

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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PADICO Holding announced the successful closure of the first Palestinian corporate bonds issuance with a \$15m surplus subscription over the \$70m offered.

Following difficulties earlier in the year, the PA paid the entire August and September salaries to its 150,000 employees.

PCBS released the results of a new tourism survey. In 2010 the number of inbound and domestic visitors reached 4.9m marking a major increase of 88% compared with 2009.

2010 Entrepreneurship Report

The Global Entrepreneurship Monitor (GEM) Palestine Country Report 2010 was launched by the Palestine Economic Policy Research Institute (MAS) on 3 October.¹

The report found that 10% of the Palestinian population between the ages of 18-64 had started a business in the last 3.5 years, an increase from 9% in 2009.² The 2010 rate is comparable with the GEM countries' average – 59 countries with a wide range of growth rates and in various stages of economic development.

Over 215,000 Palestinians were engaged in entrepreneurial activities. The typical new entrepreneur is male, young (25-44 years old), self-employed, well-educated (holding at least an associate diploma), and relatively well-off (living in a household with a combined annual income of more than 100,000 NIS or \$28,132). The West Bank enjoyed a significantly higher entrepreneurial rate (14%) than the Gaza Strip (3%). While entrepreneurship is distributed among a variety of sectors, the services sector is dominant. The report investigated the motivation of those starting businesses and found that across the Palestinian Territory for every 41 entrepreneurs motivated by necessity, 100 were motivated by economic opportunity. The rate of necessity-driven entrepreneurship is higher in Gaza due to the scarcity of business opportunities there.

Financing remained a major issue for Palestinian entrepreneurs; the median start-up capital for a new business was \$2,095, which is high compared with a GDP per capita of \$1,470. Most entrepreneurs rely on financial support from family members rather than from micro-finance institutions, government programmes and informal investors. The report concluded that banks had failed to fulfil their role in financing entrepreneurs, and that the increase in bank deposits in the Palestinian Territory has not been accompanied by a similar rise in credit facilities. The loan to deposit ratio for Q1 2011 was 47.3%.³

¹ GEM is a not-for-profit research consortium producing annual national, regional and global assessments of the levels of entrepreneurial activities, factors influencing entrepreneurship and major changes. Initiated in 1999 with 10 countries, GEM 2010 includes 59 economies at different stages of development from around the globe. Also see: http://www.mas.ps/Newsite/webfm_send/289 and Bulletin 53, February 2011.

² On the same measure, the 3.5 years to 2009. See: http://www.mas.ps/Newsite/webfm_send/237

³ See: <http://www.unsco.org/Documents/Special/Socioeconomic%20Report%20August%202011%20English.pdf>

Trade Agreements

On 27 September, the European Parliament voted unanimously in favour of a trade agreement with the West Bank and Gaza.⁴ The agreement will provide direct, duty-free, and mostly quota-free access to the European market for Palestinian agricultural products, processed agricultural products, fish and fishery products.⁵ In addition, duties on EU agricultural exports to the Palestinian Territory will be reduced.⁶ The agreed on trade conditions will be valid for a period of 10 years, with a possibility of extension. The agreement extends the current free trade agreement which gives Palestinian industrial goods duty-free access to the EU.

Plans to expand access to the EU were announced in summer 2010,⁷ and the agreement between the EU and the PA was signed on 22 December 2010.⁸ After the recent approval by the European Parliament the agreement must now revert to the European Council for final endorsement, which is expected to be a formality. It should be implemented from early 2012.

In 2009 imports from and exports to the EU accounted for less than 2% of Palestinian trade, importing €50.5m (1.95% of the total) and exporting €6.1m (1.64% of the total).⁹ 72% of West Bank and Gaza's exports to the EU comprise of agricultural products, while the main imports are machinery, chemicals, and transport equipment.¹⁰

In other trade news the Minister of National Economy, Dr Hasan Abu Libdeh, announced that the Palestinian Territory had joined the Agadir free trade agreement, whose signatories are Morocco, Tunisia, Egypt and Jordan.¹¹ The agreement is considered a precursor to a Greater Arab Free Trade Area (GAFTA) and a step towards the establishment of the Euro-Mediterranean Free Trade Area.¹² Agadir aims to develop economic activities in member states and create a climate for economic integration. Joining the Agadir agreement makes the Palestinian Territory a part of a market of 120m people with a combined domestic annual product of nearly €200bn. In becoming a member Palestinian industries will benefit from duty-free production inputs from other members.

Meanwhile, the Palestine Central Bureau of Statistics (PCBS) released foreign trade statistics for July. Both exports and imports decreased compared with June.¹³ However, the low level of trade makes these numbers prone to volatility.

4 See: <http://english.wafa.ps/index.php?action=detail&id=17551>

5 See: <http://unispal.un.org/UNISPAL.nsf/47D4E277B48D9D3685256DDC00612265/96661BE52ED181C68525791A00554231>

6 See: <http://www.ptfp.ps/etemplate.php?id=2312>

7 See: Bulletin 46, July 2010.

8 See: Bulletin 52, January 2011.

9 See: <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3565&lang=en>

10 See: <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/palestine/>

11 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=426013>

12 See: <http://www.agadiragreement.org/AgadirAgreement/Aboutus1.aspx>

13 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Foreign_July_07e.pdf

Figure 1: July Trade Statistics

	Exports	Imports
<i>Level</i>	\$53.9m	\$344.7m
<i>Change from 06/2011</i>	-26.1%	-6.0%
<i>Israel (% of total)</i>	90.3%	60.0%
<i>Israel (change from 06/2011)</i>	-26.1%	-13.4%
<i>Other countries (change from 06/2011)</i>	-26.0%	+8.0%
Trade deficit		\$290.8m
<i>Change from 06/2011</i>		-1.0%

Source: PCBS

PADICO Corporate Bonds

On 28 September, PADICO Holding announced the successful closure of the first Palestinian corporate bonds issuance with a \$15m surplus subscription over the \$70m offered.¹⁴ The bond holders are nine banking institutions operating in the Palestinian Territory and the Palestinian Monetary Authority (PMA). PADICO told the Bulletin that the biggest subscribers are the Arab Bank and Bank of Jordan with 35% and 18% respectively.

Munib Masri, PADICO Chairman, expressed his appreciation for the work of the Palestinian regulatory authorities in creating the proper environment for issuing bonds. Samir Hulileh, PADICO CEO, commented on the significance of this oversubscription as 'a measurement of confidence by the local financial community in the long term investment strategy of PADICO Holding' and the maturity of the local financial markets.¹⁵

The proceeds from the sale will help finance a number of projects including an energy plant in the northern West Bank, a tourism and real estate development in Jericho, and new recycling and water desalination projects in Gaza.

PA Funding Update

Following difficulties earlier in the year,¹⁶ the PA paid the entire August and September salaries to its 150,000 employees.¹⁷ This was funded by contributions from Kuwait (\$50m)¹⁸ and the EU (\$22.4m).¹⁹

While salaries have been paid in full, the PA continues to face a fiscal crisis resulting from a shortfall of promised funding, mostly from Arab states. On 20 September the Government of Saudi Arabia announced \$200m for the PA to ease the financial crisis which has now been paid.²⁰

14 See: http://www.padico.com/Public_News/Nws_NewsDetails.aspx?Lang=2&Site_ID=1&NewsID=12

15 <http://englishwafa.ps/index.php?action=detail&id=17572>

16 See: Bulletin 59, August 2011.

17 See: <http://english.wafa.ps/index.php?action=detail&id=17298> and <http://english.wafa.ps/index.php?action=detail&id=17638>

18 See: <http://english.wafa.ps/index.php?action=detail&id=17367>

19 See: http://eeas.europa.eu/delegations/westbank/documents/news/20110914_csp_august_payment_en.pdf

20 See: <http://english.wafa.ps/index.php?action=detail&id=17416>

The EU has also confirmed the regular quarterly payment of \$13.6m for social protection programmes.²¹

The on-going funding difficulties, although declining, highlights Palestinian dependency on foreign assistance. On 31 August, the PA faced a \$778.9m deficit in the current balance and a \$1,001.8m deficit in the total balance.²²

In September, the US Government paid \$50m to the PA, the final tranche of its 2011 budget support contribution. However, two US Congress committees have put a hold on the disbursement by USAID of \$192m in economic support funds in the current fiscal year to the West Bank and Gaza and \$150m in security aid to the PA. The US State Department is lobbying Congress to unblock these funds.²³

Tourism

On the occasion of World Tourism Day, the PCBS released the results of a new tourism survey. In 2010, the number of inbound and domestic visitors reached 4.9m, excluding the Jerusalem governorate, marking a major increase of 88% compared with 2009.²⁴ 2.7m of the tourists were domestic. The governorates of Bethlehem, and Jericho and Al-Aghwar (location of the Dead Sea) were the most popular tourist destinations with 1.1m and 0.8m visitors respectively.

