February 2015

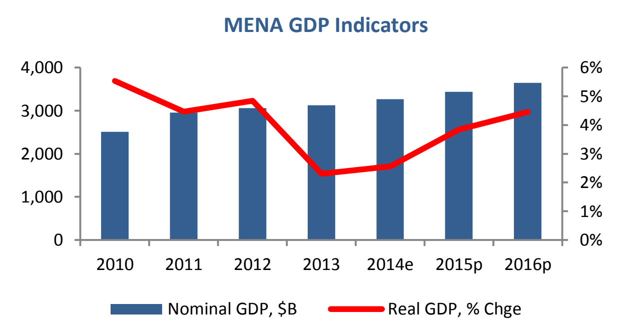
MENA Review and Quarterly Outlook

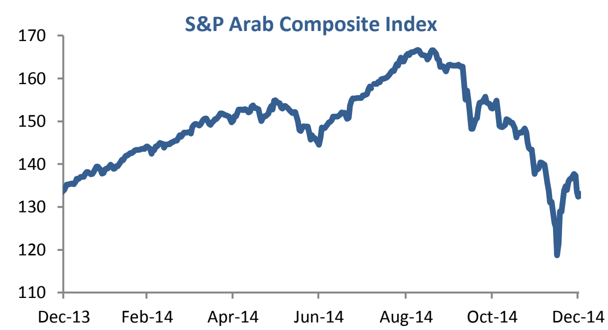
BLOMINVEST Views on Regional Economic and Financial Developments for Q4 2014

View of the Quarter

Sinking to their lowest levels in 5 years, oil prices were the main turbine of global economies during the last quarter of 2014; either they were importers or exporters of the commodity. In the Arab World, and starting with one of the largest oil producers in the world, Saudi Arabia underwent by the end of 2014 the repercussions of lower oil prices on its fiscal position with the kingdom expecting a $39B fiscal deficit in 2015. Stepping to the booming Qatar, the country continued working on its mission to progressively reduce its dependence on hydrocarbon industries and develop the role of the private sector. Despite their falling oil revenues, the United Arab Emirates (UAE) maintained their strong economic growth benefitting from a prosperous tourism and real estate sectors. When it comes to the MENA's oil importers countries, and besides the partly positive economic impact of oil prices' slump, the ongoing regional turbulences on both the political and security fronts were also substantial factors largely influencing their macroeconomics. As the reach of the extremist groups of the Nusra Front and the Islamic State expanded the scope of the conflict, Syria kept on struggling to survive in the last quarter of 2014. As for Lebanon's economy, it showed a humble economic growth as the security situation remained precarious. A slight improvement was experienced in some sectors due to the low base reached in 2013, such as real estate and tourism, while in the external sector; the Balance of Payments remained in negative territories. Jordan's proneness to regional difficulties appeared to be restricted to its trade sector as it seems that the Kingdom is taking the necessary steps to protect an otherwise progressing economy. Expectations of Jordan's economy improving in 2015 are high as policies put in place began to make a positive impact on financial sectors and tourism.

HEADLINES



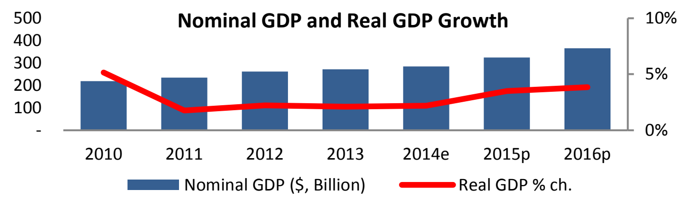


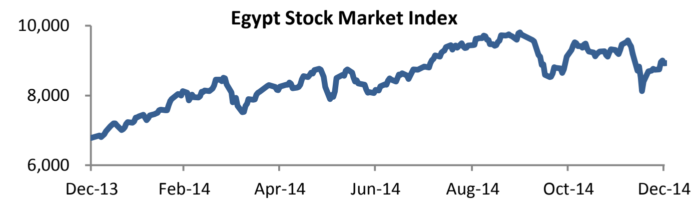
Marwan Mikhael *Head of Research*
Mirna Chami *Research Analyst*
Riwa Daou *Research Assistant*
Lana Saadeh *Research Assistant*
David Achdjian *Junior Economist*

Egypt Macro and Equity Market

Ongoing Economic Reforms despite Security Concerns

Key Macroeconomic and Equity Market Indicator





The juridical decision regarding Husni Mubarak, and the Jihadists attacks in Sinai, were the two main events that marked the last quarter of 2014. Jihadist attacks in Sinai targeting Egyptian militaries killed 31 soldiers in October forcing President Al-Sisi to declare a 3-month state of emergency in the Peninsula. Measures, to prevent weapons' smuggling, were also initiated such as demolishing residences along Gaza border to build a 500-meter buffer zone.

The clampdown in the Egyptian security situation failed to hinder the economic performance of the country. Focusing on economic growth and fiscal reforms, Egypt registered, in the first quarter of the financial year (FY) 2014/15, its highest yearly growth since Q4 2007/08. According to Official sources, real Gross Domestic Product (GDP) has risen at a rate of 6.8% between July and September mainly on improving activity in the manufacturing and tourism industries.

In the same context, the International Monetary Fund (IMF) held, in November 2014, Article IV consultations, for the first time in 4 years. Once the mission was concluded, the IMF projected economic growth to reach 3.8% in FY 2014/15 and set suitable economic goals, of which boosting growth and gradually soothing inflation. When it comes to prices, annual inflation reached 10.13% in December 2014 compared to 9.09% in the previous month and 11.66% in June 2014.

On another front, tourism activity managed to post positive performance in the first ten months of 2014. This was mainly due to the election of President Al Sisi, the relatively controlled security situation and the lift of some European flights halts to Egypt. Correspondingly, the overall tourists' number improved by October 2014 adding 1.1% y-o-y to 8.20M. Worth mentioning that October alone saw more than 1M tourists, an 18-month high. This was directly reflected on tourism revenues which more than doubled in Q1 of FY 2014/15 to settle at $2.1B against $931.1M in the same period of 2013.

