



RAKBANK SME Confidence Index

Prepared by

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In partnership with

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Executive Summary



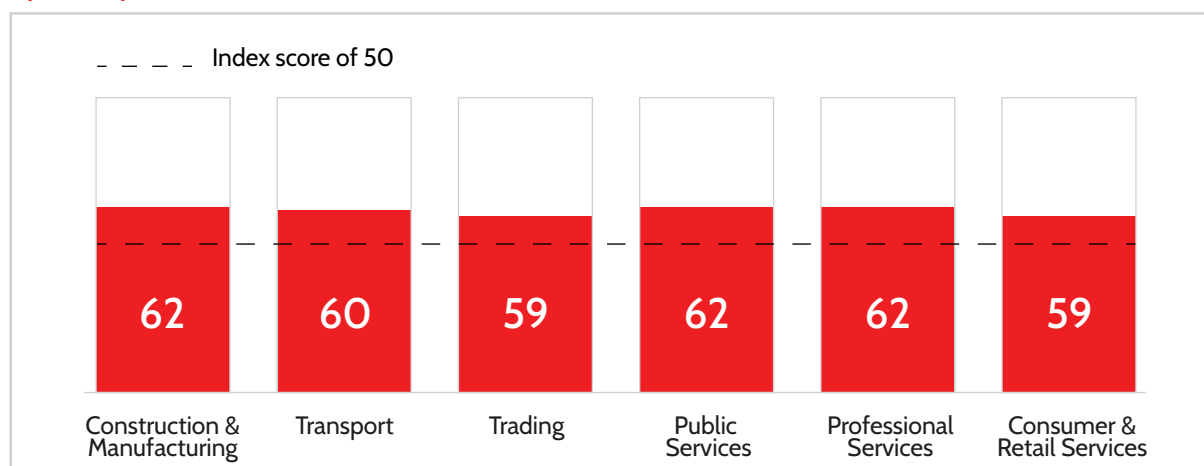
RAKBANK SME CONFIDENCE INDEX.

UAE SMEs demonstrate confidence and have rebounded following the downward pressure placed on them during the Covid-19 pandemic. All industries exhibit an index score >50. Confidence is underpinned by increases in revenue over the past two years, notably within construction & manufacturing and public services. SMEs are also optimistic about their future revenue and the overall business environment.

Moreover, there is a strong economic backdrop in the UAE, with non-oil GDP forecast to grow by over 4% in 2024. Meanwhile, oil GDP is forecast to grow 8.10%, following an OPEC+ agreement assuring 3.2 million barrels per day. There has been an increase in hotel occupancy, steadily regaining ground to the high levels seen prior to the pandemic.

While there is room for optimism, it is important to recognise that SMEs do exhibit caution due to increasing costs and the introduction of corporate tax. Across industries, consumer & retail services SMEs have experienced pressure on their business and exhibit more reserved confidence. Therefore, it will be important to continue supporting and responding to SMEs needs to facilitate further growth and continue untapping the optimism in the market.

RAKBANK SME Confidence Index
By Industry



Source: UAE SME Confidence Index

Snapshots:

TOP FACTORS ELEVATING BUSINESS OPTIMISM

Macroeconomy	Tourism
5.70% overall expected GDP growth in 2024	73% Hotel occupancy regaining ground on pre COVID-19 levels
SME Performance	SME Environment
45% increase in revenue over the last two years as reported by SMEs	2 in 3 SMEs view the future business environment as favourable

TOP FACTORS PLACING PRESSURE ON BUSINESSES

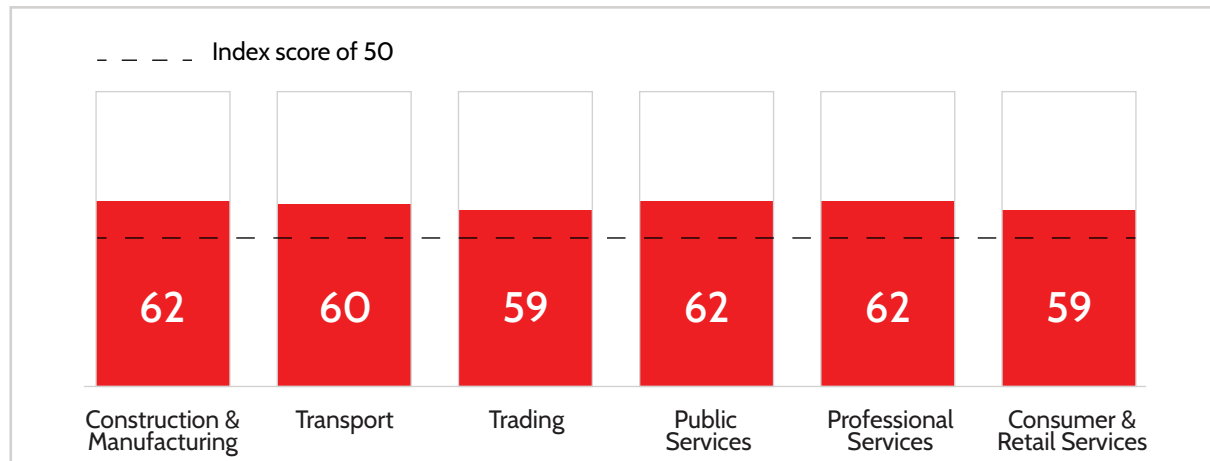
Oil Prices	Consumer Services	Cost of Business	Corporate Tax
Year average brent oil futures prices fell 18% from 2022 to 2023	Consumer services have experienced downward pressure on their revenue	Increasing costs of doing business, underpinned by cost of labour and raw materials	The introduction of corporate tax is likely to place strain on businesses moving forward

