

Fortnightly - December 9, 2009

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1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1 Gov. Fischer Made No Dollar Purchases In November

For the first time since March 2008, the Bank of Israel did not intervene on the foreign currency market in November. Israel's foreign currency report, which was published today, showed that the country's foreign currency reserves rose by \$349 million in November to a record \$61.5 billion, even though the Bank of Israel remained outside of the market. The rise of the foreign currency reserves last month was due to an upward revaluation by \$441 million of the currencies held by the bank. On the other hand the government transferred \$78 million overseas and the private sector withdrew \$14 million. The Bank of Israel began intervening on the foreign currency market in March 2008 when its foreign currency reserves stood at just \$28.4 billion. Since then the bank has purchased about \$33 billion, converting some of these sums to other major currencies and the International Monetary Fund's SDR notes. The Bank of Israel holds \$1.5 billion in IMF notes compared with just \$113 million in March 2008. (Globes 08.12)

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1.2 Knesset Approves 'Biometric Law'

On 7 December, the Knesset plenum approved the Biometric Database Law in the final readings. The purpose of the law is the creation of a biometric database that would hold the fingerprints and facial photos of all of the country's citizens. Once the law goes into effect, there will be a trial period of two years, during which participation in the biometric database will be voluntary. If the trial period is deemed successful, Interior Ministry officials will be authorized to take the fingerprints and facial contours of all Israeli residents before providing them with identifying documents. The documents will include a micro-chip, which will contain photos of two fingerprints and the person's facial contours. The plenum finally approved the legislation by a vote of 40 to 11, with three abstaining, after coalition skeptics forced the government to draft a compromise, to allay fears that a biometric database would provide fertile ground for computer hackers and violate citizens' basic privacy rights. (Various 07.12)

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2: ISRAEL MARKET & BUSINESS NEWS

2.1 EDI Hosts World Economic Attaches at an Economic Briefing

On 10 November, Atid, EDI (<http://www.atid-edi.com>) hosted a number of economic attaches of various European and other countries stationed in Israel. The breakfast event featured a presentation on the Israeli economy by noted financial analyst Yaakov Fisher, President of I-Biz. The purpose of the meeting was to both meet these representatives and make them aware of the services which EDI provides to their counterparts from other countries. Participants included representatives of Brazil, Denmark, Finland, Germany, Latvia, Lithuania, Netherlands, Poland and Spain. Atid, EDI is a Jerusalem based economic consulting firm. (EDI06.12)

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2.2 Waterfall's Unidirectional Security Gateways New Implementation at a Nuclear Power Plant

Waterfall Security Solutions announced another successful implementation of multiple Waterfall systems at a North American nuclear power plant. Waterfall's patent pending security solutions assist Utilities and Critical Infrastructures to easily and comfortably achieve compliance with NERC-CIP, NRC, NIST and other regulations as well as cyber-security policies. The installation, of which customer remains undisclosed, of the Waterfall systems was undertaken in order to provide secure and real-time transmission of plant information from the plant's most critical network to an external network for operational monitoring purposes. Rosh HaAyin's Waterfall Security Solutions (<http://www.waterfall-security.com>) is the leading provider of Unidirectional Security Gateways for Process Control systems, SCADA systems, Remote Monitoring and Segregated Networks. Waterfall's products have been deployed in many critical national infrastructures, mission critical organizations and homeland security agencies in North America, Europe and Israel. The company is expanding globally through channels, OEM, and technology partnerships. (Waterfall Solutions 02.12)

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2.3 Broadcom to Acquire Dune Networks

Irvine, California's Broadcom Corporation, a global leader in semiconductors for wired and wireless communications, signed a definitive agreement to acquire Israel's Dune Networks, a privately-held company that develops switch fabric solutions for data center networking equipment. Data centers are scaling to provide significantly more bandwidth to meet the requirements of cloud computing, where computing resources, products and services, such as Software as a Service (SaaS), can be delivered real-time over the Internet. Dune Networks has developed a scalable chipset that supports bandwidth speeds of up to 100Gbps per port and can connect more than ten thousand servers (ports) in a single deployment. In connection with the acquisition, Broadcom expects to pay approximately \$178 million, net of cash assumed from Dune Networks, to acquire all of the outstanding shares of capital stock and other rights of Dune Networks. The purchase price will be paid in cash, except that a portion of such purchase price attributable to unvested employee stock options will be paid in Broadcom restricted stock units.

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 Networks 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, significantly improving the economics of packet networks. (Broadcom30.11)

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2.4 Delaware Delegation to Visit Israel in January

Delaware Court of Chancery Justice Jack Jacobs, joined by Ben Strauss, President of the Delaware Bar Association and Jeffrey Bullock, Delaware's Secretary of State, will head a delegation to Israel during the week of 3 January. The group will also include a number of Delaware companies in Israel to explore commercial relationships with local firms. During the visit the delegation will meet with a number of local law firms to hear their issues and concerns related to corporate registration in the US. Justice Jacobs will also conduct a number of seminars for local law students. Atid, EDI (<http://www.atid-edi.com>) in its role as the local representative of the Delaware Department of State will organize and administer the mission. (EDI 06.12)

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3: REGIONAL PRIVATE SECTOR NEWS

3.1 Smartcool Signs Distribution Agreement With Largest Chiller Service Specialist in the Middle East

Vancouver's Smartcool Systems signed an exclusive agreement with the largest chiller services specialist in the Middle East to distribute Smartcool's Energy Savings Module (ESM) in the U.A.E. and Bahrain. In addition U.S. Chiller Services will also market Smartcool's ECO3 on a non-exclusive basis. As well as having offices in Dubai, U.A.E. and Manama in the Kingdom of Bahrain, U.S. Chiller Services also has locations in California and Florida. As part of its due diligence process, U.S. Chillers installed the Energy Savings Module (ESM) on a large tonnage centrifugal chiller at a location, managed by the Palm District Cooling Company, situated in Dubai. The test which initiated in July 2009 required 14 days of operation; whereby readings were taken prior to activation of Smartcool's ESM. Readings were then recorded for a 14 day period with the ESM activated. US Chillers are one of the largest chiller service specialist organization in the Middle East with a portfolio of over 350,000 tons of district cooling chillers, and over 800,000 tons of total liquid chillers under service agreements. With offices located in both the US, as well as the Middle East, US Chillers specializes in the repair, maintenance and service of all makes and models of large tonnage chillers. (SmartCool 01.12)

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3.2 Kuwait Sells Citigroup Stake for \$1.1 Billion Profit

The Kuwait Investment Authority (KIA), the emirate's sovereign wealth fund, announced on 6 December that it has sold its stake in US banking giant Citigroup for a massive profit. KIA bought \$3b worth of preferred shares in Citigroup in January last year, in addition to shares in Merrill Lynch worth \$2b. The authority said it had made a profit of \$1.1 billion after selling Citigroup's stocks for \$4.1 billion. The KIA said it sold the preferred shares after converting them to common stock for \$4.1 billion. That works out to a gain of nearly 37% on its \$3 billion investment. It made no reference to the stake in Merrill Lynch. The purchases came when banks in the United States were suffering from a housing slump amid the subprime mortgage crisis. The KIA joined other big investors - including the Government of Singapore Investment Corp. and longtime shareholder Prince Alwaleed bin Talal of Saudi Arabia - in pumping some \$12.5 billion into Citi in January 2008. At the time, the Abu Dhabi Investment Authority (ADIA), the sovereign wealth fund run by the government of the UAE capital, also bought a Citigroup stake worth \$7.5 billion to become one of its biggest shareholders. ADIA's holdings, known as "equity units," will begin to convert into ordinary shares starting in March next year. Established in 1982, KIA manages two state reserve funds the value of whose assets reached around \$300 billion before the global economic meltdown. Its assets are currently estimated at around \$230 billion. (BI-ME 06.12)

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3.3 Kidville to Open 11 Locations in the United Arab Emirates

New York's Kidville announced that it will open eleven Kidville locations in the United Arab Emirates (UAE). The first Kidville location will open in Dubai in Spring 2010. Kidville offers a wide range of developmental classes including Little Maestros, Run Wiggle Paint & Giggle, My Big Messy Art Class, Big Muscles for Little Babies, Kidville Gymnasts, Kidville Sports and Kidville University (Kidville's Pre-School Alternative Program). Kidville locations also feature indoor playgrounds, retail boutiques, and 16 different birthday party themes including the Ultimate All-Star Gym Party and the Sizzling Spectacular Science Party. Silver Membership is free with enrollment in any Kidville class, while upgrades to Gold, Platinum and Diamond levels are also available. Kidville's local franchise partner in the region will be VAMM International controlled by the Malhotra family. (Kidville 03.12)

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3.4 Borusan Telekom Selects Veraz and Elkotek for Enterprise VoIP Applications

San Jose, California's Veraz Networks, a leading provider of Multimedia Generation Network application, control and bandwidth optimization products, and Elkotek, a prominent value-added reseller in Turkey, announced that Borusan Telekom, one of Turkey's leading providers of telecom services, has selected Veraz's I-Gate 4000 EDGE SIP Gateway to support Borusan Telekom's enterprise VoIP services. After a thorough selection process that evaluated leading SIP gateway vendors' products, Borusan Telekom chose Veraz's I-Gate 4000 EDGE SIP Gateway for its comprehensive features and flexible, software-only upgrade. To provide Borusan Telekom strong local service and support, Veraz has partnered with Elkotek, a top telecom VAR in Turkey. Borusan Telekom, one of Turkey's first private telecom companies when it was founded in 2002, aims to extend its current leadership in the corporate Internet market to encompass

telecommunications services for companies. In taking its place as an alternative telecommunications operator in the sector, Borusan Telekom provides high quality communications services at attractive prices to companies throughout Turkey. Elkotek is active in the telecommunication and control sectors since 1981. Elkotek is the first and unique value added distribution company in Turkish ICT market providing converged technologies solutions including access solutions and voice solutions such as PBX and own R&D product Inteliex IP voice platform. (Veraz08.12)

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4: CLEAN TECH & ENVIRONMENTAL DEVELOPMENTS

4.1 Water Authority to Distribute Water Savers

On 2 December, Globes reported that Israel's Water Authority told the Knesset Economic Affairs Committee that, within months, the Water Authority will begin distributing water saving devices to households. It is hoped that by June, water savers for faucets would be installed at private homes. The Water Authority had originally promised to publish the tender for the water savers in March 2009 and to complete distribution by last summer. The Water Authority now believes that the winner of the water savers tender will be chosen within a month.

