The FORTNIGHTLY
A Review of Middle East Regional Economic & Cultural News & Developments
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Written & Edited by Seth J. Vogelman

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1. ISRAEL GOVERNMENT ACTIONS & STATEMENTS

1.1. Israel & Greece Sign Tourism Agreement to Boost Economies

Israeli and Greek officials agreed on 1 February to clear the way for vaccinated tourists to travel between their Mediterranean nations in a bid to boost their economies amid the coronavirus pandemic. Prime Minister Netanyahu and Greek Prime Minister Mitsotakis announced the agreement in Jerusalem. The deal is designed to allow tourists with vaccination certificates to move between the countries without any limitations and no self-isolation.

Both economies have large sectors devoted to tourism, an industry devastated by travel restrictions during the 11-month coronavirus pandemic. The announcement comes at a time of tough new travel restrictions elsewhere around the world as governments grapple with variants of the virus.

The United Nations World Tourism Organization says international arrivals fell 74% last year, wiping out $1.3 trillion in revenue and putting up to 120 million jobs at risk. A UNWTO expert panel had a mixed outlook for 2021, with 45% expecting a better year, 25% no change and 30% a worse one. (IH 01.02)

2. ISRAEL MARKET & BUSINESS NEWS

2.1. Intel Israel’s Exports Amounted to a Record $8 Billion in 2020

Intel Israel has published its financial figures for 2020 and has shown that its exports amounted to a record $8 billion for the year, an increase of 14% from 2019’s $6.6 billion. Indeed, Intel is responsible for 14% of Israeli tech’s export and 2% of the country’s GDP. As of January 2021, Intel Israel is the largest tech employer in Israel with 13,950 employees, 7,000 of whom work in development centers, 4,850 in production plants, and around 2,100 employed at Intel Israel units Mobileye, Moovit and Habana Labs.

Among the technologies being developed at Intel Israel are the architectures of future processors and the processors themselves - Wifi-6e technology - which will allow exceptionally fast wireless internet, Habana Labs Gaudi chip, which has been installed on Amazon’s cloud, and new CET and TDX security solutions which protect against cyberattacks. In terms of production, Intel Israel also began full manufacturing of 10 nanometer chips during 2020.

Intel's Israeli subsidiary Mobileye also did its part, registering income of $333 million in Q4/20, a significant increase of 39%. Mobileye experienced 10% growth in 2020 and contributed $967 million in revenue to Intel. (Intel 02.02)

2.2. Rapid7 Acquires Israeli Cyber Startup Alcide.IO for $50 Million

Boston's Rapid7 is acquiring Israeli startup Alcide.IO for $50 million. To date, Alcide.IO has raised $12 million from Intel Capital, Elron and CE Ventures. As part of the agreement, Alcide, which employs 30 people, will function as Rapid 7’s Israeli development center. Rapid 7 is traded on NASDAQ at a valuation of $4.5 billion. This is its first acquisition of an Israeli company.

Tel Aviv’s Alcide developed a cloud security platform designed to provide DevOps, security and engineering teams with simplified tools to manage and protect data centers against cyber-attacks. Alcide’s firewall enables security teams to define, apply, and enforce their data protection policies on various cloud services in order to achieve continuous monitoring and risk assessment.
According to a statement by Elron, it will receive 12% of the deal, which makes up 24% of the company’s shares and record a profit of $11.5 million as a result. (Rapid7 01.02)

2.3. OwnBackup Raises $167.5 Million at $1.4 Billion Valuation

OwnBackup announced a Series D investment of $167.5 million co-led by Insight Partners, Salesforce Ventures and Sapphire Ventures, with participation from existing investors Innovation Endeavors, Vertex Ventures and Oryzn Capital. OwnBackup raised $50 million just six months ago and its cumulative funding now totals over $267.5 million. Founded in 2015, the New Jersey-based company employs 250 people worldwide, 70 of them in its Israel development center.

OwnBackup’s cloud-to-cloud backup and restore platform provides secure, automated, daily backups of SaaS and PaaS data, as well as sophisticated data compare and restore tools for disaster recovery. The additional funds will support ongoing investments in global expansion and extend OwnBackup’s platform to help companies big and small manage and secure their most mission-critical SaaS data.

Tel Aviv’s OwnBackup believes that no company operating on the cloud should ever lose data. With comprehensive backup, visual compare and fast recovery capabilities, they have helped hundreds of organizations through data loss and corruption crises. Their solution also provides enterprises with the performance and reporting required to meet compliance regulations in a number of industries. They provide secure, automated, daily backups of SaaS and PaaS data, including Salesforce. (OwnBackup 31.01)

2.4. Run:AI Raises $30 Million Series B Funding

Run:AI has raised an additional $30 million in funding. The Series B round was led by Insight Partners, with participation from existing investors TLV Partners and S-Capital, bringing Run:AI’s total venture financing to $43 million. Run:AI will use the investment to fund rapid expansion and recruitment.

Run:AI has built an orchestration and virtualization software layer tailored to the unique needs of AI workloads running on GPUs and similar chipsets. The platform is the first to bring OS-level virtualization software to workloads running on GPUs, an approach inspired by the virtualization and management of CPUs that revolutionized computing in the 1990s. Run:AI’s Kubernetes-based container platform for AI clouds efficiently pools and shares GPUs by automatically assigning the necessary amount of compute power – from fractions of GPUs, to multiple GPUs, to multiple nodes of GPUs – so that researchers can dynamically receive as much compute power as they need. Enterprises and large research centers are using Run:AI to solve their resource challenges for both training and inference; better utilization of their AI computing infrastructure allows them to bring AI solutions to market faster.

Tel Aviv’s Run:AI helps companies execute on their AI initiatives quickly, while keeping budgets under control, by virtualizing and orchestrating AI compute resources in order to pool, share and allocate resources efficiently. Consolidating computational workloads yields greater server utilization, lowering TCO and speeding delivery of AI initiatives. Data science teams have automatic access to as many resources as they need and can utilize compute resources across sites – whether on premises or in the cloud. The Run:AI platform is built on top of Kubernetes, enabling simple integration with existing IT and data science workflows. (Run:AI 26.01)
2.5. REE Automotive Merges with 10X Capital Venture Acquisition Corp

REE Automotive and 10X Capital Venture Acquisition Corp., a special purpose acquisition company, have entered into a merger agreement for a business combination that would result in REE becoming a publicly listed company. Following the close, NASDAQ will list the combined company under the ticker “REE”.

REE is revolutionizing the e-Mobility industry through its highly modular and disruptive REEcorner technology which integrates critical vehicle components (steering, braking, suspension, powertrain and control) into the arch of the wheel. REE’s proprietary x-by-wire technology challenges century-old automotive concepts by being agnostic to vehicle size and design, power-source and driving mode (human or autonomous). Platforms utilizing REEcorners can present significant functional and operational advantages over conventional EV “skateboards” currently available in the market.

Tel Aviv's REE is an automotive technology leader creating the cornerstone for tomorrow's zero-emission vehicles. REE’s mission is to empower global mobility companies to build any size or shape of electric or autonomous vehicle – from class 1 through class 6 - for any application and any target market. Their revolutionary, award-winning REEcorner technology packs traditional vehicle drive components (steering, braking, suspension, powertrain and control) into the arch of the wheel, allowing for the industry's flattest EV platform. REE has a unique CapEx-light manufacturing model that leverages its Tier 1 partners’ existing production lines. REE’s technology, together with their unique value proposition and commitment to excellence, positions REE to break new ground in e-Mobility. (REE 03.02)

2.6. SuperCom Closes $7 Million in Financing

SuperCom announced the closing of a financing with gross proceeds of $7 million to support the company's growth capital needs. For the consideration of $7 million in gross proceeds, SuperCom issued a 2-year unsecured, subordinated promissory note to a certain institutional investor. The note has a 5% annual coupon and a built-in increase to the balance of the note by 5% every 6 months, for any portion of the note which has not been paid down prior to maturity. All principal and interest accrued is required to be paid in only one-bullet payment at maturity, and the company has the right to pre-pay any portion of the note at any time without a pre-payment penalty. SuperCom has an option at its discretion only, at any time after 12 months to pay down all or a portion of the note using its ordinary shares, subject to certain conditions being met.

Since 1988, Tel Aviv’s SuperCom has been a global provider of traditional and digital identity solutions, providing advanced safety, identification and security solutions to governments and organizations, both private and public, throughout the world. Through its proprietary e-Government platforms and innovative solutions for traditional and biometrics enrollment, personalization, issuance and border control services, SuperCom has inspired governments and national agencies to design and issue secure Multi-ID documents and robust digital identity solutions to its citizens and visitors. (SuperCom 04.02)

2.7. Granulate Raises $30 Million Series B to Boost Compute Performance

Granulate announced a $30 million Series B funding round, bringing the company's total amount raised to $45 million. The round was led by Red Dot Capital Partners with the participation of existing investors Insight Partners, TLV Partners, and Hetz Ventures. Dawn Capital also joined the round as a new investor. The Series B is Granulate’s second round of funding over the past ten months, as adoption of the company's solution has more than tripled since the Series A.
Rising computing costs are a growing problem for companies of all sizes and from every industry. Granulate addresses this problem with its AI-driven solution that tailors workload prioritization for the unique needs of any company, reducing response times by up to 40% and driving a 5X increase in throughput. Functioning at the Operating System level, Granulate enables organizations to achieve at-scale workload performance, reducing costs by up to 60%. Designed to function in any computing infrastructure and environment, implementing Granulate is simple and fast, requiring zero code changes or R&D involvement, and results are seen within days, if not hours.

Tel Aviv’s Granulate is a real-time, autonomous computing optimization company that delivers reduced compute costs, faster response time, and better throughput, without any code changes required. Granulate's patent-pending next-generation solution provides AI-driven, infrastructure and workload optimization for robust compute performance and cost improvements in any computing environment, empowering businesses of any size from any industry by bolstering their computing power while slashing computing costs. Companies that have implemented Granulate have reduced compute expenses by up to 60%, benefitting from a 40% response time reduction and 5X increase in throughput. (Granulate 03.02)

2.8. Datomize Secures $6 Million Seed Round Funding for Synthetic Data Solution

Datomize completed its $6 million seed funding round for the commercialization of its synthetic data solution that accelerates time to market for artificial intelligence (AI) machine learning (ML) models and new products that drive business growth. This funding round was led by TPY Capital, as part of its thematic focus on groundbreaking data and analytics startups, with participation from its first investor F2 Venture Capital, which backs visionary big data and AI companies.

Datomize synthesizes new data that preserves the behavioral features of the original data without violating personal privacy regulations. Designed based on real customer data and insights from global banks, Datomize is uniquely able to process highly complex data structures with multiple dependencies and is fully scalable to process thousands of tables with millions of records. Datomize improves the efficiency and speed of developing and training AI/ML models and applications for hundreds of use cases, as companies become more data-driven in the new online economy.

Tel Aviv’s Datomize’s synthetic data solution accelerates and streamlines the development, training and testing of AI/ML models and applications that drive business growth. Datomize preserves the behavioral features of the original production data without violating personal privacy regulations, to speed up time to market for new products and services and rapidly generate insights that drive digital transformation. Providing the speed and scale required by global financial institutions and highly regulated industries, Datomize processes highly complex data structures with multiple dependencies and is fully scalable to process thousands of tables and millions of records. (Datomize 03.02)

2.9. Taiwan Program Seeks Israeli Startups in AI & Big Data to Pave Way to Asia

A Taiwanese innovation program, IP² LaunchPad, that aims to create tech collaborations between Israeli startups and the East Asian country’s industry and academia, will be selecting 12 companies for the second cohort of the accelerator program, to pave the way for their entry into Far East markets. The companies will be in advanced stages of development of their products and will focus on a variety of sectors, including digitalization in healthcare, high-tech and renewable energy industries, big data, artificial intelligence, internet of things, 5G and cybersecurity.

The selected companies will receive guidance from industry executives in Taiwan’s tech ecosystem and an introduction to strategic distribution partners in the Far East, Taiwanese strategic manufacturers, healthcare systems in Taiwan, research and development organizations and investors. In addition, a local activity
The center will be set up as a gateway to Far East and global markets. The $70 million IP² LaunchPad program was set up in June by Taiwan’s innovation firm Innovation to Industry (i2i).

During the first cohort of the IP² LaunchPad program, over a period of six months, in the shadow of a global pandemic, more than 150 online and physical meetings were held, and 17 cooperation agreements signed between Israeli companies selected for the program and leading organizations in Taiwan. i2i is a private company and one of four government-approved incubators in Taiwan, working to help support and promote startups, link them with partners and expand their operations in markets around the world. (Various 07.02)

2.10. American Airlines to Launch Miami - Tel Aviv Flights

American Airlines announced that it will begin flying a Tel Aviv-Miami route staring on 4 June on Boeing 777-200 s. American Airlines said it will operate three weekly flights leaving Miami for Tel Aviv on Wednesdays, Fridays and Sundays at 22:00, making the return journey from Tel Aviv on Mondays, Thursdays and Saturdays, departing Ben Gurion airport at 23.55.

American Airlines stopped serving Israel in 2016. Now, should the pandemic allow, then three new routes will now be introduced during 2021. American will also fly between Tel Aviv and JFK Airport in New York, starting in May and between Tel Aviv and Dallas-Fort Worth, starting October. (AA 09.02)

2.11. Mesh Payments Raises $13 Million to Advance Cardless Corporate Payments

Tel Aviv's Mesh Payments, which works in corporate payment processing, has completed a financing round worth $13 million. The round was led by TLV Partners with participation from Meron Capital, R-Squared Ventures and a consortium of FinTech founders and investors. With the new funding, Mesh plans to expand sales and marketing efforts, along with boosting the partnerships with other companies to continue offering integrations with their corporate financial workflows.

Mesh works by putting a new cardless payment structure into a business and integrating that into existing systems. That lets companies access new modes of full control, more visibility and more streamlined payment activities for multiple departments like IT, HR and marketing. With the updates, it’s ensured that software-as-a-service solutions won’t disrupt operations.

Mesh also rolled out a cardless payment option recently, PYMNTS reports, intending to simplify recurring and one-time payments. According to the company, the product offers a full view of spending and helps with orchestration, reconciliation and data. The service can act as a substitute for their current corporate card services. (PYMNTS 09.02)

2.12. AIO & Finastra Win $1 Million BIRD Grant to Help Banks' Customer Onboarding

AIO - Verified Financial Identity, a fintech company based in Tel Aviv, and Lake Mary, Florida's Finastra have been awarded a $1 million grant from the Board of Governors of the Israel-U.S. Binational Industrial Research and Development (BIRD) Foundation for the co-development of a digital customer onboarding solution. Developed by AIO and available on Finastra's FusionFabric.cloud open developer platform and app marketplace, the solution automates the process of establishing the financial identity of a loan applicant in order to meet Know Your Customer (KYC)/Know Your Business (KYB) regulations.

The project received the largest available grant through the BIRD Foundation following a thorough review by BIRD-appointed evaluators from the National Institute of Standards and Technology (NIST) of the U.S. Department of Commerce and the Israel Innovation Authority. Driving factors that led to the grant being
awarded to AIO and Finastra include the creation of an innovative solution that solves real-world problems and the ease with which financial institutions can leverage that technology.

Current manual processes related to loan origination can be costly and time consuming. AIO's solution, which integrates with Finastra's Total Lending suite, speeds up customer onboarding by up to 80% and saves costs by securely automating the collection and verification of digital financial documents. Patented AIO technology maintains data collection with the customer, automatically verifying digital documents. These are then supplied digitally to the financial institution through Finastra's Total Lending.

The BIRD Foundation promotes collaborations between U.S. and Israeli companies in various technological fields for the purpose of joint product development. In addition to providing grants for approved projects, the Foundation assists by working with companies to identify potential strategic partners and facilitate introductions. (Finastra 11.02)

3. REGIONAL PRIVATE SECTOR NEWS

3.1. Halliburton to Provide Digital Solutions for Kuwait Oil Company

Houston's Halliburton Company was awarded a contract from Kuwait Oil Company (KOC) to collaborate on their digital transformation journey through the maintenance and expansion of digital solutions for their North Kuwait asset. It will allow KOC to accelerate their data-to-decisions cycle by designing and operating digital twins of the field to automate work processes, supported by DecisionSpace 365, a cloud-based subscription service for E&P applications.

Built on an open architecture, DecisionSpace 365 will help KOC engineers’ model, optimize and deploy intelligent work processes to plan, forecast and optimize production and asset operations. The open architecture integrates Halliburton and third-party technologies to enhance operational performance and increase ultimate recovery.

Founded in 1919, Halliburton is one of the world's largest providers of products and services to the energy industry. With approximately 40,000 employees, representing 130 nationalities in more than 70 countries, the company helps its customers maximize value throughout the lifecycle of the reservoir – from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production throughout the life of the asset. (Halliburton Company 03.02)

3.2. Starzplay Receives $25 Million in Debt Financing from Ruya Partners

Starzplay has secured $25 million in debt financing from Abu-Dhabi's Ruya Partners. With more than 10,000 hours of content including blockbuster movies, exclusive TV shows, kids content, and Arabic series, Starzplay is available in 20 countries across MENA and Pakistan. Starzplay currently reaches over 1.8 million paying subscribers and is installed on more than six million devices.

They recently partnered with Discovery Inc. to launch discovery+, the definitive non-fiction, real-life subscription streaming service across the region. Subscribers can now watch discovery+ content within a dedicated branded area across all its platforms. Starzplay also joined hands with Abu Dhabi Media to stream live UFC events and give subscribers across the region an extensive VOD content library of previous fights, shows, and interviews. Starzplay's strategy is to expand its model to emerging markets, including Sub-Saharan and Francophone Africa. The funds will be used towards strengthening their geographic and customer reach, acquiring and producing original content, and maximizing long-term value for its stakeholders.
Ruya Partners is an independent alternative investment firm focused on private credit investments in developing markets. The firm, headquartered in the Abu Dhabi Global Market, is a portfolio investment of Abu Dhabi Catalyst Partners, a joint venture between Mubadala and Falcon Edge Capital.

Dubai’s STARZplay utilizes advanced technology to provide a premium viewing experience with full HD and 4K content sourced from some of the most important studios in the entertainment business, such as Disney, Warner Bros, Sony, Showtime, BBC Worldwide, Paramount and CBS. (Starzplay 03.02)

### 3.3. MySyara Secures $650,000 Pre-Series A Funding to Expand Operations

MySyara raised $650,000 in a Pre-Series A funding round. The round was facilitated by JRC Corporate Consulting (JRC) and acting in an advisory capacity, brought in ten investors for the round. Rolling out in Q1/21, MySyara’s full range of on-demand services will be made available to customers in Abu Dhabi and Sharjah, expanding its potential customer base as well as offering users of the app the flexibility to service their vehicles across the Emirates. Meanwhile, MySyara’s new online auto service package is set to launch in Q2/21. It is designed to make life easier for customers, with a range of benefits that will include a pick-up and drop-off service, doorstep cleaning, routine servicing, and roadside assistance, the startup has said. (MySyara 03.02)

In 2019, MySyara acquired SKKYN Technologies for $2.8 million, an on-demand car wash app that provided eco-friendly and convenient car wash services to a customer’s preferred location. With the new funds, the startup plans to expand its operations as well as launch a new service package to provide car owners with a more convenient and affordable way to manage their vehicle’s servicing and maintenance.

Dubai’s MySayara is an on-demand car care startup trying to bring back the concept of mobility to ride ownership. They provide every service there is for a car owner, starting from the waterless car wash at doorstep, to your major repairs and even roadside assistance. Their services are designed to be contactless as well and it is hoped that with the right partner, they can truly grow to help people navigate these tough times safely. (MySyara 03.02)

### 3.4. ONE MOTO Raises Six-Figure Bridge Funding Round

ONE MOTO has raised Bridge funding, led by Dismatrix. The round was also crowdfunded through the platform, Eureeca. ONE MOTO addresses three issues of environment, safety and profitability. It provides a digitally inter-connected fleet of both private and commercial vehicles, saves the environment from 16,560 tonnes of CO2 per year (from delivery motorcycles in UAE), with operators being able to double their fleet for half the cost of petrol/diesel vehicles. The data provided by the vehicle fleets provide operators and governments with real-time information to streamline their operations and OpEx.

ONE MOTO shares that the average age of petrol motorcycles is two years and following this, they get scrapped. This is a growing concern; while ONE MOTO last-mile vehicles addresses the environmental issues, the profitability of restauranteurs, aggregators, fleet operators and the earnings and welfare of the riders. They also offer a care package, which after five years will replace the vehicle for free and recycle the replaced parts. The dedication to a cause gives an even increased lifespan of a commercial vehicle, the startup says. The startup aims to switch the UAEs last-mile vehicles electric by 2024, supporting the vision of Sheikh Mohammed by advancing their goals by six years.

