

PALESTINIAN ECONOMIC BULLETIN

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Main reports

In Q1 2013 Palestinian real GDP decreased by 5.1% with respect to the previous quarter and was 2.7% higher than in Q1 2012.

During July the Dubai Chamber of Commerce and Industry launched the Palestine Business Council for Dubai and Northern Emirates.

On 26 June the PA Ministry of National Economy and the Union of Palestinian Chambers of Commerce launched the 'Unified Chamber Information System.'

The Palestinian Monetary Authority Business Cycle Indicator experienced a major drop in June.

In June 2013 the overall consumer price index slightly increased with respect to the previous month.

Entrepreneurship in Palestine

The Palestine Economic Policy Research Institute (MAS) has recently launched the 2012 edition of its Global Entrepreneurship Monitor (GEM) Country Report for Palestine.¹ The GEM initiative, which covers more than 60 countries worldwide, measures country-level entrepreneurial activity rates, conducts cross-country analysis on entrepreneurship-related issues and identifies policies to foster entrepreneurship.

Following an extensive survey by MAS, the report stresses the role of entrepreneurship as one of the key drivers of the Palestinian economy. In 2012 around 10% of the Palestinian population aged 18-64 had been involved in starting or running a business at some stage during the previous 42 months. Overall, as many as 273,000 entrepreneurs were active in Palestine in 2012. In this same year, entrepreneurship activity rates in other MENA economies such as Egypt and Algeria were of 8.8% and 7.8%, respectively.

Despite high entrepreneurial activity rates (and in line with global trends²), a major gender gap exists among entrepreneurs in Palestine. In 2012 the early-stage entrepreneurship rate for males in the West Bank was 16%, four times the 4% ratio registered among women. This represents a widening of the gender gap observed in 2010, when 18% of men and 10% of women were considered to be entrepreneurs. In Gaza, the entrepreneurship gender gap increased from about 5% in 2010 (when the male rate was around 6% and that of females was below 1%) to nearly 14% in 2012 (when the male rate rose to 16% and the female ratio reached 2%).

While the middle-aged population (25-44) is typically the most likely to participate in entrepreneurial activities, their engagement has decreased over the last 3 years. At the same time, the participation of the youngest adult population segment (18-24) increased. This trend is regarded by MAS as a very positive development since youth entrepreneurship is considered to be one of the main driving forces of any economy: young entrepreneurs contribute enthusiasm, motivation and innovation.

The report also shows that the average Palestinian entrepreneur is well-educated, as there is a high positive correlation between entrepreneurial activity rates and educational attainment levels. However, since 2009 (when the first GEM report for Palestine was prepared), early-stage entrepreneurship has become slightly more equally distributed among individuals with different educational levels. Income levels also appear to be among the main determinants of entrepreneurship. Individuals with higher household income are more likely to start entrepreneurial activities, which correlates with the report's findings that most new entrepreneurs are motivated by opportunity (58%) rather than by necessity (42%).

Finally, the report also shows that entrepreneurship also plays a crucial role in terms of employment generation. As estimated by MAS, in 2012 762,900 jobs were directly related to the development of entrepreneurial activities, accounting for as much as 77% of the Palestinian labour force. More than 273,000 of those employed were entrepreneurs themselves (owners and managers of small companies) and

¹ www.mas.ps/2012/Publications

² www.gemconsortium.org/docs/download/2645

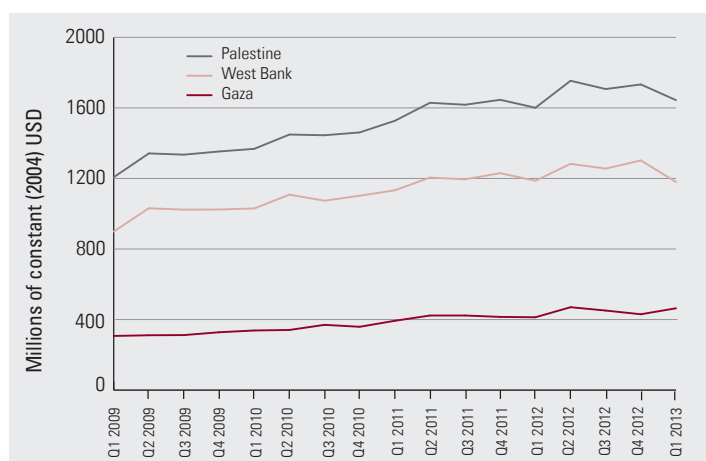
almost 490,000 were workers hired by entrepreneurs. However, MAS points out that a large proportion of the employment created by nascent entrepreneurs is typically discontinued due to the volatile nature of entrepreneurial activities. In the last two years more than 105,000 entrepreneurs suspended their businesses, causing a loss of about 207,000 jobs. Low profitability and lack of access to credit are identified as the main causes for the closures of small businesses.

