

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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PADICO and the Palestine Investment Fund announced the launch of a new company to develop the Jericho Agro-Industrial Park.

The EU and the Swiss Agency for Development launched the start of a three-year programme supporting the Palestinian olive sector.

USAID announced that it will contribute \$22.6m in food and cash to the UN World Food Program in the West Bank and Gaza.

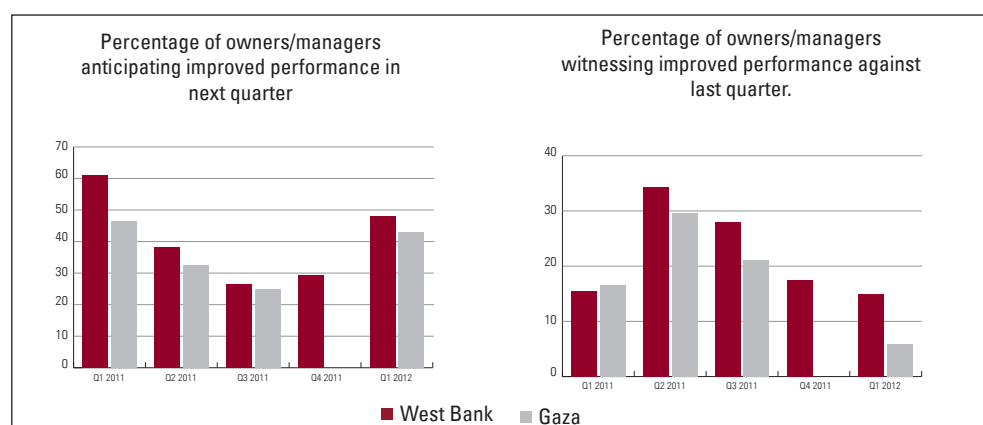
Palestinian Airlines has resumed weekly flights.

Business Perceptions

The latest business perceptions survey shows an improvement in the expectations of businesses for the next quarter. According to the Q1 2012 *Survey of the Perceptions of Owners/Managers of Active Industrial Enterprises Regarding the Economic Situation*¹ increasing numbers of business owners and managers are expecting better results in Q2 than in Q1. While there was a slight improvement in expectations in Q4 for the West Bank, this was the first significant improvement since the start of quarterly business perceptions monitoring in Q1 2011.

Business expectations can be a leading indicator of GDP growth. Those businesses that anticipate a better performance will be more inclined to invest and expand. However this improvement in expectations is set against businesses reporting falling performance against the previous quarter for four successive quarters.

Figure 1: Expectations and Reported Business Performance



Source: PCBS. Due to the low response rate there was no Q4 2011 figure for Gaza in the Palestinian Central Bureau of Statistics (PCBS) survey.

Reported improvements in Gaza are smaller than a year ago with just 5.9% of the owners/managers reporting better performance in Q1 2012 than in Q4 2011. The results for the West Bank and Gaza contrast with GDP growth rates which shows much higher growth in Gaza (26.6%) than in the West Bank (5.8%).² This raises questions about the sustainability of the growth rate in Gaza as it is not reflected in the experience of businesses surveyed.

Following the long-term trend, the survey also showed weak borrowing activity by industrial enterprises in the first quarter. 97.8% of owners of industrial enterprises stated that they refrained from borrowing from banks during the period.

The survey also asked respondents about the institutional provision of services by the Palestinian Authority (PA) and private enterprises. The results show high levels of dissatisfaction with infrastructure and facilities, with 76.5% of owners/managers in Gaza not satisfied with the roads and around a quarter of businesses

1 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/IPIQ12012E.pdf
2 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Q4_11e.pdf

in the West Bank not satisfied with the water supply. Following the fuel shortage in Gaza earlier in the year, 98.0% of owners/managers were not satisfied with the electricity supply. This suggests there is significant room for improvement in the provision of reliable services to businesses which are essential for long-term economic growth. Opinions of the judicial system and conflict resolution services were particularly positive in the West Bank with 88.1% of owners/managers satisfied with the fairness of the police and 77.2% satisfied with the effectiveness of the courts.

Figure 2: Not satisfied with services (%)

Service	West Bank	Gaza
Infrastructure and facilities		
Electricity Supply	29.7	98.0
Water Supply	24.7	31.4
Quality of Roads	38.3	76.5
Transport and Communications	31.1	78.4
Access to Industrial Areas	31.1	49.0
The judicial system and conflict resolution		
Fairness of the Police	8.1	27.5
Effectiveness of the Courts	17.5	29.4

Source: PCBS

Trade with Arab States

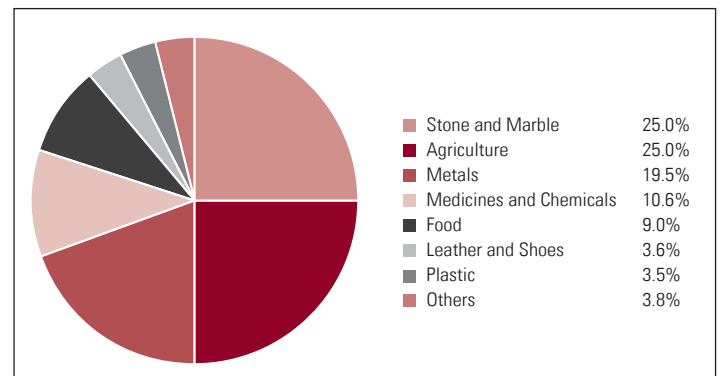
Ahead of the UNCTAD XIII Conference³ a panel discussion considered potential areas for Arab cooperation to assist the Palestinian economy.⁴ The discussion focused on the importance of supporting trade.

The Coordinator of the Assistance to the Palestinian People Unit at UNCTAD, Mahmoud Elkhafif, stressed the need to promote Palestinian goods and products in Arab markets. He suggested that this would help reverse the current erosion of the Palestinian economy's productive base.

In 2001 the Arab League granted duty-free treatment for all Palestinian products⁵ and in 2011 the Palestinian Territory joined the Agadir free trade agreement between Morocco, Tunisia, Egypt and Jordan.⁶ This is in addition to other preferential trade agreements with the US, the EU, Turkey and others.

Recently released data from the Palestinian Chamber of Commerce shows Palestinian exports of goods and services to the Arab world increased from \$60m in 2010 to \$74.7m in 2011.⁷ Jordan was the main recipient of Palestinian goods among Arab countries, receiving 58% of all exports to the Arab world.

Figure 3: Distribution of Palestinian Industrial Exports to the Arab World, 2011



Source: Palestinian Chamber of Commerce

However, the level of exports remained relatively low. Jordanian exports to the Palestinian Territory increased by 26% between 2010 and 2011, while Palestinian exports to Jordan grew by only 3% in the same period.

Exports to the Arab world and the rest of the world constitute less than 15% of total Palestinian exports.⁸ The majority of exports, around 85%, go to Israel.

VAT Revenues

VAT revenues increased from NIS 2.4bn (\$638m) in 2008 to NIS 3.3bn (\$878m) in 2011 according to the Ministry of Finance.⁹ Better accounting technology, greater use of tax receipts and more focused audit efforts have together helped improve tax collections over the past few years.

VAT revenues are declared and transferred to the PA treasury voluntarily by the private sector. VAT is imposed at a rate of 14.5% and constitutes a significant part of the PA's revenues, around 30% of total taxes collected.¹⁰ Despite this improvement in VAT collections, the PA is still facing a severe budget crisis.

Launch of a Company for the Jericho Agro-Industrial Park

Representatives from PADICO and the Palestine Investment Fund (PIF) have announced the launch of a new company to develop the Jericho Agro-Industrial Park (JAIP).¹¹ JAIP is a new initiative supported by the Japanese International Cooperation Agency (JICA) that aims to provide a modern space for industrial enterprises in the Palestinian Territory. Industrial enterprises in the Park will benefit from modern infrastructure, business support facilities and close proximity to the border crossing with Jordan. There will also be a package of financial and tax

3 unctadxiii.org/en/Pages/home.aspx. The UNCTAD Conference happens every four years and is the highest decision making body of UNCTAD.

4 www.ameinfo.com/arab-cooperation-sustain-palestinian-economy-occupation-297669

5 www.palst-jp.com/eg/pdf/inv/02/Trade_Agreements.pdf

6 Bulletin 61, October 2011

7 Al-Ayam Newspaper, Tuesday, 8 May 2012

8 www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3565&lang=en

9 www.maannews.net/eng/ViewDetails.aspx?ID=479193

10 www.pmf.ps/news/plugins/spaw/uploads/files/General%20Government%20Operations%202010%20-%20table%201.pdf

11 Al-Hayat Newspaper, Thursday, 3 May 2012

incentives, as well as preferential tariffs. The JAIP will be developed over three stages, the first of which will be completed this year.¹² The initial phase will provide 700 new jobs with the whole project providing 8,000 jobs.¹³

Olive Sector

On 2 May the Ministry of Agriculture hosted a meeting during which the EU and the Swiss Agency for Development (SDC) launched a three-year programme supporting the Palestinian olive sector.¹⁴ The olive sector is an important part of the agriculture and fishing sector which contributed 6.3% of Palestinian GDP in 2011.¹⁵ In addition, it plays a critical role in providing income to poor households and in food security. The two partners have agreed a stronger coordination mechanism in assisting olive farmers. They will also support the institutional development of the Ministry to better enable an environment conducive to business.

The joint programming approach is expected to boost the effectiveness and efficiency of assistance to the sector by reducing transaction costs, improving complementarities, and avoiding geographical and thematic overlap. The EU and the SDC will invest around €9.8m in 2012 in three market-based projects which will target more than 70 olive oil cooperatives with 4,000 members, of whom 300 are women, in addition to 17 women-only cooperatives.

New Foreign Aid Allocations

On 21 April USAID announced that it will contribute \$22.6m to the UN World Food Program (WFP) in the West Bank and Gaza.¹⁶ This includes \$15m of food assistance and \$7.6m in cash to enable the WFP to provide basic food such as chickpeas, fortified wheat flour, vitamin enriched vegetable oil, iodised salt and sugar to food insecure Palestinian families. The WFP supports over 700,000 vulnerable non-refugee Palestinians in the West Bank and Gaza. It is estimated that one in five Palestinian households is food insecure.

In April the EU (€7m), the Swiss Confederation (€2m) and Austria (€1m) made a contribution of €10m to this year's first payment of social allowances to poor and vulnerable Palestinian families in the West Bank and Gaza.¹⁷ The assistance benefits 64,743 families registered under the cash transfer program, around 60% of whom are in Gaza.

On 9 May the EU made another contribution of €22.5m to the PA to assist in the payment of April salaries and pensions

to 84,500 public sector employees and pensioners.¹⁸ PA employees in Gaza received their salaries for last month in US dollars and Jordanian dinar in addition to New Israeli Shekels.¹⁹ This is because of the ongoing cash crisis there.²⁰

In early May the World Bank's Board of Directors approved a Government Services Business Development project and will contribute \$3m to the Ministry of National Economy (MoNE) for its execution.²¹ The project will provide the private sector with more efficient and accurate business information by boosting MoNE's capacity to deliver business development data and high quality services. The World Bank emphasised the crucial role which the private sector has to play in the Palestinian Territory in generating jobs for a rapidly growing workforce.

In separate news the World Bank also announced it will contribute \$3m to support the PA's efforts to register West Bank land in order to promote property rights essential for economic development.²² The project, co-financed by the Finnish government, supports the registration of 180,000 dunums of land in the Dura area near Hebron.

Palestinian Airlines Resume Regular Flights

The Palestinian national airline, Palestinian Airlines, has resumed regular flights between Amman, Jordan and El-Arish, Egypt.²³ The company, established in 1994 and owned by the PA, had been offering only charter services from El-Arish to Saudi Arabia during the Haj. Palestinian Airlines has a fleet of three aircraft and is heavily in debt.

Tourism 2011

The PCBS *Hotel Activities Survey* for 2011 shows a total of 510,435 guests spent 1.25m nights in Palestinian hotels.²⁴ The number of guests marks a decrease of 11.6% compared with 2010 after steady consecutive growth since 2002.

In 2011 room occupancy in the Palestinian Territory was 26% with the highest rate in Jerusalem (42%) and the lowest in the Gaza Strip (4%). There were 103 hotels operating in the Palestinian Territory: 28 in Jerusalem, 63 in the West Bank and 12 in Gaza.

