

PALESTINIAN ECONOMIC BULLETIN

Issue 36

September 2009

Main reports

The PNA's current budget is funded until the end of October following an influx of more than \$450m from the US, Saudi Arabia, EU, Egypt and Sweden. Prime Minister Fayyad announced September government salaries will be paid before the Eid holidays.

The Palestinian Mortgage and Housing Corporation (PMHC) will provide 20 year loans with a five year fixed rate of 6.95% for new homes in Ramallah built by the Union Construction and Investment Corporation (UCI). A number of other banks have also agreed to provide five year fixed rate loans at 7.25%.

Wataniya Mobile will withdraw from the Palestinian Territory if the 4.8MHz frequencies are not provided by 15 September. The PNA will be asked to return \$140m already paid towards licence fees and provide financial compensation for other sunk costs.

Unemployment fell from 25.4% to 22.2% in Q2 2009 in the Palestinian Territory (according to the ILO definition). Unemployment in the West Bank decreased from 19.5% in Q1 2009 to 15.9% in Q2 2009. In the Gaza Strip the rate fell slightly, from 37% to 36% in the same period.

Customs

On 10 August the Palestinian Customs Authority launched a state of the art web-based customs management system, ASYCUDA-WORLD (known locally as Tawasol).¹ Ten countries have adopted this new system, including Egypt, Israel and Jordan. Jordan, Egypt and the Palestinian National Authority (PNA) have agreed to link their new systems and share customs data. 16 of the largest Palestinian private sector companies are already using the ASYCUDA-WORLD technology.

Implementation of Tawasol is the final phase of a ten year modernisation programme implemented by UNCTAD and funded by the EU. The first phase of modernisation was to prepare a parallel system to the 'Malam' system in Israel. Phase two, beginning in 2004, saw the new system translated into Arabic and improvements made to the way customs' tariffs are calculated. The new system will simplify customs' procedures and facilitate trade through online processing, making it faster and cheaper for Palestinian exporters and importers to conduct transactions. Tawasol will also reduce calculation error and enhance Palestinian capability to combat fraud, increase customs and tax revenues and generate data to inform policy making. It brings Palestinian tax and customs administration in line with the highest international standards.

Prime Minister Fayyad announced the establishment of a new unit in the Council of Ministers to follow up on the final phase of implementation. Misyef Misyef, Tawasol Project Coordinator, told the Bulletin that 'for the first time, the PNA has appointed staff to deal with customs and taxes who have the capacity to adjust the system to meet changing policies'.

Misyef told the Bulletin that the next priority is to review and automate customs exemption procedures. By the end of the year a website for the Customs Authority will be launched that will clearly outline country tariffs, procedures for importing and exporting and will include downloadable forms. 'This programme has political and economic implications' Misyef told the Bulletin. 'If there is a diplomatic solution to the conflict, the PNA must be ready to take over border crossings and trade. This needs to be organised and we are ready for it.'

¹ See: http://www.idf.ps/documentsShow.aspx?ATT_ID=1828 and Pullout from Al Ayyam 10 August 2009

Budget

The PNA paid August salaries to all public sector employees on 3 September. Prime Minister Fayyad announced that September salaries will be paid before the Eid holidays. The salaries will include an additional \$25m in compensation for previous late salary payments.²

Recent payments of international assistance to the PNA (more than \$450m in the past two months) mean that the PNA's recurrent budget is funded until the end of October, Dr Samir Abdullah, former Minister of Planning, confirmed to the Bulletin. However funds are insufficient to repay the banks, which are owed more than \$600m by the PNA.³

In August, Saudi Arabia transferred \$200m, €39m was committed by the EU for direct budgetary support⁴ and Sweden channelled \$6m via PEGASE.⁵ This is in addition to \$200m from the US and \$15m from Egypt, received by the Ministry of Finance in July.⁶

Housing

The Palestine Mortgage and Housing Corporation (PMHC) will provide long-term fixed rate loans for new homes built by the Union Construction and Investment Corporation (UCI).⁷ PMHC will be the sole loan provider for an initial 63 units in Etihad (north-west Ramallah) and 29 units in the Arkadia Residential Compound (Al Masyoun, Ramallah). House prices range depending on size, from \$130,000 a unit to \$300,000 for larger villas. 20 year loans with a five year fixed rate of 6.95% will be provided.

