



Grant Thornton

An instinct for growth™

Focus on: *UAE*

Grant Thornton International Business Report 2014



200
business
interviews

Introduction

The United Arab Emirates (UAE) is a rapidly developing economy with an approximate population of 8 million. Its GDP was estimated at US\$390bn in 2013, making it the 29th largest economy in the world and the second largest in the Middle East. Its GDP per capita is approximately US\$43,000, the 19th highest globally.

Drawing on data and insight from the Grant Thornton International Business Report (IBR), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF), this short report considers the outlook for the economy, including the expectations of 200 business leaders interviewed in the UAE and more than 12,500 globally, over the past 12 months.

Hisham Farouk
Grant Thornton UAE
Managing Partner
T +971 (4) 388 9925
E hisham.farouk@ae.gt.com
W www.grantthornton.ae

US\$390bn

gross domestic product



8 million inhabitants

Economy

Economy expanded by **4.5%** in 2013

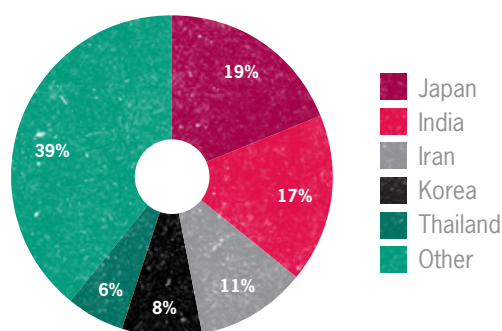
The economy expanded by an estimated 4.5% in 2013, the fastest rate since the financial crisis.

Oil and gas remain central to the success of the economy – the price of oil remains well above US\$100 per barrel and the UAE is thought to have the seventh largest reserves in the world (98bn barrels) – accounting for close to 50% of total exports. However, non-oil exports continue to grow as the economy diversifies and there have been significant improvements in retail, tourism, infrastructure investment, the stock market and the property sector since the financial crisis with these sectors now becoming just as prominent as oil and gas. A successful bid to host the 2020 World Expo further underlines economic growth now and in the future.

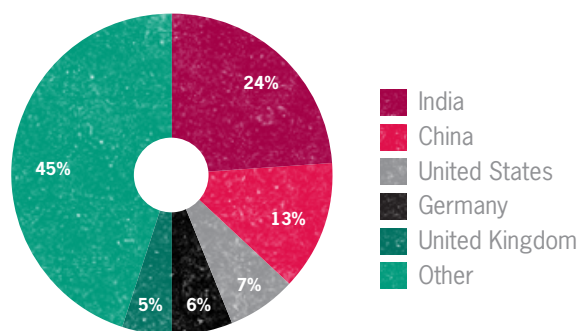
Key indicators

- the current account balance dropped to 13.2% of GDP, down from 17.3% 12 months previously, as imports grew slightly quicker than exports and the trade surplus dropped US\$120bn
- oil production reached 2.7m barrels per day in 2013, up from 2.6m in 2012
- consumer price inflation averaged 1.1% in 2013
- an estimated 83m passengers passed through Dubai and Abu Dhabi International Airports in 2013, up by 15.2% and 12.4% rise from 2012 respectively
- Dubai Mall maintained its position as the world's most visited retail destination for the third consecutive year in 2013, visitors rising 15.2% to 75m visitors in 2013.

Main destinations of exports



Main origins of imports



Source: Observatory of Economic Complexity (2013)

Economic outlook

The UAE economy is expected to grow robustly underpinned by high oil prices and continued diversification which sees the emergence of a world-class hub for trade, transport and tourism.

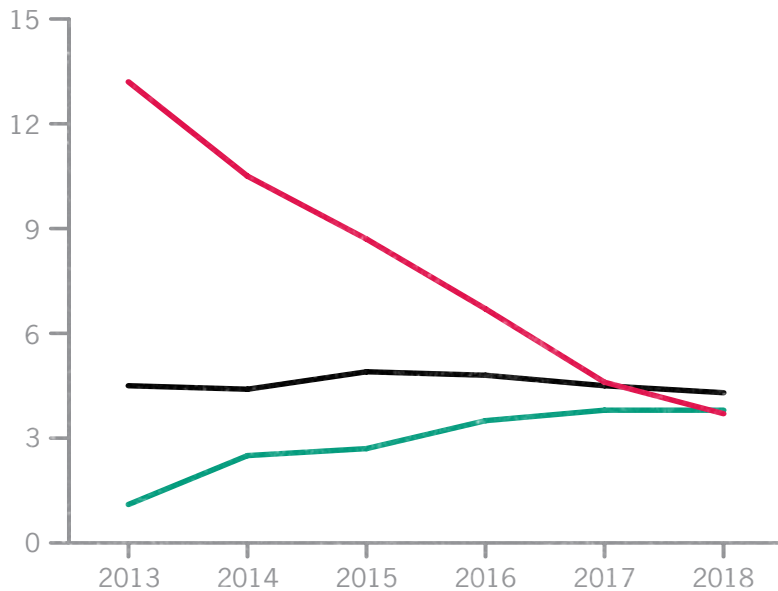
Real GDP is forecast to expand by 4.4% in 2014, accelerating to 4.9% in 2015. Oil will continue to dominate exports and production is likely to reach to 2.8bn barrels per day in 2014, climbing to 2.9bn barrels in 2015. Exports slowed to 3.7% in 2013 but are expected to bounce back to 5.1% growth in 2014 and 2015.

Recent investment to boost trade, by building manufacturing industries and economic zones are vital to increasing the long-term growth potential of the economy. Port infrastructure and other transport links within the region, and to Asia and Africa are also improving, further building trading opportunities for local businesses.

The recent seven-year National Agenda, set out specific targets for employment including a ten-fold increase in the amount of Emiratis working in the private sector where currently the workforce is 90% foreign. The government has suggested it would impose new measures to increasing the 'Emiratisation' of the private sector and businesses are likely to have to put more effort and resources into hiring UAE nationals.

The openness of the UAE economy means is it susceptible to fluctuations in global trade patterns, and uncertainty surrounding slowing growth in China, the tapering of asset purchase in the US, sliding emerging market currencies and the continuing eurozone crisis, all provide significant downside risks to this forecast.

Growth, inflation and trade forecasts



Source: Economist Intelligence Unit 2014

- Current-account balance (% GDP)
- Real GDP growth (%)
- Consumer price inflation (av; %)

Business growth prospects

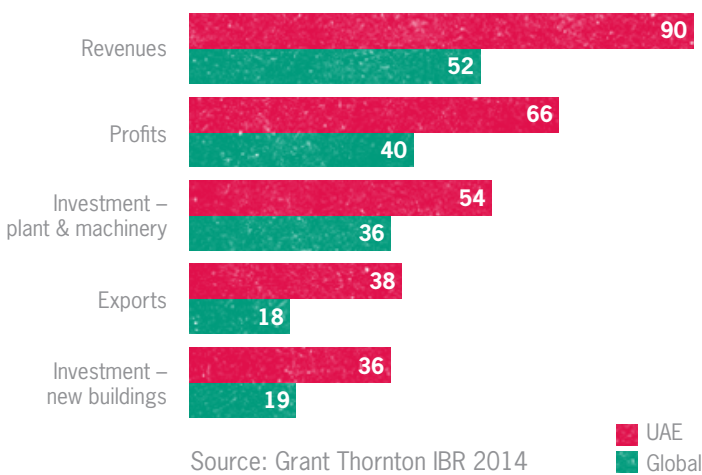
The strength of the economy is evident in the IBR results: net 90% of UAE business leaders are optimistic for the next 12 months, the highest in the 45-economies surveyed, and more than three times the global average (27%). On average in 2013, net 88% of businesses expressed optimism in the economic outlook, up from 77% in 2012 and 69% in 2011.

