

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The Palestine Development and Investment Company (PADICO) intends to issue \$70m of commercial bonds in the coming weeks. These commercial bonds will be the first of their kind in the Palestinian Territory.*

*The Palestinian Ministry of Agriculture has launched a consultation process to decide how to address the issue of rising food prices. As a net importer the impact of high world food prices is felt acutely within the Palestinian Territory.*

*Hotel activity increased by 24% in Q4 2010 on account of the Christmas season and relatively stable conditions. Work is underway to boost tourism in Bethlehem by the development of an action plan for the area.*

*Unemployment fell in the West Bank from 20.1% in Q3 to 16.9% in Q4 2010. In Gaza unemployment also fell, from 40.5% to 37.4%.*

### 2010 Company Results

Out of the 41 Palestinian companies listed on the Palestine Securities Exchange (PSE), 40 companies have released their preliminary financial results for 2010. 29 companies reported profits and 20 companies recorded a better performance in 2010 than 2009.<sup>1</sup>

The largest company on the PSE (with market capitalization of \$980m, 40% of the total), the Palestine Telecommunications Company (PALTEL) achieved JD86.3m (\$122m) net profit. This is a 23% growth in net profit compared with 2009. PALTEL's earnings before interest, tax, depreciation, and amortization (EBITDA) grew by 6% to reach \$202m by the end of 2010 compared with \$191m at the end of 2009. According to PALTEL this is due to a 7% growth in operating profit and a 40% decline in investment losses compared to 2009. In addition the costs of licence fees fell by 37% compared with previous years.<sup>2</sup>

The Palestine Islamic Bank (ISBK) recorded a significant profit of \$2.9m this year, an increase of 670% compared to 2009 (\$370,738). According to the Governor of the Palestinian Monetary Authority, Dr. Jihad Al-Wazir, this improvement is attributed to several actions including the election of new board of directors, the entry of new strategic investors and the inclusion of new basic services such as a network of ATMs.<sup>3</sup> Two companies - the National Carton Industry (NCI) and Arab Investors (ARAB) - have turned losses in 2009 into profits this year.

### Gaza Economy

There has been a relative improvement in the level of export from Gaza this year, albeit coming from a virtually non-existent base. During the first two months of the year 153 truckloads of strawberries and flowers were exported from Gaza. This is equivalent to 65% of total exports over the last three years.

The strawberry season concluded in mid-February. 400 tons of strawberries were exported during the season, which is a large increase from last year (16 tons exported). The flower season is still in progress and will continue until late April. So far, 6.6m flowers have been exported but this is expected to reach 20m by the end of the season.<sup>4</sup> Currently exports of flowers and strawberries are restricted to the European market only.

1 See: [http://images.zawya.com/images/features/110221\\_pex\\_01.pdf](http://images.zawya.com/images/features/110221_pex_01.pdf) and page 4 of the Bulletin for a full breakdown of results.

2 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=159327&date=2/9/2011>

3 See: <http://www.cibafi.org/newscenter/Details.aspx?Id=15470&Cat=4&RetId=0>

4 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=160175&date=2/21/2011>

On 15 February, the European Union (EU) paid the third instalment of its €22m programme to help reconstruct the private sector in Gaza. The latest instalment of \$1.2m will benefit 148 businesses in Gaza that were affected by the Israeli Operation Cast Lead in late 2008. 450 owners have already benefited from the previous instalments, distributed in July and September 2010, totalling €8.4m.<sup>5</sup>

## First Commercial Bonds

On 16 February the Palestine Development and Investment Company (PADICO) announced it plans to issue commercial bonds in the coming few weeks.<sup>6</sup> PADICO intends to sell \$70m worth of bonds paying interest of 4.5-5% over five years.<sup>7</sup> These commercial bonds are the first of their kind in the Palestinian Territory.

The commercial bonds aim to finance long term investments and lower the high interest costs on bank loans. All preparations and coordination with relative institutions such as the Palestine Monetary Authority (PMA) and the Palestinian Capital Market Authority (PCMA) have been finalised.

The CEO of PADICO, Samir Hulileh, told the Bulletin that 'we are eager to use new financial tools that will widen the market and make it deeper. Issuing the bonds now is extremely good for investors to demonstrate the confidence in our market, and who could be better than PADICO to be the trial case.'

## Food Prices

According to the UN Food and Agriculture Organisation, world food prices reached record levels in January 2011. This poses a big concern for the Palestinian economy, which as a net importer gets 70% of all its staple food products from outside sources. Palestinian households also spend a high proportion of their income on food (60%) making the population susceptible to price rises.

During the first half of 2010, food prices increased by 7% in the West Bank and 5% in the Gaza Strip. The Ministry of Agriculture estimates that if the global food price spike continues to translate locally, and food prices increase at the same rate, then an additional 157,000 Palestinians will become food insecure by the middle of 2011. This is an increase of 12% in the number of Palestinians facing food insecurity.<sup>8</sup>

The Palestinian Authority (PA) faces certain constraints that affect its capacity to effectively intervene in the sector. The tight fiscal situation is part of the problem but a lack

of access to certain resources (namely land, water and fertilisers) also inhibits Palestinian capacity to produce food domestically. In addition the Palestinian Authority has limited policy levers due to its lack of sovereignty over trade-related tariffs and taxes.

In response the Palestinian Ministry of Agriculture has launched a consultation exercise to discuss and decide on measures to address the issue. In the position paper launching the consultation, the Ministry highlights the need to expand the economy's productive base and increase exports as a means of increasing PA revenues. An inter-ministerial taskforce has been established to lead the consultation process.<sup>9</sup>

## Hotels and Tourism

Figures for Q4 2010 show an increase in hotel activity over the period. This is to be expected given the Christmas season and the relatively stable political and security situation over that time. In Q4 2010 the number of hotel guests in the Palestinian Territory (including East Jerusalem) reached 170,671. This is a 20% increase since the same time last year, and a 24% increase compared to Q3 2010.<sup>10</sup>

Guests spent a total of 370,966 nights in Palestinian hotels, 22% more than the previous quarter. 36% of the guests were from the European Union, 16.5% from other European countries, 12% from North America and 35% came from the rest of the world. Room occupancy reached 41% in Q4 2010, an increase of 17% compared to Q3 2010.

In a further effort to boost tourism, a workshop was held on 3 March to specifically discuss Bethlehem. The workshop was led by the Chairman of the Bethlehem Chamber of Commerce, Samir Hazboun, and funded by the USAID EDIP programme. The Minister of Tourism, Khouled Daibes, gave the opening address and encouraged the sector to work together to improve the experience offered to Bethlehem tourists. Attendees included the full range of organisations and entrepreneurs in the Bethlehem tourism industry and representatives from the international community, including the Quartet, that are supporting the development of the sector. It was agreed that an action plan for Bethlehem would be developed and a steering committee was established to take the work forward over the next 4-5 months.

## Unemployment Falls

The Palestinian Central Bureau of Statistics (PCBS) Labour Force Survey for Q4 2010 was published on 22 February 2011. It showed that unemployment in the Palestinian Territory (according to the ILO definition) fell by 12%, from 26.6% in Q3 2010 to 23.4% in Q4 2010. The overall decline

5 See: <http://www.enpi-info.eu/medportal/news/delegation/24123/EU-helps-revitalise-private-sector-in-Gaza> and August Bulletin, Issue 47 for background.

6 See: <http://www1.wafa.ps/arabic/index.php?action=detail&id=98675>

7 See: <http://www.reuters.com/article/2011/02/16/palestinians-padico-bond-idULSD71F1JE20110216>

8 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=3676](http://www.lfd.ps/documentsShow.aspx?ATT_ID=3676)

9 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=3660](http://www.lfd.ps/documentsShow.aspx?ATT_ID=3660)

10 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/HotelActivity\\_Q42010\\_E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/HotelActivity_Q42010_E.pdf)

in unemployment, which is largely the result of the olive harvest, reflects a decrease in both the West Bank and the Gaza Strip of 10% and 3% respectively.<sup>11</sup>

	Q4 2009	Q3 2010	Q4 2010
Palestinian Territory	24.8	26.6	23.4
West Bank	18.1	20.1	16.9
Gaza Strip	39.3	40.5	37.4

The governorate of Bethlehem registered the highest unemployment rate in the West Bank at 22.4%, while the Khan Younis governorate registered the highest unemployment rate in the Gaza Strip at 50.6%. Tubas recorded the lowest level of unemployment across the West Bank and Gaza at 10.3%.

78,000 workers from the West Bank were employed in Israel and the Israeli settlements in Q4 2010. This is an increase from 75,000 workers in Q3 2010 and represents 14% of all West Bank workers. The public sector employs 16% of workers from the West Bank while the private sector employs 67%. The remaining 3% of workers are employed by other sectors, which includes international organisations and NGOs. Average daily wages vary across the sectors from NIS 161 in Israel and the Israeli settlements, NIS 91 in the public sector, NIS 81 in the private sector and NIS 133 in other sectors. In Gaza the public sector accounts for 48% of workers, with 44% employed by the private sector and the remaining 8% by other sectors.

## Palestine Investment Fund

On 23 February the Palestine Investment Fund (PIF) published a special report on its achievements in 2010. PIF is a publicly limited company established in 2003 which acts like a sovereign wealth fund. Currently, it has approximately \$800m in assets under management. Since its inception, returns on investments have led to approximately \$606m being transferred back to the Palestinian Authority.<sup>12</sup>

In 2010 the PIF continued work on its three construction projects – the Eرسال Center in Ramallah, the Al-Reehan neighbourhood in Ramallah and the Al Jinan neighbourhood in Jenin.<sup>13</sup> By the end of 2011 it is expected that 1,200 units (out of a total 2,000) will be completed in Al-Reehan. The infrastructure phase has been completed in Al Jinan and construction has started on the first 300 units (out of a total 1,000). Another activity included the sale of shares in Wataniya mobile during its first International Public Offering on the Palestine Securities Exchange. In addition PIF has been working to establish the Affordable

Mortgage and Loan Program (AMAL). PIF will finance \$72m of the total \$500m allocated for the program that was announced in the Palestine Investment Conference in June 2010.

PIF also supported two other funds in 2010. Investment in the \$50m Palestine Growth Capital Fund (PGCF) for small and medium enterprises was announced in early 2010. Support continued for the Loan Guarantee Facility (LGF) for small and medium enterprises (SMEs). The \$160m facility (of which PIF provided \$50m) can guarantee a total of \$228m loans. So far \$70m of loans have been guaranteed, reaching a total of 375 SMEs and creating an estimated 1,500 jobs.

## Aid

On 6 February the European Union disbursed €20m through its PEGASE mechanism to help pay the January salaries and pensions of 85,000 civil servants and pensioners. In addition the Dutch government paid €5.1m to help partially cover the wages of the 19,000 police, fire and rescue workforce. This contribution was also channelled through PEGASE.<sup>14</sup>

The Palestinian Authority signed two new agreements with France and Germany. On 3 February, France signed a €10m agreement to improve drinking water services in Bethlehem. The project seeks to improve the quality of drinking water by upgrading and expanding the water distribution network. The project aims at targeting 100,000 consumers by the year 2017.<sup>15</sup> The first phase is to be implemented by the Palestinian Water Authority (PWA). This will include extending and rehabilitating pipelines, and constructing three reservoirs and two pumping stations. It will also include rehabilitating two damaged wastewater stations.

The project is a continuation of France's efforts in the sector through the French Development Agency. For the last 10 years, almost €85m have been used to extend and upgrade 400km of water supply catering for a total of 800,000 inhabitants in the Palestinian Territory.

On 9 February a €6.5m agreement was signed by the PA and Germany for the improvement of the education sector.<sup>16</sup>

## Building Licenses

1,518 building licenses were issued in the West Bank in Q4 2010, an increase of 5% compared to Q3 2010, and 2% compared to Q4 2009. 843 of the licenses issued were for new buildings. The licenses affect 2,770 dwellings with a total area of 693,500m<sup>2</sup>, an increase of 11% and 7% respectively, compared to the previous quarter.<sup>17</sup>

11 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LF\\_Q042010\\_E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LF_Q042010_E.pdf)

12 See: <http://www.pif.ps/resources/file/newsletters/PIF%20Newsletter%20Eng%20%22%80%93%20December%202010.pdf>

13 See Bulletins August 2010, November 2009 and July 2009 for background on these projects.

14 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=3607](http://www.lfd.ps/documentsShow.aspx?ATT_ID=3607)

15 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=3627](http://www.lfd.ps/documentsShow.aspx?ATT_ID=3627)

16 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=3618](http://www.lfd.ps/documentsShow.aspx?ATT_ID=3618)

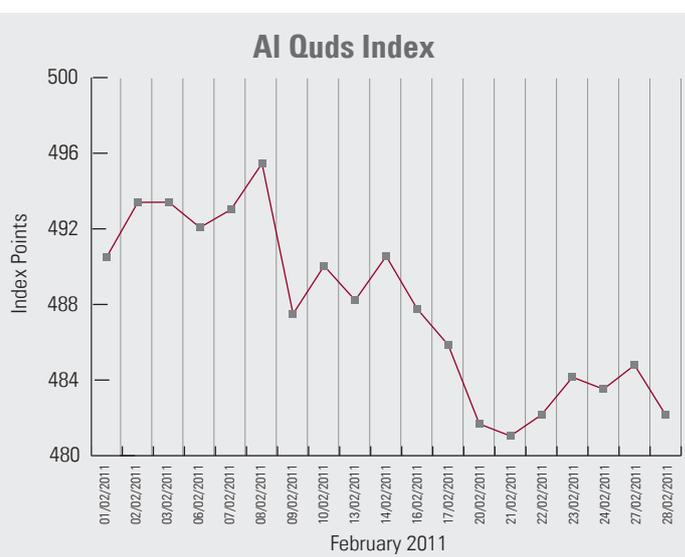
17 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LicensepressEq4-2010.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LicensepressEq4-2010.pdf)

## February Trading

The AI Quds index decreased by 8.36 points, or 1.7%, to reach 482.16 points on the last day of trading in February. The index peaked on 8 February at 495.46 points and was at its lowest on 21 February with 481.04 points.

Trade volume decreased by 14% compared to January 2011, with 15.1m shares changing hands in 19 sessions. The value of traded shares also decreased slightly by 0.7% to reach 27.8m. Market capitalization was stable at around \$2.7bn.

The best performing shares were the Palestine Industrial Investment (PIIC) and Palestine Poultry (AZIZA) which increased by 13% and 9% respectively.



## 2010 Preliminary Financial Results for Palestinian Companies

Listed Company	Reuters RIC	Pre tax Profit 2010	Pre tax Profit 2009 (Audited )	Change	2010 Market Capitalization (million)	% of PSE
<b>Banking</b>						
Bank of Palestine	BOP	\$37,732,105	\$33,085,163	14%	\$340.00	13.88%
AI Quds Bank for Development & Innovation	QUDS	\$6,354,155	\$4,281,913	48%	\$59.50	2.43%
Palestine Investment Bank	PIBC	\$4,568,814	\$4,815,798	-5%	\$50.00	2.04%
Palestine Islamic Bank	ISBK	\$2,852,119	\$370,738	669%	\$36.82	1.50%
Arab Islamic Bank	AIB	-\$2,016,646 (loss)	\$2,625,032	-177%	\$36.63	1.50%
Alrafah Microfinance Bank	AMB	\$211,087	\$2,284,038	-91%	\$21.30	0.87%
Palestine Commercial Bank	PCB	\$2,156,322	\$2,502,967	-14%	\$21.02	0.86%
<b>Industry</b>						
Birzeit Pharmaceuticals	BPC	JD 4,633,737	JD 4,589,047	1%	\$62.12	2.54%
Palestine Poultry Company	AZIZA	JD 4,802,099	JD 2,851,169	68%	\$46.54	1.90%
Jerusalem Pharmaceutical	JPH	JD 2,627,336	JD 1,650,765	59%	\$34.91	1.42%
Jerusalem Cigarette	JCC	JD 1,443,965	JD 2,391,329	-40%	\$25.18	1.03%
Vegetable Oil Industries Company	VOIC	JD 2,047,101	JD 1,284,805	59%	\$18.05	0.74%
Golden Wheat Mills	GMC	JD 1,272,557	JD 165,336	670%	\$15.66	0.64%
Palestine Plastic Industrial	LADAEN	-JD 362,721 (loss)	-JD 563,460 (loss)	36%	\$5.83	0.24%
Arab Company for Paint Products	APC	JD 698,622	JD 325,092	115%	\$4.32	0.18%
The National Carton Industry	NCI	JD 109,937	-JD 27,466 (loss)	500%	\$3.39	0.14%
<b>Services</b>						
Palestine Telecommunications	PALTEL	JD 90,491,000	JD 71,888,000	26%	\$980.23	40.01%
Palestine Electric	PEC	\$6,782,384	\$6,983,425	-3%	\$68.40	2.79%
Arab Hotels	AHC	- JD 855,814 (loss)	- JD 505,387 (loss)	-69%	\$31.73	1.30%
Al-Wataniah Towers Company	ABRAJ	\$248,650	\$336,192	-26%	\$11.00	0.45%
Ramallah Summer Resorts	RSR	JD 95,573	JD 99,233	-4%	\$10.93	0.45%
Arab Palestinian Shopping	PLAZA	-JD 299,207 (loss)	JD 317,151	-194%	\$7.50	0.31%
Nablus Surgical Specialty Centre	NSC	JD 425,598	JD 442,842	-4%	\$4.71	0.19%
GlobalCom Telecommunications	GCOM	-\$1,340,353 (loss)	-\$ 887,291 (loss)	-51%	\$8.00	0.33%
Palestine for Distribution & Logistics Services	WASSEL	JD 221,296	JD 776,169	-71%	\$7.88	0.32%
Grand Park Hotel and Resorts*	HOTEL	-JD 11,194 (loss)	JD 806,522	-101%	\$4.80	0.20%
Arab Real Estate Establishment	ARE	-JD 269,582 (loss)	JD 98,872	-373%	\$0.74	0.03%
Wataniya Palestine Mobile Telecommunications	WATANIYA	-\$56,249,535 (loss)	-\$29,330,165 (loss)	-92%	NA**	NA
<b>Insurance</b>						
Al Mashriq Insurance	MIC	-\$ 1,673,157 (loss)	\$1,015,118	-265%	\$4.54	0.19%
National Insurance	NIC	\$6,814,998	\$4,773,008	43%	\$38.50	1.57%
Trust International Insurance Company	TRUST	\$2,482,015	\$1,138,116	118%	\$24.75	1.01%
Ahliea Insurance Group	AIG	\$36,651	\$2,418,574	-98%	\$14.40	0.59%
Palestine Insurance	PICO	-\$ 1,654,080 (loss)	\$3,250,427	-151%	\$7.75	0.32%
Al Timan for Investment and Development Company***	IID	\$20,317	\$2,197	825%	\$4.29	0.18%
<b>Investment</b>						
Palestine Development & Investment	PADICO	\$39,288,000	\$42,331,000	-7%	\$300.00	12.25%
Palestine Real Estate Investment	PRICO	JD 3,373,784	JD 778,451	333%	\$52.76	2.15%
Palestine Industrial Investment	PIIC	JD 4,423,067	JD 2,878,158	54%	\$33.32	1.36%
Union Construction and Investment	UCI	\$2,100,774	\$2,704,974	-22%	\$24.00	0.98%
Arab Investors	ARAB	JD 118,587	-JD 17205 (loss)	789%	\$12.00	0.49%
Jerusalem Real Estate Investment	JREI	\$805,917	\$77,560	939%	\$9.60	0.39%
Palestine Investment & Development	PID	-JD 88,313 (loss)	-JD 39,929 (loss)	-121%	\$6.83	0.28%

\* Stock is suspended

\*\*\* Late release

\*\* Wataniya was not listed in 2010 – Market capitalization was \$332.8m in February 2011

## The Portland Trust



The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to [feedback@portlandtrust.org](mailto:feedback@portlandtrust.org)

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