



A group of Emiratis walk past the Burj Dubai Tower, the tallest tower in the world, on the day of its inauguration, in Dubai.

REUTERS/AHMED JADALLAH

Investment recovering in Arab Spring economies

Economies in the Middle East and North Africa are coping with the aftermath of the Arab Spring uprisings and an unstable global environment. Many have boosted state spending to sustain growth and head off popular discontent, but this is putting heavy pressure on the government finances of some of the most volatile countries, such as Egypt. In the Gulf, high oil prices are fuelling a

consumer boom and massive investment in infrastructure, but the International Monetary Fund has warned that governments risk a sharp deterioration in their finances if oil prices turn down in coming years. These were among the topics discussed at the Reuters Middle East Investment Summit, where our journalists interviewed some of the country's most influential executives and policy makers.

Dubai's largest bank looks beyond Gulf for growth

BY DAVID FRENCH AND MIRNA SLEIMAN
DUBA, NOVEMBER 20, 2012

Emirates NBD ENBD.DU, Dubai's largest bank, is looking for acquisitions in fast-developing African markets to satisfy investor demand for growth it is unlikely to deliver at home.

The Dubai-based bank is targeting international revenues of around 15-20 percent of its total in five years' time, up from 5 percent at present, its Chief Executive Rick Pudner said in an interview at the Reuters Middle East Investment Summit.

Acquisitions are likely to play a role in this, given the difficulties of achieving organic growth in the current economic environment, Pudner said, marking a significant shift from the bank's previous strategy of building the business organically.

"If you can find something that isn't betting the bank on but is a good opportunity to take advantage of weaker asset prices in the region, then you need to look at it," Pudner said, confirming the bank was looking at a couple of potential buys, including in Africa.

Emirates NBD, which was formed by the 2007 merger of Emirates Bank and National Bank of Dubai, has enough cash to acquire the type of asset it is looking at without seeking outside finance, added the former HSBC executive, who has spent much of the last 30 years working in the Gulf region.

While Pudner would not comment on a Reuters report that the bank was looking to acquire the Egyptian assets of BNP Paribas, he said the North African country was an at-

tractive market for the bank.

"It's not, per capita, the most wealthy country in the region but it's got the potential," he said.

"Demographics are key and it's a big population and an under-banked population. If you look at the next 10, 20, 30 years in terms of the development of that kind of economy, it has to be long-term positive."

Egypt has been attracting the attention of a number of Gulf banks recently. As well as BNP's unit being up for sale, Qatar National Bank is close to buying a majority stake in Societe Generale's Egyptian business.

While ENBD was looking at opening in a couple of strategic locations in Asia, it was unlikely to expand its operations there in the near term, instead focusing its attention on a Middle East arc stretching from Turkey to India.

"Historically, we've been interested in Turkey but there's nothing specific at the moment," Pudner said.

Global uncertainty has hit the confidence of businesses to invest around the world and in the United Arab Emirates, which was feeding through into lower loan growth and, therefore, constrained earnings potential, he added.

Latest figures from the UAE central bank show lending across the country's banking system grew just 3 percent in the first nine months of the year, and ENBD warned last month that loan growth would be modest into 2013.

"From ENBD's perspective, this is the most liquid we have ever been but that's not because we are being conservative in our approach to supporting the economy - it's just finding opportunities to lend money," Pudner said.

ENBD, 56 percent-owned by state fund Investment Corp of Dubai, has seen earn-

ings heavily hit in recent quarters by its exposure to indebted Dubai state-owned entities - the most famous being Dubai World, which shook global markets in 2009 when it asked creditors to restructure \$25 billion of debt.

The third largest bank by assets in the Gulf, which has an 18 percent market share in the UAE, according to Pudner, booked nearly 5 billion dirhams (\$1.36 billion) of impairments in 2011 and has provisioned 3 billion dirhams in the first nine months of this year.

Provisioning, as well as non-performing loans, was expected to peak in 2013, Pudner said, adding that most of Dubai's debt problems were now known and being handled.

Exposure to the Dubai sovereign and state-owned entities has been in focus in recent months as part of a move by the UAE central bank to introduce limits on such lending - regulation which a number of banks, including ENBD, were not in compliance with at the September 30 deadline.

Pudner said negotiations with the central bank on how ENBD would comply with the new rules were still underway, but he hoped they would be concluded "within the next few weeks".

"We've got a plan but it's a question of agreeing that with the central bank," he said.

Pudner said that while he was not surprised by the content of the rules, he had not expected the tight deadline that banks were given to comply. A circular from the regulator was issued in April, giving banks around six months to address the issue. (\$1 = 3.6730 UAE dirhams)

*Additional reporting by Alexander Smith;
Editing by Alexander Smith and
Andrew Torchia*



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Boeing targets doubling of Middle East defense sales

BY PRAVEEN MENON
DUBAI, NOVEMBER 20, 2012

Boeing expects to double revenue from its defense and security business in the Middle East over the next two years as recent turmoil in the region drives up demand for arms.

Gulf Arab states and other Middle Eastern countries that witnessed the Arab Spring uprising are “shopping” for new high-tech military equipment as they swap out older weaponry and invest in new capabilities, Jeff Johnson, president of Boeing Middle East said at the Reuters Middle East Investment Summit.

The U.S. planemaker, which also makes fighter jets, helicopters and anti-missile technology, expects to increase its annual revenue from defense in the region to about \$4 billion over the next two years.

That would be part of a wider plan to lessen reliance on U.S. government work, which is being squeezed by spending cuts.

Boeing’s fighter jets as well as the U.S. company’s C-17 military transport aircraft have been in strong demand. Last year, Boeing signed a \$29.4 billion deal to sell 84 F-15 fighter jets to Saudi Arabia, as well as a big defense sale to UAE.

“A lot of customers are shopping for the F-15 and F-18 Super Hornets and as we introduce more C-17s into the market, we will continue to see interest in that strategic area too,” Johnson said.

