

# COVID-19

## Middle East Updates

Webcast series



# Our focus for today

## Welcome

### **Stephen Anderson**

Strategy and Markets Leader,  
PwC Middle East

## Economic impact and targeting stimulus for the medium to long term

### **Richard Boxshall**

Chief Economist, PwC Middle East

### **Dr Yahya Anouti**

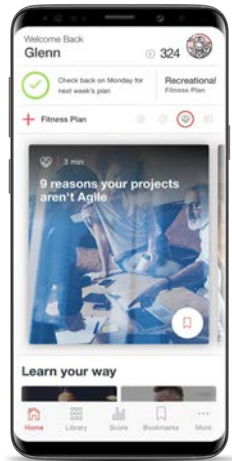
Partner, Strategy & Middle East

### **Dr Sandeep Srivastava**

Partner, FS, PwC Middle East

## Q&A

# COVID-19 checklist and digital resources available



**\*\*New\*\***

## Digital Fitness for the World

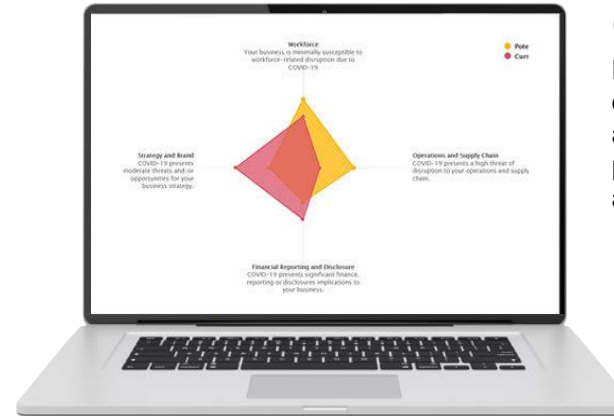
PwC's upskilling contribution to the world in response to COVID-19. Access our free Digital Fitness App available from the Apple App store and Google Play store.

If registering with your personal email, use the invite code 'LRNALL' to access today



## Considerations checklist, prior webcasts and resources

[www.pwc.com/me/covid-19](http://www.pwc.com/me/covid-19)



## COVID-19 - Navigator

Navigator is an online, interactive tool to help organisations better understand where they are on their path toward COVID-19 preparedness and response across six focus areas.

<http://pwc.com/us/covid-19-navigator>



## Digital Trust Manager

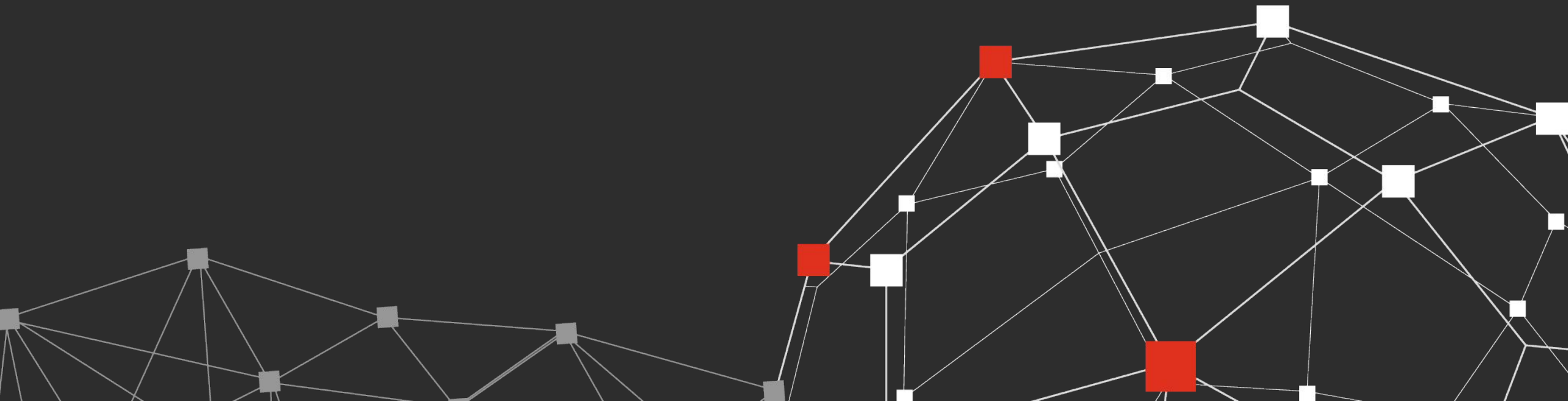
Our COVID-19 response module identifies any gaps in your organisation's pandemic response approach. Available in both English and Arabic, the assessment focuses on business resilience, and provides detailed recommendations on the steps to take to improve your ability to respond and recover.

<https://digitaltrust-me.pwc.com/assess/COVID>

# Governments should consider three areas to contain the crisis and prepare for the recovery

1 Mobilize to test, contain and treat COVID-19		2 Stabilize through economic lifelines	3 Strategize for bounce back
Focus	Public Health	Citizens and residents ..... Businesses ..... Financial Institutions	Government  Spending Policy making and regulations International leadership
	<ul style="list-style-type: none"><li>• Flatten the COVID-19 curve</li><li>• Boost testing and treatment capacity</li><li>• Secure critical medical supplies</li><li>• Nudge to encourage good hygiene and healthy behaviors</li></ul>	<ul style="list-style-type: none"><li>• Strengthen social safety net and income protection</li><li>• Alleviate credit crunch and avoid bankruptcies</li><li>• Ensure market liquidity and relax controls</li></ul>	<ul style="list-style-type: none"><li>• Rethink national visions realisation tactics</li><li>• Re-prioritise plans and budget allocations</li><li>• Strengthen regional and international networks</li></ul>

# Quick poll





# Economic impact and targeting stimulus for the medium to long term

**Dr Yahya Anouti**

Partner - Energy & Utilities  
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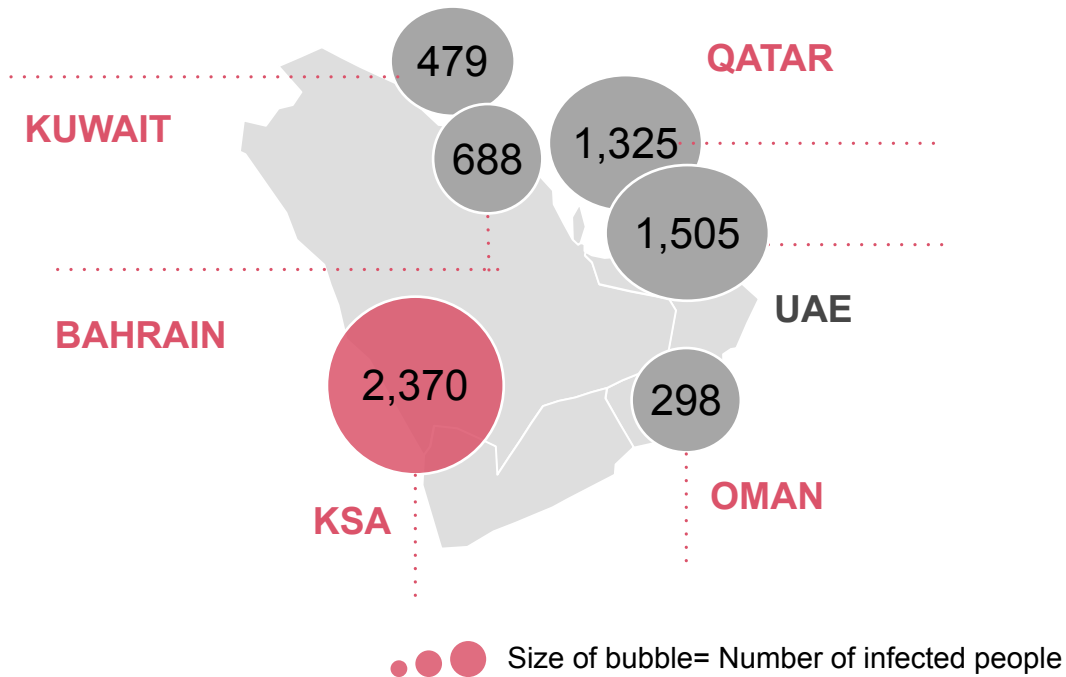
# Navigating the COVID-19 pandemic and oil price drop: A view from the GCC

April 2020

# We face a dual shock: COVID-19 and the oil price cliff



**COVID-19 OUTBREAK IN GCC**  
(as of April 5<sup>th</sup>, 2020)



## Select containment measures



Suspension of  
international  
flights



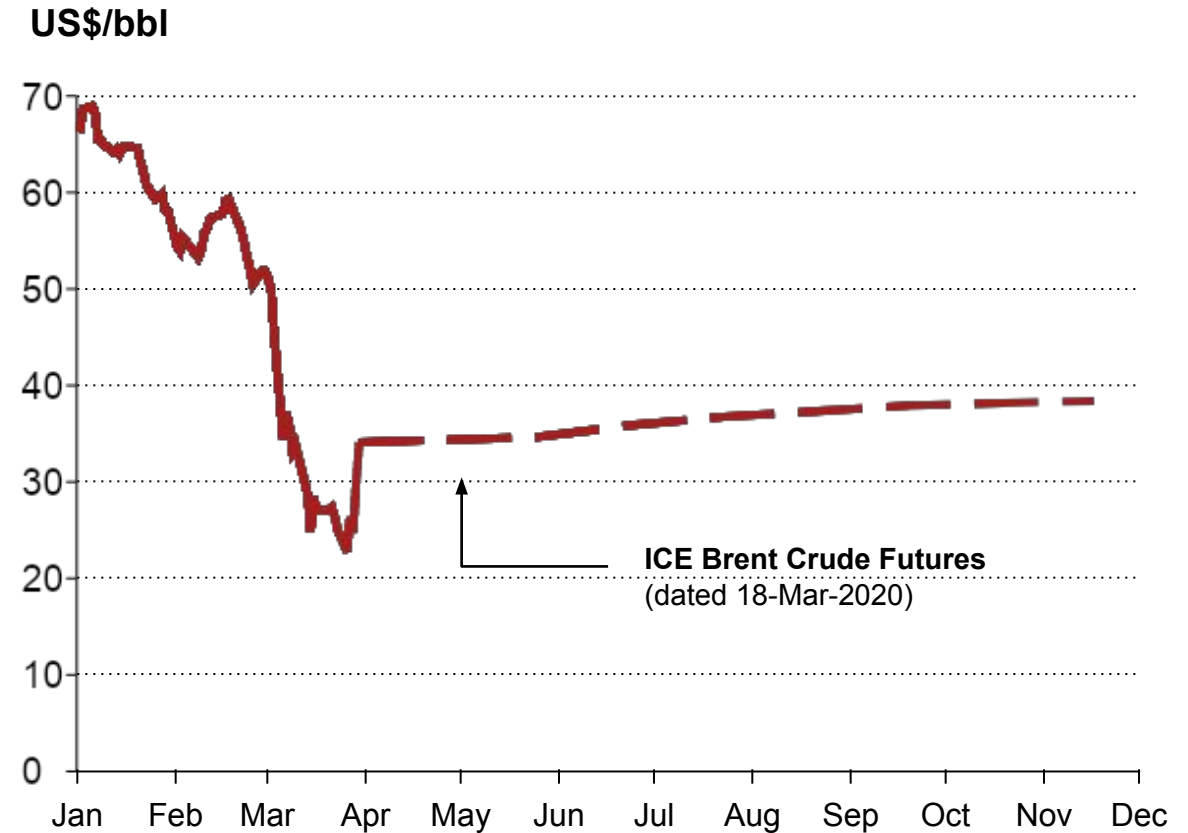
Banned  
public  
gatherings



Closure  
of schools



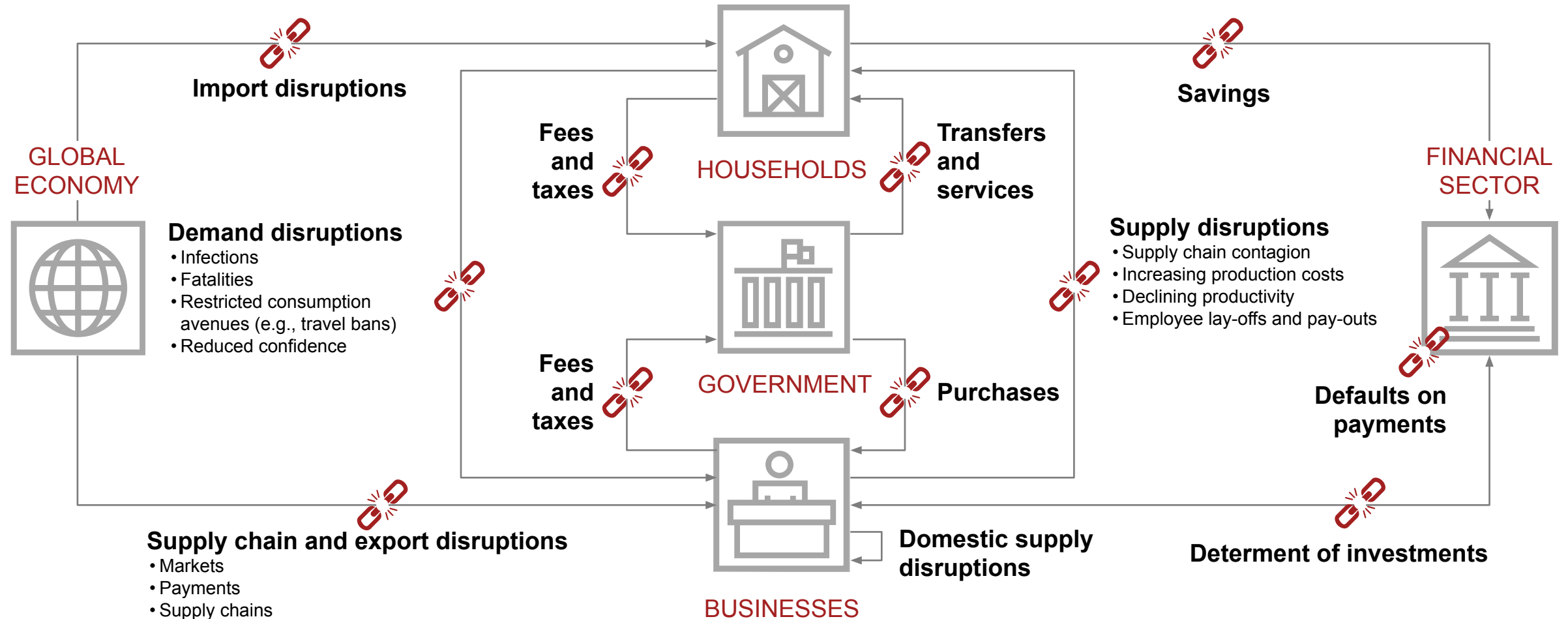
**THE DROP IN OIL PRICES**  
Brent Crude Daily Price (2020)





