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Main reports

Palestine recorded a trade deficit of $1.17bn in Q1 2016

Al-Haditha, a Jordan-based cement company, has recently finalised procedures for compatibility with the Israeli standards of import

Al-Safa, a new Palestinian Islamic bank, is set to open in Palestine later this year

At the end of Q1 2016, the stock of investments of Palestinian residents outside Palestine (total external assets) exceeded investments of non-residents in Palestine (total foreign liabilities) by $906m

National Accounts

Palestinian quarterly real GDP increased by 8% from Q1 2015 to Q1 2016.[1] The largest increase was in construction (44.3%) due to a 190% increase in Gaza as well as a rise of 4.9% in the West Bank. The construction sector alone contributed 2.7 percentage points of growth in Palestinian quarterly real GDP between Q1 2015 and Q1 2016. The increases in financial and insurance activities (11.7%), services (9.3%), mining, manufacturing, electricity and water (6.9%) and transportation and storage (6.1%) were also sizeable. Public administration and defence rose by 5.2%, contributing 12.2% of national GDP. Services remained the largest GDP contributor (20.3%), followed by wholesale and retail trade (17.2%) and mining, manufacturing, electricity and water (13.4%).

In the West Bank, quarterly real GDP increased by 4.2% from Q1 2015 to Q1 2016. In the West Bank, all sectors except for wholesale and retail trade (-2.1%) experienced an increase year-on-year. Given the size of the wholesale and retail sector, and the vital role that consumption plays in supporting Palestinian GDP, any further contraction could have serious implications for the Palestinian economy. The largest increases occurred in financial and insurance activities (11.5%), transportation and storage (11.4%), services (5.9%) and mining, manufacturing, electricity and water (5.7%). The most sizeable sectors were services (18.9%), wholesale and retail trade (18.4%) and mining, manufacturing, electricity and water (15.3%).

Quarterly real GDP increased by 21.1% in Gaza between Q1 2015 and Q1 2016, driven by significant growth in the construction sector. In addition to construction, other sectors that achieved major increases include services (17.8%), mining, manufacturing, electricity and water (14%) and financial and insurance activities (12.9%).

Gaza's construction sector benefited from the easing of restrictions on cement importation (75,000 tons per month between October 2015 and April 2016), demonstrating the importance of movement and access for economic growth. Overall, Gaza imported roughly seven times more cement in the fourth quarter of 2015 (141,100 tons) than in the fourth quarter of 2014 (22,600 tons). Growth in the construction sector may slow temporarily as restrictions were reintroduced between 3 April and 23 May.[2] The substantial growth in construction may represent a rebound following the 2014 war as in Q1 2016 the sector remained approximately 5% below its level in Q1 2013.

In Gaza, all sectors recorded an increase in GDP between Q1 2015 and Q1 2016 except for transportation and storage (-16.9%), which may have long-term potential but currently only contributes approximately 1% to Gaza's GDP, and agriculture, forestry and fishing (-6.4%).

1 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ12016E.pdf
2 www.ochaopt.org/content/cement-imports-resume-private-sector-gaza

Public administration and defence, the largest contributor to GDP in Gaza (28.3% of the total), increased by 8.6% between Q1 2015 and Q1 2016. Services remained the second largest sector (24.3%), while construction was the third for a second consecutive quarter (15.7%).

Balance of Payments

Recently the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA) released the preliminary results for the Palestinian Balance of Payments for the first quarter of 2016.[3]

To assess recent developments in Palestine's Balance of Payments, Table 1 breaks down the current account balance into its constituent parts – the Trade Balance, the Income Balance (income earned by Palestinian residents from investments abroad, minus income earned by non-residents on their Palestinian investments) and the Balance of Current Transfers that records transfers between Palestine and the rest of the world.

Table 1: Balance of Payments, Palestine, Q2 2015, Q4 2015 and Q1 2016

Item	Q1 2015 (millions)	Q4 2015 (millions)	Q1 2016 (millions)	Change (%) (Q1 2015-Q1 2016)	Change (%) (Q4 2015-Q1 2016)
Current Account	**($323.4)**	**($449.8)**	**($277.8)**	**-14.1%**	**-38.2%**
Trade Balance of Goods	($1,218.6)	($1,268.9)	($1,130.3)	-7.2%	-10.9%
Trade Balance of Services	($2.3)	($45.8)	($40.6)	+1,665.2%	-11.4%
Income Balance	$331.8	$347.5	$364.4	+9.8%	+4.9%
Balance of Current Transfers	$565.7	$517.4	$528.7	-6.5%	+2.2%
Capital and Financial Account	**$237.6**	**$570.4**	**$198.8**	**-16.3%**	**-65.1%**
Net Capital Account	$99.1	$112.3	$102.8	+3.7%	-8.5%
Net Financial Account	$138.5	$458.1	$96.0	-30.7%	-79.0%

Source: PCBS and PMA

Table 1 shows that Palestine recorded a trade deficit of $1.17bn in Q1 2016. While this represents a 4% decrease on the previous year, the Palestinian trade deficit between 2000 and 2014 fluctuated between 37% and 60% of Palestinian GDP.

A large trade deficit would normally imply a correspondingly large surplus on the Financial Account, which records transactions resulting in a change of ownership of financial assets and liabilities between Palestinian residents and non-residents. However, this is not the case in Palestine.

The persistent trade deficit has been funded by income from Palestinians employed in Israel (recorded in the Income Balance), foreign aid (recorded as official transfers) and remittances from Palestinians living abroad (recorded as non-official transfers). In Q1 2016, these three sources covered over 85% of the total trade deficit. In Q1 2016, the Income Balance, which included wages earned by Palestinians in Israel, recorded a surplus of $364m. The income consists of compensation of employees and investment income. In recent years compensation of Palestinian employees in Israel has accounted for over 75% of total receipts on the income account.

Palestine also receives a significant amount of capital in the form of transfer payments (transfers) arising from remittances from Palestinians living abroad and overseas aid. These transfers are split across the Current and Capital Accounts. Current transfers directly affect the level of disposable income and influence the consumption of goods and services for the donor and recipient economies e.g. aid to finance recurrent government expenditure or cash sent from Palestinians living abroad. In Q1 2016, Balance of Current Transfers amounted to $528m a decrease of 6.5% from the previous year.

Capital transfers include debt forgiveness and the transfer of goods and financial assets by migrants leaving or entering a country. In Q1 2016, capital transfers amounted to $103m, an increase of 3.7% on the previous year.

International Investment Position and External Debt

The International Investment Position (IIP) measures the levels of financial investment with the rest of the world. According to preliminary results from the PCBS and the PMA, at the end of Q1 2016, the stock of investments of Palestinian residents outside Palestine (total external assets) exceeded investments of non-residents in Palestine (total foreign liabilities) by $906m.[4] Between Q1 2015 and Q1 2016, the IIP dropped by 30.7%, following a 0.5% decrease in total external assets and an 8% increase in total foreign liabilities.

Table 2: International Investment Position Stock, Palestine, Q1 2015, Q4 2015 and Q1 2016

Item	Q1 2015 (millions)	Q4 2015 (millions)	Q1 2016 (millions)	Change (%) (Q1 2015-Q1 2016)	Change (%) (Q4 2015-Q1 2016)
International Investment Position (Net)	**$1,308**	**$899**	**$906**	**-30.7**	**+0.8**
Total External Assets	**$5,923**	**$5,855**	**$5,891**	**-0.5**	**+0.6**
Foreign Direct Investment Abroad	$158	$352	$328	+107.6	-6.8
Portfolio Investments Abroad	$1,163	$1,084	$1,118	-3.9	+3.1
Other Investments Abroad	$3,946	$3,838	$3,981	+0.9	+3.7
Of which: Currency and Deposits	$3,551	$3,815	$3,954	+11.3	+3.6
Reserve Assets	$656	$581	$464	-29.3	-20.1
Total Foreign Liabilities	**$4,615**	**$4,956**	**$4,985**	**+8.0**	**+0.6**
Foreign Direct Investment in Palestine	$2,386	$2,486	$2,637	+10.5	+6.1
Foreign Portfolio Investments in Palestine	$658	$821	$711	+8.1	-13.4
Foreign Other Investments in Palestine	$1,571	$1,649	$1,637	+4.2	-0.7
Of which: Loans from Abroad	$1,124	$1,119	$1,125	+0.1	+0.5
Of which: Currency and Deposits	$445	$530	$512	+15.1	-3.4

Source: PCBS and PMA

3 http://bit.ly/2avB42p

4 http://bit.ly/2avB42p

At the end of Q1 2016, the gross external debt (general government, banks and monetary authorities) of all sectors of the Palestinian economy reached $1,637m, an increase of 0.7% from the previous quarter and of 3.9% from Q1 2015. The general government debt accounted for 65.7% of the total, while banks accounted for another 31.3% and other sectors for 3%.

Table 3: Gross External Debt, Palestine, Q1 2014-Q1 2016 (millions)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Gross External Debt	$1,718	$1,743	$1,616	$1,557	$1,575	$1,605	$1,595	$1,649	$1,637

Source: PCBS and PMA

Jordanian Private Sector Leaders Call for the Expansion of Trade with Palestine

In his address before the annual International Labor Conference in Geneva in June, Adnan Abu Alragheb, Head of the Jordanian Union of Chambers of Commerce and Industry, affirmed the need for Jordanian goods to be able to access the Palestinian market.[5] Palestinian international trade is regulated according to the Paris Protocol's lists A1, A2 and B. The lists, which were established in 1994 in the context of prevailing economic and market conditions at that time, vary greatly in scope and origin. List A1 sets out 543 goods that can only be imported from Egypt and Jordan. List A2 includes 37 goods that can be imported from other Arab and Islamic countries, while List B includes 138 goods that can be imported from the rest of the world. Currently, Jordan is Palestine's third largest trading partner after Turkey and China (excluding Israel). Mr Abu Alragheb noted that the lists have become outdated and have failed to match the growth of the Palestinian population and market.

Trade between Jordan and Palestine remains undersized given their proximity and similarities in language and culture. Total trade with Jordan amounted to $168m in 2014, composed of $102m in imports (1.8% of total imports) and $66.3m in exports (7% of total exports), the latter being the second largest export market after Israel. The Palestinian economy is highly dependent on Israel for both imports (69.6% of total) and exports (83.9% of total).

Jordanian Cement Exporter Enters Market

In related news, Al-Haditha, a Jordan-based cement company, has recently finalised procedures for compatibility with the Israeli standards of import.[6] As a result, Al-Haditha is expected to enter the Israeli market (and consequently the Palestinian market). The Israeli cement market is highly concentrated with the top three companies supplying 98% of the market. One of which, Nesher Israel Cement Enterprises, controls the Israeli cement market with a 77% share of total supply. As Palestine relies exclusively on cement from Israel.[7] the entry of Al-Haditha into the Israeli market could increase competition and lower the currently high price of cement in Palestine. In the meantime, efforts are underway by the Palestine Investment Fund (PIF) through Sanad Construction Industries Company in partnership with private investors to establish an independent Palestinian cement production capacity in the northern West Bank.[8]

Palestinian Banking Sector Mission to the USA

Mr Azzam Shawwa, Governor and Chairman of the Board of Directors of the PMA, led a Palestinian banking sector mission to the United States in June.[9] The delegation included PMA senior executives as well as general managers from several banks operating in Palestine. The mission aimed to enhance US-Palestinian banking relations as well as strengthen the knowledge of key US stakeholders about the overall soundness, stability and independence of the Palestinian banking sector.

The delegation met White House, State Department, and US Treasury representatives, senior ranking members of the Senate and Congress and key executives from the World Bank and the IMF. The delegation also conducted meetings in New York with senior officials from the New York Federal Reserve and the US correspondent banks Citibank and Bank of New York Melon.[10] The latter meetings focused on strengthening relations between banks operating in Palestine and US correspondent banks as well as other matters.

This mission to the US is part of a broader campaign by the PMA to raise international awareness about the Palestinian banking sector. Delegations led by the PMA have visited central banks in Algeria, Bahrain, Kuwait, the UAE, Jordan, Egypt, Saudi Arabia and the Netherlands. The PMA plans to extend the coverage of this mission in the coming months to include more countries in Europe and Latin America.

5 www.alquds.com/articles/1465435403471419300/
6 www.palestineeconomy.ps/article/6948/

7 http://bit.ly/2a9F4kh
8 http://bit.ly/2auoe2T
9 http://bit.ly/2ax1eRY
10 http://bit.ly/2ax1eRY

New Islamic Bank to Open in Palestine

Al-Safa, a new Palestinian Islamic bank, is set to open in Palestine later this year.[11] The bank will be capitalised at $75m. Co-founders of the bank have already bought 37m shares, valued at $37m, with another 38m shares now on sale to the public. “Taking this step reflects confidence in the Palestinian economy and its banking sector, and in the fact that prospects for investment show promise,” according to Abdel-Rahim Al-Hassan, secretary of the founding committee of Al-Safa.[12]

Al-Safa will follow Islamic banking practices in which all forms of interest are forbidden and banks and customers share investment risks and any profits. According to Abdel-Rahim Al-Hassan, “There is a substantial demand for private Islamic banks since we are a Muslim-majority society. This is why we decided to open an Islamic bank whose services are in line with those provided by international Islamic banks.”[13] Al-Safa will be the third bank in the West Bank to operate under Islamic law. Its first branch is expected to open in Ramallah in September 2016, while another branch is to be opened in the Gaza Strip later on.

World Bank Adds $55m to Its Trust Fund in Palestine

The World Bank authorised the transfer of $55m to replenish the Trust Fund for Gaza and the West Bank, on June 24.[14] The Fund, established in 1993, was designed to act as a mechanism for funding assistance to Palestine.[15] Forthcoming grants will support investments in municipal development, energy, education and job creation. In addition, the Finance for Jobs project will scale-up financial products that catalyze private investment and job creation including a Development Impact Bond (DIB) to support private sector focused skills development in Palestine. This would be the World Bank’s first DIB worldwide.

11 www.reuters.com/article/palestinians-banks-idUSL8N18S3PP
12 www.reuters.com/article/palestinians-banks-idUSL8N18S3PP
13 www.al-monitor.com/pulse/originals/2016/07/palestine-islamic-banks-market-share-economy-safa-bank.html
14 http://bit.ly/2ax11Ov
15 http://bit.ly/2aqkCgN

Trading News

The Al-Quds index closed at 504 points on 30 June, an increase of 3.15% from the previous month.[16] Of the sectors which comprise the Al-Quds index, increases were observed in investment (12.19%), banking and financial services (2.24%) and industry (0.95%), while investment decreased in insurance (0.33%) and services (0.27%).

Market capitalisation was $3.2bn, an increase of 2.5% from May 2016. The top three companies by market capitalisation were Palestine Telecommunications (29.2%), Bank of Palestine (14.5%) and PADICO (9.4%).

16 www.pex.ps/PSEWebSite/publications/PEXIssue75_June2016.pdf

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