The FORTNIGHTLY

A Review of Middle East Regional Economic & Cultural News & Developments

16 September 2020

27 Elul 5781

28 Muharram 1441

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1. ISRAEL GOVERNMENT ACTIONS & STATEMENTS

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1.1. Historic Peace Treaty Signing Between Israel, the UAE and Bahrain in Washington

On 15 September, Israel, the United Arab Emirates and Bahrain signed historic peace accords as US President Trump hosted the landmark signing ceremony at the White House. Surrounded by flags from all four nations, Bahrain's Foreign Minister Abdullatif Al Zayani, Israel's Prime Minister Benjamin Netanyahu, US President Donald Trump and United Arab Emirates (UAE) Foreign Minister Abdullah bin Zayed each signed the deals in English, Hebrew and Arabic, in front of a crowd that included representatives of supporting nations from the Washington-based diplomatic corps. In addition to the individual bilateral agreements signed by Israel, the UAE and Bahrain, all three also signed a trilateral document.

The agreements will formalize the normalization of the Jewish state's already warming relations with the two countries. Even the harshest critics have allowed that they could usher in a seismic shift in the region should other Arab nations, particularly Saudi Arabia, follow suit, with implications for Iran, Syria and Lebanon. Other Arab countries believed to be close to recognizing Israel include Oman, Sudan and Morocco. (Various 15.09)

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1.2. PM Netanyahu Calls Opening of Saudi Skies 'Huge Breakthrough'

Prime Minister Benjamin Netanyahu hailed the announcement by Saudi Arabia on 2 September allowing flights "from all countries" to cross over its airspace while traveling to or from the United Arab Emirates. The Saudi announcement did not mention Israel, but clearly means that flights from Tel Aviv to Abu Dhabi and back can take the shortest route. Instead of seven and a half hours, a Tel Aviv - Abu Dhabi flight will now take only three. The first commercial flight from Tel Aviv to Abu Dhabi on 31 August, operated by the Israeli national carrier El Al, received an exceptional authorization from Riyadh to take that route.

In a tweeted video, Netanyahu qualified the Saudi decision as a "huge breakthrough" that will help the Israeli economy and reduce airfare. "For years, I have been working to open the skies between Israel and the East. It was spectacular news two and a half years ago when Air India received approval to fly directly to Israel. Now there is another tremendous breakthrough: Israeli planes and those from all countries will be able to fly directly from Israel to Abu Dhabi and Dubai and back. Flights will be cheaper and shorter, and it will lead to robust tourism and develop our economy."

Netanyahu said that the new Saudi policy will open up the East, adding, "When you fly to Thailand or anywhere else in Asia, it will save time and money. This is amazing news for you, the citizens of Israel. These are the benefits of a peace that is genuine." Netanyahu also spoke on the phone with Egyptian President Abdel Fattah al-Sisi, who said that Egypt supports "any steps" that allow for the establishment of an independent Palestinian state and "provide security to Israel." (Al-Monitor 04.09)

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1.3. Israel & UAE Sign First Agreement on Investment and Financial Services

Following their historic deal to normalize relations, Israel and the United Arab Emirates have set up a joint body to collaborate on financial services and investments. The Israeli-Emirati committee will discuss promoting cooperation in financial services and lowering financial impediments to making investments between the countries and promoting joint investments in the capital markets. A special working group will also create the conditions for joint investments that meet international standards including in the struggle against money laundering and financing terrorism.

Prime Minister Netanyahu said he welcomed the agreement, which was signed in Abu Dhabi and marked the first official memorandum of understanding reached between the two countries. The UAE is now the third Arab country, after Egypt in 1979 and Jordan in 1994, to recognize Israel. During his five-day tour of the region, US Secretary of State Pompeo met with the leaders of Sudan, Bahrain and Oman in an effort to facilitate similar deals. (Al-Monitor 01.09)

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1.4. Major Trilateral Agreement Could Link Israel to EU Power Grid by 2024

Israel will sign an agreement with Greece and Cyprus by the end of the year to lay a submarine cable that would connect it to the European power grid. The project, which is expected to take about four years to complete, was finalized following a conversation between Israeli Energy Minister Steinitz with his Cypriot counterpart Pilides. The funding, estimated at some NIS 3.1 billion (some $917 million) will be funded by all three countries, as well as the EU. The cable will run from Israel to mainland Greece through Cyprus – a distance covering more than 1,000 miles – at a depth of almost 2 miles. Once completed, it will initially be able to supply 1,000 MW, but the output is expected to double eventually. This means that it could potentially provide Israel with 20% to 40% of Israel's domestic power consumption every month. (IH 07.09)

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1.5. Jerusalem Approves Three-Week National Lockdown

On 13 September, the Israeli government voted to impose a full nationwide lockdown, despite criticism from both inside and outside of the government. The lockdown will begin at 14:00 on 18 September and last for three weeks. The original proposal by the Health Ministry had called for two weeks of full lockdown, followed by a partial lockdown for two additional weeks. During the three-week lockdown, Israelis will be required to remain within 500 meters of their homes, except when leaving for essential needs, including food and medicine purchases. Schools will close on 18 September and remain closed for the duration of the lockdown. Hotels will be required to close during the lockdown, and all indoor gatherings will be limited to 10 people. Outdoor gatherings will be limited to 20 people. Onsite dining at restaurants will be forbidden during the lockdown.

Political wrangling may change many, all or none of the stipulations on or before 18 September. (Various 14.09)

2. ISRAEL MARKET & BUSINESS NEWS

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2.1. El Al Will Operate the First Cargo Plane from Israel to Dubai

Israel's flagship airline El Al will fly the first cargo flight from an Israeli airline to Dubai this September, flying on 16 September to Belgium, to pick up farming and tech products and then head to Dubai. Previously, El Al flew the first commercial flight from Israel to the UAE when Trump administration adviser Jared Kushner and Israeli officials landed in Abu Dhabi. Regular flights between Israel and the UAE can happen because Saudi Arabia has agreed to allow planes originating in Israel to use Saudi airspace. The Saudis said all planes can use its airspace to travel to the UAE but did not mention Israel in the announcement.

The two main airlines in the UAE, Emirates in Dubai and Etihad in Abu Dhabi, have yet to announce regular flight services to Israel's airport in Tel Aviv. Both airlines continue to continue to add to their networks amid the coronavirus pandemic. The El Al cargo flight to Dubai will become weekly, according to Reuters. (Al-Monitor 03.09)

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2.2. Group 42 Becomes First UAE Company to Open International Office in Israel

Group 42, a leading artificial intelligence and cloud computing company based in Abu Dhabi, announced on 10 September that it was establishing a wholly-owned subsidiary in Israel. The new international office will allow access to technologies and talents available in the country, while also serving as a gateway for Israeli companies seeking to expand their operations in the UAE and the Middle East. This is the first time a UAE company establishes an international office in Israel, in the wake of the recent diplomatic agreements.

Operations in the new office will be led by a team of experts from both countries with a focus on healthcare and Covid-19 diagnostic solutions, advanced AI research, agritech and water supply solutions, smart cities and renewable energies. In the past few weeks, G42 announced a series of deals with Israeli companies. On 2 July, the company signed two MoUs with Rafael and Israel Aerospace Industries to explore the sharing of knowledge, personnel, technology and resources to conceptualize, develop and optimize breakthrough solutions to combat COVID-19.

On 19 August, G42 announced a partnership with the Nanoscent, an Israeli startup specialized in scent reading technologies, to explore collaborations in the development, validation, distribution and manufacturing of Scent Check, a revolutionary solution capable of detecting suspected cases of Covid-19 from a sample of exhaled nasal air. (KT 10.09)

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2.3. Dubai-Based DP World Collaborates With Israel Shipyards

It was reported that Dubai-based logistics and maritime services giant DP World (Dubai Ports World) has signed a collaboration agreement with Israel Shipyards. The agreement was signed in mid-September in Dubai. Industry sources believe that the two companies will bid jointly in the tender for the privatization of Haifa Port. This will be the first time that a company from the United Arab Emirates (UAE) will participate in an official government tender in Israel.

DP World was founded in 2005 and is today one of the largest maritime logistics companies in the world. The source of its business strength is the Port of Jebel Ali in the west of Dubai, one of the largest cargo ports in the Middle East, and also a free trade zone.

DP World handles 70 million containers annually, as well as the loading and unloading of hundreds of thousands of vehicles. Apart from its activity in Dubai, it manages 82 seaport terminals in 40 countries. In 2019, its revenue totaled $7.68 billion and it posted a net profit of $1.34 billion. In H1/20, revenue rose 18% to $4.07 billion thanks to recent acquisitions.

Israel Shipyards recently raised NIS 340 million in return for 20% of its shares. It has three main activities: shipbuilding, port operations and cement. (Globes 15.09)

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2.4. Israir to Launch Tel Aviv - Dubai Flights in October

Globes reported that Israir Airlines and Tourism is expected to launch Tel Aviv - Dubai flights next month. The first flight, scheduled for 2 October at 10:00 to Dubai, already appears on the Ben Gurion airport flight schedule, despite the fact that the Israeli carrier has yet to receive an official permit from the UAE. The flight over Saudi airspace takes three and a half hours.

Israir will market four-night vacation packages to the UAE starting from $700. Israir will likely be the first carrier flying what is likely to become one of the most popular routes flying between Ben Gurion Airport and Dubai and Abu Dhabi in the UAE. El Al Israel Airlines will operate passenger and cargo services, as will the Abu Dhabi based Etihad Airways and Dubai based Emirates. (Globes 09.09)

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2.5. Varada Raises $12 Million in Series A to Bring Full Access to Big Data Analytics

Varada closed a $12 million Series A round of funding. The round is led by MizMaa Ventures, an early-stage venture capital firm investing in Israeli technology startups, with participation by Gefen Capital. The round also included participation from existing investors Lightspeed, StageOne Ventures and F2 Venture Capital who contributed in early 2019 to a $7.5 million seed round. The funding comes as Varada prepares to announce the general availability of its data virtualization platform, which will establish a new standard for accelerating big data workloads while optimizing control over performance and cost.

As the global big data market shifts to data lake based solutions, Varada is building a platform to revolutionize data virtualization by offering an agile, “zero data-ops” solution that gives the organization full visibility and control while serving a wider range of workloads including those that are latency-sensitive. Varada’s patented indexing technology uses machine learning to accelerate relevant and high-priority queries automatically without any overhead to query processing or any data maintenance. Varada’s indexing works transparently for users, and indexes are managed automatically by Varada’s proprietary cost-based optimizer. Varada is able to identify which queries to accelerate and which indexes to maintain. These capabilities enable data teams to serve a wide range of business requirements with no operational overhead and truly deliver the promise of data virtualization.

Tel Aviv's Varada's mission is to enable data practitioners to go beyond the traditional limitations imposed by data infrastructure and instead zero in on the data and answers they need—with complete control over performance, cost and flexibility. In Varada's world of big data, every query can find its optimal plan directly on the data lake, with no prior preparation and no bottlenecks, providing consistent performance at a petabyte scale. (Varada 15.09)

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2.6. EverCompliant Raises $35 Million Series B and Rebrands as EverC

EverCompliant has raised a $35 million Series B funding round to meet growing demand from banks, credit card companies, payment processors, payment facilitators, online marketplaces, and law enforcement agencies. The company has also rebranded as EverC to better align its name with a broader mission to reduce online crime and empower e-Commerce growth by leveraging its intelligence capabilities.

Red Dot Capital Partners, an Israel-based early growth-stage venture capital firm, led the round. Maor Investments joined the round, as did the company's existing backers, among them Joey Low, Viola Ventures, Arbor Ventures and American Express Ventures.

While global e-Commerce volume was already rising pre-COVID 19, the pandemic has accelerated the adoption of digital payments. With this rapid increase comes a simultaneous increase in criminal activities online. Recent high profile cases have only highlighted what has already become an unprecedented level of online money laundering. According to EverC's calculations, some $500 billion is laundered annually through fraudulent e-Commerce transactions. Furthermore, according to the company, there are 6 to 10 million online merchants that are currently using the payment system to process transactions without the knowledge or consent of the financial institution they are processing through.

Tel Aviv's EverC is the pioneer and industry leader in electronic money laundering detection and prevention (also known as Transaction Laundering). EverC uses artificial intelligence and machine learning to assess and drive insights from hundreds of millions of domains. These insights shine a light on hidden risks associated with online entities and reveal new opportunities to scale businesses efficiently and confidently.

Savyon's Red Dot Capital Partners is an early growth-stage venture fund investing in breakout technology companies. Red Dot supports its portfolio companies in identifying and navigating expansion opportunities in fast developing markets and within its LP's networks and businesses - with a focus on SE Asia and Japan. (EverCompliant 10.09)

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2.7. Hetz Ventures Closes $77 Million Second Fund to Invest in B2B Enterprise Tech

Hetz Ventures closed its second flagship fund, oversubscribed at $77 million. Fully raised during the COVID-19 crisis, the fund had its first close in April and final close in July. With Fund II, Hetz will manage over $130 million total. The firm closed Fund I of $55 million in February 2018 and, leveraging its deep network of Israeli entrepreneurs and international enterprises, has since invested in 10 companies in various enterprise software verticals.

Founded in 2018, Tel Aviv's Hetz Ventures has quickly established itself as Israel's go-to venture for Israeli entrepreneurs with seed-stage deep-tech startups in B2B enterprise software, DevOps, cybersecurity, cloud computing and fintech. While over 90% of Fund II contributors are experienced international investors, it has also attracted investment from founders of its portfolio companies who have invested back into Hetz, along with distinguished local entrepreneurs, powering a continuous cycle of Israeli innovation.

Hetz Ventures relies on thesis-driven investment and employs a proactive top-down approach. Partnering with companies from a very early stage, Hetz is typically the first money invested. From first meeting with a founder to investing in their company, it typically takes the firm four weeks or less, beginning with the problem and the market opportunity, analyzing the solution, the competition, and potential customers through a thorough and transparent process. (Hetz Ventures 15.09)

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2.8. Sternum Raises $6.5 Million in Series A Funding for Cybersecurity IoT Devices

Sternum has raised $6.5 million in Series A funding. The round, led by Square Peg, was joined by existing investor and global business leader Merle Hinrich, European venture capital firm btov and private investors including Boston-based veteran entrepreneur Eyal Shavit and Founder & CEO of CyberArk, Udi Mokady. Sternum will use the funding to expand its R&D team and bolster its go-to-market strategy as the company ushers in the next generation of IoT with its cutting-edge cybersecurity and monitoring solutions. The new round brings Sternum's total funding raised to $10 million since being founded in 2018.

Sternum's technology is uniquely positioned to accelerate and secure the global implementation of IoT across multiple sectors, including medical, smart energy & utilities, industrial IoT and more. Sternum's scalable, embedded solutions are injected into a device's binary code and can be integrated into a wide range of IoT devices – low-end, high-end, old, new, existing devices, RTOS and Linux-based – with no configurations or changes to existing code required. Unlike other solutions, Sternum is not focused on the endless race of patching every vulnerability found on a device; instead, its solutions are focused on the exploitation stage of any cyber-attack, preventing it in real time by immunizing the entire device code against breaches. Sternum's next-generation solutions ensure streamlined security and immersive monitoring of all aspects of a device, including third-party components, providing valuable insights that improve products.

Tel Aviv's Sternum was founded in 2018 by a team of highly experienced research, development, and business leaders, many coming from the Israeli Defense Forces' (IDF) elite Unit 8200. With a profound understanding of embedded systems, deep insights into defenders' and attackers' mindsets, and a goal of creating a new standard of cybersecurity and visibility for IoT devices, Sternum is building uncompromising, innovative technology poised to enable the IoT revolution. Sternum's product suite consists of two key solutions: Embedded Integrity Verification (EIV) and Advanced Detection System (ADS). Both answer the unique needs of IoT device manufacturers in medical, industry 4.0, smart cities, energy, and beyond. (Sternum 15.09)

3. REGIONAL PRIVATE SECTOR NEWS

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3.1. GCC E-Commerce Sector to Reach $19.7 Billion Due to Coronavirus Pandemic

Spurred on due to necessity, given the coronavirus-enforced lockdowns and curfews across the region, the GCC ecommerce market is expected to reach $19.7 billion by the end of this year, according to a panel of experts at the virtual roundtable on Intelligent Orchestration of Retail Experience. It was revealed that Saudi Arabia is expected to claim the majority of the total ($8.3 billion), followed by the UAE, with $7.5 billion.

For example, the Danube Group said online purchases accounted for only 5% of total sales prior to the pandemic. However, it jumped 500% to 25% of their sales during the lockdown, before settling at 10% currently. According to Alpen Capital, the GCC retail sector is projected to grow at a CAGR of 4.0% from $253.2 billion in 2018 to $308 billion in 2023. While fashion retail has transformed significantly, the biggest change is possibly being witnessed by the operators of grocery retail, supermarkets and hypermarkets where the jump in online orders forced them to undertake changes overnight. Choithrams said that while their online orders jumped three times, their existing capacity was good enough to handle only a 50% jump. (IORE 13.09)

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3.2. UDENZ Raises $100,000 Bridge Round

UDENZ is confirming a successful bridge fund round which was closed on 3 September 2020, led by Global Ventures UAE and several angel investors. The bridge round was for $100,000 at a valuation of £2 million since the last crowdfunding round in 2017, led by Eureeca where UDENZ raised around $201,000.

Despite the difficulties with COVID-19, UDENZ, the Dubai-based app that provides a variety of services to dentists and patients, has managed to survive the difficulties, and keep growing. The company was founded in 2016 by Dr. Hisham Safadi, an entrepreneur born and raised in Dubai. The funds will be used to promote and market the new services offered by UDENZ for dentists and patients in UAE, KSA, and Oman.

Over the COVID-19 period, UDENZ marked several successful ventures. They had introduced dentist-patient online audio/video consultations using EazeTx Technology, one of the fastest growing online consultation tech providers in the UAE Market. Additionally, the startup in early May 2020, began a pilot test for dental treatment installment plans via its new service UDENZPAY. This service offers an online payment solution that allowed patients to pay in installments for their dental treatments. The pilot cases succeeded in onboarding 10 dentists within the UAE that offer installment plans for patients referred through UDENZ. Learning through the difficulties of COVID-19, and developing new solutions to the tough situations, has helped UDENZ grow and stay afloat of the tough times, and persevere despite any difficulties. (UDENZ 03.09)

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3.3. Egyptian-Chinese Consortium Wins Ain Sokhna - Alamein High-Speed Rail Contract

An Egyptian-Chinese consortium has won a tender for the design, finance and operate a high-speed train linking Ain Sokhna and the New Alamein City. The consortium includes Samcrete, Arab Organization for Industrialization, China Civil Engineering Construction Corporation and China Railway Construction Corporation. The 534 km. line will accommodate both cargo and passenger trains and will pass through the new capital, Sixth of October City and Alexandria, making the line the longest in the Middle East. The $9 billion project would be Egypt’s first high-speed train linking the Red Sea to the Mediterranean, with journeys taking just three hours. The Transport Ministry had also considered extending the line by an additional 350 km. connecting Ain Sokhna to Hurghada. (Various 06.09)

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3.4. Egypt's Hydro Farms Raises Fresh Funds and Releases New Products

With roots in the Egyptian hydroponic farming sector since 2012, Hydro Farms is one of the first to implement hydroponic planting in Egypt. Hydro Farms started working to revolutionize the farming industry in Egypt and bring clean, quality products to the market, farm-to-table. Hydro Farms recently raised funds from angel investors in Egypt and the Gulf region which contributed to the next phase of the brand’s expansion plan after years of evolving Hydro Farms’ products through extensive research and development.

Hydro Farms is currently growing +30 varieties of produce that are unique in the market which is more inclined to growing leafy greens. Now more than ever, Egypt and the whole world needs to divert their farming methods in order to become more eco-friendly especially when it comes to water consumption; hydroponically grown crops use 90% less water compared to traditional methods as well as a great shrink in land size and growing more food with higher quality and much fewer resources.

As a first milestone in the large scale expansion plan, Hydro Farms will be releasing PERET; an exclusive range of fresh produce never seen before in Egypt at Gourmet “A premium quality grocery store franchise”.

The range will be featuring an array of colorful heirloom tomatoes that used to be imported for very high prices like the San Marzano, Choco-Mato, or Chocolate Tomatoes and Golden Sweet as well as a new range of exotic peppers and chili peppers with a promise of more exciting varieties. Hydro Farms is aiming to expand the territory of their market to reach the shelves of international grocery stores as it offers a year-long variety of fresh produce that is made with the highest standards and attention to detail. (Waya 31.08)

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3.5. Isqan.com Launches & Raises Six-Figure Pre-Seed Funding

Isqan.com, a new website that is looking to disrupt the real estate search experience in Egypt has launched in the region. The digital platform aims to become the go-to resource for people looking for their next property, whether to rent or buy in Egypt. By combining a user-friendly search experience and a comprehensive marketing understanding of real estate companies, Isqan.com is a fresh new platform for the currently available solutions. Starting on a high note, the platform has already raised a six-figure investment in a Pre-Seed round, secured from an angel investor who shared the same dream as the Co-Founders to address the current market need and reshape the market.

The platform aims to shake up the Egyptian property market by offering a completely free of charge service, giving end-users three free listings, to help them rent or sell a property. In parallel, Isqan.com has also partnered up with a number of market leaders ahead of its launch to offer users a wide range of trusted and legitimized options. The listed companies include Egypt Best Properties, New Avenue, Byotat, Insider, B2B, Ultimate Real Estate, Remax, Irtkaz, Era, Daddy Estate Investment, Abrag and Proper Move. (Isqan.com 08.09)

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3.6. Rology Raises $860,000 Pre-Series A Funding Round

Rology has closed an $860,000 Pre-Series A investment with participation from Saudi, Emirati and Japanese investors. The Round was led by HIMangel, who was also Rology's Seed investor in 2018. Rology will use the investment primarily to fuel its growth in Saudi Arabia and Kenya.

Cairo's Rology solves the global shortage of radiologists which leads to very high reporting turnaround times and/or bad quality reporting, especially in Africa and the Middle East. Rology's cloud-based platform provides intelligent matchmaking between the case at hand and remote yet readily available radiologists prioritized by their expertise and sub-specializations. Rology's technology can be launched with zero setup costs for hospitals as well as for radiologists and gives the radiologists the freedom to work from anywhere in the world as long as they have access to a laptop and internet connection. Rology currently works with more than 87 hospitals in five countries.

The round included investments from Dubai Angel Investors (DAI) from the UAE, The Asia Africa Investment & Consulting (AAIC) from Japan, and Athaal group from Saudi Arabia. (Rology 14.09)

4. CLEAN TECH & ENVIRONMENTAL DEVELOPMENTS

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4.1. Natural Gas Vehicles to Save Egyptian Citizen EGP 1,200 Monthly

Egyptian Minister of Petroleum and Mineral Resources El Molla said that natural gas usage as fuel will save about EGP 1,200 monthly for each citizen who uses an average 10 liters of gasoline 92 per month. He pointed out that people can save about EGP 825 monthly if they are using 10 liters of gasoline 80. El Molla elaborated that the price of natural gas per cubic meter is EGP 3.5, while the price of gasoline 80 price is EGP 6.25 per liter and gasoline 92 price is EGP 7.5 per liter. This came during a meeting headed by the Prime Minister Mabdouly to review the efforts of converting vehicles to run on natural gas instead of gasoline, in attendance of several ministries. El Molla added that this action will allow citizens to redeem the cost of conversion in a period of three to six months. The minister said that the new systems of conversion supports engines and raise their efficiency to the optimum performance.

Minister of Trade and Industry Gamea said that her ministry is working on implementing a comprehensive strategy for nationalizing car manufacturing, including the initiative of replacing old cars with natural gas cars across seven governorates as a first phase. She added that this initiative is focusing on microbuses and taxis mainly. Minister of Military Production Morsi said that his ministry started to convert public buses of transportation to run on natural gas in Cairo. He showed the procedures taken to manufacture natural gas cylinders by establishing a plant for producing cylinders of compressed natural gas (CNG). (Various 07.09)

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4.2. Sovereign Wealth Fund of Egypt to Invest EGP 30 Billion in Desalination

The Sovereign Wealth Fund of Egypt (SFE) has been charged with funneling EGP 30 billion in investments towards the first phase of the government's EGP 134.2 billion plan to build desalination plants across the country, the Planning Ministry announced. The SFE will back the plants through its new infrastructure sub-fund. The first phase will see 47 desalination plants with an output 1.4 million cf/d built by 2025 at a total cost of EGP 45 billion. All six phases of the plan aim to generate 6.4 million cbm/d of water. (Enterprise 06.09)

5. ARAB STATE DEVELOPMENTS

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5.1. Beirut Explosion Caused Up to $4.6 Billion in Damages to Infrastructure

The World Bank Group (WBG), in cooperation with the United Nations (UN) and the European Union (EU) conducted a Rapid Damage and Needs Assessment (RDNA) in Beirut. According to the RDNA's preliminary estimates, the explosion caused between $3.8 and $4.6 billion in damage to physical stock, while losses including changes in economic flows as a result of the decline in the output of the economic sectors are estimated to be in the range of $2.9 and $3.5 billion. The most severely affected sectors are housing, transport and tangible and intangible cultural assets. Recovery needs for this year and the next are estimated in the range of $1.8 and $2.2 billion, with between $605 and $760 million needed in the immediate term until December 2020, and between $1.18 and $1.46 billion in the short term for the year 2021. The transport sector's needs are the highest, followed by culture and housing.

The three main economic effects of the explosion are: losses in economic activity caused by the destruction of physical capital; trade disruptions; and losses in fiscal revenues for the Government. Even prior to the explosion, Lebanon was facing compounded crises with pre-explosion projections of 2020 real GDP growth well into the negative double digits. The disaster will not only exacerbate the contraction in economic activity, but also worsen poverty rates, which were already at 45% of the population just prior to the explosion. Given Lebanon's state of insolvency and lack of sufficient foreign exchange reserves, international aid and private investment will be essential for comprehensive recovery and reconstruction. Lebanon's implementation of a credible reform agenda will be key to accessing international development assistance and to unlock external and private sector sources of financing. (BLOM 04.09)

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5.2. Lebanon's Capital Markets Welcome the French Initiative

Lebanon's capital markets welcomed the appointment of a new PM-designate and the French initiative which has outlined a political and economic roadmap for Lebanon amid calls to speed up the formation of a new cabinet that would implement long-overdue reforms to unlock much-needed international aid.

Specifically, the French initiative helped curbing the fall of the local currency on the black FX market, while spreading a cautious positive mood. The LP/US$ rate moved from LP/US$ 7,700-LP/US$7,800 at the end of last week to LP/US$ 7,100-LP/US$ 7,200 at the end of this week. BDL's foreign assets remained on the decline, registering a US$ 2.2 billion contraction in August 2020 following the 4th of August devastating Beirut blast that has caused large human and material damages. The bond market posted price gains across the yield curve of up to 2.38 pts amid an international bid, on hopes that the French initiative would draw a new political and economic future for Lebanon in the medium-term. On the equity market, the BSE price index rose by 1.2% week-on-week, while activity remained quite shy. (Bank Audi 07.09)

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5.3. Jordanian Inflation Rises by 0.53% During First 8 Months of 2020

Jordan's Consumer Price Index rose by a slight 0.53% during the first eight months of 2020, reaching 101.04, compared to 100.51 during the same period last year, according to official data. In its monthly report, the Department of Statistics (DoS) Monday said the consumer price index in August 2020 went down by 0.56% reaching 100.66, compared to 101.23 during the same month of 2019. Comparing the consumer price index for August to July of this year, the data show a 0.07% rise reaching 100.66 compared to 100.59. (Petra 14.09)

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5.4. Jordan Resumes Regular Commercial Flights After Six-Month Halt

Jordan resumed regular international flights on 8 September after being suspended for nearly six months because of the novel coronavirus epidemic. Queen Alia International Airport will initially handle six flights a day before expanding to ensure that airport authorities can enforce strict social distancing and other health rules. The government had repeatedly postponed reopening Jordan's main airport, a regional hub which normally handles around nine million passengers annually, over fears that travelers could bring about an increase in infections.

The airport, however, was open for repatriation flights arranged for citizens in the Gulf and Europe and also for foreigners resident in Jordan who want to leave. Passengers entering Jordan would need proof of a negative COVID-19 test within 72 hours of travel, alongside a compulsory test on arrival. The rules would include a minimum of one week of self-isolation to a maximum two weeks of quarantine for foreign travelers depending on the severity of the pandemic in countries they came from.

The closure of the airport since mid-March has worsened the economic damage wrought by the pandemic on Jordan's aid-dependent economy. Tourism is a major source of foreign currency and had been enjoying an unprecedented boom before the pandemic. (Reuters 08.09)

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5.5. Jordan Announces Compulsory Military Service to Fight Unemployment

Jordan is rolling out compulsory military service for men between the ages of 25 and 29, as the country struggles with rampant unemployment resulting from the coronavirus pandemic. Under the new scheme, the men will serve for 12 months. Three months will involve military training, and the other nine will be devoted to professional and technical training in the private sector. Five-thousand jobless men will be conscripted this year and 15,000 in 2021. Each will receive a monthly payment of JOD100 ($141).

After imposing one the world's harshest lockdowns in March, the pandemic has taken a toll on Jordan's economy. The unemployment rate soared to 23% in the second quarter of 2020, compared to 3.8% during the same time last year. Coronavirus travel restrictions have also dealt a blow to Jordan's tourism industry, prompting the government to resume international flights out of the Queen Alia International Airport outside of Amman.

In terms of coronavirus infections, Jordan has fared better than most countries in the region. Health authorities have registered 2,739 cases and 17 deaths among the population of some 10 million. (Al-Monitor 10.09)

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5.6. Mohammed Bin Rashid Innovation Fund Enters Next Phase to Support Startups

As part of its commitment to boost the initiatives it runs in alignment with the strategic directives of the UAE government, the Ministry of Finance (MoF) announced the launch of the next phase of the Mohammed Bin Rashid Innovation Fund (MBRIF), which aims to manage and operate the fund and its programs under one national umbrella.

The next phase will create an integrated work environment that supports innovation and will integrate all the services the fund provides in a way that benefits its innovative members – another step that helps achieve the UAE's aspirations to be among the best countries in the world. During this phase, the Emirates Development Bank (EDB) will operate the two programs of the MBRIF, namely the Innovation Accelerator program and the Guarantee Scheme.

