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SAUDI ARABIA ANNOUNCED ITS NEW CORONAVIRUS MEASURES AND PREVENTIONS TO RECOVER SHARP DECREASES IN OIL REVENUES: THE GOVERNMENT WILL TRIPLE VAT RATE AND SUSPEND COST OF LIVING ALLOWANCE



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Many countries all around the world took measures against the economic challenges due to the Coronavirus (COVID-19) outbreak in their jurisdictions. Countries announced economic packages in order to tackle economic challenges and some of them announced additional austerity measures for economic recession and implemented new taxes and duties accordingly. In accordance with the normalization plans after Covid-19 pandemic, it appears that we keep witnessing announcements of new measures of internal fiscal policies of the countries, increases in tax rates, and enforcements of new taxes.

Saudi Arabia plans to implement new legislation, which will result in tripling the value-added tax (VAT) rate as the coronavirus and plunging oil prices beginning to affect the economy negatively. Mohammad al-Jadaan as the Finance Minister of Saudi Arabia announced that the Kingdom will increase the VAT rate **from 5% to 15%** from July 1, 2020 and also the cost of living allowance, which is being granted to state workers will be suspended as of June 1, 2020.

Saudi Arabia's austerity measures were announced as part of the government's plan to save 100 billion riyals (or \$27 billion) in order to support the stagnating domestic economy that is negatively affected as a result of declining oil prices, decline in economic activity and also unplanned expenses for the healthcare system during the coronavirus outbreak.

Under the consideration that VAT was enforced on January 1, 2018 in Saudi Arabia, tripling of rate of this relatively 'new' tax for the society and investors would positively contribute into fiscal policies of the country; whereas, it could also negatively hit the demand in economic life.

Suspension of the cost of living allowance will directly affect about 1.5 million people who are employed by the state. The cost of living allowance was started by King Salman of Saudi Arabia as a monthly payment of 1,000 riyals (\$267) to every state employee to compensate them for rising living costs.

Our Evaluations

Saudi Arabia's budget deficit hit 34.1 billion riyals (\$9.1 billion) in the first quarter of 2020, with the general debt going up by 6.7% to 733.5 billion riyals (\$192.9 billion). In this context, the austerity measures of Saudi Arabia are positive from the fiscal side since some adjustments might be necessary for overcoming the economic recession. However, increase in VAT rate probably will result in fall in the demand in consumption, which also might lead to other financial problems.

We advise that Turkish Companies operating in Saudi Arabia Market should adjust their financial preparations and projections considering VAT increase which will enter into force on July 1, 2020.



King Regards,

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