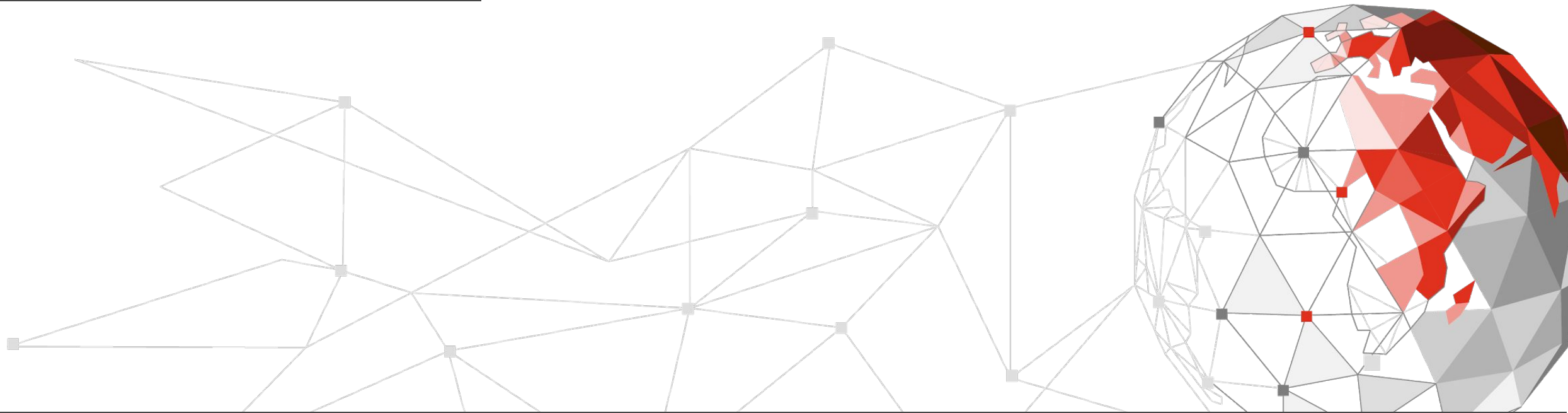


# Transitioning to the new normal

## Middle East Updates



# Our focus for today

## Welcome

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**Stephen Anderson**

Strategy and Markets Leader  
PwC Middle East

## Economic update

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**Richard Boxshall**

Chief Economist  
PwC Middle East

## COVID-19: GCC impact and outlook across economic sectors

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**Jorge Camarate**

Partner  
Strategy & Middle East

## What's next for Tax, VAT and Customs in the GCC?

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**Mark Schofield**

Middle East Tax and Legal Services  
Leader - PwC Middle East

## Q&A

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# COVID-19 checklist and digital resources available



## 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.

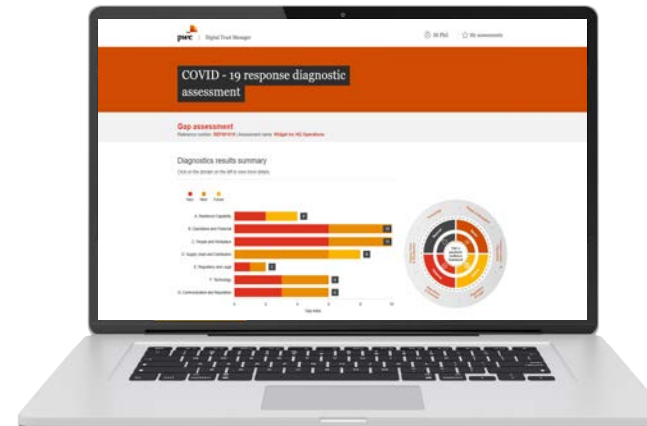
**If registering with your personal email, use invite code (LRNALL) to access today**



## 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>



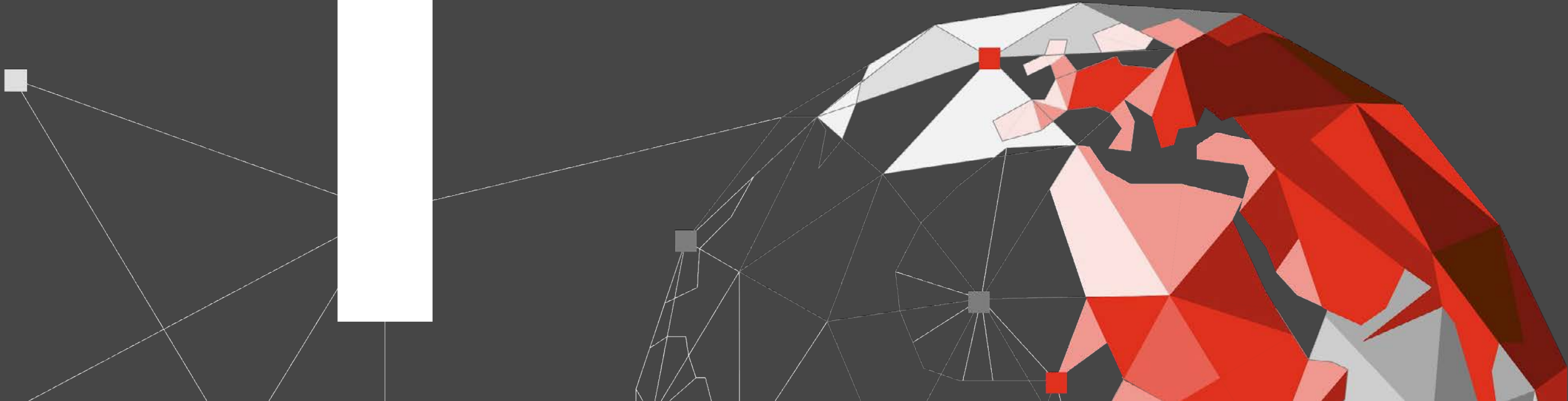
## PwC ME COVID-19 website - prior webcasts and resources

