March 04, 2015

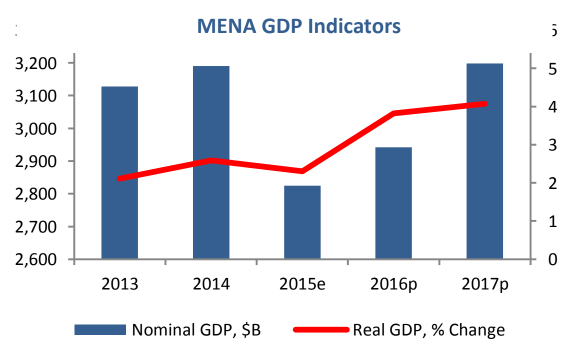
MENA Review and Quarterly Outlook

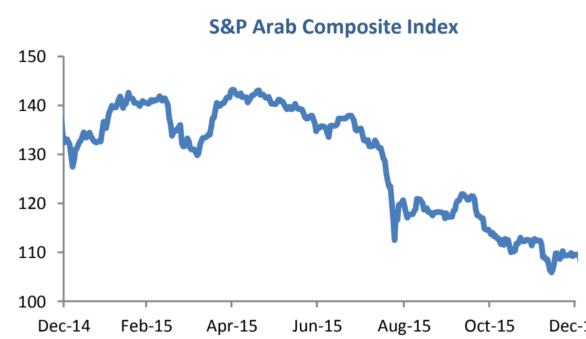
BLOMINVEST Views on Regional Economic and Financial Developments for Q4 2015

View of the Quarter

Investors' confidence in the economic outlook of MENA countries did not improve in the last quarter of 2015. The geo-political risks of the region that kept on aggravating and the worsening oil prices remained the key elements driving the macroeconomic performance of the MENA countries. Besides their continuous efforts to diversify away from oil, fiscal consolidation was the only getaway of most oil exporting countries to ease the spillovers of the fading oil revenues solution. While **Saudi Arabia** revealed a slower economic growth in 2015 coupled to a wider fiscal deficit, **Qatar** posted in 2015 its first negative fiscal balance since 2000. In the **United Arab Emirates** (UAE), the economic slowdown also became more pronounced with the Emirates recording their first fiscal deficit since 2009. When it comes to oil importers, the intensifying security and political situations of the region ruined any possibility of economic rebound from the slowing oil prices. While **Jordan** did its best to cope with local and international pressures, only the trade sector benefited from lower international commodity prices. As for **Lebanon**, the release of the abducted Lebanese soldiers and the optimistic political talks about a potential breakthrough in the presidential dilemma did not have any notable impact on the economic performance. The structural fiscal and external deficits persisted in Q4 2015 despite shy improvements in tourism and stock markets. The negative repercussions of the continuing terrorist attacks on **Egypt**'s economy became more pronounced between October and December 2015, mainly on fiscal, external and tourism sectors. In **Syria**, the ongoing crisis weighed on trade activity and the majority of the country's key economic sectors, particularly the cement and cotton industries.

HEADLINES





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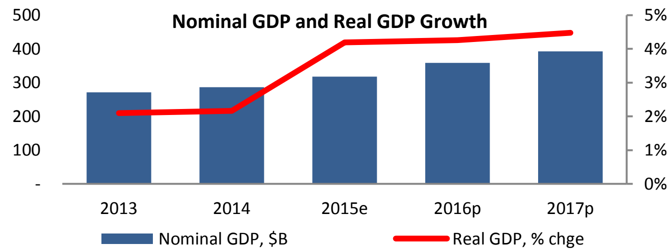
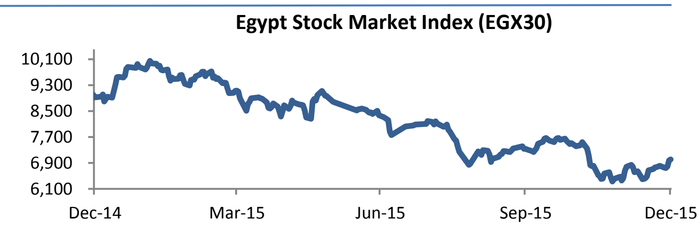
Egypt Macro and Equity Market

Heading Towards Serious Challenges, Despite Authorities Continuous Efforts

Key Macroeconomic and Equity Market Indicator





It was a busy last quarter in Egypt at all levels. The country completed the parliamentary elections between October and December 2015, thus concluding the 3rd and final step of its political roadmap. The security situation failed to improve in Q4 2015 as terrorist attacks kept on recurring mainly in Rafah, Giza and el Arish. Sinai witnessed by the end of October the quarter's worst terrorist attack as the Islamic State claimed responsibility for the Russian plane crash (Metrojet Flight 9268). Despite the poor security conditions of the country, Egypt accomplished several achievements in Q4 2015, including the selection of firms that will complete the impact studies related to the $3.37B Ethiopian Grand Renaissance Dam project with Ethiopia and Sudan.

On the economic front, the latest data showed yearly improvement in Egypt's economic performance during the Fiscal Year (FY) 2014/15. In fact, real Gross Domestic Product (GDP) stood at 4.2% in FY 2014/15 compared to a lower 2.2% in FY 2013/14. This was mainly attributed to the improvement of several sectors such as the manufacturing, tourism, construction and real estate activities despite the continuous deterioration of the extractions sector. Similarly, the country's non-oil manufacturing sector mimicked the expansion as the Purchasing Managers' Index (PMI), rose from an average of 48.1 in FY 2013/14 to 50.1 in FY 2014/15. As imported inflation remained contained, inflation averaged 6.98% between October and December 2015 compared to 7.99% over the same period in 2014.

Externally, the bearish trend of oil prices failed to trigger down Egypt's trade deficit and sequentially the current account, due to worsening services, receipts and payments during Q1 of FY 2015/16. This was heavily reflected on Egypt's Balance of Payments (BoP) that turned negative in the first quarter of FY 2015/16 at $3.66B compared to the $410M surplus recorded during the same period a year earlier. The current account deficit more than doubled as it reached $3.98B in Q1 FY2014/15, up from $1.6B in FY2014/15. As for trade deficit, it stagnated at $10.0B following respective 26.4% and 10.4% year-on-year (y-o-y) drops in total exports and imports.

Tourism in Egypt saw negative performance during 2015 mostly on the worsening security situation following several terrorist attacks on touristic locations. As a result, total travel receipts displayed a 17.5% yearly fall in Q1 2015/16 to $1.73B. The Russian airplane crash prompted Moscow and London to halt flights to Egypt which heavily impacted the total number of incomers as European tourists constitute more than 70% of total tourists. In fact, the number of travelers stood at 8.89M in the first eleven months of 2015, recording a 2.3% yearly drop from the same period a year earlier. Egypt's official records also revealed a 9.0% yearly drop in the number of nights during the same period to 81,728. However, the occupancy rates in Cairo 4 and 5-star hotels averaged 49% in 2015 compared to 37% in 2014. This is mainly due to the improving performance of tourism during the first half of the year which more than offset the deterioration in the second half of 2015. Similarly, the average room rate and the rooms' yield posted respective increases of 19.6% and 57.6% y-o-y to $112 and $55.

Egypt's public finances deteriorated during the FY 2014/15 as reflected by the widening fiscal deficit and Gross Domestic Debt (GDD). The country's fiscal deficit increased by a yearly 24.5% to settle at $40.26B by the end of June 2015 on rising fiscal revenues that were outpaced by bolstering expenditures. In reality, the Egyptian public inflows saw a 14.5% increase in FY 2014/15 to $68.00B, while the public expenses surged by 18.0% to $106.11B. As for the GDD, it edged up by 16.5% to reach $270.31B. Worth mentioning that Egypt is expected to receive $3B from the World Bank over the coming 3 years to help the government in decreasing its budget deficit and maintaining its economic reforms' program, of which $1B will be allocated by the end of 2015.

On the monetary front, the net international reserves at the Egyptian Central Bank (CBE) registered a level of $16.45B by the end of December 2015 after dropping to $16.34B in September 2015. The deterioration of Egypt's net international reserves between September and December followed the repayment of $1.5B maturing USD notes issued in 2005 (including the final coupon). As a result, the foreign reserves almost covered 3 months of imports in September, which pushed the ECB to devaluate in October the Egyptian pound for the 3rd time in 2015. In fact, the exchange rate reached EGP 7.83/USD by the end of December 2015 after hitting EGP8.02/USD by the end of October 2015. In October, Egypt's president appointed Tarek Amer as the new governor for the ECB, with his tenure to start in November 27.

In addition, the Monetary Policy Committee (MPC) raised in December the main interest rates by 50 bps. Also, the CBE launched a stimulus program for Small and Medium Enterprises (SME) which consisted of encouraging banks to increase their lending to reach 20% of their portfolio in the next 4 years. As a matter of fact, credit facilities at the Egyptian commercial banks rose by 26.9% y-o-y in November to reach $100.04B, noting that 73% were disbursed in local currency. Total deposits also went up from $194.18B in November 2014 to $239.75B by the end of November 2015. Over the same period, local currency deposits, constituting 80.6% of the commercial banks' total deposits, increased by 22.6% y-o-y to $193.28B compared to a faster 27.4% progress in Foreign Currency deposits to $46.47B.

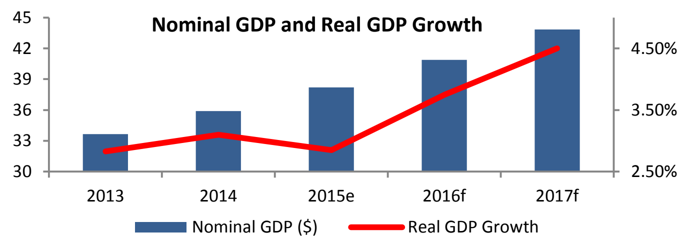
The Egyptian bourse maintained the downward trend in the last quarter of 2015 as revealed by the 4.5% quarterly decline of the EGC 30 index, widening its yearly loss to 22.2%. In details, the gauge went from 7,333 points by the end of September 2015 to 7,006 points by the end of December 2016. As a result, the market capitalization narrowed by the end of 2015 by 1.4% from Q3 2015 to $54.85B. Despite the negative performance, activity in the last quarter of the year saw substantial progress as the total traded volume and value increased by 95.3% and 137.3% from Q3 2015 to 16.31B shares worth $6.02B. This was probably due to heavy selling by investors who were negatively impacted by the international developments related to the Paris attacks in addition to the repercussions of the Russian plane's crash in the Sinai desert. This was revealed by the rising number of trade transactions recorded on the Egyptian stock exchange as they went up from 898,589 in Q3 2015 to 1.51M in Q4 2015.

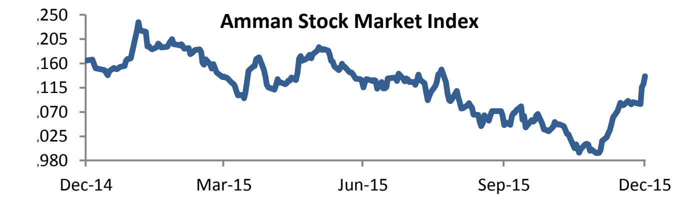
BLOMINVEST BANK

Jordan Macro and Equity Market

Feeling the Effect of Low Global Growth

Key Macroeconomic and Equity Market Indicators





2015 proved to be a very challenging year for the majority of global economies. However, while the Hashemite Kingdom was certainly affected in certain aspects, with the first six months proving to be especially difficult due to the compounded impact of local and regional concerns, Jordan did manage to protect its economy from more severe consequences. Improvement was mostly witnessed in trade, while the second half of 2015 saw Jordan recover from earlier drawbacks in most sectors.

Following lower global growth expectations, the International Monetary Fund (IMF) estimated a real GDP growth of 2.85%, with an expected improvement to 3.75% and 4.50% by 2016 and 2017, respectively. The Kingdom's 2015 nominal GDP is expected to reach $38.21B, growing to $40.89B and $43.82B in 2016 and 2017, respectively.

