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Main reports

The London Stock Exchange hosted the second Palestinian Capital Markets Day in June. The CEO of the Palestine Exchange led a delegation of leading Palestinian companies for meetings with international investors. PADICO announced a Global Depository Receipts issue at the same time.

A new World Food Programme report has concluded that the easing of restrictions on the Gazan economy has had a marginally positive effect but failed to generate productive and sustainable growth.

Palestinian GDP grew by 0.4% in Q1 2011. West Bank GDP contracted by 4.9%, whereas it grew by 17.9% in Gaza.

The UK Government has announced an aid programme of up to £349m over the next four years, focusing on boosting the economy and helping the most vulnerable people.

Energy Pricing and Consumption

The Palestinian Electricity Regulatory Council has announced a new system of pricing which will bring price uniformity to the majority of the Palestinian Territory and is expected to substantially reduce the cost of electricity for households and companies.¹ Dr Omar Kittaneh, Chairman of the Palestinian Energy and Natural Resources Authority, estimates that citizens and companies will pay 15-37% less for their electricity. The saving will depend on the price that customers were paying previously.

The Palestinian Authority will provide NIS 70m in the first year to support the cost of these reforms. This will gradually be withdrawn over four years to incentivise improved performance from the electricity companies, including increasing the rate of payment collection which has historically been low. The price reduction will help bring down the proportion of household income spent on electricity which, at 10%, is one of the highest in the region.²

The scheme categorises households based on their monthly consumption: below 100 kWh, 101-200 kWh, and above 200 kWh. Households with a lower monthly consumption, typically poorer households, will pay lower prices per kWh. The price of electricity with regular or prepaid meters will be the same per kWh, but regular meters will require a monthly subscription of NIS 10.

The price of electricity for commercial purposes (retail businesses for example) will decline by 2-22%. Industrial enterprises will pay 22-36% less, the price of electricity used in agriculture will drop by 27-37% and in water pumping by 20-24%.

The new system will treat the Jordan River Valley region in a special manner to emphasise the importance of the area in agrarian and industrial development. Households and industries in the valley will pay NIS 0.05-0.20 less per kWh than in other areas, which will mean a price reduction of nearly 40% for the region.

The most recent energy survey, released in June by the Palestinian Central Bureau for Statistics (PCBS), shows that nearly all Palestinian households (99.8%) are now connected to the public electricity network.³ Between January 2010 and January 2011, average household consumption of electricity grew by 4.72%, reaching 266 kWh in the current year. While both normal (57.7%) and prepaid (42.3%) meters are widely used within the West Bank, prepaid meters remain unavailable in the Gaza Strip.

1 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=398242&MARK=%D8%AA%D8%B9%D8%B1%D9%81%D8%A9>

2 See: July 2010 Bulletin Economic Feature

3 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/HouseHoldEN012011E.pdf

Capital Markets News

The London Stock Exchange (LSE) hosted the second Palestinian Capital Markets day in London on 23-24 June.⁴ This followed the previous London Roadshow in March 2010 and forms part of the Palestine Exchange (PEX) strategy to attract local, regional, and international investors to the Palestinian stock market. Tracey Pierce, LSE's Director of Equity Primary Markets, described as "impressive" the steps taken by legislators, the Palestine Exchange and the Palestine Capital Markets Authority to build a "world class regulatory environment and market infrastructure."⁵

The CEO of PEX, Ahmad Aweideh, headed the Palestinian delegation of four leading listed companies: PALTEL, PADICO, the Bank of Palestine and Wataniya Palestine Mobile. Also included in the delegation were Dr Mohammad Mustafa (Economic Advisor to President Mahmoud Abbas and Chairman of the Palestinian Investment Fund), Abeer Odeh (CEO of the Capital Markets Authority), and Eric Swats (Head of Asset Management at Rasmala, which recently launched the Palestine Equity Fund).⁶ During the opening seminar the delegation presented investment opportunities in the Palestinian market, emphasising potential growth in infrastructure, mobile telephony and tourism as well as the high skill levels of Palestinian youth. Attendees included Blackrock, Deutsche Bank, JP Morgan and the Bank of New York Mellon. The delegation held more than 30 meetings with leading UK and global institutional investors.

During the roadshow PADICO signed a memorandum of understanding to issue the first Palestinian Global Depository Receipts (GDR) with the Bank of New York Mellon. This GDR issue will help to broaden the instruments available for foreign investors wishing to gain exposure to the Palestinian market and PADICO in particular.

Separately, on 25 June, the World Federation of Exchanges (WFE) upgraded the status of PEX membership from a correspondent to an affiliate. In the Middle East and North Africa region only Abu Dhabi, Lebanon, Oman, and Qatar are affiliates, while Bahrain, Dubai, Kuwait, Libya, and Tunisia are correspondent members.

The Chairman of the PEX Board of Directors, Dr Rami Hamdallah, praised the news as an important achievement and a testimony to PEX's compliance with good governance practices, transparency, disclosure, investor protection, and international standards. Ahmad Aweideh highlighted the significance of this decision in attracting global institutional investors, in addition to it being a major step towards full WFE membership.

4 See: <http://www.p-s-e.com/PSEWEBSITE/NEWS/LRSH2011Release28062011.doc>

5 See: <http://www.pex.ps/PSEWebSite/publications/Palestine-July-2011.pdf>

6 See: Bulletin June 2011

Gazan Economy

A new World Food Programme (WFP) report concludes that the easing of restrictions on the Gazan economy has had a marginally positive effect but has failed to generate productive and sustainable growth.⁷ The report, 'Gaza: Eased or Un-Eased?', reviews the impact of changes in the Government of Israel's policy at Gaza's crossing points over the last year.⁸

The report highlights that growth in Gaza was estimated at 15% in 2010, but notes that is from a very low base, is mainly donor-driven, and is unsustainable according to the World Bank. Only one commercial crossing, Kerem Shalom, remains open to traders, but the WFP reports that crossing hours are unpredictable with frequent closures. The report notes that the new access regime has not translated into a tangible relaxation of exports.

At a market level the lifting of restrictions on imports has resulted in a wider range of better quality consumption goods becoming available. Bakeries, flour mills, dairies and tomato paste producers have benefited from improved availability of spare parts and machinery. However, at the household level there has been no impact on food security prevalence among the Gaza Strip population: 66% of households are food insecure or vulnerable to food insecurity compared to 65% before June 2010. According to the WFP, the present import-export conditions are unsustainable and erode the resilience of the private sector to create job opportunities.

Separately, in June, Israel gave the United Nations Relief and Works Agency (UNRWA) permission to bring \$100m worth of building materials for 18 new schools and 1,200 new houses into the Gaza Strip.⁹

Quarterly GDP Figures

Palestinian GDP grew by 0.4% in Q1 2011 (in constant prices). This weak performance was mainly a result of contraction in the West Bank economy of 4.9%. In contrast, the Gazan economy grew by 17.9% in the same period, although from a low base.¹⁰ Much of the rise in Gaza comes from an increase in construction activity (22% higher than Q4 2010). The fall in the West Bank is largely due to a drop of 37% in agricultural activity.

Despite the poor performance in the first quarter, the Palestinian economy has grown significantly over the past year, rising on an annual basis by 8.3% compared with Q1 2010 (3.4% in the West Bank and 24.2% in Gaza).

7 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=4153

8 For background see July 2010 Bulletin and <http://www.mfa.gov.il/MFA/HumanitarianAid/Palestinians/Security-Cabinet-Decision-on-Gaza-Strip-Exports+-8-Dec-2010.htm>

9 See: <http://www.haaretz.com/news/diplomacy-defense/israel-approves-transfer-of-100-million-of-building-goods-into-gaza-1.368958>

10 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Prem_EstNAQ1-11E.pdf

Quarterly GDP at Constant Prices in million USD



UK Announces £349m Aid Package

Signing an agreement with Prime Minister Fayyad, the British International Development Minister, Alan Duncan, announced a Palestinian programme of up to £349m in aid over the next four years. It will focus on boosting the economy and helping the most vulnerable people.¹¹

The programme includes £45m to be spent on wealth creation, including stimulating the private sector with the aim of creating 8,000 new jobs. Much of the private sector development element is likely to be channeled through a World Bank multi-donor trust fund to help ensure donor harmonisation. £75m will be used to assist the most vulnerable, including direct payments to 215,000 poor people to buy food and medicine locally. In addition the UK Government will be giving direct financial support to the PA to help it deliver services, with a commitment of £90m over three years, with an additional £10m dependent on performance against a mutually agreed set of targets.

Bank of Palestine

Bank of Palestine (BoP) has been awarded Euromoney's prestigious award for excellence as the "Best Bank in Palestine" for the year 2011.¹² This is particularly noteworthy because it is the first time that Euromoney has made an award to a Palestinian entity. Dr Jihad Al-Wazir, Governor of the Palestine Monetary Authority (PMA), said, "Achieving this award is not just a stamp of approval for Bank of Palestine alone, but for Palestine as a whole, as this is the first year Euromoney considers the Palestinian financial sector in its awards."¹³

The award is an accreditation of BoP's impressive growth over its 50-year history, which has made it one of the most important financial institutions in the Palestinian Territory. The award recognises not only the financial performance of BoP but also its sustainability strategy, including

corporate governance, risk management, respect for the environment, and human rights.

BoP's gross profits grew by 57.2% in Q1 2011, reaching \$13.79m, compared to \$8.77m in Q1 2010.

Private Pensions

The founding committee of the Palestine Private Pension Fund Company had its first meeting at the Bank of Palestine to prepare for the Company's establishment. A number of banks, private sector companies and insurance companies attended the meeting. The pension fund will have a starting capital of \$10-15m: 70% from the founders and 20%-30% from the public.¹⁴

The Government will set the legal structure of the private pension scheme, the Capital Markets Authority will set the regulations for the private pension system, and the private sector – through a private pension company(s) – will collect contributions, maintain records, manage assets, and pay benefits.

Dr Atef Alawneh, Palestinian pension expert, told the Bulletin, "A private pension system for Palestine is expected to have significant benefits including promoting economic development, access to finance for medium and long term projects, developing the Palestinian financial markets, and, importantly, improving the well-being of the elderly, as well as creating employment and reducing poverty. The retirement benefits of this scheme will exceed the usual end of service payments and will fulfil the World Bank's requirements for an affordable, sustainable, balanced and robust retirement scheme."

Consumer Spending

The latest expenditure and consumption figures released by the PCBS for 2010 show persistent differences in the spending power between the West Bank and Gaza.¹⁵ For 2010 West Bank per capita expenditure was NIS 915 (NIS 5,278 per household), while in Gaza the level was NIS 545 per capita (NIS 3,597 per household).

Between 2009 and 2010, per capita expenditure grew by 12.5%. In the West Bank the increase was 17.4%, whereas the Gaza Strip experienced a decline of 0.4%.

Monthly per capita expenditure is highest among the urban population (NIS 804) followed by the rural population (NIS 763). For those in refugee camps it was NIS 624.

Food consumption constituted 36.4% of total per capita expenditure in 2010 (34.1% in the West Bank, 42.6% in Gaza),

11 See: <http://www.dfid.gov.uk/Media-Room/News-Stories/2011/Britain-sets-out-four-year-plan-to-tackle-poverty-in-OPTs/>

12 See: http://www.bankofpalestine.com/index.php?lang=en&page=news&news_item=1307882846133

13 See: <http://arabnews.com/economy/corporatenews/article454893.ece>

14 See: <http://www.al-ayyam.com/pdfs/16-6-2011/p19.pdf> and <http://www.alquds.com/pdfs/pdf-docs/2011/6/16/page25.pdf>

15 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/EXpend&Consm2010E.pdf

followed by transport and communication (15.2%). Only 1.5% was spent on recreation and 2.8% on personal care.

Quarterly Balance of Payments

Balance of payments figures for Q1 2011 have been released by the PCBS and the PMA. This is the first time that this has been done on a quarterly basis. The annual balance of payments figures for 2010 will be released later this year. The surplus in the income balance, \$281m, came mostly from payments to Palestinian employees in Israel (\$237m), with investment income (\$24m) also playing a role. The surplus in the balance of current payments equalled \$309m, 74% of which came from donors.¹⁶

Item	Amount
Current Account	-\$681m
Trade Balance of Goods	-\$1,225m
Services Balance	-\$46m
Income Balance	\$281m
Balance of Current Transfers	\$309m
Capital and Financial Account	\$662m
Net Capital Account	\$107m
Net Financial Account	\$555m
Net Direct Investments	\$48m
Net Portfolio Investments	\$10m
Net Other Investments	\$479
Decrease in Reserve Assets	\$18m

Agricultural Census 2010

In June the results of the first Palestinian agricultural census were released for the year 2009-2010.¹⁷

The census showed that 72% of the 111,458 holdings in the Palestinian Territory were plant holdings, 16% mixed holdings, and 13% animal holdings. Around 82% of all agricultural holdings were in the West Bank, and the remaining 18% in Gaza.

16 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Balance_PaymQ12011E.pdf

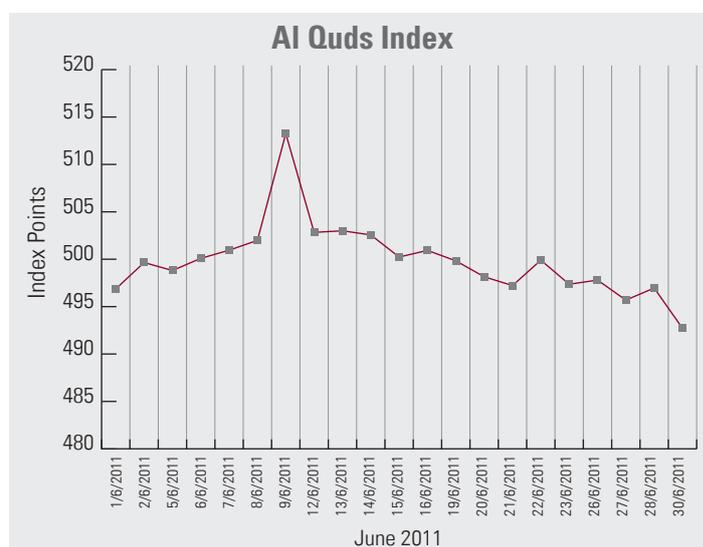
17 See: http://www.pcbs.gov.ps/portals/_pcbs/agri_cen_2010e.pdf

A total of 960,321 dunums, or 16% of the land, were cultivated. The governorate with the highest percentage of cultivated land was Jenin at 30%, accounting for 18% of all cultivated land.

Trading News

The AI Quds index fell by 1.22% in June, reaching 492.71 points on the last day of trading. The index peaked on 9 June (513.25 points) and hit its lowest point on 30 June (492.71 points). Nonetheless, AI-Quds remained the best performing Arab index and is the only one that closed up in the first six months of 2011, compared to the close of 2010.¹⁸ As of 30 June, 121m shares, valued at \$233m, have been traded since 1 January 2011.

On 5 June, PEX announced the launch of its mobile phone browsing service (www.pex.ps). This will provide mobile phone users with instant access to daily trading information, listed companies' stock prices, and news when connected to the internet.¹⁹



18 See: <http://www.pex.ps/PSEWebSite/NEWS/AI-Quds-index-leads-MENA-indices-in-Half-one-2011-04072011.docx>

19 See: [http://www.p-s-e.com/PSEWEBSITE/NEWS/The%20Palestine%20Exchange%20\(PEX\)%20launches%20a%20customized%20mobile%20version%20of%20its%20website.docx](http://www.p-s-e.com/PSEWEBSITE/NEWS/The%20Palestine%20Exchange%20(PEX)%20launches%20a%20customized%20mobile%20version%20of%20its%20website.docx)

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