

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The results of the first Palestinian foreign investment survey were released on 13 October. Figures show that foreign investment in the Palestinian Territory reached \$1.58bn in 2009. FDI totalled \$1.15bn.

The Bank of Palestine and Green Palestine Company will launch a new loan facility for environmentally friendly projects at the end of November. Small loans of up to \$10,000 will be available for Palestinian households that wish to undertake sustainable projects.

The International Finance Corporation (IFC) has signed an agreement to evaluate the impact of the Palestinian Monetary Authority's Credit Bureau. The Bureau has had notable success in increasing credit and bank profit and reducing bad debts. The IFC will specifically look at the impact it has had on job creation.

Food prices increased by over 3% in September. This caused the highest monthly rise (1.39%) in inflation for over two years.

Expotech Technology Week

Palestinian technology week began on 2 November with the opening of the Expotech technology conference in the new Movenpick hotel in Ramallah. The ICT sector in Gaza participated through a live video link. The Minister of National Economy, Dr. Hassan Abu Libdeh, gave the opening speech and highlighted the potential of the sector.

The Palestinian ICT sector has grown by 25-30% over the last decade and now represents 5% of Palestinian GDP.¹ According to the Palestinian Central Bureau of Statistics (PCBS) the use of computers, the internet and e-commerce has grown significantly. Figures show that computer usage rose from 21% in 2007 to 30% by the end of 2009, internet usage increased from only 13% in 2007 to 20% in 2009 and e-commerce transactions have doubled, from 2% in 2007 to 4% in 2009.²

During the conference a range of topics were discussed. This included how to attract foreign direct investment, the development of science and technology parks, growing ICT clusters, internet infrastructure and connectivity. The main speakers were the Minister of Technology and Information Technology Dr. Mashhour Abu Daka, Governor and Chairman of the Board of the Palestine Monetary Authority (PMA) Dr. Jihad Al-Wazir, CEO of Palestine IT Association (PITA) Laith Kassis and Chairman of PITA Ala Alaeddin.³

Alongside the main conference a number of other events and workshops were organised. Multinational companies showcased their latest technology and opportunities for partnership during a series of Multinational Technology Days, held in different cities across the West Bank. Companies included some of the biggest names in the global ICT industry, like Microsoft and Cisco. These events were intended to build on the successful \$10m partnership between Palestinian companies and Cisco that was signed at last year's event.

Local companies discussed how to enhance the organisational capacity of the sector at a series of workshops. There was also a forum in which entrepreneurs presented their innovative business ideas and inventions. In Gaza City over 14,000 people visited an exhibition with 17 local companies for those that could not travel to the West Bank for the event.⁴

1 See: <http://www.expotech.ps/2010/etemplate.php?id=58>

2 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CIT2009_E.pdf

3 See: http://www.expotech.ps/2010/pdfs/TechConfAgenda_November2010.pdf

4 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=331367> and <http://www.maannews.net/ARB/ViewDetails.aspx?ID=330861> and <http://web.alquds.com/node/302220> and <http://www.expotech.ps/2010/>

Foreign Investment Survey

The Palestinian Monetary Authority (PMA) and the Palestinian Central Bureau of Statistics (PCBS) released the results of the first Palestinian foreign investment survey (FIS) on 13 October. The FIS covered all private establishments operating in the Palestinian Territory with investment's overseas and those that have received foreign investments from abroad. Data covers the period 2008 - 2009.⁵

The total balance of foreign financial assets (Palestinian investment abroad) and liabilities (foreign investment in the Palestinian Territory) in the economy was recorded. Assets and liabilities have been divided into three categories - foreign direct investment (FDI), portfolio investment and other investment.⁶

The results showed that foreign investment in the Palestinian Territory increased by 18% from \$1.34bn in 2008 to \$1.58bn in 2009. \$1.15bn of this investment was in the form of FDI, \$338m in portfolio investment and \$90m in other investment. Palestinian investment abroad decreased from \$5.31bn to \$5.27bn over the same period. Only \$457m of Palestinian investment abroad was in the form of FDI, \$178m of portfolio investment, \$4.61bn in other investment. This means that Palestinian investment abroad is three times greater than foreign investment in the Palestinian Territory.

The Governor of the PMA, Dr. Jihad Al Wazir, told the Bulletin that the tendency to invest abroad is mainly due to an overestimation of risk from political instability. However, he added that this culture is gradually changing and more capital is being invested locally. For example, historically banks held 65% of their assets abroad whereas today the figure is 47%.⁷

Green Loans Facility

A new loan facility, specifically for environmentally friendly projects, is due to be launched in late November. The Green Palestine Loan programme is the first facility of its kind in the Middle East region and the result of collaboration between the Bank of Palestine and Green Palestine Company.

The General Manager of the Green Palestine Company, Rula Rizik, told the Bulletin that activities with a social impact will be targeted by the loan programme. This includes the construction of wells and water systems to provide drinking water, wastewater treatment for irrigation purposes and alternative energy for generating

household electricity. As a result, the loans hope to also reduce water and electricity bills.

The Green Palestine Company and Bank of Palestine have been holding workshops for bank managers and their employees to raise awareness about the facility. The plan is to launch the programme by the end of November, accompanied by an advertising campaign. According to Rizik it is expected that loans will be short term (i.e. less than three years) with interest rates around 5-6%. The maximum loan available per project will be \$10,000 and collateral will be requested from applicants. The target market is Palestinian households rather than businesses as the main purpose of the programme is to assist the middle and low income Palestinian population.⁸

The Green Palestine Company is the investment arm of the Applied Research Institute in Jerusalem (ARIJ) and was established in 2009 to reduce dependency on donor funding for sustainable development projects. It cooperates with both public and private institutions and aims to aid the development of commercial projects, mainly through agricultural and environmental investments. In addition to the Green Palestine Loan programme, it is working on other environmental projects such as a recycling centre in Nablus, which is being developed by the municipality and PADICO.

Credit Bureau Evaluation

In September the International Finance Corporation (IFC) signed an agreement to evaluate the impact of the Palestinian Monetary Authority's (PMA) Credit Bureau on employment. The two-year programme will specifically examine how the Bureau has affected access to finance, how credit is channelled through the different Palestinian economic sectors and how this leads to job creation.⁹

The Credit Bureau was launched in April 2008 and provides a comprehensive database of credit granted by the banks and lending institutions to different economic sectors. Three particular programmes within the Bureau have had notable success. This includes a credit registry (which follows the development of credit facilities from banks and microfinance institutions), the bounced cheque system (which details all returned cheques) and, more recently, the credit scoring system. This was launched in July 2010 and provides banks and lending institutions with a specific score for individuals to assist in their lending decisions. All loan applications are now subject to this process.¹⁰

According to the Director of Supervision and Inspection at the PMA, Riyadh Abu Shehadeh, credit facilities and

5 http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/AdjDrFIS09-E.pdf

6 Direct investors are classified as those who hold 10% or more of the ordinary shares, a portfolio investors own less than 10% of the ordinary shares, while 'other investment' includes investment in currency, deposits, loans, and trade credits.

7 See October 2010 Bulletin

8 See: <http://www.alquds.com/node/298202>

9 See: <http://www.alhayat-j.com/newsite/details.php?opt=7&id=119477&cid=1985>

10 See: http://www.pma.ps/index.php?lang=en&page=events&events_item=12864451987 and November 2009 Bulletin for further background.

bank profits have increased since the introduction of the credit bureau. Within the first eight months of 2010 credit facilities increased by 25% to reach \$2.8bn compared to \$2.2bn in the first eight months of 2009. Moreover, banks made \$99m of net profit over the same period, compared to \$64m in the first eight months of 2009 (a 54% increase). Bad debts have also decreased, by more than 66%, since the end of 2007 reaching \$80m in September 2010.¹¹

The Governor of the PMA, Dr. Jihad Al Wazir, told the Bulletin that the Credit Bureau has also helped 'shift the mentality of banks operating in the Palestinian Territory'. For example, bank advertising now focuses on highlighting easy payment credit facilities whereas previously they used to offer rewards and prizes for opening saving accounts.

The establishment of the Credit Bureau is part of a wider strategy to transform the PMA into a Central Bank. Al Wazir told the Bulletin that even though the PMA lacks specific tools for monetary policy because there is no Palestinian currency, it 'has been operating with the tools it possesses, such as the required reserve ratio and liquidity management'. Three conditions must be satisfied to create a suitable environment for a Palestinian currency, he added. These are economic sovereignty, central bank independence and a fiscally responsible Ministry of Finance. Al Wazir told the Bulletin that progress is being made on all fronts.

