



# Road to recovery

**How to emerge from the lockdown?**

2020

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# Road to recovery

Kuwait hopes to reopen its economy completely by the end of August 2020. To achieve this goal, it has introduced a **five-phase plan** to open up businesses gradually depending on the success rate of each phase.

Governments across the world have adopted similar strategies and are treading with caution in deciding their next steps.

In the article titled **‘Fumbling for the exit strategy’**, The Economist writes how various governments around the world have come up with different plans to ensure businesses are on a path to recovery. The article emphasizes on the urgent need to devise exit plans as the alarming cost of hard lockdowns becomes clearer with each passing day.

The latest forecast by **IMF** shows Kuwait is expected to have a negative GDP growth due to subdued oil prices and cut in the oil production. Moreover, in an adverse scenario where the pandemic does not recede in the latter half of 2020, the global GDP could fall by an additional 3% this year, and if such a condition continues into 2021, the GDP may fall by an additional 8% next year compared to IMF’s baseline scenario.

To stimulate economic recovery, the government of Kuwait brought in a number of measures.

For example, the **Central Bank of Kuwait** cut the discount rate to a historic low of 1.50%, lowered the capital adequacy ratio for banks from 13% to 10.5% and eased the risk weight for small and medium enterprises (SMEs) from 75% to 25% to provide additional liquidity in the economy.

**The Kuwait Banking Association** (KBA) also announced a moratorium period of up to six months on bank loans including waiver of interest and charges, to alleviate the financial stress on affected entities including retailers and SMEs, and individuals.

A KPMG survey conducted over 4 weeks shows businesses remain deeply concerned about the current situation and employee safety and healthcare remains the most critical parameter.

Businesses, however, recognize that in order to emerge strongly from the lock down, there is a need for a transformational approach, specially transformation in operations, which will put them on the road to recovery.

# 70%

Of our participants say that **employee health and safety** should be the **no.1 Priority** for businesses as they come back from the lockdown

Source: KPMG Survey

# 71%

Of our participants say that businesses need to go through **Digital Transformation** in order to stay connected with the customers and recover

Source: KPMG Survey



# Global Recovery Framework

Over the course of the last two months, KPMG has been talking to various clients across sectors and services.

Using their collective ideologies, KPMG has devised this framework, which showcases the overall cycle of recovery during the ongoing COVID-19 pandemic.

This framework has four phases. KPMG assumes that almost every organization will experience the following four phases during their path of recovery.

## 1 REACTION

In the first phase, companies responded swiftly to the measures taken by the government and halted their operations. The businesses, therefore, may have faced an immediate liquidity crisis.

## 2 RESILIENCE

Currently, many companies are operating in this phase, where the panic has subsided and medium- to long-term plans for recovery have begun. Cash management and restructuring have now taken precedence over other matters, and businesses have started looking for innovative methods to reclaim their presence in the market. However, customer demand is still constrained due to lost wages and investments.

## 3 RECOVERY

During the recovery phase, it is expected that consumer sentiment and consumption will improve and job hiring will resume. The investments trend shows a positive curve and businesses are also expected to scale up. This phase may lay the early indications of the new normal as certain pre-COVID-19 stalwarts struggle to recover while crisis-tested alternative solutions continue to thrive.

## 4 NEW REALITY

The new normal phase will see more of behaviors and technology trends that have passed the test of the current crisis and may become standard practices going forward. The nature of communication, travel and eating habits may change irrevocably. Furthermore, globalization may take a hit as it is expected that travel and transport would continue to be restricted, people would go for more viable and proven remote connectivity services and governments would promote in-house production of goods and services.

# Impact on Sectors

While the global recovery framework provides an overview of the stages of recovery from the economic impact of COVID-19, the framework cannot be treated as a one-size-fits-all solution for businesses across sectors.

Every sector is different, and the effect of the pandemic on industries has varied dramatically

The diagram opposite plots the impact of COVID-19 on different sectors. Those industries which require physical manpower presence for their operations have been hit hardest and may take the longest to recover.

Such sectors may undergo a hard reset. In contrast, businesses offering or using digital solutions have been impacted less and may see a surge or, in a few cases, a V-shaped recovery. However it is quite clear that all businesses will need to go through some form of transformation.

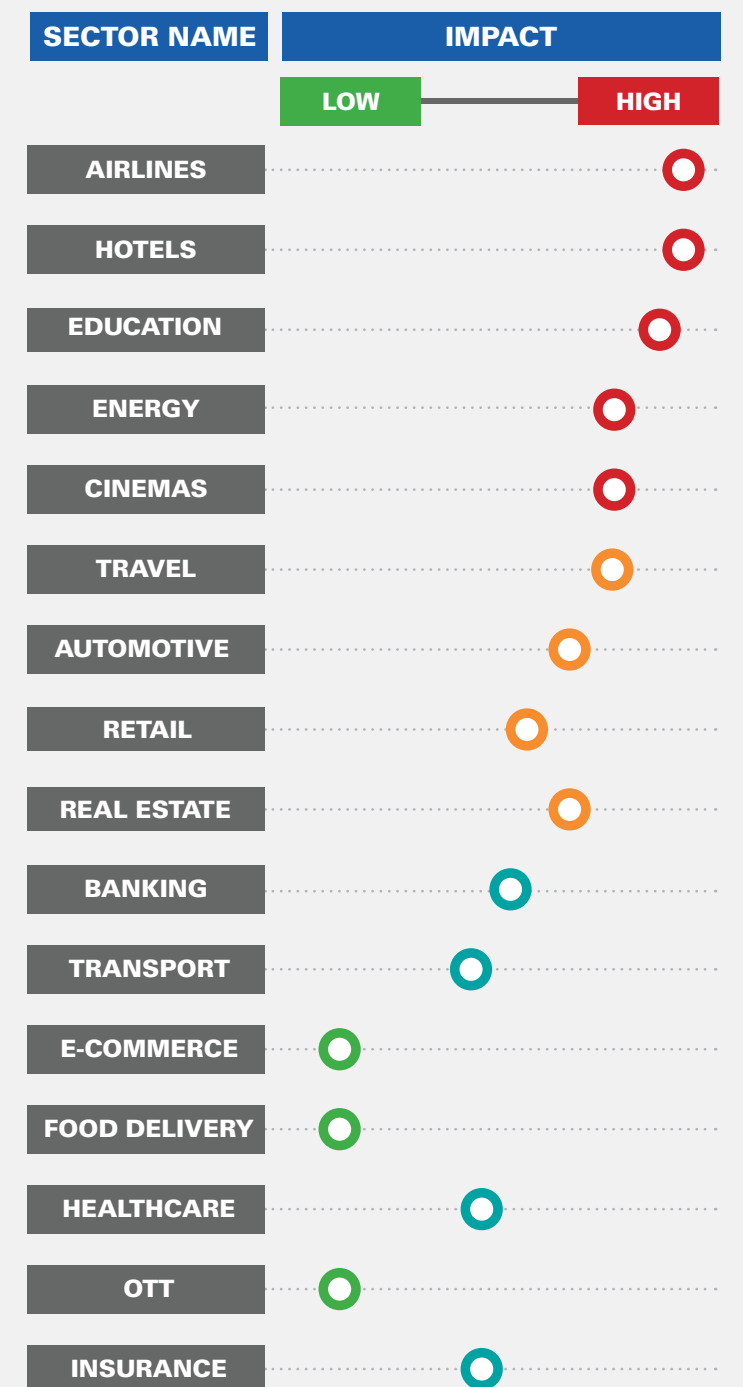
Without transformation, it will be difficult for companies to survive and emerge from the economic slowdown.

# 61%

Of our participants say that **Travel & Leisure sector** needs the maximum transformation among all sectors in Kuwait

Source: KPMG Survey

## IMPACT OF COVID19 ON SECTORS



- Sectors which will go through a hard reset in order to recover
- Sectors which were effected during lock down but expected to recover faster
- Sectors, which need to transform to recover
- Sectors expected to surge during and post lock down



# Emerging Themes

KPMG observes multiple themes emerging from the lockdown situation —stakeholders are urged to consider these themes while creating their plans for recovery.

## 01

### Resilience takes center stage

Enterprise resilience should be at the center of business planning. This is likely to require a fresh approach to risk identification and assessment.

Remote working has been and is a key component of resilience during lockdown. Remote working is likely to continue to varying degrees even after the economy opens up completely and businesses will need to consider remote working capabilities and conditions and the consequent possible reduction in the requirement for physical office space.

## 02

### Digital Commerce in action

The lockdown restrictions have already forced many businesses to adopt e-commerce solutions, to the extent possible, and this trend will only accelerate going forward. Public sector services, such as healthcare and education, are also being digitized to ensure continuous delivery.

In addition, there is greater adoption of digital payment solutions due to higher digital transactions and cash being seen as a hygiene risk. Perhaps, the industries that have benefited the most during the ongoing pandemic have been streaming/online media platforms and food delivery services.

## 03

### Rethinking the supply chain

Supply chains are likely to become more agile and modular with lower dependency on a single country/supplier. Companies can also explore local or regional supply chains instead of relying heavily on imports.

We predict increase in innovation across supply chain too. As human contact decreases, companies will witness the use of technologies such as IoT, AI, and drones for increased tracking and delivery of supplies.

## 04

### End of globalization as we know it

Governments across the world are expected to promote local talent instead of seeking skilled labor from abroad as borders remain closed or travel is otherwise restricted.

During the lock down, we witnessed increase in trust level towards local businesses who replaced the bigger chains in the time of need.

Governments' approach to trade policy may also restrict imports and therefore push consumers to buy local.



## How we can help?

Looking at the developments around COVID-19 in the past few months, it is quite evident that with the pace at which the pandemic is evolving, providing a legacy solution to clients is clearly out of context.

KPMG, therefore, has devised solutions as per different business types and their positions on the global recovery framework.

From helping businesses move toward digital transformation to providing support in business restructuring, financial restructuring, valuations, IT audits, business continuity, and cyber security,

KPMG's advisors can work closely with stakeholders to help their enterprises evolve from the lockdown.

## Our services

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**Fintech / Digital payment strategies/initiatives**

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**Market assessments**

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**Feasibility studies**

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**Growth strategy and Business plan preparation**

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**Business valuation**

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**Buy-side advisory (target search and screening, due-diligence, M&A)**

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**Sell-side advisory (fund-raise, stake sell, and strategic partner search)**

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**Cost and process optimization**

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**Business process outsourcing and managed services**

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**Enterprise resilience and IT Audits**

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**Cyber Security and IT Advisory**

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