Meanwhile, the Economics Committee approved in an urgent debate the wording of the water savings bill for its first Knesset plenum reading. The bill stipulates that public institutions, including ministries, the Knesset, the IDF, Israel Police, local authorities and the Jewish Agency must install water saving devices. The government had approved the installation of water savers eight year ago, but never implemented the decision. The price of water has soared during the interval. The Economics Committee decided that the water savings bill will come into effect three months after publication. Installing water savers on faucets is still the cheapest and simplest way to reduce water consumption, with saving of 11-15%. (Globes 02.12)

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4.2 Natural Gas Pipelines Publishes Jerusalem Gas Line Tender

Natural Gas Pipelines Company has published a tender for the detailed planning of a 37-kilometer gas pipeline to Jerusalem. The natural gas will be delivered by a distribution company, which will be set up in the future. The company estimates that the planning process for the pipeline will take two years. Natural Gas Pipelines Company also plans to raise \$50-60 million, which it claims is part of its multiyear plan, and is unrelated to the resumption of work on the northern section of the pipeline soon. The planned fundraising is Natural Gas Pipelines Company's fourth financing round since it was founded in 2006. The company has raised NIS 800 million to date. (Globes 07.12)

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5: ARAB STATE & PAKISTANI DEVELOPMENTS

5.1 Fitch Assigns Lebanon's Two New Bonds 'B-' Ratings

On 2 December 2009, Fitch Ratings (<http://www.fitchratings.com>) assigned the Republic of Lebanon's two new \$250m bonds respective ratings of 'B-'. The ratings are in line with Lebanon's sovereign Long-term foreign currency Issuer Default Rating (IDR) of 'B-' with a Stable Outlook. The two bonds, which will each be issued for \$250m, are due in 2015 and 2024 and have coupons of 5.875% and 7% respectively. Lebanon's new government is expected to approve its ministerial policy statement today and to receive a vote of confidence from Parliament soon after. The restoration of political stability, culminating in elections in June, has enabled Lebanon's economy to continue a strong recovery. Fitch forecasts that Lebanon's GDP will grow by around 7% in 2009 with inflation falling to low single digits and the debt burden continuing to ease slightly. The country's banking system has continued to attract substantial resident and non-resident private sector deposits which have helped fund the government's large debt burden and the current account deficit. Foreign currency reserves rose throughout 2009 to reach over \$27bn at end November, marking a record high. However, the new government faces substantial political challenges and a pressing need to reduce its budget deficit and debt burden from around 10% and 150% of GDP respectively. Details of the new government's fiscal consolidation plan, to be included in the 2010 budget, are expected to be presented to Parliament by end January. (Fitch02.12)

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5.2 South Korean Consortium To Build Jordanian Nuclear Research Reactor

Jordan Atomic Energy Commission (JAEC) picked a South Korean consortium to build the first nuclear research reactor in the Kingdom. Korea Atomic Energy Research Institute and Daewoo for Engineering & Construction is slated to kick off construction of this 5 MW reactor next year at Jordan University for Science and Technology (JUST). The facility, a model of high performance and safety, will be the nucleus of a Jordanian nuclear energy center and is intended to qualify Jordanian nuclear engineers, he added, underlining it will produce radio nuclides necessary in industrial, agricultural and medical fields. (Petra03.12)

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5.3 Qatari Riyal to Stay Pegged to Dollar for Now

Qatar's riyal currency will stay pegged to the dollar for the time being, but all possibilities will be considered for the planned Gulf monetary union, Central Bank deputy governor Sheikh Fahad bin Faisal Al-Thani said on 3 December. The peg issue is gaining momentum again as the dollar retreated to 16-month lows and oil prices recovered, helping economies in the world's top oil exporting region emerge from a downturn. Qatar, one of the world's top investors

through a sovereign wealth fund, had been repeatedly questioning the peg since last year, when it reeled under record inflation, which stemmed in part from the linkage to the dollar and record oil prices. The peg came under fire again last month when an adviser to Qatar's ruler said oil producers should be more willing to discuss the viability of linking their currencies to the dollar. Qatar's central bank is targeting the exchange rate as a nominal anchor with the riyal pegged at 3.64 a dollar. The world's top liquefied natural gas exporter is a part of a planned monetary union with three fellow Gulf states - Saudi Arabia, Kuwait and Bahrain. The United Arab Emirates and Oman, other members of the Gulf Cooperation Council (GCC) have opted out of monetary union.

Kuwait said last month fellow monetary union members should discuss linking the planned single currency to a basket instead of the dollar. Saudi Arabia, the top Arab economy, followed by saying a basket was one of the options, putting the greenback's regional status in question as countries have long said the single currency is expected to be linked to the dollar. The dollar peg is a sensitive issue in the region, where the leading economies - Saudi Arabia and UAE - have strong political and economic ties to the United States. The Gulf countries have adopted fixed exchange rate regimes in the past to stabilize their currencies and import low inflation from overseas. Kuwait, the world's fourth largest oil exporter, broke ranks with fellow Gulf states in 2007 and dropped the peg in favor of a currency basket to help fight then-soaring inflation. (TA 03.12)

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5.4 UAE Tops List of Foreign Investors in Iraq in 2009

The UAE is leading the way as foreign investments in Iraq more than doubled in the first nine months of 2009, compared to the previous year. A new report by Dunia Frontier Consultants says that the UAE's investment in Iraq exceeded \$37bn and represents nearly a quarter of all global investments so far this year. In total, foreign direct investment in Iraq has reached more than \$156bn, a 241% increase on 2008. The study comes as it was announced that Abu Dhabi-based developer Bloom Properties was in talks with the Iraqi government to build a huge property development in Karbala. According to media reports, the development has been valued at \$18bn – making it the one of the largest property building projects ever announced in Iraq. Dunia's report said that a total of 53 foreign investors and firms from 24 countries had announced spending in Iraq in 2009. Apart from the UAE, the only other Gulf nation making a significant investment in Iraq was Kuwait which has so far spent \$6.8bn. Other countries eyeing major opportunities in the country include South Korea (\$24.7bn), the US (\$22bn), the UK (\$10.5bn) and Lebanon (\$10.1bn). Whereas real estate was the main focus of foreign investment in Iraq previously, the oil and gas sector has soared to the top of the latest list, Dunia added, as energy investments rose from \$18bn to \$73bn. (AB24.11)

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5.5 Libyan Begins Participation in the IMF's General Data Dissemination System

The Socialist People's Libyan Arab Jamahiriya (Libya) began participating in the International Monetary Fund's (IMF's) General Data Dissemination System (GDDS) on 7 December, marking a major step forward in the development of its statistical system. The GDDS was established by the IMF in 1997. It provides a framework to help countries to develop their statistical systems to produce comprehensive and accurate statistics for policymaking and analysis. Libya is the 96th GDDS participant (excluding the countries that have graduated from the GDDS to the SDDS). (IMF 08.12)

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6: TURKISH, CYPRIOT, GREEK & BULGARIAN DEVELOPMENTS

6.1 Turkey's GDP in PPP Rises by Factor of 2.5 in 15 Years

A set of figures released by the International Monetary Fund (IMF) has shown that Turkey has been among the fastest growing economies of the world in terms of purchasing power parity (PPP) over the last 15 years. The figures, which were prepared for 28 countries, showed that Turkey was ranked eighth in the list of countries whose gross domestic product (GDP) enjoyed rapid growth between 1994 and 2009 by increasing its GDP from \$352.1 billion to \$869.1 billion in the given period despite several severe crises in 1995, 2000 and 2001 and the most recent blow of the 2008 global economic meltdown. Turkey's annual average growth rate in current prices was 6.2%. China topped the list by managing to expand its economy's size 5.4 times from \$1.6 trillion to \$8.7 trillion in the last 15 years. China achieved an annual average growth rate of 11.9% in current prices in the given period. India came in second with a 9.2% annual average growth rate. It was followed by Egypt (7.5%), Malaysia (6.9%), Poland (6.8%), Iran (6.7%) and South Korea (6.6%). The US, which has the largest economy in the world, was able to register an average annual growth rate of 4.8% in the given period and ranked 21st. Furthermore, according to IMF's estimates, Turkey's GDP will reach \$1.13 trillion by 2014. China's economy will reach \$15 trillion from its current level of \$8.7 trillion. India's economy will increase from \$3.5 trillion to \$5.5 trillion. (ZAMAN 07.12)

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6.2 Jordan & Turkey Sign Free Trade Zone Accord

On 1 December, Jordan and Turkey signed a partnership agreement to set up a joint free trade zone. During official talks, King Abdullah and visiting Turkish President Gul highlighted the significance of the agreement, which seeks to enhance commercial cooperation and increase Turkish investments in the Kingdom. The two countries also signed an agreement on the reciprocal cancellation of visa fees and another agreement on customs cooperation. The free trade agreement stipulates the establishment of a free trade zone by 2011 while after 12 years customs fees will be fully eliminated. The agreement to cancel visa fees will facilitate travel between the two countries, while the agreement on customs cooperation will ease the flow of trade. Jordan and Turkey are members of the Euro-Med Agreement and they also have trade agreements with other Arab countries, so the free trade agreement (FTA) will open the way for the flow of Turkish investments into the Kingdom, he added. Turkish Minister of Trade & Industry Ergun, who signed the FTA on behalf of the Turkish government, said the deal will increase the volume of commercial exchange between the Kingdom and Turkey. It will also encourage Jordanian and Turkish businessmen to establish new business ventures and joint investments, the Turkish official added. The King and Gul discussed various fields of cooperation related to regional infrastructure projects, mainly in the areas of roads, rail, energy, transport and gas, stressing the need to work out mechanisms for regional cooperation that can reflect positively on the nations of the region. During the first half of 2009, Jordan's imports from Turkey totaled around \$143.6 million whereas its exports, mainly phosphates and fertilizers, were valued at around \$9.8 million. Moreover, Turkish investments in Jordan currently stand at around \$90 million. (JT02.12)

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6.3 Turkey's Poverty Rate at 17.11%

According to the poverty study carried out by the Turkish Statistical Institute, or TUIK, some 17.11% of Turkey's population, or 11.9 million individuals, were living below the complete poverty line, which covers both food and non-food expenditures. According to the study, there are no people in Turkey with daily expenditures below \$1. However, the rate of individuals who live below the poverty line, defined as per-capita daily expenditures below \$2.15 according to purchasing power parity, was estimated as 0.47%. If the poverty line stood at \$4.30, the poverty rate would be 6.83%. The ratio of individuals who live below the food poverty line, who made up 0.48% of the population in 2007, rose to 0.54% in 2008 while the ratio of individuals who live below the complete poverty line dropped to 17.11% in 2008 from 17.79% in 2007.

In 2008, the monthly food poverty line for a four-person household was estimated at 275 Turkish Liras while the monthly complete poverty line was 767 liras. The ratio of individuals below the complete poverty line in rural areas dropped from 34.80% to 34.62%, while the figures in urban areas also decreased, from 10.36% in 2007 to 9.38% in 2008. While the ratio of individuals in households with three or four people who live below the complete poverty line was 8.48% in 2008, this rate among individuals in households of seven or more people was calculated as 38.20%. Households of seven or more people face a poverty risk of 26.95% in urban areas and a 54.03% risk in rural areas.