This optimism supports strong business growth expectations for the year ahead. Net 90% expect revenues to climb over the next 12 months, compared to 52% globally, and 66% expect profits to rise, compared to 40% globally. Average expectations for increasing both revenues (85%) and profits (70%) in 2013 climbed 20pp and 10pp respectively from 2012.

Business growth prospects look set to be supported by an improving outlook for exports. Export expectations have also risen over the past 12 months, averaging net 46% in 2013, compared with 41% in 2012, and a global average of 18%.

Construction is booming again across the Gulf and 36% of UAE businesses expect to invest in new buildings over the next 12 months, up from 29% in 2012, and well above the global average (19%). Investment in plant and machinery is also expected to climb sharply with 54% of businesses expecting an increase compared to 42% this time last year and a global average of 36%.

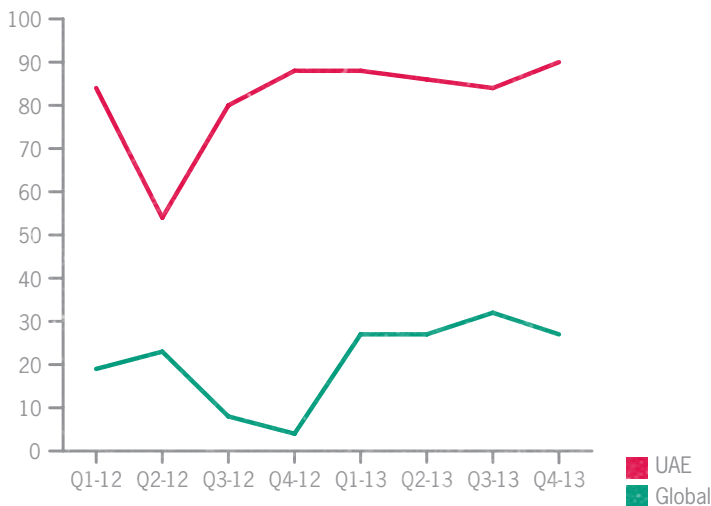
Net percentage of businesses expecting an increase (next 12 months)



66% expect profits to rise

90% expect revenues to rise

Net percentage of businesses optimistic for the economic outlook (next 12 months)



Source: Grant Thornton IBR 2014

Business growth constraints

Business leaders in the UAE expect to face a number of growth constraints in 2014. Chief among these are a lack of talent, poor quality ICT, transport infrastructure and exchange rate fluctuations.

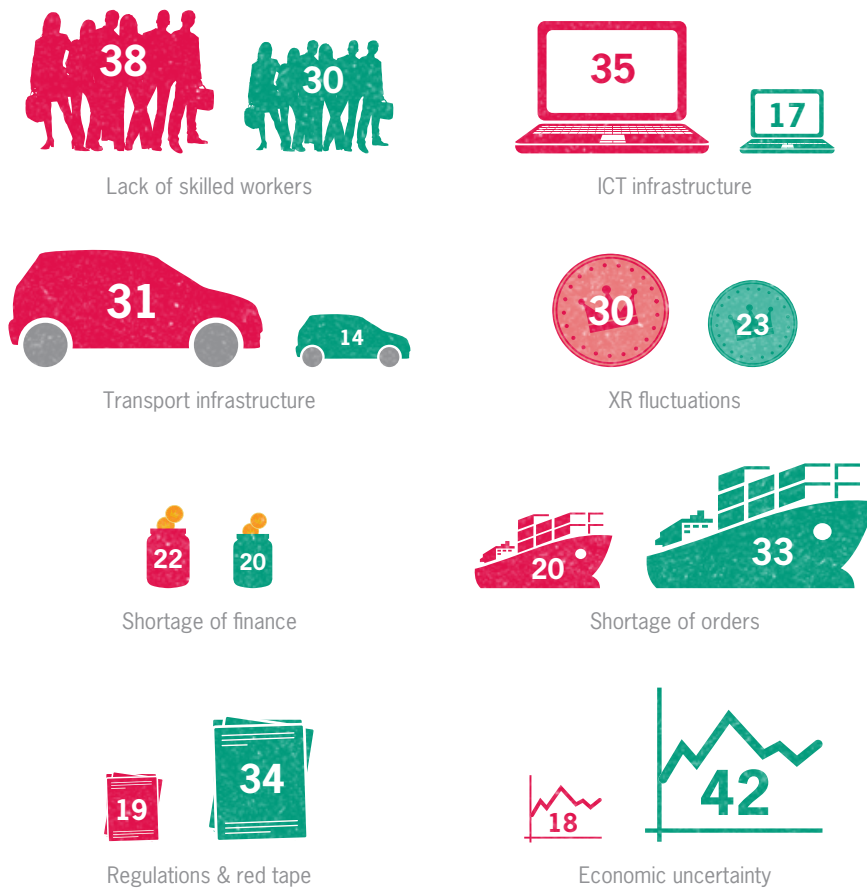
A lack of skilled workers (see next page) is cited by 38% of businesses, up from 29% in 2012 and 24% in 2011, and well above the global average of 29%.

Over a third of businesses have ICT infrastructure concerns (35%) which could prove to be a serious issue as the UAE seeks to become a hub for travel and tourism. This is more than double the global average (17%) and almost three times the rate seen in the G7 economies (12%). Transport infrastructure is hampering a further 31% of local businesses in their attempts to expand, more than double the rate globally (14%).

Currency volatility is also considered to be a serious drawback: 30% cite exchange rate fluctuations, compared to 23% globally. With the US Federal Reserve unwinding its massive stimulus programme, many emerging economies have already seen their currencies slide, forcing central banks in economies such as India, South Africa and Turkey to raise interest rates.

Globally, economic uncertainty is the chief growth constraint. This is cited by 42% of businesses compared with just 22% in the UAE. Bureaucracy is also not considered a major problem in the UAE; just 19% cite rules and regulations as a constraint on growth, compared to 35% of businesses globally.

Percentage of businesses citing factor as a constraint on growth



infrastructure
constraining
business
growth
plans

a lack of
talent is a
challenge

The labour market

As noted on the previous page, a lack of skilled workers is the greatest challenge facing UAE business leaders from expanding their operations. The government certainly recognise this with the latest seven-year National Agenda identifying education as a top priority.

The plan has targeted increased spending on nurseries and gearing the education system more towards ‘smart learning’. It is hoped that this will help boost the number of Emiratis working in the private sector, which is currently dominated by foreign workers, drawing them away from jobs in the public sector.

The good news is that the private sector has been creating jobs; 52% of UAE businesses expanded their workforces in 2013, up from 37% in 2012 and more than double the global average (22%). Hiring sentiment also remains buoyant: net 76% of businesses plan to hire people in 2014, well above the global average of 29%. The average across 2013 was 62%, up from 38% in 2012.

However, with the supply of workers identified as a key challenge, there are signs that businesses are having to compete for top talent and a skilled workforce to further support growth. Over the next 12 months, 73% of UAE businesses expect to raise employee salaries, up from 59% in 2012, and above the global average (68%). Furthermore, 24% expect to raise salaries above inflation, 10pp higher than the 2012 UAE and the 2013 global averages.



Net percentage of businesses hiring/planning to hire workers

Past 12 months



Next 12 months



Source: Grant Thornton IBR 2014

■ 2012
■ 2013

Net percentage of businesses planning to raise salaries

Any raise



Above inflation



Source: Grant Thornton IBR 2014

■ 2012
■ 2013

IBR 2014 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 3,300 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 12,500 business leaders in 45 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in businesses with 50-499 employees. Q4 data is drawn from 3,300 interviews globally (50 in UAE) conducted in November and December 2013. 2013 data is drawn from over 12,500 interviews (200 in UAE) conducted between January and December 2013.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

Dominic King

Grant Thornton International Ltd
Global research manager
T +44 (0)207 391 9537
E dominic.king@gti.gt.com

Mandip Dulay

Grant Thornton UAE
Director, Marketing
and Business Development
T +971 (4) 388 9925
E mandip.dulay@ae.gt.com



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