# The dual shock is severely affecting all parts of the economy and the whole economic cycle

## Knock-on effects



# While stimulus packages are being declared, support must be targeted, conditional, rapid, and provide flexibly

	DEMAND-SIDE SHOCKS		SUPPLY-SIDE SHOCKS		
	Reduced consumer propensity to spend	Reduced government propensity to spend	Erosion of competitive advantage	Supply chain disruptions	Productivity impacts
Air transport	■■■	■■■	■■■	■■■	■■■
Hospitality and entertainment	■■■	■■■	■■■	■■■	■■■
Oil and gas	■■■	■■■	■■■	■■■	■■■
Petrochemicals	■■■	■■■	■■■	■■■	■■■
Manufacture of non-food goods	■■■	■■■	■■■	■■■	■■■
Retail	■■■	■■■	■■■	■■■	■■■
Construction and real estate	■■■	■■■	■■■	■■■	■■■
Banking and finance	■■■	■■■	■■■	■■■	■■■
Food and beverages	■□□	■□□	■□□	■□□	■□□
Manufacturing	■□□	■□□	■□□	■□□	■□□
Mining and metals	■□□	■□□	■□□	■□□	■□□
Professional services	■□□	■□□	■□□	■□□	■□□
Telecommunications	■□□	■□□	■□□	■□□	■□□
Logistics	■□□	■□□	■□□	■□□	■□□
Land transport	■□□	■□□	■□□	■□□	■□□
Agriculture	■□□	■□□	■□□	■□□	■□□
Utilities	■□□	■□□	■□□	■□□	■□□
Consumer staples	■□□	■□□	■□□	■□□	■□□
Healthcare	■□□	■□□	■□□	■□□	■□□
Public administration	■□□	■□□	■□□	■□□	■□□
Education	■□□	■□□	■□□	■□□	■□□

Businesses in these sectors are likely to be **HEAVILY AFFECTED** by the dual shock, with great reductions in demand and disruptions to productivity, input costs, and supply chains

Businesses in these sectors are likely to be **MODERATELY AFFECTED** by the dual shock, with reductions in demand and disruptions to key resources

Businesses in these sectors are likely to be **LIGHTLY AFFECTED** by the dual shock, with limited shock to demand and supply

... ■■■ HIGH ■■■ MODERATE ■□□ LOW □□□ LIMITED EFFECT

# Six sectors need immediate intervention to avoid large and prolonged disruption

## 1 ECONOMIC IMPACT OF THE DUAL CRISIS

Sector's share of GDP

Sector's share of workforce

Persistence of shocks to the sector

## 2 VULNERABILITY TO THE DUAL CRISIS

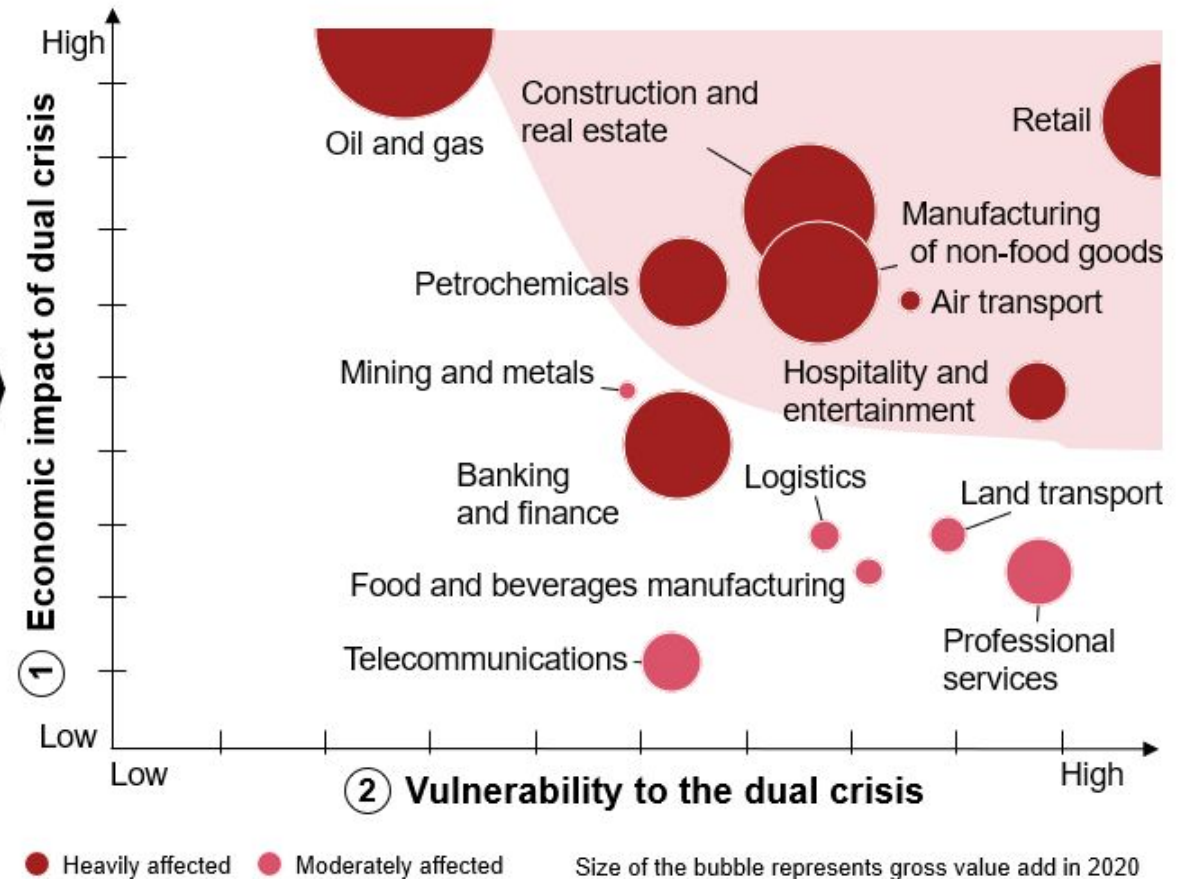
Degree of sector fragmentation and SME participation