The Middle East accounts for a third of Boeing’s international defense business, Johnson said. This equates to an annual revenue of about \$2 billion.

Asked if demand in the region would result in a doubling of this figure, Johnson said: “Yes, over the next couple of years. There is so much interest over a wide range of products.”

Revenue for Boeing’s defense business



Jeff Johnson, president of Boeing Middle East, speaks at the Reuters Middle East Investment Summit in Dubai. **REUTERS/NIKHIL MONTEIRO**

was about \$31 billion last year and is expected to be about the same in 2012, with about 18 percent from its international clients, Johnson said.

“It’s a very competitive market. When we see the flattening of defense budgets in Europe and U.S, emerging markets become more important and clearly Middle East is up there.”

Johnson said high oil prices coupled with threats to the region were going to allow Gulf armed forces to upgrade their military resources.

The United Arab Emirates (UAE) had been expected to finalize a \$10 billion deal with Dassault to buy 60 of the French group’s Rafale jets, but talks faltered as the UAE said the terms were uncompetitive.

Others have also been trying to sell their wares. British Prime Minister David Cameron visited the UAE earlier this month, hoping to get it to consider the BAE Systems-built Eurofighter Typhoon fighter jet.

Boeing is not in active talks with the UAE on this deal.

“We have offered our platforms. If one of those fits the bill, we will certainly talk to the customer. But we are not in any kind of active discussions,” Johnson said.

Boeing has offered its fighter jets to other Gulf states including Kuwait, Qa-

tar and Saudi Arabia. Egypt has also been a top customer for Boeing in defense and commercial planes, and it has strong trade relations with Jordan and Iraq.

Johnson dismissed concerns that airlines may opt for rival Airbus’ A350-1000 passenger jet if the new version of Boeing’s popular 777 plane is delayed.

“We will have several variants and improvements for the 777 in place before the A350-1000 even hits the market,” he said.

Boeing has not yet offered the new version of the 777, provisionally called the 777X, though carriers such as Emirates and British Airways have been planning for it to enter service by the end of this decade.

Boeing appears at least a year away from offering a new version of the 777, Reuters reported this week.

“I think you’ll see it in the near term. I don’t know if near term is tomorrow, next year or two years. But we are going to stay very close to our customers.”

“Our strategy is to stay close, see what they need and we will roll that out,” Johnson said.

Tim Clark, President of Emirates, the largest customer of the 777, said in November it would consider replacing its planned fleet of 175 Boeing 777s with the 777X.

“These comments were very reassuring,” said Johnson.

“There is demand for the 777X, but what this really comes down to is the trade-off,” he said, suggesting discussion are on the changes that are being asked for by the customers and what the planemaker can offer.

He added that Qatar Airways and Abu Dhabi’s Etihad Airways will have a big role in the decision on the new stretched version of the Dreamliner, the 787-10.

Additional reporting by Alexander Smith and Amran Abocar; Editing by Alexander Smith and Mark Potter

Kuwait's Boubyan Bank sees Islamic banking boom

BY AHMED HAGAGY AND SYLVIA
KUWAIT, NOVEMBER 21, 2012

Islamic banking is growing at more than double the pace of conventional banking in Kuwait and strong demand is expected throughout the Arab region, the chairman of Boubyan Bank said on Wednesday.

Credit volumes at Islamic banks in Kuwait reached 11.1 billion Kuwaiti dinars (\$39.3 billion) in the first nine months of 2012, up 13.2 percent on last year, Boubyan Chairman and Managing Director Adel Abdul Wahab al-Majed told the Reuters Middle East Investment Summit.

That compares with 5.6 percent credit growth to 18.6 billion dinars at conventional banks, Majed said.

The hunger for sharia-complaint banking in Kuwait means that Boubyan is not interested in overseas expansion quite yet, in contrast to more-established rival Kuwait Finance House (KFH).

"Innovation or presence outside, it is only a matter of time (for) the likes of us and others," Majed said. "Right now we are busy because the slice of Islamic pie in Kuwait is big."

However, in 2014 the bank will set out a new five-year strategy, which will include the possibility of an international presence.

This year's Arab Spring uprisings are expected to boost sharia-compliant banking in the Middle East and North Africa because of the new Islamic governments it created, Majed said.

The Boubyan chairman was previously an executive at National Bank of Kuwait (NBK), the Gulf state's largest lender, which in July raised its stake in Boubyan to just over 58 percent from 47 percent in a deal valued at about 122 million dinars.

Majed moved to Boubyan as part of an executive team charged with the task of shoring up the struggling bank at a time when NBK held a minority stake in it.

During the financial crisis of 2009 Boubyan reported a net annual loss of 51.7 million dinars. This background has made the bank cautious about expansion.

"I think the mistake is that it started venturing outside before it had a stable,

profitable base in Kuwait," Majed said.

Since 2009, earnings have grown and the bank reported an 8 million dinar net profit in 2011.

"We expect this year to be in the same positive trend," Majed said. In the first nine months of this year the bank posted net profit of 7.6 million dinars.

Boubyan's total bad-debt provisions since 2008 were 26 million dinars at September 30 this year. Majed said he believed that these had peaked for the Kuwaiti banking sector as a whole, with the process continuing at a slower pace.

However, the Gulf Arab state is not completely immune to developments in global markets, Majed said, and lower profit growth has become the new norm.

"Given the whole turmoil all over the world, I don't think anybody here wakes up in the morning with a smile on his face. You see what is happening in Europe, the U.S. and China." (\$1 = 0.2823 Kuwaiti dinar)

(This story has been corrected to change time frame for bad-debt provision in 14th paragraph, to "since 2008...at September 30")

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Editing by Andrew Torchia and
David Goodman



Egypt PM says Gaza truce deal may be close

BY EDMUND BLAIR AND NADIA EL-GOWELY
CAIRO, NOVEMBER 19, 2012

Egypt's prime minister said on Monday that an agreement brokered by Cairo to stop the fighting between Israel and the Palestinians in Gaza could be close.

