

## Fortnightly - March 04, 2009

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- Markstone Capital Partners Acquires Controlling Interest of TOMCAR
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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

## 1.1 Netanyahu To Fight Recession With New Tax Cut Measures

It was reported in the media that Likud chairman and Prime Minister-elect Binyamin Netanyahu plans to apply the same small government policies when he becomes prime minister as he did six years ago as finance minister. Then, his tax and spending cuts helped lift the economy out of recession. However, now there are many new challenges. Netanyahu, who has until April 3 to form a coalition, faces a shrinking economy, a growing budget deficit and a frozen corporate-bond market. The recession in the US and Europe has clobbered Israeli exports, which account for about half of gross domestic product in a country whose economy is smaller than Singapore's. His only fiscal tool for the moment is a budget drawn up in August and stalled in the Knesset. Netanyahu's plans for the economy may also encounter objections from his future coalition partners. Although assembling his coalition could take several weeks, one probable member, Shas, said during the election campaign that it would seek to restore child allowances that had been reduced under Netanyahu.

Almost since its rebirth in 1948, as noted by the Jerusalem Post, Israel's economy has been dominated by government. Officials decided everything from the exchange rate to whether companies could raise capital. The government and labor unions controlled such big companies as Koor Industries and Israel Chemicals. While liberalization began in the 1980s, it stalled in the following decade - including during Netanyahu's first tenure as prime minister from 1996 to 1999 - as the country's technology industry and the so-called Palestinian peace process boosted growth. By the time Netanyahu left the Finance Ministry in 2005 to protest the Olmert government's retreat from the Gaza Strip, he had sold or begun selling El Al Israeli Airlines, the biggest carrier; Bezeq, the biggest telecommunications provider; and Israel Discount Bank, the third-largest lender. By cutting spending, Netanyahu helped reduce Israel's budget deficit to 1.8% of GDP in 2005 from 5.1% in 2003. (JP02.03)

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## 1.2 Israeli Cabinet Approves Defense Budget Supplement

Despite opposition from the Ministry of Finance, on 1 March the government of Israel approved an extra NIS 3.2 billion for the 2009 defense budget. Of this sum, NIS 2.45 billion will be passed onto the IDF to cover the replacement of equipment following Operation Cast Lead, while NIS 800 million will be kept in reserve for special events as set out in the Brodet Plan. The 2009 defense budget has not yet been approved. The cabinet meeting did not report what would be the source of this supplementary budget. The supplement in the defense budget approved was double the amount the Finance Ministry felt was needed to cover the cost of the Gaza campaign. The defense establishment claimed that the fighting in Gaza cost NIS 3.8 billion. (Globes 01.03)

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## 2: ISRAEL MARKET & BUSINESS NEWS

### 2.1 Misonix Announces New Distribution Agreement for Israel

Farmingdale, NY's Misonix, a developer of minimally invasive ultrasonic medical device technology used for the ablation of tumors and worldwide for other acute health conditions, has entered into a new, three year, exclusive distribution agreement with privately-held LAVI Industrial & Medical Agencies Ltd., based in Kfar Saba, Israel, for the distribution of the SonaStar Ultrasonic Surgical Aspirator and the BoneScalpel Ultrasonic Bone Cutter. The agreement provides LAVI with the rights to sell in Israel and includes minimum purchase requirements. LAVI's medical business has experienced steady sales growth for several years and has built a reputation as a distributor of state-of-the-art medical devices and capital equipment, with special emphasis in neurosurgery and spine surgery. Misonix designs, develops, manufactures and markets therapeutic ultrasonic medical devices and laboratory equipment. (Misonix20.02)

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## 2.2 Markstone Capital Partners Acquires Controlling Interest of TOMCAR

Tel Aviv's Markstone Capital Partners has acquired a controlling interest in TOMCAR Ltd. TOMCAR was founded in 1991 and is the acclaimed manufacturer of the highly capable TOMCAR TM2, TM4 and TM5 off-road vehicles which are available with a choice of gas or diesel engines. The TOMCAR is a military grade, high-performance vehicle originally designed for military and border patrol use and now being produced as a virtually indestructible commercial and recreational vehicle, built to go "ANYWHERE AND BACK." TOMCAR is based in Rochester Hills, Michigan with additional operations in Arizona and Israel, as well as strategic partnerships in Australia, Canada and the United Kingdom. Markstone Capital Group was established to take advantage of investment opportunities in old economy companies in emerging markets. The firm strives to position itself to benefit from market inefficiencies and other opportunities in these markets. (TOMCAR20.02)

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## 2.3 Elbit Systems Completes Acquisition of Shiron Satellite Communications

Elbit Systems announced that its wholly-owned Israeli subsidiary, Elbit Systems Land and C4I-Tadiran acquired all of the shares of Shiron Satellite Communications, a privately-owned Israeli company, for a purchase price of \$16m. Shiron is engaged in the broadband communication market. Its solutions are suited for the growing interactive multimedia broadband satellite market. Shiron's InterSKY satellite communications system provides broadband satellite services to remote locations Shiron's technology, well proven in the commercial market, is anticipated to be synergetic to the communication technology developed and implemented in ESLC-T's military systems and products.

Haifa'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 Company, which includes Elbit Systems and its subsidiaries, operates in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence surveillance and reconnaissance (C4ISR), 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. The Company also focuses on the upgrading of existing military platforms and developing new technologies for defense, homeland security and commercial aviation applications. (Elbit Systems24.02)

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## 2.4 Zitelman Group Leads Second Round Funding for eBIZ.mobility

The Zitelman Group led and raised Series B funding for Israeli-based eBIZ.mobility, creator of a pioneering online payment processing solution for digital content downloads. eBIZ.mobility's OneTouch Online Purchasing service, currently live in 26 countries, enables consumers to buy digital content online without a credit card or fear of identity theft. The system facilitates real-time user authentication and payment authorization, and allows consumers to charge downloads to existing accounts at phone companies, ISPs, prepaid cards and banks. The OneTouch solution, which is based on eBIZ.mobility's Federated Payment technology, is completely scalable and, unlike other online payment solutions, is not limited by international borders. It is specifically designed to profitably process the smaller fees, or micro-payments, often associated with digital content downloads like music, video clips, ring-tones and games. Consumers do not need to open and fund a separate account as is the case with other online payment mechanisms. The Federated Payment technology enables third party online payments using patent-pending ciphering and securing methods that eliminate the need to expose any consumer's personal or financial information online. The Zitelman Group is a Rockville, MD based Merchant and Investment Banking firm. Beit Shemesh's eBIZ.mobility (<http://www.ebizmobility.com>) provides the only commercial solution that enables consumers to buy digital content (music, videos, games, ring-tones, etc.) online without fear of identity theft or credit card fraud. (TZG03.03)

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## 3: REGIONAL PRIVATE SECTOR NEWS

### 3.1 GraphOn Corp. & K-Soft to Market GO-Global Solution throughout Arabian Gulf

Santa Cruz, California's GraphOn Corporation, a leading worldwide developer of application publishing and Web-enabling software solutions, has signed a reseller partnership agreement with Bahrain-based K-Soft Company to market GraphOn's GO-Global application deployment solution. K-Soft will market GO-Global to countries within the Gulf Cooperation Council (GCC) region, which includes Bahrain, Saudi Arabia, UAE, Oman, Kuwait and Qatar. GO-Global is a fast, simple and affordable application delivery solution that provides instant Web-enabled access to centrally-running Windows applications from any platform and operating system. GO-Global eliminates the need to modify applications for the Web or deploy complex, costly infrastructure such as Microsoft Windows Terminal Server or Citrix. (GraphOn23.02)

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### 3.2 NexCen Brands Opens First Co-Branded Marble Slab Creamery & Great American Cookies in Bahrain

Norcross, Georgia's NexCen Brands announced the opening of the first co-branded Marble Slab Creamery and Great American Cookies franchised store in Bahrain. The store opened in the City Centre Mall, a new large scale retail, leisure and entertainment complex located in the city of Manama, the capital of Bahrain. This is the first franchised store for Great American Cookies and the third for Marble Slab Creamery in Bahrain. Marble Slab Creamery is a leading purveyor of super-premium hand-mixed ice cream and the innovator of the frozen slab technique. Great American Cookies was founded in Atlanta, Georgia in 1977 on the strength of an old family chocolate chip cookie recipe. Great American Cookies is also known for its signature Cookie Cakes, trademark flavors and menu of gourmet products baked fresh in store. NexCen Brands is a strategic brand management company with a focus on franchising. The brands are managed by NexCen Franchise Management, Inc., a subsidiary of NexCen Brands. (NexCen27.02)

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### 3.3 Sikorsky Partnering with Mubadala to Open MRO Center in UAE

Sikorsky Aerospace Services and the Mubadala Development Company signed an MoU to form a joint venture that will establish a military aviation Maintenance Repair and Overhaul (MRO) Center serving the United Emirates Armed Forces and other military aircraft throughout the Middle East and North Africa. Mubadala is a leading business development and investment company headquartered in Abu Dhabi, United Arab Emirates. Sikorsky Aircraft Corp. is a subsidiary of United Technologies Corp. and the parent of the Sikorsky Aerospace Services aftermarket business, which will have a leading role as a partner in the new venture. The center will provide full logistics maintenance capabilities for the UAE Armed Forces' fixed and rotary wing aircraft, while developing market opportunities to support the military aviation industry throughout the region. Sikorsky Aerospace Services provides comprehensive support to rotary and fixed wing aircraft around the world. Mubadala Development Company (Mubadala) is a Public Joint Stock Company headquartered in Abu Dhabi, United Arab Emirates. Its focus is on developing and managing an extensive and economically diverse portfolio of commercial initiatives. It does this either independently or in partnership with leading international organizations. Mubadala's commercial strategy is fundamentally built on long-term capital-intensive investments that deliver strong financial returns. (Sikorsky Aerospace Services 23.02)

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### 3.4 LaserCard & Gemalto Sign Card Supply Agreement for Saudi Arabia National ID Card Program

Mountain View, California's LaserCard Corporation, a leading provider of secure ID solutions, announced the execution of a Card Supply Agreement with Gemalto for the supply of chip-ready optical memory cards for issuance as Saudi Arabian National ID Cards. The agreement, valued at approximately \$6m, marks the start of a new phase of the program where card issuance is expected to migrate from the regions of Saudi Arabia to a new centralized personalization facility in the Kingdom's capital city, Riyadh. Gemalto previously supplied and installed the centralized card personalization system in Riyadh and is responsible for processing the optical cards to embed a Gemalto supplied contact chip. The agreement calls for purchase order releases for shipments beginning immediately and continuing through December 2009. LaserCard anticipates combined deliveries this calendar year of \$11.2m of Saudi Arabian National ID Cards for this and a previously announced contract. LaserCard Corporation, together with its subsidiaries, is a leading provider of secure ID solutions to governments and commercial clients worldwide. (LaserCard26.02)

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### 3.5 Saudi Post Selects Intermec CN3 and IP30 to Improve Efficiency and Service

Saudi Post, the leading provider of mail and parcel delivery services in Saudi Arabia, has awarded Everett, Washington's Intermec Technologies a contract to equip its postal delivery team with CN3 mobile computers and add-on IP30 handheld RFID readers. The contract is a core component of the strategic partnership between the two organizations, and reflects Saudi Post's commitment to implement the most advanced technology available to improve delivery efficiency and provide enhanced services for its customers. This contract is the latest in a series of major postal wins for Intermec. As a leader in the class of small, advanced, rugged mobile computers, the CN3, with up to four integrated radios including GPS, will enable Saudi Post to stay connected with its postal workers through voice and high-speed data in real time, no matter where the workers are located. The integrated GPS system provides postal workers with hands-free, turn-by-turn voice navigation, making driving safer and more efficient. The versatility of the CN3/IP30 solution provides RFID read-write capability in a single device. (Intermec24.02)

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### 3.6 Flowserve Signs Valve Manufacturing Joint Venture with S&A Abahsain

Dallas, Texas' Flowserve Corporation, a leading provider of flow control products and services for the global infrastructure markets, announced the signing of a joint venture agreement with S&A Abahsain Co., a diverse Saudi Arabian business entity, spanning industry, trading, construction, real estate and services. Building on existing joint ventures with the Flowserve Pump and Seal divisions, Abahsain and Flowserve have expanded their relationship to include the manufacturing of control valves, ball valves, plug valves, butterfly valves, and electric and pneumatic actuators for the oil and gas, petrochemical, power and water industries. The joint venture, called Flowserve/Abahsain Flow Control Company Ltd., will begin initial manufacturing from a temporary facility in Al Khobar, Saudi Arabia. A new facility capable of manufacturing the full line of valve products is planned to be constructed in Dammam in 2009, and is expected to be operational by January 2010. Flowserve Corp. is one of the world's leading providers of fluid motion and control products and services. S&A Abahsain Co. Ltd. has since grown into a diverse business entity spanning industry, trading, construction, real estate and services markets. (Flowserve24.02)

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### 3.7 University of Pittsburgh Medical Center to Manage New Health Center in Cyprus

The University of Pittsburgh Medical Center (UPMC) and Paphos Plantations Ltd. (PPL) &ndash; a member of the Leptos Group -- are collaborating to develop a world-class health care center in Paphos, Cyprus, designed to offer a wide range of medical services to both local residents and foreign visitors to this Mediterranean island. Under the agreement, UPMC

will manage a new 100-bed hospital and the existing 36-bed Iasis Hospital in Paphos. With its global expertise in providing clinical, technological and hospital management services, UPMC will assist the new health complex in developing centers of excellence in such areas as oncology, transplantation, aesthetics, cardiology, orthopedics and minimally invasive surgery. The new hospital, to be completed in three to four years, will be an integral part of PPL's mixed-use Neapolis development. The project is expected to include a university, research center, office park and luxury lifestyle housing, as well as retail, entertainment, cultural and leisure facilities, in one of the largest landscaped parks on the island. The 23-year partnership with UPMC will be the first health care venture for PPL. UPMC is an integrated global health enterprise headquartered in Pittsburgh, Pennsylvania, and one of the leading nonprofit health systems in the United States. (Leptos Group26.02)

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## 4: ISRAEL MACRO-DEVELOPMENTS

### 4.1 Hadera Desalination Plant to Boost Output

Globes reported that the Israeli government has accepted a proposal of H2ID Ltd., the consortium that owns the Hadera desalination plant, to boost output from 100m cubic meters a year to 127m cubic meters. The government has asked the company to sign an agreement on the expansion, which it expects to do shortly. H2ID's franchise for the Hadera desalination plant expires in May 2027. The price for the increased water production will be NIS 2.60 per cubic meter, as set in the original franchise contract. H2ID is owned in equal shares by Arison Holdings Ltd. subsidiary Shikun u'Binui Holdings Ltd. (Housing and Construction) and IDE Technologies Ltd., a joint venture owned in equal shares by Delek Group Ltd. and Israel Chemicals Ltd. (TASE: ICL). (Globes 24.02)

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### 4.2 Merrill Lynch Reduces Israel Growth Forecast

Globes noted that Merrill Lynch has cut its 2009 growth forecast for Israel from zero to minus 0.7%. The outlook appears in an update on emerging markets. It kept its 2010 growth forecast for Israel unchanged at 1.5% growth. Merrill Lynch cited weaker exports as the reason for the lower forecast, on the basis of its revised global forecasts, which now point to a much weaker global trade volume in 2009. Merrill Lynch revised forecast follows UBS, which last month lowered its 2009 growth forecast for Israel to minus 0.8%. Merrill Lynch based this move on its assessment of Israel's small and open economy; as 70% of exports are destined for the US and Europe, Israel is not immune to the unfolding global recession. Since exports to the US accounting for almost 17% of Israeli GDP, GDP growth is likely to contract in 2009 with a modest recovery in the second half of the year. To counteract the deterioration in the growth outlook, the budget deficit will widen to 5% of GDP. Merrill Lynch predicts that Israel's inflation will reach 1% in 2009 and with inflation no longer a concern, the Bank of Israel will remain firmly focused on growth. The Bank will then cut the interest rate further to 0.25%. Despite Israel's strong invisibles income, the current account will fall into deficit as exports fall faster than imports, and the debt to GDP ratio will rise to 81%. (Globes 03.03)

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## 5: ARAB STATE & PAKISTANI DEVELOPMENTS

### 5.1 Jordan & US Sign Environment Cooperation Program

On 3 March, Jordan and the US signed a new work program that laid out a road map for environmental cooperation between the two countries. The program, launched in association with the Jordan-US Free Trade Agreement, was signed by Environment Minister Khaled Al-Irani and US Deputy Assistant Secretary Dan Reifsnyder. The program included implementation of environment projects in Jordan aimed to improve water quality, trace pollutant elements and impurities, conduct periodical checks of water quality in water purification plants, develop infrastructure, update environment-related laws and legislation and train environment police personnel. Speaking following the signing ceremony, Irani said the program aims to improve and protect environment in Jordan and follow up on environment strategies and legislation for the years 2009-2011 prepared by his ministry in partnership the relevant institutions in the two countries. The program was signed following the meeting of the Jordanian-US Joint Forum on Environmental and Technical Cooperation co-chaired by Irani and Reifsnyder. The two sides discussed ways to preserve and protect Jordan's environment. The joint forum was established in 2000 under the Joint Statement on Environmental Technical Cooperation, which the two countries issued in association with the Jordan-US Free Trade Agreement. The long-term objectives of the new program included improved protection and conservation of the environment, increased transparency and public participation in environmental decision-making, as well as the promotion of a culture of environment protection and compliance with environmental laws. The work program also identifies priority areas for future cooperation and recognizes the needs to establish benchmarks to measure progress towards achieving the countries' joint goals. (Petra03.03)

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### 5.2 New Jordanian Cabinet Aims to Tackle Economic Ills

On 23 February Jordan's prime minister reshuffled his cabinet, appointing new finance, foreign and interior ministers to give him more scope to tackle social and economic problems. The changes were aimed at giving greater cohesion to the cabinet of Prime Minister Nader Dahabi, appointed in November 2007 with a mandate to accelerate economic reforms. Officials said they were prompted by domestic considerations and were not expected to affect foreign policy. Pro-reformist Labor Minister Bassem al-Sale, who has strong business credentials, was appointed finance minister, replacing Hamad Kassarbeh and sending a strong signal to Jordan's donors and the IMF of its commitment to free market reforms. Pro-Western reformist Foreign Minister Salah al-Basheer, who has been a target of criticism by conservatives, was replaced by Nasser Joudeh, a veteran information minister and government spokesman. The new interior minister, Nayef al-Qadi, succeeds Eid al-Fayez, who had antagonized civil rights campaigners and the Islamist opposition by using heavy-handed police tactics to clamp down on dissent during parliamentary elections in 2007. Officials say the reshuffled cabinet will strengthen Dahabi's drive to rejuvenate the economy. His government faces an uphill task to ease the effects of the financial crisis on Jordan's aid-dependent economy. The stagnation of the economy has been aggravated by the country's ties to Gulf Arab states, where growth has been sharply cut after steep falls in oil revenues. Officials have privately trimmed growth forecasts to about 3%, compared with earlier predictions of more than 5% for 2009. (FM23.02)

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### 5.3 Jordan's Rank Climbs Up In Global Competitiveness Report

Jordan's rank improved remarkably in the Global Competitiveness Index (GCI) 2008-2009 in terms of the local market competitiveness index, Jordanian Industry & Trade Minister Al Hadidi said on 28 February. The Hashemite Kingdom ranked first amongst Arab countries and came 24 on the list of 134 countries when it comes to the local market size of competitiveness, according to Hadidi. According to a report, Jordan came in 49th place in this year's list compared to last year when it came 48th on the list of 131 countries. In terms of competitiveness policy efficiency index, Jordan ranked second in the Arab region and came in the 38th place on the world list becoming ahead of Turkey, Italy and Greece. The Minister noted that with this improvement Jordan has moved up by nine ranks compared to 2007 and 17 ranks compared to 2006 and came on top of many countries which started implementing competitiveness policy several decades ago. The Global Competitiveness Index, prepared by the World Economic Forum, is based on 12 pillars of competitiveness including institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods marketing efficiency, labor market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation. The report, Hadidi explained is an efficient indicator to measure competitiveness of world countries. It is also a tool to spot points of strength and weaknesses in the business sector so that a biggest momentum can be given to attract more foreign investment through creating a competitive environment between various economic sectors, the Minister said. (Petra28.02)

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### 5.4 Amman to Sign Oil Shale Agreement With Shell

Amman has completed talks with Royal Dutch Shell company to sign agreement on exploitation of deep oil shale for commercial purposes. Jordanian Minister of Energy & Mineral Resources Qteishat announced that the council of ministers discussed the agreement in terms of revenues, contracting commitments and rights of both sides. The company, Qteishat said, will spend about \$430m on studies, evaluation and expected revenues. The project is expected to attract up to \$20b of direct investments, he noted. (Petra24.02)

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### 5.5 Annual Value of Solar Energy in GCC Estimated at \$11 Billion

Solar energy is likely to quickly gather a foothold in GCC due to increasing energy demand and the huge potential economic value for solar energy, estimated at \$11 billion annually. A recent report by A T Kearney, Tapping the Sun: Embracing Solar Energy, shows the viability of renewable energy in the Middle East and North Africa (Mena) region. The report comes at a time when the UAE government has announced a renewable energy target of 7%. The UAE had recently joined the International Renewable Agency (Irena) as a founding member. Irena is an initiative that Germany launched with like-minded countries. Mandated by governments worldwide, Irena aims to become the main driving force in promoting a rapid transition towards the widespread and sustainable use of renewable energy on a global scale. For

example, the UAE could produce its drinking water with the use of renewable energies instead of gas and thus better meet its projected demand, with limited pressure on electricity production. In addition the country could then export the gas saved and use the proceeds to finance the investments required in solar energy and other infrastructure projects. However, while a commitment to renewable energy, such as solar power, is paramount to meet future energy demands, the growth of the solar industry will have to be supported by national and regional strategies. This may include the development of specialized free zones, education and research, strategic investments in state-of-the-art solar farms as well as industry specific incentives and regulation, said the report. (TradeArabia 19.02)

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## 5.6 UAE Bans Removal of Nationals for 'Flimsy' Reasons

The firing of Emirati nationals from private companies has been banned in the UAE under new legal regulations. On 18 February the Ministry of Labor passed a decision regulating the termination of Emiratis maintaining that they may not be made redundant for flimsy reasons. Any company wanting to terminate the employment contract of a national must be able to prove that the worker is inefficient or has violated labor laws. The law was drawn up by the National Human Resource Development and Employment Authority (Tanmia)m whose main task is to preserve the jobs of Emiratis. The law states that if a company was forced to terminate a local, because of restructuring or as a result of a merger, then it had to inform the ministry of its intention before moving forward with the decision. Every possible avenue had to be explored to keep a local employee in post before any such job loss would be sanctioned by the ministry. Part-time working, relocation, salary review and extra training for an alternative post must all be considered, and it will be unlawful to terminate an Emirati for lack of qualifications and skills if the probation period has passed. (AB18.02)

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## 5.7 Abu Dhabi Property Prices Down 25%

The new Abu Dhabi Real Estate Report, launched by Landmark Advisory, found that the average prices for Abu Dhabi's master developments have fallen by 15 to 25% since peaking in the third quarter of 2008 and are nearing original prices in the secondary market. For properties being delivered later than 2011, average prices are likely to fall up to 10% below original prices by the Q2/09, it said. Landmark Advisory said that the market is in a state of transactional gridlock in a market wanting transparency. Investors and speculators saw Abu Dhabi as the 'next big thing' after Dubai, but by then the financial crisis had already hit the UAE. Launch prices were benchmarked against Dubai's already inflated property values, so there was little room for appreciation even before liquidity dried up. Developers are now facing the prospect of renegotiating payments to prevent defaults and preserving enough cash flow to continue construction. Turning to Abu Dhabi's rental market, Landmark Advisory revealed that between Q4/07 and that of 2008, average villa and apartment rents grew by 35% and 80%, respectively. Rent growth leveled out in Q4/08 and has been relatively stable since, rising marginally in January and February. (TradeArabia 28.02)

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## 5.8 Palm Jumeirah Prices Drop Below \$272 Per Sq Foot

Prices on Nakheel's flagship Palm Jumeirah development have fallen to below AED1,000 (\$272) per square foot for the first time since the fall in prices began late last year. Several distress sales on the project have seen prices for 2 bedroom apartments, measured at just over 1,500 square feet, drop to AED1.4m. Some sellers are offering to off-load similar properties for just \$354,000. The drop is, according to estate agents, being accelerated by the oncoming Golden Mile project, developed by IFA Hotels & Resorts, which is due for handover beginning next month. There, many luxury two bedroom units at over 1,600 square foot are being offered for \$408,000. One agent said that the problem on the Golden Mile is that many owners are trying to sell their properties before hand over and are now prepared to take close to what they paid for them initially. This has meant the whole Palm area is seeing prices depressed. Late last year, estate agents reported selling two bedroom units on the Palm for about \$1m &ndash; three times the current price. (AB03.03)

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## 5.9 Dubai Launches \$20 Billion Bond Issue

On 22 February the government of Dubai launched a \$20bn sovereign bond program to ease tight liquidity conditions, saying the UAE Central Bank had subscribed to half of the issue. The move comes amid mounting concerns about whether Dubai, a regional tourism and trade hub, will be able to refinance debt it accumulated to finance expansion projects during a six-year economic boom spurred by high global energy prices. The bonds are aimed at securing the necessary funding for Dubai to meet its financial obligations and continue its development program. The five-year bonds would pay a fixed 4% interest per year. Dubai's mostly government-linked issuers will have to refinance about \$15bn in 2009, Moody's Investors Service said earlier this month. The cost of insuring Dubai's debt with credit default swaps (CDS) has gotten more expensive in recent months as investors worry the emirate could at risk of default. Dubai's real estate sector, a pillar of its economy, is facing a sharp price correction and hundreds of billions of dollars of construction projects have been canceled or put on hold in the UAE as a result of the economic slowdown. The UAE Finance Ministry and central bank have together launched \$32.67bn of funding facilities to help banks cope with the crisis. (AB22.02)

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## 5.10 Oman Pursues Big Port Despite Downturn