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

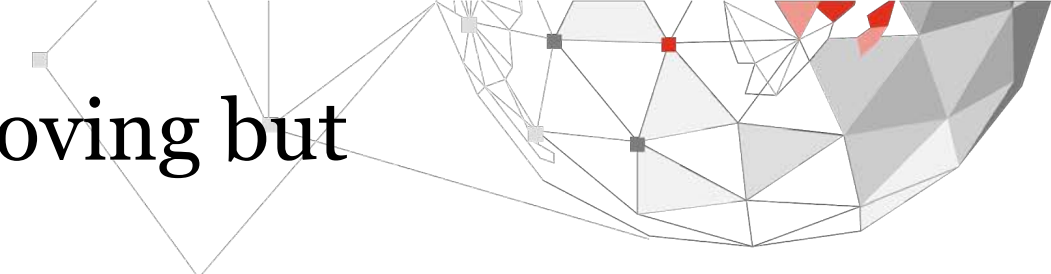


Economic update

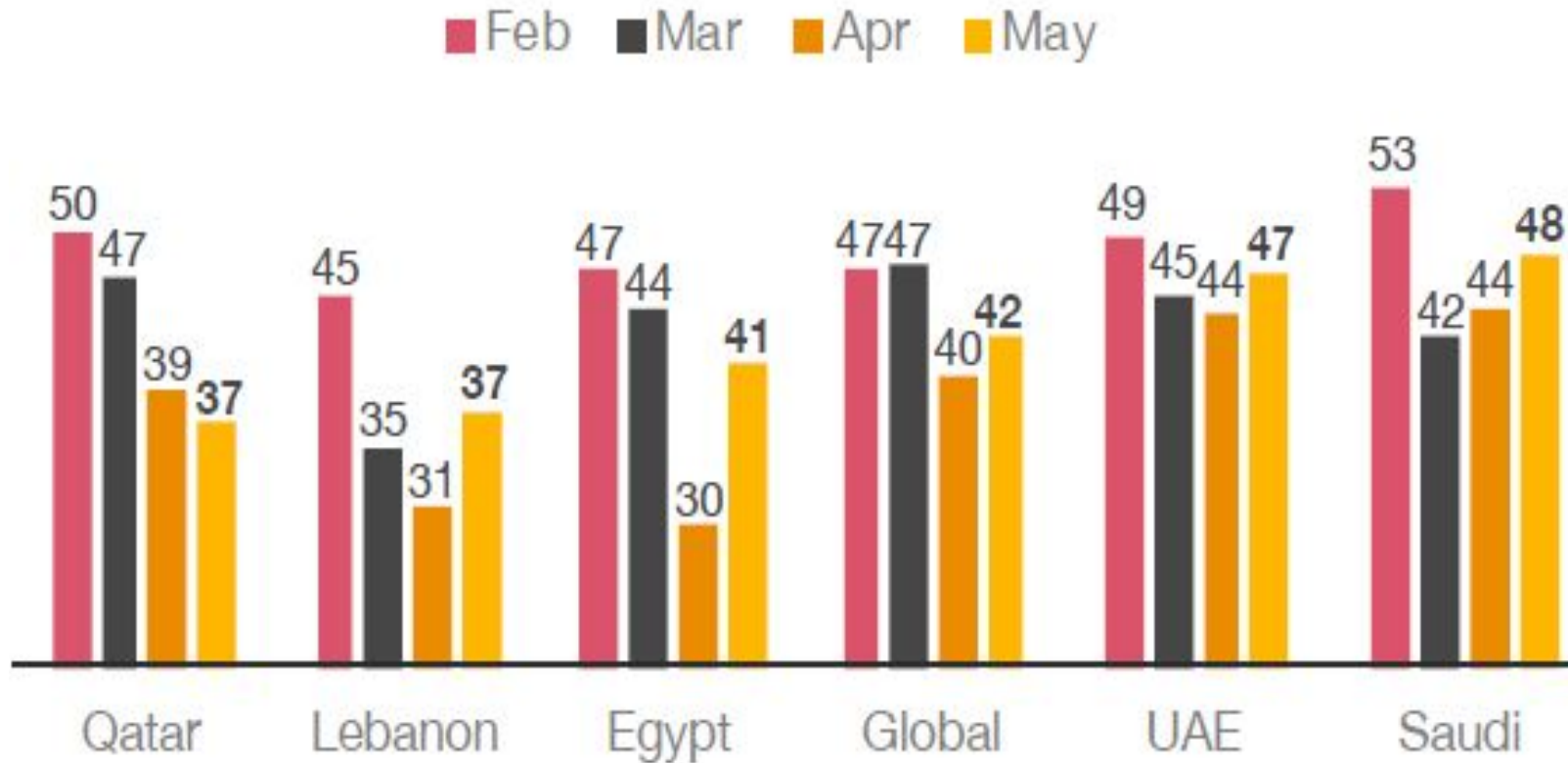
Richard Boxshall



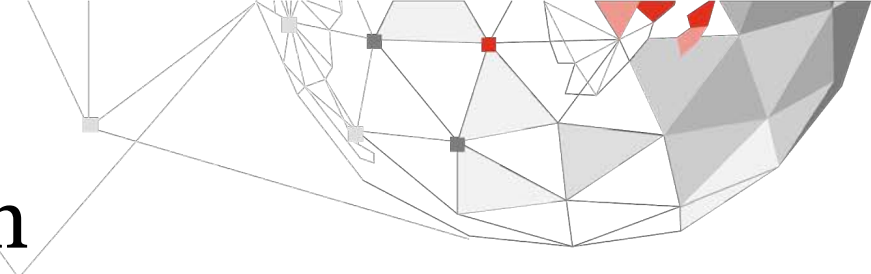
# Economic activity appears to be improving but remains in contraction territory



