

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Over 200 people attended the London Business Forum on Trade and Investment with Palestine on 15-16 December. The conference was addressed by UK Prime Minister Gordon Brown, Palestinian Prime Minister Salaam Fayyad and Quartet Representative, Tony Blair. It focused on building real links between the Palestinian and British ICT, construction, finance, tourism and agricultural sectors.

Unemployment rose from 25.8% in Q2 2008 to 27.5% in Q3 2008 (according to the ILO definition). The West Bank saw a substantial increase in unemployment, from 16.3% in Q2 2008 to 20.7% in Q3 2008. In the Gaza Strip, the rate fell from 45.5% to 41.9% in the same period.

The Consumer Price Index (CPI) saw a minor decrease in November 2008 of -0.8% from October 2008. The Construction Cost Index (CCI) declined by -1.8% in November 2008 compared with October 2008. Steel dropped substantially by -16%.

Gaza

As the Bulletin went to press, a fragile ceasefire had been reached in Gaza. The Gaza Manager of the Palestinian Federation of Industries, Amr Hamad told the Bulletin that the industrial sector in Gaza is at a complete halt. Many factories are damaged and all industrial businesses and estates (3900 factories) are closed. The 35,000 people employed in the industrial sector are at home.

The Palestinian Central Bureau of Statistics (PCBS) released a preliminary estimation of economic losses for the Gaza Strip on 12 January. The total economic costs stand at approximately \$1.4bn. 14% of the infrastructure has been damaged, with 4,000 residential buildings totally destroyed and 16,000 partially hit. This loss is estimated to cost \$290m. More than 20,000 buildings (residential, commercial and institutional) have been hit. 80% of the agriculture farms have been ruined with a loss of \$90m. The daily economic loss for the Gaza Strip is thought to be \$24m.

Gaza's economy was on the brink of collapse before the outbreak of hostilities. In addition to the 2009 Consolidated Appeal Process¹ (launched in early December²) UNRWA has asked its donors for further resources to address the unfolding situation, including assistance for food (\$10m), cash (\$10m), emergency shelter (\$10.5m) and fuel (\$0.5m). The costs of the closures in Gaza have taken an unprecedented toll on Gaza's population. As a result of the newly displaced people, the World Food Programme estimates that in the coming weeks an additional \$9m will be required for a further 50,000 people needing assistance in Gaza.

Dr. Yousef Daoud, an economics professor at Birzeit University, told the Bulletin that 'the current situation in Gaza will negatively affect the expectations of investors in the Palestinian financial market, which is likely to result in fewer investments (in the long-run).' Dr. Daoud believes that the current operation is bound to affect the whole Palestinian financial market 'in as far as it creates uncertainty and discourages investment, reducing demand for stocks and lowering stock prices. It will also have an economic cost resulting from the destruction of infrastructure, closure of factories and lost agricultural output.'

¹ See: www.un.org/unrwa/publications/pubs08/GazaFlashAppeal_jan09.pdf

² See December's bulletin for more information.

Financial Market Steady

The Palestinian financial market appears to have avoided the devastating effects of the global financial crisis. As a number of sources told the Bulletin, local banks are conservative in regard to foreign activities. While gross assets of the Palestinian banking system for Q2 2008 were \$7.3bn, the Palestinian banks' total foreign investments for the same quarter were \$3.3bn (55% of gross assets). Of this figure, \$3bn were deposits in financial institutions that have not been affected by the crisis (41.7% of the banks' total capital).³

The serious downturn in the US mortgage market, which sparked the crisis, has not infected the Palestinian mortgage market. The Bulletin spoke with Issa Kassis, General Manager of Palestine Mortgage and Housing Corporation, which specialises in guaranteeing loans on behalf of homeowners, covering their default risk. Kassis believes that the Palestinian mortgage market 'is too small a market to be affected and is strictly regulated by the Palestinian Monetary Authority (PMA)'.

Consumption is constrained by a savings culture in the Palestinian Territory. Investments are limited and short term saving is prevalent, largely because of political instability. In the current climate, banks take few risks and require high collateral for loans. Lending is limited and relatively safe for lending parties. Despite the current economic situation, there is no reason, a recent report by the World Bank explains, for bank loan guarantee programs to stop expanding.⁴

The Palestinian stockmarket has also avoided the crisis due to its size (35 listed companies) and relative isolation. Market capitalisation in December 2008 stood at \$2.1bn. Listed companies have few or no external investments, do not rely on exports and have limited foreign contacts. With such a young and volatile index, prices can fluctuate as rumours spread quickly.⁵ The Bulletin spoke with Dr. Nasr Abdel Karim, Chairman of the Department of Accounting at Birzeit University. Dr. Abdel Karim said that 'the Palestinian financial sector is a safe refuge from the international financial crisis due to its limited involvement in foreign financial markets. What the Palestinian market has suffered is an unjustified and exaggerated reaction of investors who, having seen the effect of the crisis on foreign markets, wished to escape from the Palestinian market as well.'

3 Palestine Economic Policy Research Institute, MAS, (2008). Economic and Social Monitor, Vol. 14. Ramallah.

4 See: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WEBSITE/0,,contentMDK:21995669~pagePK:141137~piPK:141127~theSitePK:294365,00.html>

5 Ibid

Third International Banking Conference

The PMA, in coordination with the Association of Banks in Palestine (ABP) held the third Palestinian International Banking Conference entitled 'Basel II and Implementation Challenges'. The conference discussed the three pillars of the Basel II Accords - minimum capital requirements, supervision and regulation, and market discipline. According to the PMA Governor, Jihad Al-Wazir, the conference intended to send a message of confidence to local and international investors. Al-Wazir said that he expects the PMA will revise and transform the recommendations of this conference and the national committee, in close coordination with ABP, into guidelines and regulations that best fit the Palestinian context.⁶

According to Nabil Abu Diab, General Director of ABP, the main outcome of the conference was the establishment of a national committee, which will draw up an implementation road map for Basel II with some amendments to fit the Palestinian context. He added that Palestinian banks need to enhance their risk management capabilities in order to stimulate their risk appetite.

UK – Palestinian Cooperation

Round table discussions took place at the London Business Forum on Trade and Investment with Palestine on 15-16 December to set up a hub to help Palestinian producers in the North sell to large retailers in the UK. The next meeting will take place in February at the Arab British Business Council. Palestinian exporters, led by Mazen Sinokrot, invited the British delegation to a fact-finding visit in Spring 2009.

Over 200 people attended the conference in London which focused on building real links between the Palestinian and British ICT, construction, finance, tourism and agricultural sectors. Prime Ministers Brown and Fayyad addressed the conference at the opening session. Trade between the UK and the Palestinian Territory has increased significantly over the past year – imports to the UK rose by 50% in 2008 compared to 2007 and UK exports to the Palestinian Territory are three times higher than 2007 and rising.

Bashar Masri, Chairman of MASSAR, updated the conference on plans for the new town "Rawabi". The master plan for the 5000 housing-unit project, prepared by EDAA, the British subsidiary of the international firm AECOM, was submitted to the Palestinian Authority (PA)

6 See: http://www.al-ayyam.ps/znews/site/template/Doc_View.aspx?did=99167&Date=11/30/2008

in November and is awaiting official approval. Masri looked to British participants for technical expertise and know-how and said that there were opportunities for service provision to the town, worth at least \$500m. Samir Hulileh, CEO of PADICO, confirmed his company's interest in local industrial zones and said that 6-7 new zone proposals had been submitted for approval to the PA. An MOU was signed between PADICO, Bank of Palestine and Al Quds Bank to launch the \$50m Enterprise Revitalisation Fund. \$40m is expected to come from private and institutional investors and will be supplemented by \$10m from donors.

Hashem Shawa, Chairman of the Bank of Palestine, told the conference that the Palestinian banking system is now one of the most liquid systems in the world with nearly \$6bn in deposits and a loan to deposit ratio of only 30%. The financial services sector is growing and now contributes more than 9% to Palestinian annual GDP. 25 new bank branches are expected to open in 2009. The Palestinian Stock Exchange (PSE) has identified six local companies, including Wataniya, to list in 2009. The PSE is also considering its own IPO.

Aid

The EU, alongside contributions from the Netherlands (€8.6m) and Ireland (€1.5m), provided €25m in budgetary support through PEGASE at the beginning of January, to help pay the first salaries and pensions in 2009. The EU provided 47,000 Palestinian families facing hardship with roughly \$200 (NIS 1000) per household. Just over half of the recipients, who live in Gaza, face delays because of cash liquidity problems and the security situation. Alix De Mauny from the European Commission Technical Assistance Office confirmed that the Gazan recipients had still not received their allowances due to the hostilities. West Bank beneficiaries were able to collect their allowances from 29 bank branches. The social allowances were made available with the help of Italy, who contributed €9.4m.⁷

Unemployment Rises

Unemployment rose from 25.8% in Q2 2008 to 27.5% in Q3 2008 (according to the ILO definition which includes persons who do not work but are seeking a job). The West Bank saw a substantial increase in unemployment, from 16.3% in Q2 2008 to 20.7% in Q3 2008. In the Gaza Strip, the rate fell from 45.5% to 41.9% in the same period. As before, unemployment was concentrated amongst those aged 15-29. Unemployment for 20-24

year olds reached 43.8% (35.1% in the West Bank and 59.8% in the Gaza Strip).

The governorate of Qalqilia registered the highest unemployment rate in the West Bank, at 31.5%, while Khan Younis governorate registered the highest unemployment rate in the Gaza Strip, at 50.2%.

The PCBS Labour Force survey for Q3 2008 showed that employment participation levels remained steady at 41.6% according to ILO standards.⁸ But the participation of women in the workforce fell from 16.0% (in Q2 2008) to 15.2% (Q3 2008).

There was an increase in salaried employees in the West Bank between Q2 and Q3 2008, (from 60.4% to 62.2%) while in the Gaza Strip it increased from 71.3% to 73.3%. The percentage of unpaid family members decreased from 8.5% to 6.4% in the Gaza Strip, as did self-employment, from 16.9% to 15.7%.

Employment from the West Bank in Israel and in the Israeli settlements increased from 14.2% in Q2 2008 to 16.3% in Q3 2008. The public sector accounted for 14.0% of total employment in the West Bank and 48.8% in the Gaza Strip.

The West Bank daily net wage decreased from 86.9 NIS to 82.2 NIS, compared with 77.1 NIS in Q3 2007. Gaza pay fell from 61.5 NIS to 57.2 NIS. The daily wage for those working in Israel and Israeli settlements decreased from 143.3 NIS to 138.0 NIS, a minor decrease since Q3 2007 (131.9 NIS).

Indices

The Consumer Price Index (CPI) saw a minor decrease in November 2008 of -0.8% from October 2008. The highest increase in the CPI was in the education and medical care groups (0.3%). Declines were recorded in transportation (-3.3%) while housing and the food and soft drinks groups declined by -1.2% and -0.9% respectively. The index decreased by -1.1% in the Gaza Strip, -1% in the West Bank and by -0.5% in Jerusalem.⁹

The Construction Cost Index (CCI) declined by -1.8% in November 2008 compared with October 2008. Steel dropped substantially (-16%), followed by metal tools (-2.3%), electrical installation (-1.3%) and tiles and panels (-1.2%). Increased costs were seen in wages and labour (2.9%), ceramic products (0.7%) and wood products (0.6%).¹⁰

8 http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/labour_e.pdf

9 http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_%20nov_08e.pdf

10 http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/construc_cost_e.pdf

7 <http://www.delwbg.ec.europa.eu/en/whatsnew/90.htm>

Agricultural Production Falls

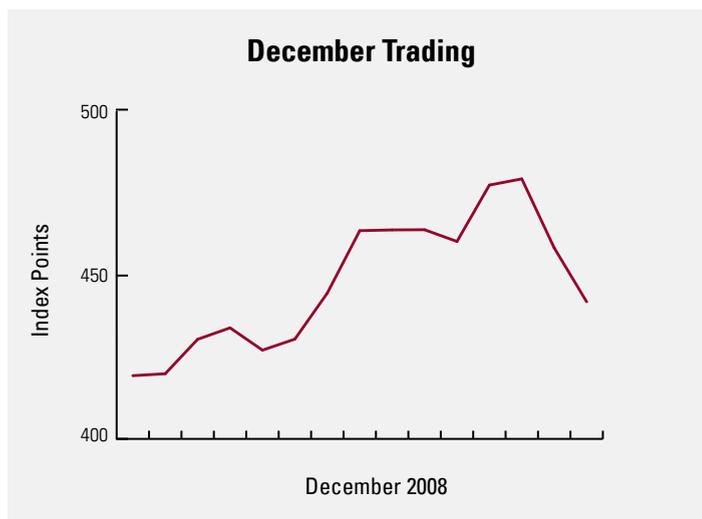
The PCBS released agriculture statistics for 2006-2007.¹¹ The value of livestock production fell by -13% since 2005-2006 to \$404m. The value of agricultural production rose by 4.4% to \$1.1bn 63.7% of agricultural production was for plant production and 36.3% for livestock production. The value added of agricultural production was \$496m in 2006-2007, a decrease of -11% since 2005-2006.

There were 1.8 million dunums cultivated in the Palestinian Territory, an increase of 0.5% since 2005-2006 (one dunum of land was counted three times if it had been used in three different harvests). Fruit trees comprised 63.5% of the total cultivated area, followed by field crops (26.3%) and vegetables (10.2%). 73.3% of cultivated land in Gaza relied on irrigation, while just 8.3% of land in the West Bank needed additional water.

¹¹ http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/agri_stat_e.pdf
<http://www.pcbs.gov.ps/DesktopModules/Articles/ArticlesView.aspx?tabID=0&lang=en&ItemID=1410&mid=10945>

December Trading

The AI Quds index increased by 5.1%, or 22.6 points, to reach 441.66 points on the last day of trading in December. In 15 trading sessions, 12.4 million shares changed hands, a decrease of 37.7% compared to November 2008. It should be noted that the stock market tends to be largely inactive due to the December holiday season. The value of traded shares in December 2008 decreased 7.2% from November 2008 to \$37.4m. Market capitalisation stood at \$2.1bn – 3.3% more than in November 2008.



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