Dubai’s ONE MOTO is working closely with various bodies in the UAE to increase the incentives for the adoption of electric vehicles to further enhance a sustainable future for all. The first to market, certified and registered EV manufacturer in the GCC, ONE MOTO has a fleet of vehicles, motorcycles, ebikes, scooters, delivery and grocery vans. (ONE MOTO 07.02)
3.5. Hala Yalla Launches Agool, the First Saudi Messaging App

Hala Yalla launched Agool – Saudi’s very own chat and messenger app. The app is available for download on iOS and Android. The Saudi startup aims to disrupt a field dominated by giants like WhatsApp and WeChat. Instant messaging on apps has become a way of life for those in the Kingdom. It provides users with immediate time and access to people we want to talk to, no matter where they are in the world. AGOOL creates this ultimate social network experience with its fast, detailed, and advanced features such as voice calls and personal chats, all with customizable settings.

Built by one of Saudi’s leading startups, Hala Yalla has become a familiar sight to users on smartphones and other devices across Saudi Arabia. The Hala Yalla Super App is now the destination of choice for millions of consumers across the Kingdom looking to discover new experiences, book venues, buy tickets, share in hobbies, and much more.

AGOOL is tailored for the Saudi experience with total Arabic and English functionality, Saudi-themed stickers, voice notes, emojis and direct messaging, all part of the package. Hala Yalla and the services it provides have quickly become essential to many of Saudi Arabia’s sports and entertainment events. AGOOL’s chat services are already integrated with GSA Live, the Ministry of Sports’ official platform to live stream sports matches, and get the latest news, scores and standings.

Riyadh’s Hala Yalla is an all-in one exciting social engagement platform, built by the technology powerhouse UXBERT Labs, which opens the door to Saudi Arabia’s most interesting events & activities. (WAYA 04.02)

3.6. Raqamyah Raises $2.3 Million Pre-Series A Round

Saudi Arabia’s Raqamyah secured a $2.3 million Pre-Series A funding round, led by Impact46 with participation from Vision Ventures, Mad’a Investment, Alyusur Company, Fadeed Investment and strategic angel investors.

Raqamyah obtained SAMA Sandbox approval in July 2019 to operate a P2P lending platform connecting qualified SMEs seeking different types of financing products and individual/institutional lenders looking for an alternative investment with higher murabaha returns. The startup has stated that it is the first P2P platform to introduce an automatic lending feature where lenders can choose to set automatic investment options based on their lending criteria.

During the COVID-19 lockdown, the platform expanded from lending to micro-enterprises only to SMEs. It also launched a POS lending service in partnership with Skyband, allowing SMEs to acquire loans from Raqamyah and pay their monthly installments through sales recorded on the point-of-sale machine. The first POS loan posted in January 2021 was oversubscribed by SAR 2 million and was fully funded by the automatic lending tool. 2020 Saudi Arabia Venture Capital Report

Raqamyah plans to heavily invest in technology and talents to make platform users’ experience superior. It will also focus on innovation in credit assessment techniques and expanding its offering of loan products to SMEs. The funding aims to support the company meeting SAMA’s full license requirements and facilitate easier access to alternative investment opportunities for investors. (Raqamyah 15.02)

3.7. Egyptian Market Leading Careem’s Mideast COVID-19 Recovery

Uber’s Middle East subsidiary Careem posted its fastest recovery from the pandemic in Egypt. Careem was able to reinstate 67% of operation rates, which is the highest recovery rate among the Arab world, after
seeing an 80% plunge in activity during the first wave of the pandemic. Careem Egypt expects to recover to pre-COVID activity levels in 2021.

In response to the pandemic, Careem launched new transport options that ensure social distancing, such as Go Aman in Egypt, in which vehicles install a plastic shield between the driver and the passenger. Careem also slashed the prices of its standard Go services by 10% and, in response to the massive upick in online shopping demand from Egyptians during the pandemic, tapped into last-mile delivery, as well as food and product delivery services.

In the wider MENA region, Careem is forecasting a return to pre-pandemic business activity closer to the end of the year, after previously expecting a quicker recovery. While demand has slowed of late, the business was nine times larger than at its lowest point last year but still remained below its performance before the pandemic. Careem may lose in margins in the short- to mid-term, but it can make up for in volumes over time. (Enterprise 07.02)

3.8. Irish Fintech Company Sets Up Mideast HQ in Riyadh

Irish fintech company Global Shares is to set up its Middle East headquarters in Riyadh and has partnered with NCB Capital, the investment banking arm of the Kingdom’s largest commercial bank. The Cork-based company manages the employee share plans of some of the world’s biggest companies and has 16 offices around the world. The Riyadh office will be the hub for the Middle East region.

As part of its expansion in Riyadh, Global Shares is hiring 20 Arabic-speaking staff and will soon be launching an Arabic version of its online portal and mobile app. NCB Capital is the Kingdom’s largest asset manager with SR168 billion ($44.8 billion) in assets under management as of July 2020. From Saudi Arabia, Global Shares will service companies in Kuwait, Bahrain, Oman, Qatar, the UAE, Jordan, Tunisia and Egypt.

The announcement comes as the Royal Commission for Riyadh City (RCRC) said recently it has set a target of encouraging up to 500 foreign companies to establish regional headquarters in the Saudi capital over the next 10 years. Lately, twenty-four international firms officially signed agreements to set up their regional offices in Riyadh, part of the government’s wider plan to create 35,000 new jobs for Saudi nationals and boost the national economy by up to SR70 billion by 2030.

Around 346 international companies have headquarters in the Middle East and North Africa, with the percentage of sales revenue the Kingdom accounts for ranging from 40 to 80%. The RCRC forecasts follow a recent announcement by Crown Prince Mohammed bin Salman of plans to double Riyadh’s population and transform it into one of the 10 richest cities in the world. (AN 07.02)

3.9. Saudi VC Funds to Tap into Fintech, e-Commerce & Health Segments in 2021

Venture capital (VC) activity grew significantly in Saudi Arabia in recent years, with start-ups recording a 55% year-on-year (YoY) jump in funding in 2020, according to a recent report by MAGNITT. In the wake of COVID-19, a few sectors in the Kingdom emerged as frontrunners for VC funding as the pandemic rapidly accelerated the adoption of technology and fueled the rising entrepreneurship ecosystems.

Fund of Funds Co. (Jada), a part of the Public Investment Fund (PIF), invested $266.6 million till date in 14 private equity and VC funds in Saudi Arabia. With more VC funds and angel investor groups entering the market, the Kingdom is seeing a dramatic increase in the quality and quantity in the deal flow of start-ups. The pandemic affected a shift in mindset, as the market saw and experienced the importance of digital competencies. These start-ups saw a spectacular 2020 because of the years of accelerated development that were condensed into one calendar year.
Pundits expect to see continued strong interest in 2021 in the health tech, fintech and e-commerce sectors. COVID-19 has not affected as many start-ups in these sectors because they typically offer remote solutions that minimize or eliminate physical contact.

Across the Middle East and Africa (MENA) region, investor appetite shifted towards larger investments in later-stage start-ups, as well as industries that saw increased demand as a result of COVID-19 and social distancing measures. Hala Ventures said that VCs have become more selective than before in terms of team experience, business model, and start-ups’ cash-flow. (AN 06.02)

3.10. Saudi’s Azom Raises $9.5 Million in Series A Funding Round

Azom, a tech startup based in Riyadh that designs, develops and sells electronics and computer software, has raised a $9.5 million Series A funding round from Assr AlJawal and an undisclosed individual investor.

Azom was established to provide and develop technologies and electronics such as phones and other devices at affordable prices and services. The company started by launching the ‘Azom Desert 2’ phone, which focused on the middle market at competitive prices and developed the user interface under the name ‘Ibrahim UI’. It also connected to artificial intelligence algorithms, whilst developing applications that would improve user experience, such as Azom Care. Azom aims to continue with developing its products as well as focusing on geographical and industrial expansion. (Azom 04.02)

3.11. DFin Holding to Launch Camel Ventures, Venture-Debt Focused Fund

Egypt-based Digital Finance Holding (DFin) has launched a Fintech-focused platform that aims to help build next-generation Fintech’s in MENA, alongside launching a new venture debt fund - Camel Ventures. The fund is currently fundraising and they plan to launch in Q2/21. DFin Holding is licensed and regulated by the Egyptian Financial Regulatory Authority (FRA) with the objective of building the “first of its kind platform” of digital financial services across various subsidiaries and affiliated startups. Its affiliated startup portfolio currently includes CAYESH and Paynas. DFin announced its initial subsidiary companies to include Shekra (a digital financing platform solution), Optofolio (a robo-advisory and digital wealth management solution) and Camel Ventures.

Cairo’s Digital Finance Holding (DFin) is a tech-based financial services platform regulated by the Egyptian Financial Regulatory Authority and focusing on supporting and promoting FinTech in the non-banking financial services industry. DFin Holding is built on rethinking the venture-based model by adopting a collaborative venture building approach with entrepreneurs and investors; catalyzing their access to market and growth through creating synergies across the DFin platform and its network. (DFin 09.02)

3.12. Sakneen Raises $1.1 Million in Seed Funding

Cairo’s Sakneen, the Egypt-based online portal that helps homebuyers search for properties, has raised $1.1 million in a Seed funding round, led by Algebra Ventures with participation from Sarwa Capital and Foundation Ventures. Others who invested in the round were Hem+Spire - a US-based real estate private equity firm, Nakla VC - a Saudi-based fund, and a number of angel investors from Google, BlackRock, and McKinsey among others.

In August 2020, the startup graduated from the Y Combinator program and in November, announced a strategic partnership with Coldwell Banker Egypt, the largest real estate brokerage firm in the country, to develop unique digital capabilities and offerings for both sellers and buyers. Sakneen plans to use the
latest funds to expand its team by ‘hiring world-class talent’ and continue developing differentiated solutions for home buyers and sellers. (Sakneen 08.02)

3.13. DilenyTech Secures a $160,000 Non-Equity Grant

Dileny Technologies (DilenyTech) secured a $160,000 non-equity grant. The funds will be used to expand its AI-Enabled platform to improve and expedite breast cancer detection. The funds were received from the Information Technology Academia Collaboration (ITAC) program affiliated with the Information Technology Industry Development Agency (ITIDA). The funding was received a few months after the startup was awarded a US patent for a novel AI-enabled image analysis technology.

Cairo’s DilenyTech provides a set of online and offline solutions for breast workflow (BE-SMART©) that were built for breast health professionals to improve and complement their diagnostic decisions and enhances screening and diagnostic workflow. DilenyTech develops solutions for medical imaging analysis, breast cancer risk assessment, and structured reporting in several medical applications. The company has provided its services to top-tier international health tech companies with active users in 3 different continents.

Since DilenyTech was founded in 2018, it has become one of the fast-growing health tech startups in Africa and the MENA regions specialized in AI and medical imaging analysis. DilenyTech has been ranked the 2nd in the Decoding Health Challenge organized by Health 2.0 Egypt and UNESCO in Dec 2019 and is sponsored by Etisalat Misr and Novartis. DilenyTech was chosen among the top 50 AI startups to watch in Africa 2020 according to Baobab Insights. (WAYA 01.02)

4. CLEAN TECH & ENVIRONMENTAL DEVELOPMENTS

4.1. MoU Signed to Launch AI Center for Energy in Saudi Arabia

A new AI center for energy has been inaugurated with the signing of a MoU between the Saudi Ministry of Energy and the Saudi Data and Artificial Intelligence Authority (SDAIA). This will boost the Kingdom’s efforts in improving its ranks in leading international data and AI indicators. The MoU is also aimed at contributing to the development of national cadres’ capabilities and the Kingdom’s AI methodologies. This comes within the scope of supporting government integration between the ministry and SDAIA to achieve their common goals in supporting, developing, reviewing and implementing data and AI strategies in the energy and gas sectors.

The inauguration of the Artificial Intelligence Center for Energy will help to promote AI research and development efforts, support innovation and enable entrepreneurship. The center will focus on four strategic objectives: Promoting national energy priorities, developing AI to benefit knowledge, accumulating experiences in the field of energy, and leading the AI aspect of the Kingdom’s energy-related strategic partnerships.

The center will promote the energy sector’s competitiveness, especially in joint innovation. It is also expected to contribute to building national AI capabilities and competencies in the energy sector, which is among the priority sectors of SDAIA’s National Strategy for Data and Artificial Intelligence (NSDAI). This will support the objectives of reaching more than 15,000 data and AI specialists by 2030 and boosting cooperation with the largest national and international companies in the fields of energy and AI to localize the technology and stimulate AI-related investments. NSDAI seeks to reach $20 billion in local and foreign investments in data and AI by 2030. The center will be jointly managed by the Energy Ministry and SDAIA, with the participation of the national energy system’s main stakeholders. (AN 01.02)
4.2. Egypt Receives $240 Million from Japan for Green Economy Transformation

On 15 February, Egypt’s Ministries of International Cooperation and Finance signed an agreement with the Japanese government and the Japan International Cooperation Agency (JICA) to provide a development financing of $240 million for Egypt. The accord targets development financing policies in energy and budget support in Egypt, aiming to enhance the green growth and sustainable development as well as alleviating the repercussions of climate change and countering the impact of COVID-19. The agreement follows one-year negotiations despite the coronavirus crisis and the repercussion of lockdown globally.

Japan’s current cooperation portfolio with Egypt amounts to $2.7 billion used in 14 projects in a number of developmental sectors, including electricity, education, higher education, scientific research, tourism and antiquities. During the first wave of the pandemic, Japan provided Egypt with a grant worth $9.3 million to be used in medical sets and supplies in the health ministry’s hospitals, bringing the total amount of the Japanese grants current portfolio to $54.5 million.

This agreement is compatible with Egypt’s efforts to provide urgent development finances to contribute to mitigating the pandemic’s socio-economic impact and to back the most hit sectors. Japan asserted the importance of the new finance in supporting Egypt’s efforts towards green economy transformation and enhancing clean energy transformation policies. (Various 15.02)

5. ARAB STATE DEVELOPMENTS

5.1. IMF Revises MENA’s Growth Up to 3.3% in 2021 Amid COVID-19

The International Monetary Fund (IMF) has revised the Middle East and North Africa (MENA) region’s growth by 1.2% to an overall contraction of 3.8% in 2020, before rebounding to 3.3% in 2021 and jumping to 4.2% in 2022. The figures came within the IMF’s update on the Middle East and Central Asia (MCD) region’s economic growth, released by the director of the IMF’s Middle East and Central Asia Department. For MENA’s oil importers group, where Egypt is classified, the IMF estimated a 0.7% decline in its growth in 2020, while expecting it to bounce back in 2021 to 2.6%, reaching 4.6% in 2022. (IMF 04.02)

5.2. Lebanon’s Soaring Average Inflation Rate Reached 84.27% in 2020

Lebanon has overtaken Zimbabwe and took the second place in the ranking of the world’s highest inflation rates after Venezuela. According to the Central Administration of Statistics (CAS), the Consumer Price Index (CPI), which gives an overview about the evolution of goods and services’ prices consumed by households, revealed that Lebanon’s monthly inflation rate surged from 10% in January 2020 to reach a dramatic level of 145.8% in December 2020.

For decades, the fixed exchange rate regime has helped in maintaining average annual inflation rate at about 3% but starting 2020, Lebanon’s currency depreciated sharply and made imports much more expensive driving about half of the population into poverty. Lebanon’s average inflation rate in year 2020 climbed to 84.27%, up from lows of 2.90% registered for year 2019. Accordingly, all sub-components of Lebanon’s consumer price index (CPI) increased over the studied period.

In details, the average cost of Housing and utilities, inclusive of water, electricity, gas and other fuels (grasping 28.4% of the CPI) added a yearly 7.66% by year 2020, where Owner-occupied rental costs rose by 5.39% year-on-year (YOO) and the average prices of water, electricity, gas, and other fuels increased by 10.49% YOY. Looking at the average prices of Food and non-alcoholic beverages (20% of CPI), it surged by 253.96% in 2020. In turn, the average prices of Transportation (13.1% of the CPI), Health (7.7% of the CPI) and Education (6.6% of CPI) all recorded hikes of an annual 85.46%, 10.07% and 5.74%, respectively, in year 2020. The average costs of Clothing and Footwear (5.2% of CPI) surged by 300.52%...

The Fortnightly may also be found at our Web site of:  http://www.atid-edi.com
in 2020 and the prices of Communication (4.5% of the CPI) increased by 66.09%. The average prices of Furnishings and household equipment (3.8% of CPI), Recreation, amusement and culture (2.4% of the CPI), and Alcoholic beverages and tobacco (1.4% of CPI) increased by 395.69%, 120.27%, and 285.30%, respectively, in 2020.

Until today, BDL continues to subsidize essential goods in order to control the catastrophic effect of the depreciation of the Lebanese Pound. However, the BDL’s support will definitely come to an end and the real (non-subsidized) inflation rate will go higher than ever and it may overpass Venezuela’s rate. (CAS 16.02)

5.3. The Bitter Reality of Lebanon’s Private Sector in 2020

For more than a year, Lebanon has been under a severe economic and financial crisis, followed by COVID-19 and the explosion of the Port of Beirut (PoB). According to the United Nations Economic and Social Commission for Western Asia’s (ESCWA) report, higher unemployment rates and extreme poverty have been a result of the situation and further contraction in the private sector activities is expected in 2021. The report shows that large drop in the Lebanese gross domestic product (GDP) and tax revenues in 2020 are a result of a huge decrease in the Lebanese private sector activity. As the latter declined by 45% compared with 2019, the Lebanese Government tax revenues went down by 17% (first nine month).

Employment in 2020 dropped by an average of 23% compared with 2019, with the highest losses occurred in the construction sector with 40% losses, followed by 31% and 27% drop in the hotel and restaurant sector, and the manufacturing sector, respectively. Moreover, employment demand in microenterprise slashed by the half and in small firms by the fifth noting that employees in micro, small and medium enterprises form around 91% of full-time employment.

Regarding the Non-exporting firms, demand for employment in this sector retreated by more than 30% compared to 2019. In contrast, demand for employment in exporting firms decreased by only 14%. It is important to mention that the formal private sector firms in Lebanon are exposed to exchange rate risk where the majority of the private firms face debt in the United States dollars with the highest level of dollar debt is in the construction sector, occupied by the manufacturing, wholesale and retail, and the hotel and restaurant sector.

Over the medium term, Lebanon will have to response to policies that boost the formal private sector activity, evolve a national rescue plan for MSMEs to restrict the unemployment and limit the poverty rate in the country, and develop a crisis management and contingency plan, especially for small and medium enterprises (SMEs). Moreover, The Lebanese Government has to reduce the impact of the pandemic and the Beirut explosion by enacting employment protection schemes, encouraging production in exporting firms to ensure the inflow of foreign currencies, applying major reforms in the Lebanese business environment and investment climate, unlocking the international aids by prioritizing political stability, less corruption and more accountability. Lastly, facilitate up-skilling and re-skilling programs for those who lost their jobs as ESCWA successfully implemented similar program for Lebanese people which can be applied on a larger scale. (BlomInvest 14.02)

5.4. IIF Says UAE Economy Expected to Grow Rapidly Until 2024

The Institute of International Finance announced that the UAE economy will post faster growth each year over the next three years, helped by a range of pandemic containment measures, accommodative monetary policy and a resilient banking system. The IIF expects modest economic recovery in 2021 with real GDP
growing by 2.3%, following a contraction of 5.7% in 2020. The Washington DC-based institute predicted three% growth for the next year, 3.4% for 2023 and 3.5% a year later.

This recovery will be supported by the partial recovery in domestic demand and an increase in net exports. These projections assume that the pandemic will be contained and oil prices pick up to $52 per barrel in 2021. Monetary policies will remain accommodative until the recovery is well-established. The banking system has remained relatively resilient, helped by sound initial capital and liquidity positions and flexible response by the central bank including regulatory forbearance. Profitability challenges in the low-interest rate environment may weigh on banks’ ability to expand credit to the private sector.

The UAE can afford a modestly expansionary fiscal stance in 2021 given its large financial buffers, spare capacity and a partial recovery in oil prices. The re-prioritization of spending helped limit the fiscal deficit to 7.3% of GDP in 2020. The UAE’s external position remains in an enviable position, with the current account still in surplus, and public foreign assets at about $845 billion, which is equivalent to 220% of GDP.