Degree of sector innovation and its applications

Degree of business flexibility and adaptability to change




Source: Strategy& analysis

### Assessing the economic impact of, and vulnerability to, the dual crisis







# Yet, support to heavily affected sectors must be targeted, conditional, rapid and imminent

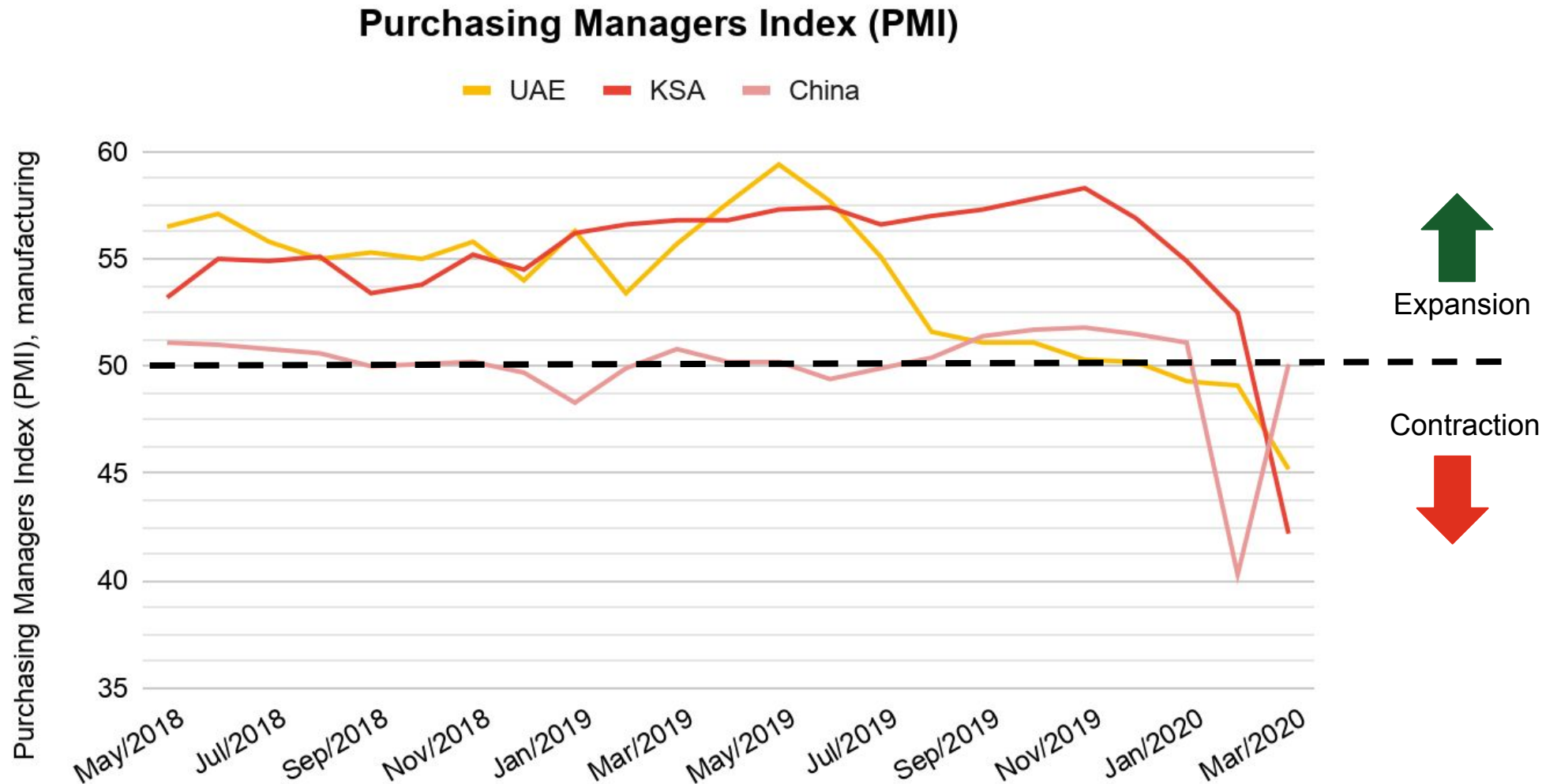
## SHORT-TERM STIMULUS PACKAGE should avoid

-  **Unproductive subsidies** with limited GDP/employment impact
-  **Uncompetitive sectors and traditional business models**, likely to be replaced in the near future
-  Support that will be **difficult to reverse** in the future

## SHORT-TERM STIMULUS PACKAGE should

-  Extend imminent financial lifelines to companies operating in highly **heavily affected sectors**
-  Institutionalise **flexible processes and systems** and streamline procurement to accelerate the mobilisation of demand and resources
-  Bring agility to existing SME, industrial, and rural development funds and authorities to extend **support packages based on recovery plans** submitted by medium and large businesses
-  Offer **business advisory solutions to SMEs** through:
  - General business and **sector specific guidelines** on navigating the crisis (e.g., optimising retail operations under containment measures)
  - **Advisory support to SMEs** around recovery plans
  - **Innovation platforms and services** (e.g., digital solutions)
  - **Trade related updates** and advice

