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Main reports

In the run up to the 2012 budget Prime Minister Dr Salam Fayyad has warned that the Palestinian Authority will need to raise taxes and cut costs to counter the on-going fiscal crisis.

The latest trade figures from PCBS show that Israel remained the major trading partner for the PA in 2010.

The Office of the Quartet Representative (OQR) issued a report on the aggregates industry in the West Bank.

On 19 December the European Commission adopted the 2012 aid package for the Palestinian Territory, planning to spend €300m.

An UNRWA report on the West Bank labour market released in December reveals that the private sector accounted for more than 90% of the growth in employment in the West Bank in the first half of 2011.

The Palestinian Economy in 2011 and Forecasting for 2012

Marking the end of the year, PCBS and UNCTAD have reviewed the economic performance of the Palestinian economy in the first three quarters of 2011 and made forecasts for 2012. Total GDP for the first three quarters of 2011 together registered a 10.5% growth compared to the total GDP level in Q1-Q3 last year.¹ The growth in Gaza (25.7%) was significantly higher than in the West Bank (5.8%), reflecting continued accelerated recovery following the easing of Israeli restrictions since June 2010.

Despite this growth over the three quarters, preliminary national accounts show that Q3 2011 witnessed a minor quarter-on-quarter real GDP growth of 0.5% (base year=2004).² Quarterly GDP fell in the West Bank by 0.3% against Q2 2011, rising in Gaza by 2.6% quarter-on-quarter. Final consumption in the Palestinian Territory in Q3 2011 equalled \$1,855.9m, and gross capital formation was \$248.4m. The negative balance of trade in goods and services reached \$498.2m, an improvement compared with a trade deficit of \$540.0m the previous quarter and significantly better than \$743.8m in the same quarter of 2009.

While the quarterly GDP per capita at constant prices (\$407) has decreased by 0.3% since Q2 2011, it has increased by 8.5% since Q3 2010. Once again, the West Bank (\$498) outperformed Gaza (\$274) on this indicator.

The PCBS and UNCTAD report on Q1-Q3 2011 noted that the Palestinian economy continued to be based on services which constitute the largest contributor to GDP (20.3%), with industrial and agricultural activities the next largest sectors contributing 12.7% and 5.9% of GDP respectively. Reflecting the increase in GDP, average unemployment dropped from 23.8% in Q1-Q3 2010 to 20.9% in Q1-Q3 2011. Meanwhile, exports and imports increased by 16.0% and 10.0%, respectively, in the first three quarters of 2011. Inflation stayed in check, with consumer prices increasing by 3.1% in January-September 2011 compared to the same period of 2010.

The report also presented economic forecasts for 2012 based on four possible scenarios: (1) baseline, (2) optimistic, (3) pessimistic (least stringent), and (4) pessimistic (most stringent).

Figure 1: Economic Indicators under Forecast Scenarios (Constant Prices: Base Year=2004)

	GDP	GDP per Capita	Total Investment	Change in Budget Deficit	Unemployment Rate (2011 = 24.8%)	Current Account Deficit	Change in Trade Deficit
(1)	+6.2%	+3.1%	+9.1%	-8.8%	25.4%	+13.0%	+8.5%
(2)	+12.1%	+8.9%	+14.0%	-20.3%	22.7%	-19.1%	+2.1%
(3)	-0.3%	-3.2%	-2.9%	+4.1%	28.2%	+39.1%	+13.3%
(4)	-7.5%	-10.2%	-9.7%	-	29.4%	+93.2%	+18.1%

Source: PCBS and UNCTAD

The baseline scenario (1) assumes the economic and political situation in the Palestinian Territory will stay the same as it was in 2011, with the same levels of foreign aid and of customs revenue from Israel. Under these assumptions the budget deficit is expected

1 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/EcoEstimate2012E.pdf

2 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/NatAccouQ32011E.pdf

to fall due to improved tax collection. Natural population growth will bring both employment and unemployment up. The forecast estimates a 6.2% real GDP growth and a 3.1% GDP per capita growth. This is in line with IMF's baseline scenario, which projects around a 7% real GDP growth in 2012.³

The optimistic scenario (2) assumes increased international assistance, increased government investment, better infrastructure, and increased social transfers. Improved freedom of movement would result in more labour in Israel, while tax collection would also increase. In these circumstances the PCBS and UNCTAD expect GDP, GDP per capita, consumption, and investment to grow. Unemployment will decline.

