

PALESTINIAN ECONOMIC BULLETIN

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Main reports

In January 2010 medium term business confidence in the West Bank was higher than at any point in the previous year. 74% of businesses in the West Bank expected production to increase opposed to 4% who expected a decline.

A delegation of 32 Palestinian finance and business professionals took part in the first Palestine Securities' Exchange (PSE) road show to London in March. Over 30 B2B meetings were held with major international investment funds.

The governments of Brazil and Argentina have agreed to negotiate a Free Trade Agreement (FTA) between Mercosur, the largest South American trading bloc, and the Palestinian Authority.

The cornerstone of the Bethlehem Multi Purpose Industrial Park (BMIP) was laid on 8 April. BMIP is a French-Palestinian initiative with €10m of funding from the French government for infrastructure.

2010 Budget

The 2010 Budget is now in effect following final approval by the Palestinian President Mahmoud Abbas. According to Ministry of Finance and IMF figures, total expenditure for this year is estimated at \$3,831m, of which recurrent spending (including wages, other ongoing expenses and net lending) is \$3,164m and expenditure on development projects is \$667m (including \$332m on public infrastructure).¹ This reflects a 0.8% decrease from the latest estimate of recurrent spending in 2009 (\$3,190m).

The PA public sector wage bill is forecast at \$1,550m, 6% higher than the 2009 estimate (\$1,467m). \$1,364m is forecast for other ongoing expenses, including running costs, transfer payments and some capital expenses, a marginal increase compared to 2009 (\$1,349m). Net lending (to municipalities and utility companies) is predicted to fall by 33%, from \$374m in 2009 to \$250m in 2010. This is due to expected improvements in billing and revenue collection, especially for electricity and water services.

Total net revenue for 2010 is estimated at \$1,927m, thereby covering 50% of total recurrent expenditure. 69%, or \$1,320m, of revenue will come from clearance revenues (the taxes and duties collected by Israel for the PA). Clearance revenues are estimated to increase by 20% compared to the total received in 2009 (\$1,103m)

International aid for budget support is expected to reach \$1,242m in 2010, with \$667m allocated to development projects. This is an overall increase of almost 8% in total aid compared to the latest estimates for 2009 (\$1,771m), but reflects an 8% decrease in budget support (compared to \$1,355m in 2009) and a 67% increase in development spending (compared to \$400m in 2009). The IMF reported that so far only \$174m of aid has been disbursed in 2010, resulting in a \$45m shortfall each month. The PA borrowed \$44m from commercial banks in the first two months of this year, increasing their interest payment obligations. \$180m was borrowed during 2009.

GDP Growth

Preliminary national accounts' estimates, released by the Palestinian Central Bureau of Statistics on 16 March 2010, show that real GDP rose to \$5,147m in 2009.² Real growth in 2009 was estimated at 6.8%, with 8.5% in the West Bank and 1% in Gaza, while nominal GDP grew to \$6,117m.³ Real growth since 1999 (GDP \$4,512m) was found to be 14%.

Quarterly data showed that real GDP increased by 1.5% in Q4 2009 to \$1,327m compared with Q3 2009 (\$1,307m) and was 10.3% more than in Q4 2008 (\$1,204m).

1 See: <http://www.imf.org/external/country/WBG/RR/2010/041310.pdf>

2 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PresQ4-09_E.pdf. All figures in real terms are in 2004 prices.

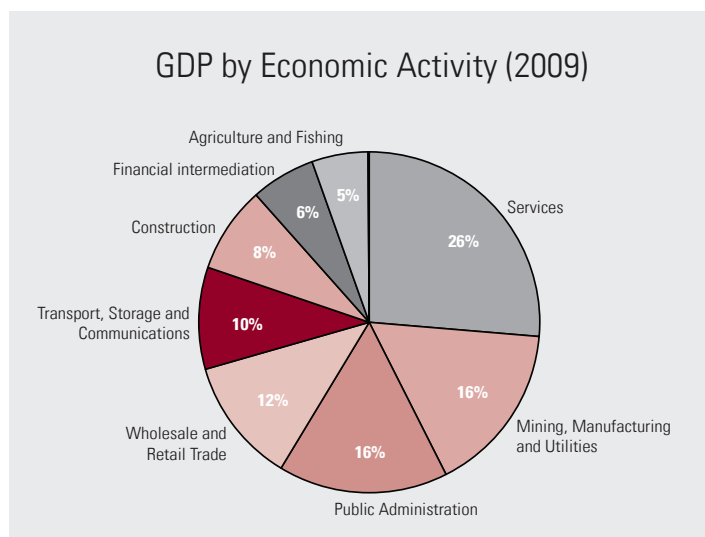
3 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2737

Real GDP per capita was \$1,390 in 2009, an increase of 3.7% compared to 2008 (\$1,340), albeit still significantly lower than a decade ago.

There are three sectors which appear to have contributed to growth in 2009. Construction activity increased 22%, from \$314m in 2008 to \$383m in 2009. The services sector grew 12%, from \$1,090m in 2008 to \$1,219m in 2009. Public administration and defence was up 9% in 2009, at \$744m compared to \$685m in 2008. Manufacturing activity increased from \$539m in 2008 to \$567m in 2009, yet fell as a percentage of GDP and contributed 11% in 2009 (compared to 11.2% in 2008 and 12.5% in 1999).

Conversely, agricultural activity fell 13% from \$286m in 2008 to \$249m in 2009 and now contributes only 5% of GDP (down from 6% in 2008 and 10% in 1999). Accordingly, the World Bank expresses only cautious optimism as growth in the private sector has not been as robust as the public sector, which has been bolstered by significant volumes of aid.⁴

GDP by Sector (% share of 2009 GDP)



Under their baseline scenario, the IMF project that nominal GDP will grow 7% to \$6,940m in 2010. Growth is forecast at 8% for 2011 and 10% for 2012 and 2013. Under a pessimistic scenario - where there is no progress in the peace process, only adhoc limited easing of restrictions and low levels of aid for investment - growth is projected to slow to 5% in 2010 and 4% in 2011.

Based on these latest projections and the 2010 Budget, the current account deficit is estimated at \$1,237m in 2010, or 18% of GDP, compared to \$1,592m in 2009, or 26% of GDP.⁵

Increased Business Optimism in the West Bank

In January 2010 business confidence increased significantly in the West Bank. The regular PCBS survey of industrial establishments found that the percentage of West Bank businesses expecting production to rise over the medium term (six months) was almost 70% higher than those expecting a decline. This is much higher than any month last year, the most optimistic of which was March, when the number of businesses expecting production to rise over the medium term was 48% higher than those expecting a decline. In Gaza the percentage of businesses expecting production to rise over the medium term (six months) was only 11% higher than those expecting a decline.⁶

PSE London Roadshow

The Palestine Securities Exchange (PSE) held its first London road show on 17-19 March 2010, in cooperation with The Portland Trust and the Palestine Britain Business Council, with the support of the Quartet Representative Tony Blair.

The Palestinian delegation of 32 business and finance professionals included CEOs from Palestinian blue-chip companies such as Paltel, Padico, Al Quds Bank, Massar, Birzeit Pharmaceuticals and the Palestine Electric Company alongside senior representatives from the PSE, the Capital Markets' Authority and the Palestine Investment Fund.

During the three days the delegation had over 30 B2B meetings with some of the largest international investment funds in emerging markets and the Middle East as well as the London Stock Exchange. Lord Freud, trustee and former CEO of The Portland Trust, welcomed the Palestinian delegation and approximately 150 guests from the London financial sector and economic institutions to the main seminar of the road show. 'Thanks to the entrepreneurial spirit of the business community, the Palestinian economy can provide an excellent entry point into the whole of the Arab world,' he told participants.

The focus of the road show was to raise awareness about the PSE, the investment opportunities and success stories. Ahead of the road show, most of the London investment community was unaware of such business activity or indeed of the existence of a Palestinian stock exchange. Major investment funds and economic and financial institutions showed enthusiasm about the quality of the management of the top Palestinian companies, the level of sophistication of the PSE's trade systems, governance and regulations and the wide array of investment opportunities presented to them.

⁴ See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankReportAHLCApril2010Final.pdf>

⁵ See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=135362&date=3/9/2010> and <http://www.maannews.net/eng/ViewDetails.aspx?ID=272605>

⁶ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Ind-E101.pdf

The CEO of the Paltel Group – the main sponsor of the road show - Ammar Aker said, 'we were delighted with the positive reception that we received from the London-based investment community. The trip has enabled us to expose the company's strength and future promise. The investment opportunity that Palestinian companies offer is now firmly on the map.'

