

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*Dubai-based Rasmala Investment Bank launched the Palestine Equity Fund, with a \$15m initial investment by the Palestine Investment Fund. The fund will make equity investments in the Palestinian Territory.*

*Unemployment fell in Gaza from 37.4% in Q4 2010 to 30.8% in Q1 2011. In the West Bank it increased from 16.9% to 17.4%.*

*Figures out this month show that in 2010 49% of Palestinian households had a computer and 29% of households had an internet connection. More than 93% of households owned a mobile phone.*

*The European Commission announced a new financial package of €85m to pay the salaries and pensions of key workers, as well as supporting vulnerable Palestinian families.*

### Improving Governance and Reducing Corruption

A World Bank study released on 18 May found that the Palestinian Authority (PA) has taken significant steps to strengthen economic governance and combat corruption.<sup>1</sup>

Levels of corruption in the Palestinian business environment compare very well to other countries in the region. Only 2% of Palestinian businesses indicated that bribes were expected in the course of tax inspections, compared to 67% in Yemen, 61% in Syria and 19% in Lebanon. According to the World Bank the vast majority of Palestinian firms do not make 'extra-legal' payments to public officials for routine business services.

Experience of corruption by individuals accessing public services was also found to be very low, with very few Palestinians reporting bribery as an issue. However, despite this, the perception of corruption was found to be much higher than actual occurrences.

The report highlights that major reforms have resulted in better management of public finances, improved management of government equity holdings (driven by the establishment of the financially and administratively independent Palestinian Investment Fund), and positive changes to the governance and financial framework of the petroleum commission. Good progress is underway in public procurement, public employment and various anti-corruption initiatives.

Shortcomings were found in some important areas of economic governance where reform has either not yet been considered, or has stalled. These include the management of state-owned land, transparency in licensing and business rights and public access to government information. One particular recommendation by the World Bank is that the PA should complete work on its draft competition law and also establish a competition authority.

The World Bank also recommends that the PA should take a more proactive approach to investigating and prosecuting corruption, and publicise its anti-corruption activities in order to build public confidence in government accountability. This is to help reduce the discrepancy between the perception and actual experience of corruption, which the report puts down to a number of possible reasons. First, a 'lag effect' where perceptions are based on past practices and do not fully reflect reforms in the system. Second, citizens who are dissatisfied with the public sector (because of lack of employment opportunities or inadequate service

<sup>1</sup> See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GovernanceReportWBGEngMay18,2011.pdf>

provision) might mistakenly attribute that to corruption, where it could be caused by other economic conditions, such as lack of resources. A further reason suggested by the report might be a more general dissatisfaction with government performance and its willingness to punish official corruption. According to the World Bank's survey data, Palestinians overwhelmingly believe that public and political figures have implicit immunity and can engage in acts of corruption without repercussions.

## New Equity Fund Launch

Dubai-based Rasmala Investment Bank launched the Palestine Equity Fund on 11 May, with a \$15m initial investment by the Palestine Investment Fund. The size of the fund is expected to reach up to \$100m over the next three years, and will aim to raise finance from both domestic and international investors interested in gaining exposure to the Palestinian equity market. It will invest in stocks listed on the Palestine Stock Exchange, securities expected to undergo Initial Public Offerings (IPO), as well as those at their IPO. Commenting on the launch of the fund, Rasmala's head of asset management said that the Palestinian market is 'very attractive in terms of growth and return potential'.<sup>2</sup>

This follows the recent launches of two private equity funds aimed at investments in the Palestinian Territory, Siraj and Abraaj, as well as the Sadara Ventures Middle East Venture Capital Fund.<sup>3</sup>