The less stringent pessimistic scenario (3) assumes more tax evasion, a transfer of 65% of clearance revenues from Israel, and further restrictions of movement. This scenario also assumes increased foreign aid to part cover expenditures. This would result in decreased government investment and social transfers, and decreased labour in Israel. An increase in the budget deficit is forecast, unemployment would grow, and the current account and trade deficits are forecast to rise.

The most pessimistic scenario (4) assumes the economic and political situation will deteriorate to a severe degree with decreases in tax revenues, international contributions, government investment and social transfers, and deterioration in freedom of movement. GDP and GDP per capita are forecast decrease significantly by 7.5% and 9.7%. Unemployment would increase to 29.4% due to new closures and barriers. Under this scenario, the net current account deficit is expected to almost double, while the trade deficit would rise by nearly a fifth.

Public Finances

In the run up to the 2012 budget Prime Minister Dr Salam Fayyad has warned that the Palestinian Authority will need to raise taxes and cut costs to counter the on-going fiscal crisis⁴ resulting from lower than expected foreign aid.⁵ In 2011 the payment of public salaries was delayed⁶ and the PA owes \$400m to private sector companies, including medical suppliers.

The budget deficit for 2011 is forecast to be \$1.1bn. Suggested reforms aimed at decreasing the deficit to \$750m for 2012 include raising the top rate of income tax to 30% from 15%. Prime Minister Fayyad also indicated there would be spending cuts, potentially including early retirement for some public sector workers.

The Ministry of Finance and PCBS have released the final public finance figures for 2010, showing a net operating balance of \$296.2m. Total revenues were \$3,589.7m, an increase of 16.0% from 2009. Tax revenues accounted for more than half (55.4%) of total government revenues⁷,

compared to 48.2% in 2009⁸. The net operating balance for 2009 was \$84m. This improvement in the balance occurred because of the above-mentioned growth in revenues, which more than compensated for the simultaneous increase in expenses. Compensation of employees was the largest public expense (54.8%), followed by use of goods and services (16.2%), social benefits (14.8%), and other expenses (12.6%).

Foreign Trade

The latest trade figures from PCBS show that Israel remained the major trading partner for the PA in 2010. In 2010 total Palestinian exports and imports increased by 11.0% and 9.9% compared to 2009, reaching \$575.5m and \$3,958.5m, respectively.⁹ The trade deficit also grew by 9.8%, leaving the Palestinian economy heavily imports-dependent.

Exports to Israel (up 7.7%) amounted to 84.9% of all Palestinian exports, while imports from Israel (up 8.4%) equalled 72.6% of total Palestinian imports. After Israel, the most important export partners in 2010 were Jordan (\$31.2m) and the UAE (\$11.7m). Exports to the European countries increased by 110.0% to 1.7% of all exports, while imports from Europe grew by 6.0% to 9.3% of total imports.

The most important export categories were products of stone, cement, and glass (20.8%), metals (14.7%), and processed food (8.8%). The main import categories were minerals (34.9%), processed food (11.1%), and machines and electronics (8.5%).

On 20 December, after year-long negotiations¹⁰, the PA and Mercosur signed a free-trade agreement.¹¹

The PCBS released the monthly trade figures for October. In October registered exports of goods increased by 9.0%, while exports to countries other than Israel (14.0% of total exports) grew by 62.6%, compared with September.¹² While imports from Israel (63.8% of total imports) declined by 17.1%, imports from other countries increased by 20.0%.

Figure 2: October Trade Statistics

	Exports	Imports
Level	\$63.0m	\$327.5m
Change from 09/2011	+9.0%	-6.6%
To/from Israel (% of total)	86.0%	63.8%
Trade deficit		\$264.5m
Change from 09/2011		-9.7%

Source: PCBS

West Bank Aggregates Industry

In December the Office of the Quartet Representative (OQR) issued a report on the aggregates industry in the West Bank.¹³ West Bank crushers generate \$164m of aggregates annually, or about 2% of Palestinian GDP.

3 www.imf.org/external/country/WBG/RR/2011/091411.pdf

4 Bulletin 59, August 2011; Bulletin 61, October 2011; Bulletin 62, November 2011; Bulletin 63, December 2011

5 www.jmcc.org/news.aspx?id=3261

6 Bulletin 59, August 2011

7 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/finGov_2010E.pdf

8 www.pmf.ps/news/plugins/spaw/uploads/files/byanat2009/GeneralGovernmentOperations2009-statement1.pdf

9 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1817.pdf

10 Bulletin 62, November 2011

11 en.mercopress.com/2011/12/21/mercosur-signs-free-trade-agreement-with-palestinian-authority

12 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/ExtTrd102011E.pdf

13 www.lfd.ps/documentsShow.aspx?ATT_ID=4866

Israeli-run crushers generate approximately twice the value of Palestinian ones (\$105m against \$59m).

The study suggests three reforms for the sector. First, a more economically viable way of exporting aggregates to Israel. Second, more Palestinian crushers should be allowed the controlled use of explosives to extract stones effectively (following the ban of explosives in 2000-2008, only two crushers (in Area C) are licensed to use them). And third, access to raw materials in Area C should be allowed as sites in Area A and B are quickly depleting.

Foreign Aid Announcements

On 19 December the European Commission adopted the 2012 aid package for the Palestinian Territory, planning to spend €300m. This comprises of €168m originally allocated for 2012 and a further €132m coming from resources allocated to other headings for 2011 but now allocated to be spent in the Palestinian Territory during 2012.¹⁴ Together this means the EU is maintaining its funding for 2012 at the same level as 2011.

Baroness Ashton, the High Representative for Foreign Affairs, said: "This decision highlights our commitment to the Palestinian people. It consolidates our support to the Palestinian Authority's institution-building programme and contributes to the ability of the PA to provide essential public services." The EU began the distribution of funds at the end of 2011 in order to expedite the process and ensure that resources were available when needed. On 5 January, the EC and member states supplied €47.7m for the payment of December salaries and pensions to 85,000 civil servants and pensioners in the West Bank and Gaza.¹⁵

The 2012 package includes €155m allocated to the PA for civilian workers wages and pensions, social allowances for vulnerable families, and arrears of bills to the private sector for medical supplies; €80m will go to UNRWA's core budget and €65 million to institution building projects in the sectors of governance, private sector development, basic water infrastructure. On 11 January the EU announced €11m of support for the private sector and to boost the economy,¹⁶ this has been reported as targeting agriculture and Area C¹⁷ and will come from 2011 funding.

Also on 19 December the EU made the fourth quarterly contribution of €12m for 2011 to the PA's quarterly payment of social allowance to 66,600 Palestinian households living in extreme poverty.¹⁸ The contribution is channelled through PEGASE, and will for the first time use revised entitlement and payment criteria to increase access by Gazan families. It is intended that this support for vulnerable households will continue in 2012 following the aid package announcement.