"Negotiations are going on as we speak and I hope we will reach something soon that will stop this violence and counter violence," Prime Minister Hisham Kandil said in an interview in Cairo for the Reuters Middle East Investment Summit.

Israel launched an air campaign on Wednesday with the declared goal of deterring Hamas, the Palestinian Islamist group that runs the Gaza Strip, from launching rockets at its southern communities.

Egypt is seeking to reinstate a ceasefire after an informal one it brokered in October collapsed.

"I think we are close, but the nature of this kind of negotiation (means) it is very difficult to predict," he said.

Egyptian President Mohamed Mursi had said on Saturday that there were "some indications" a ceasefire could be reached soon but said there were no firm guarantees.

"President Mursi is determined to play his role as a key player in the region and help mediate this," said Kandil, who visited Gaza on Friday to show Egypt's solidarity with the Palestinians.

Israel bombed dozens of suspected guerrilla sites in Gaza, ruled by the Islamist Hamas movement, on Monday and Palestinian rocket fire from the enclave eased off.

The prime minister said Egypt was in contact with both Israeli and Palestinian officials, and with other regional and international players, including Turkey and Qatar, as well as the United States, Britain and Germany.

"There are exchanges of visits and talks with both sides and there is also communications with various leaders from the region," he said.

Separately on Monday, another Eyp-

tian official, who declined to be identified, said that Egypt was receiving "encouraging signals" about a ceasefire and said both Israel and Hamas were seeking guarantees.

"What we are trying to agree on is to achieve a ceasefire and achieve some possible guarantees, and then later discuss more guarantees," the official told Reuters.

Izzat Risheq, aide to Hamas politburo chief Khaled Meshaal, wrote on Facebook that Hamas would enter a truce only after Israel "stops its aggression, ends its policy of targeted assassinations and lifts the blockade of Gaza".

Listing Israel's terms, Vice Prime Minister Moshe Yaalon wrote on Twitter: "If there is quiet in the south and no rockets and missiles are fired at Israel's citizens, nor terrorist attacks engineered from the Gaza Strip, we will not attack."

*Additional reporting by Yasmine Saleh;
Editing by Mark Heinrich*

Egypt PM says very close to IMF deal

BY EDMUND BLAIR AND NADIA EL-GOWELY
CAIRO, NOVEMBER 19, 2012

Egypt aims to secure agreement on a \$4.8 billion loan from the International Monetary Fund in a few days to help shore up its battered finances, the prime minister said on Monday.

The IMF team in Cairo said earlier on Monday it was extending its stay and was having “constructive consultations” with the government on a deal seen as vital to restoring investor confidence in the economy.

“I think we are very close. We are still doing the last minute negotiations,” Prime Minister Hisham Kandil said in an interview for the Reuters Middle East Investment Summit.

“We think we will be able to close the deal within the next coming few days,” he said in Cairo, speaking of a deal that has been at the centre of on-off negotiations since soon after Hosni Mubarak was ousted in a popular uprising in February 2011.

Egypt has been drawing up an economic reform plan and is pinning its hopes on an IMF loan to help it narrow a huge budget deficit and a balance of payments deficit that has eaten up more than \$20 billion of its foreign reserves since the uprising.

But many Egyptians worry that an IMF deal will lead to harsh cuts in spending and oppose such action. Protests in Jordan sparked by fuel price rises highlight the sensitive nature of austerity measures. But Kandil said Egypt would avoid unrest.

“We are taking moderate measures. Of course, if you take hostile measures, you expect unrest,” he said, adding Egypt’s plan was “home-grown”, would be implemented with or without the IMF and would protect the poor by targeting subsidies at them.

Austerity steps in the government’s eco-

nomie plan included cutting fuel subsidy spending, he said, action seen as vital in securing the IMF loan.

The prime minister said targeting subsidies on cooking gas cylinders so they reach the most needy had begun in several provinces. When implemented nationwide it will save Egypt 5-6 billion Egyptian pounds (\$820-\$980 million) a year, he said.

The government has yet to outline its full plan in public, to the frustration of investors. Economists say Egypt needs to start acting even before any deal is signed with the IMF to give the programme credibility. “We have taken steps,” Kandil said.

In addition to the butagas scheme, he said a plan to eliminate subsidies on 95-octane gasoline, the highest grade available, could happen within a week. Officials had said it would happen last week. That measure would save the government a modest 55 million pounds a year, he said.

Another move will involve issuing smart cards so drivers can buy enough subsidised fuel to drive to work and back, but not for other trips, he said, adding that after they had used that amount they would be expected to pay market prices on fuel.

RAISING REVENUES

In a revenue-raising measure, Kandil said the government would introduce a new band for income tax that would sit between the 20 and 25 percent rates the wealthy, though he did not give a rate or say at what salary level the new rate would kick in.

He said a plan to hike the sales tax, now at 10 percent, was under review. Some reports suggested it would rise to 11 percent, but Kandil said the hike “might be less.” He said there was “not yet” a plan to replace that with a value-added tax.

Kandil said he was optimistic the budget

deficit for the financial year 2012/13, which ends in June, would come in less than the 10.8 percent of gross domestic product hit in 2011/12. Officials previously said the deficit last year was 11 percent.

The government would issue a supplementary budget, he said, adding the original budget deficit target of around 8 percent for 2012/13 laid out in June was no longer achievable.

“That was designed having certain stringent measures to start from June, which have not started,” he said.

On other indicators, he said the government wanted to keep foreign reserves at the \$15 billion level where they are now, after they were cut by more than half since Mubarak was overthrown, as the central bank defended the pound.

The target is for reserves to rise to \$22 billion-\$25 billion, he said, while also confirming the government aimed to bring public debt down to about 65 to 70 percent of GDP by 2017.

Kandil, appointed in July, faces other daunting challenges, including fixing Egypt’s rickety transport network. The death of 51 people, mostly children, when a train hit a school bus crossing the tracks on Saturday was just the latest disaster.

The transport minister resigned, but Kandil said he had no plan “at this point” to reshuffle the rest of the cabinet.

“I think it is a little bit unfair to hold this government accountable for all the deteriorated infrastructure that has been taking place during the decades before,” he said.

(\$1 = 6.0998 Egyptian pounds)

Additional reporting by Patrick Werr; Editing by Toby Chopra and Hugh Lawson

Tunisia PM seeks Western funds “before it’s too late”

BY TAREK AMARA

TUNIS, NOVEMBER 20, 2012

Tunisia’s transition to democracy has run into political and economic obstacles and the West must provide more financial backing “before it’s too late”, Prime Minister Hamadi Jebali said on Tuesday.

“There is acceptable political support from the West for the Arab Spring and Tunisia but, unfortunately, financial support has not quite lived up to the political pledge,” Jebali said in an interview at the Reuters Middle East Investment Summit.

“My message to the West ... is that the most important investment for you is the investment in democracy, before it’s too late ... This is not a gift but a common interest.”

Jebali, a 63-year-old Islamist politician, engineer and journalist, was appointed prime minister last December after the moderate Islamist Ennahda party won the country’s first free elections following the overthrow of authoritarian president Zine al-Abidine Ben Ali in a popular uprising.

As the first state to undergo an Arab Spring revolution - a Tunisian vegetable seller’s suicide in December 2010 was the initial trigger for revolts around the region - Tunisia has regained some stability before many of the other countries.

Political turmoil and a wave of labor unrest caused the economy to shrink last year, but growth has begun to recover and inflows of foreign investment have rebounded close to their pre-revolution level, according to government data.

Jebali said the developing democracy still faced serious threats, however, making Western financial support important to give the government more room to man oeuvre.

One big source of concern is parliament’s slowness in drafting a new constitution for the country, because elections must be held by next June at the latest to ensure a



Tunisia’s Prime Minister Hamadi Jebali arrives for an interview at the Reuters Middle East Investment Summit in Tunis.

REUTERS/ZOUBEIR SOUISSI

smooth political transition, he said.

“The country cannot afford more time ... If it remains this slow the constitution will not be ready two years from now, and this is unacceptable,” Jebali said.

While foreign investors had expressed interest in Tunisia, he said the business community was demanding a clearer vision of the North African country’s political future.

Western governments and wealthy Arab states have contributed aid this year - the United States guaranteed a \$485 million bond issue by Tunisia in July - but it is unclear whether Tunis has lined up enough financing for next year’s planned spending.

Finance Minister Slim Besbes said in another interview at the Reuters Summit that the government would need about 7 billion dinars (\$4.4 billion) in loans and aid next year.

ISLAMIST UNREST

Jebali also said hardline Islamists, some known as Salafists, were damaging the economy with protests that sometimes became violent. Islamists stormed the U.S. embassy in Tunis in September to protest at a film made in California that was deemed offensive to their religion. At least four people were killed during the incident.

“We will face religious fanaticism through law and be strict with all violators without exception. But we will address the root causes, such as cultural and social reasons, through the fight against poverty and by creating jobs,” he said.

Jebali said Tunisia had attracted expressions of interest from investors in countries including Qatar, Turkey and China. Projects in which they may participate include a solar power generation complex in Kebili, which would export electricity to Europe, and a phosphate project in Sra Wertan, he said.

But for the time being, the government will continue spending heavily to address the economic grievances which sparked the revolution. Officials estimate the state budget deficit will be 6.6 percent of gross domestic product this year, falling only moderately to 5.9 percent next year.

Jebali said the need to stimulate the growth of private sector companies, to create jobs and cut an unemployment rate officially estimated at 17 percent, meant the state could not reduce spending in the near term.

“Reducing expenditure can only come after at least two years, after the return of the private sector’s initiative.”

Jebali said that to strengthen policy-making, he planned a cabinet reshuffle after the budget debate. “It will certainly include the Ministry of Finance, and most of the ministries will be involved in the change.”

Writing by Andrew Torchia; Editing by Mark Heinrich

Tunisia says needs \$4.4 billion in loans, aid in 2013

BY TAREK AMARA
TUNIS, NOVEMBER 18, 2012

Tunisia's government will need about 7 billion dinars (\$4.4 billion) of loans and aid next year as it proceeds with a costly plan to compensate former political prisoners freed by the 2011 revolution, Finance Minister Slim Besbes said.

His comments, made in an interview at the Reuters Middle East Investment Summit, illustrated the financial pressures Tunisia faces as its post-revolution government, led by the moderate Islamist Ennahda movement, rebuilds the economy.

Industrial production and tourism earnings were hit hard by last year's political turmoil, driving the state budget deep into deficit.

At the same time, the government cannot ignore demands for support from the poor, thousands of former political prisoners and other groups that suffered under ousted president Zine al-Abidine Ben Ali.

"The government is also committed to restoring many of the former prisoners to work, and this will cost the state a lot of money," said Besbes, a former academic who previously served as deputy finance minister.

"The state will carry out its responsibility to provide immediate compensation to former prisoners who are in difficult situations because of their ideology," he added, without specifying the amount of aid required.

Besbes' predecessor as finance minister, Hussein Dimassi, resigned in July, complaining about the cost of the compensation scheme and accusing the government of being more concerned about winning votes than about the health of public finances.

"The draft law for the compensation of beneficiaries of the general amnesty is the most serious of all; it was the straw that broke the camel's back," a statement from Dimassi's office read when he resigned.

"It will result in a very heavy expenditure

for the state's budget, considering the high number of beneficiaries and the amount of the compensation."

Tunisian newspapers said the plan might cost as much as 750 million dinars.

In his interview with Reuters, however, Besbes said that next year's state budget could not escape pressures from the compensation program, as well as projects to develop less affluent regions of the country and spending on social welfare for the poor.

As the birthplace of the Arab Spring upheaval - a Tunisian vegetable seller's suicide in December 2010 was the initial trigger for uprisings in the region - Tunisia is very sensitive to the need to cut unemployment and poverty, and that will require substantial spending, Besbes said.

"Our financial needs in the next year will be 7 billion dinars of loans and aid," he said. That figure compares with the 4.3 billion dinars that the government has said it plans to borrow in 2012.

To meet next year's needs, Besbes said that Tunisia was discussing with the World Bank a potential loan of \$500 million, plus a \$500 million loan from the African Development Bank.

In addition, the United States has pledged to guarantee a \$500 million loan to Tunisia, the finance minister said.

At least four people were killed when hardline Islamist protestors stormed the U.S. embassy in Tunis in September over a film made in California that was deemed offensive to Islam. The incident raised fears of a decline in U.S. support for Tunisia, but Besbes said that the undertaking to guarantee the loan was made after the attack.

Besbes also said that the Tunisian government would make its first issue of Islamic bonds next year, to help to finance infrastructure projects such as roads and hospitals. The sukuk issue will raise 1 billion dinars, he said.



Tunisia's Finance Minister Slim Besbes gestures as he speaks with Reuters journalists in Tunis.

REUTERS/ZOUBEIR SOUSSI

Tunisia's new government is keen to develop Islamic finance, which was neglected for ideological reasons by Ben Ali's government. A Tunisian sukuk issue could potentially attract large amounts of Islamic funds from the wealthy Gulf.

Besbes did not give details on how Tunisia aims to meet the rest of next year's 7 billion dinar financing requirement. The International Monetary Fund said last week that it was willing to provide external financing to Tunisia, but Besbes did not mention this possibility.

The government will allocate 1.2 billion dinars next year to finance programs aimed at creating more than 100,000 jobs, Besbes said. The unemployment rate has risen to an estimated 17 percent since the revolution.

At the same time, the government aims to limit the state budget deficit to 5.9 percent of gross domestic product next year and 2 percent by 2017, compared with an expected 6.6 percent this year, he said.

Another source of concern for economic policymakers is inflation, Besbes added. Inflation hit 5.7 percent in September, close to its highest level in more than a decade.

"It is important to reach an inflation rate not exceeding 4.5 percent in 2013," Besbes said, against 3.5 percent in 2011.

(\$1 = 1.5976 Tunisian dinars)

Writing by Andrew Torchia; Editing by David Goodman

Jordan subsidy cuts to spur aid, growth: minister

BY SULEIMAN AL-KHALIDI
AMMAN, NOVEMBER 22, 2012

Jordan's controversial fuel price hikes last week, which sent thousands of protestors onto the streets, have been painful but clear the way for the economy to grow and attract foreign aid, a minister responsible for economic policy said.

"This decision was made when we had not yet started sliding off the edge, to make sure that we can continue in the right direction and that it will not be too late," said Planning and International Cooperation Minister Jafar Hassan.

"The longer we waited, the higher the cost of funding and the higher the debt burden would be, and at the same time the closer and closer you move towards a crisis that would be more difficult to escape."

Thousands of demonstrators, some chanting the Arab Spring slogan "the people want the downfall of the regime", protested for three days last week after the government cut fuel subsidies in order to shore up its shaky finances.

Hassan's comments, made at the Reuters Middle East Investment Summit, suggested the government was unlikely to back down from its subsidy reforms, and that it felt the long-term risk of failing to repair its finances outweighed the short-term threat of street protests.

Jordan's economy, which imports almost all its energy and commodity needs, has suffered from last year's Arab Spring uprisings in the region. Tourism receipts, remittances from Jordanian workers abroad and investment inflows have been hit.

Hassan said the government had been obliged to earmark more than a quarter of

its \$9.87 billion annual budget to paying for electricity production after the revolution in Egypt disrupted cheap gas imports, forcing Jordan to import expensive fuel oil.

The Syrian civil war has cost Jordan hundreds of millions of dollars by disrupting the transit route for trade with Europe through Syria, Hassan said. Caring for Syrian refugees has cost about \$500 million.

The International Monetary Fund agreed in August to provide a \$2 billion loan to Jordan, but this is expected to cover only a fraction of the country's needs.

Hassan did not say how much the subsidy cuts would reduce pressure on Jordan's budget, but other Jordanian officials have estimated they could save about \$1.1 billion.

The adjustment of the budget burden will help to attract foreign aid to Jordan by convincing donor countries that their money will be spent wisely, said Hassan, whose ministry oversees foreign aid receipts.

"We are on the right track in getting our financial policy moving in line with the reforms that we have put forward, and this gives donors and lenders more confidence that our fiscal policy is on solid ground," he said.

United Arab Emirates Foreign Minister Sheikh Abdullah bin Zayed al-Nahayan said this week that the UAE and other wealthy Gulf countries were looking at ways to support Jordan financially.

Some of the money freed up by the cuts to the universal subsidy system will be spent on targeted transfers to poorer Jordanians.

Hassan said the transfers would be much fairer, redirecting resources to the most vulnerable and needy people among Jordan's population of 7 million.

"It is an anomaly to have a system of subsidies that benefits nationals and non-

nationals, rich and poor in an equal way," he said, adding that over 1.5 million non-Jordanians had been benefiting from the universal subsidies.

The budget reform will also help the government stimulate economic activity in poor provincial towns, which will receive more budget spending and foreign financing, Hassan added.

"We are trying to move investments in terms of services more towards the peripheral areas than in the capital and major cities, to make sure there is more balance in terms of opportunities you create in these governates."

