

PALESTINIAN ECONOMIC BULLETIN

Issue 55
April 2011

Main reports

Total banking sector credit reached \$2.94bn at the end of February 2011. This is equivalent to 43% of deposits. \$2.09bn of credit is for the private sector.

Sadara Ventures was launched on 5 April with \$28.7m of capital. MEVC is targeted at the ICT sector and is financed by a range of companies, individuals and institutions that include Cisco, the European Investment Bank, the Google Foundation and the Soros Economic Development Fund.

The 2011 Budget is now in effect and a projected increase in revenues means that 66% of the Palestinian Authority's recurrent spending can be financed from domestic sources. Total budget support required for 2011 is \$1bn and the recurrent budget deficit is projected to fall to 13% of GDP, down from 16% in 2009.

AHLC Meeting

The Ad Hoc Liaison Committee (AHLC)¹ met in Brussels on 13 April to discuss ongoing assistance to the Palestinian Authority (PA) in the context of its plan to establish an independent Palestinian state in September 2011. The meeting was hosted by the EU's High Representative for Foreign Policy, Catherine Ashton, and presided over by Norwegian Foreign Minister Støre in his capacity as AHLC Chair.

The Palestinian Prime Minister, Dr. Salam Fayyad, outlined the PA's progress over the last three years. Achievements were noted in a number of areas related to the economy including the improved fiscal situation, economic growth, measures to encourage business development and investment, and the rehabilitation of roads and other infrastructure. The PA also presented its National Development Plan (NDP) for 2011-13 entitled 'Establishing the State, Building the Future'.

AHLC members praised the PA for the progress made and both the IMF and World Bank confirmed their assessments that the PA now has the institutions and economic policies expected of a future and well-functioning Palestinian state. In particular the IMF emphasised several institutional and procedural improvements within the PA. The development of a robust public financial management system has enabled control of public spending and transparent management of public finances. The reforms of the Palestine Monetary Authority (PMA) mean it can now fulfil the core functions of a central bank. The economic and financial statistics provided by the Palestinian Central Bureau of Statistics, the Ministry of Finance, and the PMA were compared with those provided by IMF member countries that have good quality data management and analytical standards.

There was also praise for the NDP, which aims to raise public sector efficiency, and eliminate aid dependency whilst focusing on the private sector as the engine for growth. The PA's development objectives and plans are set out in the areas of governance, social development, economy and infrastructure. A total of \$2.5bn is required over the three years to fund the plan.²

All agreed that for the Palestinian economy to reach its potential there needs to be an accelerated easing of restrictions on economic activity across the West Bank and Gaza Strip and adequate international financing made available. In addition it was recommended that the PA develop a coherent international trade strategy and develop closer ties between educational institutions and private efforts.³

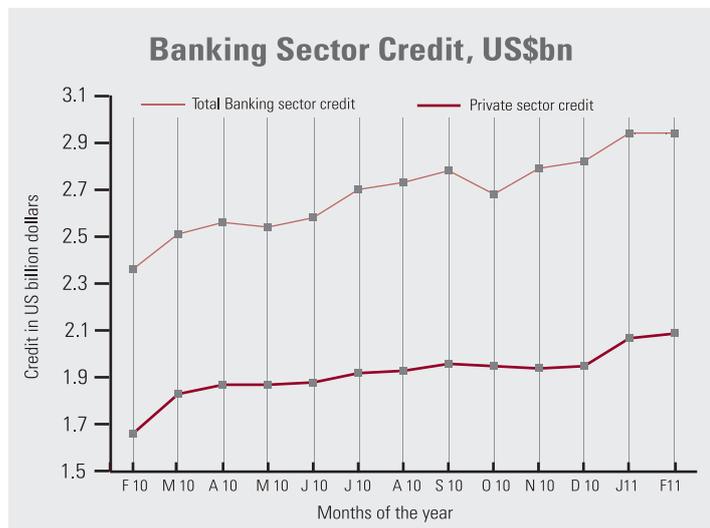
1 The AHLC was established on 1 October 1993. It serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people. Norway is the chair of the committee, the World Bank acts as secretariat and the EU and US are co-sponsors. The members are: the Palestinian Authority (PA), Government of Israel (GoI), Canada, Egypt, International Monetary Fund (IMF), Japan, Jordan, United Nations (UN), Russia, Saudi Arabia, Tunisia.

