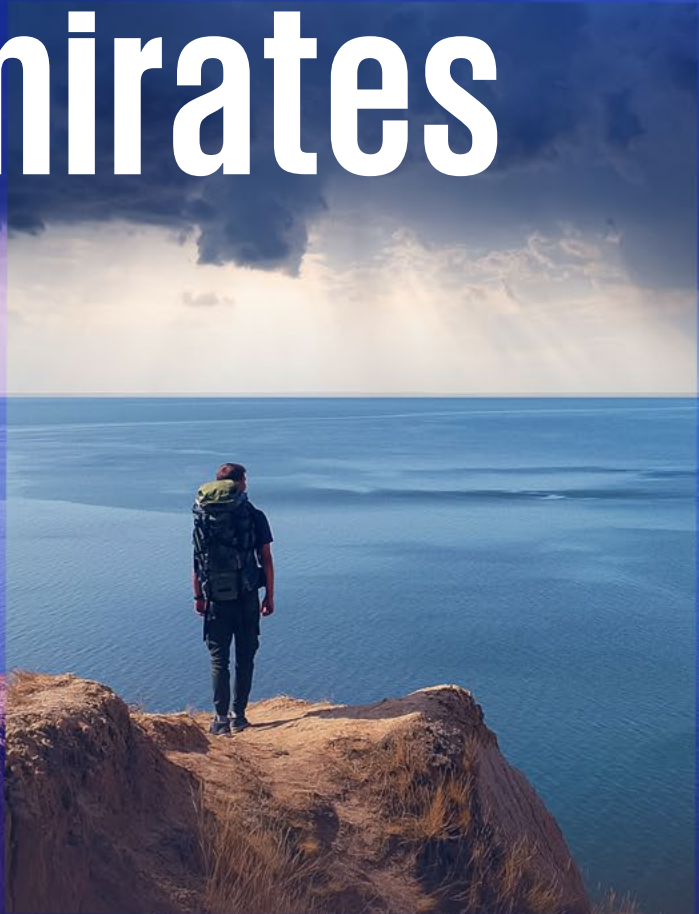




CEO Outlook 2022: United Arab Emirates

Commanding business
through the eye of
the storm



November 2022
KPMG Lower Gulf

Foreword

Just as the world seems to be emerging from the Covid-19 crisis, CEOs worldwide are forced to contend with geopolitical instability, recession and record inflation. Still, they remain confident about their growth prospects, with leaders here, in the United Arab Emirates, particularly well positioned to weather the storms ahead. Thanks to the country's leadership that has had the foresight to promote and invest in strategic areas such as infrastructure, digitization and the circular economy, it's little wonder Dubai is ranked as the world's premier hub for foreign direct investment.

Local CEOs are forging ahead with bold visions. They are cementing strategies to combat inflation pressures and defend against cyberattacks, and are embracing sustainability reporting.

This is what we learned speaking to 1,325 CEOs worldwide across 11 markets for this year's CEO Outlook report. As CEOs around the world said they were getting ready to implement a number of resiliency strategies over the next 6 months, most CEOs in the UAE already had their strategies in place.

But that doesn't mean that this budget cycle will be without challenges. Local business leaders are facing inflation pressures, ESG difficulties and increased risk of cyberattacks. And as the world learns to live with Covid-19, our survey revealed that CEOs and their employees might have different ideas about returning to the office full-time. We invite you to dive into our findings in the pages that follow, and we look forward to confronting the challenges and opportunities that lie ahead — together.

“Thanks to the country's leadership that has had the foresight to promote and invest in strategic areas such as infrastructure, digitization and the circular economy, it's little wonder Dubai is ranked as the world's premier hub for foreign direct investment.”

