



Navigating financial distress
in times of uncertainty:
A practical guide for UAE
businesses
Resilience Redefined

Businesses across the UAE are operating in an environment shaped by geopolitical and economic uncertainty. While the region has historically demonstrated resilience supported by strong fiscal policy, strategic diversification, and an ability to adapt quickly to external pressures, the current situation is beginning to exert challenges across multiple sectors.

In this context, the ability to identify early warning signals and act decisively is not simply good management practice, it is a critical determinant of resilience. Importantly, many businesses might not yet be suffering from financial distress, but they may be on a path towards it if early warning signs are not identified and addressed.



Emerging pressures across key sectors

While the impact of the current environment is still unfolding, early indicators are emerging across several areas and sectors in the UAE.



Logistics and supply chain setbacks

As a global trade hub, the UAE is particularly exposed to disruption in logistics and trade flows. Heightened regional tensions are affecting key shipping routes and air corridors, leading to delays in the movement of goods and increased freight and insurance costs. For businesses reliant on efficient inventory turnover, these disruptions may result in longer working capital cycles, margin erosion, and reduced liquidity.



Rising input and operating costs

Volatility in oil prices is feeding into fuel, transport, and broader operational costs, and will be placing pressure on business margins. For several businesses – and particularly those with energy intensive operations or more complex supply chains – these rising costs may be difficult to pass on to customers. This may contribute to a decrease in profitability, deteriorating cash flow, and the need to reassess pricing strategies, cost structures, and short-term funding requirements.





Real estate and construction

Property developers and contractors may begin to experience cashflow constraints considering the following pressures:



Project delays driven by supply chain disruption and increased material costs



Contractor margin compression, particularly where fixed-price contracts are in place



Slower transaction activity as investors adopt a more cautious, “wait-and-see” approach



Potential softening in off-plan demand, particularly from international buyers



Consumer facing sectors

Softening demand in key sectors such as hospitality, tourism, and retail are experiencing reduced footfall and occupancy rates as international travel is reduced, and residents and consumers may have adopted a more cautious approach to spending. Given their relatively high fixed cost bases, even short-term disruption can result in immediate liquidity pressure.



Financing and investment environment

Given the period of uncertainty, it is likely that lenders might be adopting a more cautious approach, with increased monitoring on borrower performance and a greater focus on covenant compliance. Refinancing or new funding processes might be taking longer and might present challenges for businesses that are reliant on continuous funding or project-based financing.





Early indicators

The earlier financial distress is identified, the broader the range of options available to address it becomes, which is critical to preserving value.



Financial indicators

From a financial perspective, businesses may be experiencing declining cash flow generation, pressure on margins, and increased reliance on short-term funding. Receivables may begin to slow, and working capital cycles may lengthen, tying up liquidity at a time when it is most needed.



Operational indicators

Operationally, supply chain disruptions may result in longer lead times and increased costs. Businesses that are heavily reliant on a small number of suppliers or customers may find themselves particularly exposed, as concentration risk becomes more evident.



Behavioral indicators

Decision-making may become more reactive, forecasts may lean towards optimism rather than realism, and management information may lack real-time financial insight. These often signal the early stages of financial distress and may highlight that a business is beginning to lose visibility of its financial performance.



Reassessing asset values in a volatile market

Businesses should take a proactive approach to reassessing the strength of their balance sheet, particularly given the central role of assets in financing structures. This is especially relevant for sectors with significant fixed assets, such as real estate, construction, and capital-intensive industries.

Changes in market conditions may lead to softening real estate valuations, reduced value of investment assets, or lower recoverability of receivables. As a result, adjustments can have a material impact on financial ratios, borrowing capacity, and covenant compliance.

For businesses with asset-backed financing, declines in asset values may trigger loan-to-value breaches or make refinancing more challenging, and in some cases, additional equity or security will be required to maintain existing lending arrangements.



Priority actions for stabilization

For businesses beginning to experience pressure, early and decisive action significantly improves outcomes.

• Cash flow visibility

A rolling 13-week cash flow forecast is one of the most effective tools available to management. It provides a forward-looking view of liquidity, highlights any potential funding gaps, and enables more informed decision-making. Without this level of visibility, businesses are effectively operating without a clear understanding of their liquidity position.

• Working capital optimization

Alongside this, there is often significant opportunity to improve working capital efficiency. Accelerating receivables, optimizing inventory levels, and renegotiating supplier terms can unlock liquidity without the potential need for additional external funding.

• Cost optimization

Cost management might also be essential, but it must be approached thoughtfully. Poorly targeted cost reductions can erode long-term value by undermining core capabilities. The objective should be to eliminate inefficiencies while preserving the elements of the business that drive sustainable performance.

• Stakeholder communication

Open and transparent communication with lenders and suppliers can build trust and create flexibility. In many cases, stakeholders are more willing to provide support when they are engaged early, rather than being presented with a problem at a later stage.



Building resilience in an uncertain market

While immediate stabilization is critical, it is equally important for businesses to focus on longer-term resilience, and this requires a shift from reactive management to proactive planning.



Stress testing

Scenario analysis and planning play a central role in this process. By stress testing business models and modelling base, downside, and severe stress scenarios, businesses can better understand how their financial position may be impacted under different conditions. This, in turn, allows for the development of contingency plans that can be implemented if required



Financial and cash flow management

Businesses should prioritize cash visibility and active working capital management, alongside scrutiny of management accounts, including regular reviews of actual performance against budgets and forecasts. Understanding variances and the drivers behind them enables management to respond quickly to emerging pressures and adjust plans accordingly.



Enhance governance and reporting

Finally, strong governance and timely reporting are essential, and decision-making must be based on accurate, forward-looking financial information. This requires robust internal controls, clear roles and responsibilities, and the right skills and expertise to ensure effective oversight. Together, these elements support more informed, timely decisions and help maintain stability during periods of uncertainty.



Creating value through early intervention and structured turnaround approach

There is often a tendency for businesses to delay action until financial pressure becomes acute, which can significantly constrain available options and erode value. Early and structured intervention enables greater visibility over cash flow, clearer assessment of liquidity pressures, and a more informed distinction between short-term constraints and underlying structural challenges. This, in turn, supports more effective prioritization, timely decision-making, and stabilization of performance before issues escalate.

A disciplined approach to turnaround also strengthens stakeholder alignment by fostering transparent, credible communication with lenders and shareholders, which is critical in maintaining confidence and enabling viable pathways forward. As financial pressure intensifies, evaluating a broader set of restructuring and refinancing options, alongside contingency planning, becomes essential to preserving optionality. In this context, evolving insolvency frameworks across onshore courts, and specialist offshore courts such as the DIFC, QFC, and ADGM further expand the range of structured solutions available, reinforcing the importance of proactive engagement to protect value and improve outcomes for stakeholders.

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