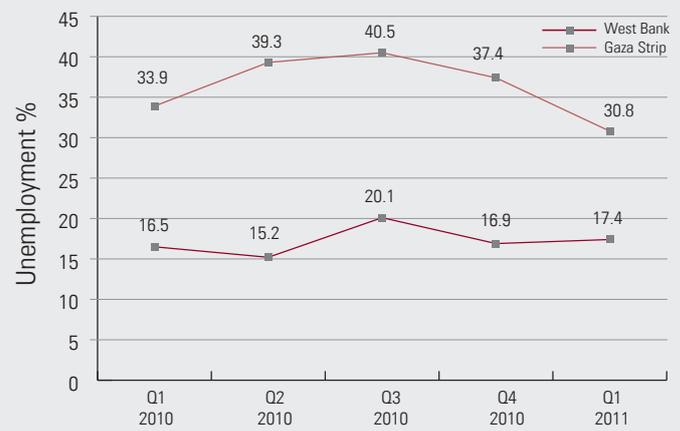
## Unemployment

The Palestinian Central Bureau of Statistics (PCBS) published the results of the Q1 2011 Labour Force survey on 18 May. They show that unemployment in the Palestinian Territory decreased to 21.7% at the end of Q1 2011 (based on the ILO definition). This is 1.7 percentage points lower compared to the Q4 2010 figure.<sup>4</sup>

In the Gaza Strip, unemployment fell from 37.4% to 30.8% whereas in the West Bank it increased from 16.9% to 17.4%. Sa'di Al-Masri from the Labour Force department at the PCBS told the Bulletin that the drop in unemployment in Gaza was mostly due to increased employment in the agricultural sector (from 5.1% in Q4 2010 to 10.5% in Q1 2011).

The Khan Younis Governorate in Gaza had the highest rate of unemployment across the Palestinian Territory at 35.2%. The Bethlehem and Hebron governorates had the highest unemployment rate in the West Bank at 22.8% and 22.4% respectively.

**Palestinian Unemployment (Q1 2010 - Q1 2011)**



68.2% of working West Bank Palestinians are employed in the private sector (equivalent to 49% of the total labour force), 15.4% in the public sector, 14.0% in Israel and Israeli settlements, with the remaining 2.4% in other sectors that include civil society organisations.

For the Gaza Strip, the figures are 51.3% in the private sector (equivalent to 32% of the total labour force), 41.7% in the public sector, and 7% in other sectors.

According to the PCBS, the average daily wage was NIS 85 in the West Bank (NIS 93 in the public sector, NIS 79 in the private sector, and NIS 125 in other sectors) and NIS 65 in Gaza (NIS 80 in the public sector, NIS 45 in the private sector, and NIS 94 in other sectors). This compares to an average of NIS 164 paid to Palestinians working in Israel and the Israeli settlements, where 54% of Palestinian workers are employed in the construction sector.

## 2010 ICT Sector Indicators

As reported previously, the ICT business sector is playing an increasingly important role in the economy.<sup>5</sup>

PCBS figures released on 17 May show a continued increase in the number of households using computers, mobile phones and the internet, with particularly high usage among Palestinian youth.<sup>6</sup>

In 2010, around 49% of Palestinian households had a computer, compared to about one quarter in 2004. The percentage of households with an internet connection increased from 9% in 2004 to 29% in 2010. Mobile phones have apparently replaced land lines in most Palestinian households: in 2010 only 45% of households had a land line, whereas more than 93% of households owned a mobile phone.

<sup>2</sup> See: <http://rasmala.com>

<sup>3</sup> See: February and April 2011, and September 2010 Bulletins.

<sup>4</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LabFor\\_eQ12011.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabFor_eQ12011.pdf)

<sup>5</sup> See: January 2011 Bulletin.

<sup>6</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/InfoSocDE2011.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/InfoSocDE2011.pdf)

## European Aid

On 6 May, the European Commission announced a new financial package of €85m through its PEGASE mechanism.<sup>7</sup> €45m will be used to pay the salaries and pensions of key workers, mainly doctors, nurses and teachers and €40m will be allocated to social allowances for vulnerable Palestinian families. These funds are in addition to the €60m for the PA and the €40m for the United Nations Relief and Works Agency (UNRWA) provided by the European Commission at the beginning of the year.<sup>8</sup>

Separately, on 9 May, the PA signed an agreement with the French Government for €10m of budget support. The French General Consul said at the time of the signing that this contribution was proof of the 'trust France puts in the Prime Minister Salam Fayyad and his work in building the institutions and the infrastructures of the future Palestinian state'.<sup>9</sup>

The German government also signed an agreement of €42.5m on 31 May to support development projects in 2012.<sup>10</sup> €18 million is earmarked for the water sector, €4m for a solid waste dump site in the Ramallah governorate, €11.5m for the local government sector, and €9m for other projects.

## 2010 Economic Performance

In May the PCBS issued its report on the Palestinian economy for the year 2010.<sup>11</sup> GDP grew by 9.3% during the year, and GDP per capita grew by 6.1%. Unemployment decreased from 24.5% the previous year to 23.7%, while productivity went up from \$14,100 per worker, to \$15,100. The Consumer Price Index (CPI) increased by 3.8% during the course of the year. Deposits by residents in local banks went up by 14.2% compared to 2009 to reach \$6.6bn.

2010 saw reforms in the field of tax collection in line with the Palestinian Authority's 2008 – 2010 Reform and Development Plan, and its drive to reduce aid dependency.<sup>12</sup> Total collected tax reached \$478.2m in 2010, a 59% increase on the year before, and the highest amount since 2004. Tax clearance revenues were also up 15.1% on the previous year due to greater efficiency in the application of the taxation system and an improvement in imports.

7 See: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/547&format=HTML&aged=0&language=EN&guiLanguage=en>

8 See: Bulletin January 2011.

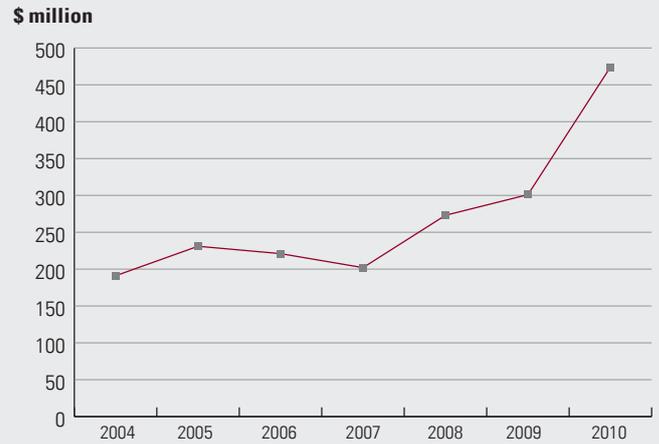
9 See: <http://www.consulfrance-jerusalem.org/spip.php?article2869>

10 See: [http://www.mop-gov.ps/new/news\\_details.php?pid=338](http://www.mop-gov.ps/new/news_details.php?pid=338)

11 See: <http://www.pcbs.gov.ps/DesktopModules/books/booksView.aspx?tabID=0&lang=en&ItemID=1&mid=11239>

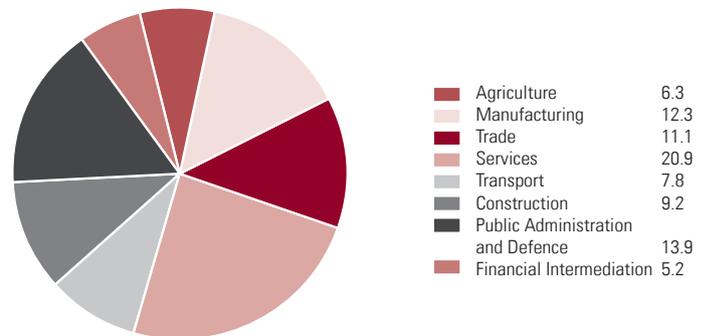
12 See: April 2011 Bulletin Special Feature.

## Tax Revenue



Source: PA Ministry of Finance

## Sector Contribution to GDP 2010 (in constant prices)<sup>13</sup>



## March Trade Figures

The latest monthly trade report from the PCBS shows an increase in both imports and exports during March 2011. Exports totalled \$68.3m, representing a 21% increase compared to February 2011, while imports increased by 29% to reach \$497.4m.