2 See: http://www.lidf.ps/documentsShow.aspx?ATT_ID=3829 and <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCReportApril2011.pdf> and http://www.lidf.ps/documentsShow.aspx?ATT_ID=3829

3 See: <http://www.imf.org/external/country/WBG/RR/2011/041311.pdf> and <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCReportApril2011.pdf>

Banking Sector

According to unpublished data from the Palestinian Monetary Authority (PMA), banking sector credit reached \$2.94bn at the end of February 2011.⁴ This is an increase of 4% since the end of 2010 and 36% since the end of 2009 (\$2.16bn). 70% of credit was channelled to the private sector (\$2.09bn) with other facilities including overdrafts (\$846m) and leasing arrangements (\$7m).



Deposits reached \$6.85bn at the end of February 2011, compared to \$6.8bn at the end of 2010 and \$6.3bn at the end of 2009. Total credit therefore represents 43% of deposits. Bank assets totalled \$8.72bn compared to \$8.45bn in November 2010 and \$8bn in July 2010. \$3.78bn of total assets, or 43%, were held overseas. This is down from 47% in July 2010 and 49% in January 2011. Bank profits reached \$12.3m in January 2011, a 28% increase compared to the same period last year.⁵

IT Venture Capital Fund Launches

Sadara Ventures (also known as the Middle East Venture Capital Fund) was launched on 5 April with \$28.7m of capital. Palestinian Prime Minister Dr. Salam Fayyad attended the launch event along with its founders Sa'ad Nashef (a former Microsoft software engineer and industry veteran) and Yadin Kaufmann (a venture capitalist). The fund will invest in Palestinian technology companies and is financed by a group of international companies, institutions, and other international investors including Cisco Systems, the European Investment Bank, the Google Foundation and the Soros Economic Development Fund.⁶

The longer term aim is to raise \$50m in total for the fund and invest in at least 12 Palestinian start-up ventures. Operations are underway and the fund is in the process of assessing potential investments in the ICT sector including mobile phone applications, social media and software. It is expected that the fund will invest in an average of three companies a year.⁷

2011 Budget

The 2011 Budget has been approved by the Palestinian President Mahmoud Abbas and is now in effect. Public spending (including arrears) is expected to increase to \$3,612m in 2011, while revenues will increase 11% to \$2,145m. The overall result is an increase in the deficit, from \$1,358m in 2010 to \$1,467m in 2011.

Recurrent spending is budgeted as \$3,228m. This includes public sector wages (\$1,710m), operational expenses (\$1,358m) and net lending (\$160m). Net lending has fallen by \$76m (from \$236m in 2010) due to the on-going commercialisation of the electricity sector. The recurrent budget deficit is projected at 13% of GDP, down from 16% in 2010 and 26% in 2009. Development spending is estimated at \$500m, up from \$275m in 2010.

Increased revenues mean that domestic resources are now able to fund 66% of the PA's recurrent budget. However, a total of \$1.5bn is still required in international aid (\$1bn in direct budget support and \$0.5bn in development assistance). In the first quarter of 2011 there was approximately \$0.2bn of budget support disbursed and a further \$0.5bn has been committed for the year. On this basis the IMF warn of a \$0.3bn shortfall in budget support this year.

Women in the Workforce

Data published on 8 March, to coincide with International Women's Day, showed that the role of women in the Palestinian Authority is increasing. 31% of public sector employees are women and five out of the 22 ministers are female. In addition there is a female member of the executive committee for the Palestinian Liberation Organization, a female CEO of the Palestine Capital Market Authority and a female Governor for Ramallah and Al-Bireh.⁸

Despite this progress, female participation in the labour force is still low, reaching only 15% in 2010. While participation has improved since 2001, when only 10% of women were in the labour force, it is still significantly lower than that for men (67%). For those women who are in the labour force, there has also been a marked

⁴ Includes credit to non-residents of \$60m.

