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INTRODUCTION



1

Development and Significance of the Business Climate Index (BCI)

Business sentiment indicators have been used to analyse and forecast economic developments since the inception of business cycle research. Naturally, special attention has been directed to leading indicators due to their potential contribution to business cycle forecasting. Many European scientists have analysed a wider range of qualitative, monetary, and other quantitative indicators and their potential to improve forecasts of euro-area industrial production. They concluded that, among all indicator sets, the qualitative Economic Sentiment Indicator (ESI) of the European Commission performs best and fulfils all examined criteria of a reliable leading indicator, showing forecast improvement for up to three months ahead. Taylor and McNabb (2007) found that the business confidence indicator was a good predictor of turning points in the business cycles of four EU countries. Hansson et al. (2005) successfully forecast Sweden's GDP growth using business sentiment data. Moreover, Acemoglu and Scott (1994) have demonstrated that business sentiment is a reliable predictor of economic activity. Positive business sentiment typically fosters a favourable business environment, encouraging investment in ongoing economic expansion, which in turn leads to higher future economic growth. In contrast, negative sentiment resulting from an adverse shock (e.g. political or external shock) in a market that has not yet matured in terms of its macroeconomic indicators tends to discourage investment and consumption. Investors in such a market are likely to shift their investments to other markets with more favourable expectations and stronger sentiment.



Therefore, in 2011, Dubai Chambers developed the Business Climate Index (BCI) as a tool to systematically assess and monitor the confidence levels of businesses in Dubai. This index serves as a critical macroeconomic indicator, providing insights into the current and future business climate, which is essential for informed decision-making by policymakers and business leaders. Dubai's economic growth, driven by sectors such as trade, finance, and real estate, underscores the importance of robust indicators like the BCI to guide policy decisions.



RATIONALE FOR DEVELOPING BCI

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01 Economic Indicator

The BCI acts as a leading indicator of economic growth, helping the Dubai government anticipate changes in economic activity and implement timely policy interventions. By analysing business sentiment, the government can better understand the potential for future economic expansion or contraction.

03 Policy Formulation

By understanding business confidence, the government can formulate policies that address the concerns and needs of the private sector. This includes regulatory adjustments, investment incentives, and support for sectors experiencing downturns. In the following sections, we will provide examples of how this index has played a role in policy formation.

05 International Comparison

The use of standardised methodologies in constructing the BCI facilitates international comparisons, enabling governments to benchmark their business climate against other countries. This can inform strategies to improve competitiveness and attract foreign investment.

02 Sectoral Insights

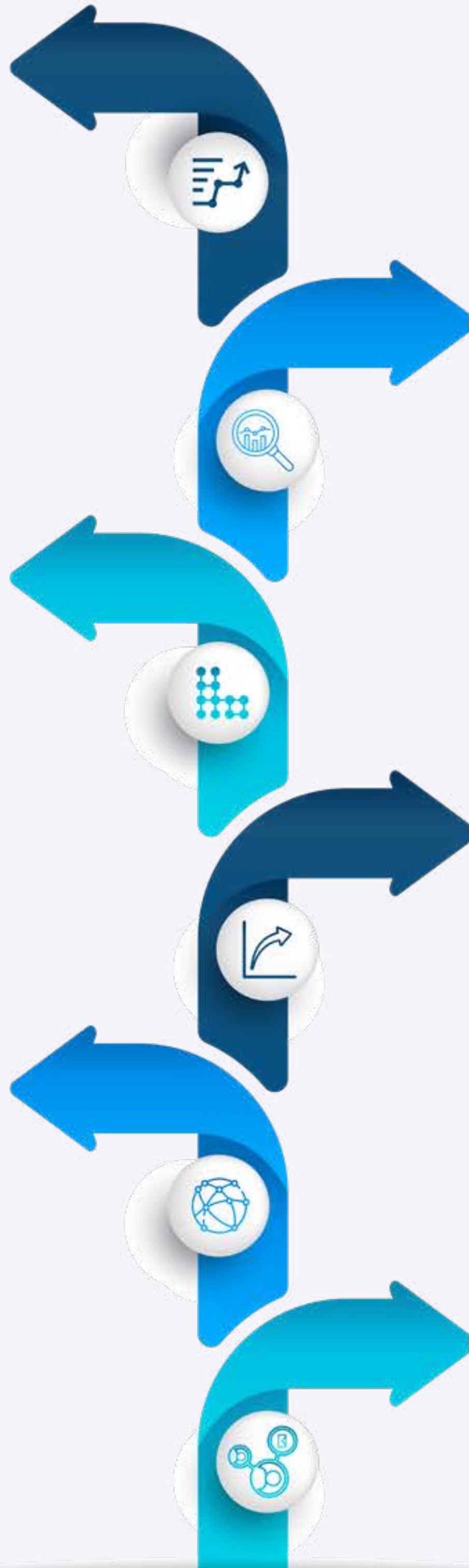
The BCI offers sector-specific data, allowing the government to identify areas of strength and weakness within the economy. This granular information enables targeted policy measures to support sectors facing challenges or to capitalise on opportunities in thriving sectors.

04 Risk Management

The BCI has helped the Dubai government identify potential risks and challenges in the business environment, particularly during the COVID-19 pandemic. Additionally, the index helps to identify regulatory challenges (e.g. cost of doing business, barriers to trade) and external shocks such as global economic downturns (e.g. interest rates, inflation). This allows for proactive risk management strategies to mitigate adverse impacts on the economy.

06 Addressing Data Gaps

The development of the BCI was also motivated by the need to fill gaps in existing economic indicators in Dubai. Prior to its introduction, there was a lack of comprehensive data on business performance and economic growth, particularly at the sectoral level. The BCI provides a more nuanced understanding of the business environment, allowing policymakers to track changes in business sentiment and adjust policies accordingly.



METHODOLOGICAL APPROACH

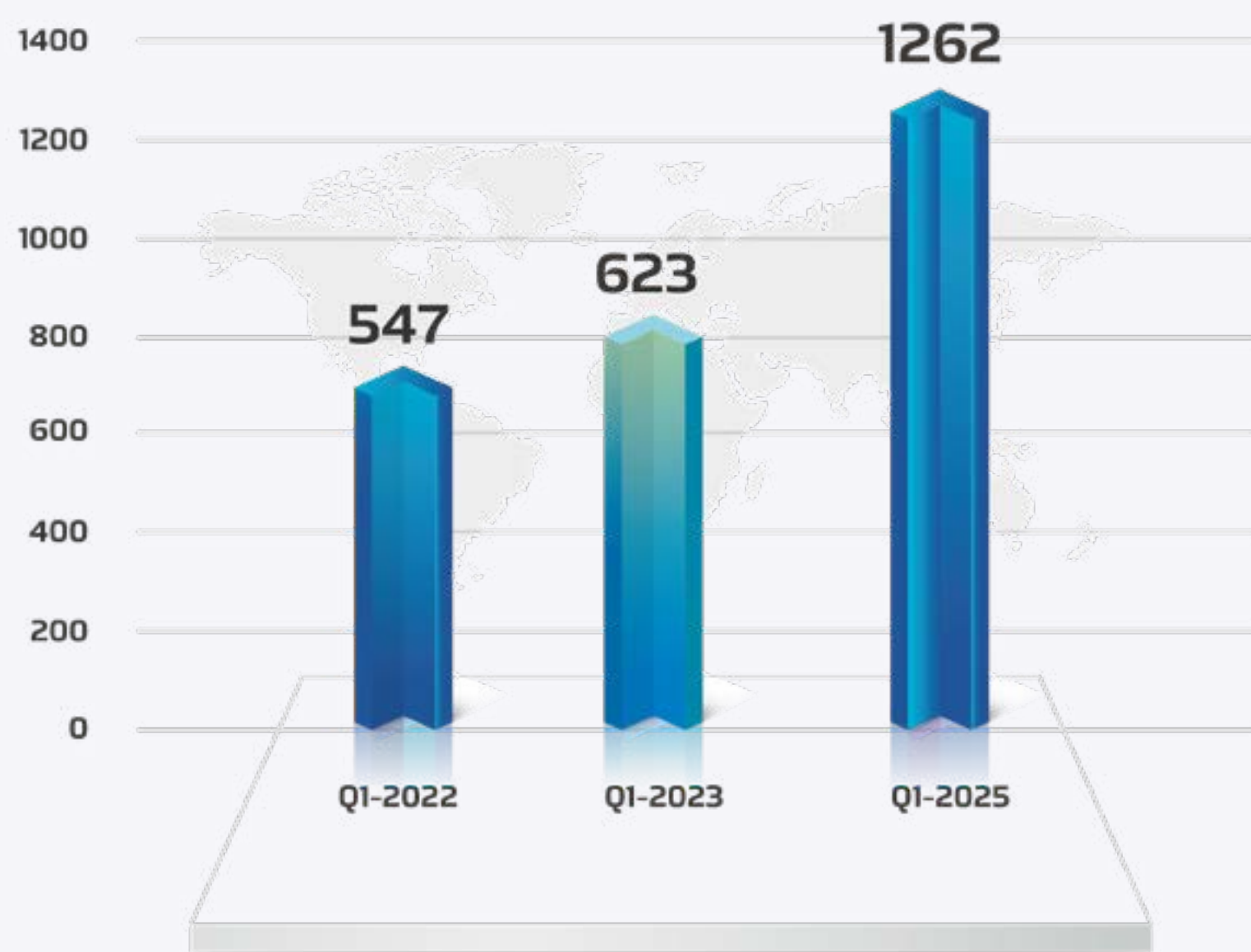


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SURVEYS AND DATA COLLECTION

Businesses are surveyed regularly to gather qualitative data on their perceptions of current conditions and future expectations. This includes aspects such as business conditions, investment plans, employment changes, and cost pressures. On average, the number of respondents is around 700, but due to increasing trust among the Dubai business community, participation has more than doubled, rising from over 500 in Q1 2022 to over 1,200 in Q1 2025. This significant increase reflects growing confidence in the survey process and underscores the value of the BCI as a trusted tool for business insights.

Number of respondents to Dubai Chambers BCI



Source: Dubai Chambers Business Climate Index

DIFFUSION INDEX CALCULATION

Responses are quantified based on business size and sectoral importance to generate sentiment indices. These indices indicate whether business sentiment is improving, stable, or deteriorating. The basepoint of the index is the average of Net Expectation Scores (NES) for the general business climate between 2011 and 2016. An index above 100 suggests an expected improvement in the business climate for the next quarter, while an index below 100 suggests a deterioration.

SECTORAL ANALYSIS

The BCI is often broken down by the major contributing sectors of Dubai's economy to provide detailed insights into the performance and outlook of different industries within the economy.

HOW THE BUSINESS SENTIMENT INDEX AIDS BUSINESSES AND GOVERNMENTS



The Business Climate Index (BCI) plays a pivotal role in supporting both businesses and governments by providing critical insights into the current and future business climate. This index serves as a valuable tool for strategic planning, risk management, and policy formulation.

