

PALESTINIAN ECONOMIC BULLETIN

Issue 95

August 2014

Main reports

In Q2 2014 total unemployment in Palestine reached 26.3%, a sharp increase from Q2 2013. Unemployment in Gaza stood at 45.1% , its highest level since Q2 2008

The Palestine Monetary Authority Business Cycle Indicator, reflecting the evolution of the business environment in Palestine, showed a highly unstable behaviour throughout Q2 2014, followed by sharp drops in July and August

During the first half of 2014 total donor support to the Palestinian National Authority reached NIS 1.6bn, 34% less than during the first six months of 2013. The drop is explained by a decrease in contributions from non-Arab donors

In August FastForward (FFWD), a Palestinian start-up accelerator based in Ramallah, selected three start-ups for a new round of acceleration

Gaza

On 26 August an open-ended ceasefire was announced in Gaza. The immediate opening of crossings to allow the passage of humanitarian aid and reconstruction materials into Gaza and the extension of the fishing limit to six nautical miles were agreed. Negotiations on other issues are expected to continue over the coming month.

The grave consequences of the Israeli military operation include numerous casualties, major economic losses and damage to infrastructure. Towards the end of July Gaza's sole power plant was severely damaged by airstrikes and completely shut down after its fuel tanks and one turbine were hit. Technicians at the plant estimate the cost of repairs at \$10m, reportedly stating that these could be completed in a few months if materials were supplied in a timely manner.¹ Together with decreased imports of electricity from Israel and Egypt (following damage to power lines), damage to the power plant left total electricity supply at around a quarter of the level registered prior to the operation.² As an emergency response, ten new electric back-up generators have been distributed across Gaza with the main purpose of enabling the provision of services in the water and health sectors.³ As estimated by the Palestinian Energy and Natural Resources Authority at the time of going to print, damage to generators, poles, high pressure cables, main power containers and warehouses reached \$35m.⁴

The water, sanitation and hygiene (WASH) situation also remains critical. The Gaza Coastal Municipalities Water Utility estimates that, as a consequence of the military operation, 40% of the population did not have access to running water at the time of going to print. On average, the rest of the population was receiving running water every 3-4 days.⁵ At the same time, serious health risks were faced by the population due to the mixing of sewage with water, the lack of chlorination and the lack of solid waste collection. Due to the shortage in electricity supply, 600,000 litres of fuel were needed to operate the most important WASH facilities, up from 120,000 litres prior to the operation.

Damage to houses and other buildings has also been considerable. The World Health Organization reported that 15 of the 32 hospitals in Gaza have been damaged, with nine remaining closed at the time of going to press. Ministry of Health and UNRWA public clinics have also been severely affected: 43 (out of 88) have been damaged and 15 shut down.⁶ At the same time, the Independent Commission for Human Rights' office in Gaza reported that a total of 60,000 housing units were partially or completely destroyed. The Palestinian Economic Council for Development & Reconstruction estimated the cost of rebuilding destroyed homes and other basic infrastructure at more than \$1.7bn.⁷

With very limited activity at the crossings in and out of Gaza and extensive damage to private infrastructure and other productive assets, business activities were

1 www.gisha.org/updates/3363

2 www.bit.ly/1zA0X0Z; and www.bit.ly/1qKPVRC

3 www.maannews.net/eng/ViewDetails.aspx?ID=718734

4 www.maannews.net/eng/ViewDetails.aspx?ID=720989

5 www.gisha.org/updates/3363

6 www.bit.ly/XSrCdY

7 MAS estimation using data from PECARD

largely paralysed during the operation. The Palestinian Federation of Industries reported that 360 factories and workshops across various sectors were hit, with 126 being completely destroyed.⁸ Direct and indirect losses following the closure of around 2,700 factories and workshops during the operation are estimated at almost \$250m. As a result of the closures, nearly 30,000 workers employed in those establishments have been prevented from working. Meanwhile, the Ministry of Agriculture estimates preliminary direct and indirect losses in the sector at \$450m. As the Bulletin went to print, a total of 30,000 dunums of open field vegetables and 5,860 dunums of fruit trees were reported to have been extensively damaged, alongside the total or partial destruction of greenhouses, wells and other water facilities and agricultural roads.⁹

Damage to food production assets has further limited food supply and resulted in increased food prices in Gaza. Half of the poultry in the Gaza Strip were killed as a result of direct damage and/or restrictions on farmers' movement and access to feed them.¹⁰ At the same time, FAO estimates losses in the fishing sector between 9 July and 10 August at almost 235 tonnes (over 9% of the annual catch).¹¹ Prior to the operation, imports constituted most of the food supply in Gaza; however local production remained important, as almost 29,000 households were reliant on income from agriculture and fishing activities. The significant damage to the agriculture sector poses major long-term challenges to food production in Gaza. Recovery will require substantial efforts, including productive infrastructure, water, electricity and increased access to land by farmers and herders.

In the aftermath of the conflict, extensive international efforts are needed for Gaza's reconstruction. The governments of Egypt and Norway have announced that they will co-host a donor conference in Cairo with a focus on the reconstruction of Gaza.¹²

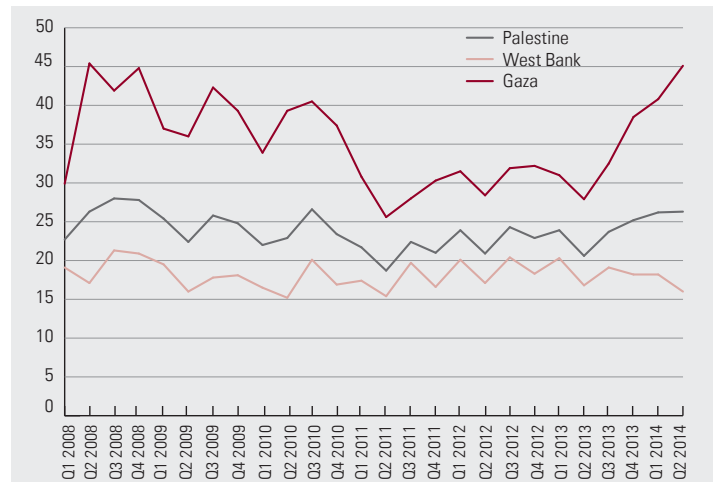
Labour Market

In Q2 2014 total unemployment in Palestine reached 26.3%, a slight increase from the previous quarter (26.2%) and 5.7 percentage points higher than in Q2 2013. The year-on-year change was a result of a sharp rise in unemployment in Gaza, which reached 45.1% in Q2 2014 (its highest level since Q2 2008), up from 27.9% in Q2 2013. The increase in unemployment in Gaza was mostly driven by a net loss of almost 19,000 jobs in the construction sector, which continued to be greatly affected by long-standing restrictions on imports of construction materials from Israel. As a result, the construction sector's share of total employment in Gaza decreased from 8.7% in Q2 2013 to 2.2% in Q2 2014. In the West Bank, total unemployment

decreased to 16% in Q2 2014, from 18.2% in Q1 2014 and 16.8% in Q2 2013.

Figure 1 shows that in Q2 2014 the labour market in Gaza was going through one of its most challenging periods in years prior to the Israeli military operation launched on 8 July. Total unemployment was already higher than in the aftermath of the 2008 and 2012 military conflicts in Gaza. With severe social and economic consequences resulting from the latest operation, it is expected that labour market conditions in Gaza will further deteriorate towards the second half of the year.

Figure 1: Quarterly Unemployment Rate, 2008-2014 (%)



Source: PCBS

The divergence in labour market dynamics between Gaza and the West Bank during the first half of the year highlights the increased isolation between the two geographically and administratively separated regions.

This trend is also observed in youth unemployment rates, which continue to be alarmingly high in both regions. However, while the youth unemployment rate in the West Bank decreased in Q2 2014 from Q2 2013, in Gaza it increased significantly over the same period. Almost 70% of youth aged 20-24 were unemployed in Gaza in Q2 2014 (Table 1).

Table 1: Youth Unemployment by Age Group and Region, Q2 2013 and Q2 2014 (%)

Region	Age group			
	15-19		20-24	
	Q2 2013	Q2 2014	Q2 2013	Q2 2014
Palestine	36.5	37.9	37.2	43.1
West Bank	29.3	26.4	28.8	27.5
Gaza Strip	55.7	62.8	52.6	68.3

Source: PCBS

In Q2 2014 the average daily net wage for Palestinians employed in Israel or Israeli settlements remained significantly higher (NIS 184) than in the West Bank (NIS 91) and the Gaza Strip (NIS 61). However, while wages in both Israel or Israeli settlements and the West Bank increased from Q2 2013 (from NIS 172 NIS and NIS 89, respectively), nominal wages in the Gaza Strip decreased by more than 3% over the same period. Topped with high inflation in Gaza in

8 www.gisha.org/updates/3350

9 www.bit.ly/1vmwbeq

10 www.ochaopt.org/documents/ocha_opt_sitrep_15_08_2014.pdf

11 www.fao.org/news/story/en/item/240924/icode/

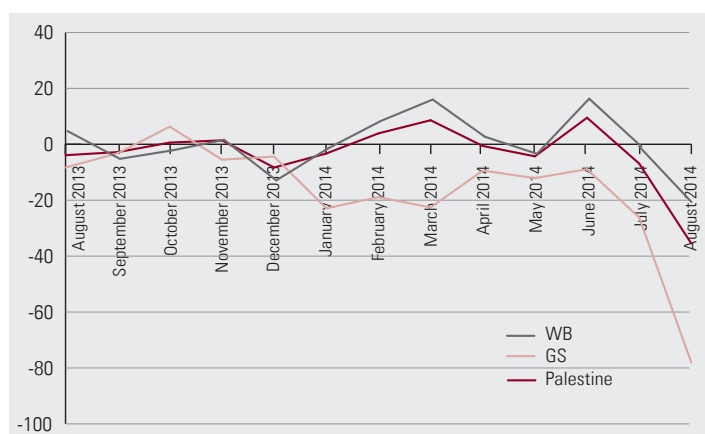
12 www.bit.ly/1pHa0kx

July (3.4% CPI increase from June), the decrease in nominal wages resulted in a significant wage drop in real terms.¹³ As a result of limited economic activity and increased restrictions on movement during the military operation, the price of basic food items and other commodities in Gaza rose dramatically in July compared to the previous month, including price increases in fresh vegetables (51%), eggs (50%), potatoes and other tubers (16%), dried vegetables (11%), gas (10%) and fresh poultry (8%).

Business Indicators

The Palestine Monetary Authority Business Cycle Indicator (PMABCI), a monthly index aiming to capture the current state and the evolution of the business environment in Palestine, showed highly unstable behaviour throughout Q2 2014, followed by sharp drops in July and August.¹⁴ The overall index fell from -0.6 in April to -6.9 in July, and to -35.5 in August 2014. In the West Bank the PMABCI scored a negative value in July after having achieved its highest ever record in the previous month, and dropped again in August by almost 20 points. The index for the Gaza Strip hit an all-time low in August after having improved between April and June (Figure 2).

Figure 2: PMABCI by Region, August 2013-August 2014



Source: PMA

The deterioration of the index in Gaza is a direct consequence of very limited economic activity and extensive damage to infrastructure, factories and other productive assets during the Israeli military operation launched on 8 July. In the West Bank, the decline in July and August was caused by an overall contraction in all industrial activities, except for some marginal improvement in leather and construction activities.¹⁵ According to the PMA, the negative performance of the index in the West Bank reflects a significant decline in production and employment levels and was largely affected due to increased uncertainty in the political and security conditions.

The results of the Q2 2014 PCBS survey of the perceptions of owners and managers of active industrial enterprises had already signaled an increasingly challenging

environment for businesses in the West Bank during the first half of the year.¹⁶ Although there was a slight improvement with respect to the previous quarter, only 27% of owners/managers of active industrial enterprises reported an increase in the overall performance of their businesses during Q2 2014.¹⁷

At the same time, businesses in the West Bank were increasingly pessimistic about their prospects in Q2, as only 24% of the enterprises expected an enhancement in their situation in the next quarter, compared to 37% in Q1 2014. Expectations of businesses can be a leading indicator of GDP growth trends, as those anticipating a decline in performance are less likely to invest and expand. The different business indicators' recent performance therefore raises increasing concerns over economic prospects for the second half of the year. Consequently, annual GDP growth projections for 2014 (2%, IMF) may need to be revised downwards.

Foreign Aid

During the first half of 2014 total donor support (external budget support plus development financing) to the Palestinian National Authority (PNA) reached NIS 1.6bn. This is 34% less than during the first six months of 2013 and only 27% of the total amount budgeted for the year 2014.^{18 / 19}

The overall drop is explained by a decrease in contributions from non-Arab donors, which dropped by more than 65% between H1 2013 and H1 2014 (from NIS 1.7bn to NIS 605m). The US, which had donated more than NIS 730m between January and June 2013, did not transfer budgetary support funds to the PNA during the first half of 2014. Support from the World Bank remained largely unchanged over the same period, while contributions from the European Union through the PEGASE mechanism (80% of which were to cover payments to civil servants and pensioners) fell by 55%, from NIS 624m in H1 2013 to NIS 278m in H1 2014.

Contributions from Arab countries over the same period increased from almost NIS 560m to just below NIS 720m. While budget support from Saudi Arabia decreased by NIS 163.6m between H1 2013 and H1 2014, this was offset by an increase in donations from Qatar (NIS 347m in H1 2014), which had not allocated any budget assistance to the PNA during the first half of 2013.

Meanwhile, domestic revenue collection during the first half of the year performed relatively well, reaching NIS 5bn, or 54% of the budgeted amount for the whole year. This marked an increase of around 25% from H1 2013, due to higher clearance revenue (+NIS 867m) and increased domestic tax revenue (+ NIS104m). As a result, total fiscal

¹⁶ Data for Gaza is not available due to the PCBS' impossibility to conduct the survey during the military operation

¹⁷ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_POMIEREQ22014E.pdf

¹⁸ www.bit.ly/1phosLZ

¹⁹ www.bit.ly/VQEPSz

¹³ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_CPI072014E.pdf

¹⁴ www.bit.ly/1nD2FJp

¹⁵ www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=541&language=en-US

deficit by the middle of 2014 was slightly less than half the amount expected in the 2014 budget.

However, the current situation in Gaza could pose major fiscal risks. International donors could shift priorities to support reconstruction efforts and overall fiscal expenditure and domestic revenue collection patterns may also be negatively affected by the conflict. The PNA's budget for 2014 includes almost NIS 5.9bn of external assistance (13% more than the actual amount received in 2013), a sum equivalent to 42% of total (budgeted) public expenditure for the year. If donor commitments are not met, the total budget deficit for the year (already 13% higher than the actual deficit in 2013) could spike. This, in turn, could result in further accumulation of arrears with the domestic private sector, hampering economic activity and resulting in greater instability for Palestinian businesses.

Entrepreneurship

In August FastForward (FFWD), a Palestinian start-up accelerator based in Ramallah, selected three startups for a new round of acceleration.²⁰ Established in 2013 under the administration of Leaders Organization, FFWD has supported the launch of 10 start-ups since its launch. Each of the companies chosen for the new acceleration round will receive an equity investment of \$20,000 from the Welfare Association and the OPEC Fund for International Development. During the four-month acceleration programme the start-ups will be hosted in eZone, a tech hub established by Leaders in Ramallah in April 2014, where they will receive mentorship and access to other technological, educational and networking resources.

The three supported companies, selected from 170 applicants, are BareedEE (a start-up offering innovative postal services in the Middle East), Daleeli (a mobile app providing local tourist information and other online contents by tracking the user's location) and Red Crow (an online platform providing MENA-related security intelligence to business and individuals). The Director of Leaders, Shadi Atshan, said, *"We are making a monetary investment in the next generation of Palestinian entrepreneurs, focused on the innovation-based economy that will place Palestine in the global online marketplace."*

²⁰ www.bit.ly/1krrICY

IMF Resident Representative

The IMF Resident Representative Office for the West Bank and Gaza recently announced that Dr Udo Kock left his position as Resident Representative. Dr Kock told the Bulletin, *"I am sad to leave Palestine, which will always have a special place in my heart. I hope the political realities will soon change for the better so that the Palestinian people can build their own future. The country has all it needs to become a thriving cultural and economic centre in the region. Hopefully the next time I am in Palestine I will be able to see the beginning of it."*

The office of the IMF Resident Representative for the West Bank and Gaza was established in July 1995 *"to help fulfill the IMF's mandate to assist the Palestinian Authority as specified under the Oslo Accords."*²¹ In particular, the IMF has been providing policy advice in the macroeconomic, fiscal, and financial areas since 1994. The IMF is in the process of appointing a new Resident Representative, expected to join in the autumn.

July Trading

In July the Al-Quds index increased by 0.47% from the previous month, reaching 505.15 points on the last day of trading. It remained below 510 throughout the month and peaked at 508.8 on 17 July. A total of 3.3m shares worth \$7.2m were traded in 17 sessions. This marks a decrease of almost 80% in the number and of more than 70% in the value of traded shares from June 2014, and of 74% and 57%, respectively, from July 2013.

Poorer trading performance during July is partly explained by the five-day closure of the Palestine Exchange (PEX) during the Eid Al-Fitr holiday, the shorter working hours during the month of Ramadan and the negative impact of the situation in Gaza on the general investment climate.

In related news, PEX announced that the amount of cash and stock dividends distributed in 2013 by listed companies was \$148.5m, up by 17% from 2012.²² Palestine Telecommunications (PALTEL) ranked first, with a dividend distribution of \$92.9m, followed by PADICO Holding (\$15m) and Bank of Palestine (\$12m).

²¹ www.imf.org/external/country/wbg/rr/

²² www.pex.ps/PSEWebSite/English/NewsArchive.aspx

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

© 2014 The Portland Trust

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR