

PALESTINIAN ECONOMIC BULLETIN

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Main reports

A release from the PCBS shows about a quarter of the Palestinian population lived below the poverty line in 2011.

June salaries for public sector employees were delayed by a week.

Publicis Groupe acquires 20% of Zoom Advertising.

The French Development Agency launched a five year Private Sector Development Cluster project.

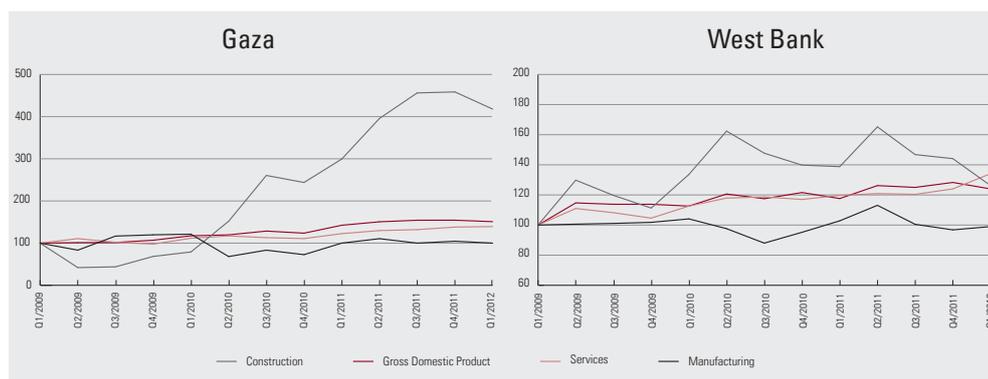
In Q1 2012 the current account deficit increased by 82.5% compared with the last quarter.

A solar power plant in Jericho will be connected to the Jerusalem District Electricity Company for a week of pilot testing.

Economic Sectors

Services remained the largest sector in the Palestinian economy in Q1 2012 according to newly released data. The sector contributed 23.8% of quarterly GDP (rising from 22.8% in Q1 2009): 19.8% in the West Bank and 33.2% in Gaza.¹ This contrasts with manufacturing whose share of GDP has declined, falling from 11.0% in Q1 2009 to 8.4% in Q1 2012. The services sector was even more significant in terms of numbers of jobs,² providing 57.1% of employment in the West Bank and 70.1% in Gaza.³ The vast majority of Gazan women worked in services – 89.5%, although only 13.7% participate in the labour force. 63.4% of all waged employees worked in the services sector as well as 50.3% of the self-employed, 46.7% of employers and 31.3% of unpaid family members.

Figure 1: Growth of Economic Activity in Selected Sectors (Q1 2009=100)



Source: PCBS

In the Palestinian Territory public administration and defence was the second major contributor to GDP (13.6%), followed by mining, manufacturing, electricity and water (12.3%) and construction (10.3%). In terms of employment, construction provided 13.5% of all employment and as much as 20.4% of male jobs. Overall, construction was the highest paid sector and employed 13.5% of working Palestinians.

The value of expenditure on new buildings and additions in the Palestinian Territory reached \$889.8m in 2011,⁴ an increase of 30.8% compared with the previous year.⁵

1 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PressQ1_12E.pdf

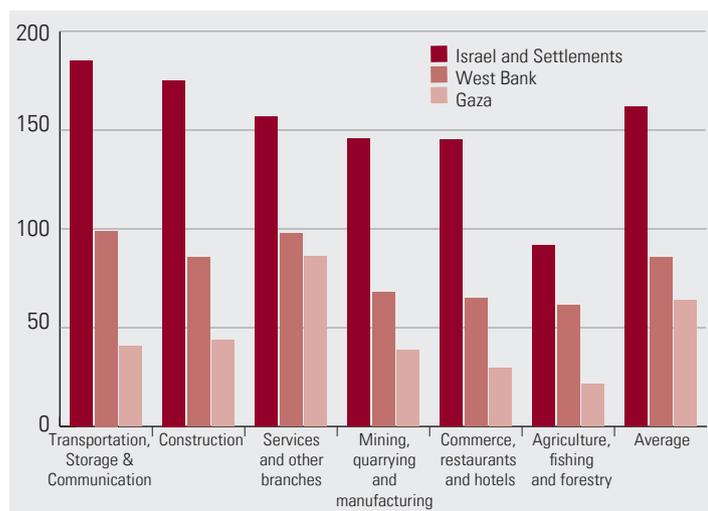
2 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabForceQ12012E.pdf

3 The PCBS national accounts survey includes the category 'accommodation and food service activities' in the numbers for the services sector. However, its labour force survey includes two separate sectors: 'commerce, restaurants and hotels' and 'services'. The Bulletin has combined the two sectors into one for the labour market statistics to compare the contribution of services to GDP and the labour force. The 'commerce, restaurants and hotels' sector provided 20.1% of jobs overall: 23.1% in the West Bank and 16.9% in Gaza; while 'services and other branches' contributed 37.1% overall: 34.0% in the West Bank and 53.2% in Gaza.

4 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1881.pdf

5 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/ExBldLic2011E.pdf

Figure 2: Average Daily Wages for Waged Employees Q1 2012 (NIS)



Source: PCBS

The PCBS defines the services sector slightly differently for GDP and labour force purposes (see footnote 3). The labour force figures show workers in the services sector in the West Bank and Gaza were the best paid in Q1 2012. For all sectors average daily wages are higher in the West Bank than in Gaza but the gap is smallest for the services sector (NIS 11.8). The largest gap was in transportation, storage and communication with a difference of NIS 58.3 per day between the West Bank and Gaza.

The data show there is a difference of earnings within the broader services sector as commerce, restaurant and hotel workers received the second lowest wages (after agriculture, fishing and forestry) at NIS 63.7 per day while workers in services earn an average of NIS 94.9 per day (both 'services' and 'commerce, restaurants and hotels' are under the GDP definition of services). When considering wages by the place of work, workers in Israel and settlements received the highest average daily wage across all sectors.

According to the PCBS figures in the year to Q1 2012 real GDP per capita increased in both the West Bank and Gaza by 2.6% and 2.4% respectively. The level in the West Bank (\$1,876) remained significantly higher than in Gaza (\$1,144).⁶ Meanwhile the unemployment rate was the highest since Q3 2010 at 23.9%. In the West Bank unemployment (20.1%) reached its highest level since Q3 2010 while the rate in Gaza was the worst since Q4 2010 at 31.6%.

Poverty and Food Security

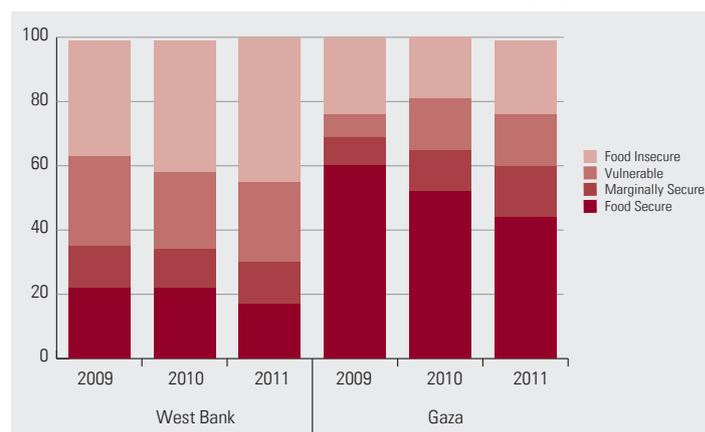
In 2011 poverty and food insecurity continued to be a major problem in the Palestinian Territory despite the economic growth. According to PCBS, about a quarter of the Palestinian population lived below the poverty line in 2011, while as many as 12.9% of Palestinians lived below

6 These figures are annualised, they are in current prices.

the deep poverty line.⁷ The PCBS definition combines absolute and relative features and is based on a monthly budget for the basic needs of a household of two adults and three children. The poverty and deep poverty lines in current prices were \$637 (NIS 2,293) and \$509 (NIS 1,832) respectively.⁸ The poverty prevalence remained about the same as in previous years (25.7% in 2010 and 26.2% in 2009), whereas deep poverty slightly declined from 13.7% in 2009 and 14.1% in 2010.⁹ The poverty rate in Gaza, historically higher than the one in the West Bank, went up in 2011 from 38.3% in 2009 and 38.0% in 2010 to 38.8%.

According to a report¹⁰ issued by the PCBS and the UN, food insecurity also remained at a high rate throughout 2011 despite a decline in the past three years: 27% of the Palestinian population was food insecure.¹¹ The situation in Gaza remained much worse than in the West Bank as there 44% of people were food insecure, compared with 17% in the West Bank. Only 23% of Gazans were food secure, compared with 45% in the West Bank. Nonetheless, the food insecurity rate in Gaza marks a major decrease from 60% in 2009 and 52% in 2010.

Figure 3: Food Security in 2009-2011 (% of population)



Source: FAO, UNRWA, WFP and PCBS

The report found the closure regime in the West Bank and the ongoing blockade of Gaza continue to be major drivers of the high levels of food insecurity. Reductions in external aid, fuel price increases and the inability of the private sector to sustain future economic growth will continue to contribute to food insecurity. On the other hand according to the report some recent economic growth, social assistance, regular payment of PA salaries in the West Bank and Gaza and the informal tunnel trade and partial easing of Israeli movement and access restrictions in 2010 in Gaza all contributed to improvements in food security.

7 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Living_2011e.pdf

8 Those living in deep poverty are counted within the poverty numbers too.

9 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/poor_E2010.pdf

10 Food insecurity exists when people lack secure access to sufficient amounts of safe and nutritious food for normal growth and development and an active and healthy life. In 2011 food insecure households were those with income and consumption below \$5.39 a day and those with a decrease in total expenditure. While food secure households had a daily income of above \$6.76 or between \$5.39 and \$6.76 but showed no decrease in total expenditures.

11 www.lfd.ps/documentsShow.aspx?ATT_ID=5707

Delay in Public Employees' Salaries

June salaries for public sector employees were delayed by a week. On payment employees with monthly salaries of over NIS 2,000 initially received only 60% of their wages.¹² The outstanding balance was paid on July 19 following the \$100m contribution from Saudi Arabia (see Foreign Aid Allocations below). The current high exchange rate between the US dollar and Israeli shekel puts further pressure on public sector employees as their salaries are paid in shekels, while bank loans are in dollars.

Publicis Groupe Buys 20% of Zoom

Publicis Groupe, the third largest communications group worldwide,¹³ announced in June that it will acquire 20% of Zoom Advertising, a Palestinian advertising company, with the option to purchase additional shares in the future.¹⁴ Established in 2004, Zoom currently employs 23 people and its clients include UNICEF, the Palestine Securities Exchange and Peugeot Palestine.¹⁵

Zoom Board Chairman Bashar Masri said the deal is a 'key step towards the goal of fostering an enabling business environment for private sector growth and development.' A Zoom representative told the Bulletin that 'Publicis has made a strong statement about its confidence not only in Zoom, but in the growth potential of [its] Palestinian client base as well.'

Private Sector Development Cluster

The French Development Agency (AFD) launched a four-year Private Sector Development Cluster Project which aims to strengthen the competitiveness of local businesses, especially micro, small and medium sized enterprises in order to increase their share of the local market and explore new export opportunities.¹⁶ The project, carried out in cooperation with the Ministry of National Economy, will develop clusters of companies, training centres and research units in a single location. It aims to create a high level of maturity for the established clusters and coordination between private and public stakeholders, significant improvements in competitiveness and employment at the firm, local and national business level. In addition it aims to enhance the public-private dialogue, the business environment and the policy-making process.

Balance of Payments

In Q1 2012 the current account deficit increased substantially by 82.5% compared with last quarter,

12 www.maannnews.net/arb/ViewDetails.aspx?ID=503549

13 www.publicisgroupe.com/#/en/group

14 newsflash.publicisgroupe.net/uploadedDocs/20120618_Zoom-06-18-12_ENG_DEF.pdf

15 www.zoom.ps/

16 www.alquds.com/news/article/view/id/361606 and www.lfd.ps/documentsShow.aspx?ATT_ID=5660

reaching \$690.5m or 24.7% of quarterly GDP at current prices.¹⁷ This increase was mostly caused by a rise in the deficit in the trade balance of goods from \$855.8m to \$1,255.2m. The surplus in the income balance (\$241.7m) resulted from compensation of employees working in Israel (\$229.1m) and investment income (\$30.7m). In addition the donors' current transfers amounted to 48.7% of the total value of receipts from abroad.

Figure 4: Q4 2011 and Q1 2012 Balance of Payments

Item	Q4 2011 Amount	Q1 2012 Amount
Current Account	-\$378.8m	-\$690.5m
Trade Balance of Goods	-\$855.8m	-\$1,255.2m
Trade Balance of Services	-\$71.8m	-\$96.0m
Income Balance	\$287.0m	\$241.7m
Balance of Current Transfers	\$261.8m	\$419.0m
Capital and Financial Account	\$257.8m	\$708.8m
Net Capital Account	\$63.1m	\$80.3m
Net Financial Account	\$194.7m	\$628.5m
Net Foreign Direct Investments	\$75.1m	\$86.0m
Net Foreign Portfolio Investments	-\$34.7m	\$27.5m
Net Foreign Other Investments	\$264.7m	\$625.8m
Change in Reserve Assets	-\$110.4m	-\$110.8m

Source: PCBS and PMA

Bank of Palestine

The Bank of Palestine (BoP) plans to set up its first overseas representative office in Dubai in 2013.¹⁸ The new office will initially offer savings accounts, remittance services, listed equity funds and mortgages to expatriate Palestinians looking to purchase a home in the Palestinian Territory. The move is part of BoP's efforts to expand its customer base and reach out to the Palestinian diaspora. The bank plans to launch similar offices in Chile, Qatar and Jordan. In addition, BoP was one of three banks in the Middle East and Africa shortlisted for the 2012 FT/IFC 'Sustainable Bank of the Year' award.¹⁹

Jericho Solar Power Plant

A solar power plant in Jericho will be connected to the Jerusalem District Electricity Company for a week of pilot testing.²⁰ The power station will daily produce 300kW of energy to supply power to Jericho. According to Dr Omar Kittaneh, Chairman of the Palestinian Energy Authority, the solar power plant in the West Bank is a key strategic step towards the goal of increased use of renewable energy set by the PA.

17 www.pcbs.gov.ps/Portals/_PCBS/Documents/BopTabl-Html%20Q1-2012-E.htm

18 www.gulfbusiness.com/bank-palestine-launches-dubai

19 world.einnews.com/article/102191911

20 www.maannnews.net/eng/ViewDetails.aspx?ID=502185

Foreign Aid Allocations

In June the Iraqi government promised to transfer \$25m to the PA.²¹ This is the first Iraqi contribution to the Palestinian government and people in the last decade. Following a visit to Saudi Arabia by President Abbas the Kingdom transferred \$100m to the PA to help the current acute financial crisis.²²

On 28 June the World Bank transferred \$23.3m to the PA from the Palestinian Reform and Development Plan Trust Fund (PRDP-MDTF).²³ The contribution, funded by the governments of Australia and the UK, will help support the urgent needs of the PA to provide education, health care and other vital social services as well as the economic reforms underway.

Among the European donors, the German government announced a comprehensive €46.7m aid package to the PA in the coming year which will fund critical projects in a number of sectors including solid waste, water treatment and education.²⁴ The UK announced the allocation of up to £107m to support UNRWA's provision of health, education and other vital services to tens of thousands of Palestinian refugees in the West Bank, Gaza, Syria, Lebanon and Jordan over the next three years.²⁵ The EU made its second annual contribution of around €9.9m to the PA's quarterly payment of social allowances.²⁶ And on a visit to the West Bank the European Commission President Jose Manuel Barroso signed a €20m funding deal for projects in the rule of law and justice sector.²⁷

Trading News

In July the Palestine Exchange announced that the amount of cash and stock dividends distributed in 2011 by listed companies was \$139.9m.²⁸ PALTEL ranked first with a dividend distribution of JD 52.7m (\$74.5m) followed by Bank of Palestine with \$23m. Last year PEX was one of the most rewarding exchanges in the region with the highest dividend yield of 6.97%.

21 english.wafa.ps/index.php?action=detail&id=20095

22 english.wafa.ps/index.php?action=detail&id=20268

23 go.worldbank.org/ULSX7Y78D0

24 www.alquds.com/news/article/view/id/361505

25 www.unrwa.org/etemplate.php?id=1365

26 eeas.europa.eu/delegations/westbank/documents/news/20120622_eu_pr_vpf_payment_en.pdf

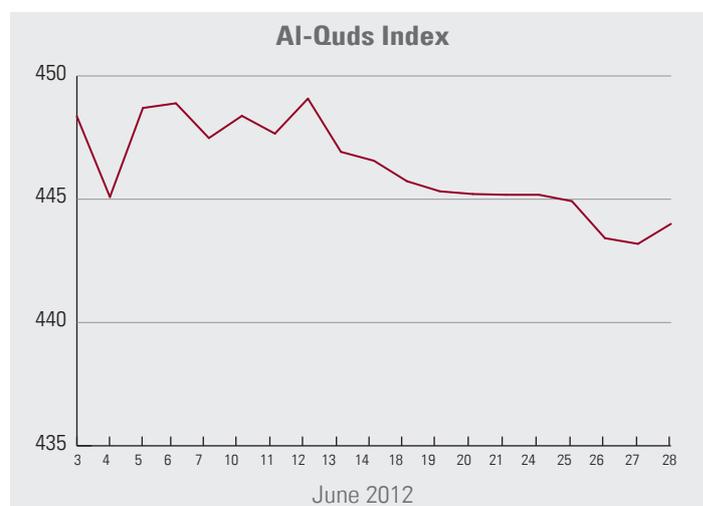
27 www.maannnews.net/eng/ViewDetails.aspx?ID=502493

28 www.pex.ps/PSEWebSite/NEWS/09072012.docx

On 2 July Rasmala Investment Bank announced the first annual dividend distribution of its Palestine Equity Fund of \$4.0 per unit.²⁹ In its first year, the Fund performed well set against the economic and financial challenges of the Palestinian Territory. Between 5 May 2011 (the Fund's inception date) and 31 May 2012 the AI-Quds index lost 9.29%, but the Fund lost only 6.78%. Eric Swats, Head of Asset Management at Rasmala, said, 'We were very pleased with the first year of performance of the fund. Looking ahead we think the combination of attractive valuations, solid dividend yields, and a relatively stable political situation and high GDP growth support a continued compelling case for Palestinian equities.'

In June the AI-Quds index decreased for a third consecutive month by 1.28% and closed at 444.0 points on the last day of trading. The index reached its highest (449.1) and lowest (443.2) levels on 12 and 27 June respectively. A total of 12.1m shares worth \$16.8m were traded in 19 sessions. Market capitalisation was \$2.7bn.

On 3 July PalAqar for Real Estate Development and Management (PalAqar) became the 48th company listed on PEX. Established in 1998 as a public shareholding company with a paid in capital of JD 2.5m (\$3.5m), PalAqar specialises in construction, civil engineering, real estate development and management of owned or leased properties.³⁰



Source: PEX

29 www.pex.ps/PSEWebSite/NEWS/11072012.pdf

30 www.sahem-inv.com/reports/researches/en/20120626160853.pdf

The Portland Trust



The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

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