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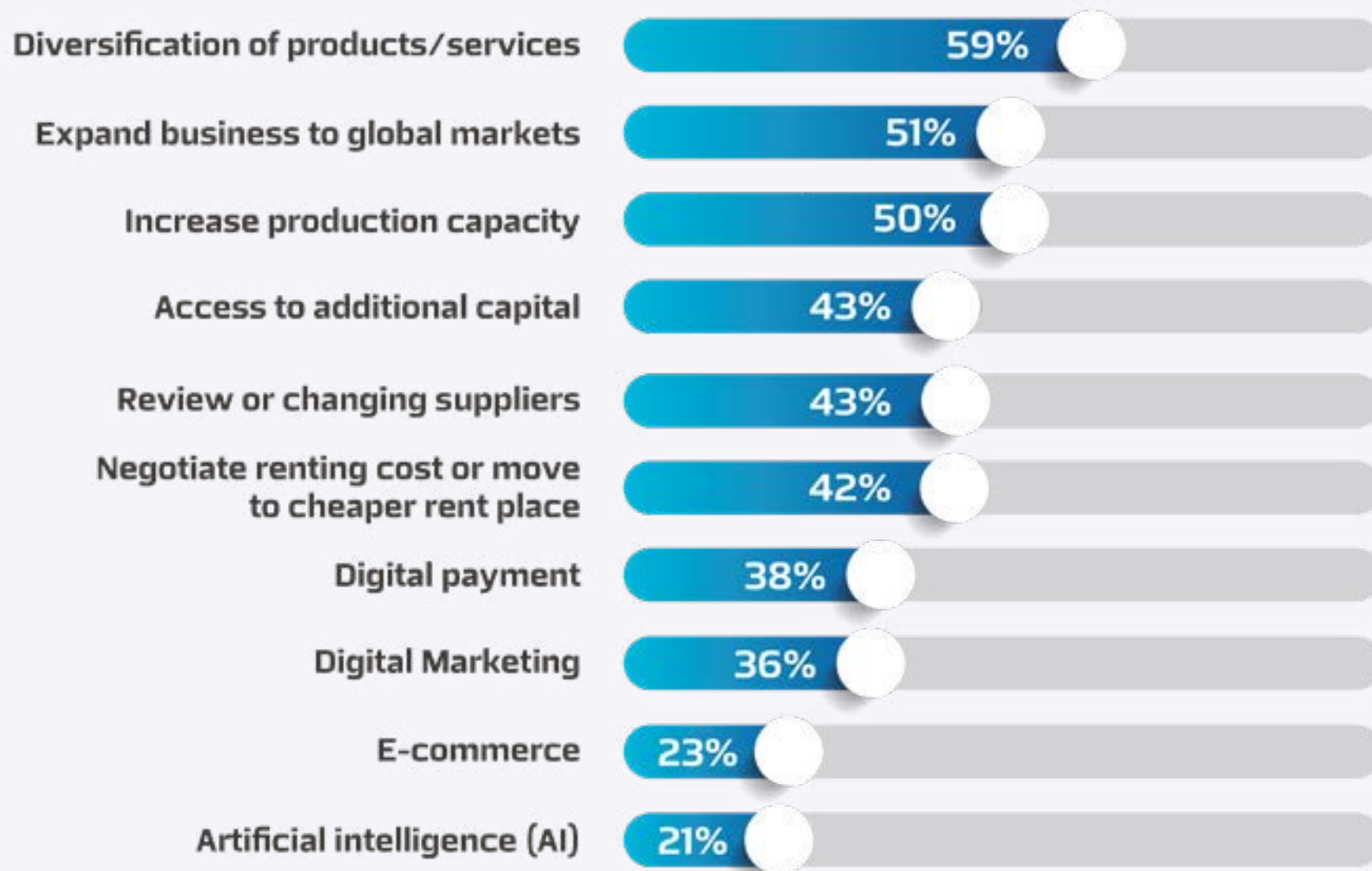
BENEFITS FOR BUSINESSES

Strategic Decision-making: The BCI offers businesses a forward-looking perspective on economic conditions, enabling them to make informed decisions regarding investments, hiring, and expansion plans. By understanding the sentiment of their peers and the broader business community, companies can adjust their strategies to align with emerging trends and challenges.

According to the latest survey, the Dubai Chambers Business Climate Index found that 59% of respondents expressed plans to diversify their products or services in Q4 2024. Additionally, over half are aiming to expand their businesses into global markets. Furthermore, 50% intend to increase production capacity, while 43% are focused on reviewing or changing suppliers.

Companies also mentioned their digital adoption plans for Q4, with the most cited being an increase in digital payments, reported by 38% of respondents. Other top-cited digital adoption plans include digital marketing, e-commerce, and AI.

Expected business actions in Dubai in Q4 2024 (% of total respondents)



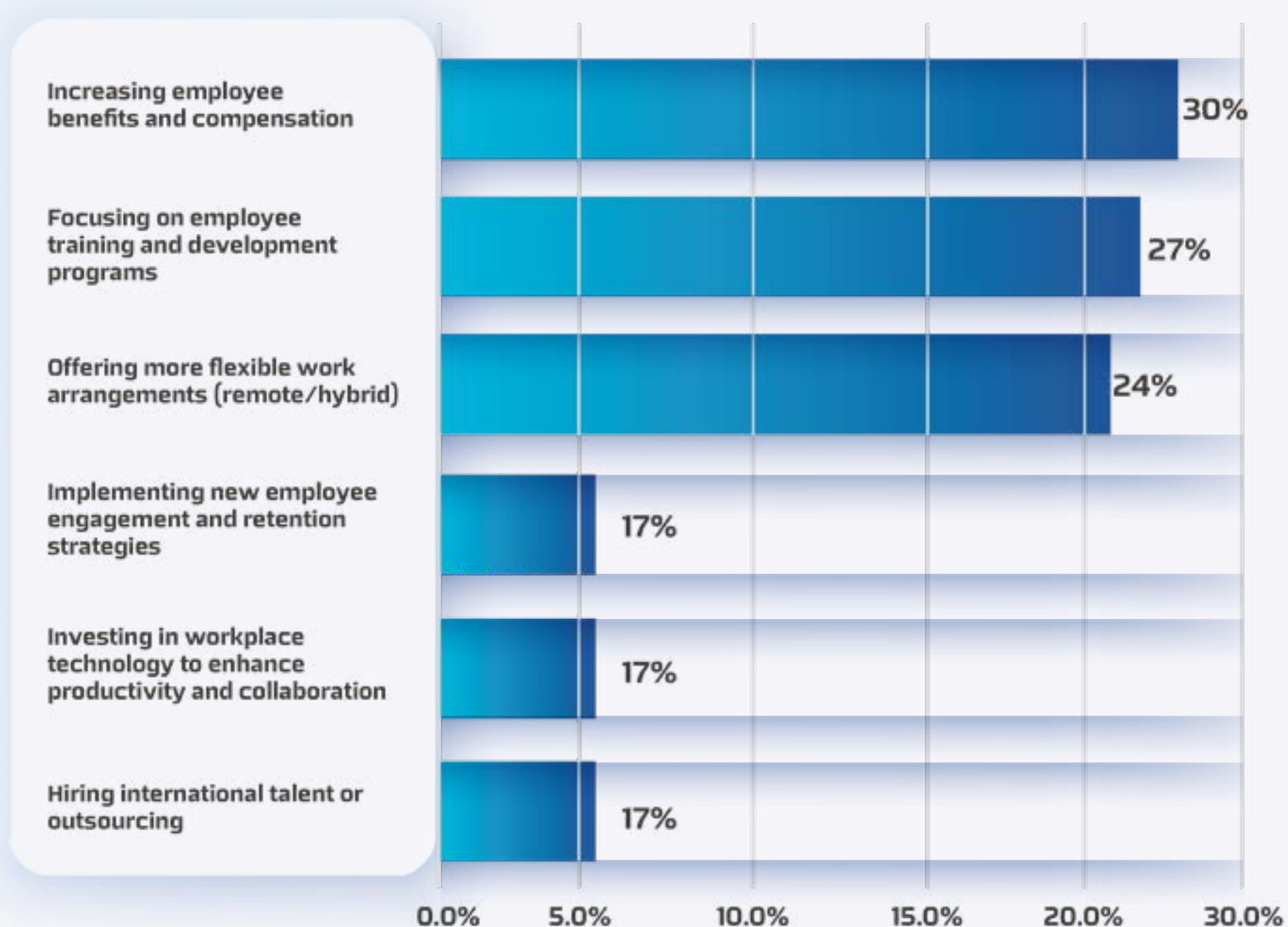
Source: Dubai Chambers Business Climate Index

Risk Management: Businesses can use the BCI to identify potential risks and opportunities in the market. This allows them to proactively manage risks such as supply chain disruptions or changes in consumer demand and capitalise on emerging opportunities.

Market Positioning: The BCI helps businesses assess their competitive position relative to their peers. This information can guide marketing strategies and product development to better meet evolving customer needs and remain competitive in the market.

Investment Planning: By analysing the BCI, businesses can determine the optimal timing for investments, whether in new technologies, talent acquisition, or market expansion. This ensures that investments are aligned with favourable business conditions. According to the Dubai Chambers Business Climate Index for Q3 2024, 30% of companies increased employee benefits and compensation, while 27% focused on employee training and development programmes for talent acquisition and retention (Figure 3).

Approach of businesses for talent acquisition and retention in Q3 2024

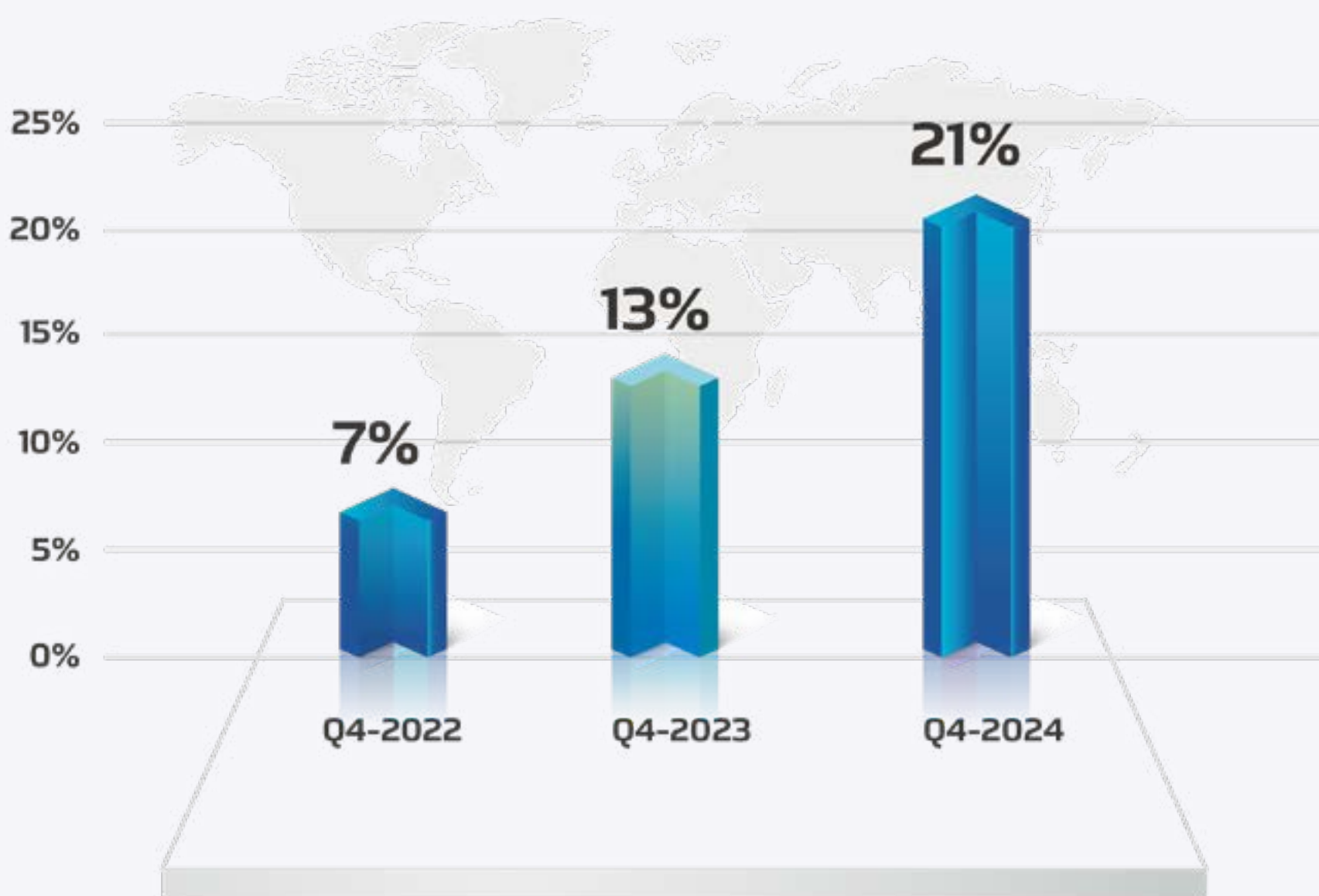


Source: Dubai Chambers Business Climate Index

Global Competition and AI Adoption: Global competition in the field of Artificial Intelligence (AI) has intensified significantly in recent years, with AI adoption emerging as a key driver of innovation and competitiveness. In Dubai, businesses are increasingly integrating AI into their operations to remain competitive in the global market. The Dubai government actively supports this trend through initiatives aligned with the UAE National Strategy for Artificial Intelligence 2031, which aims to position the UAE as a global AI hub by integrating the technology across various sectors including transportation, healthcare, and education.

However, there has been a lack of data on the extent to which Dubai businesses are investing in AI. The BCI helps to fill this gap by capturing the percentage of businesses planning to adopt AI technologies. Notably, data from the BCI shows a significant increase in AI adoption, rising from 7% in Q4 2022 to 21% in Q4 2024. This trend highlights the growing importance of AI in Dubai's business landscape and underscores the role of the BCI in monitoring and supporting this strategic shift.