14 europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1569&format=HTML&aged=0&language=EN&guiLanguage=en

15 eeas.europa.eu/delegations/westbank/documents/news/2012_csp_payment_injanuary_en.pdf

16 eeas.europa.eu/delegations/westbank/documents/news/20120111_11million_fa_en.pdf

17 maannews.net/arb/ViewDetails.aspx?ID=451796

18 eeas.europa.eu/delegations/westbank/documents/news/20111216_vpf_en.pdf

A number of other aid announcements were made in the final days of 2011. Including, on 28 December, the US Congress released \$40m of economic and humanitarian assistance to the PA, or about 20% of the \$187m frozen in September following a congressional hold.¹⁹ On 3 January, the US also announced an initial contribution of \$55m to UNRWA's 2012 budget.²⁰

Balance of Payments Q3 2011

The continuous deficit in the current account decreased considerably by 52.3% from the previous quarter, reaching 12.2% of quarterly GDP, owing mostly to a growth in the net current transfers of 138.9%.²¹ Donor transfers equalled 57.8% of all receipts from abroad.

The surplus in the capital and financial account declined by 70.5% from Q2 2011, despite the tripling of the net capital account. The net financial account, however, drastically dropped from \$615.5m to \$5.0m due to the negative value of net assets.

Figure 3: Q3 2011 Balance of Payments

Item	Q2 2011 Amount	Q3 2011 Amount
Current Account	-\$610.7m	-\$291.6m
Trade Balance of Goods	-\$1,029.4m	-\$1,013.0m
Services Balance	-\$68.4m	-\$88.9m
Income Balance	\$275.6m	\$305.1m
Balance of Current Transfers	\$211.5m	\$505.2m
Capital and Financial Account	\$676.8m	\$199.7m
Net Capital Account	\$61.3m	\$194.7m
Net Financial Account	\$615.5m	\$5.0m
Net Foreign Direct Investments	\$61.3m	\$49.1m
Net Foreign Portfolio Investments	\$66.2m	\$44.3m
Net Foreign Other Investments	\$393.6m	-\$192.4m
Change in Reserve Assets	-\$94.4m	-\$104.0m

Source: PCBS and PMA

West Bank Labour Market

An UNRWA report on the West Bank labour market released in December reveals that the private sector accounted for more than 90% of the growth in employment in the West Bank in the first half of 2011, with construction responsible for 70% of private sector job gains.²² Commerce, restaurants, and hotels continued providing the highest number of jobs (104,047), while construction experienced the most significant increase (an 81% increase from H2 2010) becoming the second most important sector in terms of employment (92,663 jobs). The drop in public unemployment of 5.7% was completely offset by the rise in private-sector employment of 8.6% in terms of number of jobs available.

19 www.state.gov/r/pa/prs/dpb/2011/12/179774.htm#PALESTINIANS and [www.cbsnews.com/8301-250_162-57349489/congress-frees-\\$40-million-for-palestinians/](http://www.cbsnews.com/8301-250_162-57349489/congress-frees-$40-million-for-palestinians/)

20 www.unrwa.org/etemplate.php?id=1209

21 www.pcbs.gov.ps/DesktopModules/Articles/ArticlesView.aspx?tabID=0&lang=en&ItemID=2039&mid=12235

22 www.unrwa.org/userfiles/201112123454.pdf

Exports from Gaza

The yearly export season for authorised cash crops in Gaza began at the end of November. Between 27 November and 3 January, a total of 84 truckloads with agricultural produce left Gaza: 73.5 with strawberries, 5 with sweet peppers, 4.5 with cut flowers and 1 with cherry tomatoes.²³ Between 28 November 2010 and 4 January 2011, 103 truckloads with cash crops exited Gaza.²⁴

The exports happened with the help of the Dutch government, which has been supporting flower, strawberry, and vegetable farmers in Gaza since 2006.²⁵ A \$2.1m Dutch grant has been extended for the current season to plant 591 dunums of cash crops. The harvest is expected to yield approximately 600 truckloads.

