

Fortnightly - February 20, 2008

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- Mideast Top in Beverage Consumption
- IMF Praises Israel's Economic Performance
- Oman Announces New Oil & Gas Discoveries
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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 Bar-On Accepts Revolutionary Recommendations To End Foreign Labor

Israeli Finance Minister Bar-On has accepted the recommendations of a joint team of Finance Ministry and Bank of Israel officials on how to reduce the number of foreign workers in Israel. The revolutionary recommendations are meant to free the Israeli economy from its dependence on foreign labor, and it applies to the sectors where foreigners have a significant role: agriculture, construction and home nursing care. The group has met with representatives of contractors and farmers to reach an agreement on how to reduce the number of foreign workers. One recommendation is to establish a committee to reexamine the entire system for caring for the elderly in Israel, and in the end to free the home nursing care sector from its dependence on Filipino workers - and transfer the work to Israelis. The working group has presented the first set of solutions which will enable replacement of the foreign workers in two critical industries: agriculture and nursing care. The recommendations for agriculture will allow farmers to continue to employ foreigners only in those jobs where they do not replace Israeli workers, and therefore do not harm the Israeli job market. This includes mostly moshavim in the Arava and central Negev, regions where there are no Israeli workers to fill the jobs.

At the same time, the committee recommended allowing farmers to employ foreign workers temporarily during harvest periods only. The foreigners would be allowed to work for only three to five critical months for picking crops and orchards. In such cases, the group felt the foreigners are not replacing Israeli workers, who are looking for more

permanent work. Another change would allow the farmers to bring in the workers from overseas themselves, without going through labor brokers. This would tie the workers to the farmers directly, and would allow farmers to bring the same workers back to Israel every year for a few months. Importing foreign workers would be strictly supervised, under the auspices of a new immigration authority to be set up in the Interior Ministry.

The second critical industry to be tackled is home nursing care. Since 1997 the number of foreign workers, mostly Filipinos, caring for the elderly has skyrocketed from 7,000 to 50,000. According to the committee's estimates, if nothing is changed the number will hit 150,000 within seven years - a world record for employing foreign nursing care workers in per-capita terms. This huge number of home care workers is the result of mistaken policies for caring for the elderly in Israel, the committee feels. In fact, it would be more correct to say it is the result of a lack of a clear policy, they say. Many other elderly only need care a few hours of the day, and this work could be provided by Israeli employees. Already today there are 60,000 Israelis working in the home nursing care industry, and the committee thinks that appropriate policies could increase this number greatly.

The overall goal is to reduce the number of foreign workers by about 100,000; and create 70,000 jobs for Israelis. The difference in numbers stems from drop in workers needed as construction and agriculture become more industrialized. (Various17.02)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 WPP Invests in Israeli Start-Up NuConomy

WPP Group digital investment arm has acquired a stake in Israeli Web analytics company NuConomy, although it would not reveal how big a stake it has or how much it was worth. This is WPP's first investment in an Israeli Internet start-up. WPP holds stakes in Israeli affiliated advertng agencies, Shalmor-Avnon-Amichay Young and J. Walter Thomson (JWT) Israel Ltd. (Tamir Cohen), as well as representative agreements with Adler Chomski Marketing Communication and Fogel Levin Ogilvy Advertising Agency. Israeli web 2.0 start-up NuConomy Inc. (<http://www.nuconomy.com>) is headquartered in Tel Aviv and has a branch in San Francisco. It was one of the 15 Israeli start-ups to participate in the second Israel Web Tour of Silicon Valley earlier this month to show their wares to US venture capitalists and large internet companies. NuConomy has developed a platform that gives an in-depth insight into users' behavior using built-in and customized ranking criteria. The company's business model is based on two platforms. One is the company's database, which provides information for user personalization. The other is using this information for customized advertising targeting those users. In effect, NuConomy's product competes against Google's Google Analytics product. (Various11.02)

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2.2 RRsat Announces First Acquisition in Pennsylvania

Omer, Israel's RRsat Global Communications Network announced that its subsidiary, RRsat Global Communications Inc., has entered into an agreement to acquire the Hawley Teleport located in Pike County, Pennsylvania, for approximately \$4.25m. As part of the transaction, RRsat will acquire all the property, assets and licenses of the Teleport from Skynet Satellite Corporation. The Hawley Teleport, formerly owned by satellite operator Loral Skynet, includes approximately 200 acres, a 3 floor communication building on the premises of a size of approximately 40,000 sq. ft, communications equipment and antennas, in which substantial resources have been invested during the teleport's 33 years of operation. The acquisition is expected to close during Q2/08 and is subject to regulatory approvals, a 45-day due diligence period and customary closing conditions.

RRsat Global Communications Network (<http://www.RRsat.com>) provides global, comprehensive, content management and distribution services to the rapidly expanding television and radio broadcasting industries. Through its proprietary "RRsat Global Network," composed of satellite and terrestrial fiber optic transmission capacity and the public internet, RRsat is able to offer high-quality and flexible global distribution services for content providers. RRsat's comprehensive content management services include producing and playing out TV content as well as providing satellite newsgathering services (SNG). (RRsat14.02)

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2.3 Silicom Upgraded to NASDAQ Global Market

Silicom has received notification that the NASDAQ stock market has upgraded Silicom's listing from the NASDAQ Capital Market to the NASDAQ Global Market beginning 11 February 2008. Silicom's shares continue to be traded under the same symbol as before (SILC). Kfar Saba, Israel's Silicom (<http://www.silicom.co.il>) is an industry-leading provider of high-performance server/appliances networking solutions. The Company's flagship products include a variety of multi-port Gigabit Ethernet, copper and fiber-optic, server adapters and innovative BYPASS adapters designed to increase throughput and availability of server-based systems, WAN Optimization and security appliances and other mission-critical gateway applications. (Silicom11.02)

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2.4 Shiron Satellite Communications Opens Office in Brazil

Shiron Satellite Communications, a global supplier of Broadband satellite network platform, announced the opening of Shiron office in Brazil. The new office will handle Shiron activities, installed base, and the company's strategic push into this market. Tel Aviv, Israel's Shiron Satellite Communications (<http://www.shiron.com>), a technology leader in the satellite broadband communication market, was founded in 1996. The company's unique broadband satellite system, InterSKY, is based on the DVB-S2 open standard solution together with advanced patent-protected technologies. The company's InterSKY satellite communications system economically delivers reliable high-quality broadband satellite services and can be used for a large variety of Satellite communication solutions. (Shiron11.02)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 Mideast Top in Beverage Consumption

Middle East has the world's highest per capita liquid consumption, according to a research by Gulfood organizers. The region's beverage markets continue to develop exponentially, creating new opportunities for producers and distributors of bottled waters, soft drinks and tea and coffee brands, according to the region's largest food, drink, foodservice and hospitality equipment exhibition. The United Arab Emirates has reached the highest levels of per capita consumption of 635 liters a year, compared to the global average of 197 liters in 2006. Hot and dusty conditions, a fast-growing population, and increasingly sophisticated demand for "designer" drinks have all fuelled growth in the market. Bottled water sales in the Middle East have more than doubled in the past five years, according to research from Zenith International. Growth has been spectacular in a number of countries, with a well-established local bottled water industry competing aggressively with international market entrants. In addition, the region provides a point of entry to emerging Asian markets, with major potential for sustained growth in countries such as India and Pakistan, which have large populations but low bottled water penetration. Other specialty areas offer additional opportunities for new brands to win significant market share. (TradeArabia 12.02)

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3.2 Ruby Tuesday New Franchisee for Bahrain, Jordan, Lebanon & Oman

Maryville, Tennessee's Ruby Tuesday, a leading casual dining restaurant company, announced its international franchisee, Daliya Al-Wataniya for General Trading and Contracting will open nine Ruby Tuesday restaurants in Bahrain, Jordan, Lebanon and Oman over four years and a tenth Ruby Tuesday in the Avenues Mall in Kuwait City. Daliya Al-Wataniya is a subsidiary of Sultan Food Products Company of Kuwait City. The National Arabic Company for Restaurant Management (NAC), Ruby Tuesday's development and operating partner in the Middle East, has been instrumental in their growth in this area. NAC operates three Ruby Tuesdays in Kuwait and will open its fourth restaurant on the Nile River in Cairo. Ruby Tuesday currently operates in Saudi Arabia and Kuwait, with new restaurants expected to open in Dubai, Cairo, the Avenues Mall in Kuwait, and Bahrain in 2008. The company has been expanding its franchise system and continues to seek franchising opportunities. (Ruby Tuesday 16.02)

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3.3 Bubba Gump Shrimp & Mubarak Al-Hassawi Group Seal Middle East Franchise Deal

San Clemente, California's Bubba Gump Shrimp Co. Restaurants recently agreed to provide exclusive Middle East franchise rights to Mubarak Al-Hassawi Restaurant Development Group. The deal, for a minimum of 12 units by 2020, is worth \$50 to \$60m in projected revenue and covers an area including the U.A.E., Kingdom of Saudi Arabia, Kuwait, Qatar, Egypt, Jordan, Oman and Lebanon. The first location is scheduled for operation in Dubai in q4/2008. The Mubarak Al-Hassawi Restaurant Development Group is comprised of several international companies that specialize in hospitality, real estate and industrial manufacturing. The company is well-known for its record of forward-thinking initiatives. Catering to local markets, the Middle Eastern locations will offer regional cuisine options on the menu. Bubba Gump Shrimp Co., which combines quality seafood in a casual warm atmosphere, is the first and only theme restaurant chain based on a motion picture property. (Bubba Gump 16.02)

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3.4 Saudi to Invest \$3 Billion in Bangladesh

On 9 February, Bangladesh and Saudi Arabia signed a deal to invest \$3b to set up an oil refinery with a capacity to produce 300,000 barrels per day (bpd) of oil products. Hi-Tech International Group (HTIG) of Saudi Arabia and Cosmopolitan Oil Refinery Management Limited (CPORML) of Bangladesh signed the deal to implement the project within the next 40 months. The plant will be set-up with 100% foreign direct investment and it will import more than five million tons of crude oil from Saudi Arabia, Sultan said. The entire final product will be exported in neighboring countries. The production capacity of the proposed refinery will be more than three times of the state-run Bangladesh Eastern Refinery Limited (BERL), the lone refinery plant in the country. BERL, located at the port city of Chittagong with 1.5 million tons of refinery capacity of crude oil, supplies refined oil to three state-owned oil firms for distribution across the country. The plant will use most modern fractional distillation and hydrocarbon cracking technology to refine the crude. Bangladesh imports 3.8 million tons of fuel every year, including about 1.5 million tons of crude oil. In Bangladesh, the price difference between refined and crude oil is up to \$10 per barrel. (Reuters09.02)

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3.5 Turkish - KSA Crane Factory To Become Operational Soon

A \$26.7m crane manufacturing facility as part of a Saudi-Turkey collaboration is being set up near Haraaj in south Jeddah, by a team comprising Turkey's Kombassan Holding and Ekoloji Insaat, a construction consultant. The team was on a visit to Saudi Arabia explore business prospects in the context of the ongoing construction boom and also developments related to six new cities in the Kingdom. The crane factory, expected to become operational within three months, will initially manufacture 50 cranes of all sizes under the Kombassan Group's 'Acar' brand name for the construction sector. Acar has become the group's brand name in cranes. Acar Hydraulics produces knuckle-boom hydraulic mobile cranes, telescoping hydraulic mobile cranes, rotating and non-rotating tree transplanting machinery and various hydraulic equipment. Acar Hydraulics is one of the three rotating and non-rotating tree transplanting machinery manufacturers in the world. These machines are eco-friendly and serve the green environment and nature. Acar hydraulics, which proved its total quality concept by receiving ISO 9001-9002 quality management certificate, is maintaining the standard by competing with its own products and leaving its European competitors behind in the crane field, especially in respect of the extension dimensions and lifting capacities. The group's annual turnover average \$750m, he said, adding that it is a public company with 75,000 shareholders. It has commercial offices in some Middle East and Islamic countries. (MENAFN12.02)

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3.6 Asymtek Signs New Distributor Agreement with NORANA

Carlsbad, California's Asymtek, a Nordson company and leader in dispensing and jetting technologies, announced the addition of a new distributor to market its automated fluid dispensing and conformal coating systems throughout Turkey. NORANA, headquartered in Izmir, Turkey, will provide Asymtek's customers with sales support, lab testing, on-site equipment service, and training. NORANA has local, experienced technical service staff with comprehensive customer support programs. Established in 1985, NORANA supplies electronic components ranging from soldering equipment and PCB assembly equipment to automatic optical inspection systems. Recently, they have experienced an increased demand for selective coating and dispensing equipment. NORANA represents, and is a distributor for, many international suppliers who are the world leaders in their fields. Asymtek, a world leader in automated fluid dispensing, conformal coating, and jetting technologies, designs and manufactures a full line of dispensing and coating systems, supported by a global applications and service network. (Asymtek 14.02)

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4: ISRAEL MACRO-DEVELOPMENTS

4.1 IMF Praises Israel's Economic Performance

The International Monetary Fund (IMF) has released a positive report on the Israeli economy in 2007, together with projections for 2008. The Executive Board of the International Monetary Fund praised Israel's economic performance in 2007, calling it "exceptional.". "Executive Directors welcomed the Israeli economy's exceptional performance, which reflects both sound policy implementation and strong global growth," the report says. The Executive Board expresses total support for continuation of the fiscal policy of Minister of Finance Bar-On, which led to fiscal balance in 2007, and for the monetary policy of Governor of the Bank of Israel Fischer, which stabilized inflation. For 2008, the IMF Executive Board sees a GDP growth rate of just 3.5%, 2% lower than in 2007. (Globes 14.02)

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4.2 Negev Solar Power Plant Tender Soon

