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Main reports

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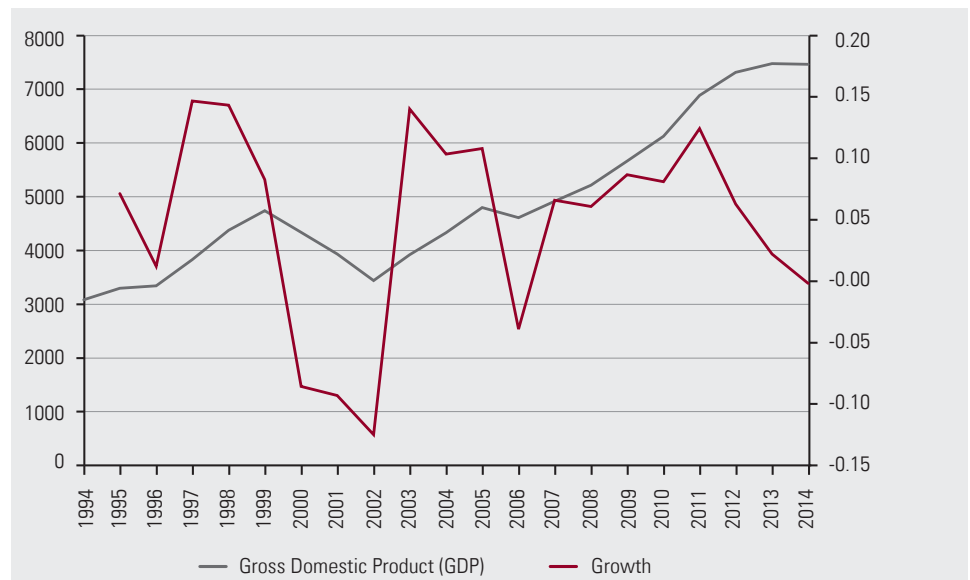
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National Accounts 2014

National Accounts estimates show that Palestinian real GDP reached \$7,460m in 2014, a drop of 0.2% compared to 2013. This contraction comes as a result of a 15.1% drop in GDP in Gaza mainly caused by the war in the summer of 2014. West Bank real GDP increased by 5.3%.¹

Figure 1: Annual GDP and Growth Rates, Constant Prices (Base Year 2004), 2000-2014 (million \$)



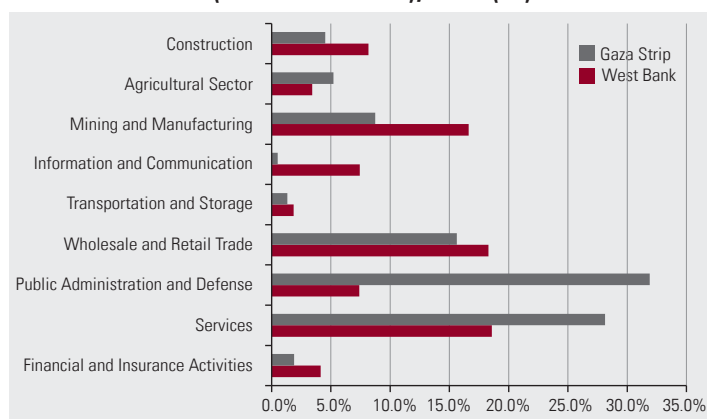
Source: PCBS

In terms of sectoral breakdown, the largest percentage increases between 2013 and 2014 were in financial and insurance activities (7%), services (4.9%) and public administration (4.6%). The most significant decreases were in construction (27.9%) and agriculture (7.6%). The services sector remained the largest contributor to GDP with a share of 20.8%, followed by wholesale and retail trade (17.7%) and mining, manufacturing, electricity and water (14.8%).