# PMIs provide early indication on the scale of the economic impact



# GCC states have announced further measures but there is more that they can do

		Fiscal Policies							
		Business Support	Direct Transfers to Individuals & Companies	Economic Stimulus Package	Government Opex Spending	Household Support	Service Fee Reductions	Tax Relief	Utility Price Reduction
1	KSA	✓		✓	✓				
2	UAE	✓		✓			✓		✓
3	Bahrain	✓					✓		
4	Kuwait				✓				
5	Oman	✓			✓		✓		
6	Qatar			✓					



# Banking sector is at the forefront of sectors being impacted by COVID 19



## The Challenge

Unpredictable future outlook on a delayed recovery from **COVID 19 impact**

**Interest rate decline** is directly impacting the topline of banks

**Oil price shock** has suddenly impacted the market liquidity



## Downstream Impact

**Balance sheet growth curtailed** due to the current market uncertainty

**Drawdown on committed lines** is a cause of concern both from asset quality & liquidity perspective

**P&L challenges** given that Net Interest Margins have declined sharply

Smaller & mid-size banks are **struggling for liquidity**



## Regulatory Response

**Direct benefits** in different forms to the customers

**Capital relief** for D-SIBs and wider banking community

**Liquidity support** through relaxed reserve requirements and special windows

**Provisioning** related measures under IFRS 9

# Economic stimulus and support packages provided by the central banks in KSA & UAE







## Measures

- SAR 50 billion program announced for:
  - Deferred Payments Program - SAR 30 billion
  - Funding for SME Lending Program - SAR 13.2 billion
  - Loan Guarantee Program (KAFALA) for SMEs - SAR 6 billion
- Postponement of Supervisory Review Visits, ICAAP & implementation of B3 standards
- Clarification on application of IFRS 9
- Direct support measures - Private Sector Job Retention, Private sector unemployed retail clients, waiver/ concessions in minimum balance requirements, refinancing fees, credit card interest rates
- Liquidity - 0% collateralized loans, ↓ reserve requirement for DD, min LCR reset at 70%, min ELAR at 7% - AED 206 billion support
- Capital - Waived off D-SIB buffer, Ability to draw down on 60% of Capital Conservation Buffer, B3 Capital Standards postponed till 31 Mar 2021 - AED 50 billion
- Provisioning - several concessions in line with IASB and Basel Committee guidance
- Direct benefits - ATM withdrawal fee, fund transfer fee waivers etc.

## Impact

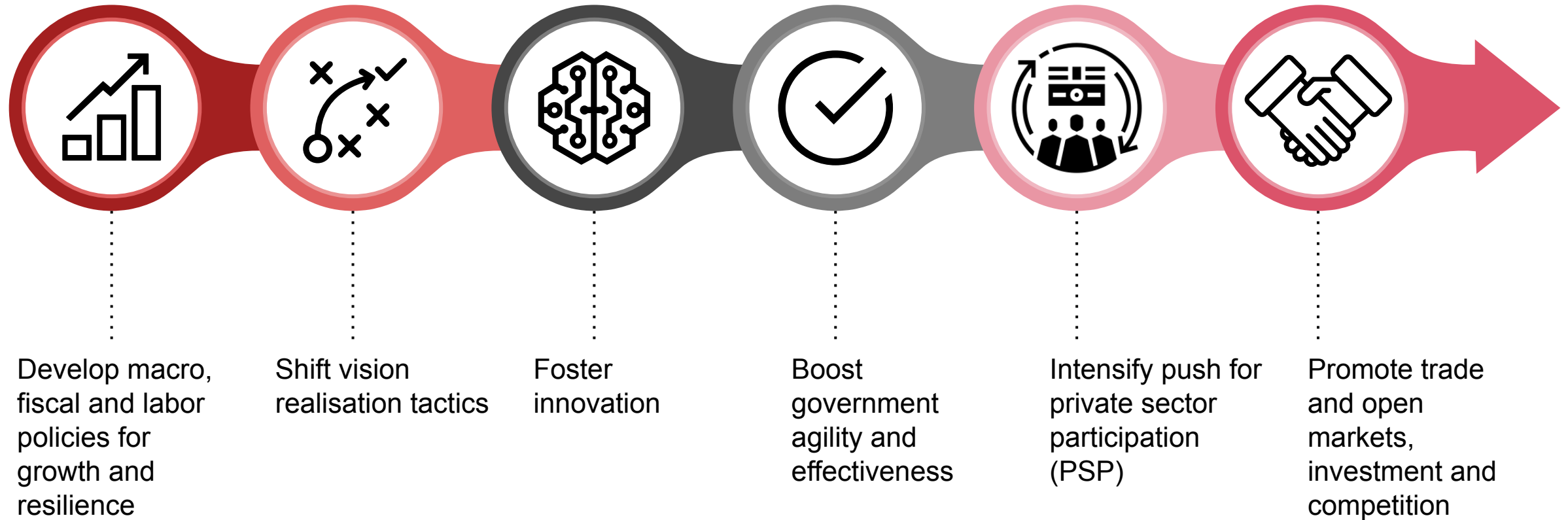
- Easing liquidity - Capital relief - Asset quality considerations - Benefits to private sector and individuals

