

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Private sector credit from the banking sector was \$1.56bn at the end of January 2010, up from \$1.18bn at the end of December 2008. The loan to deposit ratio was 36%, up from 31% at the end of January 2009.

28 out of 36 companies reported profits in Q1 2010. The largest profits were recorded by PALTEL (\$23.2m).

According to Paltrade there has been a 52% increase in the number of trucks leaving the West Bank with exports compared to last year. PCBS forecast that the value of exports will increase 3.4% this year.

Support for the PA budget has recently been provided by the UK (\$25m), the EU (€21m), India (\$10m), Qatar (\$10m) and Algeria (\$26m).

Palestine Investment Conference

Final preparations are underway for the second Palestine Investment Conference (PIC) which takes place on 2-3 June in Bethlehem.¹ The event will showcase Palestinian business opportunities to potential investors, highlight successful Palestinian companies that are competing in international markets and promote Palestinian products. Some of the largest Palestinian private sector players are partnering and sponsoring the event. In addition, international support is coming from USAID, DFID and the Islamic Development Bank.²

The conference hopes to encourage business relations between regional and international investors and the Palestinian private sector. A number of announcements about new investment programmes and partnerships are anticipated. Details of the work being done to improve the enabling environment and access to finance will also be presented. The Director General of PIPA, and the CEO of the conference, Jafaar Hdaib, told the Bulletin that 'the event is an important milestone on the path to establishing the Palestinian State which is part of Prime Minister Dr. Salam Fayyad's two-year plan 'Ending the Occupation, Building the State' (2009-2011).

Palestinian companies to be showcased come from a variety of sectors, including manufacturing, tourism, IT, housing and construction, agriculture, energy and infrastructure. The agenda includes sectoral and plenary sessions, B2B meetings, cultural activities and off site visits. There will be a welcome reception and dinner on 1 June and Palestinian President Mahmoud Abbas will officially open the conference the following day. An exhibition of Palestinian products will run alongside the main event.

According to Hdaib 1,100 foreign participants have registered for the conference, far exceeding expectations. Over half of registered participants are the heads or general managers of the companies they represent. Around 540 are coming from the Arab world, 200 from Europe, the US and Canada and the remaining 360 are Palestinian Diaspora. PIPA and the PA are making logistical arrangements to ease participants' entry to Bethlehem and applying for permits where necessary.

¹ See: <http://www.pic-palestine.ps/>

² For details of PIC partners and sponsors See: <http://www.pic-palestine.ps/etemplate.php?id=86>

Banking News

Latest statistics from the Palestine Monetary Authority (PMA) show that banking sector credit³ increased by 5% in the first month of this year and is 28% higher than at the end of 2008. Total credit was \$2.34bn at the end of January 2010, compared to \$2.23bn at the end of 2009 and \$1.83bn at the end of 2008. Domestic private sector credit (net of provisions) was \$1.56bn at the end of January 2010, up 32% since the end of 2008 (\$1.18bn).⁴

The loan to deposit ratio increased in January 2010 to 36%, up from 35% in December 2009 and 31% in January 2009.⁵ However banks are still relatively conservative and prefer to invest their savings overseas. According to the PMA, banks held over \$3.9bn of foreign assets in January 2010 out of a total of \$8bn assets.⁶

The number of non-performing loans fell by 40% from the end of 2008 (\$149m) to the end of 2009 (\$89m). The ratio of non-performing loans to total credit stood at 4% at the end of 2009 compared to 8.16% at the end of 2008.⁷ Part of the reduction is due to new instructions issued by the PMA at the end of 2008 to write-off non-performing loans after six years. In addition, improved information from the credit bureau is thought to be helping the banks make better judgements on lending.

On 31 March the al-Aqsa Islamic Bank was sold to the Palestine Islamic Bank. The PMA told the Bulletin that this is the first of four expected acquisitions and mergers for 2010. Preparations for another two mergers involving the Union Bank and Arab Palestinian Investment Bank, and Al-Rafah Bank and Jordan Commercial Bank are underway. One other deal is expected in 2010 but the details are not yet available. If all the planned mergers go ahead then there will be 16 banks operating in the Palestinian Territory by the end of the year.

Company Profits

Companies released their preliminary financial results for Q1 2010 with 28 out of 36 reporting profits. The largest profits were recorded by Palestine Telecommunications (PALTEL) \$23.2m, Palestine Development and Investment (PADICO) \$10.9m, Bank of Palestine (BOP) \$8.8m, Palestine Electric Company (PEC) \$3.8m and Al Quds Bank (QUDS) \$1.9m. A number of companies have also begun to distribute

3 Total credit = Total Gross Loans = Net credit + Loan Loss Provision of \$7.4m at the end of January 2010, \$74.7m in December 2009 and \$111.6m in December 2008. The ratio of provisions to total gross loans at the end of January 2010 was 3.1%, in December 2009 it was 3.3% and in December 2008 it was 6.1%.

4 All figures are the latest unpublished statistics from the PMA, reflecting revised (unpublished) estimates from the PMA Statistical Bulletin released on 15 April 2010.

5 The loan to deposit ratio is gross loans / customers deposits.

6 See: <http://www.pma.ps/template.aspx?id=927> Bank Assets (Table 6)

7 The non-performing loans ratio is total non-performing loans/ total credit facilities.

dividends to their shareholders. This includes PALTEL, the largest company on the PSE, who are distributing a total of \$65m in dividends at \$0.49 per share.⁸

Trade

7,802 trucks left the West Bank with exports in March 2010 according to Paltrade. This is 52% higher than the same time last year. The trucks exited through the crossing points at Tarqumia, Ramallah, Hebron and Jenin. The number of trucks carrying imports into the West Bank through the same crossing points also increased, by 48% to 13,443, over the same the period.⁹ The Palestinian Central Bureau of Statistics estimate that the value of exports will be \$858m in 2010 (up 3.4% since 2009) and imports will be \$3,449m (up 2.3%).¹⁰

The Palestinian Authority (PA) estimates that approximately \$200m of settlement products are sold each year in the Palestinian Territory. On 26 April President Mahmoud Abbas passed a law banning trade in settlement products. The PA now has the power to issue fines or prison sentences to those distributing or selling settlement products.¹¹

2,486 truckloads of commercial and humanitarian goods entered Gaza through the Karni and Kerem Shalom crossing points in March 2010. This is an 18% increase since February 2010 but still 24% less than in March 2009.¹² In April 2010 the Government of Israel approved the entry of aluminium and wood into the Gaza Strip to aid in the reconstruction of homes and infrastructure. In March clothing and shoes were also allowed to enter the Gaza Strip. 81 items are now allowed in. These include basic food products, toiletries, cleaning materials, mineral water and a limited supply of glass.¹³

Aid

Following the funding commitments made by donors earlier in the year, a number of disbursements of aid have taken place in the last two months.¹⁴

On 24 March, the UK transferred £17m (\$25m) out of its £82m (\$122m) commitment for the 2009-10 financial year to the PA budget.¹⁵ India transferred \$10m to the PA budget

8 See: <http://sahem-inv.com/reports/newsletter/en/20100502122118.pdf>

9 See: http://www.paltrade.org/cms/images/enpublications/March%20_2009_West%20Bank_Report.pdf and <http://www.paltrade.org/cms/images/enpublications/WB%20REPORT%20Feb-Mar%20%202010%20Final.pdf>. All figures exclude empty trucks.

10 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Forecasts_E_2010.pdf. Baseline scenario.

11 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=279636>

12 See: http://www.paltrade.org/cms/images/enpublications/GAZA%20REPORT%20Feb-March%20_010-Final2.pdf and http://www.paltrade.org/cms/images/enpublications/March_2009_-Gaza_Report.pdf

13 See: http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/30_04_10_gaza.pdf and <http://www.maannews.net/eng/ViewDetails.aspx?ID=275237> and <http://www.maannews.net/eng/ViewDetails.aspx?ID=276006>

14 See March 2010 Bulletin for background

15 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2718

on 30 March. This follows President Mahmoud Abbas' recent visit to India during which an agreement was made with Prime Minister Manmohan Singh.¹⁶

On 6 May, the EU disbursed €21 million through its PEGASE mechanism to help pay the salaries and pensions of over 80,500 civil servants and pensioners. This is the fourth payment from the EU since the beginning of 2010. The EU are front-loading their aid in light of the PA's current financial situation. Over half of the total €158.5m EU commitment for 2010 has now been disbursed.¹⁷

Following the last Arab League summit, held in Libya on 27-28 March 2010, Qatar and Algeria granted \$10m and \$26m to the Arab League respectively to be transferred to the PA for budgetary support.¹⁸

Unemployment

The PCBS Labour Force Survey for 2009 was published on 20 April 2010. It showed that labour force participation remained steady in the Palestinian Territory in 2009 at 41.6%. For men the participation rate was 67.0%, for women it was 15.5%. According to the ILO definition, unemployment in the Palestinian Territory fell from 26.0% to 24.5% in 2009. Youth unemployment remained high at 38.9% and women were more likely to be unemployed than men (26.4% compared to 24.1%).¹⁹ 39.6% of employed people worked in the services sector, which employed 61.8% of working women.

In the West Bank unemployment was 17.8% in 2009 (down from 19% in 2008). Qalqiliya registered the highest unemployment rate in the West Bank, at 23.4%, while Jericho recorded the lowest (8%). The public sector accounted for 17% of total employment in the West Bank. Employment in Israel and in the Israeli settlements decreased from 15.6% in 2008 to 13.9% in 2009. In 2009 there were 58,500 Palestinians working in Israel and 10,800 in Israeli settlements.

On 22 April the PA Minister of Labour, Ahmad Majdalani, announced that the PA plans to reduce the number of Palestinians employed in the settlements to zero by the end of 2010. Majdalani believes that as demand for local products increase, former settlement labourers can be absorbed into the Palestinian economy. The PA is working with the private sector to improve the quality of Palestinian products so they can compete more successfully in the local market.²⁰

In Gaza, PCBS recorded unemployment in 2009 as 38.6% (according to the ILO definition). However the Managing Partner at Emerge Consulting, Sami Abdel Shafi, advised

the Bulletin that a relaxed definition of unemployment, which includes those no longer looking for work, or 'discouraged' workers, is more appropriate for the Gazan context since there are no jobs to apply for. Under this 'relaxed' definition, PCBS recorded unemployment in the Gaza Strip as 44% in 2009.²¹ However even these figures are potentially misleading, said Abdel Shafi, as capturing the true labour market in Gaza is very difficult.

To better understand the situation the Secretary General of Palestinian Businessmen in Gaza, Abu Shahla instead advises working from the ground up to sketch out the major Gazan employers. He estimates that 77,000 Gazans are PA civil servants, roughly 25-35,000 work for the Hamas government, 10,000 people work in the private sector and 10,000 are in international organisations including the UN. From these figures there are therefore approximately 132,000 formally employed. Abdel Shafi advises that the size of the workforce is now likely to be nearer 400,000 (rather than the 300,000 in PCBS statistics) due to growth in the young population. On this basis those without formal employment could be nearer 65%. The Palestinian Chambers of Commerce has also put de facto unemployment closer to 65%.²² In other words, 'there may be around 250,000 people sitting idle in Gaza without earnings', said Abdel Shafi.

Housing

Al Reehan Real Estate Investment Company has recently appointed all of the contractors required to build the first phase of the Al Reehan neighbourhood which includes 282 residential units. Al Bazaar for General Contraction Company and Arab Consulting Company will build 153 apartment units and 87 apartment units respectively. Palestine Real Estate Company (PRICO) will build 18 back to back villa units, and finish the 24 shells that have already been started by Al Reehan Company. Construction is due to be completed within the next 18 months. The starting price of units will be \$63,000 and the total cost of the development is more than \$23m.

The Al-Jinan housing project, also managed by Al-Reehan Real Estate Investment Company, has started building over 70 units. Contractors were signed in early April and infrastructure, including access roads, has been completed.

GDP Forecasts

The Palestinian Central Bureau of Statistics (PCBS) released its economic forecasts for 2010.²³ Three forecasts were made based on different assumptions about the political and economic situation.

16 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=279353>

17 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2731

18 See: <http://arabic.wafa.ps/arabic/?action=detail&id=70501>

19 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2791

20 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=278486>

21 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LFs-E-122009.pdf

22 See: <http://www.thenation.com/doc/20100301/roy>

23 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Forecasts_E_2010.pdf

The baseline scenario assumes the situation in the Palestinian Territory remains the same as 2009. It forecasts a 4.2% increase in real GDP, a 1.3% increase in GDP per capita and that private investment will reach \$1,454m.

If there was political and economic progress in 2010 then the PCBS expects real GDP to increase by 8.8% and real GDP per capita by 5.8%. Private investment would increase by 6.5% to reach \$1,484m. This optimistic scenario assumes a fully-funded reconstruction effort in the Gaza Strip, an increase in the number of Palestinian workers employed in Israel, ongoing support for the PA budget and increased implementation of investment and development projects in the Palestinian Territory.

However if political and economic conditions deteriorate, and external donor support falls, the PCBS predicts a 6% contraction in real GDP, an 8.6% fall in real GDP per capita and a drop in private investment of 2.8%.

A comparison between the 2009 forecast and actual results shows that GDP growth of 6.8% in 2009 far exceeded even the optimistic forecast (3.2% growth). The IMF baseline and pessimistic forecasts published in the Bulletin last month are comparable to the PCBS optimistic and baseline scenario respectively. The IMF did not publish an optimistic scenario.²⁴

Listings on the PSE

There are now 40 companies listed on the Palestine Securities Exchange (PSE). On 14 April 10m shares in the National Towers Company (ABRAJ) were listed and closed at a price of \$1.34 after the first day of trading. The Palestine Insurance Company (PICO) was listed on 10 May. Its share price closed at \$1.93 on the first day of trading. ABRAJ buys and sells land and real estate and in 2009 had total assets of \$10m. PICO provides a range of insurance products and had total assets of \$32m in 2009.²⁵

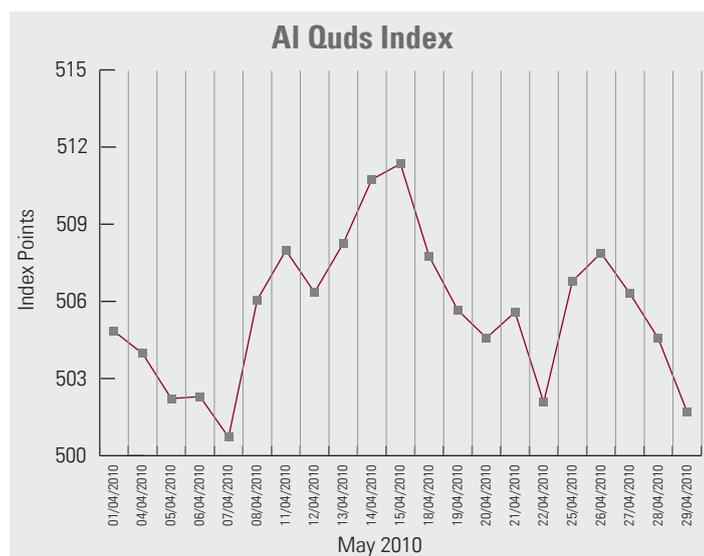
²⁴ See Bulletin April 2010 and May 2009 for background.

²⁵ See: <http://www.p-s-e.com/PSEWEBSITE/english/ListedCompanies.aspx?Tabindex=0> and <http://www.sahem-inv.com/reports.php?cat=6>

The Chairman of the Board of Directors of Wataniya Mobile Company (and PIF CEO), Dr. Mohammad Mustafa, has announced that arrangements for Wataniya's Initial Public Offering (IPO) will begin this summer. Wataniya is the second mobile phone operator in Palestine. It was launched in 2009 with \$170m of capital and now has more than 160,000 subscribers.²⁶

April Trading

The AI Quds index fell by 3.12 points or 0.6%, to reach 501.72 points on the last day of trading in April. The index peaked at 511.35 on the 15 April. After a second consecutive month of decline, the market is down 3% over the past 12 months. Volume was up 6.2% compared to March 2010, with 19.7m shares changing hands in 21 trading sessions in April. The value of traded shares in April fell by 30% since last month to \$30.6m. Market capitalisation remained about the same at \$2.4bn.



²⁶ See: <http://www.alquds.com/node/247071>

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