Industry and Turnover

RAKBANK SME Confidence Index
By Industry

Total

61



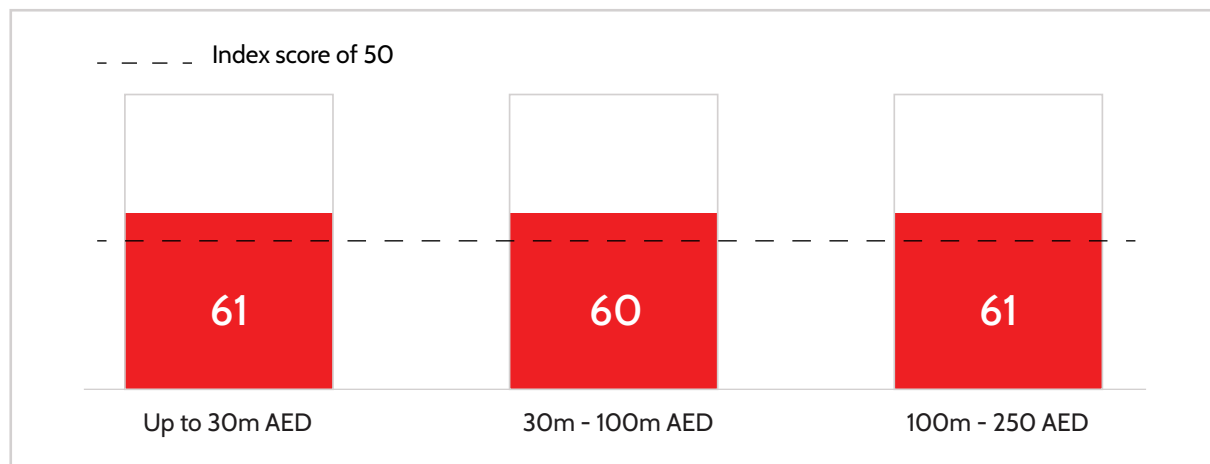
Source: UAE SME Confidence Index

Overall, SMEs have experienced a rebound in growth and are positive about the future business landscape, resulting in strong sentiment overall. All industries demonstrate optimism, with scores >50 across the board. However, consumer & retail services and trading businesses exhibit lower levels of confidence when compared the rest of the market.

RAKBANK SME Confidence Index
By Turnover

Total

61

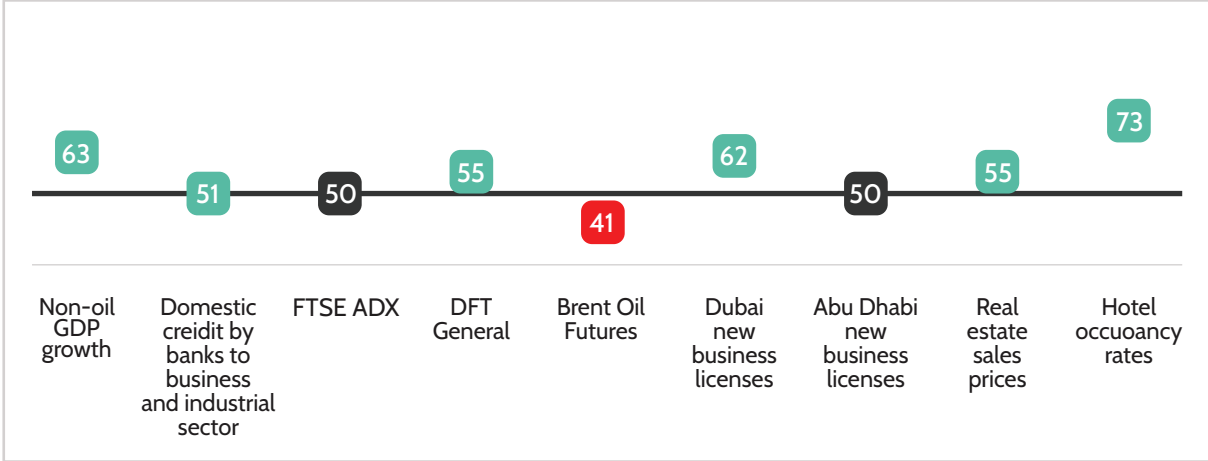


Source: UAE SME Confidence Index

Meanwhile, there is healthy business sentiment across SMEs of all sizes, indicating that investigating business confidence at an industry level is more pertinent in understanding the factors contributing to overall SME performance.