Nader Haffar

Chairman, KPMG Middle East & South Asia
Chairman & CEO, KPMG Lower Gulf





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Executive summary

While much of the world braces for recession, CEOs in the United Arab Emirates are optimistic and poised for growth:

96%

are confident in growth prospects for their industry, up from 88% in 2021

88%

are confident in growth prospects for their country

60%

expect their earnings to increase by 2.5 to 4.5% annually over the next 3 years

01



In response to geopolitical challenges,

- **68%** have diversified their supply chains, an increase of 39% from the previous year
- **64%** plan to transfer overseas operations locally/in-house in the next 6 months
- **48%** have reconsidered investment strategies

02



When it comes to ESG...

- **36%** of CEOs in the UAE plan to take a more proactive approach to societal issues such as a just transition, human rights and a living wage
- **32%** see a net-zero strategy as a key driver to accelerating ESG, compared to 19% of CEOs worldwide

03



96% of CEOs report an aggressive digital investment strategy, compared to just 64% last year. Moreover:

- **88%** have plans in place to address a ransomware attack (2021: 52%)
- **92%** are committed to building partner ecosystems and supply chain cyber defenses in addition to their own, representing a 20% increase from 2021

04



But a showdown over the return to the office may be looming:

- **60%** of CEOs expect employees to return to the office full-time
- **66%** of employees prefer hybrid working

Local CEOs prepare for a battered global economy

The vast majority of CEOs worldwide are expecting a recession in the next 12 months, with 86% saying they agree or strongly agree an economic downturn is coming. In the UAE, the situation is different, with only 24% of CEOs expecting a recession. Meanwhile, 60% expect their earnings to increase by 2.5 to 4.5% annually over the next three years. That's more than twice the number of CEOs worldwide, or 28%, who expect to see similar earnings.

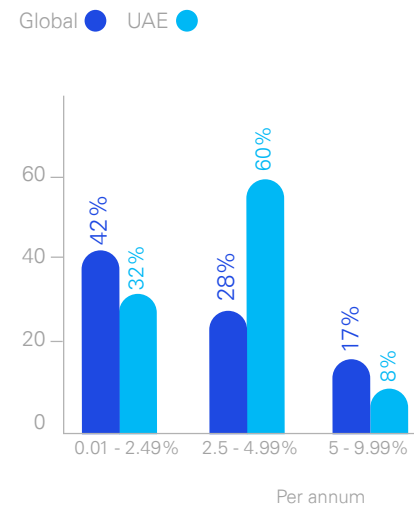
The UAE has a number of advantages that allow it to withstand global economic shocks. These include a strategic location, strong financial reserves, a large sovereign wealth fund, a number of free zones, and a progressive policy of economic diversification.¹ The government also invests heavily in infrastructure and public works projects.²

Local CEOs are less confident when it comes to growth prospects for the global economy. About half (56%) are confident in global growth over the next three years, compared to 71% of CEOs worldwide. However, when compared to 2021's 44%, we still notice that optimism is moving in a positive direction for the UAE.

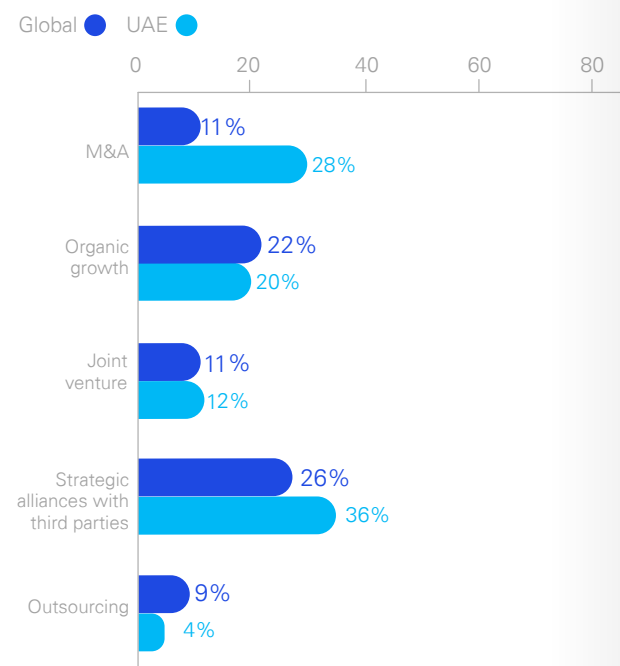
UAE leaders have been preparing for a slowdown by diversifying their supply chains and focusing on boosting productivity. Many CEOs worldwide plan to do the same. But at the time of this survey, only 32% had actually diversified already, compared to 68% of CEOs in the UAE. That puts local leaders ahead of their global counterparts by at least six months.

Many businesses are now turning to onshoring more aspects of their supply chains; 32% of CEOs in the UAE said they planned to source domestically to enhance production resiliency over the next three years. With 75% of companies worldwide experiencing supply chain disruption during the Covid-19 pandemic, using local suppliers offers insurance against new Covid-19 variants and geopolitical instability.³

What is your earnings outlook over the next 3 years?



Which of the following strategies will be most important for achieving your organization's growth objectives over the next 3 years?



Leaders have been preparing for a slowdown by diversifying their supply chains and focusing on boosting productivity.

Oil exports now account for about 30% of GDP, with the UAE government also investing heavily in renewable energy, aluminum production, tourism, aviation, telecommunications and advanced technologies.⁴

02

The United Arab Emirates— at a glance

The UAE has one of the most diversified economies in the region. Despite holding 10% of the world's supply of oil reserves and the fifth largest natural gas reserve, the government has pursued a comprehensive diversification program to transform the country from a conventional, labor-intensive economy to one based on knowledge, technology and skilled labor. Oil exports now account for about 30% of GDP, with the UAE government also investing heavily in renewable energy, aluminum production, tourism, aviation, telecommunications and advanced technologies.⁴

In 2017, the government launched the Fourth Industrial Revolution Strategy to merge physical, digital and biological technologies in order to deliver unprecedented products and services.⁵ The Vision 2021 and Vision 2030 programs further laid out six areas of national priority to transform the UAE into one of the world's most advanced countries: sustainable environment and infrastructure, world-class healthcare, first-rate education system, competitive knowledge economy, safe public and fair judiciary, and cohesive society. The first set of targets was set to coincide with the 50th anniversary of the UAE's founding, in 2021.⁶

These investments are paying off. This year the UAE posted its strongest growth in more than a decade. Driven by a sharp increase in oil production and a noticeable improvement in non-oil GDP, the economy grew by 8.2% in the first quarter of 2022, with total annual growth projected to exceed 5%, according to the UAE Central Bank and the International Monetary Fund. Inflation is also expected to remain well below the global average.⁷

2022 growth and inflation

Global ● UAE ●

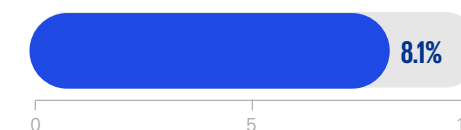
Global forecast real GDP growth



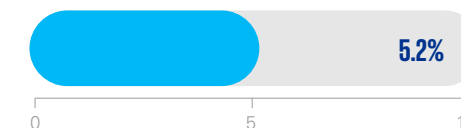
UAE forecast real GDP growth



Global anticipated inflation rate



UAE anticipated inflation rate:



Source: IMF⁸

03

Pursuing net-zero

Almost one-third of CEOs in the UAE, or 32%, said they believed implementing a net-zero strategy would be key to accelerating their environmental, social and governance — or ESG — strategy in the next three years. That figure was considerably lower for CEOs worldwide at 19%. The biggest barrier to achieving net zero was a lack of appropriate technology solutions for tracking and measuring performance, according to 52% of local respondents.

