

## Fortnightly - December 23, 2009

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### 1: ISRAEL GOVERNMENT ACTIONS & STATEMENTS

#### 1.1 Netanyahu Says Growth Vital to Improving Education

Prime Minister Netanyahu pointed to economic growth as a key in furthering the country's education system. Netanyahu spoke at the "Globes" Israel Business Conference forum on education, called "Today's students, tomorrow's human capital". Netanyahu said, "We are exiting the global crisis and beginning to grow, but I do not think that there is room for euphoria. It is impossible to know if the global economy will return to growth in the coming years, and I think that there are still not-inconsequential risks to the Israeli economy." The prime minister pointed to economic growth as a solution to many challenges, including defense, which the country faces. "It is also the way to finance the solution to the problem of the education system. Looking over the next few years, our growth engine will be upgrading human capital. In other words per capita growth will give a solution to Israel's existential and educational needs, and further on, education will provide for growth." Netanyahu said, "The education system in Israel is in trouble." As a step in dealing with the issue, the prime minister said, "First, I appointed good people to manage the system. I appointed Gideon Saar as Minister of Education. The second thing is backing. We will give support to the required reforms in the education system." Netanyahu discussed the importance of having strong administration, and seemed to criticize the current system when he related, "The general manager of Intel in Israel wanted to be a school principal, and they decided she wasn't worthy. So she went to be the general manager of Intel Israel. Netanyahu emphasized the need to bring as many people as possible into the workforce, and toward that end he proposed including "core tools", such as foreign languages, in every school. (Globes 14.12)

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#### 1.2 USTR & Israel Hold FTA Joint Committee Meeting

On 14 December, representatives of the United States and the Government of Israel convened a meeting of the Joint Committee of the U.S.-Israel Free Trade Agreement (FTA). Christopher Wilson, Assistant U.S. Trade Representative for Europe and the Middle East, led a U.S. delegation that included representatives from the Departments of Commerce, Agriculture, and State. At the Joint Committee meeting, officials discussed bilateral trade, investment and economic issues of mutual interest, as well as the administration of the FTA. Both governments acknowledged the progress and collaborative work that has taken place since the last meeting of the Joint Committee in Washington in October 2007. The delegations stressed that the Joint Committee meetings are an important aspect of the continued development of cooperation and partnership between the United States and Israel. The FTA contributes significantly to the strong bilateral relations between the United States and Israel. The two sides agreed to continue their work to strengthen cooperation in trade, investment and other economic issues. Both delegations also acknowledged the importance of engaging their respective private sectors, particularly small to medium-sized enterprises, to take advantage of the FTA. (USTR15.12)

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### 1.3 US & Israel Expand High-Tech Collaboration

Israel and the US have agreed to expand their bilateral high-tech collaboration including integrating advanced IT systems into public services such as education and health. On 15 December, a new agreement was reached between Ministry of Finance director general and representatives of the US Department of Finance. In the previous meeting in Washington in June, an agreement was signed to ratify the guarantees framework for Israel in 2010 and 2011. (Globes 15.12)

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### 1.4 US Aid to Israel at \$2.775 Billion

US foreign aid to Israel will rise by \$225m to \$2.775b in fiscal year 2010. The figure is included in the fiscal year 2010 foreign operations appropriations bill. FY2009 was the first under a ten year, \$30b agreement on US aid to Israel. Annual aid to Israel under the plan is to rise from \$2.55b in 2009 to a ceiling of \$3.1b in 2013 and it will remain at that level for the rest of the period. As in previous years, Israel can spend up to 25% of the sum for defense purchases from Israeli manufacturers and the remainder must be spent for defense purchases in the US. Egypt will receive \$1.3b in aid in 2010 and Jordan will receive \$540m. (Globes 15.12)

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### 1.5 Knesset Freezes Drought Tax

The Knesset has frozen the drought tax for the winter months after a Finance Committee proposal passed its second and third reading in the plenum. Finance Committee chairman MK Gafni (United Torah Judaism) said that it was appropriate to suspend the drought tax, which was initially imposed due to the real need to reduce the waste of water in Israel. However, he added that due to the handsome saving since the tax's imposition in the summer, and because use of water in the winter is half that of the summer, the tax should be suspended for the winter months. Gafni distinguished between the drought tax, which was introduced by the current government in the summer, and the upcoming rise in water tariffs, which was legislated by the previous government. The third reading of the bill to freeze the drought tax was passed by a majority of 28. Renewal of the drought tax in the summer will depend on how much rain falls in the winter. (Globes21.12)

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## 2: ISRAEL MARKET & BUSINESS NEWS

### 2.1 BluePhoenix Announces Closing of Acquisition of DSKnowledge

BluePhoenix Solutions has closed the acquisition of the business of DSKnowledge for \$2.25m in cash and the assumption of liabilities of approximately \$0.7m pursuant to the asset purchase agreement executed by BluePhoenix and DSKnowledge and its affiliates on 11 November 2009. With regards to the affiliated businesses, the closing conditions were not fulfilled and the companies applied to the Israeli court requesting to initiate a process to enable the sale of the businesses and to reach an arrangement with the companies' creditors. BluePhoenix has entered a bid to acquire the assets for approximately \$1.9m in cash, through the court mandated process. This process is expected to be completed by February 2010.

Ra'anana's DSKnowledge (<http://www.dsknowledge.com>) is a leading provider of Knowledge Management (KM) software for enterprises. The company modernizes and transforms legacy data, information and content elements in enterprises into one knowledge management repository. The company offers proven solutions for enterprises such as financial institutions, logistics companies, the public sector, telecom operators, cable and satellite television broadcasters, healthcare, hi-tech organizations and more. Herzliya's BluePhoenix Solutions (<http://www.bphx.com>) is the leading provider of value-driven legacy IT modernization solutions. The BluePhoenix portfolio includes a comprehensive suite of tools and services from global IT asset assessment and impact analysis to automated database and application migration, rehosting and renewal. (BluePhoenix 09.12)

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### 2.2 Passlogix Wins 2 Major Single Sign-On Contracts in Israel

New York City's Passlogix announced the first two contracts in Israel for its v-GO Access Accelerator Suite, a set of sign-on, authentication and provisioning enablement solutions anchored by the market's leading enterprise single sign-on (ESSO) solution. Both Harel Insurance Company and the largest mobile operator in Israel selected v-GO after extensive RFP evaluations that included side-by-side comparisons of competing ESSO products. The contracts were secured through a new Passlogix distribution partnership with Wise Solutions, an Israeli-based technology consultancy specializing in infrastructure, security and compliance products, and through Wise's closest partner "One1", a top five Israeli IT company with over 1,000 clients across a variety of industries. Both implementations are expected to be relatively short, help achieve regulatory compliance and dramatically decrease help desk calls due to a more efficient way of handling user access issues as well as easy integration of v-GO with existing IdM systems and enterprise processes. v-GO complements Wise's portfolio of IT products and services for large enterprises in the financial, telecommunications and government sectors. Wise's other offerings include Varonis data governance solutions for controlling user access to business data, and Jetro Platforms solutions for securing enterprise Web access as well as providing secure and centralized application delivery in server-based computing environments. (Passlogix14.12)

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### 2.3 Alliance Purchases Two US Tire Brands

Hadera, Israel's Alliance Tire Co. (<http://www.alliance.co.il>) has made a significant acquisition. Alliance will invest \$46.5m to buy two a company representing the operations of two tire brands Galaxy and Primex. The combined annual sales of the two brands are estimated at hundreds of millions of dollars. The acquisition is through a US subsidiary. Alliance is wholly owned by US investment firm Warburg Pincus, and its bonds trade on the Tel Aviv Stock Exchange. The acquisition was made through a bidding process held by a US court, after the company that owned the two brands went into bankruptcy. The operations were part of the GPX International Tire group, which has global operations in the tire industry. Alliance sees the brands as a strategic asset, primarily due to their wide distribution system across the US. Alliance is expected to leverage that to build up its US operations. At the same time it will build up the brands in other regions as well. The company that was bought has operations in South Africa, although smaller than those of the two brands. Sales of the Galaxy and Primex brands are primarily off-highway tires. (Globes 13.12)

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### 2.4 EZchip Announces Public Offering of Ordinary Shares

Yokneam's EZchip Semiconductor (<http://www.ezchip.com>), a provider of network processors, announced that it commenced a public offering of 3,863,050 of its ordinary shares. Of such shares, 712,618 ordinary shares are being offered by EZchip and 3,150,432 ordinary shares are being offered by the "Selling Shareholders", which consists of funds affiliated with Goldman, Sachs & Co. and JK&B Capital. In addition, Jefferies & Company, the exclusive underwriter for the offering, will also have an option to purchase from the Selling Shareholders and EZchip up to an additional 15% of the total offered shares to cover over-allotments, if any, within 30 days at the public offering price, less underwriting discounts and commissions. Following the completion of the offering and assuming Jefferies exercises its over-allotment in full, the Selling Shareholders will have sold all their shares of EZchip. EZchip will not receive any proceeds from the sale of the ordinary shares by the Selling Shareholders. EZchip intends to use all of its net proceeds from the offering to purchase from the employees for cash a portion of their exchanged EZchip Technologies securities to enable them to fund their tax obligation as a result of the employee exchange offer. (EZchip 15.12)

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### 2.5 Commtouch to Dual List on the Tel Aviv Stock Exchange

Commtouch has obtained approval to list its shares on the Tel Aviv Stock Exchange in addition to its current listing on NASDAQ. Trading in Tel Aviv commenced on 16 December. Commtouch shares are expected to be included in the Mid-Cap 50 index (Yeter-50) using the TASE's fast track system. This enables dual-listed companies meeting certain criteria to enter the leading stock exchange indices shortly after they have been dual-listed. Commtouch will continue to be subject to all rules and regulations of NASDAQ and the U.S. Securities and Exchange Commission (SEC). Since October 2000, dual listing on the TASE has been allowed under Israeli law without any additional regulatory requirements for companies whose shares are listed on certain exchanges outside of Israel. Netanya's Commtouch (<http://www.commtouch.com>) provides proven messaging and Web security technology to more than 130 security companies and service providers for integration into their solutions. Commtouch's patented Recurrent Pattern Detection

(RPD) and GlobalView technologies are founded on a unique cloud-based approach, and work together in a comprehensive feedback loop to protect effectively in all languages and formats. Commtouch technology automatically analyzes internet transactions in real-time in its global data centers to identify new threats as they are initiated, protecting email infrastructures and enabling safe, compliant browsing. (Commtouch 14.12)

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## 2.6 VisionMobile Names Red Bend in Top 5% of Mobile Software Shipments

Red Bend Software announced that its market-leading mobile software management client, vRapid Mobile, was named to the VisionMobile 100 Million Club for the third consecutive year. The VisionMobile 100 Million Club recognizes software products that have reached the distinction of being embedded in more than 100 million mobile handsets worldwide. As of Q3/09, Red Bend's vRapid Mobile shipped in more than 620m mobile devices spanning 455 device models. Red Bend's MSM client, vRapid Mobile, is the leading solution for updating firmware over the air (FOTA) and managing software components over the air (SCOTA). Independent market research firm Ovum recently named Red Bend the leader in FOTA updating with 64% market share. Hod HaSharon's Red Bend Software (<http://www.redbend.com>) provides software solutions for managing firmware, applications and devices over the air. The company's award-winning MSM products enable device manufacturers, mobile operators and software developers to increase revenues, reduce support costs and achieve faster time to market by remotely managing their software assets on mobile devices. (Red Bend Software 15.12)

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## 2.7 John Deere Makes Offer to Purchase Israeli Company in Cotton Business

Moline, Illinois' John Deere & Company has made a conditional offer to purchase certain assets and customer relationships of BHC Manufacturing, which is located near Beit Hashita, Israel. BHC, which employs approximately 110 people, is a manufacturer of cotton picker repair parts for all makes of equipment and a supplier of cotton picker row units for other equipment manufacturers. The action would allow Deere to expand its products and services in the company's already successful cotton picker business. Deere said the conditional offer is contingent upon the satisfactory completion of due diligence. Terms of the transaction were not made public. (Deere15.12)

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## 2.8 Plurality Secures Second Round of \$12 Million Dollars From Japan-Based Investors

Plurality has secured a second round of investment totaling \$12m from Japanese investors, bringing the company's total committed funding to-date to \$20m. The funding will be used for the planned expansion of operation in Asia and North

America, the introduction of Plurality's HyperCore multimedia acceleration IP, and a 256-core acceleration processor chip. Testing of Plurality's 64-core test chip will be completed in Q2, and the 256-core acceleration device will be sampled in Q4 2010. This follows Plurality's announcement twelve months ago of the HAL-64, a 64-core acceleration processor IP product, offering performance up to 32 GIPS or 8 GFLOPS. HyperCore processors are the market's most powerful, space saving and energy-efficient multi-core shared-memory processing engine. Plurality, a developer of advanced manycore processor solutions, has made its HyperCore acceleration processor IP available to system-on-chip (SoC) developers and original equipment manufacturers (OEMs) to implement the heavy lifting required by the growing number of multimedia standards required to play in the evolving mobile and home markets.