The mounting tourism revenues can be explained by the progressing occupancy rate in Cairo's hotels as it inched up by an average of 9 percentage points (p.p) to 35% in 2014 compared to 25% in the first eleven months of 2013. In the same context, the average room rates rose 11.8% y-o-y to settle at $92, while room yields surged 47.2% y-o-y to $31 by the end of November 2014.

On the external level, the Balance of Payments recorded, in the first quarter of FY 2014/15, a surplus of $410.0M however lower than the $3.7B registered a year earlier. The surplus tightening was mostly due to the substantial slump in the country's current account balance that sank into a deficit of $1.44B by Q1 FY 2014/15 from a surplus of $609.6M a year ago. The latter was severely impacted by the 29.2% y-o-y broadening of Egypt's trade deficit that reached $9.74B during July/Sept of FY 2014/2015 on higher merchandises imports.

On the brighter side, net inflow of Foreign Direct Investments (FDI) edged up from $745.4M to $1.8B during the period under review on higher net inflow from the oil sector and Greenfield investments.

To note here that Egyptians working abroad highly boosted remittances to the country as they surged by 16.6% y-o-y to $4.71B in Q1 FY2014/2015.

Concerning the country's fiscal position, and considering the government's fiscal reforms, the IMF estimated budget deficit to reach 11% of GDP for FY 2014/15. However, the first quarter of the FY 2014/15 revealed a broadening fiscal deficit (including net acquisition of financial assets) of $8.84B compared to the $8.05B recorded in Q1 FY 2014/2015. In details, the overall revenues surged 30.3% y-o-y to $10.27B over the mentioned period, while total fiscal expenses followed at a slower pace of 20.3% to $18.94B. Regarding the nation's debt, it stood at $247.14B by the end of September 2014 compared to $214.18B in September 2013.

However, the country's international standing has improved with Fitch upgrading Egypt to "B" from "B-" with stable outlooks in early January 2015. On another note, the Egyptian authorities are foreseeing, for the first time in the country's history, a Eurobonds issuance worth $1.5B aiming to attract influx of new foreign capitals.

The monetary standing of Egypt was highly dependent on the worldwide economic developments related to the drop in oil prices, the Eurozone challenges and the tempering growth in emerging markets along with the internal reforms initiated by Al Sisi. Hence, Egypt's Central Bank (ECB) initiated new measures alluding to a probable shift in monetary policy from anchoring inflation to boosting growth. In fact, the Monetary Policy Committee (MPC) decided to cut levels of interest rates by mid-January 2015 in order to stabilize risks surrounding the inflation and GDP outlooks. In the same context, ECB's key interest rates were cut by 50 basis points to 8.75% for the overnight deposit rate, 9.75% for the overnight lending rate and 9.25% for the discount rate. Similarly, and aiming to reduce the gap between the official exchange rate and the black market rate, the ECB also permitted the Egyptian pound's depreciation through its FX auctions, for the first time since May 2014, with the exchange rate going from EGP7.15/USD to EGP7.40/USD.

When it comes to monetary indicators, net foreign reserves slumped from $17.03B in 2013 to end 2014 at $15.33B. Confidence in the banking sector's resiliency bolstered total deposits (including government deposits) by 18.5% y-o-y to $201.09B in October 2014, and total lending activity by 12.0% y-o-y to $82.26B.

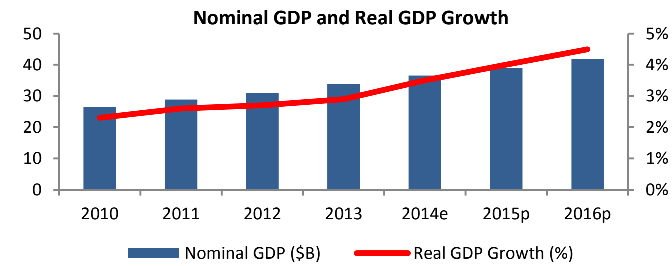
The Egyptian stock exchange ended 2014 in the green and showed strength despite the country's circumstances and the newly imposed taxes on distributed dividends and capital gains. Hence, investors' high interest that overrode the new rules with the EGX30 surging by an annual 31.6% to 8,927 points by the end of 2014. The average daily volume traded reached 195.52M shares worth $96.83M in Q4 2014, up from 153.50M shares worth $69.53M recorded a year earlier. Market capitalization stood at $69.32B up from $61.91B in December 2013 with the number of transactions increasing by a yearly 20.4% to 1.74M.

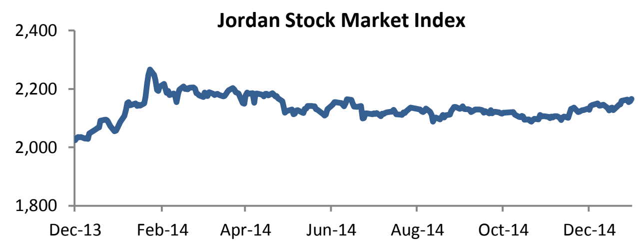
BLOMINVEST BANK

Jordan Macro and Equity Market

Bright End to 2014 Improves Hopes for New Year

Key Macroeconomic and Equity Market Indicators





The drop in the registered number of Syrian refugees served to reduce pressure on the Jordanian Kingdom and allowed for a positive outlook for 2015. In fact, the UNHCR expected the number of Syrian refugees (by December 2014) to stand above 800,000, while the actual number reached was 747,360, as entry to Jordan through Syria's southern border became less probable for refugees due to harsher conditions and confrontations.