Food Prices

Food prices increased by over 3% in September and are 4.3% higher than a year ago. This partly reflects the global increase in food prices, which went up by 6.8% in September. Local factors, such as the heightened demand for poultry products in the run up to Eid and an insect that has been attacking vegetables, were also partially responsible for the rise in prices.¹²

The increase in food prices in September caused the Consumer Price Index (CPI) to rise 1.39%, the largest monthly increase in over two years. According to the Palestinian Central Bureau of Statistics (PCBS), CPI reached 130.68 points by the end of September giving a twelve-month CPI rate of 3.49%.¹³ The US\$ also depreciated by 3.17% in September which led to a total decrease of 4.56% in purchasing power.¹⁴

Month	S09	O09	N09	D09	J10	F10	M10	A10	M10	J10	J10	A10	S10
% Δ Food prices	0.28	(0.24)	0.59	1.13	(0.47)	(0.98)	0.06	(0.23)	0.20	0.50	0.45	0.58	3.09

11 See: <http://www.kippreport.com/2010/10/palestinian-credit-bureau-helps-banks-profits/> and unpublished data from the banks supervision department in the PMA

12 See: <http://www.fao.org/worldfoodsituation/FoodPricesIndex/en/>

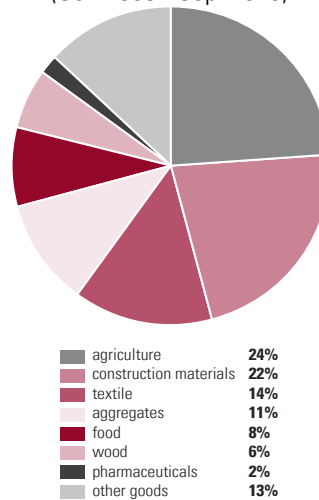
13 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_0910E.pdf

14 See: <http://www.pma.ps/index.php?year=2010&month=10&lang=en&page=currency>

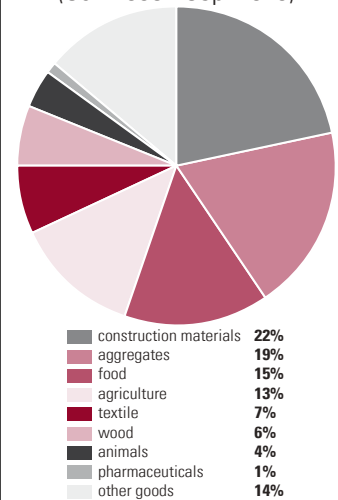
Trade

According to Paltrade, over 85,000 trucks left the West Bank with exports between October 2009 and September 2010. This is a 38% increase compared to the monthly average of the period from March 2009 to September 2009. Almost 142,000 trucks entered the West Bank with imports over the same period. Hebron and Tulkarem were the busiest crossings, accounting for 70% of exports and 71% of imports. The most commonly imported goods were construction materials. Agricultural produce was the most exported good followed closely by construction materials.¹⁵

West Bank Exports
(Oct. 2009 - Sep. 2010)

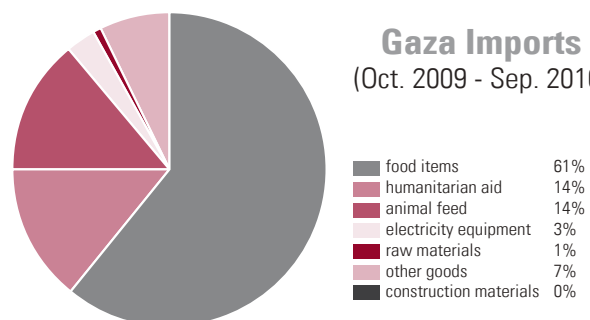


West Bank Imports
(Oct. 2009 - Sep. 2010)



A total of 34,250 truckloads of commercial and humanitarian goods entered into Gaza Strip during the same period. This is a 15.3% increase compared to the monthly average of the period between March 2009 and September 2009 but still only 27% of the volumes imported before the closure in June 2007. The majority of goods imported were consumer goods such as food (61%) and animal feed (14%). Imports of construction materials, which constituted 52% before the closure in June 2007, remained minimal. Export activity also remained very low over the period. A total of 80 trucks exporting cash crops left the Gaza Strip from January to September 2010, compared to almost 5,747 in the period January – June 2007.¹⁶

Gaza Imports
(Oct. 2009 - Sep. 2010)



15 See: <http://www.paltrade.org/cms/images/enpublications/WB%20Annual%20REPORT.pdf>

16 See: <http://www.paltrade.org/cms/images/enpublications/Gaza%20Annual%20report%20ct%20-09%20to%20Sep%202010-Final.pdf>

Budget Support

Following the recent calls for increased financial assistance to the PA, a number of donors have announced additional support. In September, the World Bank transferred a grant of \$40m to the PA for the continued implementation of the Palestinian Reform and Development Plan (PRDP). This grant brings the World Bank's budget support for the PRDP to \$120m.¹⁷

In October, the EU announced they would provide a further €78m to the PA through its PEGASE mechanism. These funds will help pay the salaries and pensions of 85,000 Palestinian civil servants and pensioners until the end of the year. The first tranche of €37m was transferred on 5 October and included €30m from Spain alongside funding from the European Commission budget.¹⁸ A second tranche, of €41m from the European Commission budget, was announced on 27 October.¹⁹

On 24 October, the Palestinian Prime Minister Dr. Salam Fayyad announced that Saudi Arabia has provided \$100m of budget support to the PA.²⁰ This follows an earlier grant of \$15m from Saudi Arabia for budget support, which was provided in June 2010.²¹

Infrastructure Projects

USAID have launched a new Community Infrastructure Development Project in coordination with the Ministry of Local Government (MoLG). An agreement to provide a total of \$100m was signed in mid October. The Cooperative Housing Foundation (CHF) will implement the project, which follows a similar three year \$34m programme executed by CHF and USAID in the past. The five year project will target the most deprived communities in the West Bank, which will be determined by the Applied Research Institute of Jerusalem. It is expected that 344 infrastructure projects will be developed in 259 communities. The project will also help train more than 240 young engineering graduates, specifically in the area of developing environmentally friendly projects.²²

17 See: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WEBSITE/STBANKGAZAEXTN/0,,contentMDK:22704057~pagePK:1497618~piPK:217854~theSitePK:294365,00.html>

18 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=3290

19 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=328162>

20 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=327064>

21 See: http://www.saudiembassy.net/latest_news/news06151001.aspx

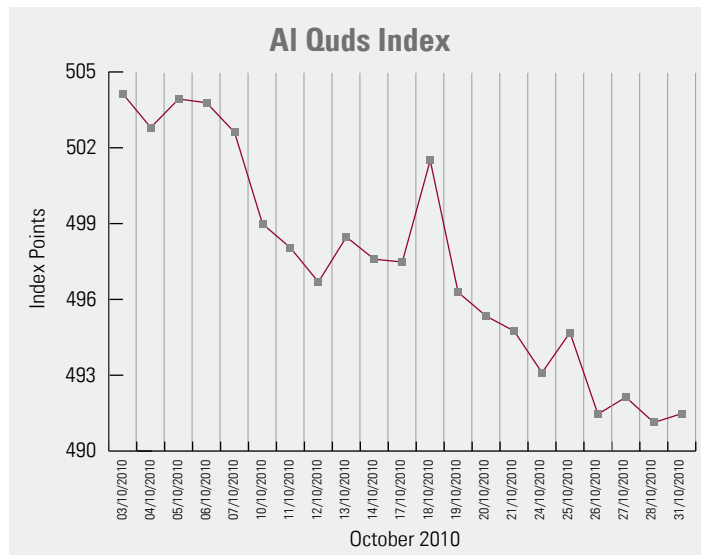
22 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=330290>

Jenin Product Exhibition

On 9 October, the second National Industries Exhibition was opened in Haddad Resort Village in Jenin. Thousands of people visited the exhibition, which lasted for five days and showcased a variety of Palestinian products. Over 39 local companies from the West Bank and Jerusalem exhibited alongside 40 associations and women's centres and 13 Arab companies from Israel.²³ The exhibition featured different sectors including plastics, food and drink and handicrafts. Exhibitors included the Al-Raed Cosmetics Company, Al-Karawn Company for heaters and the Al-Nakhleh Coffee Bean Company from Israel. While it is too early to tell the business impact of the exhibition the opportunity for networking between companies in the West Bank and Israel is expected to generate new business deals and partnerships.²⁴

October Trading

The Al Quds index decreased by 12.66 points or 2.5%, to reach 491.13 points on the last day of trading in October. The index peaked on the first day of trading at 504.14 points and reached its lowest point of 491.13 points on 28 October. Trade volume increased by 47% compared to September 2010, with 18m shares changing hands in 21 sessions in October. However, the majority of trades were in low value stock. Consequently the value of traded shares decreased \$5.3m or 20% to reach \$21.6m. Market capitalization decreased by 2% to reach \$2.45bn. Global Communications (GCOM) was again the best performing share this month (up 17%) followed by the National Carton Industry (NCI, up 10%).²⁵



23 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=322485>

24 See: <http://www.alquds.com/node/296604>

25 See: <http://www.pex.ps/PSEWebSite/NASHRA/20101031.pdf>

Email: feedback@portlandtrust.org

Website: www.portlandtrust.org

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