IIF said the UAE has limited the health impact of the COVID-19 pandemic due to its relatively young population and a range of containment measures which have mitigated the spread of the virus and the number of deaths. Based on authorities in the UAE, IIF said restrictions imposed recently again about social distance to contain the pandemic will fade over time as vaccine coverage expands and therapies continue to improve. The UAE’s coronavirus vaccination is the world’s second fastest after Israel. The target is to immunize more than half of the residents by March and 90% by June. (KT 05.02)

5.5. UAE Vehicle Trade Hits $18.7 Billion in 9 Months

The UAE’s automotive trade amounted to AED 68.8 billion ($18.7 billion) from January to September of 2020, official government data has shown. Car and tractor re-exports reached AED 25.6 billion in the same period, while exports stood at AED 1.26 billion, according to figures from the Federal Competitiveness Statistics Centre. Automobile imports hit AED 42 billion, which was attributed to household spending, according to the report. The UAE has expressed ambitions to be a key re-export hub in the Gulf, especially as it focuses on developing its non-oil economy. The country’s automotive trade accounted for 6.6% of the UAE’s non-oil trade in the same period. (AN 04.02)

5.6. Abu Dhabi Lures Korean Cloud Major as Part of a $545 Million Initiative

South Korea’s Bespin Global, a cloud technology consulting and management company, is setting up its regional headquarters and two innovation centers in Abu Dhabi to help accelerate digital transformation in the UAE capital. The Abu Dhabi Investment Office (ADIO) and Bespin Global has announced the partnership, which will see the South Korean company receive financial and non-financial incentives from ADIO to establish in Hub71, Abu Dhabi’s global tech ecosystem. The partnership is part of ADIO’s $545 million Innovation Programme, an initiative of the Abu Dhabi government’s Ghadan 21 accelerator program.

Under the partnership, Bespin Global will establish its MEA headquarters and build a Cloud Operations Centre and a Technology Hub in Abu Dhabi. Bespin Global will also grow its commercial and technical team as it taps into new areas such as financial services and fintech. It will collaborate with local universities to nurture talent, with plans to hire 5-10 Emirati interns each year, in addition to hosting hackathon programs.

ADIO’s Innovation Programme provides incentives to innovative businesses within high-growth areas including ICT, Financial Services, Tourism, AgTech and Health Services & Biopharma. It recently announced that music streaming platform Anghami will be establishing its headquarters in Abu Dhabi as part of the program. (AB 13.02)
5.7. What was Behind the UAE’s Mission to Mars?

On 9 February, the United Arab Emirates made history by becoming the first Arab nation and the fifth worldwide to send a probe to Mars. Officials have lauded the symbolic importance of the mission, which they say will inspire a new generation of Emirati and Arab youth to begin careers in the sciences.

Although, like many of the UAE’s achievements, the Hope mission was supported by the expertise of foreign specialists, a clearly stated aim of the program was to develop Emirati capabilities in the field. The UAE government told the project team that simply purchasing the necessary equipment was not good enough. The probe had to be built by Emirati engineers. More than 200 of the country’s brightest engineering minds worked on the development of Hope. It was largely built in the University of Colorado’s Laboratory for Atmospheric and Space Physics (LASP), with significant work also taking place at the Mohammed bin Rashid Space Center in Dubai.

The Hope probe was launched from Japan’s Tanegashima spaceport on 20 July 2020 after two scheduled launches had to be canceled due to bad weather. It is equipped with three state-of-the-art scientific instruments intended to collect data about conditions on the planet.

The first is EXI, the Emirates Exploration Imager, which will study Mars’ lower atmosphere using visible light, much like a conventional camera. It will produce high-resolution images of the planet’s surface and measure the depth of ice using optical technology. EMIRS, the Emirates Mars Infrared Spectrometer, will use infrared technology to measure the distribution of dust, ice clouds, water vapors, and different temperatures throughout the planet’s lower atmosphere. EMUS is Hope’s Emirates Mars Ultraviolet Spectrometer, which uses ultraviolet light to examine levels of carbon monoxide and oxygen in the atmosphere, and will study how these levels change over certain periods of time. (Al-Arabiya 09.02)

5.8. Saudi Arabia Challenges Dubai & Pressures Firms to Move to Riyadh

Saudi Arabia is increasing pressure on international firms to shift their Middle East hubs to the kingdom, posing a direct challenge to neighboring Dubai as a regional rivalry heats up. Starting on 1 January 2024, the Saudi government and state-backed institutions will stop signing contracts with foreign companies that base their Middle East headquarters in any other country in the region. The move is intended to limit "economic leakage" and boost job creation.

The decision is the latest measure designed to encourage firms to expand their presence in Saudi Arabia, supporting a broader plan to diversify the economy of the world’s largest crude exporter. Saudi Crown Prince Mohammed bin Salman has pushed an $800 billion strategy to double the size of Riyadh and turn it into a global hub. While earlier steps included incentives to move, this announcement is an implicit threat -- setting up firms to lose out on billions of dollars of deals unless they relocate their regional headquarters.

The decision lays bare a regional competition over global commerce and talent that has escalated as Prince Mohammed opens the kingdom’s economy while touting $6 trillion in investment opportunities over the next decade. Dubai in the UAE long ago established itself as a regional business hub for everything from banking to transport, and is a close ally of Saudi Arabia. The ruling applies to government bodies that go through a Ministry of Finance procurement process and won’t impact private sector firms or publicly traded companies even if they have state ownership. (NDTV 16.02)
5.9. **Saudi Crown Prince Announces 4 New Laws to Reform Judicial Institutions**

Saudi Arabia’s Crown Prince Mohammed bin Salman announced on 1 February four new laws to reform the Kingdom’s judicial institutions and efforts toward improving the “legislative environment” in the Kingdom. The four new laws include the Personal Status Law, the Civil Transactions Law, the Penal Code for Discretionary Sentences, and the Law of Evidence. The Crown Prince said that in the past few years, the Kingdom of has taken serious steps towards developing its legislative environment.

The draft Personal Status Law which is being finalized, the Crown Prince said, is one of four draft laws that the relevant entities are currently preparing. He clarified that these draft laws will then be submitted to the Council of Ministers and its bodies for review and consideration, in accordance with the legislative process, and in preparation for submission to the Shura Council, pursuant to its law. These laws will then be promulgated pursuant to the legislative laws.

A draft law from several years ago that came to be known as “the Code of Judicial Decisions” was crafted, but careful review revealed it was insufficient in terms of meeting the society’s needs and expectations. According to the new proposals, authorities decided to draft these four new laws, adopting in them the current legal and judicial international judicial practices and standards in a manner “that does not contradict Sharia principles” while taking into consideration the Kingdom’s commitments under international conventions and treaties. The Crown Prince “noted that the process of developing the judicial system in the Kingdom is a continuous process, and that these laws will be announced consecutively this year.” (Al-Arabiya 09.02)

►► **North Africa**

5.10. **Suez Canal Records High Revenues in 2020**

Despite the negative effects and repercussions of the outbreak of the coronavirus on global trade, the Suez Canal recorded revenues of $5.61 billion in 2020 — the third-largest total in the history of the canal. The canal recorded its highest revenues in 2019 with $5.8 billion and its second-highest in 2018 with $5.7 billion. This raised questions as to how the canal achieved these revenues amid the difficult circumstances and whether or not it will be able to increase such revenues in 2021.

Suez Canal Authority Chairman Rabie said that the canal had $5.61 billion in revenue in 2020 despite the difficult circumstances caused by the coronavirus pandemic. He said 18,829 ships passed through the canal during this same year with a total net weight of nearly 1.17 billion tons, thus achieving the second-highest tonnage in the history of the canal after 2019. That year witnessed 18,880 ships with a total net weight of nearly 1.21 billion tons pass through the canal. The difference between the years was 51 ships and 38.1 million tons.

The Suez Canal is the fastest navigation route connecting Asia to Europe. It is 193 kilometers (120 miles) long and is one of the main sources of foreign currency for the Egyptian economy. Several experts and observers told Al-Monitor that the total revenue for 2020 is a success for the Suez Canal Authority and the marketing plans it put in place to counter the negative effects of the coronavirus. These experts expect an increase in revenues this year. (Al-Monitor 13.02)

5.11. **Egypt’s Headline Inflation Slowed Last Month**

Egypt’s annual headline inflation in January slowed to its lowest level since September 2020. Urban headline inflation dropped for the second consecutive month to 4.3% from 5.4% in December 2020, and closing in on a 3.7% record low reading last September, figures from state statistics agency CAPMAS and the central bank showed.
On a monthly basis, inflation was -0.4%, as a further drop in food and vegetable prices from an increase in stockpiles and a fall in food exports led to the same pace of deflation recorded in December.

Food and beverage prices fell again this month, dropping 1.6% month-on-month and 0.5% from January 2002. The price of vegetables fell over 20% on average from December, after having already seen a 10% m-o-m drop in the final month of the year, despite the winter holidays’ effect on seasonal spending. Most other consumer price index constituents were flat.

Annual core inflation fell to 3.6% in January compared to 3.8% in December. Monthly core inflation, meanwhile, ticked up to 0.5% from 0% in December. (Various 11.02)

5.12. Egypt’s Foreign Reserves Continue an Eight-Month Positive Streak

Egypt’s foreign exchange reserves have increased for the eighth month running despite economic pressures caused by the second wave of the coronavirus (COVID-19) pandemic. The Central Bank of Egypt (CBE) announced that the country’s foreign exchange reserves rose to $40.101 billion in January 2020, up from $40.063 billion at the end of December 2020. Egypt's foreign exchange reserves begun to rally in June 2020 after the pandemic led to declines between March and May, with a $9.4 billion loss in three months.

Remittances from Egyptians working abroad recorded a remarkable increase in 2020. According to the CBE, the country received $27.1 billion in remittances in the first 11 months of the year, an increase of about 11.9% year-on-year. (AN 04.02)

5.13. Egyptian Tourism Could Face a Three-Year Slog Back to Normality

Egypt’s tourism sector could be three years away from mounting a full recovery, according to the former chairman of the Egyptian Tourism Federation, who told the local press that the country is unlikely to see pre-pandemic levels of tourism before 2024. Lingering concerns over the pandemic will mean that people remain skeptical of international travel for another few years, despite the acceleration of the global vaccine rollout, he said.

Egypt’s tourism sector experienced one of its worst years in living memory last year, as disruptions to international travel and worries about the pandemic caused revenues to nosedive more than 75% to just $4 billion. Some 3.6 million tourists visited Egypt, down from 13 million the year before, sending hotel occupancy in four of Egypt’s biggest tourist destinations down 60% — and seeing the country to lose out on some $14 billion in foreign currency revenue in the process. (Enterprise 08.02)

5.14. Fintech Vies with Healthcare as Egypt’s Hottest Sector

Egyptian e-payments leader Fawry is looking to make up to two acquisitions this year, as they are exploring seven or eight startups offering B2C digital payments services, with a plan to acquire shares in one or two of them by the end of the year. It’s also looking at further expansion in at least two other MENA region companies this year. Fawry had launched operations last year in the UAE with a partnership with Dubai Islamic Bank.

The firm’s expansion comes as fintech and e-payments join Non-Bank Financial Services (NBFS) and healthcare as super-hot sectors. Fawry processes around 3 million transactions daily and plans to increase its points of sales to 280,000 from a current 200,000.
Egypt’s state-owned bank Banque Du Caire (BdC) is looking to establish an e-payments company in partnership with an unidentified foreign investor. State-owned investment bank NI Capital is planning to make non-banking financial services one of three key sectors of its EGP 1.5 billion private equity investment plan this year.

These activities place fintech and NBFS in a heated battle with healthcare as the hottest sectors in Egypt at the moment. Enterprise noted how Speed Hospitals — a subsidiary of diagnostics and healthcare firm Speed Medical — is looking to acquire a 100% stake in Six of October’s New Al Safwa Specialized Hospital ahead of a possible IPO. This would make it the third major M&A in healthcare in as many months following the Cleopatra Hospital – Alameida merger late last year and the potential acquisition of Alexandria Medical Services by Mabaret Al Asafra Hospitals and Africa-focused investment firm Tana Africa Capital. (Enterprise 08.02)

5.15. Egypt was Africa’s Most-Active Destination for Venture Capital in 2020

Egypt was the leading destination for venture capital in 2020 when measured by the number of transactions announced, global venture capital firm Partech announced in its annual report on VC funding for African startups. Egyptian startups accounted for nearly a quarter of all transactions on the continent in 2020, with 86 having been announced, up 83% from the previous year.

Nigeria and Kenya led Egypt by total value of equity raised. Companies in Nigeria raised $307 million and Kenyan $305 million against $259 million by Egyptian companies. However, Egypt was the fastest-growing market by total value in the top four, narrowing the gap with the top two. Partech said Egypt’s performance was due to the strength of its ecosystem driven by high quality entrepreneurs and increased activity from regional MENA funds. Egyptian companies accounted for 28% of all equity invested in fintech (second only to Nigeria with 38%) and made up some 50% of all funding for African logistics, mobility and edutech companies.

Only four countries are really competitive in the African race for VC funding: Nigeria, Kenya, Egypt and South Africa each attracted well over twice the value of funding landed by companies in Ghana last year. Ghanaian companies raised nearly 10 times more than their nearest challenger.

Fintech accounted for 25% of total equity raised continent-wide in 2020, followed by agritech and then logistics and mobility. Off-grid technology companies and healthcare-focused tech outfits rounded out the top five. Total equity funding for startups in Africa was down 29% year on year at $1.4 billion even as the total number of transactions was up 44% to 359. In total, Partech says 347 startups raised money last year. Partech only counts data from African startups and includes just equity rounds worth more than $200,000. (Partech 11.02)

5.16. Egyptian Exports to the GCC Increase by 25.7%

Egyptian exports to the six Gulf Cooperation Council (GCC) countries during the first 10 months of 2020 rose 25.7% year-on-year to $4.4 billion. According to data from Egypt’s Central Agency for Public Mobilization and Statistics (CAPMAS), the UAE was the top market for Egyptian exports over the time period, reaching $2.6 billion, followed by Saudi Arabia ($1.4 billion), Kuwait ($194.6 million), Oman ($137.6 million), Bahrain ($85.5 million), and Qatar ($655,000).

However, Egyptian imports from the GCC decreased 21.25% year-on-year to $6.3 billion over the period. Saudi Arabia was the biggest GCC exporter to Egypt, with $3 billion, followed by Kuwait ($1.6 billion), the UAE ($1.1 billion), Oman ($310.9 million), Bahrain ($204.9 million) and Qatar ($19.5 million).
CAPMAS figures also revealed the total value of GCC investments in Egypt to be $3.4 billion during the fiscal year 2019/2020 compared to $2.8 billion in 2018/2019, an increase of 21.4%. The UAE was the biggest investor with $1.6 billion, followed by Qatar ($679.4 million), Saudi Arabia ($448.6 million), Kuwait ($347.5 million), Bahrain ($324 million) and Oman ($10.7 million). (AN 09.02)

5.17. **Sudan’s Economy Slumps As Inflation Reaches Record Highs**

Sudan’s annual inflation has soared to 304% in January from 269% in the previous month amid a worsening economic crisis and a rapid decline of the local currency’s value against the US dollar. The latest figures from the state statistics bureau are likely to be viewed as further proof of the transitional government’s failure to effectively overhaul the economy, nearly two years after the removal from power of Omar Al Bashir.

Sudan’s three-digit inflation rate, believed to be among the highest in the world, is primarily fueled by the rapid decline in the value of the Sudanese pound, which in turn pushes up the cost of imports. The annual inflation rate in January was even higher than 304% in urban areas, reaching 324%, up from 288% in December.

Sudan was finally removed last year from the US list of state sponsors of terrorism, a move that, in theory, should release financial assistance to the country from bilateral sources as well as international aid agencies. However, it is taking longer than expected for any significant aid to arrive and alleviate some of the economic woes endured by the country of some 40 million people. Already, this month saw a series of street demonstrations in Khartoum protesting bread and fuel shortages. The street protests that eventually led to the removal of Al Bashir were originally sparked by a hike in bread prices. (Various 16.02)

5.18. **Morocco’s Diaspora Remittances Reached $7.54 Billion in 2020**

Morocco's Foreign Exchange Office has announced that Moroccan diaspora remittances reached MAD 67.99 billion ($7.54 billion) in 2020. The number shows a high degree of stability in terms of the money transfers by Moroccans living abroad (MREs) despite the COVID-19 crisis.

Due to the closure of borders, the pandemic prevented millions of Moroccans from returning home for summer holidays. Every year, over two million diaspora members come to Morocco in different seasons. Morocco’s government estimates the number of Moroccans living abroad at over five million.

Data from the World Bank’s 2019 Migration and Remittances report indicate that remittances from Moroccans living abroad contributed to Morocco's Gross Domestic Product (GDP) by 6.2% in 2018. Meanwhile, travel receipts reached MAD 36.36 billion ($4 billion) for 2020, while travel expenditure fell by 49.6% to MAD 10.54 billion ($1.17 billion), according to Morocco’s Foreign Exchange Office.

In terms of Moroccan direct investments abroad (IDME), the office said their net flow decreased by more than MAD 5.27 billion ($585 million) this year, while the net flow of Foreign Direct Investments (FDI) recorded a slight increase of 1% at the end of December 2020. The FDI reached MAD 15.54 billion ($1.72 billion) against MAD 15.37 billion ($1.70 billion) in 2019.

The exchange office’s note also unveiled that Morocco’s trade deficit stood at over MAD 158.68 billion ($17.61 billion) this year. The number represents a decrease of 23.1% year-on-year. The office also recorded a surplus increase of 31.1% to MAD 60.74 billion ($6.74 billion) in the balance of trade. Morocco’s exports declined by 30.1% to MAD 130.24 billion ($14.45 billion), while imports decreased by 29.1% to MAD 69.49 billion ($7.71 billion). In terms of energy, the exchange office reported that Morocco’s bill stood at MAD 49.83 billion at the end of December 2020, representing a decline of 34.7% compared to the end of December 2019. (FEO 05.02)

The Fortnightly may also be found at our Web site of: [http://www.atid-edi.com](http://www.atid-edi.com)
5.19. World Bank Says Morocco's Budget Deficit ‘Under Control’

The World Bank announced that, compared to most of its neighboring countries, Morocco's budget deficit in 2020 remains under control. Morocco’s public debt remains manageable considering the economic crisis amid COVID-19. The Bank emphasized that Morocco’s debt structure has some risk-restricting attributes, such as the low weight of short-term debt and the extremely low percentage of external and foreign currency debt. Morocco needs to meet its goal of steadily reducing its budget deficit in the coming years in order to preserve this degree of sustainability. The Bank also said that the measures should help Morocco to increase budget efficiency, expand the tax base, and make tax collection more competitive and fair.

The successful implementation of such reforms will mark Morocco’s entrance into a new era of growth, accelerating the country’s convergence towards the more advanced economies’ level of development. In 2020, Morocco’s economy declined due to the coronavirus crisis, leading to socio-economic irregularities and deficiencies. The number of unemployed individuals reached 1.3 million in 2020, compared with 1.1 million in 2019.

On October 15, 2020, Morocco’s Ministry of Economy, Finance and Administrative Reform reported that the budget deficit reached MAD 42.8 billion ($4.65 billion), compared to MAD 28.5 billion ($3.1 billion) during the same period in 2019. (MWN 12.02)

6. TURKISH, CYPRiot & GREEK DEVELOPMENTS

6.1. Turkish Home Sales Shrink by 38% as Mortgage Lending Slumps

Turkish sales of new and existing homes slid by an annual 38% in January, reversing an 11% increase in December, Turkish Statistical Institute figures showed. Sales fell to 70,587 units from 113,615 units in January 2020.

Turks are purchasing fewer homes after the central bank more than doubled its benchmark interest rate to 17% since September and the country was struck by a second wave of the COVID-19 pandemic. The rate hikes, designed to defend the lira and rein in inflation, have reversed a boom in sales of apartments and houses as borrowing costs surged. Purchases of homes via mortgages slumped by an annual 75% in January to 10,732 units. The average cost of a housing loan has jumped to 18.1% this month from 9.1% in July. (TurkStat 14.02)

6.2. EU Forecasts 3.2% Cyprus GDP Growth for 2021

The European Commission expects the Cyprus economy to grow by 3.2% against a recession of 5.8% for 2020, according to its winter economic forecasts issued on 11 February. GDP growth is expected to remain stable at 3.1% in 2022 but the forecast is lower than the government’s prediction of a bigger rebound this year. Finance Minister Petrides predicts the Cyprus economy will bounce back from the pandemic with 4.5% GDP growth following a 5.5% contraction last year.

The Commission said real GDP rebounded strongly in the third quarter of 2020 (+9.4% compared to the second quarter) driven by domestic demand, which was mainly underpinned by fiscal stimulus, while exports of goods and services decreased. Recovery lost some steam towards the end of the year as lockdown measures were reintroduced to combat a resurgence in COVID-19 infections.

In 2021, a partial recovery is forecast, with real GDP growth expected to reach 3.2%. Containment measures have become stricter since the start of the year, but they affect a smaller share of economic
activity than in spring 2020. The forecast said that as restrictions are expected to continue until vaccinations pick up and cases drop, the recovery is expected to take place mainly in the second half of 2021. Domestic demand is expected to be the main contributor to growth.

Tourism, a key sector for Cyprus, has borne the brunt of the pandemic with receipts significantly declining by around 85% in 2020. This trend is expected to be only partially reversed in 2021. (fm 11.02)

6.3. Cyprus Takes Measures to Boost its Incoming Tourism

The Cypriot cabinet has approved nine incentive plans to boost the coronavirus-stricken tourism sector which welcomed three million fewer tourists last year. Pandemic lockdowns and travel restrictions saw Cyprus tourist arrivals drop by 84.1% in 2020 Announcing the plans, the Deputy Ministry of Tourism said new and upgraded versions of previous plans form part of the 2030 National Tourism Strategy. One of the schemes includes incentives to boost alternative tourism, such as conferences, international sports events, attracting foreign teams to choose Cyprus as their training base ahead of a new season. Another scheme provides incentives for the certification of recreational diving services in Cyprus. There is an initiative to promote the creation and upgrade of infrastructure and facilities related to urban tourism and communities.

The schemes also include incentives to boost agro-tourism by organizing events to promote local food products and wines and organizing familiarization trips for niche tourism on the island. One of the schemes provides incentives for hosting cruise ships.

Following concerns over new potent strains of coronavirus infiltrating Europe, Cyprus health authorities have decided to step up measures for arrivals at airports. The decision was taken bearing in mind evidence of increased transmissibility and aggressive spread of the new SARS-CoV-2 variants, known as the ‘Kent’ and ‘South African’ variant. (fm 09.02)

6.4. Greece’s Annual Deflation at -2% in January

Greece’s consumer price index recorded a 2% decline in January, the Hellenic Statistical Authority (ELSTAT) reported on 15 February, against an increase of 0.9% a year earlier. On a monthly basis the index decreased 1.3% from December 2020.

The European Union-harmonized index recorded a drop of 2.4% year-on-year, compared to 1.1% growth a year earlier. The decline on an annual basis is mainly attributed to the 5.7% drop in transport prices, the 3.5% decrease in apparel and the 3.4% contraction in housing costs. (ELSTAT 15.02)

7. GENERAL NEWS AND INTEREST

*ISRAEL:

7.1. Health Ministry Says Increasing Number of Israelis Defeat Cancer

On 4 February, Israel's Health Ministry released data showing that there has been a decrease in cancer mortality rates in Israel over the past 20 years, as well as a drop in the number of new cancer patients. According to the Israeli Cancer Association, the Jewish states ranks 45th on the list of the world's 50 countries with the most cancer patients. However, it did rank relatively low on the list of mortality rates, 89th place out of 90 countries with the highest number of fatal cancer cases.
According to the National Cancer Registry data, 31,000 Israelis were diagnosed with cancer in 2018, of whom approximately 27,000 had invasive cancer. Men were most commonly diagnosed with prostate and lung cancer. Women were most often diagnosed with breast cancer. Some 11,000 Israelis died of invasive cancer in 2018. The most common cause of death for men was lung cancer and for women, breast cancer.

The risk of cancer mortality is higher for men than for women. Between 1996 and 2018, there’s been a significant decrease in cancer mortality for both genders. Besides lung and prostate cancer, men were diagnosed with colon, rectal and bladder cancers, and non-Hodgkin’s lymphoma. As for blood cancer, the main cause of which is smoking, despite the early diagnoses, the survival and morbidity rates between 1996 and 2018 have not changed. Some 401 patients died from bladder cancer in Israel in 2018, 77% of whom were men. The mortality rate among men is four times higher than women. (Various 04.02)

*REGIONAL:

7.2. Jordanian Women’s Rights Activists Call for Campaign Against Violence

Jordanian activists said there is an urgent need to organize a Jordanian campaign to strengthen their cooperation to address violence against women. The call came during a virtual event that was organized by Solidarity Is Global Institute (SIGI) and attended by a group of experts on domestic violence. The organization, through its coalition Fatmeh, has called for an emergency meeting to discuss the recent reported increase in violence cases against women. The participants agreed on draft a national strategy that addresses ways to deal with cases of domestic violence and to follow up on this matter with the relevant authorities. They also said it is important to identify all the laws that incriminate violence against women and raise awareness about it. Another important step is to study all the cases and to learn more from the survivors about their needs.

SIGI launched the Jordanian National Network for the Protection from Gender-Based Violence during Emergencies and Crisis - *Fatmeh* in December 2020. (JT 03.02)

8. ISRAEL LIFE SCIENCE NEWS

8.1. Future Meat Completes $26.75 Million Series B Round to Market Chicken Substitute

Future Meat Technologies has raised $26.75 million in series B funding. It also announced that it plans to market its cultured chicken and plant proteins chicken substitute to consumers and restaurants within 18 months. Among the investors in the series B round were Tyson Foods, ADM, Müller Group, and Rich’s Products Corporation, alongside leading venture capital investors such as S2G Ventures, ADM Capital, Emerald Technology Ventures, Manta Ray Ventures and Bits x Bites.

Future Meat’s technology is based on the rapid natural proliferation of connective tissue cells. What’s unique about their process is that unlike most artificially-grown meat, it does not require the expensive use of stem cells. Its technology is based on the work of its chief scientist from the Hebrew University of Jerusalem. Rehovot’s [Future Meat](https://futuremeat.com) said it expects its pilot facility to start production in the first half of 2021 and is currently seeking regulatory approval in several territories. (Future Meat 02.02)

8.2. CLEW Medical Receives FDA Clearance for AI-Based Predictive Analytics Technology

CLEW Medical announced that the U.S. FDA has given 510(k) clearance and authorized the use of "CLEWICU," CLEW’s artificial intelligence (AI) based ICU solution, to predict hemodynamic instability in
adult patients. The clearance is the FDA’s first for such a device, and follows the FDA’s Emergency Use Authorization (EUA) for CLEWICU’s respiratory deterioration model granted in June 2020, for the predictive screening of COVID-19 and other ICU patients.

CLEWICU continuously monitors and categorizes patient risk levels, providing clinicians with physiological insight into a patient’s likelihood of future hemodynamic instability. The system provides notification of clinical deterioration up to eight hours in advance, enabling early evaluation and subsequent intervention for prompt, proactive patient care. The system also identifies low-risk patients who are unlikely to deteriorate, thus enabling better ICU resource management and optimization.

The analytical software product uses AI-based algorithms and machine-learning models trained to identify the likelihood of occurrence of significant clinical events for patients in the intensive care unit (ICU). CLEWICU receives patient data from various sources, including Electronic Health Record (EHR) data and medical device data. The data is analyzed in near real-time to present calculated insights and notifications for dedicated AI models and provides a picture of overall unit status.

Netanya’s CLEW provides real-time AI analytics platforms designed to help providers make better informed clinical decisions by predicting life-threatening complications across various medical care settings. CLEW’s goal is to provide solutions that could improve outcomes and safety, streamline patient care and efficiently handle regulations and penalties, ultimately lowering the cost of care. (CLEW 03.02)

8.3. MyBiotics Pharma Receives Investment from Mii Fund

MyBiotics Pharma has received an investment from Japan’s Mii Fund, a partnership with Maruho Co., Japan’s preeminent leader in dermatology. MyBiotics will use the funds to advance its microbiome therapeutics pipeline and continue to enhance its unique microbiome platform technologies. In addition, the company is initiating a development program in the field of skin microbiome, leveraging the support of the Mii Fund & Lab, and the relationship with Maruho Co., a leading market player in the dermatology market.

MyBiotics has developed breakthrough, scalable and robust culturing, fermentation, and delivery technologies for generating a highly stable and diverse bacterial community that can be used to restore microbiome equilibrium. These technologies are effective for single microbes, complex microbial consortia and whole microbiome products, and are integrated with a computational AI platform.

Rehovot’s MyBiotics discovers and develops microbiome-based products aimed at restoring microbiome equilibrium for the therapeutics and food markets. MyBiotics’ technologies are effective for single microbes, complex microbial consortia and whole microbiome products, and are integrated with a computational AI platform which enables the design of unique microbial consortia and whole microbiome profiles. The Company’s pipeline includes MBX-SD-201 and MBX-SD-202, for Clostridium difficile Infection (CDI) developed for oral delivery, which may become the first alternative for fecal microbiota transplant (FMT). MBX-SD-202 is planned to enter Phase I clinical studies in 2021. (MyBiotics Pharma 03.02)

8.4. Easily Dispersible AstaPure Astaxanthin Powder Ideal for Premix Applications

As consumer behavior and lifestyle have dramatically changed in the past 12 months, Solabia-Algatech Nutrition offers new astaxanthin solutions for today’s dietary supplements and beverage concepts. The company is launching a microencapsulated, cold water-dispersible powder containing 2.5% AstaPure, natural astaxanthin. Extracted from Haematococcus pluvialis microalgae by supercritical CO2, the powder completely and easily disperses in cold water in seconds. The new formulation is an ideal solution for a variety of ready-to-mix supplements, drinks, and suspensions, including sport drinks and better-for-you beverages.

The Fortnightly may also be found at our Web site of: http://www.atid-edi.com
AstaPure natural astaxanthin is one of the most powerful antioxidants known, with more than 500 studies of its diverse health benefits, including immune support, eye health, beauty from within, healthy aging and more. AstaPure astaxanthin CWD powder is odorless and has a neutral flavor. It is suitable for multiple applications, such as premixes and other ready-to-mix formulations, isotonic waters, sports drinks, beverages and smoothies.

Solabia-Algatech Nutrition's proprietary technology enables the cultivation of microalgae in a completely enclosed, environmentally friendly system, fully controlled and exposed to the natural sunlight of the Arava desert which stimulates the microalgae to produce high levels of astaxanthin. AstaPure thus aligns with the market demand for pure, sustainable, minimally processed ingredients.

Kibbutz Ketura's Solabia-Algatech Nutrition is a renowned powerhouse for microalgae cultivation and a leading manufacturer of unique active ingredients shown to support wellbeing. Solabia-Algatech Nutrition is one of the few companies worldwide to produce high-grade, consistent quality microalgae-sourced products on a commercial scale. (Solabia-Algatech Nutrition 03.02)

8.5. Microbot Medical Granted Patent Allowance in Japan for One & Done Technology

Microbot Medical received official notification from the Japan Patent Office (JPO) that it intends to grant the Company a patent for its ‘One & Done’ guidewire technology for use with endoluminal interventions. Japan is the second jurisdiction to grant a patent for the ‘One & Done’ guidewire technology and further protects the novel technology the Company is currently developing.

The allowed claims cover a double guidewire (movable core guidewire) comprising a first hollow guidewire (outer tube) and a second guidewire (inner core) deployed within the first guidewire (outer tube), and an adjuster mechanism operable to displace the second guidewire (inner core) longitudinally relative to the first guidewire between at least three states. Each such state is characterized with its distal tip curvature and stiffness. Globally, the company now holds a total of 41 patents issued/allowed and 22 pending patent applications.

Founded in 2010, Yokneam’s Microbot Medical is a pre-clinical medical device company that specializes in transformational micro-robotic technologies, focused primarily on both natural and artificial lumens within the human body. Microbot’s current proprietary technological platforms provide the foundation for the development of a Multi Generation Pipeline Portfolio (MGPP). (Microbot Medical 04.02)

8.6. Rootella X Mycorrhizal Inoculants Help Achieve Record Yields

Groundwork BioAg, and Cedarville, Ohio’s Advanced Yield announced collaboration to market Rootella mycorrhizal inoculants in the US. Advanced Yield has been using Rootella products on their 8,000 acre farm over the last three years. After achieving record yields with Rootella X-treated corn in 2020, it was decided to add Rootella products to Advanced Yield’s product portfolio.

Rootella X is a high-performance mycorrhizal inoculant, especially suitable for professional seed treatment. Farmers apply only 0.21oz of Rootella X per acre, which fits easily in any seed treater. Even at this low load factor, they get the highest amount of active ingredient per seed on the market.”

Mazor’s Groundwork BioAg produces highly-effective mycorrhizal inoculants for commercial agriculture. Containing concentrated and vigorous beneficial fungi, Rootella inoculants significantly improve soil nutrient uptake in plants. Their products safeguard crop yield, improve resistance to several types of stress, and reduce fertilizer requirements. Groundwork BioAg has demonstrated significant yield increases in numerous major crops, including corn, soybean, wheat, sorghum, sugarcane, potato, and strawberry.
These products are sold in major markets worldwide, including the USA, Brazil, Canada, India, Europe and Ukraine. (Groundwork BioAg 05.02)

8.7. LipoMedix Announces Manufacturing Agreement with ForDoz for Promitil

LipoMedix announced that its lead compound, Promitil® (PL-MLP), will be manufactured in the United States by ForDoz Pharma (ForDoz), a privately owned, specialty pharmaceutical company focused on the development, manufacturing, and commercialization of value-added sterile and complex injectable products.

Promitil’s unique formulation is designed for selective delivery of the therapeutic agent to cancer-affected tissues and is ideally suited for cancer chemo-radiotherapy. The compound consists of the liposome-based encapsulation of a new chemical entity called Mitomycin-c (MMC) lipidic prodrug (MLP), which is a proprietary prodrug form of the known anticancer agent MMC. In studies, it has been shown to be active against a broad variety of cancer types in animal models, including colorectal, gastric, pancreatic and multi-drug-resistant tumors. By leveraging ForDoz’s drug delivery technology and experience, LipoMedix expects to be able to effectively troubleshoot the many industry-wide challenges of product development and manufacturing of nanotechnology.

Jerusalem’s LipoMedix is a clinical-stage, oncology-focused pharmaceutical company involved in the development of an innovative, safe and effective cancer therapy based on a pegylated liposomal drug delivery platform. The Company was established in order to advance the pharmaceutical and clinical development of a patented new chemical entity prodrug of mitomycin-c and its efficient delivery in liposomes to cancer-affected target organs. This formulation, known as Promitil®, or Pegylated Liposomal Mitomycin-c Prodrug (PL-MLP), is believed to overcome the challenges associated with mitomycin-c toxicity and turns it into a state-of-the-art anti-cancer drug that can potentially become the therapy of choice in a variety of cancers, especially those of the gastrointestinal tract (stomach, pancreas, colorectal). (LipoMedix 10.02)

8.8. EndoWays Acquired by Hong Kong’s Ascendum

EndoWays announced on 8 February that it will be acquired by Hong Kong-based Ascendum Capital, a new healthcare-focused investment platform founded in 2020. The financial details of the cash deal were not disclosed.

The deal will provide EndoWays with access to the vast experience and network of the Ascendum team, helping accelerate its clinical and commercial development, especially in China. Ascendum Capital specializes in innovative MedTech, Biotech, and other healthcare-related technology. Ascendum aims to accelerate the R&D and commercialization of global leading healthcare technologies and support healthcare companies for expansion or acquisitions with a particular focus on the Chinese market.

Founded in 2018, Or Yehuda’s EndoWays revealed a robotic, self-propelling micro-catheter to navigate through tortuous blood vessels. The microcatheter is a platform with advanced propulsion capability through blood vessels. EndoWays’ microcatheter is focused on providing the interventional radiologist with a superior ability to cross tortuous anatomy, thus simplifying complex procedures, shortening procedure time and minimizing radiation exposure to both the patient and the medical staff. EndoWays is a portfolio company of MEDX Xelerator. (EndoWays 08.02)
8.9. BrainQ Gets FDA Breakthrough Status for Stroke Disability Device

BrainQ announced that the US FDA has designated its AI-powered technology as a Breakthrough Device. The designation, which was based on BrainQ's latest randomized controlled clinical trial results for ischemic stroke patients, provides BrainQ with the opportunity to work closely with the FDA to expedite development plans and premarket clearance. Breakthrough status also gives BrainQ access to the new Medicare Coverage of Innovative Technology (MCIT) pathway, allowing for Medicare coverage to be provided concurrently with FDA market authorization.

BrainQ is developing an AI-powered electromagnetic field therapy that aims to enhance recovery and reduce disability after neurological damage caused by stroke. The therapy is based on biological insights retrieved from brainwaves, using proprietary machine learning algorithms that translate into a frequency-tuned low intensity electromagnetic field. BrainQ's therapy is delivered via a cloud-connected wearable device, the non-invasive BQ System, and is designed for scalable and portable treatment, with the flexibility to be accessed from home.

Jerusalem's BrainQ is conducting clinical trials in top medical centers worldwide and has secured patents in all major global markets. BrainQ's team and advisory board include a unique, multidisciplinary group with a vast background in neurology, neuroscience, data science and machine learning. The BrainQ device is limited to investigational use and is not available for sale in the United States. (BrainQ 11.02)

8.10. RSIP Vision New AI-Based Tool for Coronary Artery Analysis

RSIP Vision announced a new coronary artery segmentation tool. The fully automated, deep learning-based technology provides a quick, robust, and accurate 3D model of coronary artery anatomy, enabling precise measurements of the artery length and diameter at any point. This tool enhances image-based assessments of coronary artery function and diagnosis of conditions, such as narrowing (stenosis). It also provides the needed understanding to physicians for advanced procedure planning, including navigation planning, stent selection, and stent positioning.

This new module was designed to better visualize artery structure, measure the vessel dimensions in points-of-interest, and enable accurate, image-based FFR measurements. Additional modules can show artery modification due to stent placement or place a virtual stent in the desired position within the coronary artery. These uses replace invasive cardiac measurements and give the physician a better pre-procedure planning tool for stent selection.

Jerusalem's RSIP Vision is driving innovation in medical imaging through advanced AI and computer vision solutions. Their engineers are experts in artificial intelligence, deep learning and the most advanced computer vision techniques. They develop practical AI modules that ensure precision, reduce time to market, cut costs, and allow core R&D teams to focus on key initiatives while we provide custom-built solutions to fit their growing needs. The aim is to drive innovation in medical imaging through their custom software and advanced algorithm development and custom technologies. (RSIP Vision 16.02)

8.11. SMART Medical Receives Additional FDA Clearance for its G-EYE Colonoscope

SMART Medical Systems announced the initiation of commercial and clinical effort in the USA, following issuance of a second FDA clearance for its flagship G-EYE® Colonoscope, based on Fujifilm's 510(k) cleared colonoscopes.

The G-EYE® Colonoscope is a 510(k) cleared colonoscope, remanufactured by SMART to include a proprietary balloon at its distal bending section. SMART's FDA cleared G-EYE® Colonoscopes include selected models of the leading endoscope brands – Fujifilm, Olympus, and Pentax. Withdrawal of the G-
EYE® Colonoscope with the balloon moderately inflated during colonoscopy, assists in controlling the colonoscope’s field of view and positioning. In published clinical studies, G-EYE® colonoscopy demonstrated substantial increase over standard colonoscopy in the detection of pre-cancerous polyps which are the precursors of colon cancer.

Ra'anana's **SMART Medical Systems** is a pioneer in the development and manufacture of innovative medical devices in the field of gastro-intestinal (GI) endoscopy. SMART’s unique approach is to use available brand name endoscopes and address key challenges in contemporary endoscopy. SMART’s CE Marked and FDA cleared NaviAid™ product family is commercially distributed in key global markets. With its partnership with Fujifilm and PENTAX Medical, SMART’s G-EYE® colonoscopy solution is currently adopted by two of the three industry leaders in GI endoscopy imaging. (SMART Medical 16.02)

8.12. **BGU Researchers Personalize Dosing of Schizophrenia Drug Clozapine**

Researchers at Ben-Gurion University of the Negev (BGU) have developed a novel method for instantly and accurately monitoring blood levels of the antipsychotic drug, clozapine, using a blood drop from a finger prick. The method is based on an electrochemical microsensor which enables, for the first time, clozapine detection in one drop of finger-pricked whole blood samples of schizophrenia patients without using any pretreatment steps.

Clozapine is considered the most effective antipsychotic medication for schizophrenia and the only antipsychotic currently approved for treatment-resistant schizophrenia but is also associated with harsh side effect.

The novel sensor can be used as a platform for detecting other redox (reducing-oxidizing) chemicals in small quantities of untreated, whole blood samples. Redox molecules are involved in multiple significant chemical reactions, such as synthesis of various substances, biochemical processes in living organisms, diagnostics and medical procedures. Redox agents can be monitored by specific electrodes, but currently available methods of detection require pretreatment of the blood sample in order to separate the desired molecules from other, interfering substances. The sensor can detect minute quantities of various redox molecules in untreated blood samples, thus paving the way for developing miniaturized, point-of-care devices that will be able to monitor various targets.

**BGN Technologies** is the technology transfer company of Ben-Gurion University, the third largest university in Israel. BGN Technologies brings technological innovations from the lab to the market and fosters research collaborations and entrepreneurship among researchers and students. To date, BGN Technologies has established over 100 startup companies in the fields of biotech, hi-tech, and cleantech, and has initiated leading technology hubs, incubators, and accelerators. (BGN Technologies 16.02)

9. **ISRAEL PRODUCT & TECHNOLOGY NEWS**

9.1. **vFunction Unveils Platform for Automated Cloud Native Modernization**

Emerging from stealth, vFunction announced the first and only platform purpose-built to automatically, efficiently and intelligently transform complex, monolithic Java applications into microservices with a scalable, repeatable factory model. vFunction also announced $12.2 million in seed funding. Following the pre-seed by Engineering Capital, Shasta Ventures and Zeev Ventures led the round with participation from Engineering Capital and Khosla Ventures.

vFunction is the first and only cloud modernization platform that enables the enterprise to modernize legacy Java applications and realize the true benefits of the cloud: elasticity, reduced cost, and restored engineering velocity. By combining dynamic analysis, static analysis, data science and automation, the
vFunction platform is able to extract any service from a monolith and transform it into a compliable, working microservice. Unlike generic profiling tools and expensive consulting projects, the vFunction platform provides a repeatable, automated factory model purpose-built for scalable cloud native modernization, while eliminating inhibitors to modernization: including time, cost, risk and skills. vFunction helps enterprises achieve:

Tel Aviv's **vFunction** is the first and only platform for developers and architects that intelligently and automatically transforms complex monolithic Java applications into microservices, restoring engineering velocity and optimizing the benefits of the cloud. Designed to eliminate the time, risk and cost constraints of manually modernizing business applications, vFunction delivers a scalable, repeatable factory model purpose-built for cloud native modernization. With vFunction, leading companies around the world are accelerating the journey to cloud-native architecture and gaining a competitive edge. (vFunction 02.02)

### 9.2. Stratasys Introduces Multi-Material Polyjet 3D Printer for Engineering Prototypes

Stratasys unveiled the latest solution in the company’s family of powerful, multi-material enterprise PolyJet 3D printers. The new J850 Pro 3D printer offers J8 series capabilities tailored specifically to engineering needs, without full color, at an affordable price. It enables engineers to produce prototypes for concept verification, design validation, and functional performance using the latest materials, including transparent VeroUltra Clear. The J850 Pro complements the existing J850 Prime for designers and engineers who also need full-color printing.

With its capacity for seven materials jetted simultaneously, fast printing, and extremely high accuracy, the J850 Pro helps designers and engineers work faster and more productively. It includes rigid, flexible, and composite digital materials, enabling a wide range of functional applications, within a large 490 x 390 x 200mm build capacity. Concept models can be printed at twice the speed of legacy systems using Super High Speed Mode, and at approximately half the cost per part, using DraftGray material. The J850 Pro is software-upgradeable to the Prime version for full-color printing.

The seven simultaneous materials give engineers the versatility to produce parts that match their exact needs, instead of turning to multiple 3D printing or traditional technologies requiring extensive post-processing, saving time and costs. Materials include the entire grayscale space of the Vero rigid family, the Agilus30 family of flexible materials, VeroClear, VeroUltra Clear and Digital ABS materials. The J850 Pro is immediately available, and orders are being taken now.

Rehovot's **Stratasys** is a global leader in additive manufacturing or 3D printing technology and is the manufacturer of FDM, PolyJet and stereolithography 3D printers. The company’s technologies are used to create prototypes, manufacturing tools, and production parts for industries including aerospace, automotive, healthcare, consumer products and education. For more than 30 years, Stratasys products have helped manufacturers reduce product-development time, cost, and time-to-market, as well as reduce or eliminate tooling costs and improve product quality. (Stratasys 04.02)

### 9.3. Varada Open-Sources Its Workload Analyzer to Optimize Data Lake Queries

Varada has open-sourced its Workload Analyzer for Presto, including both Trino (formerly known as PrestoSQL) and PrestoDB, making the source code available to everyone via Github. The Workload Analyzer is a free, easy-to-use tool that offers visibility into how Big Data and analytics workloads are performing, offering users insights into how to improve performance and optimize resources.

The Workload Analyzer collects details and metrics on every query, aggregates and extracts information, and delivers dozens of charts describing all the facets of cluster performance. For the first time, data engineers have a holistic view of their cluster and can drill down into pain points to determine what queries
to optimize and how. The Workload Analyzer is compatible with PrestoDB and Trino. The Workload Analyzer script runs safely within the Presto cluster in the user's Virtual Private Cloud (VPC), collecting and analyzing query statistics (JSONs). No data leaves the cluster and the tool does not require any external resources. The Workload Analyzer has already been tested on dozens of massive scale production clusters, resulting in zero impact on query performance.

The mission of Ramat Gan's Varada 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, with no prior preparation and no bottlenecks, providing consistent performance at a petabyte scale. (Varada 02.02)

9.4. Korea is Adopting MagniLearn’s Technology Breakthrough for Learning English

Jerusalem's MagniLearn, a leading ed-tech company that is transforming English learning with purely personalized technology, announced a partnership today with Korea’s "The Education Company", a leading network of schools with over 5,000 students throughout Korea and with Kim Venturous as a local strategic partner. MagniLearn, founded by world-renowned leaders in the fields of AI, Neuro-Science and Cognition from the Hebrew University of Jerusalem, has targeted Korea and Japan as key strategic targets for its expansion in Asia.

In Korea, parents spend on average $4,500 per year on private education per child or a total of $17 billion per year. English private education expenditures are increasing 10% each year. Despite this investment, few students will gain even a moderate level of fluency, and only a tiny fraction will master English.

MagniLearn is backed and funded by the Israel Innovation Authority, Labs02, OurCrowd and Reliance Industries. With formal approval from the Ministry of Education in Israel. Special subsidies are currently being provided for the first Korean schools wishing to adapt this science-based learning solution. MagniLearn is also accepting offers from potential partners and customers in the Private School, Public School, Hagwons and University sectors. (MagniLearn 04.02)

9.5. AppCentral to Launch an Ecosystem of Games in One App

Tel Aviv's AppCentral's Unified will be a single app and destination for gamers and developers. The platform will host multiple interconnected games that are bound by shared metadata and a built in economy. This unified approach will provide Unity developers with an entire ecosystem to distribute and monetize their games. Unified's ready-made infrastructure is designed to help game developers thrive. Unified bridges the gap between developers that want the freedom and capabilities that Unity brings, but access a shared ecosystem and network that helps them promote and monetize their creations.

Developing Unified is AppCentral's most ambitious project for 2021. It is a real struggle for talented app developers to reach a critical mass of users with limited budget. The Unified ecosystem is designed as a network that will help creators promote and monetize their games and apps efficiently. (AppCentral 03.02)

9.6. Agent Factory & Microsoft Enable Smart Logistics Solutions with 3D Vision

Agent Factory announced its collaboration with Microsoft's Azure Depth Platform program, aimed at democratizing cloud connected 3D sensing. In this collaboration, Agent Factory leverages advanced 3D sensing technologies by Microsoft in its AI solutions, to advance automation, digitalization and optimization of logistics operations. Building a fully automated warehouse and logistics solution from the grounds-up is
rarely an option for many companies. This is where Agent Factory’s Smart Logistics solutions come in - allowing companies of all sizes to harness the power of AI and 3D sensing. This solution is deployed without a significant up-front investment, and integrates seamlessly with existing workflows.

Agent Factory’s solutions leverage Microsoft's IoT Edge platform to provide easy to deploy and secure on-prem components that allow fast near-real-time intelligent processing of captured 3D data. Key information is relayed to Azure Cloud for more advanced processing, storage and retrieval.

Tel Aviv’s Agent Factory brings state-of-the-art AI technology to business problems. It helps companies large and small harness the power of AI to advance their business. In the logistics space, using 3D sensing, location and historical data it’s able to improve throughput, efficiency and top and bottom-line results for its customers. (Agent Factory 03.02)

9.7. Q-nomy Software is Powering Israel’s Race to Total Population Vaccination

Q-nomy announced that all COVID-19 vaccinations in Israel are being managed through its Q-Flow® platform, delivered locally by Callflow Software.

Israel’s leading hospitals and HMOs were tasked with the daunting challenge of making Israel the first country to reach a near total vaccination of the adult population. To support this mission, all providers turned to Q-nomy’s Q-Flow to manage the process, in light of the software platform's ability to perform under the unprecedented volumes of customer traffic and communications expected.

During the first two months of the vaccination program, the HMOs administered close to 70 doses of vaccination per 100 people, with more than 25% of the population receiving their second dose. At its peak point, more than 230,000 people (around 2.4% of the entire population) went through the vaccination process in a single day. About half of the entire traffic of citizens being vaccinated is being handled by the Q-Flow Server at Clalit Health Services, the country’s largest HMO.

Tel Aviv’s Q-nomy is a leading software vendor providing customer-centric business process management solutions. Q-nomy helps global businesses and organizations to perform better by streamlining the customer journey across physical and digital touchpoints. Q-nomy has over 1,200 installations in five continents in healthcare, government, finance, telco, retail and education organizations. (Q-nomy 15.02)

9.8. Guardicore Unveils IPCDump for Tracing Interprocess Communication on Linux

Guardicore announced the availability of IPCDump, a new open source tool for tracing interprocess communication on Linux. The tool covers most interprocess communication (IPC) mechanisms, including pipes, fifos, signals, Unix sockets, loopback-based networking and pseudoterminals, and is useful for debugging multi-process applications and gaining transparency into how they communicate with one another in their IT environment.

Modern applications have distinct processes that plug into one another in a black box, creating significant challenges for developers when something breaks. This issue is particularly true for debugging complex multiprocess applications. IPCDump solves this problem by tracing both the metadata and contents of apps’ communication and tracing IPC between short-lived processes. Security practitioners can also use the open source tool to explore how business apps communicate with internal and external systems. IPCDump can also easily track short-lived processes’ creation and destruction, a tedious task that typically requires security and IT teams to check port numbers against netstat manually.

Tel Aviv’s Guardicore is the segmentation company disrupting the legacy firewall market. Their software-only approach is decoupled from the physical network, providing a faster alternative to firewalls. Built for
The agile enterprise, Guardicore offers greater security and visibility in the cloud, data-center and endpoint. (Guardicore 10.02)

9.9. Tactile Mobility Joins with Major World Cities to Minimize Winter Road Accidents

Tactile Mobility is joining forces with cities across the globe, in Israel, Singapore, the UK, the US and more, to ensure safer roads, and by extension safer cities, during the upcoming winter months. This winter, Tactile Mobility’s tactile sensing and data technology – which enables road condition maps of pavement conditions, road slipperiness (grip estimation), distress locations and more – will greatly enhance vehicle safety, road asset management and road safety, all at a fraction of the cost of existing methods.

Today, many cities rely on outdated, expensive practices to monitor the condition of their roads – namely via survey vehicles, 'manual' citizen and municipal/road authority reports and more. Many do not have the appropriate measures in place to keep their roads monitored at an adequate frequency to support adaptive maintenance, especially when winter takes its toll. Tactile Mobility's tactile sensing and data technology enables cities to generate real-time tactile data, insights and maps that inform the prediction of upcoming grip risks and improve road safety by monitoring and measuring how roads experience different weather and atmospheric conditions.

The company utilizes vehicles’ existing built-in sensors (wheel speed, wheel angle, RPM, brake pedal position, etc.) to create actionable insights regarding the roads as well as the vehicle-road dynamics. Vehicles embedded with Tactile Mobility's technology collect and analyze vital road condition data which is transformed into SurfaceDNA™ in the cloud. SurfaceDNA™ models road features such as grades, banks, curves, normalized grip levels, and the location of distresses such as bumps, cracks and potholes.

Haifa's Tactile Mobility is the world's leading tactile virtual sensing technology and data provider, enabling actionable insights for autonomous vehicles, municipalities and fleet managers. Tactile Mobility's unique technology collects "first principle", crucial, anonymized real-time data generated from vehicles' non-visual, existing sensors and turns it into actionable insights on road attributes including grades, grip, and curvatures as well as vehicle attributes such as weight, tire parameters, and more. Insights provided by Tactile Mobility greatly enhance vehicle intelligence and ride safety, efficiency and experience as well as empower city officials with new and much higher value data to better conduct planned maintenance and detect hazards in near real-time. (Tactile Mobility 11.02)

9.10. infiniDome Delivers GPS Monitoring & Protection Solution to Israel Railways

infiniDome announced participation with Israeli partner, Focus Telecom, in a new country-wide project with Israel Railways. The project involves deployment by Focus Telecom of GPS repeaters at more than 30 railway stations across Israel, providing accurate, location-based service indoors at all locations for a new Israel Railways ticketing app. A critical component of the project is a monitoring service that detects and provides alerts of any GPS disruption or interference in real time, as they are identified. This is facilitated by infiniDome’s IoT GPSensors and its cloud-based GPS monitoring service, infiniCloud. infiniDome’s monitoring technology for critical assets detects and alerts operators of threats and disruptions of the essential GPS signals. These threats can originate from either malicious or natural causes.

Israel Railways is the cornerstone of Israeli critical infrastructure. In 2018, Israel National Railway carried 68 million passengers. This same infiniDome GPS monitoring and protection technology is now available to defend critical infrastructure assets worldwide.

Caesarea’s Focus Telecom is a global provider of time synchronization solutions since 1995, offering consulting, cyber defense and synchronization solutions. Their end-to-end timing solutions generate,
distribute and apply precise time for multiple industries, including Communications, Government/Security, Finance/IT, and Industry/Infrastructure.

Caesarea's infiniDome, the GPS Security Company, provides front-end cyber solutions protecting wireless communications from jamming attacks. infiniDome's GPS protection solutions are tailored for defending the GPS systems which are at the heart of drones and other unmanned systems, vehicle fleets and critical networks as well as defense applications. (infiniDome 16.02)

10. ISRAEL ECONOMIC STATISTICS

10.1. Israel's Inflation Rate Falls by 0.1% in January While Housing Prices Rise by 0.9%

The Central Bureau of Statistics announced that Israel's Consumer Price Index (CPI) fell by 0.1% in January 2021, a more moderate decline than the pundits’ forecast. Over the past 12 months, the CPI has fallen by 0.4%. There were significant price falls in January in fresh fruit and vegetables (2.7%) and clothing and footwear (9.7%).

The housing prices index, which is separate from the CPI, continued to rise in the period November-December, in comparison with October-November, climbing by 0.9%, after rising 1% the previous month. Housing prices have risen 4% over the past 12 months. The prices of new homes rose by 0.5% in November-December, in comparison with October-November, and have risen by 3.1% over the past 12 months. The price of an average apartment in Israel in the fourth quarter of 2020 was NIS 1.574 million, compared with NIS 1.571 million in the preceding quarter. (CBS 15.02)

10.2. Israel's Economy Contracted by Only 2.4% During 2020

The Central Bureau of Statistics announced that Israel's Gross Domestic Product (GDP) contracted by 2.4% in 2020, caused by the COVID-19 pandemic and the restrictions imposed by the government to halt the spread of the virus. Last year's contraction followed 3.4% and 3.5% growth in 2019 and 2018 respectively. However, the contraction was less than the Bank of Israel forecast of 3.7% and considerably below the Euro-bloc where the economy shrank 5%.

Israel's economy grew by 6.3% in Q4/20 fueled by an 18.2% rise in private consumption, a 66.1% rise in investments in fixed assets and a 26% rise in public expenditure. However, the economy fell 0.4% in the Q4/20 compared with Q4/19. (Various 16.02)

10.3. Average Israeli Salary Climbs by 9.9% During Pandemic

The number of employment positions in Israel stood at 3.252 million in November, a 13% decrease compared the 3.74 million who were employed in the same month in 2019. According to a Central Bureau of Statistics report, the hospitality and food services sector saw a 63.4% decrease in the number of employee positions. The arts, entertainment, and recreation sector, recorded a 53.3% decrease, compared to the 17.9% recorded in the commerce sector.

In November, the average employee salary stood at NIS 11,525 ($3,510), an increase of 9.9% over the previous November, when the average salary was NIS 10,483 ($3,193). The CBS compiled its report on average wages and employment based on the number of workers employed in that month and the total wages they were paid.
Average wages increased 15.2% in April 2020 compared to March, following the first lockdown. Following the end of the second lockdown in October, average wages increased 2.1% over the previous month. Part of the reason for this increase is that the earnings of employees who had their jobs terminated tend to be lower than the national average. (ILH 05.02)

10.4. Foreign Exchange Reserves at the Bank of Israel in January 2021

Israel's foreign exchange reserves at the end of January 2021 stood at $179.507 billion, an increase of $6.21 billion from their level at the end of the previous month. The reserves represent 44.9% of GDP. The increase was the result of foreign exchange purchases by the Bank of Israel, which totaled $6.832 billion, as well as government transfers from abroad totaling approximately $287 million. In contrast, the increase was partly offset by a revaluation that decreased the reserves by approximately $857 million and private sector transfers of approximately $52 million. (Bol 07.02)

10.5. Israel's Foreign Exchange Market in the Fourth Quarter of 2020

During the course of the fourth quarter, the shekel strengthened by approximately 6.6% against the dollar, further to the long-term trend. In parallel, the shekel strengthened by about 2.0% against the euro. Against the currencies of Israel's main trading partners, in terms of the nominal effective exchange rate of the shekel (i.e., the trade-weighted average shekel exchange rate against those currencies), the shekel strengthened by approximately 3.4%, further to the long-term trend. The dollar weakened in the fourth quarter against major currencies—including the euro (4.6%), the British pound (6.2%) and the Japanese yen (2.5%), further to its weakening against those currencies in the previous quarter.

A decline in actual volatility in parallel with a slight increase in implied volatility. The standard deviation of changes in the shekel/dollar exchange rate, which represents its actual volatility, declined to an average level of 4.6% during the fourth quarter of 2020, further to the decline in the previous quarter. The average implied volatility in over the counter shekel/dollar options, an indication of expected exchange rate volatility, increased slightly during the quarter, to an average level of 6.3%. The implied volatility in foreign exchange options in emerging markets during the quarter was 10.8%. The average level of implied volatility in developed markets during the quarter was 7.7%, a decline of 0.5% compared with the previous quarter.

An estimate of the activity of the main segments in the foreign exchange market indicates that during the course of Q4/20, most segments continued with the trends of the third quarter. Institutional investors (pension funds, provident funds, and insurance companies) had net sales of foreign exchange totaling about $5.2 billion and non-residents increased net foreign exchange sales to about $6.2 billion. In contrast, the business sector continued its net purchases of foreign currency, totaling about $1.8 billion.

The average daily trading volume declined by about 14% during the quarter, to about $6.8 billion, with the decline derived mainly from a decrease in daily trading volume in swaps. Non-residents' share of total trading volume (spot and forward transactions, options and swaps) decreased by about 2.2% to about 41.0% at the end of Q4/20. (BOI 10.02)

10.6. Israel Ranks 7th Among World's 60 Most Innovative Economies

Israel was ranked seventh among the world's 60 most innovative economies, according to the most recent Bloomberg Innovation Index. Israel fell one spot from its standing in 2020 and two places from 2019, where it came in fifth place.
The Bloomberg Innovation Index ranks the 60 most innovative economies in the world and "analyzes dozens of criteria using seven equally weighted metrics, including research and development spending, manufacturing capability and concentration of high-tech public companies."

South Korea was ranked as the world's most innovative country and took the title from Germany, which fell to fourth place this year. Following South Korea were Singapore and Switzerland, which each moved up one spot, and were ranked second and third, respectively. Sweden was ranked fifth, followed by Denmark and then Israel. Finland, the Netherlands and Austria followed, as the United States dropped out of the top 10 this year, falling two spots to 11th place. (ILH 14.02)

10.7. Japanese Investments in Israel Rose by 20% in 2020, Totaling $1.1 Billion

According to research conducted by the consulting firm Harel-Hertz Investment House, during 2020 there were a total of 51 Japanese investments worth an accumulated $1.1 billion. Though total investments were capped at $1.1 billion, an increase of 20% compared to 2019, when the figure stood at $914 million, the number of deals dropped from 67 to 51. Today, Japan accounts for a respectable 11.1% slice of overall foreign investments in the Israeli high tech market, compared to just 1.8% in 2016.

The total amount of Japanese investments in Israel since 2000 stands at $8.25 billion with over 308 deals. It should be emphasized that the growth in investments began in 2015 after reciprocal visits by Israeli Prime Minister Netanyahu and Japanese Prime Minister Abe and following the signing of a series of agreements concerning investments and collaborations in the fields of defense, cyber and agriculture.

A particularly important factor was the growing pool of Japanese investors. While in 2015 most of the investments were carried out by a small number of trading companies and large industry corporations, this has changed. During the past three years, the circle of investors expanded to include automobile makers, financial bodies, insurance companies, and small and medium-sized venture capital funds.

Over the past year there was also significant development with the entry of Japanese institutional investors into the Israeli market. Leading insurance companies such as Tokio Marine Hcc, Sompo Holdings; and banks such as MUFG and Mizuho that initiated partnerships with their counterparts in Israel, and spearheaded investments in Israeli venture capital funds. An additional reason for the rise in Japanese involvement in investments in Israel is the fact that 15 Japanese venture capital funds are currently operating in the country. In tandem with the dramatic growth in investments, it’s worth noting that Japanese acquisitions of Israeli companies remain low. In 2020, only a single Israeli company, Emendo Bio, was acquired by Japanese AnGes MG. (Calcalist 08.02)

11. IN DEPTH

11.1. ISRAEL: January Sees Record Number of Investments in Israeli Start-ups

Analysis by Israeli NGO Start-Up Nation Central (SNC) found that January 2021 saw record investments in Israel during a single month. Six start-ups raised more than $100 million each (mega rounds) during the month, totaling 73% of the total, record-breaking $1.44 billion raised by Israeli firms in January 2020.

Furthermore, the mega-rounds in January 2021 alone, equal close to 30% of the total number of mega-rounds in the entire year of 2020 (21 total). All of the aforementioned reflects a strong vote of investor confidence in Israel's innovation ecosystem during the COVID-19 pandemic.
The six 'mega-rounds' which were announced during January 2021 were:

- Rapyd Financial Network (Fintech): $300 million, D Round
- Drivenets (Network Infrastructure): $208 million, B Round
- OwnBackup (Enterprise solutions): $167.5 million, D Round
- K Health (Digital health): $132 million, E Round
- Resident Home (Ecommerce): $130 million, B Round
- Melio (Fintech): $110 million, D Round

It is the highest number of both mega-round and general investments made during a single month in Israeli start-ups. The year 2020 witnessed 21 'mega-round' investments during the whole of 2020, equivalent to 33% of capital raised. As a monthly comparison, there were three 'mega-rounds' in January 2020, none in January 2019 or January 2018. The mega-rounds in January were led by US investors.

Fintech was the dominant sector during January with two 'mega-rounds' and $413 million raised (29% of the total fundraising in January). It is a continuation of Fintech's strong performance since September 2020 with $1.4 billion in investments compared to only $340 million raised in the first eight months of 2020.

Director of Research at Startup Nation Central (SNC), Meir Valman: "The record level of fundraising in recent months is driven by two effects. One is the increasing maturity of the Israeli tech ecosystem, when rapidly growing startups are able to raise much larger rounds. The other is the effect of COVID-19 on Israeli companies, which pivot rapidly to address the challenges of the pandemic, but that will also stay relevant long after it is gone."

**About Start-Up Nation Central (SNC) and the Finder Platform**

Start-Up Nation Central is a non-profit organization that helps tackle global challenges by connecting Israeli technologies with multinational corporations, governments, investors, as well as NGO's from around the world. Start-Up Nation Finder the Innovation Discovery Platform, is a leading source of in-depth information on Israeli Startups, investors, hubs, multinational corporations and academic technologies. The open-source platform provides up-to-date information and insights into thousands of active Israeli companies. It serves as the gateway to the Israeli innovation ecosystem for global visitors seeking partnership with the local tech industry.) SNC 15.02)
11.2. LEBANON: Sovereign Credit Rating is at C Amid Steep Crisis

On 4 February, Moody’s assigned a sovereign credit rating of C to Lebanon. The C rating reflects Moody’s “assessment that the losses incurred by bondholders through Lebanon’s current default are likely to exceed 65%”. In addition, “the collapse of the currency in the parallel market and the concomitant surge in inflation fuel a highly unstable environment”.

Moody’s cited credit strength as the commitment for international donor support conditional on the implementation of an IMF reform program. Whereas credit weaknesses involve increasing exposure to a severe economic, financial and social crisis; weak institutional and governance strength, which delay access to external support; and continued drawdown of external foreign-exchange reserves. C is the lowest rating and that is mainly behind the decision not to assign an outlook. For the country’s rating “to increase above levels associated with very high probability of future re-default and significant losses, Moody’s stated that the implied pace of fiscal consolidation and structural reform implementation would have to be much faster than currently expected, over a number of years. A further precondition for a substantial upgrade is that the key drivers of the country’s debt dynamics have to evolve in a way that would ensure debt sustainability in the future”.

In its analysis of recent economic developments, Moody’s mentioned, first, the social risks arising from the severe deterioration of economic conditions which drove the poverty rate to 45% in 2020 compared to 37% in 2019. This has led the World Bank to approve on 12 January 2021 “the Emergency Crisis and COVID-19 Response Social Safety Net Project (ESSN). ESSN amounts to $246 million for emergency cash transfers that will cover 786,000 individuals (a monthly transfer of LBP 100,000 per household member, in addition to a flat amount of LBP 200,000 per household) for three years”.

Second, the continued drawdown of foreign-exchange reserves which is undermining the viability of subsidized key imports. In this context, “as of November 2020, Lebanon’s foreign-exchange reserves have declined to $19 billion from a peak of $36.8 billion in October 2017. Of this amount, 15% of all foreign-currency deposits at commercial banks are mandatory reserves held on behalf of banks (or $16.7 billion), leaving only about $2.3 billion for key imports such as wheat, fuel and medicine at subsidized rates, thus lasting for another six months”.

Third, government formation remains a slow-moving process, and external financial support remains conditional on specific reforms. These reforms include, “making public finances and the banking system solvent again via a comprehensive debt restructuring; legislation to formalize capital controls and the elimination of the current multiple exchange rate system; and comprehensive audits of the central bank and state-owned enterprises”. (Moody’s 04.02)

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11.3. IRAQ: IMF Executive Board Concludes 2020 Article IV Consultation

On 8 February 2021 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Iraq.

The COVID-19 pandemic and a sharp decline in oil revenues have exacerbated Iraq’s longstanding economic vulnerabilities. Real GDP contracted by an estimated 11% in 2020, reflecting a slowdown in non-oil activity and cutbacks in oil output as a result of OPEC+ decisions. Large fiscal and external current account deficits of 20 and 16% of GDP, respectively, constrained the government’s ability to mount an effective fiscal response to the crisis.

The authorities have begun to take much-needed steps towards ensuring macroeconomic stability while protecting the vulnerable. To help safeguard foreign exchange reserves and reduce the external imbalance, the Central Bank of Iraq has announced a devaluation of the exchange rate. Alongside, the draft 2021 budget, submitted to Parliament, aims to reduce the fiscal deficit through measures to contain the unsustainable expansion of government wage and pension bills and to raise non-oil revenues, while
significantly boosting targeted assistance to shield the most vulnerable. The authorities have also set aside sizable resources in support of their efforts to minimize the loss of life to COVID-19, including through acquisition and distribution of a vaccine.

The economy is expected to gradually recover, and the imbalances to narrow, although the outlook remains challenging. Real GDP is projected to return to its pre-pandemic level by 2024. The fiscal and external current account deficits are projected to decline over the medium term. Government debt is expected to peak in 2023 and decline gradually thereafter.

This outlook hinges on strong implementation of reforms and is subject to significant downside risks. Political constraints ahead of the parliamentary elections, renewed bouts of social unrest, or security risks could undermine the reform efforts, putting macroeconomic stability at risk. Furthermore, pandemic-related risks and oil market uncertainties could further complicate the economic situation.

**Executive Board Assessment**

Executive Directors agreed with the thrust of the staff appraisal. They noted that the COVID 19 pandemic and the sharp decline in oil revenues have further exacerbated Iraq’s existing significant socio-economic fragilities. Directors also noted the authorities’ efforts to strengthen the health policy response, boost social safety nets and reduce the fiscal and external deficits. Nevertheless, downside risks to the economic outlook remain significant amid a challenging socio-political environment. Directors emphasized that implementing strong policies and structural reforms is essential to ensure macroeconomic stability and achieve sustainable and inclusive growth.

Directors emphasized that reducing fiscal imbalances is critical to ensuring fiscal and debt sustainability. They welcomed the authorities’ planned fiscal reforms in the “White Paper” and encouraged their careful prioritization and swift implementation while minimizing the impact on the vulnerable. To create room for the much-needed reconstruction and social safety nets, Directors highlighted the importance of strengthening public finances. To this end, they called for a comprehensive civil service reform to contain the public wage bill and recalibration of the pension system to put it on solid financial footing. Priority also needs to be given to increasing non-oil revenues and strengthening public financial management to reduce the fiscal risks stemming from off-budget expenditures and government guarantees.

Directors concurred that the recent exchange rate adjustment would help reduce external imbalances and preserve foreign exchange reserves. They underscored that a strong fiscal framework remains critical to ensuring the credibility of the new exchange rate peg as well as minimizing future need for monetary financing of the budget. Directors also saw need for further monetary policy measures by the central bank to contain inflation.

Directors stressed that wide-ranging structural reforms are necessary to cement macroeconomic stability and pave the way for higher and more inclusive growth. They underscored that reform efforts should focus on stemming the financial losses in the electricity sector. This requires sustained efforts to strengthen governance and improve collection, as well as gradual adjustment of tariffs to increase cost recovery and reduce arrears. In addition, Directors emphasized the importance of reducing corruption in key public institutions, continued improvement and effective implementation of the AML/CFT framework, restructuring of large state-owned banks to foster financial stability, and developing the private sector.

Directors noted the authorities’ interest in emergency financing with the Fund to support their stabilization and reform efforts with some Directors encouraging a longer-term arrangement to address structural challenges. It is expected that the next Article IV consultation with Iraq will take place on the standard 12-month cycle. (IMF 11.02)
11.4. ARABIAN GULF: 2021 Budgets Indicate Tough Economic Times Ahead

Robert Mogielnicki posted in the Arab Gulf States Institute in Washington on 4 February that over the past decade, government spending in Gulf Arab states has grown steadily despite periods of fiscal consolidation. Growing populations, large public sectors, ambitious development initiatives, and high-profile events demand significant expenditures. Yet the fallout from the coronavirus pandemic and oil price rout of 2020 appears to have ushered in a new fiscal trend: lower spending and persistent deficits.

Smaller 2021 budgets and conservative oil price assumptions – around $40 to $50 per barrel – reveal a partial budgetary realignment with economic realities. This cautious approach may permit Gulf governments’ balance sheets to end the year slightly better than expected, given that many oil market watchers have increased their 2021 price forecasts to between $50 and $60/bbl. However, a willingness to post large deficits and the emergence of coronavirus variants, threatening to extend the pandemic, will add more pressure to mounting economic challenges in Gulf Arab states.

Saudi Arabia’s $263.9 billion budget for 2021 is about 7% less than estimated spending for 2020. The expected 2020 deficit was $79.4 billion, about 12% of GDP. Saudi officials hope that the deficit for 2021 will drop to around 5% of GDP. At $37.6 billion, this deficit expectation roughly equates to the $40 billion that the Public Investment Fund plans to inject into the country’s economy this year. The International Monetary Fund estimates Saudi Arabia’s fiscal breakeven oil price to be approximately $68/bbl – not far off from bullish oil price forecasts.

Over the past couple of years, Saudi Arabia has taken a number of steps to increase non-oil revenue streams by imposing new taxes and fees alongside spending cuts. But the flip side of rolling out new revenue-generating mechanisms and fiscal consolidation is dampened investor demand. The kingdom has struggled to boost declining or low levels of foreign direct investment flows since 2008. A drop in spending is not music to investors’ ears. However, Saudi officials are aggressively promoting a number of high-profile investment initiatives from the country’s Red Sea coast to Riyadh. Policymakers are also slowly-dripping plans for 20 new economic zones with investor-friendly regulatory environments.

Bahrain’s fiscal balance program resulted in a drop in spending in 2019 and 2020. The country’s draft budgets for 2021 and 2022 reflect minimal movement on the expenditure front, beyond a slight decrease in spending from $8.74 billion to $8.54 billion. Deficits will stay high after Bahrain’s fiscal deficit soared to an estimated $4.4 billion in 2020 – equating to around 14% of GDP. Based on an assumption of oil prices averaging $45/bbl, the country’s officials envisage deficits of $3.4 billion in 2021 and $3 billion in 2022. Bahrain may require additional financial support commitments from its Gulf neighbors for 2023 onward, according to Fitch Ratings.

After posting a roughly balanced budget in 2020, Qatar announced a 2021 budget of $53.5 billion. This allocation involves a 7.5% drop in spending, a $9.5 billion deficit, and relatively conservative average oil price of $40/bbl. The country is likely to keep posting deficits through 2024, when expanded gas output should help boost revenue. Yet negative turns in the global gas market over the coming years may add pressure to the Qatari government’s external debt burden, which reached $62.9 billion in 2020, up from $20.2 billion in 2015, according to the Ministry of Finance.

Oman also bears a heavy debt burden but possesses a shallow well of financial resources to meet its various obligations. For the 2021 budget, the country slashed expenditures by 14% compared to 2020 and has factored in an oil price assumption of $45/bbl. Even with these measures, Omani officials are anticipating a $5.7 billion deficit in 2021, which reflects about 8% of GDP. Oman’s medium-term fiscal plan aims for a steady reduction in the deficit – down to 1.7% of GDP in 2024 – and boosting non-oil revenue. However, there are concerns about the sultanate’s ability to meet these deficit and revenue targets.

The United Arab Emirates’ federal budget provides some insight into the fiscal dynamics playing out within individual emirates. The UAE’s 2021 federal budget declined 5% from 2020’s, which was the largest budget allocated since the country’s establishment. The size of Dubai’s 2021 budget is 14% below the emirate’s 2020 budget announced in December 2019, prior to adjustments related to the coronavirus pandemic and
oil price rout. The ruler of Sharjah, however, approved the emirate's largest ever budget – a 12% increase from the 2020 budget.

Kuwait also increased spending by about 7% for its 2021 fiscal year beginning in April. Kuwaiti officials are basing calculations on $45/bbl oil prices. It would take prices of about $90 to balance the budget. A shortfall of about $40 billion is projected, and the government has halted automatic annual transfers to the Future Generations Fund, a sovereign wealth fund. Instead, the government has been transferring performing assets, those with regular cash flows, to the Future Generations Fund in return for cash needed to meet monthly budget deficits. Without progress on a new debt plan, the country has limited options to meet its financing needs over the next year.

The overall size of Gulf budgets and their responsiveness – or lack thereof – to prevailing economic realities are only part of the problem. Another major obstacle involves the distorted nature of Gulf budgets. The oil and gas sector accounts for 70% or more of total government revenue in most Gulf states. Meanwhile, wages and subsidies often constitute a majority of government expenditures. These budgetary components are difficult to reform. Qatar – one of the better-placed countries to undertake fiscal adjustments – only managed to decrease allocations for salaries and wages by 1.9% from 2020 to 2021.

The durability of these revenue and expenditure structures has been impressive but ultimately will become unsustainable. Until deeper changes are made to the structural composition of budgets and non-oil revenue-generating mechanisms become institutionalized, minor adjustments on the margins of fiscal policy will have little overall impact on the ability of Gulf governments to successfully meet the challenges of today and those of tomorrow.

Robert Mogielnicki is a resident scholar at the Arab Gulf States Institute in Washington. (AGSIW 04.02)

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11.5.  KUWAIT:  Fitch Revises Kuwait's Outlook to Negative; Affirms at 'AA'

On 2 February, Fitch Ratings has revised the Outlook on Kuwait's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable and affirmed the IDR at 'AA'.

Key Rating Drivers

The revision of the Outlook reflects near-term liquidity risk associated with the imminent depletion of liquid assets in the General Reserve Fund (GRF) in the absence of parliamentary authorization for the government to borrow. This risk is rooted in political and institutional gridlock that also explains the lack of meaningful reforms to tackle double-digit fiscal deficits and the expected weakening of Kuwait's fiscal and external balance sheets, although these will remain among the strongest of Fitch-rated sovereigns.

Without passage of a law permitting new debt issuance, the GRF could run out of liquidity in the coming months without further measures to replenish it. Depletion of GRF liquidity would sharply limit the government's ability to make good on its spending obligations and could result in significant economic disruption. Our base case is that government will replenish the GRF to avoid depletion even without any new legislation by parliament, and that debt service (about KWD400 million or 1% of GDP in 2021) would in any case continue in a timely manner. Nevertheless, a degree of uncertainty remains.

The authorities have shown commitment to avoiding a liquidity crisis and have flexibility to take extraordinary measures, but the timing of a sustainable funding solution remains unclear. In August, parliament passed legislation removing the automatic requirement to transfer 10% of revenue from the GRF into the much larger Future Generations Fund (FGF). This allowed for the reversal of the transfer for the fiscal year ending March 2019 (FY18), and followed the purchase of liquid assets from the GRF by the FGF. The GRF still has a broad range of illiquid assets that could also be transferred to the FGF, including the Kuwait Petroleum Corporation (KPC). The GRF could also borrow from the FGF, as it did during the Iraqi invasion in 1990-1991, although this is not an option that the government is considering at this stage.
Under Kuwait's constitution, the Amir could issue decrees with the force of law, although this option would be politically contentious, in our view.

Passage of the debt law, deficit reduction and fiscal reform continue to be beset by entrenched political divisions and fiscal rigidities, with over 70% of government spending consisting of salaries and subsidies and about 80% of Kuwaiti nationals employed in the public sector. With political parties banned, members of parliament (MPs) tend to be elected on narrow, populist platforms and frequently conflict with an appointed government. This trend is likely to continue after gains by the opposition in the December 2020 elections. In January 2021, the government resigned after opposition MPs moved to "grill" the prime minister, although the Amir swiftly re-appointed him. The prime minister, a senior royal family member, was appointed after the last government resignation in November 2019. Another no-confidence motion in October 2020 was forestalled by the passing of the late Amir.

We expect the general government deficit to widen to about KWD6.7 billion (20% of GDP) in FY20, including in revenue the estimated investment income of the Kuwait Investment Authority (KIA), which is not officially disclosed and mostly relates to the FGF. We expect revenues to fall 33% to a little over KWD14 billion (42% of GDP), driven by lower oil prices and production. Spending will be in line with the previous fiscal year at KWD21 billion (62% of GDP), slightly below the final budget. The government allocated a total of KWD740 million (less than 2% of GDP) in additional spending to fight the coronavirus and support the private sector, which was offset by savings elsewhere, including lower subsidies, which vary with oil prices.

Fiscal deficits will likely remain in the double digits in the medium to long term and lead to a gradual but steady deterioration of Kuwait's balance sheet strengths, barring significant fiscal reforms or a rebound in global oil demand. We expect a fiscal deficit of about KWD7.5 billion (21% of GDP) in FY21, assuming an average oil price of $45/bbl and average production of 2.4 million bbl/day. Under the same assumptions, the recent draft government budget plans for a broad-based increase in spending to KWD23 billion (about 65% of GDP), but we expect that the actual spending increase will be lower. We estimate that at current oil production levels, oil prices would need to average $80/bbl for the budget to be in balance.

Under the government's reporting convention, which does not include KIA investment income in revenue, we estimate the fiscal deficits would be even larger at about KWD10 billion (30% of GDP) in FY20. This roughly corresponds to the government's funding need, as the bulk of KIA assets and investment income relate to FGF, which would require parliamentary approval to access.

**Kuwait's 'AA' IDRs also reflect the following key rating drivers.**

Kuwait's public sector balance sheet will likely remain among the strongest of any Fitch-rated sovereign, even assuming little fiscal reform and no recovery in oil prices or production. We estimate the foreign assets of the KIA, mostly in the FGF, at around $581 billion at end-2020, accounting for the bulk of Kuwait's sovereign net foreign asset position of 652% of GDP. We estimate that the KIA total likely increased on the back of strong financial returns in 2020, despite drawdowns from the GRF. Government debt/GDP is among the lowest among Fitch-rated sovereigns, at around 17% in 2020, and passage of the debt law allowing KWD20 billion of borrowing by the central government could take this to 50-60%, just above the median for 'AA' sovereigns.

Kuwait's bank and non-bank private sectors are net external creditors and major investors in the rest of the region, reflecting relatively muted domestic growth prospects. This provides support to the current account balance and Kuwait's net international investment position, which we estimate at 675% of GDP in 2020. Kuwait's current account has been in surplus in all but two of the past 20 years.

Kuwait's fiscal and external metrics are particularly sensitive to changes in oil prices and production. We estimate that a $10/bbl change in the average oil price from our baseline assumption would shift Kuwait's fiscal balance by around 6% of GDP. An additional 100,000 bbl/day of oil production would impact the fiscal balance by around 1.5% of GDP.
We expect Kuwait's economy to stage a mild economic recovery this year as the dual shocks of oil production cuts and the coronavirus begin to fade. We estimate that real GDP contracted by about 7% in 2020, with the oil sector contracting by 9% and the non-oil sector by 4%. As global oil demand recovers and OPEC production quotas are phased out, there is potential for Kuwait to gradually raise output towards current production capacity of 3.1 million bbl/day (with KPC planning to expand capacity to 3.5 million bbl/day by 2025). The commissioning of refinery upgrades, KPC's clean fuels project and higher gas production could also support growth in 2021-2022.

Most structural features are weaker than the 'AA' category median, including World Bank Governance Indicators. The banking sector is well-capitalized and well-regulated, with an average Viability Rating (VR) of 'bbb'. The economy is one of the most heavily oil-dependent among Fitch-rated sovereigns, and we estimate that in 2020 oil contributed more than 90% of exports and 60% of total budget revenues (including investment income).

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- **Structural Features:** Depletion of the GRF in the absence of a new debt law, legislation permitting access to the FGF or other extraordinary measures to ensure that the government can continue to make good on its payment obligations, including but not limited to debt service.

- **Public Finances:** Continued erosion of fiscal and external positions, for example due to a sustained period of low oil prices or an inability to address structural drains on public finances.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- **Public Finances:** Adoption of a clear and sustainable government funding strategy, for example through passage of laws permitting regular debt issuance or access to FGF assets, accompanied by evidence that Kuwait's institutions and political system are able to tackle long-term fiscal challenges, for example through actions to implement a clear deficit reduction plan.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance.

Key Assumptions

Fitch forecasts that Brent crude will average $45/bbl in 2021 and $50/bbl in 2022. Fitch assumes that regional conflicts will not directly impact Kuwait or its ability to trade. (Fitch 02.02)
“Bahrain moved quickly to address the health and economic effects of the COVID-19 pandemic, protecting lives and livelihoods. Swift and well-coordinated policy responses have helped limit the spread of the virus, deliver rapid and widespread access to vaccinations, and target income and liquidity support to those most in need.

“Nevertheless, as in other countries, the prolonged COVID-19 pandemic and necessary containment measures continue to impact Bahrain. Growth in 2020 is estimated at -5.4%, driven by a sharp contraction in non-oil growth of -7%. Activity in high contact and job-rich services sectors contracted markedly, but manufacturing has been relatively unaffected. Hydrocarbon GDP growth is estimated at 2%, while CPI inflation averaged -2.3% in 2020. With the plunge in oil prices and the contraction in nominal GDP, the state budget deficit in 2020 increased to 12.8% of GDP from 4.7% of GDP in 2019, while the overall fiscal deficit increased to 18.2% of GDP in 2020, from 9% of GDP in 2019. Public debt increased to 133% of GDP from 102% of GDP in 2019. The current account deficit widened to 9.6% of GDP and international reserves declined to about 1.4 months of prospective non-oil imports.

“Despite considerable challenges, the authorities remain committed to achieving the key objectives of the Fiscal Balance Program, including gradually rebuilding policy buffers and reversing the rise in public debt.

“The near-term priority remains to ensure public health, essential services, and targeted fiscal support to the most vulnerable. Once the recovery firms, ambitious and growth-friendly fiscal adjustment set within a credible medium-term framework is needed to address Bahrain’s large imbalances, put government debt on a firm downward path, and restore macroeconomic sustainability. The adjustment would also help rebuild external buffers, solidify the exchange rate peg, which continues to serve Bahrain well as a monetary policy anchor, and support access to sustainable external financing.

“The post-pandemic recovery will be gradual. Economic growth is projected at 3.3% in 2021 and is expected to remain flat at around 3% over the medium term. This outlook reflects a recovery in non-oil growth to 3.9% in 2021 as widespread vaccine distribution boosts activity toward pre-crisis levels. However, there is considerable uncertainty around the outlook, including from the path of the pandemic and related global and domestic containment measures.

“Staff welcomed the Central Bank of Bahrain’s substantial support to banks but cautioned about emerging credit risks. Maintaining a healthy banking system and fostering innovation in Fintech and digital banking solutions will support the recovery and strengthen financial inclusion for underserved segments.

“Targeted policies and structural reform efforts should aim at minimizing economic scarring risks and creating post-crisis private sector opportunities. More flexible remote working policies could improve labor force participation, particularly among women and youth. Reducing the role of government as an employer could also help create a more dynamic and attractive private sector and alleviate fiscal pressures. (IMF 14.02)
restrictions, while increasing health and medical support and social assistance to the population. The swift and well-coordinated response effectively limited the spread of the coronavirus in the latter part of 2020, but the social distancing and other restrictions weighed heavily on economic activity, particularly those requiring close human contact.

2. **Substantial measures were also implemented to mitigate the impact of the COVID-19 and oil sector shocks on households, firms and banks.** In addition to the direct impact of COVID-19 on economic activity, sharp declines in oil prices triggered by the global spread of the pandemic, and cuts to oil production under the OPEC+ agreement, weighed on the oil sector. Fiscal measures to support the economy included interest-free emergency loans, waiving or reducing selected taxes and fees, flexibility to pay taxes in installments, and establishing the Job Security Fund to support citizens who lost their jobs. In addition, the Central Bank of Oman (CBO) eased financial conditions through lower interest rates and liquidity injections, deferred loan installment payments, and relaxed macro prudential requirements on capital buffers and liquidity ratios.

3. **Nevertheless, the shocks took a heavy toll on the economy in 2020.** Overall GDP contracted by 6.4% (revised up from the previous IMF forecast of -10%), with non-hydrocarbon GDP estimated to have contracted by 10% and a shallower decline in hydrocarbon GDP - due to strong oil condensate production not covered by the OPEC+ agreement. Construction, hospitality, and wholesale and retail trade sectors were particularly hard-hit. Inflation turned slightly negative owing to subdued demand. Employment conditions due to the economic slowdown were mostly relieved by a 15.7% reduction in expatriates and the flexibility to negotiate temporary wage cuts. The external and fiscal positions also weakened substantially:

   The current account deficit is estimated to have widened from 5.4% of GDP in 2019 to 10% in 2020, mostly owing to lower hydrocarbon exports. International reserves declined slightly to around $15 billion (6.5 months of imports), reflecting stable FDI inflows and a Eurobond issuance.

   Government hydrocarbon revenues fell by 3.4% of GDP, reflecting the oil sector shocks. Non-hydrocarbon revenues fell by 0.2% of GDP reflecting declining economic activity and measures such as suspension of penalties on late tax filings and some government fees. Despite significant attempts to constrain expenditure, the sharp decline in nominal GDP implied a rise in the expenditure-GDP ratio. Overall, the fiscal deficit rose by 10.6%age points to 17.3% of GDP and was financed by external bond issuance, drawdown of deposits and sovereign funds, and privatization proceeds. As a result, central government debt rose to 81% of GDP, from 60% in 2019.

4. **To address rising fiscal vulnerabilities, the authorities announced an ambitious medium-term fiscal adjustment plan and broad public-sector reforms.** The fiscal adjustment plan (Tawazun) targets the elimination of the fiscal deficit over 2021-25 by boosting non-oil revenues while keeping nominal fiscal expenditures broadly constant. To improve public asset management, the government established the Oman Investment Authority (OIA) with a mandate to strengthen the governance and efficiency of public enterprises. Also, a new holding company - Energy Development of Oman (EDO) - was created to manage and finance government investments in oil, gas and renewables.

5. **Financial soundness indicators appear healthy.** As of December 2020, banks’ capital adequacy ratios averaged 19.1% and the Liquidity Coverage Ratio was around 200%, comfortably above regulatory minima. Nonperforming loan ratios increased slightly to 4.2%, with specific provisioning coverage of 63% and total coverage of 98%. Nonetheless, profitability indicators declined reflecting the impact of COVID-19 on economic activity, loan repayment deferment and risk provision charges.

6. **A modest recovery is anticipated for 2021, with further strengthening of growth over the medium term, but there is substantial uncertainty around the outlook.** While the roll-out of vaccination and the easing of social distancing restrictions would support increased activity globally as well as in Oman, substantial medium-term fiscal consolidation would weigh on growth. Overall, a mild recovery of 1.5% in non-oil GDP growth is projected for 2021, rising thereafter to 4% by 2026 as the drag from fiscal adjustment subsides. Steady implementation of fiscal adjustment plans would strengthen fiscal and external balances substantially over the medium term. Upside risks to the outlook could come from a stronger rebound in...
global activity with the ending of the pandemic, the boost to confidence from successful implementation of fiscal adjustment plans, and the successful implementation of plans to strengthen public enterprise governance. On the downside, the emergence of COVID-19 variants could prolong the impact of the pandemic and potentially intensify economic scarring of the most affected sectors. Finally, volatility in oil prices would have a significant impact on the outlook and macroeconomic balances.

**Policy Considerations**

*7. Combating the pandemic and mitigating its effects should remain a priority until the recovery is firmly underway.* Short term policies should continue to address the health crisis, including vaccine rollout, support the recovery, minimize long lasting economic scarring and mitigate risks to financial stability. Premature and overly rapid retrenchment could hurt early recovery and pose even larger costs on the economy. In this regard, withdrawal of the various types of fiscal, monetary and financial sector support measures should be carefully coordinated and calibrated to continue to support hard-hit but viable sectors, while gradually reducing support for those that no longer need it. With substantial fiscal adjustment planned for 2021, the fiscal support measures should be prioritized, thus also supporting social safety net, and accommodated by streamlining other spending rather than expanding the deficit. Once the recovery is firmly established, financial policies should be increasingly targeted to reinforce fiscal and external sustainability, safeguard financial stability, and boost potential growth.

**Reinforcing Fiscal Sustainability**

*8. The Medium-Term Fiscal Balance Plan is welcome, and its successful implementation is key to reinforcing fiscal sustainability and alleviating financing pressures.* Key revenue measures include: (i) introducing VAT in 2021; (ii) a personal income tax on high-income earners being developed; and (iii) full-year impact of the expansion of the excise tax base in 2020. Key expenditure measures include: (i) containing the wage bill via civil service reforms; (ii) targeting energy subsidies to the most vulnerable groups; (iii) streamlining capital expenditure; and (iv) broad based improvements in expenditure efficiency. These policies would also help mitigate structural weaknesses in public finances, notably heavy reliance on hydrocarbon revenue and rigidities in expenditure. Given the impact of fiscal consolidation on economic activity and household incomes, sustained commitment and active outreach to build broad support to the proposed measures would be needed to successfully implement the plan. Inadequate implementation of the fiscal adjustment plan could trigger a negative shift in investor sentiment, heightening financing risks. Finally, establishing a sound medium term fiscal framework and a clear fiscal anchor would help in achieving the targeted consolidation, and the IMF stands ready to provide technical assistance in this area.

*9. The 2021 budget entails a significant fiscal consolidation.* The budget envisages reducing the deficit (excluding oil condensate revenue and oil and gas related expenditure hived off to EDO) by about 6% of GDP to 7.5%. The launching of the VAT in April 2021, expansion of the excise tax base, and improvements in tax administration are expected to strengthen non-hydrocarbon revenue. On the expenditure side, civil service reform (including obligatory retirement scheme for long serving employees and lower salaries for new hires) and a 5% cut of other expenditure are envisaged. Gross financing need is projected at 14.5% of GDP, with the bulk of the financing expected to come from external sources. IMF staff projections incorporating the envisaged measures are broadly consistent with those of the authorities, with an upside from higher than budgeted oil prices.

*10. A sovereign asset and liability management framework should be developed given eroding financial buffers and rising contingent liabilities.* Sovereign assets and liabilities should be managed and coordinated in an integrated way to assess sustainability and vulnerabilities in the public sector from the risk-return perspective. With public debt rising, foreign assets declining, and explicit contingent liabilities of state-owned enterprises at about 9.5% of GDP in 2019, it will be important to manage potential mismatches in the financial characteristics of sovereign assets and liabilities to safeguard the sovereign balance sheet from risks of interest rate and exchange rate fluctuations. Information sharing and coordination among relevant government entities should help to detect and mitigate sovereign risk exposures. Further, adopting a medium-term debt strategy should help incorporate the government's
preferences regarding cost-risk tradeoff between alternative financing options and provide predictability to the financial system. Technical assistance from the IMF could support in this regard.

**Safeguarding Financial Stability**

11. **Banks entered the crisis from a position of strength but face challenges.** Despite high capital buffers and liquidity, banks face headwinds from the impact of the pandemic on asset quality, a low oil environment, and high credit and deposit concentration. However, the authorities’ stress test indicated that domestic banks would be able to remain above minimum capital adequacy under severe scenarios.

12. **Policy responses to the pandemic should strike a balance between supporting the economy and containing potential risks to financial stability.** Deferred loan installment payments and associated risk classification could obscure deterioration in asset quality in the banking system, and thereby emerging potential credit risks should be closely monitored especially for hard-hit sectors. In this regard, the case-by-case approach adopted by banks to evaluating applications for loan deferrals appears appropriate. The timing of ending the loan deferral policy should be carefully calibrated to maintain needed support to hard-hit but viable sectors without undermining banking system buffers, taking also into account the availability of other policy tools to support households and businesses.

13. **Careful management of the sovereign-bank nexus over time would support banking system resilience.** At the end of December 2020, deposits from government and government-related entities constituted around 28.3% of total deposits. Banks’ claims on government and government-related entities increased rapidly from 10.3% to 19.1% of total assets during 2014-2020. Strengthening the public sector balance sheet would help reduce public sector financing needs that may otherwise crowd out private sector lending during the recovery phase and would facilitate management of sovereign-bank interlinkages.

**Boosting Potential Growth**

14. **Steadfast implementation of structural reforms is paramount to promote economic diversification and job creation for Omanis, and support fiscal and external sustainability.** In this regard, areas for reform, in line with Oman Vision 2040, include restructuring public administration, strengthening governance of state-owned enterprises, improving the flexibility of labor markets and strengthening corporate restructuring mechanisms. Well-designed social safety nets would also support the reallocation of labor toward expanding sectors as economic diversification proceeds. (IMF 12.02)

**11.8. SAUDI ARABIA: Why the Saudis Ended the Dispute With Qatar**

Kristin Smith posted in the Arab Gulf States Institute in Washington’s Diwan on 8 February that the boycott of Qatar initiated in June 2017 by a quartet of countries involved an intricate mix of concerns and ambitions encompassing Gulf rivalry, regional power competition, ideological divisions and personal animus. It was facilitated by the initial consent, or even encouragement, of the administration of President Donald J. Trump, and animated by an unprecedented nationalist mobilization that consumed social media. Given this complexity, it is no surprise that the denouement of this near 4 year standoff has been unevenly welcomed by the principals. Nor is it surprising that analysts have seized upon varying explanations for this diplomatic opening.

Saudi Arabia initiated this detente. The other parties to the boycott – the United Arab Emirates, Bahrain and Egypt – stated openly that they were letting Saudi Arabia take the lead, and frankly, have demonstrated little enthusiasm for it. Little wonder - Qatar hasn’t complied with the sweeping 13 point ultimatum issued by the quartet – demands that stipulated the closing of Al Jazeera and other Qatar-funded news organizations; scaling back cooperation with Iran; closing Turkey’s military base in Qatar; ending ties with the Muslim Brotherhood and other Islamist groups; and ceasing contact with Gulf internal political opposition figures. While Saudi Crown Prince Mohammed bin Salman hosted the Gulf Cooperation Council reconciliation summit in Al Ula and spoke about the need for the Gulf states to cooperate in confronting
Iran, Qatar’s foreign minister denied any plans to harden its posture toward Tehran, instead proposing to mediate.

So why has Saudi Arabia embarked on this diplomatic thaw? Most analysts have seized upon the timing, coinciding with the U.S. presidential transition to the administration of Joseph R. Biden. Confronted with the new U.S. plans to reengage with Iran and critically review U.S.-Saudi ties in terms of values, the Saudis have been eager to present themselves as partners in resolving the conflicts in the region.

Yet the Saudi initiative seems to go beyond mere optics. The detente with Qatar has been accompanied by a number of other Saudi moves – exploring de-escalation with Turkey; accommodating Russia and other oil producers with a unilateral oil production cut and hastening the settlement of political trials and detentions that have generated condemnation abroad. All of these mark reversals of political stances that had been pursued vociferously with much public trumpeting of Saudi national interests, signaling a new flexibility as Saudi Arabia manages the economic fallout from the coronavirus pandemic.

Fully understanding this abrupt turnaround – much like the entry into the Qatar standoff itself – requires a more subtle understanding of the intersection of Saudi domestic goals with national ambitions. The vehicle for both is the crown prince’s reorientation of Saudi Arabia’s politics, society, and economy to center on youth.

**The Contest Over Saudi Youth**

As Mohamed bin Salman laid the groundwork for his inheritance of the kingdom’s leadership, he faced a dilemma. His political fortunes and transformational agenda were to be built upon the economic mobilization and social reorientation of urban youth away from the rentier benefits and religious strictures that had heretofore produced political loyalty. There was clear evidence of the hunger for a new direction in the kingdom. In the period that preceded the Arab Spring protests in the region, media-savvy Saudi millennials embarked on an extraordinary reform movement from below, launching new art and media production collectives, sociopolitical reform societies and women’s rights campaigns, all self-consciously embracing a youth-driven change agenda. Many, if not most, of these youth leaders were captivated by the Arab Spring uprisings, most visibly championed in the Gulf through Qatari-backed media outlets.

To undertake the Saudi national revival, Mohammed bin Salman sought to recapture this mandate of change, wrap it in a national mantle, and sever it from its Arab Spring associations. The boycott and ensuing nationalist campaign against Qatar became central to achieving that.

The campaign against Qatar was at the heart of the new nationalist mobilization, which provided both a vehicle for Saudi pride and test of political loyalty. Nearly overnight, any association with Qatar and its media outlets – which extended beyond Al Jazeera to other youth-oriented webzines and online media outlets once popular with Saudi millennials – became equated with treason. Insinuations of ties to Qatar were present in the waves of arrests of opposition, reform, and intellectual figures undertaken in September 2017, May 2018 and April 2019.

These moves reshaped the important social media environment from what had once been a more multi-vocal public forum into a more nationalist orientation that demanded open support for the leadership. The effective elimination of the once-influential Qatari-backed media outlets cleared way for the Saudi-centered expansion into media, providing the leadership the means to shape the public reaction to the momentous social and economic changes being thrust upon the broader Saudi population.

From the point of view of the leadership and its backers this approach was a success. Internal critics were dismissed as being foreign inspired. Saudi Arabia’s prior religious excesses were blamed on an external enemy. In the words of leading intellectual and former chief editor of Asharq Al-Awsat Abdulrahman al-Rashed:

In the absence, or more precisely, because of the absence of Qatar, Saudi Arabia has succeeded in implementing many social reforms and combating religious extremism. This proves that cutting the Qatari

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connection canceled the voices of the opposition-for-hire. It also proved that Saudi society is mature and ready for positive change, when foreign interference, especially from Qatar, stops.

**The Global Component of the Domestic Transformation**

The anti-Qatar campaign helped put Mohammed bin Salman in charge of the informational and political environment and provided a cause around which to rally national pride. But the campaign and its excesses caused other problems. The arrest and pursuit of dissidents abroad increased tensions with Western allies, while actions taken to marginalize Qatar and its media outlets provoked legal challenges. Over time these began to imperil the international engagement and investment critical to the very youth-led transformation the leadership has prioritized.

Such concerns are indicated by the one concession the quartet is reported to have wrangled from the Qataris: freezing the international lawsuits against Saudi Arabia and its Gulf allies. The New York Times reported that Qatar agreed to drop a case it brought against the UAE before the International Court of Justice claiming discrimination against its nationals; that case was later dismissed by the court for lack of jurisdiction. The more consequential lawsuits are before the International Civil Aviation Organization, where Qatar is challenging the airspace restrictions imposed (until recently) by the quartet countries and seeking $5 billion in compensation in a case that had been expected to be adjudicated in 2021. Qatar suspended its World Trade Organization action against the UAE, which was to be ruled upon early this year.

Another case before the WTO that had been ruled in Qatar’s favor illustrates the potential this litigation had to disrupt Saudi investment plans. As part of its campaign against Qatari media, the Saudi authorities banned the beIN sports channel, which holds the regional license to premier sporting events, including hugely popular international soccer tournaments, such as the World Cup. An alternative provider – clearly trolling the Qataris with the name beoutQ – emerged pirating these broadcast rights for which beIN had paid handsomely. In 2020, the WTO ruled that Saudi Arabia had not done enough to prevent this piracy and was in breach of global rules on intellectual property. The verdict came out just as Saudi Arabia was awaiting a decision on its purchase of the English Premier League team Newcastle United, derailing the transaction.

This incident illustrates the kingdom’s dilemma as it seeks to compete in fields already pioneered by neighboring Gulf states. Qatar’s strategy of international sports investment and development has been growing since the establishment of Qatar Sports Investment in 2005, culminating in its successful, if controversial, bid to host the 2022 World Cup. Saudi Arabia is eager to develop its own internal and international sports portfolio, for prestige and as a natural area that attracts youth interest, contributes to the new focus on public health, and generates national pride.

Meanwhile, economic diversification is increasingly bringing the kingdom into direct competition with Dubai and the UAE. This point was made explicitly during the recent International Investment Forum in Riyadh as Mohammed bin Salman set out to woo international businesses into relocating their headquarters from Dubai to Riyadh through tax incentives. While Abu Dhabi has welcomed the new socioeconomic opening in Saudi Arabia for political reasons, it remains to be seen whether the huge Saudi investments in areas such as tourism and entertainment – aiming to convince Saudis to spend more of their leisure time and disposable income at home – will be a net positive for the Emirati economy. The competition over international tourists will also become a factor.

These concerns have taken on new urgency as all of these countries process their losses and contemplate the new economic landscape post-pandemic. The need to improve the regional business and investment environment is forcing a rethink and a recalibration of the costs of regional conflicts. The upcoming Qatar-hosted World Cup is shaping up to be a critical test as to whether these ambitious states can mutually benefit from such high-profile attractions and the international draw to the region, or whether it will continue to exacerbate economic – and political – rivalry.

The Fortnightly may also be found at our Web site of: [http://www.atid-edi.com](http://www.atid-edi.com)
The Youth Global Nexus

The new Saudi youth-directed transformation has a contradictory quality, wedding as it does assertive nationalism with the promotion of greater global connectivity and a more cosmopolitan orientation. These two valences could be seen in many aspects of the Qatar competition. At the beginning of the crisis, the political benefits of the former were ascendant. Today it is the economic benefits of the latter that take precedence. The Saudis want to be seen as players in global markets and culture and to promote youth participation in new fields such as art and technology. They need international partners to engage – both at home and abroad – to have this strategy succeed. The coronavirus pandemic has imperiled an already arduous path to success. Ending the Qatar confrontation may remove one self-generated roadblock.

Kristin Smith is a senior resident scholar at the Arab Gulf States Institute in Washington. (AGSIW 08.02)

11.9. EGYPT: Egypt & Greece Conduct Naval Drills amid Eastern Med Tensions

Al-Monitor observed that the Egyptian and Greek navies carried out transient maritime training in the Mediterranean on 28 January, with the participation of the Egyptian frigate Taba and the Greek HS Hydra F-452 warship, which stopped at the port of Alexandria, where various professional training activities were carried out. The exercises aimed to strengthen joint cooperation between the Egyptian and Greek armed forces, benefit from the bilateral potential of the two countries to achieve common interests and boost maritime security and stability in the region.

On 24 December 2020, the Greek Ministry of Foreign Affairs announced that the United Nations had published the agreement to demarcate maritime borders signed in Cairo by Egypt and Greece on 6 August 2020. The agreement was published by the UN Office of Legal Affairs on the website of the Division for Ocean Affairs and the Law of the Sea. The agreement provides for a partial delimitation of the maritime border between Egypt and Greece, and that such delimitation shall be completed, where appropriate, through consultations between the two parties in accordance with international law. Each party shall inform the second party should it be engaged in negotiations aimed at defining their EEZ with a third country.

On 6 August 2020, Egyptian Foreign Minister Shoukry and his Greek counterpart Dendias signed an agreement to demarcate the maritime borders between the two countries. Shoukry said then that the agreement is an opportunity for “both countries to move forward in maximizing the utilization of the resources available in the EEZ, especially promising oil and gas reserves,” in line with the rules of international law and the United Nations Convention on the Law of the Sea. Egypt and Greece have been expanding their relations since the arrival of Sisi to the presidency in 2014, as many meetings were held between the two countries for cooperation in the fields of energy, gas exploration, counterterrorism and border demarcation.

Gamal Mazloum, former director of the Egyptian Armed Forces’ Center for Strategic Studies, told Al-Monitor that the Egyptian-Greek-Cypriot relations are strong, especially at the political, economic and military levels, and periodic meetings have taken place between the leaders of these countries. He said that maritime borders between Egypt and Greece are being demarcated, while some countries are seeking to exploit the economic resources in the Mediterranean waters of the two countries.

Mazloum noted that the joint exercises are carried out in light of the developments in the Eastern Mediterranean region and are aimed at confronting any threats the two countries might face. Egypt is one of the countries whose armed forces’ ranking is advanced in the world and regularly conducts exercises with major, regional and Arab countries annually. He said that Cairo conducts 40 exercises annually and has trained with Russia, France and six Arab countries, as well as carried out maneuvers with the air and special forces of Sudan. It maintains a good relationship with other countries. He added that the exercises it carries out benefit all the participating parties and teach Egypt the fighting methods and use of the equipment that these countries have.
Noha Bakr, a political science professor at the American University of Cairo, told Al-Monitor that the Greek-Egyptian military drills are based on the strong relations between Egypt and Greece, as the two countries share the same concerns and interests in the Mediterranean. Bakr noted that the exercises between the Egyptian and Greek naval forces were aimed at protecting the natural gas resources in the Mediterranean Sea and fighting illegal immigration, terrorism, environmental risks and the dangers between the north and south of the Mediterranean.

According to Bakr, the joint exercises are carried out to boost both armies’ capabilities to confront any potential risks in the region. The training, she said, took place in the Mediterranean due to concerns over Turkey’s ambitions to violate the sovereignty of Egypt and Greece in the region. They were also aimed at conveying a message whereby there are forces capable of dealing with any potential aggression, she concluded. (Al-Monitor 08.02)

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11.10. EGYPT: Concerns UAE-Israeli Pipeline Project will Affect the Suez Canal

On 9 February, Khalid Hassan posted in Al-Monitor that Egyptian officials have been expressing concern over the anticipated competition from the Eilat-Ashkelon pipeline project that would transport Emirati oil to Ashkelon in Israel and from there to European markets.

The head of the Egyptian Suez Canal Authority (SCA), Osama Rabie, expressed on 29 January his country’s concern over the Eilat-Ashkelon pipeline project between the United Arab Emirates (UAE) and Israel. The project will allow Israel to transport Emirati oil to its Ashkelon port and from there to European markets.

In statements to the Egyptian TV channel Sada al-Balad, Rabie said that Egypt is closely following up on the project, given its direct impact on ships passing through the Suez Canal. He noted that any maritime transport project in parallel to the Suez Canal will have a significant impact on maritime traffic passing through the canal. The SCA is currently conducting studies to discuss ways to confront the Israeli-UAE project, which could decrease traffic through the Suez Canal by up to 16%, he warned.

Rabie continued, “Egypt has entered into a partnership with China in maritime transport on the Silk Road, which consists of three land, air and sea lines. The ships passing on the Silk Road will pass through the Suez Canal.” This partnership, he argued, would curb the effect of the Ashkelon project or any alternative routes for the Suez Canal.

On 20 October 2020, the Israeli state-owned Europe Asia Pipeline (EAPC) company and the UAE-based MED-RED Land Bridge signed a memorandum of understanding to use the Eilat-Ashkelon pipeline connecting the Red Sea city of Eilat to Ashkelon in the Mediterranean for transporting Emirati oil to Europe. The two companies are planning to use a land bridge to transport oil through the deal estimated at $700 to $800 million, which would “save time, fuel and costs versus crossing the Suez Canal, to transport oil back and forth between other countries,” the EAPC stated. The Israeli company said in a statement following the signing ceremony that the deal “is likely to increase the transferred quantities by tens of millions of tons per year.”

EAPC further said that the deal “offers oil producers and refiners the shortest most efficient and cost-effective route to transport oil and oil products from the Arabian Gulf to the consumption centers in the West, and provides access for consumers in the Far East to oil produced in the Mediterranean and Black Sea regions.” EAPC Chairman Erez Calfon described the agreement as “historic” and noted that this 254-kilometer (158-mile) line could nip off a large share of the oil shipments that now flow through the Suez Canal.
On 5 September 2020, Foreign Policy magazine published a report, saying, “The pipeline's advantage over the Suez is the ability of the terminals in Ashkelon and Eilat to accommodate the giant supertankers that dominate oil shipping today, but are too big to fit through the canal.”

Egypt highly depends on the Suez Canal income as one of the most important sources of foreign currency. In an attempt to calm the Egyptian public opinion following Rabie's statements, the SCA issued a statement on 2 February, saying that the analytical studies drafted by its economic unit found no actual impact from the operation of the Eilat-Ashkelon pipeline on the navigation traffic passing through the canal. On the same day, Rabie said in a telephone intervention on Sada al-Balad channel, “I would like to tell those who say the [Suez] Canal will no longer beat the competition that there will be no competition, because there is no one but us.”

Basant Fahmy, an economic expert and former member of the parliamentary Economic Affairs Committee, told Al-Monitor that any threat to the Suez Canal is extremely dangerous for Egyptians. “The government relies on the Suez Canal as one of the main sources of foreign currency, followed by tourism [revenues] and remittances sent by Egyptian expatriates.”

According to a statement by the SCA on 3 January, the total revenue from the Suez Canal in 2020 amounted to $5.61 billion. Fahmy said, “Unfortunately, the government relies only on three sources to secure hard currency: the Suez Canal, remittances and tourism. After the coronavirus crisis and the subsequent return of a large number of Egyptians [who worked] abroad — not to mention the decline in tourism [revenues] — the Suez Canal has become almost the only source of foreign income. Thus, talk about any alternative way that may affect it will naturally spark fears and concerns [among Egyptians].”

Last year, Cairo welcomed back thousands of Egyptian workers who were laid off from their jobs in several Gulf countries due to the economic repercussions of the coronavirus crisis.

According to the Ministry of Tourism, tourism revenues shrunk by more than 69% during 2020 reaching about $4 billion, compared to $13.03 billion in 2019. Fahmy said that the continuity of the Suez Canal operation under these circumstances and in light of global competition will weaken its performance over time, reduce its revenues and affect Egypt's geostrategic position. The Suez Canal plays a pivotal role in today's global container shipping. It contributes 24% to international containerization trade and 100% to Asian and Europe containerization trade.

On 21 December 2020, the SCA announced a 48% discount on the transit fee of giant crude oil tankers with a tonnage of more than 250,000, in an attempt to increase the volume of ships passing through it. Fahmy urged the government to accelerate the development of the Suez Canal axis, by turning it into a global industrial and logistical hub for supply, transport and trade. “This would help attract investments in various sectors, rather than standing idle and waiting for the disaster to happen.” He added, “We have ports and industrial zones in the Suez Canal area and the [president] is seeking to exploit them. If the government succeeds in exploiting these capabilities, the Suez Canal will have no competitor.”

The Suez Canal Economic Zone (SCZone) extends over an area of 460 square kilometers and consists of six ports and four industrial zones in Ain Sokhna, Port Said, Ismailia and West Qantara. Maj. Gen. Hatem Bashat, a military expert and former member of parliament, told Al-Monitor that the Eilat-Ashkelon pipeline project was not a last-minute agreement, but the normalization agreement — signed at the White House on 15 September 2020 — between the UAE and Israel helped accelerate its launching.

On the impact of the pipeline on Egyptian-UAE relations, Bashat said that the Egyptian-Emirati relations are strategic and cannot be affected. “It is only natural that each country seeks to benefit its own interests in a way that serves its people and strengthens its economy.” Bashat concluded that Egypt has an ambitious and clear strategic plan for development and progress through the Suez Canal, noting that competition is always healthy and natural. (Al-Monitor 09.02)
11.11. MOROCCO: Moody's Changes Morocco’s Outlook to Negative, Affirms Ba1 Rating

On 4 February, Moody's Investors Service (Moody's) changed the outlook on the Government of Morocco's issuer ratings to negative from stable. Moody's has affirmed Morocco's Ba1 issuer and senior unsecured bond ratings.

Moody's decision to change the outlook to negative from stable reflects the medium term impact of the pandemic on Morocco's fiscal strength, particularly in light of the subpar economic recovery expected given the economy's concentrated exposure to sectors and trading partners that have been hard hit by the pandemic. While the impact on public debt has thus far been in line with other emerging markets, the upward step in the debt burden continues a consistent trend since 2008. Set alongside the government's exposure to contingent liabilities from state-owned enterprises' (SOE) debts and an increase in credit guarantees as part of the pandemic response it raises concerns regarding the government's ability to arrest, and ultimately to reverse, the erosion in fiscal strength.

The Ba1 rating affirmation takes into account the continued affordability of the debt stock, supported by access to domestic and external funding sources at favorable terms in order to meet higher gross borrowing requirements, while persistently low energy prices and a solid foreign exchange reserve buffer contain external vulnerability risks.

Morocco's country ceilings remain unchanged. The local currency ceiling remains at Baa1, reflecting a large public sector footprint in addition to predictable institutions and reduced external vulnerability risk, balanced by lingering political risk as reflected in sporadic social protests and the potential flare up of tensions related to the Western Sahara territory. The foreign currency ceiling at Baa2 reflects the existence of capital controls, consistent with the pegged exchange rate system, and takes into account the gradual foreign-exchange rate liberalization policy initiated in January 2018, although that process will proceed at a slower pace than initially envisioned.

**RATINGS RATIONALE**

**Rationale for Changing the Outlook to Negative from Stable:** Further Erosion of Fiscal Strength Over the Outlook Period Would Undermine Credit Support at Ba1 Rating Level

In light of a pandemic-induced real GDP contraction of 7% in 2020 and a fiscal deficit at 7.5% of GDP, Moody's expects a further deterioration in the central government debt/GDP ratio to almost 76% of GDP in 2020 from 65% in 2019, before eventually stabilizing below 80% over the next three years. On a general government basis (taking into account the consolidated debt of central and local governments and the social security funds controlled by these entities), the debt stock will approach 70% of GDP in that period. This compares with a Ba1-median (excluding Morocco) of about 60% of GDP in a post-pandemic environment. Looking forward, Moody's expects a gradual reduction in the fiscal deficit to 6.5% of GDP in 2021 and 4.5% in 2022, supported by a modest recovery in revenue.

While the projected impact on public debt is broadly in line with emerging market peers, the upward step in the debt burden as% of GDP or of revenue continues a trend over the past decade to levels that have the potential to erode the sovereign's fiscal strength over the medium term. If sustained, this dynamic would erode compatibility of Morocco's credit profile at the Ba1 rating level.

Fiscal pressures are exacerbated by increasing contingent liability risks stemming from the SOE sector with external debts at 15.2% of GDP in 2019, of which about 11% of GDP were guaranteed by the government. As part of its pandemic response, the government has increased transfers to non-commercial SOEs and extended additional credit guarantees in the range of 5-6% of GDP on behalf of commercial SOEs and as financial support measures to private sector firms in order to sustain the small and medium enterprise sector (SMEs), bringing the amount of outstanding guarantees to almost 20% of GDP.
The materialization of these contingent liability risks or the persistence of larger than expected transfers to SOEs would inhibit the government's fiscal consolidation and debt stabilization objectives, risking the debt trajectory further diverging from the Ba1 median.

**Exposure to Pandemic-Hit Sectors and Trading Partners Dampens Recovery Prospects Amid Reduced Shock Absorption Capacity**

The sovereign's reduced fiscal room for maneuver limits shock absorption capacity, already constrained by low wealth levels (with GDP per capita at $8,148 in 2019). Morocco faces the prospect of a subpar economic recovery given the economy's exposure to sectors and trading partners that are suffering durable effects from the pandemic. The tourism industry which accounts for about 12% of GDP as well as the industrial sector that benefits from the integration in the global value chain in the automotive and the aeronautic industries and which account for a similar share of GDP, are part of Morocco's key growth and export drivers that Moody's expects will only gradually return to pre-crisis levels over the next three years. Similarly, about 60% of exports are directed to the euro area, with Spain and France alone accounting for over 45% of total exports, followed by Italy with another 5% of the total. These are among the European economies most severely hit by the pandemic and for which Moody's expects a slow, uneven and fragile recovery, adding to downside risks for external demand.

The concentrated exposure to the European trade cycle (and as a source of remittances) adds downside risks to the pace of economic recovery that Moody's projects to include a 4.5% rebound in 2021, followed by 3.2% growth in 2022 and an average of 3.5% afterwards, in line with the non-agricultural growth rate registered before the pandemic. A weaker than expected economic recovery would add to labor market constraints and to social risks, with repercussions on the pace of fiscal consolidation.

**Rationale for the Affirmation of the Ba1 Rating**

The Ba1 rating balances diminished economic and fiscal strength, with moderate event risk exposure driven by banking sector risk, and a track record of coherent macro policies and fiscal reform implementation over recent years as highlighted by the elimination of fuel subsidies and the implementation of parametric public pension reform. Morocco's institutional capacity to support SOE, health and social safety net reform implementation as part of the government's structural reform agenda supports creditworthiness.

The credit profile also benefits from the sovereign's large domestic funding base in local currency, and its continued access to domestic and external funding sources at favorable terms in order to meet higher gross borrowing requirements at about 17% of GDP in 2021 (and declining gradually thereafter). Access to local currency funding sources underpins the favorable government debt structure with a foreign currency share of about 20%, while low borrowing costs contribute to the continued affordability of the debt stock as measured by interest/revenue below 12% over the next three years and close to the median of Ba1-rated peers.

Meanwhile external vulnerability risks are contained given structurally lower energy prices and a solid foreign exchange reserve buffer covering over eight months of imports at the end of 2020. Moody's projects the current account deficit to have narrowed to 3.7% of GDP in 2020 from 4.1% in 2019 and to remain in the 3.5-4% of GDP range over the next three years.

**Factors that Could Lead to an Upgrade or Downgrade of the Ratings**

An upgrade of Morocco's ratings is unlikely in the near to medium term given the negative outlook. A change in the outlook to stable from negative would likely relate to further policy action that ensures that the government debt ratio stabilizes and SOE contingent liabilities are contained. The continued implementation of business environment reforms that improve the economy's non-agricultural growth prospects would also be credit supportive.

Continued fiscal deterioration beyond Moody's current expectations, evident in the government debt/ratio rising further or the materialization of significant contingent liabilities emanating from SOEs or from the...
banking sector could lead to a downgrade. Similarly, an unforeseen and sustained deterioration in the external accounts would likely be more in line with a lower rating level. (Moody's 04.02)

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11.12. CYPRUS: Cyprus's 2021 Budget Widens Deficit Target

Fitch Ratings announced on 3 February that Cyprus's 2021 budget targets a wider deficit than they had previously expected, but fiscal performance should still be strong relative to regional and ratings peers. The delay in passing the budget highlights pandemic-related spending pressures, although it was primarily caused by political demands for a formal investigation into the country's citizenship for investment scheme.

The Cypriot Parliament adopted the 2021 budget by 29 votes to 26 on 21 January 2021. The budget envisages €6.48 billion of revenues and expenditure of €7.16 billion, resulting in a deficit of €680 million or 3.2% of GDP. Spending growth was constrained in the first three weeks of 2021 while a temporary budget, in which expenditure allocations were rolled over from a year earlier, was in place.

Cyprus's record of significant fiscal consolidation since its 2012-2013 financial crisis is an important strength for its 'BBB-'/Stable sovereign rating. However, the fiscal easing measures, including additional social spending, in the new budget mean that the 2021 fiscal deficit will be wider than the 2% of GDP that Fitch forecast when we affirmed the rating last October.

This partly reflects the severity of the second wave of COVID-19 infections, which saw the seven-day rolling average of new cases peak above 600 in early January before falling to 130 by the end of the month (daily new cases in the first wave never exceeded 50). The government estimates that the additional fiscal support in 2021 will be equal to 1.5% of GDP compared with the initial draft budget prepared in the autumn.

High public debt is a legacy of the 2012-2013 crisis, but Cyprus's persistent underlying budget surpluses pre-pandemic, which peaked at 3% of GDP in 2019, and robust GDP growth averaging 4.4% in 2015-2019 increased its capacity to absorb the pandemic shock. A fiscal deficit of 3.2% this year, in line with the 2021 budget, would be narrower than any other non-'AAA' rated western European sovereign and below the forecast 'BBB' category median of 5.3%. The government's latest estimate of the 2020 is about 4.5% of GDP on a cash basis, well below the aggregate Eurozone deficit of 8.8% of GDP in the European Commission's Autumn 2020 economic forecasts.

The delay in passing the 2021 budget after it was rejected in December originally stemmed from the (unsuccessful) efforts of the opposition DIKO party, which supported previous budgets, to make its backing conditional on the government allowing Cyprus's auditor-general to investigate the controversial 'citizenship for investment' scheme.

But as the budget debate continued, political pressure for higher expenditure grew, especially demands for more social spending in response to the recession triggered by the pandemic (the 2020 contraction is estimated at 5.5%-6.0%, although GDP was still 20% higher in Q3/20 than in 2015). The possibility of continuing economic disruption (notably to the tourism sector, which depends on Western European countries hit hard by the second wave of the pandemic) that necessitates further spending or results in lower tax revenues remains a moderate fiscal risk.

The large banking sector remains a weakness relative to 'BBB' category peers due primarily to weak asset quality, notably very high non-performing exposure ratios that still weigh on capital and profitability. Cyprus has the highest use of loan moratoria in Europe according to the European Banking Authority (about 55% of private-sector loans at end-September 2020), but this reflects the lack of barriers to granting moratoria and the absence of a state-guaranteed loans scheme, as well as borrower exposure to the sectors most affected by the pandemic. (Fitch 03.02)

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