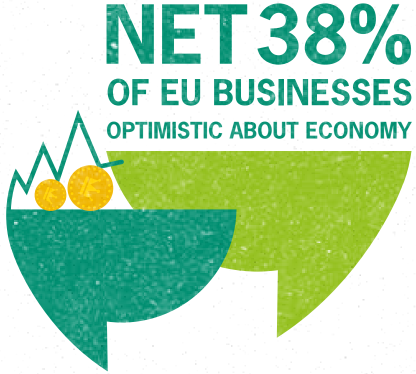
The global economy in 2016

Grant Thornton International Business Report

Businesses resilient in face of growth challenges

Ed Nusbaum considers the global economic outlook for 2016



At the beginning of a new year, I'm often asked what the number one issue for businesses is over the next 12 months. And while I don't have a crystal ball, this question seems particularly difficult to answer this year.

There are numerous economic factors which present both opportunities and risks to businesses. The US has recently increased its interest rate. Oil prices ended 2015 at $37 a barrel compared to $56 12 months ago, and the price of oil is expected to remain low with the lifting of Iranian sanctions. The re-balancing of the Chinese economy presents opportunities, but weaker demand for commodities and raw materials will impact export based economies in 2016. Yet businesses remain resilient in the face of these moving parts; global optimism has held relatively firm and plans to invest for future growth continue.

Despite the numerous challenges facing the EU, net 38% of EU businesses surveyed in our global quarterly survey are optimistic about their national economies over the next 12 months, exactly the same as in Q3 and Q1 of last year. The survey results show broad based confidence across the continent as businesses shrug off the threats of deflation, terrorism and possible British and Greek exits. Furthermore, an increase in expected R&D investment over previous quarters demonstrates that EU business are looking past recent stock market volatility and instead opting to take a long term view.

Also in the US, the Federal Reserve's confidence in the US economy led to the first interest rate hike in nearly a decade in December and it signalled more hikes to come in 2016. However, our research found that US business optimism fell by 24% points heading into 2016, the biggest fall of any of the 36 countries surveyed. Our International Business Report data shows a drop in US export expectations for 2016 as the culprit, fuelled by a strengthening dollar and the shift in the Fed's stance on interest rates. Coming changes in leadership also create some uncertainty with a new president come the end of 2016.

I would argue that the word 'change' also encapsulates what we are seeing in China. Businesses around the world suffered a dent to confidence in 2015 following uncertainty around the speed and the extent of China's economic slowdown. That has subsided somewhat. Optimism across the Asia Pacific region has actually increased to 31% in Q4, compared to 27% recorded twelve months ago.

However, in early January, we saw sharp falls in the Chinese stock market as concerns about the speed of the economic slowdown there remain. They are a reminder that the rebalancing of the Chinese economy, in particular a depressed demand for raw materials compared to recent years, will create challenges. But dynamic businesses will spot new opportunities as the demand for service-led offerings in China grows along with its burgeoning middle class.

Drawing on data and insight from the Grant Thornton International Business Report (IBR), the International Monetary Fund (IMF) and the World Bank, this report considers the outlook for the global economy in 2016.

Does burgeoning also describe the outlook for businesses in Japan? Many are asking if 2016 could be the year when Abenomics starts to bear fruit. Stripped of energy prices, inflation is now at roughly 1%, heading towards its 2% target, and recent figures suggest public debt has stopped rising. While business leaders in Japan are more optimistic about 2016 than they were about 2015, many still remain cautious – perhaps remembering previous upticks in the economy which quickly subsided.

Another region used to economic peaks and troughs is Latin America. My conversations with clients and industry leaders there often involves talk of political and social change and while the economic picture across the continent remains fragile, we see further evidence of business resilience. Optimism reached its highest point in 12 months at the end of 2015, largely driven by the appointment of a new president in Argentina. In Brazil, optimism is weaker but as with the rest of Latin America, there is a feeling that the US will present a healthy market into which they can sell commodities and other goods.

I should also mention the Rio Olympics. Our survey has shown over the years that major sporting events can provide short term boosts to an economy and Brazil's healthy revenue expectations for 2016 further reflect this trend.

The global economy continues to evolve. For business leaders, these shifting landscapes present new challenges but for the most dynamic firms they also offer exciting new opportunities. I think that part of business leaders' instinct for growth is to look beyond the uncertainty and spot emerging pockets of opportunity to build new trade links and ensure your growth plans reap rewards. As businesses look to 2016 and beyond, I'm reassured that the global economy offers great opportunity for those dynamic firms who continue to push boundaries and remain optimistic about the challenges ahead.

Ed Nusbaum
Global CEO
Grant Thornton

Contents

p.6	UAE: Economic growth
p.8	UAE: Business growth
p.9	UAE: Business constraints
p.10	UAE: Employment
p.11	UAE: Inflation
p.12	UAE: Partner perspective
p.14	Economic growth
p.16	Business growth prospects
p.20	Business constraints
p.22	Employment
p.24	Inflation
p.25	How Grant Thornton can help

UAE businesses remain cautiously optimistic for the year ahead

Hisham Farouk considers the United Arab Emirates (UAE) economic outlook for 2016

The global economy experienced some key challenges towards the end of 2015 which rippled into 2016. As Ed (Global CEO of Grant Thornton) outlined, key global changes around the world will no doubt impact economies such as the UAE, which is recognised as one of the most dynamic business hubs in the Middle East.

The spotlight has been heavily focused on the oil & gas sector which has seen a rapid decline in prices, impacting other sectors and economies which are highly dependent. Oil prices are currently trading at $20-30 per barrel from a peak of $115 just over a year ago and are expected to remain at the current low (despite the agreement to freeze oil output between Saudi Arabia and Russia), coupled with geopolitical tensions in some parts of the Middle East, the liquidity issues in the financial services sector and the increased emphasis on diversification - this year looks set to be slightly more challenging than previous years.

However despite this, businesses in the UAE remain cautiously optimistic compared to other economies as a result of increased diversification and opportunities which are still clearly evident. The UAE has one of the most stable economies in the world and has witnessed remarkable growth in recent years, which continues to position it high in terms of global competitiveness.

The International Monetary Fund (IMF) has projected growth at 2.6 per cent this year[1] as a result of slower public spending amongst the Gulf countries, reduced sentiment in neighbouring countries such as Saudi Arabia which is expected to spend 13 per cent less year on year when it comes to public spending, and various macroeconomic global issues.

The UAE economy has remained somewhat resilient in comparison to other markets, as a result of diversification, government initiatives and the ease of doing business. Whilst the country's economy has remained fairly impervious, tightening of liquidity across the GCC, the impact of low energy prices and a deceleration in financial growth, credit and increased regulation will remain a challenge for businesses this year.

Despite this and to further aid growth, the government approved a federal budget of Dh 48.6 billion which is set to create over 3,000 jobs for Emiratis[2] further supporting Emiratisation to upskill the leaders of the future. This is only slightly lower than the 49.1 billion dirhams federal budget for 2015, which emphasises the importance placed by the government to further promote excellence in the field of infrastructure, transport, economics, health, education, housing and community development which have an overarching impact on the sociological and corporate environment within the Emirate.

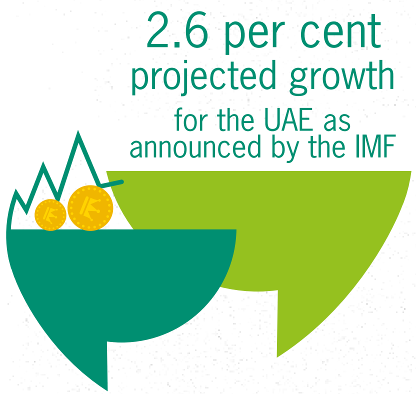
[1] *"IMF cuts UAE's growth forecast for 2016 as oil prices crash", The National*
[2] *"Dubai Ruler approves Dh46bn budget for 2016", The National*
[3] *"The Authority on world travel & tourism", World Travel and Tourism Council*
[4] *"Thomson Reuters Inaugrates 10th GCC Regulators Summit 2016", CPI Financial*

Drawing on data and insight from the International Monetary Fund (IMF), the World Bank, Central Bank of the UAE, Dubai Statistics Centre and other credible sources (as quoted) for the UAE insights.

The UAE economy has remained sound due to its emphasis on sectors such as leisure and hospitality, financial services and education coupled with the government's diversification strategy which promotes growth in non-oil sectors. A report issued by the World Travel and Tourism Council further evidenced how diversification in the UAE continues to safeguard the economy from any adverse risk, with the leisure and hospitality sector making a total contribution of 126.7bn dirhams to GDP (8.4% of GDP) in 2014 which is forecasted to rise by 3.8% pa to 194.0bn dirhams (9.1% of GDP) in 2025[3].

Signs of growth amongst other emerging sectors in the Emirates, opportunities amongst the global turmoil and the recent upgrade of the UAE to 'emerging market' status by MSCI[4] will inevitably create a positive impact on the economy and further promote international interest, inbound investment and result in opportunities for UAE businesses amidst the current uncertainties.

Hisham Farouk
CEO
Grant Thornton, UAE



UAE: Economic growth

The IMF has not only lowered the global forecast for 2016 but the UAE forecast too, projecting growth at 2.6 per cent[5].

Economic growth is still projected for the UAE economy albeit not as high a percentage as originally anticipated. However, the opportunities and growth prospects still remain with almost 70 percent of the GDP coming from non-oil sectors, with the government further reaffirming their commitment to ensure that they continue to create an economy that is resilient to market fluctuations in the future.

This was further endorsed by His Highness Shaikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai who said "the country would add new economic sectors, enhance and develop the existing ones, and create generations that will be able to lead a balanced and sustainable national economy"[6]. The Economist Intelligence Unit has further attested to the strength of the UAE economy by stating that "real GDP growth will remain modest in view of much weaker oil prices, which will keep the fiscal position in deficit until 2018. The authorities will prioritise economic diversification in order to promote non-oil growth. Dubai has made progress with managing its debts and this will remain a focus[7]."

Although the intense drop in oil prices was said to cause a degree of hesitation in the market, this drop is said to be considered as a challenge and not a crisis, with the UAE being more equipped than other economies to deal with wavering market sentiment. As a result, businesses in the UAE are cautious and should embrace a sustainability approach in 2016 which will gain further emphasis as a result of the government's investment in infrastructural projects, innovation, emiratisation and developing a guard proof economy for the future.

As part of Vision 2021, the UAE is aiming to achieve a number of key milestones to be known as the nation of excellence and be amongst the best countries in the world by the Golden Jubilee of the Union – which, in our view, is achievable given previous landmark successes such as the Burj Khalifa, Expo 2020 win amongst others. In doing so and given the Expo 2020 win, the government is increasingly investing in key projects, developments and programs which further aid in enhancing business confidence and develop possible avenues of growth.

Further highlighting economic stability, Capital Intelligence (CI), the international credit rating agency, recently affirmed the UAE's long term foreign and local currency sovereign ratings to 'AA-' and its short term foreign and local currency sovereign ratings to 'A1+', whilst stating that the outlook for the economy is 'stable'[8].

This rating further echoes business sentiment and government initiatives, highlighting the strength of the economy's position and ability to absorb economic tremors, maintain a moderate level of public debt and takes into account the large hydrocarbon reserves and assets of the government in the United Arab Emirates.

In order to ensure the economy remains shielded for generations to come, the Undersecretary of the Ministry of Finance (MoF) of the UAE announced in July 2015 that they were conferring with the GCC states to draft a new law with respect to the possible introduction of value added tax (VAT) within the UAE and the wider GCC. In a report issued by the International Monetary Fund (IMF) in August 2015, it was highlighted that the UAE could generate up to 7.4 per cent in extra revenue by introducing such a tax. A proposal to introduce corporate taxes remains under consideration. There is currently no personal income tax, corporate tax or VAT payable within the United Arab Emirates which has attracted

[5] *"Growth for UAE to come in below IMF forecast", The National*
[6] *"Ministerial retreat to focus on an economy beyond oil", Gulf News*
[7] *The Economist Intelligence Unit, UAE accessed*
[8] *"CI: UAE's sovereign ratings affirmed", CPI Financial*
[9] *"Sultan Al Mansouri confirms strength of UAE economy", Zawya online*

human and investment capital for years due to these tax advantages.

Although, the date of imposing VAT has not yet been confirmed, the GCC states have moved one step closer to fiscal reform. Key issues surrounding the notion of VAT have been resolved, which sees the region moving closer to introducing indirect taxation in the GCC for the first time, given volatility within the oil & gas sector has furthered the need to diversify the economy to ensure it is protected from future unforeseen market fluctuations. The introduction of VAT would be a key fiscal reform for the GCC and one which looks set to take place within the next three years which will further aid in promoting economic growth in the United Arab Emirates.

Sultan bin Saeed Al Mansouri, Minister of Economy, has reiterated the strength of the UAE's economy, which he says "has not been affected by falling oil prices, pointing out that the UAE's strategy for 2030 is continuing without change and that there is a focus on energy efficiency management and its rationalisation."

The new budget for 2016 "reflects the level of the limited impact of the drop in world oil prices on the overall federal government directions and its plans for the future, adding that the new budget also confirms the data of the International Monetary Fund that the UAE is one of the countries less affected by the drop in oil prices as the non-oil sectors contribute nearly 69% of GDP[9]."

7.4%
said to be generated in additional revenue as a result of VAT

69% of GDP
said to come from non-oil sectors[9]

UAE: Business growth

Although the global economy is currently going through challenging times, it does however present growth opportunities when it comes to inbound and outbound investment and leveraging from cross border relations with economies such as India, China and Iran.

With businesses remaining cautious this year and economic growth projected to be not as high as previous years, businesses are looking for alternative channels for growth. Although the global economy is currently going through challenging times, it does however present growth opportunities when it comes to inbound and outbound investment and leveraging from cross border relations with economies such as India, China and Iran (post the lifting of sanctions).

Approximately 39 percent of Iran's imports in 2014 came from the UAE, with Iran being the second most important non-oil export country for the UAE after India. With a population of approximately 78 million and a GDP of approximately $400 billion[10], it has been said that it could fast emerge as an economy of great growth potential for UAE businesses.

The government has also placed increased emphasis on enhancing bilateral ties with China and India, both of which are key emerging economies that present growth opportunities for the UAE economy. India has recently taken over China in being considered as a primary trade partner for the UAE, accounting for approximately 9.8% of the non-oil trade[11].

The total volume of foreign trade between India and the UAE amounted to $60 billion in 2014, making the UAE India's primary trade partner in the Middle East and North Africa. Economic sources expect the value of trade exchanges between the UAE and India to hit $100 billion in 2020, which will create various growth opportunities for the economy and UAE businesses as a result of enhanced bilateral ties between the countries.

Further highlighting these key trade relations, the Central Bank of the UAE has recently signed an agreement with the Reserve Bank of India (RBI) to enter into a currency swap agreement. RBI said that "the proposed agreement will further strengthen the close economic relationship and cooperation between India and the UAE"[12]. With approximately 2.6 million expatriates in the UAE originating from India, they represent the largest expatriate group in the UAE and thus strengthened government ties represent further opportunities for this group, a number of whom are listed on the Arabian Business rich list as well as for UAE businesses looking to increase cross border trade with India.

The UAE is also turning its attention to China as it looks to boost its investment and trade relations with two of the largest emerging markets in the world. The level of inbound and outbound investment between the UAE and China is on the increase. Further evidenced by recent activity which saw Mubadala, the Abu Dhabi strategic investment company announce that it would be managing a US$10 billion joint investment fund with China Development Bank Capital and China's State Administration of Foreign Exchange which Sheikh Mohammed bin Zayed, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the Armed Forces said was a move "to work more closely in developing both economies and contributing to global growth"[13].

Business growth prospects remain relatively positive for the UAE, given the increase in bilateral ties which should lead to a steady increase in inbound and outbound investment.

Testament to this, the UAE ranked ahead of much larger economies finishing second overall behind only China in the 2016 Agility Emerging Markets Logistics Index which takes into account market access, risk, regulation, foreign investment, urbanisation and wealth distribution[14]. With this in mind and taking into account the National Agenda, Vision 2021 and the National Innovation Strategy, it is safe to say that the UAE economy will charge through any economic crisis and emerge even stronger and more agile than before as witnessed post the 2008 financial crisis.

[10] *"UAE firms could tap Iran market", Khaleej Times*
[11] *"UAE-India trade may hit $100bn in 2020", Emirates 24/7 online*
[12] *"UAE-India mull currency swap as rupee sinks to lifetime low", Emirates 24/7 online*
[13] *"UAE affirms ties with China and India", The National*
[14] *"UAE ranks no.2 in annual Agility ranking", Emirates 24/7 online*

UAE: Business growth constraints

UAE businesses are expected to continue experiencing some key business constraints as highlighted in 2015.

Apart from volatility in the oil and gas sector and wavering global markets, UAE businesses are expected to continue experiencing some key business constraints as highlighted in 2015 including a lack of a highly sophisticated Information & Communication Technology (ICT) infrastructure, demand for an increasingly skilled and innovative workforce and new constraints this year which include exchange rate fluctuations and global economic uncertainty.

Lack of ICT infrastructure and access to skilled workforce still a key constraint.

SMEs are also said to experience access to finance as a constraint on growth, given recent liquidity issues and increasing regulations on lending and funding.

As the UAE continues to make great leaps to compete with global markets and be known as the hub of the Middle East, ICT is paramount to aiding innovation and efficiency. UAE businesses are still said to be relatively hesitant to invest in ICT infrastructure which could be due to a number of factors such as a misconception on the cost, access to reliable providers and a lack of internal understanding on the benefits of such adoption.

