

## PALESTINIAN ECONOMIC BULLETIN

### **The Portland Trust celebrates the 60th issue of the Palestinian Economic Bulletin**

In October 2006, The Portland Trust published the first edition of the 'Palestinian Economic Bulletin'. I am delighted to introduce our 60th issue in which we review key developments over the last five years.

As I write, we are at a time of political uncertainty with a bid by President Mahmoud Abbas for national recognition at the United Nations. When The Portland Trust office opened in Ramallah in 2006 it was also a challenging period, not long after the Palestinian elections. Notwithstanding the potential obstacles at the time, we firmly believed that a buoyant private sector-led economy was crucial for peace in the region to take hold. To that end, the last five years have witnessed an intensification of our efforts to support the development of the Palestinian private sector.

Over the past five years, the discourse about the role of economics in the conflict has undeniably changed. The Palestinian Reform and Development Plan instituted by Prime Minister Fayyad has been crucial in successfully promoting a free-market economy, the building of institutions and reforms to encourage investment. The Plan targets a number of economic programmes in agriculture industry and services, tourism and construction. The Portland Trust has supported these efforts by initiating and facilitating major programmes including a loan guarantee scheme, a private pension system, an affordable housing programme, development of agribusiness supply chains, a strategy for domestic tourism, as well as training for executive management and entrepreneurs.

As this 60th issue of the Bulletin shows, while many challenges remain, there are also achievements to be celebrated. We have seen the number of private sector jobs rise by more than 78,000<sup>1</sup> and the number of companies listed on the Palestinian Stock Market has increased significantly from 28 in 2005 to 45 in 2011. Dependency on international aid for recurrent spending has fallen from over \$1.8bn in 2008 to about \$1.1bn in 2010.<sup>2</sup> The West Bank has seen an increase in GDP per capita of almost 50%. International recognition of the improving economy has also grown with Foreign Direct Investment climbing from \$18.6m in 2006 to \$264.5m in 2009.<sup>3</sup>

It is crucial that we continue to support energetically the private sector and that we safeguard the progress made in institution building and security through the coming political turbulence.

**Sir Ronald Cohen**  
Chairman, The Portland Trust

### **Dr Samir Abdullah, Director General of the Palestine Economic Policy Research Institute – MAS**

When we partnered with The Portland Trust to launch the Palestinian Economic Bulletin in October 2006 with a mission to promote the Palestinian economy, there were no positive stories to talk about. Lack of law and order, road blocks, withholding of Palestinian National Authority revenues, lack of movement and access, donor boycotts, public servant strikes, unemployment and poverty rates, etc; these are the most frequently used terms from that period. It was a great challenge to find a success story, a new investment, or an optimistic interview with a businessperson. These frustrating conditions did not reverse our common belief in the Palestinian economy. So the Bulletin survived, and continued, and was lucky to recently document a remarkable economic growth in Palestinian history, and we have been able to report on many positive things. I am delighted to see the Bulletin become a credible source of information for many people around the globe.

1 Comparing Private Sector jobs in Q2 2006 with Private Sector jobs in Q2 2011. Source: PCBS Quarterly Labour Force Surveys.

2 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

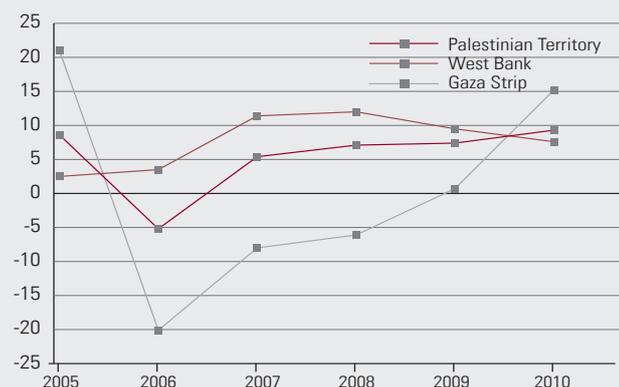
3 See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Documents/bop%20a%202000%20-2009.htm](http://www.pcbs.gov.ps/Portals/_PCBS/Documents/bop%20a%202000%20-2009.htm)

# Economic Performance

## Gross Domestic Product

Over the past five years, Palestinian real GDP has risen by about a third to almost \$8.1bn in 2010.<sup>4</sup> Figure 1 below shows the different growth rates for the West Bank, Gaza and the Palestinian economy as a whole since 2005, reaching 9.3% in 2010.

**Figure 1 – Annual percentage change of GDP in constant prices for the Palestinian Territory, West Bank and Gaza**



The IMF explains that the West Bank's recent strong performance is a result of sound economic management, reforms supported by donor aid, and the easing of internal barriers. However, the IMF expects real GDP to increase by only 4% in the West Bank over 2011 compared with 8% over 2010. It puts this weakening down to the Palestinian Authority's fiscal contraction, declining donor aid and slower easing of Israeli restrictions over the previous year.<sup>5</sup>

Following a severe contraction in 2006, the Gazan economy expanded by 15% in 2010, and then an exceptional 28% in the first half of 2011<sup>6</sup> resulting from the loosening of the Israeli blockade. This growth has been partly driven by an increase in construction (see page 6). However, this expansion is from a very low base.

Looking to the future, the IMF view is that growth will remain around the 4% mark in the medium-term without improved trading conditions, including an expanded ability to export goods. A significant easing of restrictions, combined with sufficient donor funding to finance recurrent and development spending, could mean real GDP growth of 7% across the Palestinian Territory in 2011, rising to 10% in 2013-2014.<sup>7</sup>

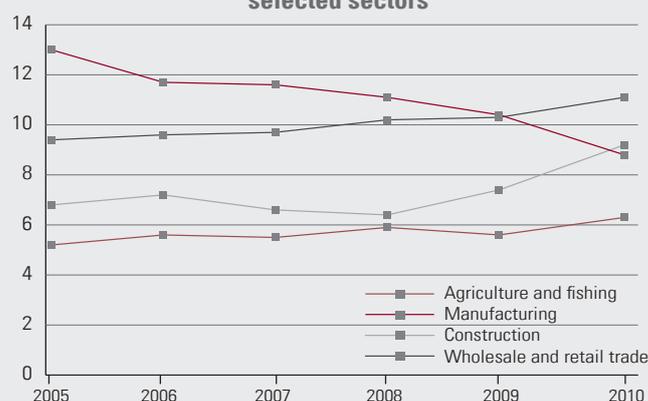
4 \$8.1bn is a nominal figure for 2010. Real GDP in 1994 dollars is \$5.7bn (PCBS Figures). See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

5 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

6 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

7 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankAHLReportSep2011.pdf>

**Figure 2 – Percentage contribution to GDP for selected sectors**



GDP growth has mainly been in the non-tradable sectors, driven by domestic consumption and aid. Figure 2 shows that there has been a relative decline in the manufacturing sector and the contribution of the agriculture sector to GDP has stayed broadly constant.

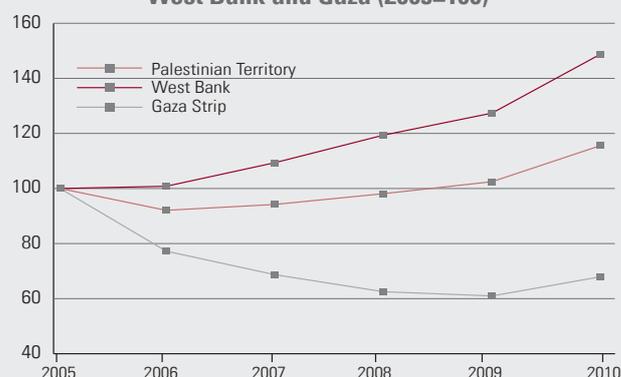
In efforts to ensure a sustainable economy based on a vibrant private sector the PA is seeking to support sectors where it judges there is potential for competitive advantage and significant rapid growth, including tourism, ICT and agriculture.<sup>8</sup>

Despite trading difficulties the private sector has continued to expand and innovate: in 2005 there were 91,828 operating enterprises in the Palestinian economy;<sup>9</sup> by 2009 this had increased to 102,483 operating enterprises – a 12% rise in the number of businesses over just four years.<sup>10</sup> The private sector is estimated to be about 78% of GDP.<sup>11</sup>

Across the West Bank and Gaza inflation has been around the 3% mark apart from a spike in 2008 of 10%, mainly reflecting a worldwide increase in food prices.<sup>12</sup>

## GDP per Capita

**Figure 3 – GDP per Capita in Palestinian Territory, West Bank and Gaza (2005=100)**



Real GDP per capita, an indicator of living standards, has dramatically improved in the West Bank, growing

8 See: [http://www.mopad.pna.ps/web\\_files/publishing\\_file/Establishing%20the%20State%20Building%20our%20Future\\_%20NDP%202011-13.pdf](http://www.mopad.pna.ps/web_files/publishing_file/Establishing%20the%20State%20Building%20our%20Future_%20NDP%202011-13.pdf)

9 See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1563.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1563.pdf)

10 The latest year for which data is available. See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1712.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1712.pdf)

11 See: [www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Pal\\_Econ\\_2010e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pal_Econ_2010e.pdf)

12 See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book%201427.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book%201427.pdf)

## Ms Abeer Odeh, CEO of the Palestinian Capital Market Authority (CMA)

During the last few years, the world has witnessed a severe financial and economic crisis on a level that has not been seen in decades. We see markets crashing and institutions collapsing worldwide. Huge corporations are filing for bankruptcy and banks are more hesitant than ever to provide access to financing. Ironically, the economic situation in Palestine in recent years has been flourishing. The sound economic policies adopted by our government, coupled with the prudent measures practiced by our institutions, and robust supervision and regulation conducted by the Capital Market Authority, among other public institutions, have not only saved our economy but indeed strengthened it, and positioned it as an attractive alternative market for investors.

consistently since 2005. It recovered its 1994 level by 2009 and has now reached record highs. Under the IMF's baseline scenario it is projected to be 50% above its 1994 level by 2013.<sup>13</sup> However, the situation is very different in Gaza where GDP per capita declined from 2006, only starting to recover from 2010. In the IMF's baseline scenario, it will still be 10% below its 1994 level by 2013, and in the low-growth scenario could be 23% below.

## Unemployment

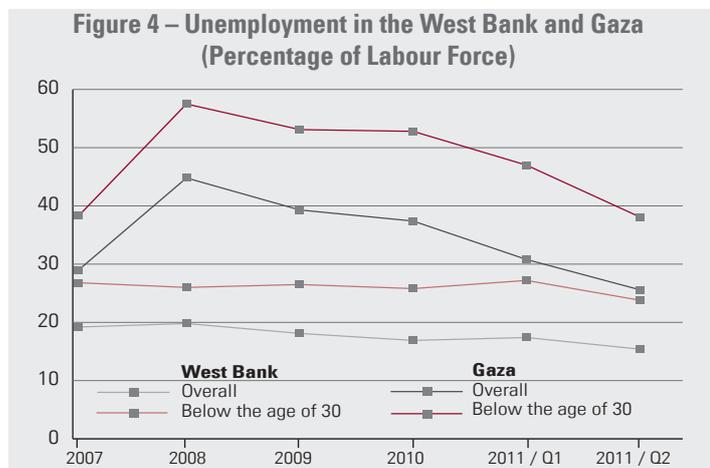


Figure 4 shows that unemployment has been declining slowly in the West Bank, reaching 16% in the first half of 2011 (although youth unemployment has stayed high at around 26% for the last few years). Unemployment in Gaza remains very high, at 38% for youth, and 28% overall (and it should be noted that the labour force participation rate is very low at 40%).<sup>14</sup> Workers from Gaza are not allowed into Israel, but from the West Bank the number rose to 84,000 in the first quarter of 2011, compared with about 48,000 in 2006.<sup>15</sup> The private sector has played an important part in the declining unemployment – expanding fractionally ahead of the general growth in jobs (employing 63.3% of workers in Q2 2006,<sup>16</sup> and 64.8% of workers in Q2 2011<sup>17</sup>) which translates into about 78,000 more jobs.

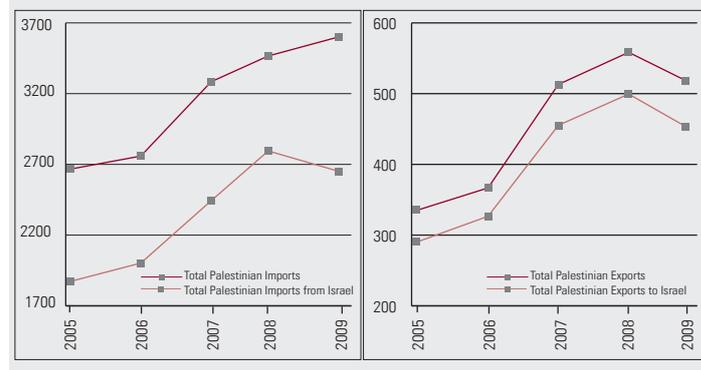
## Trade

The great majority of exports from the Palestinian Territory are to Israel, 90.3% in June 2011. Israel is also the main

source of imports, at 65.2%.<sup>18</sup> According to the World Bank, the majority of exports were for low value added goods that require the minimal level of processing.<sup>19</sup>

Figure 5 shows the evolution of exports, imports and the balance of trade over the last few years.

**Figure 5 – External trade and trade with Israel (in millions of \$)**



IMF figures indicate that exports of goods and services to Israel declined by 7% in real terms in the year to March 2011, following a 25% contraction in exports over the 2008-2010 period after the construction of the separation barrier and a slowdown in Israeli growth.<sup>20</sup> Imports have also shrunk, by 7% in real terms during the 2008-2010 period, and 4% in the year to March 2011. The decrease in imports is less pronounced due to much tighter Israeli restrictions in the West Bank on exports than imports.<sup>21</sup> The Government of Israel does now allow most consumer goods and many intermediate inputs to enter Gaza, but still restricts the entry of most construction materials. It still prevents exports from Gaza except for a limited amount of agricultural goods, which are not permitted to be shipped to the West Bank or Israel, but must be directly exported beyond. Export of textiles and furniture has been approved but has not yet commenced. The IMF notes that the pattern of production continues to be distorted and reflects restrictions on external trade rather than the comparative advantage of the Palestinian economy.<sup>22</sup>

The World Bank points out that due to the small size of the Palestinian economy it must increase overall trade, including expansion beyond the Israeli market, to achieve sustainable growth.

