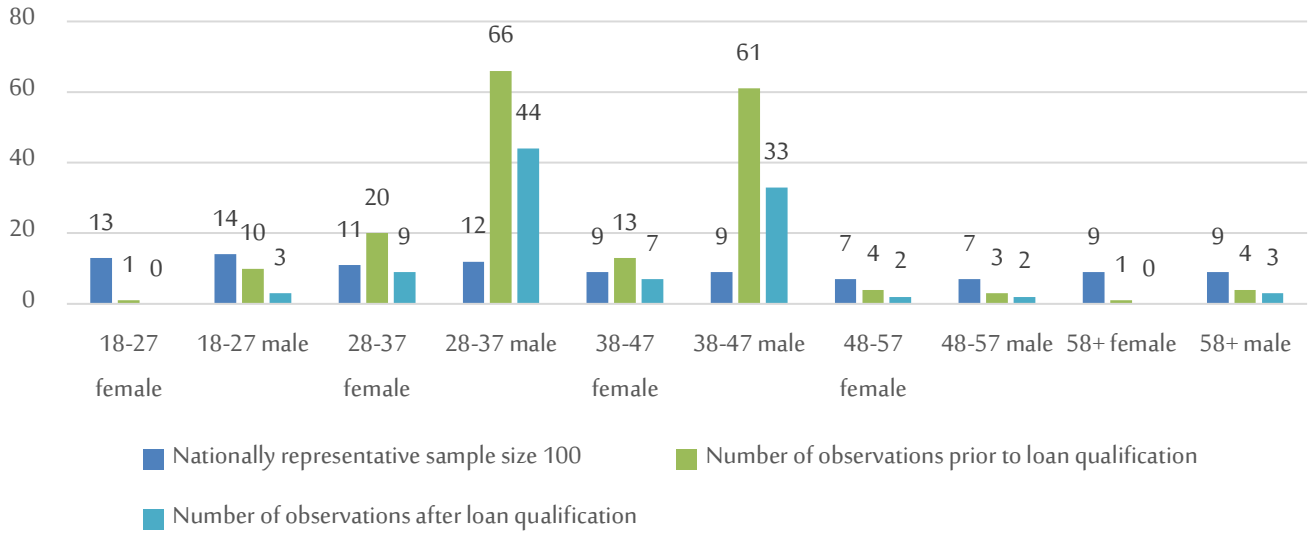
2.2. Participants and Sampling

Due to limitations on the resources available for gathering data, we initially set a target of 100 nationally representative participants. We did have data on the distribution of age and gender in the population (IGA, 2020), but we did not have data on the distribution of loans in the population. Therefore, our target was to generate a nationally representative sample of Bahraini adults willing to participate in the survey prior to the imposition of the condition that the participant have a loan in either their or their spouse's name.

Figure 2.2.1 shows the number of observations in each cell for a nationally representative sample size of 100, as well as the number of participants secured prior to the imposition of the loan condition (184),

and the number secured after its imposition (103). This latter figure represents the data that will be analyzed below.

Figure 2.2.1: Demographic distribution of target and actual samples



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In terms of people willing to participate, and prior to the loan qualification, the sample was skewed toward males, and toward people in the age range 28-37 and 38-47, with the youngest and oldest age categories for both genders being undersampled. We explore the participants' sociodemographic traits in greater detail below.

Applying the loan qualification led to 54% of willing female participants having to withdraw, compared to only 41% of male participants. This most probably reflects an underlying asymmetry in the distribution of loans, in that single men are more likely than single women to have loans, and some married women may be unaware of the loans that are in their husbands' names. This phenomenon is likely to have cultural roots.

2.3. Distribution of the Survey

The survey was conducted via telephone on weekdays and within working hours from September 29th to October 14th, 2020 to randomly selected Bahraini mobile numbers. These numbers were drawn from a database populated by people who had expressed an interest in participating in phone surveys. All

surveying was conducted by a single surveyor, who was one of this paper's authors (Sara Bahman). The responses were manually entered into the online surveying tool Lime Survey. Non-participation due to time and availability constraints of both the surveyor and participants were lowered through callbacks and call rescheduling options.

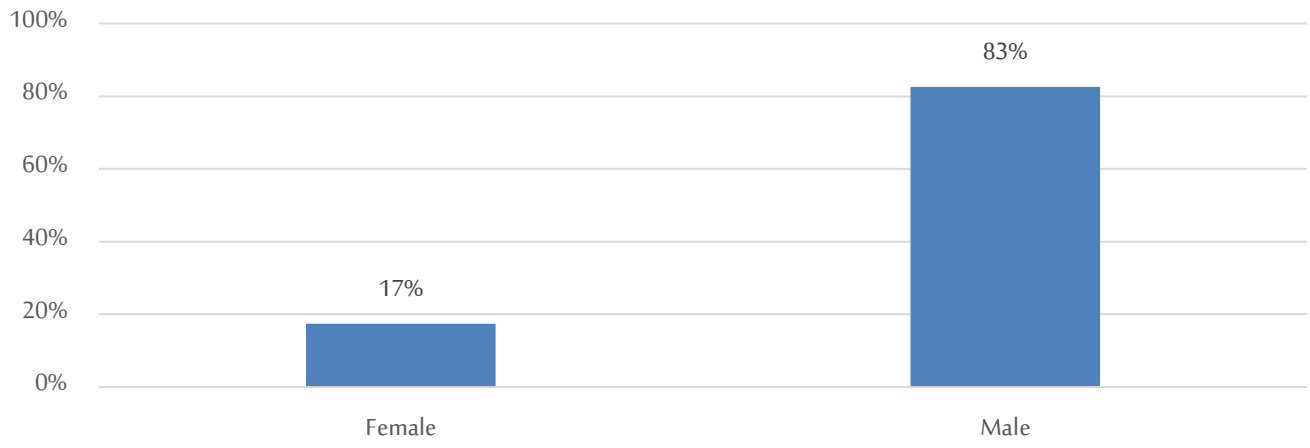
3. Results

For the remainder of this paper, unless otherwise stated, all data shown relate only to the 103 participants who satisfied the loan qualification, which represented 56% of the total number of willing participants.

3.1. General Sociodemographics

We begin by briefly describing the participants' sociodemographic traits. Figure 3.1.1 shows the gender distribution of the participants. The data are heavily skewed toward males (83%). As mentioned above, this probably reflects a greater likelihood of men having a loan compared to women. Further, it may reflect women being less reluctant to participate in phone surveys, as many of these receiving a solicitation call from the surveyor will not have recognized the number of the caller and may have chosen to ignore it.

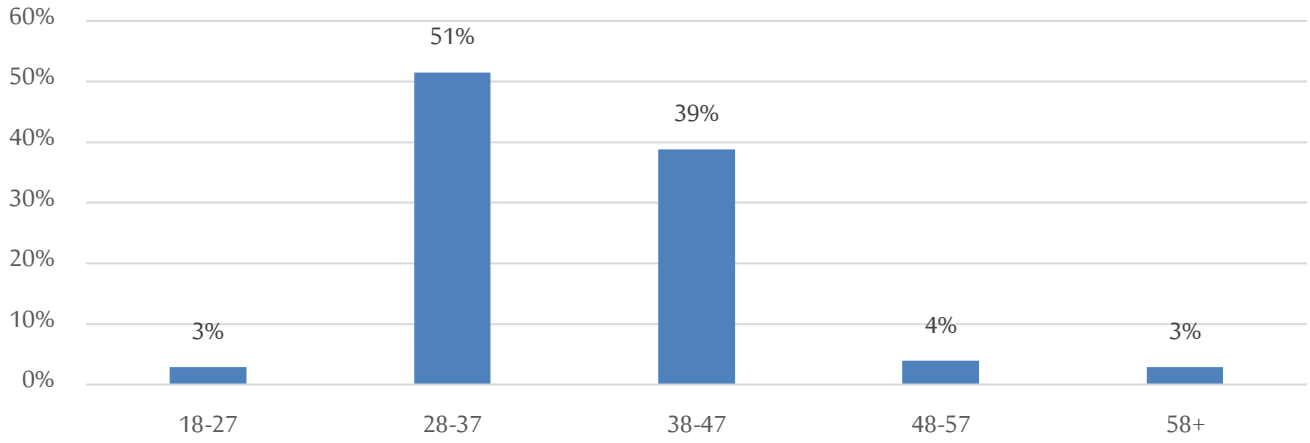
Figure 3.1.1: Gender distribution



Source: Derasat-UNDP surveys

Figure 3.1.2 shows the participants' age distribution. As mentioned above, there is large representation for the two age groups 28-37 and 38-47. The comparative underrepresentation of the elderly in phone surveys is common in Bahrain (Abdulla et al., 2020), while the underrepresentation of the young in this case likely reflects their disinterest in the topic of loans, as the young are themselves less likely to have loans.

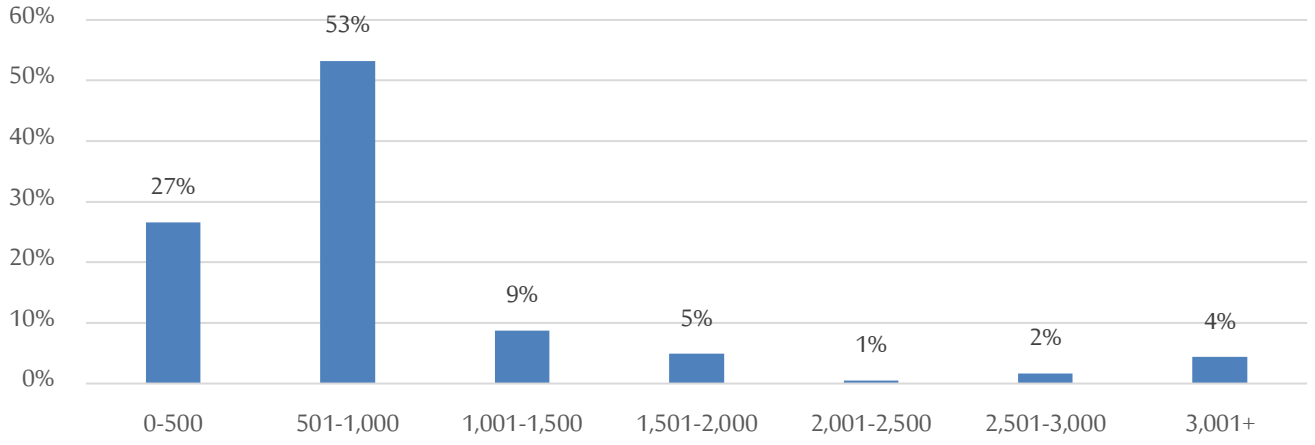
Figure 3.1.2: Age distribution



Source: Derasat-UNDP surveys

Figure 3.1.3 shows the participants' income distribution (recall that this is the total of the participant's income and that of their spouse). There is weak representation for participants who have a monthly income above BD 1,500 (approximately $4,000), and this likely reflects a lower propensity of people with high income levels to participate in phone surveys.

Figure 3.1.3: Income distribution (monthly income in BD)

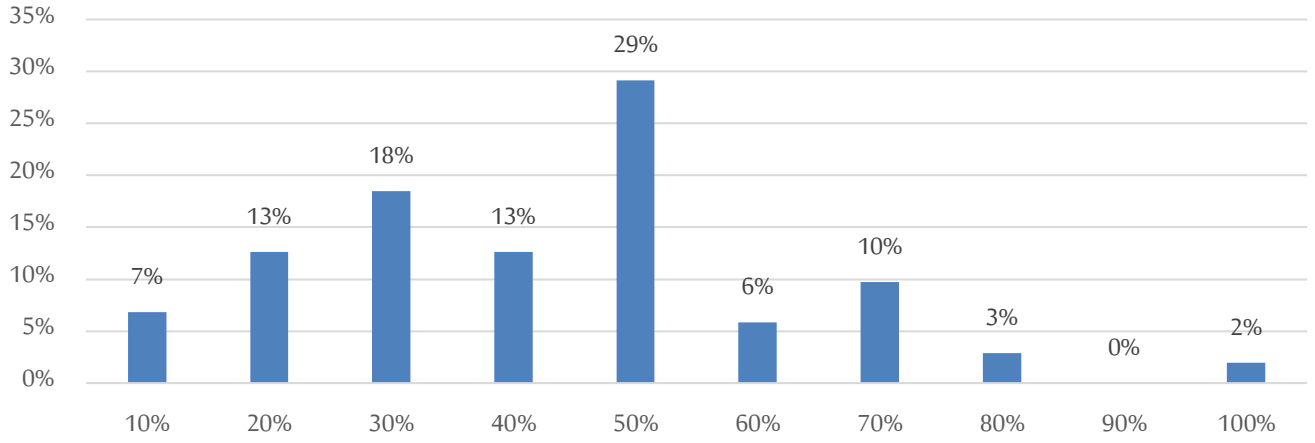


Source: Derasat-UNDP surveys

In the interest of parsimony, we do not present data on governorate or education level. We also note that 87% of participants were married.

Figure 3.1.4 shows the distribution of the percentage of income allocated to servicing debt prior to the pandemic's onset in February 2021. CBB regulations require capping loan repayments at half of gross income (with some exceptions made for high earners subject to a formal review).

Figure 3.1.4: Percentage of monthly income allocated to servicing outstanding debt prior to the Covid-19 pandemic

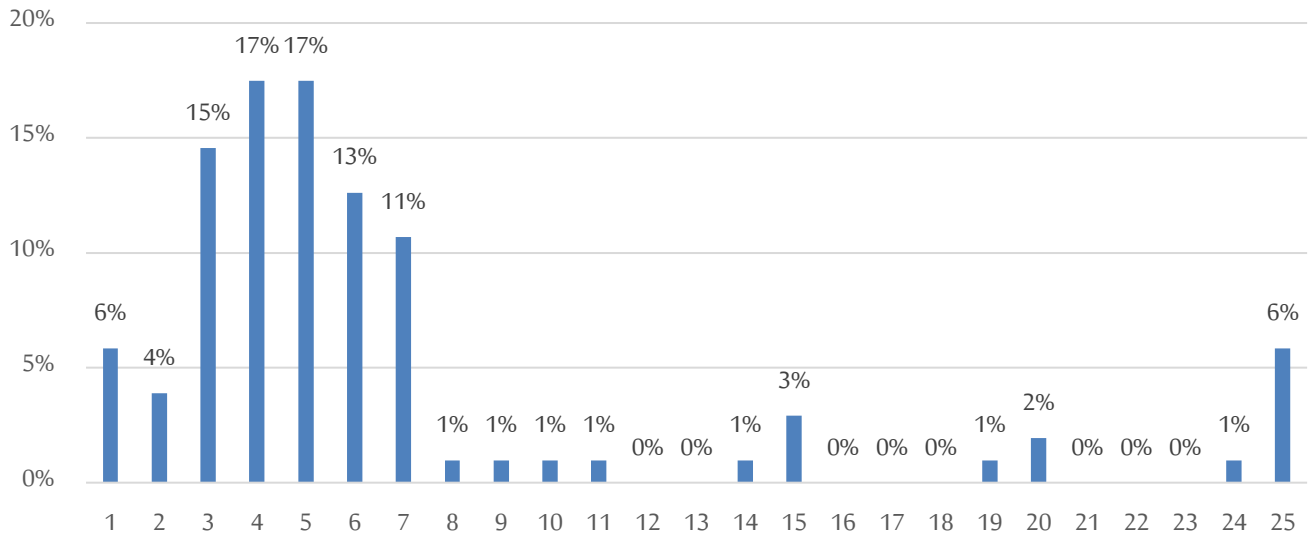


Source: Derasat-UNDP surveys

The average for the participants was 43%, while the mode was 50%, in line with the CBB cap. Note that some were paying more due to changes in income after signing a loan contract, such as being made redundant and having to look for a new job. In the next section, we exploit the rich variation in this variable to understand the impact of the loan deferrals on the participants.

Figure 3.1.5 shows the years to maturation on each participant's largest outstanding loan. CBB regulations stipulate a maximum repayment schedule of seven years for personal loans, and 25 years for mortgages.

Figure 3.1.5: Years to maturation on the largest outstanding loan



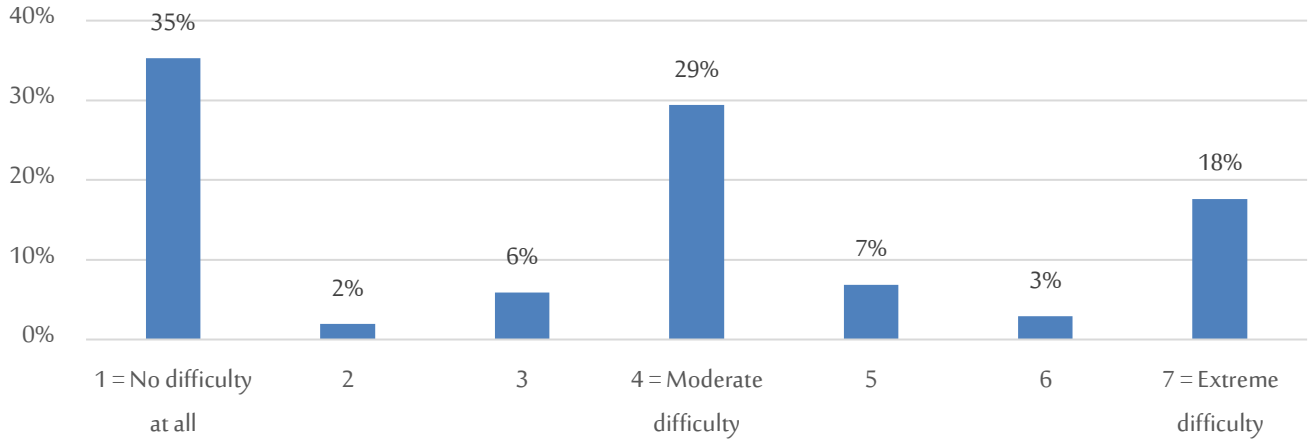
Source: Derasat-UNDP surveys

Only 17% of loans have an outstanding maturity in excess of seven years, suggesting that the overwhelming majority of loans are personal rather than mortgage related. The average is 6.9 years, with a standard deviation of 6.1, though most of the variation occurs within the range of one to seven years.

3.2. Descriptive Analysis

In this section, we examine the responses to the analytical loan-related questions, while deferring until the subsequent section to an analysis of the relations between responses to different questions. Figure 3.2.1 shows how difficult servicing their loans was for participants prior to the pandemic's onset, as measured by a 1-to-7 Likert scale.

Figure 3.2.1: Difficulty in servicing loans prior to the Covid-19 pandemic



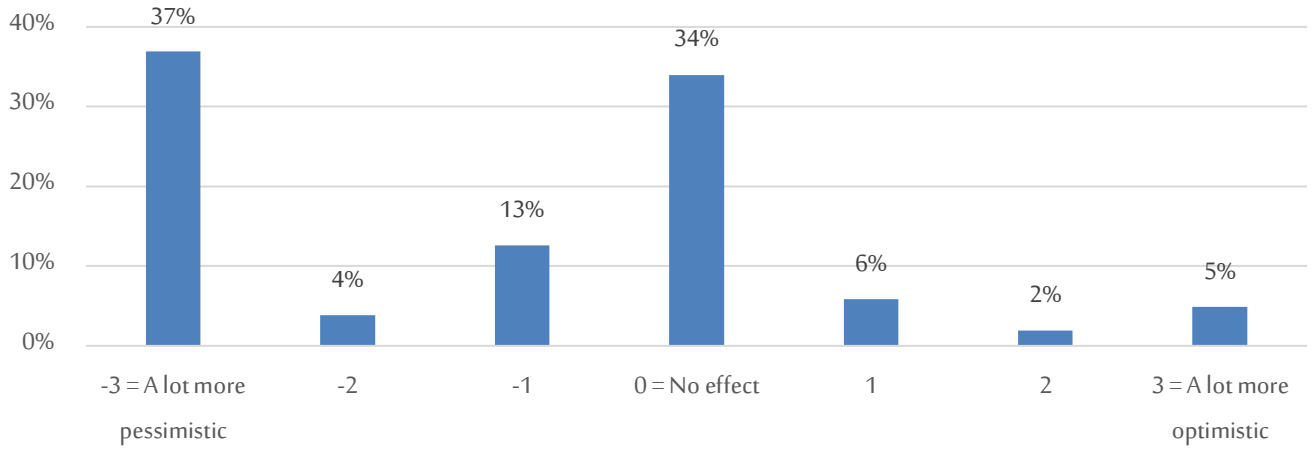
Source: Derasat-UNDP surveys

The average was 3.5 with a standard deviation of 2.2, confirming the wide variation in responses visually evident in the figure. Thus, the majority of participants described themselves as facing at least a non-trivial amount of difficulty (a response of 3 or higher) at the start of 2020, with around a fifth of respondents facing very high levels of difficulty (6 or higher). This suggests that, in the event of economic distress stemming from the pandemic, the loan deferral was likely to be very useful to the participants in helping them manage their finances.

Finding 1: Most people were facing at least some difficulty in servicing their loans prior to the Covid-19 pandemic, while a significant proportion were facing severe difficulty.

Figure 3.2.2 gives a first assessment of the effect of the pandemic on the participants' ability to service their loans prior to the announcement of the first deferral in March 2020.

Figure 3.2.2: The effect of the pandemic on the participant's optimism regarding their ability to service their loans prior the loan deferral announcement



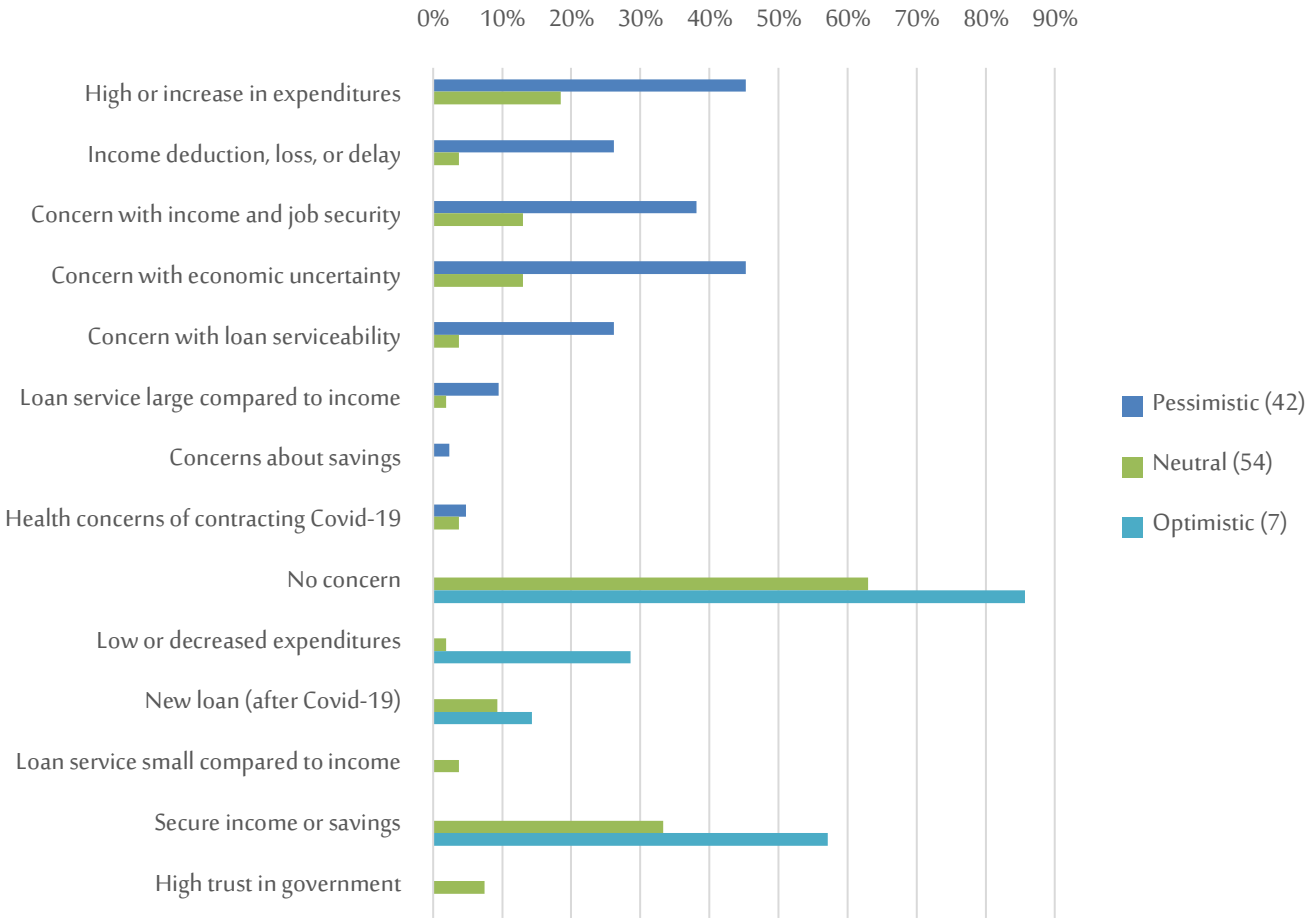
Source: Derasat-UNDP surveys

The mean was -1.1 with a standard deviation of 1.8. Unsurprisingly, a small majority (53%) expressed at least some degree of pessimism, with most of the remainder expressing no effect. Somewhat surprisingly, 13% became more optimistic due to the pandemic. We explore the rationalizations below.

Finding 2: Prior to the loan deferral decision, the pandemic had a moderately negative impact on people's optimism regarding their ability to service their loans, though a small percentage became more optimistic.

To analyze the reasons for people's optimism/pessimism, we divide the participants into three groups: those who were generally pessimistic (-3 or -2 in Figure 3.2.2), those who were generally neutral (-1, 0, or +1 in Figure 3.2.2), and those who were generally optimistic (+2 or +3 in Figure 3.2.2). We then classified each of the 103 responses into combinations of 14 exhaustive categories, thereby transforming the qualitative data into quantitative form. We were able to do this because there was a great deal of homogeneity in the participant comments. Figure 3.2.3 shows the reasons given by each group.

Figure 3.2.3a: Reasons for pessimism among pessimistic participants



Source: Derasat-UNDP Surveys

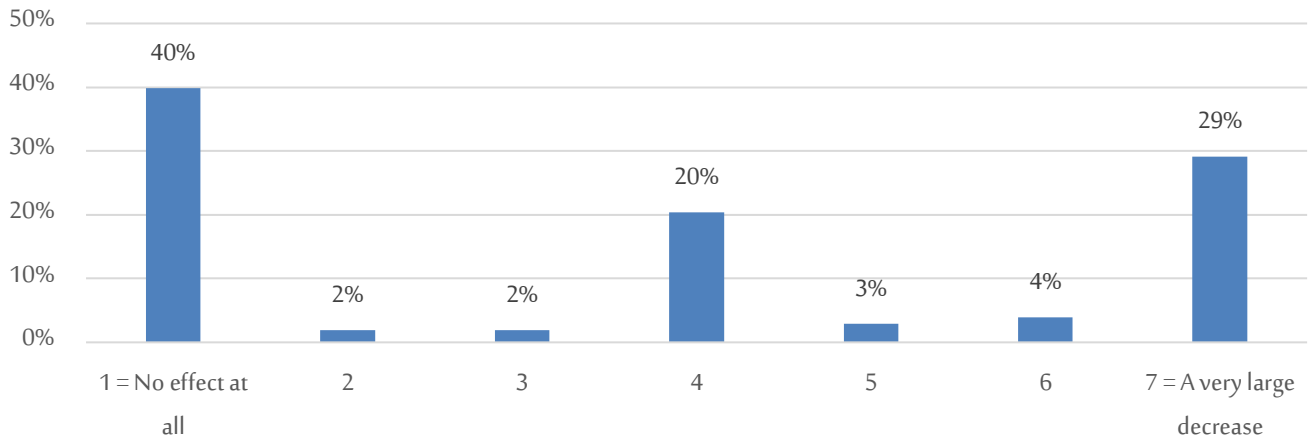
For those who expressed pessimism, the most commonly cited reasons were high/increasing expenditures (45%), concern with pandemic-related economic uncertainty (45%), and concerns about income and job security (38%). Notably, the increasing expenditures related to rising IT costs, rising childcare costs, and costs related to PPE.

For those who expressed neutrality, a majority (63%) responded that they simply had no concern, while a significant proportion (33%) attributed their neutrality to their having secure income and/or savings. Finally, for the small group that expressed optimism, 57% cited secure income and/or savings, while 29% attributed their confidence to a decrease in expenditures brought about by the pandemic, due to the inability to purchase services such as travel, restaurant meals, cinema tickets, and so on.

Finding 3: Participants who became more pessimistic about their ability to repay loans due to the pandemic generally attributed their pessimism to a combination of decreased income, increased expenditure. Those who were indifferent or who became more optimistic attributed that to decreased expenditure and to a secure job and/or savings.

We next consider the third group of questions, which related to the first deferral decision by the CBB. Figure 3.2.4 shows the impact of the deferral on the participants' likelihood of default.

Figure 3.2.4: The extent to which the March 2020 deferral decreased the likelihood of default



Source: Derasat-UNDP Surveys

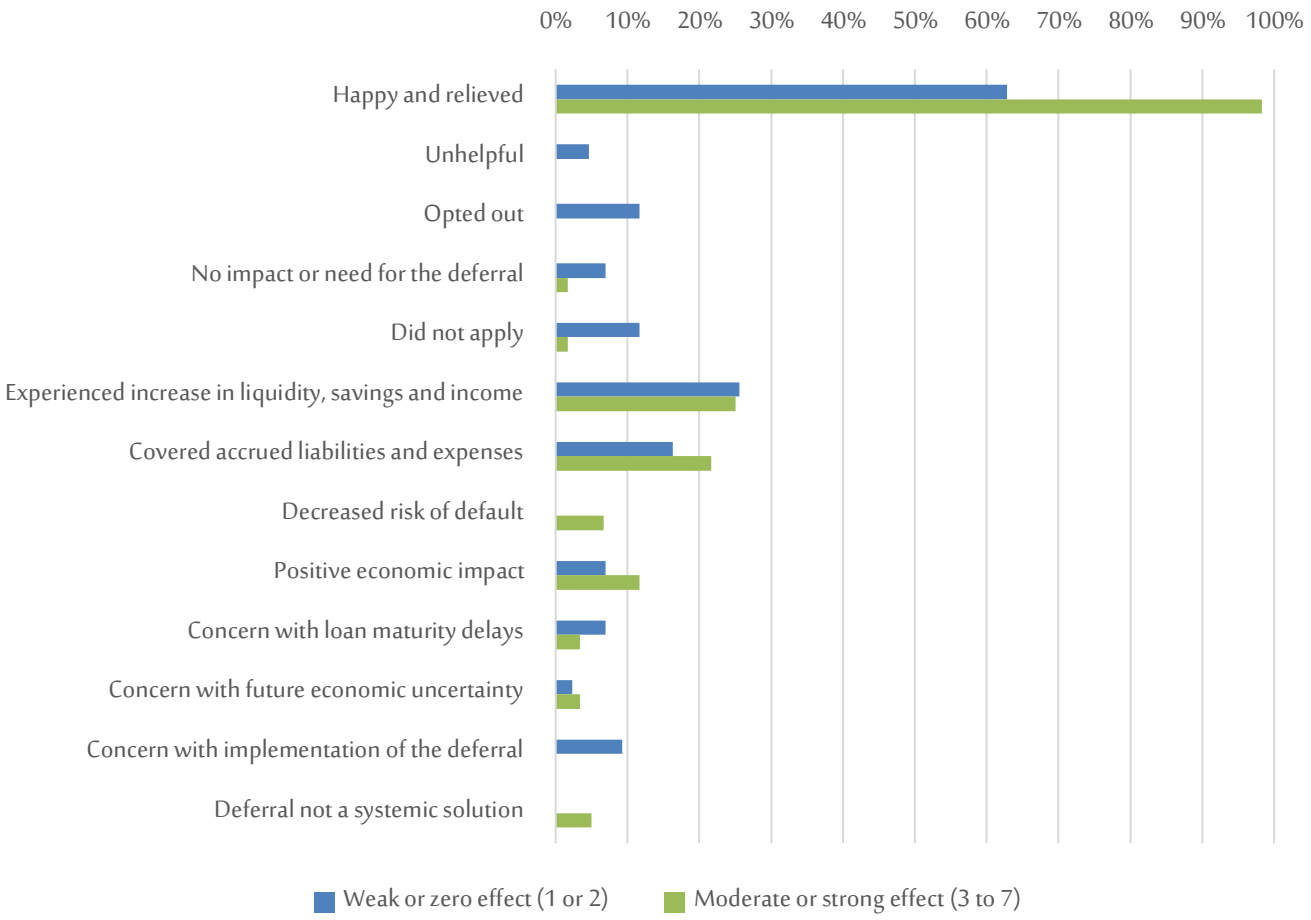
The mean was 3.7 and the standard deviation was 2.5, reflecting the breadth of the variation in responses. Well over half of the respondents determined that there was a significant decrease in their likelihood of default due to the deferral, including a significant percentage (29%) for whom the deferral was potentially decisive in averting a default. However, a very large percentage (40%) declared that there was no effect whatsoever, underscoring the heterogeneous impact of the CBB's decision.

Finding 4: The majority of participants experienced at least a moderate decrease in their likelihood of default due to the CBB's March 2020 deferral, and almost a third experienced a very large decrease. However, over 40% experienced virtually no effect.

To analyze how the deferral made people feel, we divide the participants into two groups: those who reported virtually no effect (1 or 2 in Figure 3.2.4), and those who reported at least a moderate effect (3 or higher in Figure 3.2.4). We then classified each of the 103 responses to the question into combinations

of 13 exhaustive categories, thereby transforming the qualitative data into quantitative form. We were able to do this because there was a great deal of homogeneity in the participant comments. Figure 3.2.5 shows the responses given by each group. Note that though the question asked about the participants' feelings, some gave responses that indicated that they interpreted the question as asking them to explain their response to the preceding question.

Figure 3.2.5: How the March 2020 deferral made the participants feel



Source: Derasat-UNDP Surveys

As a general remark, a very large percentage of participants expressed happiness at the decision, including over 60% of those who claimed that it had no material impact on their likelihood of default. This probably reflects a morale-boosting aspect of the intervention: beyond any financial impact, it made people feel that the authorities were aware of their struggles, and that they were taking steps to address their fears. In a time of great uncertainty, this morale effect is potentially quite important: having faith in

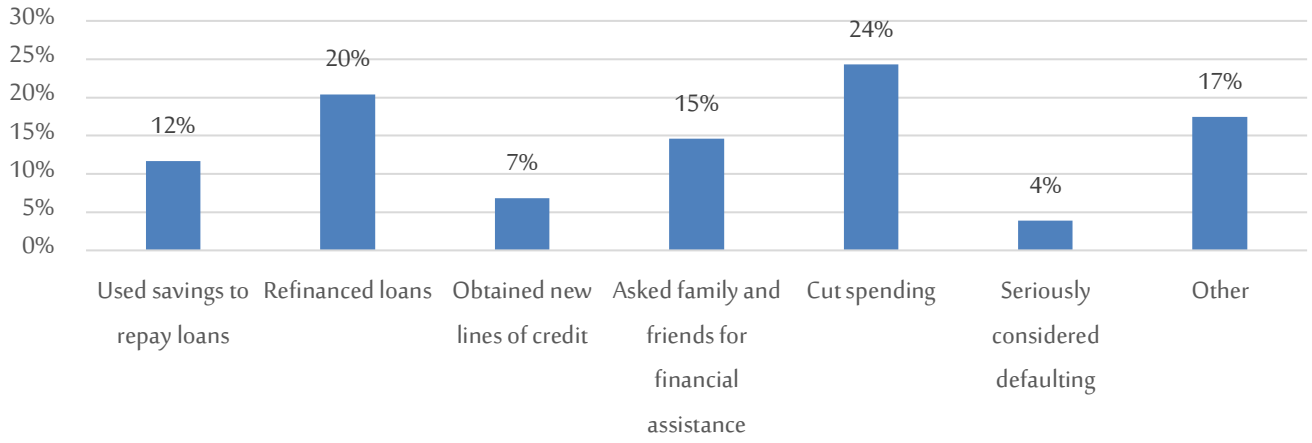
government is critical to a citizenry's willingness to follow the government's prescriptions, and during a disaster such as a pandemic, it is critical that people adhere to well-crafted government policies.

The group that reported a weak or zero effect of the deferral on default likelihood mentioned in 25% of cases that they did experience an improvement in their liquidity and income situation, indicating the existence of a financial benefit separate from the avoidance of default. A small percentage (16%) also used the deferral as a way of covering other accrued liabilities. Almost 20% either described the deferral as unhelpful (in the sense that it did not help, as opposed to being damaging) or opted out. The group that reported at least a moderate effect of the deferral on default likelihood gave broadly similar responses, without describing the deferral as unhelpful, or opting out.

Finding 5: The most common feeling expressed by participants in response to the March 2020 deferral – and the only one to arise in at least 30% of cases – was happiness and relief, even among those who did not experience a substantive decrease in their likelihood of defaulting due to the deferral.

Figure 3.2.6 shows the response to the final question in this group, which is the alternative action people would have taken had the March 2020 deferral not been forthcoming.

Figure 3.2.6: Alternate actions had the March 2020 deferral not been issued



Source: Derasat-UNDP surveys

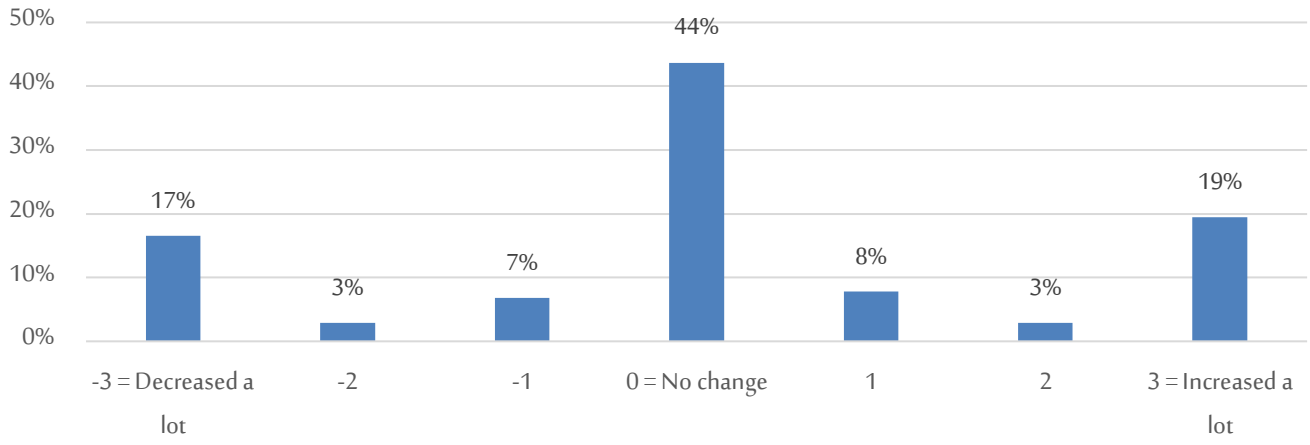
The data indicate a wide range of responses. The most common was cutting spending (24%), but that covered only a quarter of cases. That was followed by seeking to refinance loans (20%) and asking friends

and family for financial assistance (15%). A small percentage (4%) indicated that they would have seriously considered defaulting had the deferral not materialized.

Finding 6: Had the March 2020 deferral not been forthcoming, participants would have used a variety of alternate actions, including cutting spending and refinancing loans. The last resort of defaulting was cited by a small percentage.

We next move on to the fourth set of questions, which focused on the second deferral. Figure 3.2.7 shows the change in income experienced by the participants during the period February-September 2020.

Figure 3.2.7: Change in income in the period February-September 2020



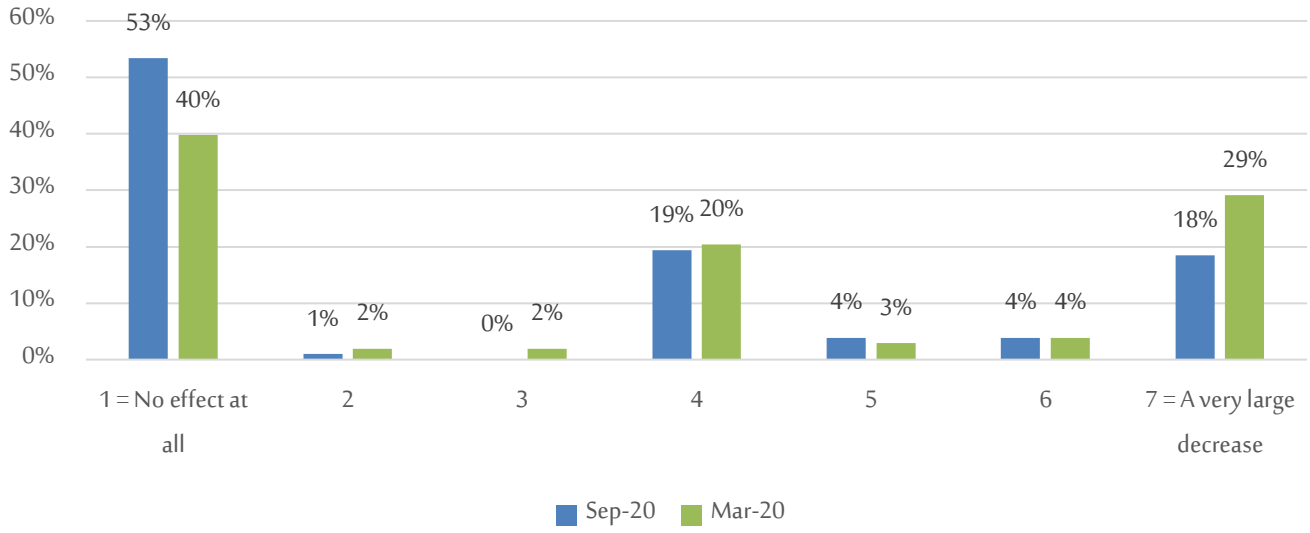
Source: Derasat-UNDP surveys

The mean was 0.1 and the standard deviation was 1.9, indicating a wide variation in responses, albeit with an average statistically indistinguishable from zero. In particular, almost a fifth of the participants experienced a large decrease in income, and a fifth experienced a large increase. This creates a possibility of a significantly different reaction to the September 2020 deferral compared to the March 2020 deferral, due to the change in income circumstances.

Finding 7: There was a significant likelihood that participants had experienced a substantive change in their income during the period February-September 2020, though an increase and decrease were approximately equally likely.

Figure 3.2.8 shows the impact of the September 2020 deferral on the participants' likelihood of default, with the data from the March 2020 deferral (Figure 3.2.4) reproduced for comparison purposes.

Figure 3.2.8: The extent to which the deferrals decreased the likelihood of default



Source: Derasat-UNDP surveys

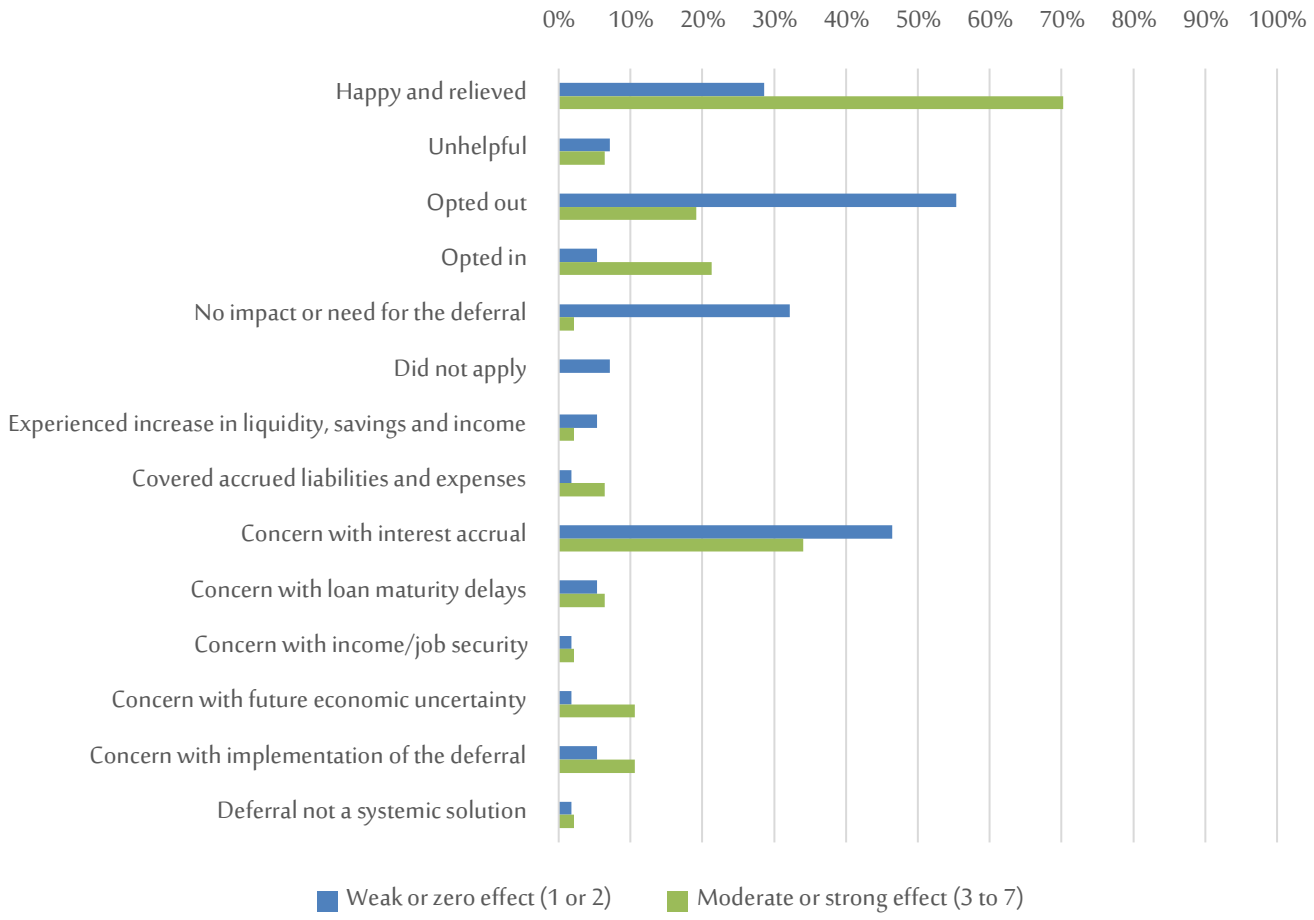
The September 2020 mean was 3.0 and the standard deviation 2.4, compared to 3.7 and 2.5, respectively, for March 2020. This notable decrease in the average impact was reflected in a nine percentage point decrease in people responding with "A very large decrease", and a 13 percentage point increase in people responding with "No effect at all" (the remaining options were virtually unaffected). Further, a majority of participants selected this latter option. The most likely explanation for the diminished impact of the deferral is that it did not include an interest waiver, unlike the March 2020 deferral, i.e., it constituted a smaller material benefit. The passage of time also probably played a role, because it allowed people to adjust their financial plans, and the initial shock of the pandemic in March 2020 had presumably dissipated by September 2020.

Finding 8: A little under a half of participants experienced at least a moderate decrease in their likelihood of default due to the CBB's September 2020 deferral, and almost a fifth experienced a very large decrease. Just over half experienced virtually no effect.

As with the March 2020 deferral, to analyze how the September 2020 deferral made people feel, we divide the participants into two groups: those who reported virtually no effect (1 or 2 in Figure 3.2.8),

and those who reported at least a moderate effect (3 or higher in Figure 3.2.8). We then classified each of the 103 responses to the question into combinations of 14 exhaustive categories, thereby transforming the qualitative data into quantitative form. We were able to do this because there was a great deal of homogeneity in the participant comments. Figure 3.2.9 shows the responses given by each group. Note that though the question asked about the participants' feelings, some gave responses that indicated that they interpreted the question as asking them to explain their response to the preceding question.

Figure 3.2.9: How the September 2020 deferral made the participants feel



Source: Derasat-UNDP surveys

The differences between these responses and those associated with the March 2020 deferral are quite stark. First, whereas with the March 2020 deferral 63% of those reporting a zero/weak default effect and 98% of those reporting at least a moderate default effect described feelings of happiness and relief, in the September 2020 deferral the respective figures were 29% and 70%, reflecting major contractions. As

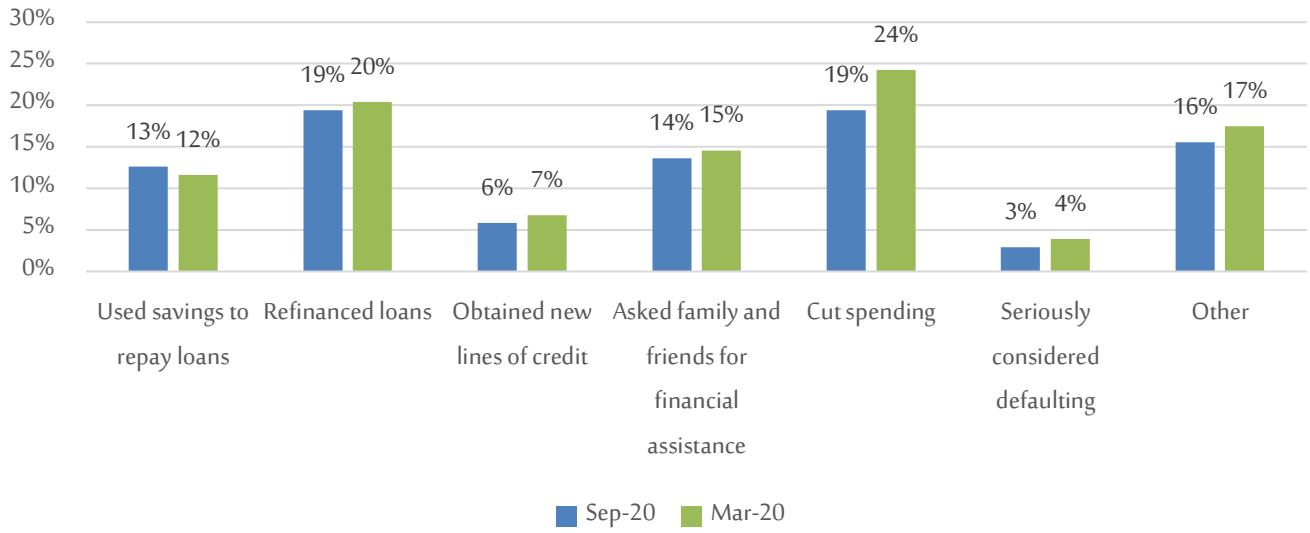
above, this was probably due to the interest accrual and to the passage of sufficient time for other adaptive measures to have been taken by participants.

Second, whereas none of the other responses occurred with high frequency in March 2020, in September 2020, 55% of those reporting a zero/weak effect explicitly indicated that they opted out, 46% declared their concern with the interest accrual, and 32% indicated that they felt no need for the deferral. Moreover, 34% of those reporting at least a moderate effect of the deferral expressed concern with the interest accrual.

Finding 9: The most common feeling expressed by participants in response to the September 2020 deferral was happiness and relief, but this was significantly tempered by expressions of concern about the interest accrual. Moreover, a majority of those who did not experience a substantive decrease in their likelihood of defaulting due to the deferral explicitly reported opting out, while frequently citing concerns about interest accrual.

Figure 3.2.10 shows the response to the final question in this group, which is the alternative action people would have taken had the September 2020 deferral not been forthcoming; we also include the March 2020 deferral data for comparison.

Figure 3.2.10: Alternate actions had the deferrals not been issued



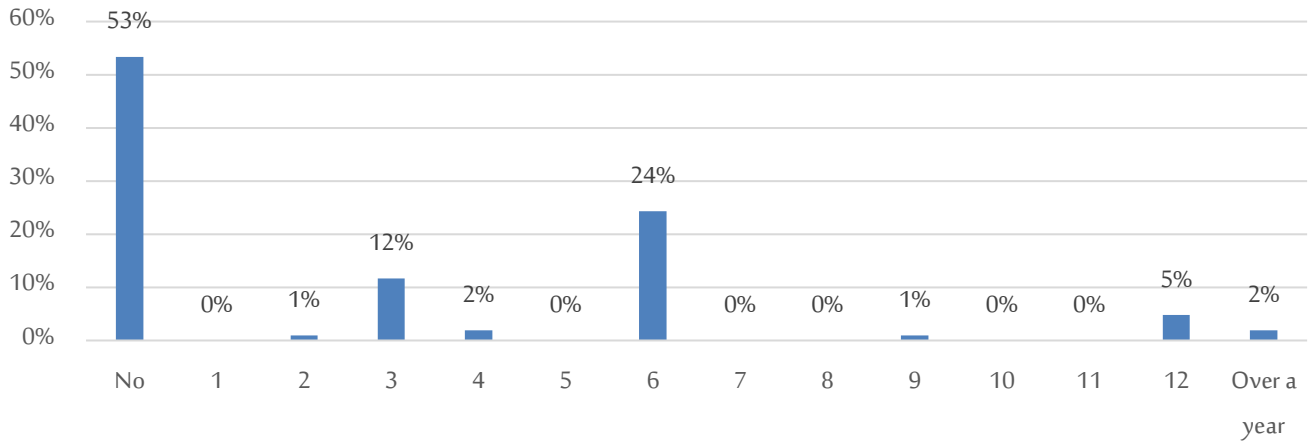
Source: Derasat-UNDP surveys

In general, the September 2020 data are statistically indistinguishable from the March 2020 data, with the only notable difference being a slightly higher likelihood of cutting spending, which remained the most popular option. This might be attributable to the passage of time allowing participants to formulate more effective plans for controlling their household expenditure. Otherwise, as in March 2020, there was a wide range of responses.

Finding 10: Had the September 2020 deferral not been forthcoming, participants would have used a variety of alternate actions, including cutting spending and refinancing loans. The last resort of defaulting was cited by a small percentage.

We next consider the fifth set of questions, which regarded future plans and expectations at the time of running the survey (September/October 2020). Figure 3.2.11 shows the response to the question: "Once the new deferral expires in January 2021, do you think that you need a new deferral, and if yes, for how many months?"

Figure 3.2.11: Do you need a new deferral, and if yes, for how many months?



Source: Derasat-UNDP surveys

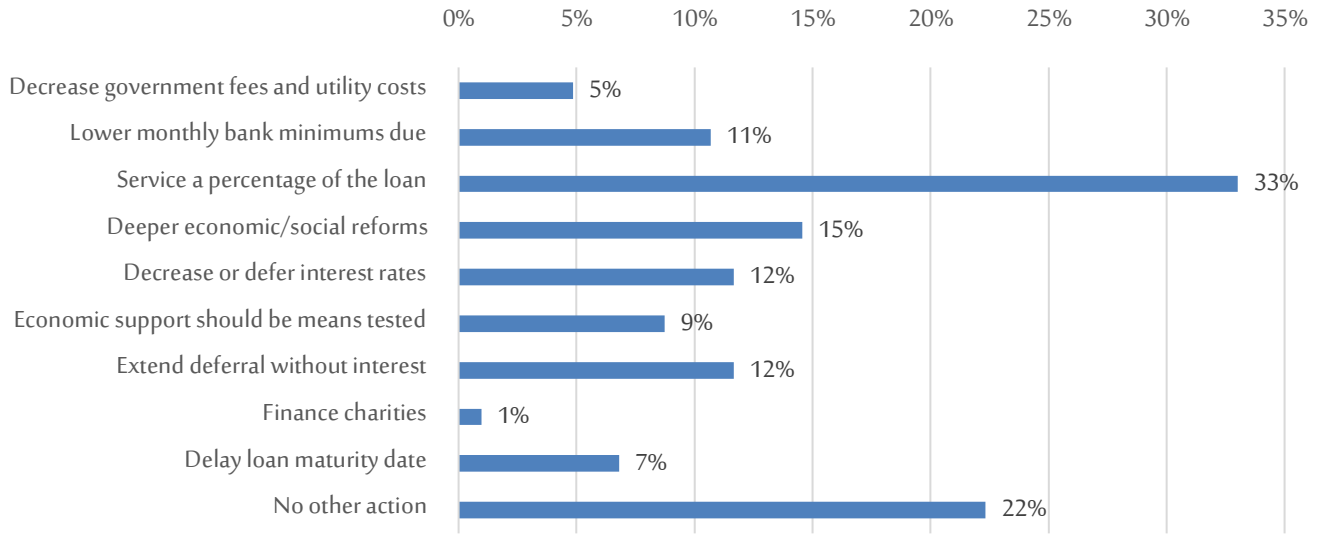
Treating those who answered "No" as zeros, and those who answered "Over a year" as 13 months, the average response was 2.8 months, with a standard deviation of 3.7. Most answers were a multiple of three months, and the modal response, which represented a small majority, was "No", followed by six months, which represented approximately one quarter of the participants. These data indicate that among participants, the receptiveness to a further extension was somewhat lukewarm. In light of the

answers to the preceding questions, this likely reflects a combination of a desire for interest to not accrue, and also concern over seemingly endless extensions to the loan's maturity date. However, a little under 50% of participants explicitly want an extension, meaning that it is a policy that certainly merited consideration (the CBB did in fact choose to extend for a further six months in January 2021).

Finding 11: While approximately half of the participants did not desire a further extension, approximately half did. Among those who did, most wanted an extension of six months or less, with only 8% of participants expressing a desire for an extension of over six months.

We also inquired about additional government policies that participants desired, beyond the obvious option of having the government settle their debts on their behalf. Figure 3.2.12 displays the responses.

Figure 3.2.12: Other government loan-related actions participants regarded as desirable with the exception of the government paying the loans on their behalf



Source: Derasat-UNDP surveys

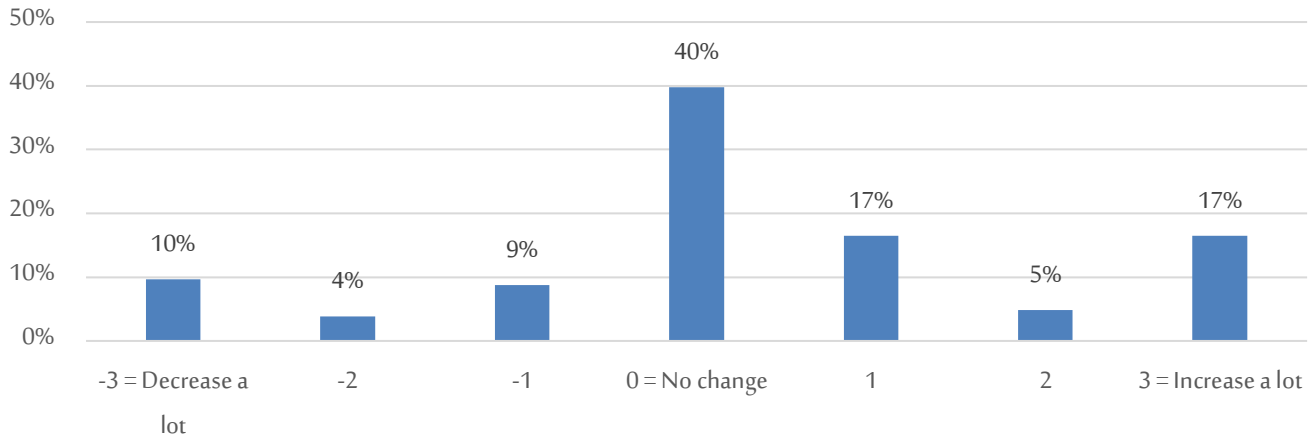
The most popular answer – "service a percentage of the loan" – was essentially a rephrasing or watered-down version of the banned option (asking for the government to directly service one's debt). It is likely that the enthusiasm for such interventions stems partially from the frequency with which such actions are taken in the neighboring state of Kuwait, where the government regularly announced amnesties on personal debts.

Beyond this option, and setting aside the "no other action" response, the most frequent response was a caller for deeper economic and social reforms that aim to raise living standards. Just over a tenth of participants requested a reintroduction of the interest rate waiver that was previously available, while a similar percentage asked for decreased interest rates. Further, around a tenth asked for lowering the monthly minimum due to the bank. An additional tenth of participants called for government support to be means tested.

Finding 12: The most desired policy interventions represented different ways of decreasing the monthly and/or total financial burden associated with repaying loans. A small percentage also requested that benefits be means tested, while a significant percentage desired no further action.

To gauge participants' confidence about their financial situation in a year's time, they were asked to estimate their future income compared to its current level. Figure 3.2.13 shows the data.

Figure 3.2.13: Expected level of income one year in the future compared to now



Source: Derasat-UNDP surveys

The mean was 0.3, which is statistically indistinguishable from zero, while the standard deviation was 1.7. The modal response reflected the mean, as it was an expectation of no change, though the distribution was slightly skewed toward the positive, probably because of the automatic 0-5% annual nominal raise that Bahrainis usually obtain. Overall, these results indicate an absence of any significant optimism or pessimism regarding future incomes.

Finding 13: The participants did not exhibit any significant optimism or pessimism regarding their income in a year's time compared to its current level.

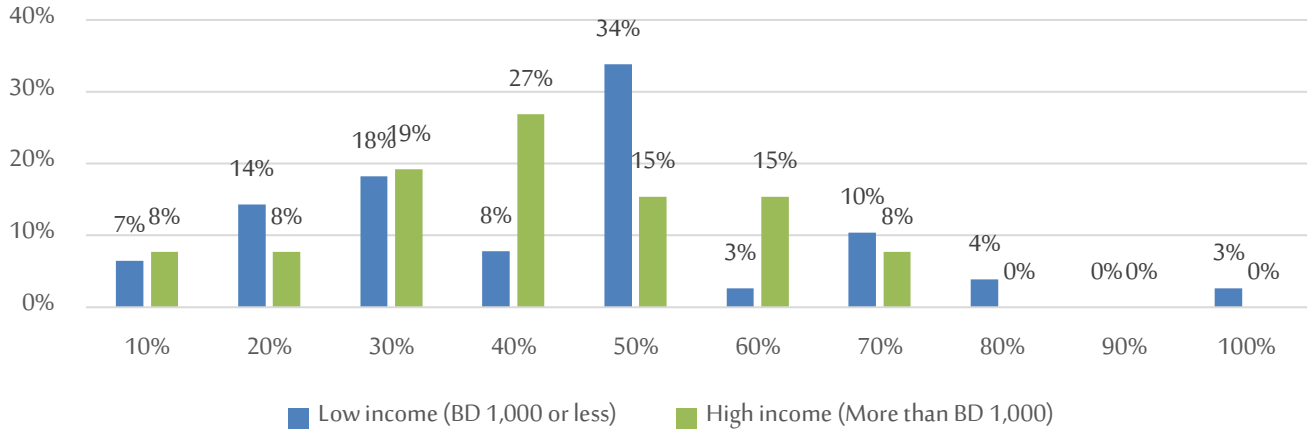
The final loan-related question in the survey was simply the chance to offer any additional comments/reflections. Almost all declined this option. Among the positive responses, there were further calls for means tested benefits, or those that focus on the most vulnerable, such as migrant workers and/or frontline workers.

3.3. Selected Relational Analysis

In this section, we explore the relationships between the primary loan-related variables of interest and some of the underlying demographic variables. In the interest of expositional simplicity, we use informal, visual methods rather than formal statistical methods; the latter will be covered in a forthcoming companion paper on this issue that is written for an academic audience.

There are several variables that are potential candidates for explaining the observed variation in the loan outcome variables. In the order that they appear in the survey, these are: marital status, debt service as a percentage of income, the number of years left on the largest loan, the difficulty in servicing the loan pre-pandemic, income change during the pandemic, expected future income change, gender, age group, governorate, education, and income. In the interest of parsimony, our coverage of potential relationships is not exhaustive; in general, the reader can assume that a relationship that is not explored in this paper was found to be weak or totally absent by the authors. We begin by examining the relationship between income and debt service as a percentage of income, which is shown in Figure 3.3.1.

Figure 3.3.1: The relationship between income (blue vs. green bars) and debt service as a percentage of income (x-axis)



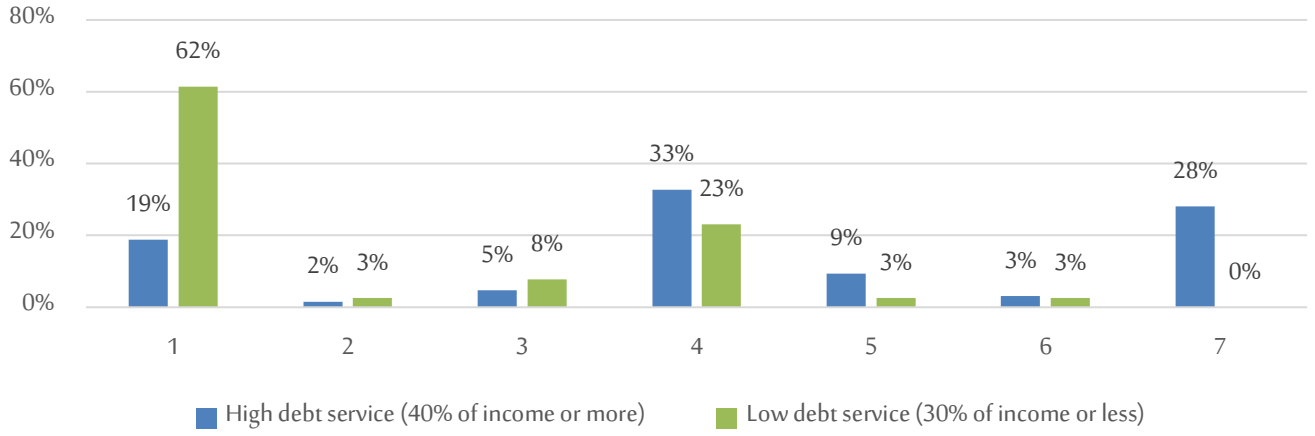
Source: Derasat-UNDP surveys

These data show that the two variables are unrelated in our sample (this is also true statistically speaking). This is important because it allows us to consider the two variables as mutually independent explanations for the variation in the remaining variables: had they been correlated, then it would have been difficult to deduce which of the two variables was causing variation in the remaining variables. We henceforth refer to these two variables together as "financial strength", which is closely related to, but exactly equal to, disposable income. It is a measure of how able the participant is to marshal financial resources on a monthly basis. We define someone with low debt service and high income as being financially strong, and someone with high debt service and low income as being financially weak.

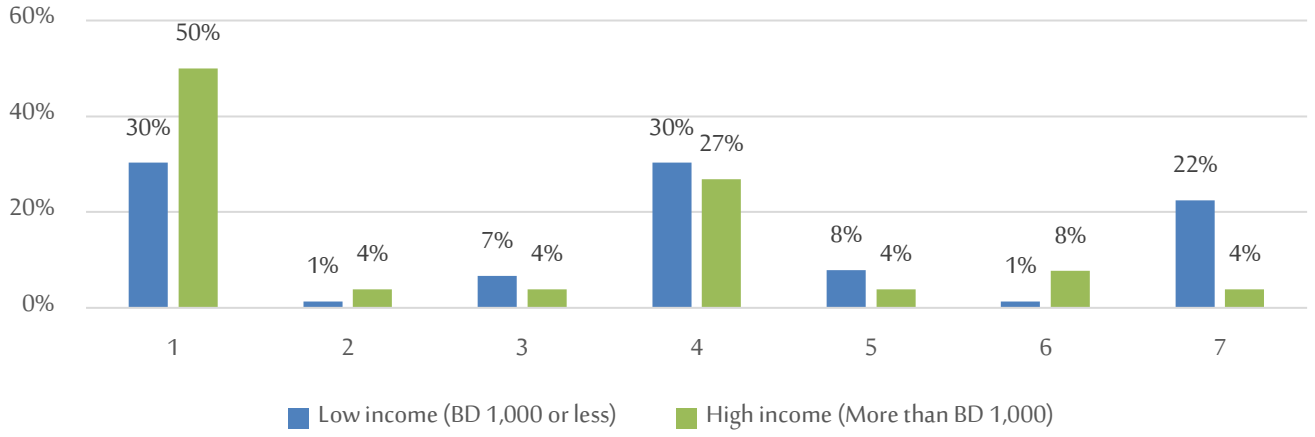
To study the relationship between these two variables and the remaining variables in a graphically transparent manner, we transform each one into a binary form. In the case of debt service, those whose debt service as a percentage of income is 30% of lower are defined as having "low debt service", while those with 40% of more as defined as having "high debt service". In the case of income, the cutoff between "low" and "high" income is BD 1,000.

Figure 3.3.2 shows the relationship between financial strength and the pre-Covid-19 difficulty of repaying debt.

Figure 3.3.2: The relationship between the pre-Covid-19 difficulty of repaying debt (x-axis, Likert scale of 1-to-7) and debt service as a percentage of income (blue vs. green bars)



The relationship between the pre-Covid-19 difficulty of repaying debt (x-axis, Likert scale of 1-to-7) and income (blue vs. green bars)



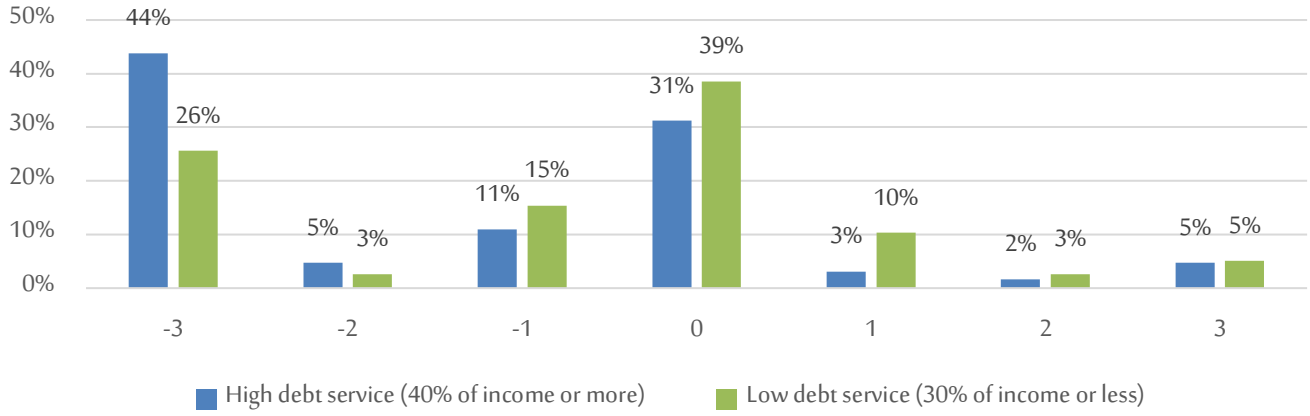
Source: Derasat-UNDP surveys

These data indicate that those with high financial strength (the green bars) are much more likely to report less difficulty in paying their debts pre-pandemic compared to those with low financial strength (blue bars). For example, 28% of people with high debt service described themselves as facing extreme difficulty, versus none of those with low debt service. The corresponding figures for low and high income were 22% and 4%, respectively. These results are unsurprising, and they are likely to be the foundation for the CBB's imposition of loan caps, as they are seeking to prevent debtors from reaching high levels of financial distress that may cause default, especially during economic downturns.

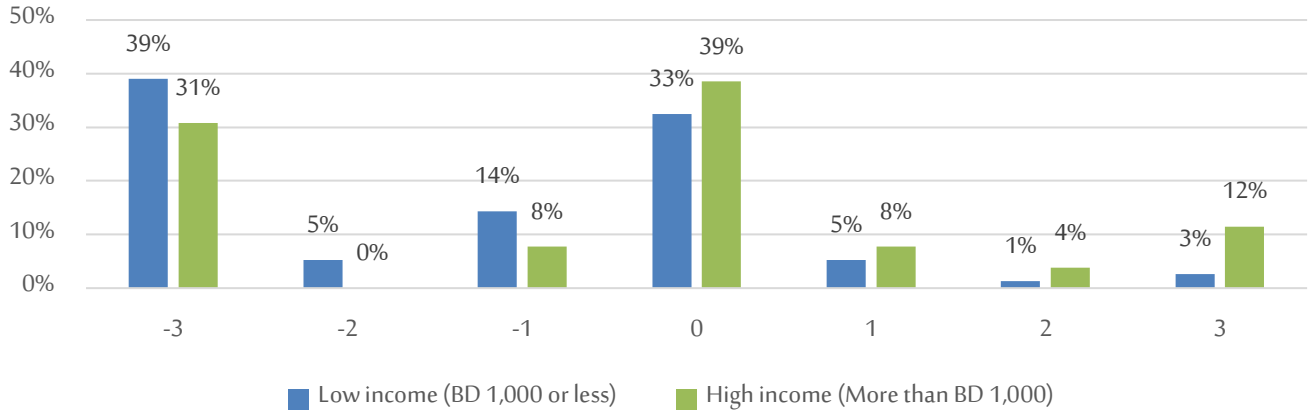
Finding 14: Participants with a high level of financial strength were significantly less likely to report difficulty in servicing their debt prior to the onset of the Covid-19 pandemic than those with a low level of financial strength.

Figure 3.3.3 examines the relationship between financial strength and the effect of the pandemic on optimism regarding repayment ability prior to the CBB's announcement of the first deferral.

Figure 3.3.3: The relationship between the effect of the Covid-19 pandemic on optimism regarding repayment ability (x-axis, Likert scale -3 to +3) and debt service as a percentage of income (blue vs. green bars)



The relationship between the effect of the Covid-19 pandemic on optimism regarding repayment ability (x-axis, Likert scale -3 to +3) and income (blue vs. green bars)



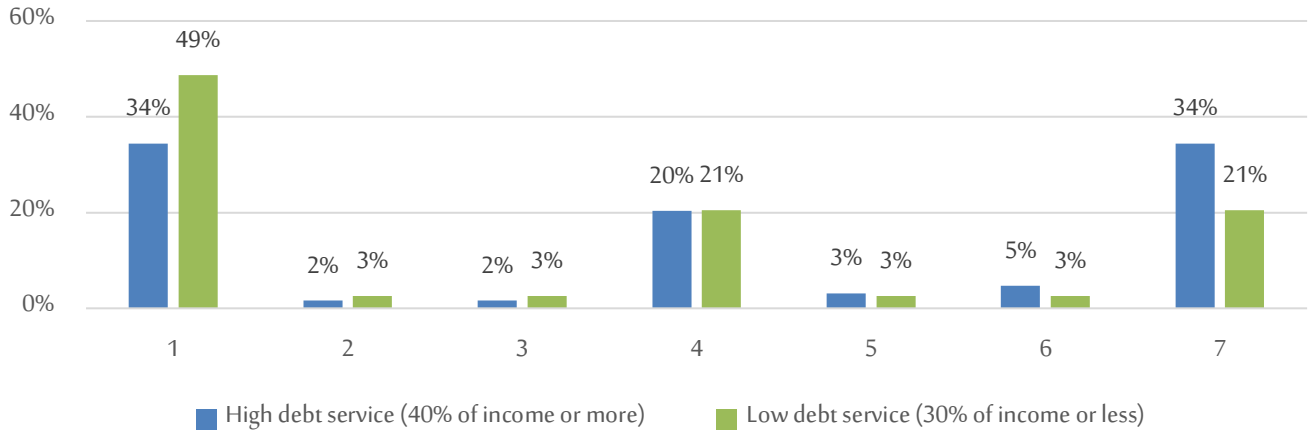
Source: Derasat-UNDP surveys

These data indicate that those with high levels of financial strength were more likely to respond positively to the pandemic than those with low levels of financial strength. For example, 44% of those with high debt service reported extreme pessimism, compared to only 26% of those with low debt service. While the relationships are not as strong as the ones in Figure 3.3.2, they are still substantive.

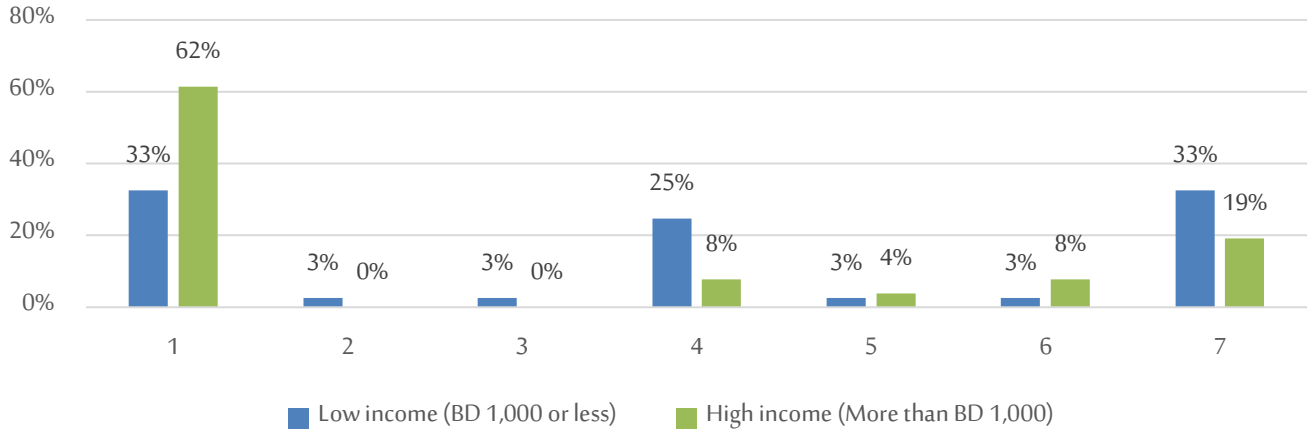
Finding 15: Participants with a high level of financial strength were significantly less likely to report pessimism regarding the ability to repay their loans due to the pandemic, and prior to the March 2020 deferral announcement, than were those with a low level of financial strength.

Figure 3.3.4 examines the relationship between financial strength and how effective the first deferral was in decreasing the likelihood of default.

Figure 3.3.4: The relationship between the effectiveness of the first deferral in decreasing default likelihood (x-axis, Likert scale 1-to-7) and debt service as a percentage of income (blue vs. green bars)



The relationship between the effectiveness of the first deferral in decreasing default likelihood (x-axis, Likert scale 1-to-7) and income (blue vs. green bars)

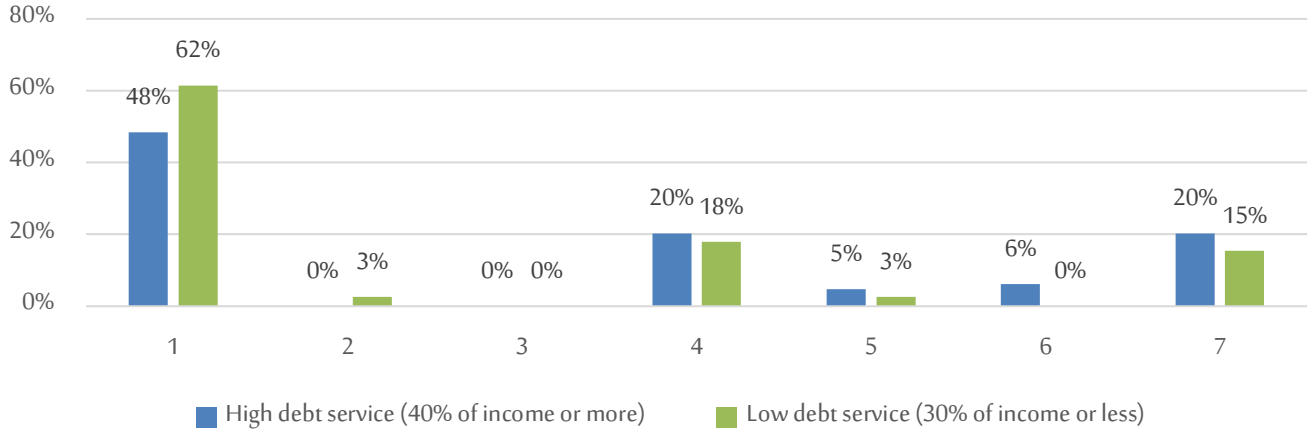


Source: Derasat-UNDP surveys

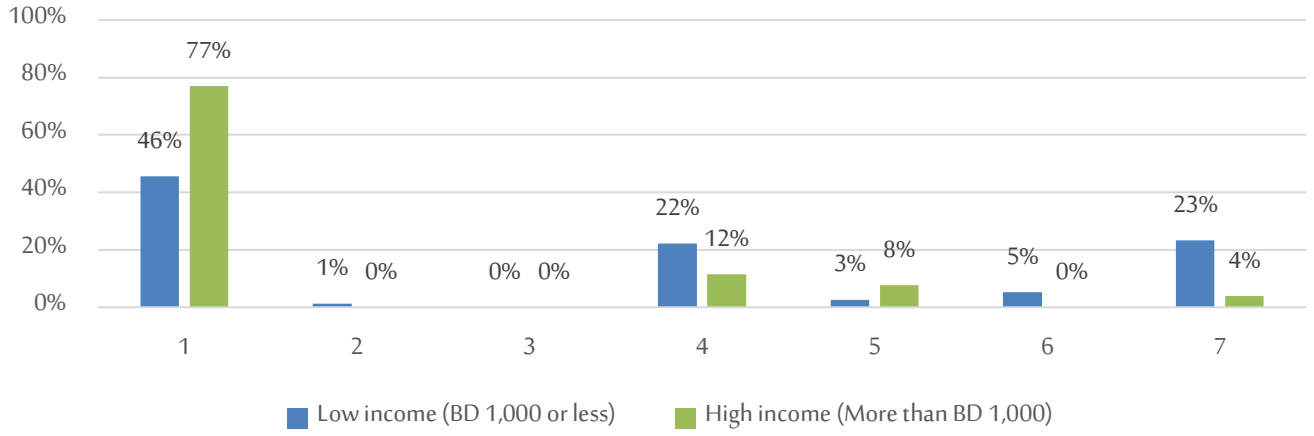
These data indicate that financial strength was negatively related with the first deferral's effectiveness. For example, 33% of those with a low income reported no impact at all, compared to 62% of those with high income.

Finding 16: Participants with a high level of financial strength were significantly less likely to evaluate the March 2020 deferral as decreasing the likelihood of default than were those with a low level of financial strength.

Figure 3.3.5: The relationship between the effectiveness of the second deferral in decreasing default likelihood (x-axis, Likert scale 1-to-7) and debt service as a percentage of income (blue vs. green bars)



The relationship between the effectiveness of the second deferral in decreasing default likelihood (x-axis, Likert scale 1-to-7) and income (blue vs. green bars)

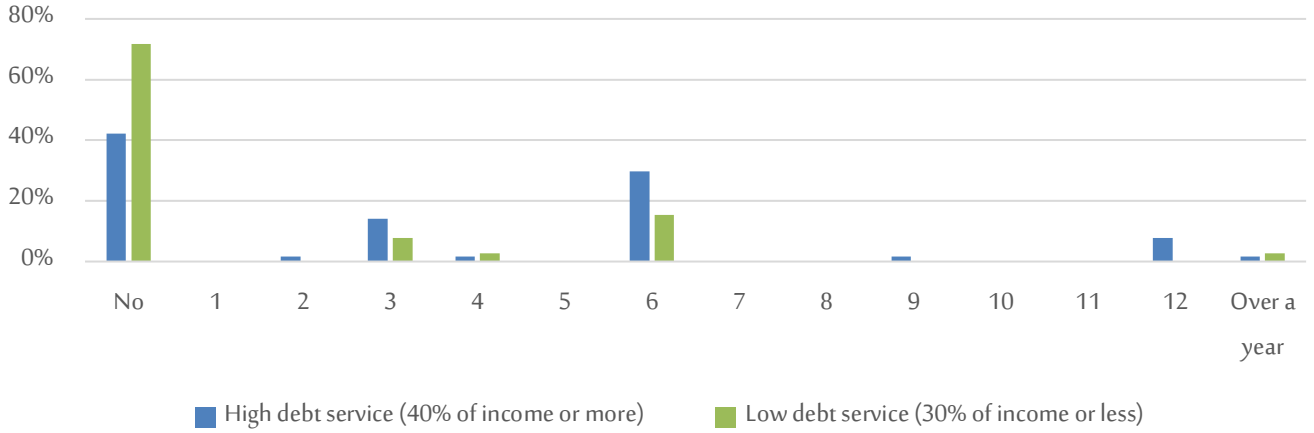


Source: Derasat-UNDP surveys

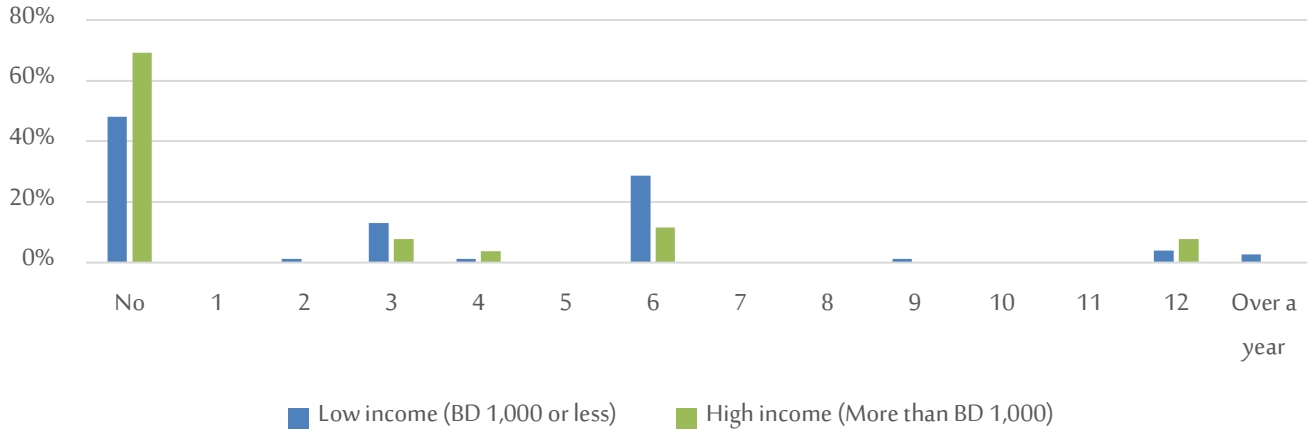
Figure 3.3.5 examines the relationship between financial strength and the effectiveness of the second deferral. These data indicate a similar pattern to those relating to the first deferral. For example, 23% of those with low income reported that the second deferral had a negative effect on the likelihood of default that was very large, compared to only 4% of those with high income.

Finding 17: Participants with a high level of financial strength were significantly less likely to evaluate the September 2020 deferral as decreasing the likelihood of default than were those with a low level of financial strength.

Figure 3.3.6: The relationship between the desire for a third deferral (x-axis, months) and debt service as a percentage of income (blue vs. green bars)



The relationship between the desire for a third deferral (x-axis, months) and income (blue vs. green bars)

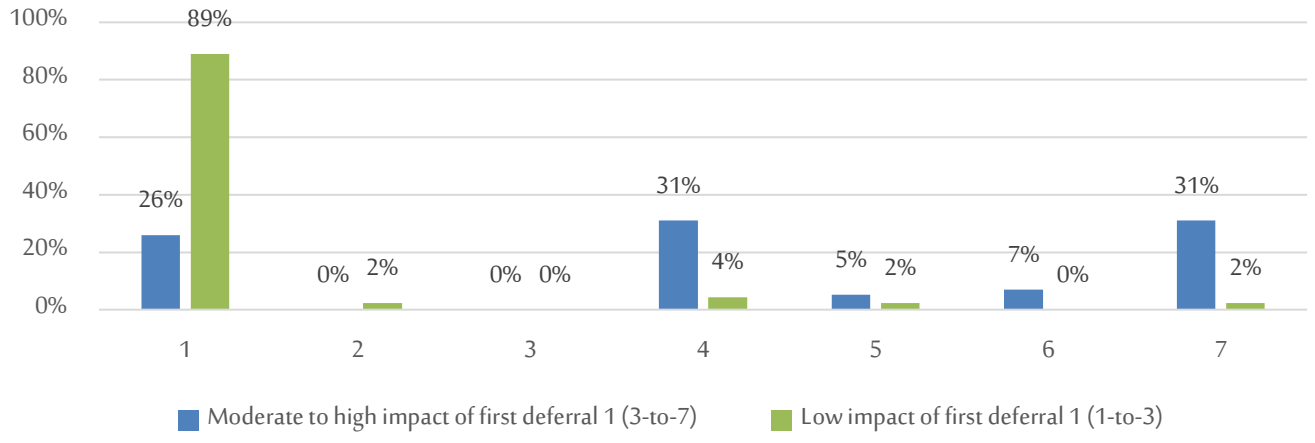


Source: Derasat-UNDP surveys

Figure 3.3.6 examines the relationship between financial strength and the desire for a third deferral. These data continue the pattern from the preceding two figures: higher financial strength is associated with a lower likelihood of requesting further deferrals. For example, 42% of people with high debt service expressed a desire for no further deferrals, compared to 72% of people with low debt service.

Finding 18: Participants with a high level of financial strength were significantly less likely to express a desire for a third deferral than were those with a low level of financial strength.

Figure 3.3.7a: The relationship between the effectiveness of the first (blue vs. green bars) and second deferral (x-axis, Likert scale 1-to-7)



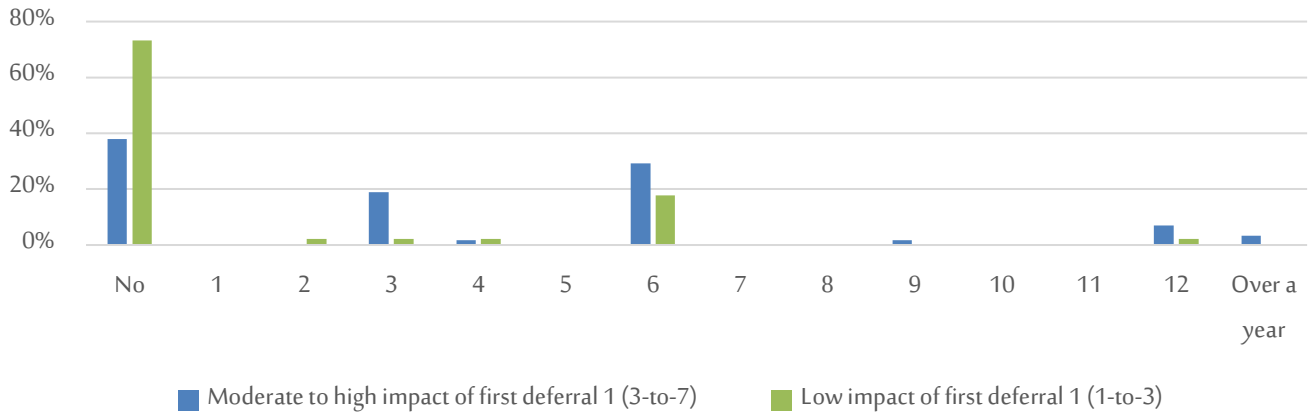
Source: Derasat-UNDP surveys

The final group of relationships that we examine concern the relationships between the effectiveness of the March 2020 deferral, the effectiveness of the September 2020 deferral, and the desire for a third deferral. Figure 3.3.7a examines the relationship between the effectiveness of the first two deferrals.

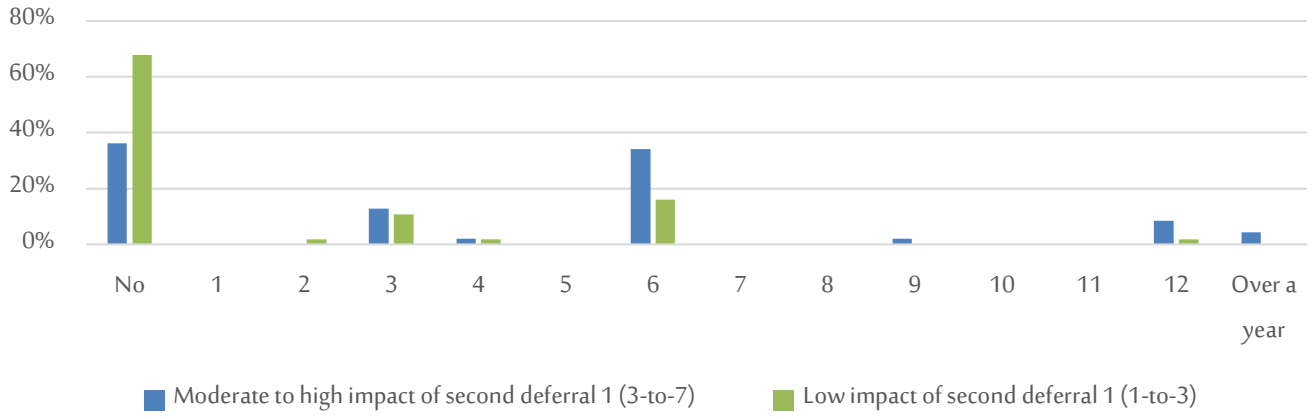
As expected, the relationship is very strong: 89% of those who reported a low impact of the first deferral reported the lowest impact for the second deferral, compared to only 26% of those who reported a moderate to high impact of the first deferral.

Figure 3.3.7b examines the relationship between the effectiveness of the first/second deferral and the desire for a third deferral.

Figure 3.3.7b: The relationship between the desire for a third deferral (x-axis, months) and the effectiveness of the first deferral (blue vs. green bars)



The relationship between the desire for a third deferral (x-axis, months) and the effectiveness of the second deferral (blue vs. green bars)



Source: Derasat-UNDP surveys

These data again indicate a strong relationship. For example, 73% of those who reported a low impact of the first deferral, and 68% of those who reported a low impact of the second deferral, reported a desire for no further deferrals; as compared to 38% and 36%, respectively, of those who reported a moderate to high impact.

Finding 19: Among participants, there was a strong relationship between the effectiveness of the March 2020 deferral, the effectiveness of the September 2020 deferral, and the desired size of the third deferral.

Broadly speaking, the relational findings indicate that financial strength helps us understand who was facing problems prior to the pandemic, the impact of the pandemic on their optimism in overcoming those problems, the effectiveness of both deferrals, and the desire for a third deferral. Finally, we note that years left, income change experienced, and expected future income levels were not found to have a statistically noteworthy relationship with outcome variables such as levels of benefit from deferrals.

4. Summary and Recommendations

The Covid-19 pandemic has caused unprecedented levels of economic damage across the entire world, including the Kingdom of Bahrain. One of the areas where households have faced considerable difficulty is in the repayment of long-term loans, due to the liquidity problems stemming from unemployment, decreased income, and rising expenditures. In light of these challenges, and in an attempt to assist households, the CBB took many macroeconomic and microeconomic measures, including a series of loan deferrals.

This paper examines the impact of the March 2020 and September 2020 loan deferral decisions by the CBB on Bahraini households. The findings are based on a combination of quantitative and qualitative data gathered from 103 participants in a telephone survey. The key findings are as follows.

First, prior to the pandemic, a significant proportion of participants were facing difficulties in settling their debts, and the pandemic exacerbated the difficulties that they were facing.

Second, a very large percentage of participants reacted very positively to the deferral decisions, and a large proportion found them to be effective in decreasing the likelihood of default. The second deferral was less effective than the first, both because of the interest accrued for those taking advantage of it, and because the passage of time had allowed households to better manage their finances in response to the pandemic.

Third, approximately half of the participants still wanted a third deferral, with most of those in favor of one seeking an extension in the range three to six months.

Fourth, the participants' financial strength was a key determinant of the loan-repayment difficulties that participants were facing prior to the pandemic, the effect of the pandemic on their optimism regarding loan repayment, the effectiveness of the first two deferrals, and their desire for a third deferral. This value was measured by the level of their income and the percentage of their income available for spending.

The data indicates that making future forms of support means tested, rather than universal, could be desirable. This is especially important in the case of interest accrual, as a significant proportion of participants found this element to be decisive in determining the usefulness of the first deferral compared to the second. In this regard, variables such as income and debt service as a percentage of income are potentially useful for determining the groups that most merit financial assistance in dealing with the pandemic's challenges.

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Appendix: Full Survey

(The Arabic version of the survey is available upon request)

This survey is about the experience of Bahrainis in paying back loans, and how Covid-19 has affected the process of paying back loans. We will not ask you for any detailed numbers about the level of your income or the level of your debts. The survey takes 15 minutes and all answers are confidential. Would you like to participate? [Yes / No]

Question 1: This survey is for Bahrainis who are 18 years or older, and who have a loan in their name or in the name of their spouse. Do you satisfy these requirements? [Yes / No]

Question 2: Are you currently married? [Yes / No]

[If yes]: The following questions are about the total income of you and your spouse, and about the total of the loans that are in you and your spouse's name. Please only include personal loans, and do not include ones in the name of commercial entities that you own. If you use credit cards, then consider the average monthly amount that you borrow.

[If no]: The following questions are about your income and the loans that are in your name. Please only include personal loans, and do not include ones in the name of commercial entities that you own. If you use credit cards, then consider the average monthly amount that you borrow.

Question 3: In February 2020, before the start of the Covid-19 pandemic, approximately what percentage of your monthly income was used to service the loans that are in your name? [0% / 10% / … / 90% / 100%]

Question 4: In February 2020, before the start of the Covid-19 pandemic, how many years were left until you completed paying the largest outstanding loan in your name? [1 / 2 / … / 24 / 25]

Question 5: In February 2020, before the start of the Covid-19 pandemic, how much difficulty did you face in servicing your loans according to the schedule that you agreed on with the bank? [1 = No difficulty at all / 2 / 3 / 4 = Moderate difficulty / 5 / 6 / 7 = Extreme difficulty]

Information: In the middle of March 2020, the Central Bank of Bahrain instructed all banks to offer Bahraini citizens a sixth month deferral on loans.

Question 6: Once the pandemic had started in early March 2020, and BEFORE the CBB's loan deferral decision, how did the pandemic affect your level of concern about your ability to pay back your loans? [1 = I become a lot more optimistic about my ability to pay back my loans / 2 / 3 / 4 = No effect / 5 / 6 / 7 = I became a lot more pessimistic about my ability to pay back my loans]

Question 7: Please explain your answer. [Open question]

Question 8: When you heard about the CBB's loan deferral decision, how did it make you feel? [Open question]

Question 9: How did the loan deferral decision affect the likelihood that you would have to default on your loan? [1 = No effect at all / 2 / 3 / 4 = A moderate decrease / 5 / 6 / 7 = A very large decrease]

Question 10: If the CBB had not issued the instruction, would you have done any of the following? Please check all that apply. [Used savings to help pay back loans / Refinanced my loans / Obtain new lines of credit / Asked family and friends for financial assistance / Significantly decreased my spending / Seriously considered defaulting / None of the above / Other]

Question 11: At the end of September 2020, compared to the start of February 2020, how has your income changed? [1 = Decreased a lot / 2 / 3 / 4 = No change / 5 / 6 / 7 = Increased a lot]

Information: In September 2020, the CBB issued a new instruction extending the loan deferral program until the end of 2020.

Question 12: When you heard about the CBB's loan deferral decision, how did it make you feel? [Open question]

Question 13: How did the loan deferral decision affect the likelihood that you would have to default on your loan? [1 = No effect at all / 2 / 3 / 4 = A moderate decrease / 5 / 6 / 7 = A very large decrease]

Question 14: If the CBB had not issued the instruction, would you have done any of the following? Please check all that apply. [Used savings to help pay back loans / Refinanced my loans / Obtain new lines of credit / Asked family and friends for financial assistance / Significantly decreased my spending / Seriously considered defaulting / None of the above / Other

Question 15: Once the new deferral expires in January 2021, do you think that you need a new deferral, and if yes, for how many months? [No / 1 month / 2 months / … / 11 months / 12 months / more]

Question 16: Is there any other action that you would like the government to take regarding your outstanding debt, EXCEPT paying them for you? [Open question]

Question 17: What do you expect your level of income will be one year from now compared to now, allowing for the possibility that your job status might change? [1 = A lot lower / 2 / 3 / 4 = Unchanged / 5 / 6 / 7 = A lot higher]

Question 18: Do you have any other comments? [Open question]

Question 19: What is your gender? [Female / Male]

Question 20: What is your age group? [18-27 / 28-37 / 38-47 / 48-57 / 58+]

Question 21: What governorate do you live in? [Capital / Muharraq / Northern / Southern]

Question 22: What is your highest completed education level? [Less than high school / High school / Bachelor's degree / Master's degree / PhD]

Question 23: What is your income range? [Less than 500 / 501-1000 / 1001-1500 / 1501-2000 / 2001-2500 / 2501-3000 / 3000+]