According to the study, the ratio of individuals below the poverty line in a nuclear family with children is 15.42%, while the rate for individuals in a nuclear family without children is 8.76%. The poverty risk for individuals in a nuclear family with children is 9.14% in urban areas and 33.77% in rural areas. The poverty rate for individuals who live in large families was estimated at 21.79%. Agriculture has the highest poverty rate among all sectors, with 37.97% of people who work in the agricultural sector below the poverty line in 2008, up from 32.05% in 2007. The poverty rate among people employed in the industrial sector was calculated as 9.71%, while the rate for people employed in the service sector was 6.82% in 2008. Poverty rates were measured at 13.73% and 17.78% for economically inactive people and for unemployed persons, respectively, during the same period. The poverty rate was calculated at 39.59% among the illiterate and 13.44% among graduates from elementary school. The rate was 5.64% among graduates of high schools and equivalent professional schools and 0.71% among those who had graduated from a two-year university or higher. (Hurriyet 01.12)

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6.4 Bulgaria Parliament Adopts 2010 Budget After 16 Hour Debate

On 3 December, after 16 hours of debate the Bulgarian Parliament finally adopted the 2010 budget. Bulgaria Finance Minister, Djankov stated after the vote that "this is a good budget, the only one possible for 2010." Earlier the Socialist Members of the Parliament had left the second reading of the proposed 2010 State budget in sign of protest over text approved by the majority. The MPs from the Bulgarian Socialist Party (BSP) also threatened to notify the Constitutional Court about the text providing that the Council of Ministers can reduce the non-interest expenditures under their established amount when there are economic and financial indicators that the economy's development would be less favorable than the forecast. The Parliament decided to air the debate live on Bulgaria's National TV (BNT), but this was delayed to after the end of the Levski Sofia v Villarreal Europa League clash. The GERB MPs said they wanted the

public to see that the socialists are not in plenary hall. During the broadcast it became clear the majority of the BSP group had changed their mind and decided to return to the debate. GERB accused them of having dinner and a drink and upon realizing that there is a TV broadcast making the decision to come back. The Bulgaria Parliament also rejected late Wednesday the proposal of the conservative Order, Law and Justice party (RZS) to reduce the presidential institution's budget. The RZS MPs left the debate in protest. (SMN04.12)

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6.5 EC Approves Financial Aid for Nabucco - Bulgaria Gas Pipe Links

The European Commission has approved the requested financial aid for construction gas pipeline connections from Bulgaria to Greece and Romania. This has been announced Friday night by the Bulgarian Ministry of Economy, Energy and Transport. Thus, the Commission has approved the granting of €45m for the construction of a connection between the natural gas systems of Bulgaria and Greece. Another €9m will be allocated to the construction of a similar gas pipeline. In addition, the EC has also proved in favor of a setting aside €200m to back the Nabucco gas transit pipeline. The initiative to connect Bulgaria's natural gas transport network to its neighbors received a boost as a result of the January 2009 Russia-Ukraine gas crisis when the cutoff of Russian gas supplies exposed the fact that Bulgaria had gas pipe connections only to Russia (and Turkey, which, however, is not a supplier but a receiver of Russian gas through Bulgarian territory) and there was no way its neighbors could aid it in the respective situation. The EU has promised funding for construction gas pipeline links between Bulgaria and Greece and Bulgaria and Romania as a measure designed to increase EU energy security. The Bulgarian government has recently announced plans to establish a similar connection to Serbia. (TSW05.12)

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6.6 World Bank Funds Better Water Quality in Bulgaria With €81 Million

The World Bank has allocated €81m for the improvement of water quality in four Bulgarian municipalities. It will aid local authorities across the country in investment-planning for the water sector, and improving the reliability and quality of water provision. The Municipal Infrastructure Development Project is expected to improve the quality of life of more than 141 000 Bulgarians in the municipalities of Madan, Rudozem, Tryavna and Panagyurishte. The measures it will finance include the preparation of 48 regional Master Plans for Water Supply and Sewerage systems (ViK systems), including 40 Master Plans for urban settlements, within six regions, and the completion of construction of three dams that was interrupted about 20 years ago along with the rehabilitation of a fourth dam that is currently operational. As a full-fledged EU member state, Bulgaria has aligned its legislation with the EU Directives on Environment. Following EU norms, the rehabilitation and construction of water supply and sewerage networks aims to improve service delivery and reduce health risks. The component of the Project envisioning the preparation of Master Plans for Water Supply and Sewerage systems in the country will help identify the needs in each utility and provide recommendations for meeting technical requirements of EU directives. The Master Plans are expected also to lead to investments (funded by EU and other sources) that will help Bulgaria to fully implement the EU directives in the water and wastewater sector and facilitate the country's economic and social integration with the EU. This project the last operation within the framework of the Country Partnership Strategy for Bulgaria (2006-09), which was adopted in 2006 and was geared to support Bulgaria's EU accession and absorption of EU funds. (WB24.11)

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6.7 EU Says Bulgaria to Stay in Recession in 2010

Bulgaria's economy will continue to contract in the second half of this year and will fail to return to growth next year, according to the European Commission. The European Commission said they expected the country to post a higher than the average for the European Union GDP growth in 2011. They feel new Bulgarian government is continuing the economic and financial policy of the previous one and that the country has succeeded in fighting off the worst consequences of the global financial crisis. They recommended that Bulgaria pours more investments in infrastructure and tourism. Bulgaria, the European Union's poorest country, is currently going through its first recession in 12 years after a three-year lending boom stalled and foreign investment dried up. The Bulgarian government's most recent estimate was for a 6.3% decline in 2009 and 2% next year. The International Monetary Fund expects GDP to fall 6.5% this year and 2.5% next year. EBRD forecasts GDP to fall by 1.5%, following a 6% drop this year. (Novinite04.12)

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7: GENERAL NEWS AND INTEREST

*ISRAEL:

7.1 Chanukah Celebrated in Israel & the World Over

On Friday evening, 11 December, the Jewish world begins the observance of the eight day Chanukah holiday. From the Hebrew word for "dedication" or "consecration", Hanukkah marks the rededication of the Temple in Jerusalem after its desecration by the forces of Seleucid Greeks and commemorates the "miracle of the container of oil". The re-dedication followed the liberation of Jerusalem by the Jewish forces, or Maccabees, who were fighting to regain their independence against the Greek invaders. There was only enough consecrated olive oil to fuel the eternal flame in the Temple for one day. Miraculously, the oil burned for eight days, which was the length of time it took to press, prepare and consecrate fresh olive oil. The holiday also celebrates the military victory and the restoration of Jewish independence. The holiday lasts until 19 December.

Though business is permitted during this holiday, the week in Israel is marked by many leaving work early to be with the family at nightfall, in time to light the menorah, or eight branched candelabra. The primary ritual, according to Jewish law and custom, is to light a single light each night for eight nights. As a universally practiced "beautification" of the mitzvah, the number of lights lit is increased by one each night. There is also a custom of eating foods fried in oil as a culinary way of commemorating the Chanukah miracle after the Maccabees won the battle against the Greeks ruling Israel. While the favored fried Chanukah treat of Israelis is the jelly doughnut, most North American Jews prefer latkes, a grated potato-and-onion pancake fried in oil and served with sour cream or apple sauce.

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7.2 Islamic New Year Falls on 18 December

The Islamic New Year is a cultural event which Muslims observe on the first day of Muharram, the first month in the Islamic calendar. Islamic New Year is based on the revolutions of the Moon. Thus, the Hijra year is only 354 days long. Muslims celebrate Islamic New Year's Day (Al-Hijra) in very different manner from other celebrations. Muslims gather in mosques and offer special prayers and listen to special readings from the Koran. Many Muslims use the day to remember the significance of this month, and the Hijra, or migration, Islamic prophet Muhammad made to the city now known as Medina. Recently, in many areas of Muslim population, people have begun exchanging cards and gifts on this day, though this is not commonly done.

For Shia Muslims, Muharram is the month grief and sorrow because they mourn the death of Imam Hussain and his companions on the day of Ashura, 10 Muharram.

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7.3 Rains Arrive But Kinneret Water Level Left Unmeasured

Winter rain began falling in earnest in Israel on 7 December, but there is nobody to measure the rise in the Kinneret or the underground aquifers. The reason is that Water Authority workers are striking over what they call, "red tape in negotiations on the terms of their employment." The employees, backed by the Histadrut, (Israel General Federation of Labor), will also not receive the public, answer telephones, issue water allocations licenses to farmers or handle appeals about the drought tax. The Histadrut declared a work dispute 10 months ago following the government's decision to implement reforms in the water corporations. The Histadrut claims that the reform was formulated without the consent of the employees and includes measures that involve unilateral structural changes. (Globes 07.12)

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7.4 Knesset Members Disabled For a Day

For the first time in the Knesset, many Members of Knesset – including Knesset Speaker Rivlin – experienced first-hand the issue of accessibility for disabled persons. They walked with guide dogs, went up ramps in wheelchairs and tried to speak sign language as part of International Disabled Persons Day that was observed on 1 December. The event took place under the auspices of a special project conducted by "Access Israel" to increase awareness of accessibility issues, using experiential stations to subject the Knesset Members to the challenges faced by thousands of Israelis. The idea behind the project is to allow Knesset Members to sense, learn and feel, if only for a few

minutes, what people with disabilities feel every day their whole lives. The organization stressed that a lack of access to so many places causes 720,000 Israelis with disabilities and their families a lot of suffering, and often prevents them from leaving their homes and taking part in society as citizens with equal rights in a democratic country. "Access Israel" hopes that the day of experiencing the challenges of life with disabilities will encouraged Knesset Members to pass more legislation and regulations in favor of people affected by the challenges. Other organizations involved in the experiential day were the Association of Guide Dogs, Tower of Light, an organization assisting the blind, as well as the Golan Winery, which provided wine for a blind wine-and-ice-cream taste test. (IsraelINN02.12)

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7.5 Steven Spielberg To Make Docudrama At Jerusalem Hospital

Famed film producer Steven Spielberg plans to produce a docudrama series set at Shaare Zedek Medical Center in Jerusalem. Emmy Award-winning producer Phil Rosenthal, the creator and producer of the hit sitcom "Everybody Loves Raymond", will direct. Dreamworks Studios, in which Spielberg is a partner, will produce the docudrama to be set and filmed in the hospital. Spielberg, one of the world's most successful movie directors and producers, has intended for a long time to work with the Israeli movie and television industry. The Shaare Zedek docudrama will be the first coproduction between Dreamworks and an Israeli producer. The project is not a philanthropic endeavor, irrespective of Spielberg's close ties to Israel; Spielberg will apparently try to sell it in as many countries as possible, including the US. Hospital television dramas attract large audiences, with shows such as General Hospital, ER and Chicago Hope among the many dramas set in hospitals over the decades. The Shaare Zedek will, however, be a docudrama, another very popular genre, and, more importantly, it will provide an opportunity to show authentic, original drama. The religious hospital serves secular and religious Jewish and Arab communities. (Various03.12)

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*REGIONAL:

7.6 NYU Abu Dhabi Opens Doors to Downtown Campus

NYU Abu Dhabi, the first comprehensive liberal arts campus established by a major U.S. research university in the UAE, officially opened the doors to its Downtown Campus on 7 December. The school's first class of students will arrive in August 2010. Located in the city center of Abu Dhabi, the Downtown Campus will house all major academic and cultural activities for NYU Abu Dhabi during its inaugural years, until construction of the residential campus on Saadiyat Island is completed in 2014. Construction of the Saadiyat campus is expected to begin next year. The campus, comprised of two three-story buildings connected by a walkway, features a combination of academic and gathering spaces for NYUAD students, faculty and staff, and community spaces that will be open to the public, including a cafe with indoor and outdoor seating; a bookstore with textbooks, general interest books and NYU Abu Dhabi merchandise; gathering space for lectures and performances; and a welcome center. State-of-the-art classrooms equipped with voice, video and data capabilities allow multi-media teaching. Videoconferencing in common spaces and classrooms will connect NYU Abu Dhabi directly to NYU's campus in Washington Square and other NYU global sites. Over the next decade, NYU Abu Dhabi will expand its class size and develop a world-class research center and graduate programs in the liberal arts, science, engineering and other areas. (NYU Abu Dhabi 07.12)

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8: ISRAEL LIFE SCIENCE NEWS

8.1 Oridion Microstream Technology Chosen by the Bavarian Red Cross for Improved Patient Safety

Oridion Systems announced that the Bavarian Red Cross has chosen Microcap portable capnographs for its RTW (Rettungswagen) medical vehicles. The use of capnography can help paramedic teams to assess the ventilation status of a patient as well as alert them to issues that affect respiratory status such as displaced endotracheal tubes, episodes of respiratory depression as well as the status of resuscitative efforts. Immediate treatment of these developing conditions can improve the patient's status and limit the danger of further serious complications. The Bavarian Red Cross tested four different competitive units at four different sites and after a thorough analysis, chose the Oridion Microcap capnography monitor. Their selection of the Microcap was based on several criteria including: ease of use, reliability, portability, ruggedness and stability of the device. Microcap monitors are one of the Oridion family of portable monitors employing Microstream capnography technology to provide accurate, continuous monitoring on intubated and non-intubated patients from neonate to adult patients in hospital and pre-hospital environments, including emergency transport. The ability to accurately monitor CO₂ levels in a patient's breathing is vital for ensuring patient safety - especially in emergency transports.

