The Portland Trust

# PALESTINIAN ECONOMIC BULLETIN

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## Palestinian-Turkish Trade Relations

Palestinian and Turkish business leaders met in Ramallah on 29 May to discuss how to expand the trade relations between the two countries.[1] This was the first meeting of the newly established Palestine Turkey Coordination Council, which was created to strengthen the commercial exchange between Palestine and Turkey and to replace Israeli products consumed in Palestine with Turkish ones. The Turkish delegation represented all sectors including food, clothing, agricultural products and metal industry. According to Osama Amr, who headed the Palestinian delegation, "Several Turkish economic sectors are willing to fill the needs of the Palestinian market and we hope we can have a direct commercial exchange between Palestine and Turkey without any obstacles".

This meeting followed a previous event in March when the Turkish Foreign Economic Relations Board (DEIK) held the Turkey-Palestinian Business Forum in Istanbul, which also discussed trade between the two countries.[2] Turkey is potentially an important trading partner for Palestine. Turkey was the second largest source of imports for Palestine after Israel in 2014 with a value of $325m, accounting for 5.7% of all imports.[3] Exports from Palestine to Turkey amounted to $3m, less than one percent of total exports.[4]

Promoting trade is a key strategic priority for the Palestinian National Authority (PNA). Preliminary figures for 2015 estimate that the trade deficit remained high at $4.03bn (31.8% of GDP), with imports of goods amounting to $4.94bn and exports to $911.9 million.[5]

According to the Office of the Quartet report to the Ad Hoc Liaison Committee (AHLC) in April 2016, the persistent trade deficit is due in part to high transaction costs for Palestinian exporters and the lengthy processing time at the borders. The dual-use goods list also prohibits the import of certain equipment and inputs, such as fertilizers and other chemicals for agriculture and manufacturing. These restrictions and high costs have resulted in a reliance on Israel for both exports and imports. Israel accounted for 69.6% of Palestinian imports and 83.9% of exports in 2014.[6]

Diversification of trade partnerships could make the Palestinian economy less vulnerable to economic shocks and political changes in Israel and could also contribute to the rebuilding of the productive capacity of Palestinian agriculture and industry. Exports are currently highly concentrated within the top three destinations – Israel ($792m), Jordan ($66.3m), and the United Arab Emirates ($14.2m) – accounting for 92.4% of the total in 2014.[7]

1 www.maannews.com/Content.aspx?id=771675
2 www.palestineeconomy.ps/page.php?id=43cbcy277692Y43cbc
3 www.pcbs.gov.ps/Downloads/book2144.pdf
4 www.pcbs.gov.ps/Downloads/book2144.pdf
5 www.pcbs.gov.ps/Portals/_Rainbow/Documents/E-Ftrade%202015.htm
6 www.pcbs.gov.ps/Downloads/book2144.pdf
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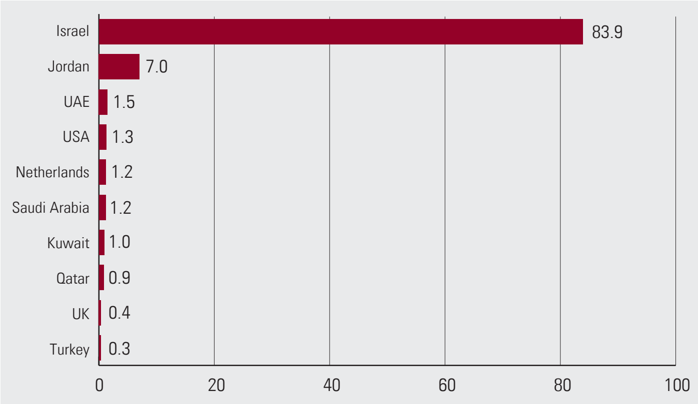
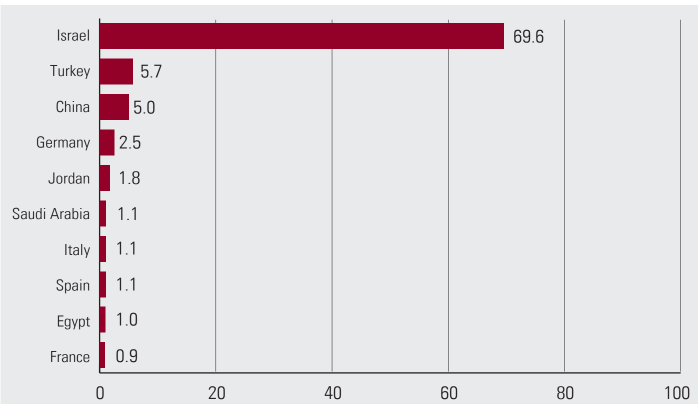
**Figure 1: Exports from Palestine by Destination Country (% of total), 2014**




*Source: PCBS*

The Palestinian economy is also highly dependent on Israel for the import of both Israeli-made goods and goods sourced from other countries through Israel into Palestine. Imports are slightly more diversified than exports but remain highly concentrated among Israel ($3.96bn), Turkey ($325m) and China ($282m), accounting for just over 80.3% of the total in 2014.[8]

**Figure 2: Imports from Palestine by Country of Origin (% of total), 2014**




*Source: PCBS*

It is widely acknowledged that closer direct trade links with geographically close and competitive trading partners such as Turkey could also have important fiscal implications for the PNA, in addition to the perceived benefits for Palestinian trade autonomy from greater market diversification. For example, according to estimates from the Turkish Commercial Attaché in Palestine, currently 70% of the commercial exchange between Palestine and Turkey goes through Israeli commercial intermediaries. In case of indirect imports from third countries through Israel, the PNA is eligible to receive import taxes only if the Israeli importer explicitly states in the import declaration that the goods are destined for Palestine.

According to the World Bank report to the AHLC in April 2016, "in practice, however, goods that originate from third countries are imported to Israel as the final destination and then re-sold to Palestinian traders as Israeli goods. This is enabled by the fact that Israeli importers, unlike Palestinian importers, are not required by law to sign a declaration stating that the imported goods will only be sold in their area."[9] In this case, according to the Protocol on Economic Relations that was signed in 1994 between the Palestine Liberation Organization and the Government of Israel (also known as the Paris Protocol) the PNA is eligible only for the VAT collected on these goods, while import duties collected on these goods go to the Israeli government. According to the World Bank, tax losses on indirect imports amount to $30.6m per year for the PNA. [10]

## New Movable Assets Law

The new Movable Assets Law came into effect on 27 May, establishing a crediting mechanism that could aid in attracting local and foreign investors to the Palestinian economy.[11] The law establishes that movable assets, such as machinery, equipment or inventory, can be used as collateral to guarantee the rights of lenders in case of default. The law also envisages a database that will include information on movable assets and loans.

The purpose of this new law is to support small and medium enterprises (SMEs) which lack the necessary collateral to apply for credit in the traditional manner. The law places movable assets within the pool of collateral to be used in the crediting process. A study by the Palestine Economic Policy Research Institute (MAS) in 2010 stated that 26% of SMEs surveyed cited lack of collateral as the reason behind being denied credit.[12] Moreover, the average loan provided by Palestinian banks requires collateral valued at 158% of the loan amount according to the National Export Strategy (NES) of the State of Palestine.[13]

## Ibtikar Fund

The Ibtikar Fund announced its first investments in eight Palestinian startups at its official launch on 30 May.[14] Ibtikar, the Arabic for innovation, is an investment fund which invests in Palestinian companies at their earliest stages.[15] Investments begin at the seed level through local accelerators, continue in post-acceleration phases and can also include investments in the Fund's portfolio companies.

The Fund has raised $8m of the targeted $12m. Ibtikar COO Ms. Ambar Amleh expects to raise the remaining $4m in the next six months. About 80% of the investors are Palestinian. Currently the Fund has agreements to fund startups at the Fast Forward accelerator in Ramallah

8 www.pcbs.gov.ps/Downloads/book2144.pdf

9 http://bit.ly/22Nwknj
10 www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2016/04/14/090224b084299d98/3_0/Rendered/PDF/main0report.pdf
11 maannews.net/Content.aspx?id=847800
12 www.mas.ps/files/server/20142310125659.pdf
13 www.paltrade.org/upload/multimedia/admin/2014/10/5448e91749c8f.pdf
14 http://bit.ly/29ad3eNfb and http://bit.ly/1P9FUdW
15 ibtikarfund.com/about-us/

and Gaza Sky Geeks in Gaza, but companies in other accelerator programmes can also be considered.

The Ibtikar Fund aims to mitigate a long-standing problem in the Palestinian entrepreneurial scene, namely the very limited availability of funding for startup companies. Ms. Ambar Amleh told the Bulletin, "Ibtikar Fund responds to a gap in funding for Palestinian entrepreneurs -- starting at seed-level investments and preparing them for VC funding. Working with entrepreneurs for several years prior to launching Ibtikar, our team realized that while good startup ideas and teams were graduating from accelerators, for example, they were unable to find further funding to continue working on their startups after completing acceleration programs. They were too small for funders already present in the country. At the same time, those funders were struggling to find investable companies. Ibtikar will now provide small, incremental investments, coupled with management support and expertise to help grow the companies and help them attract larger investors at a later stage."

According to Hani Abughazaleh, CEO of Fadfid, one of Ibtikar's first investments, "Cash is essential to running a business, and here in Palestine, entrepreneurs' funding options are very limited. Ibtikar Fund's investment will enable us to further develop our service, and be able to compete more effectively in the Middle East regional market."

## PIF Developments

The Palestine Investment Fund (PIF), the PNA's sovereign wealth fund, recently expanded its portfolio to include 10% of the shares of the Jerusalem District Electricity Company (JDECO). The investment is part of the partnership agreement signed by the two parties on 24 May. The agreement also includes a commitment by both parties to share technical and professional expertise in the fields of renewable energy and telecommunications technology. Furthermore, the agreement stipulates that the solar energy projects that are being executed by PIF will be connected to JDECO's electricity grid once they are completed. The investment will help JDECO, an electricity company that distributes and supplies electricity to consumers in and around Jerusalem, Bethlehem, Ramallah and Jericho, finance the expansion of infrastructure in the West Bank.

It could also help reduce JDECO's dependency on electricity supplied by Israel by introducing Palestinian renewable energy sources. Almost all of the electricity distributed by JDECO is currently bought from Israel. JDECO has recently been facing a threat of reduction in the supply from Israel due its inability to pay off the debt owed to the Israel Electric Corporation (IEC).

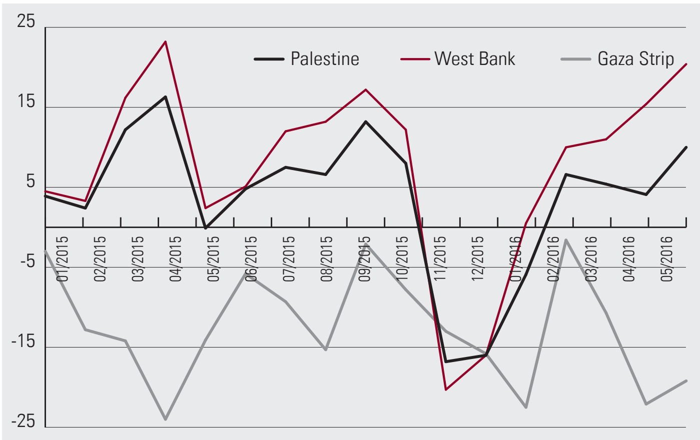
The deal is part of PIF's renewable energy strategy. PIF is planning to invest $150m to deliver 10 solar plants across Palestine with a capacity of 100MW. In addition, PIF is working on setting up a fund to support installation of solar panels.[16]

As reported in PIF's annual report,[17] the Fund generated $36m in net profits during the 2015 fiscal year. PIF's Board has decided to transfer $28m of the profits as dividends to the PNA, bringing the total PIF contribution to the PNA budget to $928m since 2003, including taxes and dividends generated by the Fund.[18] Of this total, PIF has transferred $253m in dividends since 2009.[19]

## PMA Business Cycle Index

The Palestine Monetary Authority Business Cycle Index (PMABCI) for May showed an improvement in Palestine's overall index, due to an increase in the West Bank index which has continued since late 2015. Despite a minor improvement in the Gaza index for the first time this year, the PMABCI there remains negative. The overall index increased to 10 points during this month, compared to 4.1 points during April and -0.1 points in May 2015.[20]

**Figure 2: PMABCI by Region, January 2015-May 2016 (Points)**




*Source: PMA*

In the West Bank the index increased from 15.4 points in April to 20.4 points in May and was significantly above the 2.4 points level of May 2015. This was the highest value for the West Bank since April 2015 (23.2 points). The monthly increase was due to improvements in the textiles sector (from 5.6 points to 7.3 points), the construction sector (from -0.9 points to 0.6 points), the leather sector (from -0.3 points to 0.8 points) and the engineering sector (from 0.2 points to 1.4 points). The improvement is attributed mostly to higher sales. Industrial firm owners are optimistic about employment levels in the near future despite relatively stable expectations for the levels of production.

In Gaza, the PMABCI increased from -22.1 points in April to -19.2 points in May. However, this is below its level in May 2015 of -14.1 points. The monthly rise was due

16 http://www.pif.ps/ar_page.php?id=6bbby27579Y6bbb
17 www.maannews.net/Content.aspx?id=849015
18 www.maannews.net/Content.aspx?id=847845
19 www.pif.ps/ar_category.php?id=9498y38040Y9498&c_type=2
20http://bit.ly/294AJ6t

to improvements in the food sector (from -9.3 points to 0 points) and textiles (from -2.3 points to 0 points). The construction index however dropped significantly due to shortages in raw materials. Pessimism about the near future remained high, and increased further during May due to negative forecasts for future production.

## US-Palestinian Economic Dialogue

Palestinian and US officials met in Ramallah on 22 May to renew the US-Palestinian Economic Dialogue (USPED) in a first meeting in over a decade.[21] Senior economic policy officials participated in interactive sessions on key topics including fiscal policy and macroeconomic developments, capacity building and planning for the public sector, enhancing Palestinian trade and the growth of natural resources sectors in the Palestinian economy.

Participants pledged to continue and deepen policy coordination and cooperation across a wide range of sectors in order to expand the Palestinian economy. In particular, delegates agreed to pursue an expansion of capacity building programmes aimed at promoting entrepreneurship, especially in the IT sector, and improving water and energy resource management. It was agreed that future meetings will focus on updating Palestinian trade procedures, meeting global trading standards and rehabilitating trade infrastructure on border crossings.

Participation in this year's economic dialogue included Minister of National Economy Ms Abeer Odeh (Palestinian chair), Minister of Finance and Planning Mr Shukri Bishara and Minister of Telecommunications and Information Technology Mr Allam Mousa. The US delegation included the Assistant Secretary of State for Economic and Business Affairs Ambassador Charles Rivkin (US chair) and Deputy Under Secretary of Commerce for International Trade Ken Hyatt. The parties agreed to reconvene in Washington in the spring of 2017.

21 jerusalem.usconsulate.gov/pr_052216d.html

## Palestinian Banking Sector Expanding Abroad

Bank of Palestine (BoP) launched its first international representative office on 18 May at the Dubai International Financial Centre (DIFC), the financial hub connecting businesses and institutions with emerging markets across the Middle East, Africa and South Asia.

The bank will offer financial, investment and advisory services to members of the Palestinian diaspora living in the Gulf region and beyond. Hashim Shawa, Chairman and General Manager of Bank of Palestine, said: "This is our most significant milestone since the bank's establishment in 1960. Our presence at DIFC will strengthen the Palestinian financial and banking system and help us gain the trust of our customers and offer our services to millions in the GCC area. Our new office in the UAE will promote our banking services and serve as an economic bridge that connects 250,000 Palestinian expats in the UAE to their homeland. At a later stage, we also aim to target Palestinians working in the wider Gulf area to leverage their expertise and capabilities."

This step, under the stewardship of the Governor of the PMA and the Government of Dubai, could lead to deeper financial relations between the Palestinian financial sector and its Arab counterparts.[22]

## Monthly Trading

The Al-Quds index closed at 488.39 points on 31 May, a fall of 2.51% on the previous month.[23] Of the sectors which compose the Al-Quds index, increases were observed in insurance (4.14%) and industry (1.05%), while investment (5.51%), banking and financial services (2.35%), general (1.94%) and services (1.55%) decreased.

Finally, starting 2 June, Al Safa Bank will become the 50th publicly traded company on the Palestine Exchange (PEX). The Initial Public Offering (IPO) will be the first in Palestine since 2010, and it will include 38m shares that amount to 50.73% of the total value of the bank's shares. The initial face value (par value) of stocks is set at $1.

22maannews.net/Content.aspx?id=847911
23 www.pex.ps/PSEWebSite/publications/PEXIssue74_May2016.pdf

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