Netanya's Plurality (<http://www.plurality.com>) develops advanced silicon Intellectual Property, chips and acceleration boards for manycore processing. Plurality's IP is based on a scalable, easily-programmable, manycore processor that is positioned as a general-purpose accelerator. The processor delivers the highest performance per watt per square millimeter at the lowest cost of any currently available chip-level, shared-memory machine. (Plurality 21.12)

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## 2.9 Oclaro Acquires WSS Company Xtellus

San Jose, California's Oclaro announced it has acquired Xtellus. Oclaro now has a complete family of wavelength selective switches (WSS) capable of powering reconfigurable optical add/drop multiplexer (ROADM) applications over the entire optical network, from the edge to the core. Many customers have been asking Oclaro to become a provider of a total solution, with a comprehensive line of WSS products, to help satisfy their regeneration and routing needs. Oclaro has now responded. Combining the WSS portfolio with Oclaro's integrated subsystem design capability also positions the company for a strong position in the high growth ROADM market. Xtellus uses a strategic mix of core technologies, both liquid crystal and MEMS, that will now uniquely enable Oclaro to deliver a complete family of scalable WSS to power ROADM applications across edge and core optical networks. Smaller port count edge WSS applications, where managing product costs aggressively is a key to success, are based on liquid crystal technology. For core WSS applications, Xtellus uses a combination of high reliability 1-Axis MEMS to switch across high port counts, while also maintaining liquid crystal for attenuation. Xtellus is a leading supplier of ROADM technology and dynamic optical modules for Agile Optical Networking Systems. Agile Optical Networks are reconfigurable DWDM networks that are used to provide rapid provisioning and efficient operation of triple-play high-speed internet, video and telephone services. Xtellus is headquartered in Denville, NJ, with manufacturing and development facilities in Israel and South Korea. (Oclaro 21.12)

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## 3: REGIONAL PRIVATE SECTOR NEWS

### 3.1 NuEarth Signs Exclusive Persian Gulf Regional Distribution Agreement

Florida's NuEarth Corporation, a manufacturer and marketer of "Clean & Green" products and technology, announced

the signing of a multi-year agreement with Marko Trading Limited of Abu Dhabi UAE to distribute primarily the AquaSolv product line with various other NuEarth products over the life of the deal. As a part of the agreement, NuEarth will provide Marko with a supply of products on consignment for the first 6 months of the agreement and Marko will commit to a minimum of \$500,000 for marketing; advertising and distribution costs for the regional territory over the first 12 months of the agreement. Under the terms of the agreement, Marko will also be offered as part of their regional territory the sub-continent of India upon reaching a minimum of \$11 Million in gross sales over a 12 month sales cycle starting after the first 6 month introductory and evaluation period of the agreement. NuEarth and Marko will cooperate on retail product certification and have agreed to work together to secure support from key regional wholesale and free trade zone services to better ramp the expansion of the product distribution in the region. (NuEarth 21.12)

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### 3.2 Dubai Woes Force British Groups to Switch Focus to Abu Dhabi

The unfolding crisis in Dubai has led to a prominent British consultancy pulling out of the city, despite being owed £10 million by clients in the emirate, and a construction company moving staff to neighboring Abu Dhabi. Mouchel, the management consultancy, said on 11 December that it would shut its office in Dubai and direct its efforts towards building its business in Abu Dhabi, its neighbor in the United Arab Emirates. Carillion, the UK's second-largest construction company, has moved 5,000 of its 20,000 Dubai staff to the neighboring emirate in the past 18 months. The collapse of the property bubble in Dubai has failed to dent prospects for Mouchel or for Carillion, which said that it expected profits to grow by at least 10% in 2009. Carillion expects most of its growth in the Middle East to be in Abu Dhabi, where it has a £150 million contract to build the headquarters of the Abu Dhabi Investment Council, and from Oman, in a £250 million contract to build its parliamentary headquarters. The group is well placed to ride the Dubai storm, with revenues from Abu Dhabi soaring from £11 million at the half-year stage in 2008 to £190 million for the same period this year. Mouchel, which admitted in October that it was owed about £30 million by Dubai clients, said that, after some initial success in recovering its fees, there was "greater uncertainty around recovery of the remaining outstanding payments". (The Times 12.12)

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### 3.3 Aromas of Baked Ziti Fill the Air as Maggiano's Enters Saudi Arabia

Dallas, Texas' Brinker International announced the opening of the first Maggiano's location in Saudi Arabia, which also marks the only franchised Maggiano's restaurant outside of the United States. The new Maggiano's is operated by Jawad Business Group. Jawad, a Brinker business partner for five years, opened the first Chili's Grill & Bar location in India this year and also franchises 10 other Chili's locations in Bahrain. Maggiano's in Saudi Arabia offers authentic, made from scratch Italian cuisine. It seats 278 guests and offers multiple dining areas. The restaurant is located on Al Tahlia Street, Jeddah, Saudi Arabia, and is open daily from noon until midnight. Maggiano's Little Italy specializes in Italian-American cuisine served in a warm and friendly atmosphere. The opening of the Maggiano's in Saudi Arabia brings the total to 45 locations globally. (Brinker International22.12)

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### 3.4 Saudi Automobile Sector to Grow 30%

Car sales in Saudi Arabia, the Persian Gulf's largest automobile market, are expected to jump over 30% from around 676,000 in 2010 to 880,000 in 2013 as the Kingdom remains economically and commercially resilient against the global downturn. Moreover, the increasing availability of credit financing as a result of steady regional market revival is projected to boost domestic car sales from under 50% to over 70% in the next few years. The Saudi automobile market is presently worth around \$9 billion, inclusive of commercial automobiles and transport infrastructure. Sales are expected to grow to \$19 billion next year and swell to \$25 billion by 2013. The Kingdom remains the largest market in the Middle East and fifth in the world for auto parts, accessories, service and garage equipment. (BI-ME 13.12)

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### 3.5 General Dynamics Awarded \$18 Million for Saudi Tank Work

General Dynamics Land Systems, a business unit of General Dynamics, was awarded \$17.6m for the purchase of long-lead materials that will be used to convert 15 M1A2 Abrams tanks to M1A2S tanks for the Kingdom of Saudi Arabia. The contract was awarded to General Dynamics by the U.S. Army TACOM Lifecycle Management Command for the Royal Saudi Land Forces. The contract is an addition to a \$58 million 2008 award to General Dynamics to design, develop, convert, implement and test a hybrid configuration of the M1A1, M1A2 and M1A2 System Enhancement Package (SEP) tank variants. The M1A2S vehicles will possess defined capabilities that increase lethality while limiting obsolescence. The work will be performed at the Lima Army Tank Plant in Lima, Ohio, with an estimated completion date of 31 March 2012. General Dynamics, headquartered in Falls Church, Va., employs approximately 92,300 people worldwide. The company is a market leader in business aviation; land and expeditionary combat systems, armaments and munitions; shipbuilding and marine systems; and information systems and technologies. (GDLS09.12)

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### 3.6 E-ONE Receives 30-Unit Order for Royal Saudi Air Force

Through its Saudi Arabian dealer, SESE, Ocala, Florida's E-ONE was awarded a multimillion-dollar contract for 30 Aircraft Rescue and Fire Fighting (ARFF) and first responder units from the Royal Saudi Air Force (RSAF). A long-time SESE and E-ONE customer, RSAF ordered a variety of units including Titan Force 6x6's, custom pumpers on CII chassis, mini pumpers and small rescue vehicles. SESE has been the E-ONE dealer in Saudi Arabia for more than 20 years and prides itself on maintaining strong relationships with all its customers. The units ordered offer the latest in ARFF and first responder technology with the state-of-the-art Titan Force 6x6 featuring a 3000 gallon tank capacity and custom 4x4 pumpers on CII chassis with a 1030 gallon tank capacity. The new, technologically advanced units will be a welcome addition to RSAF's existing E-ONE fleet. As a leading manufacturer of first responder vehicles, E-ONE engineers, manufactures and markets mission-critical vehicles including custom and commercial pumpers tankers, Water Master vacuum tankers, aerial ladders and platforms, command and communication apparatus, quick attack units, industrial trucks, and aircraft rescue firefighting vehicles. (E-ONE 09.12)

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### 3.7 EasyLink Services International Corporation Broadens Its Global Desktop Messaging Service to Greece

Norcross, Georgia's EasyLink Services International Corporation, a global provider of integrated messaging services and e-commerce solutions, has expanded its Desktop Messaging service coverage to include local fax numbers in Greece. This further increases the company's global footprint and brings the number of countries it supports with local fax number coverage to 31. The service, now available with numbers in Athens, provides companies and their employees with the ability to send and receive faxes within their email. By offering this bundled solution, companies can reduce or eliminate their reliance on fax machines and fax servers while realizing financial benefits of an ROI of 50% or greater. Additionally, the service expansion positions the company to support high volume inbound applications for receiving faxes that may require data extraction and conversion for integration into customer business systems. (EasyLink 09.12)

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### 3.8 Institute of Certified Professional Managers Expands into Greece & Cyprus

Harrisonburg, Virginia's Institute of Certified Professional Managers (ICPM), a leading management development and leadership educator, has established a partnership with Innovage Consulting, a provider of innovative training and technologies in Greece and Cyprus. Innovage will administer the Certified Manager (CM) certification in Greece and Cyprus. Certified Managers represent a diverse group of industries, some of which include manufacturing, telecommunications, oil and gas, aerospace, healthcare, pharmaceuticals education, government, environmental consulting, law enforcement, and the military. ICPM partners with over 40 colleges, universities and training companies to administer the CM certification in 31 countries. ICPM is a business center of the College of Business at James Madison University in Harrisonburg, VA. It is governed by a Board of Regents comprised of business executives, industry representatives, academicians and the NMA president. (ICPM 09.12)

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## 4: CLEAN TECH & ENVIRONMENTAL DEVELOPMENTS

### 4.1 IDE Technologies Wins Tender to Build Israel's Sorek Desalination Plant

IDE Technologies announced that SDL (Sorek Desalination Ltd) - a company formed by IDE and Hutchison Water, was selected as the winner of the Israeli government's prestigious Sorek desalination plant tender. SDL is owned by IDE (51%) and Hutchison Water (49%). The Sorek seawater reverse osmosis (SWRO) facility will be constructed under the

BOT (Build Operate Transfer) model, similar to the model used successfully by IDE and its partners in delivering Israel's Ashkelon and Hadera desalination facilities. The Sorek SWRO plant will reach a desalination capacity of 150m m3 of seawater per year, a volume which will make it Israel's largest SWRO desalination facility and one of the largest of its kind in the world. The plant will use energy generated on-site in a private energy generation facility (IPP) to be built by Delek Infrastructure.

IDE Technologies (<http://www.ide-tech.com>) is an Israel-based international pioneer and leader delivering sophisticated water solutions. Owned jointly by ICL (50%) and the Delek Group (50%), IDE has been active for over 45 years in the building of desalination plants throughout the world. The Company specializes in developing, planning, building and operating desalination plants and advanced water solutions. To date, IDE has established approximately 400 desalination plants of various sizes in over 40 countries throughout the world, each of which supplies high-quality desalinated water for use by industry, refineries, municipalities and agriculture. (IDE Technologies 15.12)

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#### 4.2 SunPower & SolarPower Dedicate 50-Kilowatt Solar Power System for HP in Israel

On 21 December, San Jose, California's SunPower Corp., a manufacturer of high-efficiency solar cells, solar panels and solar systems, and SolarPower, an Israeli solar power system integrator and project developer, dedicated a 50-kilowatt rooftop solar power system at HP's Indigo division facility in Kiryat-Gat, Israel. SolarPower designed and built the system with high-efficiency SunPower solar panels. Construction on the project began in October. SolarPower Israel (<http://solarpower.co.il>) is a system integration (EPC) and project development company. Founded in 2003, SolarPower designs, integrates, supplies, installs and develops solar energy projects for various applications including grid-tied and off-grid projects. (SunPower 21.12)

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### 5: ARAB STATE & PAKISTANI DEVELOPMENTS

#### 5.1 US Will Continue Supporting Jordan'

On 15 December, US Ambassador to Jordan Beecroft pledged continued support to the Kingdom, expecting the US economic and military assistance to the country to stand at \$660m in 2010. Since 1952, the US provided the Kingdom with \$6.1b in economic assistance alone, excluding military assistance and funds to scores of vital projects implemented by the USAID. Noting that Jordan sets a role model in positive reforms, Beecroft indicated that when US officials and congressmen see US assistance having a positive impact on the lives of Jordanians and resulting in better services, they are encouraged to give more. At an event marking the 60th anniversary of the establishment of diplomatic ties between Jordan and the US, Beecroft said the Free Trade Agreement (FTA), signed between the two countries in 2001, will go into full force over the next months, adding it will give a boost to bilateral trade. According to US embassy figures, total bilateral trade amounted to \$369m in 1998 when the Qualifying Industrial Zones Agreement took effect. Since then, the two-way trade reached its peak in 2007, reaching almost \$2.5b. In 2009, the US imported \$1.2b worth of Jordanian

goods, whereas in 1998 the figure was \$16m. Major Jordanian exports to the US include garments, jewellery, machinery, plastic and pharmaceuticals. The ambassador said 10,000 Jordanians are directly employed and thousands of others are indirectly employed by industries benefiting from trade agreements between the two countries. The US-Jordan FTA was the United States' third agreement, and the first ever with an Arab state. (JT16.12)

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## 5.2 USTR & Jordan Hold FTA Joint Committee Meeting

On 15 December, representatives of the United States and Jordan convened a meeting of the Joint Committee of the U.S.-Jordan Free Trade Agreement (FTA). At the Joint Committee meeting, officials discussed economic conditions in both countries, reviewed advances in bilateral trade and investment since the FTA entered into force, and discussed the development of bilateral cooperation in areas including: general economic cooperation, investment, agriculture, innovation, IPR protection and enforcement, customs issues, environmental and labor issues, and capacity building. Both governments acknowledged the progress and collaborative work that has taken place since the last meeting of the Joint Committee in Washington in October 2008. As part of that discussion, officials committed to explore ways to intensify joint work on environment, labor and other issues. Jordan agreed to include the United States in consultations on its environment law and proposed amendments and arranged for a set of outreach sessions on the margins of the meeting with key environmental stakeholders. (USTR18.12)

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## 5.3 Jordanian Growth in GDP Slows to 2.1%

The gross domestic product (GDP) grew during the third quarter of this year by 2.1% at fixed market prices compared to 9.4% during the same quarter last year, according to Department of Statistics (DoS) quarterly estimates. The rate in the third quarter compares with 2.8% growth in the second quarter. The transport, storage and telecommunications sector topped the list with a 10.7% while agriculture, hunting and fishery came second at 9.1% followed by government services at 6.2%. The construction sector was slightly behind at 6.1% while domestic services posted a 4% growth. Down the list came manufacturing industries and social and personal service sectors which posted the same growth rate of 2.7%. Wholesale and retail ranked next at 2.3%. Mining industries plunged by 57.4%, financial and insurances by 4.4% and net taxes on products also went down by 1.8%. (Petra21.12)

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## 5.4 Iraq Begins Participation in the IMF's General Data Dissemination System

On 15 December, the Republic of Iraq began participating in the International Monetary Fund's (IMF's) General Data Dissemination System (GDDS), 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. With the addition of Iraq, 97 countries currently participate in the GDDS. (IMF15.12)

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## 5.5 Gulf Monetary Union Pact Comes Into Effect

On 16 December, Gulf Cooperation Council (GCC) leaders concluded their annual summit with an agreement on the monetary union, paving the way for a single currency. The monetary union will comprise four of the six GCC members. The UAE and Oman opted out of the agreement. Under the pact, a Gulf monetary council is to be established IN early 2010. The council will develop into a central bank, which will take the required measures to issue a single currency. The summit's final communiqué said the leaders have asked the Monetary Council's board of directors to take all the necessary measures to issue the single currency. It did not set a timeline. The leaders expressed confidence over the ability of their economies to overcome the impact of the global economic crisis. (GN16.12)

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## 5.6 Kuwait Sees GCC Currency Union Taking Up To 10 Years

A single currency for the Gulf Arab states could take 10 years to set up, Kuwait's Foreign Minister Sheikh Mohammed Sabah al-Salem al-Sabah said on 8 December. The Kuwaiti legislature ratified an accord to establish a Gulf monetary council, a step toward the single currency. The pact was approved on the condition that the government submits a law on monetary union before its launch. The six-member Gulf Cooperation Council agreed in 2001 to create a European Union-style shared currency which would help them to integrate their economies and pursue a monetary policy independent of the US. All the council's members except Kuwait peg their currencies to the dollar. Oman pulled out of the project in 2007 and the United Arab Emirates withdrew earlier this year after the Saudi capital Riyadh was selected as the location for the future central bank. The remaining four states will take at least four years to introduce a single currency, Riyadh-based Banque Saudi Fransi said in an October report. The original target was 2010. (AB08.12)

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## 5.7 GCC Power Link Project Set To Cost \$1.6 Billion

A project to link the power grids of Saudi Arabia, Kuwait, Bahrain, Qatar and the UAE will cost \$1.6b, a senior official from the body overseeing interconnection said on 14 December. The full construction of the grid is expected to be completed by 2012, said Yousif Janahi, chairman of the Gulf Cooperation Council Interconnection Authority (GCCIA). Gulf Arab countries hope the power connection project will help them meet rapidly rising power demand and avoid power

outages. The UAE will hook up to the grid in 2011, the Gulf Cooperation Council Interconnection Authority (GCCIA) said in July. Representatives of five of the six countries signed a power trading agreement on 8 December in Saudi Arabia. Oman has yet to sign but will do so later. The Gulf countries have little excess capacity to sell for now. They all have similar patterns of consumption, which sees demand peak in the summer as air conditioners work on full throttle to counter soaring desert temperatures. The economies of the world's top oil producing region have boomed on record oil revenues but have struggled to supply the power needed for expansion. (AB 14.12)

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## 5.8 Key GCC Retail Markets Set For Healthy Growth

Key GCC retail markets are set for healthy growth over the next four years, with the UAE and Saudi Arabia leading the way, latest studies reveal. Saudi Arabia's retail sector is predicted to grow by 21% with sales rising from about \$76bn in 2008 to \$97bn by 2013, driven by the country's strong underlying economic growth, rising disposable incomes, and a youthful population, according to Business Monitor International's Q4 Retail Report for the kingdom. But it will still be dwarfed by the UAE where sales are predicted to hit \$142.59bn by 2013, a 26% rise on figures for 2008, the research said. BMI said GDP per capita in the UAE was forecast to rise by almost 17% by the end of the forecast period, reaching \$60,753. Analysts said that while growth in Saudi Arabia's nominal gross domestic product (GDP) was set to slow to an estimated 0.5% in 2009 as the economy was hit by the global economic downturn, it sees average annual GDP growth of 3% to 2013. The report added that the Saudi retail sector benefited from the large number of Muslim tourists visiting the country to take part in the hajj and umrah pilgrimages every year. Sales of gifts and souvenirs in 2008 were estimated to have risen by at least \$1.1bn due to shopping by hajj pilgrims. The report noted that San Francisco-based Gap was among the latest international retailers to enter the market. It plans to open 44 Gap stores (and variations) and 10 Banana Republic stores in Saudi Arabia by 2012. BMI also said it saw retail sales in Kuwait growing from around \$38.7bn in 2008 to \$53.7bn by 2013, while in Bahrain, sales are set to grow from \$2.94bn in 2008 to \$4.05bn by 2013, fuelled by a steady rise in disposable income. (AB16.12)

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## 5.9 Merrill Lynch Sees UAE's 2010 Growth Flat

There is unlikely to be any growth in GDP in the UAE next year and Dubai is likely to experience negative growth, Merrill Lynch said on 13 December. Merrill Lynch Wealth Management EMEA O'Neill said that global GDP will grow by 4.3% next year and 4.5% in 2011, compared to a decline of 0.9% this year. Prior to the announcement that Dubai World would be delaying its debt repayments, O'Neill said he believed that the UAE would grow by 2% in 2010 and by 4.5% in 2011. However, he now believed that the impact of the recent Dubai debt crisis will see "close to zero" growth next year in the UAE and negative growth in Dubai's economy. He said the impact will be determined by the amount of deleveraging that is needed in the UAE banking system and how hard the crisis will impact asset prices and the real estate sector. However, O'Neill was confident that the worst of impact had been "largely contained in Dubai". The announcement on 14 December that the government of Abu Dhabi and the UAE Central Bank had agreed to provide \$10bn to the Dubai Financial Support Fund, allowing Dubai World to repay the maturing \$4.1bn Islamic sukuk bonds, was a positive move said O'Neill. (AB 14.12)

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## 5.10 UAE's Food Retail Industry

Research and Markets (<http://www.researchandmarkets.com>) announced that the UAE retail sector continues to grow, supported by the upgrading of existing retail stores and the addition of state of the art new mega retail stores. The UAE market presents retailers with diverse relatively high-income consumers. Exporters who are willing to establish personal relationships, consolidate shipments and meet the labeling requirements of the UAE market will find a rapidly growing sector in which to sell a wide range of products. Annual sales in the industry are estimated at \$3.5 billion. The UAE food retail sector continues its aggressive growth. More large type stores are being built. French retail chain already operates in the market while a new one is being prepared to launch its services. Value of retailed products is currently estimated by trades at about \$2.5 billion. (R&M 09.12)

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## 5.11 Egypt's Tourism Revenues Fall 3.1% On A Year Ago

Egypt's revenue from tourism for the year to November fell 3.1% on a year ago, but was higher than expected thanks to strong arrivals from Europe as winter approached. Tourism is a crucial source of foreign currency and jobs in Egypt, and is watched by analysts for its effects on indicators such as gross domestic product and unemployment. About 11.45m tourists visited Egypt in the first 11 months of 2009, down 3.4% compared to the same period a year ago. In October the ministry said it expected arrivals to decline around 2-3% for 2009 compared to a year earlier. Egypt's tourism sector was hit hard by the global economic crisis early in the year with revenues down 13.2% in Q1/09, but officials and analysts gradually revised their outlooks up as the season progressed. EFG Hermes forecasts 12.5-12.8m tourists will visit Egypt in 2009, just down from or even with last year. About 1.23m tourists visited Egypt in November, a 7.3% jump over the same month last year, thanks to strong British, Russian and German arrivals. The total number visiting Egypt in the first 10 months to October was about 10.2m, a 4.5% drop from last year. The ministry stopped publishing tourism indicators last year and these figures are now mostly given to reporters informally. Tourists spent about 117m room nights in the year to November, with about 10.74m of these spent in November alone. Last year more than 12.8m tourists visited Egypt, providing revenues of nearly \$11b. (DNE13.12)

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

### 6.1 Greece Not Seeking EU Bailout

Greek Finance Minister Papaconstantinou said on 15 December that there are no discussions being held with Greece's

EU partners over a possible bailout of the country. Papaconstantinou met with EU peers and investors in a bid to show that the country is taking the steps needed to address its fiscal problems. On 14 December, Prime Minister Papandreou announced spending cuts and a 90% tax on private bankers' bonuses in an effort to rein in Greece's debt and deficit. But investors showed they were expecting more from the Greek prime minister, sending Greek bonds lower for two days straight. The decline pushed the yield premium for holding 10-year Greek bonds as opposed to German Bunds to the highest in eight months. The yield on the 10-year Greek note rose 28 basis points to 5.75%, after earlier reaching 5.76%, the highest since early April. Credit-default swaps on Greek government debt rose 17 basis points to 237, according to CMA DataVision, the highest since March. The swaps protect the owners of bonds in the case of a default and an increase signals a deterioration in perceptions of credit quality. Meanwhile, the European Commission described Papandreou's announcements as being "in the right direction" and said it expects Greece to spell out in January concrete measures for rapid consolidation of its public finances next year. (Ekathimerini16.12)

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## 6.2 Greek Broadband Usage Near 16%

The number of broadband connections in Greece hit 1.79 million at the end of June, comprising 15.9% of the population, up from 1.75 million at the end of the first quarter of the year, according to regulator National Telecommunications and Post Commission (EETT). The number of new broadband connections in the second quarter numbered 40,861 versus 124,112 new connections over the previous three-month period, data showed. In the 12-month period ending in June, the growth rate in Greece's broadband sector was the fourth highest in the European Union but still trailed well behind the usage of fast Internet service seen in other member states, according to EETT data. Greece's broadband penetration rate at the end of June was the fifth lowest among the European Union's 27 member states. Regarding the number of active 3G mobile phone connections, EETT said that it reached 1.27 million at the end of September. (Ekathimerini22.12)

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## 6.3 Bulgaria Consumer Price Index at -0.1% Y-o-Y in November

The consumer price index (CPI) in Bulgaria registered another month of deflation in November, falling 0.1% year-on-year after marking a 0.3% drop the previous month, statistics office data showed on 14 December. On a monthly basis, the CPI edged up by 0.1% due to an increase in food and soft drinks prices, transport, clothes and shoes, after marking the same rise in October. Food prices in October slightly increased by 0.3% on a monthly basis, while non-food prices rose 0.2%. Prices of services dropped 0.3% in November from a month ago. Meanwhile, the harmonized index of consumer prices rose 0.9% on a yearly basis in November and was up 0.2% on a monthly basis. Bulgaria's inflation rate has registered a drop on a monthly basis over the last five months and has gone down from two-digit levels to nearly a zero on an annual basis. The drop in inflation is good news for Bulgaria as its high levels have been one of the key obstacles for the adoption of the European single currency. The country currently operates in currency board regime and the lev is pegged to the euro. (SMN15.10)

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## 6.4 Bulgaria's Convergence, Broadband & Internet Market

Research and Markets (<http://www.researchandmarkets.com>) announced that broadband accounts for the majority of internet connections in Bulgaria, with healthy competition due to the number of competing technology platforms used to offer broadband access: DSL, cable, FttX, WiMAX and LAN-based micro ISPs. Recognizing the potential of applying ICT to improve both social and economic development, Bulgaria has undertaken steps to develop an Internet society encompassing commerce, health and government services. Cable TV penetration is well above the EU average although the number of major service providers is decreasing due to consolidation. Triple play services have been launched as ISPs launch VoIP and broadband TV (IPTV), while cable operators add telephony to existing video and broadband offerings. (R&M 18.12)

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## 7: GENERAL NEWS AND INTEREST

\*ISRAEL:

### 7.1 The Fast of Asara BeTevet

Sunday, 27 December marks the Jewish fast day of the Tenth of Tevet (Hebrew: Asara BeTevet). The Tenth of Tevet commemorates the onset of the siege that Nebuchadnezzar of Babylonia laid on Jerusalem, an event that ultimately led to the destruction of the First Temple by Nebuchadnezzar and Babylonia's conquest of southern Israel's Kingdom of Judah in 586 BCE. As with all minor Jewish fast days, the Tenth of Tevet begins at dawn and concludes at nightfall. During minor fasts, in contrast to Tisha B'Av and Yom Kippur, there are no additional physical constraints beyond fasting (such as the prohibitions against bathing or of wearing leather shoes). Because it is a minor fast day, Jewish law exempts from fasting those who are ill, even if their illnesses are not life threatening, and pregnant and nursing women who find fasting difficult. In the State of Israel, kaddish (the Jewish prayer for the deceased) is recited on this day for people whose date or place of death is unknown. Consequently, it was proclaimed as the first memorial day for the six million Jews who died in the Holocaust.

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\*REGIONAL:

### 7.2 Jordan's Dahabi Resigns and Samir Rifai Appointed PM

On 9 December, Jordan's King Abdullah named Samir Rifai as the new prime minister, succeeding outgoing prime minister Nader Dahabi. The King instructed Rifai to form a new Cabinet that will build on Jordan's achievements and will address shortcomings through an institutional program based on a clear agenda with performance indicators "that ensure the translation of our vision of reform into reality". Emphasizing his commitment to continuing the process of reform and modernization, the King said the formation of the new Cabinet must be inspired by a seamless work plan that identifies specific objectives in every sector and defines timelines for the implementation and achievement of these objectives. To realize the desired results of the reform and modernization process, the King instructed Rifai to present, no later than two months after the government's formation, a work plan for every ministry after being discussed and adopted by the Cabinet to "ensure that everyone works as one harmonious team, with a clear vision and aware of the expectations of it".

King Abdullah, who dissolved the Lower House in late November and demanded that the government amend the country's controversial Elections Law before holding early elections, said the next elections, which should be held no later than the last quarter of 2010, "constitute a major step in developing our democratic performance and strengthening public participation in the political development process". Earlier in the day, His Majesty accepted the resignation of Dahabi, who had served as premier since 2007, along with his government.

Born in 1966, Rifai obtained his bachelor's degree in Middle East studies from Harvard University in the US and a master's degree in international relations from Cambridge University in the UK. Rifai, son of Senate President Zeid Rifai and grandson of former prime minister Samir Rifai, was appointed secretary general of the Royal Hashemite Court in 1999, and also led His Majesty's Press Office and Communications Department earlier. In 2003, he was appointed the minister of the Royal Court, and in 2005, became adviser to King Abdullah, a post he held until he assumed the post of CEO at Jordan Dubai Capital in 2005. (JT10.12)

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### 7.3 RAK's Sheikh Sultan Bin Saqr Bin Mohammed Al Qasimi has Died

The ruler of Ras Al Khaimah (RAK), Sheikh Sultan Bin Saqr Bin Mohammed al Qasimi, died on 11 December. Sheikh Saqr bin Mohammad al Qassimi (born April 9, 1918) was the world's oldest reigning monarch at 91. His reign is only the second longest of living monarchs, after the King Bhumibol Adulyadej of Thailand. He became the Ruler of Ras Al Khaimah (one of the United Arab Emirates) on 17 July 1948, when he overthrew his uncle and father-in-law Sheikh Sultan Bin Salem (or Salim) al-Qassimi in a bloodless coup. Sheikh Saqr exiled Sultan to Sharjah. After Sheikh Saqr gained complete control on the whole country of Ras Al Khaimah, and in order to avoid further bloodshed among the tribes, he appointed Sheikhs (heads of tribes) in each tribe to keep each people within their area. The tribal Sheikh was the coordinator between the Ruler and the people of Ras Al Khaimah, and none of the tribes had the right to meet with the Ruler without the permission of its Sheikh. This system was set up to ease previous tensions and facilitates the affairs of the tribes. While the influence of the tribes has weakened since Ras Al Khaimah joined the UAE in 1972 (the last country to join), the local Government still respects the Sheikhs of each tribe for their loyalty. (AB11.12)

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## 7.4 US Court Rejects Ras Al-Khaimah - America's Cup to Be Held In Valencia

The next America's Cup will be held in the Spanish port of Valencia in February as desired by US team Oracle, the Supreme Court of the State of New York ruled on 15 December. The court unanimously upheld an earlier order that under the rules of the race the port of Ras al-Khaimah in the UAE could not host the multihull duel as proposed by defending Swiss champions Alinghi. The face-off between the two sides is slated to start on 8 February. It was originally set to be a best-of-three event but both Oracle and Alinghi have indicated recently they are open to a five-leg or seven-leg competition. Oracle's giant trimaran with its new fixed-wing sail has already been shipped to Valencia from its base in San Diego in California while Alinghi's catamaran is expected to depart Ras al-Khaimah for Spain shortly. Alinghi and Oracle have been locked in a legal battle over the event since the Swiss syndicate won the last edition in Valencia in 2007. Oracle first launched a legal challenge that accused Alinghi, which as defending champion is charged with organizing the next event, of bending the rules to give it an unfair advantage in 2007. The New York Supreme Court ruled in April that the Cup should be settled by a one-on-one multihull duel between the two sides next February instead of the traditional fully-fledged regatta with several teams. (BI-ME 16.12)

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## 8: ISRAEL LIFE SCIENCE NEWS

### 8.1 Protalix Completes NDA Submission for taliglucerase alfa for the Treatment of Gaucher's Disease

Protalix Biotherapeutics announced the completion of its New Drug Application (NDA) submission with the U.S. (FDA) for taliglucerase alfa, a plant-cell expressed form of glucocerebrosidase (GCD) for the potential treatment of Gaucher's disease. On December 1, 2009, Pfizer and Protalix entered into an agreement to develop and commercialize taliglucerase alfa for the treatment of Gaucher's disease. The agreement gives Pfizer exclusive worldwide licensing rights to commercialize taliglucerase alfa while Protalix retains commercialization rights in Israel. In addition, Protalix announced the filing of its proposed pediatric investigation plan to the pediatric committee of the EMEA for a clinical study in patients between the ages of 2 and 18. This event triggers a milestone payment of \$5 million by Pfizer to Protalix according to the agreement between the parties. The terms of the agreement calls for \$55 million to be paid by Pfizer to Protalix in connection with certain regulatory milestones. Taliglucerase alfa has been granted orphan product designation and fast track development status by FDA. Taliglucerase alfa is currently being provided to Gaucher's patients in the U.S. under an expanded access protocol, as well as to patients in the European Union under a compassionate use protocol.

Carmiel's Protalix (<http://www.protalix.com>) is a biopharmaceutical company focused on the development and commercialization of proprietary recombinant therapeutic proteins expressed through its proprietary plant cell based expression system. Protalix's ProCellEx presents a proprietary method for the expression of recombinant proteins that Protalix believes will allow for the cost-effective, industrial-scale production of recombinant therapeutic proteins in an environment free of mammalian components and viruses. Protalix is also advancing additional recombinant biopharmaceutical drug development programs. Taliglucerase alfa is an enzyme replacement therapy in development under a Special Protocol Assessment with FDA for Gaucher's disease. (Protalix 09.12)

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## 8.2 Can-Fite BioPharma to Initiate Phase II Clinical Trial with CF101 for the Treatment of Glaucoma

Can-Fite BioPharma announced on 13 December the initiation of the regulatory process for a Glaucoma Phase II clinical study in Israel. Leading medical centers in Israel will enroll 44 patients with Ocular Hypertension or Glaucoma for the first segment of the trial, who will be treated for 16 weeks with CF101 or placebo. The study will be expanded by up to an additional 88 patients upon successful conclusion of an interim analysis of the first segment. The study protocol was developed with the assistance of Dr. Paul Kaufman, a noted glaucoma researcher at the University of Wisconsin. The study will investigate the efficacy of CF101, as manifest by a decrease in intraocular pressure, as well as the safety of CF101 in this population. The rationale for the conduct of this study is based on unexpected positive findings from the recently concluded Phase II study in Dry Eye, demonstrating a decrease in the intraocular pressure in patients who were treated with CF101. Can-Fite announced recently that it retained Plexus Ventures, a global pharmaceutical business development consultancy, to assist with the identification of a partner with the necessary expertise and the appropriate organization to support the clinical development and commercialization of CF101 in the United States, Europe and other markets. CF101 is already licensed out in Japan and South Korea. Petah Tikva's Can-Fite Biopharma (<http://www.canfite.com>) is a public company traded on the Tel Aviv Stock Exchange. Can-Fite focuses on the development of small molecule-based drugs that bind to receptors of cancerous or inflammatory cells and inhibit their development. (Can-Fite15.12)

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## 8.3 Yissum Antiviral Hand Sanitizer Completely Inactivates Swine Flu Virus

Yissum Research Development Company presented EtoClean, a new antiviral hand sanitizer which has been found to be highly effective against the swine flu virus. The novel product was invented by a professor from the School of Pharmacy, of the faculty of Medicine at the Hebrew University of Jerusalem, and is being developed by Novel Therapeutic Technologies (NTT), a spin-off company of Yissum. Results of tests conducted on clinically isolated H1N1 virus from patients, the actual pandemic strain of the virus, demonstrate that the innovative composition completely inactivates the swine flu virus within 15 seconds of exposure. The tests were carried out according to the American Society for Testing and Materials protocol in a FDA certified laboratory in the U.S. The new sanitizer exhibits microbicidal and antiviral properties effective for sanitizing a variety of surfaces, foods and skin. As such, it is developed by NTT as a full range of products for different sanitizing uses in various pharmaceutical forms. Furthermore, the novel sanitizer compositions contain GRAS (Generally Regarded As Safe) ingredients, which are safe for use and environmentally friendly. It does not dry the skin, allowing for the frequent use of the product and leaving a pleasant feeling after application. In addition, the product inactivates also many non-enveloped viruses, such as the hepatitis and noroviruses, which are not susceptible to regular alcohol-based sanitizers.

Yissum Research Development Company (<http://www.yissum.co.il>) of the Hebrew University of Jerusalem Ltd. was founded in 1964 to protect and commercialize the Hebrew University's intellectual property. Ranked among the top technology transfer companies in the world, Yissum has registered over 6,100 patents covering 1,750 inventions; has licensed out 480 technologies and has spun-off 65 companies, including BriefCam, HumanEyes, Mobileye and ReadEasy. Yissum's business partners span the globe and include companies such as IBM, Intel, Johnson & Johnson, Merck, Monsanto, Novartis, Phillips, Roche, Sygenta, Teva Pharmaceuticals, Vilmorin and many more. (Yissum 14.12)

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#### 8.4 Abbott to Acquire STARLIMS Technologies

Illinois' Abbott announced on 14 December a definitive agreement to acquire STARLIMS Technologies for approximately \$123m in cash. The acquisition strengthens Abbott's competitive position in the global diagnostics market, providing advanced web-based applications to help laboratories efficiently store, retrieve and analyze a significantly increasing volume of clinical, managerial and administrative data. As Abbott integrates STARLIMS into its existing portfolio of laboratory information management products, the company will continue to support and expand the non-clinical market segments currently served by STARLIMS. Tel Aviv's STARLIMS Technologies (<http://www.starlims.com>) is a leading provider of laboratory information management systems (LIMS), with approximately 160 employees worldwide and more than 20 years of LIMS experience. The company's flagship product, STARLIMS, improves the reliability of laboratory sampling processes, supports compliance with domestic and international regulations and industry standards, and provides comprehensive reporting, monitoring and analysis capabilities. (Abbott 14.12)

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#### 8.5 Circadin Prolonged Release Melatonin for Primary Insomnia is Licensed to Sigma for Australia

Australia's Sigma Pharmaceuticals and Neurim Pharmaceuticals announced a Licensing Agreement for Circadin - prolonged release melatonin for primary insomnia in Australia. Circadin, currently approved for use in 33 countries, is a novel sleep aid indicated for treatment of primary insomnia. The latest approval in Australia by the TGA, was based on clinical studies showing positive effects on both sleep induction, sleep quality, and most importantly, day-time-functioning as well as quality of life. The trials also show that there are no signs of development of dependency. Sigma Pharmaceuticals will launch Circadin in Australia in 2010. Under the terms of the agreement, Neurim receives an upfront payment and an ongoing share of revenues. Neurim will be responsible for manufacturing Circadin. Circadin (<http://www.Circadin.info>) is the first and only IP-protected prolonged-release melatonin and the first and only melatonin product to be approved as an ethical drug by health authorities. Tel Aviv's Neurim Pharmaceuticals (<http://www.neurim.com>) was founded in 1991 and is focused on drug discovery and development of treatments for age-related disorders, primarily in the central nervous system (CNS). Neurim Pharmaceuticals is seeking strategic partners. (Neurim Pharmaceuticals 14.12)

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#### 8.6 Teva License for OncoGenex' Late Stage Innovative Treatment for Multiple Oncology Indications

Teva Pharmaceutical Industries and OncoGenex Pharmaceuticals, Bothell, Washington and Vancouver, British Columbia, have entered into a global license and collaboration agreement to develop and commercialize OGX-011, as well as an agreement to purchase shares in OncoGenex. OGX-011 is a Phase III cancer therapy designed to inhibit cancer treatment resistance. OGX-011 is expected to be used as adjunct therapy to enhance the effectiveness of chemotherapy and has shown promising results when added to currently available chemotherapies in several tumor types addressing a significant unmet medical need. The agreement will further enhance Teva's oncology offerings and

strengthen its global branded product pipeline with a promising product candidate entering three Phase III trials involving large patient populations. Teva and OncoGenex will collaborate on a global Phase III clinical program, with two Phase III clinical trials expected to be initiated in 2010: a Phase III Study for Second-line Chemotherapy in Men with Metastatic Castrate Resistant Prostate Cancer (CRPC) and a Phase III Study in First-Line Chemotherapy for Metastatic CRPC. An additional Phase III Study in First-Line Treatment of Advanced, Unresectable Non-Small Cell Lung Cancer (NSCLC) is intended to be initiated by early 2011. Under the terms of the collaboration and share purchase agreements, Teva will provide OncoGenex with a \$60 million initial cash payment, which includes a \$10 million equity investment in OncoGenex common stock at a price of \$37.38 per share, upfront payment of \$20 million and prepayment of \$30 million for OncoGenex's contribution to the development costs of OGX-011.

Teva Pharmaceutical Industries (<http://www.tevapharm.com>), headquartered in Israel, is the world's leading generic pharmaceutical company and is among the top 20 pharmaceutical companies in the world. The Company develops, manufactures and markets generic and innovative human pharmaceuticals as well as active pharmaceutical ingredients. Over 80% of Teva's sales are in North America and Europe. (Teva21.12)

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#### 8.7 Gates Foundation Grants \$5 Million For Disease Research At Hebrew University

The Hebrew University of Jerusalem Kuvim Center for the Study of Infectious and Tropical Diseases has received a \$5 million grant from the Bill & Melinda Gates Foundation for research into visceral leishmaniasis. The project will be led by a vector biologist at the Hebrew University's Faculty of Medicine and will include experts from Hebrew University's Robert H. Smith Faculty of Agriculture, Food and Environment. The announcement of the grant comes one year after Bill Gates, founder and chairman of Microsoft Corp. and co-chair of the Bill & Melinda Gates Foundation, was honored by American Friends of The Hebrew University (AFHU) and The Hebrew University with the inaugural Einstein Award at a December 2 gala in New York.

The project, entitled "Studies on the ecology and transmission dynamics of visceral leishmaniasis in Ethiopia," will seek to determine the drivers of transmission of the disease, which is also known as Kala-Azar. Sand flies contract the disease by ingesting the blood of an infected host and transmit it during subsequent blood meals. By studying the larval breeding habits of the sand flies and the genotypes and drug sensitivities of the leishmania parasites, the project aims to devise effective methods to control the disease. An estimated 500,000 cases occur annually. The worst affected region in Africa is southern Sudan and northwest Ethiopia.

The Hebrew University of Jerusalem, located on three campuses in Jerusalem and a fourth in Rehovot, is among the top 100 academic and research institutions worldwide. Approximately 23,000 students from over 70 countries choose Hebrew University for its seven academic Faculties in the Humanities, Law, Sciences, Social Sciences, Agriculture, Medicine, Dental Medicine and to take advantage of extensive opportunities to participate in groundbreaking research. Faculty and alumni of The Hebrew University have won seven Nobel Prizes within the past seven years. (AFHA 17.12)

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## 9: ISRAEL PRODUCT & TECHNOLOGY NEWS

### 9.1 dbMotion Selected to Support Manitoba's EHR Project

dbMotion has been chosen to provide an interoperable electronic health record for use in the Canadian province of Manitoba. The dbMotion Solution will help connect acute and community care providers throughout the province, thereby providing each resident with a secure and private lifetime record of key health history and care that will be accessible to authorized caregivers. The project, implemented in partnership with IBM Canada, adheres to pan-Canadian standards including privacy/access rules for collecting, transmitting and using clinical data to facilitate interoperability among healthcare systems and applications within the province and across Canadian jurisdictional boundaries. The EHR will include a patient's health data, such as Medication history, laboratory results, diagnostic images and hospital records. Design and implementation of the project is expected to start immediately with implementation beginning in 2010.

Hod HaSharon's dbMotion (<http://www.dbmotion.com>) is an innovative provider of health interoperability and intelligence solutions. It develops and markets the dbMotion Solution, a proven SOA-based platform that enables healthcare organizations and exchanges to meaningfully integrate and leverage their information assets, driving improvements in the quality, safety and efficiency of patient care. (dbMotion09.12)

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### 9.2 LG, Samsung, Sony and Valens Semiconductor to Launch the HDBaseT Cross-Industry Alliance

LG Electronics, Samsung Electronics, Sony Pictures Entertainment and Valens Semiconductor announced that they intend to launch a cross-industry alliance to promote and standardize the HDBaseT technology for whole-home distribution of uncompressed HD multimedia content. The HDBaseT Alliance will engage key players across the consumer electronics and the content industries. Working together, they will create a global standard for advanced digital media distribution. The Alliance's standardization activities will cover the entire value chain of the digital media ecosystem and the various market segments: TV sets, projectors, professional AV equipment, home theater, content providers, IT companies and more. The demand for in-home converged distribution of HD multimedia content and the lack of adequate existing technologies are driving the industry toward an HD digital connectivity standard, such as HDBaseT, which increases distance of uncompressed HD multimedia content transfer, expands distribution, simplifies installations and lowers overall system cost. Key players in the consumer electronics industry have been introduced to HDBaseT technology, and it is expected that other global market leaders will join the HDBaseT Alliance and together work to finalize the standard. Hod HaSharon's Valens Semiconductor (<http://www.valens-semi.com>), a fabless semiconductor company, is the company who invented the HDBaseT technology. Founded in 2006, Valens is a privately held company with financial backing from leading Israel-based venture capital firms Genesis Partners and Magma Venture Partners. (LG15.12)

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### 9.3 Wavion Selected by ZapFi to provide the First City-Wide Wi-Fi Network in Belgium

Wavion and ZapFi, a newly established WISP and Wavion's distributor for the Benelux market, announced the deployment of Wavion's Wi-Fi base stations for the first city-wide network in Belgium. The network is being deployed in the historical city of Bruges. The network will provide Wi-Fi coverage throughout the city, enabling the tourists and residents of Bruges to access the internet with their smartphones, PDAs and laptops wherever they go. Wavion's unique and powerful WBS-2400 spatially adaptive beamforming base stations provide extended range, higher throughput, and much better NLOS coverage. As a result, unlike more conventional equipment, it does not require costly high towers and can be easily installed on rooftops and still provide very good coverage and penetration. Moreover, its flexible architecture built around two types of base stations &ndash; omni-directional and sector &ndash; and its ruggedized and weather-proof enclosure add significantly to its unique value offering to Telecom Operators. Yokneam's Wavion (<http://www.wavionnetworks.com>) is transforming the metro Wi-Fi and rural markets with a new category of spatially adaptive base stations. The company's digital beamforming and SDMA technologies are the first and only to resolve the significant performance, penetration and profitability challenges facing large scale metro and rural deployments. Wavion is privately held and backed by world-class investors including Tel Aviv-based Elron Electronic Industries and BRM Capital. (Wavion 15.12)

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### 9.4 Pyramid Computer, Leading European Supplier of Appliance Servers, Chooses Silicom's SETAC

Silicom announced that Germany's Pyramid Computer, a leading European OEM manufacturer of hardware solutions for networking and data centers, plans to roll out a new line of network appliances designed to take advantage of the unique capabilities of Silicom's recently-launched SETAC SERVER To Appliance Converter. The use of the SETAC will enable Pyramid to create a flexible solution without sacrificing the use of a branded, highly-reliable and supportable motherboard, and to bring the unit to market in a short time period and at a reasonable price. This is Silicom's second SETAC marketing success since announcing the product line in July. At that time, the Company announced that a leading European provider of network security solutions had committed to buy SETAC units, representing an early validation of the concept. Kfar Saba's Silicom (<http://www.silicom.co.il>) is an industry-leading provider of high-performance server/appliances networking solutions. The Company's flagship products include a variety of multi-port Gigabit Ethernet, copper and fiber-optic, server adapters and innovative BYPASS adapters designed to increase throughput and availability of server-based systems, WAN Optimization and security appliances and other mission-critical gateway applications. (Silicom 15.12)

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### 9.5 Complete USB Solution for Mobile Broadband Devices Now Available from Jungo

Jungo announced the worldwide availability of its end-to-end USB solution for mobile broadband devices. The solution, which is based on Jungo's USBware and DriverCore technologies, ensures seamless connectivity between host platforms, such as PCs and laptops, and the increasingly wide variety of mobile broadband devices on the market. The solution is optimized for mobile broadband devices, including smartphones, PDAs, datacards and 3G/4G routers or wireless access points. The USB functionality supported by the solution ranges from downloading to a host, high-speed

data and media transfer, network management to personal area connectivity and power charging. Included in the end-to-end solution are the PC USB drivers, embedded device stack (firmware) and testing tools to ensure interoperability, stability and robustness. Each component has been widely deployed by Tier-1 platform manufacturers and OEMs and is comprehensively field-tested.

Netanya's Jungo (<http://www.jungo.com>), an NDS Group company, is a provider of broadband home value-added service solutions. Jungo's flagship products, OpenRG (residential gateway software platform) and OpenSMB (small and medium business gateway software platform) enable broadband operators to deliver managed revenue-generating services to the digital home. Jungo also offers a variety of connectivity software solutions for USB and PCI. These include WinDriver, a driver development toolkit that enables developers to create custom device drivers that can run on a multitude of operating systems without modification. DriverCore offers standard USB drivers, allowing device manufacturers to expose a variety of native communication interfaces via USB to different operating systems and platforms. USBware is a complete, high quality and small footprint embedded USB software protocol stack, allowing device manufacturers to incorporate standard USB connectivity easily in their designs. (NDS 14.12)

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## 9.6 C-motech Adopts Red Bend to Remotely Manage USB Modems

Red Bend Software announced that Seoul, Korea's C-motech Co., the world's number one supplier of wireless data cards and modules, has adopted Red Bend's vRapid Mobile for firmware over-the-air (FOTA) updating and vDirect Mobile(TM) for device management (DM) in the CMU-300 USB data modem, the world's first WiMAX/EVDO dual-mode USB modem. Red Bend's MSM solutions will enable important firmware updates to be delivered over the air and will enable standards-based configuration and management of the CMU-300, which is available in the United States through Sprint as the U300. The C-motech CMU-300 is currently the first device in the world that supports both EVDO, a 3G standard for high-speed wireless broadband, and WiMAX, a 4G technology for more advanced data transfer speeds that is compatible with HSDPA (High-Speed Downlink Packet Access). C-motech's customers are able to roam between 3G and 4G coverage areas in the United States because of the CMU-300's dual-mode capability while also receiving new functionality and software improvements over the air with Red Bend's MSM solutions. Hod HaSharon's Red Bend Software (<http://www.redbend.com>) provides software solutions for managing firmware, applications and devices over the air. The company's award-winning MSM products enable device manufacturers, mobile operators and software developers to increase revenues, reduce support costs and achieve faster time to market by remotely managing their software assets on mobile devices. (Red Bend Software 15.12)

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## 9.7 Ethernity Networks is Awarded a key Wire Speed Protocols Interworking Patent

Ethernity Networks has been awarded patent number 7,620,770 by the US Patent Office for a "Device and method for storing and processing data units". The patent applies to a zero copy mechanism for storing an ingress data unit at the DDR memory unit for purposes of packet re-ordering and traffic management, then retrieving a fetched data unit from the DDR memory for data unit processing, wherein the fetched data unit comprises at least a portion of the ingress data unit, all at wire speed and with single read and write to/from external DDR memory. The patent applies to any multi service processing over a single fabric engine, such that a single engine can handle TDM, ATM and Ethernet processing without

the need to use a dedicated engine for each protocol for the purpose of protocol interworking. Together with inverse multiplexing (EFM bonding, IMA, MLPPP), advanced Traffic Management and any-to-any wire speed protocol interworking, the new patent enables Ethernity to deliver the lowest cost ever platform using single DDR Memory and integrated into ultra low cost FPGA.

Lod's Ethernity Networks (<http://www.ethernitynet.com>) develops and provide FPGA based Carrier Grade Fabric Flow Processors for telecom and datacom platforms enabling the Programmable Network. The ENET architecture is based entirely on Ethernity technology and is protected by five patents. Ethernity Networks' products target the Broadband Access, Mobile Backhaul and Metro Ethernet arenas, which will be the growth engines in telecommunications for the next ten years. (Ethernity 14.12)

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## 9.8 Nova Announces Additional Bookings of \$10 Million

Nova Measuring Instruments has recently received \$10 million of new bookings, which together with previously announced orders in the quarter, are expected to set an all time record of quarterly bookings for the company. The orders during the quarter were received from several customers for stand-alone optical CD, integrated metrology and software products. Most of these orders are scheduled for delivery in the first quarter of 2010. Rehovot's Nova Measuring Instruments (<http://www.nova.co.il>) develops, produces and markets advanced integrated and stand alone metrology solutions for the semiconductor manufacturing industry. Nova is traded on the NASDAQ & TASE under the symbol NVMI. (Nova21.12)

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## 9.9 Siano Powers GPS Mobile TV Revolution: Teams with World's Largest PND Makers

Siano Mobile Silicon announced that the world's largest Personal Navigation Device (PND) makers, Garmin, Mio, Navigon and others - have integrated its leading MDTV receiver chips into their latest consumer GPS products. The design wins represent a major penetration of the consumer GPS market for Siano, further enhancing its position as a one-stop shop for MDTV chip solutions in emerging mobile TV markets. Based on Siano's family of high-performing receiver chips, the PND devices will offer a superior mobile digital TV (MDTV) viewing experience - enabling reception in the most extreme conditions to meet the high demands of PND users, such as crystal clear reception in tough urban canyons, and when traveling at high speeds. Siano enables all vendors with 'free-to-the-user' mobile TV viewing, transmitting television programs from major terrestrial television channels. Representative of Siano's global market reach, the navigation plus TV devices with Siano inside are available in Korea, Europe, China and Brazil, supporting the different mobile TV technologies of these regions.

Netanya's Siano Mobile Silicon (<http://www.siano-ms.com>) is the leading mobile digital TV chip maker in the world. Pioneers of the multi-standard approach, Siano's highly integrated silicon receiver chips enable high-performance, fast time-to-market mobile TV solutions for handheld device makers. (Siano22.12)

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## 10: ISRAEL ECONOMIC STATISTICS

### 10.1 Israel's CPI Rises 0.3% In November In Line With Expectations

Israel's Consumer Prices Index (CPI) rose 0.3% in November, the Central Bureau of Statistics announced on 15 December. The CPI has now risen by 3.9% in the first 11 months of 2009 and it is now certain that despite the recession, inflation in 2009 will be about 1% higher than the government's 1 &ndash; 3% target. The November CPI was influenced by a 5.1% rise in the price of fuels. This was the most significant item in the November CPI. The fuel increase also meant that overseas travel was 2.3% more expensive as carriers were forced to hike air fares. November also saw home prices rise by 0.7%, while cucumber prices soared by 40%. On the other hand, water prices fell 8% as minimum allocations before the drought tax is imposed were increased, chickens fell 4.1% and fruit was 5.4% cheaper. (CBS15.12)

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### 10.2 Israel's Unemployment Unchanged At 7.7%

The unemployment rate remained unchanged at 7.7% of the civilian labor force in October, amounting to 233,000 persons, the Central Bureau of Statistics reported on 22 December. The Central Bureau of Statistics also revised upwards its unemployment figures for August to 7.7% from 7.6%. The unemployment jumped from 6% in August 2008 to 7.9% in April-May 2009, when it stabilized, and then began to slowly decline in June. (CBS22.12)

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### 10.3 BoI Research Links High Birthrate to Child Allowances

New research by the Bank of Israel has found that cancellation of child allowances would lower the overall birthrate in the Bedouin and Haredi sectors. The research found that the Haredi birthrate would drop an average of 0.2 less children, in other words 1 child less for every five families, while Negev Bedouin women would have a birthrate of 0.4 less children, or two children less for every five families. The research also found that cancellation of child allowances would make no change to the birthrate of non-Haredi Jewish women and Druze women. The Bank of Israel examined the connection between the level of child allowance payments between 1994 and 2007 and its effect on the birthrates of Israeli women

in various population sectors. The research proved what many have instinctively felt for many years, which the level of child allowances does influence women in sectors with high birthrates. The research also found that paying an allowance of between NIS 500-560 for each child from the fourth child to the seventh child as happened between 1994 and 2004, increased the birthrate of Arab women by 6%-7% and of Haredi women by 3% compared with a situation in which they would receive no child allowance. (Globes 15.12)

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#### 10.4 In Israel More People Being Hired Than Fired

For the first time since the start of the economic crisis, the number of people in Israel being hired is outnumbering the number of employees being fired. The Ministry of Industry, Trade & Labor reported that so far in Q4/09, the number of people hired was 23,200 higher than the number of people laid off. In contrast, in Q3/09 the number of people laid off was 6,200 higher than the number of people hired. The Ministry expects the number of the number of people being laid off or leaving a job of their own volition will total 98,200 in Q4/09 compared with 112,300 in the preceding quarter. In other words, 16,200 people will leave the employment market. There was also a 3% rise in the number of vacant jobs in Q4/09 compared with the preceding quarter. However, the number of vacancies is still far below the level between 2006 and 2008. The Ministry's survey also found optimism among employers for the first time since the crisis hit. Most employers felt that Q1/10 will see a rise in business activity and therefore an improvement in the job market. (Globes 14.12)

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#### 10.5 Israel Ranked Strongest Real Estate Market

The Knight Frank Global House Price Index shows Israel's real estate market as the world's strongest over the year ending 30 September. Israel was the only market in the world to record double digit growth over the period, rising 13.7%. The index shows Dubai at the bottom, with a drop of 47% over the twelve-month span. Knight Frank said that while housing prices rose in nearly 70% of the locations in the index during the third quarter (compared with the second quarter), there is still a clear polarization from the top to the bottom of the table. Israel remains the best performer on an annual basis and is the only country to have recorded double-digit growth (+13.7%) during the past 12 months. Prices in Dubai, with their steep fall of 47% over the twelve-month period, had posted a small recovery of 1.2% in Q3, but that "recent debt issues with Dubai World and the subsequent loss of confidence by investors means even this nascent rally is already under threat. Several European countries have not yet recorded even one quarter of growth since the credit crunch, including Spain, Denmark and Ireland, where an oversupply of stock is holding back prices. Besides Israel, countries which posted house price rises over the year were Austria, Malta, Switzerland and Australia. (Globes 13.12)

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### 11: In Depth

## 11.1 LEBANON: Moody's Changes Outlook on Lebanon's B2 Ratings to Positive

On 18 December, Moody's Investors Service (<http://www.moody's.com>) changed the outlook on Lebanon's B2 government bond issuer ratings to positive from stable. The rating action was prompted by a continuation of the positive trends that led Moody's to upgrade Lebanon's sovereign ratings in April: namely, the continued improvement in external liquidity, the strengthened ability of the country's resilient banking system to finance fiscal deficits, and an amelioration of the domestic political situation with the formation of a consensus government in November.

Moody's has also changed the outlook to positive from stable on Lebanon's B2 country ceiling for foreign currency bank deposits and B1 country ceiling for foreign currency bonds.

"Lebanon's public finances have proven resistant to serious political and economic shocks in recent years. This is due to the strengthened resilience of the country's banking system, which is the government's primary creditor," explains Tristan Cooper, Vice President/Senior Credit Officer and Moody's head analyst for Middle East sovereigns. "Confidence in Lebanon's financial system has been bolstered by the central bank's large and growing cushion of foreign exchange reserves and its effective regulation of domestic banks."

Moody's notes that the central bank's foreign exchange reserves rose to \$24.1 billion in October 2009, up from \$9.8 billion at the end of 2007. This places the country in a more favorable position to absorb financial shocks while also providing ample cover for the government's maturing foreign currency debt. Moreover, the central bank holds a large amount of gold, worth \$9.6 billion in October, although the liquidity of the gold could potentially be constrained given that parliament must approve its sale.

The maturity structure of government debt is also favorable; following a voluntary debt exchange in March 2009, the government does not face a significant Eurobond maturity until March 2010. In 2010 as a whole, the government's Eurobond maturities amount to around \$2 billion.

Lebanon's commercial banks remain liquid, are well-capitalized and have continued to attract deposits from abroad. Total bank deposits increased by around 20% in the 12 months to October. Moody's notes that Lebanon's banks were not exposed to toxic financial assets or failed western financial institutions during the global financial crisis, partly because of stringent central bank regulations. While there is a risk that bank deposits could fall in the event of a serious political or economic upheaval, Moody's observes that they have displayed a high level of stability during previous crises. The bulk of deposits are sourced from the country's large and loyal Diaspora.

"Despite the recent improving trends, Moody's is well aware of Lebanon's significant political and economic vulnerabilities. These include wide twin deficits, a very high public debt overhang, a tense domestic political environment and a precarious geopolitical location," says Mr. Cooper. The rating agency cautions that there is no guarantee that the government's weak policy effectiveness will improve despite the formation of a consensus government in November. Moody's remains concerned by the sluggish progress in implementing much-needed economic reforms.

"However, Moody's believes that such risks are adequately encapsulated in Lebanon's ratings," says Mr. Cooper. Moody's also derives reassurance from Lebanon's history of financial support from committed external donors.

For the rating to move up to B1, Moody's said a continuation of the positive developments outlined above would be needed. Namely, this would be a further strengthening of the government's ability to finance its wide fiscal deficit and a further improvement in the government's poor debt affordability metrics. A serious disruption to the political environment that halted these positive trends may jeopardize a ratings upgrade.

The last rating action on Lebanon was implemented on April 1, 2009, when Moody's upgraded the government's foreign and local currency debt issuer ratings and the country ceiling for foreign currency deposits to B2 from B3 and the country ceiling for foreign currency debt from B2 to B1. (Moody's18.12)

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## 11.2 LEBANON: New Government, Old Problems

Nearly six months after its general election, Lebanon has a government in place, with Prime Minister Saad Hariri's national unity cabinet gaining approval in early November, though unity by no means guarantees stability. The Oxford Business group observes that while there had been agreement for months over forming a broad-based government including representatives from the main opposition parties, with a general understanding of how many ministers each bloc would have, the forming of the cabinet was delayed by intense wrangling over which portfolios would be allocated to members of the various disparate groupings. As it stands, the cabinet contains 15 ministers of the March 14 bloc or its supporters under Hariri, with 10 more from the March 8 group made up of Hezbollah and its allies, and a further five nominated by President Michel Suleiman.

The effectiveness of the cabinet on crucial issues is questionable because Hezbollah's strength will effectively veto legislation it does not like. Already there are some signs the cabinet may need the attention of a skilled fitter and joiner, such is the extent of the early cracks appearing in the woodwork. The convoluted process of negotiating a consensus agreement between the various parties, which broke down more than once, combined with a series of compromises to accommodate Hezbollah and its allies, has resulted in a degree of unease among many, especially within the March 14 bloc.

Foremost of these accommodations is allowing Hezbollah to keep its arsenal, including up to 40,000 rockets and thousands of men under arms. Some of the March 14 groups see this as continuing to give what is tantamount to state endorsement of Hezbollah's militia as an alternative armed force to the national defense forces and, as such, weakening national sovereignty and making the entire country vulnerable to an Israeli response should Hezbollah unilaterally launch operations against the Jewish state. On November 26, Samir Geagea, the leader of the Lebanese Forces, which has two ministers in the cabinet, said that, "Illegitimate arms contradict the national pact of coexistence and Hezbollah's possession of weapons in its current form is not legitimate".

Closer to home, the cabinet will have other battles to fight, including the need to overhaul creaky state enterprises and cut debt. Though much of the Lebanese economy has survived the global financial crisis well, with the banking sector performing strongly and the central bank's fiscal reserves at record levels, public debt levels remain at around \$50bn, about 162% of GDP. How to prune this debt, while at the same time promoting development, will be one of the government's thorniest issues. Though Hariri has promised his government will forge a new economic order, one which will be open, transparent and allow all Lebanese to prosper, direction of the economy is expected to be another front in the struggle within the cabinet.

Even as the prime minister was telling delegates attending the annual conference Union of Arab Banks, held in Beirut on November 20, that the new government was not only politically unified but was also a social development and economic unity government, fractures were appearing in the image of a cabinet undivided on economic policy. On November 17, Charbel Nahhas, speaking at a ceremony to mark his taking over as communications minister, appeared to rule out the privatization of state-owned telcos, telling reporters that selling the telecommunications monopoly "will never happen". Nahhas, a member of Michel Aoun's Free Patriotic Movement and his son-in-law, said instead he would focus on increasing the value of the sector, which he described as productive and profitable. It also means that Hezbollah's private communications network, a bedrock of its military successes against Israeli forces, is unlikely to be touched.

Profitable and growing at an annual rate of 5-7% it may be, but Lebanon has made a firm commitment as part of its agreements at the Paris III aid conference to sell off both the two mobile phone networks in the country and also the state's landline monopoly, with the government looking to earn up to \$6bn from the privatization of the cellular networks. It is expected that there will also be sharp differences of opinion and policy in some other key economic portfolios, including energy and water, where the state power monopoly Electricite du Liban (EdL) is expected to lose \$1.5bn this year, and is unable to provide electricity to much of the country on a regular basis. Various options, many of them unpopular, have been mooted to fix what is wrong with EdL, including making massive investments, slashing staff numbers, a stronger push to collect charges and even selling the utility in whole or part.

Politically diverse the elements of Lebanon's unity government may be, but the very fact that a cabinet has been formed is an achievement in itself, though Hariri will have to prove himself to be a deft carpenter to find the right glue to keep the cabinet together. (OBG16.12)

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### 11.3 JORDAN: Tighter Times for Media

Like much of the economy, Jordan's media sector has been affected by the global recession. With revenue down and a round of belt tightening the order of the day, though even in difficult times this industry has been looking to improve both its quality and its bottom line.

The Oxford Business Group commented that the global economic crisis is having an impact on the Jordanian media sector, with advertising revenue for the first nine months of the year down by 20% compared to the same period in 2008, according to industry figures. This is a sharp turnaround from the past few years, which have seen double-digit earnings

growth. If the current trend carries through to the end of the year, advertising revenue could fall to around \$240m, down from the \$303m of 2008.

In mid-November, the Jordan chapter of the International Advertising Association (IAA Jordan) announced it was launching a media awareness campaign to promote optimism in the economy and, just as importantly for the sector, the importance of maintaining advertising during the downturn.

According to Karim Abu Khadra, the president of IAA Jordan, the campaign will put the spotlight on firms that achieved growth thanks to continued advertising. Rather than reduce spending on advertising, as was so often the case in times of recession, studies showed that increasing promotional outlays could help a company weather hard economic times, he said in an interview with local press on November 15. "We were able to take advantage of this global crisis to stop, think and carefully plan for future and the changes that we, as an industry, will face in the coming years," said Abu Khadra. "We were also able to co-operate, exchange ideas and expertise to come up with this campaign &ndash; which we believe &ndash; is crucial for creating the behavioral change needed to face economic challenges."

While the crisis has focused attention on the need to strengthen advertising income and revenue streams in the media sector, another initiative has been launched to improve the quality of Jordan's media offerings, through the inauguration of a new training complex for media professionals in the Arab world. The vehicle for this endeavor is the Jordan Media Institute (JMI), the brainchild of Princess Rym Ali, wife of Prince Ali Bin Al Hussein, but better known to many as Rym Brahimi, a producer and reporter with CNN following stints with the BBC and the Bloomberg news agency.

Located in central Amman, the JMI will focus on training and refining the next generation of media professionals in the Middle East, with plans to have two main streams, a masters program and journalism training programs, both of which will predominantly be taught in Arabic. The year-long master's program, which will have its first intake in early 2010, will offer cross-media platform training in print, online, television and radio journalism, equipping students with the skills to meet the changing needs of the industry. Along with mandatory courses in reporting, writing, media law and press ethics, there will also be specialized training in investigative journalism, together with business, scientific and social affairs journalism.

The lower-level training courses, being developed in cooperation with local media and other academic institutions, are intended to offer those already working in the industry supplementary courses, while newcomers will receive introductory lessons. Founded in 2007, the idea for the JMI grew from industry demands for quality media personnel, according to Princess Rym, with the shortage of qualified staff having been driven, in part at least, by the rapid growth of media across the Middle East. "A lot of people complained of not being able to hire people at the highest levels &ndash; good journalists, critical thinkers who were able to write properly in Arabic," she said in an interview with regional media in mid-October.

Jordan is by no means alone in putting in place media training facilities, with a number of universities offering courses in journalism and production across the Middle East. However, with the planned initial intake for its masters course being just 20 students, the emphasis of the institute's programs will be quality, Princess Rym added.

Despite the difficult economic times, the JMI has been successful in gaining support from a range of sources, both local and international. In May last year, the European Commission and the Ministry of Planning and International Co-operation inked an agreement under which the commission would provide \$1.4m to support the JMI.

In mid-October, Zain Jordan &ndash; part of the Kuwait-based mobile telephone corporation Zain &ndash; announced it would fund a postgraduate scholarship for a Jordanian journalist studying at the JMI, while the institute has also been given support by advertising and international media consultancy agency Saatchi & Saatchi. Both the positive press and a focus on knowledge within the industry will likely provide a much-needed boost to the Jordanian media sector, considering the challenges the country, and indeed the region, has faced over the past year. On a more practical note, by establishing Jordan as a centre for journalistic educational excellence, the JMI could well attract more investments in the local media sector, serving to improve quantity and quality. (OBG15.12)

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#### 11.4 BAHRAIN: Fitch Affirms Bahrain's IDR at 'A'; Outlook Stable Ratings

On 22 December, Fitch Ratings (<http://www.fitchratings.com>) affirmed Bahrain's Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' and 'A+' respectively, Short-term foreign currency IDR at 'F1' and Country Ceiling at 'A+'. The Outlook on the Long-term IDR is Stable.

"Bahrain's credit fundamentals and domestic banking sector have proved relatively resilient in the face of the stresses of the last year," says Purvi Harlalka, Associate Director in Fitch's Sovereign group. "Although growth has slowed and the budget has moved into large deficit, government and external debt ratios will remain better than rated peers. Domestic banks' exposure to the property sector will continue to exert pressure on asset quality, but Fitch believes further deterioration can be absorbed with capital ratios remaining adequate, supporting the Stable Outlook."

Bahrain's rating is supported by its high per capita income relative to the 'A' range median. A credible monetary and exchange rate regime has contained inflation at 2.8% on average during the last five years. This, together with diversification away from the hydrocarbon sector, has kept output growth higher and more stable than in other 'A'-rated sovereigns. Nonetheless, financial services and construction, which have accounted for a little over half of the expansion over 2003 - 2008, are at the heart of the global crisis, with the result that Bahrain's growth will likely be a more subdued 3%-4% over the medium term.

Public finances are also a rating strength. Aided by the oil price rally, the general government balance registered an average surplus of 3.5% of GDP over 2004-2008, which compares favorably with the average deficit of 1.8% of GDP of 'A'-range peers for the same period. As a result, debt moderated to 15% of GDP (45% of revenues) in 2008 from 37% (117%) in 2003, which is noticeably below the 'A' median of 34.1% of GDP and 132.8% of revenue. However, the 40% decline in energy prices and the counter-cyclical budget in 2009 will cause the general government balance to swing from a surplus of 5.7% of GDP in 2008 to a deficit of 6.8% of GDP. Debt will rise to 23% of GDP from 15%. Since government spending has long been cautious, with a self-imposed deficit ceiling of 3% of GDP, Fitch expects the deficit and debt will be reined in beyond 2010.

Dependence on oil revenues (about 75% of the total) is high compared to peers and neighbors, making fiscal outturns

volatile and warranting a cautious fiscal policy. Moreover, this dependence is set to rise with enhanced oil recovery techniques likely to result in substantially increased oil production over the next 15 years.

Bahrain's exports are also more commodity-dependent than typical 'A' range sovereigns. However, high commodity prices have benefited Bahrain's external finances, which compare well with peers. Bahrain has run a succession of current account surpluses averaging almost 10% of GDP since 2003, and will register a further, albeit reduced, surplus of 4% of GDP this year. Moreover, although gross external debt (GXD) is 8.6x GDP, this is due to the operations of the wholesale banking sector, which does not pose a contingent liability to the sovereign. The wholesale banking sector is also a net external creditor, as are retail banks and the government.

Although Bahrain's financial sector has not escaped the global crisis unscathed, damage has been relatively inexpensive, with official support for retail banks confined to liquidity operations. In contrast to some other GCC countries, there has been no need for blanket deposit guarantees or government-led recapitalization. Nevertheless, some risks remain, stemming mostly from domestic banks' heightened exposure to property, both domestic and regional, especially in the Islamic segment of the market. The materialization of large losses that impose a sizeable cost to the sovereign would impair Bahrain's creditworthiness, although this is not Fitch's central scenario. (Fitch 22.12)

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#### 11.5 BAHRAIN: Bahraini IT Market for 2010 Estimated at \$366 Million

Research and Markets (<http://www.researchandmarkets.com>) announced in its Bahrain Information Technology Report that the total size of the Bahrain IT market in 2010 is estimated at around \$366mn, up from \$345mn in 2009. BMI expects a market compound annual growth rate (CAGR) of 7% for 2010-2014. The IT market is expected to pick up in 2010 following a weaker 2009, when lower oil prices, economic uncertainty and tighter credit conditions led to an IT market slowdown. There should still be significant opportunities going forward. Bahrain is becoming an important regional financial hub and there should be substantial spending in this sector. Meanwhile, economic reform and trade liberalization will fuel spending by both public sector organizations and enterprises to bring their IT levels up to international standards. The Kingdom will benefit from trade liberalization, strong demand from the financial sector, e-government and broadband.

#### Industry Developments

In 2009, the Bahraini government commenced work on a 2011-2014 e-government strategy. The new three-year plan was scheduled to be unveiled in the middle of 2010 with approval in time for implementation in 2011. Bahrain's e-Government Authority (eGA) was working with US networking giant Cisco to develop the plan.

Meanwhile, the eGA continued to work towards implementation of current targets, with the number of cyber services scheduled to be increased to 130 in 2009 and 200 by 2010. Three new portals for Bahrain gate, mobile phones and public services were also launched. In 2009, the government cited a study as showing 85% satisfaction with its e-

government strategy in the kingdom. 2009 brought more innovation in the area of e-government. Bahrain's High Information and Telecommunications Committee (HITC) announced plans to set up a company to help streamline government services. The National Portal also received an infrastructure upgrade in 2009, which increased its capacity tenfold and resulted in a more unified platform.

## Competitive Landscape

The Bahraini PC market remains dominated by international players including Acer, HP and Dell, with the strongest challenge coming from other multinationals such as Toshiba. The high demand for notebooks, which remains the most dynamic form factor, is reinforcing major vendors' position. In 2009, HP signed Metra Computer as a new distributor for its Personal Systems and Imaging and Printing Groups in the Bahraini market.

The software segment has seen some recent competitive maneuvering as vendors love to take advantage of growing opportunities. In summer 2009, Microsoft continued to lay the groundwork for the launch of its new operating system, Windows 7, which was unveiled in October. Meanwhile, Oracle benefits from a strong pre-installed base in the Middle East region.

The IT services market is dominated by a few big vendors, with major local players including Zayani Computer Systems and Bahrain Business Machines (BBM). However, HP has strengthened its service capabilities in Bahrain through the purchase of NCS, a Bahraini company, resulting in a new company called HP Services Bahrain. HP also received a boost in Bahrain from its acquisition of Electronic Data Systems (EDS), which had its regional headquarters in the Kingdom, and a major client in Gulf Air.

## Computer Sales

Bahraini PC sales are projected to reach \$194mn in 2010, up from \$184mn in 2009. The computer market should grow at around 6% a year to \$241mn by 2014, according to BMI estimates. Wireless connectivity will be one factor boosting demand for notebooks, stimulated by new technologies and infrastructure investment.

As elsewhere in the Gulf, notebooks are projected to account for more than 60% of PC unit sales over the forecast period. Small and medium-sized enterprises (SME), which account for up to 35% of IT spending in the region, will also drive demand as smaller companies face increased competition and take advantage of regional opportunities.