Jerusalem's Oridion Systems (<http://www.oridion.com>) is a global medical device company specializing in patient safety monitoring. Oridion develops proprietary medical devices and patient interfaces, based on its patented Microstream technologies, for the enhancement of patient safety through the monitoring of the carbon dioxide (CO₂) in a patient's breath. These products provide effective, proven airway management and are used in various clinical environments, including procedural sedation, pain management, operating rooms, critical care units, post-anesthesia care units, emergency medical services, transport, alternate care and other settings where patients' ventilation may be compromised and at risk. (Oridion03.12)

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9: ISRAEL PRODUCT & TECHNOLOGY NEWS

9.1 RADWIN's Wireless Broadband Systems Chosen for 'Safe City' Project in Israel

RADWIN announced that the Ashkelon municipality in Israel chose RADWIN's wireless broadband solutions for a 'Safe City' project aimed at enhancing residents' public safety. RADWIN's links are used to transmit video from surveillance cameras installed throughout the city back to the municipality's control center. Cameras are deployed in industrial zones and public areas such as shopping centers, beaches and promenades. The 'Safe City' project is a part of a larger-scale Homeland Security project geared to defend the civilian population in the event of attack. Tel Aviv's RADWIN

(<http://www.radwin.com>) delivers wireless backhaul and broadband access solutions in the sub-6GHz space, empowering carriers and service providers to connect subscribers everywhere. Whether voice, data, or video streaming, the company provides wireless broadband solutions of unrivaled performance, capacity, range, and quality at competitive prices. (RADWIN01.12)

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9.2 World Class SaaS Service Management Solution by ClickSoftware

ClickSoftware Technologies announced the general availability of ServiceTycoon Version 9 -- helping small and mid-size service businesses deliver higher customer service at much lower costs. In the highly competitive SMB market, reputation and customer loyalty can make or break the business. For many though, the inefficiencies of manually intensive processes, such as scheduling service calls, billing and customer relationship management, makes it difficult to consistently deliver high levels of service. With ServiceTycoon's Web-based software-as-a-service (SaaS) model, any small to medium-sized business can automate workflows and gain full control over all parts of the service cycle -- from the initial customer call to payment. Up and running in just minutes, the solution lets contractors, installers, repair technicians and service professionals manage business quickly and efficiently - from the office and the field, via mobile devices - without the cost and time needed to design and build custom applications. Petah Tikva's ClickSoftware (<http://www.clicksoftware.com>) is the leading provider of workforce management and service optimization solutions that create business value for service operations through higher levels of productivity, customer satisfaction and cost effectiveness. Combining educational, implementation and support services with best practices and its industry-leading solutions, ClickSoftware drives service decision making across all levels of the organization. (ClickSoftware01.12)

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9.3 ATK & Elbit Systems Conduct Successful Flight Test of GATR From OH-58D Kiowa Warrior Helicopter

Minneapolis' Alliant Techsystems and Elbit Systems successfully conducted flight tests of the Guided Advanced Tactical Rocket (GATR) from a U.S. Army rotary-wing helicopter: the OH-58D Kiowa Warrior. The tests took place during a recent U.S. Army Aviation Applied Technology Directorate (AATD) demonstration, conducted at Eglin Air Force Base in Florida. GATR was fired from an OH-58D Kiowa Warrior helicopter using "lock-on before launch" to engage targets at ranges exceeding five kilometers. The multiple laser-designated guided test flights, launched from a standard 2.75-inch launcher, resulted in direct impacts on all targets. The pilot of the OH-58D was able to confirm lock-on of the GATR prior to launch. Originally announced in July 2008, GATR benefits from a robust design, which combines combat-proven performance, a minimum smoke signature and the reliability of an ATK-produced propulsion system, similar to a system employed on millions of rockets produced for the United States Army. GATR contains a guidance and control system built with the experience of Elbit Systems' heritage in high-performance laser seekers for the United States and international customers. It employs advanced acquisition, tracking and guidance algorithms to achieve one-meter accuracy against stationary and moving targets. In its tactical configuration, GATR will incorporate an Insensitive Munitions (IM) rocket motor and a family of IM warheads to include blast/fragmentation and penetration. GATR minimizes collateral damage, while providing stand-off deployment against a wide array of target sets.

Haifa's Elbit Systems (<http://www.elbitsystems.com>) 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. (ATK 01.12)

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9.4 S3 Assists Siano to Develop Mobile Digital TV Chips

Ireland's S3, a global provider of SoC design services and mixed-signal semiconductor IP, continued to strengthen its market position today by announcing a collaboration with Siano. S3 assisted Siano in the development of their SMS1XXX family of mobile TV chips, resulting in first-time-right silicon and faster time to volume production. Netanya's Siano Mobile Silicon (<http://www.siano-ms.com>) provides integrated silicon receiver and antenna chips for the mobile digital TV (MDTV) market. Tailored specifically for handheld and mobile devices, the company's multi-standard solutions combine high performance with extremely low power and ease-of-design. Siano's products are already shipped in mobile and portable devices all over the world and the company has built a vast customer base including tier-1 PC and mobile handset manufacturers. (Siano07.12)

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9.5 Voltaire Announces Plug-in for Oracle Enterprise Manager

Voltaire announced the Voltaire Grid Control Plug-in, a software-based plug-in for Oracle Enterprise Manager that enables management, monitoring and analysis of Voltaire's InfiniBand I/O fabrics in Oracle Real Application Cluster (RAC) Database environments. The combination of Voltaire's new Plug-in, Grid Director InfiniBand switches and Oracle RAC Database provides an end-to-end database consolidation platform that lowers the cost of computing for enterprises. Voltaire developed the Grid Control Plug-in in response to the growing demand for Voltaire InfiniBand as the I/O interconnect in Oracle RAC implementations. Voltaire's Plug-in works with Oracle Enterprise Manager environments. Oracle Enterprise Manager is a comprehensive product family of management software for applications and IT infrastructure resources. Delivering management that spans applications, middleware, database and virtual infrastructure, Oracle Enterprise Manager provides top-down application management for the enterprise application stack comprising Oracle and non-Oracle software. By deploying the Voltaire Plug-in, database administrators can monitor and analyze InfiniBand fabric performance through a single console using Oracle Enterprise Manager. The solution reduces downtime and shortens time to resolution of I/O issues and their impact on database instances from one central location, lowering operational costs and eliminating new technology training needs. Ra'anana's Voltaire (<http://www.voltaire.com>) is a leading provider of scale-out computing fabrics for data centers, high performance computing and cloud environments. Voltaire's family of server and storage fabric switches and advanced management software improve performance of mission-critical applications, increase efficiency and reduce costs through infrastructure consolidation and lower power consumption. Used by more than 30% of the Fortune 100 and other premier organizations across many industries. (Voltaire08.12)

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9.6 Optibase MGW FlashStreamer Selected for Brigham Young University-Idaho

Optibase announced that Brigham Young University-Idaho, a four-year university serving over 12,000 students, has selected the Optibase MGW FlashStreamer encoding and streaming platform to stream live and on-demand content on campus and over the internet. The solution will allow students who live far from the campus or who work during course hours to attend classes virtually at their convenience. The university will use the MGW FlashStreamer's capabilities to make guest lectures, sporting events and cultural activities available to alumni, parents and other members of the university community on the internet. The "all-in-one" compact MGW FlashStreamer offers real-time video encoding and streaming over organizational networks and the internet as well as on-demand streaming of stored content. It provides high quality H.264 video at low bit-rates for efficient use of bandwidth and is fully compatible with the latest versions of Adobe Flash Player, the internet's leading browser-based media player.

Herzliya's Optibase (<http://www.optibase.com>) provides video over IP solutions, specializing in video encoding, decoding and streaming for federal and state government agencies, Telco operators, enterprise organizations and the world's leading broadcast service providers. With a collection of open, standards-based products, Optibase enables its customers to take full advantage of video distribution over their IP network, ensuring superb video quality in a scale of bit-rates for simple and effective video streaming to desktops, STBs and VOD applications. Optibase has recently resolved to diversify its operations by entering into the fixed-income real-estate sector. (Optibase 08.12)

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10: ISRAEL ECONOMIC STATISTICS

10.1 Israel's Unemployment Claims Decline

On 8 December, the National Insurance Institute announced that new claims for unemployment benefits fell to 16,600 in November 2009, 3% fewer than in October. New claims for unemployment benefits have been falling since July, a trend that reinforces the clear improvement in the labor market. The number of people who have been unemployed for an extended period of time fell by 2% in November, compared with the preceding month. (Globes 08.12)

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10.2 Israel Among Countries With Slowest Internet Connection

According to OECD, Israel has one of the slowest average internet connections in international comparison, Ministry of Communications deputy director general Cohen told the Knesset Science & Technology Committee. Many OECD

members, including Greece, Turkey and Poland, have far faster internet access. Cohen presented a table that clearly placed Israel at the bottom of a list of major countries in terms of average internet access speed, including France, Japan and South Korea. The usual internet access speed for an Israeli customer is 2-2.5 megabits per second, compared with 90 megabits per second in Japan, 80 megabits per second in South Korea, and 50 megabits per second in France. Israel was once proud to have one the highest broadband penetration rates in the world; that was then. Today, Cohen's presentation showed Israel at only mid-point among OECD countries. Cohen presented figures compiled by the Central Bureau of Statistics, which showed that, in 2008, 71% of Israeli households had a computer and 17.4% had two or more computers. 62% of households with computers had internet access. Some 88% of households in the top 10% had internet access, compared with 28% of households in the bottom 10%. Cohen said that high-speed internet access at competitive prices makes possible advanced and time-saving computer applications, which strengthen the information economy. (Globes 07.12)

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11: In Depth

11.1 UAE: Fitch Says Abu Dhabi Support Remains Selective

On 4 December Fitch Ratings (<http://www.fitchratings.com>) said Abu Dhabi's considered and so far indirect financial support for Dubai is in line with the agency's understanding of Abu Dhabi's attitude to support. A conservative attitude to support helps underpin Abu Dhabi's 'AA' Long-term foreign currency Issuer Default Rating (IDR) which has a Stable Outlook.

