

## PALESTINIAN ECONOMIC BULLETIN

Issue 32  
May 2009

### Main reports

*PCBS released its economic forecast scenarios for the year 2009. The baseline scenario forecasts a 3.1% decrease in real GDP, a 5.9% decrease in GDP per capita and a decrease in both exports and imports by 8.2% and 5.8% respectively. This assumes that the situation in the Palestinian Territory remains as it was in 2008.*

*The Islamic National Bank opened in Gaza on 21 April, making it the first bank to operate outside of Palestinian Monetary Authority control. The bank has capital of \$20m and does not suffer problems of liquidity. The bank opened 6,000 personal accounts for civil servants, into which their salaries will be directly paid.*

*Palestinian Electric Company posted net profits of \$6.9m for the year 2008 (up from \$4.6m in 2007). It will distribute cash dividends to shareholders of 10% of capital.*

*PCBS reported that the percentage of Palestinian businesses expecting production to rise over the medium term (six months) was 48.4% higher in the West Bank than those expecting a decline. Gazan businessmen were less optimistic. Only 8.7% more believed that there would be an improvement in the coming six months than those who anticipated a fall, a huge decrease from February 2009 (57.7%).*

### Fiscal Crisis: PA To Alter Financial System

The Palestinian Council of Ministers decided to amend its financial system regulations on 14 April. Details of the changes are expected to be made available for dissemination in the next few weeks.

The Palestinian Authority (PA) is facing an extremely serious financial crisis. Dr. Samir Abdullah, Minister of Planning, said the crisis was a result of international donors not meeting their pledges for the past two months. The government will need to borrow the necessary funds from banks to cover the deficit, which is how the government has paid public salaries for the last four months.<sup>1</sup>

A comparison between the PNA's financial situation of Q1 2009 and Q1 2008 reveals some of the factors behind the current crisis. Overall, it shows a decrease in Palestinian government revenues, an increase in expenditures and mounting debts. Government Total Net Revenues decreased from \$334.7m in Q1 2008 to \$316.6m in Q1 2009. External budget support fell sharply from \$525.6m in Q1 2008 to \$278.1m in Q1 2009 (a \$247.5m decrease). While government revenues decreased, expenditure and net lending increased by \$152m in Q1 2009 compared to Q1 2008. This is mostly due to additional government spending in the Gaza Strip following the recent Israeli military operation.

### Revenue, Expenditure & External Budget Support for Q1 2008 & 2009 in US\$m\*

	2009				2008	Change
	January	February	March	Q1	Q1	
Total Net Revenue	110.4	109.3	96.9	316.6	334.7	-18.1
Total Expenditure and Net Lending	226.8	263.8	265.4	755.9	603.9	152
Total External Budget Support	2.4	83.1	192.7	278.1	525.6	-247.5
Net Financing from Local Banks	69.1	68.8	-17.3	120.7	-49.3	

\*Figures from the Palestinian Ministry of Finance

Net Lending remained steady at around \$75m. Net Lending includes payments deducted by Israel from clearance revenues for electricity, water, health and agricultural services.<sup>2</sup> These deductions pay for the debt incurred by Palestinian consumers, primarily the municipalities.

The current deficit in the government's budget threatens its ability to pay salaries and pensions and meet other fiscal commitments. This can be partially attributed to the absence of a Central Bank and a national currency in the Palestinian Territory. It is a challenge to accurately measure expenditure and revenue, as well as to monitor external debt. As part of the restructuring, the MOF is planning to establish a new department to monitor cash management and Palestinian external debt.

1 See: <http://www.alquds.com/node/155531>

2 See: [http://www.pmf.ps/en/index.php?page=monreportx\\_2](http://www.pmf.ps/en/index.php?page=monreportx_2)

## GDP Scenarios

The Palestinian Central Bureau of Statistics (PCBS) released its economic forecast scenarios for the year 2009. The baseline scenario forecasts a 3.1% decrease in real GDP, a 5.9% decrease in GDP per capita and a decrease in both exports and imports by 8.2% and 5.8% respectively.<sup>3</sup> This assumes that the situation in the Palestinian Territory remains as it was in 2008.