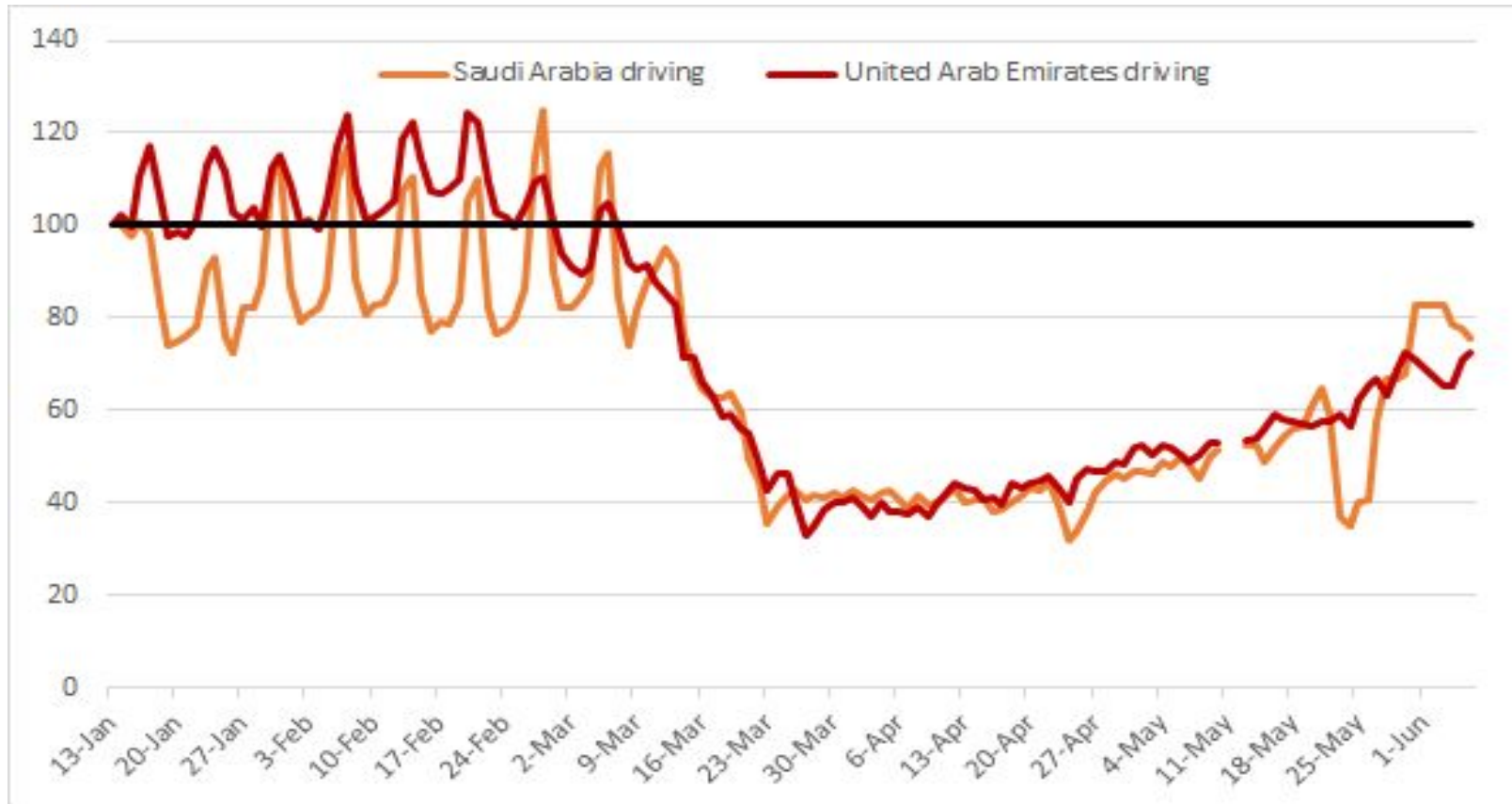
**Purchasing Managers Indices (<50=contraction)**



# Following the lockdown mobility dropped drastically but has started picking up again



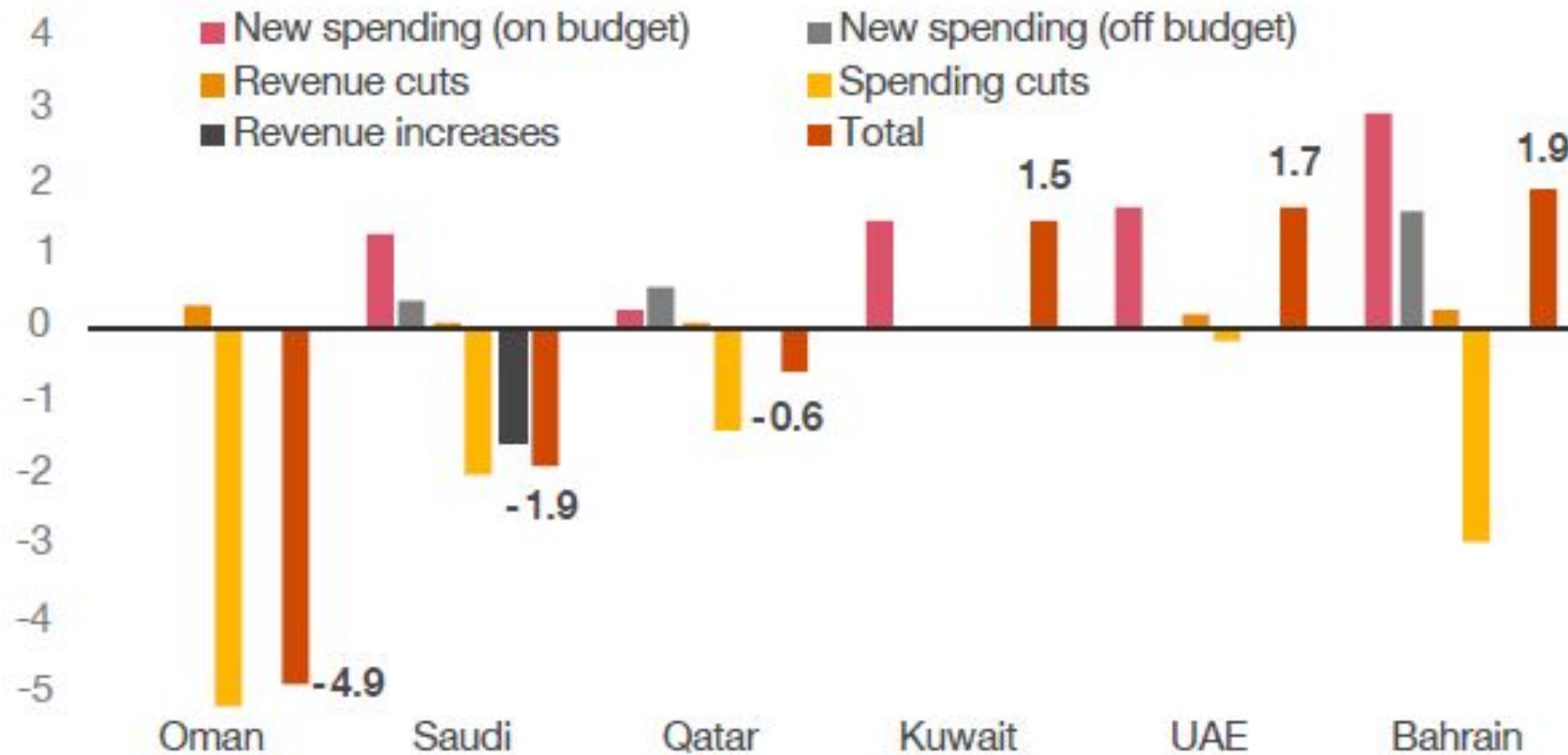
## Apple Mobility Trends (driving)





