

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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The latest business perceptions survey for Q2 2011 shows mixed experiences among Palestinian industrial owners on economic performance. The figures for Q2 2011 reveal that owners of active businesses are on balance positive about business prospects.

PCBS released the results of the annual report on transportation and communications for 2010.

Palestinian Authority Funding Crisis

In response to the ongoing funding crisis more than 150,000 Palestinian public-sector employees were paid only half of their salaries for June.¹ This is the first partial payment since 2007.² Explaining the decision Prime Minister Dr Salam Fayyad commented 'The government has decided to pay employees half their salary due to the financial crisis that the Palestinian Authority is experiencing because of the failure of donors, including our Arab brothers, to fulfil their pledges.' He also warned of additional austerity measures if the crisis continues.³

The part payment of June salaries followed a late payment of salaries in May. The failure to pay full salaries to the public sector can have major knock-on effects to the rest of the economy. State-paid employees account for 22.9% of employed persons in the Palestinian Territory (15.4% in the West Bank and 41.7% in the Gaza Strip)⁴ and support up to one million people.⁵ The payment of incomplete or delayed salaries can affect spending behaviour and levels of consumption.

By the end of June and half way through the financial year the PA had received a total of \$330m of foreign aid,⁶ just 22% of the amount budgeted for 2011.⁷ The Arab states alone had agreed that their aid to the PA should amount to \$330m every six months. The increasing value of NIS against USD also adds to the poor fiscal situation as many disbursements are made in USD, with the PA bearing the exchange rate risk. Considering the entire budget (aid and other sources of revenue) Karim Nashashibi, Economic Advisor to the Prime Minister's Office, has estimated the current budget shortfall at \$180m and described the financial situation for 2011 as 'critical'.⁸

In order to alleviate the situation for families during Ramadan, the Bank of Palestine (BoP) has disbursed the other half of June's salaries for those public-sector employees who receive their salaries through BoP.⁹ The Bank acted in coordination with the Ministry of Finance who will repay the Bank in due course.¹⁰ The Banks Association of Palestine confirmed that BoP was the only bank which took this action.

1 See: <http://www.nytimes.com/2011/07/28/world/middleeast/28palestinians.html>

2 See: http://www.msnbc.msn.com/id/44144872/ns/world_news-mideast_n_africa/. See also September 2008 and September 2010

3 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=402043>

4 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabFor_eQ12011.pdf

5 See: <http://www.nytimes.com/2011/07/28/world/middleeast/28palestinians.html?pagewanted=1>

6 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=408703>

7 See: http://www.pmf.ps/news/plugins/spaw/uploads/files/accounts/2011/07/table7_eng.pdf

8 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=4283

9 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=407247>

10 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=402602>

At the request of Prime Minister Fayyad, the EU frontloaded €22.5m of its overall €145 million financial package in support of the PA budget of 2011, to help the PA pay the July salaries and pensions of public-sector employees and pensioners.¹¹ In addition, Sweden has contributed €4m (\$5.7m) to help cover salaries.¹² Full salaries for July were paid on 2 August.¹³ However, this will significantly reduce the PA's ability to meet other needs in August unless additional funding is received.

Trade Promotion

The EU has launched an Arabic language version of the Export Helpdesk. This free online service is provided by the European Commission and gives detailed information on exporting to the EU, including product-specific duties, import tariffs, trade statistics and links to business associations.¹⁴ To promote the Helpdesk the Ministry of National Economy (MoNE) and the EU held a seminar this month on 'How to Export from Palestine to the EU.'¹⁵ More than 100 people from businesses and trade-related institutions and centres attended. Mohammed Hmidan, Director of the Europe Department at MoNE, told the Bulletin that the Export Helpdesk is 'very important' for Palestinian exporters.

