

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Unemployment in the Palestinian Territory rose from 22.9% in Q2 2010 to 26.6% in Q3 2010. The increase is attributed to the influx of graduates into the job market in July. Unemployment in the West Bank and Gaza was 20.1% and 40.5% respectively.

The Palestinian Monetary Authority (PMA) plans to issue \$50m of Islamic bonds in the first quarter of 2011. The bonds will provide the PMA with a new instrument to control liquidity in the Palestinian banking sector.

The Palestinian mobile operator, Wataniya, sold 15% of its share capital in an initial public offering (IPO). 38.7m shares were available at a price of \$1.30 until 2 December.

Thousands of Palestinian workers, trade union members and representatives from the Palestinian Legislative Council participated in a strike against new tax laws on 2 December.

Banking News

The Palestinian President Mahmoud Abbas ratified the new banking law on 9 November. The new law replaces the previous Banking Law No. (2) of 2002, and is another step towards transforming the Palestinian Monetary Authority (PMA) into a central bank. The law was reviewed and discussed by stakeholders before it was signed.

According to the Governor of the PMA, Dr. Jihad Al Wazir, Palestinian banking law now complies with international standards and best practice, as well as the requirements of the Basel Committee on Banking Supervision. The law provides the legal framework for the new duties of the PMA, such as the establishment of a national inter-bank payment system and credit bureau. In addition it ensures that legislation on mergers and acquisitions and liquidation are in line with international supervision guidelines.¹

The banking sector started using the new inter-bank payment system in November. The Real Time Gross Settlement (RTGS) system is called Buraq and took almost a year and a half to implement.²

The Director of the Payment System Department at the PMA, Bassam Farmawi, told the Bulletin that the new system will operate from 8:10am until 2:30pm. It enables banks to electronically monitor and control their central accounts in the PMA through a shared system that has been installed in each bank.

A supervision department in the PMA is responsible for making sure that banks use the new system. Banks have been urged to direct all transfers that exceed 10,000 (in all the four currencies of JD, NIS, USD and Euro) through Buraq.

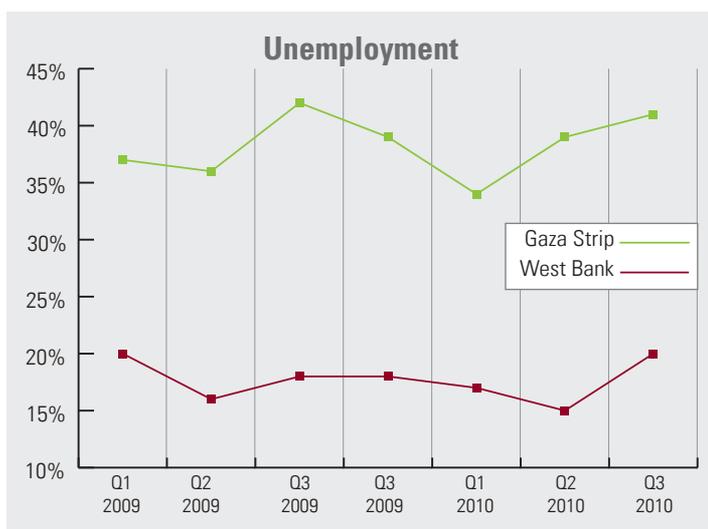
The Governor, Dr. Jihad Al Wazir, said that the national inter-bank payment system will increase efficiency and security in the sector. This will therefore have the effect of enhancing trust in the banking system, which will contribute to monetary and fiscal stability and support broader Palestinian economic development.

¹ See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=332653>

² See Bulletin March 2010 for background and <http://www1.wafa.ps/arabic/index.php?action=detail&id=89497>

Unemployment Rises

The Palestinian Central Bureau of Statistics (PCBS) Labour Force Survey for Q3 2010 was published on 25 November 2010. It showed that unemployment in the Palestinian Territory, according to the ILO definition, has risen from 22.9% in Q2 to 26.6% in Q3.³ The increase is attributed to the large influx of graduates into the job market in July. The same pattern can be observed in 2009 (where unemployment increased from 22.2% in Q2 to 25.8% in Q3), 2008 (up from 25.8% in Q2 to 27.5% in Q3) and 2007 (up from 19.2% in Q2 to 23.2% in Q3).



Unemployment increased in both the West Bank and Gaza Strip, to 20.1% and 40.5% respectively, compared to 15.2% and 39.3% in Q2 2010. The Khan Younis Governorate in Gaza has the highest rate of unemployment across the Palestinian Territory at 46%. The Hebron governorate has the highest unemployment rate in the West Bank at 25% while Jerusalem has the lowest at 13%. Unemployment in Gaza was highest, at 72%, for the group aged 15 – 19. In the West Bank unemployment was highest for the group aged 20-24. According to the relaxed definition (which includes discouraged workers), unemployment in the Gaza Strip was 47% in Q3 2010, up from 44% in Q2 2010.

25% of Palestinian workers are employed in the public sector, 61% in the private sector, 11% in Israel and Israeli settlements and the remaining 3% in other sectors that includes civil society. In Gaza the public sector employs 47% of workers, compared to 17% in the West Bank.⁴

Islamic Bonds

The Palestinian Monetary Authority (PMA) plans to issue Islamic bonds (Sukuk) to local banks in the first quarter of 2011. It is expected that the bonds will be dollar-denominated due to the lack of a Palestinian currency. A

small initial offering of \$50m will be made as a first step to explore the liquidity needs of the market.

The bonds will provide the PMA with a new monetary instrument to inject and withdraw liquidity from the money market, generating greater inter-bank activity. It should also give banks greater security in their lending to the Palestinian Authority, currently estimated at \$880m. It is hoped that the sale of Islamic bonds will kickstart the Shariah compliant finance industry.

Global sales of Islamic bonds were approximately \$14bn this year, down from \$31bn in 2007. Financial returns on an Islamic bond are based on asset flows rather than interest to be Sharia compliant. Article 6 of the Palestinian Monetary Authority Act No. 2 (1997) gives the PMA the authority to issue bonds.⁵

Wataniya IPO

The second Palestinian mobile operator, Wataniya, concluded its initial public offering (IPO) on 2 December. 15% of its authorized share capital was offered to the public from 7 November. Currently 53% of the company is owned by Qatar Telecommunications Company, the remaining 47% is owned by the Palestinian Investment Fund (PIF). It is expected that an additional 15% will be offered in the next four years leaving Qatar Telecommunications Company with 40% and the PIF with 30%.

The company hoped to raise \$50m to finance the expansion of its network. 38.7m shares were made available at \$1.30 per share. Wataniya will be floated on the Palestinian Securities Exchange in January 2011. HSBC Middle East was the sole global coordinator and bookrunner for the IPO. By the end of Q3 2010 Wataniya had over 300,000 subscribers and revenue of \$11.3m. This is up from \$9.1m in Q2 2010.⁶

Strikes

New proposals to amend tax laws, medical insurance and trade union activities caused thousands of Palestinian workers, union representatives, PLC members and others to protest against the Palestinian Authority on 6 December. The strike was organised by a group of 25 trade unions and included a sit-in in front of the Prime Minister's office. The most controversial measure is the proposal to tax the 'end of service' payments by employers at 15%.

3 According to the ILO definition, unemployment is measured as those persons over the age of 15 that are not working but are looking for a job.

4 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LF_Q32010_E.pdf

5 See: <http://www.arabianbusiness.com/palestinians-plan-first-sukuk-in-2011-regulator-361805.html> and <http://www.businessweek.com/news/2010-12-08/palestinians-lure-banks-with-first-sukuk-bills-islamic-finance.html>

6 See: <http://www.zawya.com/story.cfm/sidZAWYA20101101041358/Wataniya%20Mobile%20to%20offer%2015pc%20stake%20in%20IPO> and <http://www.arabianbusiness.com/wataniya-palestine-launches-50m-ipo-360536.html>

2009 Economic Survey results

In 2009 there were 102,483 enterprises operating in the Palestinian Territory, an increase of 6% since 2008. 70% of firms were based in the West Bank (72,724) with the remaining 30% in Gaza (29,759). 60% were involved in retail or wholesale activities, 24% provided other services, 15% were industrial, 0.5% were construction companies and the remainder were involved in transport and communications. 292,609 workers were employed by the businesses.⁷

Total output across the sectors in 2009 was \$5.71 bn with 40% coming from the industrial sector. Gross Value Added (GVA) was \$3.7bn, an increase of 19% since 2008 (\$3.1bn).⁸ The transport and communications sector generated the most GVA per employee (\$70). Gross Fixed Capital Formation, a measure of new investment, amounted to \$187m. This is up from \$152m in 2008, but less than the \$197m recorded in 2007.

World Bank Evaluation

An evaluation, conducted by the Independent Evaluation Group⁹ (IEG), of World Bank's activities from 2001 to 2009 in the West Bank and Gaza has rated their performance as 'satisfactory'. However, for reasons outside of the World Bank's control (namely restrictions on movement and access and the ongoing conflict) the outcome of their activities was judged to have made little progress towards achieving their objectives.

The evaluation focused on the four main sectors of World Bank operations: governance, private sector development, infrastructure and development, and social and human development. The report rated each sector and sub sector within it in six levels, the lowest being 'highly unsatisfactory' and the highest 'highly satisfactory'. The assessment was that the World Bank's impact in governance and social and human development had been 'moderately satisfactory'. However the outcomes of their private sector development and infrastructure activities were assessed to be 'moderately unsatisfactory'.

The main recommendation of the report was for policy planning to take a longer term view, as opposed to the short term strategies that currently tend to be adopted. In addition the report recommended a gradual decrease of budgetary support and suggested that the World Bank 'may need to rethink its mandate, role, and the scope of its activities'.¹⁰

7 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/EconomicSurv_2009E.pdf

8 Gross Value Added is the difference between output and inputs in production. It measures the contribution of each individual, firm, industry and sector to the economy. $GVA + \text{taxes on production} - \text{subsidies on production} = GDP$.

9 IEG is an independent unit within the World Bank which reports directly to the Bank's board of executive directors.

10 See: <http://web.worldbank.org/WBSITE/EXTERNAL/EXTOED/EXTCOUASSEVAL/0,,contentMDK:22767995~pagePK:64829573~piPK:64829550~theSitePK:4425762,00.html>

US Support to the PA

On 10 November, in a joint press conference with Prime Minister Dr. Salam Fayyad, the US Secretary of State, Hillary Clinton, announced that \$150m had been transferred to the Palestinian Authority (PA) in budget support. This payment brings the total budget support paid by the US in 2010 to \$225m, and total assistance to almost \$600m. Fayyad expressed thanks on behalf of the PA for the ongoing US support.¹¹

Research and Development

Figures from the Palestinian Central Bureau of Statistics (PCBS), released on 11 November, show that 2,951 people were employed in the Research and Development (R&D) sector in the West Bank in 2009. This is an increase of 91% compared to 2008 (1,542). The number of actual researchers increased to 1,550, compared to 992 in 2008.

Total expenditure on R&D in 2009 was \$29m. This represents 0.5% of Palestinian GDP, which, even excluding Gaza, is higher than neighbouring countries such as Jordan (0.3%), Lebanon (0.3%) or Egypt (0.2%). However it is less than the average in developed countries of 2.5% and Israel, which spends 4.5% of GDP on R&D (one of the highest in the world).¹²

The higher education sector contributed to almost half of all R&D spending (48%), followed by the government (34%) and NGO sector (18%). 66% of R&D was in the form of studies and consultations, 14% basic research, 14% applied research and 6% experimental research. R&D is encouraged through a number of legislative incentives including tax exemption.¹³

Palestinian Capital Market Forum

The Fourth Annual Capital Market Forum took place in Ramallah on 9 November 2010. The forum, titled 'Investor Relations: An Effective Practice to Mitigate Crisis' was opened by Prime Minister Dr. Salam Fayyad. In his keynote address the Prime Minister pledged to work to further enhance the investor environment and reduce aid dependency. He highlighted the central role of the Palestine Securities Exchange in achieving these aims.

Approximately 200 people attended the event, including experts from the broader Middle East, UK and US. A number of presentations were made on a range of topics including how to communicate with investors during a crisis, develop an investor relations strategy and follow international best practice.¹⁴

11 See: <http://www.state.gov/secretary/rm/2010/11/150760.htm>

12 See: http://www.nationmaster.com/graph/eco_res_and_dev_exp_of_gdp-economy-research-development-expenditure-gdp

13 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Res&Dev2009_E.pdf

14 See: <http://www.pex.ps/forum> and <http://www.ameinfo.com/248912.html#story>

A number of recommendations were made at the conference. This included measures to develop the skills and experience of investor relations personnel in line with international best practice, establish investor relations' departments at each listed company and prepare a handbook on the principles of investor relations in Arabic to spread information through the sector.

Finance and Insurance Survey

The PCBS Finance and Insurance Survey for 2009 showed that 49 enterprises were engaged in finance and insurance activities, employing 6,469 people (4,479 males and 1,720 females). This is an increase of 4% from 2008 (6,221). The survey also showed that Gross Fixed Capital Formation was \$37m (up 48% from 2008).

However, total output of the sector was \$344m, a decrease of 18% from 2008 (\$421m) and 11% lower than in 2007 (\$386m). Gross value added was \$270m, a decrease of 21% from the previous year (\$342m in 2008), net taxes on production were \$20m (down 33% from 2008), and operating surpluses (a proxy for pre-tax profits) were \$90.6m (down 79% from 2008). A rise in wage costs and other assets is thought to be the main reason for the loss of profit in the sector.¹⁵

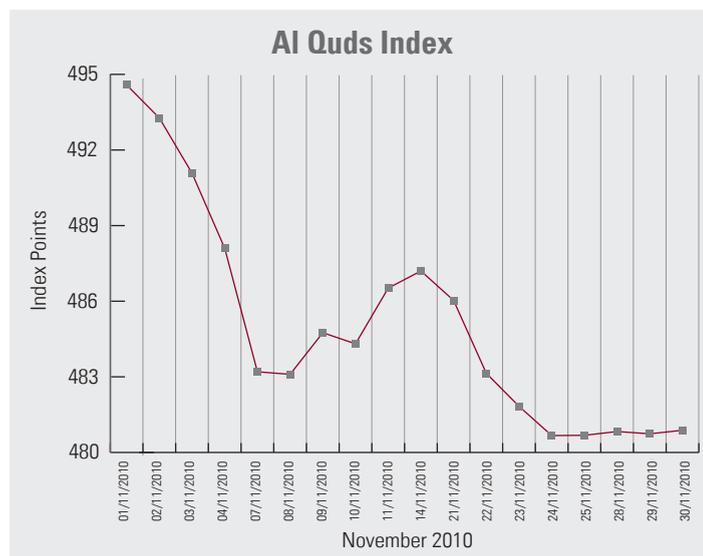
November Trading

The AI Quds index decreased by 13.7 points or 2.8%, to reach 480.88 points on the last day of trading in November. The index peaked on the first day of trading at 494.58 points and decreased to its lowest point of 480.67 on 24 November.

¹⁵ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Fin&Ins2009_E.pdf

Trade volume decreased by 45% compared to October 2010, with 9.8m shares changing hands in 18 sessions in November. The value of traded shares increased \$11.8m or 55% to reach \$33.4m. Market capitalization reached \$2.4bn.

The best performing share was the Palestinian Distribution and Logistics services (WASSEL), which was up 25%, followed by Global Communications (GCOM), which was up 4%.¹⁶



¹⁶ See: <http://www.p-s-e.com/psewebsite/NASHRA/20101130.pdf>

The Portland Trust



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