

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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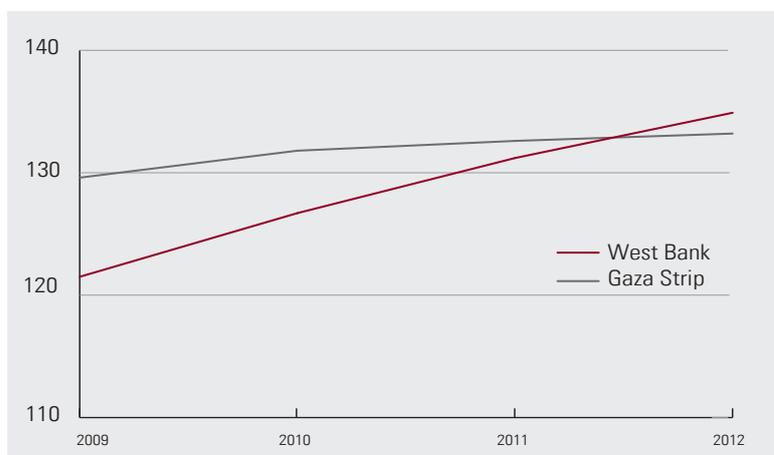
In 2011 the illiteracy rate in the Palestinian Territory for individuals aged 15 and over was 4.7%, a major improvement on the rate in 1997 which was 13.9%.

Economic Protests

A series of public sector strikes, civil protests and street demonstrations hit the West Bank in the past month. They have been linked to the deteriorating economic conditions and growing public dissatisfaction at escalating prices.¹

Since 2009 overall CPI (consumer price inflation) has risen by 13% in the West Bank and 2% in Gaza.² According to the Palestine Monetary Authority, inflation in the Palestinian Territory is largely dependent on global food and fuel prices.³ Movements in inflation rates also closely match those in Israel as it accounts for the great majority of the Palestinian Territory's trade. The terms of the Paris Protocol mean that the Palestinian Authority's (PA) rate of VAT cannot be more than two percentage points lower than the one in Israel, and gasoline prices must be within 15% of those in Israel.⁴ This means that the PA has recently had to raise the VAT rate and gasoline prices, following increases in Israel.

Figure 1: Index of CPI from 2009-2012 (base year = 2004)



Source: PCBS

Since 2009 some of the highest increases in the West Bank have happened in the major commodity groups, including food and soft drinks (+11%), housing (+15%), transport (+12%), textiles, clothing and footwear (+14%) and alcoholic beverages and tobacco (+47%). Taken together, these account for more than half of the monthly budget of the average family in the West Bank.

The prices of some goods have risen very sharply indeed over the last few weeks. For example flour was 10% more expensive than it was in June. Diesel and kerosene prices have increased by 8% over the last two months, and petrol and gas have gone up by 13%.⁵

1 www.maannews.net/eng/ViewDetails.aspx?ID=517262

2 www.pcbs.gov.ps/Portals/_Rainbow/Documents/Time%20series%20cpi%20by%20major%20group%202004-2011.htm and www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-August%20-11-2012.htm

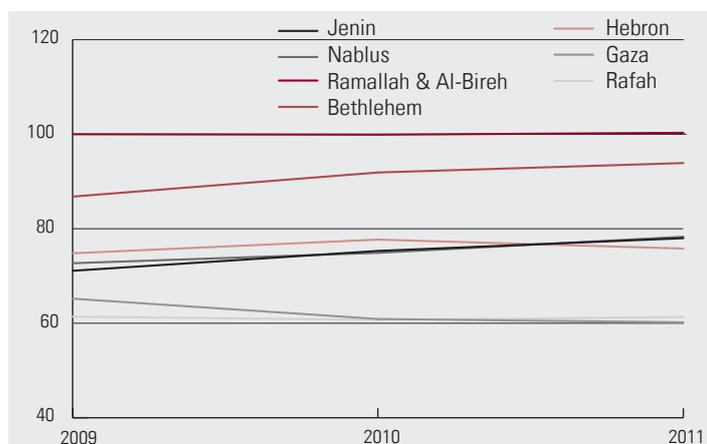
3 www.pma.ps/images/stories/inflationreports/inf%20rep%20_jan%202012.pdf

4 www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Gaza-Jericho+Agreement+Annex+IV+-+Economic+Protoco.htm

5 MAS figures

However since 2009 wage increases have not matched these price rises. Nominal wages have only increased by 1.5% in the West Bank and by 0.5% in Gaza.⁶

Figure 2: Average Daily Nominal Wages for Selected Governorates across the Palestinian Territory (NIS)⁷



Source: PCBS

Ibrahim Barham, PalTrade Board Member, told the Bulletin that, 'The recent rises in prices and the fact that wages have not been increasing is definitely one reason for the protests we have seen recently. But it is part of a bigger issue: despite the economic growth in the last few years which partially was a correction to previous bad economic years, the people are starting to realise that the Palestinian economy is weak, and that because of the political situation and the feeling that there is no forecast for any progress, the government has very little control over it. Plus, it shouldn't be forgotten that some economic measures that have been implemented lately have not been welcomed by people too.'

The World Bank's most recent analysis of the Palestinian economy states that restrictions put in place by the Government of Israel remain the major impediment to sustainable economic growth. It also calls on donors to maintain their support to the PA's budget.⁸

Dr Jawad Naji, the Minister of National Economy, told the Bulletin that the government has been engaged in an intensive dialogue with representatives from the private sector and civil society to explain the drivers of the current economic and financial crisis and to discuss potential remedies and recommendations, especially regarding the issue of rising prices.

On 11 September the PA announced several measures to address the current crisis.⁹ Firstly it committed to paying half of August's public sector salaries by 12 September. Then it announced that it would reduce the VAT rate from 15.5% to 15% on 1 October. The PA will also reinstate the prices of diesel, kerosene and cooking gas to the end of August levels. It announced that these last two measures

will be paid for by decreasing spending in ministries and governmental institutions (with the exceptions of health, education and social affairs) as well as making progressive deductions of salaries from high-level officials, including ministers. At the same time the Cabinet announced that it would conclude discussions on a minimum wage no later than 15 October. It will also enforce a price freeze on a number of basic food commodities. As part of a cost-saving exercise, the PA has also stopped all new recruitment and promotions in government institutions until further notice.¹⁰ The move is expected to save \$30m annually. In 2011, the PA spent around \$1.7bn on wages.¹¹ Recently the PA has borrowed \$75m from local banks to pay its debts to suppliers as a step towards reviving the economy.¹²

To try to lower energy prices, the PA is exploring the possibility of importing fuel from Arab and other countries.¹³ It has also indicated that it wants to revisit the Paris Protocol, which is viewed by many Palestinians as outdated and detrimental to Palestinian economic interests. To help ease the fiscal crisis, the Israeli Prime Minister Benjamin Netanyahu has agreed the advance payment of about \$63m to the PA from tax revenues collected by Israel on behalf of the Palestinians.¹⁴

West Bank Electricity Debt

The Jerusalem District Electricity Company (JDECO) is reported to owe the Israeli Electric Corporation (IEC) \$105m in outstanding debts.¹⁵ In August JDECO received an official warning from the IEC that it would implement intermittent electricity cuts throughout the JDECO electricity region (which includes East Jerusalem, Bethlehem, Ramallah and Jericho) should these debts remain unpaid. The CEO of JDECO, Hisham Omari, has said that the debts are a result of residents in Palestinian refugee camps refusing to pay their electricity bills, and bills owed by PA government agencies that have had difficulty with payments. He has also said that JDECO has reduced the pressure on subscribers who have unpaid bills in light of the tough economic conditions.¹⁶

The IEC often recovers part of its unpaid bills from Palestinian customers from the tax revenue that the Israeli Finance Ministry collects on behalf of the PA each month (known as clearance revenues).¹⁷ In September the PA Ministry of Finance reported that \$9m of the \$66m in clearance revenues from the previous month had been transferred to the IEC for this reason.¹⁸

Meanwhile, President Mahmoud Abbas has approved

6 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ2e_2012.pdf

7 <http://bit.ly/SECGRb>

8 siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCReportFinal.pdf

9 com.pna.ps/site/461/default.aspx?tabID=461&ItemID=119965&mid=3148

10 www.maannews.net/eng/ViewDetails.aspx?ID=514606

11 www.imf.org/external/country/WBG/RR/2012/032112.pdf

12 www.maannews.net/eng/ViewDetails.aspx?ID=515737

13 www.maannews.net/eng/ViewDetails.aspx?ID=517200

14 www.pmo.gov.il/English/MediaCenter/Spokesman/Pages/spokemoney110912.aspx

15 www.maannews.net/eng/ViewDetails.aspx?ID=517027 and www.jpost.com/Sci-Tech/Article.aspx?id=281520

16 www.maannews.net/eng/ViewDetails.aspx?ID=519594

17 <http://bit.ly/QnSvMt>

18 www.maannews.net/eng/ViewDetails.aspx?ID=519594

an increase in penalties for electricity-related crimes.¹⁹ Electricity theft or manipulation of bills will be punished with a minimum jail term of four months and a fine between \$424 and \$2,121. Sabotage or destruction of electricity installations will result in a jail term of between one and three years and a fine between \$2,828 and \$14,140.

Early-Stage Venture Capital Investment

Sadara Ventures, a \$30m fund backed by Google Foundation, Cisco, Skoll Foundation and others, that invests primarily in early-stage Palestinian startups, has announced a \$1m investment in Yamsafer.²⁰ Yamsafer is a Ramallah-based startup which enables travelers to book Middle Eastern hotels online at prices lower than those offered by leading international booking sites. Faris Zaher, Yamsafer's co-Founder and CEO, said, 'With this round of investment we plan to scale our technology and migrate it to mobile platforms, expand customer acquisition efforts and strengthen ties with hoteliers to increase occupancy rates and make regional travel even more affordable.' This is thought to be the first time a Palestinian company has received early-stage venture capital investment.

Gaza in 2020

A new UN report has concluded that without 'sustained and effective remedial action', including reconnecting Gaza with the West Bank, the deterioration of basic infrastructure in Gaza will render the region virtually uninhabitable by 2020.²¹ By then the population is expected to increase by 500,000, intensifying problems in housing, electricity, water, waste water and unemployment.

The demand for electricity by 2020 is expected to be double the current capacity for electricity supply. Water shortages are also projected to worsen in Gaza, as the abstraction of water from the coastal aquifer (currently at 160m m³ per year) far exceeds the rate of replenishment. Furthermore, the study argues that contamination of the aquifer could make it unusable as soon as 2016. The treatment and reuse of waste water further exacerbates the problem. 90,000 m³ of sewage is released daily into the Mediterranean Sea, 44m m³ of waste water is generated annually, and an estimated 57m m³ of waste water will be generated by 2020. The report asserts that in addition to the on-going construction of new waste water treatment plants, there is a desperate need for vast improvements in desalination, water rehabilitation systems and expanding access to water for the general population.

The provision of health and education in Gaza is also in need of development in order to accommodate Gaza's growing population. By 2020 Gazan hospitals will need 800 new beds, over 1,000 additional doctors and over 2,000 more nurses to maintain current levels of care. With

673,000 school age children expected in 2020, the report suggests that up to 440 new schools will be needed to accommodate them.

Illiteracy Rates

In 2011 the illiteracy rate in the Palestinian Territory for individuals aged 15 and over was 4.7%, a major improvement on the rate in 1997 which was 13.9%.²² The illiteracy rate for males was 2.1% and the one for females was 7.8%. The female rate has declined by 12.9 percentage points compared with 1997.

Labour Force Q2 2012

The unemployment rate in the Palestinian Territory decreased from 23.9% in Q1 2012 to 20.9% in Q2, but was still higher than the rate of 18.7% in Q2 2011.²³

Figure 3: Unemployment Rates (%)

	Q2 2012	Q1 2012	Q2 2011
West Bank	17.1	20.1	15.4
Gaza	28.4	31.5	25.6
Male	18.8	22.0	16.4
Female	29.5	31.5	28.6

Source: PCBS

The labour force participation rate remained approximately the same as the previous quarter at 43.6%. For males it was 69.2%, compared with 17.3% for females. The services sector remained the biggest employer, hiring 31.2% of all those employed in the West Bank and as many as 51.6% of those in the Gaza Strip. The public sector provided 21.9% of total employment. The number of workers employed in Israel and the settlements increased by 3,000 to 80,000. 60% were employed in the construction sector.

Agricultural Statistics Survey

In the 2010/2011 agricultural year only 2.4% of permanent agricultural employees and just 24.3% of temporary employees were paid; the rest were unpaid household members.²⁴ In 2011 agriculture employed 11.9% of the total labour force and, together with fishing and forestry, contributed 5.5% of GDP.²⁵ Over the 2010/2011 agricultural season there were a total of 105,238 agricultural holdings, 82% of which were in the West Bank. Most were plant holdings (68%), followed by mixed (22%) and animal holdings (10%). About two thirds of cultivated land was used for tree horticulture, about a quarter for field crops and about a tenth for vegetables.

Building Licenses Q2 2012

In Q2 2012 a total of 2,190 building licenses were issued in the Palestinian Territory, an increase of 0.8% compared

19 www.maannnews.net/eng/ViewDetails.aspx?ID=513317

20 www.zavya.com/story/Yamsafer_Secures_1_Million_in_Venture_Capital-ZAWYA20120909145047/

21 www.unrwa.org/userfiles/file/publications/gaza/Gaza%20in%202020.pdf

22 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_Literacy2012E.PDF

23 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ2e_2012.pdf

24 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/MOA-PCBS2011Agri_E.pdf

25 www.pcbs.gov.ps/Portals/_Rainbow/Documents/Percent2011.htm

with the previous quarter and 8.7% compared with the same quarter last year.²⁶ The total area of licensed residential and non-residential buildings was 870,100 m², 83% of which was for new buildings.

Hotel Activities Q2 2012

In Q2 the number of hotel guests increased by 37% from Q1 2012 and by 20% from Q2 2011 to 158,167.²⁷ Room occupancy also grew to 31% from 22% the previous quarter.²⁸ The number of hotels decreased from 102 in March to 98 in June. Hotels employed a total of 2,672 persons over the quarter, 78% of whom were male.

Arab Bank

On 26 August Sabih Masri was elected Chairman of the Arab Bank after the resignation of Abdel Hamid Shoman, who led the bank for over 40 years.²⁹ Arab Bank was established by the Shoman family in 1930. It is an important commercial bank in the Palestinian Territory with 24 branches across the West Bank.³⁰

Free Trade Zone in Gaza

At the end of August, the land authority in Gaza started leveling ground to establish a potential free trade zone between Egypt and the Gaza Strip, which will be located to the west of the Rafah crossing.³¹ A free trade zone could give Gaza the opportunity to import and export goods and raw materials through the Egyptian port of El-Arish without paying custom duties to the Egyptian authorities.

Foreign Aid

The Dutch government has donated \$15.9m to UNRWA's core programming and \$5.7m to the Agency's 2012 Emergency Appeal.³² It has also given €5m to the PA to help finance the budget deficit, the reform agenda and salaries for employees in the justice sector.³³ The Swedish government has released the PA from a \$28m loan dating back to 1999 which was used to fund an electricity project in Gaza.³⁴

26 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BldLicQ22012E.pdf
 27 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_HotelActQ22012E.pdf
 28 www.pcbs.gov.ps/Portals/_Rainbow/Documents/h_q1_e_%20tab1_2012.htm
 29 www.arabbank.ps/en/news/newsstory_176.aspx?CSRT=18283012196792771188
 30 www.pma.ps/images/stories/banks/arab-bank.pdf
 31 www.maannews.net/eng/ViewDetails.aspx?ID=515116
 32 www.unrwa.org/etemplate.php?id=1422
 33 <http://bit.ly/QnUn85>
 34 www.maannews.net/eng/ViewDetails.aspx?ID=512206

During President Abbas' visit there this week the Government of India announced that it would contribute \$10m to the PA budget this year.³⁵ At the same time agreements were signed for the setting up of an India-Palestine Centre of Excellence in ICT and for the construction of two schools.³⁶

The European Commission has announced €100m of new funding in support of the Palestinian Territory for 2012.³⁷

June Foreign Trade

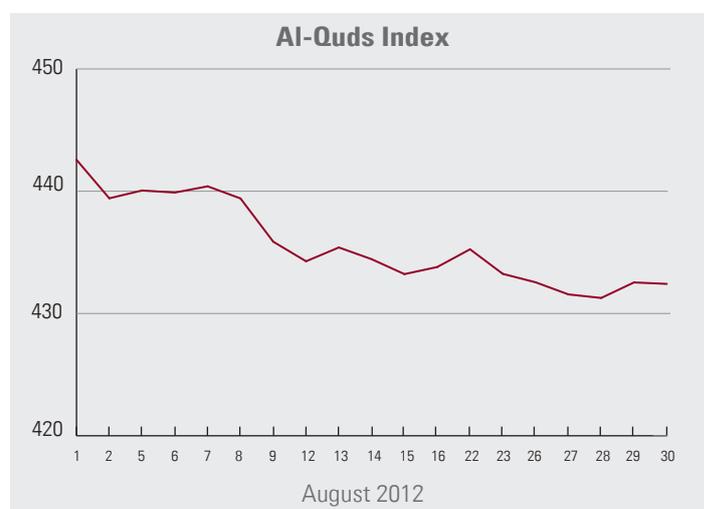
Figure 4: Trade in Goods for June 2012³⁸

	Exports	Imports
Level	\$60.2m	\$355.9m
Change from 05/2012	-6.4%	-7.8%
Change from 06/2011	-17.3%	-2.9%
To/from Israel (% of total)	90.2%	64.8%
Trade deficit		\$295.7m
Change from 05/2012		-8.0%

Source: PCBS

August Trading News

In August the Al-Quds index decreased by 2.33%, closing at 432.4. This was the fifth consecutive monthly decline. A total of 5m shares worth \$8.6m were traded in 19 sessions. Market capitalisation was \$2.6bn.



35 www.mea.gov.in/mystart.php?id=530120047
 36 www.newstrackindia.com/newsdetails/2012/09/16/30--India-s-ICT-expertise-helping-many-countries-.html
 37 <http://bit.ly/QEVH79>
 38 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_ExtTrd062012E.pdf

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