Trade with the EU plays an important role in the Palestinian economy as the second most important export market for Palestinian goods after Israel. In 2010, Palestinian exports to the EU amounted to €9m, and in 2009 just €6m.¹⁶ Of these, 88.1% consisted of primary products (59.9% agricultural products and 28.2% fuels and mining products), and 10.5% manufactured products (including 2.5% chemicals) with negligible other exports. In comparison, total exports from the Palestinian Territory in 2009 (the latest available year)¹⁷ were \$518.4m.¹⁸ In April 2011, the EU gave all agricultural products (including processed products) and fish and fishery products originating in the West Bank and the Gaza Strip immediate duty free access to the EU market.¹⁹

Meanwhile, on 3-7 July, 35 Palestinian representatives from private companies, MoNE, and Paltrade attended two training sessions in Jordan on 'Strategies for Exports and International Marketing.'²⁰ Amjad Al-Qasas,

Trade Development Manager at PalTrade, explained to the Bulletin that the training combined methodological lectures and practical exercises to develop the analytical skills of the participants in obtaining and assessing trade data.

On 31 July, the Palestinian Central Bureau of Statistics (PCBS) released trade data for May. The value of exports from the Palestinian Territory increased by 9.8% compared to April, reaching \$67.7m.²¹ Exports to Israel went up by 8.8% and exports to other countries increased by 23.5%. 92.5% of total exports were to Israel. Imports went down in May by 2.9% compared to April. Israel accounted for 67% of total imports in May.

Schneider Electric Training Centre

On 20 July Schneider Electric opened a training centre in the French-Palestinian Bethlehem Multidisciplinary Industrial Park (BMIP).²² The French energy management company is the first to set up operations in the Industrial Park, which was launched in April 2010, following an agreement between President Nicolas Sarkozy and President Mahmoud Abbas in 2009.²³

According to Schneider, the main purpose of the centre is to raise awareness in the Palestinian market about new solutions in energy management. Schneider will initially concentrate on three market segments: water, electrical distribution, and buildings. The centre offers two distinctive training opportunities: one for decision-makers with a focus on the impact of energy costs and another for engineers and technicians with focus on know-how and technical advice.

Business Confidence

The latest business perceptions survey for Q2 2011 shows mixed experiences among Palestinian industrial owners on economic performance. The figures for Q2 2011 reveal that owners of active businesses are on balance positive about business prospects.

Of the businesses surveyed, one third reported an improvement in Q2 compared to Q1 of this year, while only 22.5% of business owners perceived their situation

11 See: http://eeas.europa.eu/delegations/westbank/documents/news/20110802_eupayment_ofwages_andpensions_en.pdf

12 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=412394>

13 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=409917>

14 See: <http://exporthelp.europa.eu>

15 See: www.lfd.ps/documentsShow.aspx?ATT_ID=4246

16 See: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113382.pdf

17 PCBS total trade statistics for 2010 will be available towards the end of 2011.

18 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1733.pdf

19 See: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=699&serie=415&langId=en>

20 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=406024>

21 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/ForTrade052011_E.pdf

22 See: http://www.lacs.ps/documentsShow.aspx?ATT_ID=4288

23 See: April 2011 Bulletin

as worse. 33.4% of businesses in the West Bank reported an improvement; the corresponding figure for Gaza was 29.7%. A large number of businesses (44.0%) reported their situation unchanged.²⁴

A minority of businesses (26.2%) experienced a decline in the value of sales for Q2 2011. Almost half of the respondents considered a decrease in consumer purchasing power as the main reason for this phenomenon.

The mixed experience was also reflected in businesses' expectations for Q3 2011, with 37.1% of businesses anticipating an improved performance in the next quarter and 25.3% expecting to do less well.

Transportation and Communications

In July PCBS released the results of the annual report on transportation and communications for 2010.²⁵ The report showed an increase in the percentage of workers in the transport, storage and communication sector from 5.7% of the total number of workers in 2009²⁶ to 6.0% in 2010.²⁷ Employees in this sector earn an average daily wage of NIS 106.4 (NIS 95.1 in the West Bank, NIS 45.3 in Gaza and NIS 210.0 in Israel and Israeli settlements), compared to an average daily wage of NIS 92.4 in the overall economy (NIS 85.0 in the West Bank, NIS 64.6 in Gaza and NIS 166.8 in Israel and Israeli settlements).²⁸

The total number of licensed vehicles reached 182,466 in 2010 compared to 123,621 the previous year. Two-thirds of the vehicles were in the West Bank, the rest in Gaza. In 2010 private cars constituted 63.9% of all vehicles, trucks and commercial cars accounted for 18.8% and 6.3% were taxis.

The survey shows that the number of main telephone lines operating in the Palestinian Territory dropped by 2.1% in 2010 to 360,402. This decline was partially attributed to an increase in cellular phone use. By the end of 2010 the Palestinian Territory had 2.6m mobile-phone subscribers, compared to 1.8m in 2009.²⁹

Tackling Economic Crime

On 10 July EUPOL COPPS (the EU Police Mission in the Palestinian Territory) and Palestinian justice institutions concluded a comprehensive anti-corruption and anti-money laundering programme.³⁰ 12 judges and 15 prosecutors attended modules which provided them with skills in investigating corruption, recovery of assets, forgery, fraud and mutual international assistance.

On 19 July EUPOL COPPS delivered a second training course on economic crime investigation to members of the Palestinian Civil Police's Economic Crime Unit in Ramallah.³¹

These training courses are a part of the regular work of EUPOL COPPS, whose aim is to contribute to the establishment of sustainable and effective policing arrangements by advising the Palestinian security apparatus on criminal-justice and rule-of-law issues.³²

Women's Economic Participation

The International Labour Organization (ILO), the United Nations Relief and Works Agency (UNRWA), and the Palestinian Businesswomen's Association (ASALA) launched a project to promote women's capacity-building and economic participation.³³ The project will run from June 2011 until January 2012 and consists of two programmes. The first targets female entrepreneurs and women's cooperatives, while the second concentrates on pilot projects for the economic empowerment of women in West Bank refugee camps. ASALA told the Bulletin that the total budget for the project is \$203,000 with the Association providing \$53,000, and the ILO contributing the remaining \$150,000.

Palestinian women suffer from a disproportionately low labour force participation rate (14.7% versus 66.7% for men) and high unemployment rate (27.3% versus 20.5% for men).³⁴ In comparison with the region, the female labour force participation rate in Jordan, Egypt, and Israel in 2009 was 23%, 22%, and 52%³⁵ respectively, while the female unemployment rate in these countries was 24.1%, 22.9% and 7.6%.³⁶

24 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/IndusEnteQ2_2011E.pdf

25 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/transport2010E.pdf

26 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1674.pdf

27 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1773.pdf

28 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabFor_eQ12011.pdf

29 The number for 2009 does not include subscribers to Wataniya Mobile as the company was launched in November 2009.

30 See: <http://www.eupolcopps.eu/content/eupol-copps-and-palestinian-justice-institutions-conclude-anti-corruption-programme>