Dr. Mohamed Al Sabawi, the Chairman of the UCI Board, said that the agreement will reduce costs for home-buyers and will enable Palestinians to buy houses with a down payment of less than 10% and a long term loan of around 20 years. UCI also told the Bulletin that they are seeking PMA approval for two new financial products, with smaller down payments, which will be available to all their customers. 'The loans will allow people to buy houses according to their financial ability', he added. UCI have plans to build another new suburb near Ramallah, with 500 affordable housing units.

2 See: <http://www.alwatanvoice.com/arabic/content-140897.html>

3 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCJune09Reportfinal.pdf>. The 2009 PNA budget has a recurrent account deficit requiring \$1.2 bn in budget support. The Gaza conflict last year increased the deficit by \$300m to \$1.5bn.

4 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=1829

5 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=118341&date=8/4/2009>

6 See: http://www.pmf.ps/news/plugins/spaw/uploads/files/accounts/2009/08/table7_eng.pdf

7 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=118466&date=8/5/2009>

PMHC are signing similar financial agreements with other developers and real estate companies. They currently have re-financing agreements with ten banks working in the Palestinian Territory, four of whom⁸ will provide loans at fixed rates of 7.25% until 2014.

Both companies were present at the first Palestinian Real Estate exhibition, which took place over three days in August. 5,000 visitors and 25 Palestinian real estate, loan and investment companies attended the event.⁹ Issa Kassis, General Manager of PMHC, said that marketing their products directly through housing project developers rather than solely through banks was a strategic step forward. PMHC's participation in the event and similar exhibitions has contributed to an increase in loan applications.

Wataniya Mobile

The future of Wataniya Mobile in the Palestinian Territory still hangs in the balance. After a meeting in Kuwait, the Board of Directors issued a deadline to the Palestinian Ministry of Telecommunications and Information Technology to provide the minimum required frequencies to establish its operations and services by 15 September 2009.¹⁰ The Palestinian Minister of Telecommunications and Information Technology, Dr. Mashhour Abu Daka, told the Bulletin that Wataniya will withdraw from the Palestinian Territory if the deadline is not met. Moreover, Wataniya will officially request that the PNA return their down payment of approximately \$140m already paid towards licence fees (total cost of \$354m) and seek further financial compensation for sunk costs. Wataniya signed a licence agreement with the PNA in 2007 and have subsequently invested around \$270m in infrastructure.¹¹

Wataniya requires 4.8 MHz frequencies to operate. To date Israel has only agreed to release 3.8 MHz (see Bulletin July 2009). Abu Daka told the Bulletin that if Wataniya accepts the 3.8 MHz frequencies, it will be less competitive than Israeli companies. It will also affect the performance of Jawwal, the sole Palestinian telecommunications provider, who already operate at 3.8 MHz. Sharing the frequencies with Wataniya will require both operators to adapt their equipment. Jawwal estimate the changes would cost them \$160m. The Government believes that the costs would be lower (\$30-40m). Both estimates are unaffordable for Jawwal.¹²

8 Arab Bank, Al Quds, Al Rafah, Bank of Palestine

9 See: <http://www.alquds.com/node/183186>

10 See Bulletin July 2009 for background: <http://www.portlandtrust.org/Bulletin%20Issue%2034%20July%202009.pdf>

11 See: <http://comm.ae/2009/08/24/wataniya-sets-september-15-deadline-for-additional-frequencies/>

12 See: <http://www.alquds.com/node/166273>

Unemployment Falls

The Palestinian Central Bureau of Statistics Labour Force Survey for Q2 2009 showed that unemployment, according to the ILO definition which excludes discouraged workers, decreased from 25.4% in Q1 2009 to 22.2%¹³. Unemployment fell in Gaza from 37% in Q1 2009 to 36% in Q2 2009. The West Bank saw an 18.5% decrease in unemployment from 19.5% in Q1 2009 to 15.9% in Q2 2009. According to PCBS this drop is due to 'seasonality and agricultural employment'. However unemployment has also fallen in comparison to the same period last year (Q2 2008) when unemployment was 25.8% overall: 16.3% in the West Bank and 45.5% in Gaza.