Household Environmental Survey 2011

In December PCBS released the results of the Household Environmental Survey for 2011. The survey found that 91.8% of Palestinian households (89.4% in the West Bank and 96.3% in Gaza) lived in housing units connected to a water network in 2011,²⁶ compared with 88.4% in 2009.²⁷ Connectivity to wastewater networks also increased from 52.1% of households in 2009 to 55.0% in 2011, and the disposal of wastewater in porous cesspits decreased from 45.5% of households to 39.0% over the same period.

International Awards

During the Second Global Summit on Entrepreneurship held in Istanbul on 3 December, Arabia 500 announced MENA Geothermal, a Palestinian company specialising in geothermal heating and cooling systems, as one of the 500 fastest-growing companies in the Middle East and North Africa, Turkey, and Pakistan.²⁸

In December two Palestinian micro-entrepreneurs and their microfinance institution, Palestine for Credit and Development-FATEN, won awards from PlaNet Finance Group during the International Microfinance Awards 2011 Conference in Paris.²⁹

23 OCHA Reporting, 23 November 2011 to 3 January 2012

24 www.ochaopt.org/documents/ocha_opt_protection_of_civilians_2011_01_07_english.pdf

25 pal.nlmission.org/111128_press_release_export_strawberries.pdf

26 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1813.pdf

27 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1619.pdf

28 www.zawya.com/story.cfm/sidZAWYA20111215063923

29 www.maanneews.net/arb/ViewDetails.aspx?ID=445966

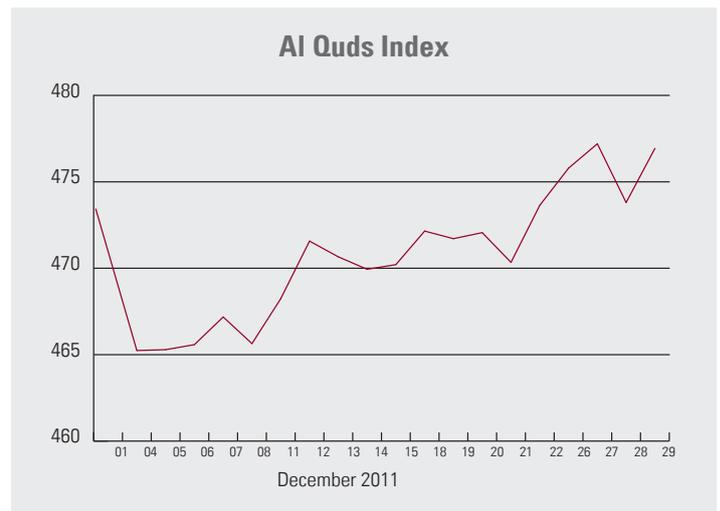
December Trading

Last month the Palestine Stock Exchange (PEX) announced that the Palestine Telecommunications Company (PALTEL) had joined the Standard & Poor's Index for private members of the Union of Arab Stock Exchanges (S&P-AFE 40) and the Dow Jones Index for preference shares with members of the Union's Euro-Asian Stock Exchanges (Dow Jones-FEAS 50).³⁰ By joining these renowned groupings of Arab and international indices the Palestinian exchange and listed shares become better placed on the international investment landscape.

In December the AI-Quds Index increased by 1.09%, the first month marking a growth since August, and closed at 476.9 points on the last day of trading. The index reached its highest (477.2) and lowest (465.2) levels on 27 and 4 December, respectively.

A total of 16.6m shares worth \$47.0m were traded in 20 sessions last month. Market capitalisation was \$2.8bn.

PEX has raised the number of companies included in the AI-Quds Index for 2012 from 12 to 15 to reflect the listing of seven new companies in 2011.³¹ The modified index represents 30% of listed companies and 83% of market capitalisation.



Source: PEX

30 www.pex.ps/PSEWebSite/NEWS/FinalSPDJPalteListingEngDec2011.docx

31 www.pex.ps/PSEWebSite/NEWS/AIQuds_Index_Modification2012.docx

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