# Fiscal responses vary from sharp consolidation to modest net stimulus

Fiscal stimulus (+) or consolidation (-) (% GDP)



# Key design principles for effective monitoring and evaluation frameworks



## Reliable & Objective

Guarantees credibility, is free from bias, and includes both the strengths and weakness of the policy



## Relevant & Useful

Measures the extent to which a policy achieves its desired objectives, and the extent to which it was efficiently implemented in terms or resources



## Accurate & Complete

Uses data that is collected from reliable sources, is complete and accurate, and is produced in a timely manner. Data collection may be through interviews, surveys, analysis, observations



## Systematic & Sustainable

Incorporates regular evaluation cycles for quality results, and can be performed frequently to assess the policy's effectiveness



## Transparent & Structured Reporting

Presents results in a clear and understandable form, and are made available to relevant stakeholders



## Stakeholders Involvement

Ensures efficient and effective stakeholder engagement throughout the evaluation process to analyse the findings, identify risks and issues and incorporate lessons learned to improve future policies





# COVID-19: GCC impact and outlook across economic sectors

**Jorge Camarate**

strategy&



# COVID-19: GCC impact and outlook across economic sectors

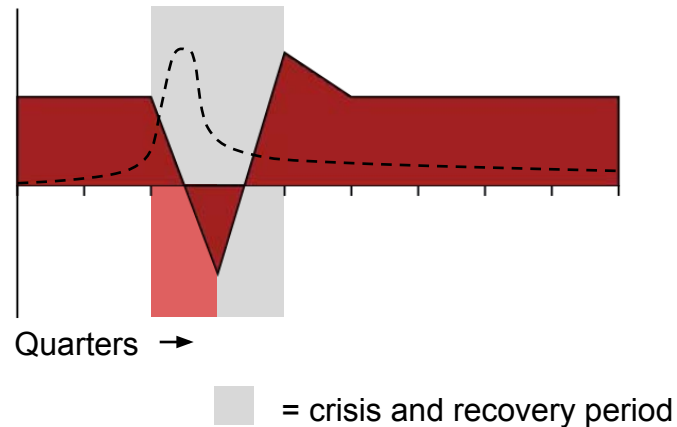
June 2020

# We assessed the impact of COVID-19 under three different macroeconomic scenarios - V, U and L

## Scenario overview

### V-scenario

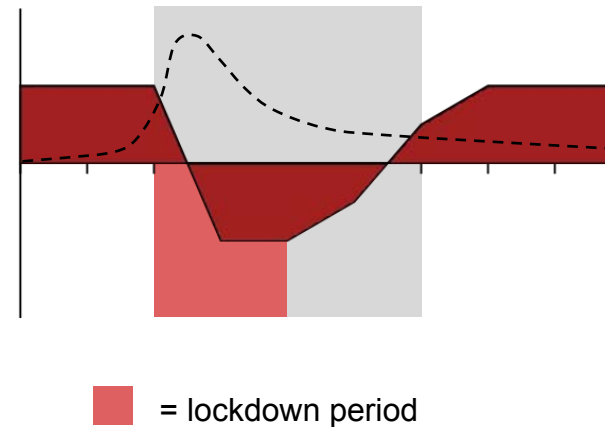
GDP change (quarterly)



- **Lockdown** period limited to **1-2 months**
- **Shock impact** on the economy as a whole, followed by **swift and complete recovery**
- Full-year **growth reduction limited to one year**
- **Postponement** of investment and consumption **rather than cancellation**

**Mild**

### U-scenario

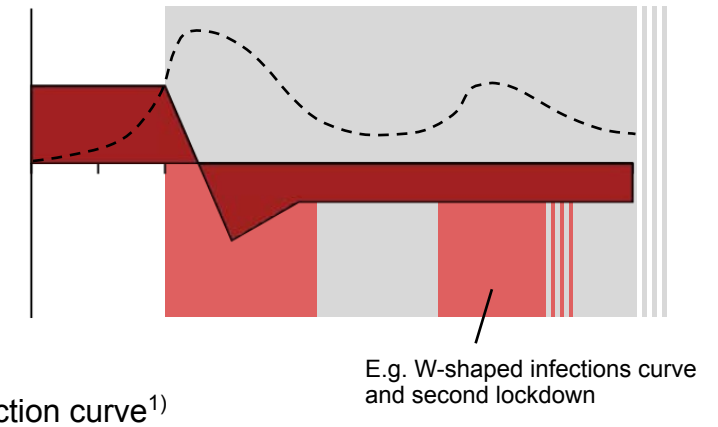


- **Lockdown** period for up to **2-3 months**
- **Sustained recession**, return to previous GDP level over several quarters
- Overall **growth** of at **least two full years affected**
- Postponement and, in part, **sustained restriction of investment and consumption**