Free Trade Agreement with South America

On 16 March, the Brazilian President, Luiz Inácio Lula da Silva, met with Palestinian Prime Minister, Dr. Salam Fayyad, in Bethlehem to discuss bilateral economic cooperation. The Brazilian Development, Industry and Foreign Trade Minister, Miguel Jorge, the Palestinian Minister of Economy, Dr. Hasan Abu-Libdeh, the President of the Arab-Brazilian Chamber of Commerce, Salim Schahin, and 120 businessmen and representatives of various organisations also attended the seminar 'Brazil-Palestine: Investing in the Future'.

20 Brazilians were present, including representatives from the construction companies of Camargo Correa, OAS, Andrade Gutierrez and Queiroz Galvão, the lingerie brand Valisère, Suzano company for pulp and paper and the state-owned electricity company Eletrobrás.

At the seminar, President Lula and Minister Jorge announced that Brazil and Argentina have signed an MoU to negotiate a free trade agreement (FTA) between Mercosur, the largest South American trading bloc, and the PA. The FTA will aim to stimulate trade by means of reducing tariffs and other barriers. Olive oil is expected to be high on the list of issues discussed during negotiations. President Lula hoped that such an agreement would make 'South America a frontier for Palestinian products.'⁷

The PA already has trade treaties with the US, Canada, the EU, Turkey, Russia and Arab nations and has wanted to negotiate such an agreement, similar to the one that exists between Israel and Mercosur, for some time. Trade between the Palestinian Territory and Brazil is currently subject to a range of international trade taxes. These include tariffs of up to 34% on food, animal and agricultural products, and tariffs of up to 22% for all other products, purchase tax and VAT of 16% on all imported goods.⁸ In 2007 Brazil was estimated to have exported \$10m to the Palestinian Territory.⁹

A potential investment event in Brazil and the establishment of a Palestinian-Brazilian Business Council was also discussed during the seminar. Three other bilateral agreements were signed between the PA and Brazil during President Lula's visit. These included agreements to foster cooperation on technical projects, develop cultural exchanges and stimulate interchange between higher education institutions. Three MOUs were also signed to develop cooperation in sports, health and tourism.¹⁰

French-Palestinian Cooperation

On 8 April, the Bethlehem Multi Purpose Industrial Park (BMIP) was officially launched with the laying of a cornerstone by the French Minister of Industry, Christian Estrosi.¹¹ This followed the signing of a public-private partnership, on 29 March, between the Palestinian Minister of Economy, Dr. Hasan Abu-Libdeh, and Samir Hazboun, the Chairman of BMIP, a French-Palestinian company.¹² A number of studies regarding the off-site infrastructure to the industrial park have already been completed and France has already committed €10m towards the cost of the park's infrastructure.

The French government also agreed to provide a €5m grant to facilitate lending from local financial institutions to Palestinian or French-Palestinian businesses, especially small and medium-sized enterprises. A French-Palestinian committee will look to select export-oriented projects that are sustainable and create jobs. Priority will be given to projects that will be implemented in the BMIP. A number of other projects will focus on importing French goods and services.¹³

Rawabi

The US Trade and Development Agency (USTDA) will support two technical assistance projects for Rawabi, the new Palestinian city under construction nine miles northwest of Ramallah. A \$413,000 grant will enable the development of an ICT masterplan to provide the residents of Rawabi with cost-effective and essential communications services and infrastructure. USTDA will also finance a feasibility study, at a cost of \$274,000, to assess potential wastewater treatment technologies in Rawabi and the surrounding area.¹⁴

Water

On 22 March, the PCBS presented their findings from the 2009 Domestic Environment Survey to mark World Water Day. Results show that 88% of Palestinian households are connected to the public water network, to which 133

7 See: <http://www.brazzilmag.com/component/content/article/83-march-2010/11978-brazil-readies-free-trade-agreement-with-palestine.html>. Mercosur is a regional trade agreement between Argentina, Brazil, Uruguay and Paraguay.

8 Investment guide 2008

9 According to the CEO of PALTRADE, Maher Hamdam, who was speaking during the seminar.

10 See: <http://english.wafa.ps/?action=detail&id=13894>

11 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=274817>

12 See: http://www.idf.ps/documentsShow.aspx?ATT_ID=2704

13 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=274972>

14 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=268886>

litres of water are supplied per person each day (l/c/d).¹⁵ However the Ma'an Development Centre estimates that 35 - 50% of water supplies are lost from the system because of dilapidated infrastructure.¹⁶ As a result, Palestinian Water Authority (PWA) estimates for 2009 reveal that, in fact, actual household use in the West Bank averages only 70-80 l/c/d, which is 20-30 litres less than the minimum recommended by the World Health Organisation (WHO).¹⁷ In Gaza households consume around 100 l/c/d, but the quality of water falls well below acceptable WHO standards.¹⁸ 49% of Palestinian households are not connected to the sewerage network.

Indices

The latest release of the Industrial Production Index (IPI) for the West Bank showed that industrial production increased for the third month in a row, reaching 112.4 points by the end of February 2010. This is an increase of 0.62% compared with January 2010, and a 7% increase compared to the same period last year. The greatest increases were recorded in the 'mining and quarrying' group (11.3%) and the 'tobacco products' group (7.1%).¹⁹

The Consumer Price Index (CPI) fell to 127.48 (2004=100) in February 2010, a decrease of 0.28% compared to January 2010. CPI fell in the Gaza Strip, Jerusalem and the West Bank by -0.73%, -0.41% and -0.26% respectively. The biggest drop was recorded in the prices of food and soft drinks (-0.98%), whereas increases were seen in restaurants, cafes and hotels (0.77%) and housing (0.39%).²⁰

AI Quds Index

The AI Quds index peaked on 11 March at 528.69 points but ended the month down 4.0% since the end of February

15 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2686

16 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2685

17 See: http://www.pwa.ps/Portals/_PWA/1016af32-03ba-4ae5-b66d-e127183b2b2b.pdf

18 See <http://www.pwa.ps/desktopmodules/newsscrollEnglish/newsscrollView.aspx?ItemID=141&mID=11850>

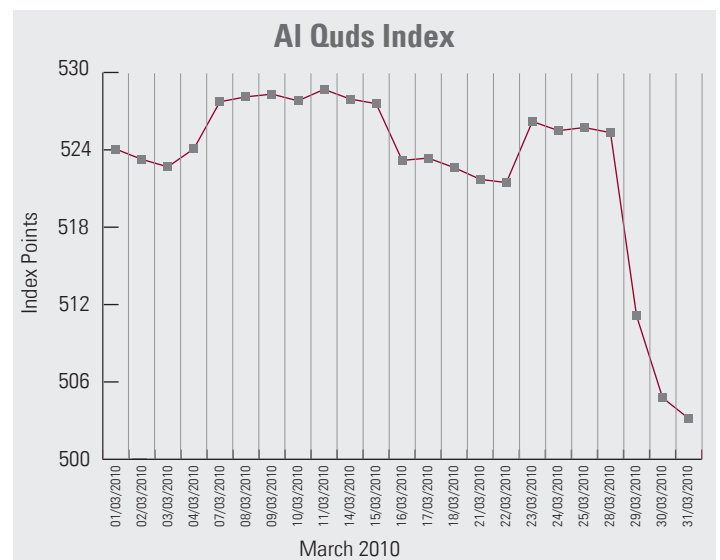
19 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2702. IPI was 111.71 in January 2010, 111.19 in December 2009, 110.50 in November 2009 and 104.95 in February 2009.

20 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_feb2010e.pdf

2010 at 503.17 points, a 2.2% drop since March 2009 (514.61 points). The PSE told the Bulletin that there is no clear political or economic factor to explain the fall in the index.

In 23 trading sessions, 18.6 million shares changed hands, a decrease of 44.3% compared to February 2009. The value of traded shares in March was \$43.7 million a decrease of 37.8% since the previous month. The drop in the volume and value of shares traded in March follows strong trading in February. Market capitalisation fell by -3.2% since February to \$2.4bn.

On 11 March the PSE de-listed the Arab Insurance Establishment Company (AIE).²¹ Mohammad Hijaz, Director of the Listed Companies Department at the PSE, told the Bulletin that this followed a request from the steering committee of AIE to be delisted. AIE has already been suspended for a year after failing to disclose financial data and ongoing issues with the external auditors. AIE plans to re-list under a new name, the International Insurance Establishment, following some internal restructuring and expansion.



21 See: <http://www.p-s-e.com/PSEWebSite/NEWS/Delete-AIE-from-listed-company.doc>

The Portland Trust

Email: feedback@portlandtrust.org
 Website: 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

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