Unemployment is highest for the young, reaching 38.6% for the age group 20-24 (29.3% in the West Bank and 57% in the Gaza Strip). The public sector accounted for 16.2% of total employment in the West Bank and 50.6% in the Gaza Strip.

Meat Shortages

The West Bank is currently suffering from an acute shortage of fresh meat. The drought earlier in the year forced farmers to sell their livestock. Azzam Tubeileh, Undersecretary at the Ministry of Agriculture, estimates that 300,000 – 400,000 sheep are required each year for the domestic meat market. Currently only 140,000 are available for slaughter. Imports of fresh livestock are limited to about 20,000 sheep.

With the heightened demand for meat during Ramadan and the forthcoming Eid holidays, Tubeileh expects the price of meat to increase from around 70 NIS/kg to over 100 NIS/kg if the flow of imports does not improve.¹⁴ In the Gaza Strip an agreement has been made with the butchers to reduce the price of red meat during Ramadan, from 50-60 NIS/kg to 35-40 NIS/kg.¹⁵

West Bank Economy

While Palestinian GDP per capita has declined 34% in real terms since 2000¹⁶, the IMF recently stated that GDP in the West Bank could increase by 7% this year if the remaining restrictions to movement and access were lifted.¹⁷ The Bulletin has assembled a snapshot of other economic indicators on the West Bank, where available, and compared these indicators over time.

There were 58% more new companies registered in Q1 2009 than Q4 2008 and 84% more than the same period

13 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Labour%20Force-e.pdf

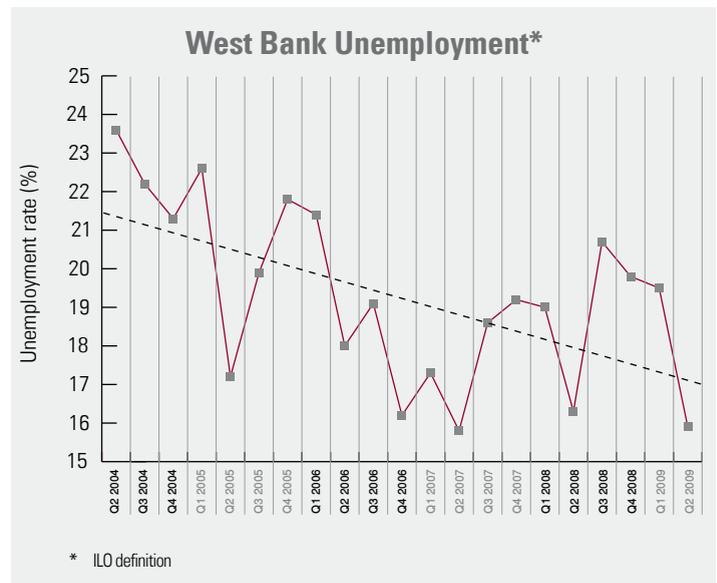
14 See: <http://www.al-ayyam.ps/znews/site/default.aspx?Date=9/10/2009>

15 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=220208&MARK=>

16 See: UNCTAD 2009

17 See: <http://www.haaretz.com/hasen/spages/1100362.html>

last year.¹⁸ The number of building licences in the West Bank rose by 33.5% during the first half of 2009, after a steady decline of 20% in 2008.¹⁹ Unemployment, while showing seasonal fluctuations, has been on a downward trend over the past five years.²⁰



The Industrial Production Index (IPI) increased marginally by 0.7% in the West Bank during Q2 2009 compared with Q1 2009.²¹ In July 2009 11,322 imported truckloads and 5,578 exported truckloads passed through the four crossing points into the West Bank. This is an increase of 18.9% in imported truckloads and 3.5% in exported truckloads when compared with June 2009, or 64.5% and 30.5% respectively compared with July 2008.²²

Dr. Bassem Khoury, the Minister of National Economy, told the Bulletin that recent statistical improvements in the West Bank economy are the results of increased security and enforced rule of law by the PNA, as well as improved local human capacity.