The need for integrated ICT within businesses will increase due to the impending introduction of VAT which will impact point of sale systems and finance systems amongst others – with VAT being applicable for all sales, goods and services (apart from certain exceptions) and the increasing threat of cybercrime in the region (with the UAE government working closely with the UK to reduce the risk of ongoing threat)[15]. With the increased internationalisation of business to business interaction between the UAE, businesses will need to ensure they aim to achieve international best practice when looking at ICT infrastructure to ensure timely, effective and concise metrics and analytics are delivered to continue driving business growth.

Another key constraint on growth is a lack of skilled and innovative workforce across some sectors. In order to support this, the UAE government has recently launched a global foundation with a significant budget which aims to address education and societal challenges in the region. The initiative will invest almost AED 1 billion into education and knowledge programs, provide 500 million books for students to read, create 5,000 innovates to be supported and incubated across the region, invest AED 5.5 billion in innovation, translate 25,000 books into Arabic and invest AED 150 million to encourage creatives, intellectuals and journalists[16]. In doing so, the government is working on addressing the workforce issue which currently relies heavily on expatriates, by investing in such initiatives the government aims to promote emiratisation with a view to creating an economy that is led by local innovators, intellectuals and remains resistant to any labour issues in the foreseeable future.

In 2016, banks are also prepared for deteriorating conditions which are taking their toll on bank deposits in the UAE which is leading to further tightening of liquidity, higher interest rates, a slowdown in credit growth and also dampening access to finance for SMEs. Standard and Poor stated in a recent report that they expect "asset quality to erode, which should translate into higher credit losses" as a result of which earnings growth for UAE banks might be negative in 2016"[17]. Coupled with exchange rate fluctuations caused by inflation rates, differing interest rates and global economic uncertainty - UAE businesses will need to address the business constraints where possible before looking to unlock opportunities amongst the challenges.

[15] *"UAE co-operates with UK to increase its cyber security", The National*
[16] *"Dubai ruler launches $272m global drive to combat poverty, unemployment", Arabian Business*
[17] *"Weak bank deposits to tighten liquidity further", Khaleej Times*

UAE: Employment

Employment opportunities are still present in the UAE with healthcare, retail, trade logistics and ICT being the key sectors.

Employment opportunities in the UAE are representative across all sectors. According to the Nakrigulf Job Speak Index, online hiring activity in the Gulf rose by seven percent during Q4 2015 leading into 2016. However, Saudi Arabia showed the greatest increase at 18 percent, with the UAE showing the weakest increase of two percent[18].

Whilst there have been a number of news stories highlighting job cuts in the UAE and the wider region as a result of reducing revenues and hesitancy, there are still employment opportunities available in the UAE and wider GCC. A recent study led by Bayt.com polled companies in the UAE to find that approx. 31 per cent of companies said they will 'definitely be hiring' and 41 percent stating they will 'probably be hiring'[19] with the key driver being Expo 2020 and re-aligning growth strategies to leverage from any untapped opportunities during the current market condition.

2% increase to online hiring activity.

According to Monster.com, employment opportunities would be focused on the healthcare, retail, trade logistics and ICT sector with the lowest growth industries being production, manufacturing, hospitality and oil & gas. The most in demand professionals would be those with experience in Marketing and Business development (increased by 45 per cent year on year), healthcare (increased by 37 per cent) and HR and administration (increased by 27 per cent)[19].

Although, companies in the UAE are still hiring and employment rates remain stable, salary increases are expected to reduce by 4.6 per cent in 2016. According to Mercer Middle East's latest total remuneration survey, "companies in the region are becoming more financially prudent when dispensing with pay hikes this year"[20].

The most in demand professionals would be those with experience in Marketing and Business Development, Healthcare & HR[19]

31%
of companies said they will 'definitely be hiring'[19]

[18] "GCC online hiring activity grows 7% in Q4, led by Saudi Arabia", Arabian Business
[19] "UAE's most in-demand jobs next year", Gulf News
[20] "UAE pay hikes to slow in 2016 as economic conditions toughen", Gulf Business

UAE: Inflation

Inflation has eased in the UAE primarily driven by the cost of transportation and current market conditions.

UAE inflation was 4.29 per cent year on year, down from 4.94 per cent in August last year (2015). Standard Chartered Bank forecasted that the economy will grow by 2. 9 percent which was a decline from the estimated 3.5 percent in 2015.

However, since then the International Monetary Fund (IMF) has downgraded the projection to 2.6 per cent this year[1] as a result of slower public spending amongst the Gulf countries, reduced sentiment in neighbouring countries such as Saudi Arabia which is expected to spend 13 per cent less year on year when it comes to public spending, and various macroeconomic global issues.

January (2016) inflation fell to 1.9 pct as gasoline prices dropped, transport costs which account for approximately 9 percent of total inflation fell 4.1 percent year-on-year in January as the UAE cut gasoline prices in line with falling global oil prices. Housing and utility costs, which account for almost 44 percent of consumer expenses increased by 4.4 percent from last year, food and beverage prices which account for just over 11 percent increased by 3.1 percent[21] according to data released from the Dubai Statistics Centre.

Research suggests that the forecast for real GDP growth will increase to 3.6 percent next year (2017) as oil prices begin to rebound[22].

"The UAE has one of the most diversified economies in the GCC with significant investment being made to build a stable economy for future generations. The UAE has shown its resilience as witnessed in the 2008 economic crisis which was more aggressive than the current woes being experience around the world. As businesses remain cautiously optimistic, there is opportunity amongst the predicament and in order to leverage from this – businesses must remain determined and look to the future with optimism."

Hisham Farouk
CEO
Grant Thornton UAE

Official inflation is expected to hover at around 2.6% this year

January (2016) inflation fell to 1.9 pct as gasoline prices dropped.

[21] "*UAE economy set to expand 2.9% in 2016*", *Khaleej Times*
[22] "*Dubai January inflation falls to 1.9pct as gasoline drops*", *Zawya online*

UAE: Partner perspective

Samer Hijazi, Partner and Head of Islamic Finance at Grant Thornton UAE gives his opinion on the economic outlook

Oil was discovered in the UAE in the 1950s and the country began exporting it in the 1960s. Oil has been dominating the social and economic development of the UAE ever since and with oil prices now trading in a range of $20-30 per barrel from a peak of $115 just over a year ago, anyone who says that 2016 is likely to be a challenging year is clearly stating the obvious. Oil isn't the only variable in the UAE economic equation as it has also been feeling the impact from turbulent global equity markets, the slowdown in emerging markets and heightened global political tensions across a range of areas. So what is the outlook for the UAE in 2016?

In the World Economic Forum's Global Competitiveness Report 2015–2016, the UAE ranks 17th. To put that into perspective, the same report ranks the larger and more mature economies of the UK and France at 10 and 22 respectively.

The UAE clearly has a lot going for it with the report citing an excellent macroeconomic environment, highly developed infrastructure and the highest level of diversification of all economies in the GCC states. In addition, the UAE also enjoys one of the highest proportions of revenue derived from non-oil sources amongst the GCC states at approximately 70% according to some sources.

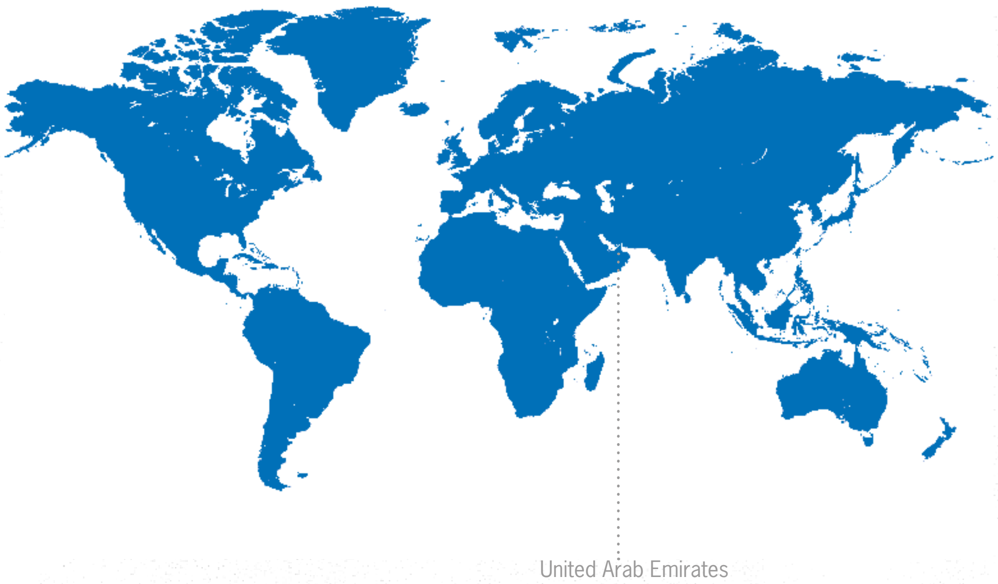
With oil prices seemingly plunging to what felt like daily new lows in December 2015, many waited nervously as the UAE cabinet met to deliberate the budget for 2016. To the surprise of many, the Cabinet approved a budget of 48.6 billion dirhams only slightly down on the 2015 budget of 49.1 billion dirhams. Consistent with 2015, the 2016 budget gives priority to services that touch on the lives of the people and more than 50 per cent of the budget has been allocated to sectors such as education, social development, public services and health. In doing so, the Cabinet sent a clear message to the market that while ongoing projects need to be more closely managed, there will no large scale-back of future expenditure. It is a message of confidence, confidence in the maturity of the UAE economy to manage the challenges ahead and confidence in the UAE 2021 Vision for the UAE to be among the best in the world in ease of doing business, innovation, entrepreneurship and R&D indicators.