**Severe**

### Most likely scenarios for GCC region

### L-scenario











- **Lockdown** period until the **end of August**
- **Drastic impact** on economy and **prolonged recession**, threats to monetary / financial system
- **Return** to the level of total output before COVID-19 **not foreseeable**
- **Deep restrictions** on investment / consumption

**Drastic**

1) Total number of active COVID-19 cases, i.e. after cures  
Source: Strategy& analysis

# Current analyst consensus suggests that GDP contraction in the GCC between 2020-2021 will be less severe than in EU, US

## Scenario parametrization (GDP focus)

		Actual	Base (no COVID-19)		V-scenario (mild)		U-scenario (severe)		L-scenario (drastic)	
		2019	2020	2021	2020	2021	2020	2021	2020	2021
 <b>GCC<sup>1)</sup></b>	<b>GDP Growth (%)</b>	0.7	2.2	2.2	-1.7	2.5	-3.8	0.5	-5.1	-0.8
 <b>Kuwait</b>	<b>GDP Growth (%)</b>	0.6	3.0	2.6	-1.1	2.9	-3.6	0.3	-4.9	-1.0
 <b>KSA</b>	<b>GDP Growth (%)</b>	0.5	1.8	1.7	-1.7	1.9	-3.8	0.6	-5.1	-0.6
 <b>UAE</b>	<b>GDP Growth (%)</b>	1.3	2.5	2.7	-2.2	3.0	-4.5	0.3	-5.7	-1.0
 <b>Qatar</b>	<b>GDP Growth (%)</b>	0.3	2.7	3.0	-1.2	3.3	-2.4	0.4	-4.2	-0.9
 <b>EU<sup>2)</sup></b>	<b>GDP Growth (%)</b>	1.2	1.0	1.3	-6.5	6.9	-8.6	4.7	-11.7	1.5
 <b>USA</b>	<b>GDP Growth (%)</b>	2.0	1.7	1.8	-4.2	1.5	-5.4	0.4	-6.7	0.1
 <b>Oil price</b>	<b>Brent (USD)</b>	64	65	66	45	54	45	54	38	46

## Sources (extract)

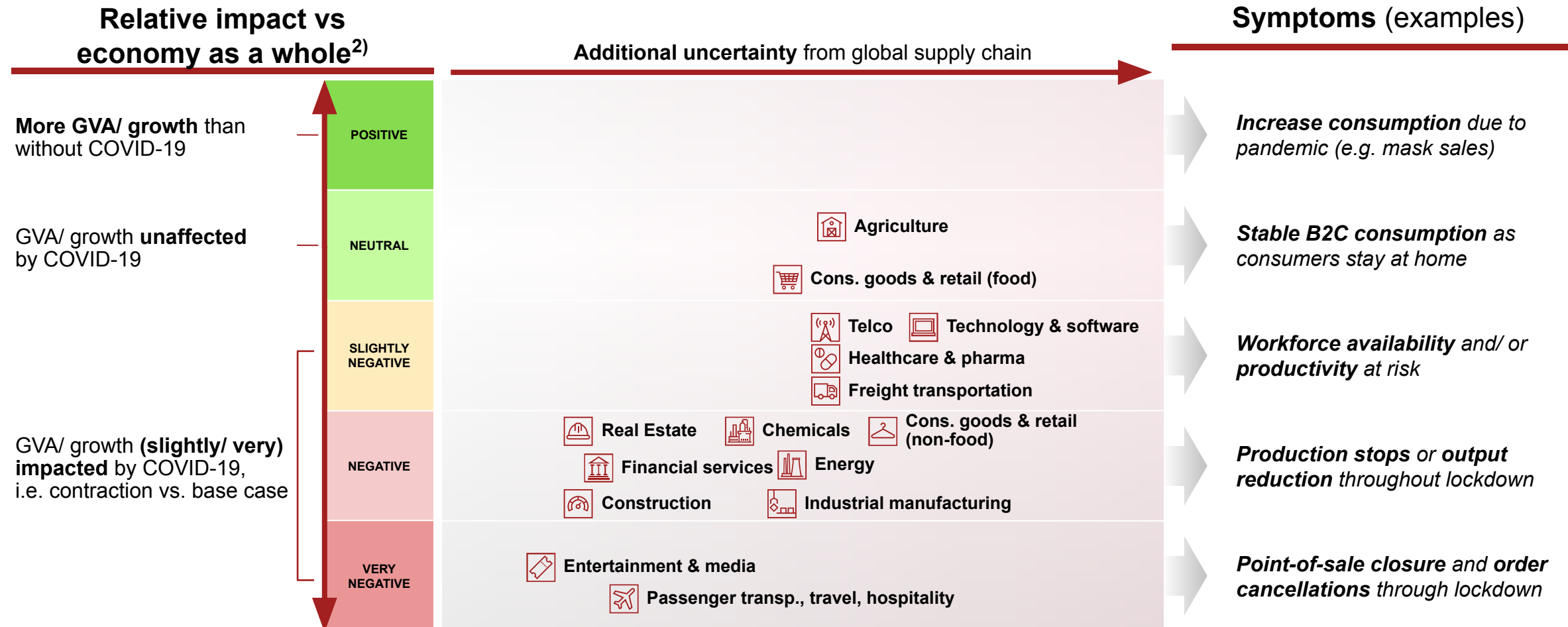


**Further Parameters:** Unemployment rate, Consumer Price Index, USD Exchange Rate, Long-Term Bond Yields, National Stock Index, Gold Price

1) GCC is represented by Kuwait, KSA, UAE and Qatar 2) EU is represented by AT, BE, DE, DK, ES, FI, FR, IT, NL, PT, SK  
**Source:** Consensus view of multiple third-party sources

# Not all industries will be equally impacted – we expect major impacts on entertainment, media, travel and hospitality

## Projected impact on industries across GCC



1) GCC is represented by Kuwait, KSA, UAE and Qatar; 2) Overall impact is mode of impact values for country; in instances of equal split, the industry is ascribed to the category with higher GDP