31 See: www.lfd.ps/documentsShow.aspx?ATT_ID=4246 and <http://www.maannews.net/arb/ViewDetails.aspx?ID=406586>

32 See: <http://www.eupolcopps.eu/content/what-eupol-copps>

33 See: <http://www.al-ayyam.com/pdfs/20-7-2011/p19.pdf>

34 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabFor_eQ12011.pdf

35 See: <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>

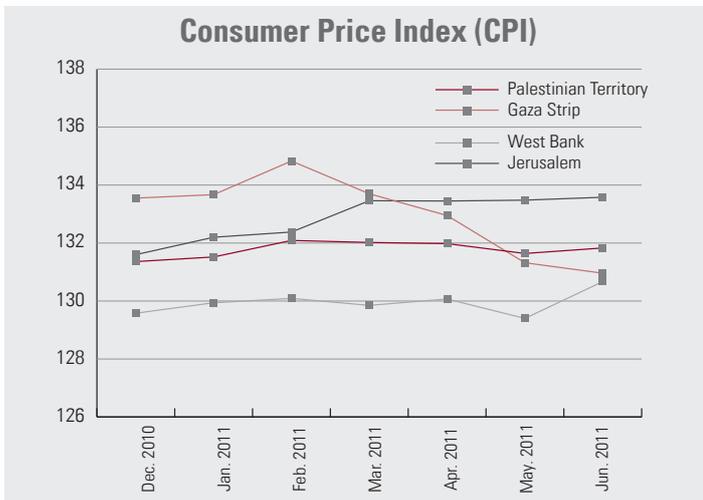
36 See: <http://data.worldbank.org/indicator/SL.UEM.TOTL.FE.ZS>

Price Indices

The cost of living, as measured by the Consumer Price Index (CPI), increased slightly by 0.14% during June 2011 (base year: 2004=100).³⁷ CPI was up 3.07% compared to the same month last year. In the West Bank it rose by 0.99% during June. CPI declined for the fourth consecutive month in Gaza, decreasing by 0.27%.

The Producer Price Index (PPI) grew by 0.32% during June to reach 96.27 (base month: January 2011=100).³⁸ PPI for exported products fell by 0.04%, while PPI for local consumer products rose by 0.35%.

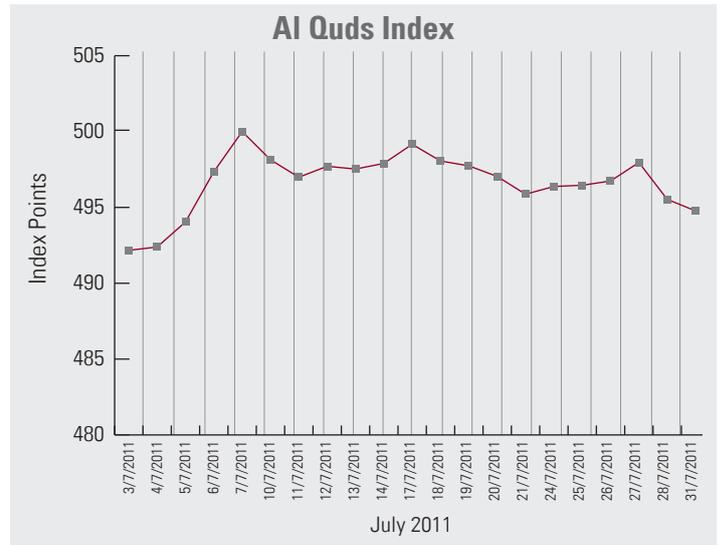
The Quantity of Industrial Production Index (IPI) increased by 7.0% during June, reaching 114.9 (base month: January 2011=100).³⁹ IPI for mining and quarrying, with a relative share of 4.6%, went up 103.1%. IPI for water supply and electricity (relative share of 14.8%) and for manufacturing (relative share of 80.6%) rose by 15.9% and 3.3%, respectively.



Trading News

In July the Al-Quds index increased by 0.53%, reaching 494.9 points on the last day of trading. The index peaked for the month on 7 July (500.0) and reached its lowest point on 3 July (492.2).

Compared to June, the value of traded shares declined significantly by 32.6% to \$22.1m. A total of 11.2m shares were traded in 21 sessions. Market capitalisation increased slightly over the month by 0.49%, reaching \$2.83bn. The best performing companies in July were the Union Construction and Investment Corporation (UCI) and Golden Wheat Mills Co. (GMC), whose stocks rose by 12.3% and 7.4%, respectively.



37 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI062011E.pdf

38 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PPI_62011E.pdf

39 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/IIP062011E.pdf

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