June 04, 2013

MENA Review and Quarterly Outlook

Blominvest Views on Regional Economic and Financial Developments for Q1 2013

View of the Quarter

The war in Syria plays a mounting role in the destiny of neighboring economies which are already facing their own domestic challenges, while the oil exporter countries continue to perform well while taking a more active approach in their foreign and social policies. In **Egypt**, the quest for funds to save the collapsing finances continues while endeavors to prove credibility and ability to implement reforms are jeopardized by social unrest. **Jordan** walks steadily on its reform track financially watched over by the IMF and assisted by the Gulf countries but faces increased risks of spillovers from **Syria.** The latter continues to experience rising violence and more drastic measures are deployed by the regime to sustain the war costs. As for **Lebanon**, and while no financial support is yet urgent, the country is still putting off dealing with its economic problems that are being inflated by spillovers from the war in Syria and the domestic political deadlock. In the Gulf, **Qatar** benefits from a comfortable economy that reached full capacity in oil production and moved to stepping deeper in the region through its loaned funds to Egypt and Jordan. **KSA** turned to attend to its social issues while investing in the non-oil segment to boost economic growth, and the **UAE** growth remain positive albeit slower.

HEADLINES

2 **Egypt Macro and Equity Market**
Political and Social Divide Threaten the Needed Rescue Funds

3 **Jordan Macro and Equity Market**
Promising Economic Prospects Backed by Governmental Reforms and Regional Aid

4 **Lebanon Macro and Equity Market**
Economic Pressures to Constrain Political Consensus

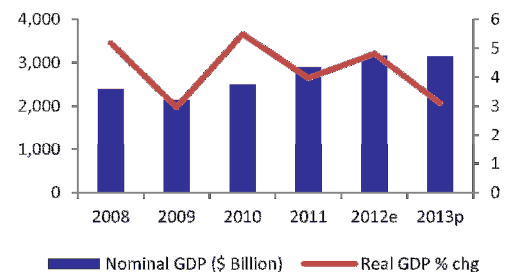
5 **Qatar Macro and Equity Market**
Non Hydrocarbon Sector Emerges as Growth Catalyst

6 **Saudi Arabia Macro and Equity Market**
Robust Economic Growth Driven by Heavy Non-Oil Investment

7 **Syria Macro and Equity Market**
International Isolation Ties Regime; Opposition Parties Remain Incoherent

8 **UAE Macro and Equity Market**
Positive Macroeconomic Fundamentals Boosted by the Recovery of Real Estate

MENA GDP Indicators



S&P Pan Arab Composite Index

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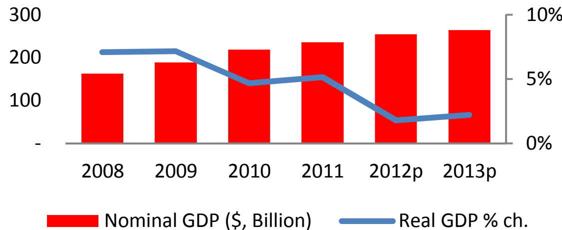
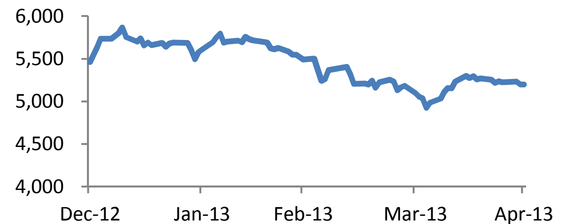
Egypt Macro and Equity Market

Political and Social Divide Threaten the Needed Rescue Funds

Key Macroeconomic and Equity Market Indicators





Egypt's transition to the Brotherhood's rule is still complicated by social unrest and challenges from Morsi's opponents causing a political paralysis in the country and rising violence. A clear fiscal plan is still needed to convince the IMF into approving the low interest loan of $4.8 billion, a deal which would help Egypt reduce its borrowing costs and restore its credibility, especially after S&P and Moody's cut their rating of Egypt on worries of a deteriorating capacity to repay debt and nearing economic crisis. In the meantime, Qatar agreed to loan Egypt additional funds of $3billion at 3.5%, which add to the previous $5billion lent since Morsi took office in last July. Libya also deposited $2 billion in April, and promised around $1.2 billion worth of crude oil on interest free credit over one year. Morsi even considered the issuance of Islamic bonds, sukuk, but ended up facing much resistance and controversy that halted his plan.

Egypt's economy contracted from medium-to-high single digit growth rates prior to the uprising, to low single digit growth rates. In the second half of 2012, real GDP growth posted 2.4% against 2.2% in the same period of 2011, according to the central bank. The slight advance was supported by a healing construction sector and partial improvement in tourism, that were however insufficient to cover for the losses of industry and the low investment levels. Despite the stagnating growth, inflationary pressures remain high, essentially due to the troubled domestic currency which devaluated by around 10% since December. In fact, core CPI rose to an annual 7.47% in April affected by the lower supply of dollars and products.

Improvement in tourism exhibited itself through 10.3% higher revenues totaling $5.6 billion during the second half of 2012 thanks to slashed rates across the industry. Conscious of the importance of tourism in preserving the flow of hard currencies and essential revenues into the country, Egypt's central bank (ECB) decided to refinance and reschedule, under relaxed terms and conditions, the credit facilities granted to troubled operators in the sector in order to sustain their activity through the crisis.

The external situation of the country continues to deteriorate. As Egypt was obliged to export more fuel to cover for some of its pressing debt, the domestic consumption had to be met later through expensive imports of fuel bought at world prices. Hence, the trade deficit widened by 7.6% to $16.8 billion by Dec 2012, as imports recorded a 3.6% rise to $30.2 billion affected by the 24.5% higher petroleum bill, and exports dropped 1% to $13.4 billion. Regarding the country's balance of payments, increased workers remittances and net inflows substantially narrowed the deficit to $3.8 billion in 2012 from $18.3 billion in 2011, achieving a total decline of $22.1 billion in the two previous years. However, this came at the cost of draining the international reserves at the Central bank of Egypt.

As for Egypt's public finance which constitute the key area where negotiations with IMF have baulked, estimates in the nine months up to March put the government's budget deficit at $25.3 billion, around 10.1% of GDP and over the target rate of 9.5%. Budget deficit is expected to further widen to $28.75 billion during the 2012/2013 year ending in June, roughly 11.5% of national output. The main contested item on the budget remains whether to reduce or not government's subsidies to bread and fuel, which absorb around $20 billion of the government's expenses.

On the monetary level, ECB resorted to raising interest rates while constantly fighting rumors concerning its reserves and capability to secure funds for the import of primary commodities and meet urgent government needs. Recent developments included raising the overnight deposit and lending rates by 50 basis points to 9.75% and 10.75% respectively, while Repo operations were suspended and substituted by deposits operations with a maturity of 7 days and an annual interest rate of 10.25%. The worrisome central bank's reserves stood at $13.47 billion in Jan 2013, the equivalent of 2.7 months of imports, compared to $15.24 billion in June 2012, but down from around $36 billion before the revolution in Jan 2011. In the banking sector, commercial banks are more invested in the government debt, holding TBs of $87 billion by Jan 2013 compared to $80 billion in June 2012, roughly 41% of their total assets. Deposits as well as loans increased to $160 billion and $76 billion respectively.

The equity markets retreated during the first 4 months of 2013 with Egypt's index losing 4.87% to 5,196 points following an earlier drop of 6.17% in Q4 2012. The market cap stood at $50.27 billion as of April end, down from $57.90 billion in December 2012.

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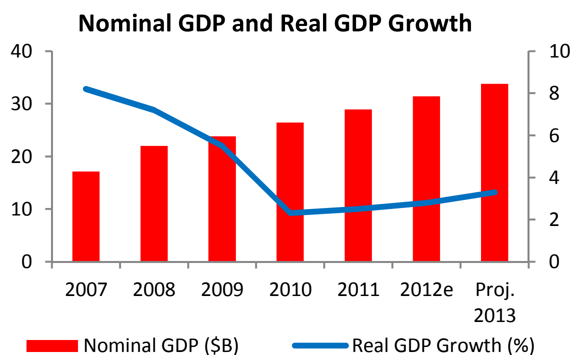
Jordan Macro and Equity Market

Promising Economic Prospects Backed By Governmental Reforms and Regional Aid

Key Macroeconomic and Equity Market Indicators



Jordan has been facing in the past few years the implications of the ongoing domestic and regional political insecurity as well as the social unrest. The worsening turmoil in Syria is taking toll on Jordan's political and economic stability with huge influxes of Syrian refugees arriving daily. Locally, parliamentary elections were held in January 2013 and a new cabinet headed by the Prime Minister Abdullah Ensour is undertaking several reforms in the country. The Muslim Brotherhood party, protested recently against the government's decision to raise the American presence that aims to counter any threat from the Syrian borders as well as helping the Jordanian government in hosting Syrian refugees.

The Jordanian economy witnessed a slight progress in the first quarter of 2013, after a challenging year in 2012. Real GDP growth rate is expected at 3.3% for 2013 compared to the 2.8% increase recorded last year. However, this growth seems not to be enough to reduce unemployment as the latter, one of the major challenges facing Jordan, rose during the first quarter of 2013 to 12.8% compared to 11.4% reached during the same period in 2012. Jordan's annual inflation rate accelerated to 7.4% in March on higher commodity and food prices according to figures from the Department of Statistics (DoS) in Jordan.

With respect to the external sector, lower imports narrowed the trade deficit by 2.9% during the first two months of 2013 to $2.16B compared to a year earlier, according to DoS. Total imports fell 1.0% to $3.39B, while national exports and re-exports added 1.4% and 8.2% to stand at $1.03B and $0.20B, respectively. The decline in imports is related to the 20.9% drop in Jordan's energy bill to $0.92B and especially imports of crude oil that dropped from $591.5M in the first two months of 2012 to $362.8M in the same period of 2013. The main reason behind oil imports' decline is that the disruption of the Egyptian gas supplies which started in October 2012, finally resumed this year therefore helping Jordan reduce its need for expensive alternative resources of energy. On a positive note, the tourism sector revenues rose by 1.7% during Q1 2013 to reach $776.9M as well as the Jordanian expatriates' remittances that increased by a quarterly 4.1% to stand at $836M compared to the same period in 2012.

