

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

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*Paltel's Board of Directors met last month in Jordan and agreed a general partnership framework with the Kuwaiti private telecommunications company, Zain. Wataniya Palestine Telecom (WPT), Palestine's second mobile operator, secured a \$85m loan on 4 February to support the next phase of its mobile telephone network.*

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### Gaza Reconstruction

International donors and agencies will meet with the Palestinian Authority (PA) in Cairo on 2 March to raise funds for the Gaza Strip. The meeting will follow the National Dialogue conference between Fatah and Hamas on 22 February, whose success will determine the logistics of the reconstruction effort in Gaza. The reconstruction funds are likely to be administered by international agencies.

Prime Minister Fayyad announced on 4 February that the PA will distribute \$600m to repair Gazan housing through the commercial banks, as the first phase of reconstruction.<sup>1</sup> The Minister of Planning, Samir Abdullah, expects the reconstruction efforts will restore infrastructure in Gaza to December 2008 levels. There are still no accurate estimates of total economic losses, according to Cairo Arafat, Director General of Aid Management Coordination in the Ministry of Planning. While the rubble remains, the severity of the damage to waste water networks, wells and other parts of the infrastructure (aside from electricity) is largely unknown. Estimates are still very rough. The Ministry of Planning will release more precise figures on 12 February. In the meantime, the Palestinian Economic Council for Development and Reconstruction (PECDAR) and the Palestinian Central Bureau of Statistics (PCBS)<sup>2</sup> estimated that the losses in Gaza exceeded \$1.9bn.

The international donor community have begun to respond to appeals for urgent humanitarian aid and reconstruction. UN Secretary-General Ban Ki-Moon made an urgent appeal for Gaza on 29 January for \$613m to cover the coming six to nine months. The appeal has collected \$130m so far, including \$20m from the US, \$10m from Japan, \$9m from the UK, \$7m from Spain, \$5m from Finland, \$4m from Denmark and \$4m from France. The European Commission committed €32m to the appeal and a further €66m to UNRWA's core budget. Aid arrived from other Middle Eastern countries, including Jordan, Egypt and Saudi Arabia.

UNDP signed an agreement with the PA in February to provide a total of \$50m to fund a cash assistance package as part of the Gaza Early Recovery Support Programme. The initial phase of the package will cost \$20.3m and will be given to families (not refugees) whose homes were damaged in the operation. \$5,000 will be given to owners of fully destroyed homes, \$3,000 for homes that sustained severe damages and \$1,000 for homes with only minor damages. UNDP is coordinating a needs assessment and aid package for the 2 March meeting.<sup>3</sup>

<sup>1</sup> According to Prime Minister Fayyad, the PA has channelled \$2.2bn to the Gaza Strip since June 2007.

<sup>2</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Gaza\\_lost\\_e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Gaza_lost_e.pdf)

<sup>3</sup> See: <http://www.undp.ps/en/index.html>

On 9 February, the UN resumed their aid delivery, which was suspended after food and blankets were confiscated by Hamas. There were concerns that much of the aid was sitting at commercial crossings in Israel and Egypt. In January, 2030 trucks of humanitarian aid (56%) and commercial goods (44%) passed through the Kerem Shalom crossing point. Nahal Oz terminal, which provides Gaza's power plant with industrial diesel, cooking gas for the population and other liquid fuels, was open for only ten days in January.

Prime Minister Fayyad called on Israel to resolve the cash liquidity crisis in Gaza. He said, that "the work of the banks in the Gaza Strip is dramatically affected and the capacity of the banks to meet the needs of the people are very limited unless Israel lifts the ban on entry of cash to the banks of Gaza Strip." On 5 February Israeli Prime Minister Olmert authorised the transfer of NIS 175m into Gazan banks to pay for 70,000 PA salaries.<sup>4</sup>

## 2009 Budget Projections

The Ministry of Finance released estimates for the PA 2009 budget. Total expenditure for 2009 is estimated at \$3.3bn with \$2.8bn in current expenditure. The 2009 budget forecasts spending \$1.4bn on wages and salaries (22% of GDP) and \$503m on development projects of which \$200m will be spent on public infrastructure and \$303m on community projects.<sup>5</sup> Net lending (lending to municipalities and national utilities) should fall from \$400m in 2008 to \$380m in 2009 (6% of GDP). Net domestic revenue for 2009 is estimated at \$1.63bn - a minor increase on the 2008 net revenue (\$1.61bn). \$1.1bn of the total net domestic revenues of the budget will come from 'clearance revenues' (the taxes and excises collected by Israel for the PA).<sup>6</sup> Foreign aid should reach \$1.65bn.

Nominal GDP in 2009 is expected to reach \$6.3bn, slightly higher than the 2008 GDP budget (\$6.1bn). The PCBS will release the nominal 2008 GDP figure later in the month.

## Rawabi Approval

The Masterplan for 'Rawabi', the first planned community in Palestine, was approved by the PA in January.<sup>7</sup> It now faces a 60 day objection period required by law. A consortium - consisting of Bayti Real Estate (Rawabi's developers) foreign specialists and local experts from

An Najah University and Birzeit University - presented their finalised Masterplan to the PA in September 2008.

Rawabi will be located in the North of Ramallah and will cost over \$500m to build. It will offer more than 5,000 affordable housing units for up to 40,000 Palestinians, as well as employment opportunities, schools, health-care provision and a commercial hub for businesses and service providers.

Amir Dajani, Deputy General Manager of Bayti, explained that the public-private partnership with the PA stipulates that the PA will financially support the offsite infrastructure and public services in Rawabi, in line with the Palestinian Reform and Development Plan (PRDP). Bayti will follow an "economic growth strategy" for Rawabi and hopes to create 8,000-10,000 jobs during construction and as many as 5,000 long-term employment opportunities once construction is complete. Bayti is committed to attracting foreign investment.

Dajani told the Bulletin that Bayti is recruiting local long-term qualified staff and expanding quickly. The company is also beginning to mobilise Palestinian service providers and suppliers, which will give a significant boost to the local construction sector and the labour market.

## Telecommunications

Paltel's Board of Directors met last month in Jordan and agreed a general partnership framework with the Kuwaiti private telecommunications company, Zain. The new partnership will be a Palestinian listed company, operating in both Jordan and Palestine. Abdel Malek Jaber, CEO of Paltel resigned on 27 January but will remain in office during the transition. On Paltel's request, the Palestine Securities Exchange temporarily stopped the trading of Paltel stocks until the agreement is concluded. Malek Jaber said that when the deal is completed, Jawwal mobile phone subscribers (of the Paltel group) will immediately join Zain's international network, which serves 60 million people. Paltel shareholders will also benefit, he added, because of the potential for growth and increased revenue.<sup>8</sup>

Wataniya Palestine Telecom (WPT), Palestine's second mobile operator, secured a \$85m loan on 4 February to support the next phase of its mobile telephone network. The loan will be provided by a syndication which includes the Bank of Palestine Plc, Al-Quds Bank, Commercial Bank of Palestine Limited, Ericsson Credit AB, International Finance Corporation, and Standard Bank Plc. Exportkreditnämnden, the Swedish Export

4 See: [http://www.jpost.com/servlet/Satellite?cid=1233304705404&pagename=JP\\_ost%2FJPArticle%2FShowFull](http://www.jpost.com/servlet/Satellite?cid=1233304705404&pagename=JP_ost%2FJPArticle%2FShowFull)

5 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=1286](http://www.lfd.ps/documentsShow.aspx?ATT_ID=1286)

6 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=1286](http://www.lfd.ps/documentsShow.aspx?ATT_ID=1286)

7 See May 2008 Bulletin

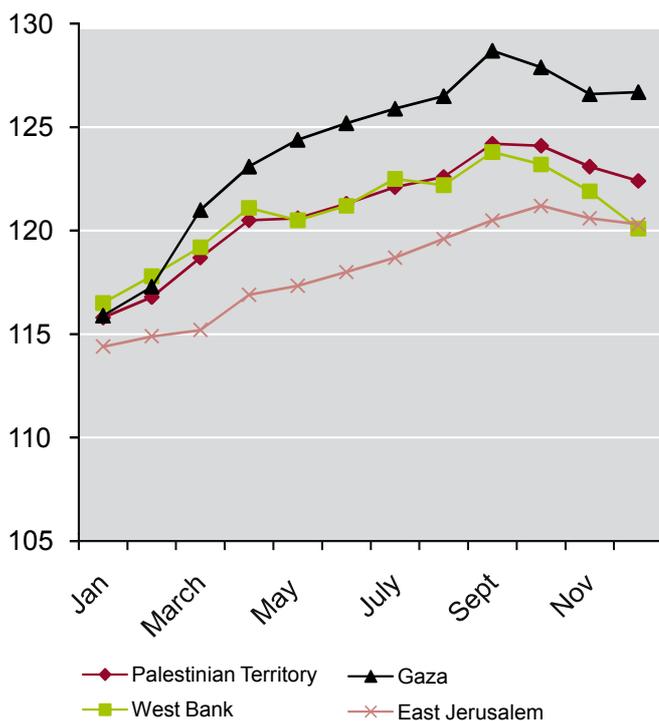
8 See: <http://www.alquds.com/node/133770>

Credits Guarantee Board and GuarantCo, a specialist guarantor of infrastructure financing in low-income countries, are acting as guarantors to the Syndicated Facility. Qtel and the Palestine Investment Fund (PIF) have invested more than \$200m in Wataniya Palestine Telecom. Dr. Mohammad Mustafa, Chairman and CEO of PIF, said that the deal reflects the level of confidence of local and international lenders in the future of the Palestinian economy.<sup>9</sup> The launch of commercial services is expected in 2009.

## CPI 2008

The Consumer Price Index (CPI) increased by 9.9% in the Palestinian Territory in 2008. The greatest increases were recorded in the food and soft drink group (17.3%), restaurants and cafes group (12.9%) and transportation (8.0%). The housing group rose by (7.6%) and alcoholic beverages and tobacco by (7.4%). The index increased by 14.0% in the Gaza Strip in 2008, 9.8% in the West Bank and 7.1% in East Jerusalem.<sup>10</sup>

**Consumer Price Index 2008**



The Wholesale Price Index decreased by -3.4% in Q4 2008. The largest changes were recorded in the manufacturing group which decreased by (-3.9%) and the agriculture goods group (-2.4%). The Produce Price Index also fell in Q4 2008, by -1.1%.<sup>11</sup> The Industrial Production Index rose by 1.3% in Q4 2008.

<sup>9</sup> See: <http://www.pif.ps/etemplate.php?id=360#>

<sup>10</sup> See: <http://www.pcbs.gov.ps/desktopmodules/newsscrollEnglish/newsscrollView.aspx?ItemID=796&mID=11170>

<sup>11</sup> See: <http://www.pcbs.gov.ps/desktopmodules/newsscrollEnglish/newsscrollView.aspx?ItemID=799&mID=11170>

## Agricultural Financing

The Ministry of Agriculture laid 235km of road in 2008, linking agricultural towns and villages. In addition, 6277 dunums of agricultural land was reclaimed and rehabilitated. Zakaria Salawdeh, Director General of Land Development and Conservation at the Ministry of Agriculture, told the Bulletin that “the main factor hindering the reclamation and rehabilitation of agricultural land in the past was the bad quality of roads leading to those lands”. He added that, “these projects aim to decrease the dependence on imported agricultural products, creating jobs and enhancing the competitive ability of the Palestinian agricultural products at home as well as abroad”.

Salawdeh reported that the Ministry of Agriculture will complete a project to build 540 agriculture wells in 2009 in the West Bank and the Gaza Strip to supply farmers and livestock owners in remote areas with sufficient water supply for their activities. Over half have been built but due to the situation in the Gaza Strip, the Ministry has been unable to operate there.<sup>12</sup>

Despite contributing 6.9% of GDP and employing 14.9% of workers in Q2 2008, the agriculture sector received less than 1.6% of banking credit. The agricultural sector’s share of the total micro-credit over the last twenty years has been about 11%. A recent survey by the Palestine Economic Policy Research Institute (MAS) suggests that agricultural credit associations or loans using Islamic instruments were the best sources of finance for the sector. More than half of the Palestinian farmers in the MAS survey prefer personal loans and use cheques as security. They all refuse to provide their lands as collateral but are willing to link their loans to the marketing of their products.

Farmers growing vegetables in greenhouses need larger amounts of money, up to JD 50,000, especially when modernizing or expanding greenhouses. On average, a loan of this size takes between one and five years to be fully repaid. Problems most frequently arise because of high interest rates, delays in acquiring a loan and the difficulty of finding a guarantee that is acceptable to the credit institutions. This last difficulty can be overcome by the granting of loan guarantees provided by specialised lending institutions, including microfinance institutions.

<sup>12</sup> See: <http://www.alquds.com/node/129876>

## Lebanese – Palestinian Business Council AI Quds Index Rises

The Palestine Businessmen Association and the Lebanese Economic Forum have agreed to establish the first joint business council to promote business opportunities and economic cooperation.<sup>13</sup>

### Seawater Desalination Plant

The Qatari Council for Planning and Construction will fund a seawater desalination plant, which will provide future drinking water to the West Bank. However, there is not yet an agreement or memorandum of understanding between Palestinian and Israeli counterparts.<sup>14</sup>

In the first month of the year, the AI Quds index rose by 13.4% or 68.56 points to reach 510.22 on the last day of trading. In 19 trading sessions, 9.9 million shares changed hands, a decrease of -25.3% compared to December 2008. The value of traded shares in January 2009 continued to decrease by -23.8% from December 2008 to \$30.2m. Market capitalisation stood at \$2.4 bn – 11% more than December 2008.



13 See: <http://www.alquds.com/node/130139>

14 See: <http://www.alquds.com/node/127686>

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