The figures above highlight the need to move towards the promotion of an entrepreneurship-friendly business environment. As part of the main conclusions of its report, MAS advocates for policies to stimulate female entrepreneurship. These include increasing awareness about the role of women in society; recommending the creation of a business outreach centre and associations for entrepreneurs to network with professionals and peers; and suggesting that the educational system should focus more on the development of much needed managerial skills and creative thinking among students.

Economic Slowdown

In Q1 2013 Palestinian real GDP decreased by 5.1% with respect to the previous quarter and was 2.7% higher than in Q1 2012.³ Although Gaza registered a high year-to-year growth rate of 12.2% (mainly fuelled by a 50% expansion of construction activities), GDP in the West Bank contracted by 0.6% from Q1 2012. Palestinian real GDP per capita in the first quarter of 2013 also declined by 0.3% with respect to Q1 2012, while it remained significantly higher in the West Bank (\$483) than in Gaza (\$276).

Figure 1: Quarterly GDP in millions of constant US dollars (2008-2013)



Udo Kock, IMF Resident Representative in the West Bank and Gaza, told the Bulletin: *“GDP data for the first quarter was disappointing, especially in the West Bank, where output even contracted a little compared to last year. This is related to the overall slowdown in the economy but also to the delays in civil servants’ wage payments in the first quarter, which in turn was a result of the suspension of*

clearance revenue transfers by Israel.” Looking forward, Kock added: *“The IMF has revised its growth projection for the Palestinian economy, decreasing to 4.5% this year and even lower in the medium term. As a result we project unemployment to rise further in the coming years. Any significant reduction in the unemployment rate requires not only higher growth but also reforms and comprehensive relaxation of Israeli restrictions.”*

A recent IMF mission to Palestine also focused on the Palestinian Authority’s (PA) fragile financial position.⁴ In the short run, while it is acknowledged that the PA has taken measures to decrease its wage bill, the IMF argues that overspending on other items (such as energy subsidies) and shortfalls in total revenues will result in an overall deficit of \$1.7bn before grants this year. Even after taking into account donor commitments the financing gap is expected to remain significantly high. As a result, arrears to the private sector and domestic bank borrowing are likely to increase beyond their current high levels (\$303m and \$538m, respectively, as of May 2013^{5/6}). According to the IMF, the PA’s financing model, in which *‘public spending is heavily tilted towards wages, pensions, and transfers, rather than much-needed public investment’*, is *‘harmful for the economy, unsatisfactory for donors, and not a viable way to manage public resources.’*⁷ In Palestine a sum equivalent to 17% of GDP is spent on public employees’ wages, a much higher rate than in neighbouring Egypt (7%) and Jordan (5%).

Palestine Business Council for Dubai and Northern Emirates

During July the Dubai Chamber of Commerce and Industry (DCCI) launched the Palestine Business Council for Dubai and Northern Emirates. The DCCI’s intention is to boost economic cooperation and trade between the business communities in Palestine and Dubai.⁸ The newly formed council comprises 28 firms co-owned and operated by Palestinian businessmen based in Dubai. The companies belong to a wide range of economic sectors including industry, trading, banking services, engineering and construction. Mahdi Al Mazim, Director of Members Services at the DCCI, regarded the strengthening of bilateral ties between the two sides as a *“step in the right direction.”* The newly elected Chairman of the Palestine Business Council, Samir Ibrahim Abdul-Hadi, praised the efforts exerted by the DCCI to help the Palestinian business community reach out to the world via boosting trade through Dubai.

Unified Chamber Information System

On 26 June the PA Ministry of National Economy (MoNE) and the Union of Palestinian Chambers of Commerce launched

4 www.imf.org/external/np/sec/pr/2013/pr13244.htm

5 www.pmf.ps/documents/10180/268204/may.2013.eng.pdf

6 www.pmf.ps/documents/10180/268204/may.2013.eng.pdf

7 www.lfd.ps/documentsShow.aspx?ATT_ID=7401

8 www.dubaichamber.com/news/palestine-business-council-established

3 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_NatAccQ12013E.pdf

the 'Unified Chamber Information System'.⁹ The initiative, a public-private partnership sponsored by the German government and developed in cooperation with Paltel and the German Society for International Cooperation (GIZ), will electronically connect all Palestinian chambers of commerce with the Union's headquarters. The unified system will consist of a shared databank containing information, statistics, documents and reports about the Palestinian private sector and businesses. By using Paltel's IP Virtual Private Network (VPN) the Union will also be able to promote real time data transfer and information exchange between the different chambers.