Plan to adopt AI technology, % of respondents



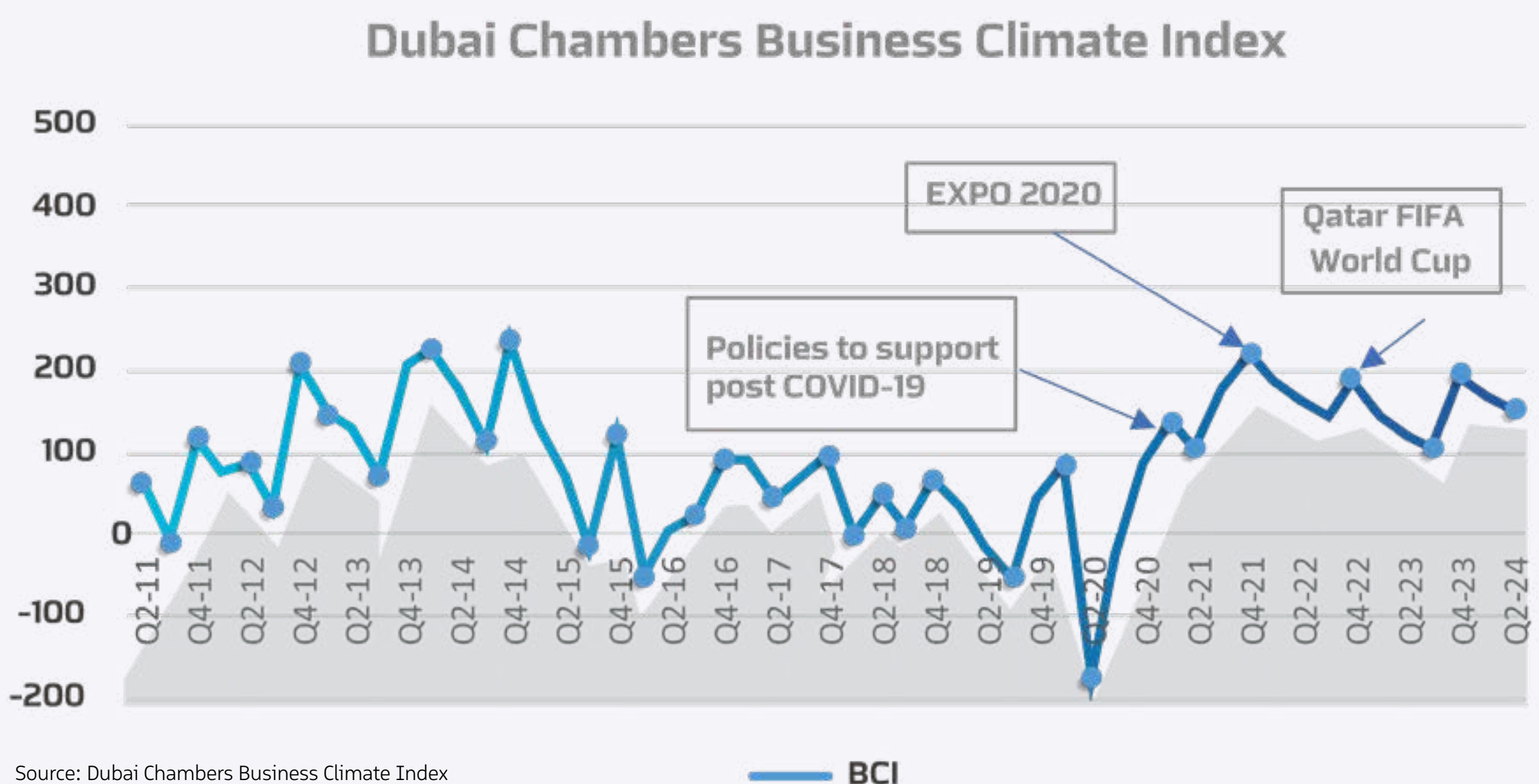
Source: Dubai Chambers Business Climate Index



BENEFITS FOR GOVERNMENTS

Policy Formulation and Economic Forecasting: The BCI serves as a leading indicator of economic growth, helping governments anticipate changes in economic activity. This allows for timely policy interventions to stabilise the economy during downturns or to manage growth during boom periods. Governments utilise the BCI to shape targeted policies that address private sector challenges and opportunities.

During the COVID-19 pandemic, the Dubai Chambers BCI provided early insights into the impact of government measures on Dubai's economy. As illustrated in the chart, government support policies contributed to a sharp BCI recovery from -174 during the lockdown (Q2 2020) to 103 in Q2 2021, well ahead of Dubai's official GDP growth rebound from -19.1% to 17.3% over the same period.



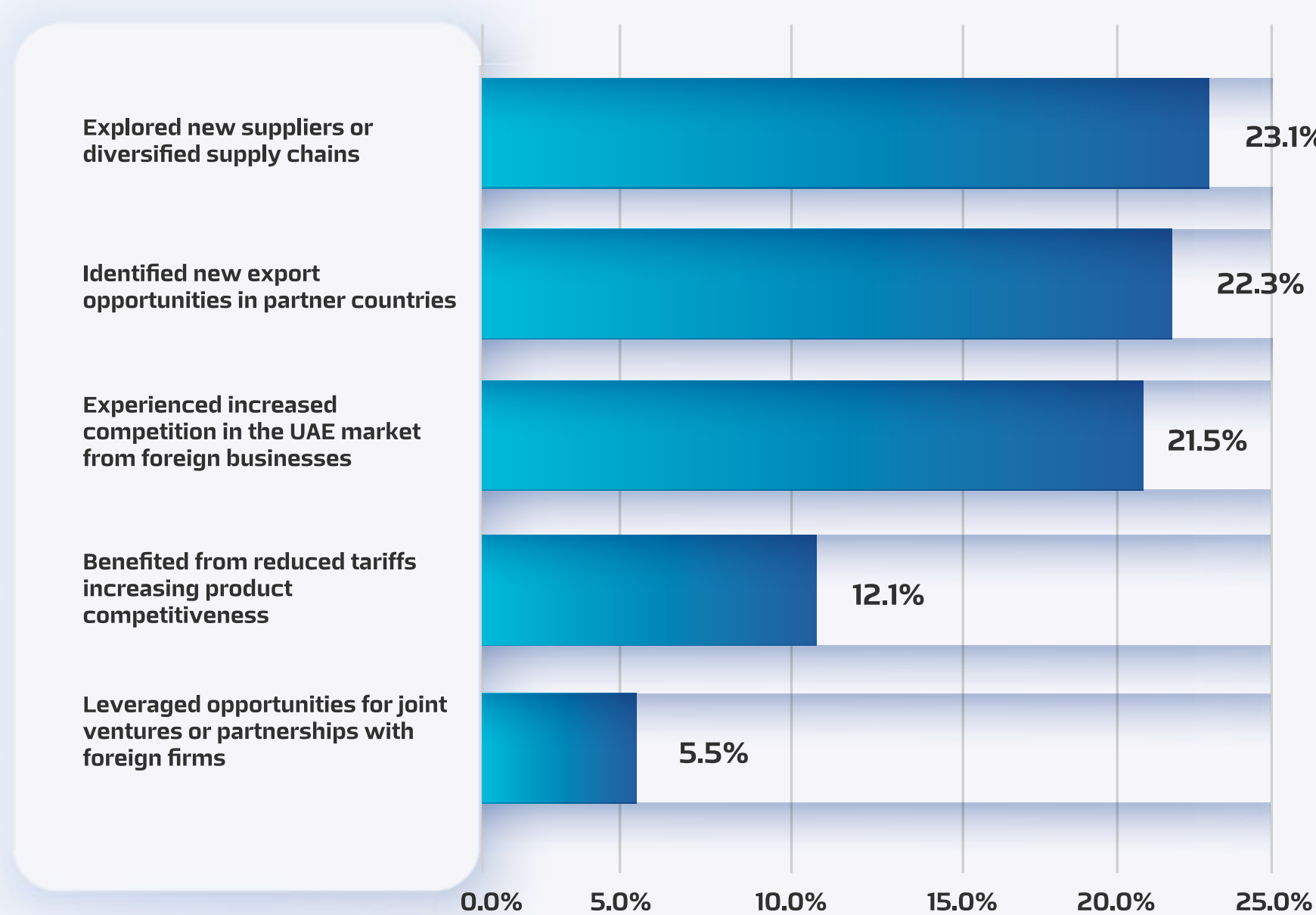
Assessment of Major Events: The BCI has been instrumental in assessing the impact of major international events on local businesses. For instance, in Dubai, the index helped evaluate the effects of Expo 2020 and the FIFA World Cup Qatar 2022. The index rose significantly during these events, reaching 222 and 188 respectively. This data provided valuable insights into how such events boost business confidence and economic activity, guiding future event-hosting strategies and policy decisions.

Impact of Comprehensive Economic Partnership Agreements (CEPAs): The BCI has also been instrumental in assessing the impact of the UAE's Comprehensive Economic Partnership Agreements (CEPAs) on Dubai's trade. In recent years, the UAE has signed several CEPAs with countries including India, Türkiye, Indonesia, Georgia, and Cambodia, and Israel, providing bilateral tariff-free access and opportunities for diversification in both exports and imports.

In a recent survey, businesses were asked about the impact of CEPAs on their operations. The results indicated that 23% of businesses leveraged CEPAs to explore new suppliers or diversify their supply chains, while 22% identified new export opportunities in partner countries. This data highlights the positive impact of CEPAs on business operations and underscores the role of the BCI in evaluating the effectiveness of these agreements.

Notably, the BCI enabled the measurement of the impact of CEPAs on Dubai's trade ahead of the publication of official data from the government. These early insights provided valuable information for policymakers, enabling them to assess the effectiveness of CEPA agreements and make informed decisions about future trade strategies. The UAE's CEPA programme is part of a broader strategy to enhance its global trade position that aims to increase non-oil trade to AED 4 trillion (US\$ 1 trillion) by 2031.

Impact of UAE's recent CEPAs on Businesses

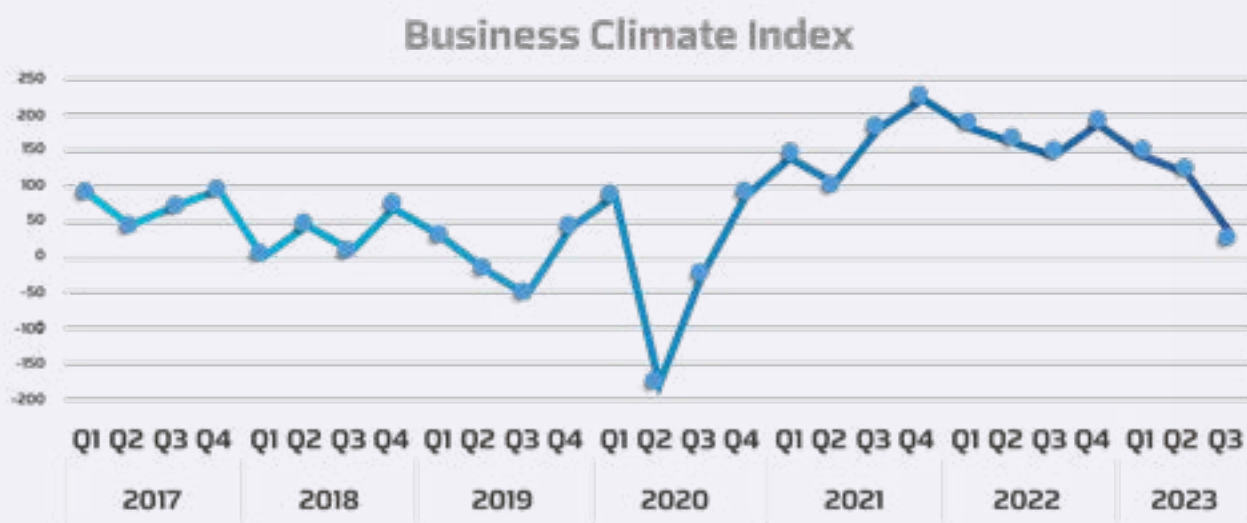


Source: Dubai Chambers Business Climate Index

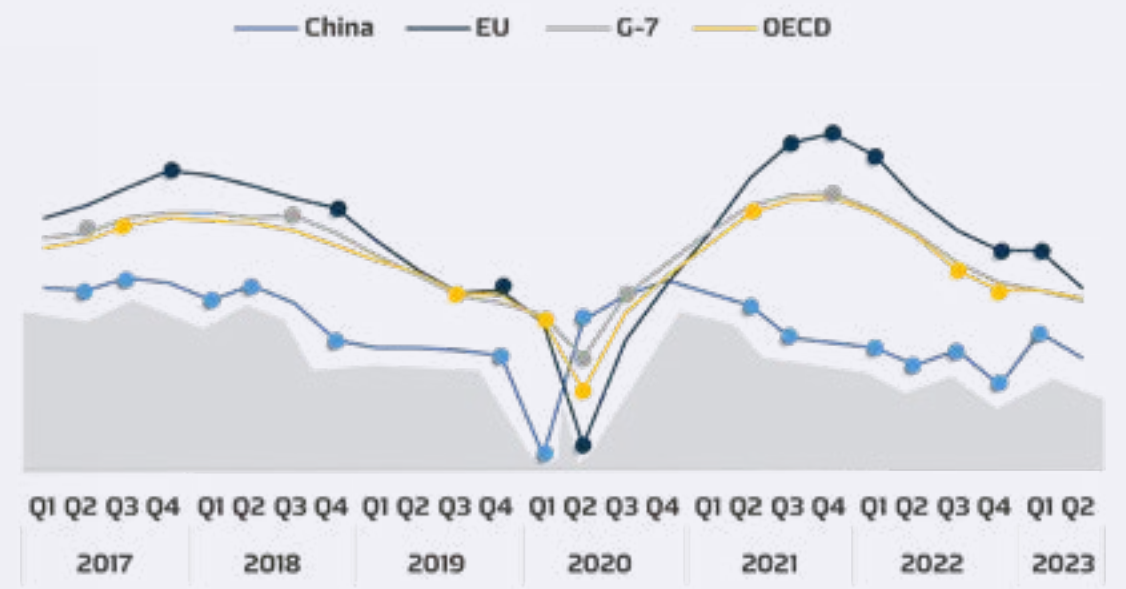
Sustainability Initiatives and COP28: The BCI has also played a crucial role in assessing the development of sustainability initiatives, particularly in response to major global events such as the 2023 United Nations Climate Change Conference (COP28), which was hosted in Dubai. In the Q4 2023 survey, around 35% of respondents stated that they had applied or were in the process of applying sustainability initiatives in response to COP28. These initiatives included using environmentally friendly materials, implementing paperless strategies, utilising solar energy, importing sustainable products, reducing waste, and lowering fuel consumption. The BCI provides valuable insights into how businesses are responding to global sustainability challenges, helping policymakers and business leaders understand the impact of such initiatives on the business environment and guide future sustainability strategies.

Sectoral Support: By analysing sector-specific sentiment, governments can identify areas of strength and weakness within the economy. This enables them to provide targeted support for struggling sectors and make strategic investments in thriving ones.

International Competitiveness: The BCI facilitates international comparisons, allowing governments to benchmark their business climate against other countries. This helps inform strategies to enhance competitiveness, attract foreign investment, and promote economic development.



Source: Dubai Chambers Business Climate Index

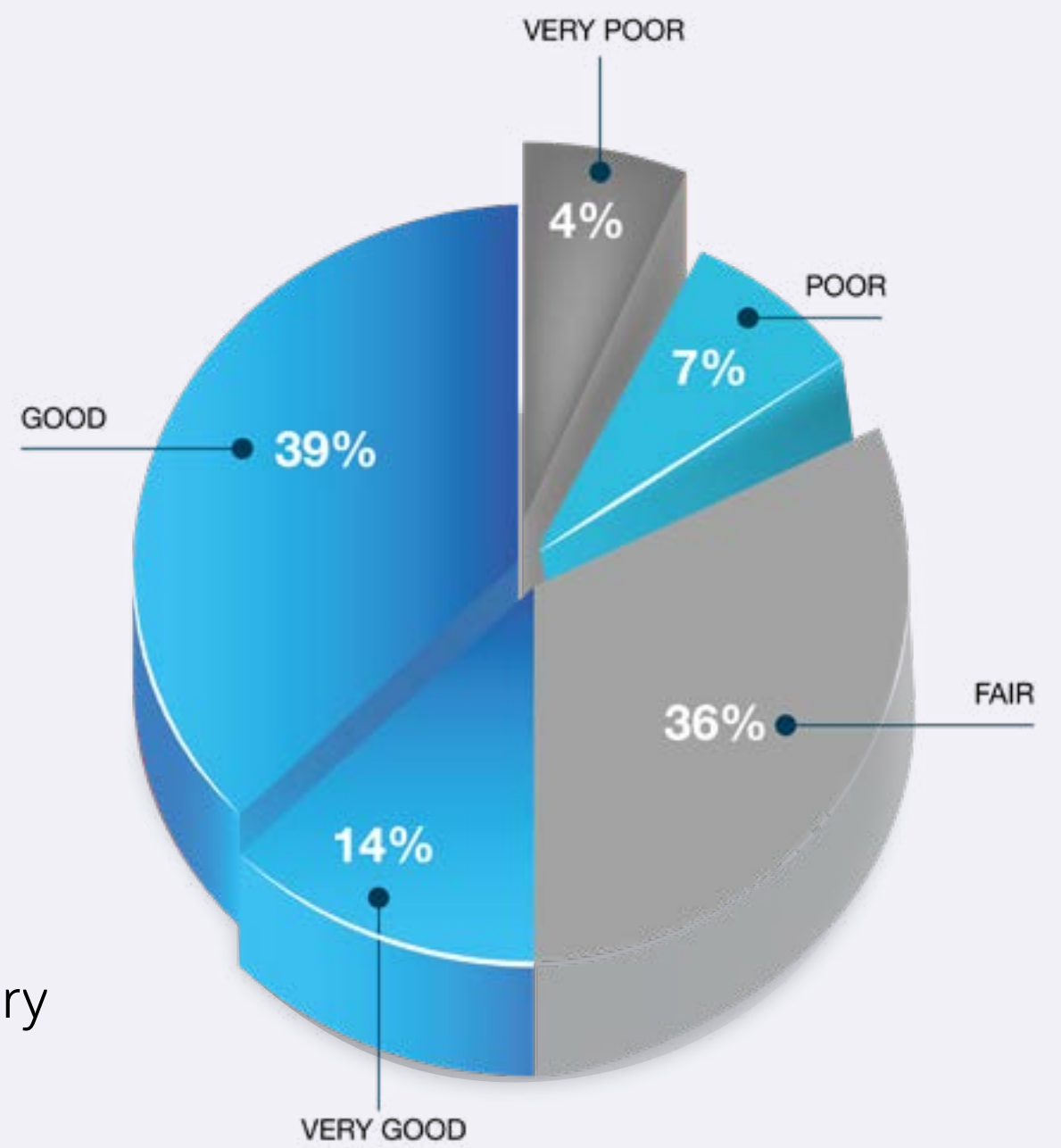


Source: OECD

Regulatory Communication:

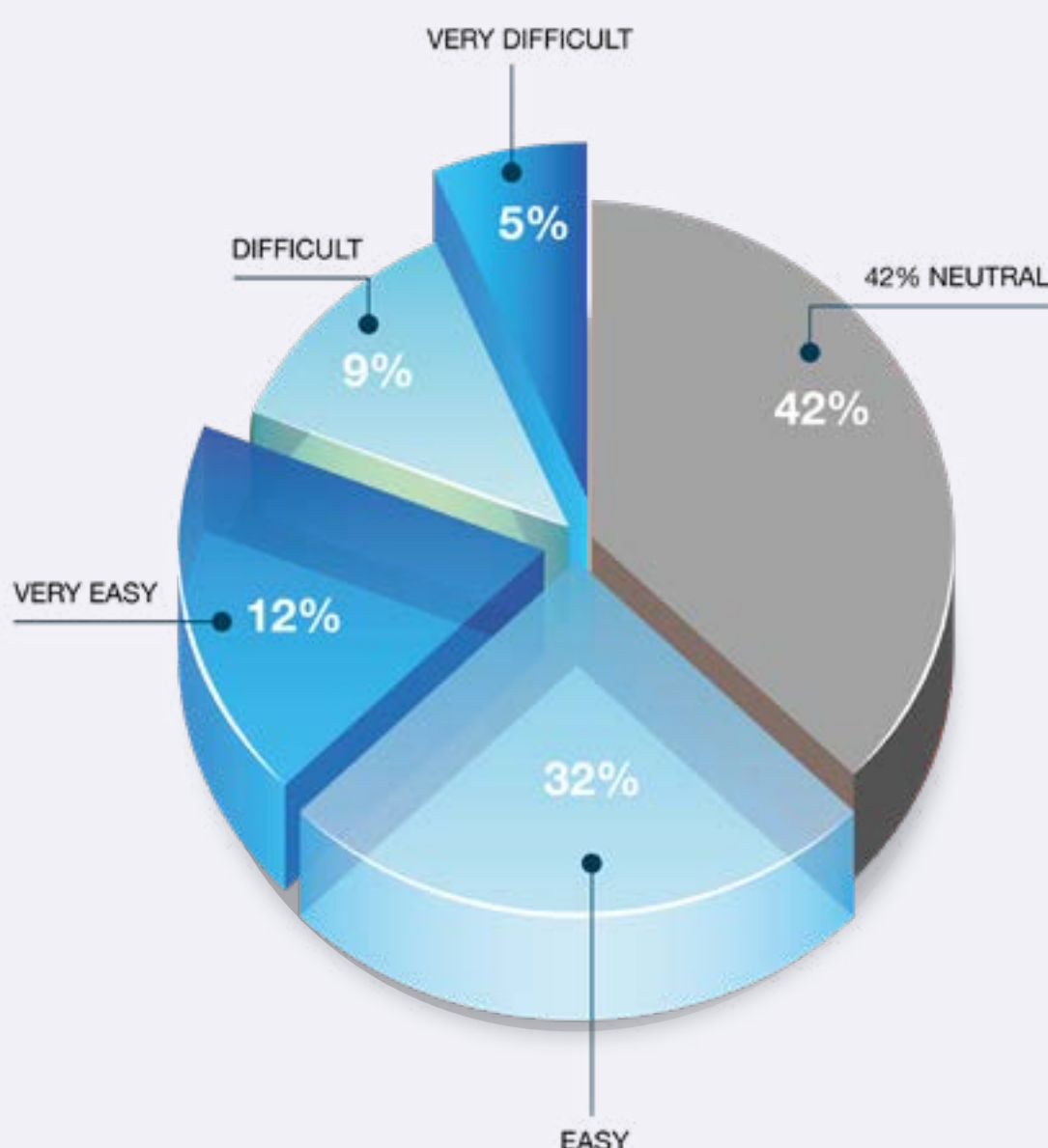
The BCI can provide insights into how effectively governments communicate regulatory changes to businesses. For instance, if a significant proportion of businesses rate the effectiveness of authorities in informing them about regulatory changes as “very good” or “good,” it suggests that communication strategies are effective. In one study, 53% of businesses rated this aspect positively, indicating a strong foundation for regulatory communication.

Effectiveness of authorities in informing businesses about regulatory changes*



Source: Dubai Chambers Business Climate Index

How easy was the process of registering for corporate tax in Dubai this year?



Source: Dubai Chambers Business Climate Index

Simplification of Administrative Processes:

The BCI can also highlight the impact of administrative processes on business sentiment. For example, the ease of tax registration processes can significantly influence business confidence. In a recent survey, 44% of companies found the process of registering for corporate tax to be “easy” or “very easy,” suggesting that efforts to streamline administrative processes are yielding positive results.

Conclusion

A Catalyst for Economic Growth and Policy Innovation

The Business Climate Index (BCI) has proven to be an indispensable tool for both businesses and policymakers in Dubai. Its development was rooted in the need for a reliable, data-driven indicator to assess business sentiment, forecast economic trends, and support informed decision-making. The BCI not only provides timely insights into the overall economic climate but also offers sector-specific analysis that helps to identify growth opportunities and potential risks. Its role in guiding strategic policy interventions, especially during economic shocks such as the COVID-19 pandemic, demonstrates its effectiveness as a leading economic indicator.

Moreover, the BCI's contribution extends beyond domestic applications. It enables international benchmarking, supports the evaluation of major events such as Expo 2020, the FIFA World Cup Qatar 2022, and COP28, and assesses the impact of key policy initiatives like the UAE's Comprehensive Economic Partnership Agreements (CEPAs). By capturing the dynamic interplay between business confidence and macroeconomic conditions, the BCI helps shape Dubai's economic resilience and global competitiveness. The BCI can also serve as an invaluable tool for other cities and governments to adopt and forecast their economic outlook. As Dubai continues to diversify its economy and embrace digital transformation, the BCI will remain a critical tool in fostering sustainable growth and strategic policy development.

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