

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Exports of produce from Gaza to Israel resumed for the first time since 2007

In 2014 a total of 265 olive presses processed over 108,000 tonnes of olives, producing almost 25,000 tonnes of olive oil

Rawabi, a new planned city north-west of Ramallah, received approval from Government of Israel for water connections after significant delays

In 2014 total exports of goods amounted to \$864.8m, while total imports reached \$5,054.5m

Q4 2014 saw a significant increase in hotel activities from Q3 2014, but the number of guests visiting Palestinian hotels decreased by 20% from Q4 2013

Fiscal Update

The Government of Israel (GoI) continued its policy of withholding clearance revenues from the Palestinian National Authority (PNA) for the third consecutive month, severely undermining Palestine's fiscal position and restricting the government's ability to fulfil its obligations at all levels. With the pending legal deadline for setting the budget, the PNA Cabinet approved a general framework for an emergency budget to come into effect from 1 April.¹ Based on available financial resources, expenditure will continue to be rationalised until new sources of funds become available. The PNA has committed to paying wages and pensions of at least 2,000 NIS to all public employees in an effort to protect workers on lower salaries. However, beyond this minimum income workers will only be paid 60% of their normal income. Ministries and other public institutions will receive cash payments equivalent to only 50% of their operational expenses for 2014. The emergency budget also includes the government's commitment to social transfers to families living below the poverty line as well as repaying a portion of the government arrears to the private sector to ensure economic stability. The Minister of Finance confirmed that as soon as the government overcomes the financial crisis, it will provide a supplementary budget with an amended budget law for 2015.

In related news, the Governor of the Palestine Monetary Authority (PMA), Jihad Al-Wazir, announced that the Palestinian banking sector was approaching the limits of its ability to lend to the PNA during this period of fiscal upheaval.² The banking sector will be able to support the payment of civil servant salaries for just one more month. As of January, the PNA owed the banks \$1.23bn, accounting for over 25% of total bank loans in Palestine. This makes it imperative that some other form of bridge financing is found in the near future, as was the case when Israel suspended the transfers of clearance revenues in 1997, 2000-02 and 2006-07.³ Local media sources speculated that a request made by the PNA in February for the European Union to activate a revolving fund used in similar circumstances previously had been approved. Dr Nabil Shaath, a member of Fatah's Central Committee, was quoted as stating that both Europe and Japan had expressed a willingness to provide bridging support until clearance revenue payments are resumed.⁴ However, at the time the Bulletin went to press no official announcement had been made.

Agricultural Exports in Gaza

In March the GoI allowed the export of produce from Gaza to Israel for the first time since 2007.⁵ According to the UN's Food & Agriculture Organisation (FAO), two truckloads containing 22 tonnes of eggplant and tomatoes were

1 www.palestinecabinet.gov.ps/WebSite/ar/ViewDetails?ID=14432

2 qudsnet.com/news/View/302663

3 www.imf.org/external/country/WBG/RR/2011/102711.pdf

4 english.wafa.ps/index.php?action=detail&id=28096

5 www.maannews.com/eng/ViewDetails.aspx?ID=759853

exported during the week commencing 8 March⁶ and six truckloads containing 90 tonnes of the same crops were exported during the week commencing 15 March.⁷ Israeli authorities announced that they were willing to receive 1,200 tonnes of agricultural crops per month from Gaza, which would allow total exports to reach nearly \$1m per month. While this is a positive development, it also highlights the severe restrictions on the movement of people and goods in Gaza. In 2006 a total of 5,290 truckloads were exported from Gaza, whereas in 2014 only 136 truckloads were exported.⁸ 2008 and 2009 witnessed the lowest levels of exports with 33 and 42 truckloads, respectively. Restrictions on the movement of goods negatively impact the agriculture sector in Gaza not just through limiting exports, but also in preventing the imports of inputs such as fertilizers and building materials for the construction of irrigation facilities and wells. The war in 2014 also caused significant damage, with the FAO estimating that the agricultural sector suffered over \$500m in damage and lost over 43% of its production.⁹

In related news, Qatar began a project to rebuild 1,000 homes in Gaza. The project comes as part of the \$1bn pledged for Gaza's reconstruction in October.¹⁰ Moreover, on 12 March the PNA signed a \$200m donation agreement with the Kuwait Fund for Arab Economic Development for the reconstruction of the southern governorates of the Gaza Strip in line with commitments made under the Cairo agreement.¹¹ The funding will go towards reconstruction of 1,500 housing units and some infrastructure projects.

2014 Olive Presses

Palestine's olive sector, a key agricultural activity, enjoyed a successful 2014 harvest. In 2014 a total of 265 olive presses in Palestine processed 108,379 tonnes of olives (a substantial increase of 64.7% from the 65,829 tonnes processed in 2013), producing 24,758 tonnes of olive oil (40.3% higher than the previous year).¹² The Jenin and Tubas governorates were the largest suppliers of olives, providing 26.5% of the total quantity of olives pressed in 2014. The value added of olive pressing activities totalled \$10.9m in 2014, marking a 94.6% increase from previous year. Intermediate consumption and output of olive presses totalled around \$3.1m (47.6% increase from 2013) and \$14.0m (62.8% increase), respectively. Employment in the sector during 2014 increased by 20.9% from the previous year, to reach 1,353 workers of whom 985 were wage employees and 368 unpaid family members.

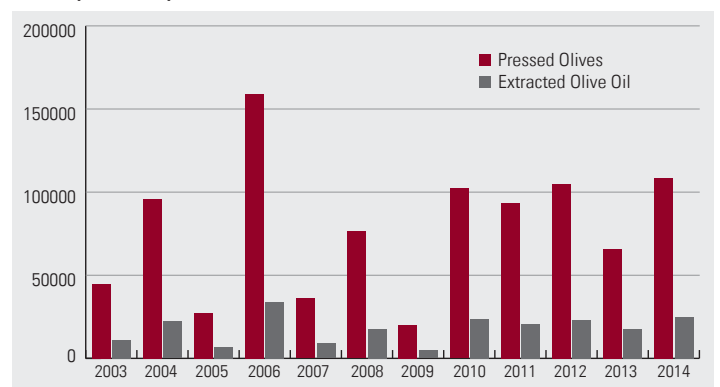
Table 1: Olive Press Activity Main Indicators (2013-2014)

	2013	2014	Change (+/-)
Number of presses in operation	264	265	+0.38%
Fully automatic	230	241	+4.78%
Half automatic / traditional	34	24	-29.41%
Total employment	1119	1,353	+20.91%
Waged workers	64%	72.8%	+13.75%
Compensation	\$0.7m	\$1.0m	+42.86%
Pressed olives (tonnes)	65,829	108,379.1	+64.64%
Extracted oil (tonnes)	17,641	24,758.5	+40.35%

Source: PCBS

The olive harvest in Palestine is very volatile (Figure 1), with individual olive trees naturally producing large yields and small yields in alternate years. The consequent volatility in output can be mitigated with farming techniques that narrow the gap between a tree's large- and small-yield years, as well as by ensuring that half of an olive grove is most productive in odd-numbered years and the other half in even-numbered years. However, Palestine's mostly small-scale olive growers have limited understanding of these farming techniques, and there are issues around the accessibility of many olive trees for regular maintenance. In a good year the harvest can reach as much as 160,000 tonnes (as in 2006), while in a bad year it can fall below 20,000 tonnes (as in 2009). Meanwhile, the amount of extracted olive oil can also vary significantly depending on the quantity of pressed olives: from over 34,000 tonnes in a good year (2006) to under 4,800 tonnes in a bad one (2009). The figures for last year correspond to a drop of 14.8% in olive oil yield per tonne of pressed olives (from 0.268 tonnes of olive oil per tonne of olives in 2013 to 0.228 tonnes of olive oil per tonne of olives in 2014). This means that the extraction rate was 22.8%, which was below the average for the past 12 years of 23.6%.

Figure 1: Pressed Olives and Extracted Olive Oil, 2003-2014 (tonnes)



Source: PCBS

Of the approximately 1.83m dunums of land utilised for agriculture in Palestine, 54% are planted with olive trees.¹³

