

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Palestinian membership of the International Chamber of Commerce (ICC) was granted on 14 September. The subsequent establishment of a Palestinian-Israeli arbitration centre is hoped to improve the resolution of commercial disputes between Israeli and Palestinian businessmen.

The Ad Hoc Liaison Committee (AHLC) for assistance to the Palestinian Authority (PA) met in New York on 21 September. The PA was praised for its reform effort in 2010. Donors were asked to fill the fiscal gap for the remainder of 2010.

Private sector credit from the banking sector was \$1.8bn at the end of July 2010, up from \$1.5bn at the beginning of the year. The credit to deposit ratio was 42%, up from 34% at the beginning of the year.

A new 5 star Mövenpick hotel is due to open in Ramallah in October with 172 rooms. At the end of Q2 2010 the number of hotel guests to the Palestinian Territory was up 42% compared to the same period last year.

GDP Growth

Preliminary national accounts' estimates, released by the Palestinian Central Bureau of Statistics (PCBS) on 26 September, show that real GDP (base year 2004) grew by 5.5% over the last quarter, and by 9.2% in comparison to the same period last year. This is in line with the IMF forecast that the Palestinian economy will grow by 8% overall in 2010.¹

Total GDP reached \$1,417m in Q2 2010, with the West Bank and Gaza contributing \$1,057m and \$361m respectively. Quarterly GDP per capita reached \$373, an increase of 4.7% compared to Q1 2010 and 6% compared to Q2 2009. The biggest increases in economic activity were recorded in construction (up 29% since Q2 2009), agriculture (up 17%) and trade (up 14%).²

Growth in the West Bank (6.2%) was almost double that of Gaza (3.3%) in Q2 2010. Yet, according to the IMF, the reverse is true if comparing the first six months of 2010 and 2009, when the Gazan economy grew by 16% and the West Bank economy grew by 8%. However, the growth in Gaza comes from a very low base, with the comparison made to the period of Operation Cast Lead. Living standards in Gaza are still said to be 60% below those in 1994.³

There are concerns that the current level of growth is not sustainable given the high proportion of economic activity generated by services and the public sector (almost 40% of total activity). The World Bank, in its most recent report on the Palestinian economy, warned about the lack of productive private sector growth. Aid dependency is an ongoing issue and while there are signs that private investment is increasing, it is still well below what is needed to replace aid as the driver of growth.⁴

PCBS figures show that activity in the mining, manufacturing and utilities sector decreased in comparison to the previous quarter (by 9.9%) and compared to the same quarter last year (by 6.8%). While agricultural activity may have increased recently it still only contributed 5.5% to Palestinian GDP in Q2 2010, compared to 13% in 1994.

Four main obstacles to private sector investment are identified by the World Bank. These include the lack of access to land in the West Bank (where 60% is classified as area C, and therefore out of Palestinian control), the loss of the East Jerusalem market for the majority of Palestinian traders, restrictions on the movement of potential investors into the West Bank and

1 See: <http://www.imf.org/external/country/WBG/RR/2010/092110.pdf>

2 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/pressQ2-10E.pdf

3 See: <http://www.imf.org/external/country/WBG/RR/2010/092110.pdf>

4 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankSep2010AHLCReport.pdf>

the classification of raw materials as 'dual-use' (which leads to complicated procedures, delays and increased costs). A recent report by UNCTAD estimates the direct and indirect losses due to the restrictions on movement and access at almost \$3.1 billion over three years.⁵

International Chamber of Commerce

On 14 September, the Palestinian business community was granted membership of the International Chamber of Commerce (ICC), one of the most important federations in the business world. This followed an earlier decision by a group of prominent Palestinian businessmen to open a branch of the ICC in Ramallah. Discussions about membership started a year ago when a group of Palestinian businessmen met at the Palestine International Business Forum in Sweden and agreed to apply for membership.

It is hoped that the subsequent establishment of a Palestinian-Israeli Arbitration Centre will enable the transparent resolution of commercial disputes. Currently there is an arbitration problem as Israeli and Palestinian court decisions on trade and other disputes are not recognized by the other side.

AHLC Meeting

The Ad Hoc Liaison Committee (AHLC)⁶ met at the UN Headquarters in New York on 21 September to discuss assistance for the Palestinian Authority (PA) in the context of its two-year state building programme. Participants praised the PA for its accelerated reform effort in the first half of 2010 and their achievements in the areas of planning and budgeting, institution building and delivery of public services. The World Bank said that the PA is well-positioned for the establishment of a state at any point in the near future.

The IMF recommended that the PA pursue further structural reforms including the privatization of electricity distribution and stabilization of the public pension system. Measures to remove restrictions on movement and access by the Government of Israel, including on imports into Gaza, were also welcomed. Calls were made for a further lifting of restrictions, particularly to allow for exports from Gaza and the movement of people.

An aid shortfall of between \$300m - \$400m for the remainder of 2010 was highlighted.⁷ Donors were asked to make the required finance available without delay. The AHLC Chair,

⁵ See: http://www.unctad.org/en/docs/tdb57d4_en.pdf

⁶ 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.

⁷ See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankSep2010AHLCReport.pdf>

Norwegian Foreign Minister Jonas Støre, suggested that a donor conference take place to raise funds for the PA's new Reform and Development Plan for 2011 - 2013. At the same time the AHLC reaffirmed its pledge to assist in the reduction of aid dependency and improve the conditions required for private sector growth and investment.

Banking News

The Palestinian Banking Association, which reports on the activities of the Palestinian banking sector, reported that banks recorded \$33m of profits in the second quarter of 2010. This is 21% lower than the previous quarter (\$42m in Q1 2010).⁸

Latest unpublished statistics from the Palestinian Monetary Authority showed that banks had total assets of \$8bn at the end of July 2010, an increase of 5% compared to July last year. Customer deposits increased by \$0.4bn, or 6%, over the same period, to reach \$6.5bn at the end of July 2010.

Banking sector credit at the end of July 2010 was up 23% since the start of the year, and was 29% higher than in July 2009. Total credit was \$2.7bn at the end of July 2010, compared to \$2.2bn at the end of December 2009 and \$2.1bn at the end of July last year.

67% of credit was channelled to the private sector. Domestic private sector credit was \$1.8bn at the end of July 2010, up 20% since the beginning of the year (\$1.5bn) and a 29% increase since July 2009 (\$1.4bn). The total credit to deposit ratio increased in July 2010 to 42%, up from 34% at the beginning of the year.

Despite this improvement banks are still considered to be relatively conservative and prefer to invest their savings overseas. According to the PMA, banks held over \$3.7bn of foreign assets in July 2010 (47% of total assets). This is down from \$3.9bn in January 2010 (49% of total assets).

Hotels and Tourism

In Q2 2010 the number of hotel guests in the Palestinian Territory (including East Jerusalem) rose to 140,009. This is a 42% increase since the same time last year, and a 14% increase compared to Q1 2010.⁹

Guests spent a total of 318,371 nights in Palestinian hotels, 43% of which were spent in the West Bank and 39% in Jerusalem. Almost 10% of guests were Palestinian, 44% were from the European Union, 13% from North America and 33% came from the rest of the world.

⁸ Banking Index, volume 6/2010, Association of Banks in Palestine, Ramallah

⁹ See: http://www.pCBS.gov.ps/Portals/_pCBS/PressRelease/HotelAct_2010E_q2.pdf

In June 2010, there were 94 hotels operating in the Palestinian Territory offering 4,800 rooms and 10,118 beds and employing 1,707 people. 29 of these hotels are in Jerusalem with 3,165 beds. A new 5 star Mövenpick hotel is due to open in Ramallah in October. The hotel will have 172 rooms and is expected to create approximately 250 jobs. The target market for the hotel is international travellers as well as local customers.

Another new tourism project, Jericho 10,000, was launched on 10 October by the Ministry of Tourism and Antiquities. The project celebrates the 10,000th anniversary of the founding of Jericho. It aims to develop the Jericho area and highlight its potential as a popular destination for international tourists.

Registered Companies

The Ministry of National Economy reported that 103 new companies were registered in the West Bank in August.¹⁰ This is a drop in the number of new companies registering compared to the same month last year, however annual comparisons show a steady increase since the low point in 2006.¹¹ There are now 24,000 companies registered in the Palestinian Territory, including international corporations.

The newly registered companies have a total capital of \$4m and JD9m. 29 of the companies registered are normal public shareholding companies, 70 were privately held, and 4 were civil or non profit companies. The new companies span a range of sectors including transport, trade, information technology and real estate.

Jerusalem Holding Company

A new Jerusalem Holding Company will be launched in October with initial capital of \$20m. There are 39 individual investors who have contributed between \$25,000 and \$500,000 each. The company will invest in multiple sectors including construction, real estate, tourism, education, and small enterprises, information technology, in addition to the health sector. The investment is expected to contribute to economic and social development within Jerusalem.¹²

Conference on Aid Effectiveness

A two day conference was held on 27 September to discuss aid effectiveness in the Palestinian Territory. It was organized by the Centre for Development Studies at Birzeit University together with Middle East and North Africa Research Group at Ghent University in Belgium. Around 200 people attended the conference, ranging

from students, professors, academics and local and international civil society workers as well as donors.¹³

The aim of the conference was to examine the ways in which aid reshapes socio-political, economic and environmental relations and consider alternatives to the increasing aid dependency. The overriding conclusion was that the high volumes of aid received had been relatively ineffective due to the local context. Particular issues discussed included the ongoing occupation, impact of security measures on development and territorial fragmentation.

Building Licenses

1,741 building licenses were issued in the West Bank in Q2 2010, an increase of 14% compared to Q1 2010, and 33% compared to Q2 2009. 1,059 of the licenses issued were for new buildings. The licenses affect 2,396 dwellings with a total area of 663,300 m².¹⁴

Prices and Purchasing Power

According to the Palestinian Central Bureau of Statistics, the Consumer Price Index (CPI) increased during August to reach 128.89 points. This is a monthly increase of 0.3%. At the same time the US\$ depreciated against the NIS by 1.8%. Therefore holders of US\$ actually decreased their purchasing power by 2.1% in August. The twelve-month CPI rate was 2.6% in August, down from 5% in January 2010.¹⁵

September Trading

The AI Quds index increased by 14.93 points or 3%, to reach 503.74 points on the last day of trading in September. The index started at 488.81 points on the first day of trading and reached its lowest point of 487.47 points on the second day of trading. It peaked on the last day of trading at 503.74 points. This is the highest the index has reached since 21 July 2010.

Trade volume increased by 19% compared to August 2010, with 12.2m shares changing hands in 19 sessions in September. The value of traded shares increased \$10.2m or 61% to reach \$26.9m. Market capitalization increased by 2.4% to reach \$2.5bn.

While most sectors experienced an increase (apart from the investment sector which decreased by 1.13%), the banking and financial sector witnessed the highest change with a 7.37 point (8.08%) increase. This was

¹³ See: <http://www.birzeit.edu/news/21617/news>

¹⁴ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/license_2010q2_E.pdf

¹⁵ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI%20_English_%2008_2010.pdf and <http://www.imf.org/external/country/WBG/RR/2010/092110.pdf>

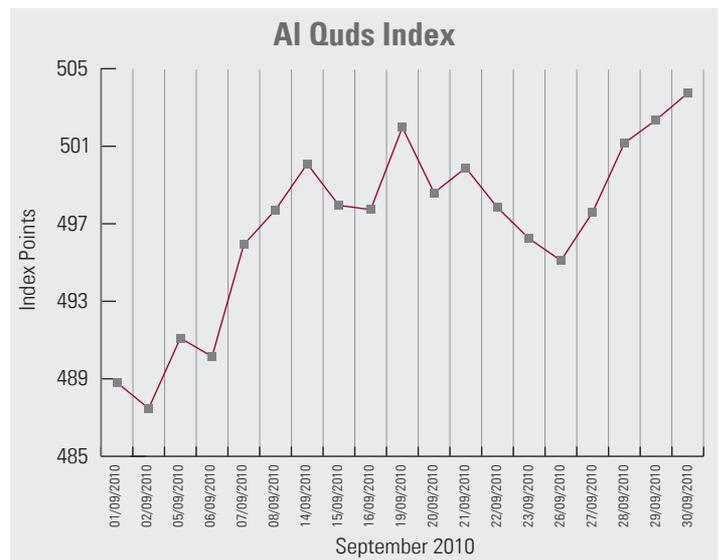
¹⁰ See: <http://web.alquds.com/node/288499>

¹¹ See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankSep2010AHLReport.pdf>

¹² See: http://alqudsholding.com/files/alquds_holding_booklet.pdf

partially due to a 13% increase in the share prices of Bank of Palestine (BOP) and Palestinian Commercial Bank (PCB).¹⁶ Over the month the best performing shares were Global Communications (GCOM) and Arab Paint Products (APC), which increased by 16% and 15% respectively.

A Kuwaiti investment company announced that their 'Palestine Dedicated Fund' realised 3.6% returns from the beginning of the year until August 2010. This compares to a 0.2% decrease in the AI-Quds Index over the same period. The Palestine Dedication Fund is an open ended mutual fund. It is part of Global Investment House (Global) based in Kuwait, and invests in Palestinian listed securities and IPOs.¹⁷



16 See: <http://www.pex.ps/PSEWebSite/NASHRA/30092010.pdf>

17 See: <http://www.globalinv.net/contentdisp.asp?PagelD=271&nid=510>

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