

Written and disseminated among select contacts on April 7

WHAT YOU SHOULD KNOW

Government aid measures to support the construction industry will help lessen the impact of low oil prices and economic slowdown from the coronavirus pandemic. Nevertheless, companies will be pushed to make critical decisions about project pipelines, efficiency and supply chain resilience in order to adapt to the conditions.

Construction activity – expected to bolster economic growth by a few percentage points in 2020 owing to energy sector and Expo2020 projects – will face significant setbacks, as uncertainty around the longevity of COVID-19 raises concerns over issues such as contractors' material stocks and access to labour.

The industry's pain will be palpable in the year ahead, but in the long term could push companies to find innovative and high-tech solutions to remain competitive – ultimately resulting in a leaner, but more effective, sector.

Federal and local authorities introduced a total of \$69.7bn in stimulus packages to help ease near-term economic pressures. The majority of aid will provide indirect support to the highly leveraged construction industry by supporting local banks and improving lending conditions. Measures to support SMEs will also have positive benefits, since this segment comprises an important part of construction supply chains and offers a range of specialist design and contracting functions. In addition, construction firms operating in the public sector have been offered exemptions on fines resulting from COVID-19-related delays and improved payment terms on government contracts.

Measures have also targeted the non-Emirati labour market to prevent massive lay-offs that would create serious delays for projects. Other policies, including the creation of the Virtual Labour Market, which allows for reporting and sharing of excess labour capacity among companies; stringent rules on social distancing for workers; and the screening of 200,000 labourers in the northern emirates, are likely to limit the risk of labour exodus this year, providing added support for project timelines.

WHAT THIS MEANS FOR ...

Project financing

Government stimuli will provide a temporary patch for the construction sector, but project financing could pose a greater challenge under current market conditions, particularly for newly awarded contracts. Spill-over effects from other sectors like tourism or energy will continue to be felt, notably with potential delays in big-ticket gas sector deals or large urban developers in Dubai delaying major projects in real estate, such as Emaar Properties with Dubai Creek Harbour or Il Primo Tower.

While most of the critical infrastructure is in place for Expo2020, the anticipated delay to 2021 will buy critical time to examine marketing strategies and final contract awards for various support industries. This is a chance to showcase both the sustainability of Expo2020 construction – a top priority – and to consider the integration of these projects into longer-term construction initiatives and government diversification objectives.

Future opportunities

The crisis could lead to long-term positive developments, particularly on the high-tech and AI fronts, creating opportunities for specialist foreign firms to partner with local construction companies to improve integration of these offerings into new contracts. Solutions of this type could help reduce UAE exposure to global supply chain disruptions, and labour and materials provision, and strengthen the expertise of UAE firms.

Daniel Moshashai | Regional Analyst – Geopolitics and Infrastructure | d.moshashai@castlereagh.net