TABLE OF CONTENTS

CONTACTS

Research

Marwan S. Barakat
(961-1) 977409
marwan.barakat@banqueaudi.com

Jamil H. Naayem
(961-1) 977406
jamil.naayem@banqueaudi.com

Salma Saad Baba
(961-1) 977346
salma.baba@banqueaudi.com

Fadi A. Kanso
(961-1) 977470
fadi.kanso@banqueaudi.com

Sarah F. Borgi
(961-1) 964763
sarah.borgi@banqueaudi.com

Gerard H. Arabian
(961-1) 964047
gerard.arabian@banqueaudi.com

Farah N. Nahlawi
(961-1) 959747
farah.nahlawi@banqueaudi.com

UAE ECONOMIC REPORT

FARING RELATIVELY WELL AMIDST THE EMERGING CHALLENGES OF LOWER OIL PRICES

- Sustained favorable performance of the UAE over the past year

  Following a strengthening of UAE real GDP growth to 5.2% in 2013, driven by the expansion in the non-oil sector, namely services and construction, strong momentum persisted in 2014, with real GDP growth forecasted at 4.3% according to the latest IMF World Economic Outlook amidst a sound non-oil sector growth coupled with a moderation of oil sector growth. Leading economic and financial indicators actually all point to continued strong non-hydrocarbon growth driven by tourism, transportation, trade and the real estate sector.

- Sound external surpluses though shrinking amidst oil price contraction

  The UAE registered a healthy growth in trade activity during the year 2014, with the aggregate value of exports and imports increasing by an estimated 8.6% year-on-year to reach US$ 673.1 billion. Total exports of goods free on board rose by an estimated 6.0% on a yearly basis, moving from US$ 378.6 billion in 2013 to US$ 401.4 billion in 2014. In parallel, imports progressed by an estimated 12.5% year-on-year during 2014, moving from US$ 241.5 billion in 2013 to US$ 271.7 billion in 2014. With the significant trade balance surplus shrinking and the services and transfers deficit widening, the current account balance remained in surplus but less so than in 2013, with the latest IMF estimate putting the current account surplus to GDP ratio at a more than comfortable 11.1% in 2014.

- Sound growth in monetary aggregates coupled with moderate pick-up in inflation

  UAE monetary conditions were marked in 2014 by a continuous growth in monetary aggregates, supported by healthy capital inflows and accelerated credit growth, while inflation started to pick-up moderately, driven by rising housing prices, and the Central Bank's foreign assets holdings expanded further to reach a seven-year high. The overall Consumer Price Index for the UAE rose by 2.3% over the first eleven months of 2014 relative to the 2013 corresponding period. Overall money supply in its broadest sense (M3) witnessed an increase of 10.2%, moving up from US$ 332.4 billion at end-2013 to US$ 366.3 billion at end-September 2014.

- Strong banking activity growth along with sound financial standing

  Measured by total assets of banks operating in the UAE, total banking activity grew by a healthy 9.3% in the first ten months of 2014, reaching US$ 625.0 billion at end-October 2014. Amidst ample liquidity at hand for UAE banks, lending activity has continued to ameliorate, with loans and advances recording a 7.9% rise during the first ten months of 2014. Banks' liquidity position improved during 2014, with their liquid assets representing around 41% of total deposits at end-September 2014. In parallel, banks in the UAE remain well capitalized and boasted a capital adequacy ratio of 18.3% at end-September, well in excess of the required minimum set by the Central Bank supporting banks in their financial intermediation role with regards to private sector lending.

- Impact of lower oil prices likely to be largely offset by strong buffers

  The decline in oil prices by circa 50% so far could indeed have a significant impact on oil revenues, if such low oil prices are sustained in the medium term. In parallel, indirect impact through lower regional and domestic liquidity, real estate, external sector and leverage would be considerable if oil prices remain low for long. It is yet worth mentioning that the UAE has strong buffers that enable it to continue on its path of gradual fiscal consolidation and minimize the drag on economic growth. Buffers are actually tied to large sovereign wealth funds on the one hand and a relatively lower fiscal breakeven price compared to other major oil producers on the other hand.

The UAE Economic Report can be accessed via internet at the following web address: http://www.bankaudi.com.lb

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@banqueaudi.com

The Emirates' current macroeconomic performance and near-term outlook remain favorable. Following a strengthening of UAE real GDP growth to 5.2% in 2013, driven by the expansion in the non-oil sector, namely services and construction, strong momentum persisted in 2014, with real GDP growth forecasted at 4.3% according to the latest IMF World Economic Outlook amidst a sound non-oil sector growth coupled with a moderation of oil sector growth. Leading economic and financial indicators actually all point to continued strong non-hydrocarbon growth driven by tourism, transportation, trade and the real estate sector.

Notwithstanding an influx of wealth from emerging markets such as Russia, India and China, the UAE has been the major beneficiary of private capital flows from other MENA countries following the political unrest in the Arab World since 2011. This lies within the context of a sound political stability in the UAE providing a safe haven for capital from within the region and outside of it.

Undoubtedly, the UAE has successfully pressed ahead with economic diversification in recent years. The share of non-hydrocarbon in total GDP has continued to rise to exceed 70% today against 53% back in 2000. Likewise, non-oil exports as a percentage of total exports exceed two-thirds nowadays, the highest among oil exporting countries in the region. Dubai is now a services hub for the region, while the economic diversification strategy in Abu Dhabi continues to rely on manufacturing, petrochemicals and renewable energy.

When accounting for direct obligations of the governments and official entities, consolidated public debt remains low and stable at 26% of GDP. The government has also made some progress in strengthening its economic institutions. It has established a debt management office, launched a public expenditure review and set up a medium term budget framework. However, the availability of macroeconomic data and disclosure of the government's external assets is relatively poor. It is also widely believed that political institutions in the UAE are nascent compared with those of non-regional peers.

Monetary policy remains focused on protecting the banking sector and ensuring that liquidity is sufficient but not excessive. UAE's 3-month interbank offered rate has continued to fall, to around 0.7%, indicating high liquidity. It is estimated that inflation trended upwards but remained moderate in 2014 averaging 2.2% (1.1% in 2013), as housing prices increased further. The still benign inflation is tied to subdued global prices, subsidy schemes, the strength of the US Dollar and the ease of importing foreign labor to accommodate the increased demand for non-tradables without the need to significantly change relative prices.

Banking system developments have been broadly encouraging once again this year within a sound activity growth and good financial soundness indicators at large. Amid ample liquidity in the banking system, private sector credit has continued to strengthen, with a 10% year-on-year growth by October 2014, despite Central Bank regulations related to exposure limits vis-à-vis GREs. UAE banks have benefited from the low cost of funds in international markets and the decline in the Emirates Interbank Offered Rates. The banking system has remained well capitalized with a capital adequacy ratio of 18.3%. Asset quality has continued to improve with a non-performing loans to total loans ratio of close to 7% coupled with a 102% coverage of non-performing loans by loan loss provisions.

UAE ECONOMIC PERFORMANCE

Sources: IMF, Bank Audi's Group Research Department

The in-depth developments in the real sector, external sector, public sector and financial sector of the economy are detailed in the forthcoming sections. The concluding remarks are left to the outlook of the UAE economy looking ahead on the back of the challenges of lower oil prices at large.

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

Sustained growth in major economic sectors

1.1.1. Hydrocarbons Sector

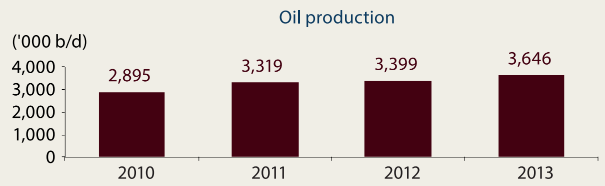
The UAE's hydrocarbons sector grew at a forecasted 3.0% in 2014, lower than the 4.8% growth rate in 2013, reflecting lower oil prices and elevated production levels. In fact, average oil prices declined by 45.6% at end-December 2014 compared to end-December 2013 with output slightly higher in 2014.