Approximately 880 applications from 65 countries were submitted to the Fund's Guarantee Scheme and Innovation Accelerator program from 2016 to 2020, and over 120 partnership opportunities have been facilitated to support the members' projects. The MBRIF currently has 43 members, 25 of which are headquartered in the UAE, and are supported by 30 specialists from various sectors. Additionally, in the same period, members of the fund collected AED 171.9 million. (MoF 08.09)

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5.7. Saudi Arabia Says Top Managerial Positions in Private Sector to be Localized

In a bid to Saudize 75% of top managerial positions in the private sector companies, the Shoura Council is seeking to amend a clause of an article of the labor law pertaining to the localization of jobs. The amendment to the clause, Shoura members said, would require the private sector to draw up plans to attract and train young Saudi men and women and groom them within a specified period to ensure a smooth and systematic replacement at the top level. The General Commission in the Shoura Council will refer the report on the matter to the Social Affairs, Family and Youth Committee for discussions at an upcoming Shoura Council session. The proposal stressed the need for the Saudization of leadership positions in the private sector. According to them, the step has become necessary due to the availability of qualified Saudis holding local and foreign degrees. (Various 05.09)

►►North Africa

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5.8. Egyptian Inflation Hits 10 Month Low as Food Prices Continue to Fall

Egypt’s annual urban inflation decelerated to 3.4% in August — its lowest level since October 2019, according to Central Bank of Egypt (CBE) calculations of CAPMAS figures. Inflation cooled last month from 4.2% in July. The falling headline rate, which came despite an unfavorable base effect from a drop back in August 2019, came as food prices continued to decline on a monthly basis. A sharp 2.6% monthly drop in food and beverages prices for the third consecutive month was the primary reason behind the fall in August’s recorded annual rate. The month-on-month drop in prices across all food items was enough to offset a 4.8% uptick in transportation costs and a 2.4% increase in healthcare expenses, the state statistics agency said.

Annual core inflation, which removes volatile items such as food and fuel, rose to 0.8% during the month from 0.7% in July. Monthly core inflation recorded -0.2%, compared with -0.4% in August 2019 and -0.1% in July, the CBE said. The price of core items fell 0.2% during the month, compared to a 0.4% drop in July.

Pundits expect the annual inflation rate to stabilize at 4.5% in September and October, from which point it would fluctuate between 5-6% during the final months of the year and remain well within the 9% (+/-3%) target range during the first half of 2021. CBE Governor Tarek Amer said recently he expects inflation to average around 6.2% during 4Q2020, noting that the figure has held steady within the single-digit range since June 2019 and has remained below 6% since February. (13.09)

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5.9. Egypt's International Reserves Increase to $38.36 Billion by End of August

Egypt's international net reserves (NIR) increased slightly to reach $38.36 billion by the end of August, up from $38.31 billion in recorded in July, the Central Bank of Egypt (CBE) announced. Foreign exchange reserves recorded $39.2 billion during August, up from $33.6 billion in July. Gold reserves also went up to $4.52 billion in August, compared to $4.50 billion recorded in July, according to the CBE.

In September 2019, Egypt's NIR recorded an all-time high of $45.117 billion, before witnessing a significant drop in March 2020 to reach $40 billion driven by the unprecedented blow to global financial markets arising from the COVID-19 pandemic, which caused the sharpest portfolio flow reversal on record from emerging markets, including the Egyptian market, according to the CBE. As of the end of June, Egypt's NIR started to bounce back for the first time since March, increasing to $38.2 billion, up from $36 billion in May.

Egypt is expected to receive the second tranche of the stand-by agreement (SBA) loan approved by the International Monetary Fund in June to implement the second wave of Egypt's structural reforms. In June, Egypt was handed the first tranche, worth $2 billion out of $5.2 billion, while it is expected to receive $3.2 billion after reviews that are anticipated to be carried out in December 2020 and June 2021. (CBE 08.09)

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5.10. Cairo Extends Timeline to Privatize Electricity Sector by Two Years

The Egyptian government has extended by two years the timeline of the state's transition from sole player in the electricity market to a regulator, while separating power generation from transmission and distribution. The original 2015 bill had given the state's electricity companies eight years to complete the transition to market regulator by 2023. This will now be extended to 2025.

The only specific changes named in the statements are instructions for the Egyptian Electricity Holding Company (EEHC) and the Egyptian Electricity Transmission Company (EETC) to untangle joint assets and subsidiaries among themselves, so that the EETC can be restructured as the market regulator. For example, EEHC had obtained loans in the past before the EETC became an independent company, so these loans will have to be restructured to be paid by the EETC instead of EEHC. Both companies would then have to prepare studies on the sector's project pipeline in generation and transmission, including the timeline for implementing the grid interconnection projects with our neighbors. The EETC had been made an independent authority ahead of its designation as the market regulator.

A host of changes are coming to the electricity sector as part of the long-term vision of privatizing it. This involves progress with Egypt's export of electricity and reworking the pipeline of electricity projects to relieve the electricity capacity glut that is hindering private sector expansion. New contracting frameworks will be implemented and tenders will be offered to the private sector across the entire value chain of electricity. (Enterprise 06.09)

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5.11. Morocco Extends State of Health Emergency Until 10 October

Morocco's Government Council has announced the extension of the nationwide state of health emergency until 10 October to help proactively implement measures to curb the spread of COVID-19. Prime Minister Saad Eddine El Othmani announced the decision on 9 September after the government approved a decree complementing the law that regulates the state of emergency. Since it was first declared on 19 March, Morocco's state of health emergency witnessed five extensions over the course of six months. This latest extension is the sixth of its kind. Before this extension, Morocco's state of emergency was scheduled to expire on 10 September.

The state of emergency is not synonymous with lockdown. Rather, it is a legal framework that allows the Moroccan government to promptly take exceptional measures against COVID-19. The measures include lockdowns on neighborhoods or cities, bans on travel, the closing of gathering places, and the deployment of military troops in cities.

The majority of cases appear in the Casablanca-Settat region and the city of Casablanca itself. On 8 September alone, the metropolis recorded 628 new infections and eight coronavirus-related deaths. The alarming figures in Casablanca led the Moroccan government to put the city under lockdown and cancel in-person classes in its schools. However, it remains to be seen whether the measures will be effective in bringing COVID-19 under control in Morocco's largest city. Other cities and provinces in Morocco that have experienced a re-imposition of lockdown measures since July include Khenifra, Fez, Tangier, Safi and Marrakech. (MWN 09.09)

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5.12. Morocco's Budget Deficit Reached $4.7 Billion at End of August

The General Treasury of Morocco (TGR) has revealed that the country's budget deficit reached MAD 43.5 billion ($4.7 billion) at the end of August. The figure represents a decrease compared to August of the last year, when Morocco recorded a budget deficit of MAD 33.8 billion ($3.6 billion). TGR also announced a positive balance of MAD 3.6 billion ($392.7 million) generated by the special treasury accounts and government services managed autonomously. In contrast, August 2019 saw a positive balance of MAD 5.6 billion ($611 million).

Net customs revenue declined by 12.5% in net customs revenue due to tax refunds of MAD 67 million ($7.3 million) in August 2020, compared to MAD 49 million ($5.3 million) in August 2019. Tax refunds include tariffs, which declined by 5.3% since August 2019, import value-added tax (-12.2%) and domestic consumption tax (-17.5%).

For net domestic tax revenue, TGR recorded a decrease of 5.3%, taking into account reimbursements, tax reductions and refunds. Corporation tax recorded a deficit of 0.6%, due to refunds of MAD 366 million ($39 million) against MAD 217 million ($23 million) in August 2019. Income tax recorded a deficit of 6.4% due to restitutions of MAD 68 million ($7.4 million) against MAD 55 million ($6.0 million) the year prior.

Domestic value-added tax (VAT) also recorded an increase of 2.7%. TGR noted that at the end of December 2019, VAT refund arrears were MAD 41.2 billion ($4.4 billion). Meanwhile, net domestic tax revenue, including registration and stamp duties, decreased by 21.3%. (MWN 14.09)

6. TURKISH, CYPRIOT & GREEK DEVELOPMENTS

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6.1. Greek Measures Won't Derail Budget

Athens is trying to make the most of the fiscal flexibility the Eurozone allows for due to the coronavirus, so in Thessaloniki it announced a series of tax breaks included in its election manifesto last year, some of them front-heavy too. However, those announcements remain within normal fiscal constraints and even secure a perfect fiscal balance for the 2021 budget, according to sources.

Three weeks before the submission of the 2021 draft budget, the plans of the Finance Ministry, in accordance with Prime Minister Mitsotakis' announcements, provide for this year's budget to close with a primary deficit equal to 6% of GDP, while the 2021 budget will have a near-zero or zero deficit. This is despite the total cost of €6.8 billion that the Mitsotakis announcements entail.

That is because a large share of those measures concern the expenditure of this year, therefore they will count toward the 6% primary deficit of 2020, while some of the measures do not bear any fiscal consequences. Therefore the additional burden on the 2020 budget from the new measures will come to just over €2 billion, plus a part of the extra spending on defense – which according to estimates will in the coming years total some €5 billion.

Government sources say that the measures announced serve two goals for Athens: They boost the economy via Keynesian-like interventions, while also promoting reforms that will contribute toward attracting investments and high-standard workers to Greece, hopefully reversing the brain drain. (eKathimerini 15.09)

7. GENERAL NEWS AND INTEREST

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7.1. Rosh Hashanah – the Jewish New Year

Rosh Hashanah, commonly known as the Jewish New Year, is celebrated on the first and second days of the Hebrew month of Tishrei. This year that date falls on the afternoon of 18 September and continues until the evening of 20 September. In Hebrew, Rosh Hashanah literally means "first of the year." The name Rosh Hashanah is not used in the Bible to discuss this holiday. The Bible refers to the holiday as *Yom Ha-Zikaron* (the day of remembrance) or *Yom Truah* (the day of the sounding of the *shofar*). The holiday is instituted in Leviticus 23:24 - 25. The shofar is a ram's horn; the sounding of the *shofar* in the synagogue is one of the most important observances of this holiday. The Bible gives no specific reason for this practice, though one that has been suggested is that the shofar's sound is a call to repentance. No work is permitted on Rosh Hashanah. Much of the day is spent in synagogue, where the regular daily liturgy is somewhat expanded. In fact, there is a special prayer book called the *machzor* used for Rosh Hashanah and Yom Kippur because of the extensive liturgical changes for these holidays. Religious services for the holiday focus on the concept of G-d's sovereignty. One popular observance during this holiday is eating apples dipped in honey, reflecting the wish for a sweet new year.

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7.2. Fast of Gedaliya Marked on 12 September

The Fast of Gedaliya (or *Tzom Gedaliya,* falling on 3 Tishrei), follows Rosh Hashanah. This year it is observed on 21 September. It marks the assassination of Gedaliya ben Achikam and the exile of the small Jewish community that remained in Israel after the Destruction. When Nebuchadnezzar King of Babylonia, destroyed the Temple in Jerusalem in 586 BCE and exiled the Jewish people to Babylonia, he allowed an impoverished remnant to remain in the land and appointed Gedaliah Ben Achikam as their Governor. Many Jews who had fled to Moab, Ammon, Edom, and other neighboring lands returned to the land of Judea, tended the vineyards given to them by the king of Babylonia and enjoyed a new respite after their earlier oppression. However, political machinations led Yishmael Ben Netaniah, to assassinate Gedaliah. Yishmael murdered Gedaliah, together with most of the Jews who had joined him and numbers of Babylonians whom the Babylonian King had left with Gedaliah. The remaining Jews feared the vengeance of the Babylonian King and fled to Egypt. The surviving remnant of Jews was thus dispersed and the land remained desolate, until the Jewish polity was re-established in some 70 years' time. The fast is observed from daybreak until the stars appear in the evening.

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7.3. Yom Kippur – Holiest Day in the Jewish Calendar – Falls on 27/28 September

On the evening of 27 September and until after sunset on 28 September, Israel and world Jewry will observe Yom Kippur, or the Day of Atonement. The holiest day on the Jewish calendar, falling on the tenth of Tishri, it is a day marked by fasting, prayer and penitence for one's sins against their fellow man and G-d. Yom Kippur atones only for sins between man and G-d, not for sins against another person. To atone for sins against another person, you must first seek reconciliation with that person, righting the wrongs you committed against them if possible. That must all be done before Yom Kippur.

Yom Kippur is a complete Sabbath; no work can be performed on that day. It is a complete, 25-hour fast beginning before sunset on the evening before Yom Kippur and ending after nightfall on the day of Yom Kippur. The Talmud also specifies additional restrictions that are less well-known: washing and bathing, anointing one's body (with cosmetics, deodorants, etc.), wearing leather shoes and engaging in sexual relations are all prohibited on Yom Kippur. As always, any of these restrictions can be lifted where a threat to life or health is involved. In fact, children under the age of nine and women in childbirth (from the time labor begins until three days after birth) are not permitted to fast, even if they want to. It is customary to wear white on the holiday, which symbolizes purity and calls to mind the promise that our sins shall be made as white as snow. The day long fast is widely observed even among Israel's secular public and most of the country's Jewish population attend all or part of the day's synagogue services. The fast is concluded with a shofar blast and rejoicing.

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7.4. Sea of Galilee Surprises with Highest September Level in 27 Years

Despite an intense late-summer heat wave, the Sea of Galilee at the beginning of September is at its highest level for this time of year in 27 years, the Water Authority reported on 3 September. Another surprising phenomenon, last noted 17 years ago, is a steady flow in the Dan spring, which has increased slightly.

The Water Authority's Hydrological Service said that over the course of August, the water level in the Sea of Galilee dropped by 14 centimeters (5.5 inches) due to reduced pumping. The current level is the highest since 1993, when the level of the lake at the start of September stood at 209.33 meters (687 feet) below sea level, or 0.73 meters (2.4 feet) below the upper Red Line, the point at which shoreline facilities start flooding.

The level of the Dead Sea also dropped by 14 cm. in August, putting the water level at the lowest point on earth at 434.86 meters (1,427 feet) below sea level. (Various 04.09)

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7.5. Yad Vashem & University of Notre Dame to Advance Holocaust studies

On 9 September, Yad Vashem in Jerusalem signed a memorandum of understanding with the Indiana-based University of Notre Dame and its global network to increase and encourage advanced Holocaust education and research across the world. The agreement was signed on Wednesday by Yad Vashem Director-General Dorit Novak and University of Notre Dame Vice President and Associate Provost for Internationalization Michael Pippenger.

The memorandum of understanding will create a basis for ongoing cooperation between these two internationally renowned institutions. Yad Vashem's International Institute for Holocaust Research and International School for Holocaust Studies will work together with members of the faculty, staff and students at the university. The agreement also includes fostering a connection with Notre Dame's Alliance for Catholic Education to strengthen and transform Holocaust education in Catholic schools and in its professional development programming. (ILH 11.09)

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7.6. UAE's MBZUAI and Israel's Weizmann Institute of Science Sign MoU for AI Collaboration

The Mohamed bin Zayed University of Artificial Intelligence (MBZUAI) in the UAE and Israel's Weizmann Institute of Science have signed a Memorandum of Understanding (MoU), which will see the two institutes work together to advance the development and use of artificial intelligence (AI) as a tool for progress. The MoU, which is the first of its kind to be signed between two higher education institutes from the UAE and Israel, covers a range of opportunities for collaboration, including student and postdoctoral fellows exchange programs, conferences and seminars, various forms of exchange between researchers, sharing of computing resources, and the establishment of a joint virtual institute for AI. This follows the historic Peace Accord agreement, which establishes full normalization of relations between the UAE and Israel.

MBZUAI is the world's first graduate-level, research-based AI university. Based in Abu Dhabi, the University offers MSc and PhD programs in computer vision, machine learning, and natural language processing. MBZUAI is introducing a new model of academia and research in AI, providing students and faculty access to the world's most advanced AI systems to unleash the technology's full potential.