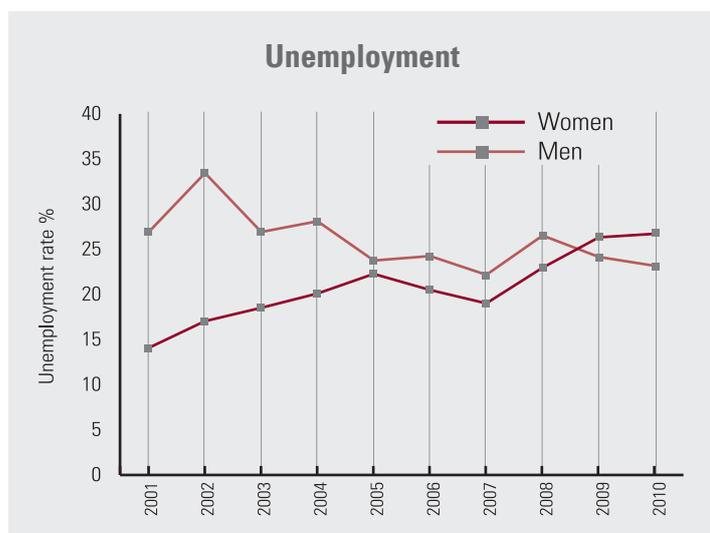
⁵ See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=161863&date=3/17/2011>

⁶ See: <http://www.marketwatch.com/story/google-cisco-back-palestinian-vc-fund-2011-04-06>

⁷ See: January Bulletin for background and <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=161406&date=3/10/2011>

⁸ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Woman_day2011_E.pdf

increase in unemployment from 2001 (14%) to 2010 (27%). This compares to a decrease in male unemployment, from 27% to 23% over the same period. In addition the average daily wage for women is less than that for men (NIS60 compared to NIS73).



The Bulletin spoke to the General Coordinator of the Palestinian Working Women Society (PWWS), Amal Khriesheh, to find out about efforts to increase the number of women in work. Khriesheh said that the PWWS has been pressuring the government to establish a special fund for unemployed women, it has set up income generating projects (home-made food, sewing and embroidery) and has established women's cooperatives in more than 17 villages.

Trade Figures

The Palestinian Central Bureau of Statistics began publishing monthly trade data at the end of February 2011. According to the latest release, published on 30 March, the total value of Palestinian imports and exports increased in January 2011 compared to December 2010. Exports totalled \$66.8m, a 13.8% increase from December 2010, while imports totalled \$421.7m (4.4% increase). Approximately 93% of exports in January went to Israel; a 26% increase compared to December 2010. Conversely, the value of imports from Israel decreased by 0.6%. The trade deficit for January was \$354.9m, an increase of \$9.4m compared to December 2010.⁹

On 3 March the Minister of National Economy, Dr. Hasan Abu-Libdeh, signed an agreement with his Turkish counterpart to exempt Palestinian dates from Turkish customs duties. About 1,000 tons of dates will be exempted per year. After completing the required procedures and tests (including certificate of origin), Palestinian producers will be able to export dates to the Turkish market duty-free. It is expected that the agreement will be implemented

by the beginning of the date season (in September) and that about 1,000 tons of dates will be exported duty-free each year. This is in addition to the agreement to exempt all agricultural products, including dates, from EU tariffs and quotas. This is expected to be fully operational in the coming weeks.

Italian Loans for SMEs

On 10 March the Italian Cooperation launched a €25m credit line to four Palestinian banks – Al Rafah Microfinance Bank, Bank of Palestine, Palestine Commercial Bank and Al Quds Bank.¹⁰ The aim of the credit line is to provide soft loans to Palestinian Small and Medium Enterprises (SMEs) in order to enable the purchasing of equipment and services. Loans of between €50,000 and €500,000 will be available with a maximum repayment period of five years. A maximum interest rate of 5% will be charged and at least 70% of the equipment and services purchased with the loans must be of Italian origin.

Inflation

Figures released by the Palestinian Central Bureau of Statistics on 14 March showed that prices remained steady throughout February. The Consumer Price Index (CPI) reached 132.09, an increase of 0.43% compared to January. The largest price rises were seen in Gaza (0.86%), followed by Jerusalem (0.13%) and the West Bank (0.11%). The twelve-month CPI rate was 3.6% compared to February 2010.

	F 10	M 10	A 10	M 10	J 10	J 10	A 10	S 10	O 10	N 10	D 10	J 11	F 11
CPI	127.48	127.4	127.5	127.6	127.9	128.5	128.89	130.68	131.36	131.5	131.36	131.52	132.09
% Change	-	-0.03	0.05	0.08	0.24	0.47	0.3	1.39	0.52	0.11	-0.11	0.12	0.43

2010 GDP Growth

Preliminary national accounts' estimates, released by the Palestinian Central Bureau of Statistics on 23 March 2011, showed that real GDP rose to \$5.72bn in 2010, (\$4.38bn in the West Bank and \$ 1.34bn in Gaza).

Real terms growth in 2010 was estimated at 9.3% (7.6% in the West Bank and 15% in Gaza). Real GDP per capita increased to \$1,502 from \$1,415 in 2009. It was \$1,925 in the West Bank, and \$877 in the Gaza Strip, which is an increase of 4.7% and 11.4% respectively.

Services continue to dominate Palestinian economic activity, contributing \$1,196m to GDP in 2010. Public administration and defence is the next biggest sector (\$799m), followed by mining, manufacturing and utilities (\$707m), wholesale and retail trade (\$635m) and construction (\$526m).

⁹ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/For_Trade01-2011E.pdf and http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_022011E.pdf

¹⁰ See: <http://www.itcoop-jer.org/en/node/499>

The top three growth areas in 2010 were hotels and restaurants, construction, and agriculture and fishing. Hotel and restaurant activity increased, by 46%, from \$55m in 2009 to \$80m in 2010. Construction activity also increased significantly, by 36%, from \$388m in 2009 to \$526m in 2010. In Gaza, construction activity grew by over 230%, albeit starting from a very low base (\$39m in 2009 compared to \$128m in 2010). The agriculture and fishing sector was up 23% in 2010 (35% in Gaza), increasing from \$239m in 2009 to \$360m in 2010.

While it contributed significantly to overall GDP, manufacturing activity actually fell by 6% in 2010.¹¹ This, along with the dominance of services and the public sector, has caused the World Bank to express concern that growth is unsustainable and still largely aid-driven.

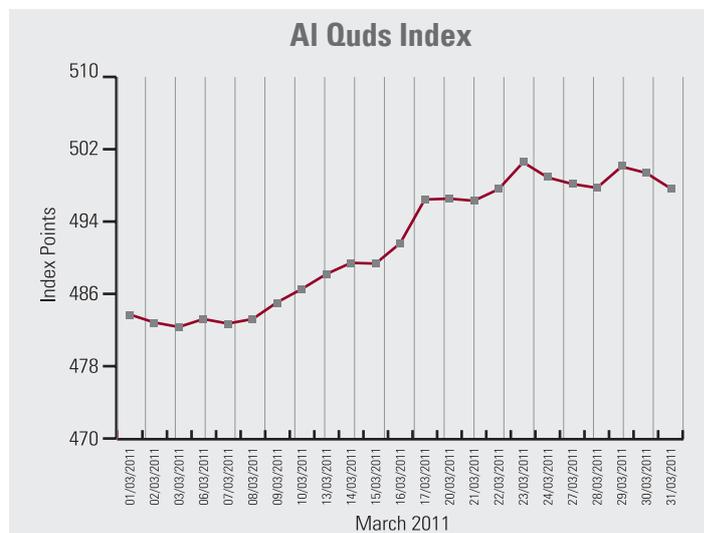
Trading News

The Palestine Securities Exchange (PEX) was the only Arab stock market to increase in the first quarter of 2011. On 31 March 2011 PEX closed 1.65% up compared to the end of 2010. All the other Arab exchanges went down during this period.

In March the AI Quds index increased by 14 points, or 2.9%, to reach 497.67 points on the last day of trading. The index peaked on 23 March at 500.10 points and was at its lowest on 3 March with 482.29 points.

¹¹ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/pressQ4-10E.pdf

Trade volume increased by 10% compared to February 2011, with 16.5m shares changing hands in 23 sessions. The value of traded shares also increased by 10% to reach \$30.6m. Market capitalisation increased slightly at around \$2.8bn. The best performing shares were the National Carton Industry (NCI) and Palestine Industrial Investment (PIIC) which increased by 45% and 19% respectively.



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

© 2011 The Portland Trust

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR