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Main reports

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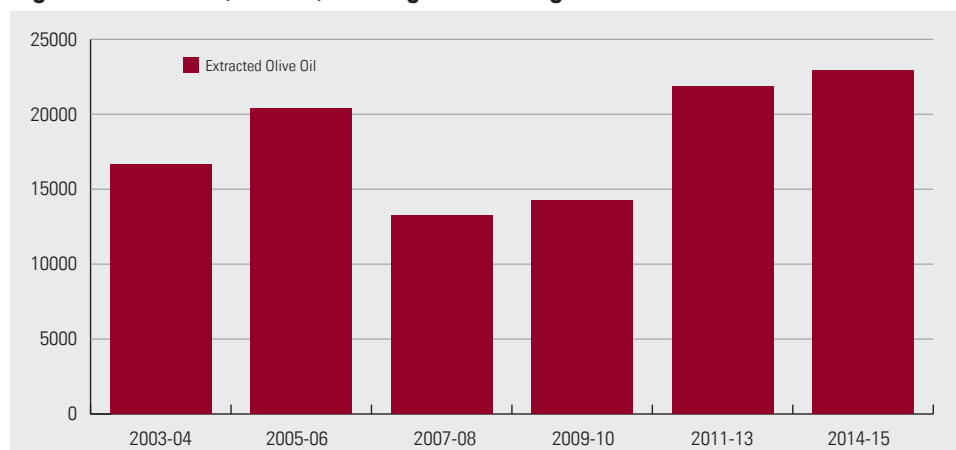
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Olive Sector

The 272 olive presses operational in Palestine pressed a total of 95,100 tonnes of olives, producing 21,100 tonnes of olive oil in 2015.¹ The value added of olive pressing activities equalled \$7.2m in 2015, down by 33.9% from 2014. Employment created by olive pressing activities remained unchanged from 2014, at slightly above 1,350 workers. Of these workers, 70.1% were paid employees, while the remaining 29.9% were unpaid family members.

The olive harvest in Palestine fluctuates each year with individual olive trees naturally producing large yields and small yields in alternate years.² The volume of olive oil fell by 14.8% between 2014 (a large yield year) and 2015 (a small yield year). However, the quantity of olive oil in 2015 increased by 19.5% when compared to 2013, the previous small yield year. Olive oil production has increased over the last decade, with the 2014 and 2015 harvests producing on average more tonnes of olive oil than in previous years (Figure 1). The extraction rate, the quantity of olive oil produced from a given amount of olives, was 22.2% in 2015. Extraction rates have varied very little from the average of 23% over the last 13 years.

Figure 1: Olive Oil (Tonnes), Averages over Large and Small Yield Years, 2003-2015



Source: PCBS

Olive production plays an important role in food security and income generation in Palestine. Between 80,000³ and 100,000⁴ families are said to rely on olives and olive oil for primary or secondary sources of income, with 49,000 families cultivating olives, with an average of 163 olive-bearing trees on 0.9 hectares of land.⁵

1 www.pcbs.gov.ps/Downloads/book2182.pdf

2 www.paltrade.org/upload/multimedia/admin/2014/10/5448e7bfb7b6d.pdf

3 United Nations Office for the Coordination of Humanitarian Affairs (OCHA) (October 2012). OCHA Olive Harvest Fact Sheet.

4 <http://ifcext.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/DA227990E7D79526852577370057C822?OpenDocument>.

5 Palestinian Ministry of Agriculture (January 2012).)

Olive and olive oil production in Palestine is concentrated in the north and northwest of the West Bank where soil and climate conditions are most favourable. The West Bank accounts for 97% of total production, with Jenin and Tubas accounting for 22.9% of total production.

Despite the importance of olives, farmers cultivating this crop have the lowest incomes among Palestinian farmers according to a recent study by the Applied Research Institute – Jerusalem (ARIJ).⁶ The survey estimated that farmers' average monthly income was 2,920 NIS⁷ compared to an average income per household per month of only 965 NIS for olive farmers. Farmers reported a profit margin of 28.1% on olive oil which was slightly above the average profit margin of 26.7% for agricultural products.

Palestinian olive oil production constitutes 1% of the world market with the EU accounting for 69% of total production. Production levels in Palestine are similar to those in Jordan and Lebanon and significantly below those of Syria, Tunisia and Turkey. The total value of olive oil produced in Palestine would be \$108m if sold on the world market, based on global commodity prices provided by the International Monetary Fund.⁸

According to estimates from the Ministry of Agriculture (MoA), in a typical year approximately 75% of the olive sector's product is absorbed into the domestic market. Of the remainder, 14% is exported to Arab markets and 8% goes to Israel.⁹ Only 3% is exported to leading and emerging global markets outside of the region. Palestinian olive oil exports constitute a small proportion of the world market, with Palestine the 12th biggest exporter in 2014 with total exports valued at \$24.7m (Table 1).¹⁰

Table 1: Major Olive Oil Exporters (\$ millions), 2013-2014

Rank	Exporters	Exported value in 2013 US Dollar millions	Exported value in 2014 US Dollar millions
	World	6,683.4	6,998.3
1	Spain	2,590.1	3,621.1
2	Italy	1,721.1	1,727.9
3	Portugal	452.7	496.6
4	Greece	656.5	345.9
5	Tunisia	504.6	277.0
6	Turkey	294.5	88.0
7	France	44.2	51.2
8	Argentina	78.0	43.8
9	Chile	46.9	41.7
10	Morocco	22.0	39.8
11	United States of America	38.8	38.0
12	Palestine, State of	8.8	24.7

Source: Trademap.org

The Olive Oil: Sector Export Strategy 2014-2018, prepared by the Ministry of National Economy (MoNE), PalTrade and the International Trade Centre (ITC), highlights that Palestine's top export markets, with the exception of

Israel, vary considerably year to year, suggesting a low survival rate of export relationships.¹¹ The Export Strategy states that to realise its export potential, the Palestinian olive oil sector must be a source for olive oil that is both of world-class quality and predominately organic. Pioneering work has been conducted by Canaan Fair Trade, a Palestinian commercial enterprise that provides premium agricultural goods, including olive oil, produced by networks of smallholder groups in Palestine. Canaan Fair Trade sells to Europe, North America, Australia, Asia and the Middle East.¹²

The Export Strategy sets out the key barriers to exporters of olive oil.¹³ The overwhelming majority of cultivated land greatly underperforms in terms of productivity because of a lack of irrigation. Productivity is further hampered by the general non-use of fertilizers and pesticides, many of which are banned from import by Israel. In addition, modern best practice techniques are underused in harvesting, pressing and storing.

Labour Market

The unemployment rate in Palestine was 25.9%¹⁴ in 2015, down one percentage point from the previous year.¹⁵ Unemployment dropped slightly in the West Bank from 17.7% in 2014 to 17.3% in 2015 and stood at a high 41% in Gaza - although this marked a slight improvement on the 2014 level (43.9%).

The total number of employed people increased from 917,000 in 2014 to 958,300 in 2015. The Gazan economy created 26,600 of the 41,300 new jobs as it recovered from record levels of unemployment in 2014. The West Bank created 9,700 new jobs compared to 5,000 in Israel and Israeli settlements. In 2015, 570,000 Palestinians worked in the West Bank, 276,000 worked in Gaza, and 112,000 worked in Israel and Israeli settlements. The local labour market, therefore, accounted for 88.3% of people employed with the remaining 11.7% employed in Israel and Israeli settlements, the same as in 2014. Out of the 112,000 employed in Israel and the settlements, 63,000 had permits, 36,000 worked without a permit and 13,000 had an Israeli identity card or foreign passport.

Labour force productivity in the West Bank stagnated between 2011 and 2015 (value added per worker was just over \$10,300 over the period).¹⁶ This was an improvement, however, on the period from 2001 to 2010 which recorded an average of \$8,530 value added per worker. Labour productivity in Gaza was lower than in the West Bank with

6 <http://bit.ly/22R6wvQ>

7 <http://bit.ly/22R6wvQ>

8 www.imf.org/external/np/res/commod/Table3.pdf

9 www.paltrade.org/upload/multimedia/admin/2014/10/5448e7bfb7b6d.pdf

10 <http://bit.ly/1RLPY03>

11 www.paltrade.org/upload/multimedia/admin/2014/10/5448e7bfb7b6d.pdf

12 www.canaanfairtrade.com/

13 www.paltrade.org/upload/multimedia/admin/2014/10/5448e7bfb7b6d.pdf

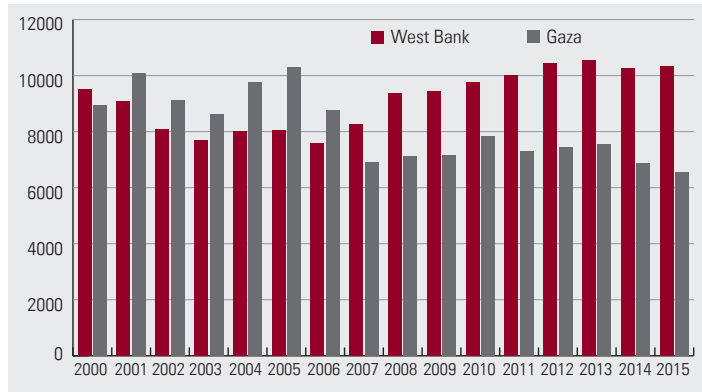
14 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFS2015E.pdf

15 www.pcbs.gov.ps/Downloads/book2120.pdf

16 GDP figures for 2015 are Portland Trust estimates based on data from Q1 to Q3 2015.

\$6,530 valued added per worker in 2015. According to the World Bank, this is mainly because firms in Gaza are less able to invest in capital goods or have had their capital destroyed in the repeated conflicts.¹⁷

Figure 2. Labour Productivity by Region, Constant Prices (2004), US Dollars



Source: Internal calculations based on PCBS data

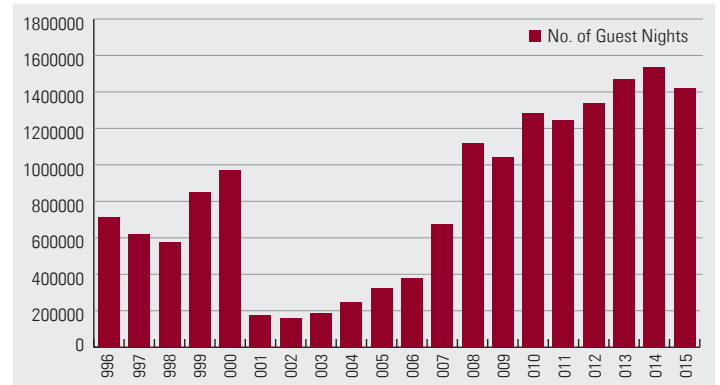
Real wages in both the West Bank and Gaza have decreased over the last 15 years, with real wages in Gaza in 2015 down 31.2% from their peak in 2006 (real wages in the West Bank fell by 7.7% over the same period). Real wages for Palestinians working in Israel and Israeli settlements have been significantly higher than those in Palestine between 2001 and 2015. The gap between wages in the West Bank and Israel and Israeli settlements increased in recent years, growing by 31.7% from 2012 to 2015.

The average daily wage of Palestinian employees increased by 2.1 NIS over the last year to 103.9 NIS. This was due to a rise in the wages in the competing Israel and Israeli settlements job market from 187.5 NIS in 2014 to 198.9 NIS in 2015. Meanwhile, wages in both the West Bank and Gaza declined by 19.1 NIS and 2.1 NIS, respectively.

Hotel Activities

In 2015, 484,000 guests spent 1,420,000 guest nights in hotels in the West Bank and East Jerusalem. The number of guests fell by 20.6% and the number of guest nights by 7.62% from 2014. Despite the poor performance relative to the previous year, there were more guest nights in 2015 than in any year between 1996 and 2012.

Figure 3: Number of Guest Nights in the West Bank and East Jerusalem



Source: PCBS

In Q4 2015, a total of 118,000 guests spent 374,000 guest nights in 112 hotels in the West Bank (91) and East Jerusalem (21).¹⁸ Compared with the previous quarter, these figures marked a drop of 4.2% in the number of guests but an increase of 10% in the number of guest nights.

CPI

The Consumer Price Index (CPI) in February 2016 increased by 0.88% from February 2015 as a result of a 1.58% increase in the West Bank, a 0.51% increase in Gaza and a 1.59% decline in East Jerusalem. The CPI for Palestine during February 2016 decreased by 0.26% compared with January 2016.¹⁹ The drop was most pronounced in the West Bank (0.56%), followed by East Jerusalem (0.51%) and Gaza (0.04%). The most significant decreases were in the price of potatoes and other tubers (10.7%), fresh vegetables (9.6%) and liquid fuel for homes (2.3%). In contrast, there were increases in the price of dried vegetables (12.6%), fresh fruit (3.8%) and fresh poultry (2.2%).

Bank of Palestine on verge of merger and share acquisition deals

After obtaining regulatory approvals, the Bank of Palestine's General Assembly approved two strategic banking acquisition deals on 25 March. The first deal is a merger whereby the Palestine Commercial Bank (PCB) will be merged with the Bank of Palestine in a share swap of 3:1 in favor of the Bank of Palestine share. This merger will increase the paid up capital of Bank of Palestine by \$10m. Hashim Shawa, Chairman and General Manager of Bank of Palestine commented "This deal allows the bank to consolidate a partnership with another "compatible in values" bank that is seen as an enhancement to our commercial product offering. This will not only put the bank at the helm in terms of branch network; but more importantly provides capital adequacy in line with

17 <http://bit.ly/1poT34P>

18 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_HotIQ42015E.pdf
19 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_CPI022016E.pdf

the systematically important classification of Bank of Palestine by the regulators in the market place.”

The second deal was the acquisition of an additional 31% stake in the Arab Islamic Bank (AIB). This share acquisition allows Bank of Palestine to become a majority shareholder in an Islamic banking operation in Palestine, holding 51.98% of AIB shares. Although AIB will remain an independent subsidiary, this determining block will allow Bank of Palestine to provide Islamic banking solutions to a growing segment of the population that require such services. Mr. Shawa added: “We are now able to claim that Bank of Palestine is a “Full Spectrum” Bank by providing Corporate, SMEs, Retail and now Islamic banking products through its subsidiary. The market coverage of Islamic banking in Palestine is only at 10% so the growth is very promising.”

PEX Monthly Trading

The PEX issued its year-end disclosure report for the year 2015 in March. Net profits for PEX listed companies amounted to \$273m in 2015, a growth of 22% compared to 2014. The disclosure period ended with 86% compliance from listed companies with seven companies failing to disclose within the set deadline. The preliminary financial results showed that 36 of the 49 listed companies achieved a net profit of \$285m.

PEX was one of the most stable exchanges in the MENA region during 2015. The Al-Quds Index ended 2015 with a 4.1% increase, closing at 533 points, ahead of all Arab exchanges whose indices finished the year in deficit.

The banking & financial services sector had a successful year, achieving profits of \$75.5m in 2015, up 11.3% on 2014. The sector’s index closed at the level of 144 in 2015, up 20% compared to the previous year²⁰. The sector’s market capitalization increased to \$1.01bn in 2015 from \$840m in 2014, an increase of 20.2%. The trading value of the sector increased by 52.4%, reaching \$170m in 2015 from \$113m in 2014.

²⁰ www.sahem-inv.com/

Table 4: Preliminary Year-End Disclosure for PEX-Listed Companies by Sector, 2015 (\$)

Sector	Profits 2015	Profits 2014	Percentage Change in profits
Banking and Financial Services	75,521,509	67,832,596	11.34%
Industry	24,061,720	16,854,167	42.76%
Insurance	6,389,975	10,959,673	-41.70%
Investment	44,298,840	29,638,816	49.46%
Services	122,835,889	98,969,742	24.11%
Total	273,107,933	224,254,995	21.78%

Source: PEX

Ahmad Aweidah, CEO of PEX, told the Bulletin: “Our efforts to place Palestine on the world investment map culminated in upgrading PEX on the global FTSE Index from the Watch List to the Frontier Markets status. PEX has been nominated for full membership at the World Federation of Exchanges (WFE), the WFE verification committee visited us during February 2016 and we await the final approval by the WFE Board.”

The Palestine Capital Market Authority (PCMA) has worked closely with PEX to help the exchange provide a transparent and equitable trading environment. In 2015, PEX enhanced the disclosure process by introducing the PEX e-disclosure system “IFSAH”, which is used by both listed and member broker companies. IFSAH will enforce the use of International Financial Reporting Standards, achieve consistency, provide an electronic database that can be used for different purposes and aim to minimise human error. In line with international best practice, PEX and the PCMA have also transformed the exchange into an “Anonymous Market”. This means that PEX will not reveal the identity of the brokers who are in the process of executing transactions.

Mr Aweidah hopes that the performance of the listed companies will impact positively the PEX trading volumes and liquidity levels during the year 2016. “The main challenge for the Palestine investment environment is the geopolitical situation which we hope will become more stable and affect positively our investment proposal. We look forward to listing new companies, expanding domestic investors and attracting diaspora and foreign capital and developing new post-trade and issuer’s services.”

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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