

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The US has launched a new Palestinian Information Communications Technology Capacity Building Initiative (PITI) in partnership with large multinationals, including Cisco, Google, HP, Intel, Medcor and Salesforce.com.

On 22 December the EU agreed to allow all Palestinian agricultural products duty free access to the European market. This is in addition to existing agreements, which give Palestinian industrial goods duty free access.

Over the Christmas period Bethlehem witnessed the highest number of visitors over the last ten years. There were 90,000 visitors and all hotels were fully booked.

Figures from the Palestinian Monetary Authority show that bank credit reached \$2.85bn in 2010, an increase of over 30% since 2009. Loans were provided across several sectors with trade financing and construction receiving the greatest amount of credit.

International Standards

The Palestinian Standards Institution (PSI) expanded the number of international standards (ISO) adopted by over 150% in the second half of last year. On 15 December, the Palestinian Minister of National Economy, Dr. Hasan Abu-Libdeh announced that 1,469 new ISO standards have been adopted, bringing the total number to almost 2,500.¹

The new ISO standards cover a full spectrum of products in the industries of food, agriculture, metals, chemicals and engineering. There are 88 new food specifications, mostly focused on regulating dairy, oil, fruit and vegetable products. For example, the international standard regarding the amount of sodium and potassium in dried milk has been adopted. There are 79 new agricultural specifications which are related to storage, transport and refrigeration. There are 195 new specifications for metal products which are related to the testing of products and alloys.²

PSI Engineer, Latif Al-Sheikh, told the Bulletin that the choice of the standards adopted were based on initial recommendations from the Ministry of National Economy and the existing PSI work plan that was agreed upon with the Arab Standards organization in 2005. A consultation exercise with relevant industry stakeholders and the Palestinian public then took place before the standards were adopted.³ According to Latif, the PSI plans to adopt more ISO standards in the automobile sector in 2011.

Adoption of these standards is voluntary for Palestinian companies and factories. Interested companies can apply for certification from the PSI. The PSI certification department and quality committee reviews the applications and assesses whether products comply and all the requirements are met. If successful the product is then granted with the Palestinian quality mark.

With the greater number of international standards incorporated, the PSI aims to increase the quality of both products and services provided to the Palestinian population. In addition it hopes that certified quality Palestinian goods will have increased access to export markets, many of which require products to comply with ISO standards.

¹ See: <http://www.alquds.com/node/311698> and <http://www.psi.gov.ps/NewsDescription.aspx?NewsId=216>

² See: <http://www.psi.gov.ps/>

³ See: <http://www.alquds.com/node/311698>

New Initiative to Boost ICT Sector

On 17 December, the US Secretary of State, Hillary Clinton, launched a major new initiative to further develop the Palestinian ICT sector. Building on the successful approach of Cisco in recent years, the Palestinian Information Communications Technology Capacity Building Initiative (PITI) will facilitate additional partnerships and investments between Palestinian companies and US multinationals and promote new business opportunities in the region. PITI is led by the US department of State in partnership with USAID and Partners for a New Beginning and will be administered by Aspen Institute. The preliminary partner companies in the initiative are Cisco, Google, HP, Intel, Medcor and Salesforce.com.⁴

The overall aim of PITI is to boost competitiveness in the ICT sector by helping foster innovation and develop advanced skills in marketing and project management. The Palestinian ICT sector already benefits from competitive labour costs and a largely bilingual workforce.

During the launch event several multinationals made commitments to fund start-up projects or expand existing ones. Among the most prominent announcements was a pledge by Cisco to provide \$5m of investment to the Middle East Venture Capital Fund. Google also announced funding of \$2m towards the development of the Palestinian internet ecosystem.

Trade with Europe

On 22 December the EU signed an agreement with the PA to lift customs duties on all imported Palestinian agricultural and fish products. In 2009 the PA exported agricultural goods worth around €4.3m to the EU.