If there was real progress in 2009 with an end to the economic embargo on Gaza, the full transfer of customs revenues by Israel, continued external financial assistance and freedom of movement for Palestinians within the West Bank, it is expected that real GDP would increase by 3.2% and raise GDP per Capita by 0.2%. Private investments would increase by 6.4%. This would mean that the PA would be able to expand its security plans beyond the governorate of Jenin, fully implement the Palestinian Reform and Development Plan (PRDP) and implement investment and development projects in the Palestinian Territory.

On the other side of the coin, if the political and economic conditions worsen and external donor support falls, there would be a predicted decrease of 7.8% in real GDP, GDP per capita would fall by 10.4% and private investment, exports and imports would decrease by 26.3%, 8.6% and 14.2% respectively. This scenario implies a deteriorating situation at all levels. The PA would face great difficulty in allocating resources for salaries and PRDP projects.

The PCBS initially reported a 3.7% decrease in GDP for 2008 but amended it to a 2.3% increase in a later publication. Both the World Bank and the IMF estimated that 2008 GDP growth is around 2% for the Palestinian Territory.<sup>4</sup> The World Bank reported growth of 2% despite the continued decline in the Gaza Strip throughout 2008.<sup>5</sup>

In light of the discrepancies in GDP estimates, a workshop will be held at MAS in the coming weeks, attended by the World Bank, IMF and PCBS. The methodologies for calculating GDP and the various scenarios will be compared and discussed.

## Gazan Islamic Bank

The Islamic National Bank opened in Gaza on 21 April, making it the first bank to operate outside of Palestinian Monetary Authority (PMA) control. The opening ceremony was attended by the de facto Hamas government, PLC members and local businessmen. Dr. Ala' Rafati, head of the Board of Directors, said the bank would operate according to Sharia Law in providing financial services and assisting mergers and acquisitions. The bank has capital of \$20m and does not suffer problems of liquidity. The bank opened 6,000 personal accounts for civil servants, into which their salaries will be directly paid.<sup>6</sup>

The bank is not considered a legal entity as it did not apply for a banking licence from the PMA. The Bulletin spoke with the Director of the Banking Supervision Department at the PMA, Riyadh Abu Shehadeh. 'Investors as well as clients dealing with this bank do so at their own risk since the bank operates outside the PMA and other banking regulations,' Abu Shehadeh warned. Jihad Al Wazir, the Governor of the PMA, said to the press that the bank is under no financial or administrative regulations or supervision.<sup>7</sup> The PMA will not provide it with banking guarantees. Without a licence from the Palestinian Securities Exchange, shares are not legally available to investors so investments and deposits are made at the client's risk.<sup>8</sup>

## PEC

The General Assembly (GA) of the Palestinian Electric Company (PEC) held its sixth annual meeting on 25 April in Gaza City, Ramallah and Amman via video conferencing. The PEC normally provides about 30% of Gaza's electricity supply via its 140-MW plant. The company posted net profits of \$6.9m for the year 2008 (up from \$4.6 m in 2007). The GA approved the recommendation of the Board to distribute cash dividends to shareholders of 10% of capital. The company declared \$3.6m in dividends last year and about \$6m in 2006. The gains were made even though the plant has been operating at less than full capacity in Gaza.

The PEC has a 20-year contract with the PA to generate electricity against a fixed "capacity charge" of about \$29m annually. The PA also provides the PEC with the fuel needed to run the plant (about \$130m this year). The biggest PEC shareholders are the Consolidated Contractors Co (CCC), a company based in Greece

3 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/forecast\\_e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/forecast_e.pdf)

4 International Monetary Fund, IMF. Macroeconomic and Fiscal Framework for the WBGS: Third Review of Progress

5 The World Bank Group. West Bank and Gaza Update, April 2009

6 See: <http://www.maannnews.net/en/index.php?opr=ShowDetails&ID=37306>

7 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=110147&date=4/22/2009>

8 See: [www.daralhayat.net](http://www.daralhayat.net)

and headed by a Palestinian family, and the Palestine Investment Fund (PIF).

The PEC's recent financial declarations to the Palestine Security Exchange show that its pre-tax profit in Q1 2009 amounted to \$6.2m (compared with \$2.7m in the first quarter of last year).

## Al-Rafah Mortgages

Al-Rafah Microfinance Bank joined the Palestine Mortgage and Housing Corporation's (PMHC) mortgage financing programme in April.<sup>9</sup> The programme offers 20 year loans through the banks. Sami Saidi, general manager of Al-Rafah Bank, said that a partnership between banks and specialised lending institutions is needed in order to meet growing housing needs. With the natural growth of the population, an estimated 400,000 housing units will be needed over the next ten years.<sup>10</sup>

Saidi told the Bulletin that in the first stage of their agreement with PMHC, they will make \$1m available for loans to regular, individual customers. They will provide small loans for ownership and home improvement and will focus on rural areas where land is less valuable and construction is cheaper. Al-Rafah Bank hopes to begin making loans by mid May. Saidi added that Al-Rafah Bank will offer the same rates as other commercial banks involved in PMHC's programme.

## Small Business Loans

The Islamic Development Bank will provide \$46m for a DEEP project for empowering the unemployed and most vulnerable in the Palestinian Territory. The amount was recently increased from \$33m to \$46m in light of the global financial crisis, which increased unemployment and poverty in the Palestinian Territory. The project will be administered by the Ministry of Social Affairs (MoSA) and the Ministry of Labour (MoL), in coordination with DEEP.

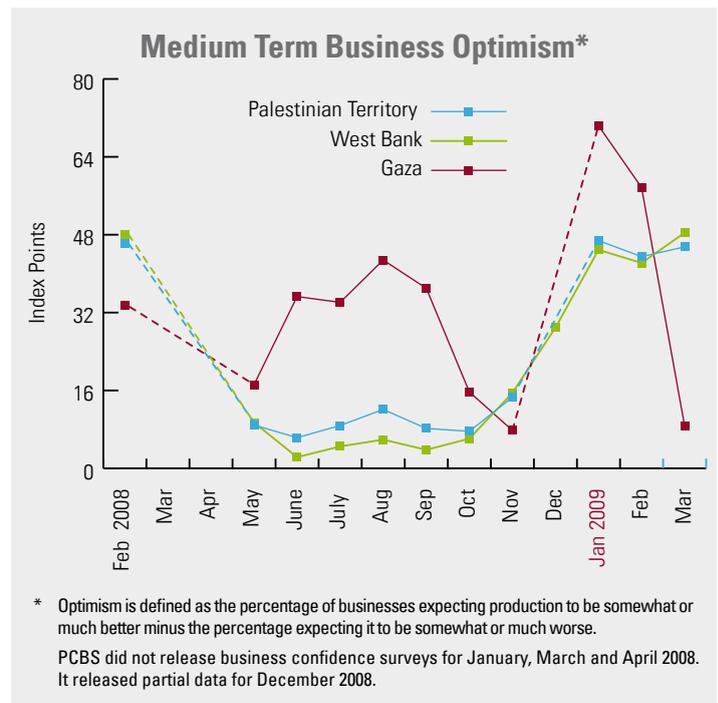
Nasr Qatami, the Assistant Deputy at the Ministry of Labour, told the Bulletin that \$16m will be spent on grants and loans to help the poorest set up small businesses. The remaining \$30m will be used as capital to establish a new loans bank. The bank's Board will include representatives from the private sector, MoSA, MoL and the Ministry of Planning. Qatami expects the bank to be set-up by September this year.

## Business Confidence

The PCBS survey of industrial establishments reported that in March 2009<sup>11</sup>, the percentage of Palestinian businesses expecting production to rise over the medium term (six months) was 48.4% higher in the West Bank than those expecting a decline. Gazan businessmen were less optimistic. Only 8.7% more believed that there would be an improvement in the coming six months than those who anticipated a fall, a huge decrease from February 2009 (57.7%).

In the West Bank, 10.1% of owners and managers dismissed employees in March, compared to 10.9% in February while in Gaza only 4.3% of owners and managers laid off workers in March 2009 compared to 7.7% in the previous month.

During the first quarter of 2009, 93.5% of surveyed owners and industrial enterprises refrained from borrowing from the banks.



## New Market Development

The Palestinian Facility for New Market Development (FNMD) assisted 120 mainly small and medium sized Palestinian enterprises in the Palestinian Territory since its launch last year. FNMD is a three year £3.6 million project funded by UK's DFID with backing from the World Bank and managed by Development Alternatives Inc. FNMD's portfolio includes businesses from the manufacturing, agribusiness, stone and marble, tourism, ICT and handicraft sectors.<sup>12</sup>

9 See May Bulletin 2008

10 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=110010&date=4/21/2009>

11 See: <http://www.pcbs.gov.ps>

12 See: <http://www.reuters.com/article/latestCrisis/idUSLQ581028>

Eight grant recipients now export to new international markets. Fifteen enterprises are developing new goods and services. Success stories include the 'Nablus Soap Factory', which updated the soap's packaging and design and began exports to Yemen and Norway.

## French-Palestinian Industrial Zone

A new company called 'Bethlehem Multidisciplinary Industrial Park Ltd' (BMIP) was registered at the Ministry of National Economy on 30 April 2009. It has a capital of JD 1m. The company will spearhead the French-Palestinian project to create and develop an industrial area in Bethlehem.<sup>13</sup>

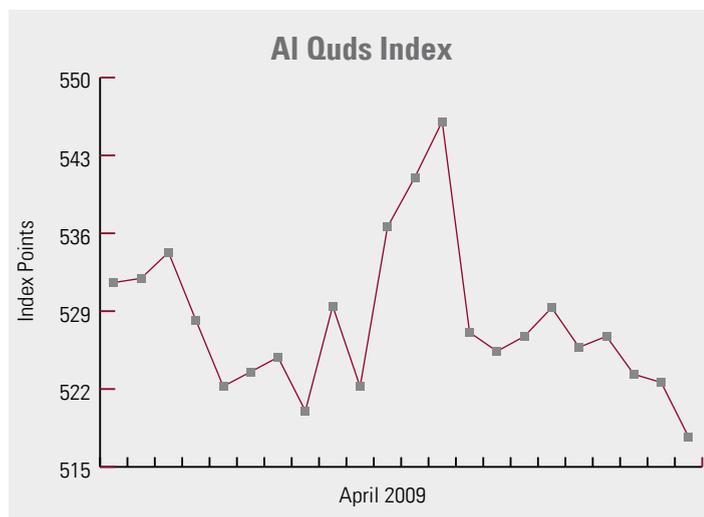
The Bethlehem Industrial Park is co-owned by Palestinian and French partners. BMIP's sole public investor at present is the French Development Agency (AFD) with 10% of the capital. The construction of premises and basic infrastructure are due to start soon.<sup>14</sup>

<sup>13</sup> See July 2008 Bulletin

<sup>14</sup> See: [http://www.consulfrance-jerusalem.org/france\\_jerusalem/spip.php?article919&var\\_recherche=industrial%20zone](http://www.consulfrance-jerusalem.org/france_jerusalem/spip.php?article919&var_recherche=industrial%20zone)

## AI-Quds Index

The AI-Quds index peaked at 546.05 points mid month but fell to 517.7 points by the end of April, an increase of 0.6% from March 2009. In 22 trading sessions, 16.8 million shares changed hands, a decrease of -45.8% from the previous month. The value of traded shares fell by -49.7% to \$46.5m, while market capitalisation grew by 0.3% to reach \$2.4bn.



## The Portland Trust

42 Portland Place  
London W1B 1NB

P.O. Box Al Bireh 4102  
Ramallah Al Masyoun

Azrieli 3  
132 Menachem Begin Road, Tel Aviv 67023

Email: [feedback@portlandtrust.org](mailto:feedback@portlandtrust.org)

Website: [www.portlandtrust.org](http://www.portlandtrust.org)

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](mailto:feedback@portlandtrust.org)