Jordan's budget registered a deficit of $3.01B in 2012, representing 9.6% of GDP, compared to a deficit of $3.66B recorded a year earlier. The deficit was mainly attributed to higher oil prices, timid foreign grants of $0.46B and rising expenses for hosting Syrian refugees. Public spending reached $9.68B up to December 2012, while public revenues stood at $6.67B. As for the external outstanding public debt, it stood at $6.95B at the end of 2012 compared to $6.33B recorded a year earlier. The Gross Domestic Government Debt surged 26.8% in 2012 to stand at $17.88B or 56.9% of GDP by end of last year. Finance Minister, Suleiman Hafez, declared that the 2013 budget will be around $10.46B with a deficit of $1.85B as economic reforms are taking the country back on the right track. Recently, the IMF approved the payment of the second tranche of the $2B 36-month Stand-by Arrangement (SBA) signed in July that targets fiscal and external imbalances. In late 2012, high fuel subsidies were eliminated and in the meantime low and middle income citizens were compensated by cash transfers. In addition, the National Electric Power Company (NEPCO) preserved the program targets by increasing electricity tariffs.

Despite the progress witnessed in the first quarter of 2013, the regional and domestic instability kept on dictating investors' behaviors driving them towards foreign currency deposits at the expense of the Jordanian Dinar. Money supply M2 increased by 3.1% y-o-y and 0.6% from end of December 2012 to reach $35.38B by the end of February 2013. As for foreign reserves, they fell by a yearly 15.7% to reach $8.22B in February but surged 24.0% since the beginning of 2013 boosted by $1.5B Gulf money support. Hence, deposits in Jordanian dinar at local banks dropped by 3.3% y-o-y to $25.79B, while deposits in foreign currencies increased 27.7% to $10.03B compared to $7.85B recorded in February 2012. Accordingly, total deposits witnessed a 2.9% y-o-y increase to reach $35.81B by the end of February 2013. The rise in deposits was matched by higher levels of credit facilities extended by licensed banks, which rose by 8.8% to $25.21B up to February 2013.

Amman Stock Exchange (ASE) showed an optimistic performance during Q1 2013 standing at the fourth rank among regional stock markets. Three out of five sectors ended the first-quarter of 2013 on a positive note, driving Amman's main index 6.9% up to close at 2,101.36 points from 1,990.40 points recorded by the end of March 2012. Hence, the industrial, services and financial market sectors increased by a respective 2.56%, 7.44% and 0.25%, while the banking and Insurance sectors dropped 3.55% and 4.98%, respectively. Activity on the ASE also improved as the average daily volume rose to 15.01M shares valued at $18.35M in Q1 2013 as opposed to 11.17M shares worth $12.51M in 2012. The ASE's market capitalization widened 2.45% y-o-y to $28.11B, while the number of transactions reached 344,487, up by 18.12% from 291,634 registered in Q1 2012.

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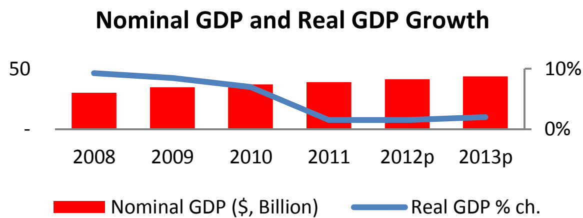
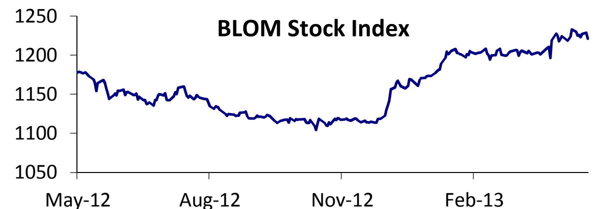
Lebanon Macro and Equity Market

Economic Pressures soon to Constrain Political Consensus

Key Macroeconomic and Equity Market Indicators





Lebanon's economic indicators remain under stress as the country enters its third year of Syrian war's spillovers. Domestically, the resignation of the prime minister and the paralysis over the electoral law threatened the internal stability and undermined the efforts needed to recover the economy. However and while several prickly files pose additional threats to the security situation, the reached consensus over the government's chief Tammam Salam towards the end of the quarter sent a glimmer of hope regarding the proceeding of parliamentary elections according to constitutional deadlines as well as the launching of an economic reform plan.

The Lebanese economy is expected to grow between 1 and 3.5% this year, depending on the turn of events in the region and the government' success in mitigating the damages. One of the country's major resources, tourism, has been following harsh reductions. Some 39,000 tourists avoided Lebanon in Q1 this year and around 118,000 tourists did not come since 2010, that is a yearly drop of 12.5% since 2012's and of 30% since the eruption of violence in Syria. No insights for recovery appear yet, as the increasingly publicized involvement of Arab countries in the middle-eastern instability pushed them to avoid Lebanon as a risky country. As for the Lebanese expatriates, their flows remain tied to a perceived relative calm in Lebanon and the resolution of the new electoral law.

Domestically, business spending continued to shrink as reflected by the smaller sums of dealt checks, the cut of unnecessary corporate budget expenses and the slide of new investments. As such, cleared checks during the first quarter of 2013 remained unchanged at 3.16 million but were worth 0.5% less of $17.27 billion, an indication of smaller checks' sums in dealerships. A lower dollarization rate for the cleared checks possibly signals a higher inclination to hold on to the hard currency; meanwhile the increased share of returned checks to 2.73% of totals, hints at larger gaps in liquidity cycles. Not far from this sentiment, new car registrations' data showed a considerable 23% decline in commercial vehicles during Q1, indicative of reducing corporate budget expenditures and/or troubled car rental companies. As for new projects launched, new subsidized loans for the productive sectors have declined by 25% to $1.05 billion in accordance with the collective declines in tourism, industry and agriculture. On the positive side however, the slowdown of the economy and the low interest rates encouraged refinances and purchase of fixed assets. Thus, housing loans during 2012 grew 22% to $7.3 billion, with total credit to the private sector lifting 11% to $48.8 billion according to bdl data.

Regarding the real estate activity, the property market slid further downhill with a 7% annual decrease in construction permits during the first quarter of 2013, and authorized area shrinking by 21.8% to 2.82 million sqm. Although Mount Lebanon still accounts for the heaviest upcoming activity of construction, developers are moving away from Beirut towards cheaper regions South and North of Lebanon. As for Tripoli, rising tensions and repeated clashed led issued permits to drop by more than two thirds.

On the external front, Lebanon's balance of payments (bop) moved back to negative territory in March to register a deficit of $353 million after 2 positive months, and remains threatened to expand in case of heightened demand on the country's foreign reserves and reducing foreign capital inflows. The BoP was subject to reduced pressures during the first two months of the year partly owing to Lebanon's trade balance narrowing by 0.9% to $2.65million. The Lebanese imports had dropped 0.5% to $3.44 billion, while Syria's rising market for Lebanon's products, mainly fuel, boosted exports by 1.1%. Syria became the main importer from Lebanon with a share of 19% as most of Syria's international trade is now intercepted by opposing forces.

As for the fiscal balance, a small primary deficit was recorded in 2012 for the first time. The government's expenditures surged pursuant to transfers to EdL reaching new highs of $2.26 billion, the salaries of public sector employees increasing to incorporate retro-active raises, as well as due to mobilized expenditures to improve the infrastructure. Gross debt stood at $58.1 billion by February end, rising back to account for 137.7% of GDP compared to 135% in 2011.

In the banking sector, BdL's foreign reserves excluding gold continued to rise on annual basis to $35.33 billion from $32.42 billion in last year's first quarter, although they dropped since year start by 1.14%. On the Lebanese commercial banks' balance sheets, deposits in LBP grew 9% and deposits in foreign currencies rose 8% since year start to reach $44.61 billion and $83.49 billion respectively.

The equity markets remained on the rise, realizing a YTD growth of 2.72% compared to higher rates of 4.8% in Q4 of 2012 and 4.05% in Q1 of 2012. The Eurobonds markets were down 0.82% during Q1 of 2013 compared to 0.12% in Q4 2012 and a positive performance in Q1 2012. The credit default swaps ended the first quarter quoted at 416-456 bps down from 431-479 bps by the end of 2012 and from 441-471 bps in Q1 of 2012.

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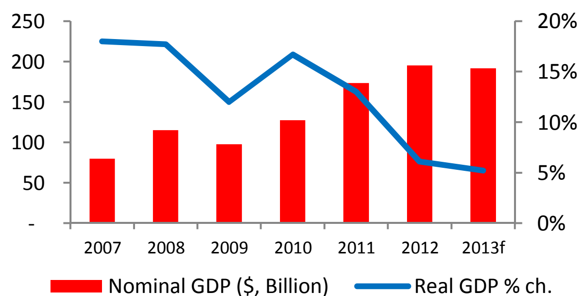
Qatar Macro and Equity Market

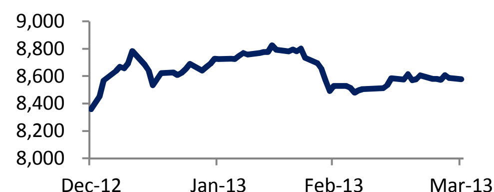
Non Hydrocarbon Sector Emerges as Growth Catalyst

Key Macroeconomic and Equity Market Indicators

Nominal GDP and Real GDP Growth



Qatar's Stock Exchange



Qatar has adopted a political strategy aimed at positioning the country as a key player on the Arab Scene. In fact, during the 24th Arab League Summit held from the 21st-27th March the Emir of Qatar Sheikh Hamad Bin Khalifa Al Thani suggested the launch of a $1B fund to finance projects in Jerusalem and to aid the Palestinian people. Under the same light, Qatar committed to an elaborate economic agenda with Egypt that includes 34 major projects in the agricultural, industrial and services sector. In addition, Qatar extended a $2B lifeline to Egypt as it struggles to secure an IMF loan with its foreign reserves tumbling to an alarming level of less than 3-months of imports.

As the Hydrocarbon sector reached maximum capacity, it no longer contributes to Qatar's economic growth. According to the IMF's outlook on Qatar issued in January, real GDP's growth rate is expected to reach 5.2% in 2013 down from 6.6% back in 2012. As projected, the 9% growth in the non-hydrocarbon sector in 2012 and 2013 will outpace the growth in the hydrocarbon sector that is due to decelerate from 3.6% in 2012 to 0.4% in 2013. As a matter of fact, this drift from the hydrocarbon sector has already begun in late 2012 as the Gross Value Added (GVA) of the mining sector in real terms contracted 0.8% from a year earlier while the GVA of the non-hydrocarbon sector grew by 7.7%.

Inflation seems to be on the rise in the first quarter of 2013 as the consumer price index (CPI) witnessed y-o-y increases of 3.4% in January, 3.2% in February and 3.6% in March 2013. The CPI has been fueled by rental inflation as the real estate market recovers from a state of excessive supply and as the Qatari population grows considerably to reach 1.92M in February 2013, a 9.9% y-o-y increase.

The external sector is also performing well as the current account surplus recorded in the final quarter of 2012, totaled $62.3B compared to $51.96B recorded in 2011. This surplus was generated as the 17% growth in exports outweighed the 14% growth in imports over the period 2011-2012. The current account was also boosted by substantial progressions in the services sector, mainly transportation and travel. The IMF is projecting that LNG supply to foreign markets will be the main driver of exports at the expense of crude oil products. This trend is to be expected as environmental awareness arises worldwide with LNG likely to become a top choice for eco-friendly production.

Qatari Public finances remain robust despite the country's expansionary fiscal policy that slightly pushed down the share of the budget surplus in the GDP from 8.2% in the fiscal year of 2011 to 8.1% in the fiscal year of 2012. Over the cited period, the government ramped up both current and capital expenditures lifting their shares in the GDP to 20.3% and 8.7% compared to 18.6% and 7.9% in 2011, respectively. Total revenues' contribution to GDP reached 43.3% in 2012 compared to 38.6% in 2011 with the share of the hydrocarbon revenues decreasing from 24.2% to 21.8% over the above-mentioned period.

The large surplus in the external sector contributed to the huge increase in money supply that is generating inflationary pressures and pushing the central bank to mop up liquidity. In fact, M2 increased by 37% y-o-y in February 2013 while interest rates on credit facilities registered their lowest levels since 2011. The excess liquidity in the system is pushing deposits upwards as reflected by the drop in the loans to deposits ratio (LDR) from 111% in December 2012 to 107% in January 2013. The QCB has been actively issuing T-Bills in Qatari Riyal to build a sovereign yield curve and attract foreign capital on the one hand and to absorb extra liquidity on the other hand.

The Doha Securities Market Index (DSMI) fell by 2% in the first quarter of 2013 to settle at 8,577.72 points while it grew by 3% during the same period last year. The volume of traded shares increased by 18% throughout Q12013. Meanwhile, the most prominent performances were witnessed in the industrial, consumer goods and telecom sectors.

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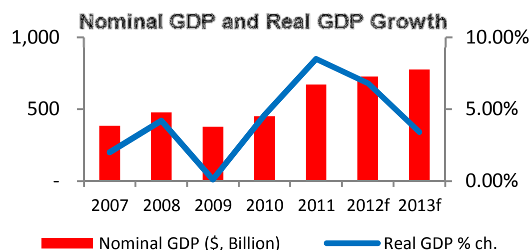
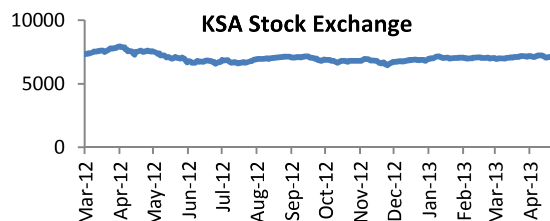
Saudi Arabia Macro and Equity Market

Robust Economic Growth Driven by Heavy Non-oil Investment

Key Macroeconomic and Equity Market Indicators





Saudi Arabia's political spectrum can be qualified as relatively stable with no uprisings or protests occurring. However, several social problems are creating underlying tensions, the main one being youth unemployment that totaled 40.5% for those aged between 20 and 24 in 2012. The Kingdom attended to this issue through installing an $800 minimum wage for Saudi nationals in the private sector in February 2013 and via a widespread "Saudization". Under "Saudization" strict quotas favoring national workers were imposed and 200,000 illegal workers were deported during Q12013.

The robust status of the Kingdom's economy was reflected by the solid Purchasing Managers Index readings and the resilient private consumption results. The Purchasing Managers Index (PMI)'s steady increase over the course of the first quarter in 2013 indicates the vibrant state of the Saudi Economy. After recording a level of 58.1 in January, 58.5 in February, it finally settled at 58.9 in March. The index's improvement is attributable to overall enhancement of operating conditions in the Saudi Arabian non-oil producing private sector. Solid increases of output, new orders and payroll numbers were consistently reported. However, in March new work and new orders grew at the sharpest rate in five months while input prices and purchasing activity evolved at the most marked rate in 6 months. Also in March, staff cost inflation picked up from February to the sharpest since September 2012 partly on the back of the new minimum wage regulation.

Economic activity was also boosted by hefty public investments, notably a $600M solar power project that will allow the Kingdom to provide electricity without depleting its oil resources and without reducing the quantity of oil supplied on the lucrative export market. In fact, oil production hovered around 9.1M barrels per day (bpd) in Q12013, 6.8% lower than the Q1 2012's average, in line with OPEC's downward revision of demand of crude oil over the mentioned period. Consumption was buoyant throughout Q12013 as the value of cash withdrawals from ATMs and Points of Sale transactions stood at $43.5B and $9.4B, their highest levels since the first quarter of 2011.

The country's external position can be added to the string of favorable economic indicators as it is expected to post a current account surplus of $42.1B in Q42012 that however remains inferior to the $44.9B posted in Q42011 due to higher goods imports. The available data for 2013 suggests that the external surplus could slide further down due to deterioration in the balance of trade. In fact, non-oil exports dropped from $4.7B in March 2012 to $4.4B in March 2013 as economic constraints took their toll on Asian and European import-demand, two markets that showed the steepest decline in the value of their imports. Thus, while non-oil exports covered 38.6% of total imports in March 2012, only a 32.2% share is covered in March 2013. As for Saudi imports, they rose from $12.01B in March 2012 to $13.63B in March 2013, notably from the main import destinations China and the US.

The government also plans on exploiting its fiscal surplus to invest heavily in the fields of education, health, social and security services, water treatment as well as roads and highways as announced in the 2013 Budget plan. While overall budgeted investment rose by 28% to a record-peak of $76B in order to boost private sector activity, allocations for municipal services and education were upped the most compared to the 2012's budget, by 23% and 21%, respectively. The 2013 budget, drafted upon an estimated conservative oil price of $70/barrel, positions revenues at $221.1B and expenditures at $218.7B. The generated surplus is set to reach $2.4B but yet remains much lower than the $103B surplus declared in 2012's budget. However, a smaller surplus is no cause of concern since SAMA'S $671.9B foreign assets in Q1 2013, lifted by elevated crude oil prices, can act as ample buffers. However the IMF stated that since the Kingdom has been upping budget spending by a yearly average of 14% in the past decade the oil price that achieves budget equilibrium leaped from $38/barrel in 2008 to $85/Barrel in 2013.

Money Supply (M3)'s quarter-over-quarter growth rate decelerated from 6.39% in Q42012 to 2.40% in Q12013. Accordingly, the Kingdom succeeded in reducing inflation from 4.2% y-o-y in January 2013 to 3.9% in February and March 2013, the same level as November and December 2012. Albeit, the Kingdom's inflation remains elevated compared to its trading partners and is mainly lifted by rental and housing related services as the ongoing codification of the new mortgage law is expected to reduce prices on the long term rather than the short term.

The Tadawul All Share index (TASI) fell by 9.05% y-o-y to close at 7,125.73 points but maintained a positive y-t-d performance, adding 4.77%. Market capitalization fell by 5.66% y-o-y amounting to $387.32B as the total value of traded shares dropped by 46.18% to $98.26B and as the total volume of traded shares went from $30.16B in Q12012 to $13.26B in Q12013. The top year-to-date performances were observed in the Hotel and tourism sector, Real Estate Development, and retail that gained 38.64%, 14.32% and 10.18%, respectively. In contrast, the worst y-t-d performances were recorded in the Multi-Investment sector, Media and Publishing and Insurance that slipped by 7.12%, 3.42% and 2.58%, respectively.

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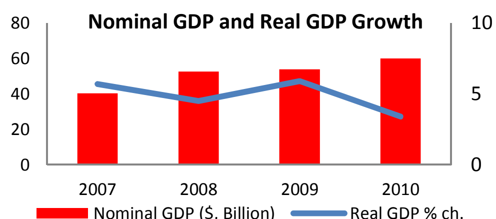
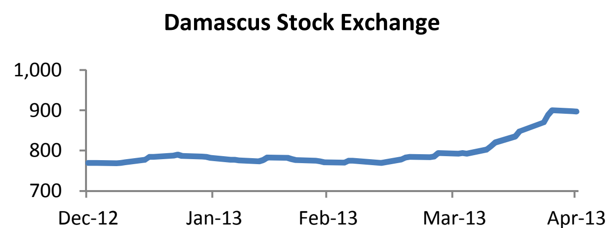
Syria Macro and Equity Market

International Isolation Ties Regime,; Opposition Parties Remain Incoherent

Key Macroeconomic and Equity Market Indicators





The lingering war in Syria and the unsettled balance of power between the regime and the opposition forces continues to drain the country's resources and economic pillars. Fighters under the opposition's umbrella do not share a unified vision for the state of Syria and the clinching of the regime to power with the help of very few allies, means political reforms or economic corrections are off the table for now. The chain of events remains unpredictable especially after the latest intervention from Israel reshuffled odds.

The human death toll now rose to 70,000 since the beginning of events in March 2011 according to UN estimates. Registered displaced citizens or in-process of registration are estimated at 1.4 million, mostly concentrated in Lebanon, Jordan and Turkey with the former refuging the largest numbers being around 455 thousands according to UNCHR and around a million according to the Syrian government. Syria's real GDP is expected to contract by around 6.1% as most domestic and external aspects are hit hard, namely the private consumption, fixed investment and exports. In 2012, GDP contraction was estimated by officials at 18.8%, equivalent to $24.1billion or 45.7% of 2010's GDP and at 3.7% in 2011. The country's isolation through imposed sanctions around its energy and banking sectors are further contributing to the soaring inflation and the rapidly depreciating currency. Inflation is thought to average 28% in 2013 after it had reached 49.51% in November 2012 according to Syria's official figures.

The touristic sector runs at a deficit of $2 billion, draining on the surplus of $3.1 billion provided in 2010 or an estimated 11% of GDP. The sector's participants requested in vain to freeze all taxes as well the rescheduling of loans interest-free given the severe conditions they are facing. The sector also suffers from the systematic destruction of old cities and Syrian heritage, therefore threatening the future rehabilitation of the sector. Agriculture, a more resilient sector which contributed to 18% of Syria's GDP in 2012, faces its own disruptions with less harvesting possible under the roads blocks and military invasions. The labor intensive sector is looking at price surges in major commodities like rice and sugar raising the risks of poverty and future unemployment. However, the government is still providing staple foods at subsidized prices and using dollars to pay for the import of 21 essential goods to Syria at preferential rates.

Public and private investment dipped as the former's focus shifted to financing the current spending and the latter turned to other countries. Investment's backdrop represented 22% of total losses in GDP, and 30% came from the drop of private investment. Syria's investment agency licensed 8 projects during Q1 2013, all industrial, for a value of SYP 8 billion compared to 45 projects licensed in 2012 for a value of SYP 37.6 billion and 4 of which were foreign. Mining and transformative industries' figures also plunged following the economic sanctions and the withdrawal of foreign companies especially that working in oil and gas. In fact, the destruction of facilities and disruption of roads as well as of production, supply and distribution lines have led many Syrian industries to move to Jordan and Egypt. Foreign investments are now restricted to Iran especially in the energy sector to build power plants.

Regarding Syria's public finances, the government's main revenues during the war time became taxes albeit being harder to collect, as revenues from oil, customs and government services are vanishing. As an example, the government imposed "war efforts" stamps on most public documents, including banking statements. On the other hand, the government's emerging expenditures to face the crisis surged with a focus on military and relief-related capital spending. Fiscal budget deficit thus rose form 3.8% of GDP in 2010 to 101% in 2012 and the public debt grew to 40% of GDP compared to 23% in 2010.

On the external front, the country's imports continue to decline affected by the shrinking domestic consumption and the weakening Syrian pound, as well as the international trade and financial sanctions, while exports witness mass drops affected by the dwindling production in warzones and deteriorating relations with neighboring countries, except for Lebanon. The country's breathing hubs are now directed to the BRICs countries, some eastern European countries and Lebanon, as the EU oil embargo significantly hurt Syria's trade. Currently Syria relies on its main trade partner, Russia to secure 46% of its oil, 35% of its weapons as well as its transport equipment. However, Syria remains in a competitive disadvantage with the BRICS with respect to exports due to the low currency values, specialization, nature of demand and barriers to entry to these countries. Syria's textile is one of the examples, representing 11% of Syria's exports but finding little potential in the BRICS markets. Moreover, many industries in Syria had established relations in Europe with respect to their supply of intermediate products but lost all value.

In this context, the Syrian pound is going through rapid depreciation and was lastly quoted at 124 against the US dollar, pressured by the shrinking consumption and services as well as the decline in national public and private income, the increased demand on foreign currencies and the financing of deficit as well as the widening speculation in forex markets. The Central bank eventually decided to let it trade freely by progressively raising the official quotes to meet black markets levels, risking downward pressure on the currency, and saving its declining foreign reserves. The latter are now estimated at $4 billion down from $18 billion. The central bank considered issuing certificate of deposits in SYP at high interest rates to save the currency's value, but the suggestion remains contested. The increased demand on hard currencies had also led the central bank to instruct financial institutions to cash the transfers for their clients in local currencies only. Meanwhile, the banking sector has halted credit lines and moved to dealing with defaulting clients. The real estate bank in Syria already deployed measures to recover defaulting loans.

The equity markets saw some trading activity during the first quarter of 2013, and Damascus Security Exchange Index (DSE) rose 3.13% to 793.68 points after losing around 13.31% in 2012 and 49.42% in 2011. Market cap decreased from $932 million in 2012 Q4 to $928 million in Q1 of 2013 noting the exit of some stocks, while traded volume and values during the quarter were higher than the previous one, registering 4 million shares worth $4.62 million compared to $1.36 million worth $1.5 billion in the previous quarter.

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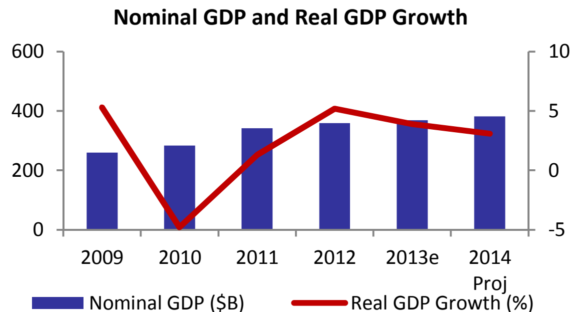
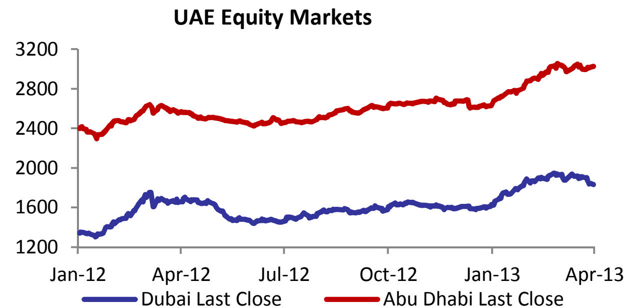
UAE Macro and Equity Market

Sustained Positive Macroeconomic Fundamentals Boosted By the Recovery of Real Estate

Key Macroeconomic and Equity Market Indicators





The United Arab Emirates (UAE) remain a safe haven despite the minor attempts to destabilize its security and the political developments in the MENA region. The Emirates declared the launch of several projects during the first quarter of 2013 targeting consistent growth on a long term perspective, of which: the reduction of UAE's domestic reliance on fossil fuels energy by getting 25% of its power from nuclear energy by 2020. It also announced the launch of DubaiSat-3, a 4-year space technology project.

On the economic level, real GDP growth was projected by the International Monetary Fund (IMF) to stand at 3.1% in 2013 relatively lower than the 3.9% recorded in 2012.Looking at inflation for the two main Emirates during Q1 2013, the consumer price index in Abu Dhabi rose 1.1% whereas Dubai CPI added 0.16% y-o-y in March 2013. Moreover, the renewed confidence in the economy and the real estate sector pushed rents and property prices up in Dubai and Abu Dhabi, during the first quarter of the year.

The tourism industry in Dubai recorded a steady growth during the first quarter of 2013 with Dubai International airport becoming the world's second busiest hub in the world by 2012. The ongoing expansion projects at the airport boosted the number of its passengers to a record level of 16.48M in Q1, 15.6% higher than the same period last year. Moreover, Dubai Duty Free recorded a 12% y-o-y growth in sales accounting for $0.43B in Q1. The promising performance extends to Abu Dhabi that witnessed a 78% hotel occupancy rate during February, up by 12% from the same period last year.

With respect to the external sector, UN Conference on Trade and Development (UNCTAD) ranked UAE as the largest capital exporter in the Arab world over the past three decades. The Emirates Foreign Direct Investments (FDI) amounted for $55.5B during 1980-2011, according to the report figures, representing 31% of the total Arab FDIs outflow. As for FDI inflow, the report showed that, over the same period, UAE came second after Saudi Arabia with FDI inflow around $85.4B. The Institute of International Finance (IIF) estimated that the Emirates trade balance surplus will extend 3.9% by the end of 2013 to reach $120.6B as imports and exports are expected to rise by 2.6% and 3.1%, respectively.

UAE fiscal performance in 2013 is expected to record a surplus of 9.5% of GDP, according to the IIF latest figures compared to the 11.7% surplus estimated for 2012. General government revenues are estimated to drop 2.0% y-o-y to reach $123.11B, while total expenditures projections (excluding net lending) are towards a 4.9% increase to stand at $86.56B. Dubai's government announced its budget for 2013, aiming to expand public spending by 6.0% and government revenues by 7.2% compared to 2012. In addition, the government is planning not to use oil revenues to fund infrastructure projects.

On the monetary front, M2 rose 4.0% during the first quarter of 2013 to $247.13B compared to $237.71B recorded by the end of Q1 2012. The monetary aggregate M3 followed the same path increasing by 7.4% to reach $311.77B by the end of March 2013. According to the Central Bank of UAE, total deposits grew by 8.0% on a quarterly basis to stand at $334.26B with a bank lending growth of 4.8% to $303.97B at March 2013.

On the equity side, Dubai Financial Market (DFM) index increased by 12.3% , from 1,629.07 points at the end of December 2012 to 1,829.24 points at the end of March 2013. Despite the 15% decline in the number of trades to 216,829 transactions, the average trading value in the first quarter of 2013 added 5% to $90.73M compared with $86.37M in Q1 2012. Market cap was wider by an annual 13%, while the total volume transacted during Q1 fell by 7% compared to a year earlier for a total value of $5.63B compared to $5.53B in Q1 2012. The transport and real estate sectors were the best performers on the DFM surging by a respective 82% and 20% in Q1 2013, while the insurance, utilities and materials sectors retreated 18%, 16%, and 14%, respectively. In Abu Dhabi, the market index reached 3,025.33 points, recording a 15% growth since year start and 18.5% y-o-y increase. Average daily value in Q1 2013 jumped 82% y-o-y to $55.52M, for an average volume of 162.40M shares, while the number of transactions reached 102,438 compared to 91,136 in Q1 2012. Total value during Q1 was $ 3.44B with a market capitalization that knocked the $77.31B by the end of March 2013. On the sectors level, real estate conquered Abu Dhabi Stock Exchange (ADX) with a 33% progress, while the insurance sector was the biggest loser on the ADX dropping 13% by the end of Q1 2013.

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