PADICO Profits

PADICO recorded net profits of \$20.4m in the first half of 2009, 8.9% lower than the same period last year (\$22.4m). Final year profits in 2009 are expected to be above the \$23.2m recorded last year, which were only fractionally higher than mid-year due to the financial crisis.

18 Ministry of National Economy, unpublished data. 454 new companies registered in Q1 2009 compared to 287 new companies in Q4 2008 and 247 in Q1 2008.

19 See: <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3632&lang=en>. Number of building licences issued in the West Bank: 1,228 in Q1 2008 (unpublished PCBS data), 980 in Q4 2008, 1,219 in Q1 2009, 1,309 in Q2 2009. Building licence data for other years includes the Gaza Strip.

20 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/text_e_q2.pdf

21 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/indus_e.pdf

22 See: <http://www.paltrade.org/en/publications.php>. There were 6,884 imported truckloads and 4,276 exported truckloads in July 2008 and 9,525 and 5,381 respectively in June 2009.

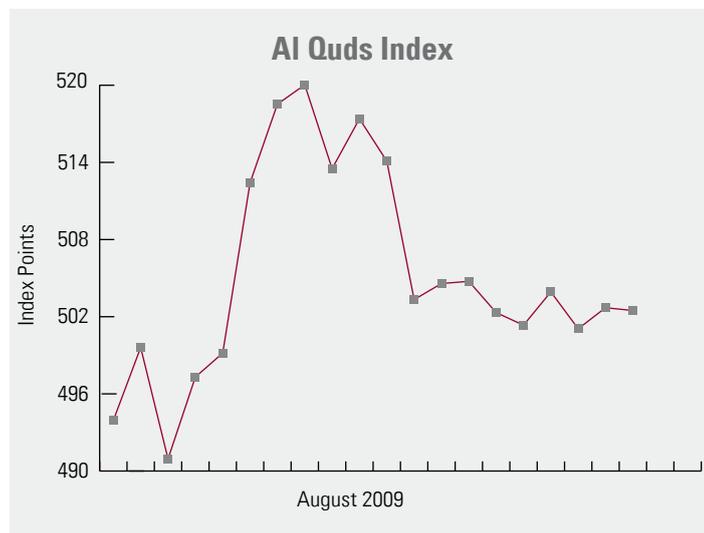
New policies adopted by PADICO to mitigate the impact of the crisis have proven to have a positive outcome, said Samir Hulileh, PADICO's CEO.²³ In the past year, PADICO redirected many investments, focused on operational activity and direct investment and reduced the financial portfolio from around 13.5% of total assets in the first half of 2008 to just 3.3% by the end of June 2009.

Market News

The Al-Quds Index peaked at 520.03 points on 11 August, but fell to 498.45 points by 31 August, an increase of 2% or 9.68 points from July 2009. In 6,372 transactions over 22 trading sessions, 12 million shares changed hands, an increase of 0.8% compared to July 2009 (11.9m shares). The value of traded shares in August grew 40.1% from last month to \$27.9 million. Total market capitalization in August increased by 2.1% to \$2.3bn.

This month the Palestine Securities Exchange (PSE) updated their online observer trading programme 'Market Watch' as part of ongoing efforts to increase dissemination of capital market information, improve data accuracy and assist investment decisions. The

PSE told the Bulletin that Market Watch, which can be downloaded from the internet²⁴, now provides news and statistical information on PSE listed companies, regional and international stock exchanges, and relevant reports published by the World Bank, IMF, and other parties. According to Ahmed Oweida, the Executive Chairman of the Palestine Securities Exchange, the new version of 'Market Watch' is comparable to programmes used in international markets.



²³ See: April 2009 Bulletin for further information: <http://www.portlandtrust.org/Bulletin-Issue%2031%20April%202009.pdf>

²⁴ See: <http://www.p-s-e.com/PSEWEBSITE/Downloads.aspx>

The Portland Trust

42 Portland Place
London W1B 1NB

P.O. Box Al Bireh 4102
Ramallah Al Masyoun

Azrieli 3
132 Menachem Begin Road, Tel Aviv 67023

Email: feedback@portlandtrust.org
Website: www.portlandtrust.org

The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

© 2009 The Portland Trust

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR