BLOMINVEST BANK S.A.L

February 2014

MENA Review and Quarterly Outlook

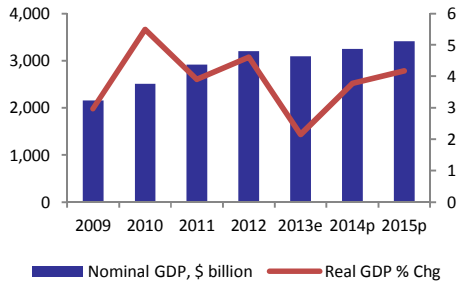
BLOMINVEST Views on Regional Economic and Financial Developments for Q4 2013

View of the Quarter

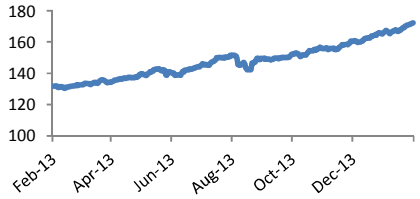
Oil exporters' countries in the MENA region remain on a different economic scale from their neighboring oil importers; however, their political agendas continue to overlap. The MENA's most populous country, **Egypt**, successfully adopted a constitution and marches slowly towards stability, backed by the comfy funds of its Saudi and Emirati allies. Meanwhile, the rest of oil importers struggle in the orbit of the Syrian war. **Jordan**'s economy suffered dual pressures from Syria and Egypt's unrests, however, its finance held up through the year thanks to back up from the IMF program, USA, Saudi Arabia and the GCC fund. Absent similar financing, **Lebanon**'s economy slid on the domestic political status-quo and a heightened frequency of suicidal bombings closely linked to the war updates in Syria. As for **Syria** itself, the government seems to have acquainted with the economy of war, supported by its allies Iran and Russia, while taking up its military combats and diplomatic talks in Geneva 2 in parallel. On the other hand, the oil rich **Saudi Arabia** considerably enhanced its economic relationship with Egypt, while internally focusing on Saudization. **Qatar** toned down its foreign policy, with its forefront domestic interest remaining on infrastructure spending, diversification from oil and social issues. As for the **UAE**, it avoided front running its neighbors' political activism, promoting itself as a safe haven and a fully recovered economy from 2009's crisis.

HEADLINES

MENA GDP Indicators



S&P Pan Arab Composite Index



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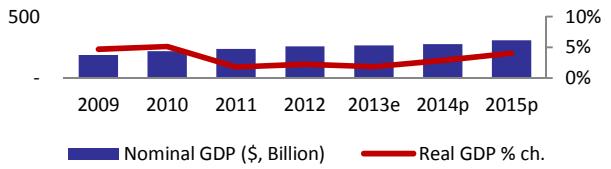
Egypt Macro and Equity Market

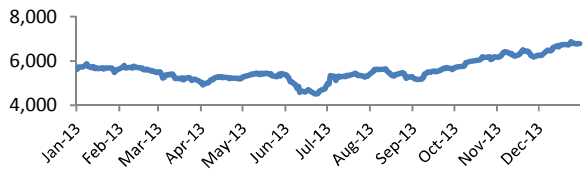
Slowly Marching towards Political Stability

Key Macroeconomic and Equity Market Indicator

Nominal GDP and Real GDP Growth



Egypt Stock Exchange



The approval of a new constitution in January 2014 has finally put the country on the path towards presidential elections. Field Marshall Abdel Fattah Sissi stands a great chance of becoming president, having a wide popularity among Egyptians and the support of Arab allies such as Saudi Arabia, UAE and Kuwait. Mr. Sissi has not yet declared his candidacy for presidential elections but popular belief makes it likely by the end of February. Much is dependent on his election for president, especially the stabilization of the security situation to revive tourism and the restructuring of the electricity and hydrocarbons sectors, although the risks of further radicalism in Egypt remain high due to the crackdown on Muslim Brotherhood Movement.

Official releases from Egypt showed that real GDP growth slowed to 1% for July-September 2013 on the back of a dip in natural gas output and a slump in tourism. The IMF estimated real GDP growth for 2013 at 1.8% and projected a recovery to 2.8% in 2014. Although far from recovering its 2010 levels, the prospects of the economy are considerably improving for the coming 2 years. In January, the rating agency Fitch maintained the B- rating for Egypt but took off the negative outlook for the first time since January 2011.

Egypt reported an inflation of 9.5% in 2013, led by the price hikes of fuel and first necessity goods. Accordingly, the government's efforts concentrated on defining price lists for food and beverages to contain price manipulation.

Tourism slashed by 64.7% during 2013 according to Egypt's official records, returning $931.1 million only against $2.6 billion a year earlier, following the drop in tourist nights by 57% to 15.3 million from 35.5 million in 2012, and the reduction of visitor's average spending from $74.4 to $61/ night. September was the worst month of the year, losing 90% of September 2012's figures. Generous efforts targeted this valuable sector for Egypt. As Expected, the Central bank renewed its boosting packages of lower interest rates and extended loan maturities to touristic agents, adding airlines to the list of beneficiaries that includes hotels, resorts, travel agencies, land transport, restaurants and entertaining facilities in touristic areas. Other initiatives focused on marketing standalone destinations through PR and social media, creating direct flights from western countries (such as the UK, starting March) to Luxor and other touristic areas without stopping in Cairo, similar to Sharm EL Sheikh flights.

Suez Canal, the other source of revenues for Egypt alongside tourism, returned $1.37 billion during July-September 2013 compared to $1.29 billion a year earlier. The canal is the subject of large tenders for a master plan to develop it, knowing that it enjoys a good reputation and the World Bank Logistics Performance Index ranked it 57th out of 155 countries in 2012. This would necessarily draw large foreign investments on the longer term.

On the external level, Egypt's balance of payments was still in the green by the end of September 2013 with an overall surplus of $4.4 billion, coming a long way from the $11.3 billion deficit recorded by the end of fiscal year 2011/2012. Net inflows of FDI in Egypt were up 7.1% to $1.25 billion, mainly as a result of net inflows into the oil sector that jumped by 44.2% to $878.6 million, but also of help from Gulf countries. The trade deficit also shrank by 1.6% to $7.7 billion during the period July-September 2013, reflecting a 1.5% decline in merchandise imports to $13.6billion and a lesser decline of 1.3% in exports to $5.9billion.

Egypt's fiscal deficit reached 13.7% of GDP by the end of fiscal year 2012/2013 (June 2013), and debt-to-GDP is expected to hit over 90% by 2015. However, revenues are expected to bounce back in the second half of the fiscal year 2013/2014 (Jan-June 2014). As for expenditures, energy subsidies remain the main concern as they mount to around $17billion a year, which is around 6.5% of Egypt's GDP. These subsidies could be reduced in the future or changed in nature to target the social class in need, and bets are on the coming president to use his popularity in order to deliver on such a critical issue that once led to massive outrages during ousted Morsi's rule.

Regarding Egypt's oil and gas sector, the country's natural gas resources are estimated to satisfy domestic demand, but political and security agitations and weak government finance halted investments in the field. Recently, the Egyptian Natural Gas Holding Company (EGAS) offered seven blocks to international oil companies to explore for natural gas and crude oil. The latest bid round followed the ratification of some 20 exploration agreements based on earlier bid rounds. At the same time, the Ministry of Petroleum is taking steps to pay off a total of US$6.3 billion in arrears owed to international oil companies for natural gas and oil sold to the government as part of their production-sharing contracts.

In the monetary sector, the Central Bank slightly loosened restrictions on transfers abroad by allowing the previous ceiling of $100k per client to be renewed yearly. As for the exchange rate, the ECB sold $39.6millon to banks with a cut-off price of EGP 6.95 per USD in its most recent auction in February since the introduction of dollar sales a year ago. To note that in January, ECB sold $1.5 billion in an exceptional auction to restock the market with dollars and curb the unofficial exchange rate. The latest rate quoted on the black market was slightly higher than the official at EGP 7.33/35 to the dollar. The Central Bank's reserves reached $17.1 billion as of January 2014, up from $13.5 billion in January 2013 but still less than the $36 billion that were available on the eve of the uprising that led to the ousting of Husni Mubarak in 2011.

The financial markets witnessed a lot of hype with Egypt Index retuning 19.5% during Q4 after a 12.7% rise in Q3. Traded shares were higher in Q4 but for a lower value registering 7.4 billion shares worth $3.14 billion compared to 6.92 billion shares worth $3.46 billion in Q3. January followed a similar trend with the index retuning 8.72% and market cap reaching $64.63 billion compared to $55.53 billion in January 2013.

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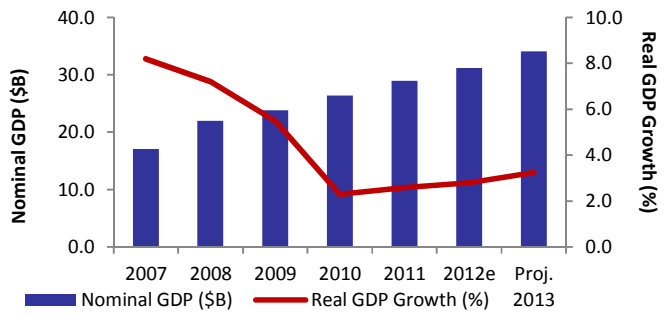
Jordan Macro and Equity Market

Fair Economic Performance in the midst of Critical Foreign Challenges

Key Macroeconomic and Equity Market Indicators

Nominal GDP and Real GDP Growth



Jordan Stock Exchange

2013 was not much better for Jordan than the previous year. The Jordanian Hashemite kingdom underwent challenging regional uprisings resulting of the Syrian ongoing war and the Egyptian political instability. As a neighboring country, Jordan bared the costs of the Syrian influx (around $2.1B) as well as the war spillovers on its foreign trade activity. Ripples of Egypt's unrest led to repeated disruptions in natural gas supplies to the Kingdom that caused several electricity shortages. On a positive note, the U.N. General Assembly designated Jordan to the U.N. Security Council to replace Saudi Arabia, which rejected its 2-year term in objection to the council's failure in resolving numerous vital issues such as the Syrian war.

Economic growth was projected by the International Monetary Fund (IMF) at 3.2% for 2013 and 3.5% for 2014 with respective real Gross Domestic Products (GDP) at $15.33B and $15.87B. Increase in foreign investment pulled the unemployment rate down by the end of 2013 to 11.0% compared to 12.5% in 2012. However, the annual average rate remained higher at 12.6% in 2013 compared to 12.2% in the previous year because of the large influx of Syrian refugees. The Syrian influx also pushed up the prices of housing and food. Hence, inflation rose from 4.6% by December 2012 to stand at 5.6%, in 2013, yet below the IMF's estimate for 2013 (5.9%). This annual increase was also explained by higher fuel and electricity prices following the repetitive Egyptian cuts of natural gas.

The hostility of combats in Syria had considerable repercussions on tourism and hospitality services in Jordan. Tourists' number declined by15.9% to 4.14M in 2013 compared to 4.92M in 2012. Similarly, total arrivals amounted for 6.63M by November 2013, down by an annual 13.9%, and total departures witnessed a comparable fall of 13.7% year-on-year (y-o-y) to 6.52M. Travel receipts decreased 4.2% y-o-y to reach $3.09B, according to CBJ on lower incoming medical tourism. Ernst and Young Middle East Hotel Benchmark report posted an occupancy rate of 61% for Amman in 2013 compared to 69% over the previous year.

In the external sector, the trade balance deficit broadened by 8.6% y-o-y to reach $12.76B by November 2013, according to the department of statistics. Total imports increased by 6.1% y-o-y to reach $20.07B mainly due to the growing number of Syrian refugees on the Jordanian territory. As for total exports (domestic exports and re-exports), they barely grew by a marginal 1.9% y-o-y to $7.30B by November 2013. Accordingly, exports covered 36.4% of imports by November 2013, edging down from 2012's ratio of 37.9%.

On the fiscal level, public deficit managed to narrow by November 2013 to $1.55B, down from $2.01B in the same period of the previous year. Contrastingly, when excluding grants, the fiscal deficit shows an annualized 10.3% rise to $2.37B during the first eleven months of 2013. Foreign grants had a core role in tightening the public deficit as they reached $816.95M up from $136.21M by November 2012. Almost $500M of the grants came from Saudi Arabia, the United States of America and the GCC fund. Domestic revenues witnessed a 2.6% y-o-y growth to $6.39B, while total expenditures posted a 4.5% y-o-y progress to $8.76B. As for net public debt (domestic and external), it stood at $26.88B or 79.5% of GDP by October 2013, posting a 15.0% y-o-y increase. Worth mentioning that Jordan has received to date $774M under the $2B loan program accorded by the IMF to boost economic reforms and growth.

Steady performance characterized the banking sector in the kingdom. Money supply M2 widened by 9.5% y-o-y to $38.64B. Total deposits increased by a yearly 10.5% to reach $38.94B by the end of November on higher deposits in Jordanian Dinar (JD) and lower deposits in foreign currencies. In details, the former edged up by 18.5% to $29.53B while the latter dropped by 8.9% to settle at $9.41B. This reveals investors' confidence in the JD as well as their positive expectations about an improving economy in the medium and long-term. In addition, credit facilities extended by banks also grew by an annualized 7.2% to amount for $26.49B. Worth noting that Jordan's central bank cut its core lending rates in October by 25 basis points, following a previous rate cut in August.

Promising performance was seen on Amman Stock Exchange in 2013 with the market's index rising 5.5% y-o-y to reach 2,065.83 points reflecting the attenuation of investors' fear over the regional political developments over the 3rd quarter of the year. The number of transactions showed a marginal uptick of 0.3% y-o-y to reach 965,607 in 2013. The total volume traded reached 2.43B shares worth $3.21B compared to 2.37B shares valued at $2.73B recorded a year earlier. Average value of daily trades by December 2013 was $13.10M up from $10.85M in 2012, while market capitalization slid 4.7% over the year to hit $25.66B following several stocks delisting such as Gerasa Insurance Company, Babelon Investments Co. P.L.C Company and United Group Holding Company.

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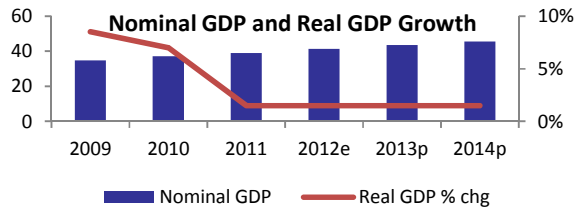
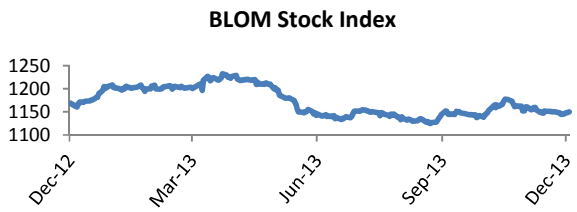
Lebanon Macro and Equity Market

Lebanon's Economy Slides on Political Status-quo and High Security Alerts

Key Macroeconomic and Equity Market Indicators





After 11 months and many deadlocks, a Lebanese government was finally formed, albeit only serving until the presidential elections. In parallel, the 9-years awaited special tribunal for Lebanon was launched, with the prosecution involving members of the Lebanese party Hezbollah, although no near-term changes are expected as a result. Meanwhile, the economic impact of the increased suicide bombings in Lebanon and of other security disturbances is mounting, adding to the losses brought by the political stalemate and the regional pressures witnessed throughout 2013.

In a recent report, the International Institute of Finance (IIF) estimated real GDP growth in 2013 at 0.9% only compared to 1.2% in 2012 while the IMF put growth at 1.5% in 2013. Estimates for 2014 vary between 1% and 1.5% as well, pressured by the drain from domestic and regional unrests. In fact, BLOM Lebanon PMI plunged back to 44.7 in January, exposing the deteriorating business conditions of the private sector in Lebanon following a higher frequency of sporadic suicidal bombings across the country.

Starting with the real sector, tourism remained on the low end for another year running down by 6.7% to reach 1,274,362 tourists. Europeans constituted the highest share of tourists at 34%, while the dampers on Arab visits to Lebanon reduced their numbers by another 12.2% in 2013 to 402,080 visitors. In spite of the gloomy outlook, and ahead of the assassination of former Minister Mohamad Shatah, the last quarter of 2013 was shyly recovering a momentum with each month posting a positive trend compared to 2012, ignoring the twin suicidal bombing targeting the Iranian Embassy.

As for Real estate, 2013 was a stressful year, with the number of construction permits declining by 5% to 16,724 and the total construction area shrinking by 13% to 12.8 million sqm. Amidst the deteriorating appetite, Mount Lebanon remained the safest choice for developers in 2013 with 43.7% of permits issued for projects in this area.

In the external sector, trade data for 2013 showed a 6.6% broader deficit to $17.05 billion due to higher imports and lower exports. The 3.7% increase in imports mainly covered for the heightened demand of basic necessities from the refugees and the need to re-export to Syria. Lebanon's reliance on imports favored Chinese products with a share of 10.8%, followed by Italian, French and American products. Meanwhile, exports dropped by 6.8% and were mainly directed to Syria that topped the list of importers from Lebanon with a stake of 13.3%, followed by South Africa and Saudi Arabia. The widening trade deficit kept Lebanon's balance of payments in the red. However, the BoP managed to pull a 26.5% narrower deficit in 2013 to reach $1,129 million, thanks to a recovery in capital inflows.

Regarding government's finance, latest data on Lebanon's fiscal performance showed an expansion of deficit to $3.52 billion by October 2013 with a slight contraction of the primary deficit to $313.37 million. Government's revenues continued to slip as tourism faded and highly taxed products were less demanded. By October 2013, revenues had dropped 2.2% to $7.92 billion, additionally affected by the slump in Telecom transfers which declined by 15.2% to $1 billion. On the other hand, the government's expenditures hiked by 6.2% to $11.44 billion on increased costs of security and protection, as well as health and social needs of the hosted masses escaping Syria. In fact, the cost of protection and insurance against security incidents is rising among all Lebanese economic agents, consumers, businesses and government alike.

The widening fiscal deficit is especially alarming for its impact on the country's debt-to-GDP ratio and the cost of government financing. While formerly deemed of good quality thanks to its declining trend and the country's sound sovereign rating, Lebanon's debt-to-GDP ratio went back on the rise going to 141.5% as at November 2013 compared to 136.5% a year earlier, because of larger fiscal deficit and lower growth of the economy. The country's sovereign rating was also revised down, with the top 3 rating agencies seeing its long term outlook as negative.

The cost of financing this debt is also likely to rise as international interest rates are expected to go up in 2015. The Lebanese gross public debt stood at $63.25 billion by November 2013, recording an annual increase of 9.9%. The cost of domestic debt rose by 0.45% to $1.89 billion and that of foreign debt by 8.5% in 2013 to $1.16 billion following the issuance of Eurobonds in April 2013.

Coming to the banking sector in Lebanon, the sound performance of this sector remained a pillar to the public and private economies alike. The consolidated financials of all Commercial banks in Lebanon reveal a notable success in 2013 regarding the growth of their resident deposits by 7% and non-resident deposits by 18%, in addition to a 10% larger lending portfolio. Moreover, net profits of banks operating in Lebanon rose by 3.8% to reach $1,620 million in 2013 compared to $1,561 million in 2012.

On the other hand, the central bank of Lebanon continued to successfully manage its foreign reserves, which reached $35.62 billion in January 2014, one of the highest levels in the Levant countries when considering Jordan's $12billion and Egypt's $18 billion foreign reserves.

Regarding the financial markets, Beirut Stock Exchange limited its losses in Q4 of 2013, as the BLOM Stock Index (BSI) marginally dropped by 0.15%, ending the year with a 1.62% loss compared to 2012. On the other hand, the Eurobond market jumped back in Q4 with BLOM Bond Index (BBI) gaining 2.04%. Nevertheless, the BBI failed to end the year on a positive note, affected by the respective losses of 5% and 0.82% in Q2 and Q1. Accordingly, the BBI concluded 2013 with a decline of 3.14%.

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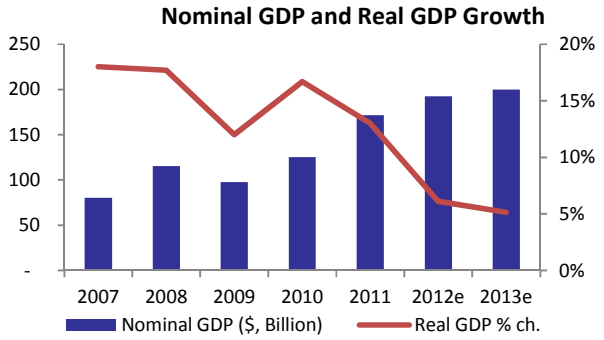
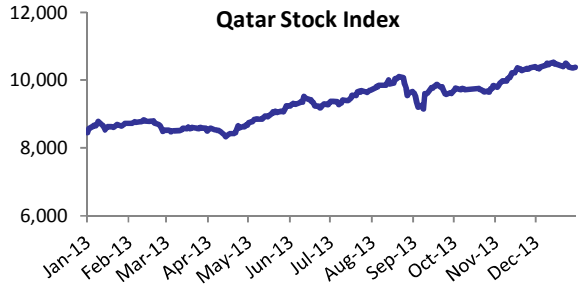
Qatar Macro and Equity Market

National Vision on Right Track

Key Macroeconomic and Equity Market Indicators





After becoming Qatar's new ruler, the crown prince stood firmly by the already-established principles of Qatar's vision and strategy. Major themes such as diversification away from the oil sector, reducing inflation and preparing to host the FIFA 2022 remained at the forefront of the government's agenda.

Real GDP growth reached 6.2% in the third Quarter (Q3) of 2013, rising from $23.90B in 2012 to $25.38B in 2013. The Value Added (VA) of the mining and quarrying sector grew from $10.31B in 2012 to $10.49B in 2013 on account of higher natural gas production. (+1.8%). However, the VA of the non-mining and quarrying sectors grew from $13.59B in 2012 to $14.88B in 2013 (+9.5%). As the second biggest contributor to real GDP, the construction sector's VA grew by 13% y-o-y to $2.91B, a likely upturn given the construction projects being carried out in anticipation of the FIFA 2022 event.

However, these large infrastructure projects in addition to higher crude petroleum and gaz prices also inflated the Producer Price Index (PPI). The latter registered 168.6 in Q3 2013, a 1.6% increase when compared to the previous quarter.

Nonetheless, the rising PPI did not translate into a higher Consumer Price Index (CPI). After inflation peaked at 3.7% y-o-y in April, it has gradually shrunk since then ending the year at 2.7%. The growth of the components of "Rent, Fuel and Energy" and "Transport & Communication", respectively carrying the two largest weights of 32.2% and 20.5% in the CPI, slowed from 6.2% and 2.5% in April to 4.8% and 1.6% in December. Inflationary pressures might resurface in the period ahead since the population is recording a double-digit growth, amplified by the inflow of expatriates.

The entry of a large number of foreign workers is also widening the unemployment gap. General unemployment in the labor force reached 0.3% in Q3 2013 but rose to 1.8% for nationals. Figures released by the Qatar Statistical Authority first shed light on foreigner's prevalence on the labor market during Q3 2013. With a total labor force of 1,483,000, the number of Qataris amount only to 86,000, of which 66% are males and 34% are females.

Aside from the nationals/foreigners gap exists a male/female gap. Both Qatari and foreign females represent respective marginal portions of 2% and 10% of the total labor force. Male-Female discrepancies are also highlighted by the gap in the monthly average salary which totals $2,747 for males and drops to $2,198 for females.

The majority of Qataris are employed in the public sector which weighs on government finances. Salaries and wages accounted for 17.3 % of current expenditures. Still, Qatar managed to record a $22.69B fiscal surplus in the fiscal year 2012-2013 in spite of the large infrastructure spending. While the budgetary surplus accounted for 7.7% of GDP in FY 2011-2012, this share rose to 11.8% in FY 2012-2013. Revenues from oil and gas as well as investment lifted total revenues by 26% to $76.87B while salaries &wages and development expenditures lifted total spending by 13% to $54.19B.

Contrastingly, the foreign trade surplus narrowed by 4.2% y-o-y in November to $8.49B. Total export of goods slid by 0.9%, outpaced by the 12.4% increase in imports. The main countries of exports destination for Qatar were Japan with a share of 29% of total exports, South Korea with 17%, and India with 9% of total exports. The United States of America was the leading country of origin with a share of 11% of total imports, followed by China (9%), Germany and United Arab Emirates (7% each).

In spite of a tighter trade surplus, both the Qatar Central Bank (QCB) and commercial banks remained flooded with liquidity. The banking system's net foreign assets surged by 31.2% y-o-y to reach $23.30B in November. As for the QCB's net international reserves, they grew by 20% since year start and stood at $39.15B in November, covering around 16 months of imports.

Standard and poor's also shed light on the growing role of Islamic banks in Qatar. S&P expects Islamic banks to become the third largest in the Gulf after KSA and UAE with an asset base of $100B in 2017. Qatar's Islamic banks' assets grew from $51.69B in November 2012 to $57.72B in November 2013.

The Doha stock market index ended the year 2013 at 10,379.59 points, 24% higher than the same period last year. 26 companies' added value, 15 lost value and 1 remained unchanged. Throughout the year, the best performing indices were the Transportation Index gaining 38.65%, the Telecoms Index rising by 36.51%and the Industrials Index edging up by 33.23%.

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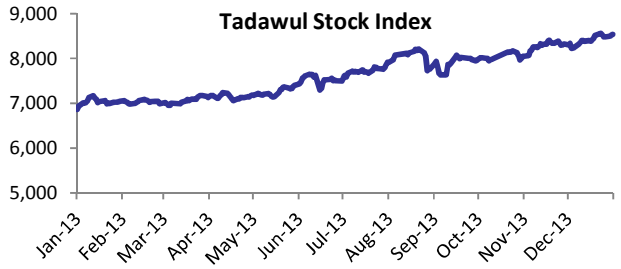
Saudi Arabia Macro and Equity Market

Adapting to New Trends

Key Macroeconomic and Equity Market Indicators



Amidst the tumults rattling the Arab region, Saudi Arabia assumed an important economic presence and played an influential role. The Kingdom is also expected to pledge aid funds for its Arab peers in the coming year.

On the local front, the Saudization policy remained at the heart of controversy in the Kingdom. The Ministry of Labor argues that the Nitaqat program created over 750,000 job opportunities for Saudi citizens over the past two years while the Shura council claims that private companies are working their way around the implemented laws and only seemingly employing more nationals on their payroll. Even statistics are disputed and vary depending on the source: Ministry of Labor, Ministry of Civil Service and Ministry of Economy.

Aside from the debated benefits and shortcomings of this policy, tackling unemployment remains an active goal on the national agenda. The Ministry of Labor introduced unemployment insurance according to which both employers and employees will disburse 1% of their monthly salaries as subscription to the state insurance body set to be established in a few months. Whether this new measure will indeed encourage Saudis to seek private sector jobs remains to be seen.

However, according to the SABB HSBC Purchasing Managers' Index PMI readings in December, the rate of job creation hit its highest level since March. In fact, the non-oil producing private sector ended 2013 on a strong note as the PMI stood at a three-month high of 58.7 in December. Output growth was the strongest in an eight-month sequence while new orders increased on account of higher construction activity, increased infrastructure developments and good marketing efforts. As for staff costs, they increased at the fastest pace in a year-and a half which in turn compelled managers to increase their selling prices. While overall inflation was a concern at the beginning of the year, hovering around 4%, it eventually dropped to settle at 3% in December.

As inflation eased, non-oil exports gained more competitiveness on international markets. Newly opened letters of credit for exports rose by 18% y-o-y in Q4 2013 to $10.67B while those for imports grew by 4% to $13.93B. Moreover, trade data for the month of November shows that non-oil exports posted a 10% y-o-y growth to $4.74B while imports increased by 4.4% y-o-y to $12.1B.

Meanwhile oil production and oil exports remained elevated, respectively standing at 9.75 million barrels per day (mbpd) and 7.68 mbpd in November, 7% and 3% y-o-y upturns. Saudi Arabia confirmed that the US shale gas reserves will not impact the country's status as the world's largest oil producer and even announced that it will become the first country outside of North America to produce shale gas.

The fiscal balance just like the trade balance posted a substantial surplus in 2013, which is expected to extend into 2014. 2013's actual budget surplus stood at $54.93B, compared to a budgeted $2.13B and 44.8% lower than 2012's level. The government's hefty spending spree lifted expenditures to $246.67B while total revenues amounted to $301.60B.

As for Saudi Arabia's 2014 budget, it was drafted in the same light, reiterating the expansionary fiscal stance and the focus on social welfare. Next year's budgeted spending, drafted upon a conservative crude oil price of $67/barrel, is set at a record $228B and is equaled by revenues. Special emphasis has been placed on wages and salaries, operations and maintenance as major projects are materialized. Education and healthcare remain high-priority targets and take up a 38% share in total spending.

The Saudi economy is cooling down after the effect of the $800B spending package in 2008 wears off. As evidence, bank claims as well as deposits maintained their upward trend in the last three months of 2013, albeit at a slower pace than the same period last year. Claims and deposits registered double-digit growth rates of 12% and 11% in 2013 compared to 17% and 14% in 2012.

The banking sector remained awash with liquidity in the fourth quarter of 2013. The balance sheet of the Saudi Arabian Monetary Agency, the Kingdom's central bank, unveiled $730.33B worth of total assets and $725.72B worth of reserve assets, respectively 10% and 11% higher than the same period last year. Commercial banks also posted sound balance sheets as their total assets edged up by 9.2% to $504.88B in Q4 2013.

Saudi banks increased their exposure to treasury bills by 29% y-o-y to $47.76B in the last quarter of the year. Overall, loans to the public sector grew by 23.6% y-o-y, outpacing loans to the private sector, which advanced by 12.5%.

The Tadawul Stock Exchange Index (TASI) ended the year 2013 at 8,535.60 points, a 25.5% year-on-year upturn. The turnover ratio slightly slid from 22 in Q4 2012 to 17 in the same period this year. 10.99B shares, worth $78.55B, were traded in the last quarter of the year. As for the price to earnings ratio of the listed companies it settled at 16 by December 2013 compared to 13 in the same period last year.

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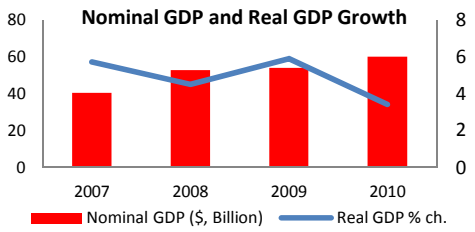
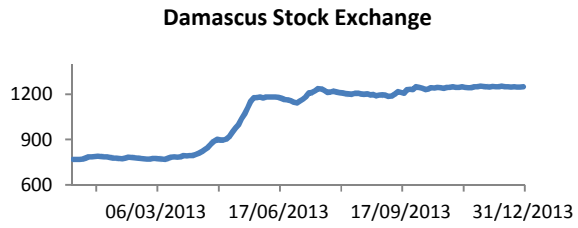
Syria Macro and Equity Market

Syria Adapts to Economy of War

Macroeconomic and Equity Market Indicators





Talks in Geneva 2 rather stumbled, and the second round of negotiations remained as fruitless as the first one. Meanwhile, the battlefields in Syria were the bloodiest since the beginning of the uprising in 2011. A pro-opposition observatory said more than 6,000 were killed between January 22 and February 14. The United Nations stopped counting casualties due to the increasingly dangerous conditions on the ground. The final count reported more than 140,041 people killed since 2011, over 7,626 of them are children. Already 2.3 million citizens fled abroad and 6.5 million have been internally displaced.

On the military front, regime forces backed by Shiite fighters from Iran, Iraq and Lebanese Hezbollah regained strategic territory in the province of Homs in the centre of the country and expanded a buffer zone around Damascus, where most Assad troops are based. On the opposite side, the Free Syrian Army (FSA) loosened with several Al-Qaeda-linked groups emerging as a powerful force on the ground, overshadowing the FSA militarily.

Inside Syria, the government proceeded with its economy of war, assessing losses and targeting micro cells of the economy in safe areas to survive.

Based on official Syrian surveys, tourism lost around $2.2 billion (SYP 330 billion) since the start of war in Syria. Direct damages were estimated by the ministry of tourism at $1.1 billion and indirect losses at $900 million, relating to transport, industry, agriculture, archeological sites and shopping, losing the country important sources of foreign currencies. According to the report, more than 371 touristic institutions went out of business, which is a loss of 24,000 beds. Over 258,000 people lost their jobs, of which 86,000 are directly involved in the business. Moreover, 300 investments in tourism, worth $600 million, were halted.

Syria's important oil production plunged by 96% since 2011, as rebels control now most of the oil rich lands. The pre-war level was around 385,000 barrels a day, now down to 14,000 barrels a day. Western sanctions and EU ban on oil imports from Syria also intensified the problem, as well as the withdrawal of foreign oil firms. However, the government continued to rely on its ally Iran to cover for its domestic needs, in parallel to developing gas fields in central Syria to raise gas output.

Regarding industry, the concerned ministry laid an emergency plan for institutions to ensure continuity of production. Some $5.3 million was designated, of which $1.2 million for rebuilding, $3.26 million for restoration and $0.8 million for maintenance and repair. Benefiting industries are mainly engineering, cables in Aleppo, cement, porcelain, chemicals, glass, plastics, textile, and agro-food. Losses were reported at $1.7 billion for 1,192 facilities since the start of crisis and until 2013, only including businesses in Aleppo, Damascus, Rif Damascus and Hama.

As for Agriculture and Animal productions, recorded losses in pro-regime areas stood at $207 million, due to lost spaces, out of business companies, lack of fuel and input materials, robberies or else. The agricultural plan therefore failed but a new plan for 2014 notes a lower price for wheat when paid in cash, as well as subsidized prices for other products. Moreover, all dues to the agricultural bank at the central bank for year 2013 were postponed for a year.

The government paid particular attention to investing in safe areas to maintain productivity and self sufficiency. In the last count of investments for year 2013, official figures reported 49 new projects for an investment cost of $8.66 million, mostly in Rif Damascus (10 projects), Latakia and Soueida (7 projects each). Industrial projects were 33, followed by transport (9 projects), agriculture (2 projects) and one project for electricity in Soueida.

The government also tightened its control over manipulative economic agents within its controlled areas. Internal police was quite active in arresting breaching individuals, especially for charging higher prices for transport services. Bakeries, both public and private were also closely monitored for bread supply. Citizens buying foreign currencies for camouflaged reasons were also warned and a list of some 400 names was appealed upon during the last month.

On the external level, the government further monitored imports. It still forces traders to get a prior license for imports in order to control the incoming products and the traders executing them. And recently, the ministry of economy lowered the import license's validity to 6 months with the next license granted only upon the first one's execution or cancellation. Meanwhile, raw material for industrialists and medications are being supplied regularly by the government. Moreover, a recommendation to lower taxes on the private sector's imports from Iran is being studied, noting that a bilateral agreement already notices a low tax of 4% on basic products. On a side note, some Syrian businessmen in Egypt took the initiative to meet with the government in order to operate in safe areas or to supply the Syrian market with goods at lower prices.

On the monetary level, the increased liquidity at the Syrian banks and the limited room for lending has led the national banks to move into micro credit. Small loans destined for low income residents are in mid way towards approval, with a ceiling of $2000 (SYP 300,000) for a period of 3 years. Moreover, the president Bashar al-Assad issued several legislative decrees since the beginning of 2014, re-scheduling loans and delayed payments for economic activities and housing at the public banks.

The central bank managed to hold a tight grip over the Syrian pound's exchange rate. The Syrian pound currently hovers around 150 per dollar, very close to the black market levels. Demand on the local currency returned from rebel areas, therefore strengthening the pound. Lower imports also decreased demand for the dollar. Meanwhile, no recent reserves have been declared although the central bank is reportedly amassing good amounts of foreign currencies. The central bank extended the maturities of currency exchanges with banks to one month, 3 months and 6 months, with a minimum of $2million or Euro 1.5 million, therefore cancelling the one week, 2 weeks, and 1 year maturities.

In the stock market, Damascus Stock index surged by 62.42% during 2013, with total shares of 16.72 million worth $20.99 million traded over the year compared to 11.20 million worth $34.25 million a year earlier. In the previous years of 2012 and 2011, the stock market had lost 13.31% and 49.54% respectively. Market cap ended 2013 at $331.96 million compared to $932.75 million a year earlier, due to the delisting of most companies.

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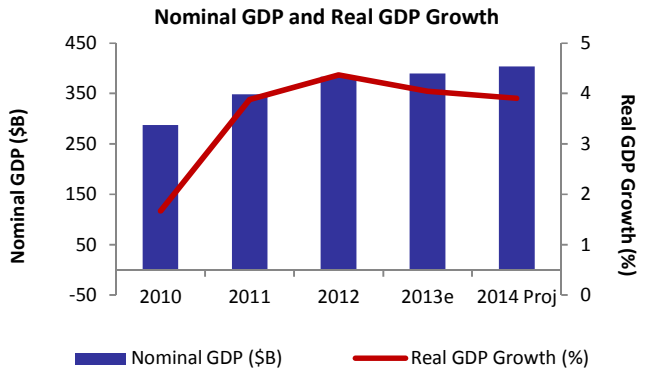
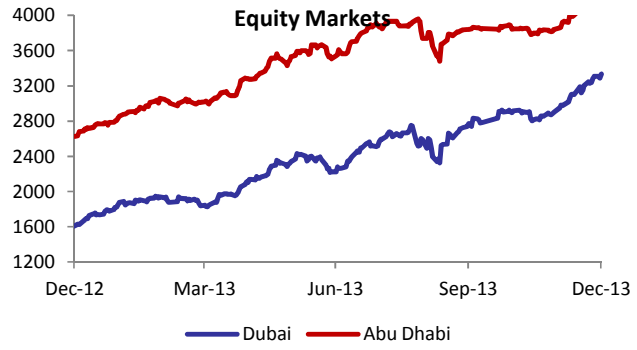
UAE Macro and Equity Market

UAE Ends 2013 on a Stronger Economic Footing

Key Macroeconomic and Equity Market Indicators





The United Arab Emirates (UAE) cemented their position in 2013 as the Arab countries' safe haven on robust economic fundamentals. Dubai managed to recover from 2009 crisis and snatched the right of hosting the World Expo 2020. The emirates have worked hardly over the year to diversify their economies away from oil by expanding their foreign trade partnerships along with achieving milestones in the tourism, logistics and services' industries. Accordingly, Morgan Stanley Capital International (MSCI) index promoted the second largest economy in the Arab world to the status of emerging market, while it is still under review by the international compiler Standard & Poor's.

The economic performance of the UAE was immune to the Middle Eastern chaos with the International Monetary Fund (IMF) uplifting the nominal Gross Domestic Product (GDP) from $381.55B to $403.92B, a 5.9% increase. The IMF lately estimated real GDP growth rate at 4.5% in 2013 (compared to 3.9% expected four months earlier). The economy rallied better than expected and was mirrored by the HSBC UAE PMI that increased from a 55.0 reading in January 2013 to settle at 57.4 in December. Inflation rate recorded a similar yearly 1.3% in Dubai and Abu Dhabi. Dubai saw rises in the prices of alcoholic beverages and tobacco as well as education costs, while Abu Dhabi underwent higher prices of food and non-alcoholic beverages.

International tourists showed over 2013 special interest in the UAE despite the regional turmoil in several Arab countries. Dubai International Airport (DIA) revealed very promising figures and that the airport will shortly surpass London Heathrow, the world's busiest airport. DIA saw in 2013 a 15.12% annualized increase in the number of passengers to hit 66.43M. In addition, Dubai Mall grasped the world's most visited destination for the 3rd year in a row welcoming more than 75M visitors in 2013. The Emirates hoteliers also profited of tourism's booming with Ernst & Young latest report revealing high occupancy rates of 80% in Dubai and 77% in Abu Dhabi by the end of December 2013. Besides the highly supported incentives to encourage the development of mid-segment hotels (3- and 4-star) in the Emirate, around 2,780 new hotel rooms were added within the (4- and 5-star) hotel range. This increase in supply was rapidly absorbed by the market with Dubai's Revenue per available room increasing by 5.9% on a year-on-year (y-o-y) basis to $223.

International trade was one of the sectors in 2013 to propel economic activity of the UAE with the latter aiming a diversification strategy away from oil dependency. The Institute of International Finance (IIF) forecasted that the Emirates trade balance surplus will extend 2.3% by the end of 2013 to reach $127.3B as imports and exports are expected to rise by annualized 3.4% and 4.0% to $353.3B and $226.0B, respectively. Hydrocarbon exports, accounting for 32.5% of total UAE exports remained subdued with a marginal 0.3% y-o-y increase to $118.5B confirming the decreasing role of oil in the economy's expansion. Excluding oil exports, UAE will still realize a small trade surplus.

On the fiscal level, the UAE showed satisfactory performance over 2013 posting a $54.41B fiscal surplus, however below 2012's positive balance of $58.83B. The IMF estimated general government revenues in 2013 at $131.79B, while total expenditure projections stood at $77.38B. Worth mentioning that, Non Hydrocarbon revenues were up by an annualized 6.9% to $28.43B, meanwhile Hydrocarbon revenues went down by 3.3% y-o-y to $103.36B.

Banking sector in the UAE was back in 2013. The monetary policy aimed at protecting the sector as well as stimulating liquidity which was noticeable in the 10.9% yearly increase in M3 to $328.64B by November 2013, according to the Central Bank of the UAE. Total deposits edged up by an annualized 11.0% to reach $342.88B in September, outperforming total lending growth that progressed at a slower pace and increased by 6.0% y-o-y to stand at $293.56B.

Financial markets in the UAE continued to gather momentum with Dubai Financial Market's index revealing a twofold yearly increase to 2,762.5 points. The average daily volume traded surged to 487.38M shares worth $156.64M, up from 160.57M worth $52.06M in 2012. The number of transactions reached 1.21M in 2013 compared to 621,421 registered a year earlier. As for market capitalization, it widened by an annualized 84.9% to $61.81B by the end of 2013. With respect to Abu Dhabi's equity index, it edged up 63.1% y-o-y to 4,290.3 points by the end of 2013. The average daily volume traded reached 187.16M shares worth $80.60M in 2013 compared to 64.52M shares valued at $23.55M recorded a year earlier. The market capitalization widened by 42.11% y-o-y to $97.94B, with the number of transactions up from 256,102 in 2012 to 498,945 by December 2013.

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