# ...similar measures have also been adopted by the other GCC countries

				
Measures	<ul style="list-style-type: none"><li>• Capital - CAR reduced by 2.5%, RW reduced for SMEs to 25%</li><li>• Liquidity - LCR and NSFR reduced to 80%</li><li>• Real estate development financing cap increased to 100% from 90%</li><li>• Payment holiday for consumer loans by 6 months</li><li>• Financial reporting and regulatory reporting postponed to Q2</li></ul>	<ul style="list-style-type: none"><li>• Postponed loan installments and obligations of the private sector for 6 months</li><li>• Additional liquidity facilities to banks</li></ul>	<ul style="list-style-type: none"><li>• Liquidity - reduced Cash Reserve ratio from 5% to 3%, concessionary repo arrangements for retail banks, LCR &amp; NSFR reduced to 80%</li><li>• Capital - RW reduced for SMEs to 25%</li><li>• Relaxed provisioning requirements</li><li>• Relaxed LTVs for mortgage for Bahrainis</li><li>• Deferment of loan instalments/ credit card payments for affected borrowers for 6 months</li><li>• First quarterly financial results preparation exempted for banks and listed companies</li></ul>	<ul style="list-style-type: none"><li>• Capital - reduced capital conservation buffer by 50%</li><li>• Lending ratio increased by 5% from 87.5% to 92.5%</li><li>• Deferment of loan instalments/ interest for affected borrowers, especially SMEs</li><li>• Reduced fees for various banking services</li><li>• Across the board reduction in interest rates - repo, government bill discounting etc.</li></ul>

# These targeted measures should also reconcile with medium-term measures for sustainable growth and recovery

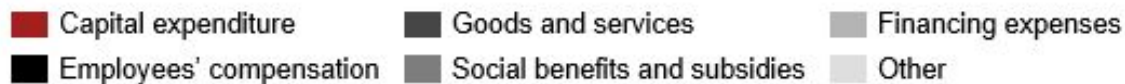
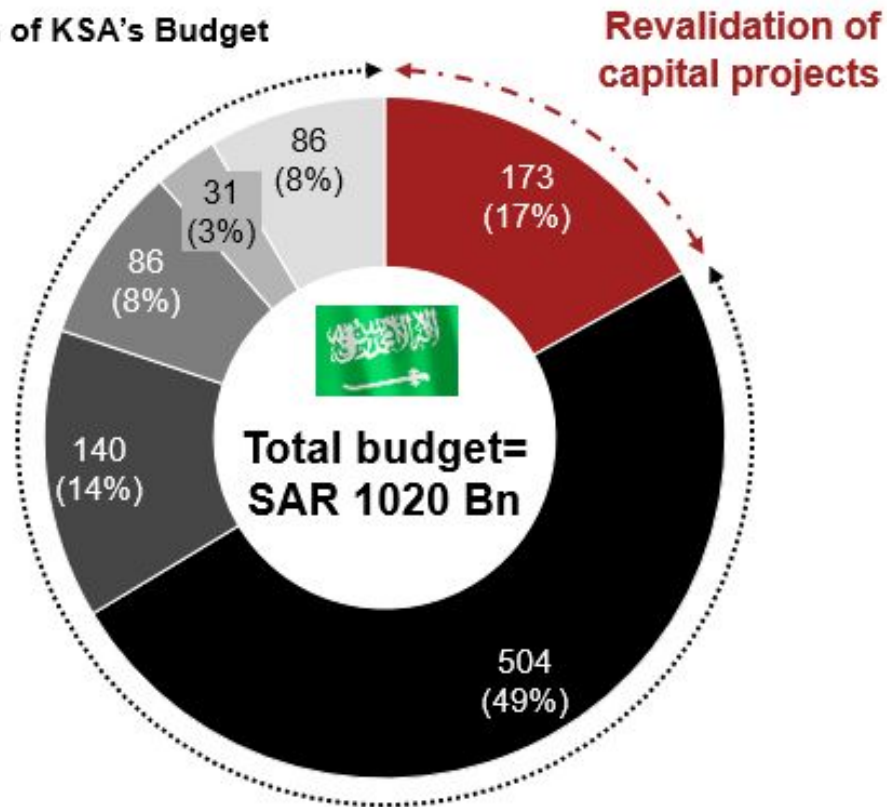
## Catalyze recovery and sustainable growth



