

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*Construction of the first electricity generating power station in the West Bank was announced at the Palestine Investment Conference. The Energy Authority has dedicated \$300m to the Palestine Power Generating Company for the project.*

*A Palestinian-German team is working to establish a Palestinian Employment Agency modelled on employment services provided in other countries. The central agency will oversee a number of one-stop-shops for employment across the West Bank.*

*Arab Bank has closed two of its three branches in Gaza. The Palestinian Monetary Authority issued its largest ever fine, of JD 300,000, for lack of sufficient notification of the closures, but has been quick to reassure depositors that the banking sector in Gaza is stable.*

*Unemployment in the West Bank and Gaza fell during Q1 2010 to 16.5% and 33.9% respectively (according to the ILO definition). This is down from 18.1% and 39.3% in Q4 2009, and 17.8% and 42.3% in Q1 2009.*

### Palestine Investment Conference

Despite the difficult political context, the economic progress made since 2008 was clearly evident during the second Palestine Investment Conference which took place in Bethlehem on 2-3 June. Much praise was awarded to the Palestinian Authority on their successful efforts to create an enabling environment for business and investment. However the real focus was on the strength and growth of the private sector. 'Under challenging circumstances, these entrepreneurs are leading vibrant, dynamic businesses that are growing, trading and creating economic opportunity and jobs' said the US Envoy to the Middle East, Senator George Mitchell. The Quartet Representative Tony Blair urged foreign investors to partner in efforts to build a strong Palestinian economy.

Around 2,000 people attended the conference, coming from 26 countries, including the UAE, Egypt, US, Morocco, Japan, China, Russia, Latin America, Australia, Qatar, France, UK and Italy. Participants learnt about the local environment and investment opportunities in a number of sessions. A portfolio of 123 Palestinian investment projects was presented, totalling approximately \$500m.<sup>1</sup> In addition, the products and services of 145 Palestinian companies were displayed in the conference centre's exhibition space.

Progress since 2008 is perhaps most evident in the housing and real estate sector. Nine housing initiatives with 16,000 affordable homes are currently under construction and around \$250m of the new projects presented were construction-related. \$500m of affordable long term fixed and variable rate mortgages are expected to be available later in 2010.<sup>2</sup> The ICT sector was also prominent with announcements including the launch of new affordable third generation mobile services by Palestinian firm GlobalCom Telecommunications.<sup>3</sup> Other sessions were focused on infrastructure, tourism, agriculture and Jerusalem. There was also a dedicated session on the environment and renewable energy that highlighted how the private sector is leading the way in developing geothermal, solar and wind energy.

A number of international tour operators were present following a road show that was organised by the Quartet on 30 May. A delegation of 15 industry professionals from the USA, UK, Germany, Sweden, Italy and Jordan visited cultural attractions in and around the cities of Jerusalem, Bethlehem, Jericho and Nablus. 18 projects in the tourism sector had been prepared for investors, including hotels, recreational parks and new facilities. A company dedicated to improving old hotels in East Jerusalem, Ziyara, was also launched with capital of \$20m.<sup>4</sup>

1 See: <http://www.pic-palestine.ps/etemplate.php?id=127> and <http://www.maannnews.net/eng/ViewDetails.aspx?ID=288307>

2 See May 2008 Bulletin for further details.

3 See: <http://www.pic-palestine.ps/etemplate.php?id=135> Issue No. 3

4 See: <http://www.pic-palestine.ps/etemplate.php?id=135> Issue No. 2

A panel on the second day of the conference featured a mix of public and private financiers, including Abraaj Capital, the Palestine Investment Fund, the US Overseas Private Investment Corporation and Bank of Palestine. They outlined their efforts to increase the supply of credit and private equity to SMEs. New initiatives were also announced including a €5m grant from French Bank Natixis to facilitate bank lending and a €25m Italian soft loan programme.<sup>5</sup>

The specific needs of the Gazan private sector were discussed during a closed meeting between Prime Minister Dr. Salam Fayyad and a delegation of 118 businessmen from Gaza. Up to \$150m of the projects presented are in Gaza, including water desalination projects, real estate and fish farms.

While details of the deals signed are still emerging, the Palestinian Minister of National Economy, Dr. Hasan Abu Libdeh, praised the conference as a success. He estimated that it had generated investment pledges of more than \$1bn.<sup>6</sup> The challenge now is to build on the momentum generated. It is hoped that there will be a multiplier effect with many of the conference participants' highlighting the opportunities on offer in the Palestinian Territory in their home countries. The next conference is scheduled for May 2011.

## First Power Station in the West Bank

One of the biggest announcements made during the Investment Conference concerned a \$300m deal to establish the first power station in the Northern West Bank. The investment comes from the Energy Authority, who signed an agreement with the Palestine Power Generating Company (PGC) on the second day of the conference.<sup>7</sup>

A number of Palestinian private sector players are involved in the PGC – including the Palestine Electricity Company in Gaza, the Palestine Development and Investment Company, Consolidated Contractors Company, Arab Palestinian Investment Company, Palestine Investment Fund and Bank of Palestine. A feasibility study to consider the viability of establishing a power plant in the West Bank has already been completed.

Currently all the electricity in the West Bank is imported. The new power plant will produce 200 megawatts of electricity during the first stage and aims to meet approximately one third of the West Bank's requirements. Construction is expected to take about three years.<sup>8</sup>

## Employment Agency

The Palestinian Minister of Labour, Ahmad Majdalani, announced that a Palestinian-German team was set up in May to establish the first Palestinian Employment Agency. The team is led by the German Technical Cooperation (GTZ), which is working alongside experts from the German Federal Agency for Employment and officials from the Palestinian Ministry of Labour. The structure of the agency will follow international best practice with close coordination between the private and public sectors, and employees and employers. It is expected to be operational by the second half of 2011.

An employment agency is a key component in the Ministry's strategy to reduce unemployment and part of Prime Minister Dr. Salam Fayyad's two year plan to build the institutions of a state. The agency will have central oversight of a number of one-stop-shops for employment which will provide details of local opportunities, career guidance and counselling, vocational training and advertising space for the self-employed. Training will be conducted for both technical staff and managers.<sup>9</sup>

The head of the GTZ Programme to Promote Vocational Training and the Labour Market in the Palestinian Territories, Volker Ihde, told the Bulletin that the model will be tested in Nablus, Ramallah, Bethlehem and Hebron in the coming weeks. The economic opportunities available in these cities will be studied and Palestinian labour trained accordingly. Provided this pilot study is successful, the one-stop-shops will then be rolled out across the West Bank. This is a new approach for the employment services with the central agency as the leading body.

## Arab Bank in Gaza

Arab Bank has recently reduced its operations in the Gaza Strip by closing two out of its three branches and reducing staff numbers. Redundancies were announced on 25 April and are estimated to have affected at least 70 employees, which is over 75% of the bank's staff in Gaza.<sup>10</sup> The closure of the Khan Younis and central Gaza City branches was announced on 5 May, leaving only the Ar-Rimal branch in operation. The official explanation for the closures was the increasingly difficult operating conditions in Gaza.<sup>11</sup>

The PMA told the Bulletin that the deposit base at Arab Bank in Gaza has remained stable with only minor withdrawals, mainly by individuals whose salaries are paid into Arab Bank and live far from the remaining branch. The range of facilities offered by Arab bank - including ATM machines, paying of salaries and providing loans – are unchanged.

5 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=2934](http://www.lfd.ps/documentsShow.aspx?ATT_ID=2934) and [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=2947](http://www.lfd.ps/documentsShow.aspx?ATT_ID=2947)

6 See: <http://www.alertnet.org/thenews/newsdesk/LDE6521F7.htm> and <http://www.maannnews.net/eng/ViewDetails.aspx?ID=289489>

7 See: <http://www.pic-palestine.ps/etemplate.php?id=135> Issue No. 3

8 See: <http://www.pif.ps/index.php?lang=en&page=1249305922136>

9 See: <http://web.alquds.com/node/258729>

10 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=279398>

11 See: <http://www.nytimes.com/2010/05/07/world/middleeast/07briefs-gaza.html>

Arab Bank was one of the first banks in the Gaza Strip and is one of the largest banks in the Arab world. Along with Bank of Palestine, it is the primary channel through which international aid enters Gaza.<sup>12</sup> According to the PMA the branch closures have had no impact in this regard and international aid is flowing through the bank at similar levels as before.

However, the bank has been fined JD 300,000 (JD 150,000 per branch) for failing to provide the PMA with sufficient notification of the closures, a requirement under Article 49 of the Monetary Authority law and Article 10 of the Banking law. This is the largest fine ever imposed by the PMA.

## Unemployment Falls

The Palestinian Central Bureau of Statistics Labour Force Survey for Q1 2010 was released on 18 May 2010. It showed that unemployment in the Palestinian Territory, according to ILO standards, has fallen from 24.8% in Q4 2009 to 22% at the end of Q1 2010. The West Bank saw a 9% decrease in unemployment from 18.1% in Q4 2009 to 16.5% in Q1 2010. Unemployment fell by 14% in Gaza from 39.3% in Q4 2009 to 33.9% in Q1 2010. Unemployment has also fallen in comparison to the same period last year (Q1 2009), from 19.5% in the West Bank and 37% in Gaza. According to the PCBS relaxed definition of workers (which includes discouraged workers) unemployment was 39.7% in Gaza, down from 44.3% in Q4 2009.<sup>13</sup>

According to the Director of Labour Statistics at PCBS, Suha Kanaan, the increase in employment in the West Bank is due to the reduction in check points and economic recovery. Kanaan told the Bulletin that the increase in the Gaza Strip can be attributed to a number of emergency employment programmes in place.

## First Palestinian Insurance Conference

The Palestinian Insurance Federation is preparing to hold the first Insurance Conference on 29-30 June in Jericho. The conference aims to bring together all those working in the sector and discuss issues of coordination, regulation and reinsurance as well as highlighting some of the positive experiences and obstacles facing the industry.

200-250 people are expected to attend the conference, including ten representatives from Egypt, Jordan and the United Arab Emirates. Palestinian Prime Minister Dr. Salam Fayyad will open the conference, which is being sponsored by the ISAF programme funded by USAID.<sup>14</sup>

## PSE UAE Road Show

The Palestinian Securities Exchange (PSE) held its first Abu Dhabi road show on 17 May 2010. The aim of the road show was to attract investment into listed Palestinian companies and the economy in general. The road show was organised in association with the brokerage firm, United Securities, and the Palestine Business Council. The Palestinian delegation included representatives from the Palestine Investment Fund, the Palestine Businessmen Association and listed companies such as PalTel and the Palestine Electric Company.

The UAE is a large potential source of capital for Palestinian enterprises yet investors from the UAE currently hold only 5.9m shares in Palestinian companies with a value of \$26.2m (1.1% of the total value of PSE listed companies). Approximately 120 potential investors came to meet with the delegation. Some investors have subsequently opened trading accounts at the PSE.<sup>15</sup>

## BuildEx 2010

The fourth Palestinian construction exhibition, BuildEx 2010, took place in Ramallah on 18-20 May. The event showcased the products and services of 60 Palestinian companies, including stone and marble, iron, aluminium, wood, paint and insulation materials. Approximately 15,000 people visited the exhibition including contractors, engineers and entrepreneurs from the local real estate and housing sectors.

According to Ibrahim Najjar, Trade Promotion Manager at PalTrade and Director of the Exhibition, around \$3m of commercial transactions took place over the three days. The most prominent announcement was the Royal Group's \$10m Villas Project in Al-Tireh neighbourhood of Ramallah. 23 villas are scheduled for completion by summer 2011.<sup>16</sup>

In addition to the exhibition there was a Construction and Building Materials Conference on 17 May. A number of topics were discussed including the opportunities and obstacles facing the local construction sector, current investments and international experiences. The Palestine Investment Promotion Agency (PIPA) highlighted the incentives for the construction sector offered in the investment promotion law that includes exemptions from certain taxes. A number of recommendations were made to improve regulation, standards and the quality of products.<sup>17</sup>

<sup>12</sup> See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=284129>

<sup>13</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/labor\\_forceQ1-2010E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/labor_forceQ1-2010E.pdf) and [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LFs-E-122009.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LFs-E-122009.pdf)

<sup>14</sup> See: <http://paltoday.com/arabic/News-80170.html>

<sup>15</sup> See: <http://www1.albawaba.com/en/news/uae-investors-lured-strong-economic-growth-palestine-pegged-7-percent-2010>

<sup>16</sup> See: [http://www.royalvillas.ps/?page\\_id=2](http://www.royalvillas.ps/?page_id=2)

<sup>17</sup> See: <http://www.buildexpalestine.ps/2010/index.html>

## Building Licenses

1,528 building licenses were issued in the West Bank in Q1 2010 - an increase of 3% compared with Q4 2009 (1,482) and 25% compared to Q1 2009.<sup>18</sup> The licenses affect 1,974 dwelling units with a total area of 531,400m<sup>2</sup>.

## Indices

The cost of iron and steel rose by approximately 20% in April 2010, causing an increase in the cost of construction in the West Bank. The Construction Cost Index increased by 2.2% to reach 110.55 points, (base year December 2007), the Road Cost Index increased by 1.07% to reach 107.93 points (base year December 2008) and the Water Networks Cost Index rose by 2.77% to reach 103.88 points (base year January 2010).

The Industrial Production Index (IPI) for the West Bank increased for the fifth month in a row, reaching 113.87 points in April 2010 (base year January 2009). The greatest increases were recorded in the recycling group (14.18%), the manufacturing of rubber and plastics group (10.98%) and the manufacturing of chemicals and its products (9.93%).

The Consumer Price Index (CPI) remained steady throughout April 2010. It increased just 0.05% from March 2010 to reach 127.50 points. CPI is up 4% compared with April last year.<sup>19</sup>

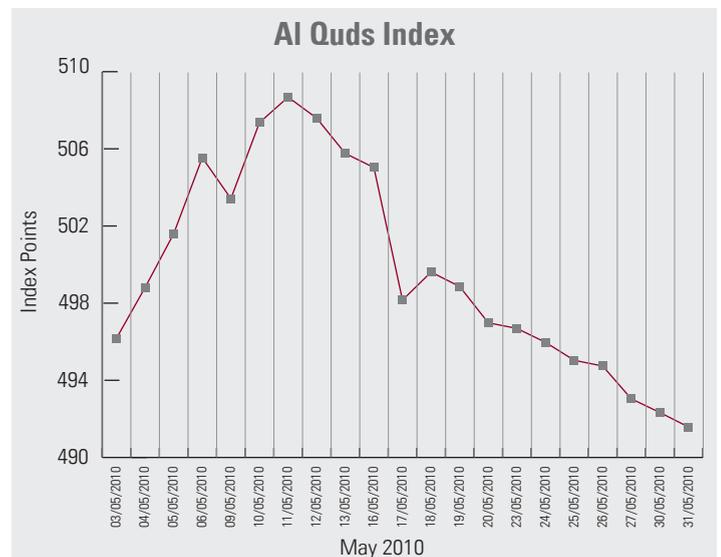
## May Trading News

The AI Quds index fell by 4.6 points, or 0.93%, to reach 491.58 points by the last day of trading in May. The index peaked at 508.68 on 11 May. After a third consecutive month of decline, the index is down 4% since May 2009 (512.03 points). However volume was up 39% compared to April 2010, with 27.3m shares changing hands in 21 trading

sessions in May. The value of traded shares in May also rose, by 34%, to \$41.03m. Market capitalization remained about the same at \$2.4bn.

On 24 May, Ramallah Summer Resorts Company (RSR) was listed on the Palestinian Securities Exchange (PSE). RSR owns and manages a number of furnished apartments, hotels, houses, cafes, cinemas, and restaurants and at the end of 2009 had total assets of 11.56m JD. On the first day of trading 1,300 shares exchanged hands at JD 3, increasing to JD 3.15 by the end of the month.<sup>20</sup>

The top three performing shares in the AI Quds Index this month were Palestine Industrial Investment Company (PIIC), Palestine Plastic Industries (LADAEN) and The Arab Investors Company (ARAB) which increased respectively by 68%, 47% and 37%.<sup>21</sup>



18 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/License-E-q1-2010.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/License-E-q1-2010.pdf)

19 See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Documents/Monthly%20bulletin\\_45/Monthly%20bulletin\\_e.htm](http://www.pcbs.gov.ps/Portals/_PCBS/Documents/Monthly%20bulletin_45/Monthly%20bulletin_e.htm)

20 See: <http://www.p-s-e.com/PSEWebSite/Generalizations/ListingApplication-RSR-13052010.pdf>

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