These changes led to a month-on-month increase in the trade deficit of 30%, which now stands at \$429.1m. Israel accounted for 93% of total exports in March and 73% of total imports.<sup>14</sup>

## Building Licenses

2,092 building licenses were issued in the Palestinian Territory in Q1 2011, an increase of 34% compared to Q4 2010 and a 35% increase compared with Q1 2010. The licenses affect 3,828 dwelling units with 500,000m<sup>2</sup> designated for new areas and 193,000m<sup>2</sup> for existing areas.<sup>15</sup>

13 Sectors in the pie chart add up to 86.3%, the remaining are custom duties (7.1), VAT on imports, net (10.2) and FISIM (- 4.1)

14 See: <http://www.pcbs.gov.ps/DesktopModules/Articles/ArticlesView.aspx?tabID=0&lang=en&ItemID=1778&mid=12235>

15 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/build\\_2011e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/build_2011e.pdf)

## Consumer and Producer Prices

According to PCBS figures, the cost of living as measured by CPI decreased in May by 0.26% compared to the previous month. In the Gaza Strip there was a 1.23% decrease, and a 0.51% decrease in the West Bank.<sup>16</sup> The CPI in April was relatively unchanged compared to March.<sup>17</sup>

PCBS figures show that the Producer Price Index decreased by 3.23% in April, relative to March.<sup>18</sup> The index for exported products increased by 0.45%, but decreased for local consumed products by 3.59%. The overall decrease was mainly due to the 8.24% reduction in prices of agricultural goods.

## Trading News

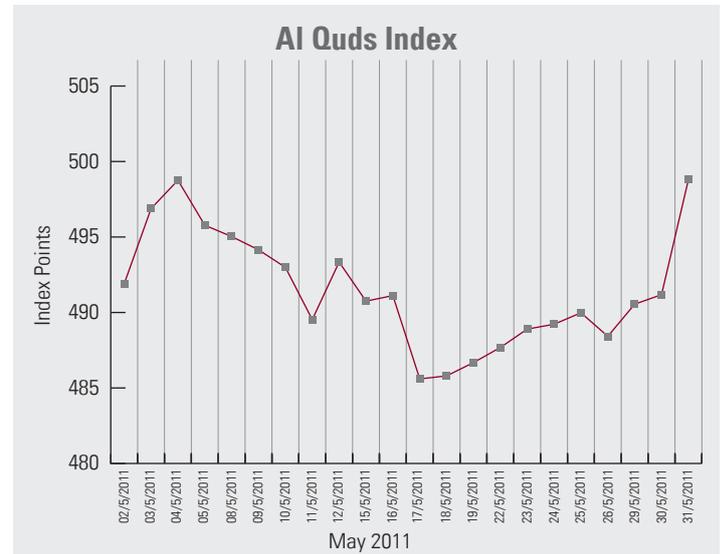
In May the AI Quds index increased by 0.51% reaching 498.8 points on the last day of trading. The index peaked on 31 May and was at its lowest on 17 May at 485.6 points.<sup>19</sup>

Trade volume increased significantly, by 53% compared to April 2011, with 34.5m shares changing hands in 22 sessions. The value of traded shares also increased by 45% to reach \$61.2m. Market capitalisation increased slightly by 0.39% compared to April, to \$2.86bn.

Two new companies were listed in May: Al-Takaful Palestinian Insurance (TIC), and the Al Shark Electrode (ELECTRODE) company.<sup>20</sup>

The best performing shares during the month were Golden Wheat Mills (GMC) and the Palestine Investment Bank (PIBC), increasing by 13.6% and 9.5% respectively.

On 8 June, the Palestine Securities Exchange (PSE) announced that distributed dividends exceeded \$152m for the year 2010. Ahmad Aweidah, CEO of the PSE, said that the PSE 'is one of the most rewarding exchanges in the region in terms of return on investment, which averaged 13.6% in 2010.'<sup>21</sup>



16 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/CPI0\\_52011E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI0_52011E.pdf)

17 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/cpi042011\\_E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/cpi042011_E.pdf)

18 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/PPI\\_E1042011.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PPI_E1042011.pdf)

19 See: <http://www.pex.ps/PSEWebSite/NASHRA/20110531.pdf>

20 See: <http://www.alquds.com/news/article/view/id/266689>

21 See: <http://www.pex.ps/PSEWebSite/NEWS/Distributed-dividends-exceeded-USD-152-million-during-the-year-2010.docx>

## 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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