The government of Israel will soon publish the tender for the construction of two solar power stations at Ashelim in the Negev. The power stations will generate 250MW of electricity. The project is part of the government's plan for the production of 600MW by renewable energy sources, half by solar panels and photovoltaic cells and half by wind power. Although the government has approved the wind farm, the project has been delayed, in part by environmental groups

worried that the turbines will affect migratory birds. The Ministry of National Infrastructures says that the solar power plant tender has already generated great attention because of its size. Most such power stations in the world generate about 80MW. The ministry expects leading consortia to participate in the tender, each consisting of a financing company, a turbine and generator manufacturer, and a solar receptor manufacturer. The banking system is not quite sure how to deal with such projects, raising concerns about financing difficulties. Even before publication of the tender, it has been criticized over the Ministry of National Infrastructures' insistence that part of the power station use photovoltaic technology, which is more expensive than solar receptors. The participants in the tender will compete over the lowest price per kilowatt/hour (kw/h) that the state will pay the electricity producer. Each of the two power stations will cost \$300m to build. (Globes 11.02)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Dahabi Highlights Depth of Jordanian-US ties

Jordanian Prime Minister Dahabi underlined the depth of trade relations between Jordan and US, which date back to 1950s, noting that the first cooperation agreement was signed in 1957. Dahabi made his remarks during a speech he delivered at the US-Middle East and North Africa Trade and Investment Conference, currently being held at the Dead Sea. He added that the bilateral ties were culminated with the implementation of the Free Trade Agreement in late 2001, which was US's third free trade agreement and the first ever with an Arab state. Dahabi said that in just less than seven years, the FTA managed to shift Jordan's trade balance with the US from a deficit of \$244m to surplus of \$700m in 2007, noting that Jordan's pioneering role in signing the FTA with the US has become the subject of study in countries around the region as they seek to learn from and replicate the Jordanian success story. The Prime Minister outlined three tangible outcomes of such reform, which include privatization, initiatives such as the Aqaba Special Economic Zone (ASEZ), and third and most important is Jordan human resources. The premier concluded that a partnership that shall bring about peace and stability to a region that is so vital to the world not only due to its resources and capabilities, but also because it is strategic centre of cultures and civilization. On the other hand, US Secretary of Commerce Gutierrez expressed admiration over the developed level of Jordanian-US ties and the true partnership between the two countries, which resulted in tangible results on the grounds. (Petra11.02)

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5.2 Iraq to Review Old Russian Energy Deals

Iraq is ready to study the possibility of reviving old deals, including in the oil sector, which were signed between Russian firms and the government of Saddam Hussein. On 11 February, Russia's Finance Minister Kudrin agreed to write off most of Iraq's \$12.9b debt and signed a separate deal opening up Iraq for \$4b in investment from Russian firms, including oil major Lukoil. Lukoil hopes to revive its \$3.7b deal to develop West Qurna, one of Iraq's largest fields. Russia and Iraq will also set up a working group to study the old projects. The debt write-off became possible after Iraq agreed to sign a memorandum promising good treatment of Russian firms. The memorandum marked years of attempts by Moscow to revive Saddam-era deals since the U.S.-led invasion in 2003. Lukoil said it would be ready to start works on West Qurna within three to five years after getting all permissions from the Iraqi government. Analysts had long been skeptical about Lukoil's chances of returning to West Qurna, given the heavy U.S. influence over Iraq's government. In 2004, U.S. oil major ConocoPhillips became a strategic partner in Lukoil as it took a 20% stake and agreed to work

together with the company in Iraq in a move boosting the market sentiment about the prospects of the deal revival. Lukoil said the field can produce 600,000 bpd within a few years from its launch. Moscow had already forgiven Iraq the bulk of its debt under a deal with Paris Club group of creditors, under which Russia and other states agreed to forgive 80% of Iraq's debt following the U.S.-led invasion. The remaining \$12.9b dated back to Soviet-era supplies of military equipment. (TDN13.02)

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5.3 Gulf States Face Labor Exodus

Real estate developers have said that Persian Gulf construction markets will struggle to retain labor from Asian countries as the pressure on the US dollar continues. Asian nations, including India and China, are now offering workers competitive advantages in a bid to preserve a labor force for their own infrastructure development. The soaring value of the Indian Rupee also meant it was less attractive for workers to migrate to the Gulf where the Dirham was falling. A decreasing labor pool would have an enormous impact on the local construction market, forcing contractors to focus on managing their labor force more efficiently. Contractors will need to ensure their long-term sustainability by offering them a career path, good wages and living conditions. Developers would then begin to gravitate toward the contractors that could manage their labor force efficiently and deliver their projects on time. (AB12.02)

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5.4 Soaring Gulf Growth Not Sustainable, Warns UAE Minister

The soaring growth in the Gulf real estate and construction sectors may not be sustainable in the wake of a global market slowdown, Sheikha Lubna Al Qasimi, UAE Minister of Economy, said on 11 February. She added that the Gulf markets needed to closely monitor global issues to address risks posed by a lack of liquidity. Sheikha Lubna said major projects worth \$1.6 trillion are currently being implemented across the Gulf, a increase of more than a third from 2007, and questioned whether the huge market growth was sustainable in view of the imminent liquidity slowdown. The industries needed to identify global issues that could negatively affect their growth sustainability and continuity, including the availability of raw materials and labor, she said. Despite the warning on sustainability of the UAE's new projects, Sheikha Lubna said huge growth is predicted within the region's real estate and construction markets. The real estate and construction sectors are the UAE's leading economic drivers and are predicted to deliver compound annual growth rates of 24.4% and 29.6% by 2010 respectively, she said. The sectors are also anticipated to combine to contribute around 23% of the country's economic value by 2010, compared to 16% in 2006, while construction contributed over 40b dirhams to Abu Dhabi's GDP in 2007 and is expected to generate 1 trillion dirham over the long term. A landmark UAE property law introduced in 2002 allowing overseas investor to purchase property in Dubai had seen the real estate and construction industry exceed growth expectations for the past five years, she said. (AB12.02)

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5.5 Qatar Inflation Hovers Below 14%

Inflation in Qatar rose slightly to 13.74% at the end of December, its second-fastest pace on record, as rents and food prices surged in the Gulf state that is adopting price controls to curb price rises. Inflation across the Middle East, the world's top oil-exporting region, has been rising mainly because of surging demand for housing and office space as the economy has expanded, spurred by a near five-fold increase in oil prices since 2002. Rents and utility costs, which comprise one category in the Qatar index, rose 27.7% in the fourth quarter, compared with 28.8% in the previous three months, according to data from the General Secretariat for Development Planning. Food, beverage and tobacco costs in Qatar, which pegs its riyal currency to the dollar, climbed 10.5%, accelerating from 6.59% in the previous quarter, the data showed. The general index was at 159.34 points at the end of December, compared with 140.09 points a year earlier - its second-fastest pace of growth on record, the data showed. Inflation in Qatar was 13.73% at the end of September. Inflation in Qatar, holder of the world's third-largest natural gas reserves, hit a record 14.81% at the end of March last year. Like most other Gulf states, Qatar's dollar peg forces it to track US monetary policy at a time when the Federal Reserve is cutting interest rates to help the US economy ward off recession. Qatar gets about 50% of its imports from the eurozone, according to Calyon Credit Agricole, raising import costs as the dollar slid to record lows versus the euro and a basket of major currencies in the fourth quarter. The oil producer is considering introducing subsidies on some commodities, Al-Sharq newspaper quoted the prime minister as saying last week, without giving details. (Various16.02)

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5.6 UAE Steel Production To Double by 2010

Steel production in the United Arab Emirates will double to 10 million tons per year by 2010 as the second-largest Arab economy reduces its reliance on oil, the Gulf state's economy minister said. The real estate and construction sector in the world's fifth-largest oil exporter would contribute 23% to the economy in two years, up from 16% in 2006. Steel producers are banking on demand from the construction industry across the world's biggest oil-exporting region, where more than \$1 trillion worth of infrastructure projects are in the pipeline. Production of steel would double from 5 million tons last year. State-owned Abu Dhabi Basic Industries Corp (Abdic) said this month it would invest \$6.5b to build a plastics factory and expand a steel plant. Abu Dhabi's Al-Ghurair Iron and Steel plant was also set to start its first line in March. The UAE's \$163b economy grew 9.4% in real terms in 2006. (Various11.02)

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5.7 UAE 'Green City' To Cost \$22 Billion

State-controlled Abu Dhabi Future Energy (Masdar) said it would cost \$22b to develop a "no-carbon" urban district it is planning in the UAE. The district, Masdar City, on the edge of the city of Abu Dhabi, will eventually be home to 50,000 people and 1,500 businesses. No cars will be allowed. Abu Dhabi, capital of the world's fifth-largest oil exporter, will invest \$4b of equity in the project, and borrow some of the rest. Licenses to emit the carbon that Masdar City does not produce will be sold and the money used to help fund development. In January, the Abu Dhabi government said it planned to invest \$15b in its Masdar Initiative, which includes building the world's largest hydrogen power plant. Masdar City will be built in seven phases, and include educational and research institutes, laboratories and production facilities for new advanced energy products. The district will need a quarter of the typical power-generating capacity for a similar-sized community. Its water needs will be 60% lower. (Reuters11.02)

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5.8 Oman's GDP Grows 8.3% in 2007's First Three Quarters

Oman's economy grew 8.3% at current prices in the first nine months of 2007 driven by expansion in services and non-oil industries, government data showed. Gross Domestic Product in the nine months ending September 30 was \$28.58b, compared with \$26.39b a year earlier, the Ministry of National Economy said. Growth in the first nine months was mainly due to a 19.4% gain in the contribution of services to 4.44b rials. Wholesale and retail trade -- the largest component of that category -- grew 29.3%. The value of non-oil sector output rose 17.3% to 6.03b rials as manufacturing grew 9.4% and construction 22.8%, the data showed. The value of petroleum sector output eased slightly by 0.2% to 5.16b rials. Oman's economy expanded 7.2% in real terms in 2006, its second-fastest pace this decade. Economic growth would ease to 5% this year from between 7 and 8% in 2007, Oman's central bank governor said last week. (Various11.02)

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5.9 Oman Announces New Oil & Gas Discoveries

New discoveries of oil and natural gas - oil at the Budour Northeast field in the Birba area of south Oman and gas in the Saih Nihayda field - were announced by Oman on 11 February. Petroleum Development Oman (PDO) said it had found "significant new volumes" of oil at the Budour Northeast oil field, which was itself discovered only last year. In addition, the company may also have found a significant volume of oil in a rock formation at the Rabab-Southeast field, also near Birba. The new discovery at the Budour Northeast field was revealed by Buduor NE-2, a well drilled in 2007 to follow up the field's original discovery well, Budour NE-1. It consists of a reservoir lying below the one tapped by the Budour NE-1. When tested, Budour NE-2 produced as much as 5,800bpd. The oil at Rabab-Southeast was discovered by an exploration well, which is still being tested. The results of the well test still remain to be evaluated. The newly discovered field - Simr - is located about 20 kilometers north of the existing Saih Nihayda gas field, where PDO operates one of its four gas processing plants on behalf of the Government of Oman. (KT12.02)

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5.10 Food Prices Push Oman inflation to 16-Year Peak

Oman inflation accelerated for a seventh straight month to a 16-year high of 8.29% in December as the weaker dollar-pegged rial drove up food costs, raising pressure on the central bank to fight rising prices. Food, beverage and tobacco costs - which account for almost a third of the consumer price index - surged 14.4%, the ministry of national economy said in a statement. Food costs had risen 12.6% in November. Like other Gulf states, except Kuwait, Oman's dollar peg forces it to track US monetary policy at a time when the Federal Reserve is slashing interest rates to ward off recession. In contrast, Gulf economies are surging on a quadrupling of oil prices during the last six years, fuelling inflation. A weaker Omani rial contributes to about a fifth of domestic inflation. The US dollar hit record lows against the euro and a basket of major currencies in November. It has recovered slightly since, but still remains about 10% lower than it was

this time 12 months ago. In 2006, only 5.2% of Oman's imports were from the United States, while 17.3% were from Japan, 5.1% from Germany, 5.3% from India and 3.4% from Britain. Rents, which account for about 15% of the index, rose 11.1% in the economy of almost \$36b - steady against the rate of increase in November. Oman has ruled out revaluing its currency or dropping its peg to the dollar any time soon because the weaker rial helps attract foreign investment and encourage exports. (Various11.02)

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5.11 Saudi Supports Expat Residency Cap

On 12 February, Saudi Arabia's labor minister Al-Gosaibi called for a residency limit to be imposed on millions of foreign workers in the Gulf to prevent them from gaining a political voice in the region. He does not want to be forced to allow the (foreign) workers to be represented in parliament or on municipal councils. He said he feared that international pressure would in the future force states in the region to enfranchise expatriate workers. Foreign workers make up about 13 million, or 37% of the 35 million population in the six GCC states. They come mainly from the Asian sub-continent and are relied upon heavily to drive the booming economies of the oil-rich bloc. Gosaibi did not specify how long expatriate workers should be allowed to work in the GCC. Bahrain's Labor Minister Al-Alawi proposed a six-year residency cap last October, fearing expatriate workers were eroding the national character of states in the Gulf. The plan was initially backed by the six GCC member states, but officials admitted in January it could be shelved after it sparked outrage among expatriate communities, and was widely criticized by businesses already struggling to retain staff. (AB12.02)

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6: TURKISH, CYPRIOT & GREEK DEVELOPMENTS:

6.1 Turkey's GDP Likely to Exceed \$500 Billion

Turkey's gross domestic product (GDP) will exceed \$500b for the first time if the growth rate in the last quarter of 2007 exceeds 2.6%. Turkey's GDP will reach \$469.9b even if the last-quarter growth stands at 0%, according to calculations based on the 2008 government program and the data of the Turkish Statistical Institute (TUIK). The GDP was expected to be \$489.4b under this program. However, the GDP should reach \$500b as the consumer price index (CPI) for 2007 exceeded expectations at 8.9%, leading to very high deflation when compared to the government program and the value of the dollar that remained below expectations. It was predicted in the program that the year-end CIP inflation would be 6.5%. The average dollar price for 2007, which was expected to be YTL 1.323, turned out to be YTL 1.3008. The GDP will exceed \$500b should last-quarter growth be over 2.6%. The GDP's growth rate stood at 3.8% in the first three quarters. But the 1.5% GDP growth in the third quarter drew particular attention. Should the growth rate of the first three quarters (January-September) be the same in the fourth quarter (October-December), Turkey's GDP will reach \$501.5b with the help of increasing inflation. Per capita GDP, which was expected to be \$6,625, will reach \$7,139 because of the population rate, which turned out to be below expectations. Even with 1% growth in the last quarter, per capita GDP will reach \$7,075. (TDN11.02)

