

PALESTINIAN ECONOMIC BULLETIN

Issue 73
October 2012

Main reports

The Palestinian Information Technology Association of Companies hosted the 9th annual EXPOTECH Technology Week.

New figures show that the international investment position of the Palestinian Territory in 2011 declined from \$2,084m in 2010 to \$721m.

In Q2 the current account deficit remained high at 29.5% of GDP, largely caused by the trade deficit of -\$1237.5m.

The Palestine Monetary Authority (PMA) has announced that the PA plans to convert \$200m of its debt into bonds and other tradable securities by 2013.

World Bank and IMF Economic Assessments

The World Bank and the IMF have published their bi-annual assessments of the Palestinian economy.¹

The World Bank report commends the Palestinian Authority for its continued reform and notes that its prior assessment about the institutional readiness of the PA for statehood 'remains valid today'. It highlights the resilience of the Palestinian banking sector and the positive role that the Palestine Monetary Authority (PMA) has been playing in terms of regulating the sector and building its capacity to withstand a broad range of shocks. The report reiterates the assessment that sustainable Palestinian economic recovery requires a vibrant and growing private sector based on further substantial easing of Israeli restrictions, especially in terms of access to Area C, which accounts for 61% of the West Bank.

Specific examples are detailed where lack of access to Area C land is hampering the development of the Palestinian private sector. For instance Palestinian mobile operators lose around 100,000 potential clients and are unable to extend their service coverage between Palestinian cities and villages as a result of their inability to build and operate adequate infrastructure in Area C. The Palestinian tourism sector also suffers from being unable to develop sites of interest including the Dead Sea and the Jordan Valley region. The lack of access to agricultural and water resources in Area C is another major impediment. The World Bank demonstrates the potential value of the Jordan Valley to the Palestinian economy by noting that Israeli agricultural production in the Jordan Valley generates about NIS 500 million annually. Palestinian SMEs are also limited by lack of land for expansion. Examples include a Hebron-based leather manufacturer that has recently resorted to setting up a production facility in Greece after it was unable to get permission to build a new factory on land it owned in Area C.

The table below shows the IMF's forecasts for the economy. The baseline scenario assumes a stable political and security environment, an improved fiscal situation aided by steady donor support and a gradual easing of Israeli restrictions including a slight improvement in Palestinian access to Area C. The lower growth scenario sees a continued deterioration in fiscal conditions and donor aid.²

Figure 1: Real GDP Growth Forecasts (%)

| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
|-----------|-------------------|------|------|----------------|------|------|
| | Baseline Scenario | | | Lower Scenario | | |
| West Bank | 5.0 | 4.6 | 4.3 | 2.6 | 1.6 | 1.0 |
| Gaza | 7.0 | 6.5 | 6.0 | 4.0 | 3.0 | 1.0 |

Source: IMF staff estimates and projections

1 siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCReportFinal.pdf
2 unispal.un.org/pdfs/IMFrpt_AHLC-Sept2012.pdf

Under the lower growth scenario, standards of living in the West Bank as measured by GDP per capita are forecast to decline as soon as next year.

Figure 2: GDP per Capita Growth (lower scenario)

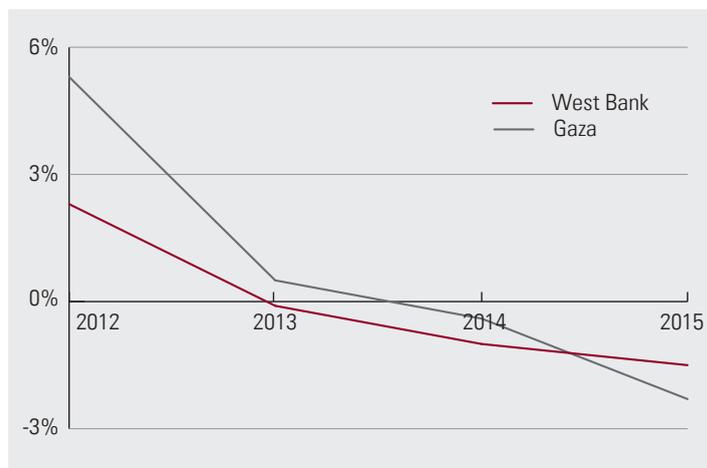


Figure 3: GDP per Capita Growth (baseline scenario)



Source: IMF staff estimates and projections

EXPOTECH Technology Week 2012

The 9th annual EXPOTECH Technology Week took place in October, featuring a one-day IT conference, special exhibition zones, a technology entrepreneurship forum and a business-to-business platform.³ The event showcased talented Palestinian entrepreneurs, young start-ups and established companies with innovative ideas and solutions. Business delegations from North America, Europe and the Middle East and renowned international and local experts took part. Dr Sabri Saidam, ICT Advisor to President Mahmoud Abbas, told the Bulletin that 'EXPOTECH is a Palestinian celebration of productivity and excellence at its best.'

Palestinian Prime Minister Dr Salam Fayyad visited on the first day and expressed the importance of the sector

noting that 'it is vital and spurs hope.'⁴ He also reiterated the PA's stance that the Israeli government ought to grant Palestinian companies access to 3G and 4G frequencies.

2011 International Investment Position

New figures show that the international investment position of the Palestinian Territory in 2011, which measures the difference between external assets and foreign liabilities, declined dramatically from \$2,084m in 2010⁵ to \$721m.⁶ This is largely due to an increase of \$949m in FDI. Cash deposits of local banks in foreign banks, and foreign exchange in the Palestinian economy accounted for 63.6% of external assets in 2011.

Dr Nasr Abdelkareem, an economist, commented that by looking at the change in 'portfolio investments abroad', one can see that local capital is outflowing which is mainly attributed to local banks seeking better returns in other destinations.

Figure 4: IIP in 2010 and 2011 (million \$)

| | 2010 | 2011 | % Change |
|--|--------------|--------------|---------------|
| <i>International Investment Position</i> | 2,084 | 721 | -65.4% |
| Total External Assets | 5,424 | 5,233 | -3.5% |
| FDI Abroad | 241 | 192 | -20.3% |
| Portfolio Investments Abroad | 806 | 1,147 | +42.3% |
| Other Investments Abroad | 3,444 | 3,397 | -1.4% |
| Currency and Deposits | 3,671 | 3,326 | -9.4% |
| Reserve Assets | 531 | 497 | -6.4% |
| Total Foreign Liabilities | 3,340 | 4,512 | +35.1% |
| FDI in the Palestinian Territory | 1,379 | 2,328 | +68.5% |
| Foreign Portfolio Investments in the Palestinian Territory | 611 | 611 | 0% |
| Foreign Other Investments in the Palestinian Territory | 1,350 | 1,573 | +16.5% |
| Loans from Abroad | 1,119 | 1,208 | +8.0% |
| Currency and Deposits | 228 | 359 | +57.4% |

Source: PCBS and PMA

Balance of Payments

In Q2 the current account deficit remained high at 29.5% of GDP, largely caused by the trade deficit of -\$1237.5m.⁷ A surplus in the income balance resulted from \$251.2m of remittances from employees working in Israel and investment income of \$30.2m which was mostly interest received on Palestinian deposits in banks abroad. Current transfers by donors accounted for 32.7% of the total value of receipts from abroad.

3 www.wamda.com/2012/09/expotech-technology-week-2012-to-highlight-palestinian-ict-innovation & www.expotech.ps/2012/page.php?id=WOX2JEPuWQa10461ALKoOP4XuHf

4 www.maannnews.net/arb/ViewDetails.aspx?ID=527881

5 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pres-IIP-2010_e.pdf

6 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_IIPExDt2011E.pdf

7 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BOPQ22012E.pdf

Figure 5: Q1 and Q2 2012 Balance of Payments (million \$)

| Item | Q1 | Q2 |
|--------------------------------------|---------------|---------------|
| Current Account | -690.5 | -793.6 |
| Trade Balance of Goods | -1,255.2 | -1237.5 |
| Trade Balance of Services | -96.0 | -90.9 |
| Income Balance | 241.7 | 278.0 |
| Balance of Current Transfers | 419.0 | 256.8 |
| Capital and Financial Account | 708.8 | 875.2 |
| Capital Account | 80.3 | 80.3 |
| Financial Account | 628.5 | 804.1 |
| Foreign Direct Investments | 86.0 | 48.1 |
| Foreign Portfolio Investments | 27.5 | -8.7 |
| Foreign Other Investments | 625.8 | 784.4 |
| Change in Reserve Assets | -110.8 | 19.7 |

Source: PCBS and PMA

PA Converts Debt into Securities

The PMA has announced that the PA plans to convert \$200m of its debt into bonds and other tradable securities by 2013.⁸ The bonds will be available to local banks only and not the public or other investors. According to Dr Jihad Al-Wazir, PMA Governor, the decision will provide stability and generate an interbank market.

Economic Relations with Jordan

Jordanian and Palestinian officials have signed agreements to cooperate in agriculture, education, energy, trade, industry and social works. They included a free trade agreement and plans to establish trade logistics facilities on both sides of the border. Palestinian annual exports to Jordan are around \$31m, about 5% of total exports.⁹ Jordan has introduced new measures to facilitate the transit of Palestinian exports through Aqaba port including special discounts on storage and processing.

Officials also agreed to create a technical committee to facilitate the transfer of Palestinian agricultural goods to and through Jordan.¹⁰ In August, in response to growing complaints by Palestinian poultry breeders of the difficulties they face in marketing products, especially because of Israeli restrictions on Palestinian access to Israeli markets, the PA Ministry of Agriculture succeeded in obtaining permission from Jordan to export a limited amount of eggs for the Jordanian market.¹¹

A Palestinian Minimum Wage

The Palestinian Cabinet has endorsed recommendations to establish a minimum wage by 2013. The minimum levels would be NIS 1,450 a month, NIS 65 a day and NIS 8.5 an hour.¹²

According to PCBS data, a total of 150,400 employees will directly benefit from introducing a minimum wage as they currently make less than NIS 1,450 per month. They are almost equally divided between the West Bank (71,400) and Gaza (79,000). Most work in commerce, restaurants and hotels (39,100), followed by services (36,600), mining, quarrying and manufacturing (27,800), construction (19,000), agriculture, fishing and forestry (17,100) and transport, storage and communication (10,800).

Gaza

The Egyptian government has closed down some of the tunnels which connect Gaza to Egypt, leading to shortages in food, medicine, building materials and other goods.¹³ Imports of food are reported to have decreased by 31% and construction materials are down by 45%. Imports of goods through the Kerem Shalom crossing have since increased by 22%, although this is insufficient to meet Gaza's needs, according to the Gazan Ministry of Economy.

Separately, the Gaza Power Plant is still operating under capacity, partly due to a lack of fuel. The total electricity deficit rate is up to 50%, which means there is a strict distribution schedule of eight hours of supply followed by eight hours of cuts.¹⁴

A Qatari reconstruction effort is underway in the Gaza Strip in an effort to bolster economic activity, especially in the construction sector.¹⁵ Total support will be \$254m over three years for development, infrastructure and education projects. These projects are expected to employ 10,000 Palestinians.¹⁶ So far tenders for four projects have been released: the construction of Sheikh Hamad bin Khalifeh Al Thani city (\$30m) and the rehabilitation of Al Rashid coastal road (\$50m), Karameh Street (\$18m), and Salah Eddin Road (\$60m).¹⁷

Jericho

Padico has registered 3,000 dunums of land for one of the biggest real estate projects in the Palestinian Territory known as Jericho Gate. The complex will include a variety of entertainment areas, residential villas, hotels, resorts and water parks. It is expected to employ 4,000-5,000 people. Padico and PaITel group initiated the project in 2011 with a paid-in capital of \$50m. The master plan is expected to be complete by 2013, after which construction will begin.

Also in Jericho, Prime Minister Dr Salam Fayyad has inaugurated a solar power plant in the Jericho Agro-

8 www.maannews.net/eng/ViewDetails.aspx?ID=525175

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

10 www.maannews.net/eng/ViewDetails.aspx?ID=522220

11 www.maannews.net/eng/ViewDetails.aspx?ID=514739

12 www.palestinecabinet.gov.ps/site/461/default.aspx?tabID=461&ItemID=122509&mid=3085&wverson=Production

13 www.maannews.net/eng/ViewDetails.aspx?ID=522135 and www.maannews.net/eng/ViewDetails.aspx?ID=521346

14 www.ochaopt.org/documents/ocha_opt_protection_of_civilians_weekly_report_2012_09_14_english.pdf

15 www.maannews.net/eng/ViewDetails.aspx?ID=523487

16 www.maannews.net/arb/ViewDetails.aspx?ID=523449

17 maannews.net/arb/ViewDetails.aspx?ID=525434

Industrial Park, which has been sponsored by the Japanese Government.¹⁸ The power plant will produce 300kW of electricity daily.

Foreign Aid

The World Bank has transferred \$14.3m from the governments of Australia and the UK to the PA to help support its budget.¹⁹ France has also announced the forthcoming disbursement of €10m of budgetary aid.²⁰ The EU and Belgium made the third annual payment of €9.8m to the PA's quarterly social allowances for poor families.²¹

Gaza Date Bars to West Bank Schools

In September the World Food Programme (WFP) transferred 1.2m fortified date bars produced in Gaza to the West Bank, where they will be distributed to 75,000 school children in 300 schools in the most food insecure areas of the West Bank.²² This is the second shipment of this kind.²³

Q1 2012 Insurance Sector Data

This month the Bulletin is starting the quarterly publication of data on the Palestinian insurance sector provided by the Palestine Capital Market Authority (PCMA).

Ten insurance companies operated in the Palestinian Territory in Q1 2012 with a total staff of 1,037. The companies offer a range of insurance products, coverage and packages on both the institutional and individual levels through their 102 branches. The total assets of insurance companies reached \$333m in Q1, with \$23m paid-up compensations and a net income of \$3.8m.²⁴

18 Bulletin 70

19 www.lfd.ps/documentsShow.aspx?ATT_ID=6292

20 www.lfd.ps/documentsShow.aspx?ATT_ID=6382

21 eeas.europa.eu/delegations/westbank/documents/news/20121005_pr_sep_vpf_en.pdf

22 www.wfp.org/news/news-release/date-bars-produced-gaza-their-way-west-bank-school-children

23 Bulletin 66

24 Paid-up compensations is the amount paid by insurance companies to insurance policy holders as an offset of recognised claims.

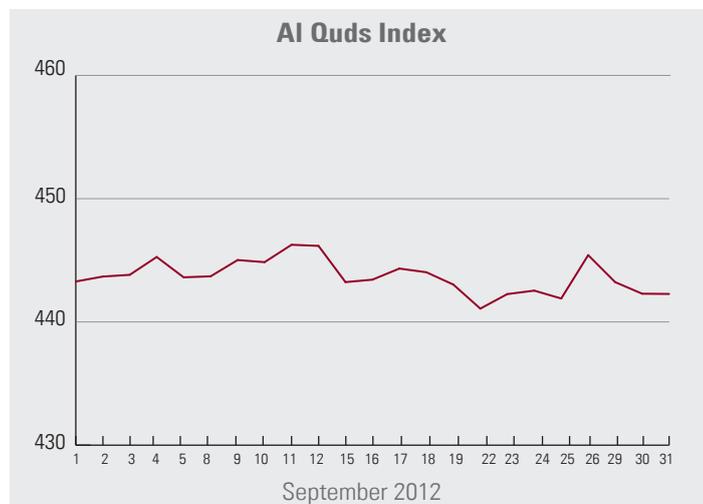
Figure 6: Q1 2012 Financial Indicators and Operational Data for the Insurance Sector

| Insurance Portfolio (million \$) | | | | | |
|--|-----------------|--------------------|--------------------------|----------------------------|------------|
| Insurance Premiums | | | Total Insurance Premiums | | |
| Life | Vehicles | Others | | | |
| 1.026 | 22.57 | 16.55 | 40.154 | | |
| Total Investments (million \$) | | | | | |
| Stocks | Bonds | Bank Deposits | Others | Real Estate | Total |
| 49.82 | 30.43 | 50.64 | 2.591 | 48.32 | 181.8 |
| Local Investments (million \$) | | | | | |
| 32.26 | 0 | 40.76 | 2.591 | 45.27 | 120.9 |
| Aggregated Balance Sheet and Income Statement (million \$) | | | | | |
| Total Assets | Paid-up Capital | Technical Reserves | Paid-up Compensations | Net Compensations Incurred | Net Income |
| 332.6 | 63.56 | 192.9 | 23.04 | 19.20 | 3.761 |

Source: PCMA

September Trading News

In September the AI-Quds index increased by 3.09%, closing at 445.8 points. The index reached its lowest (416.3) and highest (445.8) levels on 11 and 30 September respectively. A total of 7.6m shares worth \$14.6m were traded in 21 sessions. Market capitalisation was \$2.7bn.



Source: PEX

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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