

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The PA plans to officially bid for observer status at the next WTO ministerial meeting on 21-22 October. All 153 members of the WTO have to approve the accession in a vote. If successful the PA will be able to observe all WTO meetings; one of the interim steps towards full membership.*

*An injection of \$15m and JD 10m is needed to resolve Jordanian dinar and US dollar liquidity problems in the Gaza Strip. NIS 30m of damaged notes have been replaced recently and a transfer of NIS 300m is expected shortly.*

*Jordan Commercial Bank plans to expand and open a branch in every West Bank governorate. The expansion coincides with new PMA requirements that each bank must have at least \$35m in capital.*

*PalTrade has launched a new programme to provide training in marketing from international experts. The programme will benefit 140 Palestinian companies and has specific components tailored towards the food processing and ICT sectors.*

### AHLC Meeting

The Ad Hoc Liaison Committee (AHLC)<sup>1</sup> met at the UN Headquarters in New York on 22 September to discuss Palestinian economic plans.<sup>2</sup> Prime Minister Fayyad introduced the Palestinian Authority's new programme "Ending the Occupation, Establishing the State", which sets out plans to establish the institutions of a Palestinian state and a prosperous economy within two years.<sup>3</sup> All members strongly confirmed their support for the plan. A statement from the UN Secretary General Ban Ki Moon praised the PA's achievements in security, the economy, financing reform and planning over the past two years as 'unprecedented'.

Members noted the signs of economic improvement in the West Bank. The World Bank reported that growth is largely driven by donor-funded public spending.<sup>4</sup> However increased security in major West Bank cities, public sector reforms and Israeli steps to facilitate increased movement and access have bolstered private sector confidence. Private sector credit rose by about 30% in the first six months of the year, reflecting both the improved situation and the increased availability of credit following a rise in the domestic lending to deposit ratio set by the PMA (from 35% to 45%).

In contrast to the West Bank, Quartet Special Representative Tony Blair highlighted the situation in Gaza as 'very serious'. The PA said it continues to look for solutions to getting food, water and other basic supplies to the population. Concerns were raised that the black market economy and trafficking through the tunnels is diverting customs and tax revenues from the PA and harming its legitimacy in the Gaza Strip.

The IMF and World Bank also stressed the ongoing fragile fiscal situation of the PA and highlighted the expected remaining \$400m budget deficit this year.<sup>5</sup> Norwegian Foreign Minister Jonas Støre called on donors to fund the gap, adding 'it is critical that the PA does not falter for lack of funds and revenue at this critical juncture. Its institutions are the very foundation of the future Palestinian State'. \$1.36bn of budget support has been provided by donors in the first nine months of 2009.

1 The AHLC was established on 1 October 1993. It serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people. Norway is the chair of the committee, the World Bank acts as secretariat and the EU and US are co-sponsors. The members are: the Palestinian Authority (PA), Government of Israel (GoI), Canada, Egypt, International Monetary Fund (IMF), Japan, Jordan, United Nations (UN), Russia, Saudi Arabia, Tunisia.

2 See: <http://www.imf.org/external/np/wbg/2009/pdf/092209.pdf>

3 See: [http://www.mop-gov.ps/web\\_files/issues\\_file/090825%20Ending%20Occupation,%20Establishing%20the%20State%20-%20Program%20of%20the%2013%20government.pdf](http://www.mop-gov.ps/web_files/issues_file/090825%20Ending%20Occupation,%20Establishing%20the%20State%20-%20Program%20of%20the%2013%20government.pdf)

4 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=1948](http://www.lfd.ps/documentsShow.aspx?ATT_ID=1948)

5 See: <http://unispal.un.org/UNISPAL.NSF/53936ddf3dd093a1852575530073f2e6/19b1f7504ffdbba3852574cd00486140?OpenDocument>

## WTO Bid

The PA has re-launched its bid for 'observer' status at the World Trade Organisation (WTO). This move reflects the government's focus on building state institutions and is part of Prime Minister Salam Fayyad's plan to create a Palestinian state in two years time. The official application will be made at the next meeting of the WTO General Council on 21-22 October.

The PA had ad-hoc observer status at the WTO Ministerial Conference in Hong Kong in 2005. As a full observer the PA can attend all WTO meetings. Observership often acts as an interim step towards membership of the WTO. To apply for observer status the PA has to signal its intent to start negotiations for membership within five years and set out its economic and trade policy to members. A number of other non-state actors already hold observer status, including Hong Kong and Taiwan.

A PA delegation, led by Minister of National Economy Bassem Khoury, travelled to Geneva in late September to lobby for international support ahead of the decision due on 22 October. All 153 members of the WTO, including Israel, have to approve the accession. The PA delegation met with 32 diplomats, including those from the US, the EU, China, and Japan. While the US is presently withholding comment, developing states in Asia, Africa, the Middle East, and South America, alongside China and the European Union, have signalled their support for the bid.<sup>6</sup>

## Liquidity in Gaza

Liquidity problems continue in the Gaza Strip. There are currently sufficient Israeli shekels (NIS) available and NIS 30m of damaged bank notes were replaced on 16 September.<sup>7</sup> The immediate problem is a lack of Jordanian dinar and dollar notes. The PMA and Quartet estimate that the banking system needs an injection of \$15m and JD 10m per month.<sup>8</sup>

US dollars are used to pay employees of international organisations and in the informal economy to facilitate trade through the tunnels. High priced goods are often sold in Jordanian dinars and university salaries are usually paid in Jordanian dinars. According to Jihad Al Wazir, the Governor of the Palestinian Monetary Authority (PMA), international organisations electronically transfer approximately \$15m each month to Gazan banks to cover salaries and operating costs.

However this is not matched with a transfer of physical cash. The Bank of Palestine in Gaza confirmed with the Bulletin that they have enough NIS at present but need dollar and dinar notes for general operations. They have applied to the PMA for \$15m and JD 5m but are awaiting Israeli approval for the transfer.

The United Nations Relief and Works Agency for Palestine Refugees (UNRWA) transfer \$13.5m into Gaza each month but this does not replenish the local banking system as it is sent directly to ATM machines at UNRWA headquarters. UNRWA is discussing the possibility of transferring the money through Gaza's banking system to boost liquidity, Al Wazir said.

Riyad Abu Shehadeh, Director of the Banking Supervision department at the PMA said that it is hoped that another shipment of NIS 300m will be allowed to enter the Gaza Strip shortly. Businessmen can take up to NIS 80,000 cash on each trip out of Gaza which, he added, continues to affect NIS liquidity. The Bank of Israel and PMA are currently discussing transfer. The General Manager of the Gaza Palestinian Federation of Industries, Amr Hamad, is optimistic that the transfer will take place.

## Jordan Commercial Bank

Jordan Commercial Bank plans to expand and open branches in all West Bank governorates by the end of 2010. They will also consider opening branches in the Gaza Strip when the situation improves. There are currently 30,000 bank accounts at Jordan Commercial Bank, holding 2% of all Palestinian deposits, with existing branches in Ramallah, Tulkarm, and Nablus.

Naji Mardawi, the General Director of the Jordan Commercial Bank in Palestine, told the Bulletin that the bank's expansion "coincides with new PMA requirements that each bank has at least \$35m of capital." In mid 2007 the bank's capital was just \$5m. It increased by \$15m in 2008 and a further \$15m in 2009 to reach a total of \$35m at the end of September. Two new branches will open in Hebron and Bethlehem in the first phase of expansion.<sup>9</sup>

Jordan Commercial Bank has been operating in the Palestinian Territory since 1995. It changed its name at the beginning of 2004 from Gulf and Jordan Bank and underwent intensive restructuring, adding new facilities and services like ATMs and private loans. Consequently the bank's assets increased from JD 60m at the end of 2008 to JD 67m by the end of June 2009, and deposits from JD 30m to JD 32m over the same period.

<sup>6</sup> See: <http://www.washingtontimes.com/news/2009/sep/27/palestinians-seek-observer-status-at-wto//print/>

<sup>7</sup> See Bulletin June 2009 for background on liquidity issues in Gaza.

<sup>8</sup> See World Bank Report, 22 September 2009: [http://www.lfd.ps/documents>Show.aspx?ATT\\_ID=1948](http://www.lfd.ps/documents>Show.aspx?ATT_ID=1948)

<sup>9</sup> See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=121506&Date=9/13/2009>

## International Marketing

The German Foundation for Development and Co-operation (GTZ) are funding a PalTrade programme, "Enhancing Private Sector Capacity", to bring international experts in marketing and packaging to the Palestinian Territory. 180 employees of 140 companies are set to benefit from the programme by the end of 2009.

In the first phase, five Palestinian consultancy firms received training from a number of international experts in marketing, planning, distribution, and trade finance. A German expert, in cooperation with the Palestinian Food Industrial Association (PFIA), also provided training in packaging for 16 participants from 11 food processing companies.

The second phase of the programme is now underway. Throughout October, local consultants will pass on their newfound expertise and provide training in Ramallah and Hebron for 10-15 companies looking to export. As a result, the companies will develop marketing plans of an international standard. In addition, a series of sessions on marketing for executive managers of Information Communication Technology (ICT) companies will be conducted in coordination with the Palestinian Information Technology Association (PITA). The training materials have been developed by an industry expert. The Trade Development Manager at PalTrade, Amjad Al-Qasas, said this is the first training of its kind given by international experts to managers in the ICT sector. Similar sessions will run in the Gaza Strip via a video-link. A final component of the program aims to develop logistics procedures for exporters. Two PalTrade experts have trained in-house staff as well as running sessions across a number of governorates.

PalTrade, the Palestinian National Trade Organisation, developed the project following a needs assessment conducted by DAI in 2007. Around 140 companies were surveyed. The results suggested that a lack of marketing systems and qualified marketing personnel are two major areas of difficulty faced by Palestinian companies.

## Economic Survey Results

In 2008 there were over 97,000 businesses operating in the Palestinian Territory, an increase of 5% since 2007<sup>10</sup>. Almost 260,000 people were engaged in business activity. 60% of businesses were retail or wholesale traders, 24% provided services, 15% were industrial and the remainder were involved in transport, communications

and construction. Within the industrial sector over half of all businesses are involved in manufacturing of metal products (22%), furniture (17%) and food and beverages (14%).

Gross Value Added (GVA)<sup>11</sup> was \$3.1bn in 2008, an increase of over 33% since 2007 (\$2.4bn). The sector with the highest GVA per capita was transport and communications, followed by industry, then construction. Gross Fixed Capital Formation, which is a measure of net investment in fixed assets, amounted to only \$152m, down from \$197m in 2007. In the West Bank, GVA increased by 45% (from \$2bn in 2007 to \$2.8bn 2008). However, GVA fell 25% in Gaza over the same period.

## Income Tax Law and Foreign Companies

On 7 September 2009 the Palestinian Cabinet decided to amend the Income Tax Law in an effort to encourage increased foreign company registration. The amendment is expected to be approved shortly by President Mahmoud Abbas. Nitham Ayyoub, Company Controller at the Ministry of National Economy, explained that the change aims to clear up any misunderstanding that foreign companies could become liable to pay tax on profits generated from their activities outside the Palestinian Territory if they register with the Ministry of National Economy.

Ayyoub said that, while in practice foreign companies registered in the Palestinian Territory have not been paying these extra taxes, a small number of larger foreign companies have been reluctant to register due to ambiguity in the law and fear of tax duplication. Under Article 219 of the 1964 Corporation Law, foreign companies are meant to register with the Palestinian Ministry of National Economy.

Foreign companies pay tax of 15% on profits generated in the Palestinian Territory. Under the new amendment, foreign companies will be specifically exempt from paying tax on profits generated outside the Palestinian Territory. The greatest impact of the change is that PADICO (which is registered in Liberia) is now in the process of registering with the Ministry of National Economy.<sup>12</sup> Ayyoub said that another company is reviewing their position and others will be approached to register. The clarification of the law could also make a difference to foreign companies who are considering entering the Palestinian market.

<sup>10</sup> See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1598.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1598.pdf) and [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1525.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1525.pdf)

<sup>11</sup> For West Bank and Gaza, excluding East Jerusalem.

<sup>12</sup> See: <http://www.sahem-inv.com/news.php?id=701&month=1>

## 2010 Fiscal Projections

Prime Minister Fayyad's fiscal reform programme continues. Latest IMF forecasts predict that the Palestinian fiscal deficit will fall from 18.5% of GDP in 2009 to 17.4% in 2010.<sup>13</sup> There are a number of factors contributing to the reduction. The public sector wage bill will be reduced by 4%, bringing it down from 22% of 2009 GDP to 21% of 2010 GDP. Net lending, which is largely subsidies on gas and electricity, is projected to fall by 21% (from \$380m in 2009 to \$300m in 2010) following the privatisation of electricity payment collection. Revenues are also expected to increase by 12% as a result of higher economic growth. Overall the PA's external financing requirement is projected to decrease from \$1.5bn in 2009 to \$1.2bn in 2010.<sup>14</sup>

## Household Computers & Internet Access

The PCBS Household Culture Survey for 2009 showed that 49% of Palestinian households have a computer and 29% have internet access; an increase of 16% and 13% respectively since 2006.<sup>15</sup> In the West Bank 52% of households have a computer compared to 46% in Gaza. Home internet access is slightly more common in Gaza, with 31% of households having access compared to 27% in the West Bank.

## Market News

The AI Quds index decreased by 1.3%, or 6.24 points, closing at 498.92 points on the last day of trading in September. In 18 trading sessions, 26.9 million shares changed hands, a 124% increase over the previous month (12 million), due to heavy trading in companies with low prices, like AI Quds Bank, AI Rafah Bank and Palestine Islamic Bank. The value of traded shares increased by 17.0% to \$32.7m, while market capitalization rose by 1.3% to \$2.36bn.

<sup>13</sup> Figures on a commitment basis, excluding Gaza emergency spending

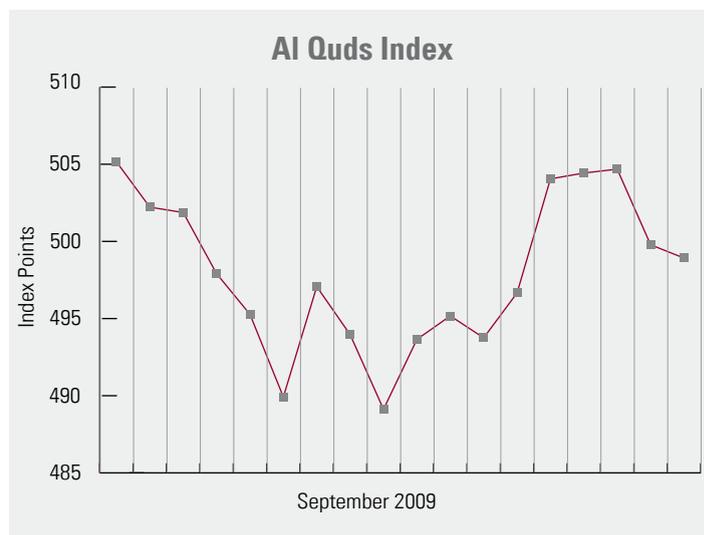
<sup>14</sup> See: <http://www.imf.org/external/np/wbg/2009/pdf/092209.pdf>

<sup>15</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/CuIHHSur\\_09\\_E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CuIHHSur_09_E.pdf)

Sufyan Barghouti, Ramallah Branch Manager for the Palestine Securities Exchange (PSE) told the Bulletin that trading activities during Ramadan, usually a slow period, were at a similar level to other months in 2009. A bounce during the final week of September was unrelated to the Eid Holidays, he explained, and reflects a recent global trend thought to be indicative of recovery.

At the end of August PSE launched a new service to make transactions quicker and easier for investors. Each investor will be assigned one 'investor number' which can cover a number of different portfolios. Identity card numbers are being used for domestic investors and a unique serial number will be generated for foreign investors. The use of the 'investor number' will become compulsory in February 2010.<sup>16</sup>

<sup>16</sup> See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=222405>



Correction: Israel and Egypt do not use the ASYCUDA customs system as wrongly stated in the September 2009 bulletin. A full list of ASYCUDA countries is available at: <http://www.asycuda.org/countrydb.asp>

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