

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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During March the Palestinian Political Risk Insurance was launched and the Jerusalem Arbitration Centre was inaugurated.

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In 2012 a total of 279 olive presses processed nearly 105,000 tonnes of olives, an increase of 12% with respect to 2011.

Following the success of Start-up weekend Nablus earlier in January, Start-up Weekend Ramallah took place on 4-6 April.

World Bank and IMF Economic Assessments

The World Bank¹ and the IMF² published their biannual assessments of the Palestinian economy. Both reports focus on the slowdown in economic activity, the increase in unemployment and the continued deterioration in public finances observed during 2012.

Real GDP growth reached 5.9% last year, down from an average rate of almost 11% in 2010-2011.³ The World Bank attributes the slowdown to the absence of easing of Israeli restrictions, the withdrawal of fiscal stimulus due to falling donor aid and the uncertainty created by the Palestinian Authority's (PA) fiscal crisis during 2012. In particular, the organisation stresses that the continuation of restrictions and the absence of real opportunities to open up the Palestinian economy are major obstacles to allow private sector-led growth.

High and persistent unemployment (especially among youth) continues to pose a major challenge to the Palestinian Economy, characterised by low labour force participation rates, high unemployment duration and the concentration of workers in small, low productivity firms in the non-tradable sector. According to the World Bank these factors prevent many Palestinians of working age from developing on-the-job skills, which are much needed to enhance local competitiveness in the global economy.

As a result of the current situation, the IMF's growth forecasts (shown in table 1 below) have deteriorated with respect to their September 2012 assessment. The baseline assumes a continued deadlocked peace process, falling donor aid as a per cent of GDP and no progress in phasing out the Israeli restrictions on movement and access. The lower growth (downside) scenario sees significantly lower donor support and even slower progress on structural reforms than in the baseline scenario.

Figure 1: IMF Real GDP Growth Forecasts (%)

	2013	2014	2015	2016	2013	2014	2015	2016
	Baseline Scenario				Downside Scenario			
September 2012	5.6	5.2	4.8	n/a	3.0	2.0	1.0	n/a
March 2013	5.0	4.4	3.6	3.1	-0.6	3.7	3.1	2.7

Source: IMF staff projections

The World Bank report also pays close attention to the impact of the PA's fiscal challenges and the stalemate in the political process on the long-term competitiveness of the Palestinian economy. This is deteriorating due to multiple factors: the stagnation of the manufacturing sector; the concentration of exports around low value-added products and few destination markets (with more than 85% of total exports heading to Israel); the structural challenges in the labour market and the poor performance of infrastructure sectors (such as water,

1 www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCMarchfinal.pdf

2 www.imf.org/external/country/WBG/RR/2013/031913.pdf

3 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ42012E.pdf

transport and telecommunications), which is exacerbated by restrictions on movement and access. In particular, the share of manufacturing in Palestinian GDP fell from 18% in 1995 to 11% in 2011, together with a slight decrease in sector productivity. Private investment (mainly targeted at less productive non-tradable sectors) has also remained low at about 15% of GDP over the past seven years.

The World Bank also highlights the strong empirical evidence on the positive correlation between export diversification and economic growth. However, the organisation points out that, given that enhanced diversification requires structural changes and significant financial resources, the Palestinian economy is likely to continue to be heavily exposed to economic shocks in Israel.

Palestinian Authority Budget 2013

The Palestinian President Mahmoud Abbas approved the PA budget for 2013.⁴ The total budget reached \$3.81bn; \$1.88bn for wages and social service expenditures, \$1.58bn for operating expenditures and \$350m for development projects.⁵ The budgeted wage bill and operating expenditures are 6% higher than in the previous year despite the expenditure control measures adopted by the PA as a response to the recent financial crisis (which included a freeze in the hire of new workers). While the budgeted amount of public worker wages as a percentage of GDP dropped from 18% in 2012 to 17% in 2013, the main increase in expenditure with respect to 2012 is observed in health care.

As regards revenues, the Government expects to secure around \$2.6bn from local taxes (\$890m, up by 18% from 2012) and custom revenues (\$1.72bn, up by 24% from 2012). The increase in local tax collection is expected on the basis of an expansion of the tax base and improved efforts in tax evasion prevention.⁶ In terms of customs clearance, the Israeli government recently announced the normal resumption of the monthly sums it collects on behalf of the PA (around \$100m), after having withheld those transfers on repeated occasions since November 2012.⁷

The projected levels of revenues and expenditure leave total deficit at around \$1.4bn. The financial gap (up by \$100m from 2012) is expected to be entirely covered by international aid, of which \$300m is to be allocated to development expenditure and the remaining \$1.10bn will be channelled to budgetary support. In 2012 total aid was nearly 30% below the budgeted figure, which resulted in the total deficit being around 20% higher than expected.

The budgeted aid for 2013 is almost double the assistance received by the PA during 2012.

On a positive note, following President Obama's visit to the region last month, the US Government decided to unblock almost \$500m in aid to the PA, which had been frozen by Congress in 2012. Of that total sum, \$200m is 2013 direct budgetary support, while the remaining \$300m are delayed 2012 funds (allocated for USAID economic, development and humanitarian assistance, as well as \$100m earmarked specifically for narcotics control).⁸

Palestinian Trade Developments

On 23 March, in coordination with the Middle East Investment Initiative (MEII) and the Overseas Private Investment Corporation (OPIC), the Palestinian National Insurance Company (NIC) launched the Palestinian Political Risk Insurance (PPRI). The PPRI is the first insurance product that protects Palestinian companies shipping goods out of the West Bank against unexpected losses.⁹ The innovative instrument combines Goods In Transit (GIT) and Crossing Point insurance and covers the entire value of shipments with a final destination of Israel, Gaza or abroad.

The PPRI, to be fully administered by NIC, will begin as a five-year pilot programme that will sell up to \$1.25m in insurance policies. Speaking at the launching event, the US Consul General in Jerusalem Michael Ratney highlighted that the initiative "...will support the Palestinian economy by reducing the costs and risks of exporting goods for Palestinian businesses", stressing that "increased international trade can play a major role in supporting sustainable economic growth".

In separate news, on 27 March, following the signing of a joint venture agreement between the Palestinian and Israeli International Chambers of Commerce (ICC), the Jerusalem Arbitration Centre (JAC) was inaugurated.¹⁰ Also supported by the ICC Headquarters in Paris and the Palestinian International Business Forum, the Centre will be co-chaired by the President of ICC Turkey.¹¹ JAC will resolve commercial disputes between parties in the Palestinian Territory and Israel, being recognised by judicial authorities on both sides. Chairman of ICC Palestine Munib Masri stated that "...for the first time ever in the history of dealing with Israeli companies there will be an internationally recognised and credible mechanism that can help resolve the hundreds - if not thousands - of commercial disputes stuck among Palestinian businesses and Israeli companies in courts".

4 www.english.wafa.ps/index.php?action=detail&id=21990 and www.english.wafa.ps/index.php?action=detail&id=21996

5 PA 2013 Budget Law

6 www.maannews.net/eng/ViewDetails.aspx?ID=580380

7 www.guardian.co.uk/world/2013/mar/25/israel-palestinians-cash-transfer-resumes

8 www.timesofisrael.com/us-unblocks-500-million-in-aid-to-palestinians/ and www.ynetnews.com/articles/0,7340,L-4360135,00.html

9 www.portlandtrust.org/sites/default/files/newsfiles/ppri_press_release.pdf

10 www.piibf.net/stories/jac/

11 www.hurriyetdailynews.com/turkish-chair-takes-offices-at-middle-east-arbitration-center.aspx?pageID=238&nid=43866

Balance of Payments

In Q4 2012 the current account deficit decreased by 2.2% compared with the previous quarter, reaching \$658.1m, which represents around 24% of quarterly GDP at current prices.¹² The deficit figure for Q4 2012 was 64% higher than that registered in Q4 2011. This large variation is mainly explained by rises in the deficits in the trade balance of goods (+20%) and the trade balance of services (+148%). The donors' current transfers amounted to 27.6% of the total value of receipts from abroad in Q4 2012. The surplus in income balance (\$273.6m) resulted from the compensation of employees working in Israel (\$236.9m) and investment income (\$29.8m, mostly explained by the interest received on Palestinian deposits in banks abroad).

Figure 2: Q3 and Q4 2012 Balance of Payments

	Q3 2012 Amount	Q4 2012 Amount	Change (%) Q4/Q3
Current Account	-\$672.6m	-\$658.1m	-2.16%
Trade Balance of Goods	-\$1,232.3m	-\$1,159.3m	-5.92%
Trade Balance of Services	-\$84.2m	-\$111.4m	+32.30%
Income Balance	\$279.1m	\$273.6m	-1.97%
Balance of Current Transfers	\$364.5m	\$339.1m	-7.00%
Capital and Financial Account	\$614.1m	\$633.9m	+3.22%
Net Capital Account	\$81.4m	\$65.0m	-20.15%
Net Financial Account	\$532.7m	\$568.9m	+6.80%

Source: PCBS and PMA

2012 Olive Presses

In 2012 a total of 279 olive presses processed nearly 105,000 tonnes of olives (an increase of 12% with respect to 2011), producing around 23,000 tonnes of olive oil (almost 11% more than in the previous year).¹³ Despite the observed increase in production total employment in the sector went down between 2011 and 2012.

Figure 3: 2011 and 2012 Olive Press Figures

	2011	2012
Number of Olive Presses	272	279
Fully Automatic	240	246
Half Automatic/Traditional	32	33
Employees	1,326	1,220
Waged Workers	70.8%	73%
Compensation	\$1.0m	\$1.0m
Quantity of Pressed Olives (tonnes)	93,566	104,763
Quantity of Extracted Oil (tonnes)	20,754	22,951

Source: PCBS

Nearly half of the arable land in the Palestinian Territory is planted with 8m olive trees. Olive farming and processing constitutes up to 14% of the Palestinian agricultural income and supports the livelihoods of around 80,000

families.¹⁴ In recent years, 2006 registered a record high olive processing volume of 160,000 tonnes, while 2009, with only 20,000 tonnes processed, was the least productive year since 2003.

Start-up Weekend Ramallah

Following the success of Start-up weekend Nablus earlier in January¹⁵, Start-up Weekend Ramallah took place on 4-6 April.¹⁶

Start-up Weekends are intensive hands-on events aimed at inspiring, educating and empowering entrepreneurial individuals. The Ramallah event brought together numerous successful Palestinian entrepreneurs, businesspeople, and ICT experts as speakers, coaches and judges to help the 85 participants (of which 40% were programmers, 30% designers and 30% business managers) in the development of 20 start-up business ideas.

The three award-winning projects, selected by the judges on the basis of their potential, included 'Screen'em', an online service to manage and analyse CVs and job offers aimed at connecting job seekers and employees in an efficient manner. Other awards were granted to 'East Notes', an application that allows students to access study notes for university courses in an easy and affordable way and 'SOMusical', an online application which allows users to remotely compose and produce music together.

The event was fully funded by local sponsors, including Bank of Palestine, Sadara Ventures, Exalt Technologies, Asal Technologies and Leaders Fast Forward. Tareq Maayah, head of Exalt and one of the judges, told the Bulletin, "The importance of events like Start-up Weekend is that it helps entrepreneurs go through a tried process of moulding their innovative ideas into fully fledged business concepts that they have to present to a panel of judges and the audience. This encourages them to think deeply about the business aspects of their ideas in order to arrive at a level that allows them to compete effectively."

Microwork in the Palestinian Territory

The World Bank recently published a feasibility study on microwork in the Palestinian Territory, assessing its potential to enhance local socioeconomic development and create employment opportunities for youth and women.¹⁷ As a form of outsourcing and remote work, the relatively new phenomenon of microwork breaks down large business processes into small and simple tasks that are distributed among various workers. The use of the internet allows for greater cost efficiencies

12 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_Balance-of-Payments-Q4-2012-e.pdf and www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BoPQ32012E.pdf

13 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1962.pdf and www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1861.pdf

14 www.ochaopt.org/documents/ocha_opt_olive_harvest_factsheet_october_2012_english.pdf

15 See Bulletin 77

16 www.ramallah.startupweekend.org/ and www.facebook.com/SWRamallah

17 www.worldbank.org/en/news/press-release/2013/03/26/world-bank-promotes-microwork-opportunities-for-palestinians

by engaging workers across geographical borders.¹⁸ Typical microtasks include market research, information gathering, data input, data verification, proofreading, translation, copyediting and graphic design.

According to the report, the high level of English proficiency and knowledge of modern technologies make Palestinian youth attractive to microtask employers. However, the study concludes that although Palestinian youth and women are a readily available workforce, comparatively high local labour costs limit the possibilities of consistently attracting microwork investment. In this sense, the Palestinian average daily wage of \$27.45 is higher than in competitor countries such as Bangladesh, China, Egypt, India or Jordan. Therefore, microwork is expected to be more feasible in population centres outside of Ramallah, where wages are typically lower.

Gaza

On 8 April the Israeli authorities decided to close the Kerem Shalom crossing to the passage of goods in and out of the Gaza Strip. This followed rocket fire from Gaza to Israel on Sunday 7 April. The crossing remained out of operation for four days and reopened for four hours on 12 April.¹⁹ As a result, Gazan farmers were forced to destroy three tonnes of fresh herbs (mint, sage, basil and tarragon) as the closure made the plants no longer fit for export to Europe (their final destination).²⁰ Although the crossing was operational on 14 April²¹ further closures were reported on 15-16 April.²² On 23 April the export of one truckload of herbs and spices to Europe as well as the access of 350 trucks into Gaza loaded with building materials was authorised.²³

Earlier in March, and also following rocket firing activities in the border region, Israel decided to reduce the permitted Gaza fishing zone from six to three nautical miles from the

18 www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/Finalstudy.pdf

19 www.gisha.org/item.asp?lang_id=en&p_id=1919 and www.timesofisrael.com/israel-to-reopen-gaza-border-crossings/

20 www.haaretz.com/news/diplomacy-defense/gaza-farmers-burn-3-tons-of-herbs-as-export-blocked-by-border-crossing-closure-1.515248

21 www.twitter.com/Gisha_Access

22 www.ochaopt.org/documents/ocha_opt_protection_of_civilians_weekly_report_2013_04_19_english.pdf

23 www.maannnews.net/eng/ViewDetails.aspx?ID=588467

coast²⁴, reversing the easing of limitations included in the ceasefire agreement that followed the end of the Israeli military operation 'Pillar of Defence' in November 2012.²⁵

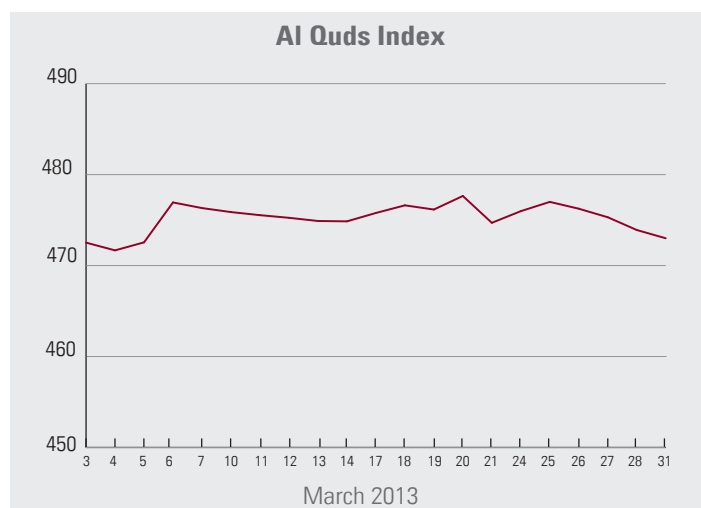
Consumer Price Index

In March 2013, despite an average drop of more than 8% in the price of several food items such as fresh vegetables, potatoes and other tubers, eggs and sugar, the overall consumer price index experienced a minor drop of only 0.5% with respect to the previous month (and a 1% increase from March 2012).²⁶ Rises in the cost of education (+4.6%), fresh poultry (+2%) and fresh fruit (+1.3%) partially offset the observed price decreases in the aforementioned products.

March PEX Trading

In March the AI-Quds index increased by 0.31% and closed down at 473.00 points on the last day of trading. The index reached its lowest (471.67) and highest (477.65) levels on 4 and 20 March respectively.

A total of 11.1m shares worth \$19.8m were traded in 21 sessions. Market capitalisation was \$2.8bn.



Source: PEX

24 www.maannnews.net/eng/ViewDetails.aspx?ID=577589

25 www.gisha.org/item.asp?lang_id=en&p_id=1763

26 www.pcbs.gov.ps/site/512/default.aspx?tabID=512&lang=en&ItemID=760&mid=3171&wversion=Staging

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