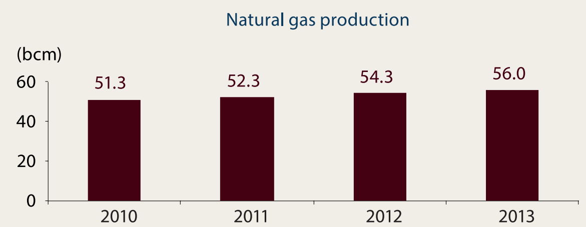
Despite the hydrocarbon sector contributing to close to one-third of the UAE's GDP, the recent oil price decline would not dent the country's fiscal strength as it benefits from several buffers, as per Moody's. In fact, the country's fiscal breakeven oil prices falling below US$ 80 and Abu Dhabi's high reserves would continue to ease the impact of oil price cycles.

The UAE's proven oil and gas reserves were approximated at 138 billion barrels of oil equivalent in 2013. The latter would last about 81 years at the current rate of production, according to the 2014 BP Statistical Review of World Energy. Furthermore, the UAE has the fourth highest level of oil and gas reserves globally per capita, at about 15,000 barrels of oil equivalent, as per Moody's.

About 94% of the UAE's crude oil reserves are located in the Emirate of Abu Dhabi, with Abu Dhabi National Oil Company (ADNOC) controlling upstream activity throughout the Emirate, and investing to expand production. Contributing to the company's expansion plans, the Abu Dhabi Marine Operating Company, an affiliate of ADNOC, began initial production from the offshore Umm Lulu oilfield in October 2014. By 2018, the oilfield would add more than 100,000 b/d of crude to the UAE's oil production capacity, as per the EIU.

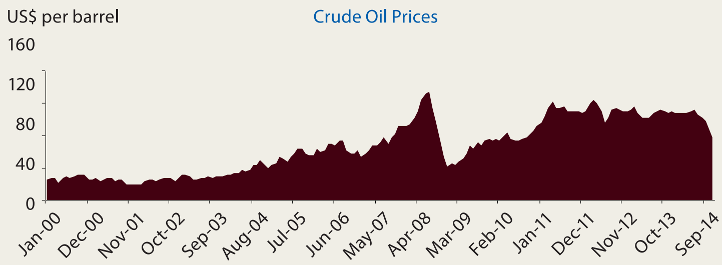
OIL & GAS PRODUCTION

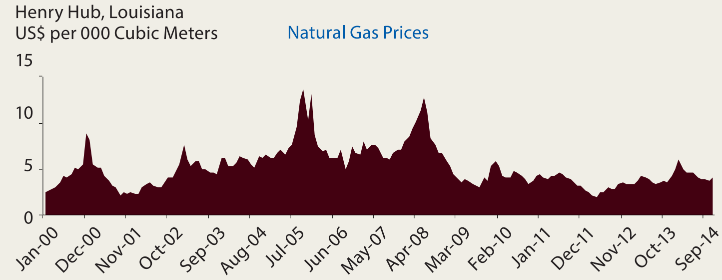




Sources: EIU, BP, Bank Audi's Group Research Department

CRUDE OIL & NATURAL GAS PRICES





Sources: IMF, Bank Audi's Group Research Department

As for Abu Dhabi's oil production plans, nine international companies are currently bidding to acquire stakes in onshore fields that produce 1.6 million b/d. This upstream opening, in effect a renewal process for ADCO, drew the attention of international oil companies looking to book huge conventional crude reserves, as per the EIU. The companies, including BP, Total, Shell, PetroChina and Korea National Oil Corporation, await the decision of Abu Dhabi's Supreme Petroleum Council on whom to offer the 40-year contracts.

Asian companies including China National Petroleum Company, which recently set up a joint venture with ADNOC to develop crude oil, are keen to take positions in the UAE onshore fields as they are significant buyers of UAE crude oil. On the other hand, British Petroleum, whose global upstream production dropped significantly amid the expiry of its 9.5% share of the ADCO concession at the start of 2014, seeks to bid aggressively to win back its stake in the new concessions. Regardless of the outcome of the bidding process and despite the recent fall in prices, ADCO seeks to increase capacity.

It is worth noting that the UAE's increasing domestic consumption is expected to put a dent on the country's export capacity, as per Moody's. While one-fifth of crude oil output is consumed locally, most of the UAE's gas production is being absorbed by domestic energy needs. In fact, the UAE is becoming a net gas importer, with 26% of the country's natural gas consumption imported from Qatar through the Dolphin pipeline.

Last but not least, despite the UAE being least vulnerable to oil price declines, the short-term outlook for oil prices remains grim, as per the EIU. OPEC describes the market as "extremely well supplied" and expects another year of market surplus in 2015.

1.1.2. Non-Hydrocarbons Sector

Real Estate and Construction

The real estate sector, which is considered one of the important drivers of the country's national economic activity, is encountering patterns of recovery in UAE's two main emirates. Both Abu Dhabi and Dubai markets recorded a positive yearly change in terms of performance and prices in two of the constituents of the sector, namely the residential and office markets.

Indeed, Dubai's residential supply continued its increasing trend in the first nine months of 2014. Also, the emirate's residential property sales and rental indices reported significant increases year-on-year between the third quarter of 2013 and the same period of 2014 for both apartments and villas, according to Jones Lang Lasalle. This comes along with the annual Dubai House Price Index calculated by Colliers and which indicated a 14% year-on-year increase in the third quarter of 2014.

Despite the significant annual increase, the recovery showed signs of a slowdown between the second and third quarter of 2014, whereby the Dubai residential property rent and sale indices reported subdued growth levels of less than 4% for both apartments and villas as well. This was confirmed by the Dubai House Price Index which remained stable at 170 points between the second and third quarter of 2014.

This stability coincides with the tighter regulations set by the UAE government of which a new mortgage cap rule was set raising the loan to value ratio to a new maximum, and more conservative business plans from property developers.

The positive yearly performance was clear in Dubai's office market as well, whereby CBD vacancy rates dropped from 30% in the third quarter of 2013 to 24% in the same quarter of 2014. Prime CBD rents increased over the same period as well. Moreover, office supply in Dubai reported an increase to 7.4 million square meters by the end of the third quarter of 2014.

Furthermore, strong investor sentiment rose as Dubai won the Expo 2020 bid, pushing the market to boom in the early months of 2014. This serves the optimistic view of the sector accounting for 16.1% of total GDP as demand for the office segment is seen to surge.

The announcement of mega projects over the course of 2014 served the growth of the sector as well whereby the key developments of Dubai-based top developers received good responses. For instance, Emaar promoted a number of high profile projects including Vida DT and Opera Grand, receiving strong investor responses. Damac Properties reported positive sales as well in two of its master developments.

Meanwhile, the market in Abu Dhabi reported signs of growth as well. The rise in residential supply in the first nine months of 2014 was accompanied by a year-on-year increase in the Abu Dhabi residential property rent and sale indices between the third quarter of 2013 and the corresponding quarter of 2014, according to Jones Lang Lasalle.

However, Abu Dhabi continued to witness a quarter-on-quarter growth of prices in its residential market, maintaining its position in recovery mode. The residential sector maintains its position as the strongest performing in the real estate market with key drivers such as positive investor sentiment, growing population, and potential under-supply, as per Jones Lang Lasalle.

The Abu Dhabi office market saw growth as well, whereby office supply rose in the first nine months of 2014 to 3.1 million square meters. Vacancy rates dropped from 38% in the third quarter of 2013 to 25% in the same quarter of 2014, along with an increase in Grade A average rents which rose over the same period while Grade B average rent encountered a slight decrease.

The focus on the development of the real estate sector comes along with UAE's aim to diversify its economy, and to build a strong non-hydrocarbon sector activity.

Transport

The UAE established itself as a regional hub for aviation and maritime transport, with the transport sector representing an important component of the UAE's economic diversification. Within this context, the UAE ranked 16th in the World Economic Forum's Enabling Trade Index 2014 and 1st in terms of availability and quality of transport infrastructure.

The UAE made aggressive investments in the transport sector, with the country expected to stay on this expansionary trend. For instance, the UAE plans to spend almost US$ 25 billion on railway infrastructure, according to the UAE's National Transport Authority. Around US$ 11 billion would be allocated for the UAE's national rail network, with Etihad Rail set to secure government funding and award contracts to build the second phase of the project. Abu Dhabi's Department of Transport also approved a budget of US$ 8 billion for its metro project.

Moreover, Dubai's Road and Transport Authority announced 35 mega projects to be rolled out by 2020, including the extension of the Red Line of the Dubai Metro, the upgrading of roads and junctions surrounding the Expo site, and the sourcing of 39 additional trains up to 2020 in order to improve passenger services.

In parallel, Dubai has one of the world's best logistic facilities in the Port of Jebel Ali. The latter is the world's 7th largest container port and Jebel Ali International Airport is one of the world's largest cargo airports.

Propelling the aviation sector growth is the massive investment that the government continues to allocate for aviation infrastructure in the UAE. Dubai International Airport's expansion plans , to cost more than US$ 7.8 billion, would increase the airport's capacity to more than 90 million passengers with the completion of Concourse D by 2015 along with the expansion and modernization of Terminals 1 and 2. Moving to Abu Dhabi, the completion of the Midfield Terminal Project, set to open in 2017, would also increase the airport's capacity to 30 million passengers per year.

Dubai International Airport recently became the busiest airport by international passenger traffic. The airport registered a 5.9% year-on-year growth in passenger numbers to almost 64 million during the first eleven months of 2014. Among other factors, the expansionary mode of Dubai's airlines contributed to this robust performance. Flydubai, for instance, confirmed the first phase of its 2015 network expansion as it seeks to continue its rapid development and introduce additional non-stop links from its Dubai International Airport base to destinations across Eastern Europe, the Middle East, Africa and the Indian sub-continent. As for Emirates Airline, it added 27 aircrafts to its fleet in 2014.

The Abu Dhabi International Airport also witnessed a strong expansion in 2014, receiving 19.3 million passengers in the first ten months of 2014, up by 19.2% year-on-year. It is worth noting that Etihad's recent acquisition of a 49% stake in Italian carrier Alitalia would further grow flights to Abu Dhabi under the new partnership.

Tourism

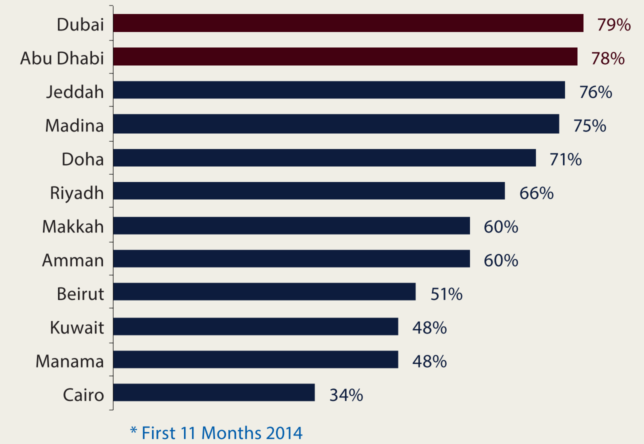
The UAE continues to maintain its stability despite the socio-political unrest shaking the Middle East and North African region. Perceived as a safe haven, the country's travel and tourism sector is forecasted by the World Travel & Tourism Council to have a total contribution of 8.4% to GDP in 2014. This comes along with an increase in airport traffic and high total occupancy.

The improvement in the tourism sector comes along with a number of initiatives and large scale tourism and leisure projects by the UAE government, promoting each of the emirates to have its position in the market. The mentioned factors in addition to the rising air connectivity of UAE's airlines are expected to induce positive and stable growth in the tourism and hospitality market.

Dubai, which recorded the highest contribution to guest arrivals in 2013 (58%), provides a mix of demand generators in the corporate, MICE (meetings, incentives, conferences, and exhibitions), and leisure sectors. Also, Abu Dhabi tourism sector registering a 16% contribution is driven mainly by the corporate and MICE sectors. However, the emirate is trying to diversify its base by expanding its leisure segment through hosting several events like the Formula One Grand Prix and opening sites like the Ferrari World.

It is worth noting that the effect of high visitor arrivals to the UAE was reflected in terms of occupancy of four and five star hotels in the first 11 months of the year. Indeed, Dubai registered the highest occupancy level at 79%, while Abu Dhabi came directly after it with 78%. The latter's hospitality sector witnessed an increase in revenue per available room of 3.4% in November 2014 when compared to November 2013 driven by the increase in the average room rate. This mainly goes back to several events hosted by the emirate during November.

COMPARATIVE HOTEL OCCUPANCY RATES

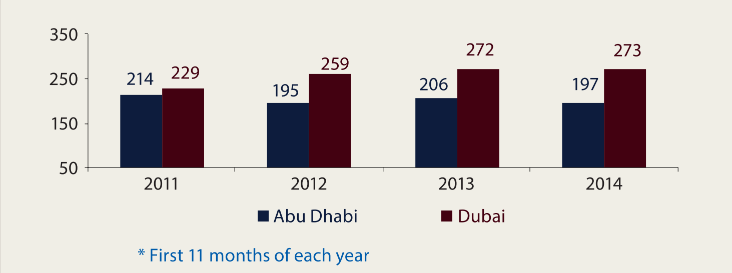


Sources: Ernst & Young, Bank Audi's Group Research Department

On a side note, the World Expo 2020 is expected to play an important role in boosting the activity of the sector whereby the six-month event aiming to attract around 25 million visitors will not only serve Dubai's tourism and hospitality sector, but can extend to further emirates whereby some visitors tend to visit more than one location.

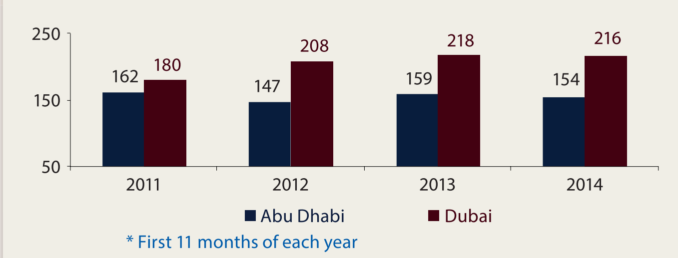
The development in the tourism sector affirms the commitment of the United Arab Emirates to enhance this sector along with its overall strategy of diversifying the economy.

AVERAGE HOTEL ROOM RATE IN US$ *



Sources: Ernst & Young, Bank Audi's Group Research Department

HOTEL ROOM YIELD IN US$*



Sources: Ernst & Young, Bank Audi's Group Research Department

1.2. EXTERNAL SECTOR

Lower yet still comfortable trade surplus maintaining external reserve buffers

The UAE registered a healthy growth in trade activity during the year 2014, with the aggregate value of exports and imports increasing by an estimated 8.6% year-on-year to reach US$ 673.1 billion, as per the most recent EIU estimates. This comes in line with the overall expansion in the UAE's economic activity last year, with the non-oil sector continuing to reap the benefits of the ongoing diversification-away-from-oil efforts on behalf of authorities.

In details, total exports of goods free on board rose by an estimated 6.0% on a yearly basis, moving from US$ 378.6 billion in 2013 to US$ 401.4 billion in 2014. This compares to a slightly higher increase of 8.3% in the previous year. As a matter of fact, crude oil exports accounted for the bulk of the increase in exports (an estimated 71% of the total in 2014), depicting an estimated 11% increase last year amidst a slight pick up in oil production and high oil prices for most of the year. Non-crude oil exports thus grew by a smaller 2.8% year-on-year as derived from EIU estimates, reflecting slightly higher demand of UAE manufactured goods from abroad during the year.

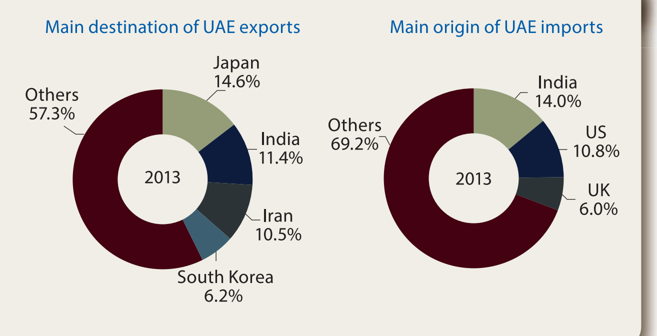
In parallel, imports progressed by an estimated 12.5% year-on-year, moving from US$ 241.5 billion in 2013 to US$ 271.7 billion in 2014 as per the EIU. This reflects healthy economic growth and the ensuing demand of imported goods from abroad, and actually compares to a slightly lower 11.0% growth in the previous year.

With the rise in imports driven by domestic growth exceeding that of exports, the UAE's trade balance shrank by an estimated 5.4% year-on-year, but remained well in surplus to attain US$ 129.7 billion. The country's more than comfortable trade surplus continues to ensure a major buffer against leakages from the services and transfers accounts, thereby favouring the noticeable current account surplus the UAE has been enjoying.

At the level of the services and income balance, an aggregate deficit of US$ 59.5 billion was reported as per EIU estimates, growing by 11.0% year-on-year (+12.2% in 2013). These balances include receipts and payments from transportation, business services, tourism and licensing and salaries entering or leaving the emirates, noting that the services balance is in deficit and the income balance only in a small surplus. With the UAE lately expanding its infrastructure base to develop the services sector, it is not surprising that such an aggregate balance witnesses a growing deficit.

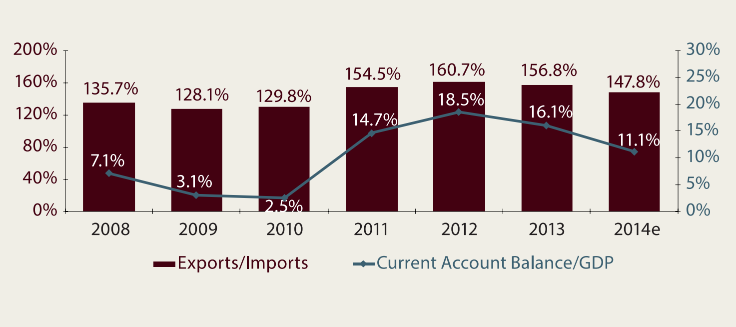
The current transfers balance, comprising the remittance flows in and out of the country, witnessed a further increase in its deficit (+9.8% on a yearly basis) to an estimated US$ 20.7 billion. A major component of this balance remains workers' remittances, the outflows of which are notable given the large number of foreign workers in the UAE out of the total workforce, and that are sending some funds back to their homeland. Remittances out of the UAE are likely to have increased last year along with the rising per capita income registered across the country.

EXPORTS & IMPORTS STRUCTURE



Sources: EIU, Bank Audi's Group Research Department

FOREIGN SECTOR INDICATORS



Sources: EIU, IMF, Bank Audi's Group Research Department

With the significant trade balance surplus shrinking and the services and transfers deficit widening, the current account balance remained in surplus but less so than in 2013 (contraction in the 20% range on a yearly basis). The latest IMF estimates put the current account surplus to GDP ratio at a more than comfortable 11.1% in 2014, though lower than the 16.1% ratio registered in the previous year.

While currently lower prices are prompting downward pressures on the UAE's trade and current account balances, it is worth mentioning that the country has accumulated a large stock of external assets over the years, and thus benefits from buffers to shield it against low oil prices at least in the near future.

1.3. PUBLIC SECTOR

Sustained surplus along with continuous fiscal consolidation

The UAE fiscal position remained healthy over the year 2014, witnessing comfortable surpluses and low gross indebtedness. Notwithstanding this strong position, the authorities are pursuing their fiscal consolidation plan to lower the budget's dependence on oil revenues.

On the revenue front, general government revenues are estimated to have registered a shy contraction over the year 2014, moving down slightly from US$ 139.4 billion in 2013 to US$ 138.9 billion in 2014, as per the latest IMF World Economic Outlook released in October 2014. The said decline, which is the first in five years, is estimated to have occurred despite an increase in real estate transaction fees in October 2013. Accordingly, the ratio of general government revenues to GDP retreated from 34.6% in 2013 to 33.3% of GDP in 2014, as per IMF estimates. However, it is worth highlighting that the aforementioned figures did not take into consideration the recent slump in oil prices that has occured over the last quarter of the year. As such, lower oil prices are expected to further reduce export earnings and fiscal revenues.

On the spending front, the UAE authorities are continuing their fiscal consolidation strategy, as per the IMF, through eliminating spending overruns and reducing current expenditures, while prioritizing health, education and capital spending. The IMF estimates a small 1.5% decrease in general government expenditures to 22.8% of GDP in 2014 (24.0% in 2013).

With general government revenues hovering around last year's level and expenditures decreasing slightly, the overall UAE fiscal balance is estimated to have registered a surplus that the IMF placed at 10.5% of GDP for 2014, against 10.7% of GDP in the year before.

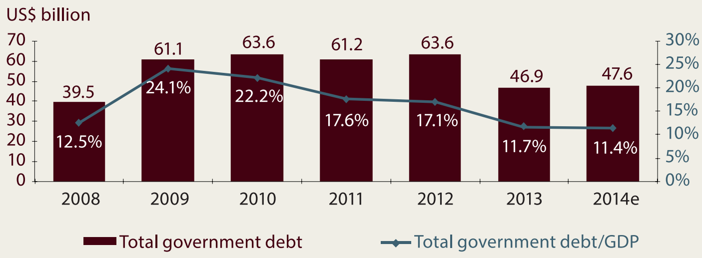
Along such comfortable fiscal surpluses accumulated over the years, the UAE's general government gross debt remained manageable at 11.4% of GDP in 2014, down from 11.7% of GDP in the previous year. Within this context, it is worth mentioning that with a US$10 billion debt restructuring of Dubai Group in January 2014, a US$ 20 billion Dubai debt rollover for five years at reduced interest rates in March 2014,

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2010	2011	2012	2013	2014e
General government revenues	85.4	120.2	134.7	139.4	138.9
General government revenues/GDP	29.9%	34.6%	36.2%	34.6%	33.3%
General government expenditures	72.2	81.1	83.6	96.5	95.1
General government expenditures/GDP	25.3%	23.4%	22.5%	24.0%	22.8%
General government fiscal balance	13.2	39.0	51.1	42.9	43.8
General government fiscal balance/GDP	4.6%	11.2%	13.7%	10.7%	10.5%

Sources: IMF, Bank Audi's Group Research Department

PUBLIC DEBT AND INDEBTEDNESS RATIO



Sources: IMF, Bank Audi's Group Research Department

and as Nakheel has begun in 2014 to prepay bank debt falling due in 2015, and Abu Dhabi kept its total government and GRE debt contained, potential worries about debt repayment definitely eased.

Last but not least, the UAE Federal Cabinet approved in October 2014 a balanced budget for 2015 of AED 49.1 billion, up by 6.5% relative to the previous year. A breakdown of government expenditures shows that the social development and social benefits sector would get AED 24 billion (49% of the total budget), followed by the government sector affairs (AED 20 billion or 41% of the total), the infrastructure and economic sector (AED 1.8 billion or 3.7% of the total), financial assets (AED 1.6 billion or 3.2% of the total) and federal spending (AED 1 billion or 2.1% of the total). However, the 2015 balanced budget came along an estimated fiscal breakeven oil price of US$ 77.3 per barrel, as per the IMF (which is quite higher than the current oil price). That being said, dwindling oil prices would leave little room for expenditure growth, and expenditure rationalization may be required should the oil price fall further.

In the period ahead, the UAE is set to continue with fiscal consolidation and economy diversification, while exploring options to increase the revenue base. The UAE's substantial foreign assets and improving fiscal position provide buffers against moderate or short-lived shocks. But a large and prolonged fall in oil prices would reverse the accumulation of savings and ultimately result in lower fiscal spending, according to the IMF. As such, for a long lasting shock, the UAE authorities should continue with fiscal consolidation, particularly in Dubai, as per the Fund.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Healthy growth in monetary aggregates along with moderate pick-up in inflation

UAE monetary conditions were marked in 2014 by a continuous growth in monetary aggregates, supported by healthy capital inflows and accelerated credit growth, while inflation started to pick-up moderately, driven by rising housing prices, and the Central Bank's foreign assets holdings expanded further to reach a seven-year high.

The overall Consumer Price Index for the UAE reached 122.23 in November 2014, according to the UAE National Bureau of Statistics, rising by 2.8% relative to 118.89 in November 2013. The rise came within the context of an increase in the furniture and household goods sector of 4.71%, the housing sector (+4.35%) the miscellaneous goods and services sector (+4.06%), the education sector (+4.01%), the beverages and tobacco sector (+3.63%), the food and soft drinks sector (+2.09%), the transportation sector (+1.68%), the medical care sector (+1.47%), the restaurants and hotels sector (+1.44%), the communications sector (+0.80%), and the recreation and culture sector (+0.72%), versus a fall in prices in the textiles, clothing and footwear sector of 1.08%.

All in all, the CPI grew by 2.3% on average during the first eleven months of 2014 as compared to the corresponding period of the previous year, according to the National Bureau of Statistics, as rapid rates of economic expansion have started to expose capacity constraints, and the IMF expects an average inflation of 2.2% for full-year 2014, mainly driven by higher rents.

Given relatively low inflation, the Central Bank of the UAE maintained an accommodative monetary policy with a stable spread to the US policy rate. Yet, as the US Federal Reserve moves to a tightening cycle, with a policy rate increase likely in the second half of 2015, the Central Bank of the UAE may follow suit given the currency peg to the US Dollar. The Emirates Interbank Offered Rates continued their slide over the year 2014, with the six-month category reporting the highest fall of 16 bps since the beginning of the year to reach 0.84% at end-2014, indicating high liquidity in the market.

Monetary aggregates in the UAE posted healthy expansions during the first nine months of 2014, yet at a slower rate relative to the correspond period of the previous year. The narrow measure of money supply (M1) widened by 13.6%, moving up from US$ 103.4 billion at end-2013 to US$ 117.4 billion at end-September 2014. This compared to a higher growth rate of 18.5% during the corresponding period of 2013. The broader money supply (M2) accelerated by 7.5%, moving up from US$ 288.0 billion at end-2013 to US$ 309.6 billion at end-September 2014, mainly supported by a 24.3% surge in net foreign assets (the equivalent of US$ 16.4 billion) and a 13.2% increase in claims on the private sector (the equivalent of US$ 31.2 billion). This compared to a higher growth rate of 10.7% during the corresponding period of 2013 (the equivalent of US$ 25.2 billion). Overall money supply in its broadest sense (M3) witnessed an increase of 10.2%, moving up from US$ 332.4 billion at end-2013 to US$ 366.3 billion at end-September 2014. This compared to a higher growth of 10.8% during the corresponding period of 2013.

Amidst healthy growth in monetary aggregates, the Central Bank of the UAE's Certificates of Deposits portfolio expanded further by 9.5% over the first nine months of 2014 to reach US$ 32.2 billion at end-September 2014. This followed a 13.1% expansion in the portfolio in 2013.

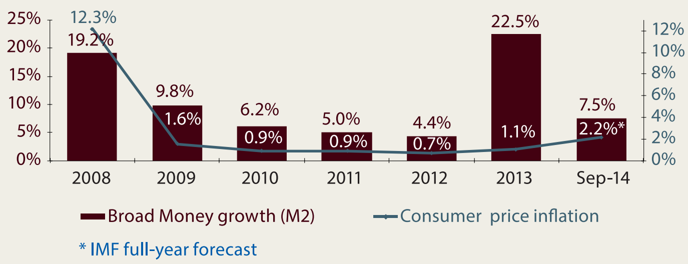
In parallel, the Central Bank's foreign assets holdings grew by 11.8% during the first nine months of 2014 (the equivalent of US$ 7.9 billion) to reach US$ 74.8 billion at end-September 2014, its highest level since year-end 2007. The growth in the Central Bank's foreign assets is driven by a 15.1% increase in FC deposits (the equivalent of US$ 4.4 billion) and a 14.4% rise in held-to-maturity foreign securities (the equivalent of US$ 5.0 billion), with the former hitting US$ 33.9 billion and the latter reaching US$ 40.0 billion at end-September 2014. Accordingly, the Central Bank's foreign assets coverage ratio to money supply (M1) and Dirham deposits went up from 28.5% at end-2013 to 30.2% at end-September 2014. The UAE Dirham

EVOLUTION OF MONETARY CONDITIONS

Flows in US$ million	2010	2011	2012	2013	Sep-14
Net foreign assets	**8,625**	**3,778**	**18,615**	**23,436**	**16,366**
Foreign Assets	14,225	8,576	25,587	33,608	41,531
Foreign Liabilities	-5,600	-4,798	-6,972	-10,172	-25,165
Net Domestic Assets	**3,838**	**6,942**	**-8,645**	**29,497**	**5,231**
Claims on private sector	1,504	7,374	3,654	9,553	31,243
Net claims on public sector	7,968	13,100	-5,482	21,216	-8,096
Claims on financial institutions	-75	-2,381	1,580	1,048	-13,123
Capital & Reserves	-7,898	-6,373	-5,159	4,746	-2,602
Other Items (net)	2,339	-4,778	-3,237	-7,066	-2,191
Broad Money (M2)	**12,463**	**10,720**	**9,970**	**52,933**	**21,597**
Money Supply (M1)	2,581	8,478	9,551	21,886	14,025
Quasi-Money	9,882	2,242	419	31,047	7,572

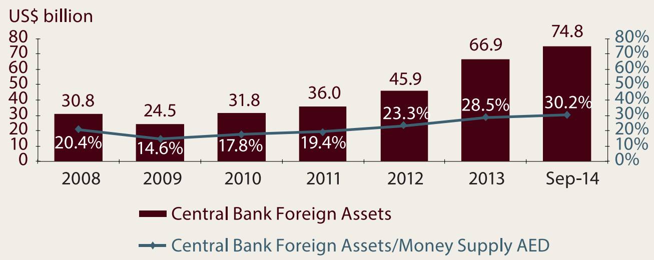
Sources: Central Bank of UAE, Bank Audi's Group Research Department

BROAD MONEY AND INFLATION



Sources: Central Bank of UAE, Bank Audi's Group Research Department

EXCHANGE MARKET INDICATORS



Sources: Central Bank of UAE, Bank Audi's Group Research Department

remained pegged to the US Dollar. The peg has provided stability for decades, and, having ridden out the problems that fixed currency brings for this long, the authorities seem keen to maintain the system.

Looking forward, monetary policy is expected to tighten under the US Dollar peg, as per the IMF, helping the UAE mitigate the risk of potentially large private credit growth. However, even with the anticipated pick-up in US rates, real rates are likely to stay negative in the UAE.

1.4.2. Banking Activity

Strong activity growth amidst healthy economic conditions

The UAE banking sector pulled out a strong performance during the year 2014, within the context of healthy economic growth and ensuing favourable liquidity conditions domestically. Measured by total assets of banks operating in the UAE, total banking activity grew by a healthy 9.3% in the first ten months of 2014 according to Central Bank statistics, reaching US$ 625.0 billion at end-October 2014.

Deposits parked at banks in the emirates, a major and traditional activity driver accounting for around 62% of total assets, progressed by 10.6% between December 2013 and October 2014 to reach US$ 385.3 billion. The US$ 37.1 billion increase in deposits over the covered period proved 16% higher than during the previous year's corresponding period, and 39% higher than during the entire year 2012.

The increase in the deposit base is mostly attributed to higher funds stemming from residents, as non-residents recorded a healthy increase (13.6% in the first ten months of 2014 according to the latest figures released by the Central Bank) yet accounting for only 11% of the total deposit base increase. The bulk of the growth in deposits is attributed to improved economic activity within the UAE generating higher liquidity.

From a currency angle, the breakdown of deposits (excluding government deposits and commercial prepayments this time) reveals that foreign currency deposits and local currency deposits were almost equally responsible for the deposit base growth in the first nine months of 2014 (latest detailed figures).

It is worth noting that the breakdown of deposits by type shows that 74% of the increase is attributed to demand deposits, 17% to savings deposits and 9% to time deposits. This reflects a slight and further shift of the balance towards demand and savings deposits rather than the more expensive time deposits. Demand and savings deposits now account for 53% of private sector deposits, against a share of 37% before the global financial crisis outburst, which increases the risk of duration mismatch between short-term deposits and longer term financing.

The broad public sector, accounting altogether for close to 30% of total deposits at UAE banks and comprising the cash-rich government and strong Abu Dhabi-based government related entities, is likely to continue being a key and stable source of funding for UAE banks, thus limiting the sector's reliance on confidence-sensitive market funding and somehow offsetting the contractual maturity mismatch.

Amidst ample liquidity at hand for UAE banks, lending activity has continued to ameliorate. Loans and advances recorded a 7.9% rise during the first ten months of 2014 to reach US$ 374.8 billion at end-

EVOLUTION OF BANKING AGGREGATES

US$ million	2011	2012	2013	Oct-14
Total assets	472,076	511,096	571,899	624,969
% YTD growth in assets	-	8.3%	11.9%	9.3%
Total deposits	291,273	317,985	348,237	385,296
% YTD growth in deposits	-	9.2%	9.5%	10.6%
Total bank loans and advances	311,123	322,532	347,311	374,840
% YTD growth in bank loans and advances	-	3.7%	7.7%	7.9%

Sources: Central Bank of UAE, Bank Audi's Group Research Department

October. The US$ 27.5 billion progression in banks' lending activity during the covered period turned out to be 48% higher than during the previous year's corresponding period, highlighting the strengthening of credit activity amidst ameliorated economic conditions at large. Within the context of accrued lending activity in the UAE, the Central Bank called on banks to enhance their share of lending to small and medium sized enterprises.

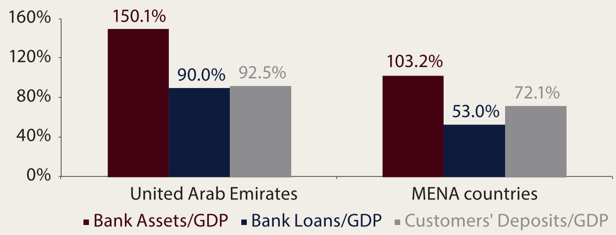
The latest available breakdown of credit to residents by economic activity covering the first nine months of 2014 shows that the construction and real estate, wholesale trade, transport, and consumer lending sectors were among those that benefited from accrued bank financing during the aforementioned period. Following years of practically flat growth in credit to the private sector, the year 2014 has witnessed a pick up in private sector lending activity as the UAE economy strengthened further.

On another note, the Central Bank introduced loan concentration limits for government related entities and local governments, which will likely help contain risks to banks' balance sheets from mega projects as per the IMF. Those new regulations limit exposures to emirate governments and their non-commercial entities to 100% of bank capital, with a 25% individual exposure limit to non-commercial entities. Commercial entities of the federal and emirate governments also face the same aggregate and individual exposure limits. On the overall, the exposure to a single borrower or group of related borrowers is capped at 25% of bank capital, as per the same source. It is worth recalling that banks exceeding the exposure limits were required to submit to the sector regulator plans for lowering their excess exposures by at least 20% per annum, thus complying with the limits within a five-year timeframe.

Anyhow, bank lending remains within prudential limits set by the sector regulator, with the ratio of loans and advances to stable resources at 86%, according to a recent declaration by a UAE Central Bank official. Having said that, banks' liquidity position improved during 2014. On the one hand, the loan-to-deposit ratio stood at 97.3% at end-October 2014, against 99.7% at end-December 2013 and levels slightly above the 100% threshold in 2012. On the other hand, UAE banks continued to hold more liquid assets (cash and deposits and quasi-deposits at the Central Bank and at banks domestically and abroad) than in the pre-crisis period, and during 2014 their liquid assets level (especially the abroad component) increased further, representing around 41% of total deposits at end-September 2014 (latest available figures). This level is deemed to be adequate in absolute terms and compares favourably to regional and international benchmarks.

While lending growth ameliorated in the covered period, non-performing loans have begun to decline from their post-crisis peak, though they remain high, especially among Dubai banks, as per the latest IMF report. As a matter of fact, the non-performing loans to total loans ratio (for national banks as per the latest IMF data) moved from a peak of 8.4% at end-2012 to 7.3% at end-2013 and to 7.1% at end-March 2014. Along the same lines, provisioning coverage strengthened further, exceeding the 100% threshold in early 2014 and moving from 93.4% at end-2013 to 102.1% at end-March 2014.

COMPARATIVE BANKING SECTOR ECONOMIC DIMENSION *



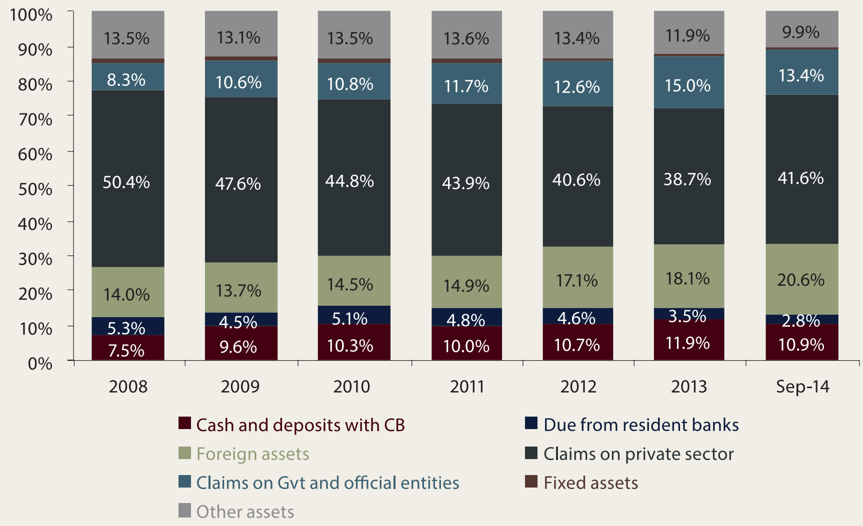
* October 2014 figures or latest available

Sources: Central Bank of UAE, Central Banks of MENA countries, IMF, Bank Audi's Group Research Department

This comes as quite a few asset quality issues are linked to the property sector, which has been recently faring well. Moody's lately noted that banks' new lending was generally more secured and focused on large corporate borrowers who have solid operating cash flows and on the many government related entities that are now exhibiting improved creditworthiness through debt prepayments.

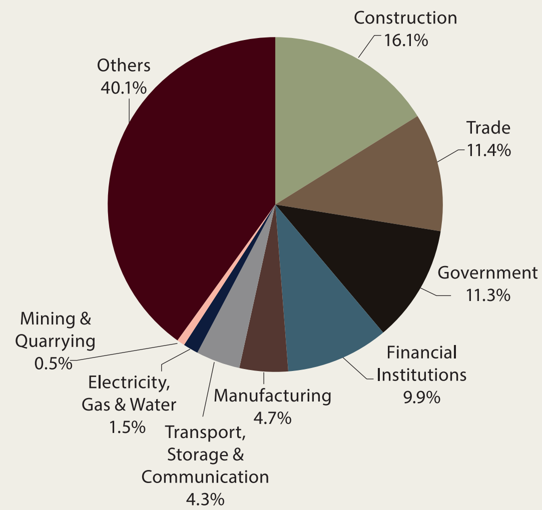
In parallel, banks in the UAE remain well capitalized and boasted a capital adequacy ratio of 18.3% at end-September as per Central Bank figures, the bulk of which consists of Tier 1 capital (16.3% Tier 1 capital ratio). This is well in excess of the required minimum set by the Central Bank (12% and 8% respectively), and helps banks bear potential further provisioning expenses and maintain adequate capital buffers and helps them as well in their financial intermediation role with regards to private sector lending.

BANK ASSET COMPOSITION



Sources: Central Bank of UAE, Bank Audi's Group Research Department

BANK LOAN BREAKDOWN BY ECONOMIC ACTIVITY *



*September 2014 figures for bank credit to residents

Sources: Central Bank of UAE, Bank Audi's Group Research Department

Last but not least, UAE banks have witnessed a further improvement in profitability during 2014. In the absence of consolidated sector statistics, we resorted to the aggregation of bottom lines of the 20 listed UAE banks which account for the bulk of sector activity. Aggregated net profits of those banks registered a 25% yearly rise over the first nine months of 2014 within the context of somewhat lower provisioning pressures and healthy economic growth translating into higher revenues despite low interest rates.

1.4.3. Equity and Bond Markets

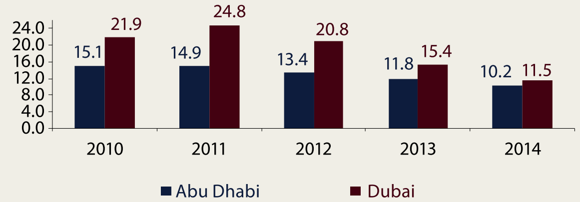
Price gains across UAE capital markets on improved economic and debt conditions

The UAE capital markets ended the year 2014 with capital gains despite dwindling oil prices and subdued investor sentiment towards the end of the year following OPEC's decision in November 2014 to maintain its crude output in an oversupplied global oil market, while cutting its estimate on 2015 demand for crude. Abu Dhabi's and Dubai's five-year CDS spreads registered single-digit expansions over the year 2014.

Price increases in the UAE equity markets were driven by a number of factors. Firstly, recovery continued in the UAE's economy and its realty sector. Secondly, an MSCI upgrade from "frontier market" to "emerging market" status on June 2, 2014, promised fresh foreign fund inflows into the market. Thirdly, MSCI removed the adjustment factor for Emaar Properties, Dubai Islamic Bank and First Gulf Bank in November 2014, citing relaxed foreign ownership restrictions. Fourthly, the listing of Marka's and Emaar Malls' stocks on the DFM in September and October 2014 respectively had positive effects on the market as well.

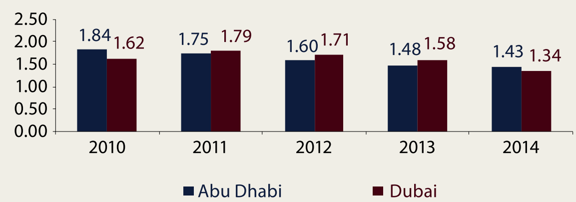
In details, the Dubai Financial Market price index rose from 3,371.43 at end-2013 to 3,774.00 at end-2014, moving up by 11.9%. The breakdown of the DFM index by sector shows that the banking sector witnessed the highest index rise of 32.3%, followed by the real estate sector with 17.5% within the context of a robust growth in sales and rental prices in Dubai and the launching of several mega projects, and the industrial sector (+13.1%). In contrast, the insurance sector posted a price drop of 29.4%, followed by the consumer staples sector (-18.9%), the telecom sector (-12.2%), the services sector (-7.1%), the transportation sector (-6.6%), the financial and investment services sector (-6.4%). The total trading value in the Dubai Financial Market amounted to US$ 103.9 billion in 2014, as compared to US$ 43.5 billion in 2013, up by 139%. The total number of traded shares reached 160.5 billion shares in 2014 against 127.2 billion shares in 2013, and the total number of trades was 2,412,839 in 2014 versus 1,337,857 in the previous year. Given price increases and two new listings in the DFM, the market capitalization in the Dubai Financial Market rose significantly from US$ 70.7 billion at end-2013 to US$ 87.9 billion at end-2014, up by 24.3%.

PRICE/EARNINGS RATIO (x)



Sources: Zawya Investor, Bank Audi's Group Research Department

PRICE/BOOK VALUE RATIO (x)



Sources: Zawya Investor, Bank Audi's Group Research Department

Similarly, the Abu Dhabi Securities Exchange reported price increases of 5.6% in 2014, as reflected by an increase in its index from 4,290.30 at end-2013 to 4,528.93 at end-2014. The breakdown of the Abu Dhabi general index by sector shows that the highest rise was in the investment and financial services sector with 31.4%, followed by the services sector with 16.5%, the consumer staples sector with 16.1%, the banking sector with 14.1%. In contrast, the energy sector posted the largest price drop of 45.8%, followed by the real estate sector (-9.9%), the industrial sector (-7.0%), the telecommunications sector (-6.4%), and the insurance sector (-0.7%). The total trading value surged by 70.1% in 2014 to reach US$ 39.6 billion, which is its highest level in six years. The market capitalization went up from US$ 109.5 billion at end-2013 to US$ 113.7 billion at end-2014.

All in all, the UAE equity markets outperformed regional and emerging stock markets, as reflected by a 4.4% rise in the S&P UAE price index as compared to a 1.4% decline in the S&P Pan Arab Composite Index and a 3.1% decrease in the S&P emerging frontier super composite index amidst a slump in oil prices and concerns about the contagion effect of the Russian crisis.

In parallel, UAE fixed income markets saw mostly upward price movements over the year 2014 despite subdued investor sentiment towards the end of the year due to a slump in oil prices. Price increases came within the context of an improved investor sentiment after a US$ 20 billion Dubai debt rollover for five years at a 1% annual interest rate in March 2014 and ample liquidity at hand, and tracked rises in US Treasuries as the US Federal Reserve stressed "patience" in waiting to raise interest rates, and as record-low yields in the Euro area added to the appeal of the US government debt.

ABU DHABI STOCK MARKET INDICATORS

	2010	2011	2012	2013	2014
Market capitalization (in US$ billion)	69.3	63.1	69.4	109.5	113.7
Trading value (in US$ billion)	9.4	6.7	6.1	23.1	39.6
Turnover ratio	13.6%	10.6%	8.7%	21.1%	34.8%
Trading volume (in millions)	17,595	15,677	16,394	51,519	57,608
Number of transactions	363,471	280,840	258,685	556,290	858,343
General share price index	2,720	2,402	2,631	4,290	4,529
% Change in share price index	-0.9%	-11.7%	9.5%	63.1%	5.6%
Dividend yield (%)	2.68	3.25	3.97	4.51	-

Sources: Abu Dhabi Stock Exchange, Zawya investor, Bank Audi's Group Research Department

DUBAI STOCK MARKET INDICATORS

	2010	2011	2012	2013	2014
Market capitalization (in US$ billion)	54.7	49.6	50.1	70.7	87.8
Trading value (in US$ billion)	19.0	8.7	13.3	43.5	103.9
Turnover ratio	34.7%	17.6%	26.5%	61.6%	118.3%
Trading volume (in millions)	38,362	25,164	40,463	127,180	160,533
Number of transactions	794,254	444,814	621,434	1,337,857	2,412,839
General share price index	1,631	1,353	1,623	3,371	3,774
% Change in share price index	-9.6%	-17.0%	19.9%	107.8%	11.9%
Dividend yield (%)	1.84	1.65	2.30	2.37	-

Sources: Dubai Financial Market, Zawya investor, Bank Audi's Group Research Department

UAE bond sales totalled US$ 16.2 billion in 2014 as compared to US$ 13.4 billion in 2013. Also, the share of UAE bond issues reached 61.2% of total MENA bond issues in 2014 as compared to a share of 52.7% in 2013. Quasi-sovereigns accounted for 49% of total UAE bond issues in 2014, followed by banks (24%), corporates (18%), and sovereigns (9%).

In the Abu Dhabi space, IPIC papers maturing between 2018 and 2041 posted price increases ranging between 2.50 pts and 11.63 pts. Ruwais Power'36 traded up by 9.63 pts. Taqa'18 and '19 closed up by 1.00 pt and 1.88 pt respectively. Prices of Taqa'21, '23 and '36 rose by 4.88 pts, 7.50 pts and 8.75 pts respectively. Taqa issued a ten-year US$ 750 million bond at a coupon of 3.875%. As to papers issued by financial institutions, ADIB Perpetual was up by 4.00 pts. Al Hilal'18 was up by 2.13 pts. Prices of FGB'17 and '19 went up by 1.63 pt and 3.25 pts. ADCB'17 and '18 were up by 0.88 pt and 1.63 pt respectively. Regarding new bond issues, Al Hilal Bank issued US$ 500 million perpetual bonds at a coupon of 5.50%. Also, ADCB issued a five-year US$ 750 million bond at a coupon of 2.875% and a five-year US$ 600 million bond at a coupon of 2.750%. As to the cost of insuring debt, Abu Dhabi's five-year CDS spreads expanded by 9 bps to 64 bps, mainly undermined by the negative sentiment that prevailed following OPEC's decision following several months of contractions.

In Dubai, sovereigns maturing between 2017 and 2043 registered price rises ranging between 0.50 pt and 8.75 pts. Dubai launched in April 2014 US$ 750 million 15-year Islamic bonds at a coupon of 5.00% as the Emirate sought to pay debt and finance its budget amid a property market recovery. Amidst quasi-sovereigns, DEWA'18 and '20 were up by 2.75 pts and 3.88 pts respectively. DP World'17 traded up by 14.25 pts. Prices of Emirates Airline'23 and '25 increased by 5.75 pts and 9.75 pts respectively. As to corporates, prices of Emaar'19 rose by 4.00 pts. Majid Al Futtaim'19 and Perpetual were up by 3.25 pts and 6.75 pts respectively. Regarding new bond issues, ICD, Emaar, DIFC, DAMAC, Flydubai and Majid Al Futtaim launched new issues for a total of US$ 4.4 billion in 2014. As to papers issued by financial institutions, DIB Perpetual was up by 3.38 pts. ENBD'23 and Perpetual traded up by 2.63 pts and 6.38 pts respectively. ENBD issued US$ 500 million worth of perpetual bonds and 5-year US$ 1 billion bonds in 2014. As to the cost of insuring debt, Dubai's five-year CDS spreads expanded by 7 bps in 2014 to reach 227 bps at end-December as a result of the subdued investor sentiment in December, following net contractions over the first 11 months of the year.

2. CONCLUDING REMARKS

The UAE is set to continue benefitting from its safe-haven status in the region. Government spending will help to sustain non-oil growth, including through support for construction and manufacturing sectors. Services growth will continue to be buoyant, helped by trends in private consumption which is rising on the back of higher incomes, employment and population growth and strong dynamics in trade, transport and tourism. The latter will grow as the UAE targets new markets and introduces new product offerings, while capacity at free zones and ports is also increasing along with a further expansion of the country's airlines.

With official inflation inching up but still fairly low, the Central Bank will retain an accommodative monetary policy for the time being, but will continue gradually to tighten banking regulations. When the US Federal Reserve will move to a tightening cycle, probably in the second half of 2015 as an increase in the Federal Fund rate is expected, the UAE Central Bank might follow suit given the currency peg to the US Dollar. It is worth recalling that the peg has provided stability for the Emirates for decades and the authorities look committed to the system.

The 2015 federal budget, which prioritises social spending, targets a 6.5% increase in expenditure and aims to be in balance. Public expenditures on social welfare and development, including education, will account for half of total spending. Strong current and capital expenditure is likely to continue, on the back of a strong pipeline of projects in Dubai and Abu Dhabi. This, together with lower oil prices, will gradually erode UAE's fiscal surplus looking ahead.

The decline in oil prices by circa 50% so far could indeed have a significant impact on oil revenues, if such low oil prices are sustained in the medium term. It is yet worth mentioning that the UAE has strong buffers that enable it to continue on its path of gradual fiscal consolidation and minimize the drag on economic growth. Buffers are actually tied to large sovereign wealth funds on the one hand and a relatively lower fiscal breakeven price compared to other major oil producers on the other hand.

Still, indirect impact through lower regional and domestic liquidity, real estate, external sector and leverage would be considerable if oil prices remain low for long. While UAE in general and Dubai in particular may well represent the ultimate regional success story in terms of diversification, this does not insulate it from the effect of lower oil prices. Dubai has successfully attracted businesses and people on the basis that it is the ideal spot from which businesses can capitalise on regional growth opportunities. If these opportunities diminish on the back of falling oil prices, Dubai's attractiveness as a business destination can weaken in parallel. Also, the main concern for the future prospects of the Emirates' asset markets is the impact of falling oil prices on domestic liquidity and on investor sentiment. The latter has been already adversely impacted as evidenced by the sharp fall in local equity markets over the past weeks.

On a longer run, it is widely believed that hosting Expo 2020 will provide stimulus to the economy in the construction phase over the next half a decade and during the event itself, and could also enhance Dubai's global brand, further reinforcing its strong position as regional hub. That said, the economic benefits of hosting the Expo should not be overstated, as the direct spending on the event should not exceed 1% of GDP over the next 5 years, notwithstanding the fact that the effectiveness of the impact on the local economy is likely to be limited and short lived.

Finally, in terms of competitiveness, a strong macroeconomic stability and an adequate institutional framework round out the list of competitive advantages of the United Arab Emirates. The country is also aggressive in adopting new technologies, which contribute to enhancing the country's productivity. Looking ahead, the UAE needs to invest more in its human capital in the form of better education and specialized training and better health services to foster its domestic competitiveness at large.

DISCLAIMER

The content of this publication is provided as general information only and should not be taken as an advice to invest or engage in any form of financial or commercial activity. Any action that you may take as a result of information in this publication remains your sole responsibility. None of the materials herein constitute offers or solicitations to purchase or sell securities, your investment decisions should not be made based upon the information herein. Although Bank Audi Sal considers the content of this publication reliable, it shall have no liability for its content and makes no warranty, representation or guarantee as to its accuracy or completeness.

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@banqueaudi.com