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6.2 Turkey's First Nuclear Plant To Be Established In Mersin

First nuclear power plant in Turkey will be established in Akkuyu area in Mersin. Energy Minister Guler stated that the nuclear plant will respect to environmental protection and safety. The Akkuyu site has several advantages. The first is its sea communications to bring in heavy machinery. The second is its proximity to centers of electricity consumption such as Adana, Konya, Antalya and Mersin. Min. Gular stated that the bidding for the plant was on 21 February, but the bidding date could be extended one or two days. The authorization for construction of the nuclear plant in Sinop will be granted next year. Turkey will establish three power plants that is intended to produce 5,000MW at first stage. (BGC13.02)

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6.3 S&P Says Cyprus Election Has No Immediate Effect On Sovereign Ratings

On 19 February, Standard & Poor's Ratings Services (<http://www2.standardandpoors.com>) said that the results of the first round of the presidential election in Cyprus this weekend have no immediate effect on the sovereign ratings on the Republic of Cyprus (A/Positive/A-1). The defeat of Cyprus' President Tassos Papadopoulos in the first round of voting does, however, have a consequence for the reconciliation talks between the Greek and Turkish Cypriot communities, which is positive for longer term development on the island. Unlike Mr. Papadopoulos, who led the rejection of the Annan Plan in 2004, both Demetris Christofias, leader of the Communist Party (AKEL) and Ioannis Cassoulides, running as an independent but backed by the DISY party, have campaigned on the platform of resuming talks with representatives of the Turkish-occupied part of the island as soon as possible. This, however, far from guarantees that any agreement will be reached. Regardless of which candidate wins the election, significant work will still have to be done before any concrete resolutions are reached, especially on issues such as property ownership and Turkish settlers. In the medium to long term, if an agreement is reached, integration costs, although expected to be significant given the infrastructure needs and the lower prosperity in the Turkish-occupied part of the island, should not strain the Cypriot fiscal performance to a great extent as EU funds are likely to play a significant role in this process. Positive consequences are likely to include lower defense spending and further emphasis in political discussion on the structural challenges faced by Cyprus. (S&P19.02)

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6.4 Greece's November Unemployment Rate Matches Record Low

Greece's unemployment rate dropped for a second straight month in November to 7.6%, matching the lowest monthly rate since comparable records began in 2004. A total of 373,410 people were registered as jobless in the month, compared with 446,936, or 9.1%, in November 2006, the National Statistics Service said on 11 February, without giving additional details. The jobless rate is not adjusted for seasonal factors. The Greek economy is in its 14th consecutive year of expansion, experiencing its longest period of growth since the 1960s. That has created about

630,000 jobs in the country of 11m people in the last decade, reducing unemployment by more than 4%. According to quarterly data published on December 19, unemployment fell to a nine-year low of 7.9% in three months through September. (Bloomberg11.02)

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7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Israeli Mathematician Solves 38-Year-Old Math Problem

Prof. Avraham Trahtman of Bar Ilan University has solved an internationally famous math problem known as the Road Coloring Conjecture. Prof. Trahtman, 63, immigrated to Israel from the former Soviet Union some 15 years ago. He worked at first as a security guard and in house cleaning, and later took his rightful place as a staff member on the Mathematics Faculty at Bar Ilan University in Ramat Gan. The math problem solved by Prof. Trahtman, a resident of southern Jerusalem, is known as the Road Coloring Conjecture. Its basic format is essentially unintelligible to non-mathematicians, but can be roughly translated into real life by asking: "Is there a map of one-way streets, all colored in one of two colors, for which a set of directions to a certain point can be given that would be correct no matter where one started?" The problem was originally presented in 1970 by Israeli mathematician Binyamin Weiss and two colleagues. It evoked noticeable interest among specialists in graph theory, deterministic automata and symbolic dynamics, though remained unsolved - until Prof. Trahtman proposed his solution this past September. Its publication in The Israeli Journal of Mathematics caused a stir in the mathematical world, and "has brought great pride to our university and the State of Israel," said Bar Ilan President Prof. Moshe Kaveh. (INN08.02)

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*REGIONAL:

7.2 Kuwaiti Women Demand Nationality Rights

A Kuwaiti women's advocate group has launched a regional campaign to fight for automatic nationality to be passed to children in GCC and Arab countries. The Women's Cultural Social Society (WCSS) said at a forum recently the group had started a campaign in most countries where the nationality right issue occurred. It was unclear whether the WCSS has included the UAE in the campaign, although children of a UAE national woman and a non-national father are not automatically entitled to citizenship. Without nationality, access to healthcare, housing, education and employment are restricted for children, the newspaper said. According to Kuwait's nationality law, children of a Kuwait woman and a non-Kuwait man do not receive citizenship, although children of a Kuwait man and a non-Kuwait woman are automatically

granted citizenship. The WCSS said the group has been demanding the rights of children of Kuwaiti women married to non-Kuwaitis since the mid 1990s. The Kuwaiti Nationality Law no.15 was issued in 1959 and if it were amended problems of discrimination between Kuwaiti men and women would be solved. A previous form of the law saw Kuwaiti women receive a house, but this right was removed in the 1990s. Women won the right to vote and run for office in Kuwait in 2005. Kuwait's only woman cabinet minister Nouriya Al-Subaih survived a no-confidence vote in parliament in January, after being accused of legal and administrative irregularities. Al-Subaih's female cabinet colleague, Massouma Al-Mubarak, stepped down as health minister in August due to pressure from Islamist colleagues. According to a 2007 UN development report, Kuwait women face legal inequality in personal status laws, including discrimination in court proceedings, divorce and inheritance decisions. (AN06.02)

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7.3 UAE's Plate '1' Smashes World Record At \$14.5 Million

An Emirati businessman broke all records for the world's most expensive number plate on 16 February, paying \$14.5m for plate number '1' at an Abu Dhabi auction. Saeed Abdul Ghaffar Khouri more than doubled the current record held by Talal Ali Mohammed Khouri who paid 25.2m dirhams for plate number '5' in May 2000, also paying 11m dirhams for the number '7' plate. The previous record-holder had earlier said he was willing to splash out \$15 - \$20m to get his hands on the coveted number '1' plate. The auction, on behalf of Abu Dhabi police, generated a record 89m dirhams from the sale of 90 plates, including numbers 96, 100, 212, 1111, 2001 and 31313. The UAE now holds the seven most expensive plates in the world. Five previous auctions raised \$56m from the sale of 393 plates. Proceeds from the auction will go towards building a national rehabilitation centre for traffic accident victims - the first of its kind in the UAE. (Various17.02)

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7.4 Saudi Bans Red Roses For Valentines

Saudi Arabia's religious police banned red roses for 14 February's Valentine's Day, pushing up the black market prices for the red flowers. Mutawwa, the Commission for the Promotion of Virtue and Prevention of Vice, ordered florists and gift shop owners in the capital Riyadh to remove any items colored scarlet, widely associated with romantic love. Black market prices for roses have been already rising because of the ban. The ban has been regularly enforced in recent years. Saudi authorities consider Valentine's Day as un-Islamic, primarily for encouraging relations between men and women outside wedlock, an act punishable by law in the conservative kingdom. Valentine's Day has been associated with romantic love since being linked by author Geoffrey Chaucer in 12th-century England, but celebration of the event has expanded globally due to the introduction of the Valentine greeting card in the US in the 19th century. According to Saudi citizens, the kingdom's ban on roses appears to exclusively relate to the sale of flowers by florists and shop owners, and not wholesale flower sales to be used in the production of perfume in the kingdom. How the ban relates to married couples in Saudi Arabia, Muslims or otherwise, giving each other roses or to the placement of flowers on Muslim graves in the kingdom, has not been elaborated by authorities. The Saudi Gazette reported that some people placed orders with florists days or weeks before Valentine's Day in anticipation of the ban. Some citizens said they were planning to travel to other Gulf states like Bahrain or the UAE, to celebrate the event, the newspaper reported. The ban on the sale and display of red flowers or scarlet displays was lifted after 14 February. (AB13.02)

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7.5 Turkish Lawmakers Lift Headscarf Ban

On 9 February, Turkey's parliament voted to lift a ban on Islamic headscarves at universities, handing a major victory to the Islamist-rooted ruling party and defying secularist objections to the move. The constitutional reform package tabled by the ruling Justice and Development Party (AKP) received 411 'yes' votes in the 550-seat house. The new legislation, which was backed by the opposition Nationalist Action Party, needed 367 votes to pass. As parliament was voting, tens of thousands of people, waving Turkish flags and pictures of modern Turkey's founder Mustafa Kemal Ataturk, packed a square in downtown Ankara to voice their opposition. Secularists - among them the army, the judiciary and academics - see the headscarf as a symbol of defiance against the strict separation of state and religion, a basic tenet of the mainly Muslim country. The AKP says the headscarf ban - imposed after the 1980 military coup - is a violation of the freedom of conscience and the right to education. The package amends the constitution to read that the state will treat everyone equally when it provides services such as university courses and that no one can be barred from education for reasons not clearly laid down by law, an allusion to young women who wear headscarves. It now needs to be approved by President Gul, a former AKP member who has yet to veto any law put forward by the government. But the controversy is far from over as the Republican People's Party (CHP), Turkey's strictly secular main opposition, has threatened to challenge the reform at the constitutional court. The ban, upheld by the country's highest courts, has been implemented at varying degrees over the years, forcing many women to abandon their education and others to hide their headscarves under wigs to attend classes. The secular camp says easing the restriction in universities will put pressure on women to cover up and pave the way for the lifting of a similar ban in high schools and government offices. Leading academics have warned there could be clashes on campuses and a boycott of classes by some female academics. (AFP09.02)

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7.6 Cyprus Election Raising Hopes of Peace Deal

Hardline Cypriot President Tassos Papadopoulos' electoral defeat on 17 February raised prospects of an end to a schism with ethnic Turks that has at times brought NATO partners Greece and Turkey to the brink of war. Papadopoulos, 74, was unexpectedly voted out in a first round of polling, opening the 24 February runoff to two candidates seeking swift resumption of reunification talks, a move that could help European Union aspirant Turkey's relations with Brussels. Kasoulides led the voting with 33.5%, while Christofias got 33.3%. Papadopoulos came in third with 31.8%. Relations between Greece and Turkey have eased in the last decade, but Cyprus remains a raw wound for Greece and Turkey as well as EU member Cyprus itself. Nicosia, recognized by the EU as sole sovereign power over the island, is unlikely to promote Turkish membership talks without reunification in some form. Both right-winger Kassoulides, 59, and communist party leader Christofias, 62, pledge a more conciliatory approach towards Turkish Cypriots in the northern third of the east Mediterranean island and have said they will pursue meetings with its leadership if elected. The last peace effort collapsed in 2004 when Papadopoulos, elected a year earlier, led the Greek Cypriot rejection of a United Nations blueprint for reunification. Christofias and the communist coalition partner AKEL had rejected the plan then, and Kassoulides' Democratic Rally party had supported it.

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8: ISRAEL LIFE SCIENCE NEWS

8.1 Kamada Starts Phase II for Aerosolized Form of AAT for Bronchiectasis Treatment

Kamada announced that the company will soon start phase II clinical trials with the inhaled version of its Alpha-1 Antitrypsin (AAT) product to treat Bronchiectasis, a lung disease that results in the distortion of one or more of the conducting bronchi or airways, most often secondary to an infectious process. Kamada's inhaled AAT has been designated an Orphan Drug for the treatment of CF and AAT Deficiency, in both Europe and the U.S. This designation grants Kamada various benefits such as research fund support, tax incentives, reduced official fees and seven to 12 years of exclusive distribution rights, if the company's product is first on the market. Ness Ziona, Israel's Kamada (<http://www.kamada.com>) is a public biopharmaceutical company developing, producing and marketing a line of specialty life-saving therapeutics using its proprietary chromatographic purification technologies. Licensed and marketed in more than 15 countries, several of these specialty therapeutics hold registered and pending patents and are currently in advanced clinical trials. (Kamada11.02)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 Viaccess & Discretix Deliver A Fully Interoperable Mobile TV Solution

Viaccess, the European leader in conditional access, and Discretix announced an end-to-end mobile TV security solution, based on the OMA BCAST SmartCard Profile standard. The joint offering ensures full interoperability between the Viaccess purple-TV conditional access system and the Discretix Multi-Scheme Mobile TV Security client. The OMA BCAST Smartcard Profile protects Mobile TV services via the use of a Subscriber Identity Module (SIM) card. The cooperation will increase the availability of handsets and advanced multimedia services, by reducing development costs and time-to-market for handset manufacturers. The alliance will further promote the availability of standards-based mobile TV solutions eliminating the cost and complexity created by a multitude of proprietary solutions integrated into the mobile handsets. The Discretix Multi-Scheme Mobile TV Security Client secures the distribution and consumption of mobile TV broadcasts, enabling a broad range of business models. The Client provides an implementation of mobile TV schemes in use today with an easy migration path to add new schemes as they emerge. Kfar Netter, Israel's Discretix's (<http://www.discretix.com>) security solutions are deployed in mobile and flash memory devices, enabling the commercial distribution of premium services and applications while protecting the device and its contents. Discretix's products include embedded security co-processors and a broad range of software security applications. The solutions are tightly integrated into the device, enhancing security without compromising the user experience. Discretix, a privately-owned company, serves the needs of some of the world's best-known semiconductor and device manufacturers and has been consistently ranked among the leaders of the embedded security market. (Discretix11.02)

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9.2 Shunra VE Desktop Standard v4.0 Delivers Advanced Network Emulation

Shunra announced the release of version 4.0 of its single-user desktop application testing tool, Shunra VE Desktop Standard. A component of the award-winning Shunra VE suite of WAN emulation solutions, Shunra VE Desktop Standard 4.0 emulates a wide area network link, enabling users to test application performance under a variety of existing and potential network conditions, directly from the desktop. Feedback on the end-user experience is provided immediately, enabling development and Quality Assurance groups to produce "network-aware" applications that perform as expected. The most recent release can be easily downloaded and installed, providing value that can be recognized within minutes. Users have the ability to easily test code over real-world network conditions that are proven to impact application performance, such as latency, packet loss and bandwidth. Shunra VE Desktop Standard's network emulation technology automatically transforms the local network into a virtual WAN link. This makes the application or code you are testing behave as if it were being used by a remote end-user, under the network conditions you specified. As a result, you immediately "see and feel" exactly how your application will perform in the real world. The Windows-based application is extremely easy to use, especially for those with limited network knowledge, making it simple for development and QA teams to accurately test network conditions' impact on applications.

Shunra Virtual Enterprise is the market leader in WAN emulation solutions for application performance testing throughout the entire application development lifecycle. Shunra's award-winning solutions enable development, quality assurance, pre-deployment and operations teams to create an exact replica of their production environment or design what-if network scenarios. Shunra's (<http://www.shunra.com>) headquarters are in Philadelphia, Pennsylvania and the R&D center is in Kfar Saba Israel. (Shunra11.02)

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9.3 Elbit Subsidiary Kollsman, Awarded \$26.5 Million Contract for Laser Spot Imagers by USMC

Elbit Systems announced that its U.S. subsidiary, Kollsman, an Elbit Systems of America company, was awarded a \$26.5m delivery order under a previous Indefinite-Delivery/Indefinite-Quantity (ID/IQ) contract for Thermal Laser Spot Imagers (TLSI) with accessories and logistic support from the U.S. Marine Corps (USMC) Systems Command, based in Quantico, Virginia. The TLSI to be provided, developed jointly with its sister company Elbit Systems Electro-Optics Elop, is an enhanced version of the company's AN/PAS-22 Long Range Thermal Imager (LRTI), augmented by incorporation of a Laser Spot Tracker (LST). The LRTI is a portable, binocular, hand-held, battery-operated thermal imager, used for long-range observation, and is currently in service with the USMC. TLSI will be used to identify a laser spot that has been placed on a target as a guidance aid which allows the laser spot to be seen in day or night and in adverse weather. The TLSI works in conjunction with the company's Portable Laser Designator Ranger (PLDR) which is also being supplied to the USMC. Haifa, Israel's Elbit Systems (<http://www.elbit.co.il>) is an international defense electronics company engaged in a wide range of defense-related programs throughout the world. The Elbit Systems Group, which includes the company and its subsidiaries, operates in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence surveillance and reconnaissance, unmanned air vehicle (UAV) systems, advanced electro-optics, electro-optic space systems, EW suites, airborne warning systems, ELINT systems, data links and military communications systems and radios. (Elbit11.02)

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9.4 India's Tatanet Selects Gilat Broadband Satellite Network to Serve SME Market

Gilat Satellite Networks has been chosen by Tatanet, one of India's leading satellite service providers, to deliver a broadband satellite network that will serve the Small & Medium Enterprise (SME) and industry vertical market segments in India. The new SkyEdge network, which will comprise two satellite hub stations and up to 13,000 VSATs, will enable the delivery of cost-effective and reliable broadband communications to India's rapidly growing industrial economy. These applications include high-speed Internet access and corporate data and video communications. Gilat has received an initial order for 3,500 VSATs under the new agreement. Tatanet has been a Gilat customer since 2005 and already serves thousands of corporate and enterprise sites across the country through its existing SkyEdge network. SkyEdge is a satellite communications system that delivers high-quality voice, broadband data and video services over a powerful unified system. SkyEdge represents Gilat's extensive knowledge base and field-proven product offering, acquired through two decades of experience. SkyEdge's flexible architecture and efficient space segment utilization make it an ideal platform for operators and service providers. Petah Tikva, Israel's Gilat Satellite Networks (<http://www.gilat.com>) is a leading provider of products and services for satellite-based communications networks. (Gilat 10.02)

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9.5 modu Announces Widespread Industry Support for the World's First Modular Mobile Phone

modu announced widespread support for its innovative and disruptive modular mobile phone concept from leading players across the consumer electronics, content, mobile and technology spectrums. Among the blue chip companies pledging their support to modu are mobile network operators Telecom Italia, Bee-Line (VimpelCom) of Russia and Cellcom of Israel, consumer electronics manufacturers SanDisk, Blaupunkt and Magellan Navigation Inc. and the world's largest music company Universal Music Group. modu has developed the world's first modular mobile phone, supported by a variety of ecosystem partners. At the heart of the ecosystem is modu - a tiny, sleek and sophisticated mobile phone. modu can be slipped into a wide variety of modu jackets - stylishly designed phone enclosures and modu mates - modu-enabled consumer electronic products. modu's ecosystem offers boundless possibilities in a simple and affordable way. Lifestyle, entertainment and fashion brands are partnering with modu to design stylish and customized modu jackets that reflect the consumer's mood, personality, tastes and need for functionality. modu mates can function as standalone devices, so that when the modu is inserted into the device, the modu mate gains mobile connectivity (voice & data) and a variety of features, creating an exciting new experience for the consumer.

Kfar Saba, Israel's modu (<http://www.modumobile.com>) seeks to bring a fundamental change to the dynamics of the mobile phone industry. The company is dedicated to developing products, technologies, a wide ecosystem and business relationships that will help realize that ambition. modu gives users the freedom to choose a new phone as often as they like, meeting their changing needs, preferences and style- easily and affordably. (modu12.02)

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9.6 InRob Unveils Remote Controlled Target Practice System

InRob Tech announced an upgrade to its remote controlled target practice system. The system operates on a railway

car fitted with a target and operated by wireless remote control. The operator, who can be sitting several kilometers away, can easily move the target using a keyboard or joystick. This system is designed to add greater realism to live-fire moving target practice which is an important element in combat training for tanks, missiles, and other weapon systems. InRob (<http://www.inrobtech.com>) is a Yavne, Israel based high-tech company specializing in the planning, manufacturing and service support of advanced wireless and remote control systems, operating all types of robots and other vehicles. The Company is Israel's leader in its field, and supports the IDF (Israeli Defense Forces), Israeli police, and other military and civilian companies dealing with security. Founded in 1988, the Company works closely with other high-tech companies to provide the most advanced and comprehensive UGV solutions on the market. (InRob 14.02)

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9.7 MTI Wireless Edge Announces New Low Cost Semi Parabolic Grid Antenna

MTI's new Low Cost 5.15-6.0GHz 29dBi Semi Parabolic Grid Antenna is a suitable solution for Point-to-Point (PtP) radio links as well as for remote Point-to-Multipoint (PtMP) and WiMAX subscriber end. This antenna's very light weight and very low wind resistance make it ideally suited for installation on any tower type structure. The installer friendly mounting kit allows for simple installation and easy pointing of the antenna with short installation time. Unlike some other similar product in the market, the MTI antenna is completely weather and environment proof with UV, rust and salt atmosphere protected to provide an extended outdoor operational life time under extreme weather and environmental conditions. The new antenna is planed according to the 35 years' legacy of MTI of bringing high quality along with low cost. For this reason the new grid antenna is high quality die cast as well as very light weight. Tel Aviv, Israel's MTI Wireless Edge (<http://www.mtiwe.com>) is a world leader in the development and production of high quality, low cost, flat panel antennas for WiMAX, Fixed Wireless and RFID applications. MTI has more than 35 years' experience in supplying antennas for both military and commercial applications from 100 KHz to 40 GHz. MTI flat panel antenna range includes base station, subscriber and omni-directional antennas for all broad and narrow band WiMAX and fixed wireless applications in both licensed and unlicensed bands. (MTI18.02)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Israel's CPI Remains Unchanged for January

Israel's consumer price index remained unchanged at 102.5 in January. While the January price index was 0%, for the past 12 months the CPI has risen 3.5%. According to the Central Bureau of Statistics, inflation over the past twelve months reached 3.5%, higher than the target range of 1%-3%. The January CPI index, net of the housing component, rose 0.3%. According to the figures from the CBS, there were increases in prices in January for fruits and vegetables, food, communications and health services, furniture and home furnishings. These were offset by drops in prices for housing, clothing and shoes, and transportation. Without housing prices, the January CPI would have risen 6.6%. Over the previous 12 months, the CPI net of the housing component rose 4.1%. Other major factors in the January CPI included food prices, up 1.2%. Rice rose, in particular, by 8.5% and noodles 8.1%. Over the past 12 months, food prices are up 7.3%, well above the overall CPI. Fruits and vegetables rose in January due to the harsh weather, and were up 7.2%. Fresh vegetables were 14.1% more expensive, much more than fresh fruits' 4.8% increase. Over the past 12 months, fruit and vegetable prices have gone up 9.7%. (CBS15.02)

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10.2 Israel's Tourist Entries Set Record Pace

The Central Bureau of Statistics announced on 19 February that 182,000 tourists visited Israel in January 2008, 57% more than in the corresponding month in 2007 and 7% more than in January 2000, the previous record high. Some 121,000 tourists arrived by air, 27% higher than in the corresponding period in 2007, of which 2,400 took direct flights to Eilat. There were 31,000 day trippers mainly from Russia, Ukraine and Poland, who entered Israel through the border crossing at Taba and from Jordan, a fivefold increase over January 2007. The Ministry of Tourism has set a target of 2.8 million tourists for 2008, against 2.1 million in 2007. This target has not been changed for the time being, although sources in the tourism sector fear that the economic crisis in the US could reduce the number of tourists from this country over the year. The Tourism Ministry intends to tackle this by stepping up its marketing campaigns in countries across Europe. The CBS also published figures on Israeli tourism. There were 233,000 departures by 203,000 persons in January, of whom 185,000 made one trip and 18,000 made two or more trips. (CBS19.02)

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11: IN DEPTH

11.1 ISRAEL: Fitch Upgrades Israel To 'A'; Outlook Stable

On 11 February, Fitch Ratings (<http://www.fitchratings.com>) upgraded the State of Israel's foreign currency Issuer Default rating ("IDR") to 'A' from 'A-' (A minus) and the local currency IDR to 'A+' from 'A'. Following the upgrade, the Outlooks on both ratings are now Stable. The Country Ceiling is also upgraded to 'AA-' (AA minus) from 'A+'. The Short-term foreign currency IDR is affirmed at 'F1'.

"The upgrade reflects the rapid fall in the all-important ratio of public debt/GDP, which reached an all-time low of just over 80% last year," said Richard Fox, Head of Middle East and Africa Sovereign Ratings at Fitch. "Although still high, we expect further reductions in the debt ratio in the year ahead, despite likely slower economic growth due to the global slowdown."

Israel's high public debt ratio has long constrained its ratings. However, the fiscal framework put in place since the recession of 2001/2, combined with other important economic and structural reforms that have revitalized growth, has delivered a cumulative four-year fall in the debt ratio by over 20% of GDP, to reach an all time low of just over 80% last year. The headline 'state' budget deficit was in virtual balance in 2007, also for the first time ever. Although the debt ratio remains high relative to rated peers in the 'A' category, it is no longer the highest in what is a wide range, spanning Estonia's 3% of GDP and Greece's 94%. Fitch continues to believe that Israel needs a lower debt ratio than its peers

due to its vulnerability to security shocks. However, the agency also gives weight to several mitigating factors. Almost a quarter of the debt represents non-tradable debt issued to pension funds in successive reforms that have left Israel's unfunded pension liabilities amongst the lowest of OECD countries, which the country will soon join. As regards the external debt, almost half attracts a US government guarantee and a further third is held as State of Israel Bonds by the Jewish Diaspora, demand from which has always increased at times of stress.

GDP has grown by 5.25% in each of the past four years, responding to structural reforms introduced by successive administrations since 2003. Growth will likely slow this year, however, in response to the global slowdown. The severity of the slowdown remains to be seen but Fitch takes comfort from the fact that even assuming Israeli growth of only 3.5% - which is at the bottom of the range of available forecasts - the debt ratio continues to fall and the overall general government deficit remains contained. A cap on real government spending growth has been instrumental in the marked fiscal consolidation seen over the past four years. A debate is now ongoing over possible revisions to fiscal rules. Fitch understands the aim is to preserve hard-won, but still relatively short-lived, fiscal credibility and preserve operational simplicity and effectiveness while making room for necessary public spending. Israel's general government spending is nearing the OECD average, despite higher-than-average military and interest spending. More prominence may also be given to the debt ratio, which Fitch would encourage. While keenly interested in the outcome of the debate, Fitch does not expect it to have a major impact on the positive debt dynamics now established. Rating upside hinges on Israel reducing the debt ratio closer to the 50% average for countries with similar income per capita income and the 30% median for 'A' rated peers.

Other indicators have long supported Israel's ratings. These include a per capita income that is well ahead of the 'A' median and exceeds many countries in the 'AA' category. World Bank governance indicators are also solidly in the 'A' category range and the net external creditor and current account positions are well ahead of 'A' and even 'AA' medians.

The other main constraint on the ratings is security threats which, as demonstrated in 2001-2, have the potential to derail the economy. On the other hand, the security fence has reduced terrorism and the economy has grown strongly despite the disruption caused by the Lebanon war and the regular missile attacks from Gaza. Although threats remain, US political, financial and military support provides important mitigation. (Fitch Ratings11.02)

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11.2 ISRAEL: IMF Executive Board Concludes 2007 Article IV Consultation with Israel

On February 13, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Israel.

Background

The economy is entering the global slowdown with significant momentum. Notwithstanding the war in the north during 2006, real GDP growth averaged about 5% during 2006-07. Buoyant world trade propelled exports and investment, fostering strong employment growth - which was also supported by welfare reform - and private consumption.

Inflation undershot the 1-3% target in 2006 and in the first half of 2007, largely reflecting shekel appreciation against the U.S. dollar, but rose in the second half of the year. In December 2007, prices stood 3.4% above the end-2006 level. The Bank of Israel (BoI) responded to the earlier declining price pressure by cutting the policy rate from a peak of 5.5% in October 2006 to 3.5% by June 2007. With inflation reaccelerating and unemployment falling and the output gap closing, the BoI changed course in August 2007, raising rates in three steps, to 4.25% by January 2008.

Fiscal outturns have been much stronger than budgeted over the past couple of years because of higher-than-projected tax revenue and public expenditure restraint. As a result, the central government deficit has been kept well below the 3% of GDP deficit ceiling, falling to 1% of GDP in 2006 and reaching balance in 2007. Nonetheless, public debt remains high at just over 80% of GDP. For 2008-09, the central government deficit ceilings are 1.6% and 1.0% of GDP, respectively.

Indicators for the financial soundness of corporations and households have generally been improving but the global financial turmoil has caused some increase in risk premia. There have been losses on mortgage-related US assets but the effect on bank profitability and capital has been small thus far. Nor have banks been experiencing funding pressures. Concurrently, credit default swap (CDS) spreads on government bonds are up from unusually-low pre-crisis levels; and spreads between the returns on corporate and government bonds have widened, testifying to a general increase in risk premia.

Looking ahead, slowing demand from Israel's export partner countries is projected to reduce output growth in 2008 to around 3%, with broadly balanced risks. The ongoing shift from external to domestic sources of economic growth would further reduce the external current account surplus.

Executive Board Assessment

Executive Directors welcomed the Israeli economy's exceptional performance, which reflects both sound policy implementation and strong global growth. Directors observed that, while public debt has declined in recent years, its still elevated level leaves the economy vulnerable to shocks, and debt reduction remains a priority. They considered that further improvements to the financial sector framework would enhance the economy's resilience. Looking forward, Directors agreed that, with the domestic preconditions for buoyant activity in place, economic growth is likely to remain strong, although external conditions are becoming less supportive.

Directors observed that, given continued solid growth and growing capacity constraints, domestic inflationary pressure would probably mount, although the recent appreciation of the shekel has lowered external inflationary pressure. They considered that, while interest rates may have to be at a higher level once external demand reaccelerates, external downside risks to activity and heightened risk premia argue for caution in raising rates over the near term.

Directors praised monetary policy for successfully stabilizing inflation expectations. They welcomed improvements in the transparency of policymaking, and encouraged the authorities to consider steps towards providing greater clarity on the role of macroeconomic forecasts in decision-making and on the monetary policy horizon. Directors recommended swift adoption of the draft Bank of Israel law, as it would strengthen the economy's institutional foundation. They agreed that

the flexible exchange rate regime is serving Israel well.

Directors welcomed the strong fiscal policy performance that brought central government accounts into balance in 2007. They viewed that, with activity projected to remain strong, the budget should be kept close to balance, to further reduce the public debt ratio and the economy's vulnerability to shocks. Accordingly, for 2008, Directors supported compliance with the 1.7% expenditure growth ceiling, tight budget execution, and the allocation of revenue over-performance to debt reduction.

Looking forward to 2009 and beyond, Directors generally welcomed the government's intention to stick with a rules-based approach to fiscal policy. A reformed rule that aims at reaching a 60% debt-to-GDP ratio by 2015 would be consistent with a debt level that is considered an upper limit in many less exposed advanced economies, and could also accommodate an increase in welfare spending. Directors agreed that debt reduction should be given precedence over tax cuts, and saw scope to simplify the relatively complex tax system, including through cutting tax exemptions.

Directors recommended enhanced fiscal transparency and governance to sustain the improved quality of policy making. Budget documentation could usefully include a multiyear scenario analysis of risks for public finance objectives, and a long-term fiscal sustainability analysis, which could help the public appreciate the importance of rapid debt reduction. Consideration could also be given to strengthening the governance of the fiscal framework by instituting independent, nonpartisan fiscal evaluation.

Directors concurred that the ambitious reforms of recent years, which foster the development of a more diversified financial system, may also raise new risks. They welcomed the improvement in financial soundness indicators, as well as ongoing work to adapt the prudential framework and financial infrastructure, while noting that major challenges still lie ahead. Directors noted the importance of giving regulators more scope to build the expertise necessary to support the increasingly complex regulatory system. Achieving consistency between the pace of regulatory change and high-quality implementation, and the right balance between principles-based and rules-based approaches to supervision will also be important. Directors underscored the value of strengthening the capacity of regulators to manage and resolve financial stress. They also viewed that the insurance supervisory authority should be granted independence in those areas where it is currently subject to constraints on its powers, in line with international standards. (IMF14.02)

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11.3 ISRAEL: Gemini & Vertex Are the Most Active Venture Capital Funds Of 2007

The IVC Research Center has released its Survey of 2007's most active Israeli venture capital funds. The ranking was made based on the number of First investments in 2007. Data are from the IVC Online Database and information received directly from the VC funds. The report relates to investments made in Israeli, Israel-related and foreign high-tech companies by Israeli management companies.

Gemini topped the 2007 most active funds list with 16 First investments. Vertex, ranked second with 11 First investments. Pitango was third with nine, followed by Giza with eight, Sequoia Israel with seven and Benchmark Israel, Evergreen, Genesis and Greylock Israel with six each.

Gemini was the most consistent seed investor, with eight seed investments followed by Vertex with five and Sequoia Israel with four. Gemini was also the most sector-focused fund, investing seven of its 16 First investments in the Internet sector. Vertex concentrated its investments in two sectors, making five new investments in Communications and five in Software. Noteworthy is Israel Cleantech with five First cleantech investments in 2007, its vintage year.

According to IVC CEO Guy Holtzman, "Some funds have special pre-seed platforms and vehicles. These include Gemini with LGLab, Vertex with the Technion Incubator, Pitango and Evergreen with Precede, Giza with Ofek, and Gemini and Evergreen, which are among the sponsors of Startup Factory. The programs are characterized by small initial investments per deal that increase over time if the company progresses well. While our ranking reflects the number of deals and not capital invested, it does give an interesting indication of the current state of VC activity."

The top nine funds made 75 First investments in the aggregate. Thirty-two or 43 percent were in Seed stage companies. The Internet sector attracted the largest number of First investments with 26 deals (35%), followed by the Semiconductor sector with 14 (19%).

The complete ranking of the Most Active Venture Capital Funds for 2007 and previous years, including all portfolio investments, is available at www.ivc-online.com.

Most Active Israeli Venture Capital Funds in 2007 - Ranked by number of First Investments

Management Company

No. of

First Deals

Companies

Gemini

16

Adap.tv, Axxana, Bahu1 , ConteXtream, IT Structures, MassiveImpact, MetroLight, Modu, OpTier, Outbrain, RADLive, StyleShake, Timeless Cities, VesTopia, Wikio1, XJet,

Vertex

11

ActionBase, ColorChip, ComAbility, Data Essence, Expand Networks, MultiPON, NexPerience, Octavian, Vayar Vision, Xurity, Zeugma1

Pitango

9

Anobit, Celeno, Dolphin Software, Evolven, FixYa, Friend Connection, HealOr, Omgili, Tectium

Giza

8

ActionBase, Arbel Medical, CellGuide, Koolanoo Group, SemantiNet, Stanza, ViewFinity, ViralGurus

Sequoia Israel

7

Collactive, DensBits, Kenshoo, Retalika, Silent Communication, Storwize, Wilocity

Benchmark Israel

6

BroadLight, Gigya, Gizmoz, Power Challenge1, Wilocity, Zlango

Evergreen

ActiViews, aniBoom, NiTi, OptimalTest, Taboola, Vascure

Genesis

Advasense, Arootz, Carbon Valley Technologies, Modu, SolarEdge Technologies, Yedda

Greylock Israel

AeroScout, Car Advisory Network, Celeno, Dolphin Software, Payoneer, WeBook

IVC Research Center (<http://www.ivc-online.com>) is Israel's leading research center providing business leaders with an unmatched wealth of data on Israeli venture capital, private equity and high-tech industries. IVC products and services are used regularly by venture capital funds, private investors, high-tech companies, financial investors and institutions, as well as public entities such as the Office of the Prime Minister, the Central Bureau of Statistics, the Bank of Israel and the Office of the Chief Scientist. IVC publishes the most comprehensive guide to Israeli venture capital and high technology companies – the IVC Yearbook. (IVC13.02)

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11.4 LEBANON: Sovereign Ratings Affirmed

On 7 February, Moody's Investors Service (<http://www.moody's.com>) affirmed Lebanon's sovereign ratings, adding that a downgrade is not imminent despite the ongoing political turmoil and poor economic performance. Lebanon's low B3 government bond ratings have been on negative outlook since November 2006. This reflects the daunting political and economic challenges facing the country and the very weak credit standing of the Lebanese government, which has the highest debt burden of any country rated by Moody's. The negative outlook signals the likely direction of a move, should a rating change be necessary.

"Moody's typically reserves ratings below B3 for governments that are very close to or are already in default. The Lebanese government is not in default, nor has it ever defaulted, defying many observers' past expectations and indicating a strong willingness to repay," explains Tristan Cooper, Vice President -- Senior Analyst in Moody's Sovereign Risk Unit. According to Moody's, there are a number of supporting credit factors that justify maintaining Lebanon's rating at B3, albeit with a negative outlook.

A key factor is that the central bank of Lebanon still has a large stock of foreign currency reserves with which to protect the exchange rate peg and finance external payments if necessary. At the end of 2007, these reserves amounted to around \$9.8 billion, or 40% of GDP. Local commercial banks, the largest holders of government debt in Lebanon, continue to purchase and roll over government paper. Although banks are increasingly reluctant to finance the government's wide fiscal deficit, they have little choice given the devastating impact that a government default would have on their own performance. Banks' ability to finance the government continues to be bolstered by rising bank deposits, which have historically shown a high level of resilience to shocks.

Moody's also notes that Lebanon's government continues to receive support from external donors, who are likely to remain committed given the country's sensitive geopolitical position. Budgetary support pledged at the January 2007 Paris III donors' conference is now being disbursed, albeit gradually. At the beginning of February 2008, the government had so far received around \$1 billion in a combination of grants, loans and debt relief out of a total of \$4.7 billion pledged for budgetary support. Finally, inward remittances remain buoyant, providing support to the vulnerable balance of payments.

Despite these reassurances, Moody's acknowledges the very poor creditworthiness of the government of Lebanon and the unsettling volatility of the country's political and economic environment. "It should also be noted that the severity of a government default, should it occur, would likely be relatively high given the large size of the debt stock and the fact that around half of it is denominated in foreign currencies, the value of which could jump in local currency terms in the event of an exchange rate depreciation," cautions Mr. Cooper. However, Moody's maintains that these negative credit characteristics are already well captured by its current low sovereign ratings and negative outlook for Lebanon. (Moody's07.02)

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11.5 GCC: A New Kind Of Soft Power With Influence Over World Financial Markets

The Deutsche Bank (<http://www.dbresearch.com>) observed that almost every day we read headlines about the Gulf Cooperation Council (GCC) countries, their massive capital injections and investments and the transformation of oil wealth into a new kind of soft power. Although there are significant differences between the six members of the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates), all have benefited from high energy prices and experienced a broad-based economic boom in recent years. Record-high oil export receipts have been reflected in sound government revenues, current account surpluses, large accumulation of foreign assets and an investment boom. The near-term economic outlook is quite favorable. High growth in the region is set to continue over the next few years, driven by high energy prices and growth in non-hydrocarbon sectors. The GCC will also capitalize on increased trade flows between the Gulf, the broader Middle East / North Africa region and Asia. According to a recent McKinsey Global Institute (MGI) study, even with an oil price of \$50 per barrel the GCC would earn \$4.7 trillion in oil export revenues up until 2020, equivalent to 2.5 times the earnings over the past 14 years. In addition, the MGI expects the total net foreign assets of the GCC to exceed \$2 trillion dollars in 2008. With these figures in mind, it is not surprising that investors, regulators and policy makers are taking an ever greater interest in the region.

Changing trends in the region

In the last few years there has been a dramatic change throughout the GCC with respect to development plans, investment strategies and attitudes towards foreign investors. GCC countries are slowly opening up to foreign investors in domestic equity markets and in other selected sectors, as well as easing rules and streamlining procedures for non-GCC firms and launching several new free trade zones. While petrodollars remain the principal source of wealth in the region, investments in infrastructure, industry, real estate and tourism are growing. In the U.A.E., Dubai has become the hot spot for financial services and tourism and Abu Dhabi is on track to become a cultural tourism destination. Both Saudi Arabia and Qatar are leading advances in manufacturing, especially in petrochemicals and metals.

This oil boom looks more structural. Since the beginning of this decade, the GCC countries have adopted investment and development plans different from those seen during the previous oil booms of the 1970s and 1980s. Wary of boom-bust cycles, the GCC countries have built up reserves, paid down their public debt and accumulated surpluses that have been transferred to oil stabilization funds, sovereign wealth funds (SWF) and other state-controlled investment institutions. Economic management has improved dramatically and asset deployment has become more sophisticated in the region.

Diversification is on the rise. Throughout the GCC there is a shift from the public to the private sector as the main engine of growth. Both the public and the private sector have sought to reduce dependence on hydrocarbons by increasing domestic investments and diversification. Opportunities for investors can now be found in the financial sector, construction, real estate and tourism.. Diversification is intended to create high value-added jobs in a wider array of activities. For this purpose, GCC governments are stepping up investments in social infrastructure - health care, education, training and innovation.

New global players emerging in the region

The largest sovereign and other investment funds in the GCC have now become powerful players in the global financial system. While there are growing concerns in the developed world about the potential influence of sovereign wealth funds, the diversification strategies and investments of the GCC's SWFs will provide enormous opportunities for future generations in the region. As SWFs invest increasingly in the Middle East region, they can help deepen financial

markets, foster ongoing diversification and generate much-needed jobs for GCC nationals.

Regional trade is expected to expand with the recently launched Common Market (CM). The six members of the GCC launched a Common Market in January 2008 (many of the operational details are yet to be finalized). The CM will open wider avenues for inter-GCC trade and investment activities. The agreement covers economic and investment services, dealings in the stock market and the establishment of public and private companies. The CM allows for the free flow of capital and gives GCC nationals freedom of movement, residency and employment - in both the private and public sectors - in all six countries. Regardless of whether the CM is followed by the planned monetary union and single currency in 2010, the ongoing process will bode well for increased intra-regional trade flows and will draw more foreign investment to the region.

Risks and vulnerabilities

Regardless of the robust outlook for the near term, the GCC countries have their share of economic challenges and risks. Despite increased diversification efforts, the region still relies predominantly on hydrocarbon industries. Even though real non-hydrocarbon growth is continuing to outpace hydrocarbon growth (in all GCC countries except Qatar), hydrocarbon revenues still represent around 84% of total government revenues. This makes the region vulnerable to energy price fluctuations and geopolitical risks. In a downside scenario, if a recession in the US led to a sharp decline in oil prices, this would have a significant impact on the GCC economies, although the downturn would be mitigated by major infrastructure projects already underway or proposed.

Rising inflation, low real interest rates and currency appreciation pressures are important macro challenges. The region is faced with an ever growing inflation problem (close to double digits in the UAE and Qatar). To a large extent, this problem is generated by a weak US dollar, to which most GCC currencies are pegged. Further US dollar weakening will call into question the sustainability of current exchange-rate pegs and force GCC governments to revalue sooner rather than later.

High unemployment among GCC nationals is another pressing issue. The GCC countries are still highly dependent on a large expatriate labor force and hindered by the limited domestic supply of adequate skills. The majority of jobs in the private sector are taken by expatriates and most of the national labor force is employed in the government sector. Increasing unemployment rates among nationals and high population growth have prompted the imposition of barriers for foreign workers in the GCC. Investment in human capital and institutional reforms to integrate the labor market are critical. Raising the education level of GCC nationals will allow them to meet the demands and take advantage of the GCC's changing economic structure. (Deutsche Bank08.02)

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11.6 KUWAIT: Oil Budget Increased

Kuwait announced recently that it would invest \$51bn over the next five years on expanding and upgrading its oil production facilities. The Oxford Business Group reported that this massive injection of funds forms part of a program that aims to see production capacity ramped up from its current level of 2.7m barrels per day (bpd) to 4m bpd by 2020.

The new budget, which anticipates spending the allotted amount as early as 2013, represents a significant increase from earlier estimates, which had forecast spending \$66bn by 2020. Many observers expect that by the end of the time frame Kuwait will exceed this initial amount.

Some of this spending will go on the \$8.5bn Kuwait Project, which specifically aims to work with foreign oil companies to develop four of the country's smaller, northern oilfields. The project has been held up for a decade by wrangling with the National Assembly, which is in opposition control, but Saad Al Shuwaib, the CEO of the national Kuwait Petroleum Corporation, told a recent conference in Kuwait City that now was the time to begin exploring these less developed fields. It is hoped production from the four sites can be doubled to 900,000 bpd.

An additional \$20bn will be invested in the downstream sector. The bulk of this, \$14.6bn, will be spent on a new refinery at Al Zour, due to come on-stream in 2012. With an estimated capacity of 615,000bpd, it aims to provide both domestic and world markets with 'clean' products with low sulfur content. This is a significant revision of plans announced two years ago, which had estimated that the refinery would be operational by 2010 and cost just over \$6bn.

There are 17 international companies bidding in consortia for the Al Zour contract. Winners are expected to be announced next month, with Japan-based JGC Corporation and South Korean SK Engineering & Construction among the current front-runners, according to international media. When Al Zour becomes operational, it will at some point replace the 200,000 bpd Shuaiba refinery, which may be converted into a storage depot, according to Shuaiba's deputy managing director, Ahmad Al Jeemaz. He added that the date of closure was flexible, and the new refinery and the old could both operate in tandem for a time if they were deemed profitable enough.

Al Shuwaib also said Kuwait would begin importing 500m to 750m cubic feet of liquefied natural gas daily from Qatar in 2009. Originally this was to be transported via a pipeline across Saudi Arabia, but the Saudis have vetoed this proposal due to disputes with Qatar. Instead, supplies will now be shipped in. This will supplement the 1bn cubic feet of associated natural gas already produced by Kuwait, which is not sufficient to meet the needs of water desalination and energy production plants - power cuts are a regular seasonal feature and domestic supply is unlikely to ever meet domestic demand.

Following the March 2006 discovery of an estimated 1trn cubic meters of free natural gas 10bn barrels of light oil and in the north, Kuwait Oil Company (KOC) is due to begin production of 5m cubic meters daily of free gas, as well as 50,000 bpd of light oil and condensates, in March this year. Mohammad Hussain, the deputy chairman for gas at KOC, told the conference that a second production phase will see this ramped up to 17m cubic meters daily of gas and 165,000 bpd of light oil and condensates by 2011, rising to 28.4m cubic meters daily and 350,000 bpd by 2015.

KPC signed a preliminary contract with Exxon Mobil in October to produce heavy oil in the north of the country and Al Shuwaib said discussions are underway for similar deals with BP and Chevron. These deals, which are in addition to joint ventures with international companies under the Kuwait Project, amount to a broadening of the role of foreign firms, although they are still subject to laws limiting foreign input. (OBG08.02)

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11.7 OMAN: Profitable Waste

Oman prides itself on having one of the most diverse environments in the Gulf region, combining coastal strip, mountains, deserts and lush green zones. Now the sultanate is moving to protect that varied environment, promoting recycling projects to reduce the impact of pollution, as well as industrial and household waste.

On February 6, the Oman Wastewater Services Company awarded two contracts, with a total value of \$378m, as part of the Muscat Wastewater Project, a sewerage system that aims to recycle household water for irrigation and other purposes. The project is expected to be serving 80% of the capital's population by 2014, and 90% three years after that. Local firm Galfar Engineering and Contracting won the tender to construct a vacuum sewer network on the Seeb coastal strip, a project valued at \$227m, while a consortium of local and international companies won a \$151m contract for a sewage collection and conveyance system in the Seeb region.

Not surprisingly, for a dry country such as Oman, much of the sultanate's recycling projects have so far concentrated on water resources. Most major industrial facilities have wastewater processing plants attached to their main production units, both to cut costs by being able to recycle much of their wastewater and to comply with strict state regulations on discharges. As is the case with many rapidly developing economies, especially those like Oman's where industrialization has been made a priority, environmental concerns and recycling had at times been put on the back burner.

According to a report prepared by the Sultan Qaboos University's (SQU) Department of Civil and Architectural Engineering in 2002, there was little or no recycling of waste material by Oman's construction sector at that time. This is now changing, in part due to the higher costs of materials making recycling a more attractive option, as well as the stronger regulations being put in place to reduce the levels of waste in industry. In 2007, the government established a separate ministry of environment and climate affairs to deal directly with the private sector, as well as other government departments on environmental issues including advising on guidelines and monitoring compliance with regulations. Proposals for major developments now require an environmental impact assessment before commencing work.

The sultanate is becoming actively involved in environmental research as well. SQU has carried out studies on the use of compacted ash from municipal solid waste incinerators in construction projects and greater consideration is being given to using other recycled material such as ripped up asphalt and concrete. Environmental issues are becoming more mainstream, pervading all aspects of the Omani economy. On February 10, during a meeting to discuss the promotion of small- and medium-sized enterprises as part of Industry Day in Sohar, one of the agenda topics covered was the environmental impact of development on the region and the need to raise awareness.

However, side industries from this process have yet to fully develop. According to the Environment Society of Oman (ESO), most of the material collected for recycling is exported, rather than being reprocessed in Oman, with India being the main market. ESO, Oman's first and to date only environmental NGO, has had some success in promoting the collection of recyclable material as an economic activity, including a recently initiated program in cooperation with the state-owned tourism development company Omran to collect paper in Omani schools. Still, it has yet to generate real interest in setting up a recycling industry.

This campaign may be given further impetus in March, with the staging of the now annual Gulf Eco exhibition in Muscat. The three-day event, organized by the ministry of environment and climate affairs, aims to bring together professionals in the environmental management and services industries, including recycling and waste processing sectors, with officials

at the national and municipal level. One of the intended outcomes of the expo is to promote the financial advantages of eco-friendly initiatives. (OBG12.02)

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11.8 SAUDI ARABIA: National Water

In a bid to manage the privatization of water services and save diminishing water resources, Saudi Arabia's Supreme Economic Council (SEC) has recently licensed the National Water Company (NWC). The creation of the company, as observed by the Oxford Business group, is another step in the government's plan to restructure the country's ground and sewage water sector.

Earmarked in 2002 by the SEC for privatization, it was decided in September 2006 that a complete overhaul of the water sector, via the creation of a national company, would best serve the Gulf state. The new company is expected to significantly improve the sector's performance, especially in the area of water conservation. Some 20% of water leaks out of desalination plants.

The NWC, reported to have a capitalization of \$5.9bn, will have 2.2bn shares, each with a nominal value of \$2.68, and a paid-up capital of \$1.83bn with 684.88m shares, according to Minister of Water and Electricity Abdullah bin Abdul-Rahman Al Hussayen. He said the company would be wholly owned by the Public Investment Fund, which is overseen by the ministry of finance. The new company is to be 100% government owned via the Public Investment Fund, which, according to its website, provides loans to ventures that will develop the Saudi economy. However, the minister did give an indication the NWC could be sold to the public in the future. Al Hussayen said, "The Council of Ministers will look into the possibility of selling the company's shares in an IPO [initial public offering] in light of proposals to be made by the ministry of water and electricity in coordination with the finance ministry and other authorities."

The NWC will operate in all areas pertaining to underground water, drinking water distribution and collection and treatment of sewage. It will take control, in phases, of all the kingdom's groundwater wells and sewage and desalination plants from various different government bodies to simplify the process of water management, which over the years has involved a myriad of entities. Some of these agencies included the ministries of agriculture and water and of municipal and rural affairs as well as the government-owned Saline Water Conversion Corporation. An international firm, to be selected by the NWC's board of directors, will be appointed for five years to manage the company.

Given the size of the country, the reform aims to separate water and wastewater operations on a city-by-city basis. Taking over operations first in Riyadh, the largest consumer of water in the kingdom, the NWC is expected to then move to Jeddah, followed by Medina, Dammam and Mecca in three months. The company is expected to provide services to the entire nation in three years

Demand for water in Saudi Arabia, which desalinates more water than any other country, is increasing rapidly due to the kingdom's growing population. The birth rate, which is 46% higher than the world average, is an important factor in the government's need to improve supply for the future. According to ministry of municipality and rural affairs, Saudi Arabia has limited water resources and it is the largest country in the world without running surface water. It is believed that the

country's underground water reserves are finite particularly due to heavy use.

Currently, consumption is estimated at 240 liters per person day, according to local media reports. Waste is excessively high and the government is keen to utilize private investment in a bid to minimize water cuts and meet demand. Overall demand has increased five-fold in the past five years and is expected to increase to 12m cubic meters by 2030.

Public-private partnerships (PPPs) have been identified by the ministry for water and electricity as the best means to produce and distribute water throughout the nation. Since the decision for reform in the water sector took place the ministry carried out an in-depth study of international PPP models. Looking at the experiences other countries had, the ministry chose the one they felt best suited the requirements of the country, while keeping in mind what elements would be good for attracting partners.

In the past, Al Hussayen has outlined the government's commitment to the reform process and the attractive macroeconomic conditions the kingdom could offer to the private sector. Many industry analysts acknowledge that investment in the water sector is an attractive possibility for potential partners. The government, in their efforts to attract private companies, has reduced the income tax rate for foreign firms from 45% to 20%, and standardized the bidding processes to increase transparency. Researchers at Saudi Arabia's Samba Financial Group rank utilities as the third most attractive sector in the country for investors. This is expected to improve with the utilities market to hit the number one spot in the next five years. (OBG08.02)

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11.9 EGYPT: A Successful Reform Story

The Kuwait Times observed that "Reaping the fruits of the economic reform program" could be the title for the next phase of the Egyptian economy. The principal goal of the current cabinet, which was appointed in 2004 and headed by Dr. Ahmed Nazif, is to set in motion more economic reforms, thus transforming the country into a new business hub. This government has succeeded in turning around many critical issues concerning the Egyptian economy. The results were significant during the period from 2004/05 to 2006/07. One of their main achievements was that they regained trust and credibility from the regional as well as the international investors and investment institutions.

The main new incentives put forward by the government during the period from 2004/05 to 2006/07 were:

- 50% cut in income and corporate taxes. Likewise, excise taxes and customs duties were also cut.
- Accelerating the privatization program by means of more liberal practices in asset valuation and outstanding debts and liabilities.
- Increasing the Foreign Direct Investment (FDI) levels, through paving the way for investment flow into the country by lessening the old bureaucratic procedures of investments.
- The Central Bank of Egypt (CBE) has approved the rescheduling of public sector enterprises debt and has cut the

interest rate on their debts to 10%.

• Other developments on the economic front include the introduction of export development measures.

In 2006/07, the GDP grew by 7.1%, exceeding all expectations about growth. In 2005/06, the GDP growth was 6.8%, up from 4.5% in the year before. The development in the economy in recent years is attributed to stronger non-oil export growth, resurging tourism, rising Suez Canal receipts and better spending power and overall investment climate. The sectors like manufacturing, extractive industry (which includes petroleum & natural gas), agriculture & allied sectors, and wholesale & retail trade contribute significantly to GDP.

The sectors which have witnessed maximum growth during 2006/07 include tourism, personal services, construction and building, education as well as health. The contribution of tourism sector grew by 30.7% during 2006/07 to reach E£24.6bn. The contribution of tourism sector to GDP went up from 3.2% in 2005/06 to 3.6% in 2006/07. The tourism sector has grown at a CAGR of 30.6% during the five-year period from 2001/02 to 2006/07.

The overall fiscal deficit widened in 2006/07 as a result of the increase in interest payments and wages and salaries. Though the subsidies decreased during the year, the government is concerned about the transfer of the subsidies to the lower classes of the society. The cancellation of the energy subsidy for energy intensive industries was a bold move by the government in 2007. With the rising oil prices, the government's efforts on the economic front could be hindered by a continuously growing subsidy expenses.

In the past few years, Central Bank of Egypt (CBE) has introduced a range of more sophisticated policy instruments and has shifted its policy focus to target inflation. An increase in inflation in the second half of 2006 prompted the CBE to increase its key intervention rates. During December 2006, the CBE raised the overnight deposit and lending rates by 25 basis points to 8.75% and 10.75%, respectively. The inflation came down in later part of 2007, as the Consumer Price Index (CPI) inflation dropped from 12.8% in March 2007 to 8.4% in September 2007. Inflation still remains one of the challenges for the government. The liberalization of the energy prices for industrial uses will definitely exert upward pressure on prices, which will require close monitoring by the government in order to maintain the inflation in safe levels.

Foreign Direct Investment Into Egypt Is Growing At A Rapid Pace

The total FDI more than doubled from \$4.1bn in 2004/05 to \$9.1bn in 2005/06 and it further increased by 44% in 2006/07 to reach \$13.1bn. Egypt has become an attractive FDI destination due to its strong growth prospects, privatization and economic reform. The government of Egypt remains committed to improving investment climate. The QIZ protocol, which comes in addition to Egypt's duty free access to the EU, definitely enhances the attractiveness of Egypt as a location for FDI. Foreign exchange reserves began to rise in 2004/05, as confidence in the Egyptian Pound strengthened. Bolstered by strong capital inflows, Egypt's foreign-exchange reserves continue to rise steadily. According to CBE, the net international reserves stood at \$28.6bn at the end of June 2007, an increase of 24.6% over the previous year.

In 2007, the Egyptian stock market, represented in the CASE 30 index, recorded a 51% return. This strong return came on the back of the positive outlook on the Egyptian economy in general with a GDP growth of 7.1% in 2006/07 and the buoyant corporate earnings. After a 17% increase between 2005 and 2006, the market capitalization surged by 44% at the end of 2007 compared to 2006. The main sectors contributing in this hike in market cap were the construction and

materials, telecommunications and banking. The Egyptian stock market is still in the low range in terms of PE and high on the DY (dividend yield), when compared to other Middle Eastern and African markets. The attractiveness of the Egyptian market lies in its relatively cheap valuation, when compared to other stock markets in the Middle East, in addition to strong corporate fundamentals and high growth potential, as well as, the diversity of the traded stocks under different sectors.

Our outlook for Egypt continues to be positive. Growth in sectors like tourism, construction and real estate are driving fixed capital formation. We expect investment to continue at high rate in coming months, supported by buoyant business confidence. The efforts of the government to improve the business environment and privatization of smaller state-owned companies will keep the investment at a higher level. A number of large-scale infrastructure projects will also sustain investment, helped by oil-driven liquidity from the Gulf. However, factors like higher import growth and high inflation might prove to be the dampening factors. (KT16.02)

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11.10 TUNISIA - Preliminary Conclusions of the IMF Staff Visit

A. Introduction

1. The IMF mission that visited Tunis since January 8 thanks the authorities for their excellent cooperation, their warm hospitality, and the high quality of the discussions.

2. The Tunisian economy is continuing to exhibit resilience, posting an appreciable growth rate in 2007, despite an unfavorable external environment. However, significant challenges remain to sustain this growth rate and further reduce unemployment while maintaining macroeconomic stability. The staff visit focused on short-term macroeconomic issues in the context of rising world prices for oil and basic commodities, as well as the likely slowdown in global economic growth resulting from the crisis in the US real estate sector.

B. Recent Economic Developments

3. Growth gathered momentum in 2007. The growth rate is estimated to have risen from 5.5% in 2006 to 6.3% in 2007, the highest level in the last ten years, due to the favorable performance of the agricultural, energy, manufacturing, and services sectors. The mechanical and electrical sector remained the driving force behind manufacturing growth, and the textiles and clothing sector experienced a substantial upturn. The surge in oil prices triggered a supply side response, as some oil wells with high operating costs became profitable. On the demand side, growth was driven both by vigorous exports and the favorable performance of domestic demand. Strong growth in the electrical and mechanical industry raised the sector's share in total goods exports to 27% in 2007, allowing greater diversification of the Tunisian manufacturing industry. Hence, the unemployment rate fell from 14.3% in 2006 to 14.1% in 2007.

4. Owing to effective monetary policy, average inflation declined from 4.5% in 2006 to 3.1% in 2007, although inflationary pressures have reemerged. On a year-on-year basis, inflation fell from 5.3% in May 2006—after the surge in the prices of oil and basic commodities—to 2% in April 2007. More recently, following a new episode of oil and commodity price increases, year-on-year inflation once again climbed to 5.3% in December 2007. Sizable flows of foreign direct investment (FDI) and the depreciation of the dinar relative to the euro may also have contributed to inflation. Assessing that contribution would inform the conduct of monetary and exchange rate policy. The Central Bank of Tunisia (BCT) responded to resurgent inflationary pressures by raising its required reserves ratio from 3.5% to 5% at end-November 2007.

5. In 2007, the Tunisian dinar recorded an average depreciation of 4.5% with respect to the euro and an appreciation of 4% with respect to the US dollar, mirroring the appreciation of the euro on foreign exchange markets. In real effective terms, the dinar recorded a slight depreciation of about 3%, on the basis of the index calculated by the IMF. This primarily reflects a deterioration in the terms of trade, the persistent yet sustainable current account deficit, and tariff reductions resulting from trade liberalization.

6. Tunisia's external position continued to strengthen despite a slight rise in the current account deficit. Exports and imports recorded strong growth in 2007. Imports were heavily weighted towards intermediate and capital goods, supporting the rapid pace of growth. Energy exports grew by more than 50% as a result of the upsurge in oil prices and its positive impact on local oil production, temporarily reversing the deficit in the energy trade balance. However, the current account deficit, while sustainable, widened slightly from 2% of GDP in 2006 to 2.5% in 2007, due to declining terms of trade. This deficit was offset by substantial inflows of FDI. International reserves increased by US\$1b in 2007 to reach US\$7.8b, representing 4.6 months of imports of goods and services. Tunisia strengthened its external position through early repayments financed by privatization proceeds, and thereby reduced its total external debt—including short-term debt—from 58.3% of GDP in 2006 to 55.6% of GDP in 2007.

7. The budget deficit is expected to have remained broadly the same as in 2006, notwithstanding the increase in world commodity prices. A cautious fiscal policy curbed the deficit to 3% of GDP, below the 3.1% target set in the 2007 budget law. Record prices of oil and commodities prompted the authorities to adopt a supplemental budget in December, which provided for raising subsidies for the Caisse Generale de Compensation (CGC) by 0.6% of GDP, bringing the total to 1.3%. The increase in prices at the pump in May and October 2007 kept oil subsidies as budgeted at 1% of GDP. Higher revenues from oil companies, nontax receipts, and customs duties—on account of the substantial increase in imports—should offset the additional expenditures. Early repayments are expected to have reduced public debt from 53.9% of GDP in 2006 to 51.5% of GDP in 2007.

8. The strong growth recorded in 2007 helped enhance the profitability of the banking sector. The available indicators, although incomplete, point to an improvement in bank profitability in 2007. Some institutions—such as Amen Bank and BIAT—used this opportunity to recapitalize. The improvement in bank profitability should allow banks to continue strengthening their balance sheets and improving their prudential indicators. Following significant gains in 2006, the TUNINDEX stock market index increased by 12.1% in 2007, generating an overall market return of 3%.

C. Economic Outlook for 2008

9. Growth is expected to remain robust at 5.7%. The slight slowdown is attributable to the exceptional growth in the energy sector in 2007, the likely slowdown in Europe, the expiry of EU quotas on Chinese exports of certain textile products, and a restrictive monetary policy. Strong growth momentum and major investment projects should limit the extent of this growth deceleration.

10. Inflationary pressures—particularly imported inflation—are likely to continue in 2008. However, cautious monetary policy—the BCT has already raised its required reserves ratio—and the BCT's intention to take further action if necessary, are expected to keep inflation down to 4% on average. This forecast also takes into account the probable increase in the price of administered products if world prices remain high.

11. The 2008 budget law envisages a cautious budget policy. The budget deficit is set at 3% of GDP—the same as the deficit observed in 2007—based on oil prices of US\$75 per barrel. However, subsidies could overshoot their budgeted levels if international oil and commodity prices remain high with limited pass-through on to consumers.

12. In 2008, the current account may record a slight deterioration if oil and basic commodity prices remain in the vicinity of their recent record levels. Exports are projected to taper off, particularly on account of the global slowdown. Imports are likely to experience relatively strong growth due to persistently high oil and commodity prices and substantial demand for capital goods and raw materials. Consequently, the current account is forecast to deteriorate slightly to 2.7% of GDP in 2008. Nonetheless, external debt will continue to decline, reaching 52.9% of GDP in 2008.

13. The risks associated with the economic outlook for 2008 are primarily related to the international economic environment. The likely slowdown in growth in Europe and further increases in oil and commodity prices could hamper growth and accelerate inflation. There are also uncertainties surrounding the effect of the dismantling of EU quotas on Chinese exports of certain textile products, although order books for the first quarter of 2008 do not indicate a slowdown in exports of the textiles and clothing sector.

D. Economic Policy Issues

14. Given the liquidity overhang and the growing inflationary pressures, the mission supports the restrictive monetary policy pursued by the central bank. Faced with the excess liquidity and the inflationary pressures that reemerged during the second half of 2007, the BCT withdrew liquidity and ultimately raised the required reserves ratio. The authorities stand ready to further tighten monetary policy if necessary. Given the time lags involved in the adjustment of the economy to shifts in monetary policy, it is important to persevere in fine-tuning forecasting tools so as to better anticipate inflationary pressures and take timely action. Concerning the development of the money market, the interest rate applied to special savings accounts will no longer be capped, allowing the rate of remuneration on savings with banks to be market determined. The mission encouraged the authorities to eliminate also, in due time, the minimum rate and to de-index banks savings rates from the money market interest rate (TMM).

15. The exchange rate policy remains anchored to the medium-term objective of a floating exchange rate regime. With the growing openness of the Tunisian economy, exchange rate policy is becoming central to macroeconomic management. Coordination between monetary and exchange policies should therefore be enhanced. In particular, further exchange rate flexibility could contribute to price stability.

16. The mission supports Tunisia's cautious budget policy which has successfully maintained a 3% deficit despite a challenging international environment. Faced with mounting inflationary pressures, budget policy should target a deficit below 3% to support the restrictive monetary policy and enhance the flexibility of fiscal policy. While the mission lauds

the energy saving strategy actively pursued by the authorities, it recommends considering alternative options, less costly than subsidies to the CGC, for protecting the purchasing power of low-income households. Concerning major investment projects, the authorities should ensure that such projects entail no new contingent liabilities that would add to the current stock of 8.9% of GDP in 2007.

17. Banking sector reforms are in progress. Strong economic growth accompanied by vigilant supervision should strengthen the financial position of banks. In this favorable environment, it is important to pursue efforts to reduce nonperforming loans. Banking sector reforms are continuing, with the recent privatization of Banque Tuniso-Koweitienne on favorable terms. Other banks may follow suit. However, the Tunisian banking sector remains fragmented and of limited size, and its consolidation would be beneficial given heightened competitive pressures. The quality of banking services, which was instituted as a legal obligation, has improved and the authorities are committed to bring it to international standards. Furthermore, banks prepare for the transition to Basel II by 2010, and several measures aimed at energizing the banking sector were recently adopted or will be adopted shortly. The requirement that banks transfer their end-of-day foreign exchange balances to the BCT has been abolished and banks are now authorized to manage 20% of residents' foreign exchange holdings not subject to surrender requirements, thereby promoting the interbank exchange market. In addition, there are plans to delegate to banks the authority to quote and execute transactions involving exchange rate and interest rate hedging instruments, as well as to lengthen the maturity of such instruments. Finally, listed credit institutions are no longer limited by a cap on their foreign borrowing.

18. Current account and capital account liberalization continued in 2007. Remaining ceilings on the allocation of foreign exchange for current account transactions have been raised, and the exchange authorization requirement for nonresident investments in Tunisia—apart from retail trade—has been abolished. The constraints affecting equity and investment flows between nonresident and resident individuals or firms will be eased. Proceeds from exports of professional services may be placed in a foreign exchange account subject to a ceiling. In addition, a foreign exchange amnesty was proclaimed in 2007. The mission encouraged the Tunisian authorities to pursue their efforts to achieve gradual liberalization in all sectors of the economy, including the services sector, which has a key role to play in improving the business climate and promoting private investment.

19. Trade liberalization—a major factor in opening up the Tunisian economy—is well under way. Total exports and imports of goods increased from 74% of GDP in 1995 to 98% of GDP in 2007, with a significant improvement in the import cover ratio which moved from 70% to 90%. FDI, in% of GDP, virtually doubled during the same period. These trends reflect Tunisia's trade liberalization policy, particularly in the context of the Association Agreement with the EU that culminated in free trade in 2008, with zero tariffs on industrial products from the EU, down from an average of 19% in 1999. The tariff simplification program continues: the number of rates was reduced from 14 to 9 in two years and the maximum rate was reduced from 73% to 60%. The relaxation of customs formalities advances, with the average length of time spent by goods in customs declining from 11 days in 2005 to 7 days in 2007. Further simplification and reduction of multilateral customs tariffs are needed in order to prevent trade diversion and to enhance the geographical diversification of trade.

20. Tunisia is continuing to play an active role in Maghreb integration. It hosted the third regional conference on the Role of the Private Sector in Economic Development and Regional Integration in the Maghreb in November 2007. The action plan prepared during the conference aims at improving the business climate and promoting partnerships between private investors across the countries in the region. Concerning intra-Maghreb trade, Tunisia adopted in 2008 the mutual recognition of certificates of conformity to technical standards with Libya. (IMF11.02)

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On February 11, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Algeria.

Background

Algeria's market-oriented economic reforms over recent years started to bear fruits, with higher growth, low inflation, and strong fiscal and external positions. Real GDP growth peaked at 4.6% in 2007 from 2% in 2006 reflecting strong growth in the non-hydrocarbon sector (6%) driven by services and construction and public works. Inflation remained low despite rising food prices. Unemployment declined further in 2007, but remains high particularly among the youth.

Algeria's external position has continued to strengthen. Boosted by high world oil prices, international reserves have now passed the \$100 billion mark, and the external current account surplus remained above 20% of GDP in 2007.

The fiscal policy stance remained expansionary. The non-hydrocarbon fiscal deficit reached about 37.5% of GDP in 2007 from 36% in 2006, as a result of the public investment program and higher wage bill. Nevertheless, higher hydrocarbon revenues kept the overall fiscal surplus at 12% in 2007, further increasing savings in the hydrocarbon stabilization fund (FRR).

Progress continued in structural reforms to strengthen financial intermediation and improve the business environment to spur further private investment and growth in the medium term.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Algeria's encouraging economic performance in recent years, reflecting market-oriented reforms and prudent macroeconomic policies in a favorable external environment. Non-hydrocarbon growth is accelerating, employment is on the rise, and inflationary pressures are in check. The external and fiscal positions remain strong and the authorities' ambitious investment program has started to improve infrastructure and living conditions.

Directors agreed that the main challenges facing Algeria are to ensure sustained high productivity and non-hydrocarbon growth and to lower further the still high unemployment. They welcomed the authorities' commitment to continued macroeconomic stability and deepened market-oriented reforms as providing the basis for meeting these challenges, and highlighted, in particular, the role to be played by improving financial intermediation.

Directors viewed that the tightening of monetary policy had absorbed the excess liquidity in the banking system and helped keep inflation under control, despite rising food prices. They observed that, as ongoing fiscal stimulus will further boost liquidity and domestic demand, continued central bank vigilance is warranted. They also encouraged further exploration of measures to absorb excess liquidity permanently. In this context, they welcomed the recent increase in the reserve requirement rate.

Directors considered that Algeria's exchange rate policy is consistent with external stability. They noted the assessment that the real effective exchange rate remains close to its equilibrium level, while acknowledging the estimation difficulties for oil exporting countries. Directors encouraged the authorities to continue managing the exchange rate in a flexible manner, while implementing policies to enhance productivity and economic diversification.

Directors agreed that the current fiscal stance remains consistent with long-term fiscal sustainability. They observed, however, that if inflationary pressures intensify, the burden should not fall solely on monetary policy, and the withdrawal of some of the fiscal stimulus envisaged in the 2008 budget might be called for. In this context, Directors noted that careful prioritization of projects in the public investment program in line with absorptive capacity could help reduce demand pressures. They welcomed the initiation of the National Fund for Investment and Development and underscored its important role in ensuring the quality of spending under the public investment program. Directors also commended the substantial improvements in budget management and fiscal governance.

Directors noted that the sizable increase in the wage bill envisaged in the 2008 budget aims at improving efficiency in the public administration. They encouraged the authorities to keep real public sector wage increases in line with productivity gains in the non-hydrocarbon sector, as intended in line with the principles set out in the National Economic and Social Pact, in order to preserve competitiveness and long-term fiscal sustainability.

Directors were encouraged by progress towards strengthening tax administration and simplifying the tax system. They considered that gradual steps to reduce exemptions, improve VAT design, and eliminate the turnover tax would contribute importantly to improving the business climate.

Directors stressed that sustained further implementation of financial sector reforms will be key to improving the business climate and enhancing private-sector led growth. They encouraged the authorities to implement the recommendations of the 2007 Financial Sector Assessment Program update, including through strengthening the role of private banks. Directors assigned a high priority to improving bank governance and risk management, given the current strong growth in private sector credit. They also pointed out that guarantee schemes on credit to small and medium enterprises should not distract banks from careful assessment of credit risk.

Directors welcomed the authorities' decision to list large corporate and government bonds on the Algiers Bourse, and recommended the prompt finalization of the regulatory framework for the commercial paper market. Further developing the local corporate debt securities markets would contribute to financial stability and growth.

Directors welcomed the progress achieved in the area of bilateral and regional trade liberalization. They looked forward to Algeria's impending accession to the World Trade Organization (WTO), which will be an important step to ensure access to international markets.

Directors encouraged Algeria to continue to work towards participation as a creditor in the Enhanced Heavily Indebted Poor Countries Initiative. It is expected that the next Article IV consultation with Algeria will take place on the standard 12-month cycle. (IMF19.02)

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11.12 TURKEY: Outflow worries

Turkey's continued ability to depend on short-term capital inflows to finance its substantial current-account deficit risks being undermined by the global credit crunch and by a waning of foreign investor confidence. Recently issued balance of payments statistics indicate that non-residents sold some \$9bn worth of government bonds between August and November, a trend that, if it persists, could give rise to serious the balance of payments concerns. Investor sentiment could also be negatively affected if the government decides against renewing its stand-by loan agreement with the IMF when the current facility expires in May, and fails to lay out a credible alternative program of economic reforms.

Large current-account deficits, equivalent to about 7% of GDP, have been offset comfortably in recent years and months by strong net capital inflows in the form of foreign direct investment (FDI), purchases of domestic market bonds and shares and loans to the Turkish private sector. In November 2007, however, net capital inflows (including changes in banks' reserves, but not official reserves) were negative to the tune of \$293m. On a net basis, Turkey attracted direct foreign investment of \$324m and loans to the non-banking private sector of \$2.5bn, but non-residents sold \$3.7bn worth of government bonds, in line with the recent pattern, and government foreign debt repayment amounted to \$454m.

No crisis—yet

It is too early to speak of a new downward trend in capital inflows, however. The Central Bank of Turkey's balance of payments data for November included a substantial positive figure for "net errors and omissions", there has been no immediate visible impact on the dollar value of official foreign exchange reserves, and expectations of high FDI inflows related to corporate acquisitions and privatization deals persist. Nevertheless, the global credit squeeze is likely to make international financing more difficult and more costly than in the recent past.

IMF brush-off

With the doubts about private capital inflows starting to mount, the Justice and Development Party (AKP) government has a critical decision to make about whether to renew Turkey's IMF facility. The government would probably prefer not to sign another IMF accord. Dispensing with IMF discipline would provide more flexibility to increase infrastructure spending and tackle issues of particular concern to AKP voters such as high unemployment, income inequality, poverty, and underinvestment in the mainly Kurdish-inhabited south-east of the country.

The government has announced a medium-term "economic action plan", promising to continue IMF-style fiscal discipline and reforms, but also pledging reductions in taxes and employers' social security contributions, better health provision, more resources for local government and support for small businesses and farmers, which could prove costly. The plan is also short on detail and lacks a timetable. If another IMF stand-by agreement is not signed, IMF monitoring is likely to continue, which should help to sustain investor confidence and support reforms. Turkish policymakers have been acutely aware of the economy's vulnerability to shifts in investor sentiment and changes in global risk perceptions, but there is a danger of complacency. Failure to set out and implement a clear program of economic reforms could be highly destabilizing given Turkey's formidable external financing needs. (ViewsWire06.02)

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11.13 TURKEY: EU & Turkey Politics - Heading for Trouble?

The Economist Intelligence Unit observed that recent controversial plans to ease restrictions on the wearing of Islamic headscarves have been portrayed by the government as a step towards greater civil and religious freedom. However, the EU believes there is an urgent need for Turkey to introduce other long-awaited political reforms, with the slow pace of progress over the past year creating uncertainty over the future pace of EU membership negotiations. Although Turkey's EU accession bid and economic reform will remain priorities for the government, there is a risk that more vocal opposition to Turkish membership could hamper progress on both fronts.

Cover Story

In January the ruling Justice and Development Party (AKP) led by the prime minister, Recep Tayyip Erdogan, reached agreement with the right-wing Nationalist Action Party (MHP) to amend the constitution—which requires a two-thirds majority in parliament—and the Higher Education Law in order to lift the ban on women wearing Islamic-style headscarves, although not veils, at state universities. The ban will remain in place at other levels of education and in public offices.

The changes, which were approved in parliament with a solid majority on February 9th, will cause tensions with hardline secularist forces. The Republican People's Party (CHP), the largest party in opposition, and some university rectors have already strongly criticized the move, and have vowed to challenge the amendments in court. The military and senior judiciary are also opposed, claiming that an easing of the ban will weaken the country's secular political and educational systems. Hardline secularists are suspicious of the AKP's Islamist roots and believe that Mr. Erdogan and his party have a pro-Islamist agenda. The wearing of headscarves is a highly divisive issue in Turkey. Although many secular Turks regard it as a religious symbol that has no place in the education system, opinion polls show that a large majority of Turkish citizens favor an easing of the ban.

Express Yourself

With one of the government's main stated objectives being to advance Turkey's EU membership bid, both the AKP and MHP presented the proposed easing of the headscarf ban as an issue of civil and religious freedom. However, it is not

one of the political reforms that the EU has been calling on the government to introduce as a matter of urgency. This has raised some concerns within Europe that the AKP government is struggling to give renewed momentum to Turkey's EU membership negotiations.

In mid-December the European Council, which comprises the heads of state and government of the EU's 27 member states, had disappointed Turkey by endorsing the conclusions of an earlier meeting of EU foreign ministers, which criticized the limited progress Turkey had made on political reform in 2007 and warned that long-awaited reforms in the areas of freedom of expression and religion should not be delayed any further. Although during the meeting Turkey was discussed as an enlargement candidate along with Croatia, the conclusions omitted any specific reference to "accession" or "membership" as the final goal of Turkey's negotiations with the EU. In response, the Turkish Ministry of Foreign Affairs released a firmly worded statement to the effect that turning a cold shoulder on Turkey would not only effect Turkey-EU relations, but also bilateral relations (meaning those with France and Germany).

On December 19th the EU agreed to open negotiations with Turkey on two more of the 35 negotiating chapters covering the EU's *acquis* (the EU's body of laws)—consumer and health protection and Trans-European networks. While Croatia has formally opened about half of the chapters, Turkey has made much slower progress, with only six chapters opened since the talks began in October 2005: the two on December 19th; plus science and research; enterprise and industrial policy; statistics; and financial control.

The EU is particularly concerned about Article 301 of the reformed Turkish Penal Code, which continues to limit freedom of expression by criminalizing remarks that are perceived to insult "Turkishness", Turkey or its institutions. The article has been used by the judiciary to prosecute journalists, writers and academics for their views, mainly on the Kurdish issue and the mass murder of Ottoman Armenians in 1915-17.

The government has promised to resolve the problem by mid-February. Proposed amendments to the article were submitted to the Council of Ministers on January 7th, but they have not yet been presented to parliament in the form of a bill. Moreover, the proposed changes would be unlikely to result in an improvement that would be acceptable to the EU as they merely replace as a punishable offence insulting "Turkishness" with the "Turkish people" and "republic" with the "Turkish republic", although a separate clause could be added, which would exclude "critical remarks" from being deemed punishable. There is also some debate about limiting the power of state prosecutors to file cases against individuals. The government seems to favor limiting prosecutorial power in such cases to the Minister of Justice, but the pro-Kurdish Democratic Society Party (DTP) has recommended that it be given to the office of the President. The MHP is against any changes to the article.

And Another Thing

In addition to the question of freedom of expression, the Cyprus issue remains a hindrance to progress. Turkey is continuing to resist the EU's demand that Turkish airports and harbors are opened to Greek Cypriot aircraft and shipping until the EU makes good its long-standing promise to end the ban on direct trade between the EU and the self-proclaimed Turkish Republic of Northern Cyprus (TRNC). This resulted in the EU freezing eight of the 35 negotiating chapters in December 2006. Further action may be taken against Turkey when the EU reviews the issue in 2009. The international community is gearing up for another serious attempt to solve the Cyprus problem after the presidential election on February 17th. However, its chances of success will depend heavily on who is elected as president.

Another reform, which the EU has long been calling for in the context of Turkey's membership negotiations, relates to the legal status of religious foundations in Turkey. At present, foundations belonging to religious minorities are not allowed to acquire assets and property or to function abroad. This reform, however, appears less problematic than that of article 301. The AKP government had passed a law during its first term in office, but this was vetoed by the former president, Ahmet Necdet Sezer. The same bill was approved by the parliamentary Justice Commission on January 16th and will soon be put to a general parliamentary vote. Both the parliament and the current president, Abdullah Gul, are expected to approve the bill.

Gathering Clouds

The European Commission and a large number of member states, led by the UK, Spain and Italy, will continue to support Turkey's bid for full membership. However, with the UK under the prime minister, Gordon Brown, appearing detached from EU affairs and Turkey making slow progress on political reforms, those member states that are openly opposed to Turkey's eventual accession, such as Austria and particularly France, under the presidency of Nicolas Sarkozy, may get stronger. Mr. Sarkozy has said that France is willing to allow negotiations with Turkey to proceed, as long as they are limited to those chapters that would lead to his preferred option of a "privileged partnership". This implies that France will probably continue to block talks on economic and monetary union (as it did in 2007), regional policy, agriculture, EU budgetary provisions and institutions

Adding to Turkey's concerns, the opposition camp could be significantly strengthened if, as we currently expect, the German chancellor, Angela Merkel, wins next year's federal election in Germany and manages to form a government without the Social Democratic Party (SPD). Like Mr. Sarkozy, Ms Merkel favors the privileged partnership option, but has had to refrain from openly backing Mr. Sarkozy's position because the SPD in the current "grand coalition" government is supportive of Turkey's EU membership bid.

At the time, Mr. Erdogan's appointment of a broadly pro-EU cabinet soon after the AKP's election victory in July last year had been widely viewed as a move to revive Turkey's flagging EU membership negotiations. However, six months down the line, with none of the reforms required by the EU, especially those affecting freedom of expression, having been approved, there is now a tangible sense of uncertainty regarding the future pace of negotiations. The government still appears to be committed to the goal of eventual membership, so some progress will be expected in 2008-09. However, the obstacles are considerable and there is still a risk that the negotiations might drift or even be suspended in the next two years. (EIU19.02)

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- Israeli Shekel conversions done at a rate of NIS 3.60 = \$1.00
- Turkish Lira conversions done at a rate of NTL 1.2 = \$1.00
- Cypriot Pound conversions done at a rate of C£ 1.00 = \$1.60
- Jordanian Dinar conversions done at a rate of JD 1.00 = \$1.41
- UAE Dirham conversions done at a rate of Dh 3.66 = \$1.00
- Omani Rial conversions done at a rate of OR 0.385 = \$1.00

- Pakistani Rupee conversions done at a rate of Rs 60 = \$1.00

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