The agreement is scheduled to last for ten years and will give these Palestinian products duty-free access to the EU market. The agreement will be reviewed every five years with a view to extending it. This lifting of duties is in addition to the existing free trade agreement that gives Palestinian industrial goods duty free access to the EU.⁵

Tourism

During Christmas, Bethlehem was visited by 90,000 visitors, the highest number recorded in the last ten years. According to the Director of the Bethlehem Chamber of Commerce, Samir Hazboun, all the hotel rooms in Bethlehem were fully booked over the Christmas period.

It is estimated that 1.45m tourists visited Bethlehem in

2010, a record year, and an increase of 60% compared to 2009.⁶ However, as explained by the Palestinian Minister of Tourism, Khoulood Daibes, the majority of visitors (70% - 80%) usually come for a day trip and do not stay overnight. This means that less than 10% of potential revenues stay in the Palestinian economy.⁷

Bethlehem has a total of 2,750 hotel rooms, and more are under construction. According to latest figures from the Palestinian Central Bureau of Statistics there were 94 hotels across the Palestinian Territory at the end of September 2010. This is up from 89 in September 2009 with new hotels being built in Gaza (2) and the south West Bank (3).⁸

Figures also show that the number of hotel guests was 137,733 in Q3 2010. This is down 2% compared to the previous quarter but up 1% compared to the same period last year. Guests spent a total of 304,504 nights in Palestinian hotels, of which 42% were spent in Jerusalem, 38% in the south of the West Bank, 17% in the middle of the West Bank, 3% in the north of the West Bank, and less than 1% in the Gaza Strip. There were 15,600 employees in the sector in Q3 2010 with women making up only 6% of the workforce.⁹

Bank Loans

According to the Head of the Banking Supervision Department at the Palestinian Monetary Authority (PMA), Ryad Abu Shehadeh, banks operating in the Palestinian Territory provided \$2.85bn of credit facilities during 2010.¹⁰ This is up by over 30%, since the end of 2009 (\$2.16bn). Credit facilities include loans, overdrafts and leasing arrangements. Loans were provided across several sectors. Trade financing received the highest amount of loans at \$470m followed by construction and real estate (\$275m) and industry (\$235m).

Total credit represented 43% of bank deposits in the Palestinian banking system in 2010, compared to 34% in 2009. Deposits reached \$6.8bn at the end of November 2010 (compared to \$6.3bn at the end of 2009). Bank assets totalled \$8.45bn (compared to \$8bn in July) and banks received profits of \$128m during the year. The banking sector provided employment opportunities for almost

4 See: <http://www.state.gov/r/pa/prs/ps/2010/12/153103.htm> and <http://www.prnewswire.com/news-releases/aspens-institute-statement-on-palestinian-information-communications-technology-capacity-building-initiative-112090484.html>

5 See July 2010 Bulletin for background and <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1773&format=HTML&aged=0&language=EN&guiLanguage=en>

6 See: <http://www.heraldsun.com.au/news/breaking-news/no-rooms-in-bethlehem-again-as-tourism-booms/story-e6frf7jx-1225976026949> and <http://www.independent.co.uk/news/world/middle-east/in-bethlehem-tourism-is-reborn-but-only-for-a-few-2168437.html>

7 See: <http://english.aljazeera.net/news/middleeast/2010/12/2010122414059219895.html> and <http://www.guardian.co.uk/world/2010/dec/26/bethlehem-tourism-boom-israel>

8 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1713.pdf and http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1614.pdf

9 See: http://www.idf.ps/documentsShow.aspx?ATT_ID=3411 and http://www.idf.ps/documentsShow.aspx?ATT_ID=3498

10 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=346451>

5,000 workers in the Palestinian economy. Bad debt in the Palestinian banking system is close to 3% which compares well to the regional average of 15%.¹¹

Food Security in Gaza

According to a recent UN Food and Agriculture Organisation (FAO) monitoring report, the amount of wheat imported into Gaza during the period September to November 2010 fell by 30% compared to the early months of 2010. FAO warns that the 'situation is extremely worrying' and highlights that it is already having an impact on WFP and UNRWA food assistance programmes.¹²

The report points out that despite the easing of restrictions on the types of imported goods that can enter Gaza there has been no corresponding increase in the volume of goods permitted. As a result wheat has been competing with urgently needed construction materials and consequently its passage has been reduced from two days a week to one day.

The report also highlights price increases in the main food groups in Gaza. The price of red meat imported into Gaza from and through Israel increased by 6% in October and the price of fresh chicken increased by 23% over the same period. Tomato prices have increased significantly, by 52% in October, and by 170% compared to October 2009. Prices of other agricultural goods have remained the same if not decreased.

However the lack of rainfall last year is expected to have a negative effect on the price of all agricultural goods. According to the Ministry of Agriculture, Gaza received only 9% of its historical annual average rainfall in 2010.¹³ With less fresh produce available in the market, price increases are expected. This is likely to impact further on the already high levels of food insecurity in Gaza and the level of income spent on food – measured at 52% and 72% respectively by FAO.¹⁴

Construction Sector

A review of the Palestinian economy in the first three quarters of 2010 by the Palestinian Central Bureau of Statistics (PCBS) reveals a positive picture for the construction sector over the period. The economy grew by 9% overall but construction activity increased by 36%.¹⁵ The number of building licenses increased by 23%, the quantity of imported cement increased by 10% and the number of workers in the sector increased by 22%.

Figures were less positive for the industrial sector which witnessed a 6% decline over the same period.¹⁶

Budget Support

On 22 December the European Commission announced the first tranche of their 2011 financial package to the Palestinian Authority. A total of €100m has been committed for the year with an estimated €60m to be channelled to the PA budget to help pay the wages and pensions of public sector workers and pensioners. The remaining €40m is assigned to support the core budget of the United Nations Relief and Works Agency (UNRWA).¹⁷ On 21 December 2010, the European Parliament approved a total budget of €295m for the EU's Palestinian programme in 2011. Additional announcements of support are therefore expected later in the year. In particular an announcement regarding the level of support for development projects is anticipated following an EC programming mission at the end of January.

The EU's first payment of budget support this year was made on 6 January. The EU, with contributions from Ireland and Luxembourg, disbursed €40m through its PEGASE mechanism to help pay the December salaries and pensions of 84,948 civil servants and pensioners.¹⁸ In the first week of January, Algeria and Japan announced additional support for the PA budget. On 2 January, Algeria announced it would provide a \$45m grant and Japan signed an agreement for budget support of \$11.9m.¹⁹

Registered Companies

The Ministry of National Economy reported that 103 new companies were registered in the Palestinian Territory in November 2010. 72 of these were registered in the West Bank and 31 in the Gaza Strip.²⁰ Compared to October new registrations are down by 37% in the West Bank and 14% in the Gaza Strip. 151 new companies were registered overall in October and 120 in September.

The newly registered companies in the West Bank have total capital of \$29m. 6% of the companies have more than \$1m of capital, 60% have capital between \$100,000 and \$1m and 34% of the companies have less than \$100,000 of capital. 24 of the companies registered are normal public companies, 46 are privately held, one is a foreign privately held company and one is a non-profit company. The new companies span a range of sectors including trade, information technology, real estate and manufacturing.²¹

11 See: <http://www.alhayat-j.com/newsite/details.php?opt=7&id=125040&cid=2071>

12 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=3485

13 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=3533

14 See: <http://www.apis.ps/documents/Farming%20Households%20Food%20Security%20Overview.pdf> and http://www.lfd.ps/documentsShow.aspx?ATT_ID=3485

15 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PalEconomic_2010_E.pdf

16 Comparisons are between the first three quarters of 2010 and those of 2009

17 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=3496

18 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=3529 and http://www.lfd.ps/documentsShow.aspx?ATT_ID=3530

19 See: <http://www.alhayat-j.com/newsite/details.php?opt=3&id=126033&cid=2085> and http://www.lfd.ps/documentsShow.aspx?ATT_ID=3509

20 See: <http://www.unsco.org/Documents/Special/UNSCO-socioeconomic%20Report-November%202010.pdf>

21 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=340101>

Prices and Purchasing Power

According to the Palestinian Central Bureau of Statistics, the Consumer Price Index (CPI) increased slightly during November to reach 131.50. This is a monthly increase of 0.1% compared to October and an annual increase of 3.53% compared to last November.²² At the same time, the US\$ appreciated against the NIS by 0.9%.²³ Therefore holders of US\$ actually increased their purchasing power slightly by 0.8% in November.

The rise in CPI originates from Jerusalem and the West Bank, where prices increased by 0.22% and 0.19% respectively. Prices in the Gaza Strip only increased fractionally, by 0.07%. The biggest monthly price rises were recorded in the textiles, clothing and footwear group (1.44%) and the restaurants, cafes and hotels group (1.16%). The only prices to fall were those of food and soft drinks (-0.44%).

Month	Jul. 10	Aug.10	Sep.10	Oct.10	Nov.10
CPI	128.50	128.89	130.68	131.36	131.50
% Δ in CPI	-	0.3%	1.4%	0.5%	0.1%

December Trading

The AI Quds index increased by 8.72 points or 1.8%, to reach 489.6 points on the last day of trading in December. The index peaked on 12 December at 491.63 points and was at its lowest on the first day of trading.²⁴

22 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_112010_E.pdf

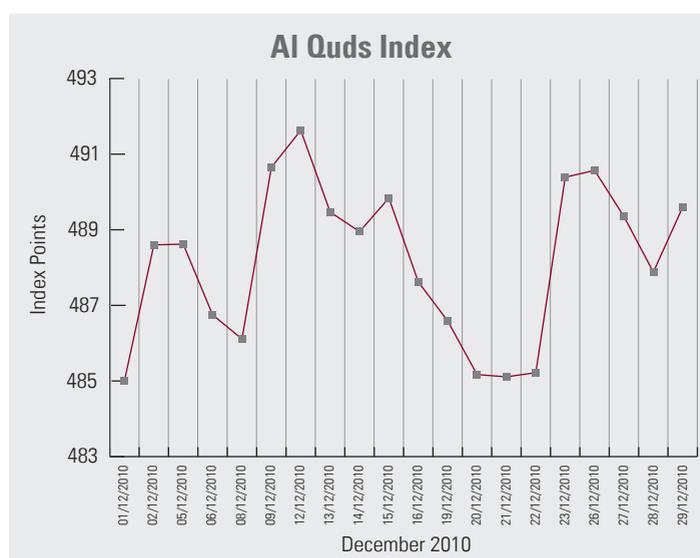
23 See: <http://www.pma.ps/index.php?year=2010&month=11&lang=en&page=currency>

24 See: <http://www.p-s-e.com/PSEWebSite/NASHRA/20101231.pdf>

Trade volume increased significantly, by 90%, compared to November 2010, with 18.8m shares changing hands in 20 sessions. The value of traded shares increased \$11m or 31% to reach \$44m. Market capitalization increased slightly by 1.7% to reach \$2.44bn.

On 9 January Wataniya Mobile was listed on the Palestinian Securities Exchange (PSE). Its initial market capitalisation was \$358m. Listing took place after the successful initial public offering (IPO) which concluded on 2 December. It was the largest Palestinian IPO in ten years and attracted 13,863 investors, raising \$77.8m.

For the second month in a row, the Palestinian Distribution and Logistics Services (WASSEL) was the best performing share, increasing by 14%. The National Insurance Company (NIC) and Global Communications (GCOM) followed closely behind, both increasing by 13%. GCOM has been one of the top three highest performing shares for the last three months.



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