In parallel, Jordan managed to continue its strong development programs built on foreign aid, as the $1B Overseas Private Investment Corporation's (OPIC) investments covered areas ranging from education and health services to renewable energy and power, while a $250M aid agreement with USAID in October aimed to stimulate economic growth and help restore fiscal balance.

On the economic front, the International Monetary Fund (IMF) anticipated growth rate to reach 3.5% in 2014, up from 2.9% in 2013, while the inflation rate for 2014 stood at 3.0%, with the largest increases in the CPI observed in the clothing and footwear index, followed by real estate and housing.

Jordan's tourism sector continued its improvement by November 2014, as tourism receipts progressed by $250.00M year-on-year (y-o-y) to $3.34B. Part of these revenues can be attached to important religious events that took place throughout the year, with the visit of Pope Francis in end-May a key contributor. Likewise, the number of tourists by end-September revealed a 0.5% y-o-y uptick to 4,155,724. Meanwhile, Ernst & Young's hotel occupancy report displayed a marginal downtick in Amman's occupancy rate by November 2014 to 60.0% compared to the previous year's 62.0%.

On the external front, Jordan's trade deficit widened by 3.37% y-o-y in the first eleven months of 2014 to $14.79B, as the 6.28% y-o-y increase in exports failed to compensate for the 4.25% yearly jump in imports. The increase in imports came as a result of increased energy imports from Russia, India and the UAE to replace imports from Egypt, which declined by 20.24% due to disruptions in gas supplies. Meanwhile, the broadening of exports resulted from the progress in exports of crude phosphates in addition to clothing accessories, which respectively increased by 15.75% y-o-y and 12.34% y-o-y.

Jordan posted an improved performance regarding the fiscal deficit and continued to be in line with IMF requirements. The fiscal deficit (including foreign grants) dropped 22.45% y-o-y by end-October 2014 to stand at $980.28M. Simultaneously, net public debt remained at 80% of GDP as net outstanding domestic and external debt rose by $1,016.90M and $919.58M to reach 49.2% and 30.8% of GDP, respectively.

Jordan's general budget displayed a primary surplus, which excludes interest payments, equal to $121.13M, an improvement on the $432.96M primary deficit posted by October 2013. Accordingly, Jordan's S&P rating stood at stable despite the regional problems the Kingdom faced. This also allowed for the completion of the IMF's fifth review of its Stand-By Arrangement, which cleared the disbursement of $125.4M on November 10th, bringing the total amount granted by the IMF in their $2B agreement to $1.38B.

Noteworthy improvements were seen in Jordan's banking sector during the last quarter of 2014 in spite of the continuing deterioration of regional conditions on the political and security fronts. In details, money supply M2 revealed a 5.11% y-o-y uptick to $41.20B by November 2014, while total credit facilities revealed a 3.74% y-o-y rise to $27.48B as of end-November 2014. This uptick was influenced by the 7.45% and 3.17% annual increases in facilities denominated in foreign and local currencies to respective values of $3.91B and $23.58B by November 2014. Total deposits held with banks also swelled by 9.49% y-o-y to $42.63B by November 2014. Deposits denominated in Jordanian Dinar (JD) jumped 14.04% y-o-y to a value of $33.67B by November 2014 which was slightly offset by the 4.79% y-o-y dip in foreign currency deposits to $8.96B during the same period.

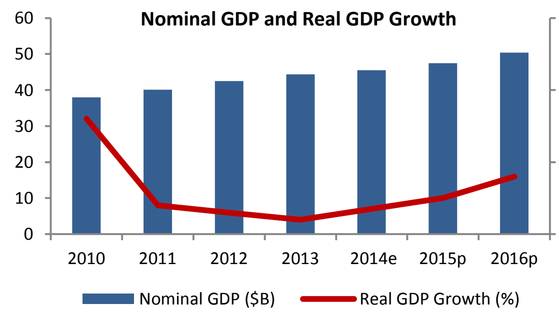
To maintain the recovery of its economy, the Central Bank of Jordan held two key monetary policy instruments at their current levels, namely the overnight deposit window facility and weekly repurchase agreements rates, which remained at 2.75% since May 2014 and 4.00% since January 2014, respectively.

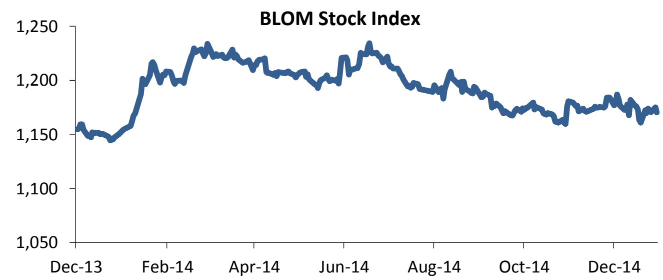
The Amman Stock Exchange (ASE) ended 2014 on a positive note, and performed well in the face of regional turbulence with its impact on the political front and in the face of a significant drop in oil prices with its impact on the economic front. The ASE, as of end-December 2014, posted a y-o-y increase of 4.82% to 2,165.46 points. In detail, 634.11M shares traded in Q4 2014 for a total traded value of $775.34M, a 4.27% y-o-y rise. Similarly, the total number of trading transactions augmented 3.93% to 241,513. Meanwhile, the market capitalization for the fourth quarter of 2014 stood at $26.51B, a 0.83% y-o-y downtick as increased prices were offset by 7 de-listings on the ASE during 2014.

Lebanon Macro and Equity Market

Surviving the Regional Instability

Key Macroeconomic and Equity Market Indicators





With no president of the republic being elected since the 25th of May, the Lebanese Parliament extended its mandate by 2 years and 7 months, in November. However, this extension was coupled with a law stating that parliamentary elections would occur after the presidential election.

The security situation remained shaky, as Lebanon continued suffering from the Syrian civil war spill-over effects. 4 bombings occurred in the fourth quarter (Q4) 2014, 3 of which were in Arsal, while the fourth in eastern Lebanon.