The Weizmann Institute of Science is one of the world's top-ranking multidisciplinary research institutions and offers masters' and doctoral-level degrees across five faculties. It is noted for its wide-ranging exploration of the natural and exact sciences. Institute scientists are advancing research on the human brain, artificial intelligence, computer science and encryption, astrophysics and particle physics. (MBZUAI 14.09)

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7.7. Dubai Announces ‘Retirement Visa’ Scheme for Resident Expatriates & Foreigners

Dubai announced the launch of the “Retire in Dubai” program that will offer resident expatriates and foreigners aged 55 and above to apply for a retirement visa in its bid to turn the emirate into a retirement destination. The announcement was made on 2 September under the order of Dubai Ruler Sheikh Mohammed bin Rashid al-Maktoum. The plan, believed to be the first of its kind in the region, will be spearheaded by Dubai’s Department of Tourism and Commerce Marketing (Dubai Tourism) in collaboration with the General Directorate of Residency and Foreigners Affairs (GDRFA-Dubai). According to details made available, eligible applicants will be provided a retirement visa, renewable every five years. The retiree can choose between one of three financial requirements for eligibility: earning a monthly income of AED20,000 (approx. $5,500); having savings of AED1 million (approx. $275,000); or owning a property in Dubai worth AED2 million (approx. $550,000). In the initial phase, the retirement scheme will focus on UAE residents working in Dubai who have reached retirement age. (WAM03.09)

8. ISRAEL LIFE SCIENCE NEWS

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8.1. The Voice Keeper Gives Children the Unique Power of Speech

Bnei Brak's Almagu is providing children who cannot speak with a unique solution – giving them the power of a personalized synthetic voice through a new high-tech collaborative effort. Almagu is teaming up with Ohio's PRC-Saltillo to enable children who use its speech-generating devices and iOS apps to create their own unique voices.

Almagu has been developing synthetic voices for almost 10 years for people who can't speak. As hard as they try, the selection of voices is always limited, so at the end of the day, too many kids simply use the same voices and sound the same. The Voice Keeper solves that problem: it allows each family to create a unique voice for their loved one in a way that has never been easier. All it takes is an iPhone or an iPad – or a USB headset with a computer, and a family member or a friend that will donate their voice.

PRC-Saltillo has been a leader in giving a voice to those who cannot speak for themselves and they found The Voice Keeper is the easiest way for their users to create a unique voice. Almagu plans to launch Android support, both for creating the voice and for using it, as well as launching an integration with apps for adults. A unique voice by The Voice Keeper can be integrated into PRC-Saltillo's LAMP Words for Life and TouchChat iOS apps, and on Accent devices. (Almagu 01.09)

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8.2. RedHill Biopharma's Opaganib Awarded COVID-19 Grant by Pennsylvania

RedHill Biopharma announced the selection of opaganib, a proprietary, first-in-class, orally-administered, sphingosine kinase-2 (SK2) selective inhibitor being evaluated for the treatment of severe COVID-19 pneumonia, to receive a $300,000 grant from the State of Pennsylvania's COVID-19 Vaccines, Treatments and Therapies (CV-VTT) Program, which is designed to support rapid advancement of novel COVID-19 therapies. The grant was awarded to RedHill's partner, Apogee Biotechnology Corporation, from whom RedHill licensed opaganib, who will conduct the research being supported by the grant.

The CV-VTT grant from the State of Pennsylvania will cover key preclinical mechanistic research to further elucidate opaganib's potential role in suppressing the extent and/or duration of COVID-19-related acute respiratory distress syndrome (ARDS).

To date, the global Phase 2/3 study evaluating opaganib for the treatment of COVID-19 has been approved in the United Kingdom, Italy, Russia, and Mexico, with patient enrollment ongoing and further expansion planned. The multi-center, randomized, double-blind, parallel-arm, placebo-controlled Phase 2/3 study (NCT04467840) is set to enroll up to 270 patients with severe COVID-19 pneumonia requiring hospitalization and treatment with supplemental oxygen.

Opaganib, a new chemical entity, is a proprietary, first-in-class, orally-administered, sphingosine kinase-2 (SK2) selective inhibitor with anticancer, anti-inflammatory, and anti-viral activities, targeting multiple oncology, viral, inflammatory, and gastrointestinal indications. By inhibiting SK2, opaganib impacts multiple cellular pathways which are associated with cancer growth, viral replication, and pathological inflammation.

Tel Aviv's RedHill Biopharma is a specialty biopharmaceutical company primarily focused on gastrointestinal diseases. RedHill promotes the gastrointestinal drugs, Movantik® for opioid-induced constipation in adults, Talicia® for the treatment of Helicobacter pylori (H. pylori) infection in adults and Aemcolo® for the treatment of travelers' diarrhea in adults. (RedHill 03.09)

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8.3. MDClone & Intermountain Enhance Care for Chronic Kidney Disease Patients

MDClone, together with Utah's Intermountain Healthcare, announced impressive results achieved on the one-year anniversary of the creation of an innovative clinic service which helps patients with chronic kidney disease (CKD) and end stage renal disease live their healthiest lives possible.

In September 2019, Intermountain Healthcare partnered with MDClone in the launch of Intermountain Healthcare Kidney Services to organize and prioritize populations with chronic conditions for early outreach and care coordination. The goal of this program is to reduce hospitalizations and prevent unnecessary morbidity and mortality by identifying and engaging patients in early stages of CKD. Over the past year, with the help of MDClone, the program has ensured patients receive a cutting-edge, fully integrated and coordinated experience throughout the continuum of their care.

MDClone worked with clinical and operational leaders in Kidney Services to deploy algorithms that accurately identify CKD patients by stage, presence of acute kidney injury (AKI) and stratified these patients by gaps in care and time from last encounter. This set the foundation for a data-driven referral program where MDClone integrates these insights with Symphony as the patient engagement tool for care coordinators to prioritize outreach. In addition to identifying and engaging patients, Symphony is providing feedback to MDClone on referral sources, patient actions, and primary care provider responses from the community. With this information Kidney Services is able to leverage MDClone to track and manage these patients by action, outcome and cost.

Beer Sheva's MDClone democratizes data, empowering exploration, discovery and collaboration to improve patients' health. With MDClone, any user can ask and answer any question in real time. This dramatic paradigm shift is made possible by MDClone's unique technology for organizing, accessing and protecting the privacy of patient data, enabling healthcare knowledge workers to transform ideas into actionable insights in rapid cycles. (MDClone 03.09)

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8.4. BiomX & Boehringer Ingelheim Target Biomarkers for Inflammatory Bowel Disease

BiomX has entered into a collaboration with Germany's Boehringer Ingelheim to utilize the BiomX XMarker microbiome-based biomarker discovery platform to potentially identify biomarkers associated with patient phenotypes in inflammatory bowel disease (IBD). As part of the collaboration, BiomX will generate metagenomic data of gut microbiome samples obtained from IBD patients with the aim of identifying biomarkers using the XMarker platform.

The terms of the collaboration also include an option for Boehringer Ingelheim to negotiate an exclusive right to biomarkers discovered utilizing the XMarker platform. Independently of the collaboration, BiomX continues to advance the wholly-owned phage therapy candidate BX002 for the treatment of IBD with a Phase 1a study expected to begin in Q3/20.

The microbiome has shown promise as a predictive tool for the existence and staging of disease in IBD, liver disease, colorectal cancer and cardiovascular disease, among others. In recent studies it has also demonstrated the potential to predict response to specific therapeutics in IBD and immuno-oncology. The XMarker platform uses a unique metagenomics-based approach to discover predictive microbial genomic signatures to be further developed into biomarkers. The platform combines ultra-high-resolution DNA analysis, AI techniques and high-scale cloud computing resources to build classifiers of high sensitivity and specificity.

Ness Ziona's BiomX is a clinical-stage biotechnology company developing both natural and engineered phage cocktails designed to target and destroy bacteria that affect the appearance of skin, as well as harmful bacteria in chronic diseases, such as inflammatory bowel disease (IBD), primary sclerosing cholangitis (PSC) and colorectal cancer (CRC). BiomX discovers and validates proprietary bacterial targets and customizes phage compositions against these targets. (BiomX 07.09)

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8.5. Biomica Announces Positive Pre-Clinical Results in its Immuno-Oncology Program

Biomica, a subsidiary of Evogene, announced positive pre-clinical in-vivo results in its immuno-oncology program for a follow-on combination of bacterial strains. In these studies, Biomica tested BMC128, which consists of four live bacterial strains derived from Biomica's drug candidates BMC121 and BMC127. Treatment with BMC128, both prior to and in combination with ICI, significantly improved anti-tumor activity in mice. These positive results supplement additional positive data using Biomica's initial bacterial strain combinations BMC121 and BMC127, which demonstrated anti-tumor activity in animal studies. BMC128 was selected based on further predictive analysis of the results of Biomica's studies with BMC121 and BMC 127.

Biomica's immuno-oncology program is based on the premise that the gut microbiome affects the efficacy of cancer immunotherapy, specifically that of the ICI involving the blockade of PD-1 or PD-L1 and CTLA-4, as suggested in scientific literature. In the current study, BMC128 was administered to mice bearing cancer tumors prior to and during ICI therapy. BMC128 is a rationally-designed microbial consortium derived from Biomica's earlier candidates BMC121 and BMC127, which had been identified and selected through a detailed functional microbiome analysis using PRISM, a proprietary high-resolution microbiome analysis platform powered by Evogene's MicroBoost AI platform.

Biomica's current results demonstrate that treatment with BMC128 prior to and in combination with the administration of ICI, significantly reduced tumor volume and increased animal survival compared to ICI therapy alone. Moreover, treatment with BMC128 affected several immunological factors, including specific immune-cells populations known to be involved in tumor destruction.

Rehovot's Biomica is an emerging biopharmaceutical company developing innovative microbiome-based therapeutics utilizing a dedicated Computational Predictive Biology platform (CPB), licensed from Evogene. Biomica aims to identify and characterize disease-related microbiome entities and to develop novel therapeutics based on these understandings. The company is focused on the development of therapies for antibiotic resistant bacteria, immuno-oncology and microbiome-related gastrointestinal (GI) disorders. (Biomica 08.09)

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8.6. Lumenis Announces NuEra Tight with FocalRF Technology for Aesthetic Medical Devices

Lumenis announced the revolutionary NuEra Tight with FocalRF technology, now available in Europe and the Middle East. Body Sculpting takes on a whole new meaning with NuEra Tight offering a personalized solution for Fat Reduction, Skin Tightening, Cellulite and Wrinkle Reduction, all in one device. NuEra Tight with FocalRF technology was developed to provide tailored body sculpting treatments to a patient's distinctive needs. The new technology gives treatment providers advanced tools for today's aesthetic patients, accounting for clinical indications and specific body areas.

The system's easy to use interface features NuAPIC (Automatic Personalized Intelligent Control) which ensures the therapeutic temperature throughout the procedure, as well as the innovative NuLogic advanced protocol customization tool, that enhances further personalization for optimal treatment. NuEra Tight is available in the US, APAC, Europe and the Middle East in accordance to local regulatory requirements and will be launched in additional countries later this year.

Yokneam's Lumenis is a global leader in the field of minimally-invasive clinical solutions for the Surgical, Ophthalmology, and Aesthetic markets, and is a world-renowned expert in developing and commercializing innovative energy-based technologies, including Laser, Intense Pulsed Light (IPL) and Radio-Frequency (RF). For over 50 years, Lumenis' ground-breaking products have redefined medical treatments and have set numerous technological and clinical gold-standards. (Lumenis 07.09)

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8.7. Aeye Health Develops Advanced AI-Based Retinal Screening With Instant Results

AEYE Health has developed an AI-based retinal screening system that provides analysis and diagnostic results within 60 seconds. AEYE Health's advanced machine learning and artificial intelligence technologies offer instant and accurate screening and analysis of the retina for the detection of a variety of retinal and systemic conditions. AEYE Health's system simplifies retinal screenings by enabling the screenings to take place outside the ophthalmologist's office, in places like primary care and endocrinology clinics or pharmacies, or even in places of employment.

AEYE Health has partnered with UMass to develop a new system for use in hospitals with the first integrated solution that connect between the different stakeholders and providers including the ophthalmologists, endocrinologists, primary care providers and pharmacies. AEYE Health have also partnered with Roche Pharmaceuticals to develop a retinal screening solution for pharmacies and clinics.

Founded in 2018, AEYE Health is digital health company headquartered in New York with R&D in Tel Aviv, Israel. (AEYE Health 01.09)

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8.8. Theator & Sourasky Medical Center Advance Surgical Care with AI-Powered Platform

Theator announced a new partnership with Tel Aviv Sourasky Medical Center (Ichilov Hospital) – the largest acute care facility in Israel, treating about 400,000 patients and hosting 1.8M patients visits per year. This marks the first time that an Israeli hospital will implement a Surgical Intelligence platform in its operating rooms, and Theator's AI-powered technology will be the first to enable smart surgical video capture and improved surgeon performance and training.

Theator's innovative Surgical Intelligence platform is streamlining surgical video capture and metric-oriented education training. Powered by advanced AI and computer vision technology, the platform extracts and annotates every key moment from real-world surgical procedures, allowing surgeons to gain deep scientific insight into their own performance and those of surgeons worldwide. Theator improves surgeon performance from every angle – pre-operative preparation and post-operative analysis and debrief – enabling deeper department-wide visibility and a more seamless and intuitive metric-oriented resident education model. Running on Amazon Web Services (AWS), Theator's technology will equip the surgeons and surgical residents of Tel Aviv Sourasky Medical Center's general surgery departments with the tools needed to continually sharpen their craft – raising standards and performance and making routine video capture and analysis the new standard of care in surgery.

Tel Aviv Sourasky Medical Center is a 1500-bed world-class governmental academic medical center and one of the most progressive full-service healthcare treatment and research institutions in Israel. The Center serves a population of one million people, including residents from the greater Tel Aviv area and visitors to the metropolis.

Tel Aviv's Theator is pioneering the Surgical Intelligence revolution, with an innovative platform built for surgeons by surgeons designed to address the variability and disparity in surgical care. Combining highly sophisticated artificial intelligence and computer vision technologies, Theator puts defining intraoperative moments in the hands of surgeons so that they can continuously perfect their surgical craft. Theator is partnering with visionary surgeons, hospitals, professional societies, and research institutions to help create a smarter, more transparent operating room, while empowering surgeons to raise their expertise to the highest possible level. (Theator 01.09)

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8.9. RedHill Biopharma's Opaganib Demonstrates Complete Inhibition of SARS-CoV-2

RedHill Biopharma announced that opaganib demonstrated potent inhibition of SARS-CoV-2, the virus that causes COVID-19, achieving complete blockage of viral replication in an in vitro model of human lung bronchial tissue. Opaganib is a first-in-class, orally-administered, sphingosine kinase-2 (SK2) selective inhibitor with dual anti-inflammatory and anti-viral activity that targets a host cell component, unaffected by viral mutation, thus minimizing the likelihood of resistance. Opaganib is currently being evaluated in global Phase 2/3 and U.S. Phase 2 clinical studies for the treatment of severe COVID-19 pneumonia.

Working in collaboration with the University of Louisville Center for Predictive Medicine, opaganib was studied in a 3D tissue model of human bronchial epithelial cells (EpiAirway) which morphologically and functionally resembles the human airway and is similar to the model used to discover SARS-CoV-22. This study was designed to evaluate the in vitro efficacy of opaganib in inhibiting SARS-CoV-2 infection and included a positive control of remdesivir, a drug with known antiviral activity.

Results from this study showed a clear and compelling antiviral effect of opaganib against SARS-CoV-2. Opaganib demonstrated the most potent activity compared to all compounds tested, including the positive control, remdesivir. Treatment of cells infected with SARS-CoV-2 resulted in a dose-dependent inhibition of virus production without compromising cell membrane integrity, a measure of cell viability and drug safety, further demonstrating opaganib's promising potential for treating patients with COVID-19.

Tel Aviv's RedHill Biopharma is a specialty biopharmaceutical company primarily focused on gastrointestinal diseases. RedHill promotes the gastrointestinal drugs, Movantik for opioid-induced constipation in adults, Talicia for the treatment of Helicobacter pylori (H. pylori) infection in adults and Aemcolo for the treatment of travelers' diarrhea in adults. (RedHill Biopharma 08.09)

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8.10. DiaSorin & MeMed Partner on Novel Host Immune Response Based Diagnostics Solution

Italy's DiaSorin and MeMed announced the creation of a strategic partnership to accelerate the deployment of a novel, host-protein signature-based assay. Under the terms of the agreement, DiaSorin has obtained the rights to commercialize the proprietary MeMed BV test on its LIAISONÒ family of analyzers and, through this partnership, DiaSorin and MeMed will make the MeMed BV test available on over 5,000 LIAISONÒ XL and LIAISONÒ XS platforms installed worldwide.

A pioneer in the field of host immune response, Haifa's MeMed developed MeMed BV, a technology that integrates machine learning with measurements of three key host-immune proteins: tumor necrosis factor-related apoptosis-inducing ligand (TRAIL), interferon gamma induced protein-10 (IP-10), and C-reactive protein (CRP). The MeMed solution enables physicians to differentiate accurately between bacterial and viral infections, thus supporting fast and better-informed treatment and patient management decisions.

MeMed BV was developed and extensively validated by numerous collaborations carried-out by MeMed with leading academic centers and commercial partners, and has the potential to aid in transforming patient management. The test is backed by large high-quality, real-world data from over 15,000 patients, in addition to multinational, double-blind clinical studies, showing over 90% sensitivity and specificity (NPV>98%) in differentiating bacterial vs viral infections. MeMed BV was CE marked and has received AMAR clearance from the Israeli Ministry of Health. (MeMed 08.09)

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8.11. Sol-Gel Announces FDA Acceptance of NDA for Epsolay to Treat Rosacea

Sol-Gel Technologies announced that its New Drug Application (NDA) for Epsolay (benzoyl peroxide), an investigational proprietary topical cream for the treatment of inflammatory lesions of rosacea, containing 5% encapsulated benzoyl peroxide, has been accepted for filing by the U.S. FDA. The Prescription Drug User Fee Act (PDUFA) goal date assigned by the FDA for Epsolay is April 2021.

The NDA filing is based on two positive, identical Phase 3 randomized, double-blind, multicenter, 12-week, clinical trials that evaluated the safety and efficacy of Epsolay compared to vehicle in patients with papulopustular rosacea (N = 733). In both trials, Epsolay demonstrated a statistically significant improvement in both co-primary endpoints of (i) the number of patients achieving “Clear” or “Almost Clear” in the Investigator Global Assessment (IGA) scale and (ii) absolute mean reduction from baseline in inflammatory lesion count starting as early as Week 2, and continued through Week 12. Epsolay also demonstrated a favorable safety and tolerability profile similar to vehicle. The most common adverse reactions occurring in >1% of subjects treated with Epsolay and more frequently than in subjects treated with vehicle was application site erythema (2.3% vs. 0.9%), application site pain (2.3% vs. 0.9%) and application site pruritis (1.2% vs. 0.4%). Most subjects experienced adverse reactions that were mild or moderate in severity.

Nes Ziona's Sol-Gel is a clinical-stage dermatology company focused on identifying, developing and commercializing branded and generic topical drug products for the treatment of skin diseases. Sol-Gel leverages its proprietary microencapsulation technology platform for the development of Twyneo (encapsulated benzoyl peroxide and encapsulated tretinoin) Cream, under investigation for the treatment of acne vulgaris, and Epsolay, under investigation for the treatment of papulopustular rosacea. (Sol-Gel 10.09)

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8.12. Israeli Researchers Develop New Drug Carrier to Fight Melanoma

Tel Aviv University researchers reported a breakthrough in melanoma treatments recently, saying they have developed a nanotechnology system that will increase the effectiveness of treating melanoma skin cancer and its metastases by better-transporting drugs to the cell area. The treatment is designed to address the resistance some cancer cells develop to drugs over time.

The drug-carrying system seeks to enable doctors to use two or more treatments to attack cancer cells from different directions, simultaneously, and with greater intensity. This way, it will be possible to delay and even prevent the development of drug resistance.

The researchers chose two known biological drugs for melanoma and attempted to deliver them to the tumor using a nanometric carrier. The carrier chosen for the task was a PGA polymer, developed in at TAU, which has previously been successfully tested on animals to treat a variety of treatments for pancreatic, breast, and ovarian cancer.

In the first phase, the researchers examined the optimal ratio between the two melanoma drugs, to maximize synergy according to several criteria: toxicity type and level, and the resistance mechanism that the tumor develops towards each drug. This determines an optimal ratio, ensuring maximal efficiency and minimal toxicity. Another significant advantage of combining the drugs with the carrier is using a smaller dose, much lower than the dose each drug would require individually.

Next, researchers matched the PGA carrier with the selected drugs by changing its chemical structure, to optimize the match between them. This integrated system passes through the body safely, without compromising healthy tissues. When it encounters a cancer cell, the protein breaks down the polymer and releases the drugs, which become active and attack the tumor. (IH 11.09)

9. ISRAEL PRODUCT & TECHNOLOGY NEWS

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9.1. OODA Health Taps Alcide to Provide Kubernetes Security for Its Applications

Alcide announced that San Francisco's OODA Health, a healthcare technology company focused on empowering patients, providers, and payers with real-time healthcare interactions, will be using the Alcide Kubernetes Security Platform to provide security scanning on Bottlerocket. OODA Health will leverage the Alcide Advisor's ability to scan Kubernetes configurations for vulnerabilities such as misplaced secrets and security drifts, to visualize security risks for their healthcare payment application, as well as to address HIPAA compliance in their Amazon Elastic Kubernetes Service (Amazon EKS) environment. OODA Health's solution, OODAPay, is a cloud-based healthcare payment platform that relieves providers of the burden of patient billing and empowers payers to deliver a superior payment experience for members. OODAPay utilizes Bottlerocket and Amazon EKS and tapped Alcide for its K8s-native security features.

Simplifying visualizations of security risks and protecting their applications from security drifts between their development, testing and production environments is a top priority for OODA Health's security team. The Alcide Kubernetes Security Platform will monitor OODA Health's pre-deployment and production environments for Kubernetes misconfigurations and new zero- day vulnerabilities and exploits, helping them to meet compliance.

Tel Aviv's Alcide is a Kubernetes security leader empowering DevOps teams to drive seamless security guardrails to their CI/CD pipelines, and security teams to continuously secure and protect their growing Kubernetes deployments. Alcide provides a single Kubernetes-native AI-driven security platform for cross Kubernetes aspects: configuration risks, visibility across clusters, and run-time security events. Combined with policies enforcement, and a behavioral anomaly engine that detects anomalous and malicious network activity, Alcide ensures that the entire dev-to-production pipeline is secured. (Alcide 01.09)

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9.2. Rail Vision Signs Commercial Agreement with Knorr-Bremse Affiliate

Foresight Autonomous Holdings announced that its affiliate, Rail Vision, signed a commercial agreement with an affiliate of Knorr-Bremse AG to supply Rail Vision's Assisted Remote Shunting (ARS) systems to a leading European train operator. Foresight owns approx. 24% of Rail Vision's outstanding share capital. In April Rail Vision received an initial order from the European train operator for an ARS prototype system to be installed on locomotives in switchyards and to execute an Operational Functional Test (OFT) for a total value of approximately €500,000. Rail Vision has indicated that the prototype system will be delivered in October 2020. Following delivery of a fully functional prototype system, and upon terms set forth in the agreement, the European train operator may place an order for 30 Rail Vision's ARS systems, for a total value of up to €2.8 million. In addition, the European train operator may choose to exercise its option to purchase an additional 45 ARS systems for a total value of approximately €3.5 million.

Rail Vision's unique ARS system designed to be installed on locomotives in switchyards monitors the shunting yard for any obstacle and enables railway operators to safeguard and streamline their shunting operations, such as performing checks and maintenance for railcars and locomotives. Combining advanced vision sensors with deep learning technologies, the ARS system automatically detects and classifies objects within a 200-meter range at all times of day and in all weather conditions. Additionally, the solution delivers visual warnings to operators or drivers based on customer needs to ensure a safe and secure environment, while also improving operational efficiency. Moreover, since Rail Vision's solution enables controlling locomotives remotely, the number of staff required for coupling the locomotive to the railcars is reduced, thus significantly cutting down operating costs.

Ra'anana's Rail Vision is a leading provider of cutting-edge cognitive vision sensor technology and safety systems for the railway industry. Rail Vision's solutions offer detection and classification of objects or obstacles (e.g. humans, vehicles, and signals), rail path recognition (i.e. switch state detection), distance measurement and opportunity infrastructure condition monitoring. Ness Ziona's Foresight Autonomous Holdings is a technology company engaged in the design, development, and commercialization of sensor systems for the automotive industry. (Foresight 04.09)

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9.3. Foresight Completes Commercial Version of its Automatic Calibration Software

Foresight Autonomous Holdings completed the development of a commercial version of its groundbreaking automatic calibration software. In addition, the Company submitted a patent application to the U.S. Patent and Trademark Office, pertaining to the Company's innovations in the field of automotive sensor calibration. The Company's software solution is designed to ensure that the sensors remain calibrated regardless of their configuration or position on a car. This will allow vehicle manufacturers flexible placement of sensors, whether on a rigid base or as separate units, while ensuring accurate perception and improving the sensors' detection capabilities.

Foresight submitted two additional patent applications pertaining to multiple-sensor camera systems. The first allows repetitive and robust calibration and optical testing for vision systems composed of both visible light and thermal (infrared) cameras to ensure sensor accuracy. In addition, it enables sensor fusion for all imaging systems along the visible light long-wave infrared spectrum. The second patent application enables real time assessment of the quality of information coming from each sensor set, allowing smart sensor fusion capabilities and dramatically reducing the required computational resources of the system.

Ness Ziona's Foresight Autonomous Holdings is a technology company engaged in the design, development, and commercialization of sensor systems for the automotive industry. Foresight's vision systems are based on 3D video analysis, advanced algorithms for image processing, and sensor fusion. The company develops advanced systems for accident prevention which are designed to provide real-time information about the vehicle's surroundings while in motion. (Foresight 02.09)

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9.4. Rothenberger Group Chooses 3d Signals to Accelerate Transition to Industry 4.0

Kelkheim, Germany's Rothenberger Group, a world leading pipe tool and pipe machining tool manufacturer, selected the 3d Signals Asset Performance Monitoring solution for the digitalization of its shop floor. The 3d Signals sensors and edge computer will be installed on some of its critical assets in order to leverage real-time data and visibility to improve machine availability and productivity.

3d Signals is providing a plug & play machine digitalization solution that enables machines of any make and model to be network connected in just a few hours. Using non-invasive sensors and an edge data acquisition system, the 3d Signals solution collects signals from the machine and generates valuable insights on a cloud-based monitoring system, complete with live views, reports and alerts. The solution is in use in a sister company of the Rothenberger Group, and has been proven to provide fast results, enabling managers to have access to real-time manufacturing data, and to take data-driven decisions that promote transparency and employee motivation.

Kfar Saba's 3d Signals accelerates the digital transformation of manufacturers to the Industry 4.0 era. Their solution enables immediate visibility into production floors, through the quick, non-invasive, and machine agnostic deployment of a wide range of sensors. The AI-based Asset Performance Monitoring platform transforms this data into powerful insights, providing business intelligence and analysis tools in the cloud. (3d Signals 08.09)

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9.5. Inango Adds OpenSync Support for its Virtual Services Solution

Inango Systems has added OpenSync support to its Virtual Services solution. OpenSync is a multi-industry open source software initiative that provides a framework for open service curation, delivery, management and support. Inango Virtual Services Launcher, a Service Orchestrator, allows Service Providers to add end-user services (Wi-Fi analysis, Wi-Fi management, IoT protection, SDWAN light and many more) to CPE devices without the need for any software changes on the device and in a fully automated way. The benefit is a significantly reduced time to market for new services, far better scale and maintenance procedures, resulting in huge cost savings - both up-front and on-going.

Kfar Saba's Inango Systems specializes in software for communications solutions. Their work spans embedded system for Residential Gateways, especially OpenWrt and RDK-B and up to server-based virtualization and SDN controllers. Inango's flagship product, Virtual Services, is a Service Orchestration platform that allows Service Providers to offer their subscribers a large range of end-user services with unparalleled efficiency. Based on modern virtualization technologies, it slashes time and cost in the deployment of these services, saving the Providers huge costs while offering their subscribers unmatched choice and flexibility. (Inango Systems 03.09)

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9.6. Atera Expands Software Patching Capabilities with New Integrations

Atera announced two new integrations for improved third-party patching and software installation capabilities for Windows and Mac OS, Chocolatey and Homebrew. Using the new installation capabilities, MSPs can ensure that third-party software is always up to date with the latest security patches. With the new integrations, partners can easily search and find popular software and install it throughout an organization with a single click. Within the first week of the release, more than 400 different apps were downloaded on more than 20 thousand Windows and Mac devices, with the top app being Adobe Acrobat Reader.

Tel Aviv's Atera is the developer of a Data Science-based IT automation platform that combines RMM, PSA, and remote access into one powerful solution. Atera's all-in-one innovative platform offers MSPs improved operational efficiency, seamless integration, end-to-end management and disruptive pricing. (Atera 14.09)

10. ISRAEL ECONOMIC STATISTICS

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10.1. Israel's CPI Unchanged in August While Home Prices to Rise

Israel's Consumer Price Index (CPI) was unchanged in August, the Central Bureau of Statistics announced, below market expectations which had predicted a 0.1% - 0.2% rise. Over the past 12 months, the CPI has fallen by 0.8%. Notable price decreases in August included clothing and footwear (2.2%), fresh fruit (1.2%), and telecom (1%). Notable price increases included culture and entertainment (1.9%) and fresh vegetables (1.2%). In contrast housing prices are continuing to rise. Housing prices rose by 1% in June-July after rising 0.4% in May-June and have now risen by 2.9% over the past 12 months. (CBS 15.09)

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10.2. Israel's Budget Deficit Widens to 8.1%

Israel's budget deficit has widened to NIS 110 billion or 8.1% of GDP for the 12 months ending August 31, 2020, the Ministry of Finance announced, rising from 7.2% at the end of July, 6.4% at the end of June and

6% at the end of May. The deficit has continued widening since the coronavirus crisis took hold - from 4.8% at the end of April, 4% at the end of March and 3.1% at the end of February. Estimates are that by the end of 2020, the deficit could reach between 10% and 11%.

During August the government injected NIS 14 billion into the economy in various aid programs and since the start of the crisis NIS 34.5 billion has been injected, well below the government target of NIS 49 billion by the end of August. (Globes 06.09)

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10.3. Foreign Exchange Reserves at the Bank of Israel, August 2020

Israel's foreign exchange reserves at the end of August 2020 stood at $161.688 billion, an increase of $4.025 billion from their level at the end of the previous month. The reserves represent 40.6% of GDP. The increase was the result of foreign exchange purchases by the Bank of Israel totaling $2.561 billion, a revaluation that increased the reserves by approximately $1.677 billion, as well as private sector transfers of approximately $291 million. In contrast, the increase was partly offset by government transfers to abroad totaling approximately $504 million. (BoI 07.09)

11. IN DEPTH

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11.1. JORDAN: Jordan 'B+/B' Ratings Affirmed; Outlook Remains Stable

On 11 September, S&P Global Ratings affirmed its 'B+/B' long- and short-term foreign and local currency sovereign credit ratings on Jordan. The outlook remains stable.

Outlook

The stable outlook balances our expectation that, over the next 12 months, donor funding will continue to support the government's financing needs and keep debt-servicing costs reasonably low, against the risk that the fiscal performance is significantly weaker than our current projections.

