

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The joint Palestinian-Israeli economic committee is expected to reconvene before the end of July, after years of inaction. The Palestinians will press Israel to release frequencies for Wataniya Mobile, allow Palestinian products into Jerusalem, open borders in the Gaza Strip and renew the Palestinian Businessmen Cards.*

*The Palestine Islamic Bank renewed its agreement this month with Israel's Discount Bank to clear cheques, SWIFT transactions, money transfers and cash deposits on its behalf in Israel.*

*PCBS launched their new National Strategy for the Development of Statistics, which should raise the quality of data produced by the statistical system while improving the dissemination and accessibility of official statistics; PCBS reports that GDP increased by 3.9% in Q1 2009 compared to Q4 2008. GDP per capita for the West Bank and Gaza Strip increased by 3.1% to \$324.8 in Q1 2009 compared to Q4 2008.*

*Foreign investment funds from the UK and the UAE invested in companies listed on the Palestinian Securities Exchange (PSE) in June. Last month, 26.7 million shares changed hand, an increase of 139.5% from the previous month. The value of traded shares rose by 143.5% to \$70.2m, while market capitalisation grew by 2.3% to reach \$2.41bn.*

### Wataniya Palestine

As the Bulletin goes to press, there are concerns that Wataniya Mobile may pull out of the Palestinian Territory because of severe delays in acquiring essential frequencies and equipment. The Palestinian Authority (PA) and the Israeli Government agreed in May 2008 that Israel would release the necessary frequencies for Wataniya Mobile operations and services. The Quartet Representative said at the time, "the Government of Israel has agreed to [...] release a frequency of 2.4 MHz in the 900 bandwidth. The Government of Israel will commit, in writing, that within 6 to 8 months, the assignment of frequency will be amended to a total bandwidth of 4.8 MHz at the 900/1800 MHz bands and will assign a frequency of more than 4.8 MHz in due course, with details to be finalised between the parties."<sup>1</sup> To date the necessary frequencies have not been released.

Wataniya Mobile planned to launch their mobile service provision in April 2009. Allan Richardson, CEO of Wataniya Mobile said that Wataniya has been unable to launch its operations because Israel had not abided by the frequency agreement. He added that some of the company's essential equipment remains held up at Israeli Customs.

The Palestinian Minister of Telecommunications and Information Technology (MTIT), Dr. Mashhour Abu Daka, told the Bulletin that Israel is pushing Jawwal and Wataniya to use a 1,800MH frequency and abandon the 900MH frequency. However, 900MH is more cost effective and has a wider coverage area than 1,800MH. This range requires fewer materials for installation (towers, cables etc.) and incurs fewer overall costs. Telecommunications companies on the whole prefer 900MH for 3G services. If Wataniya does secure a frequency and Jawwal also shifts to using 1800MH, the Israeli telecommunications companies, still operating at 900MH, will be able to offer more affordable and better services. 'Israel is acting in a way that is contrary to supporting an open market economy, working to strengthen the competitive advantage of the Israeli telecommunications companies as two new regional companies enter the Palestinian market', Abu Daka added.

The withdrawal of Wataniya would put the PA in a critical situation. It could lose \$354m which was paid by Wataniya Mobile for license fees, and another \$200m in expenses spent on installing equipment and running costs. 3,000 jobs would be lost.<sup>2</sup> The international community is continuing to put pressure on Israel to facilitate Palestinian telecommunications sector expansion,<sup>3</sup> and the release of frequencies and equipment.