GVA = Gross value added, i.e. an industry's contribution to the GDP

Source: Strategy& analysis

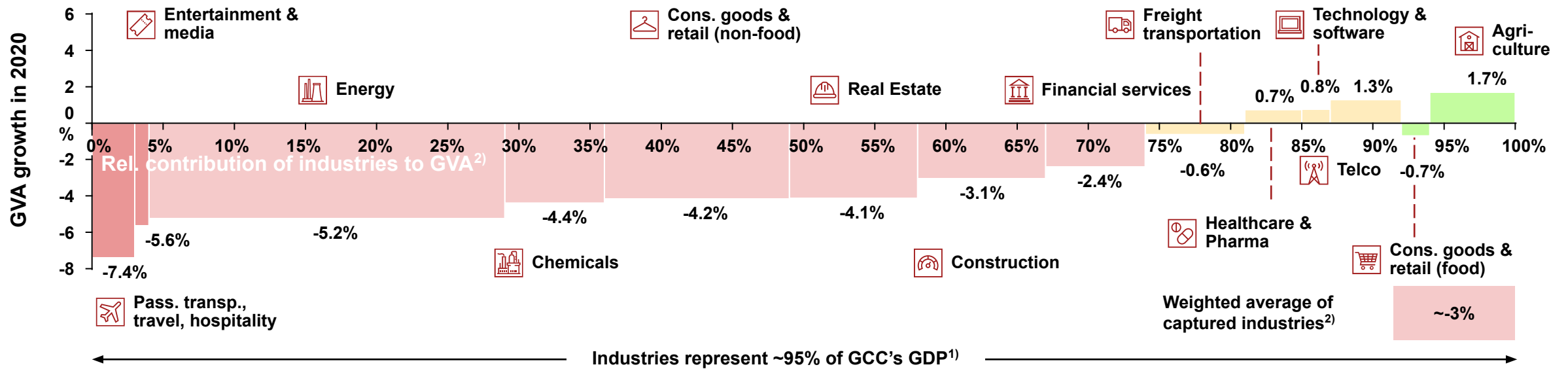
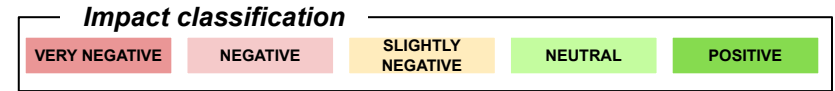


# We see major impacts on key industries for the GCC economy such as Energy, Retail, Real Estate and Construction

Projected GVA growth in 2020 based on U-scenario



GVA growth in 2020 vs. relative contribution of each industry to total GVA



- Severe economic impact on large scale contributors like **Chemicals, Energy, Cons. goods & retail (non-food)**
- **Consumer goods & retail (food), agriculture, technology & software and telecommunication** as significant contributors in the neutral / positive spectrum

1) Extrapolation on basis of covered segment

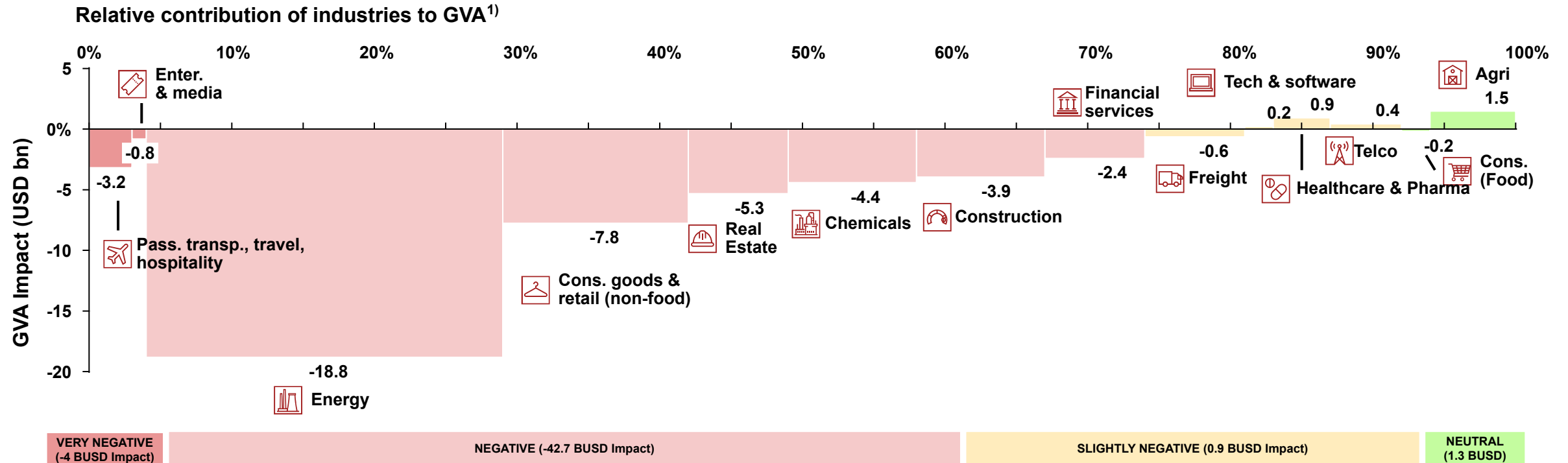
2) Weighted average of GVA-development of not covered sectors (public sector, defense...) is ~-12%; 3) GCC is represented by Kuwait, KSA, UAE and Qatar

Source: Strategy& analysis, IHS Markit



# This negative GVA growth across different industries translates to an estimated USD 44 bn contraction in GCC's 2020 GDP

Impact on GVA by industry in 2020 based on U-scenario (USD bn)



- Total contraction of circa USD 44.4 bn in overall GDP of GCC region
- Major GVA impact contraction from 3 main industries: Energy, Retail Construction (~ USD 32 bn)
- Marginal positive contribution (~ USD 4.5 bn) to overall GDP from industries with positive GVA impact (i.e. Food Retail, Technology & Software, Healthcare & Pharma and Telecommunication)