The portal is also expected to constitute a promotion and networking gateway for Palestinian businesses seeking to liaise with overseas companies, especially Palestinian businesses in the diaspora. At the same time, the platform will serve as a reference for researchers and policy makers working on sectorial development plans.

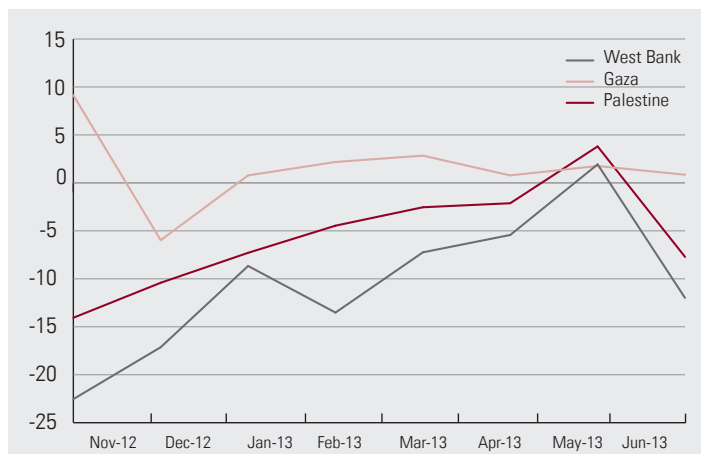
June PMABCI

The recently launched Palestinian Monetary Authority Business Cycle Indicator (PMABCI), a monthly index which aims to measure the state and evolution of the Palestinian business environment and reflect fluctuations in production and economic activity, experienced a major drop from 3.81 in May to -7.71 in June.¹⁰

Recent performance of the index marks that the recovery in economic activity measured during the first months of 2013 was abruptly interrupted as a result of contractions in a number of economic sectors, including food (from 1.53 to -1.53), furniture (from 5.76 to -1.65), paper (from 0.53 to -0.21), engineering (from -3.89 to -5.13) and construction, stone and marble (from 0.82 to -1.7).

At the regional level, the highest decline was registered in the West Bank, where the index dropped significantly from 1.93 in May to -12 in June. In Gaza the BCI suffered a much lower drop and remained positive at 0.85.

Figure 2: PMABCI November 2012 – June 2013



Source: PMA

9 www.paltelgroup.ps/?TemplateId=2&PageId=0&ParentId=3&MenuId=41&Lang=en#149

10 www.pma.ps/index.php?option=com_content&view=article&id=420%3Aresults-of-june-pmabci&catid=108%3Anews&Itemid=106&lang=en

Inflation

In June 2013 the overall consumer price index (CPI) experienced a 0.37% increase with respect to the previous month.¹¹ Price rises were highest in the case of liquid hydrocarbons used as fuel for homes (+4%), education services (+3.8%), electricity (+3.5%) and fuel for cars (+2.3%).

With respect to June 2012 the CPI rose by 4.43% in the West Bank and decreased by 1.15% in the Gaza Strip. Overall, during the first half of 2013 consumer prices in Palestine were 1.7% higher than during the same period of the previous year.

A recent assessment of inflation trends in Palestine conducted by the PMA showed that the West Bank & Gaza yearly inflation rate is relatively low compared to the world (4.3%) and the MENA region (16.3%) averages, but is higher than in Israel (1.4%).¹² The PMA stated that Palestinian inflation is largely imported and shows high sensitivity to fluctuations in international prices (particularly food and fuel).

However, some of the locally observed price increases and levels were significantly above global averages. In Q1 2013 one litre of gasoline in Palestine cost \$2.03, more than double the world average of \$0.97. Moreover, while world average gasoline prices were 6.5% lower in Q1 2013 than in Q1 2012, they increased by 4.8% in Palestine during that period. At the same time the prices of wheat and rice in Palestine were more than double the world averages, while the price of sugar was around 1.7 times the average global level. Moreover, the prices of important non-imported food items such as chicken and beef meat are also up to three times higher in Palestine than in the world market, mainly due to the relatively higher local production costs.

Finally, using a baseline inflation forecast model based on the cost of imports, the PMA estimated that overall CPI in Palestine will increase by 2.4% during 2013 (down from 2.8% in 2012).¹³

Q1/2013 Balance of Payments

In Q1 2013 the current account deficit reached \$240.2m, a major decrease of 63.5% from the previous quarter.¹⁴ This amount represents 8.8% of quarterly GDP at current prices, down from 24.2% in Q4 2012 and 24.7% in Q1 2012.¹⁵ The significant drop in current external deficit was mostly explained by an increase of over 103% in current transfers by international donors in Q1 2013 with respect to the previous quarter.¹⁶ Foreign recurrent aid accounted for 65.5% of the total value of receipts from abroad in Q1 2013.

11 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_CPI062013A.pdf

12 www.pma.ps/images/stories/inflationreports/Inf_Rep_1st_13_En.pdf

13 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_CPI2012E.pdf

14 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BoPQ12013E.pdf

15 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_Balance-of-Payments-Q4-2012-e.pdf and www.pcbs.gov.ps/Portals/_pcbs/PressRelease/BoPayQ12012_E.pdf

16 Ministry of Finance website

At the same time the capital and financial account surplus dropped by nearly 70% from Q4 2012. Although the net capital account surplus (capital transfers including investment grants, debt forgiveness and migrants' transfers) rose by 122% (+\$79.2m), this was more than offset by a 92% decrease (-\$521.2m) in the financial account surplus (financial stocks including direct investment, portfolio investment and reserve assets).

Table 1: Q4 2012 and Q1 2013 Balance of Payments

Item	Q4 2012 Amount	Q1 2013 Amount	Change (%)
Current Account	-\$658.1m	-\$240.2m	-63.5%
Trade Balance of Goods	-\$1,159.3m	-\$1,106.1m	-4.6%
Trade Balance of Services	-\$111.4m	-\$97.1m	-12.9%
Income Balance	\$273.6m	\$292.9m	+7.1%
Balance of Current Transfers	\$339.1m	\$670.1m	+97.6%
Capital and Financial Account	\$633.9m	\$191.9m	-69.7%
Net Capital Account	\$65.0m	\$144.2m	+121.8%
Net Financial Account	\$568.9m	\$47.7m	-91.7%

Source: PCBS and PMA

PEX Developments

From 3 June Morgan Stanley Capital International (MSCI) incorporated Palestine into the list of economies for which its MSCI Investable Market Index (IMI) is calculated.¹⁷ The IMI belongs to the broader set of MSCI Global Equity Indices, which aim to provide an exhaustive representation of the global equity investment universe. These and other MSCI indices are widely used as benchmarks by which the performance of global equity portfolios is measured. The calculation of the IMI for Palestine comprises four listed companies: Paltel, Bank of Palestine, PADICO and Wataniya Mobile. The listing of Palestine by MSCI follows efforts by the Palestine Exchange (PEX) to position Palestine on regional and international investment agendas.

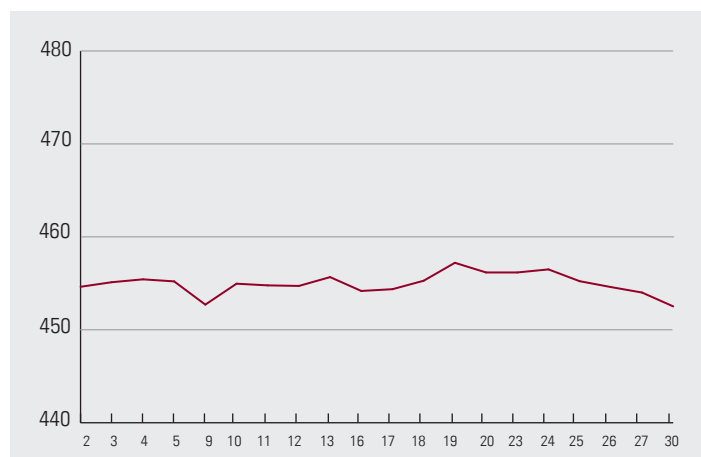
In separate news, on 27 June it was revealed that cash dividends distributed by PEX listed companies in 2012 equalled \$126.9m, a nearly 7% increase from the previous year. PALTEL ranked first with a total of \$83.7m distributed,

followed by PADICO (\$12.5m) and Bank of Palestine (\$10.1m). The Jerusalem Cigarette Company achieved the highest dividend yields (calculated as the annual dividends per share over the price of the share), at 13.46%, followed by the Arab Company for Paints Products (9.92%). PEX CEO, Ahmad Aweidah, attributed these achievements to the outstanding performance of many PEX listed companies in 2012 (34 out of the 49 listed companies were profitable, with total profits exceeding \$220m). Palestine also outperformed other regional economies as none of them achieved PEX's average dividend yield of 6% for the last five years.

June Trading Data

In June the Al-Quds index decreased by 0.98% and closed at 452.52 points on the last day of trading. The index reached its highest (457.21) and lowest (452.52) levels on 19 and 30 (last trading day) June respectively.

A total of 6.5m shares (down from 18.5m shares in May 2013 and 12.1m shares in June 2012) worth \$11.6m (down from \$20.9m in May 2013 and \$16.8m in June 2012) were traded in 20 sessions. PEX attributed the observed drop to the current political and economic challenges in Palestine. Market capitalisation was \$2.8bn.



Source: PEX

¹⁷ www.pex.ps/PSEWebSite/publications/PEXIssue08july2013.pdf

The Portland Trust



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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