Since 2012, the UAE has been a regional leader in tackling climate change, as it aims to become a global hub for the green economy and circular economy principles.⁹ In 2021, the UAE became the first Gulf country to commit to net-zero emissions by 2050. Together with the U.S., it launched the Agriculture Innovation Mission for Climate, with the goal of doubling investment in climate-smart agriculture and food systems in order to spur low-carbon growth and enhance food security. In 2023, the UAE will host COP28, the 28th United Nations Climate Change Conference.¹⁰

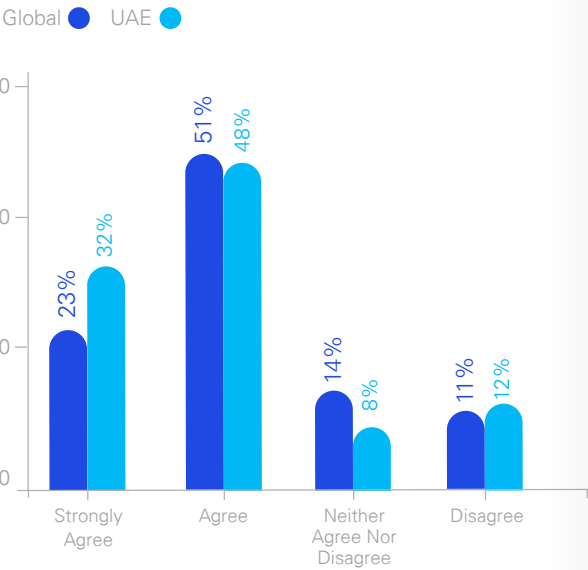
Still, in the UAE, only 20% of CEOs viewed ESG as improving their firms’ financial performance, in contrast to 45% worldwide. Notably, this 20% is a drop from the UAE’s 2021 figure of 44%.

This trend is also mirrored in the CEOs seeing demand from stakeholders to increase reporting and transparency on ESG, which, for the UAE, dropped from 84% to 68%. This might be explained by a shift in focus onto other strategic avenues—possibly digital transformation.

In the UAE, 65% said the most pressure came from institutional investors, compared to just 34% worldwide. The UAE findings remain consistent from the previous year in terms of the stakeholder applying the greatest pressure: in 2021, 52% cited institutional investors, followed by regulators (24%). Globally, strong pressure also came from regulators and employees/new hires. Ultimately, regardless of where the demand comes from, CEOs today recognize that ESG is not an issue they can afford to ignore.

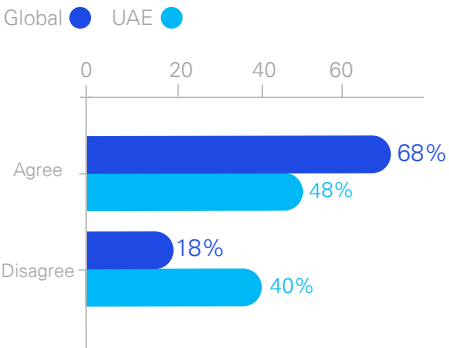
To what extent do you agree with the following statement?

Our organization’s digital and ESG strategic investments are inextricably linked.



Thinking about inclusion, diversity and equity, to what extent do you agree or disagree with the following statement?

The scrutiny of organizations’ diversity performance will continue to increase over the next 3 years.



In 2021, the UAE became the first Gulf country to commit to net-zero emissions by 2050.

In the UAE, 92% of respondents said their organizations were well-prepared for a cyberattack, compared to 56% of global CEOs.

04

A technological hub

Almost every CEO surveyed in the UAE (96%) reported having an aggressive digital strategy in place — much higher than the worldwide rate of 72%. UAE leaders appear to be increasingly technologically ambitious; last year's figure stood at a much lower 64%. More than 80% of local CEOs thought that driving digital transformation at a rapid pace was critical to competing for talent and customers.