"Fitch expects Abu Dhabi to preserve its own balance sheet strength and avoid actions that could jeopardize its own creditworthiness, while at the same time intervening selectively if needed to preserve the stability of the UAE," says Richard Fox, Head of Middle East and Africa Sovereign ratings.

Abu Dhabi has, in connection with its recent bond issues, explained that although it has no legal obligation to do so, it might choose to provide financial support to other emirati governments if they were faced with difficulties that threatened the reputation or economic health of Abu Dhabi or the UAE. In its September rating report on Abu Dhabi, Fitch reiterated that the emirate is under no legal obligation to support other emirates and that if support were requested it would be provided on a case-by-case basis, according to the circumstances.

Fitch's understanding of Abu Dhabi's attitude to support within the UAE federation has so far been borne out by events. To the agency's knowledge, Abu Dhabi has made no direct bilateral transfer to Dubai. Support has so far been indirect, confined to the \$5bn subscribed by two Abu Dhabi majority state-owned banks to the Dubai government's bond offer on 25 November 2009, immediately before the Dubai World debt standstill announcement. The Central Bank of the UAE (CBUAE), a federal UAE institution, subscribed the initial \$10bn of Dubai's bond issue in March 2009.

Fitch believes the clarification of Dubai's direct sovereign obligations for the first time in October may have made it easier for Abu Dhabi to contemplate direct support for Dubai, should it be required. Dubai's direct sovereign obligations now

amount to \$20.3bn equivalent, and none of them come due until 2011. By contrast, direct and unconditional support for the much larger and more uncertain liabilities of Dubai-owned entities ("Dubai Inc.") has clearly been ruled out.

Abu Dhabi's economic development, like Dubai's, is being carried forward by state-owned companies, some of which have been prolific borrowers on international markets, especially in 2009, when they raised \$9bn. Fitch has previously warned of the potential for rising public sector liabilities to weaken the sovereign balance sheet. For the time being, however, public sector debt remains small enough not to raise significant concerns, given the strength of Abu Dhabi's balance sheet. Total public sector debt is estimated by Fitch (in the absence of regularly published official figures) at just \$24.1bn, of which only \$4bn is directly sovereign, with the rest owed by 100%-government-owned entities. This is equivalent to 17% of GDP, compared to sovereign foreign assets of over 200% of GDP.

The main threat to Abu Dhabi's balance sheet would likely stem from the spread of Dubai's difficulties to the wider UAE and the emergence of a full blown banking crisis, including capital flight. Although UAE banks' asset quality is worsening and is likely to worsen further, overall capitalization levels of 18% of risk-weighted assets provide a substantial buffer. Central bank liquidity support has been increased and the federal deposit guarantee has been reiterated. All this makes a worst case scenario that might require widespread and substantial systemic support from Abu Dhabi very unlikely. (Fitch04.12)

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11.2 UAE: Abu Dhabi 'AA/A-1+' Sovereign Ratings Affirmed; Outlook Stable

On 25 November, Standard & Poor's Ratings Services affirmed its 'AA' long-term and 'A-1+' short-term sovereign credit ratings on the Emirate of Abu Dhabi, a member of the United Arab Emirates (UAE). The outlook is stable. The 'AA+' Transfer & Convertibility assessment is unchanged.

"The ratings on the Emirate of Abu Dhabi are supported by the government's very strong asset position, which provides significant financial flexibility, and which has allowed Abu Dhabi to face the global economic downturn with a high degree of resilience," Standard & Poor's credit analyst Farouk Soussa said.

The ratings are also supported by the country's high level of political stability and wealth, underpinned by its rich resource endowment, and by policies that reinforce Abu Dhabi's integration with the global economy. The ratings are constrained by the geopolitical risks that face all sovereigns in the region, the limited disclosure on the government's assets, and the contingent liabilities arising from the banking system and the public sector of the UAE as a whole.

The government of Abu Dhabi has accumulated substantial foreign and domestic assets, which are the product of a high resource endowment and prudent fiscal policies over past decades. We estimate the government's net asset position to be more than 300% of GDP in 2009 and 320% in 2010 - one of the highest among rated sovereigns. While volatility in global oil prices reduces the predictability of government revenues, we expect that the Emirate's budget will continue to show substantial surpluses of around 15% of GDP in the medium term. We anticipate that these surpluses will be used

largely for further asset accumulation, with financing for the government's proactive diversification policies being partially sourced in international capital markets. In 2009, the government and its affiliated companies have issued around \$7 billion, or around 10% of GDP, for this purpose.

Per capita GDP, which we expect will average around \$75,000 over the next three years, is higher than that of most 'AA' rated peers. Growth is supported by a track record of prudent macroeconomic policies, careful management of oil and gas resources, and proactive diversification policies.

Structural weaknesses and challenges remain, however. First, the independent institutions, accountability and transparency needed for the functioning of an efficient market economy are, by and large, still in the early stages of development. Second, high levels of debt in the public sector in the UAE as a whole, along with its complicated and close linkages with the private sector, create a dependence that suggests a contingent liability for Abu Dhabi, as the wealthiest Emirate in the UAE. Third, like other sovereigns in the region, Abu Dhabi is exposed to event risks such as a sharp escalation in hostilities between Iran and the West, or terrorist attacks. Such developments might raise risks in the UAE's banking and property sectors. Event risk and contingent liabilities are not expected to threaten political or social stability, and Abu Dhabi is capable of absorbing potential costs through existing government assets.

The stable outlook on Abu Dhabi balances the Emirate's strong financial position and prudent policies against geopolitical risks, rising contingent liabilities, and potential impediments to growth stemming from undeveloped institutions. Significantly reduced geopolitical risk would be important in raising the rating in the future. Conversely, a sustained worsening of political and event risks, or a significant and sustained erosion of the government's asset position, would put the government's creditworthiness under pressure. (S&P 25.11)

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11.3 UAE: End of the Boom? Dubai's Debt Woes Unsettle Financial World

Der Spiegel reported that global investors with money in Dubai are suddenly feeling very nervous, now that it has become clear that the emirate's state-run holding company Dubai World is unable to repay billions in debt. There is even talk of a possible national bankruptcy, which could trigger a new financial crisis.

"Dubai World," the company announced, "intends to ask all providers of financing to Dubai World and Nakheel to 'standstill' and extend maturities until at least May 30, 2010." It sounded innocuous enough, like a polite request to the international financial markets to wait patiently for the repayment of a \$3.5-billion (€2.3-billion) loan to the state-owned real estate subsidiary Nakheel. But to bankers, the announcement sounded more like a cry for help - and one that took many investors completely by surprise.

'Shut Up!'

At the beginning of November, the emirate's ruler, Sheik Mohammed bin Rashid Al Maktoum, insisted at an investor conference that Dubai and its government-run businesses were in good shape. Those who were claiming otherwise should "shut up," he said in an unusually blunt outburst. Now the emirate is unable to come up with a sum which was, at least by Dubai's standards, not that large. What is happening in Dubai is "unbelievable," says Eckart Woertz, chief economist at the Gulf Research Center. The request to delay debt payments shocked the entire Arabian Peninsula and triggered deep concern throughout the global financial world. Stock prices on Asian and European exchanges plunged, with the German DAX losing 3.3% on 26 November. The Dubai stock market fell by more than 7% on 30 November, the first day of trading since the Eid al-Adha holiday, while Abu Dhabi markets slid more than 8%.

Worried Investors

The problems in the Gulf are also worrisome to the German business community, because Arab sovereign wealth funds have invested in a few major German corporations, including Daimler, Deutsche Bank and Volkswagen. The Germans fear that Arab investors could pull out the money they have invested in Germany to raise funds for their cash-strapped neighbor. International investors are worried about their investments in Dubai as their doubts about the emirate's financial solvency grow. Dubai World and its real estate subsidiary owe close to \$60 billion at home and abroad. Many fear that, should the government-owned holding company go bankrupt, the effects could spread beyond Dubai's borders and affect other Arab states, even extending deep into Western economies, where they could cause serious damage. Banks, in particular, would be hard-hit if Dubai World defaults on its debt. The company's roughly 70 creditors include major British and Arab lenders like HSBC, Barclays and Abu Dhabi Commercial Bank.

Sheikh Mohammed built a glittering fairytale world, complete with flashy seven-star hotels, marble-tiled shopping centers and miles of skyscrapers jutting into Dubai's perpetually blue skies, skyscrapers that got ever bigger and ever more luxurious and expensive. It was also an increasingly decadent place; despite daytime temperatures of 44 degrees Celsius (111 degrees Fahrenheit), developers built an indoor ski slope with a 400-meter (1312-foot) run on artificial snow in an enormous building.

The Dubai Dream Runs Aground

The traditional laws of business no longer seemed to apply in this Gulf megalopolis. Real estate developments were sold before completion, sometimes several times and sometimes to investors putting less than 10% down, generating double-digit returns for speculators engaged in the insane practice of "flipping." About a quarter of Dubai's gross domestic product was generated in the construction and real estate sector, and for a time one in four of the world's construction cranes was being operated in Dubai. The bubble was fed with money from around the world. To turn its fantastic visions into reality, the emirate borrowed a massive amount of money - about \$80 billion - on international capital markets in recent years. About \$50 billion of that debt will mature by 2013. It will now be difficult, if not impossible, to repay such vast sums of money. All of the calculations that were once made no longer add up.

Collapsing Prices

Real estate prices have collapsed and are now only half of what they were a year ago. Yet new villas and luxury condominiums are still being completed every day - and are standing empty. Entire floors are deserted in the

skyscrapers along Sheikh Zayed Road, and giant banners with the words "To Let" are displayed across the fronts of buildings. Real estate experts estimate that only 41% of office space is occupied, and the vacancy rate is only expected to increase. In 2011, Dubai, a city of about 1.5 million, will have more office space available than Shanghai, which is 10 times as large as Dubai.

Domestic banks financed part of this megalomaniacal building boom, partly because they had no choice. No one dared to question the creditworthiness of state-owned companies when they applied for loans. The banks, says one insider, deteriorated into an "extended arm" of the government, "and now the whole thing is running aground."

No More Bailouts?

Most of all, however, oil prices have been rising again for months, which until now has indirectly benefited the emirate, whose own wells are drying up. Higher oil prices meant a secure influx of income for the neighboring emirate of Abu Dhabi, which has about 7% of global oil reserves. People in Dubai expected wealthy Abu Dhabi to help them out again, if necessary.

At the beginning of the year, Abu Dhabi had already saved Dubai from bankruptcy with a \$20 billion bailout package. But even sums of that magnitude were apparently not enough to service the emirate's loans, and the money disappeared like oil from a leaky barrel. Other bankers believe that Sheikh Mohammed's admission of failure is the result of a bold attempt by Dubai to threaten its wealthy neighbor, one that failed miserably. In recent months, Abu Dhabi had apparently tied its commitments to ever more stringent conditions. According to the bankers, Dubai, completely overestimating its power, tried to take the conflict to an international level, putting the sheikhs in Abu Dhabi under pressure by insisting, in effect, "if you don't help us, we'll both go down together." But the money for Dubai's ludicrous development projects didn't only come from its rich neighbor, but also from thousands of small investors from around the world. Now they are all stuck in the same trap. Real estate investment funds can't get rid of their properties and some have put a stop to planned payouts. (Der Spiegel30.11)

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11.4 UAE: RAK & Regatta Racing

The America's Cup drama continues to play out after months of legal wrangling and substantial construction in preparation for the event in Ras Al Khaimah (RAK) – so reports the Oxford Business Group. The two competitors in one of the sailing world's most prominent regattas - Alinghi and BMW Oracle Racing (Oracle) - are awaiting an appeal decision, expected this month, after a federal court in New York ruled in October that RAK was not a suitable venue for the race. With the appeal decision outstanding, there is still a chance - however slim - that the race could ultimately set sail in RAK. Regardless of the outcome, the emirate is still moving confidently towards an expanded tourism sector.