Jordan's tourism sector significantly improved from the poor performance witnessed over the first half of 2015 following poor global economic conditions and local security concerns. By the end of Q3 2015, the annual decrease in total tourists improved from 17% by June 2015 to 5.3% by end-September. This translated in to a total number of 3.78M visitors to the Kingdom, compared to 4.16M over the same period in 2014. The EY Middle East Hotel Benchmark Survey also indicated the drop in tourism activity, as the hotel occupancy rate over the entirety of 2015 decreased by 6 percentage points to 56%, while the average room rate and yield revealed respective annual downturns of 4.7% and 13.7% to $109 and $61, respectively.

Jordan's balance of payments (BoP) recorded a deficit of $936.24M (JOD 664M) over the first three quarters of 2015. The Current Account (CA) registered a deficit that widened by 36.80% y-o-y to $2.69B (JOD 1.90B) following a decrease in the surplus of net current transfers by $1.19B to (JOD 843.8M), while the capital and financial account registered a surplus of $1.75B (JOD 1.24B).

The deflationary pressure on several commodities helped boost Jordan's trade sector, as the Kingdom's trade deficit over the first ten months of 2015 narrowed by 12.80% y-o-y to $10.51B (JOD 7.45B). Total exports, which include re-exports, decreased by 6.10% y-o-y by October to register $6.56B (JOD 4.65B) as exports of vegetables, and medical and pharmaceutical products, lost 8.90% and 4.90% to respective values of $488.14M (JOD 346.2) and $453.88M (JOD 321.90M). Meanwhile, exports of phosphates gained 11% to $426.53M, 68.83% of which was sold to India. Over the same period, total imports decreased by 10.30% to $17.06B (JOD 12.10B) on the back of significantly lower pricing of petroleum products and crude oil. The latters' imports registered decreases of 59.9% and 40.7% to new levels of $1.23B (JOD 872.6M) and $1.17B (JOD 826.7M), respectively.

In details, the value of imports of petroleum crude and gas oil/diesel fell by 36.14% and 64.68% to respective values of $887.76M (JOD 629.61M) and $496.82M (JOD 352.35M), respectively, by July 2015. Imports of cereals also lost 32.18% of their value to $229.33M (JOD 212.29M) over the same period. Regarding exports, the most noteworthy developments were the increase in knitted and crocheted apparel and clothing as of July 2015 by 10.29% y-o-y to $751.21M (JOD 532.77M). In contrast, exports of mineral and chemical fertilizers lost 22.88% to $234.10M (JOD 166.03M).

Jordan's fiscal deficit continued to widen, as the general budget (inclusive of foreign grants), recorded a deficit of $1.18B (JOD 835.6M) by October 2015. This is representative of a 20.06% expansion when compared to the same period in 2014. Total public revenues revealed a 5.48% decline over the first 10 months of the year to $7.46B (JOD 5.29B), mainly on the back of the 43.29% yearly slide in foreign grants over the period to $576.83M, in addition to reductions of general sales tax on certain items and special tax to 8% from 16% and 25%, respectively. In contrast, net outstanding public debt by October 2015 grew by 9.88% since the end of 2014 to stand at $31.85B (JOD 22.59B). Consequently, net outstanding public debt by October equaled 83.30% of GDP, compared to 80.80% by December 2014. Outstanding external public debt increased by 19.20% y-t-d by October 2015 to $13.50B (JOD 9.52B), or 35.30% of GDP. Outstanding domestic debt also rose by 3.90% y-t-d to $18.35B (JOD 13.01B), or 48% of GDP, over the same period.

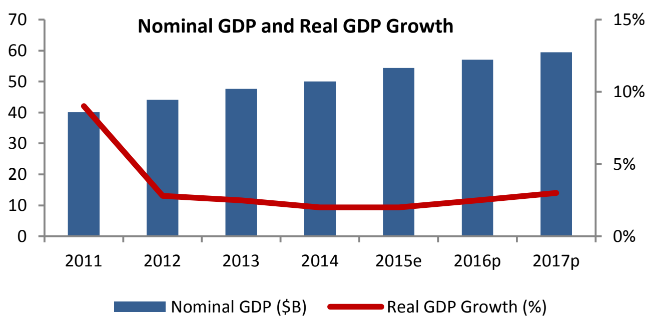
On the monetary front, the Central Bank's foreign currency reserves ended 2015 at a level of $14.15B, compared to $14.08B a year earlier. These reserves are sufficient to cover an estimated 7.5 months of Jordan's imports. In terms of domestic liquidity, the money supply M2 gained 8.09% over 2015 to stand at $44.78B (JOD 31.61B) as total credit facilities extended by licensed banks increased by 9.49% y-o-y to $29.90B (JOD 21.10B) over the same period. Meanwhile, total deposits at licensed banks jumped 7.72% annually to $46.19B (JOD 32.60B), driven by the rise in resident private sector deposits by 7.60% to $36.56B (JOD 25.80B) by December 2015. 79.80% of total deposits at licensed banks were denominated in the Jordanian currency by the end of the year, compared to 79.35% at the end of 2014. Interest rates remained stable since July 2015, with the re-discount rate and the overnight repo rate at 3.75% and 3.50%, respectively. Meanwhile, the interbank rate dropped from 3.00% in December 2014 to 2.08% by end-2015.

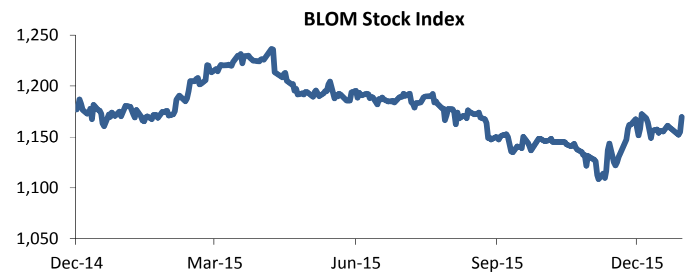
The Amman Stock Exchange ended the year at a decrease of 1.35% from 2014's close, following a flurry of foreign investments in listed securities during December. During the month, 75.8% of trading value on the Amman Stock Exchange represented non-Jordanian investment, contributing to net inflows of foreign investment of $14.95M (JOD 10.60M) during 2015. The ASE's market capitalization decreased by 0.35% annually to $22.72B (JOD 16.11B). Total trading volume reached 1.65B shares, up from 1.42B the previous year. The value of total trades mirrored the increase in total trades, gaining $500M to $2.93B by end-2015.

Lebanon Macro and Equity Market

Ending the Year in Stagnation

Key Macroeconomic and Equity Market Indicators





Lebanon ended 2015 with disparate developments on the security and political fronts. Two suicide bombings alarmed the security situation in November. However, 2015 was wrapped with positive expectations after the release of the Lebanese soldiers taken hostage by Al Nusra Front and the positive political talks regarding a potential breakthrough in the 19-month presidential vacuum.

The repercussions of the deteriorating regional and domestic conditions drove GDP growth down to a slight rate of 0.5% during 2015. Similarly, the BLOM Purchasing Managers' Index remained below the 50 mark, at an average of 47.3 points in Q4 lower than the average 48.4 points recorded in the third quarter of 2015.

Falling oil prices and the depreciating European currency against the US dollar continued to pressure the Lebanese Consumer Price Index (CPI), which declined by 3.40% y-o-y to 95.92 in December 2015. Transportation prices and "water, electricity, gas and other fuels" sub-index dropped 7.66% and 17.57%, respectively, compared to December 2014.

Looking at the real-estate sector, total transactions (local and foreign) decreased 5.4 % annually to 82,790 worth $8.41B in 2015, of which 16.29% represent foreign demand. In details, 41,006 land transactions worth $2.55B were executed in 2015 compared with 48,115 deals worth $3.08B in 2014. On the other hand, 35,410 transactions on built units, worth $5.01B, were registered by the end of 2015, down from the 39,117 transactions, worth $5.53B carried out in 2014. Average value of land transactions decreased from $64,013 in 2014 to $62,186 in 2015, while that of built unit transactions went down from $141,485 to $136,258 in 2015.

Likewise, construction continued its plunge, with the number of permits falling 9.43% y-o-y to 15,092 by December 2015. Noting that permits are usually issued at least 6 months after applications are filed, the drop in construction activity was due to the ongoing slowdown in the whole economy.

As for tourism, the number of incomers reached a 4-year high, as the Lebanese security scene preserved its stability. According to the Ministry of Tourism, the number of tourist arrivals surged by a yearly 12.05% to 1.52M in 2015. Global Blue's Tourist Spending Report revealed that tourist spending in Lebanon grew 2% y-o-y in 2015. Accordingly, hotel occupancy progressed, with the average rate adding 5 percentage points to 56% by November. Average room rate and average room yield added 2% and 11.5% to $175 and $99, respectively.

Lebanon's Balance of Payments (BoP) deficit widened from $1.41B in 2014 to $3.35B in 2015. The decline in capital inflows and Foreign Direct Investment (FDIs), as a result of the ongoing domestic developments and the regional upheavals, in addition to the substantial trade deficit are the main reasons behind the deficit in BoP. However, the trade deficit tightened by 12.04% y-o-y, to record $15.12B in 2015, mainly due to the bearish Euro and oil trends. Total imports dropped 11.83% slower than the 10.75% decline in total exports.

Fiscal deficit broadened 17.38% yearly to $2.61B in the first three quarters of 2015. Therefore primary surplus dropped to $672M compared to a higher primary surplus of $867B, during the same period of 2014. This was mainly driven by the 8.60% decline in total revenues exceeding the 2.86% drop in total expenditures. The drop in revenues resulted from the 1.43% decrease in revenues coming from taxes on income, profit, capital gains, and property, and a 6.15% plunge in VAT revenues. The plummet in VAT revenues was due to the decrease in the value of imports, as the Euro and Yen depreciated and fuel prices declined. The major decrease in expenditures was due to the 40.44% plummet in EdL transfers. The deficit led Gross public debt (GPD) to widen by 5.63% y-o-y to reach $70.30B end of December 2015.

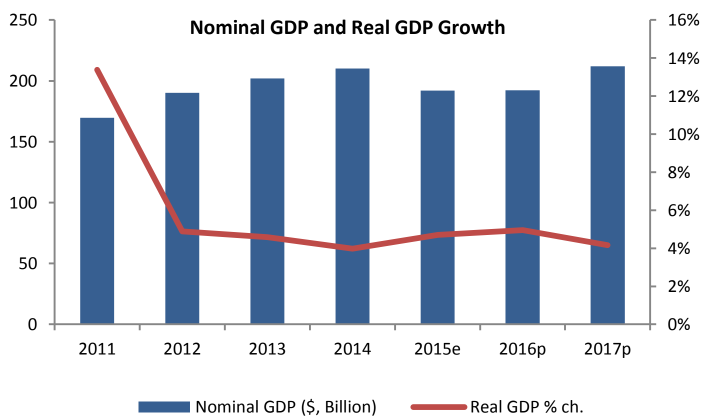
On the monetary front, BDL's total assets dropped slightly, by 0.79%, due to the 4.10% and 4.96% declines in foreign assets and gold reserves to $37.09B and $9.85B, respectively, by end of 2015. The Drop in gold reserves resulted from the bearish gold trend. However, total assets at commercial banks grew by 5.86% yearly to $185.99B by December.

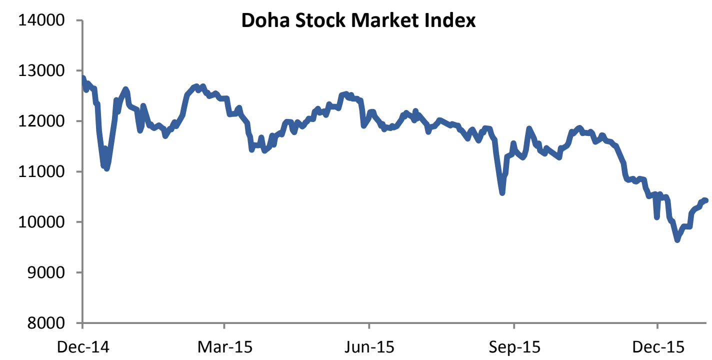
Positive political talks concerning filling the presidential vacuum spread positive vibes to investors. The Beirut Stock Exchange showed a small improvement in the last quarter of 215, where the BLOM Stock Index (BSI) gained a marginal 1.93% q-o-q, to end the year at 1,169.52 points. Trade volume decreased from 263,922 shares worth $2.61M, the previous quarter, to 231,158 shares worth $2.12M, in Q4 2015. As for market capitalization, it broadened from $9.53B to $9.72B at the end of 2015, where 2.5M shares of Bank of Beirut preferred shares class "E" were delisted end of December 2015.

Qatar Macro and Equity Market

Tarnished by Cheap Oil

Key Macroeconomic and Equity Market Indicator





As part of a defense agreement signed in 2014, Turkey will establish a military base in Qatar. 3,000 ground troops would be stationed at the base as well as air and naval units, military trainers and special operations forces. The two countries have provided support for the Muslim Brotherhood in Egypt, backed rebels fighting to overthrow Syrian President Bashar al-Assad and raised the alarm about creeping Iranian influence in the region.

Qatar's real GDP growth for the third quarter (Q3) of 2015 stood at 3.8% y-o-y, thrust by the non-hydrocarbon sector. The Real Gross Value Added (GVA) of the non-mining and quarrying sector, with a 50.14% share of GDP, grew by 7.8%. This was mainly due to the increases seen in construction, social services, and financial sectors. A new $1B sewage treatment plant has been built processing up to 245,000 cubic meters of sewage per day. This plant, which began running in December 2015, produces high-quality reclaimed water for reuse in irrigation purposes. Meanwhile, real GVA of the mining and quarrying sector, with a 49.86% share of GDP, showed a 0.1% yearly rise. Worth mentioning that the Qatari state oil company, Qatar Petroleum has reached a deal with Chevron to acquire 30% of its stake in offshore drilling areas in Morocco.

Inflation reached 2.7%, pushed up by the 3.4% and 3.1% price surges in "Housing, Water, Electricity & Gas" (21.89% weight) and "Transport" (14.59%). Moreover, "Recreation & Culture" sub-index added 1.6%.

On the suppliers' side, the Producer Price Index (PPI), measuring the average selling prices domestic producers receive for their output, plummeted by 36.2% y-o-y in October, primarily due to the sharp decline in prices of crude oil and natural gas during 2015. The price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) shed 44.4% and 46.9% y-o-y to $42.4/barrel and $39.5/barrel end of November 2015. Therefore, the "Mining" group, which represents 72.67% of the PPI plunged by 38.7%. The PPI "Manufacturing" subcomponent also showed yearly decline of 30.8%, while "Electricity and water" sub-index went down by 7.2%.

As for Qatar's trade balance, it tightened by 48.06% y-o-y to a surplus of $30.19B by end July 2015, as a result of decreasing exports and increasing imports. Declining oil prices drove down the largest component of total exports, hydrocarbons, by 37.53%, inflicting a 35.25% y-o-y plunge in exports to $48.45B by July 2015. On the other hand, imports augmented by 9.30% y-o-y to $18.26B, where motor cars and other passenger vehicles were the top imported commodities, going up by a yearly 19.69% to $1.66B.

On the fiscal front, Qatar's fiscal deficit widened from $2.54B in Q1 2014 to $4.73B in Q1 2015, due to the elevated government spending and declining revenues. Total revenues narrowed significantly by 71.07% to $6.42B, as decreasing oil prices lowered hydrocarbon receipts. Government expenditures also dropped by 54.90% to $11.15B, by March 2015.

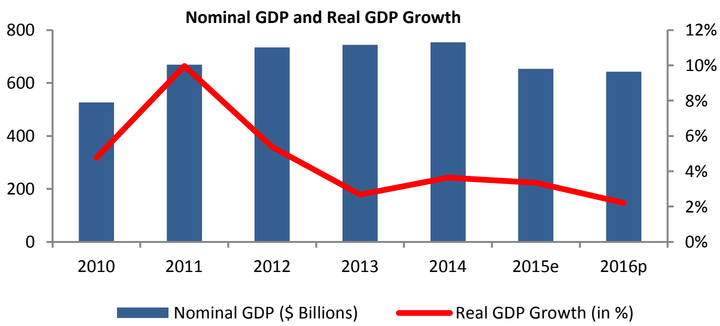
Looking at the monetary sector, total assets at commercial banks grew by 5.46% since end of 2014 to $286.11B, by August 2015. Private sector credit broadened by 15.14% to $109.73B, while that of the public sector slightly slipped by 0.45% since year start to $62.77B by August. Total deposits posted a 4% growth to $168.78B, due to the 6.45% and 52.76% increases in resident and non-resident private sector deposits that partly offset the 9.77% drop in public sector deposits.

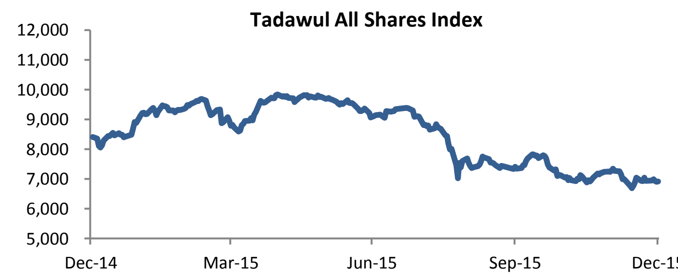
Falling oil prices continued to weigh down on Qatar's bourse, as the Doha Stock Market Index (DSMI) slid by 6.03% q/q to 11,465.22 points end of September 2015. Trade during the third quarter of 2015 occurred at a lower volume of 358.05M shares worth $4.25B, compared to 758.04M shares worth $7.91B during Q2, 2015. Worth mentioning, FTSE announced Qatar will be promoted from Frontier to Secondary Emerging, which will likely enhance liquidity and turnover in the market.

Saudi Arabia Macro and Equity Market

Dealing with a Record Fiscal Deficit

Key Macroeconomic and Equity Market Indicators





Saudi Arabia continued to be involved in the issues of its neighboring Middle Eastern countries. In December, the Kingdom decided on an $8B investment in Egypt while Egypt is set on renewing a deal to import oil products from the Kingdom under favorable conditions for a period of five years.

The drop in oil prices had ramifications across the board for the Saudi economy. Real GDP growth slowed from 3.64% in 2014 to 3.35% in 2015. In nominal terms, the GDP dropped by a yearly 13.35% to $653.22B. With lower oil prices, some large projects were scaled down or even cancelled 1 which translated into a decline in the value of fixed capital formation from $214.94B in 2014 to $213.31B in 2015.

The private sector also mirrored the impact of the slump in "black gold" prices. The Emirates NBD Saudi Arabia PMI announced a lower average in the fourth quarter. The average PMI reading for Q4 recorded 55.5, two points lower than the 57.6 registered in the third quarter. This decline in PMI readings is reflecting the slow market conditions which have resulted in a weak expansion of new businesses in the country.

According to the Central Department of Statistics and Information in Saudi Arabia, the average annual inflation in 2015 registered 2.10%. In Q4 alone, the inflation recorded 2.44% in October and 2.28% in each of November and December. The most important components in the Consumer Price Index "Food and Beverages" and "Housing, water, electricity and gas" registered yearly increases of 1.6% and 3.5%, respectively. Rental inflation, reflecting the shortage of housing in the kingdom, also registered a yearly increase of 4.8% by the end of 2015. After being discussed for a long time, the Kingdom's Council of Ministers finally approved a "white land" tax according to which an annual tax of 2.5% is to be paid on undeveloped land. The levied taxes are to be used to remedy the housing shortage in the Kingdom and to free-up unexploited lands which are currently used for speculation or as store of value.

As for the external front, weaker trade activity was registered in 2015. The imports and exports of goods and services declined 8% and 39% y-o-y to $234.55B and $217.73B, respectively. Imports of petroleum products (including refined products and natural gas) recorded a double digit yearly slump of 44% to $157.96B in light of the fall in the price of Brent Crude from $57.33/barrel at the end of 2014 to $37.28/barrel at the end of 2015. Non-oil exports were also on the down with a 17.99% yearly decline to $47.48B in 2015.

In 2015, Saudi Arabia recorded a fiscal deficit of $98B. Revenues dropped by an annual 42% to $162B and expenditures exceeded the initial budget allocation by 13% to reach $229B. Oil revenues dropped by an annual 23% to $118.5B while non-oil revenues grew by a yearly 29% to $43.6B. Expenditures were pushed upwards by military spending and by the salaries increase for public sector employees once King Salman took over the throne. The war in Yemen is estimated to have cost the Kingdom $5.3B in 2015.

To finance the fiscal deficit Saudi Arabia tapped into its government deposits and issued $26B worth of bonds. Public debt therefore rose to around $38B or 5.8% of GDP, according to Deutsche Bank. The Kingdom also sought to slash expenses by cutting fuel subsidies from 0.6 SAR ($0.16) per litre to 0.9 SAR ($0.24) per litre which in turn inflated fuel prices by 50%. The expected budget deficit for 2016 is expected to be lower at $87B as lower oil prices pull revenues down by 15% to $137B. Budget Spending is expected to drop to $224B after some projects were postponed, cancelled or reduced in size.

On the monetary front, the Central Bank has reduced its investments in foreign currencies as the financing of the fiscal deficit and the preservation of the riyal's peg to the dollar are pressing issues at the moment. Foreign reserves at the Kingdom's Central Bank remained ample in 2015 but registered a yearly drop of 16% to reach $616.42B in 2015. The Saudi Interbank Offer Rate declined from 0.9358 in 2014 to 0.8797 in 2015 as the market remains amply liquid. Moreover, loans to both the public and private sectors increased from $26.39B and $334.99B in 2014 to $33.33B and $334.99B in 2015.

At the end of the year 2015 the Tadawul All Share Index (TASI) closed at a level of 6,911.76 points, down by a yearly 17.06%. The total market capitalization totaled $421.10B, down by 12.9% from last year's level. The total value of traded shares amounted to $442.83B compared to $572.40B in 2014. As for the volume of traded shares, it reached 65.99 billion shares in 2015 compared to 70.57 billion shares in 2014.

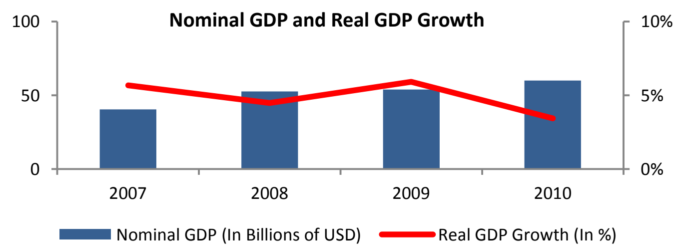
Four Initial Public Offerings (IPOs) took place during the year bringing the total number of listed companies to 171. The newly listed companies were Middle East Paper Company (Industrial Investment), Saudi Company for Hardware (Retail), Saudi Ground Service Company (Transport), Alandalus Property Company (Real Estate Development). 99.60 million shares were newly offered on the market with a total value of $1.11B in 2015.

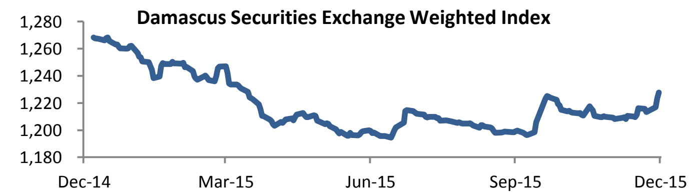
[1] According to Jones Lang La Salle, the planned construction of 11 sports stadium has been scaled down to 3. A $200M contract for six-high speed trains has been cancelled.

Syria Macro and Equity Market

Key Industries Destroyed by the War

Macroeconomic and Equity Market Indicators





In December, Britain and Germany joined the fight against IS in Syria after the deadly attacks in Paris. Internally, the regime took back Homs, the "capital of the revolution" and Syria's third largest city, after striking a truce with the rebels and allowing them to leave the city peacefully with their families. On the humanitarian front, the UN Security Council renewed authorization for the passage of aid into Syria until January 10th, 2017. The official statement reads the following" the 15-nation body decided that the United Nations humanitarian agencies and their implementing partners were authorized to use routes across conflict lines in Syria and the border crossings of Bab al-Salam, Bab al-Hawa, Al Yarubiyah and Al-Ramtha, in addition to those already in use, with notification to the Syrian authorities."

In the capital Damascus, the consumption department revealed that its marketing strategies were fruitful in 2015. Officials revealed that the intervention of the Damascus consumption department generated 6 billion SYP in sales in 2015. With many merchants taking advantage of the war status of the country to inflate prices of basic necessities, the consumption departments aimed at pumping the market with basic goods and foods such as oils, groceries and grains, at prices 15 to 25% lower than market prices. The department also set up moving carts for the sale of these basic goods for the sake of higher accessibility.

The cement sector on the other hand suffered from power and gas cuts, shortage of labor, difficulty of finding spare parts for the machines and trouble commuting workers from and to the factories. Therefore the Adra Cement Company produced only 450,000 tons of cement as opposed to a planned 768,000 tons, equivalent to a 59% execution rate. Only 41% of the planned cement deliveries were actually delivered as they reached around 348,000 tons compared to a planned 845,000 tons. According to official sources, the sales of the Adra Cement Company totaled 6 billion SYP in 2015.

The cotton industry, believed to be the second biggest generator of foreign currencies for the Syrian treasury has regressed sharply due to the crisis. In 2005, cotton plantations extended over 240,000 hectares of land and production amounted to 1 million tons. By 2015, production was slashed by half and the actual cotton plantation land was a mere 45,000 hectares, where Raqqa and Hasaka were the top producing regions.

Activity at the Port of Tartous dropped in 2015. In 2014, 5.44 million tons were processed through the port while only 3.5 million tons went through it in 2015. The tonnage of exports dropped from 954 million tons in 2014 to 567 million tons in 2015, most of which are phosphate, containers and food products. Meanwhile imports reached 2.96 million in 2015 tons down from 4.49 million tons in 2014 and they were mainly made up of iron, wood, corn, coal and sugar. The number of containers also fell from 39,428 containers in 2014 to 29,859 containers in 2015. Incoming and Outgoing ships at the Port saw their number drop from 991 ships in 2014 to 653 ships in 2015. Despite the sluggish trade activity, the extra charge of $100 per container allowed the sales of the company managing the port of Tartous to increase from 4.43 billion SYP in 2014 to 5.25 billion SYP in 2015.

In 2015, the Syrian government's efforts to boost the eroded fiscal revenues have paid off. Tax collection from large establishments increased by a yearly 3.37 billion SYP from 9.95 billion SYP in 2014 to 13.32 billion SYP in 2015. The Ministry of Finance believes this increase to be a testimony of the good adaptability measures put in place by large establishments in the face of the raging war. Policies such as prioritizing costs allowed for the government to cash in on more taxes in 2015 despite the closure and relocation of many large establishments.

Due to the exceptional operational environment, the real estate bank announced that the sum it failed to collect in 2015 amounted to 1.3 billion SYP while the guarantees taken by the bank amounted to 69.5 million SYP. Due to the war, contact details of the borrowers changed, making it difficult to reach them. Therefore, the Real Estate Bank of Syria has now agreed on granting loans only in safe areas and noted that the project for which the loan is taken must be ready for investment or already kicked-started. The bank is also accepting applications for operational loans[2] related to the financing of working capital for as high as 3 million SYP with a duration of one year and a possibility of a 6 months extension. This measure is aimed at boosting productive sectors such as agriculture and industry. As for the country's currency, it depreciated further in 2015 going from 179.2 SYP to the dollar at the end of 2014 to 219.65 SYP to the dollar at the end of 2015.

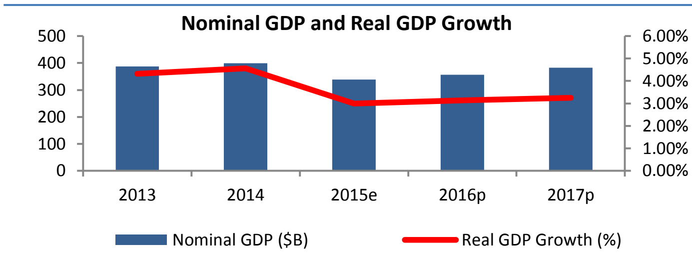
On the Damascus Securities Exchange, the volume and value of traded shares amounted to 1.4 million shares worth 160 million SYP compared to 2 million shares worth 268 million SYP traded in the third quarter. The Damascus Securities Exchange Index ended the fourth quarter at 1,227.86 points, up by 2.38% from the previous quarter. For the year 2015, 8.4 million shares, worth more than 1.1 billion SYP were traded compared to 25 million traded shares worth 3.3 billion SYP last year. The market index fell by a yearly 3.4% to 1,227.86 points. The top performing stock of the year was the Alahliah For Vegetable Oil Company with a yearly upturn of 30.68% while the worst performing stock was the National Insurance Company with a yearly drop of 17.45%, which was due to the modification of the reference price after the company distributed dividends.

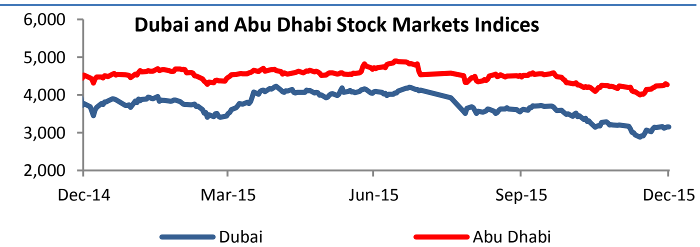
[2] Short term loan meant to cover short term expenses

UAE Macro and Equity Market

Resorting to Fiscal Consolidation in the Face of Global Economic Pressures

Key Macroeconomic and Equity Market Indicators





Similarly to the previous years, the United Arab Emirates (UAE) held on to its strategic goals despite the global economic headwinds and the escalating regional tensions. Deteriorating oil prices were another reason for the UAE to persevere in its diversification scheme away from hydrocarbons. This was highlighted by the approval of $35B government investment plan during the last quarter of 2015 to target a lower dependence on natural gas for electricity production from a 100% to a 70% level by 2021. Furthermore, an equally financed strategic investment fund worth $10B was established between the UAE and China during Q4 2015. The UAE pursued their ambition to become a knowledge-based economy through several measures in Q4 2015 such as the $81.7B investment that includes 100 initiatives in education, transportation, health and water.

The slowing economic growth in the UAE, which was emphasized by the slackening GDP, mostly reflected the bearish trend of global oil prices. In reality, the IMF has estimated the real GDP growth to have reached 3% in 2015, down from a previous 4.57% in 2014. This came on the back of the 37.2% yearly fall in international oil prices in 2015. In another context, the non-oil private sector in the UAE also reflected a slowing growth as the Purchasing Managers' Index (PMI), declined from an average 59.3 in Q4 2014 to 53.9 in Q4 2015. Still, the index signaled continuing economic expansion, even if at a slower pace, mainly on the back of slower rises in output, new work, and employment. When it comes to prices in the UAE, the slump in oil prices was more than offset by hikes mostly in "Housing and utility costs", "Furniture and Household Goods" and "Education" prices. Inflation rate in Dubai more than doubled in Q4 2015 as it reached 3.2% compared to a lower 1.5% in Q4 2014. In Abu Dhabi, inflation in Q4 2015 stood at 6.1%, up from 3.89% in Q4 2014, which mostly resulted from the Emirate increasing electricity and water tariffs in January.

Tourism in the Emirates seemed to have maintained its momentum, while hospitality saw slowing activity in 2015. For the second year in a row, Dubai International Airport (DXB) maintained its title as the world's busiest airport recording a 10.7% yearly rise to 78.01M passengers. According to Network International, tourist spending saw yearly improvement in the third quarter of 2015 after 2 quarters of declines. The advance was derived from the progressing spending levels of the top 3 overall spenders in Q3 2015 compared to the previous quarter: United States (+15%), Saudi Arabia (+29%) and United Kingdom (+17%). However, the earlier drops in the past 2 quarters of 2015 were mainly linked to the dropping numbers of Russian (-57%) and Chinese (-20%) tourists, which probably resulted from the depreciation of both the Ruble and Yuan during 2015. This also caused the hospitality industry to slow down despite the almost stagnating occupancy rates in the Emirati 4-and 5-stars hotels. In reality, Dubai's hotel occupancy rate remained at 80% by December 2015, while that of Abu Dhabi slipped by 1 p.p. to 78%. Also, each of Dubai's average room rate (AVR) and revenue per available room (RevPar) dropped by 6% to $259 and $208, respectively. In Abu Dhabi, the AVR shed 3% y-o-y to $170, while the RevPar lost 5% to $133.

The UAE external position was one of the economic aspects to most mirror the decline in global oil prices. The current account surplus is estimated to have significantly fallen from 13.6% of GDP in 2014 to 2.6% of GDP in 2015. Similarly, trade deficit tightened from an expected $130.4B in 2014 to $80.7B by the end of 2015. With total imports expected to slump by a yearly 4.5%, total exports are expected to decline at a faster pace of 16.3% y-o-y given the 45.0% drop in hydrocarbon exports. As a matter of fact, hydrocarbon exports constituted 19.8% of total exports in 2015 compared to a 30.1% stake in 2014, which emphasized the Emirates' diversification strategy that was maintained amid lingering headwinds over decreasing oil prices. Grasping an 80.2% stake of total exports, non-hydrocarbon exports slipped 4.0% y-o-y in 2015.

The global economic dynamics also took their toll on the public finances of the UAE. In particular, the fiscal balance of the Emirates was heavily hit by the falling oil prices noting that hydrocarbon revenues tumbled by a yearly 40.4% in 2015, almost constituting 56% in 2015, down from a 68% share of total revenues in 2014. In this context, and for the first time since 2009, the UAE is expected to post a consolidated fiscal deficit near $14.54B (almost 4.5% of GDP) in 2015, down from a previous yearly surplus of $19.90B (almost 5% of GDP). According to the International Institute of Finance (IIF), this resulted from the 27.2% downturn in the Emirates consolidated revenues, compared to the 5.0% yearly slump in the consolidated expenditures (excluding net lending). Aiming to curb federal spending amid the cheap oil environment, the UAE approved a smaller federal budget for 2016 amounting to $13.2B with a zero fiscal deficit, slightly lower than 2015's budget of $13.4B.

On the monetary front, the Emirati central bank announced the increase of interest rates on its certificates of deposits by 25 basis points (bps) in December in line with the Federal Reserve's decision to increase interest rates by 25 bps for the first time in nine years. However, banking activity maintained its momentum between September and December 2015. Despite the declining government deposits, money supply M3 managed to show further progress as it rose by 2.4% y-o-y to settle at $371.25B by the end of 2015.The Emirates' total banks assets revealed a 6.1% yearly growth to reach $665.95B by December 2015. Moreover, lending activity also improved as domestic credit increased by an annual 8.1%, amounting to $376.26B in Q4 2015. In details, private sector loans (76% of total lending) progressed by 9.1% y-o-y, while those of the government showed a 9% improvement in 2015. Total deposits increased by 3.6% y-o-y to $400.77B by December 2015, as private sector deposits witnessed a 7.3% uptick in 2015 while government deposits dropped by 17.9% over the same period.

Investors' uncertainty worsened during the last quarter of 2015, which was reflected on the Emirati stock markets. All of this is reflected by the indices of both Dubai and Abu Dhabi, which respectively lost 12.3% and 4.5% q-o-q to 3,151 points and 4,276 points by the end of December. Accordingly, Dubai's and Abu Dhabi's market capitalization narrowed from $88.97 and $115.65B by December 31, 2015 to $73.09B and $109.24B this year, respectively. In terms of trading activity, the average daily traded volume in Dubai narrowed by 11.2% q-o-q to 190.8M shares in Q4, 2015 compared to an average daily traded volume of 214.88M shares in Q3, 2015. Abu Dhabi experienced similar market dynamics, as the average daily volume fell by 15.9% q-o-q to 74.43M shares in Q4, 2015 compared to 88.51M shares in Q3, 2015.

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