Taking a closer look at some of the other key sectors, the leisure and hospitality sector is unlikely to be immune to the effects of high regional instability, lower oil prices and reducing disposable incomes in countries like Russia and China and other parts of the world, the UAE continues with its plans to construct new state of the art terminals for its airports in Abu Dhabi and Dubai, attract new hotels and attract even more visitors through more and more new ideas and developments such as the Guggenheim projects, the Bollywood Park and the Museum of the Future and, of course, Expo 2020. Indeed, recent regional instability is likely to work in favour of the UAE as holiday makers are forced to consider alternatives in the Middle East to traditional destinations in the Levant and Egypt and are more and more likely to now be looking at the UAE as the safest and most glamourous destination in the region.

The financial services industry naturally bore the brunt of the crisis in the UAE in 2008 as it did around the world. Eight years on, bankers and regulators in the UAE are clearly wiser, more experienced and determined not to be caught by another crisis again. The UAE Central Bank has very wisely said that it expects the focus for 2016 to be fairly and squarely around prudential risk management. What that translates into on a day to day basis is for bankers and credit institutions to closely manage the funds they lend to the market as well as the quality and quantity of reserves they build up to buffer them from an expected rise in non-performing loans as some businesses, particularly new businesses and/or SMEs, feel the strain of challenging market conditions. At the same time, the Central Bank has made it quite clear to the market that what this does not mean is for the banks to turn off the liquidity taps, banks must continue to lend while adhering to the best principles of credit risk management.

Samer Hijazi
Partner and Head of Islamic Finance
Grant Thornton, UAE

"In the World Economic Forum's Global Competitiveness Report 2015–2016, the UAE ranks 17th. To put that into perspective, the same report ranks the larger and more mature economies of the UK and France at 10 and 22 respectively. The UAE clearly has a lot going for it with the report citing an excellent macroeconomic environment, highly developed infrastructure and the highest level of diversification of all economies in the GCC states".



Global: Economic growth

The IMF has lowered its 2016 global growth forecast to 3.6% (from 3.8% in July 2015) with managing director, Christine Lagarde, warning that any increase in output this year will be "disappointing and uneven". The fund has also revised down its world trade growth projection for this year from 4.4% in July 2015 to 4.1%.

Looking to 2016, the US Federal Reserve has signalled its confidence in the country's economic recovery with its first interest rate rise in 114 months. Whilst the move was initially welcomed by global markets, the accompanying strength of the US dollar is a concern for the country's exporters. The rate rise will also not be welcome among emerging markets which hold substantial quantities of dollar-denominated debt.

The re -balancing of China's economy to being more service-led continues to shape the global economic outlook. The manufacturing Purchasing Managers' Index (PMI) for China stood at 49.7 in December 2015, after contracting for the fifth consecutive month, while the non-manufacturing PMI rose to 54.4 from 53.6 in November. Growth in China is forecast to be 6.3% this year, 0.5% slower than in 2015, though the impact of changes taking place in the world's second largest economy are having a limited impact on forecasts for the Asia region (5.4%) and ASEAN-5 (4.9%).

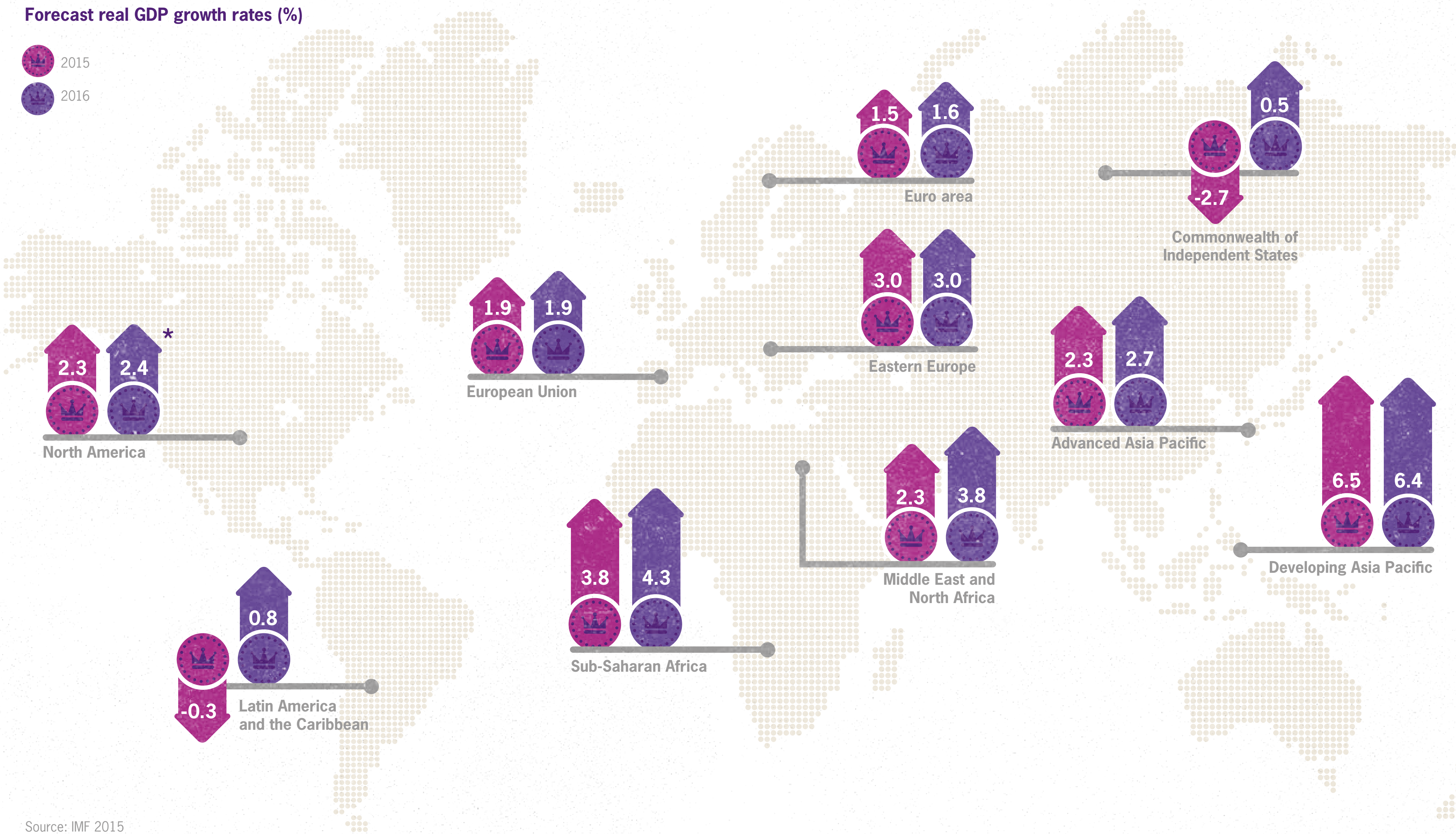
Forecast growth for the Eurozone (1.6%) is almost unchanged from 2015, with the German (1.6%), French (1.5%) and Italian (1.3%) economies all forecast to grow more quickly this year than last. Elsewhere, the contraction of Greece's economy is set to slow to -1.3% compared with a predicted -2.3% in 2015. Consumer prices across the Eurozone are expected to rise 1% in 2016, still falling short of the region's 2% inflation target, despite record-low base rates and the European Central Bank's expansive quantitative easing programme.

In South America, falling commodity prices and currency depreciation is expected to have a substantial impact on output and inflation, with consumer prices likely to increase 15% this year. Argentina (-0.7%) is expected to contract despite a boost to business confidence following the start of Mauricio Macri's presidency. Brazil's recession is forecast to continue (-1%) as the region's largest economy struggles with the falling value of the Real, down 30% against the dollar in the year to December 2015, and high levels of unemployment, expected to rise to 8.6% in 2016 compared with 6.6% for 2015.

The impact of instability in the MENA, Afghanistan and Pakistan region is forecast to have a limited impact on growth, predicted to be 3.9% in 2016 compared to 2.5% last year. That said, growth is expected to slow in a number of major oil exporting nations, including Saudi Arabia (2.2% down from 3.4% last year) where the current account deficit is set to increase to 4.7% of GDP.

Meanwhile in Sub-Saharan Africa (SSA), major oil exporters appear to be suffering less and are forecast to grow by 4.1% this year compared to 3.5% in 2015. Outlook for the SSA region as a whole is relatively strong (4.3%), though growth is forecast to slow in some low-income countries including Ethiopia (down from 8.7% in 2015 to 8.1%) and the Democratic Republic of Congo (down from 8.4% in 2015 to 7.3%).

Growth is set to return for the Commonwealth of Independent States (0.5%) in 2016 following a fall in output last year. Russia's economy is set to contract by -0.6% as it struggles with falling commodity prices and trade embargoes.



Source: IMF 2015

* North America is a weighted average of the United States and Canada

Global: Business growth

Looking ahead to 2016, our International Business Report (IBR) finds net global business optimism stands at 36%, a 1pp uplift on this time last year. Surprisingly, EU businesses (38%) are the bedrock of stability. Despite concerns about the migrant crisis, terrorism and potential Brexit, firms across the region have maintained similar levels of confidence for the coming 12 months throughout 2015. Meanwhile in the US, December's interest rate rise has added to concerns among business leaders who reported a sharp 24pp quarterly drop in economic optimism for the year ahead.

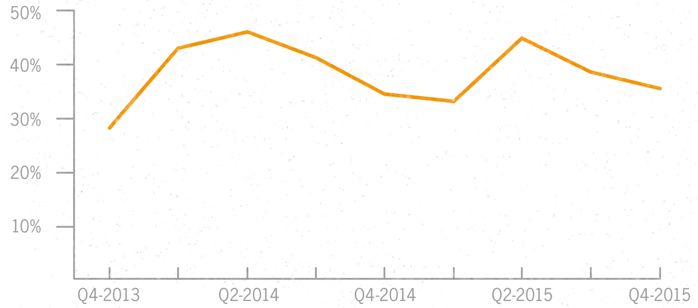
Businesses in developed nations are feeling the most confident about their country's economic prospects, with Ireland (88%), the United Kingdom (73%), Netherlands (68%), the US (50%), Spain (49%) and Australia (46%) all reporting high levels of optimism.

Meanwhile, at the bottom of the table, commodity-intense economies Brazil (-12%), Malaysia (-14%) and South Africa (-24%) have been impacted by falling selling prices for their exports.

In North America, the sharp quarterly fall in business optimism in the US at the end of 2015 to 50% has stemmed from concerns among exporters about the strength of the dollar, which have been compounded by the Federal Reserve's rate rise. Businesses in Canada have also reported a substantial drop in confidence looking ahead to 2016 compared to last year (18% down 35pp), driven by concerns about falling commodity prices.

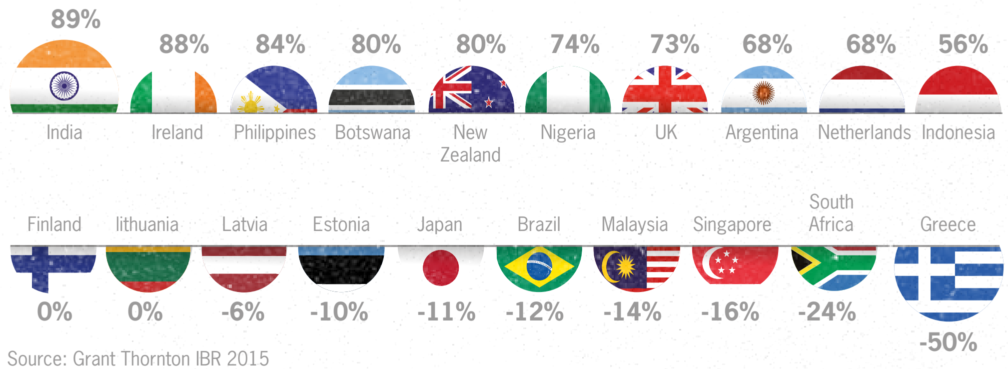
Across Asia Pacific the outlook is remarkably positive considering the economic slowdown in China and resulting market volatility across the nation. Confidence within the region looking ahead to the coming 12 months is up 4pp to 31% compared to this time last year. Some major economies in the region including Australia (46%), China (36%) and Indonesia (56%) have reported substantial quarterly uplifts in optimism. However, in Japan (-11%), Prime Minister Abe's "three arrows" of fiscal stimulus, monetary easing and structural reforms are yet to translate into an uplift in business confidence across the country.

Net percentage of businesses optimistic for the economic outlook (global)



Source: Grant Thornton IBR 2015

Net percentage of businesses optimistic for the economic outlook (top and bottom ten)



Source: Grant Thornton IBR 2015

Sales and profits

Global revenue expectations (44%) for 2016 are slightly up compared to this time last year. Whilst the worldwide outlook is promising, optimism is not evenly shared.

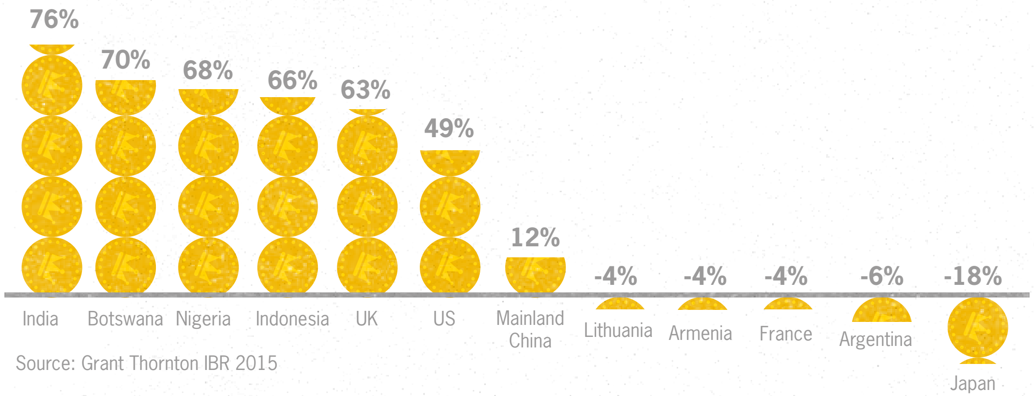
Companies in India (92%), Nigeria (86%), Ireland (74%), Mexico (74%), Argentina (72%) and Turkey (72%) are the most confident about increased revenues for the coming year. Mexico is benefitting from a relatively less commodity-intense economy than its Latin American peers, while businesses in Argentina have welcomed Mauricio Macri's presidency and firms in Turkey appear unconcerned about the impact of the migrant crisis and neighbouring instability.

Countries reporting low revenue expectations include France (11%), Russia (8%) and China (21%), with the latter two nations facing poor export prospects and limited domestic demand.

Across emerging markets, revenue expectations for 2016 are divided. The balance of MINT countries expecting an increase stands at 74%, up 17pp compared to this time last year, while BRIC optimism is at 33%, down 14pp.

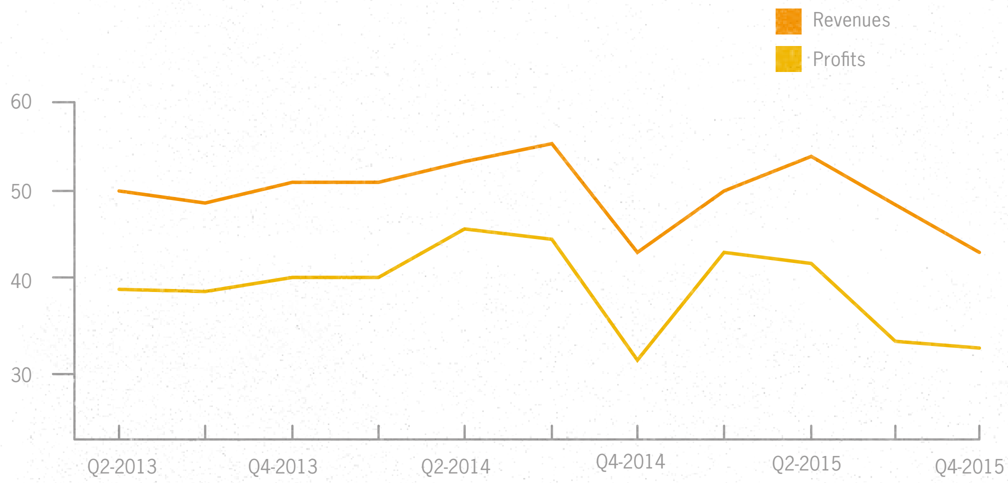
Global profitability expectations (33%) for the coming 12 months are in-line with last year. The UK (63%), Netherlands (62%), Indonesia (66%) and Nigeria (68%) are among the most positive about profitability outlook, while sharp falls in expectations have been reported in Russia (-4%, down 27pp) and Mexico (6%, down 46pp) compared to 2015.