Oman will build a \$1.8b port at Duqm as part of its economic development plan despite a global downturn and a projected drop in oil revenue, Minister of National Economy Mekki announced on 19 February. The government expects "reasonable growth" for 2009 despite the financial crunch in part because it aims to pursue all the major state-led development projects it has launched, using surplus oil revenue or state reserves, if needed, he said. Oman plans to diversify its economy away from oil income dependency, which makes up about 75 % of national revenue, and is pursuing a number of large-scale infrastructure projects. The government has already awarded 220 million rials worth of infrastructural projects since the beginning of the year, according to the state figures. The Duqm development in central-eastern Oman aims to create a new city to serve as a key administrative, industrial and commercial centre. The first phase of the Duqm project calls for the port and a dry dock expansion. Phase 2 includes an airport, an extensive road network and a free trade zone for industries. (TradeArabia19.02)

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### 5.11 Egypt Falls 25 Places in Competitive Industrial Performance Index

Egypt fell 25 points in the Competitive Industrial Performance (CIP) index, according to a UN report. In late February the United Nations Industrial Development Organization (UNIDO) released its annual Industrial Development Report, which saw Egypt's rank fall to 75 from 50. Tunisia and Morocco topped the MENA region and continued to improve in industrial competitiveness. Both have emerged as small dynamic economies able to compete in global markets in basic manufacturing as well as more sophisticated products, the report said. Several economic experts stressed that with foreign direct investment (FDI) inflows expected to fall and tourism likely to suffer; developing nations that depend on tourism and revenue-led growth have to find an alternative. The report goes on to highlight 10 case studies of dynamic industrial development in different countries and demonstrates how these nations have developed strategies to help themselves. The report aims to create a blueprint for action to help the world's poorest countries out of poverty. (WEF28.02)

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### 5.12 Egypt Minister Sees Growth Rebounding To 9%

Egypt's economic growth rate could rebound to between 7 and 9% after the global economic crisis, Finance Minister Boutros-Ghali said, even as the Arab world's most populous nation braced for what analysts predicted would be a steep fall in revenues in vital sectors like tourism. He also said that based on consumption indicators and government policies to boost growth, he believes Egypt will be able to weather the current economic slump. The minister gave no timeframe as to when he expected the growth rate to rebound or the global crisis to end. Boutros-Ghali's remarks, made at a conference on 23 February, reflected another show of optimism by the government in a country that has over the past couple of years seen its reform program help propel gross domestic product growth to slightly over 7%. Even so, Egypt faces daunting challenges, with about 20% of its 78m residents living below the poverty line of \$2 per day, according to the World Bank. The global meltdown has already pushed economic growth down to 4.1% in the second quarter of fiscal 2008-2009, and is expected to squeeze key sectors like the Suez Canal and tourism. (DNE24.02)

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## 6: TURKISH, CYPRIOT, GREEK & BULGARIAN DEVELOPMENTS

### 6.1 Turkey's CPI falls 0.34%, PPI up 1.17% in February

The consumer price index (CPI) fell 0.34%, while the producer price index (PPI) increased 1.17% in February, the Turkish Statistical Institute (TURKSTAT) said on 3 March. Turkish CPI realized 7.73% for the 12 months of 2008, as the annual PPI fell to 6.43%, TURKSTAT said. Consumer prices were down 0.06% in the first two months of the year, compared to the same period of 2008, while producer prices were up 1.40%. The figures also revealed that according to 12-month averages, Turkey's annual inflation registered 10.41% for consumer prices and 12.63% for producer prices. (TURKSTAT03.03)

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## 6.2 Turkish Unemployment Rises

An announcement of recent economic indicators on 16 February by the Turkish Statistical Institute (TUIK) has revealed that the number of unemployed people rose by 645,000 over the previous year, reaching 2.99 million in the period from September through November 2008. This represents an increase in the unemployment rate from 10.1 % during the same period of 2007 to 12.3 % in 2008. While the unemployment rate in rural areas was only 9.3 %, it reached 14.2 % in urban areas, and was 23.9 % among the youth. The number of employed people reached 21,315,000, marking a 448,000 increase over the previous year. Of the entire pool of unemployed, around 72.6 % were men, and about 59.4% did not have a high school diploma. Some 26.6 % had been seeking employment for more than a year. (Hurriyet 17.02)

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## 6.3 Turkey's February Exports Decline 35%

Turkey's February export figures show exactly how much the country's economy has been impacted by the contraction in key export markets, as well as by falling demand. The slowdown in key markets of Western Europe and elsewhere has dealt a heavy blow to Turkey's exports. Turkish exports fell 35% year-on-year in February to \$6.87b, according to Turkish Exporters Association (TIM). Turkey's exports within the first two months of the year totaled \$13.0b. The country's 12-month period exports rose 8% to nearly \$121.7b. Automotive industry, although hit hard by the global economic crisis, still managed to implement exports worth \$1.98b. It was the only industry that has managed to surpass \$1b in exports. The iron and steel industry followed automotive with exports worth \$984m. Ready-to-wear clothing industry exports were worth \$967m. Exports of sectors related to agriculture and stockbreeding dropped 3.31% in February. These sectors had a 14.39% share in Turkey's total exports for the month of February. Industrial exports covered 83.88% of Turkey's total February exports. However, industrial exports also contracted 38.26% to nearly \$5.76b in the period. Industrial's exports for the first two months of the year totaled \$11.5b, according to TIM data. Industry's 12-month period exports surpassed \$104.5b. (Hurriyet03.03)

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## 6.4 Turkey's Richest Oil Reserve Ever Found In Diyarbakir

The Turkish Petroleum Corporation (TPAO) announced it discovered rich oil reserves during their oil exploration in the southeastern province of Diyarbakir. According to TPAO, the recently discovered reserves are the largest oil reserves ever found in Turkey. The reserves are predicted to amount to 16m barrels of crude oil. Half of these 16m barrels would go to TPAO and the other half to Perenco - a French oil company operating in Turkey. TPAO plans to use the money earned from the Diyarbakir reserves to fund further oil exploration. Noting that they have already started drilling for oil in 20 wells in the Diyarbakir region, TPAO said they planned to start exploring for oil in 16 other sites in the vicinity, including the Cudi Mountain area, later this year. The TPAO produces 30,000 barrels of oil a day in Turkey. (Zaman28.02)

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## 6.5 Cypriot Enterprises Spend More For Environmental Protection

Cypriot industrial enterprises' expenditure for environmental protection activities recorded a significant increase in 2007 compared to 2006, according to the latest data published by Cyprus Statistical Service (CyStat). The results of a survey carried out by the Statistical Service show that the total expenditure for environmental protection activities in industry in 2007 is estimated at €41.5m, which corresponds to 0.27% of the Gross Domestic Product, compared to €29.5m, or 0.20%, in 2006. This growth is mainly attributed to increased capital expenditures by the cement industry. The corresponding expenditures in the member states of the European Union are estimated at 0.44% of the GDP. According to the results of the survey, by sector of economic activity, the manufacturing industries reported expenditures of €38.1m, the mining and quarrying industries €2.9m and the electricity & water enterprises €0.5m. In the manufacturing sector, where the highest expenditure is recorded, manufacturing of other non-metallic mineral products accounts for €18.6m, manufacturing of food products and beverages for €10.6m and manufacturing of wood and products of wood (except furniture) for €3m.

Finally, by environmental domain, expenditure related to: the reduction of air emissions €19.0m the monitoring, treatment and disposal of waste €10.7m, the treatment of waste water €8.8m, the protection of soil and ground water and the protection of natural resources and biodiversity €2.5m and the abatement of noise and vibrations €0.5m. (FM23.02)

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## 6.6 Greek PM Steadfast On Spending Cuts

On 2 March Greek Prime Minister Karamanlis said that his government would stick to a plan to curb state spending to offset the impact of the global financial crisis but reassured Greeks that there would be no new taxes. Speaking on the sidelines of a EU summit in Brussels where delegates discussed ways to tackle the fallout from the financial crisis, Karamanlis said it was important to realize "that we are experiencing extraordinary circumstances" and that some restrictions would be unavoidable. However he ruled out the imposition of new taxes despite widespread speculation that the government would resort to this measure. He said also that the country had "no problem servicing its debt." The premier also took the opportunity provided by the Brussels press conference to dampen speculation about early elections. There are rumors that Karamanlis had been considering the possibility of holding surprise polls in June, when European Parliament elections are scheduled, but that he had reconsidered following a

series of embarrassing developments for the government, including a helicopter escape from Korydallos Prison of two notorious convicts. Opposition parties were quick to criticize the government for its stance at the EU summit and its approach toward dealing with the impacts of the economic crisis. (Kathimerini03.03)

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#### 6.7 Greek Retail Sales Volume Falls 7.1% In December

Greece's retail sales by volume fell 7.1% year-on-year in December after a 4.8% drop in November, National Statistics Service (NSS) data showed on 27 February. Retail sales by revenues dropped 4% year-on-year in December after a 1.1% drop the previous month. The figures showed a significant slowdown in consumer spending in most sectors in December. This development was partly due to civil unrest in Greece. (NSS27.02)

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#### 6.8 Bulgaria Business Climate Worsens in February 2009

Bulgaria's Composite Business Climate Index has declined by 3,3% in February 2009, according to data of the National Statistical Institute released on 27 February. The respective business climate indexes in industry, trade, and services all show declines, and only the Business Climate in Construction Index retains its levels from January 2009. Thus, as the Bulgarian economy is increasingly becoming affected by the effects of the global financial crisis, the country's Composite Business Climate Index is now going down to its 2001 levels. The managers of top Bulgarian manufacturers expect that economic situation would worsen in the next six months as a result of the widespread economic insecurity, and the steady decline of export orders from abroad. According to the NSI data, Bulgaria's February production activity has decreased by 11%, and the export orders from abroad have declined by 4,7% compared to their January levels. In January 2009, Bulgaria's Composite Climate Business Index declined by 0,6% compared with December 2008. With the February decrease, Bulgaria's business climate has declined for the fifth consecutive month, after the initial decrease in October 2008. (TSW28.02)

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### 7: GENERAL NEWS AND INTEREST

\*ISRAEL:

## 7.1 Israel & World Jewry Celebrate Purim Holiday

On 9/10 March, most of Israel and Jewry around the world will mark the holiday of Purim. Purim is one of the most joyous and fun holidays on the Jewish calendar. It commemorates a time when the Jewish people living in Persia were saved from extermination. The story of Purim is told in the Biblical book of Esther. The heroes of the story are Esther and her cousin Mordecai, who raised her as if she were his daughter. Esther was taken to the house of Ahasuerus, King of Persia, to become part of his harem. King Ahasuerus loved Esther more than his other women and made Esther queen, but the king did not know that Esther was a Jew, because Mordecai told her not to reveal her nationality. Haman, an arrogant, egotistical advisor to the king, hated Mordecai because Mordecai refused to bow down to Haman, so Haman plotted to destroy the Jewish people. Mordecai persuaded Esther to speak to the king on behalf of the Jewish people. Esther fasted for three days to prepare herself and then went into the king. She told him of Haman's plot against her people. The Jewish people were saved and Haman was hanged on the gallows that had been prepared for Mordecai.

The Purim holiday is preceded by a minor fast, the Fast of Esther (9 March), which commemorates Esther's three days of fasting in preparation for her meeting with the king. The primary commandment related to Purim is to hear the reading of the book of Esther. The book of Esther is commonly known as the megillah, which means scroll. It is customary to boo, hiss, stamp feet and rattle gragers (noisemakers) whenever the name of Haman is mentioned in the service. The purpose of this custom is to "blot out the name of Haman." Jews are also commanded to eat, drink and be merry. In addition, they are commanded to send out gifts of food or drink, and to make gifts to charity. The sending of gifts of food and drink is referred to as mishloach manot (lit. sending out portions). Purim is not subject to the Sabbath-like restrictions on work that some other holidays are; however, some sources indicate that Jews should not go about their ordinary business on Purim out of respect for the holiday. Purim is also celebrated later (10/11 March) in Jerusalem.

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## 7.2 Mawlid Al Nabi Holiday to Be Celebrated

Mawlid al-Nabi, a celebration of the birthday of the Prophet Muhammad, founder of Islam, will be celebrated on 9 March. The day is fixed at the 12th day of the month of Rabi al-Awwal in the Muslim calendar. Muhammad was born about 570 and died in 632. During his life, he established Islam as a religion and, in doing so, replaced tribal loyalty with equality among all Muslims. At a critical point in his life, Muhammad received a vision of the angel Gabriel who called him into service as a prophet. He later received a second vision of Gabriel who told him to "magnify thy Lord." Muhammad then began to preach publicly in Mecca where he had lived for many years. Many people were receptive to his message but others ridiculed him. Because of the opposition of many citizens of Mecca and threats against him, Muhammad fled to Yathrib in 622. This journey of nearly 200 miles is known as the Hegira and is so important that the Muslim calendar begins with the year of the Hegira. The Mawlid al-Nabi was first observed around the thirteenth century and was preceded by a month of celebration. The actual day of Muhammad's birthday included a sermon, recitation of litanies, honoring of religious dignitaries, gift giving and a feast. The festival spread throughout the Muslim world and is celebrated in many countries today. However, some conservative sects (e.g., the Wahhabiyah) consider the celebration to be idolatrous.

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### 7.3 The 120 MKs of Israel's 18th Knesset Sworn In

On 25 February, 31 new MKs and 89 veterans, accompanied by their invited guests, heard the addresses of President Peres and Acting Speaker Michael Eitan open the first session of the 18th Knesset, as they pledged to uphold the laws of the State. The session opened with King David's Psalm 121, Shir LaMaalot, sung by the Moran-Beit Yitzchak children's choir and composed by popular Jewish music singer Yosef Kardoner. The choir, comprising many children of immigrants from Ethiopia, later also sang "Song of the Journey to the Land of Israel." Just over a quarter of the Knesset are newcomers, and several others were Knesset Members in earlier terms. MK Michael Eitan (Likud), the most senior non-Minister in the Knesset, assumed the leadership of the session after Peres completed his speech. Acting Knesset Speaker Eitan then read aloud the Prayer for the Welfare of the State of Israel, asking G-d to "bless the sprouting of our national redemption" and to "spread Your light upon those who stand at its head." He noted that this was his eighth consecutive Knesset term, having first entered the Knesset in August 1984. Eitan also took advantage of his lengthy speech to advocate for, among other things, a constitution for Israel. Each new MK then took the oath of office, according to alphabetical order and from their seats, to keep and maintain the laws of Israel and the regulations of the Knesset. The session ended with the singing of the national anthem, HaTikvah. (IsraelINN25.02)

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\*REGIONAL:

### 7.4 Female MPs Glad To Wear Pants In Turkey

After more than a decade of petitioning, female deputies welcomed the Turkish Parliament's regulation amendment that would allow them to wear trousers in the general assembly. The current regulation requires women deputies to wear long skirts. The initiative to amend the regulation was correct in saying that an imposed dress code was not appropriate for freedom and human rights, MP Gulden Kisanak said, adding that she liked wearing trousers and it was a new freedom for her. (Hurriyet25.02)

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## 8: ISRAEL LIFE SCIENCE NEWS

### 8.1 Pluristem Cleared by FDA to Begin "First-In-Human" Placenta-Derived Stem Cell Clinical Trial

Pluristem Therapeutics announced that the US FDA has cleared the Company's Investigational New Drug (IND) application to initiate a Phase I clinical trial for the treatment of Critical Limb Ischemia (CLI), the end stage of peripheral artery disease (PAD), using Pluristem's PLX-PAD. This will be the world's first clinical trial using PLX-PAD, Pluristem's placenta-derived stem cells that are expanded using the Company's proprietary 3D PluriX technology. PLX-PAD is an

off-the-shelf, one-size-fits-all product that needs no tissue matching prior to being administered to patients. In this Phase I dose ranging trial, to be conducted at multiple locations in the US, PLX-PAD will be administered to patients considered "late stage" and defined as patients afflicted with CLI that have not responded to traditional medical or surgical interventions. Haifa's Pluristem Therapeutics (<http://www.pluristem.com>) is a bio-therapeutics company dedicated to the commercialization of unrelated donor-patient (allogeneic) cell therapy products for the treatment of several severe degenerative, ischemic and autoimmune disorders. The Company is developing a pipeline of products, stored ready-to-use, that are derived from human placenta, a non-controversial, non-embryonic, adult stem cell source. (Pluristem02.03)

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## 8.2 Copaxone Approved by the FDA for Patients with a First Clinical Event Suggestive of Multiple Sclerosis

Teva Pharmaceutical Industries announced that the U.S. FDA has approved an expanded indication for COPAXONE (glatiramer acetate injection) to include the treatment of patients who have experienced a first clinical episode and have magnetic resonance imaging (MRI) features consistent with multiple sclerosis (MS). The FDA's approval follows a similar decision by the Medicines and Healthcare Products Regulatory Agency (MHRA) in February 2009 under which 24 EU member states have mutually recognized an expanded label for COPAXONE to include the treatment of patients with clinically isolated syndrome (CIS) suggestive of MS. Up to 85% of MS patients initially experience a single neurological event suggestive of MS, known as CIS, and it has been demonstrated that early treatment initiation delays conversion from CIS to clinically definite MS (CDMS). This expanded indication in the U.S. and Europe allows patients to begin treatment with COPAXONE from the very early stages of the disease. Teva Pharmaceutical Industries (<http://www.tevapharm.com>), headquartered in Israel, is among the top 20 pharmaceutical companies in the world and is the world's leading generic pharmaceutical company. The Company develops, manufactures and markets generic and innovative human pharmaceuticals and active pharmaceutical ingredients, as well as animal health pharmaceutical products. (Teva03.03)

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## 8.3 Sol-Gel Technologies' Anti-Acne Kits Ready for Marketing

Sol-Gel Technologies announced that a new generation of anti-acne kits, based on the company's proprietary microencapsulation technology, is ready to be marketed. The kits have completed successful clinical trials and the results will be presented at the International Congress of Dermatology later this year. Sol-Gel's Anti-Acne Kits provide a benzoyl peroxide-based acne care program demonstrated to be exceptionally effective and tolerable. Sol-Gel's Anti-Acne Kits feature the company's patented drug delivery systems that use an innovative encapsulation of the active ingredients to provide an optimal solution for topical drugs. The microcapsules form a unique protective barrier between the drug and the skin, while at the same time, enable the accurately-controlled release of the active ingredients over time. Studies show that Sol-Gel's Anti-Acne Kits provide a remarkably comfortable regimen that can effectively and safely deliver higher concentrations of benzoyl peroxide to a wider range of patients. The kits' vastly improved therapeutic profile of efficacy and tolerability can be expected to positively impact patient compliance and quality of life. Ness Ziona's Sol-Gel Technologies (<http://www.sol-gel.com>) is a fast-growing specialty pharmaceutical company focusing on enhancing topical pharmaceutical products. Since being founded in 1997, the company has advanced skincare products to market and developed a pipeline of prescription and over-the-counter products, intended to address dermal medical conditions affecting large patient populations. (Sol-Gel03.03)

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## 9: ISRAEL PRODUCT & TECHNOLOGY NEWS

### 9.1 VMB Selects VocalTec for VoIP Network Roll Out

VocalTec Communications announced that VMB, a city carrier in St. Petersburg, Russia, has selected VocalTec's solutions for its VoIP network roll out. Performed in partnership with SATEL, a leading system integrator in Russia, the deployment is focused around the migration of VMB's infrastructure into an advanced packet-based Class 4 and Class 5 network. VocalTec's solutions will enable VMB to offer its customers new and innovative services based on a highly reliable and field-proven VoIP network, while at the same time reducing costs, enhancing flexibility and increasing network efficiencies. The deployment includes VocalTec's Essentra CX Trunking solution, offering seamless connectivity to PSTN/SS7 services; the Essentra EX, Peering Manager, enabling secure IP-to-IP routing and service mediation; and the Essentra BAX, Application Server, and class 5 softswitch, which provides cost-effective residential and enterprise VoIP services. Herzliya's VocalTec Communications (<http://www.vocaltec.com>) is a global provider of carrier-class multimedia and voice-over-IP solutions for communication service providers. A pioneer in VoIP technology since 1994, VocalTec provides proven trunking, peering and residential/enterprise VoIP application solutions that enable flexible deployment of next-generation networks (NGNs). (VocalTec23.02)

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### 9.2 Dune Networks' PETRA Wins Best Switching Product of the Year

Dune Networks has been awarded the Best Network Switching Product for 2008 by En-Genius Network. Founded in 2001 under the banner of analogZONE, the expanded site that has become the EN-Genius Network is the premier source of information for electronic design engineers working in the fields of power management, audio/video, acquisition, connectivity, networking, wireless applications, dsp, programmable logic and green engineering.

By quadrupling the level of integration of devices in the market today, Dune's PETRA family drives the evolution of Ethernet switches toward dense 10GE-port systems. The PETRA family enables the economic design of non-blocking switches with deep buffering and densities of hundreds of 10GE ports in a single shelf. The devices further support 40GE or OC768c-rate ports and are ready for 100GE port rates. The PETRA family enables system vendors to structure a range of products that share the same switching and traffic-management infrastructure, while taking into account different densities and different applications. Vendors can design a small, cost-effective chassis by meshing several PETRA devices, without the need for fabric devices/cards. One could design a half-rack chassis with densities of hundreds of 10GE ports by interconnecting the PETRA devices with the fabric element devices. Multiple chassis of different sizes can be interconnected in a non-blocking, resilient way via a multi-stage fabric arrangement, supporting a world record of over 100Tbps of line-rate capacity or thousands of 10GE ports or 40GE/100GE equivalent.

Yakum's Dune Networks (<http://www.dunenetworks.com>) is a semiconductor supplier of networking devices, facilitating

the build of Data Center, Enterprise and Carrier Ethernet solutions. Dune provides a switching solution that truly scales in capacity, port rate and service scheme. This extends the life cycle of packet platforms from the legacy 3 years up to 10 years and more, revolutionizing the economics of packet networks. (Dune19.02)

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### 9.3 Pelephone Israel to Offer Emoze to Over 2 Million Users

Pelephone Israel's leading mobile service provider has chosen Emoze as the ideal service to provide the ultimate in mobile messaging to its 2.4m active users. Pelephone, the first mobile service provider operating in Israel, now hits another home by being the first operator to offer its subscribers the unique Emoze portfolio of email and social networking messaging on their new 3G GSM network. Pelephone subscribers will be able to read and reply to email and Facebook messages, check their calendar and keep all their contacts intact on whichever mobile device they choose. Pelephone will make Emoze available on a wide variety of mobile devices from standard Java-enabled handsets to expensive smartphones. The Emoze embedded client will enable all Pelephone users to get their emails, contacts, calendar and social messaging on their mobile device in real-time and fully synchronized with their PC or laptop." Users will now be able to mix "business with pleasure" on ONE client with the ability to push their business emails as well as their home ISP, their Gmail or other web-based accounts and even their social community messaging such as Facebook. Ra'anana's Emoze (<http://www.emoze.com>) is the ultimate messaging aggregator making Email, PIM data and social community messaging available to anyone, anywhere on the widest range of existing mobile devices from standard mass market devices to smart phones. The Emoze portfolio includes personal, enterprise and service provider solutions. Emoze supports Exchange, Lotus Notes, Gmail, ISP solutions, Facebook and more. (emoze 23.02)

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### 9.4 BluePhoenix Announces New Contracts with Two UK Financial Institutions

BluePhoenix Solutions signed contracts with two major financial institutions in the UK totaling in excess of \$1m. The projects, encompassing the supply of modernization services and software licenses, will complete in early 2010. Both of these institutions are well-recognized, multinational financial services companies that provide mortgage, insurance and other banking services, and are repeat customers for BluePhoenix. Each turned to BluePhoenix to provide enhancements to their core business systems and for increased system capacity. Herzliya's BluePhoenix Solutions (<http://www.bphx.com>) is the leading provider of value-driven legacy IT modernization solutions. BluePhoenix offerings include a comprehensive suite of tools and services from global IT asset assessment and impact analysis to automated database and application migration, re-hosting, and renewal. BluePhoenix provides modernization solutions to companies from diverse industries and vertical markets such as automotive, banking and financial services, insurance, manufacturing, and retail. (BluePhoenix24.02)

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## 10: ISRAEL ECONOMIC STATISTICS

## 10.1 Israel's State of the Economy Index Continues To Decline

On 19 February, the Bank of Israel announced that the composite State of the Economy Index fell by 1.2% during January. The sharp fall, combined with the drops in previous months as well, illustrates the economy's descent into a recession. According to the Bank of Israel, the first signs of the recession were seen in the composite index in Q4/08. The worsening state of the economy was seen in the falls in most components of the index, and in an especially sharp fall in the trade and services revenue index. The index of manufacturing production, though, actually rose slightly. (BoI19.02)

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## 10.2 Israeli Economy Shrank 0.5% in Fourth Quarter

On 23 February, the Central Bureau of Statistics announced that Israel's GDP shrank by 0.5% in annual terms during Q4/08. The decline follows rises of 0.9% in Q3/08 and 3.2% in Q2/08. As macro-economic indicators have only worsened since the end of 2008, the GDP will continue to decline in Q1/09. Should this come to pass, then Israel will officially be in a recession, as a recession is usually defined as two successive quarters of negative growth. The figures also show that, at fixed prices and seasonally adjusted, GDP rose an annualized 1.1% in H2/08, following a growth rate of 4.8% in H1/08 and 6% in H2/07. In H2/08, private consumption fell at an annualized rate of 1.1%, after rising at a rate of 4.8% in the first half. Private consumption per capita (standard of living) fell at an annualized rate of 2.9%, after rising at a rate of 3.0% in the first half. Per capita spending on consumer durables fell 28.0%, after rising 24.7% in the first half and by 15.1% in the corresponding period in 2007. The fall in consumption was particularly marked in per capita purchases of motor vehicles, which fell by an annualized 56.6% in the second half of 2008 after rising at a rate of 70.5% in the first half. Per capita spending on furniture fell 15.2% in the second half of 2008, after rising at an annual rate of 7.1% in the first half, while purchases of domestic equipment (refrigerators, washing machines, air conditioners, and so on) fell by an annual 4.4% per capita in the second half of 2008, after rising at a rate of 5.4% in the first half. Exports of goods and services, excluding diamonds and sales of start-up companies, fell 6.6% in annual terms in the second half of 2008. Investment in property and fixed assets fell by an annual 5.6% in the second half of 2008, after rising by an annual 1.6% in the first half, and by an impressive 24.4% in the corresponding period in 2007. (CBS23.02)

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## 10.3 Israel's Manufacturers Expect Sharpest Drop Ever In Exports

The Manufacturers Association of Israel predicts that Israeli exports will fall by 10% in 2009 to \$35b. The prediction is based on projections of international trade in goods. Manufacturers Association Department of Economic Research and Strategy said that Israel has never experience such a sharp fall in exports. It is felt that the drop in exports will ease to 2.5% in 2010. Overall, global trade is expected to shrink by 3.5% in 2009, far worse than the 0.3% contraction experienced in 2001. On the basis of this figure, Israeli industrial exports can expect to fall by 16%. However, two factors will ameliorate this fall. The first is Intel's new Fab 28 in Kiryat Gat, which is expected to export \$1.5-2b worth of

processors in 2009, which will shave 4.5-5% - a third - off the expected plunge in exports. The second factor is improved competitiveness of Israeli industry, on the assumption that the shekel's weakness persists, and even increases, over the coming year. This will improve Israel's terms of trade and could offset part of the effect of falling global trade and improve exporters' profits. (Globes 22.02)

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#### 10.4 Vehicle Deliveries Down 40% In January-February

The Israel Motor Vehicles Importers Association announced on 3 March that 23,646 new vehicles were delivered in January-February 2009, 40% fewer than in the corresponding months of 2008, based on licensing figures. Deliveries of new cars were also down 40% to 19,342 in January-February, with 12,327 cars were delivered in February, 35% fewer than in February last year. Deliveries of off-road vehicles fell 25%, the first drop in three years. The slump in new vehicle deliveries was due to the halt in orders by leasing companies, and the hesitation by owners of car fleets to renew leasing contracts following a sharp rise in prices. Demand by individuals has also ground to a halt. Nonetheless, some rental companies placed large orders for new cars in February, most towards the end of the month, because of the drop in inventory of rental cars and the need to meet interim demand. Industry sources believe part of this spike in orders was due to long-term credit offered by car importers.

Mazda was the leading brand, with 4,007 deliveries in January-February, 47% fewer than in the corresponding months of last year. Hyundai was in second place, with 3,229 deliveries, down 12.3%. Ford was in third place, with 2,232 deliveries, down 2%. Chevrolet was in fourth place, with 1,585 deliveries, down 48%. Toyota was in fifth place, with 1,577 deliveries, down 63%. Nissan was in sixth place. Deliveries in January-February by importer were as follows: Ford and Mazda importer Delek Motors, with 6,239 deliveries, 37% fewer than in the corresponding months of last year. Mercedes Benz, Mitsubishi and Hyundai importer Colmobil was second place, with 4,252 deliveries, down 20%. (Globes 03.03)

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### 11: In Depth

#### 11.1 JORDAN: Keeping Investors Engaged

As many economies in the region suffer as a result of reduced energy revenues and a bottoming real estate market, Jordan is continuing to take steps to expand trade and attract investment to keep its economy moving forward. As cited by the Oxford Business Group, Patrick Renaud, head of the European Commission Delegation to Jordan, told the local press that the most important challenge facing Jordan, in light of the global financial crisis, was creating favorable conditions to attract investments, provide job opportunities and increase productivity and exports.

The government has been implementing investor friendly reforms for some time now and these efforts have begun to bear fruit. The 2009 Index of Economic Freedom, released by The Wall Street Journal and The Heritage Foundation on 13 January 2009, ranked Jordan 51st worldwide out of 179 many countries, with a score of 65.4, up 1.3 points from 2008. The report mentioned a substantial increase in business freedom, moderate increases in trade freedom and government size and a slight decline in corruption as reasons for the upgrade.

As critics of some of the moves made by the US and certain EU members may suggest a more protectionist outlook, Jordan continues to look to free trade as a driver for economic growth. Since signing a Free Trade Agreement (FTA) with the US in 2000, the Kingdom has inked FTAs with the European Free Trade Association (Norway, Iceland, Switzerland and Liechtenstein), the EU (through the Agadir Agreement) and Singapore. Free trade negotiations are also underway with Turkey and Canada.

More recently, in October 2008, during a visit to South America, King Abdullah and Argentinean President Cristina Kirchner discussed the potential economic benefits an FTA would mean for both countries. After the meeting, they announced that Jordan's framework agreement with regional trading bloc Mercosur, signed in July 2008, could lead to a Jordan-Argentina FTA.

Furthermore, in February Pakistan's Ambassador to Jordan, Mohammad Akhtar Tufail, announced that Jordan and Pakistan expected to sign a FTA by the end of this year. To that end, Pakistan is sending its Secretary General of the Ministry of Trade and Commerce to Jordan in March to finalize the draft deal. The leaders of the two countries, Pakistani President Asif Ali Zardari and King Abdullah, will have the opportunity to discuss the final agreement at the World Economic Forum on the Middle East in May. Trade between Jordan and Pakistan, currently valued at about \$50m, is set to increase significantly following the signing of the agreement.

New FTAs do not only create opportunities for investors but are also one way that Jordan hopes to reduce its widening trade deficit, which rose from JD5.66bn (\$7.98bn) in 2007 to JD6.45bn (\$9.10bn) in 2008, an increase of 14% according to the DoS. Total exports were up 37.7%, from JD3.18bn (\$4.49bn) to JD4.38bn (\$6.18bn), while imports increased 23.2%, from JD9.72bn (\$13.71bn) to JD11.97bn (\$16.88bn) during the same period of time.

The outlook for Jordan in the year ahead remains strong. "The Jordanian economy is diverse and we expect to see real GDP growth of 4-5% in 2009 with inflation falling to single digits, in the 5-7% range," Jalil Tarif, CEO of the Amman Stock Exchange told OBG last week. "However, things aren't rosy everywhere and there will be major challenges in certain sectors," he added. Construction, tourism and remittances from abroad are likely to experience a slump in 2009, according to Tarif. Government efforts to establish trade relationships with a variety of partners are opening up new markets for Jordanian goods while legal and regulatory changes are keeping investors engaged. (OBG02.03)

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## 11.2 JORDAN: Pharmaceuticals & Healthcare Report Q1 2009

Research and Markets (<http://www.researchandmarkets.com>) has announced the addition of the "Jordan Pharmaceuticals and Healthcare Report Q1 2009" report to their offering.

The global economic slowdown is expected to have mixed consequences for Jordan's pharmaceutical and healthcare market. Without oil reserves, the collapse of the global oil price is likely to have less serious repercussions for Jordan than for many of its Middle Eastern neighbors, whose economies are highly reliant on oil exports. For this reason, we maintain a relatively bullish forecast for pharmaceutical consumption. Jordan's drug market was worth around \$370mn in 2008. BMI forecasts annual average growth of 8.5% to reach \$553mn in 2013.

However, Jordan's export-focused pharmaceutical industry is expected to be more seriously affected by the slowdown. Indeed, the country's manufacturing industry has been developed on the back of strong foreign direct investment (FDI), which is likely to dry up as the global economy slides into recession. Meanwhile, the Jordanian dinar's peg to the US dollar is likely to offer at least a degree of stability for drug makers looking to export to the US. As a major consumer of Jordan-made pharmaceuticals, the US Food and Drug Administration (FDA) is even planning to open a local office in Jordan during 2009 as part of its plans to increase scrutiny of pharmaceutical imports to the US.

The country's largest drug maker, UK-listed Hikma Pharmaceuticals, posted strong revenue growth for H1/08. Group revenue increased an impressive 33.4% to \$299.9mn, while operating profit declined a disappointing 9.0% to \$47.1mn. In the Middle East and Africa (MEA)'s frontier emerging markets of North Africa, Hikma's revenues grew most rapidly. In Algeria, sales grew 43.1% compared with pharmaceutical market growth of 28.3%, meaning the country is now the biggest market in the region for the company.

In the updated Business Environment Rankings for Q1/09, Jordan is placed in equal seventh position out of 17 markets surveyed in the Middle East and Africa region. Despite the country's small overall drug market size and modest per capita spend on pharmaceuticals, Jordan has considerable commercial potential in regional terms due to friendly relations with the West, growing Arab regional cooperation and established local pharmaceutical manufacturing infrastructure.

The dramatic decline in sectarian violence in neighboring Iraq is likely to give some respite to the country's healthcare system, which has been strained by an influx of refugees in recent years. However, in an announcement that could have major consequences for the public sector's capacity, the Private Hospital Association (PHA) announced its intention not to renew a contract whereby its members provided services to people covered by government health insurance. (R&M19.02)

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### 11.3 LEBANON: High Hopes for Growth and Stability

Lebanon is proving resilient to the downturn in the global economy, with solid growth levels predicted for this year, though there are potential pitfalls that could upset the positive predictions. On February 26 Riad Salameh, the governor of Lebanon's central bank, said the economy was expected to perform strongly in 2009. He told the local media that Gross Domestic Product (GDP) could expand by 4% this year, while inflation could drop from last year's 10.7% to 4%.

His forecast is in line with the Institute of International Finance's (IIF) report issued in mid February, which tipped a soft landing for the Lebanese economy, with GDP predicted to increase by 4%. Though down on the estimated 7% growth of 2008, it is a far cry from the recession being experienced in many of the world's major economies. The report said that while there could be a fall in revenue due to weakened earnings from tourism, remittances, exports and foreign direct investment, this would be offset by growth in the services industries and rising domestic consumption.

Though the ratio of state debt to GDP has fallen from a high of 179% in 2006 to 160% at the end of 2008, meeting the interest on this debt accounts for more than 60% of public revenue, a situation the IIF report said was unlikely to improve this year. The requirements of serving this debt mean that the government is restricted in its response to the global financial crisis, as it does not have a depth of resources to fund an extensive stimulus package.

Though restricted, the government has announced an economic stimulus package, which it says should add liquidity to the market, boost employment and increase public and private investment. The key components of the package, released in early February, are an increase in public sector wages to encourage consumer spending, and plans to accelerate public projects and the disbursement of soft loans funded by foreign donors to support businesses in the private sector.

While the government has said it will ratify draft legislation to allocate \$600m to finance public projects, this measure still has to overcome political hurdles. It is these hurdles that could prove a major obstacle to Lebanon's economy in the coming months.

Both Salameh and the IIF have warned that growth in the economy was conditional on the continuation of political stability and on developments in the region. These are rather weighty conditions, especially given the circumstances facing Lebanon this year.

The country is due to go to the polls in early June to elect a successor to the present parliament. The national unity government led by Prime Minister Fouad Siniora is an uneasy coalition of the premier's March 14 bloc and the Hezbollah-led faction. The election campaign is expected to be a heated affair. Politics has got in the way of passing the budget for 2009, with Siniora and parliamentary speaker Nabih Berri clashing over the allocation of funding to the Council of the South - an organization tasked with reconstruction work in southern Lebanon that has links to Berri's Shiite Amal movement.

Berri has accused the prime minister of reneging on a promise to allocate up to \$40m to the council, a claim denied by Siniora and his supporters in the cabinet. Unless the standoff can be broken, there are fears the draft budget will not be ratified before the election, stalling some much needed projects.

Another cause of instability could be a renewal of hostilities with Israel. Still recovering from the war launched by Hezbollah against Israel in mid 2006, Lebanon could do without another round of violence. However, tensions were ramped up after a series of rockets were fired from southern Lebanon into Israel in early and mid-February, prompting artillery barrages in response. Those rockets were almost certainly fired not by Hezbollah but by a Palestinian terrorist faction in Lebanon.

There are a few worrying signs for the Lebanese economy, with the state deficit climbing sharply to \$306m in the first month of the year while the primary surplus fell. The deficit rose to 27.3% of spending in January, compared to 21.28% for the same month in 2008, according to a statement issued by the Finance Ministry on February 25. Meanwhile, the primary surplus fell to just \$6.7m from the \$176m recorded in January last year. The statement said the main cause of the gaping deficit was an increase in funding required by power monopoly Electricite du Liban, with the utility's losses alone adding \$114m to the shortfall in state revenue for the month.

On a brighter note for the economy, the Finance Ministry said state revenues for January reached \$824m, more than \$139m up on the result for the first month of last year. Lebanon's financial sector has avoided the fallout from the global meltdown, mainly thanks to the central bank's banning it from buying into the subprime market. With the price of oil - one of the country's most expensive import items - having fallen dramatically, and inflation expected to drop and GDP rise, the portents are good for the Lebanese economy, as long the condition of stability is met. (OBG03.03)

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#### b11.4 KUWAIT: Retail Roundabout

Kuwait's retail sector has seen an increasing focus on large scale development, with a number of new malls springing up in the past few years and more nearing completion. As observed by the Oxford Business Group, by 2010 the gross leasable area (GLA) in Kuwait's retail sector is expected to total 1.15m sq meters, compared to the 345,000 sq meters in use in 2006. This gives Kuwait a very high ratio of GLA to population.

Kuwait's long list of shopping complexes will be further extended this year with the 360 Mall, which will offer 75,000 sq meters of retail space when it opens its doors in March. Its developer, Tamdeen Shopping Centre Development Company, has another project in the pipeline, the Mall of Kuwait, expected to have a retail area of 150,000 sq meters. The \$350m project could however be delayed until the authorities give final planning approval.

While developers are pushing ahead with new commercial projects, the retail sector's immediate prospects present mixed messages. A recent survey on business optimism in Kuwait found that market sentiment remained fairly positive, driven by further expected falls in inflation and continued solid domestic demand. Most of those surveyed said they expected an increase in net profits for the first quarter of 2009, with 55% predicting an increase in sales volumes.

Somewhat less optimistic is Waheed Ahmad, a professor of management, logistics and operations at the Gulf University for Science and Technology. In a widely reported lecture on the impact of the global crisis on the lifestyles of Kuwaitis delivered on February 17, Ahmad warned that the economic downturn and a tightening of credit was forcing locals and expatriates to reduce spending. "Now prudence has dawned on the consumers, and the slowing of cash flow is affecting

the whole supply chain," he said. Ahmad was more positive on the outlook for retailers in the medium-term, saying that falling inflation and lower interest rates would soon stimulate spending. "With these parameters in place, my feeling is that things will brighten up in Kuwait in a span of six months to one year, as people start to dip into their pocket and buy again," he said.

Last year, inflation did put something of a dampener on sales, as prices soared and wages struggled to keep pace. Having hit a record 11.64% last August, according to official sources, inflation has reduced, thanks in part to lower import prices of commodities. According to a report issued by the National Bank of Kuwait (NBK) in early February, year-on-year inflation dropped back to 10.8% in September, with the bank saying it believed the rate of price rises had closed the year at around 8%, though no official figures were available.

The expected fall in inflation could bring an added benefit to at least some of Kuwait's retailers. Over the past few years, one of the driving forces behind the climbing inflation rate has been rental increases. The NBK study showed that some of the heat had gone out of rental inflation, with annualized increases running at 10.1% in September, down from 13.1% three months earlier, after peaking at 16% at the start of 2008.

With more floor space becoming available, the cost of renting retail units in some areas may remain fairly stable, though in premium sites, demand could push prices above the average rate of increase. Though buoyed by falling inflation, retailers hope government plans to shore up the national economy, including a \$5bn stimulus package being debated in Parliament that contains provisions to boost infrastructure expenditure and guarantees loans to struggling companies, will bolster consumer confidence and with it spending. (OBG27.02)

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## 11.5 KUWAIT: Forecasts & Competitive Intelligence on Kuwait's Food & Drink Industry

Research and Markets (<http://www.researchandmarkets.com>) has announced the addition of the "Kuwait Food and Drink Report Q1/09" report to their offering.

With a small and static population, Kuwait's mass grocery retail (MGR) sector does not offer very many expansion opportunities, prompting companies based in the country to look elsewhere for growth, as discussed in our recently published Kuwait Food & Drink Report for Q1/09. Kuwait's MGR outlets are concentrated in and around the capital, Kuwait City, and the government-funded Union of Co-operative Societies (UCCS) stores continue to dominate the sector as they hold the exclusive right to operate stores in residential zones. Total sector sales amounted to an estimated \$1.67bn in 2007, of which 62.1% was accounted for by UCCS's network of co-operatives. Nevertheless, local, private operators have continued to expand in recent years, led by The Sultan Center (TSC). TSC currently runs a network of 53 stores and is looking to double this number over the next three to five years. In mid-September the company announced its plans to expand its presence in the Lebanese MGR sector following its earlier acquisition of two local retailers in a deal worth \$108mn. Despite the high levels of political risk in Lebanon, TSC is drawn to the country for its strong long-term growth potential, which it will be in a favorable position to exploit. TSC has said that Lebanon's political instability is a burden for the company, but it clearly feels that the potential gains outweigh the risks. The company has plans to set up a wholesale market in the Beirut Souk in Q1/09, with \$10mn earmarked for interior design and merchandise, as it looks to firmly establish its presence in this burgeoning market.

This move followed the August announcement by Kuwaiti private equity group Global Investment House that it had acquired a 60% stake in the Saudi Arabian retail chain Al Sawani Food and Industrial Supply Company, which has a chain of 550 retail outlets throughout the Middle East. The acquisition was made through the bank's private equity unit Global Buyout Fund. According to a statement by Global, it plans on increasing the capital of Sawani by \$100mn in order to fund a series of acquisitions. The firm, which already controls 11% of the Saudi Arabian retail market, plans to open 150 new stores by acquiring more brands and entering new markets, as it looks to capitalize on the region's retail boom.

While growth in Kuwait's MGR industry will be relatively moderate over the next four or five years, we are nevertheless forecasting growth of 22.7% between 2008 and 2013, with total sales expected to reach \$2.12bn by 2013. This steady growth forecast, which is low in comparison to some other less well developed regional markets, will be the result of increased same-store sales and the entry of two major retail players, Carrefour and Emke. In the long term, the author expects Kuwait's MGR sector to undergo significant growth, due to the prosperity in the country and its resources and infrastructure. However, with short-term growth opportunities more limited, expansion-hungry firms will continue to look further a field for immediate investments. (R&M20.02)

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## 11.6 BAHRAIN: Betting on Industry

A key component of Bahrain's economic vision, as described by the Oxford Business Group, is its economic growth through industrial development. Despite the slowing of manufacturing worldwide, the kingdom maintains a steady course in drawing in significant industrial capital.

Figures released by the Ministry of Industry and Commerce (MoIC) in early February show that a total of 144 industrial projects - totaling an estimated value of \$640.6m - have been approved since the beginning of 2008. Moreover, 295 projects - valued at \$2.2bn - have passed the primary approval stage and are currently in the pipeline awaiting feedback on environmental, health and municipal requirements. If final permission is granted, these projects are expected to create a total of 4,650 new jobs.

But Bahrain's strong appetite for industrial projects does not stop there. Late January Singapore-based engineering services company MTQ Corporation announced plans to build a \$20m facility primarily focused on the repair and reconditioning of blowout prevention equipment on oil and gas rigs. When the plant becomes operational in 2010, MTQ foresees employing a total of 250 employees. Soon after, local media announced the establishment of the Pearl Industrial Chemicals Company, a joint venture between Bahrain's EBH Holding and India's Archean Group of Companies. The \$100m plant, due to be operational in 2011, will produce aluminum fluoride catering to the expanding capacity of aluminum smelters in the region. The plant will employ around 150 people.

Both project investments are a boon to the sector at a time of global recession. Industry insiders attribute these

achievements to the successful cooperation between the MoIC and the Economic Development Board (EDB). One of the pillars to this alignment is providing investors with a competitive cost base while strategically locating them at short distance from Gulf economies, in particular Saudi Arabia's big domestic market. "In Bahrain, we are able to offer international companies easy access to Gulf markets, a pro-business culture, a world-class infrastructure, a well-educated work force and a cosmopolitan lifestyle. Importantly, the cost of doing business here is lower than elsewhere in the region and we are the only member of the Gulf Cooperation Council (GCC) to permit 100% foreign ownership of companies," Sheik Mohammed bin Essa Al Khalifa, chief executive of the EDB, told the local media upon announcing MTQ's investment plans.

However, Bahrain is not immune to the deteriorating economic situation worldwide. A shortage of gas and falling commodity prices around the world are forcing a shift in policy, from expansion to improvement of efficiency levels. Alba - one of the world's largest aluminum smelters based in Bahrain - provides a clear example of that trend. The company has been planning to introduce a sixth production line for some time. However, "due to the current slowdown in global demand for aluminum and the uncertain supply of gas, all expansion plans have temporarily been shelved, and Alba is currently focusing on ways to increase efficiency", the company's Chief Executive Ahmed S. Al Noaimi told OBG.

The demand for additional gas supplies has not gone unnoticed by the Ministry of Oil and Gas, headed by Minister Abdul-Hussain Ali Mirza. As Mirza told OBG "we have opened various options to increase gas supplies." The priority has been placed on increasing domestic supplies by applying new technologies to existing oil and gas fields. A tender for deep drilling of gas has recently been announced with the aim of reaching new depths of up to 20,000 ft. "So far 18 international oil companies have shown serious interest (in the tender) and will be visiting us shortly to gain further insight in the possibilities of drilling for gas. At present we are still inviting companies and I am expecting to see at least two more interested parties," Mirza told OBG.

The country is looking at other solutions too. A framework agreement with Iran over the import of 1bn cubic feet of gas per day has been signed and is currently being finalized, pending agreement on price. Earlier this month the country's oil and gas holding company NOGA, chaired by Mirza, signed a memorandum of understanding (MoU) with leading oil and gas drilling company Shell to study the possibilities of shipping in LNG from neighboring countries. "The Kingdom of Bahrain has embarked on an ambitious path of economic and social development," Mirza told the local media at a conference on development of clean industries in January. He went on to say, "to meet our strategic objectives, we believe the country will require important energy resources that include clean natural gas."

Although discouraging energy intensive industries, the shortage of gas has had the broader benefit of leading the government to promote energy efficiency throughout the country. In January 2009, while opening the second Gulf Industrial Fair, Prime Minister Sheikh Khalifa bin Salman Al Khalifa called for the development of a common vision for industrial development within the GCC, with a focus on knowledge-based and clean industries.

Mirza made a similar call by presenting key statistics on the Clean Development Mechanism (CDM) during the January conference; a United Nations regulatory mechanism that offers financial incentives to countries to turn emission reductions into Certified Emission Reductions (CERs). CDM was shown to generate up to \$30bn a year. Mirza said pursuing CDM projects would both help Bahrain to meet its Kyoto Protocol obligations to reduce harmful emissions and contribute to sustainable growth. "We aspire to attract local, regional and international parties concerned with implementing CDM projects," he said.

The Gulf Petrochemical Industries Company (GPIC), a subsidiary of NOGA holding, has taken a lead in the adoption of CDM by building a carbon dioxide recycling facility in partnership with Italy's Technoment and Japan's Mitsubishi Heavy Industries. The \$52m plant, with a daily production capacity of 450 tonnes, will capture and recycle carbon dioxide from

GPIC's methanol plant to be reused as feedstock in the production of urea and methanol project. A frontrunner in the promotion of environmental friendly industrial development, GPIC will become the first petrochemical plant in the region to use this technology, a process that is expected to reduce its carbon dioxide emissions by more than 100,000 tonnes per year as of 2010.

Although challenges are plenty, Bahrain is seizing a range of opportunities to further develop its industrial base; the focus on both alternative industries and technologies seems to be the way forward. As the need for diversification from oil is at a high, the country will build on its pioneering character to attract further investment. (OBG27.02)

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### 11.7 BAHRAIN: Food & Drink Report Market for 2009

Research and Markets (<http://www.researchandmarkets.com>) announced the addition of the "Bahrain Food and Drink Report Q1 2009" report to their offering.

These are testing times for economies across the globe, and, in spite of its accumulated wealth, the Gulf region is no exception. Yet despite the turbulent economic backdrop, Bahrain's food and drink sector is still attracting considerable investments, as discussed in our recently published Bahrain Food & Drink Report for Q109. One of the most high profile of these investments was made by the Bahrain-based firm International Investment Bank (IIB), which in September announced its acquisition of a stake in a sugar refinery that will be established in the Hidd industrial area, marking the investment bank's first entry into the food and drink sector.

According to IIB, the estimated cost of the refinery is \$157mn and will be the first of its kind in the country and the third within the Gulf Cooperation Council (GCC) region. With an annual production capacity of 585,000 tonnes of white sugar, it is expected to be in operation within two years. Production will be exported throughout the Middle East, a region with a considerable sugar deficit, giving the refinery a strong competitive advantage.

A major factor in the rising demand for sugar in Bahrain is the growth of the confectionery and bakery industries. In fact, in September 2008 US-based donut chain Krispy Kreme opened its first store in Bahrain. As part of its promotional plan, the company distributed 90,000 sample donuts to people across different age groups. Krispy Kreme formed a franchise agreement with Americana and entered the Middle East market in 2006, opening its first store in the UAE. The company plans on opening its second store in Bahrain in early 2009 at the City Center shopping mall, as such Western style donut shops have become increasingly popular in the country, which is also serving to feed the growth of coffee sales. As mentioned above, despite the poor state of the global economy, we remain broadly upbeat about the economic outlook for Bahrain, although the list of caveats is growing.

In addition to the traditional warnings about inflation and labor market imbalances, we now add a serious drop in oil prices, large scale losses for the stock market, a localized liquidity crunch and the possibility of a sharp real estate market correction. That said, we believe that the outlook for the Gulf is still stronger than for many regions, even within

the emerging markets category, with a large number of projects still in the pipeline, a strong business environment, generous government spending and ongoing foreign investment flows, all of which will help sustain growth in the food and drink sector. (R&M20.02)

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## 11.8 UAE: Northern Emirates Wired Into the Electronic Age

In a bid to develop a knowledge-based economy, Ras Al Khaimah (RAK) is working to promote the use of information and communication technology (ICT) to gain an edge over its neighbors. As noted by the Oxford Business Group, given its limited hydrocarbon resources, RAK has sought to focus on a number of strategic sectors to guarantee economic stability and prosperity. Central to this policy is the development of a strong financial services sector, a vibrant tourism industry, a growing industrial base and the establishment of the emirate as a trade and transshipment hub. All of these sectors have increasingly come to rely on ICT to remain competitive.

To grow a broad information technology platform, the government has both put a suitable infrastructure in place and encouraged the setting up of educational facilities to provide the skills needed for sustaining and developing a knowledge-based economy. Part of this program includes developing a dedicated technology park within the RAK Free Trade Zone (RAKFTZ), intended to serve as a regional hub for overseas information technology firms, existing local companies and start-ups.