The controversy began late last year when Alinghi, the Swiss racing team and winner of the previous America's Cup, announced its decision to hold the next regatta in the waters off RAK. According to tradition, the title-holder chooses the

venue. However Alinghi's decision was immediately contested by Oracle - the American challenger - alleging RAK's proximity to Iran posed a security threat to the team in the water. These concerns propelled the matter to the American courts and on October 27th the presiding judge ruled that RAK was not a suitable venue for America's Cup, citing a stipulation in the Deed of Gift – a 19th century document that governs the regatta – that the race cannot be held in the Northern Hemisphere between November 1 and May 1. The one-on-one showdown is scheduled for February 8.

Valencia, a Spanish port town, stands as the alternative venue and since it was mutually agreed upon by both teams, is legally acceptable despite the fact it is located squarely in the Northern Hemisphere. But, should Alinghi win the appeal, the race will be passed back to RAK. On November 25th the Swiss team again reaffirmed its preference to hold the race off the emirate's coastline, which it chose for its temperate climate and smooth waters.

Excitement over the race has been brewing in RAK since Alinghi announced its choice in August. RAK has reportedly spent Dh440m (\$120m) in preparation for the event, including the construction of a man-made island to house facilities for the contenders. Local hotels were reportedly reserved to capacity for the event weekend. Real estate construction around Al Hamra Marina - the proposed hosting site - picked up in recent months as developers anticipated an uptick in demand from visiting yacht enthusiasts - a trend observed at past America's Cup venues.

As RAK awaits the appeal decision, the prospective windfall of tourism receipts from the race hangs in the balance. But with or without America's Cup, tourism officials in RAK retain an optimistic view of the sector's future.

The emirate unveiled four new hotels this year and there are several more scheduled to open in the coming months, according to comments from RAK Investment Authority (RAKIA) officials to the press. Indeed, tourism authorities have been busy promoting the potential of the emirate to the world, on the back of publicity momentum from the America's Cup drama.

RAK representatives at the World Travel Market - an annual international trade show - held in London earlier this month were busy advertising the leisure offerings of the emirate. The event is a chance to target the European market, which accounts for about three quarters of all visitors to the emirate. The state is keen to attract a greater number of charter flights from the continent and air service has been steadily growing, with three new direct charter routes announced in the fourth quarter. Transavia Denmark began service from Copenhagen in October, joining Primera Air flights from Copenhagen and Stockholm to RAK, which began the same month. NEOS Spa is due to start its RAK route from its base in Milan in December.

Meanwhile, the UN World Tourism Organization (UNWTO) suggests that the sector downturn has likely bottomed out and expects moderate growth - from 1% to 3% - in 2010. The Middle East tourism market has typically fared better than its Western counterparts throughout the economic crisis and could be one of the fastest-growing segments as the world creeps out of the recession.

RAK is hoping to attract an increasing number of regional travelers. Under its tourism plan, officials hope to increase tourist arrivals from 215,000 in 2008 to 2.5m by 2012. In order to meet these goals, the emirate needs to increase its hotel capacity. Efforts are well underway, with a total of 3700 rooms planned over the coming years, trebling current supply. An estimated \$5bn worth of projects are currently planned or under way.

If the America's Cup deal ultimately falls though, the international media coverage of the ongoing spectacle has at least broadcast RAK's name around the world, raising the profile of the emirate. This will undoubtedly be useful as new hotels come on-line and the economy continues to diversify, with tourism featured as a high-potential industry. (OBG03.12)

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11.5 EGYPT: Making a Comeback

After a rocky start to the year, the Oxford Business Group claims tourism, the Egyptian economy's biggest foreign currency earner, staged a comeback over the summer and fall, revealing that the global slowdown's impact on the sector has turned out to be relatively moderate.

The Ministry of Tourism announced in October that Egypt saw a 6.4% drop in tourism revenue in the first nine months of 2009. The number of tourist arrivals fell 5.4% in the same period, indicating that tourists had reduced their vacation spending during the crisis.

Though showing an overall decline, these figures do demonstrate a significant recovery from what was a difficult first quarter. In January, investment bank EFG-Hermes reported hotel occupancy rates of only 40-45% in Egypt, resulting in the widespread layoffs of workers. Its forecast that tourist arrivals would shrink 18% in 2009, however, has not proved true. "We started the year down 17% and as we have been going along, the figures have lessened," said the minister of tourism, Zoheir Garranah. "I think we'll see full recovery by the third quarter of 2010." His prediction was right: in November, the ministry announced Egypt had received 10.9m tourists this year, only a 4.5% drop over the same period in 2008.

Low occupancy levels at the start of the year were partially attributable to the addition of 25,000 new hotel rooms to the market. By the second quarter however, figures had stabilized and hotel owners in beach hotspots Hurghada and Sharm El Sheikh reported 80% occupancy. At the end of the 2008/09 fiscal year in June, tourism receipts were \$10.5bn, down a relatively mild 3.1% year-on-year, according to the Central Bank.

Growth of the tourism industry has been robust in recent years - in 2008, revenues grew 23% to \$11.6bn, comprising 11% of Egypt's GDP. Tourist arrivals rose dramatically before the crisis to around 19% to 12.8m in 2008. The Ministry of Tourism targets 14m visitors by 2011, which looks possible as Egypt returns to its pre-crisis levels. In November, ministry spokeswoman Omayma El Hussein predicted that the total number of visitors for 2009 would drop around 4% to 12.3m.

The uptick in tourism in the third quarter corresponds with the economy's overall improvement. "We feel that the whole crisis is bottoming out. We have seen indicators in tourism, in the Suez Canal and otherwise to show that the last few

months there is - although a small but very distinct - change of direction in all indicators," Prime Minister Ahmed Nazif said at the Reuters Middle East Investment Summit in October. He also predicted that following 4.7% growth in the 2008/09 fiscal year, the economy would return to its pre-crisis rate, 7%, within two years.

During the crisis, the government lent a helping hand to the tourism industry, which employs around a tenth of the population, by increasing the budgets of the Ministry of Tourism and the Egyptian Tourist Authority, which launched advertising campaigns aimed at strategic markets. With 70% of Egypt's tourists arriving from Europe, the tourism bodies have focused on marketing the country's closeness and affordability. Low-cost carrier Air Arabia announced the addition of Egypt as a third Middle Eastern hub by the end of 2009, which should bolster tourism numbers in the coming years.

The numbers are not in yet, but 2009 should see a change in the demographic make-up of tourists to Egypt. Travelers from Russia have surged in recent years, accounting for a quarter of visitors to Sharm El Sheikh in 2008, but their market was one of the most severely affected in the financial crisis due to the decline of the rouble. On the other hand, tourism from Arab countries has been on a steady ascent and, as a demographic, they spend more money on average on luxury hotels and restaurants. This activity in the high-end segment has become increasingly vital, offsetting the damages to the tourism industry seen at the start of the year.

The recovery of Egyptian tourism even before the end to the global crisis is a strong testament to the industry's long-term prospects. A restructuring of the demographic model may even prove beneficial, as Egypt positions itself as less of a budget destination and more of a high-end player. (OBG02.12)

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11.6 PAKISTAN: Pharmaceutical Market Sees Annual Increase of 9.39% by 2014

Research and Markets (<http://www.researchandmarkets.com>) announced the "Pakistan Pharmaceuticals and Healthcare Report Q1 2010" report. In BMI's Business Environment Ratings for Q1/10, Pakistan slipped from 13th to 15th - and last - place, out of the key markets assessed in the Asia Pacific region. In addition to the challenging economic environment, the country's pharmaceutical expenditure will also be shaped by the volatile political and security situation. Overall, the publisher expects the pharmaceutical market value to increase at a compound annual growth rate (CAGR) of 9.39% in local currency terms, reaching PKR206.9bn (\$2.3bn) in 2014. Growth over the publisher's longer, 10-year, forecast is likely to be somewhat more subdued, at a CAGR of 8.75% in local currency, as the operating environment stabilizes.

Although Pakistan's pharmaceutical market opportunities are considerably underpinned by its vast and rapidly growing population, low per-capita spend on pharmaceuticals, the deficient regulatory environment and the recently heightened security risk will continue to pose major barriers to foreign direct investment (FDI) and multinational involvement in the country. Furthermore, the economic downturn is also having a marked impact on the pharmaceutical landscape, given that patients must foot most of their medical bills. In fact, while the introduction of a social insurance programme has been discussed, no real progress has been made to date. Nevertheless, the government recently began considering a health insurance scheme similar to India's insurance scheme for the poor.

Still, the government actively supports local industries, although this comes with the risk of deterring foreign companies from operating in the country. International players are likely to protest the October 2009 decision by Pakistan's Federal Health Ministry to cancel the registration of 4,000 imported medicines, after local industrialists raised objections over the sale of these medicines in the country, given that they can be manufactured domestically. Most recently, Pakistan has also upped its efforts to attract foreign patients to the country, encourage the private sector to administer advanced treatments and ensure relaxing surroundings for recovery. It is hoped that people seeking healthcare in Pakistan will drive the overall tourism market, resulting in increased national wealth. However, the recent terrorist attacks clearly represent a major drawback to such efforts, with Pakistan's quest to become a medical tourism destination also restricted by questionable ethics.

In terms of company news, Pakistan's ambition to become a significant exporter of pharmaceuticals came under threat in September 2009, after a Ugandan drug maker sued a Pakistani pharmaceutical manufacturer for supplying substandard goods. Mavid Pharmaceuticals filed a lawsuit against Royal Group for breach of contract following the purchase of raw materials for a therapeutic ointment, Samodex, which were found to be 'fake' by the National Drug Authority (NDA). Mavid Pharmaceuticals initially sought to recoup its \$68,000 outlay, which had been ignored by Royal Group. In the course of 2008, the NDA had already withdrawn from the market sub-standard tetracycline and indomethacin capsules made by Royal Group, with the two events clearly presenting the company in a very poor light. (R&M 03.12)

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11.7 TURKEY: Fitch Upgrades Turkey's Sovereign Rating Two Notches to 'BB+'

On 3 December Fitch Ratings (<http://www.fitchratings.com>) upgraded the Republic of Turkey's Long-term foreign currency Issuer Default Rating (IDR) to 'BB+' from 'BB-'. At the same time, it has upgraded the Long-term local currency IDR to 'BB+' from 'BB' and its Country Ceiling to 'BBB-' from 'BB'. The agency has removed all these ratings from Rating Watch Positive and assigned Stable Outlooks to the Long-term IDRs. It has also affirmed Turkey's Short-term foreign currency IDR at 'B'.

"The upgrade reflects Turkey's relative resilience to the severe stress test of the global financial crisis and some easing in prior acute constraints related to inflation, external finances and political risk," says Edward Parker, Head of Emerging Europe in Fitch's Sovereigns team.

Turkey's relative resilience to the global financial crisis reveals that credit fundamentals and debt tolerance are stronger than previously thought. Although the global shock caused a deep recession in Turkey, it has not triggered a balance of payments or financial crisis. In contrast to previous shocks, Turkey has been able to implement counter-cyclical fiscal and monetary policies without sparking an exchange rate crisis, and interest rates have fallen to single digits for the first time in its modern history. The government has been able to step up borrowing in the domestic debt market at record low yields as well as issue \$3.75bn of eurobonds this year. It has not needed an emergency IMF bailout nor to support the banking sector, and there has been no significant pick-up in dollarization or capital flight.

Although Fitch forecasts GDP to contract 6% in 2009, the agency expects growth of 4% in 2010. Moreover, the recession has enabled the country to attain a better macroeconomic balance. Turkey's history of relatively high and

volatile inflation has been a source of macroeconomic instability and a rating weakness. But inflation has fallen to a modern low of 5.1%, from an average of 10.4% in 2008 and the floating exchange rate and inflation-targeting regime has performed well during the crisis. The exchange rate has adjusted to a more competitive level and Fitch forecasts the current account deficit (CAD) to narrow to 2.1% of GDP in 2009, from 5.7% in 2008.

Turkey's resilience also reflects its strong banking sector, which is moderate in size, well capitalized and has a low loan/deposit ratio of 80%. Debt tolerance and sovereign ratings are also supported by high GDP per capita (which is above the 'BBB' range median), high levels of human and physical capital, a favorable business climate and governance, deep local capital markets and a good modern debt service record.

However, the public finances have deteriorated. Fitch forecasts the central government budget deficit (on IMF definitions) to widen to 7.6% of GDP in 2009 and 5.6% in 2010, from 3% in 2008; and (EU defined) general government debt to increase to a peak of 48% of GDP at end-2010, from 39.5% at end-2008, compared with the 10-year 'BB' range median of 41%. Fitch estimates this will entail a fiscal financing requirement of around 19% of GDP in 2010, partly reflecting the relatively short average maturity of domestic debt. A similar amount has been readily financed so far in 2009. Encouragingly, the government has mapped out and started to implement a medium-term fiscal consolidation program, which should be consistent with returning the debt-to-GDP ratio to a declining path.

Although external financing risks have eased this year, helped by the narrowing in the CAD, reasonable private sector roll-over rates and large unexplained capital inflows, Turkey faces a sizeable gross external financing requirement (CAD plus medium- and long-term amortization) which Fitch estimates at \$66bn in 2010 (plus \$48bn short-term), compared with foreign exchange reserves of \$75.4bn. Turkey's net external debt ratios and debt service ratios are somewhat higher than for rating peers.

Political risk also weighs on Turkey's sovereign ratings. But the risk of severe political instability has declined since 2007-2008, in Fitch's view. (Fitch 03.12)

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11.8 GREECE: Time Bomb for the Euro: Greek Debt Poses a Danger to Common Currency

Wolfgang Reuter writes in *Der Spiegel* (<http://www.spiegel.de>) that as economic indicators have improved, concern about the financial crisis has abated. But the next big problem could be approaching. Greece's public deficit is skyrocketing and the country may become insolvent. The effect on Europe's common currency could be dire.

Josef Ackermann, the CEO of Deutsche Bank, has given the all-clear signal many times in the past. He has repeatedly said that the worst was over, only to see the financial crisis strengthen its grip on the world economy. Last week, however, Ackermann was singing a completely different tune. Although many indicators are once again pointing skyward, he said at a Berlin summit on the economy, Chancellor Angela Merkel, the assembled cabinet ministers, corporate CEOs and union leaders should not to be deluded. He warned emphatically that the financial situation could

deteriorate once again. "A few time bombs" are still ticking, Ackermann told his audience, noting that the growing problems of highly leveraged small countries could lead to new tremors. Then, almost casually, Ackermann mentioned the problem child of the European financial world by name: Greece.

Ackermann isn't alone in his opinion. Practically unnoticed by the public, an issue has returned to the forefront in recent weeks - one that was a cause for great concern at the height of the financial crisis but then, as optimism about the economy began to grow, was eventually forgotten: the fear of a national bankruptcy in the euro zone. The question as to whether such a bankruptcy, should it come about, could destroy the common European currency. Greece was always at the very top of the list of countries at risk. But now the danger appears to be more acute than ever.

Insuring Against Default

The seismographs in the trading rooms at investment banks detected the initial tremors weeks ago. Today, when the code "Greece CDS 10Yr" appears on Bloomberg terminals, a curve at the bottom of the screen points sharply upward. It reflects the price that banks are now charging to insure 10-year Greek government bonds against default.

The price of these securities has jumped dramatically since Greek Finance Minister Giorgos Papakonstantinou announced three weeks ago that his country's budget deficit would reach 12.7% of gross domestic product this year, instead of the 6% originally forecast - and well about the 3% limit foreseen by European Union rules. A second curve is the mirror image of the first. It depicts the price of government bonds from the euro-zone country. It points sharply downward.

Greece already pays almost 2% more in interest on its debt than Germany. In other words, at a total debt of €270 billion (\$402 billion), Greece will be paying €5 billion more in annual interest than it would if it were Germany. With rating agencies threatening to downgrade the country's already dismal credit rating, the situation is only likely to get worse. The finance ministers and central bankers of the euro-zone member states are as alarmed as they are helpless. "The Greek problem," says a senior administration official in Berlin, "will be an acid test for the currency union."

No Buyers Can Be Found

Greece has already accumulated a mountain of debt that will be difficult if not impossible to pay off. The government has borrowed more than 110% of the country's economic output over the years, and if investors lose confidence in the bonds, a meltdown could happen as early as next year.

That's when the government borrowers in Athens will be required to refinance €25 billion worth of debt - that is, repay what they owe using funds borrowed from the financial markets. But if no buyers can be found for its securities, Greece will have no choice but to declare insolvency - just as Mexico, Ecuador, Russia and Argentina have done in past decades.

This puts Brussels in a predicament. European Union rules preclude the 27-member bloc from lending money to member states to plug holes in their budgets or bridge deficits. Even if there were a way to circumvent this prohibition, the consequences could be disastrous. The lack of concern over budget discipline in countries like Spain, Italy and Ireland would spread like wildfire across the entire continent. The message would be clear: Why save, if others will eventually foot the bill?

A Domino Effect

On the other hand, if Brussels left the Greeks to their own devices, the consequences would also be dire. Confidence in the euro would be shattered, and the union would face a crucial test. What good is a common currency, many would ask, if some of the member states pay their debts while others do not? Furthermore, there is a threat of a domino effect. If one euro member falls, speculators will test the stability of other potential bankruptcy candidates. This could destroy the currency union. Because of this systemic risk, say the economists at the Swiss bank UBS, "we believe that if a country is facing a problem with debt repayment or issuance, it will be supported.

A default of a euro-group country doesn't worry the monetary policy hawks at the Bundesbank, Germany's central bank. "So what if Greece stops paying its debts?" one of the executive board members asked at a recent banquet in Frankfurt. "The euro is strong enough to take it." The real threat, he says, is if Brussels comes to the Greeks' aid. "Then the currency union will turn into an inflation union." But it remains to be seen whether politicians can maintain such an unbending approach. The prices for Greek government bonds plunged once in the past, until then German Finance Minister Peer Steinbrück, to the horror of the Bundesbank, publicly pledged to help the Greeks if necessary. There is much to be said for the government taking exactly the same position today.

Can Bankruptcy Be Prevented?

A national bankruptcy in Greece would have a serious impact on Germany, where many banks have invested heavily in the high-yield Greek treasury bonds - after borrowing the money to buy the bonds from the European Central Bank (ECB) or other central banks at rates of 1-2%. Making money doesn't get much easier -- as long as the Greeks remain solvent.

But can a Greek bankruptcy even be prevented anymore? The answer, at least initially, depends heavily on the ECB. Will the custodian of the euro continue to accept Greek bonds as collateral for short-term liquidity assistance, or will it turn down the securities in the future? Another possibility is a compromise, under which the banks would pay additional interest when they submit Greek bonds. The next meeting of the ECB takes place on Dec. 17. "The subject will be on the agenda," say officials in Frankfurt. Time is of the essence.

Central bankers in the euro zone are already speculating, behind closed doors, what would happen if the Greeks started printing euros without ECB approval. There is no answer to the question, and that makes central bankers from Lisbon to Dublin even more nervous than they are already.

Massaging Budget Figures

In 2004, it was discovered, completely by accident, which Greece had only managed to qualify for entry into the currency union by massaging its budget figures. The Greeks have only complied with the Maastricht criteria once since the introduction of the euro, in 2006. Even those figures may have been doctored. At the time, the Greeks managed to increase their official gross national product by a hefty 25%, partly because they included the black market and prostitution in economic output. This brought down the deficit rate - on paper, at any rate - to 2.9%.

The figures representing Greece's budget deficit are constantly being revised upward. The most recent uptick, by close to 7%, is a record for Europe - and it comes in a country that was relatively unaffected by the financial crisis. This year, the Greek economy will have shrunk by only 1.2%, say Greek economists. Next year they expect the economy to return to grown, albeit modest.

Particularly vexing to the remaining EU countries is the fact that Greece has profited from its EU membership for decades. Year after year, net transfers from Brussels have exceeded payments moving in the opposite direction by €3 billion to €6 billion. These numbers, too, have often been suspect. At times, the land area declared for agricultural subsidies was incorrect, and sometimes approval conditions were not met.

Resolute Words

Nevertheless, EU politicians find their hands tied. "The game is over," the chairman of the euro group, Jean-Claude Juncker, declared recently, only to turn around and assure the country of his solidarity. "I don't have the slightest suspicion that Greece could go bankrupt - anyone speculating that this will happen is deluding himself," says Juncker.

His resolute words were directed at investment bankers in London, Frankfurt and New York. They know full well that Greece is indeed on the brink of bankruptcy, but they don't know whether the EU will, as Juncker insinuated, come to the aid of member state Greece. Juncker's message, in other words, was that those speculating on a bankruptcy could be left out in the cold.

The EU has now begun a tougher approach to Greece. Three weeks ago, the government in Athens received a rebuke from Brussels, followed by another one last week. So far, however, the Greek government has shown little inclination to take any significant steps. It does intend to reduce the deficit, but only to 9.1% next year. This is far too little for many European foreign ministers. As the new Greek finance minister, Giorgos Papakonstantinou, recently announced, the country will need at least four years to get its deficit under control "without jeopardizing the economic recovery."

But by then the government deficit will have reached about €400 billion, or about 150% of GDP. Servicing that amount of debt, even at current interest rates of about 5%, will make up at least one third of government spending. A London investment banker is betting on the continued decline of prices for Greek bonds in the short term, while simultaneously waiting for the right time to start buying the securities again. He jokes: "If someone has €1,000 in debt, he has a problem. If someone has €10 million in debt, his bank has a problem. The bank, in this case, is Europe." (Der Spiegel 08.12)

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11.9 GREECE: Fitch Downgrades Greece to 'BBB+'; Outlook Negative Ratings

On 08 December, Fitch Ratings (<http://www.fitchratings.com>) downgraded Greece's Long-term foreign currency and local currency Issuer Default Ratings (IDR) to 'BBB+' from 'A-'. The Outlook is Negative. The Short-term foreign currency (IDR) is downgraded to 'F2' from 'F1'. The Country Ceiling is affirmed at 'AAA', in line with the common country ceiling for euro area sovereigns.

The downgrade reflects concerns over the medium-term outlook for public finances given the weak credibility of fiscal institutions and the policy framework in Greece, exacerbated by uncertainty over the prospects for a balanced and sustained economic recovery. Though it is probable that fiscal adjustment under the auspices of the Stability and Growth Pact will be sufficient to forestall penalties under the Excessive Deficit Procedure (EDP), Fitch's current assessment is that the government debt burden is likely to rise to close to 130% of GDP before stabilizing. Given the poor historical track record of public finance management, Fitch is not convinced that the substantive pension reform and other measures necessary to contain public spending pressures and broaden the tax base will be sufficiently strong to materially reduce debt over the medium- to long-term and hence Greece's vulnerability to future adverse shocks.

While Fitch believes that the government's target to narrow the fiscal deficit by 3.6pp of GDP to 9.1% in 2010 is achievable, the lack of substantive structural policy measures reduces confidence that medium term consolidation efforts will be aggressive enough to ensure public debt ratios are stabilized and then reduced over the next three to five years. Present government proposals rely more heavily on revenue-raising measures, particularly moves to counter tax evasion - where the pay off is highly uncertain - rather than current spending where structural fiscal weaknesses are most acute. About half the proposed cuts in the deficit rely on temporary one-off measures, while little of the recent fiscal deterioration can be attributed to the economic downturn, which has been relatively mild, or to support for the financial sector which has been minimal.

In the face of downside risks to medium-term growth associated with Greece's large current account deficit - which has seen GDP growth supported by strong capital inflows over the last few years - the likely rise in public debt to more than 120% of GDP next year and further to 125% in 2011 would leave the public finances highly exposed to shocks. One such shock is the ageing population which, in combination with a highly generous and unreformed pension system, will lead to one of the largest projected increases in ageing-related expenditures - at 15% of GDP - in the EU between 2010 and 2050 according to the European Commission (EC).

Fitch recognizes the efforts that the government has made to improve fiscal transparency and understands that further measures will be announced in January 2010 to support the reduction in the fiscal deficit to 3% of GDP by 2013 as recommended by the EC under the EDP, including supplementary fiscal measures to underpin realization of the 2010 Budget deficit target. The EC and European Council have already indicated that Greece will face a higher degree of surveillance and more detailed controls than other countries under the EDP.

Increased peer pressure from within the EU and EMU is likely to strongly influence policy choices in the near-term. However, sustained consolidation over the medium term will require enduring domestic political commitment to austere fiscal policies. Greece's poor historical track record of reducing deficits and debt is evidenced most recently by the failure to reduce debt ratios over 2003 to 2008 despite strong growth and the sharp structural deterioration in the public finances in 2009. Fiscal slippage relative to current plans could result in a further downgrade, while the emergence of a much stronger policy commitment and its consistent implementation could see the Outlook revised to Stable.

Greece's sovereign ratings remain supported by its high-income economy relative to rating peers and membership of the EU and EMU which protects the economy from abrupt shifts in the balance of payments and currency pressures. The banking sector has also held up relatively well through the global crisis. Moreover, the average maturity of public debt at around eight years, despite increased short-term borrowing during the course of 2009, reduces the government's exposure to interest rate shocks. (Fitch 08.12)

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11.10 BULGARIA: Economy Behind the Curve

The Economist Intelligence Unit reported that Bulgaria stood alone among the EU's eastern members as the only one yet to show an improvement in GDP performance. Worryingly, the authorities suggest that the bottom may not be reached until Q1/10 and a return to growth may not happen until the end of that year. Several factors might explain this: export problems as a result of the fixed-exchange rate and structure and destination of exports; particularly poor foreign direct investment (FDI); and plunging domestic demand. It seems that the main factors explaining Bulgaria's sluggish recovery are a late start in the process of cutting jobs and wages, plus a tight fiscal policy that limits the government's ability to support the economy while private consumption is in retreat.

Unlike its fellow east-central European countries, Bulgaria saw its year-on-year decline in real GDP worsen in the third quarter of the year--to -5.8% year on year, from -4.8% in May-June. The Czech Republic, Hungary, Slovakia, Slovenia and the Baltic states all reported an improved performance in the third quarter, and it is widely expected that Poland - the only regional state to have kept growing during the global downturn - will do likewise.

If Bulgaria were to show signs of turning the corner in the fourth quarter, just one quarter after its east-central European peers, this would not be a cause for great concern. However, the country's finance ministry and the IMF both estimate that real GDP will fall by over 6% this year, which implies a worsening in performance in the fourth quarter. The influential finance minister, Simeon Djankov, has said that the worst of the current recession will be either the fourth quarter of this year or the first quarter of next year. If, as he suggests, Bulgaria does not start to turn the corner until the second quarter of 2010 - and thus may not register year-on-year GDP growth until the end of that year - it would be a source of concern.

Across east-central Europe, the same factors are driving a slight upturn in GDP performance: external demand is recovering, thus providing a boost to exports and industrial output. As a result, headline GDP performance is improving even though private consumption is declining ever more steeply. Given the high profile of passenger cars within east-central Europe's export mix, and the short-term stimulus to car demand in western Europe provided for scrappage schemes (cash for clunkers), it may be that this export and industrial recovery will not be sustainable. Nevertheless,

given these external factors, it is interesting to ponder why Bulgaria has not yet shown any signs of improvement--and why the government and IMF do not expect it to do so before some point in 2010.

The usual suspects

Possible reasons for Bulgaria's lagging performance are: weak export performance, as a result either of the country's fixed exchange-rate or the structure and destination of exports; a poorer-than-average performance in attracting foreign direct investment (FDI) within the east-central European context; or worse than average domestic demand, comprising the government and households.

With regard to exports, there are grounds for believing that Bulgaria has lost competitiveness vis-à-vis its regional counterparts. The Czech, Hungarian, Polish and Romanian currencies have weakened against the euro over the last year, whereas the Bulgarian lev has stayed fixed to the euro under the country's currency board. This inevitably puts it at a disadvantage. Moreover, relative to the Visegrad economies (the Czech Republic, Hungary, Poland and Slovakia), Bulgaria is exposed to export markets that are still struggling to grow. For the Visegrad states, Germany is the most important market (taking 20-30% of total exports by value in 2008) and France and Italy also figure prominently for some; all three of those large West European economies are now out of recession. Bulgaria, by contrast, sent 9.8% of its exports to Greece in 2008, 9.1% to Germany, 8.9% to Turkey and 8.5% to Italy--and both Greece and Turkey are still in recession. Moreover, compared with the Visegrad economies, which rely heavily on manufactured goods, Bulgaria's export profile is dominated by iron and steel and metals. Because some of the largest consumers of these goods are construction firms, and the construction sector across Europe is still in a deep recession, it would not be surprising to see that Bulgarian exports were failing to recover in the manner of Visegrad exports.

Nevertheless, there are indications that the foreign balance made a positive contribution to GDP in the third quarter, even though the headline figure declined compared with the second quarter. The flash estimate was accompanied by a comment that the export decline softened whereas the import decline deepened.

On the FDI front, Bulgaria is yet to turn the corner. Fixed investment fell by 16.3% year on year in the second quarter, and by 22.9% in the third quarter. Estimates from the central bank and private-sector analysts suggest that FDI could fall by 50% in 2009 from the €6.5bn received in 2008. As with exports, Bulgaria's customary FDI structure is unfavorable. In recent years, a high proportion of FDI has flowed into real estate and financial intermediation--two sectors that remain in the doldrums. Perhaps for this reason, the government is signaling that FDI performance in 2010 may be as bad, or even worse, than in 2009. This would certainly help to explain the official pessimism regarding the timing of the economic recovery.

With regard to domestic demand, private consumption is falling in Bulgaria just as it is doing elsewhere in east-central Europe. The key to the country's sluggish recovery may lie in government consumption. Most EU members are running sizeable budget deficits at present, whereas Bulgaria is obliged to seek balanced budgets. Although it is likely to return a general government deficit of around 0.5% of GDP this year, this is miniscule compared with deficits of 5-8% of GDP in the Visegrad states. Moreover, government consumption plays less of a role in Bulgaria than central Europe. In 2008, the share of government consumption in GDP was just 8.7%; the figures for the Czech Republic, Poland, Slovenia, Slovakia and Hungary are 20.3%, 17.2%, 17.9%, 17.2% and 9.5%.

Unavoidable Cuts

With regard to the gloom that surrounds Bulgaria's short-term recovery prospects, two factors stand out. First, the real sector is still in a process of adjustment, whereas elsewhere in east-central Europe this process is at or near completion. The increase in unemployment was greater in the third quarter than in the second quarter, at 28,000 compared with 15,000, which suggests that when the downturn began firms avoided shedding workers but are now being forced to do so. A similar process is evident in wages: although they fell quarter on quarter in July-September, they had grown in the first two quarters of the year. Moreover, in the third quarter real wages were still up by around 10% year on year. Given the wage shrinkage seen in other states, and the fact that Bulgaria's exchange rate has not taken any of the burden of adjustment, it is reasonable to assume that further wage declines are in store. Added with an expected further rise in unemployment, this is a double-whammy for private consumption. Consumers are also likely to be less confident in their spending given the collapse in house prices.

Second, fiscal policy is tight and will remain so. This is not only because of the currency board and the need to control inflation via fiscal policy because there are few monetary levers. The new Bulgarian government, headed by Boiko Borisov, has an ideological commitment to shrinking the state in order to narrow the field for corruption and encourage private enterprise. This has increased the likelihood of Bulgaria delivering on its intention to run a balanced budget in 2010. As a result, the government will provide less support to the economy than its peers among the EU new member states. Moreover, given that getting the budget back into balance is likely to involve cuts in the public sector workforce, there will be a reduction in the number of salaried state employees, which will act as a drag on private consumption.

Bulgaria may yet find that it is not alone in struggling to recover. The export-oriented output gains seen in the Visegrad economies (minus Poland) could prove short-lived as the scrappage schemes wind down and west European governments withdraw fiscal stimulus. Romania's third-quarter GDP result was unexpectedly good - most analysts had expected a deterioration compared with the second quarter - but it is possible that this could either be revised or prove to be a blip. Nevertheless, it is tempting to conclude that Bulgaria is in this regard a victim of its fixed exchange rate and tight fiscal policy, the limited role of state spending in the economy and its reliance on basic exports and foreign investment into real estate. (EIU23.11)

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- Israeli Shekel conversions done at a rate of NIS 3.80 = \$1.00
- Turkish Lira conversions done at a rate of NTL 1.60 = \$1.00
- Euro conversions done at a rate of € 1.00 = \$1.40
- Jordanian Dinar conversions done at a rate of JD 1.00 = \$1.41
- UAE Dirham conversions done at a rate of Dh 3.67 = \$1.00
- Omani Rial conversions done at a rate of OR 0.385 = \$1.00
- Pakistani Rupee conversions done at a rate of Rs 82 = \$1.00

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