Index Metrics

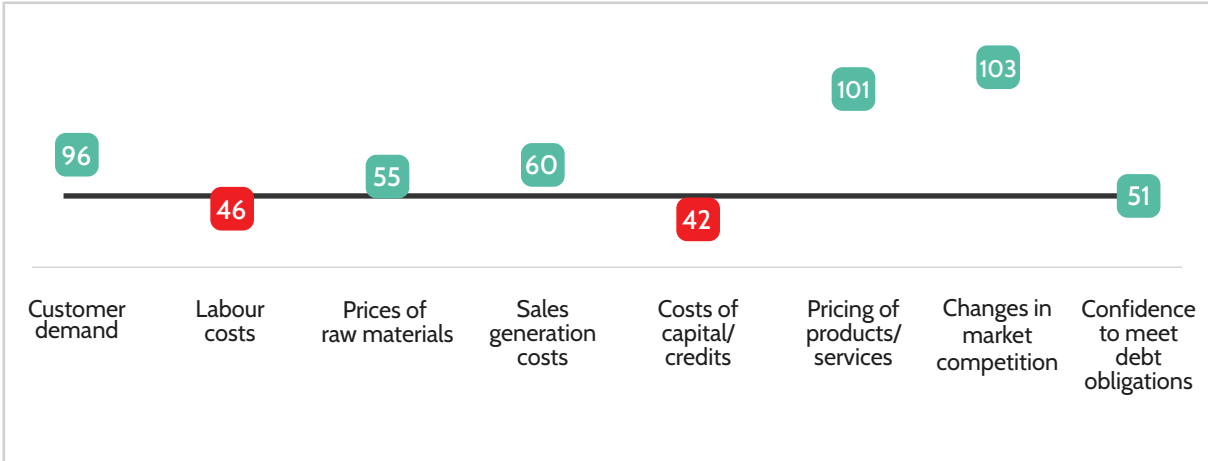
RAKBANK SME Confidence Index
Macroeconomic Data



Source: UAE SME Confidence Index

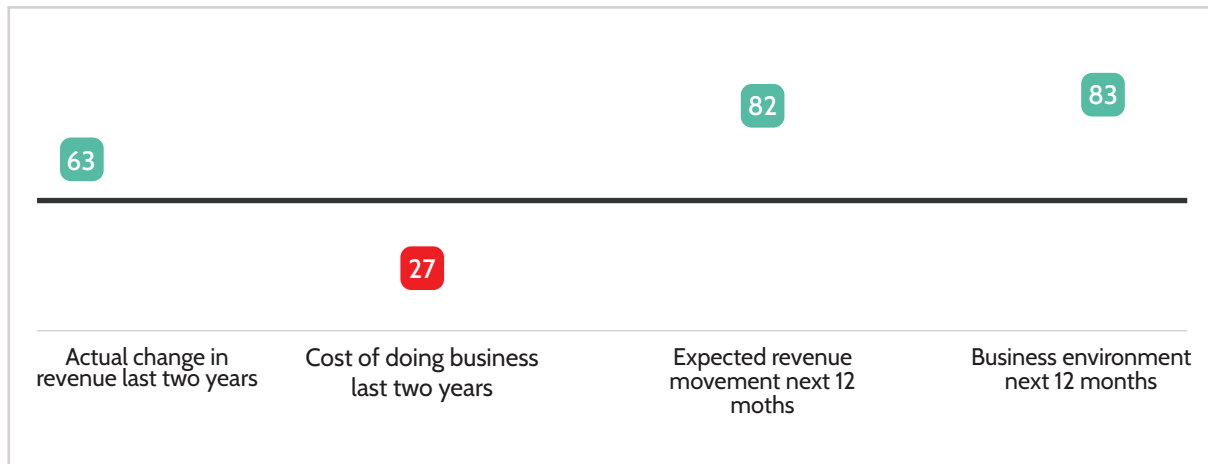
The macroeconomic landscape is buoyed by hotel occupancy rates regaining ground to pre covid-19 levels, alongside growth in non-oil GDP. Meanwhile, there has been an increase in new business licences issued in Dubai. However, confidence is weighed down by brent oil futures witnessing a decline.

RAKBANK SME Confidence Index
Business Sentiment (1/3)



Source: UAE SME Confidence Index

RAKBANK SME Confidence Index
Business Sentiment (2/3)

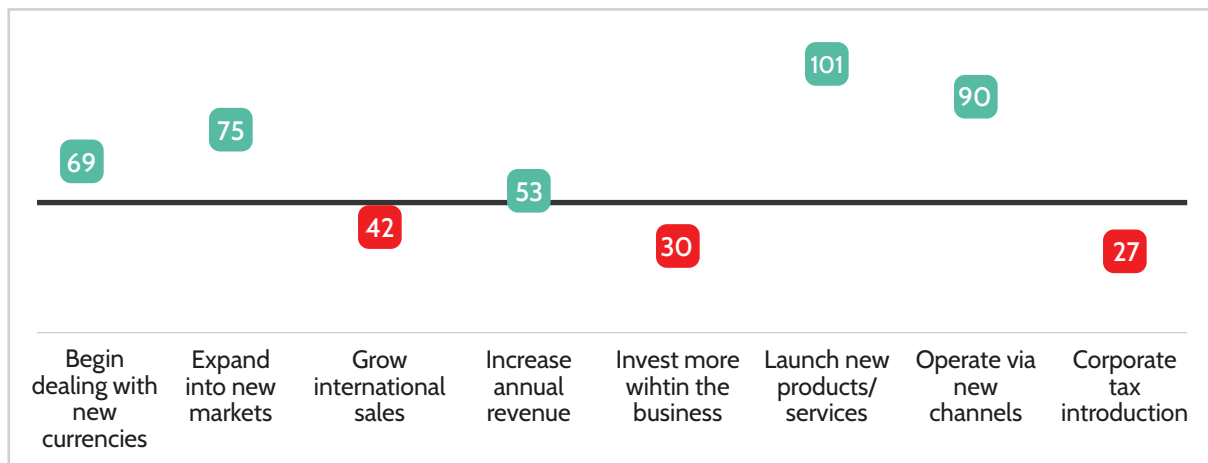


Source: UAE SME Confidence Index

Overall, SMEs have seen increases in annual revenue and are bullish about their future revenue and the business environment. However, the cost of doing business has placed downward pressure on overall confidence levels.

