

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Unemployment in the West Bank fell from 16.5% in Q1 2010 to 15.2% in Q2 2010 (according to the ILO definition). In Gaza, unemployment rose from 33.9% to 39.3% over the same period.

The private equity industry continues to develop. Abraaj has recently opened an office in Ramallah and appointed a fund manager. Siraj is currently reviewing the 25 investment proposals it received over the last three months.

On 4 August HSBC announced plans to expand its credit portfolio and range of banking services offered in the Palestinian Territory.

Preparations are underway for the launch of a Palestinian Employment Fund by the end of the year. An international fundraising conference is planned for November.

PA Finances

There have been reports that the Palestinian Authority (PA) is facing a potential financial crisis due to a shortfall in aid transfers.¹ While August salaries were paid on 6 September, the Palestinian Prime Minister Dr. Salam Fayyad confirmed that the PA could face difficulties in the months to come.²

The PA had a fiscal deficit of \$653m during the first half of 2010. This is significantly lower than the 2009 equivalent (\$862m) but \$30m higher than the target in the PA budget.³ Figures from the Palestinian Ministry of Finance show that the PA received \$526m in budget support in the first half of 2010. This leaves a shortfall of \$126m.

The Bulletin spoke to Bashar Juma'a, a top official at the Ministry of Planning and Administrative Developments (MoPAD) and the head of the Palestinian National Plan (PNP) team. Juma'a explained that the problem is lower than expected transfers from Arab donors.

During 2010 Arab countries pledged to provide \$55m in budget support per month to cover almost 42% of the \$130m wage bill. However by the beginning of September the PA had only received \$125m, just over 10% of total pledges from Arab donors. While these figures are for eight months only, they are considerably less than previous years. For example, Arab states provided over \$500m of aid in 2008.

The PA has three potential options for resolving this latest financial issue. They can either try to increase revenue through taxation, cut spending or request additional external assistance. Juma'a told the Bulletin that the PA is not planning to ask for additional aid to cover the budget. Additional funds will only be requested for Gaza reconstruction and state building. The PA therefore has to either increase tax revenues or reduce the size of the public sector.

Some progress has already been made. Tax revenue was \$102m in Q2 2010, up 53% from the same period last year. However more will need to be done to resolve the issue. The current aims of the PA are set out in the new plan unveiled by Prime Minister Dr. Salam Fayyad titled 'Homestretch to Freedom: the second year of the 13th government's program (Palestine: Ending the Occupation, Establishing the state)'.

The plan aims to reduce the budget deficit from 22% of GDP in 2009, and 18% in 2010, to 13% in the year 2011. On this basis, it is estimated that the requirement for international aid to cover the deficit will decrease from \$1.8 billion in 2008 to \$1 billion in 2011. As well as continued reform to

1 See: <http://english.aljazeera.net/news/middleeast/2010/08/2010824114830288632.html>

2 See: <http://www.alhayat-j.com/newsite/details.php?opt=2&id=119303&cid=1983>

3 Palestinian Ministry of Finance, Fiscal Developments: Second Quarter and Midyear 2010 Report (Revised), August 25, 2010.

the tax system and rationalization of public spending an increase in property tax collection is expected by local government. The issue of Palestinian government bonds is also included in the plan. This is something that has not been attempted before but could be a vital source of finance for the PA in the future.

Unemployment

The PCBS Labour Force Survey for Q2 2010 was published on 17 August 2010. It showed that unemployment in the Palestinian Territory, according to ILO standards, has risen slightly, from 22% in Q1 2010 to 22.9% in Q2 2010. In the West Bank unemployment has fallen over the same period while in Gaza unemployment has risen by 16% (or 5.4 percentage points). A similar pattern can also be observed in comparison to the same period last year (Q2 2009). According to the relaxed definition of unemployment (which includes discouraged workers) unemployment in Gaza was 44.3% in Q2 2010, up from 39.7% in Q1 2010.⁴

	Q2 2009	Q1 2010	Q2 2010
Palestinian Territory	22.2	22	22.9
West Bank	15.9	16.5	15.2
Gaza Strip	36	33.9	39.3

Despite the overall increase in the unemployment rate, the number of employed persons actually increased from 744,000 in Q1 2010 to 756,000 in Q2 2010. This is due to an increase in the labour force participation rate from 40.7% to 41.5% over the same period.

The public sector now employs almost 47% of workers in the Gaza Strip (89,000 workers) compared to 15% (85,000) in the West Bank. The private sector employs 45% and 68% respectively. Figures on benefits show that 23% of employees in the private sector contribute to a pension fund, 25% of wage employees have a paid annual holiday allowance and 45% of women qualify for paid maternity leave.

Private Equity

The Abraaj Palestine Growth Capital Fund has recently opened an office in Ramallah. This is Abraaj's eighth office in the Middle East, North Africa and South Asia region, and part of the firm's \$700m regional SME investment-platform called Riyada Enterprise Development (RED). Fayez Hussein - a former senior vice president for FRIENDi Group, a Middle Eastern mobile virtual network operator – has been appointed as manager of the fund.⁵

The Abraaj fund has secured commitments totalling \$20m, with \$10m coming from Abraaj itself, \$5m from

4 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabourForce_2010Q2_E.pdf

5 See: http://www.abraaj.com/mediacenter/Files/Abraaj-Capital-Opens-Palestine-Office_eng.pdf and February 2010 Bulletin for background.

the Palestine Investment Fund and \$5m from the Bank of Palestine. Hussein's role is to help identify, execute and manage investments in around 20 to 25 Palestinian SMEs over the next four years. SMEs account for more than 95% of enterprises in Palestine, 84% of private sector employment and 55% of gross domestic product.⁶

One of the other new private equity funds, Siraj, has received 25 investment proposals from Palestinian entrepreneurs and existing businesses in the last three months. The applications cover all sectors of the economy including ITC, construction, industry, agriculture and education.

The fund's management team is now in the process of evaluating the applications. The investment criteria include growth prospects, technological advancement, financial strength and the management team's commitment to transparency and accountability. A decision has already been taken to invest in two companies that manufacture pipes. These investments will be made once the fund is launched, currently expected to be October this year.⁷

HSBC Expansion

On 4 August HSBC announced plans to expand its range of banking services on offer in the Palestinian Territory and increase its credit portfolio. Further details of the planned expansion are not yet publicly available. As a first step the Ramallah branch of HSBC has appointed a new director with the job of broadening their customer base. This is expected to increase opportunities for HSBC to expand its credit portfolio. The announcement was made at HSBC's first annual meeting in Ramallah. The Chief Executive Officer of HSBC Jordan, Karen Adams, the Deputy Regional Director of HSBC Middle East, Derek Lindt Director of HSBC Ramallah, Louay Jitan, representatives of the Palestinian public and private sectors and diplomats attended the meeting.⁸

Employment Fund

Preparations are underway for the launch of an employment fund by the end of this year. The proposed fund will invest in companies that can expand and offer more private sector employment. The fund will also provide a form of unemployment allowance until more jobs become available in the private sector.⁹

The Minister of Labour Dr. Ahmad Majdalani hosted a first meeting of the project partners in July. The partners include the Palestinian Federation of Industries, the Palestinian

6 See: <http://www.pif.ps/index.php?lang=en&page=1274182035136>

7 See: <http://www.siraj.ps/overview.php> and July 2010 Bulletin for further background.

8 See: <http://www.alayyam.ps/znews/site/template/article.aspx?did=146312&date=8/5/2010>

9 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=144237&date=7/7/2010>

Federation of Chambers of Commerce, Palestinian Labour syndicates, the Palestinian General Federation of Trade Unions (PGFTU), the Ministry of Labour and the International Labour Organization ILO.

A technical committee has been formed to progress the initiative. Plans are being developed to convene an international donors' conference in November in order to generate support and finance for the fund. The Assistant Under Secretary for Technical Affairs in the Ministry of Labour, Naser Qattany, told the Bulletin that the level of funding secured at such a conference will determine how many people can benefit from the fund.

Palestinian Youth Survey

On 11 August the PCBS released details from a statistical review of Palestinians aged 15 – 29.¹⁰ This age group constitute almost 30% of the Palestinian population and 45% are enrolled in higher education. This rises to 87% for the age group 15-17, followed by 51% for the age group 18 – 22 and 12% for those aged 23 – 29.

Unemployment is a problem with 32% out of work. The figures are higher for the group aged 20-24 where 36% are unemployed. Almost 30% of young people work in services and 22% work in commerce, restaurant and hotels.

The results of the survey showed the level of technological advance in the last five years. 88% of young people now use a computer (compared to 48% in 2004), 47% use the internet (up from 20% in 2004) and 63% have a mobile phone (up from 35% in 2004).

Trade

According to Paltrade, 8,403 trucks left the West Bank with exports in July 2010. This is almost 51% higher than the same time last year. The trucks exited through the crossing points at Tulkarem, Ramallah, Hebron and Jenin. The number of trucks carrying imports into the West Bank through the same crossing points also increased, by 37%, to 15,565 over the same the period.¹¹

3,770 truckloads entered Gaza through the Karni and Kerem Shalom crossing points in July 2010. This is an 87% increase since July 2009 but 63% less than the monthly average before June 2007, when the blockade began. The goods imported into Gaza in June-July 2010 include food products (48%), animal feed (14%), humanitarian aid (14%), other goods (14%) and electronic goods (6%). No construction materials were imported into Gaza in June or July 2010. This differs from the period before the blockade

¹⁰ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/YouthWDay_2010E.pdf Figures are for Q1 2010.

¹¹ See: <http://www.paltrade.org/cms/images/enpublications/WB%20REPORT%20Jun-Jul%20%202010%20final.pdf> and <http://www.paltrade.org/cms/images/enpublications/WB-July%20Report.pdf>

in 2007, when 52% of imports were construction materials. There was no export from Gaza in June or July 2010.¹²

Study on Minimum Wage

The Palestine Economic Policy Research Institute (MAS) released the results of a study on the minimum wage at an event hosted by Professor Marco Missaglia on 12 August. Professor Missaglia is an associate professor of international economics at the University of Pavia in Italy and has been assisting MAS with the analysis.¹³

The purpose of the study was to investigate the potential effects of introducing a minimum wage in the Palestinian Territory. The intention is to assess whether a minimum wage would help to offset the loss in wage earnings from reduced employment in Israel. According to the Palestinian Central Bureau of Statistics the average daily wage for a Palestinian working in Israel and Israeli settlements was NIS 156 in Q2 2010. This compares to NIS 84 in the West Bank and NIS 58 in the Gaza Strip. Unskilled workers, or those with less than 13 years of schooling, account for 70% of those employed in the West Bank and 63% in Gaza. Approximately 10% of working Palestinians had jobs in Israel or the settlements in 2009, compared to 23% in 1999.

The study modelled the impact of different economic effects from the introduction of a minimum wage. On the one hand Keynesian economists argue that introducing a minimum wage will increase disposable income and ultimately stimulate demand and increase employment. On the other hand neoclassical economists argue that a minimum wage will have the opposite effect and reduce the demand for labour and therefore ultimately increase unemployment. In reality both of these effects will take place, to varying degrees, dependent on the local conditions.

The study found that in the Palestinian Territory the neoclassical effect would outweigh the Keynesian effect. In other words, the impact of a minimum wage would cause employers to reduce their workforce to a greater degree than it would increase disposable income.

The big issue is who has to pay for the minimum wage. The study found that the introduction of a minimum wage policy would be difficult for Palestinian employers, especially those with unskilled labor. An alternative suggestion was to use part of the current aid budget to subsidize the wages of unskilled workers by 15%, the level found to be economically appropriate for the minimum wage.

¹² See: http://www.paltrade.org/cms/images/enpublications/GAZA%20REPORT%20June%20_%20July%202010-%20final.pdf and <http://www.paltrade.org/cms/images/enpublications/Gaza%20Monthly%20Report%20-%20July%202009.pdf>

¹³ See: <http://www.al-ayyam.com/znews/site/template/article.aspx?did=146925&date=8/13/2010>

Company Dividends

Palestinian listed companies have paid \$120.8m in dividends so far in 2010. This brings the total distribution of cash and stock dividends to more than \$630m for the period 2006-2010. The average annual distribution of dividends is \$126m.¹⁴

Over the past five years Palestine Telecommunications (PALTEL) has distributed the highest amount of dividends with an average \$60m per year. This is followed by the Palestine Development & Investment Company (PADICO) with an average \$24 million per year, and Bank of Palestine (BOP) with an average \$16 million per year.

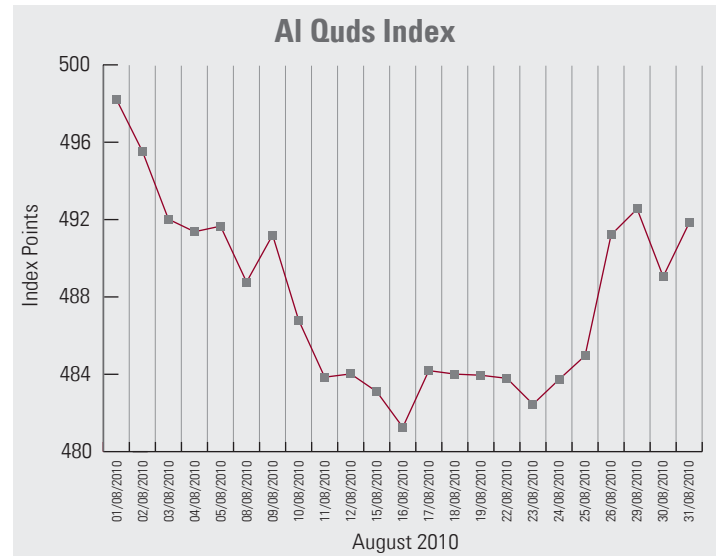
August Trading

The AI Quds index fell by 6.39 points, or 1.3%, to reach 491.83 points on the last day of trading in August. The index started at 498.22 points on the first day of trading and reached its lowest point of 481.26 on 16 August.

Trade volume was down 25% compared to July 2010, with 10.3m shares changing hands in 23 sessions in August. The value of traded shares also decreased, by 32%, to reach \$16.7m. Market capitalization decreased by 4% to reach \$2.44bn.

14 See: <http://www.ameinfo.com/238655.html>

A decrease was seen across all sectors on the exchange apart from the insurance sector, which recorded a 4% increase. This followed an 18% increase in the share price of the Trust Insurance Company (TRUST), the best performing share this month. The Nablus Surgical Centre (NSC) and Arab Paint Products (APC) were the next best performing shares and increased by 7% and 5% respectively.¹⁵



15 See: <http://www.pex.ps/PSEWebSite/NASHRA/20100831%20.pdf>

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