# Our analyses suggest some important takeaways for GCC policymakers

## Key takeaways for GCC policymakers

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- Need to **redouble ongoing effort to develop sectors** that generate net value for the economy, have high growth potential, foster innovation, and are resilient to energy price and hazard shocks - e.g.
  - Healthcare
  - Technology, and telecommunications
  - Clean energy sectors such as green hydrogen, energy storage, and power generation through renewable sources like wind and solar
- **Reduce, or eliminate, structural barriers to innovation**, develop local capabilities, and invest in R&D, among other long-term enablers

## Potential innovation enabling initiatives

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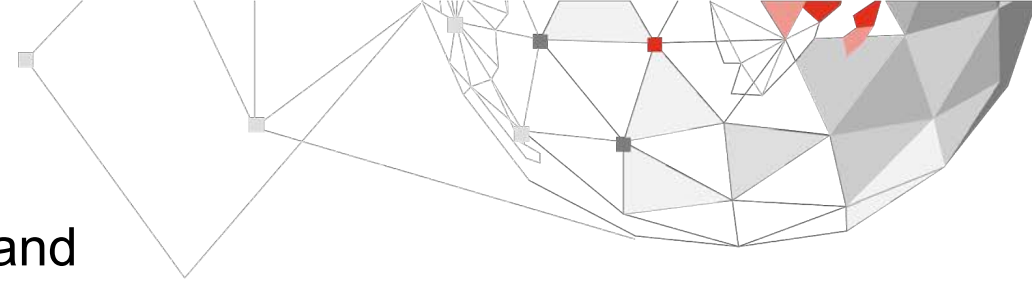
- Build **high-quality infrastructure** in growth areas such as renewable energy and digital infrastructure
- Promote **competition** in the delivery of services to businesses and consumers
- **Reduce regulatory barriers** to the adoption of foundational technology such as drones, artificial intelligence, and advanced analytics
- **Attract the right global talent**
- **Invest in education**, with a particular focus on science, technology, engineering, and math
- Encourage the participation of the **private sector** – e.g. PE / other financial investors, corporate R&D functions, alliances with universities

# What's next for Tax, VAT and Customs in the GCC?

**Mark Schofield**



# Middle East landscape



What are the reasons for the economic and financial impact and how has this been addressed?

## Factors



COVID-19  
economic impact

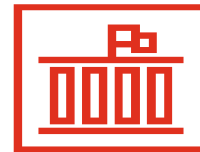


Declining oil  
prices

## Impact



Fiscal stimulus  
packages  
introduced

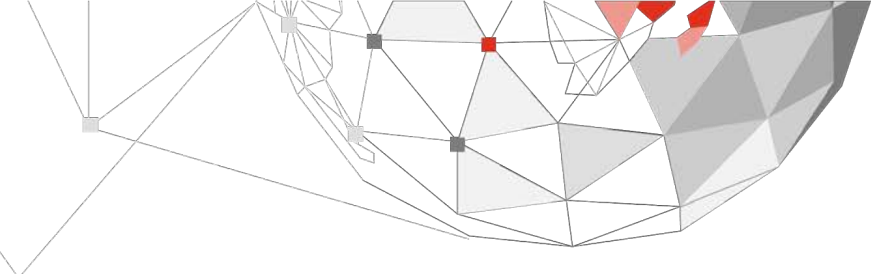


Tax measures to  
reduce immediate  
cash pressures



Extensions on  
tax compliance  
obligations

# Key tax measures taken across the region



## Lebanon

- On 25 March, the Minister of Finance announced a **suspension of the filing, payment and other related administrative processes** with respect to all taxes until further notice

## Oman

- Since 6 May, the Customs clearance offices in **Al Wajajah border post** has been closed and **importers, exporters and customs brokers** have been encouraged to use the new **Bayan system** for remote customs clearance

## Qatar

- Certain **customs exemptions for food and medical supplies** has been announced

## Egypt

- Various tax related measures introduced such as the **postponement of property tax payments and reductions in stamp duty and dividend withholding tax**

## UAE

- A stimulus package released by the Dubai Government includes a **20% customs duties refund** paid on imported goods that are sold locally and a **cancellation of the bank guarantee** required to clear goods

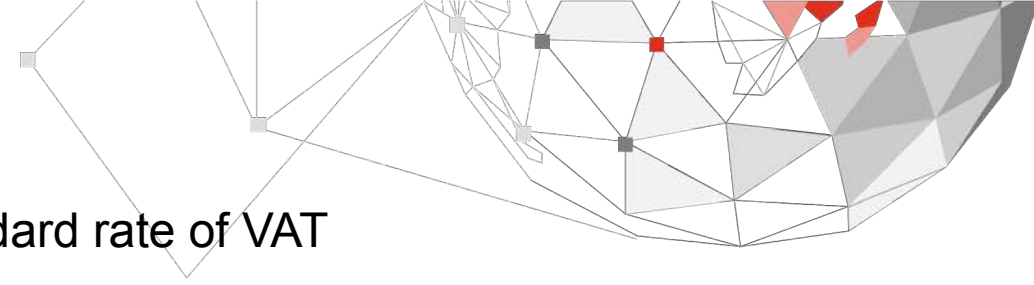
## KSA

- **Extensions in the filing and payment** of zakat, CIT, VAT and excise tax
- From 10 June, an **increase in the customs duty rates** for more than 2,000 Tariff Lines
- From 1 July, an **increase in the VAT rate from 5% to 15%**



# KSA: VAT rate increase

On 11 May 2020, the Saudi Government announced that the standard rate of VAT will increase from 5% to 15% effective 1 July 2020



## What does a VAT rate increase mean?



### Higher VAT rate

Businesses to charge a higher VAT rate on their standard rated supplies that could impact consumer demand for goods and services



### Immediate changes required

Change in systems, pricing, documentation, operations and business processes to adapt to the new VAT rate



### Compliance

Immediate attention on transitional provisions and compliance requirements and an increase in non-compliance risks and exposure to penalties proportional to the VAT rate hike



### Cash management

Greater focus on cash management as the VAT that will be paid by businesses on purchases and imports will now be higher