## Software

The Bahraini addressable software market is projected by BMI at \$45mn in 2010 and is expected to grow at a CAGR of 8% over the 2010-2014 forecast period. In 2009, the economic slowdown meant that enterprises were tempted to focus more on the bottom line. The domestic software market is, however, expected to grow steadily as Bahraini companies

look to meet growing regional competition. Bahrain is becoming an important financial hub and there is a substantial opportunity as banks invest to support new services and regulatory compliance. Enterprise applications should account for around 30% of software spending, as the market for ERP applications is far from saturated. With the evolution of Bahrain's IT market, a stronger focus on software spending is now being seen.

## Services

The Bahraini IT services market is expected to be worth around \$81mn in 2010 according to BMI estimates, accounting for around 22% of all IT spending in Bahrain. Spending on services is predicted by BMI to continue expanding thereafter, as banks, telecoms companies and government agencies, in particular, invest in IT that will enable them to compete in a changing environment. IT services CAGR for the sector for the 2010-2014 period is forecast at around 11%. As a result of the economic slowdown in 2009, many institutions spent more cautiously and focused on ROI and 'good enough' solutions. Despite the economic headwinds, however, there continued to be opportunities in key IT spending verticals. (R&M 14.12)

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## 11.6 QATAR: Year in Review 2009

While many countries in the Gulf region slipped into recession this year, the Oxford Business Group reported that Qatar has not only avoided the financial crisis but moved straight past it at speed, gaining momentum.

Some eyebrows may have been raised when, at the beginning of the year, the government confidently predicted GDP would rise by around 9% in 2009. However, it appears the predictions were correct, with solid growth across much of the country's economy being underpinned by a strong performance in the energy sector. The accuracy of this year's forecast gives additional credence, if any were needed, to the projection that GDP will expand even faster in 2010, with Emir Sheikh Hamad bin Khalifa Al Thani saying in November that the economy would grow by 16% in the coming year, having achieved its target for 2009. This year's figures make Qatar the fastest-growing economy in the region and indeed the world's. Its projected rate of expansion for 2010 looks set to ensure this pole position is maintained.

Though GDP is still growing strongly, there is one bugbear for the Qatari economy - inflation. However, this has become less of a problem this year. Having peaked at 15% in 2008, falls in rental costs and of some commodities have seen consumer price rises ease, with year-end projections putting inflation at around 11%.

Meanwhile, Qatar's financial markets underwent a facelift in June, with the launch of the Qatar Exchange (QE), the successor to the Doha Securities Market. The two shareholders in the new exchange, Qatar Holding and the New York Stock Exchange's overseas arm Euronext, foresee the QE becoming a leading bourse not only in the Gulf region but internationally. It is hard to say whether this change had any immediate impact on the exchange's performance. By late 2009 the QE was moving upwards, clawing back some of the losses of the previous year. While in 2008 there had been a 28% decline in the market's main index, which fell to its lowest level in four years by December to 6886 points, 2009

has seen a modest recovery, with the index rising to around 7200 points, some 6% up on the year.

This upward movement is more likely to have been a reflection of the overall stability of the Qatari economy, with the financial markets recovering confidence as the underlying strength of the country's economic base became more apparent after the jitters prompted by the global recession.

At least some of this stability was provided by the government, which moved quickly to plug any gaps in the financial system. In February, the state announced it would acquire Qatari banks' portfolio of local shares listed on the bourse at their book value in the banks' accounts at the end of February, while in May it offered to buy the real estate assets of banks at a sale price equivalent to the net value of property loans and investments.

These measures, combined with others taken late in 2008, not only ensured that domestic banks maintained sufficient liquidity levels at crucial times, but that they were in a position to continue lending to the. Estimates put the total value of the government's commitment to supporting the financial sector at around \$5bn.

While some governments sought to mitigate the effects of the global recession by slashing spending to try and compensate for plunging state revenues, others pumped billions into their economy to try and revive them. Working from a position of strength, Qatar fundamentally did neither, maintaining high levels of project investments for the energy sector, along with transport and public services infrastructure as set out in various long-term development plans.

As 2009 draws to a close, the last stages of construction work are being carried out on the gas production facilities, or trains, that will allow Qatar to reach its targeted maximum output of 77m tonnes a year. Qatar has also improved its ability to generate revenue from its energy industry long after the gas has left the wellhead. Throughout the year, Qatar took delivery of a stream of massive tankers; specially designed to carry locally produced liquid natural gas (LNG) to far-flung destinations. Qatar's fleet, now the largest dedicated gas tanker operation in the world, with some of the biggest LNG carriers under its flag, means that the country keeps earning from its natural reserves right up to the point of delivery.

With most of the world's economies expected to return to positive territory in the first half of 2010, and demand for gas draining off any excess of production, Qatar is well placed to ride the wave of its 2009 success into the new year and beyond. (OBG15.12)

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## 11.7 EGYPT Fitch Affirms Egypt's Rating at 'BB+'; Outlook Stable

On 09 December, Fitch Ratings (<http://www.fitchratings.com>) affirmed the Arab Republic of Egypt's Long-term foreign

currency Issuer Default rating (IDR) at 'BB+' and Long-term local currency IDR at 'BBB-'. Both ratings have Stable Outlooks. The Short-term foreign currency IDR is affirmed at 'B'. The Country Ceiling is affirmed at 'BB+'.

"Egypt's economy has proved resilient to the global financial crisis due to economic reforms introduced since 2004 and the resulting increased investment and diversification of the economy," says Richard Fox, Head of Middle East and Africa Sovereign Ratings at Fitch. "Strong external indicators are another key support for Egypt's rating. On the downside, fiscal consolidation has come to a halt, and while a temporary halt is within the rating's tolerance, the country's deficit and debt ratios remain well ahead of peers, giving no scope for let up in the reform process."

Egypt entered the global recession in fairly good shape, with three years of 7% GDP growth, positive debt dynamics and external indicators comparing well to 'BBB' and 'BB' rating medians. However, the ensuing global crisis affected all of Egypt's main foreign currency streams: hydrocarbons, tourism, remittances and Suez Canal fees. Growth slowed to 4.1% y-o-y in Q4/08, but has since recovered to nearly 5% in Q3/09. External receipts are recovering, a better-than-expected budget performance gave room for a 1.5% of GDP fiscal stimulus and falling inflation earlier in the year allowed interest rates to be cut. Foreign investment has also proved resilient, comfortably financing the current account deficit, with international reserves rising again since May, after falling sharply in Q4/08.

The main impact from the global recession has been a halt to fiscal consolidation with the deficit and debt burden essentially unchanged in FY09 (year ending June) after three years which saw the debt ratio fall by 33% of GDP. The FY10 budget projects the deficit will rise to 8.4% of GDP, although the debt ratio should remain broadly stable. A temporary halt to fiscal consolidation is within the tolerance of the 'BB+' rating but with gross debt above 70% of GDP and net debt of nearly 60%, Egypt's fiscal room for maneuver is limited.

A number of other economic indicators remain weaker than the peer group, which will necessitate continuing reform efforts. In particular, Egypt's headline inflation rate of 13.3% remains high and is rising again. Core inflation of 6.5% is much lower, but even this is sensitive to food price volatility. The central bank is strengthening its monetary policy tools, but its ability to control inflation through the interest rate channel, while improving, remains weak. The banking system is improving and has not required special support, but Fitch still judges it relatively weak compared to peers. The government has had important successes in improving the business environment, but this still compares unfavorably to peers in some respects. Meanwhile, high inflation and parliamentary and presidential elections in 2010 and 2011 respectively, are likely to constrain reforms that could be made in the short-term. (Fitch Ratings09.12)

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## 11.8 ALGERIA: Internet Subscribers Forecast To Grow By an Average Of 12.8% in the Next 5 Years

Research and Markets (<http://www.researchandmarkets.com>) "Algeria - Telecom Country Profile 2009" report noted that Algeria's number of fixed lines has been growing at an average of 9.1% in the last 5 years, to reach 3.2m at the end of 2008. It is expected that the number of fixed lines will grow by an average of 5.0% over the next 5 years to reach 4.1m subscribers at the end of 2013. Nevertheless, this growth trend will be highly dependent on the re-entry of a second fixed operator in the near future. The fixed market was thrown back into monopoly status when the second fixed operator was dissolved towards the end of 2008. The mobile sector has been booming for the last 5 years, with the arrival of the second operator Djezzy in 2002 and the third operator Nedjma in 2004. The sector has grown by an

average rate of 100.9% over the least 5 years. By the end of 2008, there were 28.2m mobile customers. Six months later, at the end of June 2009, the number of mobile subscribers was estimated to have grown by 4.9% to reach 29.6m and a penetration of 82.8%.

This dynamic expansion trend should slow considerably over the next 5 years however as saturation nears. The number of mobile customers is therefore set to grow by an average of 5.0% over the next 5 years, bringing the number of mobile subscribers to 36.0m at the end of 2013, representing a penetration rate of 89.8%. 3G license tender was said to have been planned for 2Q 2008 and again in 2009, but this failed to materialize.

Algeria's internet market is lagging far behind most countries in the region, with an estimated Internet penetration rate of 2.2% and a broadband penetration rate of 1.9% at the end of June 2009. One of the major obstacles to the widespread use of internet in Algeria is the fact that the service is monopolized by the incumbent, Algeria Telecom. Despite the vast number of Internet providers, all of them have to use Algeria Telecom's network. The number of Internet subscribers is forecasted to grow by an average of 12.8% in the next 5 years to reach 1.3m and a penetration rate of 3.2% at the end of 2013.

ADSL services were launch as late as 2003 in Algeria and are now starting to grow in popularity. At the end of 2008, there were 602,000 broadband subscribers in the country, representing 85.0% of all Internet connections. Broadband services are forecasted to expand significantly in the coming years to reach 1.3m at the end of 2013 and 'broadband connections are expected to account for 100% of all internet customers as early as the end of 2010' HOT TELECOM Isabelle Paradis said. (R&M15.12)

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## 11.9 MOROCCO: Premium Medicine

A recent governmental report has found that Moroccans pay significantly more than other nations for their medicine. To reduce the cost burden of medical treatment the report has recommended the formation of a new government body tasked with making drugs affordable for the general populace.

On November 3, a parliamentary commission published a report entitled "Fact-Finding Mission on Drug Pricing in Morocco," charging that the nation's drugs were "abnormally" overpriced. As a case example, the authors showed that 11 out of the 14 most popular drugs, including amoxicillin and flucloxacillin, were on average 30% more expensive than in France, despite the relatively low purchasing power of Moroccans.

The report also indicated that drug prices were highly variable, with an up to 600% difference among different brands of the same drug. The same drug of a same brand also varied up to 300% in price depending on which region of the country it was sold in or whether it was purchased from a hospital or pharmacy. For example, a bottle of docetaxel, used in chemotherapy treatment, cost up to DH11,243 (€984) on the Moroccan market depending on the brand, while the National Fund for Social Welfare Organizations (Caisse Nationale des Organismes de Provoyance Sociale) provided it

for DH2984 (€261). In contrast, the drug costs DH950 (€81) in Thailand. Physicians were also found to have prescribed 50 more times the amount of the most expensive brand of docetaxel than the cheapest.

According to the report, "Outdated regulations and loopholes were exploited by the pharmaceutical industry," leading to higher prices for the populace. To address this situation, the report recommended that drug pricing be removed from the jurisdiction of the Ministry of Health and a new government body be formed to ensure lower prices. The organization is to be composed of representatives from the Ministry and the private sector, as well as the Council on Competitiveness, a state council dedicated to improving business relations in Morocco.

Local press reported MP Reda Benkhaldoun as saying that the provision of affordable drugs is "of the utmost importance, especially for people without health insurance who can't afford the medication to treat illnesses". The average per-person expenditure on pharmaceuticals increased from €21.60 in 2006, when Morocco instituted compulsory health insurance, to €30.60 in 2008.

"Even those Moroccans lucky enough to be covered by Assurance Maladie Obligatoire (AMO) and Regime d'Assistance Medicale (RAMED) health insurance plans risk becoming unable to afford the cost of prescribed medications in the medium term," Benkhaldoun added. As AMO, the basic state health insurance, currently only reimburses about 67% of treatment for serious chronic conditions, citizens bear a financial burden disproportionate to their income, in comparison to other countries.

As part of a five-year health plan launched in 2008, the amount of money to be paid for reimbursements was to be nearly doubled to DH980m (€88.2m) in 2009, which should help cut the contribution of individual household spending on health care to 25% from its current 54%. The plan also aims to make RAMED, the state insurance plan for Morocco's lowest-income population, available to all citizens in need by 2012.

While increasing state funds for reimbursements is one component of the solution, the government also seeks to reduce the prices of drugs overall. A country with nearly the same level of per-capita medicine consumption as Morocco, Tunisia provides a model of a successful centralized purchase system, according to the report. By buying in large quantities, the Tunisian government has been able to negotiate lower prices. Morocco's prices for 14 popular drugs ranged from 31% to 189% higher than Tunisia's.

Another angle for the government to pursue is promoting the use of generic drugs, which now comprise 20% of drug market revenues in Morocco. Only a few generics have comparable prices to neighboring countries. The report advises that the government follow the example of New Zealand and hold tenders for which drugs to reimburse, something that decreases the prices of both generics and brand name drugs. At present, all drugs may be partially reimbursed, and pharmacists are forbidden by law from substituting a prescribed drug for another drug.

Moreover, the report states that inaccurate information has been disseminated by drug companies regarding the effectiveness of generics, with many Moroccans currently believing that they are inferior to brand name products. The new government body will be tasked with combating this attitude, as well as encouraging doctors not to prescribe expensive brand drugs where there is a suitable generic alternative. (OBG15.12)

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## 11.10 GREECE: Economy a Drama, But Not Yet a Tragedy

The Economist (<http://www.economist.com>) reports that Greece's sovereign debt downgrade by Fitch Ratings reflects mounting concern over the country's dire fiscal position and the lack of specific consolidation measures - particularly relating to expenditure reduction - to reduce the large structural component of the deficit and stabilize the public debt burden. The government is now under enormous pressure to prove that it has a credible medium-term fiscal program. Without one, further rating downgrades are likely. As well as driving up the government's borrowing costs through higher long-term interest rates, the move by Fitch has raised questions about the future eligibility of Greek government bonds to be used as collateral in refinancing operations with the European Central Bank.

As well as driving up the government's borrowing costs through higher long-term interest rates, the ratings downgrade by Fitch has also focused attention on Greek government bonds' eligibility for use as collateral in ongoing funding operations by the European Central Bank

First came a warning, then came the cut. Amid increasing concern over the medium-term outlook for the country's public finances, on 8 December Fitch lowered Greece's sovereign credit rating from A- to BBB+ (the third-lowest investment grade) with a negative outlook. The day before, another ratings agency, Standard & Poor's, had cautioned Athens about a possible downgrade. Greece is the first euro area country to have its sovereign debt cut below investment grade A. The reaction in the financial markets was clear. Greek 10-year government bond yields continued their sharp upward trend of recent days, ending 8 December at 5.4%, their highest level in six months, with the spread to the benchmark German bund widening to a nine-month high of 222 basis points. The Athens stock market reported further falls in early trading on 9 December and is now down almost 40% over the past month.

