

PALESTINIAN ECONOMIC BULLETIN

Issue 110

November 2015

Main reports

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In 2014, there were a total of 131,000 active non-agricultural enterprises operating in the private and non-profit sectors of the Palestinian economy, an increase of 7.1% from the previous year

Palestine's public finances recorded a surplus of \$244m in Q2 2015 following a deficit of \$63m in the previous quarter (figures on a cash basis after grants and aid)

In 2014, the total stock of foreign investments by Palestinian resident enterprises (external assets) equalled \$6bn, a 2.8% increase from 2013

In October the Al-Quds index slightly increased by 1.6% from the previous month, reaching 493 points on the last day of trading

Labour Market Q3 2015

Unemployment in Palestine reached 27.4% in Q3 2015, up from 24.8% in the previous quarter and down from 29% in Q3 2014.¹ The year-on-year change is mostly explained by a drop of five percentage points in Gaza's unemployment rate from 47.4% in Q3 2014 which continues to be extremely high at just over 42%.

The number of people employed in Gaza grew by 44,300 from Q3 2014 to 270,600 in Q3 2015. The commerce, restaurant and hotel sector absorbed 32.9% (14,565 persons) of these new jobs, followed by transportation, storage and communication (20%) and construction (16.5%). Only 955 (2.2%) jobs were created in agriculture and fishing. As a result, agriculture's share of total employment in Gaza decreased from 5.8% in Q3 2014 to 5.2% in Q3 2015.

In the West Bank, the unemployment rate decreased from 19.2% in Q3 2014 to 18.7% in Q3 2015, while it increased from 15.4% in Q2 2015. The year-on-year drop was a result of a net increase of 15,200 jobs. While around 11,600 jobs were lost in agriculture and construction, 26,800 jobs were added in commerce, restaurant and hotel, services, mining and transportation sectors (Figure 1).

Figure 1: Jobs Created by Economic Sector, Q3 2014-Q3 2015 (Thousands)



Source: PCBS

Unemployment among youth also saw a slight decrease from Q3 2014, although it continues to be very high at 38% for 15-19 year olds and 45.2% for 20-24 year olds, reaching 53.7% and 66.7% respectively in Gaza (Table 1).

Table (1): Youth Unemployment Rate by Age Group and Region, Q3 2014 and Q3 2015 (%)

Age Group	15-19		20-24	
	Q3 2014	Q3 2015	Q3 2014	Q3 2015
Palestine	44.4	38.0	47.8	45.2
West Bank	31.6	29.6	33.0	31.5
Gaza Strip	74.8	53.7	73.3	66.7

Source: PCBS

¹ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ32015E.pdf

The number of West Bank workers in Israel and Israeli settlements increased from 104,200 in Q3 2014 and 112,200 in Q2 2015 to 113,200 in Q3 2015, or 12% of total employed in Palestine. Of this total, 65% are employed in construction activities. The average daily net wage for Palestinians employed in Israel and Israeli settlements remains significantly higher (\$51.3) than in both the West Bank (\$23.9) and Gaza (\$16.2).

Doing Business Ranking 2016

The World Bank's annual Doing Business Report measures and tracks changes in regulations affecting small and medium sized businesses. The Report ranks countries based on a distance to frontier score which measures performance with respect to global regulatory best practice. This year's Report presents data for 189 economies and aggregates information from ten areas of business regulation. The distance to frontier score is measured on a scale from 0 to 100 with 100 representing best practice.

Table 2: Palestine's Doing Business Rankings and Distance to Frontier Scores by Category

Category	Ranking			DTF Score		
	2016	2015	Change	2016	2015	Change
Ease of Doing Business	129	127	-2	54.83	53.71	+1.12
Starting a Business	170	159	-11	66.99	66.53	+0.46
Dealing with Construction Permits	162	168	+6	53.89	51.52	+2.37
Getting Electricity	75	81	+6	72.88	69.49	+3.39
Registering Property	95	93	-2	62.14	62.14	0
Getting Credit	109	118	+9	40.00	35.00	+5.00
Protecting Minority Investors	144	143	-1	41.67	41.67	0
Paying Taxes	56	52	-4	80.29	80.29	0
Trading across Borders	84	84	0	72.10	72.10	0
Enforcing Contracts	90	90	0	58.39	58.39	0
Resolving Insolvency	189	189	0	0.00	0.00	0

Source: DB 2016

The 2016 Report ranked Palestine 129 out of 189 economies globally, a decline of two positions from 2015.² In absolute terms, Palestine's performance improved, as measured by the distance to frontier score, which increased from 53.7 in 2015 to 54.8 in 2016.

According to the Report, Palestinian companies face greater difficulties than their counterparts in neighbouring countries, ranking 129 compared to 114 for the MENA region as a whole.³ The best performing MENA economy was the UAE, which ranked 31. Unsurprisingly, countries recently affected by conflict performed poorly, with Syria ranked at 175 and Libya at 188. Israel, which is not considered a MENA country according to the Doing Business Report, ranked 53.

Although Palestine's ranking compared to other economies worsened in four areas between 2015 and

2 www.doingbusiness.org/data/exploreeconomies/west-bank-and-gaza#close
3 <http://bit.ly/1N7yFAY>

2016, it did not experience an absolute decline in any category. Overall, Palestine's distance to frontier scores remained unchanged between 2015 and 2016 in terms of registering property, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The most significant improvements since 2015 took place in the credit and electricity sectors, both services provided by the private sector.

The Report acknowledges two business reforms in the West Bank and Gaza which made it easier to do business.⁴ The first one is related to the getting credit category as the credit registry in Palestine began to incorporate credit data from retailers and utility companies. Second, dealing with construction permits was made easier by streamlining the process for obtaining civil defense permits and by submitting the stamped concrete casting permit to the municipality.

Economic Survey 2014

In 2014, there were a total of 131,000 active non-agricultural enterprises operating in the private and non-profit sectors of the Palestinian economy, an increase of 7.1% from the previous year.⁵ More than two thirds of the active enterprises (68.6%) were in the West Bank, with the remaining 31.4% operating in Gaza. As many as 58.7% of all enterprises worked in internal trade. Total output amounted to \$10.9bn, with 37.5% from industrial activities. Gross value added reached \$6.6bn, with the highest contribution from internal trade (39.4%).

Table 3: Selected Indicators for Enterprises by Economic Activity, Palestine, 2014

Economic Activity	Number of Enterprises (% of total)	Output (% of total)	Gross Value Added (% of total)	Compensation per Wage Employee (\$)	Output per Employed Person (\$)	Value Added per Employed Person (\$)
Industry	13.0	37.5	25.9	7,381.2	47,568.7	19,852.9
Construction	0.4	5.4	4.7	7,069.1	74,318.4	38,711.5
Internal Trade	58.7	30.6	39.4	6,200.7	20,142.4	15,702.3
Transport and Storage	0.7	1.7	1.6	8,181.7	27,413.0	15,439.9
ICT	0.5	6.3	7.6	20,486.4	93,189.2	67,869.9
Services	26.7	18.4	20.8	8,164.8	14,549.9	9,935.6
Total	-	-	-	7,690.9	26,474.1	16,016.4

Source: PCBS

Enterprises employed a total of 413,000 employees (69.3% in the West Bank and 30.7% in Gaza), up by 6.9% from 2013. 63.3% of total employees were wage employees as opposed to non-wage family members. Total wage compensation equaled \$2bn. Compensation per wage employee averaged \$7,690 and was the highest in the ICT sector at \$20,400. The highest output per employed person was also in the ICT sector at \$93,200, while the lowest was in services at \$14,500. Similarly, ICT exhibited the highest value added per employed person of \$67,900, whereas services exhibited the lowest – \$9,940.

4 www.doingbusiness.org/reforms/overview/economy/west-bank-and-gaza
5 www.pcbs.gov.ps/Downloads/book2155.pdf

Public Finance and Debt

Palestine's public finances recorded a surplus of \$244m in Q2 2015 following a deficit of \$63m in the previous quarter⁶ (figures on a cash basis after grants and aid). The surplus was the result of a greater increase in public revenues than expenditure. This surplus was used to cover part of government's arrears and contributed to a small drop in public debt.

The ratio of public debt including arrears to GDP reached 44.8% in Q2 2015 compared to 46.8% in Q1 2015 and 35% in Q2 2014. Public debt per capita in Q2 2015 was \$501, compared to \$518 in Q2 2014⁷.

The Public Finance and Public Debt Development Report for Q2 2015⁸, issued by the Palestine Monetary Authority (PMA), showed an increase of 113% in public revenue and grants compared with the previous quarter to reach \$1,270m (cash basis). This increase was the result of a \$708m increase in clearance revenues from Israel, which released funds withheld during the first quarter of 2015. Foreign grants and aid rose by 14.7% from the previous quarter to reach \$250m. However, local revenues (excluding clearance revenues) witnessed a drop of 29.6% from the previous quarter to reach \$192m.

Changes in public expenditure in Q2 2015 were driven by the release of clearance revenues from Israel. Public expenditure increased by 52% from Q1 2015 to reach \$1,029m in Q2 2015. The rise came as the Government paid off wage and salary arrears from the previous quarter following the release of the clearance revenues. In response, wages and salaries increased by 155% to reach \$614m. Non-wage expenditures increased by 17.4% to reach \$313m. The increase in non-wage expenditures was mainly caused by growth in social assistance benefits (53.7%) and assistance to vulnerable families (25%). Net lending and development expenditure witnessed a drop of 52% and 34%, respectively.

The fiscal deficit fell from 22% of GDP in 2009 to 12% of GDP in 2013-15 but remains unsustainable with a \$500m financing gap in 2015. The reduction in the deficit was due primarily to cuts in government spending. Public expenditure increased from 22% of GDP in 1997-99 to 45% of GDP in 2009 but was subsequently reduced to 34% of GDP by 2014. Revenue over the same period remained broadly constant, declining slightly from 23% of GDP between 1997 and 1999 to 21% in 2014.

According to the IMF, addressing the \$500m financing gap requires a combination of fiscal adjustment and additional donor aid⁹. Measures proposed by the IMF include: a 2% limit on the wage bill increase, close to projected

inflation; the introduction of a 10 percent withholding tax on dividends, which had been considered before being shelved; a front-loaded increase in government fees; and the immediate elimination of the fuel tax refund (an untargeted fuel subsidy which should be replaced by targeted cash transfers). As those measures alone would be insufficient to fill the gap, IMF staff advised that additional donor aid would be needed to avoid arrears accumulation.

Foreign Investment Survey 2014

According to recently released data from the PCBS, the total stock of foreign investments by Palestinian resident enterprises (external assets) equaled \$6bn in 2014, a 2.8% increase from 2013.¹⁰ The majority of external assets consisted of currency, deposits and debt securities abroad (81%). Total investments in Palestine by non-residents (foreign liabilities) amounted to \$2.8bn, 6.6% less than in the previous year. As a result, external assets exceeded foreign liabilities by \$3.2bn, marking a 12.4% increase compared to 2013.

The decrease in liabilities was explained by a drop of \$159m (35.1%) and of \$43m (5.9%) in other investments and in portfolio investments by enterprises in Palestine, respectively. Foreign direct investment in Palestinian companies accounted for more than half (57.1%) of total foreign liabilities, followed by equity securities (26.4%). The vast majority of foreign direct investment was in financial intermediation (\$898m, or 57.3%) and services, transport, storage and internal trade (\$563m, or 35.9%).

The increase in assets was primarily a result of a 121% (\$173m) increase in foreign direct investment abroad and a 16.7% (\$168m) increase in portfolio investments abroad. The increase in foreign direct investment abroad and in portfolio investments abroad was partially compensated by a 4.2% (\$165m) decrease in other investments abroad. Portfolio investments and reserve assets of the PMA accounted for 19.7% and 11.3% of total external assets, respectively. The stock of foreign direct investment by Palestinian residents was 5.3% of total external assets.

The majority of foreign direct investment in Palestinian enterprises came from Jordan (\$1.28bn, 81.3% of the total), followed by Qatar (\$129m, 8.2%) and Egypt (\$54m, 3.5%). Foreign direct investment from non-Arab countries was relatively low, with \$39m from the US (2.5% of the total), \$16m from Cyprus (1%) and \$10m from the UK (0.6%). At the same time, Jordan, the UAE, Saudi Arabia, Qatar and Kuwait jointly accounted for 73.8% of total foreign portfolio investments in Palestine.

Services, transport, storage, communications and internal trade activities contributed to half (\$363m) of total portfolio investments in resident enterprises in Palestine, a drop of

6 Source: PMA

7 PCBS: Mid-Year population projections

8 <http://bit.ly/1PYDqSJ>

9 www.imf.org/external/country/WBG/RR/2015/092115.pdf

10 www.pcbs.gov.ps/Downloads/book2160.pdf

17.7% from 2013. Financial intermediation formed 45.4% (\$329m) of total foreign portfolio investments in resident enterprises in Palestine, marking an increase of 13.5% compared to the previous year.

Ten Palestinian ICT Companies Exhibit in Dubai

The Palestinian Information Technology Association of Companies (PITA), with support from the Palestinian Market Development Programme (PMDP) which is funded by DFID and The European Union, organised the participation of nine Palestinian companies from the ICT sector¹¹ in GITEX Technology Week in Dubai between 16-20 October.¹² GITEX is the world's third largest technology event, giving exhibitors access to over 130,000 technology professionals with real buying power.¹³ During the exhibition, PITA organised a business to business event, supported by Paltel Group, with investors from the UAE and Palestinian diaspora. Additionally, PITA had an open space at the exhibition for promoting the ICT sector in Palestine. Several deals were discussed with interested buyers from Qatar, Oman, the UAE and US-based companies.

Entrepreneurship

For the fourth consecutive year, Palestine celebrated Global Entrepreneurship Week (GEW) under the title "Palestine Entrepreneurship and Employment Week 2015" (PEEW) on 16-23 November.¹⁴ GEW includes 25,000 organisations from 160 countries. In Palestine the PEEW is hosted by Palestine for a New Beginning (PNB) and the PNA Ministry of Labour (MoL).

On the first day of PEEW, the second annual Seedstars Ramallah took place.¹⁵ Seedstars World promotes, connects and invests up to \$1.5m in emerging market startups through its exclusive startup competition in over 50 countries.¹⁶ Seedstars Ramallah is organised

by Arabreneur, a leading Palestinian accelerator, and Seedstars World in partnership with Paltel Group and other local and international partners. A total of 12 Palestinian startups¹⁷ participated in the competition, pitching to a jury composed of members of the business community. The winner – Mashvisor, an online platform which aggregates real estate data allowing people to make real estate investments,¹⁸ will represent Palestine in the Seedstars World competition in February 2016 in Switzerland, competing for one of three equity prizes of \$500,000 each.¹⁹

Within the PEEW framework, the first annual Get in the Ring Competition was held in Palestine on 19 November in Ramallah.²⁰ Founded in 2012, Get in the Ring is a worldwide competition in which startups compete in one-on-one pitching battles in front of judges and a live audience. It has spread to 80 countries,²¹ and the Palestinian version is hosted by Bader ICT Incubator and PNB and is sponsored by Paltel Group, CCC, Bank of Palestine and The Coca-Cola Company.

October Trading

In October the AI-Quds index slightly increased by 1.6% from the previous month, reaching 493 points on the last day of trading. A total of 8.3m shares worth \$12m were traded during the month. This marked a decrease of 27% in the volume and 20.8% in the value of traded shares from September 2015. Market capitalization increased over the month by 1.4%, reaching \$3.1bn.

Results of disclosed financial statements during the third quarter of 2015 show that 69% of the disclosed companies achieved profits. Total profits amounted to \$228m after tax. Fifteen companies reported a total loss of \$15.4m. Net profit after tax amounted to \$212m, growing by 16% compared to the corresponding quarter in 2014. This is expected to positively impact the AI Quds Index during November.

11 The companies included: Experts Turnkey Solutions, Trusted Systems for Computer and IT, Jaffa Net Software, BabilSoft Information Systems Co., Intertech for Computer Services, Iris Interactive Solutions, Professional for IT Services (PITS), Zone Technologies LTD and PCNC 2000 Networking Ltd.

12 www.facebook.com/PMDPS/?fref=ts

13 www.gitex.com/page.cfm/Link=468/nocache=22062015

14 www.peew.pna.ps

15 www.arabreneur.com/november-16th/

16 www.seedstarsworld.com/

17 The 12 startups included: Mashvisor, The Walking Tech, RedCrow Intelligence, BlueAct, BOLD Gadgets, Eyes on the road, Foodrink, M3llim, Maktabi, Mockapp, MyFaFo and SocialDice.

18 www.mashvisor.com/ and www.facebook.com/Mashvisor/info/?tab=page_info

19 <http://bit.ly/1kJwvRx>

20 www.psgew.co/event/get-in-the-ring/

21 getinthering.co/about-gitr/

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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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