6 www.lfd.ps/documentsShow.aspx?ATT_ID=19490

7 www.lfd.ps/documentsShow.aspx?ATT_ID=19505

8 www.ochaopt.org

9 bit.ly/1xf85Vq

10 www.worldbulletin.net/news/156396/qatar-to-provide-1bn-for-gaza

11 www.kuna.net.kw/ArticleDetails.aspx?id=2429542&language=en

12 www.pcbs.gov.ps/Downloads/book2111.pdf

13 Ministry of Agriculture. National Strategy for Olive sector in Palestine (2014-2019)

This includes 8.9m olive trees, of which 88% are fruitful trees.¹⁴ More than 80% of olive farmers are small-medium scale farmers, owning olive orchards equal to or less than 25 dunums in size.¹⁵ Olive and olive oil production is concentrated in the north and northwest of the West Bank, where the soil and climate conditions are most favourable. Olive cultivation provides employment and income for around 100,000 farming families. Olive oil is the primary fat consumed in Palestine, and in most years domestic demand of around 12,000 tonnes is fully satisfied by domestic production, while excess supply may be exported. According to a comprehensive study of the Palestinian olive sector conducted by Oxfam in 2010, the domestic market helps to ensure the stability of the agricultural sector and decreases dependency on the highly volatile world food prices. Exports of olive oil doubled from \$11.5m in 2008 to \$23.0m in 2012, but fell to \$8.8m in 2013 (latest available data). It is expected that the data for 2014 will show that exports of olive oil increased given the large increase in production.¹⁶ Lower quality and old olive oil that is not consumed domestically or exported is used for making soap. The by-products of olives (the wood remaining after hemp and the waste remaining after the oil press) are used for heating.

Water Connection for Rawabi

Rawabi, a new planned city north-west of Ramallah, finally received approval from Gol for water connections after significant delays.¹⁷ The masterplan for Rawabi was approved by the PNA in January 2010, with the aim of developing over 5,000 housing units hosting as many as 40,000 inhabitants and creating more the 5,000 permanent jobs.¹⁸ Total investment to date has exceeded \$1bn, with funding from the Qatari company Diar and the Palestinian company Massar International. The development was complicated by the fact that part of the 9 km stretch connecting Rawabi to the existing piped water system lies in Area C, which lies under Israeli civil and military administration. Following significant delays, Rawabi has now been granted permission to be connected to the water grid.¹⁹ This decision will allow approximately 650 families to move into their new homes in Rawabi.

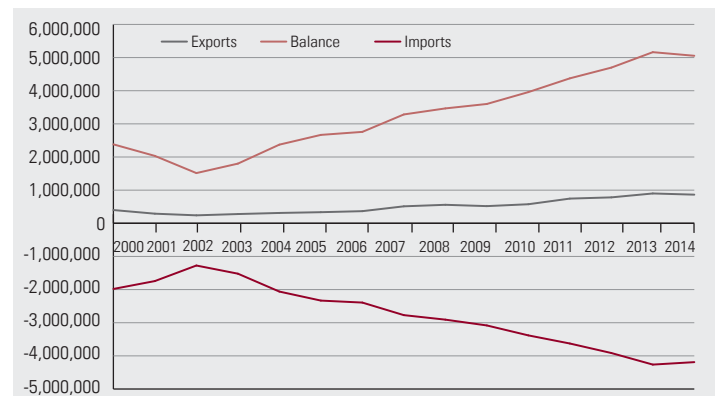
The delays in Rawabi's development are symptomatic of the economic costs of the restrictions imposed upon Palestinian investment and economic activity in Area C, which accounts for 61% of land in the West Bank. Area C is regarded as 'key to future Palestinian economic development' by The World Bank, as the majority of

the West Bank's natural resources, including fertile agricultural land, lie in this area. The World Bank estimates that current total losses due to restrictions are estimated at about \$3.4bn per annum.²⁰

Foreign Trade

In 2014 total exports of goods from Palestine amounted to \$864.8m, while total imports reached \$5,054.5m.²¹ Imports fell \$109.4m (2.12%) from 2013, while exports decreased by \$35.8m (3.98%). Overall, Palestine's large structural trade deficit declined marginally from 2013, falling by 1.73% to \$4.2bn. However, this can be attributed to an overall contraction in Palestinian economic activity, and should not be mistaken for a structural shift away from import dependence. During the year, Palestinian trade continued its high dependence on Israel, which accounted on average for 86.5% of exports and 65.2% of imports.

Figure 2: Annual Exports, Imports and Net Trade Deficit in Goods, Palestine, 2000-2014 (USD thousands)



Source: PCBS

Hotel Activities

In Q4 2014, 152,531 guests spent the equivalent of 406,394 guest nights in 109 hotels in the West Bank (85) and East Jerusalem (24).²² Most hotel guests came from EU countries (30%), followed by those from Palestine (10%) and the US and Canada (9%). During Q4 2014, hotels employed 2,303 workers, of whom 29% were females (Table 2).

Following the poor performance by Palestinian hotels in Q3 in the aftermath of the war in Gaza, both the number of hotel guests and the number of total guest nights recovered sharply in Q4, increasing by 52.8% and 49.1%, respectively. However, despite an increase in the number of hotel rooms and beds, they were lower than in Q4 2013 by 20.1% and 17%, respectively. Employment also declined by 21.9%, with 647 hotel jobs lost. This may in part

14 pcbs.gov.ps/Downloads/book1903.pdf

15 www.oxfam.org/sites/www.oxfam.org/files/the-road-to-olive-farming_0.pdf

16 www.pcbs.gov.ps/Downloads/book2070.pdf

17 bloom.bg/1uKXQqz

18 www.rawabi.ps/about.php

19 wapo.st/1GSjg5Y

20bit.ly/1yqp5ak

21 pcbs.gov.ps/Portals/_Rainbow/Documents/E-Ftrade%202014.htm

22 pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_HActSurvQ42014E.pdf

be explained by the ongoing impact on visitor numbers of the conflict in Gaza and extended period of heightened tensions in the West Bank.

Table 2: Hotel Activities Main Indicators, West Bank and East Jerusalem

	Q4 2014	Q3 2014	Q4 2013	Change Q3 2014	Change Q4 2013
Number of hotels	109	109	113	0.00%	-3.54%
Number of rooms	6,691	6,577	6,083	1.73%	10.00%
Number of beds	14,857	14,576	13,889	1.93%	6.97%
Number of hotel workers	2,303	2,252	2,950	2.26%	-21.93%
Number of guests	152,531	99,811	190,893	52.82%	-20.10%
Number of guest nights	406,394	272,567	489,517	49.10%	-16.98%
Rooms Occupancy (%)	24.5	22.7	28	7.93%	-12.50%

Source: PCBS

February Trading

In February the Al-Quds index decreased by 0.27%, reaching a peak of 504.76 points on 12 February and closing the month on 499.04.²³ All sectors other than Banking and Financial Services (which experienced a marginal increase of 0.04%) fell during the month, with Insurance performing particularly poorly (-1.67%). For the second consecutive month Palestine Plastic Industrial enjoyed the best performance, with its share price gaining 18.2% to add to the 15.8% increase in January, while Jerusalem Cigarette saw its price drop by 12.8%. A total of 12.4m shares, worth \$24.5m, were traded in February. This marked an increase of 160% in the volume and 167% in the value of traded shares from January. Market capitalisation was \$3.12bn, down by 0.2% from \$3.13bn in January. Bank of Palestine continued to enjoy the largest total value of shares traded, with 48.2%, while PADICO enjoyed the highest levels of liquidity accounting for 31.1% of the total volume of shares traded.

In related news, PEX announced that 75% of the 48 listed companies achieved profits in 2014.²⁴ However, in line with the performance of the Palestinian economy in 2014,

25 companies saw their profits fall from 2013. Net joint profit after tax equalled \$227.5m, down by 7.14% from 2013. Industry was the worst performing sector, with 9 out of 12 companies experiencing a decrease in profits (Table 3). The Banking and Financial Services and Insurance sectors performed well, delivering increased profits of 11.4% and 11.6%, respectively. Mr Ahmad Aweidah, CEO of PEX, attributed the overall decline in profits to the war in Gaza and also exchange rate losses due to the rise of the US Dollar. Mr Aweidah is hopeful that performance will improve in 2015.²⁵

Table 3: Total Profit According to Sector, Palestine, 2014:

Sector	Total Profit (\$)	Change (%)
Insurance	13,092,381	11.62%
Industry	16,443,743	-33.05%
Investment	30,874,909	-16.70%
Banking & Financial Services	67,567,912	11.39%
Service	99,466,712	-10.30%
Total	227,445,657	-7.14%

Source: PEX

On 11 March PEX launched its IFSAH disclosure system. The system will streamline and organise the disclosure process between listed companies and other stakeholders such as the Palestine Capital Market Authority, brokers, investors, auditors and analysts. IFSAH will enforce the use of International Financial Reporting Standards, achieve consistency, provide an electronic database that can be used for different purposes and aim to minimise human error. Mr Aweidah emphasised that the new system will help to provide a transparent and equitable trading environment.²⁶

23 www.pex.ps/PSEWebSite/publications/PEXIssue-4mar2015.pdf

24 www.pex.ps/PSEWEBSITE/NEWS/FS-Annual-Preliminary-2014-Disclosure-English.xlsx

25 www.pex.ps/PSEWebSite/NEWS/25022014.docx

26 www.pex.ps/PSEWebSite/NEWS/11032015-2.docx

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