Leading the way&hellip;down

Greece is far from alone in facing a chronic fiscal crisis. Harsh austerity measures will soon need to be imposed in Ireland, Spain and the UK (to name just three) in an effort to reduce their gaping budget deficits. At present, however, Greece is in the spotlight, with ratings agencies and investors seemingly far from convinced of the new Panhellenic Socialist Movement (Pasok) government's ability (or willingness) to implement the necessarily painful consolidation measures. According to Fitch's accompanying press release, "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."

Reference to Greece's "poor historical track record of public finance management" clearly alludes to the recent farcical situation when in the space of two months government estimates for the size of the 2009 budget deficit soared from a relatively modest 3.7% of GDP to almost 13% of GDP. According to the draft 2010 budget presented by the Socialist government in late November, the general government deficit is forecast to narrow from 12.7% of GDP in 2009 to 9.1% of GDP in 2010, with Pasok planning a redistributive tax reform and a crack down on tax evasion.

Fitch stated that it believed this reduction was achievable, but others (including the Economist Intelligence Unit) are less convinced. It would require a substantial degree of fiscal tightening, which will be extremely difficult politically to implement against a backdrop of weak economic activity and the threat of social unrest (Pasok has already had to roll back some of its pre-electoral pledges offering support to lower-income households). It is also not obvious that the government will be any more successful in reducing tax evasion than previous administrations. The emphasis on revenue-raising measures (with uncertain payment streams) rather than expenditure cuts suggests that it will be difficult to bring about a sustainable improvement in the structural budget position. As in the UK, the rapid deterioration in Greece's public finances mainly reflects structural weaknesses in the fiscal framework, rather than a cyclical response to the recession. Even if solid economic growth returns, a significant part of the deficit will remain.

In late November the European Commission expressed concern that only 0.9 percentage points of the government's planned 3.6 percentage-point budget deficit reduction for 2010 derives from expenditure cuts. This followed an earlier recommendation from the governor of the Bank of Greece (the central bank), George Provoloulos, who indicated that at least two-thirds of the fiscal adjustment should come from reduced public expenditure, with the remainder coming from tackling tax evasion and broadening the tax base. Fitch also highlighted concerns on this front, stating that "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." According to the 2010 draft budget, public debt will rise from 113.4% of GDP in 2009 to €295bn, or 120.8% of GDP, in 2010.

It seems likely that the other major ratings agencies will follow Fitch's lead and announce a similar downgrade to Greece's sovereign credit rating in the coming weeks. Moreover, there is clearly a risk that further falls in the country's rating could be announced over the next few months should it appear that the government is struggling to meet its fairly bold deficit reduction plans. Pressure from the EU will continue to grow on Greece to bring its public finances under control, with the country now set to face much stricter surveillance of its budget data than all other member states. The EU could decide to withhold up to €3.7bn of "cohesion fund" disbursements (aimed at helping Greece catch up with richer countries) if it feels not enough is being done on the consolidation front. Late on December 8th the Greek finance minister, George Papaconstantinou, stated that his government would do "whatever it takes" to reduce the deficit. Easier said than done.

#### Collateral Damage?

As well as driving up the government's borrowing costs through higher long-term interest rates, the ratings downgrade by Fitch has also focused attention on Greek government bonds' eligibility for use as collateral in ongoing funding operations by the European Central Bank (ECB). Since the peak of the financial crisis the ECB has made almost unlimited liquidity cheaply available to the region's banks and has also eased its collateral requirements for banks to access the emergency lending. Prior to October 2008, any assets used as collateral had to be graded at least A-, but this was lowered to BBB- as the crisis intensified.

Greece's current BBB+ rating from Fitch is still three grades above this minimum requirement, providing a moderate safety net, but the relaxation of the rules was only ever supposed to be a temporary measure. In recent weeks the ECB has intimated that it will soon start to draw back from some of its emergency lending operations, and by the end of 2010 it is expected that the collateral requirements will have been tightened back to A-. This implicit timetable appeared to be supported by comments made by Axel Weber, Germany's Bundesbank president, on 9 December, when he warned that Greece had a year in which to "implement concrete consolidation steps" before the ECB's temporary arrangements expired. It is still unclear – Mr. Weber refused to expound further – as to whether the ECB would ever actually exclude Greek government bonds from its liquidity operations. He will hope, along with others, that any prospect of such an outcome can be avoided by the Greek government taking the necessary action to restore fiscal stability.

Greece has been the biggest user of the ECB's emergency funding (on a relative measure, as a share of a country's banking system assets). Given that Greek banks on the whole appear to be reasonably sound - a strong deposit base means that they have faced few liquidity or solvency issues - this large take-up probably reflects efforts by the banks to benefit from the lucrative carry trade at a time of abnormally low interest rates. That said, if the banks were no longer able to use their country's bonds to refinance at the ECB, demand for them would decline and the government would face a further rise in its borrowing costs, as well as lose an important source of funding (according to the Financial Times, government bonds account for about 10% of Greek bank assets). In addition, banks would be forced to take a write down on their balance sheets, with potential negative consequences for the still weak level of domestic demand in the economy. (EIU09.12)

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#### 11.11 GREECE: EIU Affirms Greece BBB, Outlook Negative

On 18 December the Economist Intelligence Unit (<http://www.eiu.com>) affirmed its BBB rating for Greece's sovereign risk with a negative outlook. Greece's poor rating - two bands lower than the median of its eurozone peers - reflects structural problems in the public finances which have come to a head with the recession and global financial crisis, the EIU said. The fiscal deficit is set to widen to almost 13% of GDP in 2009 and doubts about debt sustainability are pushing up funding costs.

The recently elected centre - left Panhellenic Socialist Movement (Pasok) government has announced measures to cut spending and raise revenue. It has a majority in parliament and a mandate for change but it will need to show political will to push through reforms in the face of strikes and possible social unrest.

#### The Public Finances

Greece's failure to manage its public finances prudently during the boom years has left it needing to take austerity measures in an unfavorable climate. In 2003 - 2007, a period when the economy was growing strongly, the fiscal deficit averaged 5% of GDP (far above the 3% ceiling established by the EU Growth and Stability Pact). Although the public debt/GDP ratio declined by five percentage points over this period, it remained high, at 92% at the end of 2007.

As the economy slowed in 2008 and went into recession this year, the impact on the public finances has been severe. The deficit is set to widen to €34bn (almost 13% of GDP) from €13bn (5.3% of GDP) in 2008. The primary balance, which had been in slight surplus, will swing into a deficit of around €17bn. The public debt stock jumped from €210 (92% of GDP) in 2007 to €240bn (100% of GDP) in 2008. The public debt/GDP ratio now exceeds 110% and a further sizeable increase is likely in 2010—11 even if the government's efforts to rein in the deficit are successful.

The government responded to a sell-off of Greek government bonds in recent weeks by announcing an austerity package on 14th December. The package is designed to cut the deficit by four percentage points to 8.7% of GDP in 2010 and to bring the deficit below the EU ceiling of 3% of GDP by 2013. Measures include freezing public-sector salaries above €2,000 a month, a 10% cut in allowances for better-paid civil servants, and a crackdown on corruption in government procurement and tax collection.

The package has been criticized for a lack of detail, and some of the proposals to cut spending have been announced in the past, to little effect. It has been compared unfavorably with the drastic steps taken by the Irish government. However, the government appears to realize the gravity of Greece's problems and has committed itself to making the necessary cuts across the public administration, encompassing reductions in operating costs, spending on pensions and social security and investment.

In line with its electoral pledge of income redistribution, it will try to safeguard the more vulnerable parts of society. The government will need to meet its targets to restore Greece's credibility, which has been damaged by a tendency of successive governments to overshoot targets, understate deficits and be less than transparent in their use of data. The previous New Democracy government had indicated as recently as September 2009 that the deficit would exceed by only €2.3bn a target of 3.7% of GDP set by the European Commission. Just before the October elections, it had estimated that the budget deficit would reach 6% of GDP. The extent of the fiscal hole came to light only after PASOK took office.

## Financing

Despite the poor state of Greece's public finances, the government was able to raise financing on fine terms for much of the past decade. The spread of 10-year Greek government bonds over equivalent German bunds averaged only 22 basis points in 2007. With the onset of the crisis and an increase in risk aversion spreads started to widen, reaching 71 basis points in 2008 and 187 basis points in January-November of this year. In December they widened further following Dubai's announcement of a debt standstill and Fitch's downgrade of Greece to BBB+. They continued to rise following the announcement of the government's fiscal package, reaching 270 basis points. It should be noted that if spreads stay at these levels, they imply a yield of around 5.8% on 10-year bonds, enough to maintain pressure on the government but without triggering an imminent financing crisis.

The impact of the increase in borrowing costs will take time to feed through into the public finances because the average maturity of the debt is quite long, at around seven years. The government faces about €40bn of maturing medium- and long-term debt in 2010. The bulk of the issuance will be in the first half of the year when maturities are bunched, particularly in April and May. This is a challenging issuance schedule in the current climate although Greece did manage to issue €42bn in the first half of 2009 through six syndicated deals which were priced at spreads of 10-15 basis points over the secondary market.

Two days after announcing its austerity package the government sold €2b of floating rate bonds at 2.5% over Euribor, up from 1.3% for a similar issue in May. In addition to roll-overs, the government will need to fund its deficit and refinance Treasury bills. It is estimated that foreign investors hold as much as three-quarters of Greek government bonds, a higher proportion than in most eurozone countries. Greek banks hold the bulk of the remainder.

Even with the attraction of higher yields, footloose foreign investors may be unwilling to absorb new issuance and could sell some of their existing holdings to reduce risk. Domestic banks should in principle be a more stable source of financing. However, their capacity to absorb government debt is limited by their size. And although they do not have exposure to toxic US securitized assets and are not reliant on wholesale funding, they are facing an increase in non-performing loans in the domestic market and are taking write-downs on their exposure to markets in Eastern Europe. Moreover, they have been buying Greek government bonds with cheap funds provided under the ECB's emergency liquidity facility. They may need to sell some of these bonds now that the ECB is winding down the liquidity facility.

## Financial Assistance

Might Greece benefit from financial support from the EU or the IMF? Such a contingency is not covered in the relevant EU treaties, and the ECB has been trying to discourage moral hazard by laying the responsibility firmly with the Greek government for its finances.

However, given the damage that a default by a founder member of the eurozone would do to the euro's standing and to other member states through contagion, it's unlikely that the EU would stand by and let Greece default. The EIU says it would expect assistance to be provided, subject to strict conditionality, possibly under the auspices of an IMF program. Another question is whether a country could default and stay in the eurozone. Technically this might be possible. But if a eurozone country were to default, this would suggest that it could not cope with the constraints inherent in membership of the single currency and would need a devaluation to restore competitiveness.

A lack of competitiveness is a problem for Greece. Increases in labor costs have far outstripped those in Germany over the past decade. The loss of competitiveness is reflected in large current-account deficits, which exceeded 14% of GDP in 2007 and 2008. In addition to measures to put the public finances on a sustainable footing, structural reforms in labor and product and service markets are needed to restore competitiveness, particularly given the current strength of the euro.

## The Bottom Line

The EIU expects financing pressures to force the Pasok government to make the fiscal adjustment that its predecessors have shied away from. This will delay economic recovery and provoke strikes and possible social unrest. But a majority of Greek society is likely to support some of the main reforms, particularly curbs on the pay and benefits of better paid civil servants. The threat of a debt crisis will give the government a pretext for implementing unpopular measures. That said, it is unclear whether the adjustment will be sufficient given the scale of Greece's fiscal and broader economic challenges. The Economist Intelligence Unit will keep a negative outlook on its BBB rating until firm evidence emerges that the government is making progress in consolidating the public finances, and addressing structural weaknesses.

## Overview

Greece's rating remains at BBB, with a score of 335 and a negative outlook. The Economist Intelligence Unit reviews the

risk ratings of 100 emerging markets on a monthly basis, and 20 rich industrialized countries twice a year. Countries are assessed on a scale of 0 to 100, with 0 least risky and 100 most risky. (EIU 18.12)

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## 11.12 BULGARIA: Pharmaceuticals & Healthcare Report - Q1 2010

Research and Markets (<http://www.researchandmarkets.com>) announced in their Bulgaria Pharmaceuticals & Healthcare Report that the value of Bulgaria's pharmaceutical market in 2008 was \$1.19bn and it is forecast to grow by 10.5% in local currency terms in 2009 as the pharmaceutical sector holds up well during recessions. According to Bulgaria's National Statistical Institute, the data indicate that domestic trade in the country reduced by 19.1% year-on-year (y-o-y) in August 2009, though trade of pharmaceuticals and medical products registered the smallest decline of just 1.9% y-o-y. Still, the authors have slightly downgraded our projections. Over the five-year period to 2014, this report forecasts the market to grow at a CAGR of 7.77% in local currency terms. A return to economic expansion should help support spending, although pressure on public finances could impact the market. Research & Markets projects that the pharmaceutical market will be worth \$1.69bn in 2019, representing a CAGR of 5.5% in local currency terms for 2014 - 2019.

In October 2009, Bulgarian Health Minister Nanev announced that funding for health will be reduced in 2010, as widely expected. The total health budget for 2010 will be 10% lower than it was for 2009. However, Nanev has stressed that were Bulgaria's financial situation to stabilize there would be a chance that health spending could be increased. In order to cut costs, the government is planning to shut a number of hospitals. There are currently 400 hospitals in the country, which together have debts of around \$249.7m. Meanwhile, the government is planning to raise extra funds for the healthcare system through an increase in excise for both alcohol and cigarettes, which will raise an estimated \$45.43m and \$98.4m respectively.

The authors believe that the newly elected centre-right party Citizens for European Development of Bulgaria (GERB)'s budgetary assumptions are more realistic than its predecessors (the Bulgarian Socialist Party ([BSP]), which will improve the ability of the new administration to prevent the fiscal deficit spiraling out of control. The authors view positively the ability of the new GERB government to get to grips with the public finances, especially following the appointment of former World Bank economist Djankov as finance minister. However we are also unsurprised that the government has been forced to cut healthcare funding, especially considering the recent implementation of a positive list for pharmaceuticals which would allow greater access to expensive new drugs.

In the Business Environment Ratings matrix, Bulgaria has improved its score in Q1/10 and now ranks equal 9th out of the 20 regional markets surveyed in Central and Eastern Europe (CEE). However, Bulgaria's score for the pharmaceutical sector remains at the regional average. This is because of the relatively limited size of the market due to the population size, as well as limited potential for high value products due to low per-capita consumption in comparison to other markets in the region. (R&M 14.12)

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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 &euro; 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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