Wealthy Gulf Arab states pledged last year to give \$2.5 billion in aid to Jordan, though the money has not yet arrived. Hassan said Jordan would use the money primarily for energy and water projects as well as local development plans.

"We hope to use the GCC grants to cover most of our capital expenditure needs in order to lower the deficit."

Jordan has channelled between \$300 million and \$400 million of soft loans this year into alternative energy and energy-saving projects to reduce its vulnerability to the global energy market.

Projects include a \$70 million offshore liquefied natural gas terminal to receive imports of cheap Gulf gas.

"We cannot remain hostage to the Egyptian pipeline and cannot remain hostage to world oil prices. This is why we have directed capital expenditure and taken loans, so that in five years time we do not have another energy crisis," Hassan said.

Editing by Andrew Torchia and David Cowell

Saudi developer looking to buy foreign properties

BY ANGUS MCDOWALL AND ASMA ALSHARIF
RIYADH, NOVEMBER 19, 2012

Saudi Arabia's largest listed real estate developer, Dar Al Arkan 4300.SE, plans to buy assets in Asia as part of its strategy to diversify revenue streams, its chairman Youssef al-Shelash told Reuters.

Shelash said the company owned just under 35 million square meters (8,650 acres) of land, and in the past it has relied heavily for revenue on sales of land within Saudi Arabia.

Its decision to branch out overseas illustrates how a growing number of Saudi companies, buoyed by the economic boom of the past two years, are looking to diversify abroad.

Outward flows of foreign direct investment from Saudi Arabia hit \$3.4 billion last year, close to a record \$3.9 billion recorded in 2010, according to the Arab Investment and Export Credit Guarantee Corp.

"We are targeting some geographical diversification. We have a concentration issue. Most of our assets are in Saudi so we would like to diversify outside Saudi Arabia through a long plan over five to seven years," Shelash said at the Reuters Middle East Investment Summit.

He said the company was targeting assets outside the Gulf and North Africa, "maybe in Turkey or Asia, Malaysia, Singapore, some stable countries", and that it would look to buy existing buildings rather than develop new sites.

"We would like to get some stability in the company income," he said, but added that it would likely take five to seven years to generate 40 percent of revenue from rental income, a goal which he said last year would hopefully take three years.

Shelash added the company was still finalizing a more detailed strategy, which it hoped to have ready early next year.

Dar has enjoyed a dramatic recovery in its fortunes over the past two years, which

to some degree mirrors the fortunes of the Saudi economy.

Saudi Arabia was hit by the global economic crisis of 2009-2010 but after the Arab Spring uprisings of early 2011, the government boosted spending heavily in order to ease social tensions. This has helped Dar and many other Saudi companies.

When Dar issued an Islamic bond or sukuk in 2010, investor demand was sluggish and the company had to settle for raising \$450 million instead of its target of \$500-700 million.

This year, however, its sukuk yields have dropped sharply and its share price has jumped 14 percent, far outperforming a 4 percent gain by Saudi Arabia's main stock index .TASI - although the stock's value is still less than a quarter of its 2007 peak.

Although Dar is not explicitly backed by the government, official action has convinced investors that authorities would like to see the company succeed.

Last October, the country's Public Investment Fund approved a 4 billion riyals (\$1.1 billion) facility to finance one of Dar's biggest projects, the Qasr Khozam development in Jeddah, estimated to cost 12 billion riyals.

The company now has outstanding debt of around 4.4 billion riyals, with sukuk of 750 million riyals and 1.69 billion riyals maturing in May 2014 and February 2015 respectively. It also has short-term murabaha Islamic loans with local and international banks, which it plans to roll over.

Dar, which posted third-quarter net income of 867 million riyals, paid off a \$1 billion sukuk in July this year after selling land.

Shelash said the sukuk maturing in 2014 and 2015 could be paid off through company earnings without selling assets and would not be rolled over, adding that the company was waiting to see the impact of the U.S. "fiscal cliff" on international debt markets before it would consider raising more money.

Saudi Arabia's real estate market, characterized by high land prices and pent-up demand for low-cost housing, is on the brink of potentially significant changes. A law to regulate mortgage lending for the first time was approved this year.

Shelash said it was too soon to predict the impact of the law on the real estate sector, but that it was likely to increase prices as lenders eventually gained confidence in the regulatory system and more consumers gained access to financing.

"It will add new additional demand. It will also make the price...to be a little bit up," he said. He added that he was not sure what the direct impact would be on Dar's business.

Although the cabinet approved the law in July, details have yet to be made public by the central bank.

Analysts have said most housing demand in Saudi Arabia is among lower-income Saudis, while many developers have tended to focus on building more expensive properties which yield higher profits. Rising land prices mean it is sometimes more profitable for firms to simply trade land than to build low-cost houses.

Shelash said a housing-loan company partly owned by Dar would likely focus on the upper-middle segment of the housing market.

Editing by Andrew Torchia and David Cowell



The head office of Dar al-Arkan Real Estate Development Co. is seen in Riyadh.

REUTERS/FAHAD SHADEED

Iraq industrial sector attracts growing investment

BY ASEEL KAMI

BAGHDAD, NOVEMBER 19, 2012

Iraqi industry is beginning to shake off the legacy of years of violence and economic decline, with private investment in the sector expected to reach as much as \$7 billion this year, up from \$3 billion in 2011.

Though political instability and security issues remain, Adel Karim, the deputy industry minister, said that the country is reaping the rewards of opening up its financial and industrial sectors and luring foreign investment and expertise to revive its dilapidated factories.

"Iraq is still attracting foreign investment despite political problems and terrorist attacks," Karim told Reuters on Monday.

"If things continue as they are now, it is possible to exceed \$7 billion in 2013. And if the political crisis eases, there will be a jump in investment."

Since the last U.S. troops left in December 2011, Prime Minister Nuri al-Maliki's Shi'ite-led government has been politically

deadlocked and insurgents have continued to carry out attacks.

Many of Iraq's 260 factories were either looted in the aftermath of the U.S. invasion in 2003 or are outdated or located in restive areas.

Iraq needs investment in every sector, Karim said, and has an ample enough budget to enable it to rebuild. Were it not for the unstable political and security climate, investment in industry might have been double the \$7 billion figure.

The country's industrial sector currently contributes a mere 2 percent to the country's gross domestic product (GDP), according to central bank data. That figure could and should be higher, Karim said.

"Our contribution (to GDP) should be no less than 20 to 25 percent. I believe, if the political and the security situation calmed down, it would be possible to reach that figure in three or four years easily."

Karim said the ultimate goal was the gradual privatization of all 260 government factories, which are run by more than 70 state-owned companies. For now, how-

ever, the ministry plans to continue to grant production-sharing agreements to protect ministry employees.

"Our main goal is to hand over our companies to the private sector, because the private sector is more active ... but our first step is production-sharing deals," Karim said.

The ministry has signed between 40 and 50 production-sharing contracts with local and foreign companies over the past two years, the deputy minister said. These have included German, French and Turkish companies.

It recently signed a \$1 billion contract with Turkey's UB Holding to restore an iron and steel factory that was looted during the 2003 invasion in the southern province of Basra.

Karim also said the ministry is close to signing contracts worth a combined \$1 billion with three Turkish companies to restore three cement factories in northern and southern Iraq.

Editing by David Goodman



A worker adjusts a pipe at the Nassiriya oilfield in Nassiriya, 300km (185 miles) southeast of Baghdad. REUTERS/ATEF HASSAN

Ghosts of Dubai World's past may return to

BY DAVID FRENCH AND DINESH NAIR
DUBAI, NOVEMBER 22, 2012

Dubai World DBWLD.UL, the state-linked entity whose massive debts brought the emirate to the brink of collapse in 2009, faces the first repayment in its restructuring deal in three years time and creditors are once again growing restless.

With none of the promised asset sales materializing - Dubai needs to raise \$4.4 billion to meet the first obligations in the five and eight-year debt repayment deal - worries are emerging another drawn-out restructuring is inevitable.

"When we speak to the government, they say there is no rush and it shows everything is under control. However, as a banker, I'm worried as I don't know where the money is coming from," said one senior banker at an international lender owed money by Dubai World, speaking on condition of anonymity due to the sensitivity of the subject.

Another senior Dubai-based banker said: "Most of the repayment is contingent on asset sales, so if they are not going well, then it will be hard to repay these debts at par."

Such concerns contrast with an apparent return of Dubai's swagger.

The emirate is once again dreaming big with plans for a city centre canal and a \$1 billion replica of India's Taj Mahal. And some argue Dubai World will be able to meet the \$4.4 billion first payment due in 2015.

"It's been restructured and it's working well in the sense of how it was intended to over the last couple of years," said Rick Pudner, chief executive of Dubai's largest lender, Emirates NBD, which is 56 percent owned by the government and has one of the largest exposures to Dubai World.

"I'm very comfortable that Dubai will be in a position to meet its obligations," Pud-

ner said during the Reuters Middle East Investment Summit.

However, signs of concern over Dubai's debt burden are starting to surface.

Standard Chartered, another major Dubai World creditor, said in a November 7 note that while a rebound in key sectors would help it meet obligations, Dubai entities have nearly \$50 billion of liabilities between 2014 and 2016 and "given the lack of major asset sales or haircuts, there has been little progress on the deleveraging front."

In the Dubai World restructuring proposed to banks in July 2010, the firm said it needed time for assets to recover in value. Immediate sales would yield between \$6.4 and \$10.4 billion, but a delayed timeframe would give a return of between \$15.1 and \$19.4 billion, it said.

Under this plan, signed in March 2011, it was envisaged that between \$1.3 and \$2.3 billion would be raised between 2010 and 2012 through the disposal of P&O Ferries and warehouse developer Gazeley.

Another \$3.9 to \$5.3 billion could be raised during 2013-2015 as holdings such as department stores Barneys and Loehmann's and MGM Resorts International were offloaded, the document said.

Dubai World lost control of Barneys in May 2012 as part of a restructuring at the U.S.-based luxury retailer, while Loehmann's exited bankruptcy in March 2011.

However, the continued depression in valuations in a global economy not conducive to divestments has meant values have not recovered and asset sales have not been completed as planned.

For some assets, Dubai World admitted it would be unable to get back its original investment, having acquired at the top of the market. It bought its MGM Resorts stake at an average of \$83.15 a share; the stock closed at \$9.64 on Tuesday.

The lack of action to divest the foreign

portfolio is understandable in the current environment but, given the restructuring plan was based upon it, some bankers are concerned.

"The main issue is the depressed value of the international portfolio. Local assets are flourishing and doing great business but we haven't seen any credible asset sales so far which can help reduce the debt burden," the senior Dubai banker said.

"The most likely situation we see is Dubai going to the banks and again saying they have no money to repay the debt."

Granted, there are some encouraging signs in terms of borrowing conditions overall. Both the sovereign and government-related entities (GREs) have been able to access the bond market - Dubai last issued a \$1.25 billion Islamic bond in April.

Dubai has been helped by the successful re-financing this year of Islamic bonds issued by DIFC Investments and Jebel Ali Free Zone Authority and the conclusion of restructurings at Drydocks World and Limitless.

"You need to look at the global situation and then look at Dubai. We are more committed to meeting our debt obligations than many others around the globe," said Khamis Jumaa Buamim, chairman of Dubai Drydocks, which completed a \$2.2 billion restructuring earlier this year.

Yet signs of "debt fatigue" among lenders are also beginning to show, with the court action begun by three international banks against Dubai Group in September, following nearly two years of talks on amending \$10 billion of liabilities, an example of a more aggressive approach in relation to Dubai.

If the fears of senior bankers about a lack of divestments come to fruition and Dubai World requires a second restructuring, it is likely other options than just extending the debt will be on the table.

One banker involved in the original

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Gulf's private sector boom still vulnerable

BY MARTIN DOKOUPIL
ABU DHABI, NOVEMBER 21, 2012

Four years after a collapse of oil prices savaged Gulf Arab economies, private business activity in most of the region is thriving again. Yet problems with financing and regulation could cut short the boom.

Corporate executives and economists at the Reuters Middle East Investment Summit this week said the private sector's gains were vulnerable, warning growth could quickly slow if oil prices retreat or governments slow spending in order to conserve their financial reserves.

"The current good growth we are seeing is cyclical and has its roots in government spending, but there are structural impediments to longer term private sector growth," said Liz Martins, senior regional economist at HSBC.

The oil market slide of 2008, in which prices slumped by as much as three-quarters in the space of six months, revealed the vulnerability of the Gulf countries and their big state-owned oil sectors; Saudi Arabia only barely escaped recession in 2009.

Now high oil prices have ignited a consumer spending spree that is buoying private firms across the Gulf Cooperation Council (GCC), which comprises Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Bahrain and Oman.

Middle East oil exporters will enjoy a near-record surplus in trade of goods and services worth about \$400 billion this year, the International Monetary Fund estimates. Governments in the Gulf are channeling much of those oil earnings into social welfare and infrastructure projects.

This is helping private companies in two ways: directly, through contracts awarded by Gulf governments, and indirectly, by fattening the wallets of consumers who work for the government or receive welfare benefits.

"Stable growth we have seen across the GCC over the last six to eight quarters comes ... from the public sector boost, which has stimulated the private sector as well," said Fabio Scacciavillani, chief economist at Oman Investment Fund.

For Gulf governments, developing the private sector has been a top policy goal since the 2008 crash as they seek to diversify their economies away from oil to reduce the risk of a similar setback in future.

Fostering small private companies has become even more important since last year's Arab Spring uprisings, because such firms tend to create most jobs. Although Gulf governments largely escaped the unrest, they are keen to cut unemployment to remove a potential political threat.

Trends over the last year suggest they are having some success. Bank lending growth to the private sector in Saudi Arabia, Qatar and Oman has climbed into double digits and the annual rate hit 14.8 percent in Saudi Arabia during September, the fastest pace since March 2009.

The Saudi Ministry of Labour said in September that 380,000 jobs had been created in the past 10 months. Oman says it added 155,000 new private sector jobs in January-September.

The private sector boom is typified by companies such as Saudi Arabia's Jarir Marketing Co 4190.SE, a retailer of books, office supplies and electronics, which plans to boost the number of its stores by at least 70 percent in the next five years and expand into other GCC countries.

"We are growing in Saudi and in the Gulf, and we want to see that we populate the GCC," Jarir Chairman Muhammad al-Agil, who co-founded the chain with his family in 1979, told the Summit, taking place at Reuters offices in the region.

In the United Arab Emirates, one of the most diversified economies in the Gulf

with the non-oil sector accounting for 62 percent of output, bank lending growth has been slower as the country grapples with the aftermath of a real estate crash.

But the hospitality sector, a focus of private sector firms, is booming; tourist arrivals grew 10 percent and hotel revenue 19 percent in the first half of 2012.

Yet private business in the Gulf remains far from being able to fuel its own growth, withstanding fluctuations in oil prices and state spending. One problem is its access to financing.

Debt and equity capital markets are small so it's difficult for small and medium-sized enterprises (SMEs) to use them to raise money, said Martins at HSBC. That leaves bank loans, but many banks in the Gulf are traditionally unwilling to lend to small, little-known firms, preferring the security and predictability of lending to big companies, preferably those with state connections.

"Financial institutions look at them (SMEs) as toxic assets," said Abdullah al-Darmaki, chief executive of the Khalifa Fund for Enterprise Development, the Abu Dhabi government's SME development agency.

Rick Pudner, chief executive of Dubai's biggest bank, Emirates NBD, told the Reuters Summit that, historically, "you have to have a three-year track record before you can come to the table and ask for some money."

Pudner said that partly because of government efforts, the access of SMEs to bank loans would improve: "You'll see it probably getting a lot easier to access finance from banks, maybe supported by some quasi-element of government support."

But even then, private companies may face another major obstacle: regulation.

The risks of intrusive rule-setting were underlined last week when Saudi Arabia said it would fine private sector firms that employed more foreign workers than Sau-

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dis - a stance that could have a big impact given that roughly nine in 10 employees of private companies in Saudi Arabia are expatriates, according to official estimates.

In other cases, opaque and complex regulation, or the lack of any rules at all, is holding up private companies.

“One major area is bankruptcy law - also labour laws and labour protection are skewed towards national citizens and lag for foreigners. The other area is in terms of investor protection,” Scacciavillani said of the GCC.

“Awareness is there but in terms of de-

livery, little has been done.”

Additional reporting by Stanley Carvalho, David French and Mirna Sleiman; Editing by Andrew and David Holmes



An investor looks up at electronic boards displaying stock information at the ADX Abu Dhabi Securities Exchange stock market. REUTERS/BEN JOB

Summit Speakers



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Chairman and Managing Director
Boubyan Bank



Adel Karim
Deputy Minister
Iraq Ministry of Industry



Ahmed Heikal
Founder and Chairman
Citadal Capital



Ashok Aram
Chief Executive Officer, Middle East and
North Africa
Deutsche Bank



Ashraf El Sharkaw
Chairman
Egyptian Financial
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Fadi Faqih
General Manager
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Hamadi Lebali
Prime Minister
Government of Tunisia



Hisham Kandil
Prime Minister
Egyptian government



Jafar Hassan
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International Cooperation
Jordan government



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President
Boeing Middle East



Mark Mobius
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Markets Group



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