In the first half of 2011, Palestinian hotels welcomed a total of 264,000 guests, 34% of those were from the EU. In June 2011, there were 98 hotels with 5,635 rooms and 11,672 beds,²⁵ up from June 2010 when the Palestinian Territory had 94 hotels with 4,800 rooms and 10,118 beds.²⁶

On 8 September, Prime Minister Dr Salam Fayyad and Deputy Mayor of the City of Bordeaux Sonia Dubourg-Lavroff inaugurated a new Tourist Information Centre in Ramallah.²⁷ The project, worth €182,000, was completed in coordination with the Municipality of Bordeaux. The Tourist Information Centre aims to promote tourism and provide tourists with information and services in Ramallah and other Palestinian cities.²⁸

2010 Economic Survey

The preliminary results of the Economic Surveys Series 2010 have been released by the PCBS. In 2010, 103,766 enterprises operated in the Palestinian Territory and employed 295,184 workers.²⁹ 55.1% of those employed were waged workers. Importantly, output value grew by 28.8% compared with 2009, and value added by 33.6%.

21 See: http://eeas.europa.eu/delegations/westbank/documents/news/20111001_vpf_september_en.pdf

22 See: http://www.pmf.ps/news/plugins/spaw/uploads/files/accounts/2011/09/table1_eng.pdf

23 See: <http://www.state.gov/r/pa/prs/dpb/2011/10/175018.htm#ISRAEL>

24 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/TourismDay_E2011.pdf

25 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/HotelActiv2011Q2E.pdf

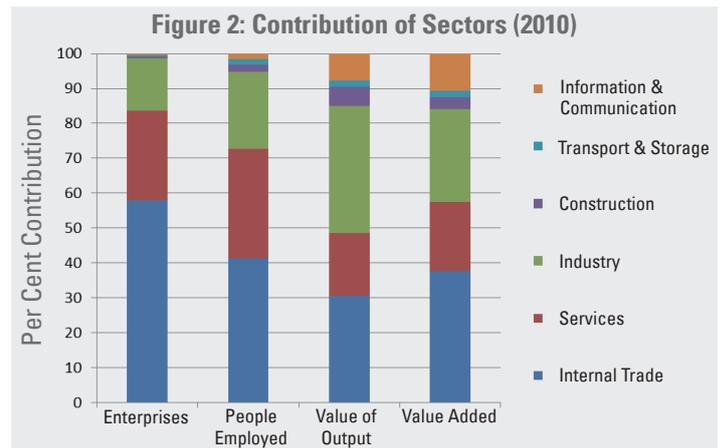
26 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/HotelAct_2010E_q2.pdf

27 See: <http://english.wafa.ps/index.php?action=detail&id=17289>

28 See: <http://www.ramallah.ps/atemplate.aspx?id=1084>

29 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Economic2010e.pdf

Comparison with 2009 shows no major changes in the relative importance of various sectors.³⁰



Source: PCBS

Preliminary Quarterly GDP Figures

The Preliminary National Accounts for Q2 2011 show that the Palestinian economy grew by 7.1% compared to last quarter and, importantly, by 10.6% compared with Q2 2010.³¹ This reflects good growth in both the West Bank and Gaza: up by 7.4% and 6.0% respectively compared with Q1 2011.

The construction sector drove much of the economic expansion since both the previous quarter and the same period last year. This reflects first a seasonal effect; between Q1 and Q2 2011 the value added of construction increased by 23.7% (19.0% in the West Bank and 32.1% in Gaza). Secondly, because of the increase in materials entering Gaza the value of this sector grew by an impressive 160.4% over the year (Q2 2010 to Q2 2011).³²

Quarterly GDP per capita for the Palestinian Territory rose by 6.3% in Q2 2011, and was up 7.4% compared with Q2 2010.

Figure 3: Change in Sector Contribution to GDP

Economic Activity	Change from Q1 2011	Change from Q2 2010
Mining, Manufacturing, Water & Electricity	+ 6.5%	+ 16.6%
Public Administration & Defence	+ 1.9%	+ 14.7%
Construction	+ 23.7%	+ 33.0%
Wholesale & Retail Trade	+ 7.9%	+ 7.3%
Transport, Storage & Communications	+ 8.4%	+ 5.5%
Agriculture & Fishing	+ 2.9%	+ 2.4%
Education	+ 7.3%	+ 12.7%
Real Estate, Rental & Business Services	- 2.4%	+ 3.8%

Source: PCBS

30 Values given are for the formal economy. National Accounts, reported elsewhere in this Bulletin and previously, also incorporate the informal economy. See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/EconomicSurv_2009E.pdf

31 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/NationAcc_Q2_2011E.pdf

32 See: Bulletin 60, September 2011.

Quarterly Balance of Payments

Quarterly balance of payments figures have been released for Q2 2011 by the PCBS and the PMA, the second in this data series. The deficit in the current account decreased by 0.4% compared with Q1 and equalled 29.9% of Q2 GDP in current prices.³³ The surplus in the new current transfers decreased by 31.4%, and 47.8% of the total value of receipts from abroad came from donors' transfers, compared with 74% last quarter.³⁴

Figure 4: Q2 2011 Balance of Payments

Item	Q2 2011 Amount	Q1 2011 Amount
Current Account	-\$610.7m	-\$681m
Trade Balance of Goods	-\$1,029.4m	-\$1,225m
Services Balance	-\$68.4m	-\$46m
Income Balance	\$275.6m	\$281m
Balance of Current Transfers	\$211.5m	\$309m
Capital and Financial Account	\$676.8m	\$662m
Net Capital Account	\$61.3m	\$107m
Net Financial Account	\$615.5m	\$555m
Net Foreign Direct Investments	\$61.3m	\$48m
Net Foreign Portfolio Investments	\$66.2m	\$10m
Net Foreign Other Investments	\$393.6m	\$479m
Change in Reserve Assets	-\$94.4m	-\$18m

Source: PCBS and PMA

Building Licences

2,015 building licences were issued in the Palestinian Territory in Q2 2011, a significant increase of 14.7% compared with Q2 2010.³⁵ However, there was a small decrease of 3.7% compared with Q1 2011. The vast majority of the newly issued licences (1,816) were for residential buildings, while only 199 were for non-residential ones. Most new licences were for the West Bank (1,942) with only 58 in Gaza and 15 in East Jerusalem. Importantly, the number of new dwellings (2,972) grew by 48.2% compared with Q2 2010 and by 8.2% compared with the previous quarter.

33 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/BalanceOPayQ2_E2011.pdf

34 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Balance_PaymQ12011E.pdf

35 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1781.pdf

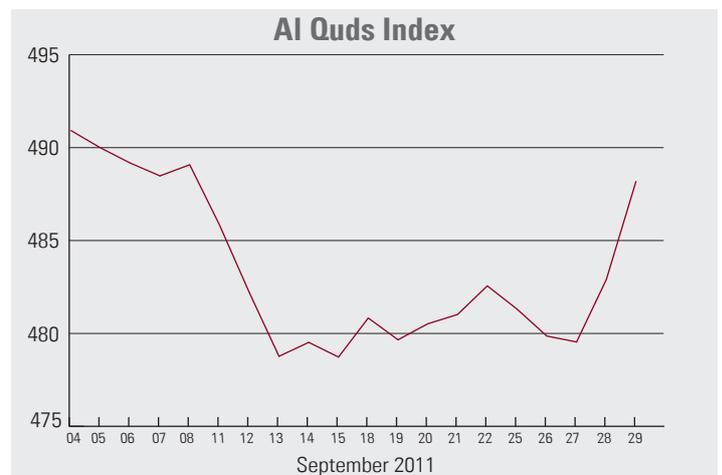
August Indices³⁶

	Consumer Price Index (CPI)	Producer Price Index (PPI)	Industrial Production Index (IPI)
	2004 = 100	01/2011 = 100	01/2011 = 100
Level	132.55	97.71	101.4
Change from 07/2011	+ 0.17%	- 0.14%	- 4.2%
Change from 08/2010	+ 2.84%	N/A	N/A

September Trading

In September, the AI-Quds index fell by 0.56% to 488.2 points on the last day of trading. The index reached its highest (490.9) and lowest (478.7) levels on 4 October (first day of trading) and 15 October respectively. This is the first time since 13 July 2009 that AI-Quds fell to a level below 480. Despite a drop of 0.29% in Q3, AI-Quds still remains the best performing index in the MENA region, set against declines of 16.09% in Jordan and 15.67% in Lebanon.

A total of 7.7m shares worth \$15.7m were traded in 20 sessions in September. Market capitalisation was \$2.8bn. Of the total 40 companies traded in September, 12 gained, 22 declined and six remained unchanged. The top gainer was Union Construction and Investment (UCI) (up 20.63%), while the biggest decliner was the Arab Real Estate Establishment (ARE) (down 10.71%).



Source: PEX

36 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI082011_E.pdf, http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PPI_82011E.pdf and http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/IPI_E082011.pdf

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