SMEs have experienced an upward trend in customer demand, while pricing of products/ services and changes in market competition also demonstrate bullish sentiment.

RAKBANK SME Confidence Index
Business Sentiment (3/3)



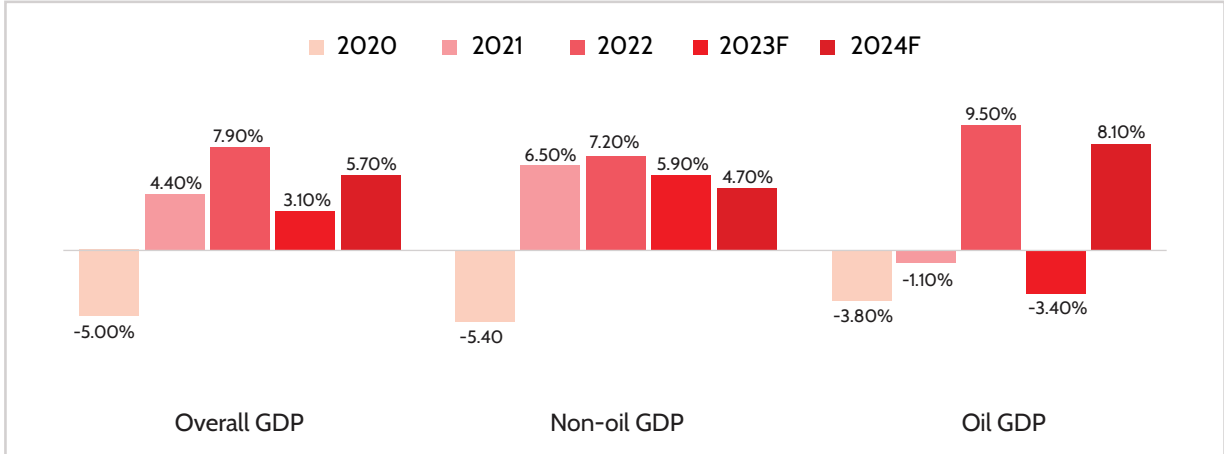
Source: UAE SME Confidence Index

SMEs are gearing up to launch new products/ services and start operating via channels, which has contributed to the positive sentiment about the future business landscape. Meanwhile, the cost of labour & capital/ credit, alongside the introduction of corporate tax, has placed strain on SMEs.

Confidence Index Deep Dive

MACROECONOMIC PICTURE

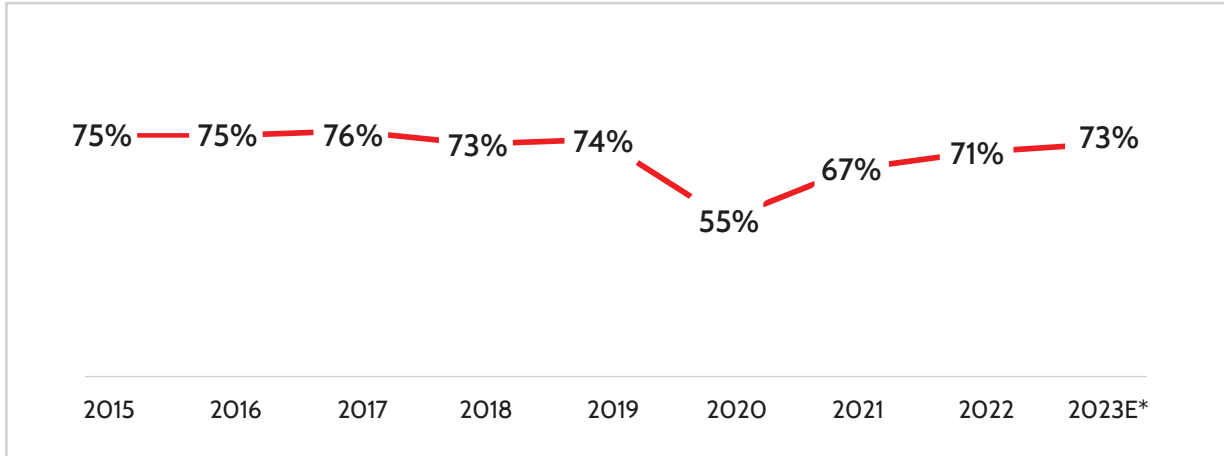
GDP Growth



Source: FCSC and CBUAE forecasts

Overall, there is forecast growth in overall GDP, with this largely underpinned by oil GDP. This is buoyed on the back of an OPEC agreement, assuring 3.2 million barrels per day. Meanwhile, non-oil GDP is forecast to experience a steady decline, in light of interest rates and inflationary pressures, leaving current predictions at 4.7%, although this figure is higher than the 5-year average.

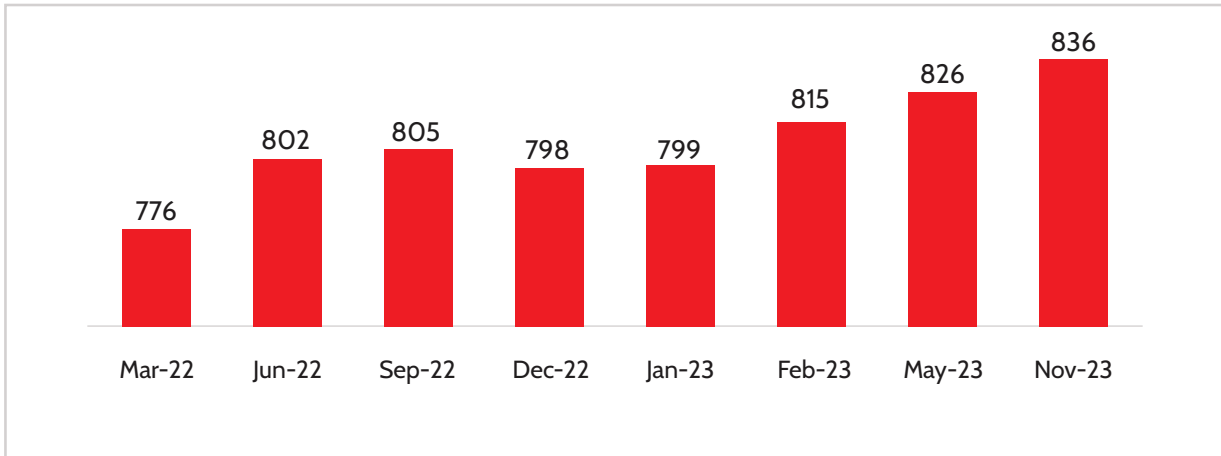
Hotel Occupancy Rate



Source: UAE stat. *2023 estimate is based on combined figures from Abu Dhabi and Dubai

There continues to be a steady increase in hotel occupancy levels following the sharp decline in tourism because of the Covid-19 pandemic. 2023 estimates show a gradual return to pre-pandemic levels.

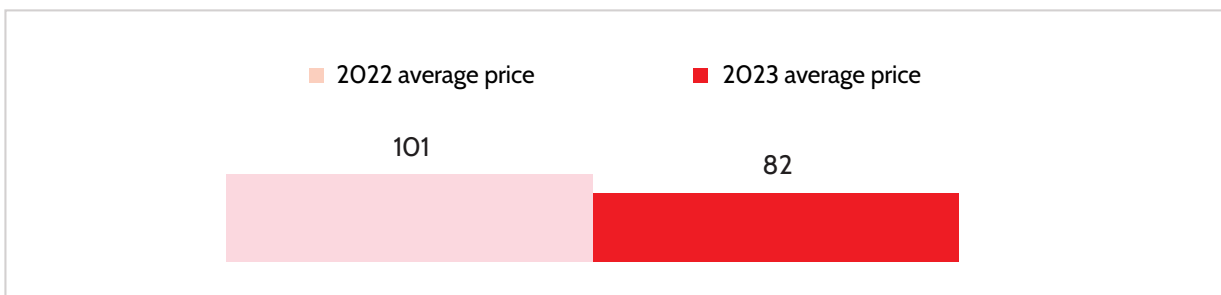
Business and Industrial Sector domestic credit by all banks (inbn of AED)



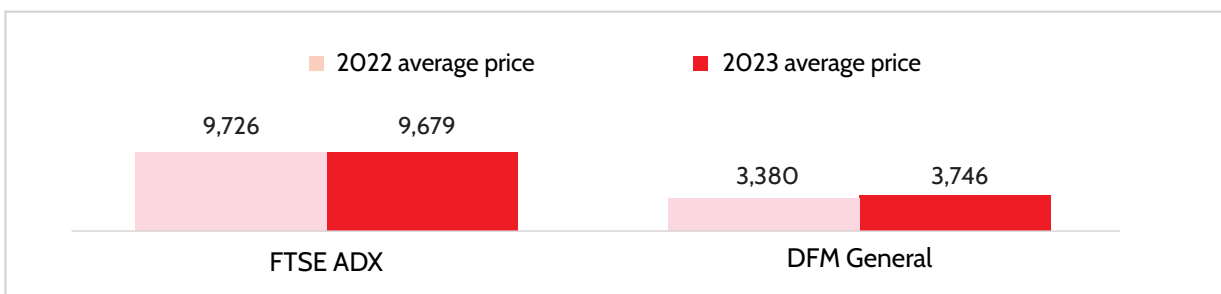
Source: CBUAE

Domestic credit by banks to UAE businesses grew throughout the first half of 2023 on the back of a relatively stagnant 22H2.

Brent Oil Futures



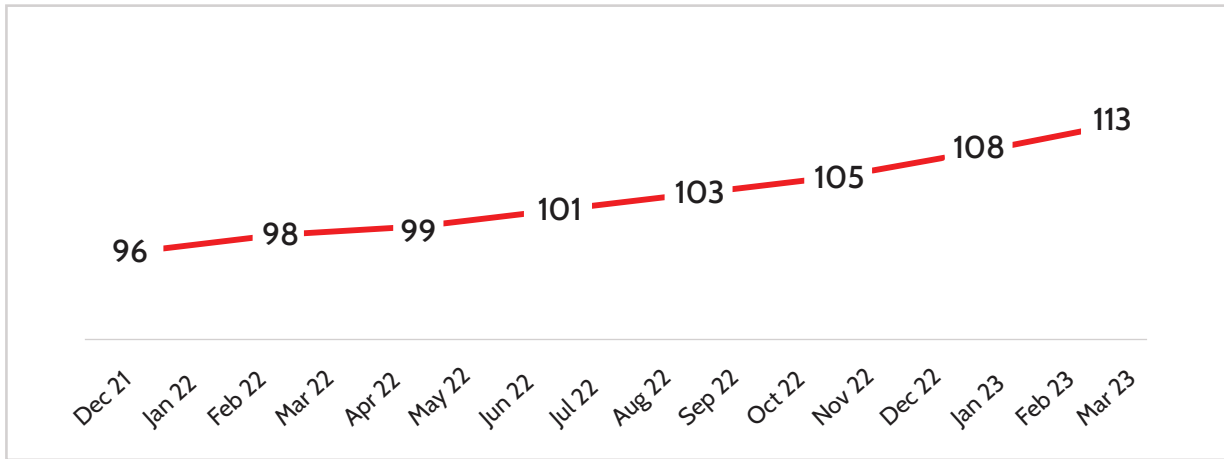
Stock Market Indices



Source: Investing.com

DFM prices saw an increase from 2022 to 2023, while Brent Oil Futures declined over the same period.

Market Sale Price and Value Trend for Apartments in UAE Index



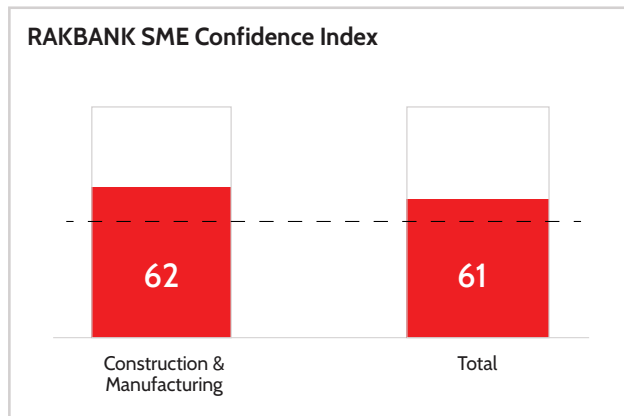
Source: Bayut.com

Apartment market sale prices and value has seen persistent, steady increases that continue into 2023.

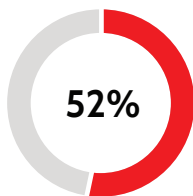
Business Sentiment Survey



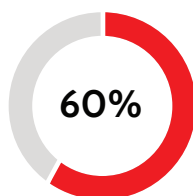
CONSTRUCTION & MANUFACTURING



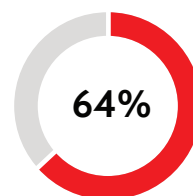
Construction and manufacturing SMEs demonstrate a healthy confidence index score and perform higher than the total market. This is underpinned by increases in revenue over the last two years, the highest level reported across industries. This cohort also intend to launch new products/ services and exhibit similar optimism to the wider market regarding their future annual revenue and the overall business environment.



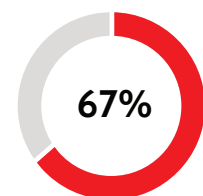
Increased annual revenue over the last two years



Report increased costs of doing business



Expect to increase annual revenue over the next year



View the future business environment as favourable



66% cite changes in market competition as a key factor underpinning revenue changes



40% view increasing competition as a top challenge. Higher than the market average



26% have high confidence in meeting their debt obligations

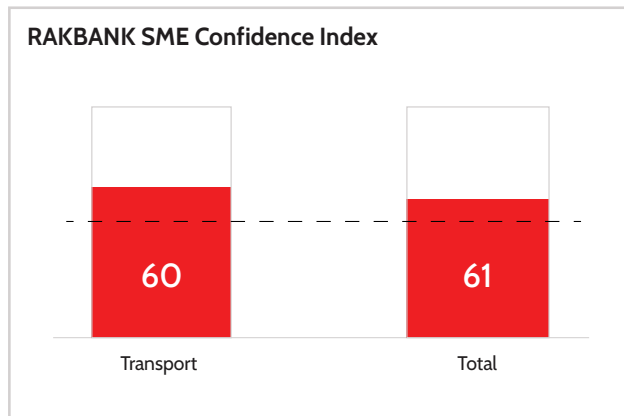


79% are very satisfied with the support from their bank, lower than the market

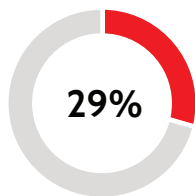
Business Sentiment Survey



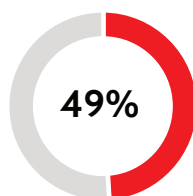
TRANSPORT



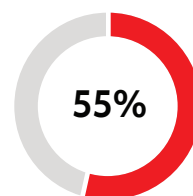
Transport dependent SMEs demonstrate a strong index score, despite being slightly lower than the total market. This cohort has seen moderate increases in annual revenue over the last two years which has resulted in reserved optimism regarding their future performance. However, there are strong intentions to start operating via new channels.



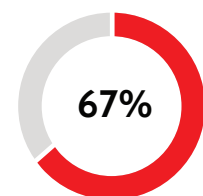
Increased annual revenue over the last two years



Report increased costs of doing business



Expect to increase annual revenue over the next year



View the future business environment as favourable



60% cite changes in pricing of products as a key factor underpinning revenue changes



67% cite prices of raw materials as a key driver behind increasing business costs



45% have high confidence in meeting their debt obligations

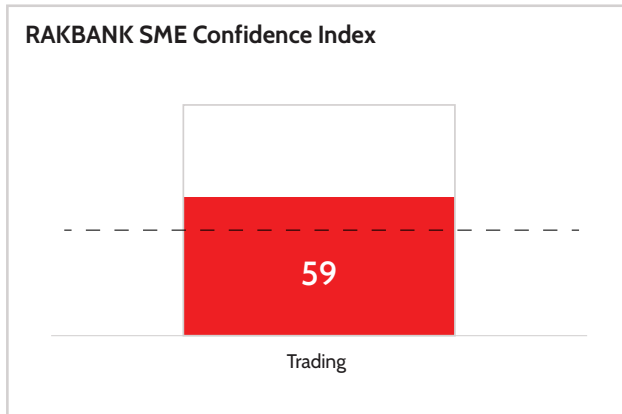


79% are very satisfied with the support from their bank, lower than the market

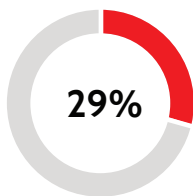
Business Sentiment Survey



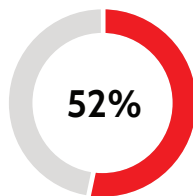
TRADING



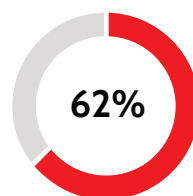
Trading SMEs demonstrate a lower index score relative to the market. This cohort has seen moderate increases in annual revenue over the last two years, alongside increased costs of doing business. However, most trading businesses view the future business environment as favourable and expect to increase their annual revenue.



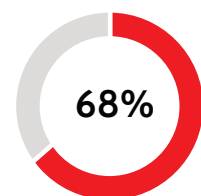
Increased annual revenue over the last two years



Report increased costs of doing business



Expect to increase annual revenue over the next year



View the future business environment as favourable



68% cite changes in pricing of products as a key factor underpinning revenue changes



74% cite prices of raw materials as a key driver behind increasing business costs

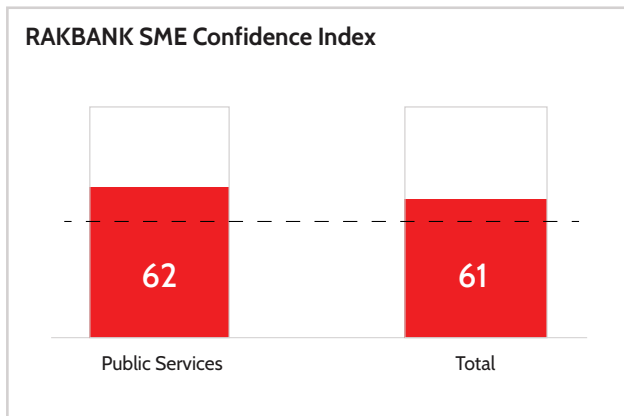


56% have high confidence in meeting their debt obligations

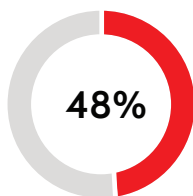


82% are very satisfied with the support from their bank, higher than the market

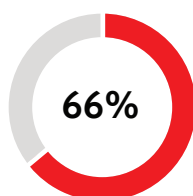
Business Sentiment Survey



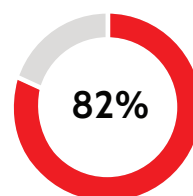
Public services SMEs demonstrate a healthy index score and perform higher than the total market. This is underpinned by notable increases in revenue over the last two years. This cohort also intend to launch new products/ services and grow international sales, with the latter higher than the wider market. SMEs in this segment are also more optimistic about their future revenue and the business landscape than other industries.



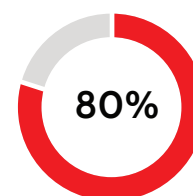
Increased annual revenue over the last two years



Report increased costs of doing business



Expect to increase annual revenue over the next year



View the future business environment as favourable



66% cite cost of labour as a key driver underpinning changes in cost



39% view increasing competition as a top challenge, aligned with the wider market



54% have moderate confidence in meeting their debt obligations

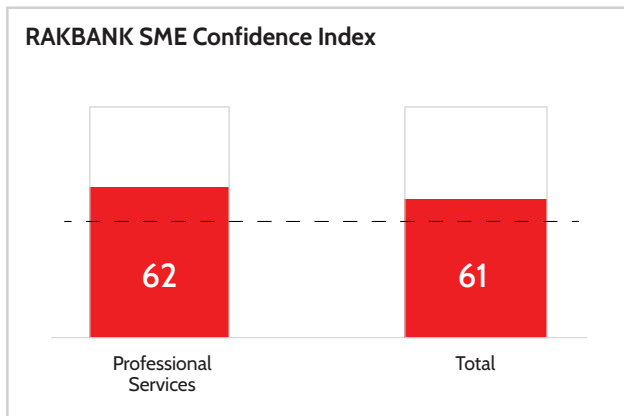


80% are very satisfied with the support from their bank, slightly lower than the market

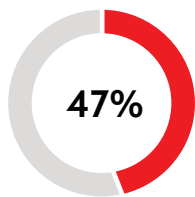
Business Sentiment Survey



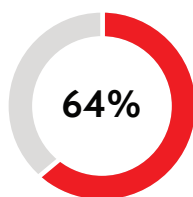
PROFESSIONAL SERVICES (CONSULTANT, LAWYER, ACCOUNTANT ETC.)



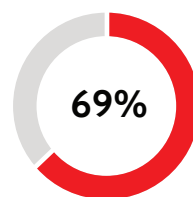
Professional services SMEs also demonstrate a healthy index score of 62. This is underpinned by notable increases in revenue over the last two years with positive increases in customer demand. This cohort also intend to expand into new markets and start operating via channels. Alike other industries, this segment are also optimistic about the future business environment.



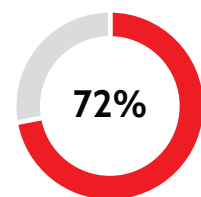
Increased annual revenue over the last two years



Report increased costs of doing business



Expect to increase annual revenue over the next year



View the future business environment as favourable



67% cite changes in market competition as a key factor underpinning revenue changes



75% cite cost of sales generation as a key factor driving changes in cost



33% anticipate that the introduction of corporate tax will have at least a high impact

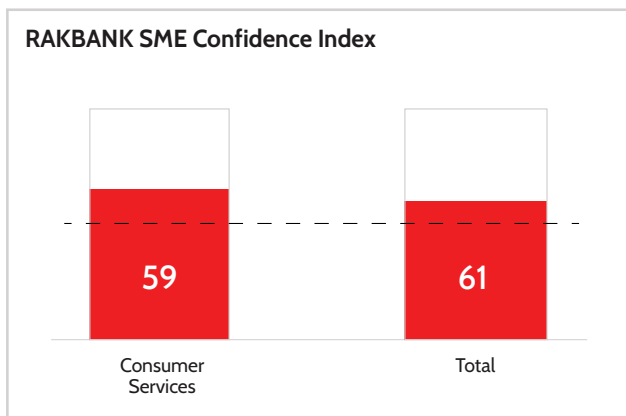


86% are very satisfied with the support from their bank, significantly higher than the market

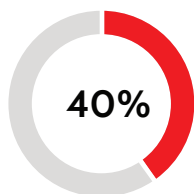
Business Sentiment Survey



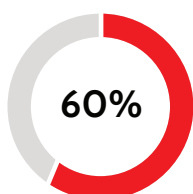
CONSUMER & RETAIL SERVICES (FAST-FOOD, FITNESS CENTERS, CAFE ETC.)



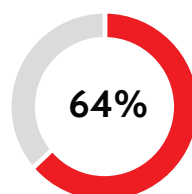
Consumer & retail services SMEs demonstrate the lowest confidence index score across industries. This is underpinned by notable decreases in revenue over the last two years. Changes in customer demand has been a key factor placing pressure on revenue. However, this cohort are optimistic about their future revenue but are cautious about the introduction of corporate tax.



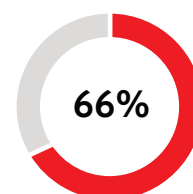
Increased annual revenue over the last two years



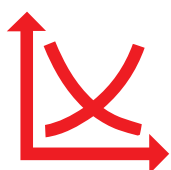
Report increased costs of doing business



Expect to increase annual revenue over the next year



View the future business environment as favourable



70% cite changes in customer demand as a key factor underpinning changes in revenue



70% cite cost of raw materials as top reason driving change in cost



50% anticipate that the introduction of corporate tax will have at least a high impact



The introduction of corporate tax is cited as the 2nd biggest challenge facing the business

Conclusion

“SMEs are the backbone of the economy and while these results provide us with significant room for optimism, we must continue to adapt to evolving challenges facing SMEs to best support their needs moving forward”

Overall, SMEs demonstrate a strong rebound in growth following the external pressures faced during and post the covid-19 pandemic. Also, there is significant optimism toward the future, with appetite to expand internationally, launch new products and services and start operating via new channels.

There has been a strong macroeconomic landscape for SMEs to thrive, with non-oil & oil GDP both forecast to grow through 2024.

Construction & manufacturing, public services, and professional services exhibit the strongest sentiment and underpin the success of 2023. However, consumer & retail services demonstrate reserved optimism in comparison to other industries due to pressure on revenue and concerns surrounding the introduction of corporate tax.

SMEs are the backbone of the economy and while these results provide us with significant room for optimism, we must continue to adapt to evolving challenges facing SMEs to best support their needs moving forward.

Appendix

METHODOLOGY

RFI applied a diffusion index to convert different survey responses and macroeconomic data into a single figure reading. This will identify whether business confidence has risen, remained unchanged, or fallen during the survey period in question.

The index varies between 0 and 100, with levels of 50.0 signalling no change, readings above 50.0 signalling an increase, and readings below 50.0 showing a decrease.

For example, if 100% of survey respondents reported an increase the index would be 100 (i.e. $100 * 1.0$). If 100% of survey respondents reported no change, the index would be 50 (i.e. $100 * 0.5$).

RFI's UAE SME Banking survey is conducted bi-annually and speaks to financial decision makers within businesses that operate in the UAE within annual revenue of up to 250m AED. The latest survey was in field between November-December 2023.

Appendix: UAE SME Confidence Index Methodology: Secondary Sources: • Federal Competitiveness and Statics Centre (FCSC) • Central Bank of the UAE (CBUAE) • Investing.com • UAE Stat • Bayut.com • Business Registration and Licensing (BRL) department at the Department of Economy and Tourism (DET)

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