13 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

14 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankAHLReportSep2011.pdf>

15 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

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

17 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LabourForce\\_q2e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabourForce_q2e.pdf)

18 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/RegForTrade62011\\_E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/RegForTrade62011_E.pdf)

19 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLReportApril2011.pdf>

20 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

21 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

22 See: <http://www.imf.org/external/country/WBG/RR/2011/041311.pdf>

## Dr Jihad Al Wazir, Governor of the Palestinian Monetary Authority

During the past few years, the macroeconomic situation improved, supported by international aid, an economic reform program, as well as improvements in the security situation. Unemployment and poverty remained difficult challenges for the Palestinian economy.

The PMA has made impressive progress in institutional reforms, supported by IMF and World Bank technical assistance. This included the installation of an electronic payment system; a new banking law which strengthened the financial sector's legal framework; an Anti-Money Laundering law; a modern system to track bounced-cheques; a credit scoring function, integrated into a modern credit registry system. A new Central Bank law, which guarantees the independence of the PMA, is expected to be approved shortly.

This progress has supported a sound, efficient, and well-performing banking system, reflected by increasing confidence and enhanced role of the banking system in the economy, including rising foreign capital inflows. Banks' assets rose significantly with very limited exposure to global markets. The banking sector continues to have adequate liquidity and to be well capitalised. Also, banks' credit rose significantly, especially to the private sector, to finance mainly trade and construction activities.

## Public Financial Management

Since 2007, the PA has undertaken major reforms to its Public Financial Management (PFM) system. In the IMF's view, 'the PFM system is ready to support the functions of a state, and is a prime model to follow for developing countries in need of PFM reform.'<sup>23</sup> The reforms have been directed towards increasing transparency and accountability in line with international standards. The PA has restored budget procedures and strengthened expenditure controls and cash management. In 2008 it introduced a Financial Management Information System to link the Ministry of Finance to line ministries. Also in 2008, the Ministry of Finance began to publish on its website detailed information on its monthly expenditures, revenue, external aid and public debt. Other steps have included establishing rigorous procedures to enable regular external audits.

The PA has combined these reforms with efforts to control its budget deficit, which has been reduced from about 30% of GDP in 2007, to 16% in 2010.<sup>24</sup>

As well as improving expenditure control, the PA is reforming its tax administration, aimed at expanding the tax base and improving compliance. The Bulletin reported recently that tax revenues were up to \$478.2m in 2010, a 59% increase on the year before and the highest amount collected since 2004.<sup>25</sup> This has helped reduce aid dependency, with a decrease in donor aid for recurrent spending from \$1.8bn in 2008 to \$1.1bn in 2010.<sup>26</sup>

As the Bulletin reported last month, the Palestinian government continues to face a fiscal crisis. There are persistent shortfalls in donor funding for both recurrent spending and development projects resulting in arrears accumulation, late payment of wages for the first time since 2007, and borrowing up to commercial banks' limits. As of

September this year, the IMF was predicting a financing gap of \$0.3bn for 2011, under certain assumptions.

## Business Environment and Investment Climate

The Palestinian Authority is working to improve the business environment and investment climate in the West Bank and Gaza. According to the World Bank, private sector representatives perceive an improvement in the security and justice sectors in recent years.<sup>27</sup>

Transparency International's Global Corruption Barometer 2010 found that 59% of those surveyed in the West Bank and Gaza say that corruption has declined in the last three years, and only 22% say it has increased. As the Bulletin reported in June, perceptions of corruption have been found to be much higher than actual occurrences. A recent World Bank report on corruption and governance in the West Bank and Gaza found that only 2% of Palestinian businesses indicated that bribes were expected in the course of tax inspections; this compares very favourably with 61% in Syria and 19% in Lebanon.<sup>28</sup>

The World Bank's 2011 Doing Business report ranks the West Bank and Gaza ahead of Egypt, Jordan, Lebanon and Syria on some indicators, including taxes and investor protection. The report showed a particular improvement for the West Bank and Gaza in the enforcement of contracts but it scored poorly on indicators that measure starting and closing a business.<sup>29</sup>

In the first half of 2011, the PA reports that 763 new companies with a total capital of \$191m were registered in the West Bank, including 17 foreign companies with a capital of \$27.5m.<sup>30</sup>

23 See: <http://www.imf.org/external/country/WBG/RR/2011/041311.pdf>

24 The cyclically adjusted primary deficit, which excludes interest payments. See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

25 See: Bulletin 57, June 2001.

26 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

27 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCReportApril2011.pdf>

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

29 See: <http://www.doingbusiness.org/data/exploreeconomies/west-bank-and-gaza/>

30 See: [http://mopad.pna.ps/web\\_files/publishing\\_file/PNA%20report%20to%20the%20AHLC%20Sep%202011-%20Building%20the%20State%20of%20Palestine-A%20Success%20Story.pdf](http://mopad.pna.ps/web_files/publishing_file/PNA%20report%20to%20the%20AHLC%20Sep%202011-%20Building%20the%20State%20of%20Palestine-A%20Success%20Story.pdf)

## Mr Samir Hulileh, CEO of PADICO Holding and Chair of The Portland Trust, Ramallah

The last three or four years have shown tremendous improvement in the Palestinian economy, with particularly impressive growth in the West Bank. The growth is perhaps not sustainable but has brought enough momentum to reinforce the continued improvement of law and order and the security situation. It is true to say that donors have had a leading role in bringing growth to the Palestinian Territory, but I think in the West Bank in particular, the private sector has very much played its part, aggressively investing in a wide range of sectors. In Gaza the effect of investment by donors and the PA has been more noticeable than that of the private sector over the last three years.

Since last year PADICO has started to invest in Gaza to help build proper infrastructure, in particular environmental infrastructure, like solid waste recycling and water resource management. This is all necessary for humanitarian reasons, but is also a good investment regardless of the political situation surrounding Gaza. I am proud to say that we are making good progress in water desalination projects and waste recycling in spite of the difficult situation. We feel we need to bring hope to the people of Gaza to make them realise that there are private sector investors who are ready to take the risk to provide assistance and to invest in Gaza, even under these difficult circumstances.

## Sectoral progression 2006-2011

### Banking and Finance Sector

The banking sector is performing well. The number of banks has now reached 18, eight of which are locally-owned. There are a total of 223 branches<sup>31</sup> and services offered include debit cards, ATMs, chip & pin payment and telephone and online banking.

Total net assets have increased from \$5.5bn<sup>32</sup> in 2006 to \$8.8bn this year.<sup>33</sup> Private deposits increased from \$5.8bn in 2008 to \$6.9bn in July 2011, and credit to the private sector has increased from about \$1.9bn in 2006 to \$3.4bn by July 2011 (partly due to the introduction of a credit scoring system).<sup>34</sup> According to the IMF, this rise in domestic credit opportunities has contributed to the steady decline in the share of bank deposits placed abroad from 56% in 2008, to 42% at end-June 2011.<sup>35</sup>

Several initiatives have been launched to help improve access to finance for SMEs, including the European Palestinian Credit Guarantee Fund, which started in October 2006, as well as the Middle East Investment Initiative Loan Guarantee Facility, which has approved over \$70m worth of loans since its inception in July 2007.<sup>36</sup>

There have been a number of important improvements in the regulatory framework of the banking and financial sector. The IMF now judges that the Palestinian Monetary Authority is in a position to carry out the core functions of a central bank, providing rigorous supervision and regulation of the banking sector. The IMF also reports

that the Palestinian Capital Market Authority has further strengthened the legal and regulatory framework for the financial non-banking sector, for example in the areas of leasing, mortgage and private pensions.<sup>37</sup>

### Information and Communication Technology

The World Bank has recognised ICT as a dynamic part of the Palestinian economy, generating jobs, investment and fiscal revenues as well as being important for social development.<sup>38</sup> Industry estimates are that each new job in the ICT sector is matched by three jobs in other branches of the economy.<sup>39</sup> PalTel (the largest telephone operator covering landlines, mobiles and the internet) is the biggest employer in the private sector in the Palestinian Territory. Its revenue rose from \$259m in 2006 to \$479m in 2010 (with \$121.8m profit in 2010).<sup>40</sup>

In 2006 PalTel's Jawwal network was the only mobile operator with a Palestinian licence. With around 450,000 active customers it comprised 49% of the Palestinian mobile market, the remainder covered by Israeli operators.<sup>41</sup> In early 2007, Wataniya Telecommunications won the tender for the second mobile telecommunications operator in the Palestinian Territory.<sup>42</sup> The mobile phone market has rapidly expanded. Wataniya already has 388,000 subscribers<sup>43</sup> and the number of PalTel subscribers has grown to 2.24m.<sup>44</sup> During the first quarter of 2011, these two operators generated cellular revenues of \$104m.<sup>45</sup>

31 See: [http://mopad.pna.ps/web\\_files/publishing\\_file/PNA%20report%20to%20the%20AHLC%20Sep%202011-%20Building%20the%20State%20of%20Palestine-A%20Success%20Story.pdf](http://mopad.pna.ps/web_files/publishing_file/PNA%20report%20to%20the%20AHLC%20Sep%202011-%20Building%20the%20State%20of%20Palestine-A%20Success%20Story.pdf)

32 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WBGFRRreportNov.08.pdf>

33 See: [http://mopad.pna.ps/web\\_files/publishing\\_file/PNA%20report%20to%20the%20AHLC%20Sep%202011-%20Building%20the%20State%20of%20Palestine-A%20Success%20Story.pdf](http://mopad.pna.ps/web_files/publishing_file/PNA%20report%20to%20the%20AHLC%20Sep%202011-%20Building%20the%20State%20of%20Palestine-A%20Success%20Story.pdf)

34 See: <http://www.imf.org/external/country/WBG/RR/2011/041311.pdf>

35 See: <http://www.imf.org/external/country/WBG/RR/2011/091411.pdf>

36 See: MEII, Loan Guarantee Facility Progress Report 2nd Quarter 2011.

37 See: <http://www.imf.org/external/country/WBG/RR/2011/041311.pdf>

38 See: [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/03/20/000333037\\_20080320052257/Rendered/PDF/429870WP0GZO%20Te10Box327342B01PUBLIC1.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/03/20/000333037_20080320052257/Rendered/PDF/429870WP0GZO%20Te10Box327342B01PUBLIC1.pdf)

39 See: <http://www.pita.ps/newweb/pdfs/PITA-ICT%20Study.pdf>

40 See: PalTel Group Brochure, Palestine Capital Markets Day, June 2011.

41 See: <https://www.ppiaf.org/ppiaf/sites/ppiaf.org/files/documents/PPIAF-Assistance-in-Syria-March-2011.pdf>

42 See: Bulletin 1, October 2006 and Bulletin 4, January 2007.

43 See: Wataniya Brochure, Palestine Capital Markets Day, June 2011.

44 See: PalTel Group Brochure, Palestine Capital Markets Day, June 2011.

45 See: Arab Advisors Group, Telecom Report, July 2011.

In 2010 49% of Palestinian households possessed a computer and 29% of households had an internet connection, compared with 9.2% in 2004.<sup>46</sup> The West Bank and Gaza had 599,520 registered Facebook users in July 2011.<sup>47</sup>

An important milestone for the industry was the launch of the Sadara Middle East Venture Capital Fund in April. Established to invest in ICT companies, it is financed by Cisco Systems, the Google Foundation, Soros Economic Development Fund and others.<sup>48</sup>

More recently, the Palestine Investment Fund and the Jerusalem District Electricity Company signed a Memorandum of Understanding to explore developing a fibre optic network in the West Bank to create faster and more cost effective internet connections.<sup>49</sup>

However, obstacles for the industry remain. Restrictions on new entrants mean West Bank and Gazan customers still face relatively high charges for internet connectivity and international calls. Local operators are unable to provide 3G because the Government of Israel has not granted any of the necessary licences.

## Tourism

The tourism sector in the Palestinian Territory contributed an estimated 3% to GDP in 2010.<sup>50</sup> Tourism is an increasingly important employer, with the number of jobs in the sector rising from 6,144 in 2007<sup>51</sup> by 150% to 15,576 in 2009.<sup>52</sup> Much of this growth was driven by employment in hotels (rising from 1,263 to 9,773 over the same period).

Over the past five years tourism has grown consistently from 0.48m visitors in 2006 to a record 2m visitors in 2010.<sup>53</sup>

In 2010, about 577,000 guests stayed at hotels in the Palestinian Territory, spending on average slightly more than two days. Compared to 2009, the number of guests increased by 28% and overnight stays by 23%.

There has been significant investment in the infrastructure for tourists, including high end. Two five star hotels have recently opened, the Movenpick in Ramallah and the al-Mashtal in Gaza. There are also plans to further expand the number of hotel rooms across the West Bank which should be a significant boost to employment. Initiatives such as “Jericho 10,000” celebrating the 10,000<sup>th</sup> anniversary of the founding of Jericho,<sup>54</sup> the recent Bethlehem Masterplan aiming to improve the experience of tourists in that city, and enterprises such as ‘Bike Palestine’ are bringing innovation to the sector.

Notwithstanding these important improvements the tourism sector in the Palestinian Territory is underperforming compared with other parts of the Middle East, averaging 2% per year growth in visitors in 1995 to 2008, compared with Jordan averaging 6% and Syria 9%.<sup>55</sup> This leaves real potential for tourism to expand in the Palestinian Territory, especially given the important historical, religious and cultural sites.

## Construction

The construction sector is a significant contributor to GDP growing from 6.9% in 2006<sup>56</sup> to 9.2% in 2010.<sup>57</sup> It has also contributed to growth of jobs in the private sector, employing 13.2% in 2010 of the working population.<sup>58</sup> This year building licences have already been issued for 2,866,075m<sup>2</sup> of land - surpassing the total number in 2006.<sup>59</sup>

### Mr Hashim Shawa, Chairman of the Bank of Palestine

Over the last five years, the banking sector in Palestine has witnessed tremendous growth, despite the instability in the region. This growth can be attributed to several issues including initiatives undertaken by banks in Palestine as well as the reform in the regulatory system undertaken by the Palestine Monetary Authority (PMA). Over the past few years the banking sector in Palestine has played a proactive role in several important initiatives that have helped prompt change. For example, banks in Palestine launched several campaigns encouraging Palestinians to get their cash from under the mattress and deposit it into banks. Innovative products have also promoted growth in the sector – Bank of Palestine introduced the installment card ‘Easy Life’, which customers can use to purchase goods and pay in installments without paying interest.

46 See: Bulletin 57, June 2011 and [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/InfoSocDE2011.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/InfoSocDE2011.pdf)

47 See: <http://www.internetworldstats.com/middle.htm>

48 See: Bulletin 55, April 2011.

49 See: PIF Newsletter, Issue 9, July 2011.

50 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Pal\\_Econ\\_2010e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pal_Econ_2010e.pdf)

51 See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1508.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1508.pdf)

52 See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1720.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1720.pdf)

53 Hotel Activities in Palestine Series, PCBS.

54 See: <http://www.haaretz.com/news/national/palestinians-invest-2-billion-in-jericho-to-celebrate-its-10-000th-birthday-1.316997>

55 Monitor Group estimates.

56 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Release%20\\_E2006\\_.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Release%20_E2006_.pdf)

57 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Pal\\_Econ\\_2010e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pal_Econ_2010e.pdf)

58 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LabourForce\\_q2e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabourForce_q2e.pdf)

59 UNSCO figures for the Bulletin.

Construction was core to the recent recovery in Gaza, growing by 220% in the first half of 2011 compared with the first half of 2010 following an easing of restrictions on importing construction materials for donor-funded projects and an increase in materials entering Gaza through the tunnels from Egypt.<sup>60</sup> This rapid expansion demonstrates the responsive nature of this sector to create jobs and drive growth.

Much of the growth in the construction sector over the last five years has been donor-driven, leading to concerns about its long-term sustainability.<sup>61</sup> However, there have been notable private sector projects. The affordable housing initiative aims to construct 15,000 homes in the West Bank by 2013, including the new city of Rawabi and the Palestinian Investment Fund led al Jinan and al Reehan developments.<sup>62</sup>

## Agriculture

Agriculture is a traditionally important part of the Palestinian economy, with 16% of the total area of the Palestinian Territory being cultivated land.<sup>63</sup> The sector employs 11.8%<sup>64</sup> of the workforce (falling from 16.1% in 2006)<sup>65</sup> and contributes 6% to GDP.<sup>66</sup> It also has an important role to play in mitigating food insecurity – the risks of which were demonstrated by the spike in inflation to 10% during the 2008 food price crisis.

Olive oil is a significant contributor to the agricultural sector. 45% of the agricultural land is planted with olive trees, contributing 15-20% of agricultural output. The volatile nature of the olive harvest – which runs on a two year cycle – can affect the annual output statistics. In peak years 32,000-35,000 metric tonnes of olive oil are produced. 10,000 metric tonnes are consumed locally and the rest is exported.<sup>67</sup>

However, the contribution of agriculture to GDP has been on a long-term downward trajectory. The PA has identified agriculture in the national plan as a sector to target due to its competitive advantages and high short-term growth potential.<sup>68</sup> There are a number of initiatives focused on helping Palestinian farmers to increase both supply and access to international markets.

60 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankAHLReportSep2011.pdf>

61 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLReportApril2011.pdf>

62 See: Bulletin 54, March 2011.

63 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Pal\\_Econ\\_2010e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pal_Econ_2010e.pdf)

64 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Pal\\_Econ\\_2010e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pal_Econ_2010e.pdf)

65 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LabourForce\\_q2e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabourForce_q2e.pdf)

66 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Pal\\_Econ\\_2010e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pal_Econ_2010e.pdf)

67 See: Bulletin 14, November 2007 and Bulletin 26, November 2008.

68 See: [http://www.mopad.pna.ps/web\\_files/publishing\\_file/Establishing%20the%20State%20Building%20our%20Future\\_%20NDP%202011-13.pdf](http://www.mopad.pna.ps/web_files/publishing_file/Establishing%20the%20State%20Building%20our%20Future_%20NDP%202011-13.pdf)

## Stock Market

The Palestine Exchange (PEX), which has been trading since 1997, has evolved into one of the most reliable security markets in the region with a world-class ranking. It operates under the supervision of the Palestinian Capital Market Authority.

Over the past few years, the number of companies listed on PEX has increased significantly from 28 at the end of 2005 to 45 in 2011. These companies come from a wide range of economic sectors, including the food industry, tourism, pharmaceuticals, logistics, telecommunications, banking, insurance, and others. So far in 2011, a record six new companies have been listed. Despite these new additions, the market remains dominated by a small number of companies, which can lead to high volatility. In August 2011, Palestine Telecommunications (PaTel) accounted for 34.87% of market capitalisation, Bank of Palestine 12.76%, Wataniya 11.43% and PADICO 9.92%.<sup>69</sup>

Market capitalisation peaked dramatically in 2005 at \$4.5bn, then declined steadily to \$2.1bn in 2008. Since then it has increased each year, and now stands at \$2.8bn. PEX's Al-Quds Index recorded extremely high growth of 307% in 2005, although declines of 46%, 13% and 16% followed from 2006 to 2008, against a backdrop of the global financial crisis. The dip in 2008 compares well to the 55% losses in the Morgan Stanley index of Arab markets.<sup>70</sup>

The Al-Quds index increased by 12% in 2009 and was the best performing Arab index in the first half of 2011; the only one with a positive change (0.64%) over that 6-month period.<sup>71</sup>

Over the last few years 2005 stands out as the most active year for trading, when the average daily value of trades was \$1.5m and aggregate trading volume totalled \$2.1bn. Since then the average daily value of trades has fluctuated between \$900,000 and \$1.4m, and the annual aggregate trading volume between about \$450m and \$1.2bn. In 2007 and 2008 dividend payments were around the \$85m mark, reaching \$128m in 2009 and \$120m in 2010.

As of August 2011 95% of shareholders are classed as local, 5% from abroad. The local shareholders own 58.1% of shares by value, while the rest are held by foreigners.<sup>72</sup> However, many investors classified as foreign are Palestinians or Palestinian-owned companies, resident abroad.<sup>73</sup>

69 See: PEX Investor Monthly Newsletter, August 2011.

70 See: Bulletin Special Feature, February 2010.

71 See: Bulletin 58, July 2011.

72 See: <http://www.pex.ps/PSEWebSite/English/CDS.aspx?TabIndex=5>

73 See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WBGFReportNov.08pdf.pdf>

## Mr Ahmad Aweidah, CEO of the Palestine Exchange (PEX)

Palestine was one of the fastest growing economies in the MENA Region over the past five years, GDP growth averaged around 8%. This growth was mainly driven by the PA's spending financed through substantial donor assistance and a relative easing of Israeli restrictions on trade and people, private sector investment was mainly confined to the real estate sector. The Palestinian economy faces several challenges due to the continued Israeli occupation and settlement building, any sustainable economic development will clearly not be possible without a political solution and a final peace agreement with Israel. Nevertheless, the Palestinian economy continues to demonstrate exceptional endurance and adaptation capabilities. Palestine has a strong and vibrant private sector which is a major driver of economic growth. It also has an aa well regulated and sophisticated financial system and a modern capital market. A young and well educated population and a substantially wealthy diaspora augur well for the future of the independent Palestinian state.

In the past 18 months, PEX has concluded two investment roadshows in London, in March 2010<sup>74</sup> and June 2011<sup>75</sup>, to promote awareness of the Exchange and stimulate the interest of new investors. On both occasions, the Palestinian business delegation met with some of the world's largest institutional investors. PEX has also undertaken roadshows to Chile and the United Arab Emirates. At the July 2011 London roadshow PADICO signed a memorandum of understanding to issue the first Palestinian Global Depository Receipts with the Bank of New York Mellon. An important landmark for PEX was the oversubscribed issue of \$70m in corporate bonds for PADICO.<sup>76</sup>

PEX began an investor education programme in 2006 and set up an e-trading platform in 2007 (one of the first in the Arab world). In 2009 – 2010, it invested \$1.5m in technological infrastructure. It became a public shareholding company in 2010 with PADICO as the majority shareholder. In June the Bulletin reported that the World Federation of Exchanges upgraded the status of PEX membership from a correspondent to an affiliate, which illustrates PEX's good compliance with international standards, and will help it attract global institutional investors. In the Middle East and North Africa region only Abu Dhabi, Lebanon, Oman, and Qatar are affiliates.<sup>77</sup>

74 See: Bulletin 55, April 2011.

75 See: Bulletin 58, July 2011.

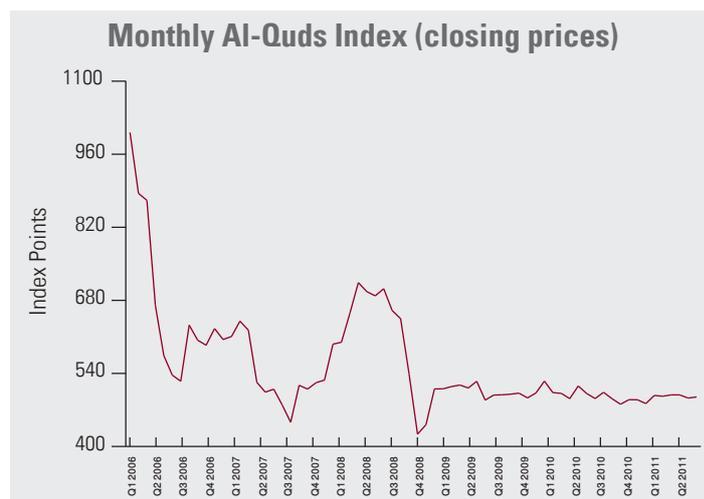
76 See: Bulletin 56, May 2011.

77 See: Bulletin 58, July 2011.

The recent launch of Dubai-based Rasmala's Palestine Equity Fund illustrates the increased international interest in making investments in the Palestinian stock market.<sup>78</sup>

There have also been 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.

Looking forward, PEX is planning to float by the end of this year.



78 See: Bulletin 57, June 2011.

## The Portland Trust



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