Net percentage of businesses expecting to increase profits (selected economies)



Source: Grant Thornton IBR 2015

Net percentage of businesses expecting to increase revenues/profits (global)



Source: Grant Thornton IBR 2015

Exports

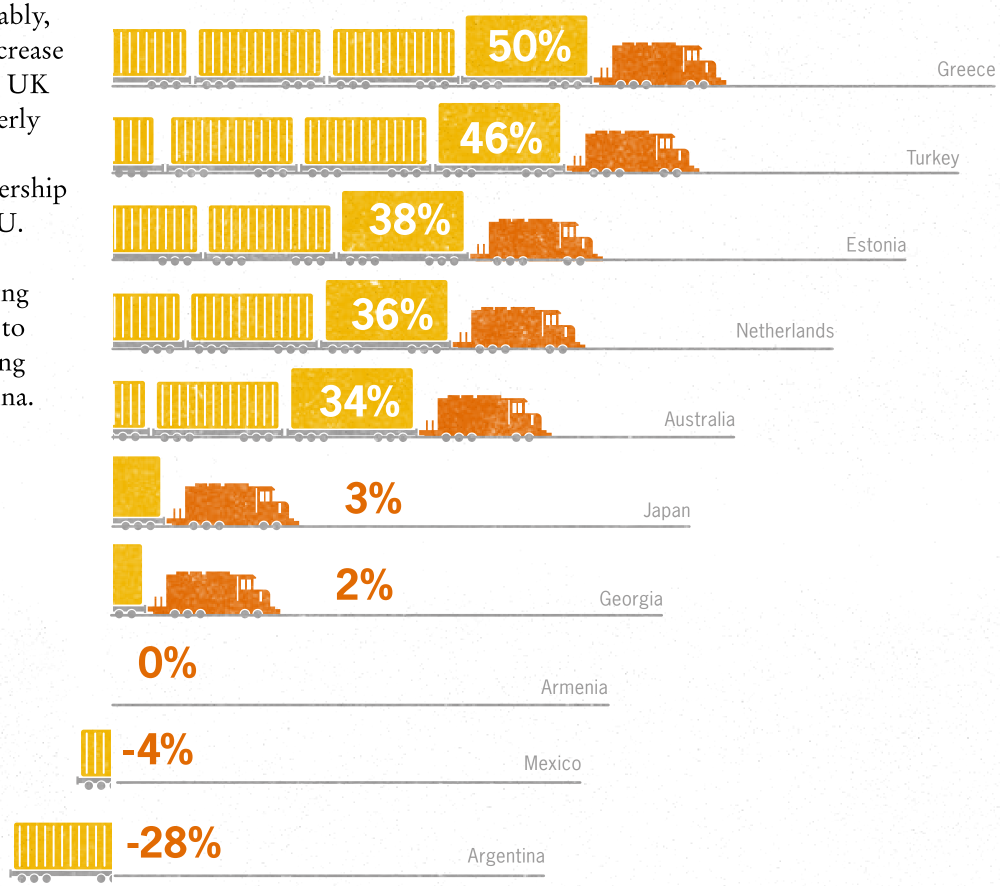
Looking ahead to 2016, businesses worldwide are reporting low export expectations. Net 15% of companies worldwide are looking to increase exports over the coming 12 months, the lowest quarterly figure since 2011.

The Federal Reserve interest rate rise and resulting strengthening of the dollar has hurt export sentiment in the US, where net 11% of companies are expecting to increase exports over the next year. The issue is likely to be compounded by the falling value of currencies across major US export markets such as Mexico, Japan and Brazil.

The EU (26%) has maintained a relatively high level of increased export expectations throughout 2015. Notably, the balance of firms expecting to increase exports over the coming year in the UK (23%) saw a substantial 11pp quarterly uplift at the end of 2015 despite the prospect of a referendum on membership of its primary export market, the EU.

Firms in both Asia Pacific (11%) and Latin America (7%) are reporting low export expectations, likely due to falling commodity prices and slowing demand for raw materials from China.

Net percentage of businesses expecting to increase exports (next 12 months; top ten)



Source: Grant Thornton IBR 2015

Innovation and investment

Worldwide expectation of an increase in infrastructure and R&D investment has fallen this year compared to last, with emerging market sentiment weighing on forecasts.

Looking ahead to 2016, global business expectations for increased investment have fallen from this time last year across the fields of research and development (R&D) (22%, down 8pp), new buildings (17%, down 5pp) and plant & machinery (30%, down 5pp).

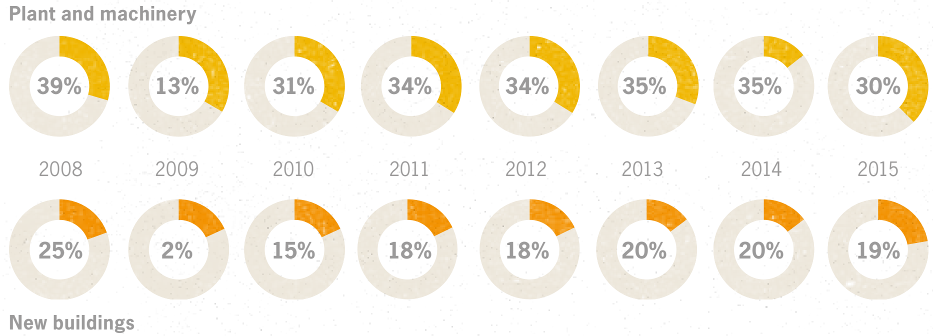
Businesses in Nigeria (68%), Lithuania (62%), Spain (59%), Ireland (57%) and the United Kingdom (53%) are most expectant of an increase in plant and machinery spend for 2016. The global fall over the last year (35% to 30%) is largely due to low expectations across emerging regions. Emerging APAC (20%, down 8pp), Eastern Europe (26%, down 7pp) and Latin America (18%, down 27pp) have all reported falls in expectation for the coming 12 months. The outlook is more promising in Africa, where expectation of an increase is up this year to 59% compared to 39% for the same period last year.

Emerging regions are also weighing on global research and development expectations (R&D), with Emerging APAC (27%, down 7pp), Eastern Europe (16%, down 4pp) and Latin America (25%, down 8pp) all reporting falls in investment plans. Investment intention across the EU is increasing but has fallen sharply in North America (16%, down 19pp). The outlook is better in Africa (58% up 30pp) and the MINT countries (37%, up 7pp).

Expecting R&D investment in North America is down 19pp to 16%

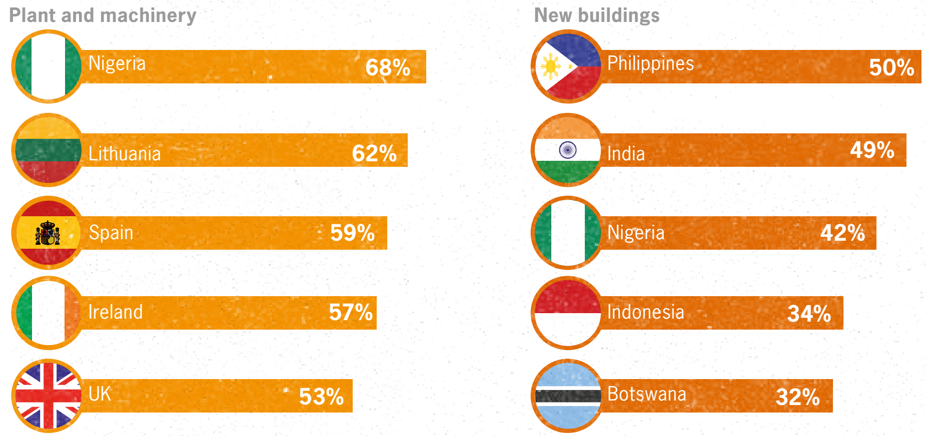
Global expectation of an increase in investment in new buildings for the coming 12 months fell slightly to 19%. Only businesses in the Baltic region (19%) and within the MINT countries (19%) have reported an uplift in expectation from a year ago, up by 9pp and 2pp respectively. Intention to invest is highest among businesses in the Philippines (50%), India (49%) and Nigeria (42%) while in more developed economies such as Germany (3%), France (3%) and Canada (8%) expectations are much lower.

Net percentage of businesses planning to increase investment (next 12 months; global)



Source: Grant Thornton IBR 2015

Net percentage of businesses planning to increase investment (next 12 months; top five)



Source: Grant Thornton IBR 2015

Global: Business growth constraints

Economic uncertainty is set to be the biggest concern for global businesses in 2016, with red tape and a lack of skilled workers also weighing on the minds of business leaders.

Within the context of slowing international trade and rising geopolitical tensions, there has been a 3pp global increase in the balance of companies citing economic uncertainty as a major constraint to growth (38%). Businesses in major emerging and developed economies including Brazil (73%), India (71%), Japan (64%), Russia (57%) and France (54%) are among the countries most concerned about the impact of economic uncertainty could have on their ability to grow.

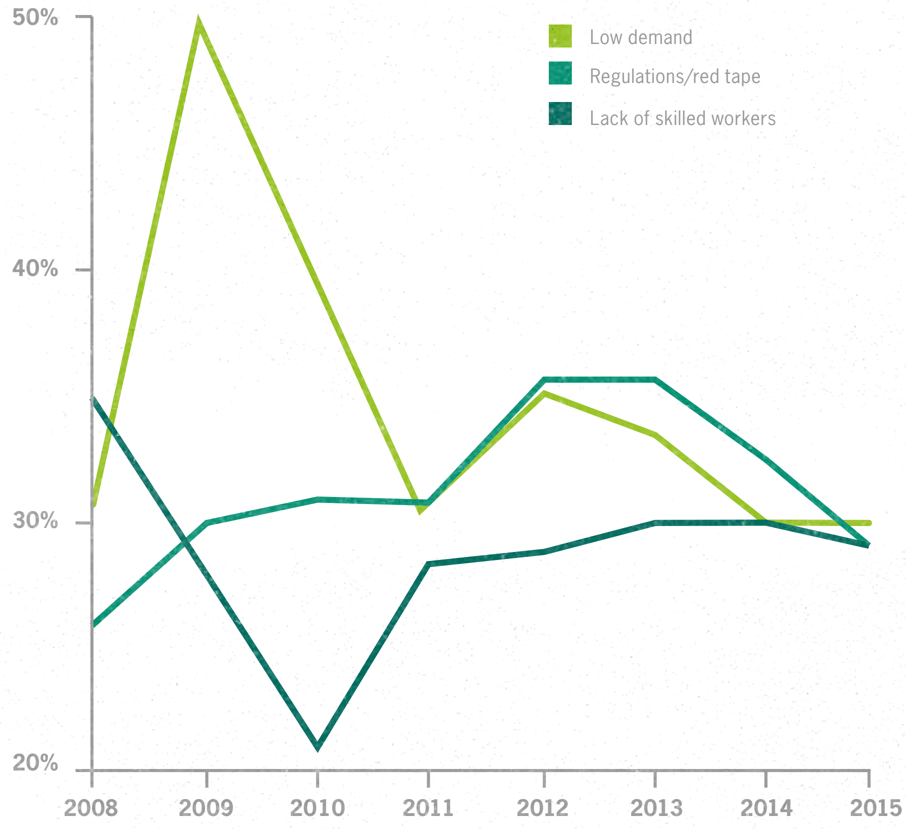
55% of Latin America companies view currency values as a growth constraint.

Despite an oversupply of oil and steel, as well as reduced demand for commodities, the balance of businesses concerned about a shortage of orders remains unchanged at 30%. The balance of companies in the mining and quarrying (28%, up 6pp), manufacturing (38%, up 2pp) and agriculture and forestry (32%, up 5pp) sectors citing a shortage of orders as a major constraint to growth has risen. Latin America (31%, up 8pp) and Emerging Asia Pacific (43%, up 4pp) are among the regions where concern is highest.

Global businesses are slightly less concerned about regulation and red tape down 3pp from last year at 29%. However, these regulatory concerns impacting growth remain high in Greece (66%), Italy (52%), France (51%) and Spain (38%) are among the most concerned about regulation. Following Greece's decision to stay in the Eurozone, the debate about European ties has now shifted to the UK (23%) ahead of its upcoming EU referendum.

Currency values are less of a concern to global businesses (27%), although the balance citing fluctuating exchange rates as a major constraint to growth has risen 3pp compared to this time last year. Businesses in Africa (69%), Eastern Europe (57%) and Latin America (55%) are the most concerned. Regions using strong currencies like the Eurozone (14%) and North America (13%) are far less concerned, though the US (11%)

Proportion of businesses citing shortage of orders/reduced demand as a constraint on growth (global)

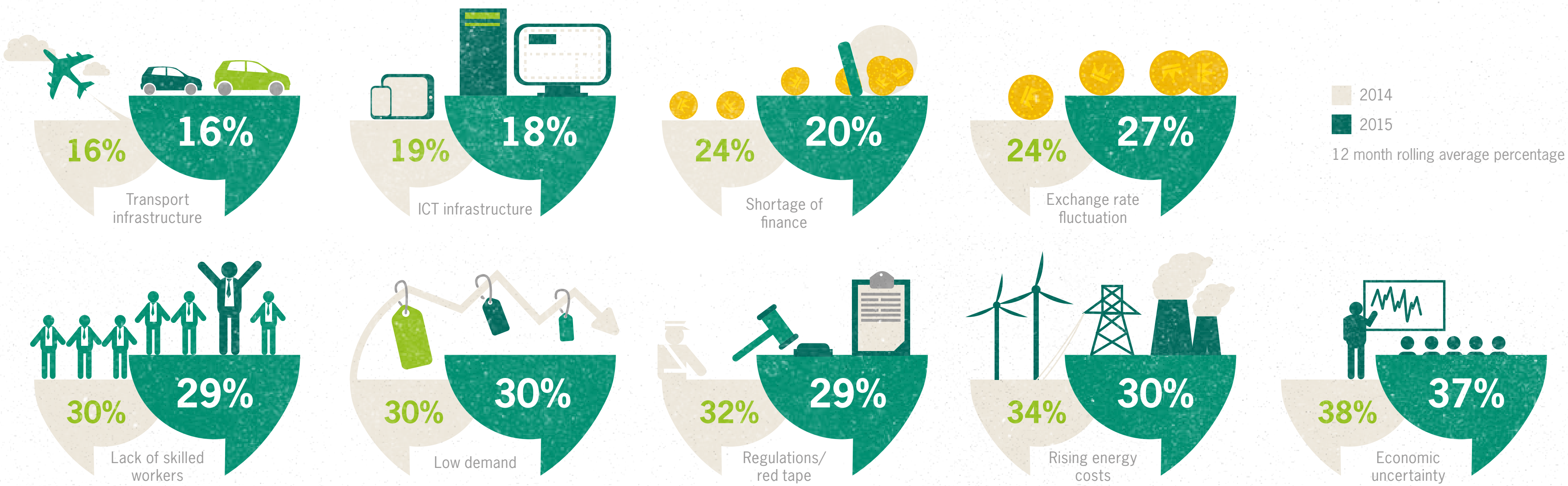


Source: Grant Thornton IBR 2015

has reported a 5pp rise in the balance of business citing exchange rate fluctuations as a concern.

As low interest rates and quantitative easing programmes keep levels of funding high across most regions, fears that a lack of finance will stunt growth are muted. Concern about finance is highest in Greece (64%), where the national administration is working to control the country's spiralling debt-to-GDP ratio which now stands at almost 200%, its highest level since joining the Eurozone. The balance of firms citing finance as a restraint to growth is also notably high in parts of Sub-Saharan Africa, such as Nigeria (48%) and Botswana (30%) as well among some Southern European nations like Italy (32%) and Spain (32%).

Proportion of businesses citing constraint on growth (global)



Source: Grant Thornton IBR 2015

Global: Employment

As technology continues to dominate discussions around employability and skills, global employment expectation for the coming 12 months has remained broadly stable over the past year. With major emerging economies steadily shifting towards service-led growth, a lack of skilled workers is a pressing concern across the APAC and Baltic regions.

Globally, the balance of businesses expecting to hire more staff in 2016 stands at 31%, with both developed regions such as North America (44% up 6pp) and the EU (28% up 6pp), as well as regions dominated by emerging markets such as Africa (53% up 19pp) and ASEAN (37% up 23pp), reporting substantial uplifts in expectation compared to last year.

74% of businesses plan to raise wages

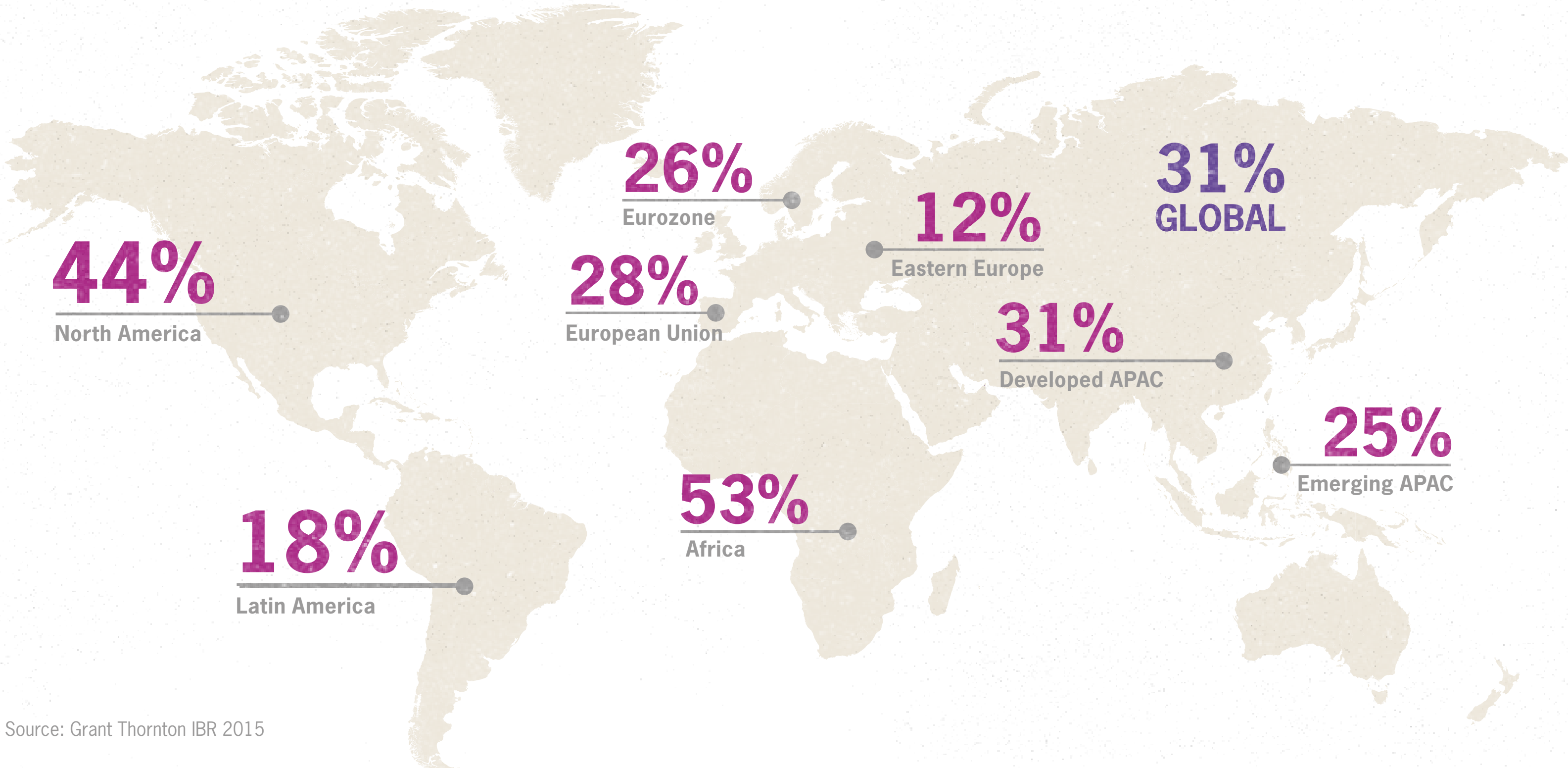
Worldwide concern about a lack of skilled workers has risen over the fourth quater of 2015 up 5pp year over year to 31%. Businesses in Japan are the most concerned about a lack of skilled workers (62%), and the issue is on the minds of leaders across Asia Pacific, with a high balance of firms in Singapore (46%) and China (36%) citing the shortage as a major constraint.

From an employee perspective, the outlook is positive. The quarterly balance of companies worldwide expecting to offer workers a pay rise over the coming 12 months (74%) is at its highest since 2011. Just one in five countries surveyed report a balance not exceeding 40%, including Japan (40%), Russia (26%) and Greece (4%).

Net percentage of businesses planning to add jobs (global)

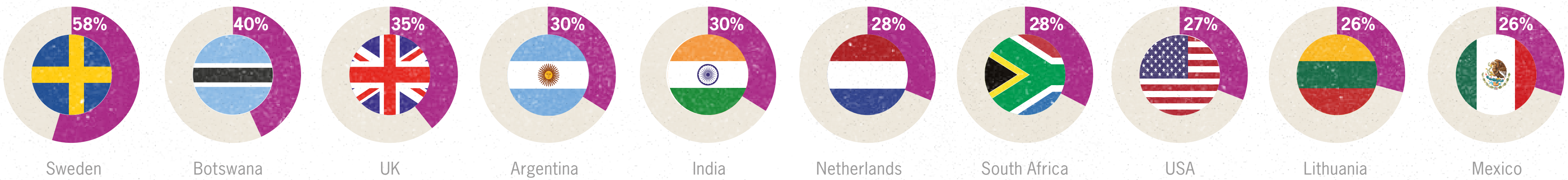
Source: Grant Thornton IBR 2015

Net percentage of businesses planning to add jobs (2015 average)



Source: Grant Thornton IBR 2015

Net percentage of businesses planning to increase worker salaries above inflation (next 12 months; top ten)



Source: Grant Thornton IBR 2015

Global: Inflation

As a number of central banks worldwide aim for the ever-elusive 2% inflation rate, a backdrop of slow consumer price growth and falling commodity prices means global prospects for stable inflation in 2016 are shaky.

The IMF is forecasting a 1.2% increase in advanced economy consumer prices in 2016 and a further 2.4% fall in the price of oil – the price per barrel dropped almost $20 in the year to December 2015.

Just a fifth of businesses globally expect to increase selling prices over the next 12 months. This, combined with the fact that net 74% of businesses globally intend to offer employees a pay rise over the next 12 months, and 18% expect the rise to be above inflation, appears to be better news for consumer spending.

The US Federal Reserve has signalled its belief that the nation has overcome the deflationary pressure that troubled it at the start of 2015, with its first interest rate rise for almost 10 years. The rise comes as net 28% of US companies expect to increase selling prices in 2016 and net 27% expect to offer an above inflation pay rise, up 17pp. This increase in consumer purchasing power should help ensure prices keep rising at a desirable rate.

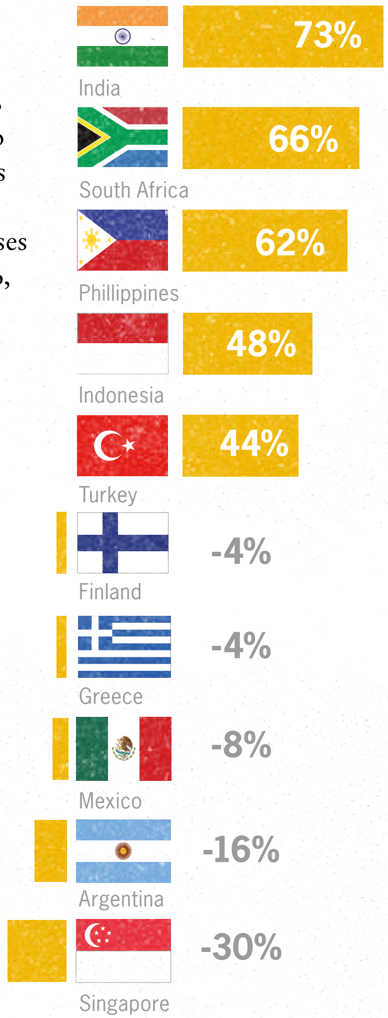
Across the EU, the European Central Bank's extensive quantitative easing programme is yet to put a decisive halt to deflation. The region posted just 0.2% inflation in December, having been -0.1% three months earlier. Net 17% of EU businesses expect to increase selling prices over the coming 12 months compared to 13% a year ago.

Another of the world's largest economies also appears to be closer to achieving its target 2% inflation rate. Having struggled with deflation throughout 2012 and into 2013, Japan has seen steady inflation over the last year. Net 5% of businesses in the country expect to increase selling prices in 2016, up from -4% in the final quarter of 2014.

Net 5% of Japanese businesses expect to raise selling prices

By contrast, major economies across Latin America continue to battle spiralling inflation. The IMF forecasts that consumer prices in Brazil and Argentina will rise by 6.3% and 25.6% respectively in 2016 against a backdrop of weakening currencies. Mexico offers relative stability, with a 3% increase forecast. In Brazil, net 43% of businesses expect to increase selling prices in 2016, while Mexico (-8%) and Argentina (-16%) have seen huge 96pp and 56pp respective negative swings compared with expectation for 2015.

Net percentage of businesses expecting to increase selling prices (top and bottom five)



Source: Grant Thornton IBR 2015

How Grant Thornton can help

Combined
global
revenues
US$4.6bn

Global assurance revenues
$2bn 2015

Global
advisory revenues
$1.4bn 2015

25
M&A deals
in 2015
adding revenues of
$76m

40,000
people in over
130
countries

Around 725
offices
worldwide

IBR 2016 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 2,500 senior executives every quarter in listed and privately-held companies all over the world. Launched in 1992 in nine European countries, the report now surveys more than 10,000 businesses leaders in over 36 economies on an annual basis, providing insights on the economic and commercial issues affecting the growth prospects of companies globally.

The data in this report are drawn from more than 10,000 interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in mid-market businesses in 36 economies conducted between February and December 2015. The definition of mid-market varies across the world: in mainland China, we interview businesses with 100-1000 employees; in the United States, those with US$20m to US2bn in annual revenues; in Europe, those with 50-499 employees.

Drawing on data and insight from the International Monetary Fund (IMF), the World Bank, Central Bank of the UAE, Dubai statistics centre and other credible sources (as quoted) for the UAE insights.

More information:

Publications: www.grantthornton.ae
Methodology: www.grantthornton.global

Andrew F Brosnan
Global insights and thought leadership
Grant Thornton International Ltd
T +44 (0)20 7391 9631
E andrew.brosnan@gti.gt.com
W www.grantthornton.global

Nav Kaur
UAE insights and thought leadership
Grant Thornton UAE
T +971 (0)4 388 9925
E nav.kaur@ae.gt.com
W www.grantthornton.ae

Grant Thornton
An instinct for growth™

www.grantthornton.ae