<sup>1</sup> See: <http://tonyblairoffice.org/2008/05/towards-a-palestinian-state.html>

<sup>2</sup> See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=113456&date=6/4/2009>

<sup>3</sup> See: <http://www.reuters.com/article/topNews/idUSTRE55F3RR20090616>

## Sewage Delays

The \$75m north Gaza sewage treatment project, endorsed by Tony Blair, lacks the necessary construction materials to continue. In a memo to donors on 4 June, the World Bank said that Israel has blocked the delivery of essential equipment and materials including pipes and cement since March despite earlier approvals. An attempt to hire contractors for the project also failed because no bidder wanted to chance the security risk involved in Gaza. The World Bank said that the 'failure of attracting bidders in the second round will be devastating for the project'.<sup>4</sup>

## Joint Economic Committee

The Minister of National Economy, Basem Khoury announced that the joint Palestinian-Israeli economic committee is expected to reconvene before the end of July.<sup>5</sup> Plans to establish a Joint Economic Committee (JEC) were first announced at the Paris Protocol (PP) in April 1994. The objectives of the committee were to resolve implementation issues between the two sides.<sup>6</sup> But the JEC failed to be effective.

Khoury said the Palestinians will press Israel to release frequencies for Wataniya Mobile, allow Palestinian products into Jerusalem, open borders to and from the Gaza Strip and renew the Palestinian Businessmen Cards.<sup>7</sup>

## Al Reehan Ground Breaking

President Mahmoud Abbas laid the cornerstone for Al Reehan<sup>8</sup>, the first residential investment of its kind in Palestine, on 29 June.<sup>9</sup> The neighbourhood will include a commercial centre, school, health clinic, a mosque and a historical Byzantium park. It is expected to cost \$200 m and create around 2,000 residential units. On the same day, the Palestine Investment Fund (PIF) signed an agreement with the Arab Medical Centre and Al-Reehan Real Estate Investment Company to develop a world – class hospital in the neighbourhood. The hospital will cost \$15m.<sup>10</sup>

## Inter-Bank Agreement

The Palestine Islamic Bank renewed its agreement this month with Israel's Discount Bank to clear cheques, SWIFT transactions, money transfers and cash

deposits on the banks behalf in Israel. Following the Hamas takeover of Gaza in June 2007, this agreement, dating back to 1997, was suspended.<sup>11</sup> All Israeli banks froze operations with all Palestinian banks operating in the Gaza Strip, even if their headquarters were in the West Bank.

The Bulletin spoke to Imad Saadi, the Bank's regional manager. Saadi explained that 'only after the bank had reallocated its headquarters to Ramallah were we able to renew the agreement with Discount Bank. The agreement only extends to branches in the West Bank.' He added that 'the agreement marks a positive step towards serving Palestinian needs, but further cooperation with Discount Bank is needed in terms of cash transfers.'

## EU Assistance

The European Union (EU) will double the quarterly social allowance payments for the poorest and most vulnerable families in the Gaza Strip. The Ministry of Social Affairs will distribute a total of almost NIS 75 m through the PA's Hardship Cases Programme. Payments will be made over-the-counter at 43 branches of the Bank of Palestine and the Cairo Amman Bank. Recipient families in the Gaza Strip will each receive NIS 2,000 whilst NIS 1,000 will be given to 24,834 families in the West Bank. This round of social allowances has been provided by the European Commission (EC) and the governments of Italy and Austria.<sup>12</sup>

In response to serious water shortages in the West Bank, the EC has announced a further €4 m funding package. In parts of the West Bank, more than 70% of agricultural land has been affected. Bedouin communities, farmers, livestock herders and marginalised populations are understood to be most affected by the drought. Activities to mitigate the effects of the drought will include: distributing emergency water, food and seeds to cover domestic and livelihood needs, emergency water and fodder for animals, provision of water trucks and improvements to water storage and harvesting installations. The funding will be channeled via the Commission's Humanitarian Aid department.<sup>13</sup>

4 See: <http://uk.reuters.com/article/idUKTRE5571ZM20090608>

5 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=115919&date=7/4/2009>

6 See: <http://www.met.gov.ps/MneModules/agreements/paris.htm>

7 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=115919&date=7/4/2009>

8 See November 2008 bulletin

9 See: <http://www.alquds.com/node/171993>

10 See: <http://www.pif.ps/etemplate.php?id=362>

11 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=114452&date=6/16/2009>

12 See: [www.delwbg.ec.europa.eu/.../PR%20VPPF%20June%202009%20FINAL%20EN\\_.pdf](http://www.delwbg.ec.europa.eu/.../PR%20VPPF%20June%202009%20FINAL%20EN_.pdf)

13 See: <http://www.reliefweb.int/rw/rwb.nsf/db900SID/ASAZ-7T3J9H?OpenDocument>

## French Development Aid

The French Development Agency (AFD) and the Ministry of Planning and Administrative Development (MOPAD) signed five financing agreements for development projects with a total of €26.5m. Approximately €15 m will be spent in water and sanitation programmes in the Tubas Governorate and will be implemented by the Palestinian Water Authority. A further €0.5 m will be used to extend and rehabilitate a sanitation network in Rafah, Gaza. €1 m will be donated to a World Bank project to support energy efficiency and renewable energy initiatives. €10m is allocated for the external infrastructure of the Bethlehem Multidisciplinary Industrial Park, the first Eco-Park in Palestine. The new financing agreements form part of the French government €68m pledge from December 2007. To date, AFD have committed over €150m for Palestinian development.<sup>14</sup>

## New Carton Production Line

A new production line at the National Carton Company (NCI) was inaugurated in May to produce between 7-10 million units per year of special carton needed for packaging agricultural and animal products. The company invested \$500,000 in the new line. NCI currently meets just over 20% of the Palestinian carton needs. Its products are used in agricultural, pharmaceutical, chemicals and bottling, and food industries. With the new line, the company expects to meet 50% of Palestinian demand by 2010.

The new line will enhance production efficiency, lowering costs and increasing their ability to compete with Israeli companies. The company currently imports raw materials from China, Sweden, Spain and Portugal. According to Hazim Al Aghbar, General Manager of the company, NCI is looking to invest in developing a paper recycling facility. In Nablus alone, there are 12 tons of carton and paper thrown away every day.<sup>15</sup>

The National Carton Company was established in 1989 in Nablus and today employs over 70 workers. In 2008, its market capitalisation stood at \$2.1m.<sup>16</sup>

## National Statistics Strategy

The Palestinian Central Bureau of Statistics (PCBS) launched their new National Strategy for the Development of Statistics (NSDS) at a conference in June, which was held in cooperation with the European

Community.<sup>17</sup> The NSDS aims to raise the quality of data produced by the statistical system while improving the dissemination and accessibility of official statistics. Unlike earlier PCBS plans, the NSDS is available to all statistics producers and users in the country.

The vision of the NSDS is 'to establish an integrated, professional, efficient and effective national statistical system, under the guidance of the PCBS, which will serve all the constituencies of the Palestinian society and support the sustainable development of Palestine.'<sup>18</sup> The strategy sets out to define and coordinate the roles of the various data providers in order to avoid duplication and ensure comprehensive coverage. Assessments to identify new subjects for data collection and an evaluation of current strengths and areas for capacity enhancement will be undertaken. Efforts will be made to develop national, regional and international relations and partnerships.

## Economic Forecasts

The Palestine Economics Policy Research Institute (MAS) conducted a seminar in June to address the confusion over economic forecasts.<sup>19</sup> The International Monetary Fund (IMF) and the PCBS have been issuing conflicting GDP growth forecasts; these varied from -7.8% to +5%. 20 representatives from the IMF, PCBS, the Palestinian Monetary Authority, PADICO, and MAS researchers took part in the seminar.

The two institutions use different scenarios for forecasting - PCBS uses 3 scenarios (base scenario, optimistic scenario, and pessimistic scenario) while the IMF uses two (base scenario and pessimistic scenario). The optimistic PCBS scenario is parallel to the IMF base scenario in its assumptions and predictions of the Palestinian economic and political situation (5% growth using the IMF scenario and 3.2% growth using the PCBS scenario). The base scenario that the PCBS adopts is almost the same as the pessimistic IMF scenario in its assumptions (0% growth using the IMF scenario and -3.1% using the PCBS scenario). The -7.8% GDP growth uses PCBS's less optimistic scenario which has no parallel at the IMF.

The IMF relies on PCBS data for its forecasts. There are concerns that certain data is unavailable or unreliable, particularly for the Jerusalem area. PADICO representatives said that the contradictions in the

14 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=1674](http://www.lfd.ps/documentsShow.aspx?ATT_ID=1674)

15 See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=113204&date=6/1/2009>

16 See: <http://www.p-s-e.com/PSEWEBSITE/english/Publications.pseAnnualReport2008-2008.pdf>

17 See: <http://www.pcbs.gov.ps/DesktopModules/Articles/ArticlesView.aspx?tabID=0&lang=en&ItemID=1460&mid=12110>

18 See: the PCBS National Strategy for Development of Statistics

19 See May 2009 Bulletin

20 See: PCBS forecasts (Economic Forecasts for the Year 2009, 2009), IMF forecasts (Macroeconomic and Fiscal Framework for the West Bank and Gaza: Third Review of Progress, 2009).

forecasts impact negatively on investment decisions and attracting foreign investment. There was a suggestion that the IMF and PCBS issue a joint quarterly report. The World Bank said that it would not issue growth forecasts for Palestine any longer. All participants agreed that there is room for an independent institution to assess the accuracy of the economic forecasts.

## Foreign Investment

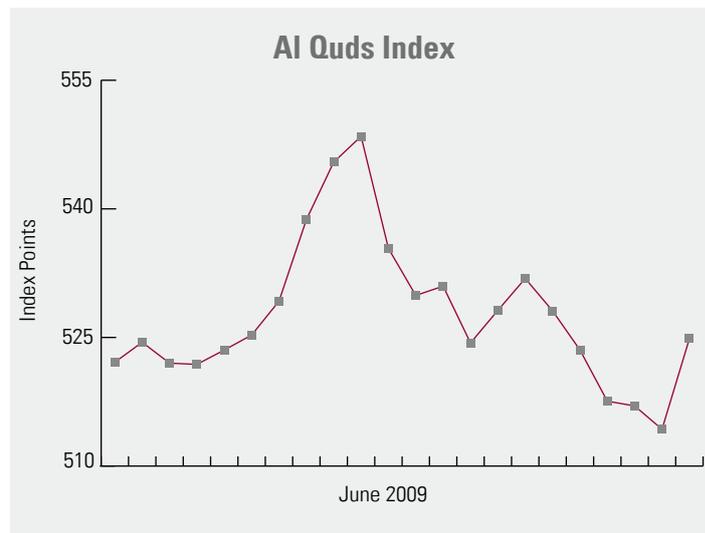
Foreign investment funds from the UK and the UAE invested in companies listed on the Palestinian Securities Exchange (PSE) in June. It is the first time either of these funds has made an investment. The funds are focusing on three companies: Bank of Palestine, PADICO and Paltel.

The Bulletin spoke with Sufyan Barghouti from the PSE, who said the funds had "increased liquidity and confidence in investing in Palestine. This sends a positive signal to other investors and funds encouraging them to enter our market".

The PSE has been active in the Palestinian Investment Conferences held locally and abroad and has worked to attract investors to the market. It met with foreign investors and investment funds and discussed strategies to build investor confidence in Palestine. Following these conference, the PSE awarded HSBC Bank with a greater role and responsibility in managing transactions of foreign investors.

## AI-Quds Index

The AI Quds index increased by 0.5%, or 3 points, to reach 524.85 points on the last day of trading in June. In 22 trading sessions, 26.7 million shares changed hand, an increase of 139.5% from the previous month. The value of traded shares rose by 143.5% to \$70.2m, while market capitalisation grew by 2.3% to reach \$2.41bn. These increases can be explained by the entry of the foreign funds into the market and the closing of the PALTEL-Zain deal last month.<sup>21</sup>



<sup>21</sup> See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=114849&date=6/21/2009>

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