Another plank of RAK's ICT policy is to boost the information and technology education pool of the emirate, with both local and foreign colleges and universities operating in RAK offering a wide range of courses.

The latest overseas educator to set up in RAK is India's University of Pune (UoP). Speaking at the launching ceremony of the university on February 5, Sheikh Saud Bin Saqr Al Qasimi, RAK's crown prince and deputy ruler, said it was important for the emirate to develop its human resources. "We are living in the age of the knowledge society, where a country is recognized on its knowledge base and how it organize its human resources," he said.

In January, the RAKFTZ also announced a partnership with information technology training firm New Horizons Computer Learning Centre to provide online teaching services to employees and clients of the free zone. According to Oussama El Omari, the RAKFTZ's chief executive officer and director general, the targeted training will create an environment that will empower the zone's workers. "Technology-supported learning offers tremendous potential for those who are seeking to enhance their development needs," he told the local press.

The state is also active in making use of information technology in its own work. It already offers 30 government-related services online to the public and has fully automated the internal operations of all government departments.

According to Ahmad Al Naeaimi, the deputy manager of the Ras Al Khaimah e- Government Authority (RAK-eGA), these services are about to be taken to the next level. "We want to provide our residents with an advanced eGovernance platform, offering an easy-to-use yet sophisticated technology structure that will maximize productivity and attract investments to the Emirate," Al Naeaimi was reported as saying in early February.

RAK is also making extensive use of online services to facilitate business. Licensing applications, payment of trade license fees, real estate property management services and building permit requests are all able to be processed through the state's electronic portals. By the end of 2009, RAK-eGA plans to provide more than 150 services online.

It is not just in the fields of information and communication that RAK is capitalizing on new technology. The emirate is also home to the CSEM-UAE Innovation Centre, a joint venture between the government of RAK and the Swiss Centre for Electronics and Microtechnology, established in 2005 to advance innovation and process improvement for industrial and entrepreneurial partners in the UAE and the wider region. The centre focuses on developing applications for usage in industry, particularly in the fields of solar energy, water treatment and intelligent building design, all increasingly important to the Gulf region.

One of CSEM-UAE's latest projects is a solar island, made up of large floating platforms equipped with photovoltaic panels to generate electricity. The \$5m project, fully funded by the RAK government, has reached the trial stage in December and, when put into production, water borne solar power stations could help alleviate some of the emirate's electricity shortages. With the use of innovation, education and investment, RAK is strengthening its economy through the use of technology, building for the future on existing solid foundations. (OBG19.02)

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## 11.9 UAE: Fitch Affirms Ras Al Khaimah at 'A'; Outlook Stable

On 26 February Fitch Ratings (<http://www.fitchratings.com>) affirmed the Emirate of Ras Al Khaimah's (RAK) Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' with Stable Outlooks. The Short-term foreign currency IDR of 'F1' is also affirmed. As a member of the United Arab Emirates (UAE), RAK shares its Country Ceiling of 'AA+'.

"Ras Al Khaimah enters a difficult year in a relatively comfortable position," says Richard Fox, Head of Middle East and Africa Sovereign Ratings at Fitch. "It completed a major infrastructure and borrowing program in 2008 and now has no net financing need for the foreseeable future, with the budget projected to move back into surplus. Although economic growth will slow, alongside the slowdown in the UAE and other markets, it will remain supported by continued strong public investment in furtherance of RAK's ambition to develop and diversify the economy, while output is re-directed to faster growing parts of the region."

RAK's rating is underpinned first and foremost by its relatively low public debt ratio, notwithstanding a recent increase, and prudent fiscal track record. A tripling in public investment last year, to over 24% of GDP, brought a temporary increase in the budget deficit to 6.3% of GDP. However, with capital investment falling to a more normal, albeit still high

12% of GDP this year, the budget should move back into a comfortable surplus. Fitch regards the government's projections as realistic, embodying conservative assumptions regarding receipts from outstanding installments on key property developments. These are being developed in phases, in line with market conditions, with some having already been scaled back. There is downside risk to the revenue projections, but the authorities are determined to return to budget surplus this year, and high capital investment gives them the flexibility to do this, even if operating conditions turn out more difficult than currently assumed.

Public sector debt rose to 24.3% of GDP last year with net debt reaching almost 20% of GDP. However, this remains significantly below the 'A' category median and is now expected to stabilize. The authorities expect to repay two recent bond issues at maturity in 2012/2013 from intervening budget surpluses. The only public sector foreign currency debt is a \$325m 5-year sukuk issued by the RAK Investment Authority (RAKIA) in 2007. The public sector has no net financing need for the foreseeable future.

As a member of the UAE, RAK benefits from the institutions and resources of the federation. It has no official international reserves, but has access to the reserves of the UAE central bank. The Federal government provides around 90% of public services, leaving RAK responsible mainly for fiscal and development policy. Fitch expects support from the Federal government would be provided if needed, but this is not explicitly factored into the rating.

Dubai has been an important market for RAK's construction materials and the slowdown there and in the region in general will have a negative impact on RAK's growth in 2009. However, the emirate is small, and will redirect production to more rapidly growing parts of the region, such as Abu Dhabi, Qatar and Saudi Arabia. RAK's development strategy is complementary to its larger neighbors, exploiting its comparative advantages in quarrying and the manufacture of construction inputs, as well as more high value-added manufacturing such as glass, ceramics and pharmaceuticals. Tourism is becoming more important. There are risks associated with the development model, but Fitch believes the authorities are managing these risks well. Successful execution of the development strategy, which raises RAK's relatively low per capita income, will be an important determinant of future rating progress. (Fitch26.02)

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#### 11.10 OMAN: Moody's Says Extensive Assets Cushion Fiscal Deterioration

On 18 February, Moody's Investors Service (<http://www.moody's.com>) announced in its new annual credit report that Oman's A2 investment-grade sovereign ratings maintain their stable outlook despite the collapse in international oil prices since July 2008 and much tougher economic prospects for 2009, says on the country. "The government's extensive offshore financial assets will enable it to provide fiscal stimulus and fund projected deficits without resorting to debt accumulation, at least over the short to medium term," says Tristan Cooper, a Moody's Vice-President / Senior Analyst and author of the report.

The government's gross financial assets plus the central bank's foreign exchange reserves amounted to around 75% of GDP at the end of 2008, while the government's debt remained very small. This justifies Moody's assessment that Oman has a high level of government financial strength despite a sizeable projected fiscal deficit in 2009.

Moody's notes the enhanced volatility of Oman's economic performance because of its heavy reliance on oil and gas exports. Real growth is expected to slow significantly in 2009. Nevertheless, the country's nominal GDP per capita, which is likely to contract by around 15% this year, will continue to rank highly on the global scale. Moody's considers Oman to have a high level of economic strength.

One challenge that Oman faces is the rising cost of oil production. "It is encouraging that Oman's oil output has recovered since its trough in 2007, but the use of expensive enhanced oil recovery techniques is pushing up the cost of this production," explains Mr. Cooper. The average cost of pumping oil in Oman rose from around \$8/barrel in 2005 to \$16/barrel in 2008 and is likely to climb further over the medium term.

Oman's ratings are supported by the country's low event risk. While Moody's considers the risk of domestic political upheaval to be minor given the country's recent history of internal stability, the volatile regional political environment is of some concern. "Economic and financial risks are mitigated by the strong international investment position and the relative soundness of the country's banks, which seem to have little direct exposure to the global financial crisis", says Mr. Cooper.

Oman's institutional strength is assessed as high. This reflects the country's relatively strong ranking on indicators of institutional quality and the government's seemingly solid commitment to repay. "Yet we note that Oman's institutions are still developing and their quality continues to lag that of higher rated countries," cautions Mr. Cooper. "Moody's will continue to monitor the government's use of its large assets carefully given that these are a central pillar of its investment-grade ratings." (Moody's18.02)

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#### 11.11 OMAN: Oil Optimism

The Oxford Business Group observed that Petroleum Development Oman (PDO) is showing no signs of slowing down; on the contrary, it has recently announced the discovery of three new oil fields as well as stated its continued commitment to planned projects.

In 2008, PDO dedicated over \$170m to exploring its 100,000 sq km concession area for new fields and for the assessment of recent discoveries.

At the company's annual media briefing held in Muscat on February 9, Managing Director John Malcolm declared that the funds the company spent last year on exploration and appraisal activities had indeed been fruitful, as two new oil fields in the northwest and one in the south have been discovered. The southern field - Rabab Southeast - is expected to produce by the end of the year. Additionally, Malcolm made assurances that the company was moving full steam ahead with three large-scale enhanced oil recovery (EOR) projects.

Having long coped with some of the world's most inaccessible oil fields, PDO has emerged as a worldwide leader in EOR techniques. It is one of the few oil companies in the world that currently implements all available EOR technology - miscible gas injection at Harweel, steam injection at Qarn Alam and polymer flooding at Marmul (all will start to deliver oil in 2010).

The advanced technology required to bring up the stubborn oil reserves of Oman have made extraction in the Sultanate up to four times more expensive than that of its neighbors. But despite the extra outlays required for production, PDO's Malcolm insists that the three EOR projects remain viable. "While our three major EOR projects all represent very significant capital investments for our shareholders, they are economic even at current oil prices," he said on February 9.

Malcolm's statements were particularly timely in a global environment of deteriorating economic confidence. One day after the conference, the Energy Information Administration of the US lowered its 2009 forecast for the average West Texas Intermediate (WTI) price of oil from \$43.25 to \$43.14 per barrel. The following day, on February 11, the International Energy Agency (IEA) again revised its forecast for global oil demand, lowering the projected average for 2009 to 84.7m barrels per day (bpd) - 570,000 bpd less than its forecast made last month. The agency's latest estimate represents a year-on-year decrease of 1.1% in global oil demand.

Nevertheless, the IEA is already warning of a future supply crunch due to lack of investment during the current lull in prices. "Upstream oil and gas investment is already being hit," said the agency in its January report, noting that the impact of this "may be felt more squarely on future, rather than 2009, production."

On February 9, Abdalla Salem El Badri, secretary general of the Organization of the Petroleum Exporting Countries (Opec) - to which Oman is not party - announced that member countries had already postponed 35 oil-drilling projects. Thus PDO's February announcements of continued expansion stand as a welcome counterpoint to ubiquitous news reports of decline in both production and demand. "The oil and gas business has always been conducted in a volatile market," said Malcolm in a statement of the company's broad perspective toward oil production. "Our long range planning naturally goes beyond any short term price fluctuations."

At the same PDO conference, the undersecretary of the Ministry of Oil & Gas, Nasser bin Khamis Al Jashmi, announced that the Ministry is also planning to offer five new concession areas to prospectors, and aims to increase the Sultanate's total production of crude oil and condensates from 757,000 bpd in 2008 to 805,000 bpd this year. Despite daily evidence to the contrary, PDO's expansion plans are not just a leap of faith. Rather they are a welcome reminder that the global economy will eventually bounce back, and that prudent investment strategies are required to prepare for future growth, though it may not come this year. (OBG18.02)

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Research and Markets (<http://www.researchandmarkets.com>) has announced the addition of the "Oman Pharmaceuticals and Healthcare Report Q1 2009" report to their offering.

Oman's drug market is small, although it is growing rapidly. Between 2008 - 2013, pharmaceutical expenditure should grow at an annual average rate of 8.4%, in nominal terms. However, due to high levels of inflation, the real growth rate will be closer to 4%. Nevertheless, the level of growth remains encouraging and is being driven by rapid demographic change in Oman, which should see the population swell from 2.7mn in 2008 to 3.2mn in 2013. Additionally, Oman's per-capita expenditure remains low, at just \$42.5 in 2007, meaning that the market has been expanding from a low base.

In recent news, the decision by Oman's Ministry of Health to tighten controls on the approval of herbal medicines - as reported last quarter - seems to have had a regional impact. Demonstrating the trend for regulatory harmonization across the Gulf, the Khaleej Times has reported that the Gulf Cooperation Council (GCC) is now ready to draft a regional law to regulate alternative and traditional medicines. The law is expected to include requirements for the registration of traditional medicine practitioners and the approval of herbal medicines.

Meanwhile, despite the sharp downturn in oil prices, Oman is planning to increase its budgetary expenditure in 2009 by almost 20%. With public resources making up the majority of health spending in the sultanate, this spells good news for the health sector. Strong oil prices in the past five years have turned Oman's fiscal deficits into surpluses over the past five years, boosting the economy and giving the government some leeway during economic downturn.

In BMI's Business Environment Ranking (BER) for the Middle East Region, Oman is ranked in joint 9th position. The fall in position has been due to the entry of a number of new markets in our rankings, such as Morocco. Oman's relatively low position is caused by the small overall size of the market, despite the fact that growth should remain rapid. On a positive note, the recent decision to establish a human rights commission for the first time in Oman should help the country's long-term political stability. (R&M02.03)

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### 11.13 SAUDI ARABIA: Safe Haven

The Oxford Business Group stated that Saudi Arabia's internal demand and government-led infrastructural program should help the real estate sector stay afloat through these tough economic times. Across the region, developers and construction companies are adapting to the new economic reality. The collapse of the property market in Dubai has had a major impact. Indeed, in the UAE a total of \$583bn worth of building projects have been delayed, while real estate companies there are cutting thousands of jobs.

Although some large projects have been scaled down or delayed, Saudi Arabia has so far been able to support its real

estate sector. Essam A. Kalthoum, CEO of Al Shamiyah Urban Development Company, told OBG, "I think we were very lucky that we were not affected like other markets. This happened because we were very conservative and not aggressive in pursuing development in the past." "On the other hand", he added, "some countries in the region went a bit too far in facilitating credit and opening their real estate markets for development. So you have both ends of the spectrum."

Saudi Arabia's young population is a key driver behind the Kingdom's continuing high demand for housing in a country where 80% of the population lives in cities. Jeddah's population density is rising annually by 20-28%, followed by the holy city of Mecca with an increase of 20-25% and Riyadh at 18-20%, the local media reported.

It is therefore understandable that the Kingdom is attracting companies that are trying to offset losses in neighboring markets. For example, both Dubai contractor Drake & Scull and Arabtec Holding, the UAE's largest construction company, have recently announced that they are looking to develop their project participation in Saudi Arabia.

Another element that could factor into the continued development of the real estate industry is the approval of the long-awaited mortgage law. This would allow lower income earners to obtain financing for the acquisition of their homes through banks and other finance providers. The Shura Council has recently approved a draft document of the law, but it has yet to be made official. Last year, demand for housing finance reached \$13bn, but only \$1.5bn of this was covered by specialist providers. "We need to let the mortgage law go through but also learn from what was done wrong in other countries," said Kalthoum.

Of course, Saudi Arabia will not be able to escape the crisis scot-free. Earlier this month it was announced that construction on the Kingdom Tower in Jeddah would be put on hold, following the news that developer Kingdom Holding had reported a loss of SR31bn (\$8.26bn) in the fourth quarter of 2008.

On a brighter note, with prices for steel and cement at lower levels than they were for most of 2008, those that can continue scheduled projects are finding it cheaper to build under current conditions. Indeed, in a move to benefit from lower prices on raw materials, the government has committed \$400bn to spend on infrastructure over the next five years. With strong local demand, Saudi Arabia's real estate sector is expected to continue to grow even in this internationally unfavorable situation. "I think the crisis can turn out to be good for Saudi Arabia if we move fast, and if we smooth out our bureaucracy and facilitate real estate development on a large scale to meet demand," Kalthoum told OBG. (OBG20.02)

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#### 11.14 ALGERIA: Q1/09 Report on Algeria Pharmaceuticals & Healthcare

Research and Markets (<http://www.researchandmarkets.com>) announced the addition of the "Algeria Pharmaceuticals & Healthcare Report Q1 2009" report to their offering.

In recent years, Algeria has emerged as one of the key pharmaceutical markets in Africa, as illustrated by its climb to joint ninth position in the BMI's Business Environment Rankings matrix for the 17 main countries in the Middle East and Africa (MEA). Main draws of Algeria's pharmaceutical market include its considerable size (with a population of over 34mn) and the substantial potential for healthcare investment, given the fact that the country is a major hydrocarbons exporter. However, the government remains accused of giving preferential treatment to generics products and the domestic industry, while the country's wider intellectual property rights (IPRs) environment is also a cause of concern for multinationals operating within Algeria.

Algeria's over-reliance on hydrocarbons increasingly leaves public-sector finances vulnerable to changes in global energy prices. As the global financial crisis is forecast to dampen Algeria's GDP growth over the coming two years somewhat, its pharmaceutical market growth will also be affected, especially as 20% of expenditure on pharmaceuticals comes from out-of-pocket expenditure by Algerians. Nevertheless, the market will grow from an estimated \$2.35bn in 2008 to \$3.15bn in 2013, which is a substantial figure in regional terms. With a presidential election scheduled for 2009 (most likely contested by the incumbent, Abdelaziz Bouteflika), cutting back on expenditure would be politically risky, even if there is no clear contender able to challenge Bouteflika's reign.

Presently, one of the main reasons deterring foreign investment is the fact that Algeria is not yet a member of the World Trade Organization (WTO), although negotiations are well under way. Submitting to WTO regulations would create attractive operating environments for multinationals. Other risks to business environment and overall market values are the recently introduced measures stipulating 45% of imports be generics. (R&M02.03)

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#### 11.15 TURKEY: Q1 2009 Report on Turkey Pharmaceuticals & Healthcare

Research and Markets (<http://www.researchandmarkets.com>) announced the addition of the "Turkey Pharmaceuticals & Healthcare Report Q1 2009" report to their offering.

Turkey represents one of the most dynamic pharmaceutical markets in Central and Eastern Europe (CEE) thanks to its large value and strong growth in recent years. After extending our forecasts for the Q109 report, BMI believes that total pharmaceutical expenditure will reach a value of \$22bn by 2013, representing average annual growth of 10%. While growth and value remain high, per capita spending will still be relatively low by the end of 2013, relative to more developed markets.

In BMI's Business Environment Rankings for CEE, Turkey ranks joint fourth with Russia and Estonia. While market scores are among the strongest in the region, weak risk scores prevent the country from topping the rankings. In 2008, Turkey was placed on the United States Trade Representatives Special 301 Watch List, having received an improved appraisal. The USTR cautioned the health and patent authorities to prevent patent abuse. In 2009 there are likely to be improvements in the country's score with the implementation of various regulatory and legislative changes, including a new medicines monitoring system. However, intellectual property (IP) weaknesses are likely to remain a key drawback for innovative firms.

Certain industry sections have recently complained that despite the government's bold vision to expand R&D activities in Turkey, more needs to be done to tap the \$90bn spent by the pharmaceutical sector on research each year. The most critical factors affecting future spending will be the approval of a new clinical trials directive and the improvement of the country's regulatory environment.

Despite this, Turkey continued to attract a number of high profile multinationals in late 2008. November saw the Turkish subsidiary of Japanese pharmaceutical firm Daiichi Sankyo acquire 20 staff members of Merck Ilac's cardio-metabolism sales force. Meanwhile leading Italian drug maker Recordati increased its profile in Turkey following the acquisition of local manufacturer Yeni Ilac. The deal was valued at \$63mn. (R&M02.03)

#### 11.16 GREECE: Moody's Outlook on Greece's A1 Government Bonds Ratings Changed To Stable

On 25 February, Moody's Investors Service (<http://www.moody's.com>) changed the outlook for the Greek government's A1 bond ratings to stable from positive. "The change in outlook reflects Moody's opinion that the Greek government's ratings are well positioned at A1 and that an upgrade to the Aa rating range is unlikely in the next 12-18 months," says Arnaud Mares, a Senior Vice President in Moody's Sovereign Risk Group.

Moody's recognizes that the global synchronized downturn is taking its toll on the Greek economy as it is on other advanced economies, with growth coming to a halt and public debt ratios reversing their decline from previous years. "On a relative basis, however, Greece is so far less affected than many of its rating peers," explains Mr. Mares. "While the government's indebtedness is high, that of the private sector is less so, in comparison to many other advanced economies. The need for deleveraging private agents' balance sheets, which is at the root of the deep recession experienced by many other economies, is less pressing in Greece", he said.

Moody's expects public debt metrics to deteriorate in Greece over the next few years, with debt/GDP rising again towards 100%. "While the debt level is very high, the pace of deterioration of debt ratios is not outsized relative to other EU governments," comments Mr. Mares. Indeed, the contingent liabilities accumulated by the Greek government in the context of its support to the banking sector (totaling up to around 11% of GDP) are similar to those of other countries.

Moody's notes, however, that the ongoing global crisis highlights the Greek economy's and government's limited shock adjustment capacity. Therefore, limited capability to respond to shocks is the main constraint on the Greek government's rating in the current context.

Moody's believes that low external competitiveness makes it more difficult to re-engineer growth potential and the Greek economy is unlikely to rapidly return to the robust growth rates of past years. Furthermore, the political environment - evidenced by the riots across the country last year - lacks the strong national consensus needed to implement bold fiscal reforms.

Against this background, Moody's expects that the Greek government would find it difficult to rapidly reverse the deterioration of debt metrics if public finances were subject to further shocks, such as a rise in the government's cost of funding. The rise in Greek government bond yields relative to e.g. Germany or France has so far had little effect on debt dynamics, due to (i) the fall in global bond yields and ECB official rates and (ii) skilful debt management (which has reduced the amount of debt refinanced in any single year). However, if high relative borrowing costs are sustained, they could gradually result in a drain on fiscal resources.

While the Greek government bond yields spreads to Germany have risen, Moody's does not believe that the government faces constraints in its access to finance. Participation in the euro area provides the government with access to a large pool of investors in its domestic currency. Furthermore, the Public Debt Management Agency's frontloading of borrowing since the start of the year, the long average maturity of the debt and diversification of sources of funding all contribute to alleviating financing risk. The last rating action with respect to the Greek government was implemented on 11 January 2007, when Moody's changed the outlook for the government's bond ratings to positive from stable. (Moody's25.02)

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#### 11.17 BULGARIA: Boosting Tourism Demand

The Oxford Business Group reported that while Bulgaria's tourism sector is already suffering from the financial crisis, the government has been quick to enact necessary measures to soften long-term impact. According to Anelia Krushkova, the head of Bulgaria's state Tourism Agency (SAT), the number of foreign tourists in Bulgaria has declined this winter season and is anticipated to shrink to an even greater extent during the summer of 2009. Yet, the government tourist agencies, as well as tourism operators, are responding in full force.

A SAT report published in January shows that throughout 2008 there was a 10.4% year-on-year increase in the number of visitors over 2007. Krushkova said that 5.7m of the visitors came for tourism, 73.4% of which were from EU countries. The country generated a total of Lv2.4bn (&euro;1.23bn) in tourism revenues between January and November 2008, an increase of 11.5% over 2007, according to Krushkova.

However, figures from the end of 2008 demonstrate tourism rates have been on the downturn. Bulgaria's National Statistics Institute reported that in December 2008, just over 385,000 tourists came to Bulgaria, 190,000 of which were holiday and recreation travelers. Of the EU countries, Greece and Romania top the list of the number of visitors, with 104,000 (27%) and 84,000 (22%) respectively, while the UK came in third with 12,500 (3%) tourists. Of non-EU countries, Turkey and the Republic of Macedonia saw the most travelers to Bulgaria, with 55,600 (14%) and 26,300 (7%) visitors respectively. The Russian Federation clocked in at 8100 (2%) visitors. The 2008/9 winter season has already seen a decline by between 15% and 20% compared to last year's figures, according to Krushkova.

At a January press conference Krushkova predicted that summer 2009 would be a tough one for Bulgaria tourism. The Sofia News Agency reported in February that early bookings of summer holidays demonstrate a similar impact, with figures showing a drop between 25% and 50% compared the numbers registered in February 2007. The financial crisis seems to be leading an increasing number of foreign tourists to wait until late spring or even early summer to book their

trips, in the hopes of finding last-minute discounts on their holiday.

Region-wide tourism is expected to decline at similar rates, and governments have sought to address the growing concern. Greece has already increased its advertising budget by 50% and introduced tax cuts for companies operating in the tourism industry. Turkey has announced its plan to actively promote itself in 80 countries. The Romanian Tourism Ministry is considering giving employees vouchers for local resorts in the hope of encouraging domestic travel.

Bulgaria too has taken various steps to increase tourism in the country. Under the Operational Program Regional Development 2007-2013, six projects have been approved that will fund SAT's various campaigns. One campaign focuses on international tourists from Germany, Britain and Russia, where there is much room for growth, primarily through advertisements on CNN and Eurosport channels. Another campaign, worth Lv 5.7m (&euro;3m), focuses on winning back tourists who, recently, have preferred foreign destinations. The Agency is to spend Lv6m (&euro;1.23bn) to create a multi-media catalogue of the country's most attractive tourist sites to attract visitors from both home and abroad.

In an effort to further attract tourists, Elena Poptodorova, the recently appointed ambassador to the Black Sea region, has focused on uniting bordering countries to increase regional tourism.

Much focus has, in particular, been placed on Russian tourists, who have been the main source of summer visitors in the past. Last year 250,000 Russian tourists visited Bulgaria, spending roughly &euro;1,000 per person. Bulgaria opened a business forum in Moscow on February 5 titled "Bulgaria Today - Realty, Tourism and Wine". The business fair continued alongside official activities intended to mark the "Year of Bulgaria" in Russia. There is talk of the Bulgarian state covering visa prices for Russians, so as to reduce the costs of travel packages and therefore attract more tourists. According to Nelly Sandalska, CEO of Balkantourist, this measure will cost the state &euro;8m, but without such intervention, the number of Russian tourists to Bulgaria's Black Sea resorts is expected to shrink by 50%.

In addition to government efforts, tourist resorts have been expanding the number of hotels and holiday apartments in anticipation of greater demand. Easyjet has recently added several flights from Manchester, according to an Easyjet spokesperson who commented on the city's potential. These avenues of growth explain the World Travel and Tourism Council's expectation that Bulgaria will attract around 16m visitors per year by 2017. This increase should contribute to an increase of 12% in gross domestic product (GDP), as well as create a 10.2% increase in employment. The political commitment and infrastructure growth will allow Bulgaria's tourist industry to prosper in the long-term. (OBG25.02)

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- Israeli Shekel conversions done at a rate of NIS 4.00 = \$1.00
- Turkish Lira conversions done at a rate of NTL 1.60 = \$1.00
- Euro conversions done at a rate of &euro; 1.00 = \$1.25
- 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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