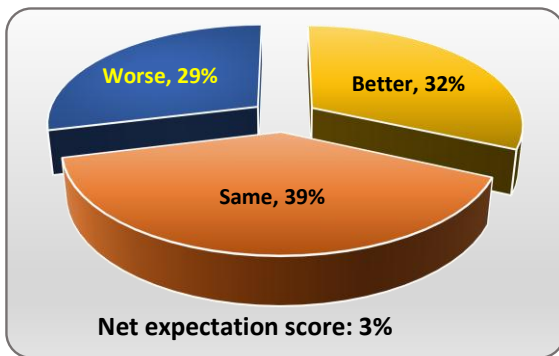


Highlights

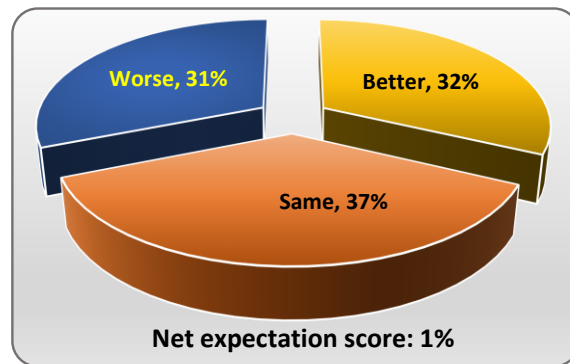
- I. A recovery from the negative expectation for the 1st quarter of the year (Q1-2016) could be noted for the 2nd quarter (Q2-2016), with net expectation score¹ for general business condition in Dubai turning slightly positive at 3%. Though oil prices remained low, the downward trend had been reversed, with the global prices increasing slightly towards the end of Q1-2016. In addition, the strength of the US dollar had slightly gone down.

Similarly, net expectation score for business confidence had eased up from the negative territory, though remaining marginally low at only 1%.

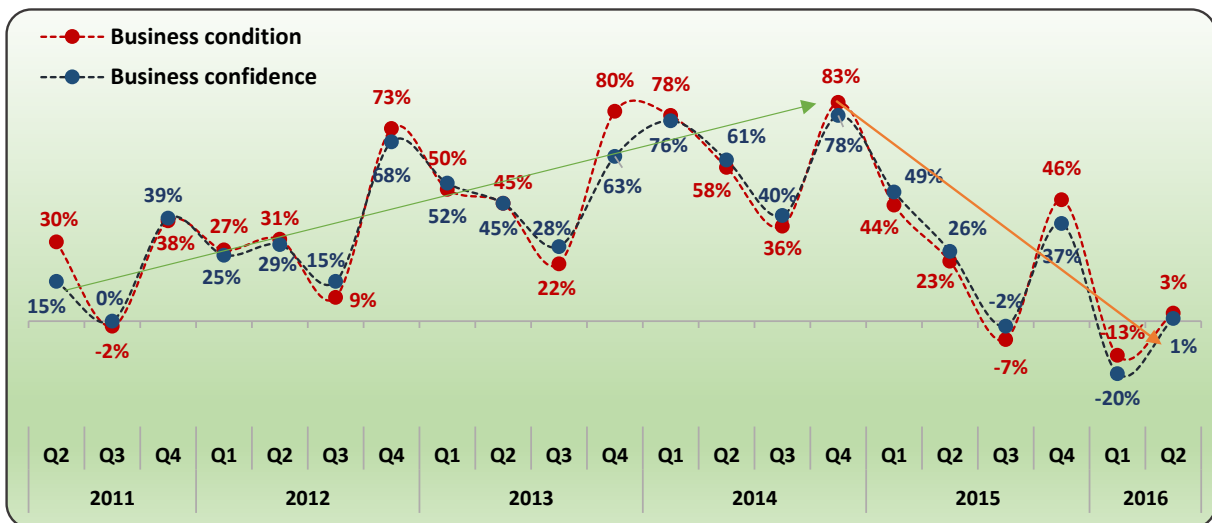
Expectation for business conditions for Q2-2016 turns positive, but remains low at 3%



Expectation for business confidence for Q2-2016 remains lower at 1%



- II. Though the generally declining pattern continues, the Q2-2016 net expectations scores were higher than the corresponding levels in the previous quarter, with the expectation for business confidence lower than the expectation for general business condition.



¹ Net expectation score is a measure of expected direction of change, computed as the balance between the positive and negative expectations;

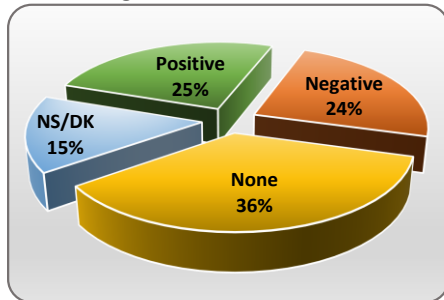
$$\text{Net expectation score} = (\% \text{ expressing expectations for improvement}) \text{ less } (\% \text{ expressing expectations for worsening})$$

III. SMEs and Large companies exhibited similar expectations for general business conditions, at net expectation score of 3%. However, the expectation for business confidence among Large companies was much lower at net expectation score of -6%, compared to the net expectation score of 10% for SMEs.

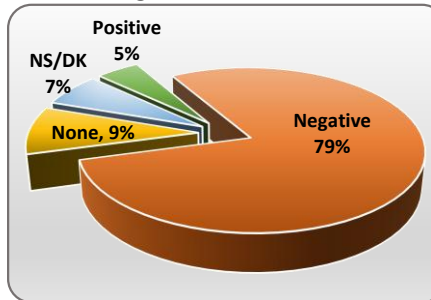


IV. Expected impact of recent events on business confidence for Q2-2016 varied, with impact of strong US dollars appearing to be not well-defined. However, slowing global demand and continuing low prices of crude oil are seen to definitely impact negatively on business confidence.

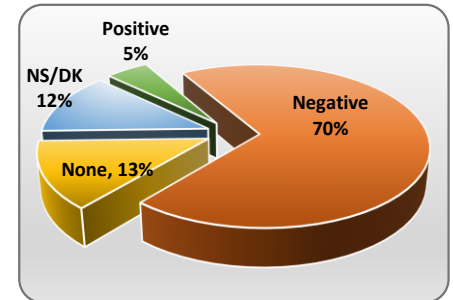
a. Strong US Dollar



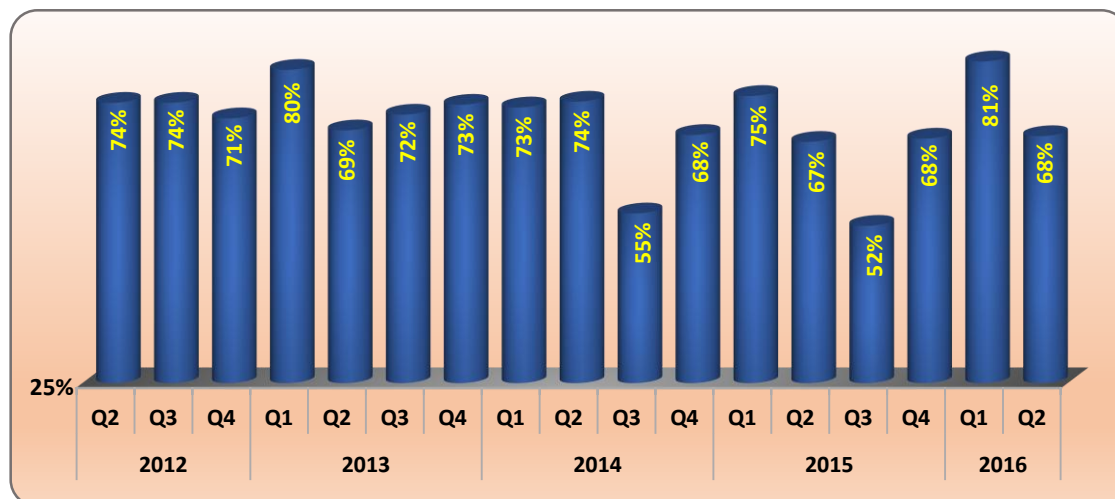
b. Slowing Global Demand



c. Low Crude Oil Prices

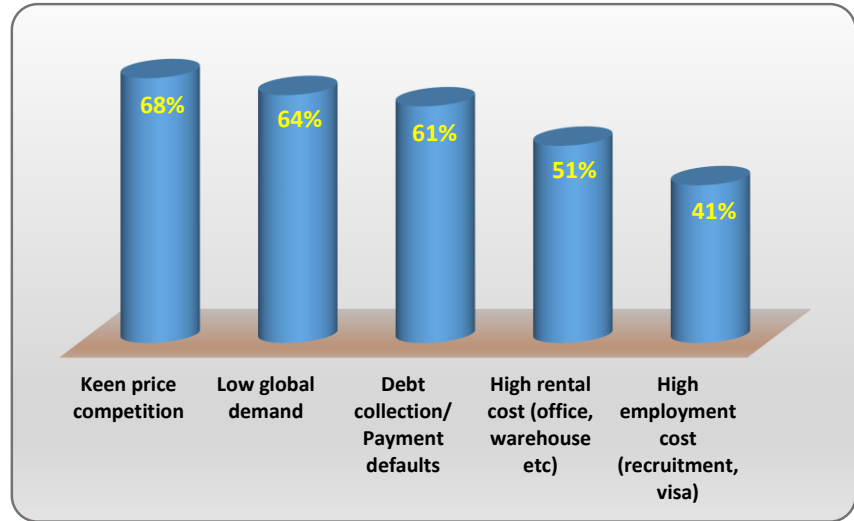


V. Awareness of limiting factors remained high, with 68% expressing expectations for limiting factors to impact negatively on their business activities in Q2-2016. The level was comparable to the expectation during the same quarter of the past two years.



VI. Factors that have been more commonly reported as expected to impact negatively on business operations in Q2-2015 are those directly related to revenue collection and costs of operation.

- a. Factors directly impacting on revenues
 - Keen price competition
 - Low global demand
 - Payment defaults
- b. Factors directly impacting on cost of operation
 - High rental cost
 - High employment cost



VII. Problems cited for which government actions are needed are focused on three issues: (1) Increasing cost of operations and cost of living that make doing business and living in Dubai less competitive/attractive; (2) continuing lack of legal support for financial management, especially to debt collection and bankruptcy, and access to financing; and (3) problems with accessing government services.

1. The following are the cost factors that are frequently cited as challenging to the cost of doing business in Dubai, and the corresponding suggested government action to mitigate their negative impact:

1.1. High cost of hiring and maintaining employees

<u>Description of the problem</u>	<u>Suggested government action</u>
i. The 2-year visa validity of employees lead to higher employment cost	- Return to 3-year visa validity for workers
ii. The recent rule allowing employees to easily change sponsorship encourages employees to 'blackmail/threaten' their employers for personal benefits	- Policies that equally protect the interests of employers/businesses and of employees
iii. The cost of hiring temporary workers is very high and discourages engagements in non-regular special projects	- Special low-cost procedures for short-term hiring

1.2. Rising cost of real estate and facilities rentals

Description of the problem

- i. Increasing rentals of commercial spaces, especially in malls, and rentals of industrial spaces cut significantly on sustainability/profits. Rising rentals are noted even for old buildings
- ii. Rising rentals of residential spaces add significantly to the cost of living, making increases in salaries and wages necessary, adding further to the increasing costs of operation and low margins. Loss of manpower can also result from increasing cost of living.
- iii. Ever-increasing government fees and charges, such as the new increases in parking charge, are cutting down on the sustainability of businesses, especially the SMEs.
- iv. Cost of ports and port services are very high

Suggested government action

- Setting of rental limits by area and building type and rental increases to a maximum of 5% once in two years. Renewal administrative fees being charged by some owners should be stopped.
- Policies that lead to changes in the cost of living should take into consideration of growth of industries
- Setting of costs of government services and facilities should take into the cost of operations and survival of SMEs
- To maintain trading competitiveness, cost of port and port services should be supportive of trading/logistics operations

2. The following are the financial problems that are frequently cited as challenging to financing of business in Dubai, and the corresponding suggested government action to mitigate their negative impact:

2.1. Lack of funds to support operations resulting to inability to collect debts

Description of the problem

- i. Failure to collect debts is a serious problem among SMEs, as they generally have limited access to financing
- ii. Lack of clear laws on bankruptcy

Suggested government action

- Easier access to court system and implementation of same rules/policies to all businesses
- Closer supervision and intervention by the Central Bank to ensure that 'good' companies remain liquid. There should be a website to receive complaints and concerns directly from affected companies.

2.2. Inability to pay debts as scheduled could only mean temporary lack of access to finances

- i. Fear of being treated as criminals leads to 'escape' of businessmen when they are unable to pay debts as scheduled

- The Central Bank to decriminalize cheque dishonour cases and, instead, implement a proper mechanism to provide assistance to deal with the problem. Banks should be encouraged to deal with borrowers on a case-to-case basis, instead of implementing the same rule for everybody and stopping credit lines without notice

3. Problems with accessing government services and facilities could become challenging

<u>Description of the problem</u>	<u>Suggested government action</u>
i. The government's plan to make all government services into smart services could pose a problem	- An assistance procedures should be in place when only e-services become available.
ii. Poor general market knowledge of rules and regulations	- Official English version of rules and regulations should be given to every licensee with yearly updates, as well as, creation of English versions of relevant government websites covering the same topics.
iii. Very complicated business registration and renewal process	- Simplification of procedures

4. Some sectors mentioned problems that they hope the government would address.

- i. Establishment of Global brands - Key government departments like Customs, Port Authorities, Chamber of Commerce need to reach out to the Fortune 500 companies and have one-on-one meeting to better understand the constraints and challenges faced by Global brands and jointly work out counter measures to unplug bottlenecks and improve business environment.
- ii. The too many restrictions on foods labelling issue being implemented by Dubai Municipality make importers scared of importing new goods. This is reason why we can find so many new things in the overseas markets that are not in Dubai.
- iii. Unlicensed travel agents/operators are selling tickets and travel services in the public.
- iv. Exporting gold jewellery to GCC is difficult due to lack of implementation of GSP, especially in Saudi Arabia and Qatar. The government should initiate dialogues with other GCC countries for full implementation of GSP system.
- v. Higher network interface fee charges for Debit Card transactions by VISA and Master. Lower VISA/Master rate for debit card transactions can be passed on the customers by the acquiring banks (like NBAD, Network, Mashreq).
- vi. A Dubai company that has not set-up a company in Abu Dhabi has very limited access to the Abu Dhabi Oil & Gas sites. This is an issue that could be addressed by the two emirates.