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Main reports

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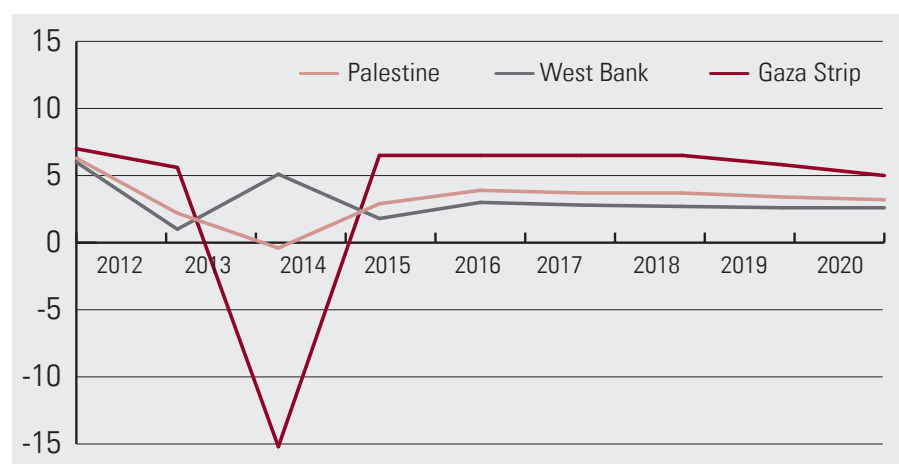
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Economic Assessments

The Government of Palestine¹ and the IMF² issued reports assessing the current state of and prospects for the Palestinian economy. According to the IMF, the economic outlook for the West Bank and Gaza for the remainder of 2015 is challenging and subject to considerable risks. Assuming there is no change in restrictions and/or security conditions, the IMF projects growth in the West Bank to slow to 1.8% by year end, from 5% in 2014. According to the IMF, the expected drop reflects the impact of increased uncertainty on private demand and reduced growth in Israel. In Gaza, a rebound of 6.5% is expected, assuming continued reconstruction activity. Real GDP growth for the Palestinian economy is therefore projected at 2.9%, implying stagnant per capita GDP given the high rate of population growth. Inflation is projected to remain low, at less than 2%. The main risks to the outlook relate to heightened political and security tensions and a related lower than expected rebound in private investment and fiscal slippages. The latter include revenue shortfalls, lower donor aid, and the inability of the PNA to withstand spending pressures.

The IMF estimates that in the medium term, absent a political breakthrough, growth will remain below what is needed to durably reduce unemployment and improve living standards (Figure 1). Under a baseline scenario assuming political status quo and unchanged Israeli restrictions, some decline in aid after the completion of Gaza reconstruction, and limited policy actions on the part of the PNA, growth is expected to hover around 3%, with a rise in unemployment. A further deterioration in the political landscape or aid shortfalls would produce even worse economic outcomes. On the other hand, the IMF points out that even in the absence of a political breakthrough, improvements in Israeli-Palestinian economic cooperation could prove beneficial.

Figure 1: GDP growth and projections (2012 - 2020)



Source: IMF

1 www.idf.ps/documentsShow.aspx?ATT_ID=21979

2 www.imf.org/external/country/WBG/RR/2015/092115.pdf

On fiscal policy, the IMF noted that the 2015 budget implies an expansion in the overall deficit from 12.4% to 18.4% of GDP. Net revenue is projected to rise by 8.6%, reflecting government plans to raise fees in the second half of 2015 and higher dividends from the Palestine Investment Fund (PIF). The projected increase in revenue also reflects efforts to expand the tax base and improve compliance, including with the help of the new Income Tax Law introduced in April - which according to the IMF effectively lowers the income tax burden. With total donor support assumed at nearly \$2bn, the IMF projects a financing gap of about \$400m, or around 3% of GDP.

The assumption of \$2bn in donor aid may be optimistic. According to the PNA, donor fatigue and failure to meet commitments have resulted in a 47% drop in aid from 2010 to 2015. Of the \$5bn of international donor aid pledged to Palestine in October 2014 at the Cairo Conference, more than half was earmarked for Gaza's reconstruction. As of September 2015, only \$1.2bn has been disbursed.

In particular, the PNA stresses that recurrent budget support has seen a continued decline from the 2008 Paris Conference, dropping by more than 40% through to 2014. The PNA raises concerns that while international aid continues to drop, there are increasing pressures on expenditure due to the 18.9% growth in population between 2008 and 2014 and the rebuilding of Gaza. Expected budget support for 2015 is projected to reach \$800m by end of the year, a 22% drop from 2014.

Rawabi

In September, the new Palestinian city of Rawabi welcomed its first residents. Mr Bashar Masri, Chairman of Massar International and the property developer behind the new city, confirmed that as many as 2,000 people are expected to be living by year's end in the 600 finished units that have been sold so far. Upon completion, it is expected that Rawabi's 6,000 planned units will house up to 40,000 people. The \$1.2bn development will include schools, places of worship, retail space and cultural attractions. Qatari Diar is providing capital and developing the new town in partnership with Massar International.

Rawabi's success will ultimately be determined by whether it can attract enough tenants to buy apartments and standalone homes ranging from \$60,000 to \$220,000, 20% less than comparable properties in Ramallah. The development, considered to be the most ambitious private venture in Palestinian history, could inspire other businesses to invest and "create as many as 10,000 much needed jobs in the Palestinian economy", according to Mr Masri.

While delays and overruns mean the project is now expected to lose about \$200m, investors could recover the costs following further development of the city. Mr Masri told the Bulletin: "The country needs a minimum of five projects like Rawabi. If we succeed, such developments will become the backbone of this independent State."

Palestinian Companies in Kuwait

Between 14 and 16 September, five leading Palestinian companies from the stone and marble sector³ participated at 'The Big 5 Kuwait', the country's largest international construction event.⁴ Part of Kuwait's International Fair, 'The Big 5' hosted 200 regional and international exhibitors, representing more than 20 countries, which featured products and technologies from Europe, Asia and North America.

This was the first time Palestinian companies participated in a specialised event for the construction sector in Kuwait. Palestinian participants signed several export contracts and closed deals with sales representatives in Kuwait.

The Palestinian Market Development Programme (PMDP), which is funded by DFID and The European Union, supported the participation of four out of the five Palestinian companies through the Palestine Trade Center (PalTrade). Mohammad Hussein, Senior Business Development Advisor at PMDP, told the Bulletin: "Helping Palestinian companies to participate in such big international events is considered part of PMDP's efforts to support Palestinian private sector companies to enter new export markets. During the exhibition the companies were able to connect with potential lead clients."

The stone and marble sector is of great importance to the Palestinian economy. It was identified as one of the priority sectors in the 2014-2018 Palestinian National Export Strategy (NES), based on its capacity to contribute to employment, GDP and exports.⁵ According to the NES, annual sales in the sector are estimated at \$400m, or just below 5% of GDP, while it accounts for more than 10% of non-agricultural employment in Palestine and around 25% of total exports.

However, stone mining and quarrying activities face tight restrictions, which constrain growth in the sector.⁶ These include prohibitions, imposed by the Government of Israel, on the import of certain machinery for production, the existence of complex and costly requirements for export and the general political and security environment that inhibits large capital investment of the type needed in such an industry. According to the World Bank, restrictions are especially severe in Area C, which holds an estimated 20,000 dunums of land suitable for quarrying with a potential value of \$30bn.

Balance of Payments

The Current Account deficit (totaling \$372.7m in Q2 2015) increased by 15.2% compared to the previous quarter.⁷ The deficit was mainly caused by the deficit in the trade

3 The participating Palestinian companies included: Al Waleed Stone Manufacturing and Marketing, Suhail & Saheb Group, Holy Land Jerusalem Stone Company, Halaika Construction Industries and, Reach Holy Land for Marble and Stone.

4 www.big5kuwait.com/

5 <http://bit.ly/1jdVPi1>

6 <http://bit.ly/1VaUoSj>

7 <http://bit.ly/1WkLr6h>

balance of goods, which reached \$1,352.7, an increase of 11% on Q1 2015. The trade balance of services reached a surplus of \$10.2m, up from a deficit of \$2.3m in Q1 2015.

The surplus in the income account (compensations of employees and investments income) amounted to \$344.9m, an increase of 3.9% compared to Q1 2015. This surplus was due to higher compensation of employees working in Israel, which reached \$322.8m. Received investments income amounted to \$30.6m, mainly due to interest received on deposits in banks abroad.

Current transfers achieved a surplus value amounting to \$624.9m, an increase of 10.5% compared with the previous quarter. This was partly due to the increase of donors' transfers to the government sector.

Table 1: Balance of Payments

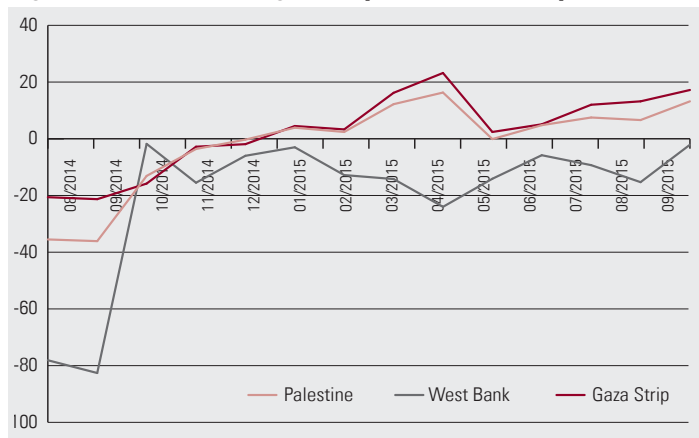
Item	Q2 2014 (USD millions)	Q1 2015 (USD millions)	Q2 2015 (USD millions)	Change (%) (Q2 2014-Q2 2015)	Change (%) (Q1 2015-Q2 2015)
Current Account	(\$614.60)	(\$323.40)	(\$372.70)	-39.4%	15.2%
Trade Balance of Goods	(\$1,540.70)	(\$1,218.60)	(\$1,352.70)	-12.2%	11.0%
Trade Balance of Services	(\$88.10)	\$2.30	\$10.20	-111.6%	343.5%
Income Balance	\$401.90	\$331.80	\$344.90	-14.2%	3.9%
Balance of Current Transfers	\$612.30	\$565.70	\$624.90	2.1%	10.5%
Capital and Financial Account	\$452.60	\$237.60	\$413.00	-8.8%	73.8%
Net Capital Account	\$80.30	\$99.10	\$103.40	28.8%	4.3%
Net Financial Account	\$372.30	\$138.50	\$309.60	-16.8%	123.5%

Source: PCBS and PMA

Business Indicators

The Palestine Monetary Authority Business Cycle Index (PMABCI), a monthly index aimed at reflecting the current state and the evolution of economic activity in Palestine, improved from 6.6 points during August to around 13.2 points in September. The index was considerably higher in September 2015 than in the corresponding month in 2014, when the index reached its lowest level ever (-36.1 points)⁸.

Figure 2: PMABCI by Region, September 2014- September 2015



Source: PMA

In the West Bank, the index improved from 13.2 points in August to 17.2 points in September. According to the PMA,

8 <http://bit.ly/1iyd0Kz>

the appreciation reflected progress in most industrial sub-sectors, particularly in furniture and engineering.

In Gaza, the index increased to -2.1 points compared to -15.3 points in the previous month. Except for a slight decrease in chemical activities, all industrial sub-sectors improved. According to the PMA, Gazan production and sales soared in September compared to previous months, mainly reflecting heightened activity in the preparation for "Eid al-Adha".

Digital Entrepreneurship

Leaders Organization has recently selected a new cohort of start-ups for its FastForward Accelerator. The start-ups will receive \$20,000 in seed funding and mentoring from local entrepreneurs, access to office space and exposure to a network of business advisors. Supported companies include Wirez (an online site for freelance journalists and filmmakers)⁹ and hiWorx (an online financial management platform that helps small businesses monitor and plan their cashflows).¹⁰

Support for the latest cohort was delivered in partnership with Ibtikar, a specialised \$10m fund investing in companies at seed and early stage. The partnership aims to provide capital for promising start-ups coming out of FastForward's programme, to help them expand beyond the initial seed funding.

In related news, on 7 September, a delegation headed by the French Minister of Economy, Mr Emmanuel Macron, and accompanied by the Palestinian Minister of National Economy, Ms Abeer Odeh, visited Leaders Organization with the aim of exploring future partnerships between the entrepreneurial communities in Ramallah and Paris.¹¹ The French mission included investors, government representatives and private sector companies.

UNCTAD Gaza Report

A recent report by the United Nations Conference on Trade and Development (UNCTAD) suggests that that Gaza "could become uninhabitable by 2020 due to ongoing de-development, eight years of economic blockade and three military operations in the past six years."¹² The report estimates that direct losses in Gaza (excluding casualties) following the three Israeli military operations which took place from 2008 to 2014 are around three times the size of Gaza's GDP.

UNCTAD warns that the economic well-being of Palestinians living in Gaza is worse today than two decades ago, with per capita GDP shrinking by almost 30% between 1994 and 2014. Looking ahead, UNCTAD concludes that donors will remain "vitally important" for

9 www.facebook.com/pages/WIREZ/417976011660588?sk=info&tab=page_info

10 www.facebook.com/hiworx/info?tab=overview

11 www.facebook.com/LeadersOrganization?fref=ts

12 www.unctad.org/en/PublicationsLibrary/tdb62d3_en.pdf

Gaza’s recovery and reconstruction, although stressing that without an end to the blockade, donor support alone “will not reverse the ongoing de-development and impoverishment in Gaza.”

UNCTAD findings emphasise the need for a new approach to Gaza’s development. Two decades of instability have resulted in a pattern of declining GDP per capita, high unemployment and continued deterioration of Gaza’s historically strong productive sectors. The energies of government and business must be directed towards sustainable development, with the private sector at its heart. Creating a longer-term vision for a stable, connected and thriving Gaza can help guide shorter-term interventions.

Hotel Activities

In Q2 2015, 142,795 guests spent the equivalent of 417,847 guest nights in 110 hotels in the West Bank (88) and East Jerusalem (22).¹³ Most hotel guests came from EU countries (32%), followed by domestic tourists (11%) and visitors from the US and Canada (10%).

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

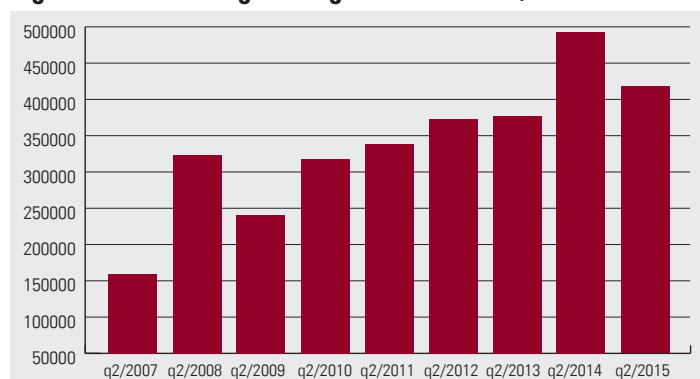
	Q2 2014	Q1 2015	Q2 2015
Number of hotels ¹⁴	113	111	110
Number of rooms	6,621	6,813	6,826
Number of beds	14,675	15,184	15,211
Number of hotel workers	3,010	3,075	3,030
Number of guests	207,083	99,689	142,795
Number of guests nights	493,104	291,917	417,847
Room occupancy (%)	30.6	19.8	25.6

Source: PCBS

The number of guest nights in Palestinian hotels in Q2 2015 dropped by 15% from Q2 2014, the first year-on-year fall since 2009. This comes against a backdrop of 11% annualised growth between 2009 and 2015. However, the number of guest nights in Q2 2015 grew by 43% from Q1 2015, potentially indicating a return to trend.

13 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_HotelActvQ22015E.pdf
 14 Number of hotels that responded to the survey

Figure 3: Number of guest nights in Palestine, Q2 2007-Q2 2015



August Trading

In August the Al-Quds index decreased by 0.1% from the previous month, reaching 481.8 points on the last day of trading.¹⁵ It peaked at 491.3 on 17 August. A total of 11m shares worth \$19.3m were traded, marking an increase of 29.2% in the number of traded shares and a decrease of 27.8% in the value of traded shares from July 2015. Market capitalisation reached \$3bn.

PEX announced that the aggregated net profits of listed companies dropped by 6.2% in the first half of 2015, reaching \$138.5m, compared to \$147.7m during the same period in 2014.¹⁶ 39 out of 49 listed companies achieved a joint net profit of \$151.8m (a 2.3% increase from H1 2014), while there were 13 companies which posted a joint loss of \$13.3m.

In related news, the FTSE Russell Governance Board approved the promotion of PEX to Frontier market status within the FTSE Country Classification scheme, starting September 2016.¹⁷ According to PEX, the promotion is a reflection of its ability to meet the FTSE group qualities of markets criteria and a result of the continued improvement in corporate governance, operational integrity and transparency in Palestine’s capital markets.

15 www.pex.ps/PSEWebSite/NASHRA/20150831.pdf

16 www.pex.ps/PSEWebSite/NEWS/30082015-8.docx

17 www.pex.ps/PSEWebSite/NEWS/16092015.docx

The Portland Trust



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