12 www.jaipark.com/jaip-dev.php

13 www.jaipark.com/in_news.php?id=17

14 eeas.europa.eu/delegations/westbank/documents/news/20120502_pr_donor_oo_coordination_en.pdf

15 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Q4_11e.pdf

16 www.usaid.gov/wbg/2012PR/pr_0421.html

17 www.ldf.ps/documents>Show.aspx?ATT_ID=5482

18 eeas.europa.eu/delegations/westbank/documents/news/20120509_press_release_re_csp_april_salaries_en.pdf

19 www.maannews.net/eng/ViewDetails.aspx?ID=484471

20 Bulletin 65, October 2011

21 web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKG_AZAEXTN/0,,contentMDK:23190114~menuPK:294383~pagePK:2865066~piPK:2865079~theSitePK:294365,00.html

22 web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKG_AZAEXTN/0,,contentMDK:23182968~menuPK:294383~pagePK:2865066~piPK:2865079~theSitePK:294365,00.html

23 www.maannews.net/eng/ViewDetails.aspx?ID=483719

24 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/HotelActiv2011E.pdf

The IMF's Special Data Dissemination Standard

Prime Minister Dr Salam Fayyad announced that the PCBS has joined the IMF Special Data Dissemination Standard (SDDS) as the fifth Arab national bureau of statistics (after Egypt, Morocco, Tunisia and Jordan) and the 71st worldwide.²⁵ Initiated in March 1996, the SDDS sets standards for the quality and timeliness of economic and financial data provided to the public and the financial markets. The standard includes 22 indicators divided into four broad sectors: economic activities, general government finance, the financial sector and the external sector.

February Foreign Trade

In February exports from the Palestinian Territory increased by 4.1% while imports increased by 0.4% compared with the previous month, which led to a growth of 1.5% in the trade deficit to \$280.5m.²⁶

Figure 4: Trade in Goods for February 2012

	Exports	Imports
Level	\$59.2m	\$339.7m
Change from 01/2012	-4.1%	+0.4%
Change from 02/2011	+4.6%	-12.0%
To/from Israel (% of total)	83.8%	64.6%
Trade deficit		\$280.5m
Change from 01/2012		+1.5%

Source: PCBS

March Indices

In March the Producer Price Index (PPI) decreased by 1.99% compared with February due to a decline in the prices which local producers receive for agricultural goods (-5.23%), fishing products (-2.27%) and manufacturing goods (-0.17%). The Industrial Production Index (IPI) decreased by 6.44% from March 2010.

25 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/SDDSE2012.pdf

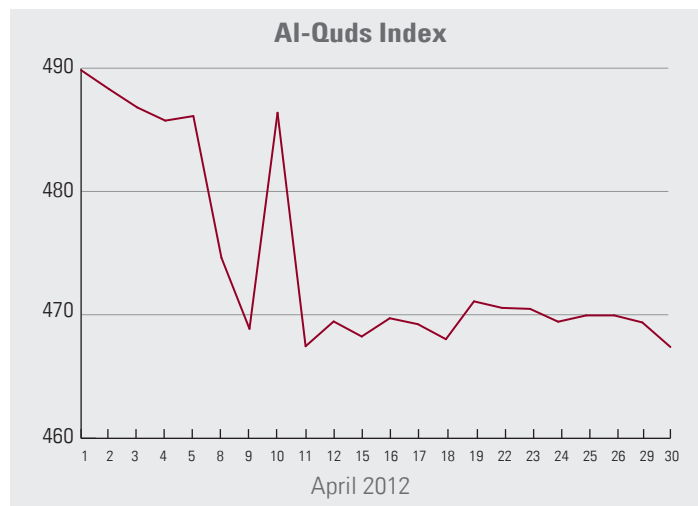
26 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/ExtRegTd022012E.pdf

Figure 5: CPI, PPI, and IPI for March 2012/27

	Consumer Price Index (CPI)	Producer Price Index (PPI)	Industrial Production Index (IPI)
	2004=100	01/2011=100	01/2011=100
Level	136.14	99.36	99.30
Change from 02/2012	+0.25%	-1.99%	-2.84%
Change from 03/2011	+3.12%	-1.79%	-6.44%

Source: PCBS

April Trading



Source: PEX

In April the AI-Quds index decreased by 3.97%. The index reached its highest and lowest levels on the first (489.9 points) and last (467.4 points) days of trading respectively. A total of 13.7m shares worth \$31.3m were traded in 22 sessions in April. Market capitalisation was \$2.8bn.

33 out of the 47 companies listed on PEX achieved profits exceeding a total of \$80m in Q1 2012.²⁸ The remaining 14 companies marked losses totalling \$8.9m. Ahmad Aweidah, CEO of PEX, praised the listed companies' commitment and their constant evolution towards a culture of timely disclosure and transparency. 45 companies disclosed their financial statements within the legal period, and the other two companies were only one day late.

27 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI032012E.pdf, www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PPI032012E.pdf and

28 www.pex.ps/PSEWebSite/NEWS/Q1Disclosure_2012_07052012.docx

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