Despite the political and security upheavals that Lebanon had faced during 2014, economic growth rate managed to increase slightly from 1.50% in 2013 to 1.75% in 2014. Furthermore, the BLOM Purchasing Manager Index stood at an average of 49.2 points in the last quarter (Q4) of 2014, compared to an average of 47 points in the third quarter (Q3), however still below the 50 mark.

Low international energy prices triggered a 0.71% y-o-y deflation, with the Consumer Price Index standing at 99.29 points, end of 2014. “Water, electricity, gas and other fuels” sub-index and “transportation” sub-index recorded yearly declines of 8.92% and 8.46%, respectively.

As for the real estate sector, it witnessed a quarterly improvement, where transactions jumped 6.18% compared to Q3, to 18,891. Foreigners showed more confidence in Lebanon, where their share increased from 1.57% in Q3 to 2.15% in Q4.

In contrast, the stagnating economy weighed down on construction, with the number of permits declining 5.50% q-o-q to 3,830. Moreover, new projects experienced a downsizing, where the construction area authorized by permits shrank 1.20% compared to the previous quarter, reaching 2.99M sqm in Q4.
Then again, tourism saw a yearly improvement of 6.30% in 2014 to 1,354,647 tourists. This could be attributed to the low base reached in 2013 in more than 8 years. The main incomers were Arabs and Europeans that increased 14.61% and 3.15%, respectively. Similarly, hotel occupancy experienced a slight progress, with the average rate adding 1 percentage point to 51% by November. Nevertheless, this came at the back of lower profits, where the average room rate and average room yield lost 3.31% and 1.60% to $162 and $84, respectively.

Lebanon recorded a deficit of $1.29B on its balance of payments by November 2014, compared to a larger deficit of $1.66B during the same period in 2013.

The tightening in the deficit could be partly attributed to improving capital inflows and remittances from the Lebanese expatriates, and the 0.64% y-o-y narrowing in trade deficit, to $17.19B in 2014. Imports displayed a 3.47% decline to $20.49B, while exports dropped by 15.95% to $3.31B end of 2014. Worth noting that Foreign Minister, Gebran Bassil, signed a free-trade agreement with the Mercosur countries of Latin America, aiming at maintaining good relations with the bloc, and facilitating trade between Lebanon and these countries.

Shifting to the fiscal sector, gross public debt climbed 5.33% y-o-y to reach $66.63B, in the first 11 months of 2014. In contrast, fiscal deficit narrowed 32.46% yearly to $2.22B in the first 3 quarters of the year, whit a primary surplus of $867M compared to a primary deficit of $546M, during the same period last year. This progress came as a result of a 12.57% increase in total revenues coupled with a 1.79% drop in total expenditures. The rise in revenues was driven by a strong recovery in revenues from telecom (5.22%) and VAT (0.93%), while the main decrease in expenditures came as a result of the 11.53% decline in transfers to Electricite du Liban, owing to the fall in international oil prices. Moreover, to meet its foreign currency needs in the coming years, the Parliament authorized the issuance of $2.42B in new Eurobonds by the Ministry of Finance.

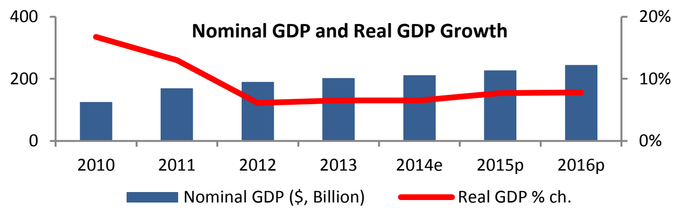
The monetary front remained hale and hearty, as BDL’s total assets edged up 0.31% q-o-q, to stand at $85.70B by the end of 2014. However, its foreign currency reserves lost 1.46% during the same period to $37.86B, but still remained at a very high level. Total assets of commercial banks posted a 4.48% increase since year start, to $172.21B by November.

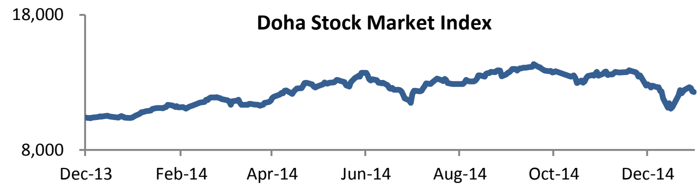
Political and security developments continued to distress investor sentiment on the Beirut Stock Exchange. The BLOM Stock Index (BSI) dropped a marginal 0.33% since last quarter, to 1,170.26 points end of December, 2014. Trade occurred at a lower average volume of 295,446 shares worth $2,003,389 compared to that of the previous quarter of 740,344 shares worth $4,671,764. Market capitalization widened from $9.71B to $9.78B, following the listing of 4.76M Bank of Beirut Priority shares on the BSE in October.

Qatar Macro and Equity Market

Diversification Away From Oil Is Bearing Fruits

Key Macroeconomic and Equity Market Indicators





In a report published in the fourth quarter of 2014, Qatar stated its main purpose of becoming, by 2030, an advanced economy, capable of providing a high and sustainable standard of living to all its citizens. Achieving this objective is contingent on the country's ability to create a balance between an oil-based economy and a knowledge-based economy – the ability to establish a diversified economy that gradually reduces its dependence on hydrocarbon industries and enhances the role of the private sector. The Qatar National Vision 2030 is the engine that will guide the Qatari economy, assisting it to diversify, increase competition, attract more investments, and stimulate growth.

On a regional level, the Emir Sheikh Tamim bin Hamad Al Thani and the Turkish President Recep Tayyip Erdogan signed an agreement to setup a supreme strategic committee to bolster cooperation in key fields, such as politics, economy, commerce, investment, education, culture, science, technology, energy, agriculture and communications. Moreover, Saudi Arabia brokered a regional summit in November, in which Qatar joined its Gulf neighbors in Supporting Egypt under Sisi.

Qatar's ongoing rapid process of economic diversification away from its traditional role as a hydrocarbon exporter towards a manufacturing and services hub, helped its real GDP, to grow by 6% year-on-year (y-o-y) in the third quarter (Q3) of 2014. Real Gross Value Added (GVA) of the non-oil sector, with a 62.73% share of GDP, posted a 12% yearly growth in Q3 boosted by double-digit upsurges witnessed in electricity, construction, trading, transport & communication, financial sectors and domestic services. Major infrastructure projects, notably the new metro in Doha, real estate projects, as well as new roads, highways and the further expansion of the new Hamad International Airport, resulted in an 18.5% y-o-y development in construction activity, making it the fastest growing sector. On the other hand, the GVA of the oil and gas sector dropped by 2.8% y-o-y caused by the receding crude oil production and some maintenance shutdowns in Gas plants.

As for inflation, it remained on its uptrend due to the rapid population growth that is driving rental prices up. Inflation stood at 2.7% y-o-y in December 2014, where price increases were observed in all CPI components except "Food, Beverages and Tobacco" that decreased by 0.4%. "Rentals, Fuel & Energy" recorded a 7.3% jump, primarily due to hikes in rentals of residential buildings. Worth mentioning that starting January 2015, monthly CPI would be calculated using new weights with 2013 as the base year.

On the suppliers' side, the Producer Price Index (PPI), measuring the average selling prices producers receive for their output, tumbled by 18.3% y-o-y in November mainly due to lower prices of crude petroleum and natural gas.

Due to the decline in global demand for oil, the price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) shed from $97.0/barrel and $95.0/barrel end of September to $76.2/barrel and $74.4/barrel end of November.

Therefore, the "Mining" group showed a 19.8% yearly plummet. The "Electricity & Water" component of the PPI also dropped by 2.9% caused by the 3.8% and 1.5% price falls seen in electricity and water.

Looking at the country's external position, Qatar's trade balance, in Q4 2014, shrank by 21.88% y-o-y to $219.89B, stemming from lower exports and higher imports. Declining oil prices pushed down the value of hydrocarbon exports, the largest component of total exports, by 10.32%, bringing about a 13.51% y-o-y decline in exports to $28.19B during October-December 2014. On the other hand, imports increased by 16.38% y-o-y to $8.30B, where motor cars and other passenger vehicles were the top imported commodities, rising by a yearly 10.07%. Qatar's trade balance is expected to improve as Qatar is on track to become the world's leading exporter of the industrial gas, helium, pushing the US to the second position.

On the fiscal front, Qatar's budget surplus is expected to narrow from 10.8% of GDP in 2014, to 8% in 2015. Revenue growth is projected to moderate due to the impact of lower energy prices on hydrocarbon revenues (representing 55% of total state revenues). However, receipts from corporate taxes and income from investments are expected to increase. On the expenditure side, development spending that contains disbursements on public infrastructure projects is forecasted to accelerate reaching 10% of GDP. The Minister of Finance allocated $24B, the biggest infrastructure allocation in the country's history, to key infrastructure projects. Over the next five years, Qatar is expected to spend $182B on infrastructure, to complete Hamad International Airport, the New Doha Port Project, the rail and metro projects, and the roads program.

Looking at the monetary sector, total assets at commercial banks rose by 10.41% since 2013 to $271.29B, by December 2014. The private sector continued to push total credit up by a yearly 13% to $175.56B at year end. Private sector credit surged 20.33% y-o-y, while public sector credit dropped 2.58% mainly due to the increased reluctance of banks to lend for long-term projects. Total deposits showed a 9.61% growth to $162.29B, due to the 14.10% rise in resident private sector deposits outperforming the 0.87% drop in public deposits.

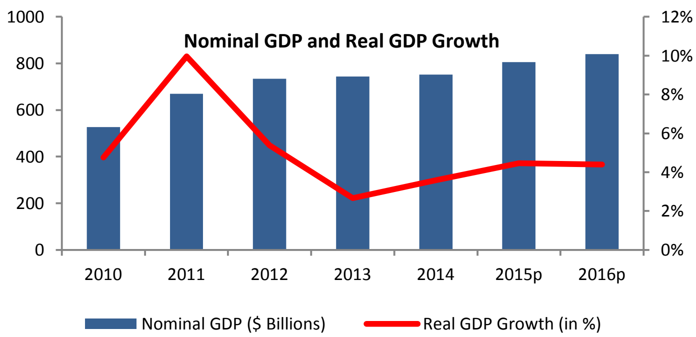
Falling oil prices impacted investor's sentiment negatively, where the Doha Stock Market Index (DSMI) tumbled 10.51% q-o-q to 12,285.78 points end of 2014. Trade during the last quarter of 2014 occurred at a lower volume of 880.56M shares worth $12.45B compared to 1.02B shares worth $12.04B during Q3. Moreover, index compiler MSCI raised Qatar's weight in its emerging markets index, foreshadowing fresh foreign funds inflow. In addition, a venture, or junior stock market for small and medium-sized enterprises is expected to be operational early in 2015. The capital market regulator reduced the minimum capital requirement for SMEs wanting to be listed on the upcoming venture market from $1.35M to $540,000.

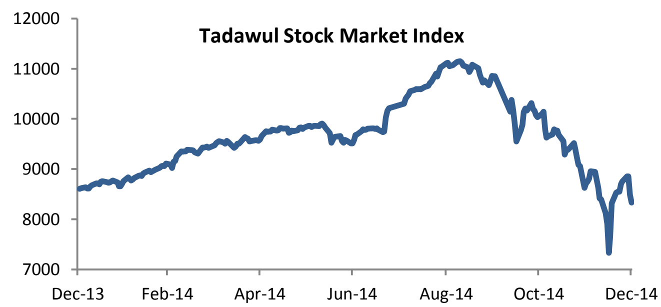
BLOMINVEST BANK s.a.l.

Saudi Arabia Macro and Equity Market

Improving Economic Performance but New Challenges Ahead

Key Macroeconomic and Equity Market Indicators





The passing-away of King Abdullah ben Abdel Aziz was undeniably the most prominent event in the Kingdom of Saudi Arabia. The throne is now in the hands of king Abdullah's half-brother, Crown Prince Salman which designated Prince Mohammed bin Nayef as second deputy prime minister and second-in line to the throne. The new king has also appointed one of his sons, Prince Mohammed Bin Salman, as minister of defense and chief of the royal court, the youngest Saudi to take control of such high-rank positions.

According to the Central Department of Statistics, the kingdom's real GDP growth reached 3.59% in 2014, a faster growth than the 2.67% recorded the previous year. The nominal GDP totaled $752.46B in 2014 making the nominal GDP per capita stand at $24,454. The real contribution of the non-oil sector to overall GDP stood at 56.5%, outweighing the 42.7% contribution by the oil sector. The non-oil sector's real growth of 5.07% also outpaced the real growth of the oil sector which stood at 1.72%.

Overall demand and all of its components were robust in 2014. In nominal terms, overall demand grew by 8.58% to reach $636.90B in 2014. The final private consumption was the largest component of demand, accounting for 37% followed by 32% for capital formation and 31% for the government's final consumption. The government's final consumption grew the most by 17.99% to $197.76B, followed by a 6.60% growth in final private consumption to $238.43B and a 2.76% growth in capital formation to $200.71B.

Inflation, which was a concern in 2013, is no longer one in 2014. Official sources put the annual inflation of 2014 at 2.7%, lower than the 3.5% recorded in 2013. This was mainly due to decelerations in the prices of food and beverages and rental inflation, the two biggest components in the overall Consumer Price Index (CPI).

The international slump in oil prices pulled the Kingdom's exports down by 6.21% to $363.55B in 2014. Exports of petroleum products, accounting for 81% of total exports, slid 8.97% to reach $293.02B in 2014. Meanwhile, exports of non-petroleum goods, representing 16% of the total, grew by 7.79% to $58.29B.

However, with internal demand standing strong, total imports registered a growth of 7.87% to $248B. Imports of goods registered a minor 1.35% yearly uptick to $170.43B while the value of imported services registered a double-digit growth of 25.63% to reach $77.57B.

In light of the rapid decline in oil prices to all-time lows, the fiscal front is where concerns were the most pronounced for Saudi Arabia. Unlike previous budget estimates, the recently proposed 2015 budget does not rely on a highly conservative oil price assumption but rather on an oil price of around $60, higher than current levels. Spending was put at $229.3B, a mere 0.6% uptick from the level of 2014, while revenues were estimated at $190.7B. These figures mean the Kingdom will indeed face the largest deficit yet of $38.6B after oil prices were slashed by more than half since June 2014. The authorities' answer to this major development is tapping into the central bank's (SAMA) ample reserves of $732.35B in 2014. However, these reserves were also hit by lower oil revenues as they registered a 1% y-o-y growth in 2014, the slowest advance in four years.

Independently from the slump in oil prices, lending activity remained strong in 2014. According to the Central Bank, loans to the private sector continued their double-digit improvement, growing by 12% to $334.99B in 2014. Loans to the public sector (composed of bank credit to public sector enterprises and government bonds) increased by a yearly 6% to $26.39B. The lending environment was indeed favorable as the 3-months Saudi Interbank Offered Rate (SIBOR) dropped from 0.9532 in 2013 to 0.9358 in 2014.

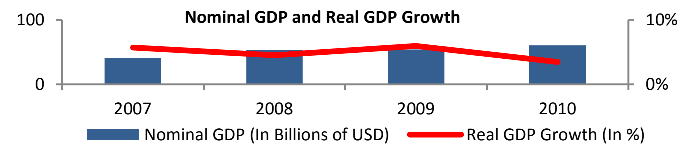
The Tadawul Stock Index ended the year 2014 at 8,333.30 points compared to 8,535.60 points last year. The total Market Capitalization at the end of the year 2014 increased by 3.42% to reach $483.44B. The volume of traded shares amounted to 70.80B higher than the volume of 53.53B traded in 2013. As for the value of traded shares, it rose by 56.72% to reach $572.41B in 2014.

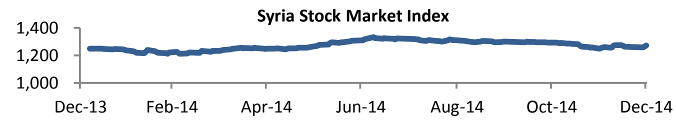
According to Tadawul's annual bulletin, six companies offered part of their shares as initial public offerings during the year in the sectors of Banks & financial Services, Cement, Retail, Building & Construction and Hotel & Tourism. With these activities, the total number of listed companies reached 169. The value of newly offered shares on the Tadawul Stock Exchange totaled $6.73B while their volume reached 587.50M.

Syria Macro and Equity Market

The Economy Aches to Adjust amidst an Intensifying Conflict

Macroeconomic and Equity Market Indicators





The Syrian battlefield witnessed major developments in the last three months of 2014 which reveal that the conflict is gaining more reach. The Islamic State (IS) made headlines by entering the Kurdish town of Kobane situated at the Syrian-Turksih border in October. This move is a heavyweight as it sparked concerns over a Turkish intervention and increased appeal for US led airstrikes to help rid the Kurds of the IS's grip. Jabhat al Nusra, the Qaeda affiliate, made advancements in Idlib and more critically mobilized in Sarmada, also a town near the Syrian Turkish border. With these dangerous strategic advancements and with Syria's key allies, Russia and Iran, dealing with their own troubles back home, the economy is victim of more strains.

According to the Economist Intelligence Unit, inflation slowed from 82.3% in January 2014 to 48.9% in May. Food price inflation averaged 79.5% in the first five months of the year while Housing, water and fuel inflation averaged 36% in the January-May period. According to news reports, meat, cucumbers, lemons, sugar and olive oil, all essential elements, have witnessed exceptional surges in price since the start of the conflict.

Syria's oil sector has continued to suffer from the ripples of the war. It has become greatly difficult to get crude delivered to refineries and the country is now suffering from a shortage of supply. According to the Ministry of Petroleum and Mineral Resources, oil production in Syria dropped by 67% y-o-y in 2014 and stood at 9,329 barrels per day in 2014 compared to 28,000 barrels daily in the previous year.

The crisis has forced the import and distribution of oil and fuel imports to be taken from the hands of the state. The Ministry of Economy and Trade has started to allow imports of fuel oil and diesel by private traders which are processed through the Homs and Banias refineries in exchange for a fee to be paid for the state. The state is in dire need for revenues and has even cancelled fuel subsidies for manufacturers in October. The state also had to bend the rules applied in the free-zone in light of the crisis. Leasing fees can now be paid in installments and have been adjusted to each location depending on its specification, loosening conditions for companies operating in the free-zone. Payments can be made in dollars or in Syrian pounds. Moreover, pick-up trucks, buses, public works machinery which are older than 9 years can now be offered on the local market for consumption. The industrial plants can now be moved from dangerous zones to safe zones, a decision that attracted some industrialists to come operate in the free-zone. With more industrialists in the free zone, revenues will increase and the stature of Syrian products on the local market will be preserved. A memorandum of understanding joining the Syrian and Iranian free-zones is currently in the works.

The crisis has also compelled Syrian authorities to reshuffle some trade rules. The union of exporters called for applying taxes on goods coming from countries who apply taxes on Syrian exports.

Moreover, exporters have decided not to offer any support in the form of subsidies to any Syrian company operating outside of Syria until the company moves back into the country. Moreover, importers who ship their products before receiving the import license will pay a fine of 1% of the goods' value for their 1st strike, 5% for their second strike and 10% for the third.

Until 21 December 2014, exports at the Port of Tartous increased by a yearly 81,000 tons to reach 900,000 tons. The main exported goods were phosphate, cars, containers and food stuffs. As for imports, they declined by a yearly 915,000 tons to reach 4.4 million tons. The main imports were iron, wood, corn, coal and sugar. The Port of Tartous authorities increased fees and charged $100 for each container coming through the port.

Tonnage of the incoming and outgoing merchandise at the Lattakia port fell by a yearly 22.22 tons to reach 1.17M tons in 2014. Revenues of the port totaled $32.92M (SYP 5.9B) in 2014 with the main incoming products being wheat, corn, soya, sugar, flour, wood, rice and beans.

On the fiscal front, figures for the 2015 budget have been submitted for review by the Ministry of Finance. Spending was set at $9B (1,554 B SYP) of which $5.49B (983 B SYP) will be spent on subsidizing goods and services: $2B (338B SYP) for petroleum products, $2B (413B SYP) for electricity and $1.09B (195B SYP) for flour, rice and sugar and $0.21B (37B SYP) for utilities companies. $1.77B (317 billion SYP) will be allocated to disburse the public sector salary bill. As for revenues, they have been estimated at $5.54B (992 B SYP).

The central bank is having a hard time preserving the value of the Syrian pound against the dollar. The Syrian pound has increasingly lost ground going from 164.65 to the dollar at the end of October, to 170.2 at the end of November and finally to 179.2 at the end of December, the lowest value of the Syrian pound since 2009. The foreign exchange quotation specific to banks also shows the rapid deterioration of the Syrian pound with the latest figures from the central bank pointing to a value of 216.58. On the black market, the Syrian pound has reached the levels of 230 to the dollar.

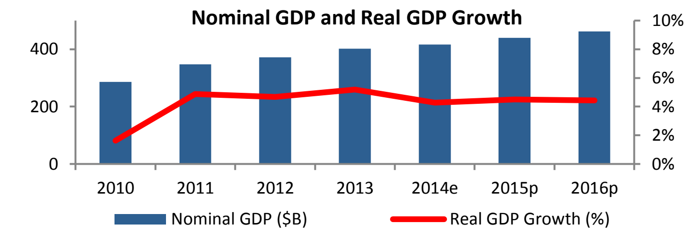
The Damascus Stock Index gained 2% in 2014 following the trade of 25M shares, worth SYP 3.3B. The total number of shareholders exceeded 55,000 and the total number of listed companies increased to 24 after the listing of Cham Bank and Al Baraka Bank on the Damascus Stock Exchange. According to officials from the stock exchange, most of the listed companies posted positive results for the year and some even distributed dividends: Arope Syria distributed dividends of 6 SYP/share, Al Ahlia Vegetable Company distributed 25 SYP/share, The National Insurance Company disbursed dividends of 15 SYP/share, the United Insurance Company handed out dividends of 8 SYP/share and Al-Ahlia Company for Transport distributed dividends of 10 SYP/share.

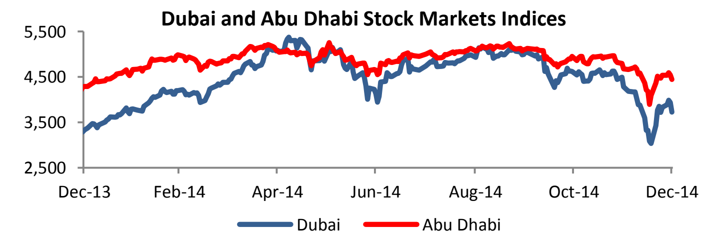
N.B: The Exchange rate used to express values in USD is the official quote as at end December: One dollar = 179.2 SYP.

UAE Macro and Equity Market

Outperforming the MENA region remains the UAE's trademark

Key Macroeconomic and Equity Market Indicators





While other Arab countries were struggling to stop the flow of blood on their land, the United Arab Emirates (UAE) was setting for its space exploration of the red planet Mars. Other megaprojects and large-scale schemes were also planned by the end of 2014 with Dubai outpacing the region by 20 years in terms of shopping and retail, through the Mall of the World. As a matter of fact, the expected mall which will be the largest in the world, will also record another milestone as it will be the first "temperature controlled city" globally.

Targeting a full recovery since 2009's crisis, the UAE's authorities insisted on boosting infrastructure, tourism and real estate projects which secured a solid economic growth over the past 5 years. The International Monetary Fund (IMF) estimated economic growth to stand at 4.3% by the end of 2014 and to reach 4.5% by 2015. In the same context, the UAE's Purchasing Managers' Index (PMI), which mirrors the performance of the non-oil producing private sector, improved to 58.4 in December 2014 compared to 57.4 a year ago, which indicates an accelerating economic activity. The average inflation rate in Dubai reached 3.36% in 2014 after standing at 1.31% a year earlier following upticks in the prices of rents, food items and education costs. As for the Emirate of Abu Dhabi, the average inflation rate for 2014 stood at 3.23% following a slight 0.24% inflation in 2013. The increase in Abu Dhabi's general prices in 2014 can be primarily attributed to the rise in the "Housing, water, electricity, gas and other fuels" group.

The tourism industry in Dubai maintained its steady growth during the last quarter of 2014 with Dubai International airport overtaking London's Heathrow airport and becoming the world's busiest hub in the world. The former saw the number of passengers reach a record level of 70.48M in 2014, 6.1% higher than 2013's level. Moreover, Dubai hotels maintained their top ranking amongst the Middle East and North Africa (MENA) countries in terms of occupancy rate at 79% by November 2014, barely inching down by one percentage point from the same period of 2013. Abu Dhabi ranked second with a 78% hotel occupancy rate, one percentage point higher than that of the first eleven months of 2013.

The Emirates external position mirrored in the fourth quarter of 2014 the substantial international oil prices decline. Thus, and while UAE's current account is expected to narrow by a yearly 21.4% to $48.5B in 2014, UAE's trade surplus is projected to tighten by a yearly 8.1% to $113.1B over the same period. This resulted from a 3.03% y-o-y increase in total imports versus a 0.71% annual drop in total exports (hydrocarbon and non-hydrocarbon exports). In this context, the falling energy prices are expected to have triggered down hydrocarbon exports by 10.2% in 2014 to $108.7B which will outpace the estimated 4.0% y-o-y increase in non-hydrocarbon exports to $256.0B.

In line with the bearish oil prices trend that marked 2014, UAE's fiscal performance was also heavily impacted despite its ongoing diversification strategy away from oil.

In details, the consolidated fiscal balance is expected to narrow in 2014 by 30.3% y-o-y to stand at $31.50B, if net lending was excluded from expenditures. As for the consolidated government expenditures (excluding net lending), estimates stood at $101.41B or 24.6% of 2014's GDP, up by 5.0% from 2013's level. Consolidated revenues are forecasted to drop 6.3% y-o-y to $132.92B or 32.3% of GDP following a 10.0% yearly decrease in hydrocarbon revenue (that almost constitutes 75.6% of total consolidated revenues).

Regardless of the decrease in revenues resulting from the tumbling oil prices, Emirati authorities are not planning to impose any additional taxes in 2015 to compensate for the losses occurred. Similarly, and without any modification, the UAE's 2015 federal budget was approved by the Federal National Council in December amounting for $13.37B (A 6.3% rise from 2014's budget). The UAE's sovereign wealth fund buffers and the relatively lower fiscal breakeven price compared to other major oil producers will probably sustain oil prices from triggering growth down. On the brighter side, Dubai managed to pass, in the beginning of 2015, its first deficit-free budget since the crisis amounting for $11.16B.

Monetary developments mirrored the strong economic growth. In fact, M3 widened 11.3% from December 2013 to reach the $369.66B by the end of November 2014. Total bank assets rose to $637.76B in the first eleven months of 2014, up from $561.51B recorded in November 2013. Investors' confidence and the overall positive sentiment in the country were the main drivers of lending activity with total bank loans and advances rising by 10.2% y-o-y to $380.57B by November 2014. Likewise, total deposits increased by a yearly 12.3% to settle at $388.22B over the same period.

Despite a frailer trading, Dubai and Abu Dhabi bourses ended 2014 in the green. The former's stock index edged up by 12.0% y-o-y to 3,774.0 points, while Abu Dhabi's index posted a 5.6% uptick to 4,528.93 points. Accordingly, Dubai's market capitalization broadened by an annualized 28.1% to $85.63B by December 2014, while that of Abu Dhabi widened by 3.3% y-o-y to $113.71B.

On Dubai's stock market, the average daily traded volume narrowed by 35.4% y-o-y to 445.54M shares in Q4 2014 at an average traded value of $286.90M (compared to an average value of $239.80M in Q4 2013). The number of transactions retreated to 499,670 over the same period, down from 561,952 recorded a year earlier.

In Abu Dhabi, the average daily volume traded tumbled to 153.95M shares worth $90.08M in Q4 2014 compared to 286.25M shares valued at $129.93M recorded a year earlier. As for the number of transactions, it reached 161,217 in Q4 2014, slightly below 2013's same quarter level of 168,081.

BLOMINVEST BANK

BLOMINVEST BANK s.a.l.

Research Department
Beirut Central District, Weygand Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 983 241
Fax: +961 1 991 784
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com

Mirna Chami, Research Analyst
mirna.chami@blominvestbank.com

Riwa Daou, Research Assistant
riwa.daou@blominvestbank.com

Lana Saadeh, Research Assistant
lana.saadeh@blominvestbank.com

David Achdjian, Junior Economist
david.achdjian@blominvestbank.com