# Furthermore, GCC governments need to immediately re-assess their budgets

## Prioritise government spending

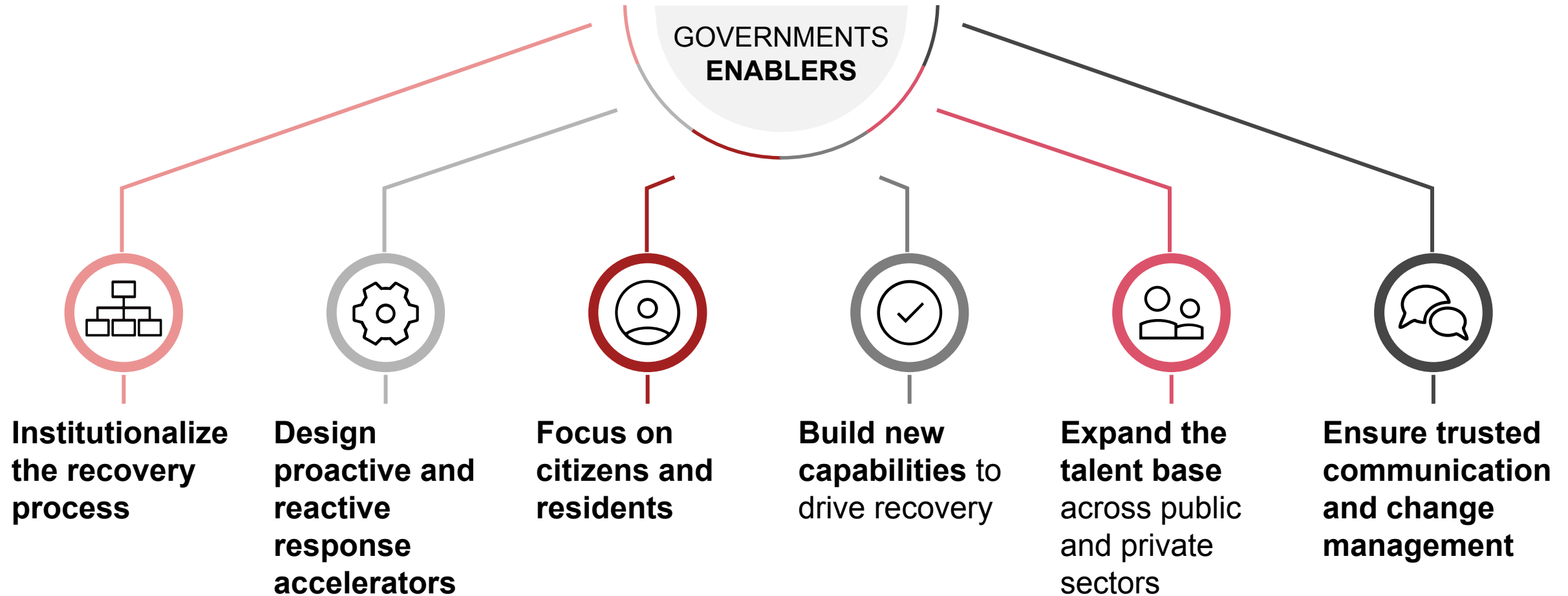
Example: Allocation of KSA's Budget



## Maintain, scale-down or pause/cancel projects based on:

- I PROJECT DEMAND/NEED**
  - Projected changes in citizens' priorities and spending
  - Sector/value chain disruptions
- II PROJECT IMPACT IN POST-CRISIS ECONOMY**
  - Short term impact (economic multiplier effect)
  - Long-term impact (foundational project for future growth, link to sustainable development goals)
- III CRITICALITY OF CONCERNED PROJECT**
  - Project has direct impact on health services provision?
  - Project has direct impact on the provision of social safety nets?
  - Project is part of a priority/vulnerable sector?

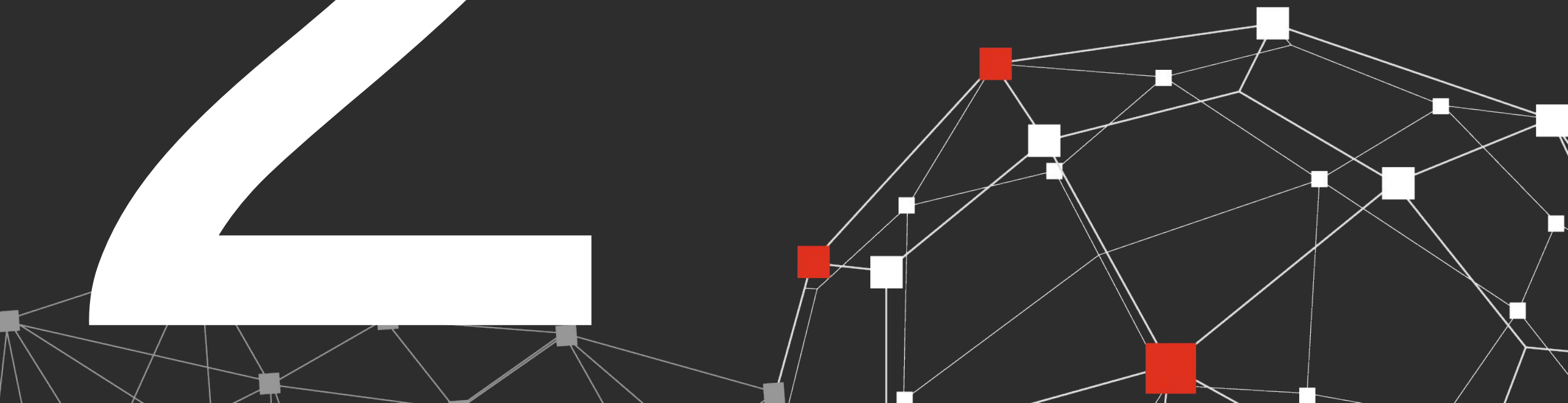
# Governments need the right enablers to deliver targeted and sustainable growth measures





# 2

# Q&A



# Contact us



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# Thank you

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