The Portland Trust

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Palestinian Authority prepared its biannual report assessing the Palestinian economy for the Ad Hoc Liaison Committee meeting.

The Office of the Quartet Representative published an overview of its Palestinian Economic Initiative, a three-year economic plan for Palestine.

The second edition of 'TechCamp' took place in Ramallah during the last weekend of August.

A summary of tourism activities during the first half of 2013 shows an increase in visits of 13% compared to the same period last year.

World Bank and IMF Economic Assessments

The World Bank[1] and the IMF[2] issued their biannual assessments of the Palestinian economy. Both organisations stated that renewed talks between Israeli and Palestinian officials, in particular the potential launch of a US-led economic plan for Palestine, provided a basis for optimism. However, they highlight that continued economic deterioration, long-term fiscal risks and the absence of significant easing of restrictions by the Government of Israel (GoI) result in dim economic prospects.

In the first half of 2013 real GDP growth achieved only 1.9%, in comparison to 6.3% in the previous year.[3] Moreover, during the first quarter of the year, West Bank GDP fell in real terms (by 0.6%) for the first time since 2002. According to the World Bank the decline is due to insufficient easing of Israeli restrictions, the withdrawal of fiscal stimulus and high levels of uncertainty. Growth over the last few years has been mainly aid-driven (which allowed for the expansion of the public sector and resulted in enhanced consumption). Therefore, the viability of the Palestinian public finances is considered to be seriously hindered under the current model of persistently high fiscal deficits and unpredictable aid inflows. In particular, the World Bank points out that the public administration and defence sector contracted by 1% in Q1 2013 (on a year-to-year basis) as a '*consequence of fiscal retrenchment implemented in the face of irregular transfer of clearance revenues by the GoI… and a reduction in levels of donor aid.*' In this context, fiscal hardships resulted in delays in the payment of public sector employees' salaries during January and February, which negatively affected consumption.

Among the economic sectors that suffered the greatest year-on-year decline in output in the West Bank during Q1 2013 were agriculture (-11%), wholesale and retail (-7%) and services (-3%). Slowdown in the West Bank was compensated by 7.6% growth in Gaza's real GDP during the first half of the year. The World Bank attributes this performance to the large inflows of donor aid for construction projects initiated in late 2012. These resulted in a year-on-year expansion of the construction sector of almost 23%, making it the largest contributor to GDP in the Gaza Strip. However, the organisation notes that given that most construction materials are brought into Gaza from Egypt through the tunnels (excluding materials for donor-funded projects), recent measures by the Egyptian authorities to reduce tunnel trade are likely to lead to a significant shrinking of the construction sector as a whole, affecting overall economic activity. Finally, there are additional concerns on how economic slowdown (and, in particular, weak private sector performance) will impact the Palestinian labour market. Unemployment continued to be persistently high in both the West Bank (18.6%) and Gaza (29.5%) during the first half of 2013. Low labour force participation rates and high youth unemployment (reaching almost 30% in the West Bank and more than 45% in Gaza) continue to pose major challenges to mid and long-term economic development prospects.

1 www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCreportSep2013final.pdf
2 www.imf.org/external/country/WBG/RR/2013/091113.pdf
3 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNA_Q22013E.pdf

Both organisations call for a reduction of the fiscal deficit and an increasingly 'growth-friendly' orientation of government spending. Even though the Palestinian Authority (PA) managed to control total spending, lower than expected revenues and reduced external assistance resulted in a worse than budgeted fiscal position during the first half of 2013. Total prorated recurrent expenditure was roughly as budgeted, mainly thanks to savings on the wage bill and operational spending. But despite the PA's efforts to enhance domestic revenue collection, total revenues for the first half of 2013 were 12% lower than the prorated target, largely due to slower than anticipated growth of clearance revenues (which are collected by the GoI on behalf of the PA and represent two thirds of total recurrent revenues) and higher than expected tax refunds. As a result, the recurrent budget deficit was 30% higher than the prorated annual target. The overall deficit (including development spending) amounted to NIS2.98bn during the first half of the year. With total external assistance being insufficient to bridge the gap, the PA resorted to domestic finance sources: arrears with the Palestinian private sector and the pension fund climbed to NIS1.29bn. Since new arrears exceeded the amount needed to cover the shortage in foreign aid, the PA was able to reduce its stock of debt to domestic banks (which stood at 1.3bn as of end-June 2013). The World Bank considers that '*while this policy might enable the PA to create a buffer for future domestic bank borrowing, it could very likely have negative consequences on private sector liquidity and growth*.'

Looking forward, the IMF believes the 2013 budget targets to be currently out of reach and projects an overall deficit of $1.7bn (or 15% of GDP) by the end of the year (about three percentage points higher than budgeted). This will result in a financing gap of $0.3bn. In the absence of increased donor funding (the PA has expressed some optimism about additional aid from Arab countries) this is likely to result in further accumulation of arrears with the private sector and the pension fund, as well as increased borrowing from the commercial banks.

The IMF urges the PA to take certain measures to contain fiscal risks during the remainder of 2013. These include a wage and promotions freeze and rationalisation of allowances for civil servants, continuing rationalisation of medical referrals (the World Bank indicates that health expenditure related to treatment referrals grew by more than 10 times between 2000 and 2011 and considers that this cannot be solely explained by demographic or epidemiological factors), and improving the collection of municipal water and electricity bills. The organisation also considers that there is scope to increase revenue collection through implementing the PA's Revenue Action Plan (aimed at establishing a fully integrated revenue administration of income tax, VAT, customs and other direct and indirect taxes), reducing tax incentives and halting fuel subsidies.

Finally, beyond the efforts needed by the PA, the World Bank stresses that the '*most significant impediment to economic viability* (…) *is the multi-layered system of restrictions imposed by the GoI*.' The IMF also acknowledges that a broad-based and sustained easing of restrictions (i.e. not linked to specific projects), together with increased donor aid during a transitional period, would benefit the economy.

PA's Assessment of the Economy

The biannual report prepared by the PA for the Ad Hoc Liaison Committee (AHLC) meeting[4] broadly shares the IMF and World Bank's diagnosis of the Palestinian economy. It also focuses on the economic slowdown, high unemployment, fiscal crisis and the need to move away from an exclusively aid-driven development model. At the same time, the PA expresses commitment to reach a breakthrough in the US-sponsored peace talks.

While calling for a lifting of Israeli restrictions as part of a definitive political settlement, the PA has set a number of strategic economic targets to improve performance and expand opportunities. In this sense, it aims to make significant progress towards diversifying the economy, developing an adequate enabling business and investment environment and empowering institutions to facilitate economic development and enhance regulation.

Efforts include the draft National Export Strategy, which aims to reduce the trade deficit by enhancing exports in a number of priority sectors, including stone and marble, olive oil, agro-food, textile and garments, footwear and leather, furniture, tourism and ICT. As part of the strategy the PA has signed free trade agreements with a wide range of partners around the world.

Steps towards improving the business environment have included a Draft Debt Resolution Law, finalised in December 2012. Once enacted, it is expected that issues related to resolving insolvency will be addressed more efficiently. At the same time, the PA has revised regulations for establishing private limited liability companies with the aim of supporting entrepreneurship. Also a new Company Law is expected to unify legislation across Palestine and speed-up the process of establishing a business. Complementary efforts to decrease the required procedures, time and costs to obtain construction permits and register property are also underway. Moreover, measures intended to aid the credit market include the recent development of databases for credit scoring and bounced cheques to assist banks and microfinance institutions in the assessment of credit ratings for

4 www.mopad.pna.ps/en/images/PDFs/AHLC%20Report%20Sept%202013.pdf

companies and individuals. A Secured Transaction Law is also expected to facilitate the use of movable assets as collateral for credit. Finally, the PA claimed that the much needed Land and Land Registration laws will be prioritised (despite existing Israeli-imposed limitations on access to land registration records), which is likely to enable opportunities in a wide range of sectors including agriculture, construction and the credit market.

Other economic reform priorities identified by the PA include broad governmental and institutional support to the OQR's Palestinian Economic Initiative (see below), the opening of Gaza crossings (an important source of import and export revenues), the introduction of 3G telecommunication frequencies and the end of Israeli import restrictions under the 'dual use' list of products.

By the end of December 2013 the PA expects the approval of the national development plan for 2014-16, which will be reflective of its policy and economic priorities. The plan, to be based on 23 sector strategies, is expected to integrate planning with budgeting, under a scheme in which resources for each budget entity will be allocated to a small number of identified deliverables.

Palestinian Economic Initiative

The Office of the Quartet Representative (OQR) published an overview of its Palestinian Economic Initiative, a three-year economic plan aimed at promoting '*rapid and positive change in the Palestinian economy*.'[5] The programme, designed in support of renewed Palestinian-Israeli political negotiations, intends to boost private sector-led growth in the West Bank and the Gaza Strip by prioritising key enablers and initiatives in eight economic sectors. According to Tony Blair, the Quartet Representative, implementation of the initiative will require '*significant commitment from both the Government of Israel and the Palestinian Authority*.'[6] In this sense, Mr Blair added that '*its success inevitably relies on implementing large-scale Israeli easing measures*' as well as '*boosted capacity within the Palestinian Authority*', and that the OQR is '*… engaged in intensive talks with all sides, and both the Israeli and Palestinian governments have indicated their broad support for the plan*.'

The OQR's initiative, which relies heavily on the inflow of new financing into the Palestinian economy, aims to target private Palestinian businesses as well as multi-national companies. Government and other international organisations will also be called upon to help with investment through facilities such as guarantees and insurance.

A detailed draft of the initiative was submitted to the PA in August and is currently undergoing internal review. Details of the initiative were also shared with the GoI which, according to the OQR, enacted a '*preliminary set of enabling measures for its implementation*' prior to the AHLC meeting.

TechCamp Ramallah 2

The second edition of the international capacity building workshop 'TechCamp' took place in Ramallah the last weekend in August with the sponsorship of the US Department of State, the US Consulate General in Jerusalem and PALTEL Group.[7] TechCamp, an initiative led by the US State Department's Office of eDiplomacy, is aimed at connecting civil society organisations (CSOs) across the world with new and emerging technology resources.[8] More than 29 such events have been held globally.

During TechCamp, CSOs work closely with local and international experts to define their biggest challenges and pair them with low cost, easy to implement technology solutions. Participants of the two-day event 'TechCamp Ramallah 2' included representatives from private sector companies (such as PALTEL Group and Hadara) and around 90 delegates from Palestinian CSOs, 10 of whom travelled from Gaza.

Six international and six local experts conducted hands-on training sessions in skills including mobile video making, mapping, SMS engagement solutions, online volunteerism, social media marketing and Google Apps. Under their guidance, participants worked on the development of new, real-time, technology-based solutions to challenges in a variety of areas including fundraising, marketing, volunteerism, matching skills and monitoring and evaluation.

Kara Andrade, one of the international trainers, a journalist and co-founder of HablaCentro NFP, LLC, told the Bulletin: *"TechCamps are extremely positive because they are based on learning and collaboration. The work is game changing as we introduce a new way of solving problems using widely available tools and create solutions from the ground-up."* Having participated in six previous TechCamp workshops (including the first edition of TechCamp Ramallah in 2011), Ms Andrade praised Palestinian participants noting that they *"… have an eagerness to learn, a curiosity and an agile ability to find and create (not just technology-based) solutions to local problems."*

Imad Ahmad, a Gazan participant who works for international development organisation MercyCorps, told the Bulletin, *"With the help of a BBC Journalist we*

5 http://blair.3cdn.net/a1cbc4b311f0287605_twm6iv9t3.pdf

6 www.tonyblairoffice.org/quartet/news-entry/quartet-representative-tony-blairs-statement-on-the-economic-initiative-for/

7 www.wiki.techcampglobal.org/index.php?title=TechCamp_Ramallah_2 and www.facebook.com/groups/techcampramallah/

8 www.techcampglobal.org/learn-about-techcamp.php and www.techcampglobal.org/what-is-techcamp.php

created a guide for using mobile video which included apps and tips. Because of the event I can now use this technology and am able to visually illustrate the impact of my programme in Gaza." Her colleague, Mira Bakri, also travelled from Gaza and said *"TechCamp was a great opportunity for me. When we record videos it takes a long time to post them on our blog but now I know how to speed up the process, which will increase their impact."*

Tourism activities during H1 2013

Between January and June 2013, 2.6m visits were made to tourist sites in the West Bank, 46% of which were by domestic visitors and 54% by foreign tourists.[9] This number marks an increase of 13% from the first half of 2012. The most popular tourist destinations among foreign visitors were the governorates of Bethlehem (47% of total visits), Jericho and Al-Aghwar (29%), Jenin (10%) and Hebron (8%). Arab Israelis constituted the largest visitor group (31%), followed by tourists from Russia (19%), the US (6%) and Poland (5%).

During this same period, 274,000 guests spent the equivalent of 656,000 guest nights in the 107 hotels in the West Bank (78) and East Jerusalem (29).[10] The number of hotel guests remained roughly unchanged from the same period last year. Most hotel guests came from EU countries (40%), followed by those from Asia (12%), other European visitors (11%) and Arab Israelis (11%). During the first half of 2013 hotels employed around 2,700 workers, about a quarter of who were females.

Q2/2013 Balance of Payments

In Q2 2013 the current account deficit amounted to $595.7m, more than double the level from the previous quarter, but a quarter lower than in Q2 2012.[11] The deficit constituted 19.8% of GDP at current prices, down from 29.5% in Q2 2012.

The increase in the current account deficit from the previous quarter came as a result of an increase of $120.8m in the trade balance of goods being more than offset by a drop of $249.6m in the surplus in current transfers. Foreign assistance, a major component of current transfers, declined from 65.5% of the total value of receipts from abroad in Q1 2013 to 41.3% in Q2 2013.

Meanwhile, the capital and financial account surplus experienced a sharp increase, mostly driven by a growth of $540m in the net financial account surplus.

Table: Q1 and Q2 2013 Balance of Payments

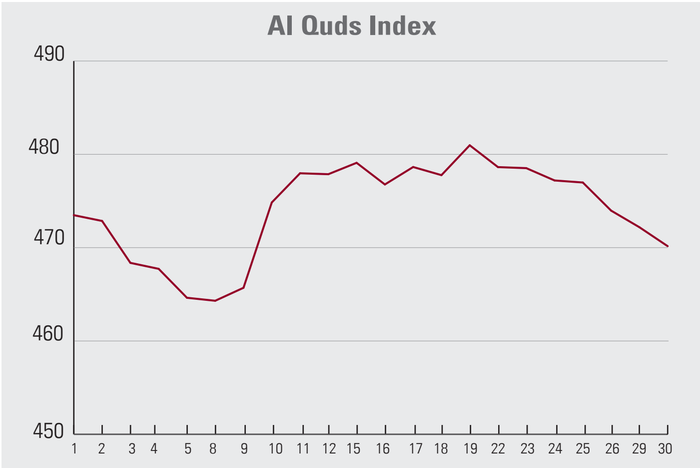
Item	*Q1 2013 Amount*	*Q2 2013 Amount*	*Change (%)*
Current Account	**-$240.2m**	**-$595.7m**	**+148.0%**
Trade Balance of Goods	-$1,106.1m	-$1,226.9m	+10.9%
Trade Balance of Services	-$97.1m	-$99.8m	+2.8%
Income Balance	$292.9m	$310.5m	+6.0%
Balance of Current Transfers	$670.1m	$420.5m	-37.2%
Capital and Financial Account	**$191.9m**	**$646.8m**	**+237.1%**
Net Capital Account	$144.2m	$59.1m	-59.0%
Net Financial Account	$47.7m	$587.7m	+1,132.1%

Source: PCBS and PMA

September Trading News

In September the Al-Quds index increased by 0.29%, closing at 470.16 points on the last day of trading. It reached its lowest (464.31) and highest (480.97) levels on 8 and 19 September, respectively.

A total of 9.8m shares worth $13.7m were traded in 22 sessions. Market capitalisation was $2.9bn.



Source: PEX

9 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_Tourism-2013-e.pdf
10 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_Hotel-Q2-2013-e.pdf
11 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BopQ2-2013E.pdf and www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BOPQ22012E.pdf

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