Downside Scenario

We could lower our ratings on Jordan if we were to project much higher debt accumulation by the central government or state-owned enterprises, which could affect our view on the government's institutional ability to maintain sustainable public finances. We could also lower the ratings if funding sources became strained, for example if currently strong bilateral and multilateral donor support were to diminish.

Upside Scenario

We could raise the ratings if Jordan's external imbalances narrowed sharply and foreign investment were to rebound, boosting foreign exchange (FX) reserves. A positive rating action would also hinge on a substantial reduction in net government debt levels and a notable improvement in growth prospects, spurred by government structural reforms, for example in the energy sector.

Rationale

We are affirming our ratings on Jordan, despite the COVID-19-related contraction of economic output and increasing public and external debt levels, because we expect Jordan will continue to benefit from access to domestic banks with excess liquidity and external sources of funding, primarily on concessional terms. We estimate that concessional lending comprises more than 60% of external government debt and 25% of total central government debt. We expect that further international assistance would be forthcoming if needed, particularly from the U.S. and the Gulf Cooperation Council (GCC), which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

We forecast that fiscal deterioration will be temporary and that the increase in public debt will slow beyond 2020 on the back of fiscal consolidation measures. The government's medium-term efforts to revive investment and create jobs while broadening the tax base could support economic growth prospects and gradually reduce fiscal pressures. The four-year IMF Extended Fund Facility (EFF) of $1.3 billion approved in March 2020 will provide a policy anchor to balance inclusive growth and debt sustainability through 2023.

The ratings on Jordan are, however, constrained by the economy's large external imbalances and growing external debt. Public finances are weak, while economic wealth levels and trend economic growth rates are low. Historically, Jordan has had to cope with the indirect effects of regional conflicts, including significant refugee inflows, which have weakened the government's finances and slowed the country's per capita economic growth trajectory.

Institutional and economic profile: COVID-19-related pressures will constrict economic activity in 2020

- We forecast a gradual recovery from 2021, with average real GDP growth of 2.5% over 2021-2023.
- Despite a global recession, we expect key donors will continue to support Jordan through concessional funding and grants to help maintain political stability in the region.

Several external shocks - including the Syrian conflict and influx of refugees - have strained Jordan's policymaking and public finances over the past few years. The macroeconomic environment has been challenging amid subdued growth in recent years. Unemployment remains high at 19.3% as of the first quarter of this year. In this context, the coronavirus pandemic threatens the government's economic agenda to improve competitiveness, foreign direct investment (FDI), and exports, as well as hampering the nascent recovery in Jordan's services sector, particularly tourism.

To stem the rise in COVID-19 cases, Jordan instituted strict lockdown measures starting in mid-March that included declaring a state of emergency and activating the Defense Law of 1992, closing borders and air travel, suspending economic activity except critical sectors and prohibiting movement across cities. Through these decisive and stringent measures, Jordan was able to control the number of infections and deaths linked to COVID-19 and has gradually reopened the economy since late April. However, there has been a recent rise in cases, primarily near the border with Syria and in Amman, which resulted in temporary border closures and a re-imposition of curfew on Fridays in Amman and Zarqa from 28 August. We understand the government does not intend to impose another general lockdown but will instead focus measures on affected areas.

We now estimate that Jordan's real GDP will contract by 5.5% this year. A collapse of the international tourism industry since March, weak global and domestic demand, and lower remittances from the GCC states, partly due to lower oil prices, will exacerbate external imbalances and depress economic activity. We expect a 75% drop in international tourist receipts in 2020, and only a gradual rebound from 2021. The tourism sector contributed 16% of GDP (directly and indirectly) and 18% of employment in 2019, according to the World Travel and Tourism Council, as well as 25% of current account receipts (CARs). The sector was previously showing strong prospects following greater low-cost airline connectivity with Europe and improving security conditions in the region.

Limited fiscal space prevents a substantial increase in spending, although the government has introduced several measures to cushion the impact of the health and economic crisis on the private sector and vulnerable segments. Announced measures include:

- Lowering of social security contributions from private companies to 5.25% from 21.75%;
- Reduction in the general sales tax to 8% from 16% and services tax to 5% from 10% for hotels and restaurants;
- Deferred tax and loan payments for affected sectors;
- Cash transfers for the unemployed and self-employed;

- Financing programs for key sectors and small and midsize enterprises (SMEs); and
- Establishment of a national donation fund, *Himmat Watan*.

The economic trajectory post-2020 is contingent on several external factors beyond Jordan's control, including the shape of recovery experienced by its key trade partners, sentiment toward travel and geopolitical dynamics in the region. However, medium-term growth prospects will also be driven by policy measures to increase the contribution of the private sector and foreign investors in sectors such as energy, health, transport, and education, as well as the pace of job creation. We expect only a mild recovery of 2.7% in 2021 and average growth of 2.4% over 2022-2023, supported by rising domestic demand and public and private investment.

We expect international support for Jordan to remain strong. Jordan is one of the most politically stable countries in the region, and an important buffer between Israel and the rest of the Middle East. Maintaining this relative stability is an important foreign policy objective, particularly for the U.S. and the GCC. The U.S. has committed to providing economic and military aid of at least $1.28 billion annually over 2018-2022 (about 3% of 2020 GDP). In practice, the U.S. Congress has approved higher funding of $1.52 billion over 2018-2020, and disbursed grants of $845 million earlier this year than usual. The U.S. also guaranteed Eurobonds issued by Jordan over 2013-2016 of $3.75 billion, of which the first bond of $1.00 billion matured in June 2019. Jordan has upcoming guaranteed Eurobond redemptions: $1.25 billion in October 2020 and $1.00 billion in June 2022. We anticipate that future U.S. aid will come in the form of grants instead of guarantees on debt. In December 2019, the UAE pledged a $300 million grant for health care, on top of the 2018 GCC (excluding Qatar) aid package of $2.5 billion over five years. Qatar has promised to provide $500 million, as well as jobs for about 10,000 Jordanians in Qatar.

Jordan also benefits from concessional lending from multilateral and other bilateral partners, which have been important sources of financing for the twin fiscal and external deficits. The IMF approved two funding packages of $1.3 billion for the EFF program and $396 million of emergency financing under the Rapid Financing Instrument. In addition to the expected disbursements from the IMF of about $675 million in 2020, other donors have committed more than $3 billion in concessional loans and grants.

In our view, centralized decision-making clouds visibility on policy responses. Policy predictability is further obscured, given Jordan's changing demographics and the rising desire for greater political participation among sections of the population. Renewed protests, similar to those in mid-2018, are possible, but we believe there is a low risk of social upheaval or regime change.

Flexibility and performance profile: Public debt levels will rise sharply in 2020, and decline only slightly from 2022

- Despite several mitigating fiscal consolidation measures, we expect the general government deficit will widen to 5.0% of GDP in 2020 from 0.6% in 2019 because of shrinking revenue.
- The higher financing needs will be funded through a mixture of concessional external debt, domestic debt in local currency and FX and the recent Eurobond issuance.
- Higher current account deficits and lower FDI inflows will weigh on FX reserves in 2020-2021.

Weaker economic and trade activity, along with measures to support the economy through the COVID-19 pandemic, will considerably worsen public finances in 2020. Fiscal data for January-June 2020 shows a 17% year-on-year decline in revenue and a 0.5% increase in spending. We estimate the central government fiscal deficit will rise to 6.2% of GDP in 2020, from 3.4% in 2019, largely because of a projected 15% total fall in revenue. The deficit could be higher if not for offsetting measures, such as salary cuts for senior government officials, postponed increases in wages and allowances for the public sector until end-2020, a hiring freeze and cuts to nonpriority investments. The government has also started an ambitious drive to curb tax evasion by more efficiently targeting economic actors from whom they can expect to reap the highest tax proceeds. Authorities have identified potential tax proceeds of about 1% of GDP thus far. Although the government does not intend to raise taxes, it is planning to amend the investment law to reduce tax exemptions and unify the local tax regime within the Aqaba Special Economic Zone with the rest of the country to combat tax-avoidance practices. We think these measures will help to gradually reduce the fiscal deficit to 3% of GDP by 2023.

Jordan's general government fiscal position has benefitted from surpluses at the Social Security Corporation (SSC), which largely offset the deficits at the central government level. However, we expect SSC's surpluses to halve in 2020, given the recent decision to lower the rates of contribution for the private sector. We include the accounts of SSC and local governments in the general government definition, as per our sovereign criteria. We forecast the general government deficit will gradually decline to nearly the 2019 level of 0.6% of GDP by 2023.

We expect gross public debt (including guaranteed debt, municipalities' debt and securitized arrears) will rise to 112% of GDP in 2020, from 100% in 2019. Given our treatment of the SSC as part of the general government, we net the government debt holdings of the Social Security Investment Fund (SSIF), the investment arm of SSC, from public debt. Surpluses at the SSC have supported strong growth of assets in the SSIF, which allows them to continue increasing their holdings of government securities. The SSIF held 20% of total public debt in 2019, from about 11% in 2013. We continue to view the fund as a voluntary source of domestic funding, because domestic banks also have appetite to buy government securities. However, this view could change if we saw further rapid accumulation of SSIF's exposure to the government.

Conversely, the weak performance of state-owned utilities, National Electric Power Co. (NEPCO) and the Water Authority of Jordan (WAJ), have been a drain on public resources. The Ministry of Finance continues to support NEPCO, including by providing a 0% interest loan. It has also centralized WAJ's debt-servicing and capital expenditure to reduce its interest costs. We therefore add the government-guaranteed debt of NEPCO and WAJ, totaling about 10% of GDP, in our government debt stock calculations. We expect both WAJ and NEPCO to face losses in 2020 because of the weak demand and lower collections during the lockdown, despite NEPCO's savings from lower oil prices.

The government's energy sector roadmap could be key to improving NEPCO's financial position and reducing energy import costs in the medium term. The main elements of the energy plan include:

- Gradual reduction of electricity tariff cross subsidization;
- Debt re-profiling to reduce NEPCO's borrowing costs, potentially through concessional funds;
- Expanding and developing new electricity grids to Palestine and Iraq, increasing export income;
- Expanding the use of renewable energy to 30% of its energy mix by 2030, from about 20% currently.

The government's funding strategy will continue to rely on domestic debt from banks and the SSIF, and external debt. To repay a maturing Eurobond of $1.25 billion in October 2020 and shore up FX reserves, Jordan issued Eurobonds of $1.75 billion in July. The bond was oversubscribed 6.25x and the pricing was favorable compared with bonds of similarly rated peers, such as Bahrain, with coupon rates of 4.95% for the five-year tranche and 5.85% for the 10-year tranche. The government also issued $400 million in FX debt to domestic banks, and plans to issue another $400 million during the rest of 2020. While banks are willing to absorb more government debt, we understand the government does not intend to issue additional local currency debt during the rest of 2020 to prevent crowding out the private sector and given Jordanian banks' high exposure to the government.

We expect the average interest rate on Jordanian debt will remain broadly stable because of lower interest rates globally, balanced by the low pricing on maturing U.S.-guaranteed bonds. Nonetheless, interest payments will rise to about 12% of total revenue over 2020-2023 from an average of 10% in the last three years, largely because of the higher debt stock and weaker revenue.

After an impressive improvement in the current account position in 2019, thanks to rising goods exports, tourism and lower energy prices, we expect the deficit will increase to 7.5% of GDP in 2020 from 2.3%. We estimate CARs will shrink by about 30% this year, largely because of reduced tourism receipts and remittances. At the same time, weaker domestic demand, oil prices, and FDI inflows will compress imports, albeit insufficiently to offset the lower receipts. Although the authorities expect FX reserves to remain stable or increase slightly this year thanks to the already issued and committed external debt for the rest of 2020, we forecast a decline of $1.2 billion, to $14.2 billion (including gold), because of our assumptions of a higher current account deficit and lower FDI.

Over 2021-2023, we forecast current account deficits will narrow to below 5% of GDP on average. Gross external financing needs will fall to about 172% of CARs and usable reserves by 2023, from an estimated peak of 183% in 2020. Still, these levels are 15-20%age points higher than our prior forecasts, and will lead to external debt (net of liquid assets) rising to about 70% of CARs relative to 41% in 2019.

The Jordanian dinar's peg to the U.S. dollar supports price stability, although it also limits the central bank's room for policy maneuvering. The Central Bank of Jordan (CBJ) follows the U.S. Federal Reserve's monetary policy; it reduced all policy rates by 150 basis points to 2.5% in March 2020. We expect inflation will remain low at 0.5% in 2020 because of low demand and energy prices, rising only moderately to 2.5% by 2023. Lower interest rates and the CBJ's subsidized funding and SME financing programs will support private sector credit growth of 5% this year. To inject liquidity and shore up banks' capital ratios, the CBJ reduced the compulsory reserve requirements to 5% from 7% and postponed the distribution of banks' dividends this year.

We expect the sharp contraction in the domestic economy will result in banks' nonperforming loans reaching 8%-9%, from 5.2% in June 2019. Because of the loan repayment moratorium in place for affected clients, we believe that the bulk of asset quality deterioration could materialize only in 2021. Nonetheless, banks remain adequately capitalized and have the ability to absorb a rapid escalation in cost of risk, in our view. (S&P 11.09)

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11.2. JORDAN: Why Jordan's Islamists are Boycotting Elections

Mohammad Ersan posted in Al-Monitor on 3 September that Jordan's Muslim Brotherhood and its political arm, the Islamic Action Front, seems to be heading toward a boycott of the parliamentary elections slated for 10 November, amid a clampdown on public freedoms in the kingdom. Islamists are also concerned that government intervention in the upcoming elections will affect the integrity of the electoral race.

This comes against the background of growing tensions between Islamists and the Jordanian authorities after the Court of Cassation dissolved on 15 July the Muslim Brotherhood's branch in Jordan. This was followed by an arrest campaign of Brotherhood members inside the kingdom's Teachers Syndicate whose activity was suspended in August.

The spokesman for the Islamic Action Front, Jordan's largest opposition party, Thabet Assaf, told Al-Monitor, "Many reasons push us to boycott the upcoming parliamentary elections. This is mainly due to the general political conditions in the country, including recurrent attacks on unions, such as the Teachers Syndicate, and the successive crises such as the marginalization of the parliament," in reference to passing a controversial gas deal with Israel without submitting for parliament approval. "Add to this unprecedented security pressure on potential candidates [of the Islamic Action Front] and anticipated manipulation of the elections. We have evidence and data on severe pressure exerted on candidates to withdraw from the electoral race. We, therefore, feel there are no guarantees of the integrity of the elections," Assaf noted.

"The Islamic Action Front's Shura Council will decide whether the party will boycott the elections. Its decision will be binding. The matter has not been decided yet, but there is an inclination within the Islamic movement to opt for a boycott," Assaf added.

Islamists in Jordan ended their boycott of parliamentary and municipal elections when they ran the 2016 parliamentary elections. They won 14 seats out of 130. Jordanian Islamists had boycotted the parliamentary elections in 1997 in protest against the lack of political reforms, and the one-person voting system, which did not allow the formation of electoral blocs, paving the way for candidates to win in the elections based on regional and tribal considerations. In the 2007 elections, the Islamic Action Front withdrew from the municipal elections, citing fraud. They also boycotted the parliamentary elections that took place in 2010, in addition to the 2013 elections due to what they called “the absence of guarantees of integrity.”

Meanwhile, Secretary-General of the Jordanian Democratic Popular Unity Party Saeed Thyab announced his party’s participation in the elections. He told Al-Monitor, “Although we are aware that the current circumstances are not favorable in light of the Defense Law being enforced — and which has restricted public life and led to political arrests — we believe the parliamentary elections are an important constitutional duty in political life and we announce our participation in them.”

Yet Islamists are not the only ones calling for boycotting this year’s elections. Angry teachers joined them after a public prosecutor in Amman ordered on 25 July a two-year closure of the Teachers Syndicate, its branches and offices nationwide, and the arrest of 13 of its members. This comes after a judicial complaint was filed by some teachers against the syndicate’s council for donating half a million Jordanian dinars ($705,000) to Himmat Watan (A Nation's Effort) fund that the government launched to collect donations for those affected by the coronavirus pandemic.

Head of the Legal Committee of the (suspended) Teachers Syndicate Basil al-Harb told Al-Monitor, “The arrest of teachers’ representatives in this way and the suspension of the work of the elected syndicate led to a loss of confidence in the executive and legislative authority. This will be reflected in electoral choices, especially since the parliament stood idle in the teachers' crisis.”

The Independent Election Commission — the official body responsible for the elections — believes that boycotting parliamentary elections is not in the interest of those who have pending issues or demands, and those who want change. The commission’s spokesman, Jihad al-Momani, told Al-Monitor, “The Islamic Action Front talks about prior security pressures on potential candidates. But the Independent Election Commission provides sure and unquestionable guarantees on the integrity of the elections.”

He said that these guarantees start with the voters’ lists in which the names of voters are listed automatically. “There is no transfer of votes from one constituency to another,” he noted. “The other guarantees include monitoring the election process and the supervision of the vote-counting process by observers, delegates and the media.”

Addressing those calling for a boycott, he added, “The way to bring about change is by participating in the elections and heading to the ballots. This is how representatives of the people are elected to the constitutionally recognized legislative authority. Boycott is a right, but participation is also a right and a duty. Those who boycott elections will still have someone speaking on their behalf in parliament. We do not object to the boycott, but we want everyone to participate.”

In regard to restoring confidence in the elections after the suspension of the work of elected councils such as the Teachers Syndicate, Momani said, “We are building a new trust relationship. The presence of the commission has created confidence, but this is just the beginning. Trust is built slowly and we are keen on holding fair elections to gain this trust. We do not supervise the Teachers Syndicate’s elections; this is an issue between teachers and the government.”

The last parliamentary elections in 2016 saw a voter turnout of 36%, but questions arise as to whether the Islamists’ boycott will affect the turnout in the next elections. An expert on parliamentary affairs and journalist Walid Hosni believes that “the Islamists’ boycott will not significantly affect the electoral turnout or shape of the next parliament.” He told Al-Monitor, “The reservoir of votes among the Muslim Brotherhood’s voters was undermined by the defect of leaders and the formation of other parties. But the turnout will not be affected.” He added, “The next parliament may witness the absence of an opposition parliamentary bloc. I think the Muslim Brotherhood’s threat to boycott the elections aims to seal a certain deal or to oblige the government to provide guarantees for the integrity of the elections.”

According to Rased, a Jordanian nongovernmental organization that monitors elections and government activities, 1,076 Jordanian men and women plan to run in the upcoming parliamentary elections. Rased noted that 42 parties will participate in the elections and six of the 48 licensed parties have yet to make up their mind. (Al-Monitor 03.09)

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11.3. KUWAIT: Kuwait to Overcome Political Obstacles to Financing

On 1 September, Fitch Ratings said it believes that Kuwait will maintain smooth funding of government, despite depletion of treasury liquidity and political roadblocks to a new law permitting debt issuance.

Recent measures indicate increased urgency on the part of the authorities to solve the funding conundrum, and their flexibility to take extraordinary measures to this end. In August, parliament passed legislation making fiscal surpluses a precondition to transfers from the General Reserve Fund (GRF), which effectively serves as the government's treasury account, into the main Reserve Fund for Future Generations (RFFG). The new law allowed for the reversal of the transfer for the fiscal year ending March 2020 (FY19), and followed the purchase of assets from the GRF by the RFFG.

We now estimate that the GRF will last until November. When debating the legislation amending the rules governing transfers from the GRF to the RFFG, the minister of finance stated that the GRF had about KWD2 billion remaining and was being depleted at a monthly rate of KWD1.7 billion. Monthly drawdowns from the GRF will now be about KWD100 million lower, and the reversal of the FY19 transfer provides a one-off boost of about KWD2.2 billion. The earlier asset transfer provided KWD2.3 billion to the GRF but was already reflected in the figure quoted by the minister of finance.

Beyond November, we assume Kuwait's government will issue new debt or access the principal of the RFFG more broadly, despite uncertainty about whether parliament will pass the debt law (under consideration since 2017). Kuwait's Amir has wide-ranging constitutional powers and could issue decrees with the force of law after the parliamentary session ends in September, ahead of the November elections. Even without new legislation, the GRF could borrow from the RFFG, as it did during the Iraqi invasion in 1990-1991. Some respite could also come from the government's overdraft at the Central Bank of up to 10% of revenue (about KWD1 billion), although it is unclear whether this is subject to the debt law.

There are still some potential complications. The end of the parliamentary session, after which the Emir's powers are enhanced, could be delayed by parliament's failure to approve the FY20 budget. The Emir's health problems could also impede decision making, although the Crown Prince or a Deputy Amir could stand in.

The small size of Kuwait's debt-service obligations could allow them to be prioritized, even without RFFG drawdowns or new debt issuance. Kuwait was scheduled to make about KWD1 billion (over $3 billion) in interest and debt payments in 2020, of which about KWD200 million remains, and less than KWD400 million in 2021. The nearest Eurobond maturity, of about $3.5 billion, is in 2022.

Debt issuance or asset drawdowns will weaken Kuwait's exceptionally strong balance sheet, which provides support to the sovereign's rating. Nonetheless, Kuwait's sovereign net foreign assets are nearly $600 billion or 500% of GDP in 2020. Even with a rapid pace of drawdowns, they will remain much higher than the median for 'AA' rated sovereigns for many years to come.

When affirming Kuwait's ratings at AA/Stable in April, we noted that negative rating action could result from continued depletion of the GRF in the absence of a new debt law, legislation permitting access to the RFFG, or confidence in the ability of the Kuwaiti authorities to take other extraordinary measures to ensure timely debt service. (Fitch 01.09)

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11.4. SAUDI ARABIA: Pakistan's Military Steps in to Manage Tense Ties with Saudi Arabia

Umer Karim noted on 1 September in the Arab Gulf States Institute in Washington that a swift Saudi pullout from an economic assistance program for Pakistan spells trouble for the bilateral relationship, but it would be unwise to write an obituary for Saudi-Pakistani ties.

For decades, Pakistan and Saudi Arabia have boasted strong political, economic, and security ties. The relationship has been further strengthened by strong interpersonal connections between Saudi royals and Pakistani civil-military elites. Yet, changing political dynamics in South Asia and the Middle East are increasingly complicating this relationship.

On the political level, the Saudi-Pakistani relationship has been built on numerous interpersonal friendships. In the past, the friendships between Saudi King Faisal bin Abdulaziz and Pakistani Prime Minister Zulfikar Ali Bhutto, Prince Nayef and General Mohammad Zia ul-Haq, and later King Abdullah bin Abdulaziz and President Pervez Musharraf strongly influenced the bilateral relationship but also political events within Pakistan.

The countries also developed a close security partnership and, owing to the unique role of the military in Pakistani politics, it became a vital stakeholder in the relationship with Saudi Arabia; the bilateral relationship has historically been the strongest under military government in Pakistan. Defense cooperation was formalized by a 1967 accord and the dispatch of Pakistani military and air force trainers to Saudi Arabia. In the aftermath of the Iranian Revolution, the security understanding between the two sides was enhanced by the 1982 Protocol Agreement regarding the "Deputation of Pakistani Armed Personnel and Military Training." This resulted in the deployment of nearly 15,000 Pakistani troops to the kingdom. These troops remained in Saudi Arabia for the duration of the Iran-Iraq War.

In practice, these deputations created a unique bond between the Pakistani security institutions and Saudi royalty. This special relationship was on display when Saudi Defense Minister Prince Sultan bin Abdulaziz visited Pakistan's nuclear installations in 1999. As a relatively pro-Iran government came into power in 2008 in Pakistan after the departure of Musharraf, the military became the principal interlocutor with Saudi Arabia.

This interplay between the civil-military elites in Pakistan and Saudi royalty was visible after the bilateral relationship encountered a crisis sparked when the Pakistani Parliament declined a Saudi request to send troops to Yemen in 2015 as part of Operation Decisive Storm. The Saudis were particularly dismayed by the lack of support they received from the government of then-Prime Minister Nawaz Sharif, who was their principal political client in Pakistan for decades. The relationship improved due to the robust engagement of Pakistan's military leadership and an increase in security cooperation. Pakistan's successive military chiefs developed a working relationship with the new Saudi defense minister and, subsequently, crown prince, Mohammed bin Salman. When he stepped down from his position as Pakistan's army chief, General Raheel Sharif assumed the leadership of the Saudi-led Islamic Military Counter Terrorism Coalition. He was succeeded by General Qamar Javed Bajwa who had also served in Saudi Arabia for three years. Bajwa has played a key role in not only promoting Saudi-Pakistani defense ties but also rehabilitating the political side of the partnership, making more than six trips to the kingdom. It was under his leadership that the Pakistani military dispatched a composite brigade of 1,000 troops to Saudi Arabia. With 1,600 troops already deployed within the kingdom on a training and advisory mission, Pakistan became the only country with a significant foreign force in Saudi Arabia.

But Saudi Arabia's ties with Pakistan's civilian leadership remained strained until Imran Khan became prime minister. Khan managed to establish close ties with Mohammed bin Salman, and he participated in the 2018 Future Investment Initiative summit in Riyadh despite a global boycott following the killing of Saudi journalist Jamal Khashoggi. The relationship reached a pinnacle when Mohammed bin Salman visited

Pakistan in February 2019 and pledged to invest $21 billion in projects, including the construction of an oil refinery in the port city of Gwadar.

This bilateral warmth started to give way to complications in the aftermath of India's move in August 2019 to annul the special status of its administered state of Kashmir. Pakistan banked on the support of the global Islamic fraternity against India, but the reaction from Saudi Arabia was muted due to the kingdom's economic ties with India. On the other hand, Turkey, whose relationship with Saudi Arabia has become increasingly contentious, came out strongly in support of Pakistan's position even when this came at the expense of Turkey's relationship with India.

Pakistan and Saudi Arabia approached the brink of a diplomatic crisis when Islamabad agreed with Turkey and Malaysia to hold a summit of Islamic countries in Kuala Lumpur to address issues concerning the Islamic world. With the inclusion of Qatar and Iran in the platform, Saudi Arabia increasingly viewed the summit as a challenge to its leadership of the Muslim world and an alternative to the Saudi-led Organization of Islamic Cooperation. Pakistani leaders seemed oblivious to these concerns and only withdrew from the event after Saudi Arabia directly communicated its concerns to Pakistani decision makers. This did ease tensions between the two sides and the Saudi foreign minister immediately visited Pakistan and committed to hold an Organization of Islamic Cooperation meeting on Kashmir. But the episode put a dent in the personal relationship between Khan and Mohammed bin Salman and they haven't communicated publicly since Khan's December 2019 visit to the kingdom.

As ties with Saudi Arabia became tense, Pakistan's relationship with Turkey blossomed as did the personal chemistry between Khan and Turkish President Erdogan. During his February visit to Pakistan, dubbed as a curtain raiser by the Pakistani foreign office, Erdogan appealed to Pakistanis when he spoke emphatically on Kashmir and declared it to be as important to Turkey as it is to Pakistan. Meanwhile, Pakistan also started broadcasting a Turkish television series that depicted the events leading to the founding of the Ottoman Empire. The show, laden with the theme of an Islamic awakening, has enthralled audiences across Pakistan but, most importantly, has been actively patronized by Khan as well. The celebration of Ottoman legends and a TV show endorsed by the Turkish president has not gone over well in Saudi Arabia, where it has been banned.

In the wake of these developments the relationship hit a new low when, in July, Saudi Arabia rescinded a support package it had given to Pakistan in early 2019. This financial aid package included a $3 billion balance of payments loan and an additional agreement to defer oil payments for one year, valued at $3.2 billion, with a possible 3-year extension. The balance of payments loan had been renewed in January, but in July Saudi Arabia demanded early repayment; Pakistan received $1 billion from China and is in negotiations with the kingdom on the repayment of the remainder. The deferred oil facility was not renewed after it expired in May. This swift Saudi pullout from the economic assistance program for Pakistan during the coronavirus pandemic spelled troubled for the partnership.

Tensions increased when the Pakistani foreign minister lamented the lack of Saudi support on the Kashmir issue and signaled that Pakistan might have to hold a meeting of like-minded powers outside the ambit of the Organization of Islamic Cooperation.

This latest fissure in Saudi-Pakistani ties should be seen in the context of this breakdown in interpersonal connections between the leaders of each country, a lack of any serious Saudi outrage over the Kashmir issue and the rise in cooperation between Pakistan and Turkey. Still, it would be unwise to write an obituary for Saudi-Pakistani ties, which remain deeply rooted and multifaceted. Pakistan's army chief, General Bajwa, recently visited the kingdom to stabilize the situation and put the relationship back on a mutually beneficial, but also realistic, pathway. Pakistan's military spokesperson, in an attempt to limit the damage caused by the political leadership, also stressed the unquestionable Saudi centrality to the Muslim world. On the political front, Pakistani government representatives and political and religious leaders have been meeting with the Saudi ambassador in Islamabad to ease tensions. While these developments suggest that it is unlikely Pakistan will join another regional bloc, it is also unlikely that the structural reasons that triggered the crisis will go away anytime soon. There might also be a civil-military divergence on the matter within Pakistan; Pakistan's foreign minister called upon the Qatari envoy to Islamabad right when Bajwa was meeting Saudi officials in Riyadh.

Pakistan's leadership is in a difficult position as the country has limited leverage with Saudi Arabia and remains dependent upon Saudi economic largesse and expatriate remittances. Pakistan's balancing game in the Middle East may no longer be a viable approach. With the rupture in personal ties between the Saudi crown prince and Pakistani prime minister, the Pakistani military will once again be the central player in this relationship.

Umer Karim is a visiting fellow at the Royal United Services Institute for Defence and Security Studies. (AGSIW 01.09)

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11.5. TURKEY: Turkey Pumps Brakes on Car Imports

Mustafa Sonmez posted in Al-Monitor on 8 September that driven by some peculiar dynamics, demand for imported cars has grown in Turkey despite the coronavirus pandemic, leading Ankara to hike taxes to suppress a trend that has worsened the country's currency woes.

The Turkish government has enacted drastic tax measures to curb car imports as it scrambles to ease a foreign exchange crunch. The move aims to encourage the sale of locally produced vehicles, but its impact remains questionable in a country where demand for imported cars has been traditionally high.

An ongoing flight of foreign capital, coupled with a sharp decline in hard currency revenues from exports and tourism during the coronavirus pandemic, have brought Turkey's current account deficit to some $30 billion, with Ankara losing control of foreign exchange prices despite costly efforts to keep them in check. The price of the dollar shot up more than 7% in a mere month, hitting the region of 7.35 liras in mid-August. The demand for foreign exchange has been driven mainly by importers, entities indebted in hard currency and savers who see foreign exchange as a safe haven to preserve the value of their money.

The government had already introduced a series of measures to suppress imports. In its latest move on 30 August, it announced big hikes in the special consumption tax levied on automobiles in a bid to curb the importation of cars. The tax hikes translate to price increases of 13% to 20% on imported and bigger engine-capacity cars. The changes were touted as a move to protect domestic production, with the prices of locally manufactured cars expected to decrease by 3% to 6% in the short run. Though Turkey has become a net exporter in the automotive sector, demand has remained high for imported cars, for which the country pays something between $10 billion and $12 billion per year.

Turkey's current account deficit, which stood at about $20 billion in the first half of the year, is estimated to have reached $30 billion at the end of August. The Turkish economy — already fragile before the COVID-19 crisis — contracted nearly 10% in the second quarter. Domestic demand plummeted in April and May amid pandemic lockdowns. After economic reopening began in early June, Ankara encouraged a loan bonanza to spur consumption, but the fast economic warmup not only fueled inflation but also stoked imports, worsening the current account deficit. Without a meaningful inflow of foreign capital, the gap had to be financed with the central bank's already depleted reserves. Eventually, Ankara was forced to revert to cooling the economy as the lira nosedived anew in early August.

The foreign trade data show that gold was the primary import item last month. Gold imports were worth a record $4.2 billion in August, reaching $16 billion in the first eight months of the year — a 119% increase from the same period last year. Automobile imports, meanwhile, were worth $7 billion in the first eight months of the year.

The car market in Turkey was unusually lively from May to July, with demand — especially for imported cars — well above the average in the past decade. The used market, in particular, saw an extraordinary boom. The rise in demand stemmed from a rise in both the car ownership trend and the seasonal profitability of the car trade. Because of the pandemic, many who had no plans to own a car grew reluctant to use public transportation and planes, pushing up the rate of auto-mobilization.

The demand for automobiles was driven also by the abundance of cheap credit by mid-August. Ankara's effort to warm up the economy through a loan expansion led by public banks aimed to accelerate car sales, among others. Loans with attractive repayment terms, including interest rates below the consumer inflation rate of about 11%, spurred a strong demand for cars. Many saw cars, both new and used, as a form of investment and made considerable profits, taking advantage of the fluctuations in foreign exchange prices and the drop in loan interest rates.

According to the Turkish Statistical Institute, consumer prices rose about 7.5% in the first eight months of the year, while the prices of diesel cars rose by 46% and those of gasoline cars by 33% in the same period, driven primarily by the increase in foreign exchange prices. Those who bought cars while the dollar was worth 6.8 liras made big profits from the increase in car prices as the dollar hit 7.4 liras in a matter of weeks. The reason for the higher increase in diesel car prices owed to tax hikes on the account of environmental damage. As a result, market shares were reversed, with gasoline cars representing 51.5% of car sales in the first eight months of the year and diesel cars, which usually top the list, 41.2%.

Though Turkey's automotive sector enjoys a foreign trade surplus, the level of imports remains high. Imported cars account for about three-quarters of cars sold on the domestic market. Automotive imports were worth $6.6 billion in the first seven months of the year, while exports stood at about $11.2 billion. This meant a foreign trade surplus of $4.5 billion, but it was less than a half of the $10.5 billion surplus in the same period last year as exports dropped by $4.8 billion and imports increased by $1.2 billion. In other words, while the European car market contracted sharply under the impact of the pandemic, the one in Turkey grew due to peculiar dynamics that encouraged imports.

Thus, the tax hikes are aimed at deterring imports and steering the remaining demand to locally manufactured cars. Yet, given the import-dominated domestic market, the shift is expected to be more to the used market. Furthermore, restricted imports raise the specter of business loss in sub-sectors such as car dealership and maintenance. How much local production will replace imports remains to be seen. (Al-Monitor 08.09)

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11.6. CYPRUS: Cyprus 'BBB-/A-3' Ratings Affirmed; Outlook Stable

On 4 September, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit rating on Cyprus. The outlook is stable.

Outlook

The stable outlook captures our view of Cyprus' solid long-term growth prospects, improving public debt dynamics and track record of running budgetary surpluses against high stocks of public and private debt. We also consider, however, the inherent vulnerability of the country's small open economy, given its large tourism sector and exposure to external shocks, such as the ongoing COVID-19 pandemic.

We could consider raising the ratings on Cyprus if the banking sector materially reduced its nonperforming exposures (NPEs) and financial conditions improved, alongside faster-than-expected deleveraging in the economy or stronger external performance.

Alternatively, ratings downside could stem from markedly lower-than-projected economic growth in the coming years, impeding private debt servicing and financial sector improvements. A negative rating action could also occur if, contrary to our expectations, fiscal performance does not improve and the general government debt burden rises substantially.

Rationale

The ratings are underpinned by Cyprus' wealthy economy and solid growth prospects, teamed with policymakers' commitment to operating budgetary surpluses and progress restoring the banking sector's health. We believe that EU membership supports Cyprus' creditworthiness, particularly favorable decisions taken at both the level of the EU and the European Central Bank (ECB) in recent months.

Excluding a one-off in 2018 due to the Cyprus Cooperative Bank (CCB) transaction, consistent budgetary surpluses have put Cyprus' government debt-to-GDP ratio on a rapid downward trajectory. While public debt remains high, proactive debt management has considerably improved the country's public debt profile, as have the highly supportive monetary policies introduced by the ECB since 2012. Average maturity has lengthened to around eight years, while debt-service costs have fallen, notably thanks to the early repayment of a bilateral loan to Russia in 2019 and a loan from the IMF earlier this year, as well as the issuances of long maturity euro medium-term notes at lower yields. Furthermore, authorities hold significant cash buffers, at least equivalent to nine months of financing needs, reducing short-term refinancing risk.

Rating constraints - which we expect will be amplified by COVID-19 impacts - include Cyprus' elevated stocks of public and private debt and the still-high proportion of NPEs in the banking system. Moreover, Cyprus is more vulnerable to external shocks than larger, more diversified economies. This is because of the country's small open economy with an important tourism sector, and despite having a fairly diversified services sector, including contributions from professional services, information, communication, finance, and insurance activities.

Institutional and economic profile: The government is actively mitigating the material COVID-19-related setbacks:

- Cyprus' economy will contract by 7.3% in 2020 before recovering by 5.5% in 2021, thanks to stabilizing domestic demand and our assumption that an effective vaccine will be available from mid-2021.
- The government has implemented measures to safeguard incomes and prevent business closures.
- We anticipate policymaking will remain geared toward the reduction of economic vulnerabilities and improving the financial sector's health.

Following five consecutive years of GDP growth above the Eurozone average, Cyprus' small, open economy is set to contract by around 7.3% this year due to COVID-19 fallout. Measures implemented by health authorities have contained the virus at levels below peers'. These measures, however, combined with a drop in external demand, have had a dampening effect on the domestic economy. Tourism accounts for a significant share of GDP, an estimated 12% of employment, and about 20% of total exports. Estimates indicate that tourist arrivals in January-July 2020 were more than 85% lower than in the same period last year, reflected in the 88% drop in tourism revenue to about €122 million in the first half of 2020. We anticipate unemployment will increase in 2020, following years of steady decline.

We anticipate the economy will rebound in 2021, although not to pre-crisis GDP levels, before 2022 or later. Our base-case assumption remains that the economic effects of pandemic will start subsiding in the second half of 2020, with a gradual acceleration in economic activity. The authorities' stimulus packages should support recovery. Momentum will also stem from an uptick in private consumption - despite being slowed by decelerated debt repayment, especially as the loan moratorium implemented to support the economy ends - and investments supported by a strong pipeline of projects. Furthermore, net exports will likely pick up, notably thanks to information and communications technology and business services. Conversely, Cyprus' tourism sector will take longer to bounce back, hinging on how COVID-19-related travel restrictions with key markets (notably the U.K. and Russia) progress. We understand authorities are working to diversify tourism source markets and that important projects could brighten the industry's outlook.

Economic vulnerabilities will persist from high levels of private-sector debt. It is likely to remain high over the medium term, although tapering slowly via repayments financed by savings, restructuring, write-offs, and debt-for-asset swaps with banks.

In December 2019, MONEYVAL concluded its 5th Round Mutual Evaluation Assessment of Cyprus, which had started in June 2018. The reports show significant improvement compared with the 2013 assessment, notably in the banking system, and place Cyprus favorably among peers. Cyprus is actively addressing the evaluation's findings and will report progress to MONEYVAL next year.

Any potential economic benefits arising from the discovery of natural gas in Cyprus' Mediterranean waters are only likely to materialize outside of our forecast horizon through 2023, especially since the current environment has pushed companies to delay several projects such as drilling, exploration or appraisal operations. These discoveries have increased tensions with Turkey, which has continued drilling operations in Cypriot waters despite the imposition of EU sanctions. The situation further deteriorated when Turkey and the internationally recognized government of Libya signed an accord to create an exclusive economic zone from Turkey's southern Mediterranean shore to Libya's northeast coast, which was deemed contrary to international law by several EU countries.

Although we anticipate tensions will remain high, our base case does not envisage an outright confrontation between Turkey and Cyprus.

Once the COVID-19 impacts abate, we anticipate that the authorities will refocus on shoring up the economy's resilience, maintaining a public finance surplus, pursuing government debt reduction, and aiding the banking sector's recovery. Talks surrounding the reunification of Cyprus appear to be at a standstill.
Flexibility and performance profile: Significant fiscal support and EU-level measures will prevent structural damage to the economy but drive up public debt:

- Direct fiscal measures and the operation of automatic stabilizers will create a deficit of 4.6% GDP in 2020.
- Public debt will soar to around 118% of GDP in 2020 before declining steadily in the coming years on the back of economic recovery and fiscal consolidation.
- Cyprus' public debt profile has improved, thanks to better market conditions and proactive debt management, and benefits from important cash buffers.

We expect Cyprus' current account deficit to widen this year as exports drop due to a global standstill in tourism. Lower imports, hindered by reduced private consumption and delayed investment projects, will not fully offset the decline in exports. Nevertheless, we see the current account deficit narrowing progressively over the medium term. The completion of important infrastructure projects in 2021-2022, related notably to casinos and marinas, should energize the tourism industry while curbing the need for capital imports.

Cyprus' external financial position, adjusted for the impact of special-purpose entities (SPEs) from 2014, exhibits a discernible deleveraging trend and an increasing reliance on foreign direct investment. Still, we estimate that short-term external debt by remaining maturity will be above 100% of current account receipts in 2020. Therefore, despite continuous and rapid improvements, we still consider external liquidity measures very weak. We removed the impact of SPEs from all external data as of 2014.

We expect Cyprus' budget balance to turn into a deficit of about 4.6% of GDP in 2020, close to the government's latest estimate. Our forecast incorporates the announced direct fiscal measures aimed at supporting the economy and the health sector, as well as the effect of automatic stabilizers. We expect a small overall budget deficit in 2021 and surpluses thereafter. This is based on our assumption of a pick-up in economic activity in the second half of the year, as COVID-19-related restrictions ease, and a stronger rebound in 2021, as well as Cyprus' sound track record of fiscal consolidation. Ultimately, the overall cost from COVID-19 fallout will depend on how quickly the economy recovers and the effectiveness of measures to prevent the loss of productive capacity.

In April 2020, Russia requested amendments to the current double taxation agreement (DTA) between the two countries, notably in relation to withholding tax on dividends and interests paid by companies in one state to beneficial owners of the other state. Following difficult negotiations between the Russian and Cypriot authorities, with the risk of Russia denouncing the current DTA, which would adversely affect the Cypriot economy, we understand that a protocol has been agreed upon and that the agreement should be signed later this year, with an effective application in early 2021.

As the budget balance forecast for 2020 turned from a surplus to a large deficit, funding needs increased substantially. The authorities' initial funding plan fixed a borrowing limit for this year at €2.35 billion. In the face of this unprecedented shock, the plan was revised twice in order to provide the necessary room to weather the COVID-19 impacts. The latest plan, from July 2020, increased the borrowing limit to €6.25 billion. Following two €500 million issuances in July, the government's funding needs for the year are fully covered and the authorities are prudently maintaining large cash buffers at the central bank, far beyond their usual target.

Following several years of decline, thanks to recurrent budgetary surpluses - except in 2018 due to the one-off CCB transaction to support the banking sector - gross general government debt to GDP will likely rise substantially in 2020. We expect it will reach around 118% of GDP before declining steadily in the following years as the authorities resume fiscal consolidation.

In addition, proactive debt management has yielded significant improvements in the public debt profile. Average maturity has increased beyond eight years and costs have plummeted. Furthermore, authorities hold cash buffers equivalent to at least nine months of financing needs, reducing refinancing risk. Authorities are taking advantage of favorable market conditions to issue on the international market at low yields and long maturities. Parts of these proceeds were used to pay down early more expensive official debt. After repaying ahead of schedule the remaining €1.58 billion of a €2.5 billion loan from Russia (granted in 2011), the authorities also paid back in advance the €717 million outstanding from the IMF bailout in early 2020. At this stage, official loans are mainly owed to the European Stability Mechanism.

The Supreme Court recently confirmed the constitutionality of public sector wage cuts introduced in 2011-2012. This follows an earlier Administrative Court ruling against the government, which could have implied retroactive payments estimated at €844 million (3.8% of estimated 2019 GDP).

We believe that measures taken both at the EU and ECB level are highly supportive of EU member states. Notably, the recently agreed EU recovery funds will materially benefit Cyprus, which we understand may receive up to €2.7 billion in funding, with a large share of grants. We understand that the government intends to use these funds to accelerate Cyprus' digital transformation, as well as for green projects, for example in water and waste management.

As a Eurozone member, Cyprus continues to benefit from the monetary union's highly developed capital markets and the ECB's credible monetary policy. The ECB has announced, among other support measures, additional quantitative easing of nearly €1.5 trillion, mainly comprising the €1.35 trillion Pandemic Emergency Purchase Program. The planned expansion of the ECB's balance sheet is oriented toward absorbing the increase in Eurozone governments' financing needs at relatively low borrowing costs. However, in our view, the ECB's monetary policy goals are usually better aligned with the economic cycles of larger Eurozone members than with smaller ones like Cyprus. Much like the rest of the Eurozone, inflation is currently depressed in Cyprus.

We expect COVID-19 impacts will exacerbate the banking system's already-high NPEs, especially once the government-introduced moratorium period on loans ends. In the few quarters before the pandemic, NPEs had declined rapidly, reaching around 29% of total loans (about €7.9 billion of domestic operations of locally active banks) at end-March 2020, down from 33% a year before. Recently, Bank of Cyprus's agreement with investment management firm PIMCO to dispose of about €916 million NPEs markedly advances the bank's efforts to resolve its legacy problem exposures. Similarly, the transfer of about €700 million of NPEs from Alpha Bank to a credit-acquiring subsidiary of its Greek parent in June 2020, alongside further potential substantial sales to credit-acquiring companies, would somewhat offset the erosion of banks' risk profiles.

However, we believe the low participation in the "Estia" scheme and amendments to the foreclosure law recently validated by the Supreme Court will delay the workout of problematic assets. Additionally, the material increase in re-defaulted restructured loans, which represented 30% of total restructured loans as of end-March 2020 (compared with 17% two years before) highlights that improving payment culture remains a challenge, despite tremendous efforts by policymakers and banks. Therefore, we consider banks' contingent liabilities in the context of our sovereign rating methodology to be moderate.

Cypriot banks have been reducing their reliance on foreign deposits, and liquidity in the system is adequate. They face the COVID-19-induced recession with comfortable capital buffers, as we observe in their reported average common equity tier 1 ratio at end-March 2020 of 16.8% - well above regulatory minimums and the EU average. However, while the sovereign enjoys good market access, banks access debt capital markets at much higher costs. This, coupled with limited new loan origination, ultra-low interest rates, investment demands for technological transformation, and a higher-than-previously-expected cost of risk, means the financial sector's profitability challenges will magnify and business models' sustainability will be increasingly under pressure.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic. As the situation evolves, we will update our assumptions and estimates accordingly. (S&P 04.09)

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