

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*On 14 February the Palestinian Monetary Authority announced that a new fully electronic inter-bank payment system will be launched in September 2010.*

*A number of donors have transferred funds or made aid commitments for 2010, including the UK (£74m), the Netherlands (€40m), Norway (\$40.5m), the EU (€22.8m) and Japan (\$12m). Latest projections show that external financing of \$1.21bn is required to cover the PA's current budget in 2010.*

*The Palestine Investment Conference (PIC) for SMEs will take place in Bethlehem on 2-3 June.*

*Preliminary financial data for 2009 was released for companies listed on the Palestine Securities Exchange. Out of 39 listed companies, 30 companies reported profits and 26 companies recorded an improved performance compared to last year.*

### Decline in Gaza Tunnel Activity

Reports indicate that recently there has been a sharp decline in tunnel activity under the border between the Gaza Strip and Egypt. It is thought that around half of the tunnels are currently not operating and construction of new tunnels has stopped.<sup>1</sup> The proliferation of tunnels, and the relative ease with which goods can flow, has meant that the market has been flooded and prices have been slashed. The resulting drop in profits for owners and operators has caused many to reduce activity.<sup>2</sup>

Prices of construction materials coming through the tunnels, such as steel and cement, have dropped significantly. Gazan engineer Ali Abu Shalah told the Bulletin that in 2007, steel and cement cost NIS 4000 per ton. Now, a ton of cement costs NIS 900, while steel, which is still high in demand, has dropped to NIS 2000 per ton. The charges for transporting goods through the tunnels have also dropped significantly. Previously steel and cement cost \$7000 per ton to transport while today the cost is \$800.

While Egypt's construction of an underground steel wall along its border should affect tunnel operations, this does not seem to have been a factor in the decline.<sup>3</sup> A 4km section of the wall has already been completed, extending 18m-25m deep.<sup>4</sup> However Abu Shalah told the Bulletin that most tunnels are at a depth of 30-60 metres, well below that of the wall. 'Presently, brand new cars are being transported underground to Gaza despite the wall,' he added.

Despite the dramatic price reductions, Sami Abdel Shafi, Senior Partner at Emerge Consulting Group in Gaza City, told the Bulletin that the decline in tunnel activity cannot necessarily be taken to indicate a longer term trend. Tunnel activity is cyclical and contingent on demand, profit and the various risks of operating, including tunnel collapse, Israeli airstrikes and interventions from Egyptian police. 'It operates as a kind of stock market, if there is an Israeli bombardment, prices rise, or, if there is an influx of a particular commodity, prices decline,' he said.

Since the almost complete closure of the borders by Israel and Egypt following the Hamas takeover of the Gaza Strip in June 2007, official imports to and exports from Gaza have been virtually non-existent. Smuggling has therefore emerged as an alternative way to supply goods to the population.<sup>5</sup> Prior to the decline it was estimated that the number of commercial tunnels exceeded 1,000 and employed between 20,000-25,000 workers.<sup>6</sup>

1 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=262126> and <http://www.haaretz.com/hasen/pages/1150440.html>

2 See June 2009 Bulletin

3 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=262126>

4 See: <http://news.bbc.co.uk/2/hi/8405020.stm>

5 Goods transported through the tunnels include: diesel fuel, livestock, flour, rice, milk, cheese, cigarettes, candy, cooking oil, toothpaste, small generators, computers and kerosene heaters as well as larger goods such as refrigerators, washing machines, motorcycles and cars.

6 See: <http://unispal.un.org/UNISPAL.NSF/0/04B5A703DD69F26A852576C500534BAB>

While they have undoubtedly provided a lifeline during difficult times, many feel that overall the tunnels are hurting, rather than helping, the population in Gaza. The tunnels do not generate genuine trade. Apart from construction inputs, few raw materials enter Gaza because ready-made goods from Egypt are cheaper. There is therefore little incentive for production as there is no demand in the local market or opportunity to export. According to Abdel Shafi the tunnels are 'a one-way road, not an exchange, they are a pure and growing black market at their best.'

## Reform of the Banking Payment System

On 14 February the Palestinian Monetary Authority (PMA) presented details of a new inter-bank payment system to Palestinian banks. The PMA has taken a year to prepare the new system, which will be implemented in September 2010.

The Director of the Payment System Department at the PMA, Bassam Farmawi, told the Bulletin that the new system is a centralised electronic system which will make transactions between banks safer and faster. It enables banks to settle payments immediately and to monitor and control their central accounts in the PMA. The whole system will use the 'SWIFT' network, which is an electronic messaging system used by financial institutions worldwide that creates a secure network for users.<sup>7</sup>

Currently, the PMA operates a semi-manual system that depends on a combination of paper and electronic payment orders. The manual interventions make the system less secure and subject to delays and human error.

A South African-Italian company, Perago, has been working with the PMA to develop the system.<sup>8</sup> Perago is a global leader in financial infrastructure transformation and was contracted by the PMA a year ago to provide a Real Time Gross Settlement System (RTGS). Eleven countries have chosen to run their banking system on Perago applications, including Egypt and Sudan.<sup>9</sup> The software will be installed at the PMA in April 2010 when it will be tested. Training will be offered before going live in September.

## Aid

Following the annual round of talks between the Palestinian Authority (PA) and donors, a number of funding announcements were made in February and early March.

The Netherlands have made an initial commitment of €40m (\$54.5m) for 2010.<sup>10</sup> €20m of this will be divided between existing bilateral programmes, including the area of economic rehabilitation. €15m has already been transferred to UNRWA and an additional €4-5m is earmarked for the UNRWA emergency appeal.

Norway has transferred NOK 240m (\$40.5m) of budget support to fund the Palestinian Reform and Development Plan in 2010.<sup>11</sup> Japan has committed \$12m to support 24 projects in the Jordan Valley, including clinics, schools, community centres, roads and electricity and power networks.<sup>12</sup>

On 2 March, the EU disbursed €22.8m (\$31.1m) through the PEGASE mechanism to help pay the salaries and pensions of 80,608 civil servants and pensioners.<sup>13</sup> €2m of this came from Finland with the remainder coming from the existing €158.5m commitment for 2010 announced last month.

On 10 February the UK signed a new 'development partnership' with the PA which sets out a two-year plan to focus on strengthening state institutions. The agreement confirms upfront two-year spending commitments of £82m in 2009-10 and £74m in 2010-11. This two-year commitment is the first of its kind and aims to allow the PA to better plan for the longer term.<sup>14</sup>

Recently updated budget projections estimate the external funding requirements of the PA current budget at \$1.21bn in 2010, a decrease from \$1.45bn in 2009.<sup>15</sup> This corresponds to a fall in the budget deficit from 22% to 16% of GDP – a major step towards enhancing financial sustainability. The PA's revenues are also expected to exceed \$2bn for the first time in 2010, a rise of 20% on last year.

## Investment Conference for SMEs

The PA is preparing to hold a follow up Palestine Investment Conference (PIC) in Bethlehem on 2-3 June. The 2010 meeting will focus on investment promotion in small and medium enterprises (SMEs), which constitute 90% of businesses in the Palestinian Territory.<sup>16</sup>

The Palestine Investment Promotion Agency (PIPA) will organise the conference with oversight coming from a committee chaired by Palestinian Minister of Economy Hassan Abu Libdeh. The conference aims to connect

7 See: [www.swift.com](http://www.swift.com)

8 See: <http://www.perago.com/PeragoSia/index.htm> and <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=133772&date=2/16/2010>

9 See: <http://www.perago.com/PeragoSia/downloads/Palestine.jpg>

10 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=263475>

11 See: <http://www.norwaypost.no/content/view/23208/>

12 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=2601](http://www.lfd.ps/documentsShow.aspx?ATT_ID=2601)

13 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=2597](http://www.lfd.ps/documentsShow.aspx?ATT_ID=2597)

14 See: <http://www.articleant.com/p/gov/10195-uk-signs-new-deal-to-fight-poverty-in-palestinian-territories.html>

15 See: <http://www.alertnet.org/thenews/newsdesk/LDE6270U7.htm>

16 See: <http://www.pic-palestine.ps/userfiles/PIC-2010-Communique-English-F.pdf>

potential investors and regional and international companies with Palestinian SMEs.

The first PIC was held in Bethlehem in May 2008. This was followed up by events in Washington in October 2008, Nablus in November 2008 and London in December 2008.<sup>17</sup>

## New PIF Projects

On 10 February, the CEO of the Palestine Investment Fund (PIF), Muhammad Mustafa, unveiled two new development projects in the Jordan Valley. The 'Dead Sea' project includes plans to construct new commercial, industrial and tourist-orientated facilities worth a total of \$1.3bn. 'Moon City' will be a new residential area, over 9,000 km<sup>2</sup> in size requiring investment of \$700m.

Mustafa said that 'when these projects are completed, the Jordan Valley will be able to absorb about 140,000 people over 10 years.' The timeline for these projects is not clear.<sup>18</sup>

In addition, on 11 February, PIF announced plans to establish a technology park in the Al-Reehan housing development west of Ramallah. The park will take its inspiration from similar projects in Dubai and will act as a hub for the Palestinian technology sector. The PIF are understood to be seeking funds from South Korea and India for this project.<sup>19</sup>

## Tourism

The number of hotel guests in the Palestinian Territory rose to 142,504 in Q4 2009 (an increase of 5% from the previous quarter and 21% higher than the same period last year).<sup>20</sup>

Guests spent a total of 311,617 nights in Palestinian hotels, 49% of which were spent in Jerusalem hotels. 9% of guests were Palestinian, 41% were from the European Union, 12% were North American, 10% were Asian and the rest came from other parts of the world. In December 2009, there were 97 hotels operating in the Palestinian Territory, with 4,986 rooms and 3,688 beds. The hotels operated at a 36.7% occupancy rate, 7.6% less than in Q3 2009, but 23.2% more than in Q4 2008.

## Unemployment Steady

The Palestinian Central Bureau of Statistics Labour Force Survey for Q4 2009 showed little change in unemployment from Q3 2009. In the West Bank,

unemployment (according to the ILO definition, which excludes discouraged workers) increased from 17.8% (Q3 2009) to 18.1% (Q4 2009) while in the Gaza Strip, it decreased from 42.3% (Q3 2009) to 39.3% (Q4 2009). The public sector accounted for 16.3% of total employment in the West Bank (unchanged from Q3 2009) and 44.7% in the Gaza Strip (down from 48.4% in Q3 2009).

Compared to the same period last year unemployment has fallen, from 19.8% in the West Bank and 44.8% in the Gaza Strip in Q4 2008.<sup>21</sup>

## West Bank Industrial Production

The Industrial Production Index (IPI) for the West Bank, for January 2010, showed that industrial production had increased by almost 12% since January 2009. IPI reached 111.71 points by the end of January 2010, a 0.5% increase compared with December 2009. The greatest increases were recorded in the 'manufacture of rubber and plastic' group (30%) and the 'tanning of leather, manufacture of bags' group (15%).<sup>22</sup>

## February Trading

The Al-Quds Index increased by 3.97%, or 20.06 points, to reach 525.18 points on the last day of trading. The index peaked at 532.65 points on the 10 February. In 20 trading sessions, 33.3m shares changed hands – an increase of 229% since January 2010. The value of traded shares rose 235%, to \$70m, and market capitalization increased by 3.8% to \$2.5bn.

## Company News

Out of 39 Palestinian companies listed on the Palestine Securities Exchange, 36 have released their preliminary financial results for 2009. 30 companies reported profits and 26 companies recorded a better performance in 2009 than 2008. Since the beginning of the year, the Al-Quds Index has grown by 7.12%, which is a significant increase compared with other Arab markets.

Three companies – Al Quds Bank, Alrafah Microfinance Bank and the Palestine Real Estate Investment Company (PRICO) - have turned losses in 2008 into profits this year. According to PRICO's financial manager, Samer Mer'e, increases in land prices in 2009 were a factor in boosting PRICO's profits this year.

The Palestine Poultry Company (AZIZA) has further built on its performance last year and disclosed preliminary profits up 200% compared with 2008. It also showed the

17 See June 2008, November 2008, January 2009 Bulletins for further information

18 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=133341&Date=2/10/2010>

19 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=260760>

20 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/HOTELE0409.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/HOTELE0409.pdf)

21 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LFs-E-122009.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LFs-E-122009.pdf)

for 2009 data and [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/labourforce\\_e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/labourforce_e.pdf) for 2008 data.

22 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/IIP-09-E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/IIP-09-E.pdf)

largest growth in share price since 2008 out of all the disclosed companies. AZIZA's Financial Manager, Abd al Rahim al Jayousi told the Bulletin that a reduction in the cost of animal feed and an increase in the price of chicks and eggs have contributed to their performance in 2009. AZIZA is also now operating at full capacity and has increased the number of eggs produced.

One of the largest companies on the PSE, the Palestine Telecommunications Company (PALTEL), showed a 21% drop in profits compared with 2008. According to PALTEL this is partly due to losses of US\$20.36mn from a 25% investment in VTel along with some other one-off

provisions. VTel is an international telecoms investment holding company based in the UAE. PALTEL added that it is relatively common for a new company like VTel, which was established in 2007, to record losses while its network is developed. However PALTEL's earnings before interest, tax, depreciation and amortization (EBITDA) grew by 5.36% to reach US\$190.56mn by the end of 2009 compared with US\$180.87mn at the end of 2008. The growth of 5.36% is attributable to an increase in PALTEL's revenues in 2009 compared with 2008 (from \$421.81mn to \$444.42mn) and a decrease in the operating expenses of 1.36% over the same period.

## 2009 Preliminary Financial Results for Palestinian Companies

Listed company	Reuters RIC	Pre tax Profit 2009	Pre tax Profit 2008	Change	2009 Market Capitalisation (million)
<b>Banking</b>					
Bank of Palestine	BOP	\$34,536,063	\$28,548,262	+ 21%	\$ 375.0
Al-Quds Bank for Development & Innovation	QUDS	\$ 6,530,744	- \$ 5,152,378 (loss)	+ 227%	\$ 60.5
Palestine Investment Bank	PIBC	\$ 3,705,906	\$ 4,093,090	- 10%	\$ 48.0
Arab Islamic Bank	AIB	\$ 2,775,490	\$ 6,924,275	- 60%	\$ 46.8
Palestine Islamic Bank	ISBK	- \$ 69,929 (loss)	- \$ 2,507,887 (loss)	+ 97%	\$ 25.2
Palestine Commercial Bank	PCB	\$ 2,502,967	\$ 217,038	+ 1,053%	\$ 24.0
Alrafah Microfinance Bank	AMB	\$ 2,284,038	- \$ 2,884,176 (loss)	+ 179%	\$ 21.9
<b>Industry</b>					
Birzeit Pharmaceuticals	BPC	JD 4,414,851	JD 3,347,879	+ 32%	JD 45.86
Jerusalem Pharmaceutical	JPH	JD 1,853,710	JD 1,924,898	- 4%	JD 20.75
Jerusalem Cigarette	JCC	JD 2,405,247	JD 3,048,181	- 21%	JD 20.65
Golden Wheat Mills	GMC	JD 499,933	JD 1,948,578	- 74%	JD 11.7 m
The Vegetable Oil Industries Company LTD	VOIC	JD 1,364,804	JD 933,488	+ 46%	JD 9.24
Palestine Plastic Industries	LADAEN	- JD 563,460 (loss)	- JD 614,254 (loss)	+ 8 %	JD 2.1
Arab Company for Paint Products	APC	JD 325,092	JD 262,091	+ 24%	JD 1.62
The National Carton Industry	NCI	- JD 21,995 (loss)	JD 421,015 (loss)	+ 95%	JD 1.45
<b>Services</b>					
Palestine Telecommunications	PALTEL	JD 71,888,000	JD 89,759,242	- 20%	JD 676.6
Palestine Electric Company	PEC	\$ 6,983,424	\$ 6,278,138	+ 11%	\$ 62.4
Arab Hotel Company	AHC	- JD 505,338 (loss)	- JD 324,016 (loss)	+ 56%	JD 21.5
Palestine Poultry Company	AZIZA	JD 2,851,169	JD 886,540	+ 222%	JD 13.5
GlobalCom telecommunications PLc	GCOM	- \$ 936,570 (loss)	2009 first disclosure		\$ 9.5
Arab Palestinian Shopping	PLAZA	JD 327,715	- JD 239,404 (loss)	+ 237%	JD 4.9
Wassel Palestinian Distribution and Logistics Services	WASSEL	JD 776,169	JD 97,200	+ 699%	JD 3.6
Grand Park Hotel and Resorts	HOTEL	JD 801,921	JD 331,782	+ 142%	JD 2.6
Nablus Surgical Speciality Centre	NSC	JD 442,842	JD 35,683	+ 1,141%	JD 1.7
Arab Real Estate Establishment	ARE	JD 98,872	JD 71,276	+ 39%	JD 0.5
<b>Insurance</b>					
National Insurance	NIC	\$ 5,422,002	\$ 3,310,095	+ 64%	\$ 35.3
Ahliea Insurance Group	AIG	\$ 2,418,574	\$ 1,471,300	+ 64%	\$ 27.8
Trust Insurance	TRUST	\$ 1,298,314	\$ 1,015,003	+ 28%	\$ 23.5
Al Mashriq Insurance Company	MIC	\$ 1,015,119	\$ 83,315 (loss)	+ 1,118%	\$ 4.6
<b>Investment</b>					
Palestine Development & Investment	PADICO	\$ 40,964,000	\$ 23,039,000	+ 78%	\$ 297.5
Palestine Real Estate Investment	PRICO	JD 532,579	JD (2,609,106)	+ 120%	JD 39.5
Union Construction & Investment	UCI	\$ 2,645,066	\$ 3,142,752	- 16%	\$ 26.8
Palestine Industrial Investment Company	PIIC	JD 2,878,158	JD 450,554 (loss)	+ 740%	JD 13.1
Jerusalem Real Estate Investment	JREI	\$ 333,805	\$ 503,414	- 34%	\$ 9.4
Arab Investment	ARAB	JD 23,795	JD 521,955	- 95%	JD 5.7
Palestine Investment and Development	PID	- JD 39,929 (loss)	- JD 97,199 (loss)	+ 60%	JD 4.7

## The Portland Trust

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