The UAE is one of the world's most technologically advanced countries, with the digital economy contributing 4.3% to GDP — and more growth on the horizon. The government has bolstered digital capabilities by improving IT infrastructure, increasing the speed of internet services, and promoting the use of smartphones and electronic payment systems.¹¹ It also established Dubai Internet City and Dubai Silicon Oasis, two free trade zones that act as industry clusters for high technology and innovation.¹²

CEOs around the world viewed geopolitical uncertainty as a reason to worry about cyberattacks within their organizations. In the UAE, 92% of respondents said their organizations were well-prepared for a cyberattack, compared to 56% of global CEOs. Again, it is evident that local CEOs appear to have shored up their digital defenses—in 2021, only 56% said they were ready for a cyberattack.

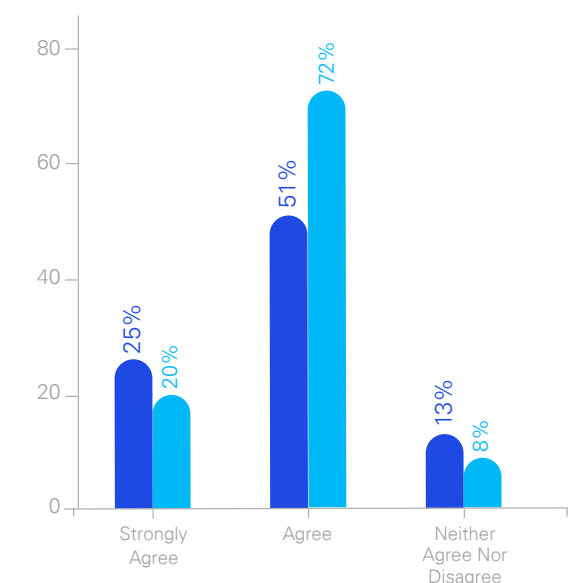
UAE business leaders were also concerned about protecting their partners and suppliers, with more than 90% reporting that protecting their supply chains from cyberattacks was just as important as building their own organization's cyber defenses. (That figure was 76% worldwide.) Attitudes have clearly shifted locally—the UAE figure in 2021 was also 76%, representing a year on year increase of 14%.

This thinking represents a keen understanding of the global dynamics at play as Covid-19 and the war in Ukraine have exposed businesses to new cyber risks. With the rise of remote work during the pandemic, many companies became more vulnerable to internet scams, as employees tend to be less vigilant when using their own devices and working asynchronously from home.¹³

To what extent do you agree with the following statement about cyber security?

Protecting our partner ecosystem and supply chain is just as important as building our own organization's cyber defenses.

Global ● UAE ●



Is a showdown looming over a return to the office?

Over the past two years, 60% of CEOs in the UAE said that hybrid and remote work policies had a positive impact on their organization’s hiring. These policies also boosted employee morale in a majority of cases (56%) and positively impacted collaboration and innovation (68%).

However, only 36% of CEOs expected to continue hybrid work for employees whose roles were traditionally based in-office. Instead, 60% of local leaders expected them to be back on-site, similar to 65% of CEOs worldwide. In fact, attitudes remained consistent with 2021 findings, when the figure for CEOs allowing remote or partially remote work also lay at 36%.

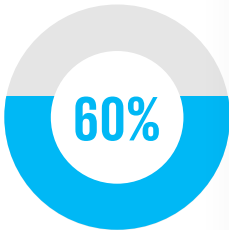
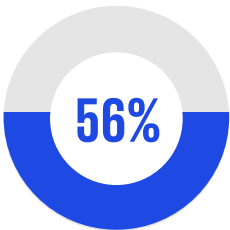
But employees around the world are less enthusiastic about returning to the office full-time. In a survey of more than 12,500 people in 29 countries, the World Economic Forum found that 66% wanted to continue with flexible working arrangements. Almost a third, or 30%, said they would consider looking for another job if forced to work on-site full-time.¹⁴

These diverging attitudes between leadership and the rank-and-file are worth taking seriously. Among the CEOs surveyed in the UAE, talent ranked second as the most pressing concern for their organizations. Working together to find solutions that satisfy both management and their employees will be one way to establish competitive advantage in a complicated economic landscape.

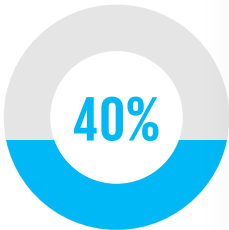
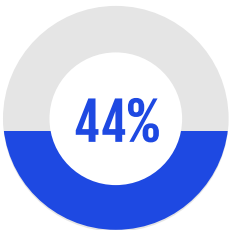
Thinking about your growth and transformation objectives, which of the following investments are you prioritizing?

New technology

Global ● UAE ●



Our workforce’s skills and capabilities



60% of CEOs in the UAE expect a return to the office full-time, but 66% of employees worldwide say they prefer hybrid working.

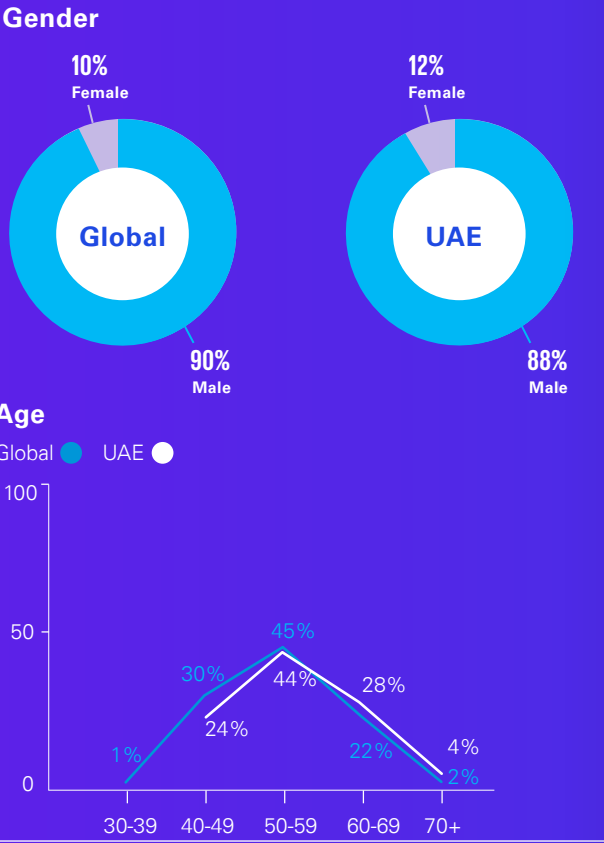
Methodology

The survey was conducted in the second half of 2022. KPMG surveyed 1,325 CEOs from 43 countries, including 25 from the UAE, of major organizations on enterprise and economic growth.

This latest research is part of the KPMG CEO Outlook series, which offers a unique perspective on the mindset shift of global CEOs on the way forward to post-pandemic recovery. The 25 UAE-based CEOs represent a significant part of the economy: all worked for companies with revenues higher than US\$500 million, and 44% have revenues higher than US\$10 billion.

We covered ten industry sectors in the Emirates: banking, energy, consumer and retail, life sciences, technology, asset management, automotive, insurance, infrastructure, and telecommunications.

NOTE: some figures may not add up to 100 percent due to rounding.



Sources

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¹⁴ <https://www.weforum.org/agenda/2021/07/back-to-office-or-work-from-home-survey/>






About KPMG Lower Gulf

For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative’s global network of professional member firms. The KPMG network includes approximately 236,000 professionals in over 144 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm operates in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, the Lebanon, Palestine and Iraq. Established in 1973, the Lower Gulf firm now employs approximately 1,780 people, including about 190 partners and directors across the UAE and Oman.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are:

-  **Integrity:** We do what is right.
-  **Excellence:** We never stop learning and improving.
-  **Courage:** We think and act boldly.
-  **Together:** We respect each other and draw strength from our differences.
-  **For Better:** We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars – exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams – are the foundation of our firm.

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Publication name: CEO Outlook 2022: United Arab Emirates

Publication number: 4412

Publication date: November 2022