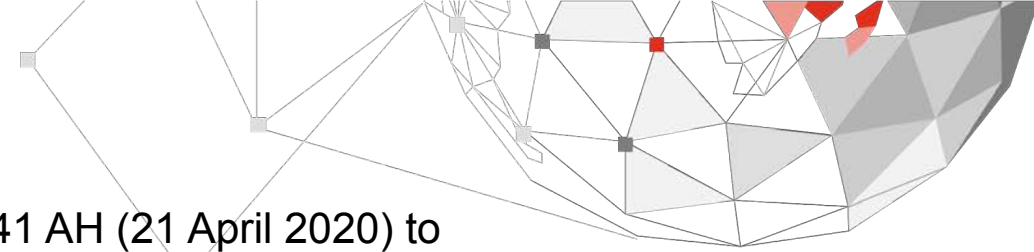
Reduced VAT recovery for exempt and partially exempt businesses resulting in an increased VAT cost







# KSA: Customs duty increase

The Saudi Government issued Cabinet Resolution No. 559 dated 28/8/1441 AH (21 April 2020) to increase the customs duty rates for more than 2,000 Tariff Lines across 57 Chapters of the KSA Tariff Schedule.

The full list of products has been published on Saudi Customs website here: [HS codes subject to increased duty rates](#)

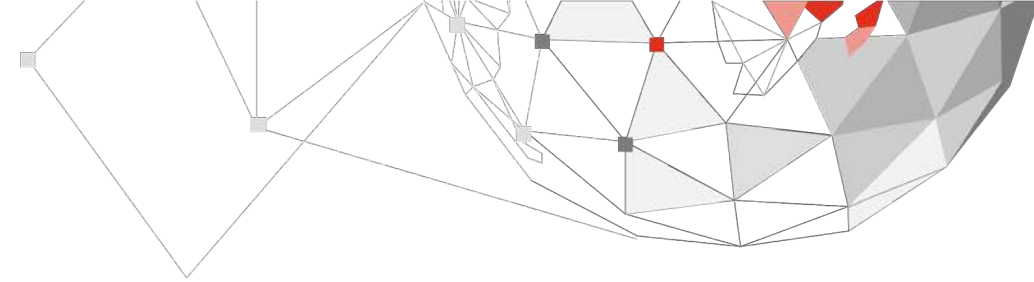


<p>Duty rate increase aims to make up for decreasing revenues from oil based on Saudi Government Budget Performance reports.</p> 	<p>01</p>	<p>02</p> 
	<p>03</p>	<p>04</p> 
<p>The published rates are meant to be the World Trade Organisation (WTO) bound rates.</p>		<p>Implementation of the duty rate increase on 10 June is not expected to apply on imports completed before that date.</p>

## Affected products

1. Foodstuff
2. Minerals
3. Chemicals
4. Plastics
5. Rubber
6. Leather
7. Textile
8. Footwear
9. Base metals, e.g. steel, iron, aluminium, etc.
10. Cement
11. Ceramic
12. Machinery, equipment, electrical equipment
13. Toys
14. Furniture
15. Vehicles
16. Other various types of manufactured goods

# The key tax business challenges



## Managing cash pressures

- Impact of tax on cash flow
- Use of tax relief / support measures
- Use of tax and transfer pricing strategies to improve liquidity

1

## Workforce

- Foreign payroll / social-security
- Immigration / visa requirements
- PE / FE, tax residency, governance and substance concerns
- Re-evaluation of the TP policy

2

## Operations and supply chain

- Disruption to operations and supply chain
- Legal protection against unfulfilled contracts
- Alternative operating models and suppliers

3

## Finance and liquidity

- Debt buy-back / restructuring
- Increased interest deductibility restrictions
- Cost of cash repatriation / alternative financing
- Complying with capital requirements

4

## Legal and business restructuring

- Winding down non-critical entities and operations
- Establishing new business operations / models
- Changes to agreements

5

## Tax and regulatory compliance

- Maintaining compliance despite disruption
- Legislative changes and resource constraints
- Opportunities to optimise the tax function
- Opportunity to use technology

6

# What does this all mean for the future of tax?



## Short-term

- Introduction of various fiscal measures to address the impact of COVID-19
- Greater focus on non-oil sectors and how tax can help generate revenue for governments
- Unilateral approaches on tax (e.g. KSA VAT changes, countries signing up to new tax agreements)
- A bigger push on encouraging businesses to more manufacturing / local country driven activities and behaviours (e.g. customs duty increases in KSA)

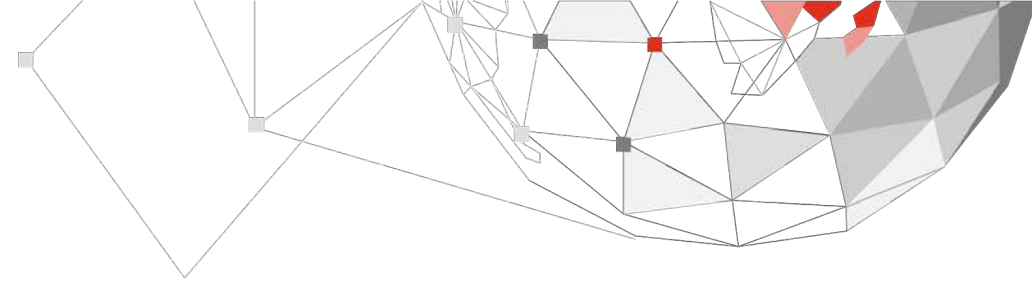
## Medium-term

- Governments to consider how the cost of stimulus measures will be managed and what role tax plays to re-balance economies
- Greater focus on digital initiatives
- Possible tax / VAT rate increases across other GCC countries
- A more aggressive approach on tax audits
- Beginning to see impact of tax imbalances across GCC countries from a business perspective (e.g. with recent KSA changes)

## Long-term

- Tax to start playing a bigger role in government revenue base
- Possible introduction of new taxes across the region
- Smaller taxes and service fees may disappear to create greater transparency in the tax system
- How long will the region remain a low tax environment?

# Contact us



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# Thank you

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