Real GDP per capita, a generally accepted measure for standard of living, decreased by 3.1% from the previous year. This was due to a 17.9% reduction in Gaza and a 2.5% increase in the West Bank. The value of GDP per capita for Palestine equalled \$1,740. At \$2,270, West Bank GDP per capita is over twice that of Gaza (\$971). The economic structure also differs significantly between the West Bank and Gaza. The services sector is the largest contributor to GDP in the West Bank (18.6%). Public administration and defense is the largest contributor in Gaza (31.9%).

¹ www.pcbs.gov.ps/Downloads/book2172.pdf

Figure 2: West Bank and Gaza GDP Sector Composition, Constant Prices (Base Year 2004), 2014 (%)



Source: PCBS

3G in Palestine

On 19 November, the Palestinian Minister of Civil Affairs Mr Hussein Al-Sheikh and Israel's Coordinator of Government Activities in the "Territories" (COGAT) Maj. Gen. Yoav Mordechai signed an agreement to give Palestinian telecommunications companies permission to enable 3G mobile access in the West Bank.² 3G service is still not permitted in Gaza.

3G technology is expected to be provided by the Palestinian mobile companies, Jawwal and Wataniya, within six months. Mr Ammar Aker, CEO of Paltel, has welcomed the move although he has insisted that this will not deter Palestinians from demanding 4G services. When the 3G technology becomes available to the Palestinians living in the West Bank, Palestine will be one of the last places to get 3G.³ At the same time, its neighboring countries already have access to 4G. Palestinians' lack of access to 3G technology has long provided an additional obstacle to technological and economic growth. According to a recent report by Al-Shabaka, Palestinian companies lose an estimated \$80-100m annually due to lack of 3G.⁴

Balance of Payments

According to recent PCBS data, in 2014 the current account deficit amounted to \$2,150m, a drop of 9.8% compared to 2013.⁵ The deficit constituted 16.9% of GDP in 2014 at current prices, down from 19.1% in 2013. Palestine's current account deficit resulted from a consistently high deficit in the trade balance of goods (\$4.8bn in 2014, or 38% of GDP), which increased by 3.1% compared to the previous year.

The deficit in the trade balance of goods with Israel was the main cause of the overall trade balance deficit. The services balance recorded a deficit of \$207m, up 317% from 2013. The income balance showed a surplus of \$1,480m, an increase of 27.8% from 2013. This was the

result of a rise in compensation of employees working in Israel (32.9%) and in investment income from abroad (37.1%). 2014 also saw a surplus of current transfers at \$1,410m, representing an increase of 18.2% compared to the previous year. This was primarily driven by an increase in transfers received from abroad for other sectors (non-government) and a decrease of transfers sent abroad for those sectors.

The capital and financial account surplus (\$1,770m) experienced a fall from 2013 (17.7%). This decline can largely be attributed to substantial reductions in the net financial account (-32.5%).

Table 1: Balance of Payments, 2014

Item	2013 (USD millions)	2014 (USD millions)	Change (%)
Current Account	-\$2,383.4	-\$2,149.0	-9.83%
Trade Balance of Goods	-\$4,682.7	-\$4,830	3.15%
Trade Balance of Services	-\$49.5	-\$206.5	317.17%
Income Balance	\$1,160.3	\$1,482.5	27.77%
Balance of Current Transfers	\$1,188.5	\$1,405.2	18.23%
Capital and Financial Account	\$2,144.6	\$1,765.8	-17.66%
Net Capital Account	\$551.3	\$691.0	25.34%
Net Financial Account	\$1,593.3	\$1,074.8	-32.54%

Source: PCBS and PMA

Hotel Activities

In Q3 2015, 124,000 guests spent the equivalent of 337,000 guest nights in 107 hotels in the West Bank (88) and East Jerusalem (19).⁶ Most hotel guests came from Israel (Arab Israelis, 29%), followed by EU guests (25%), domestic guests (14%) and guests from other European countries (11%).

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

	Q3 2014	Q2 2015	Q3 2015
Number of hotels ¹⁴	109	110	107
Number of rooms	6,577	6,826	6,583
Number of beds	14,576	15,211	14,544
Number of hotel workers	2,252	3,030	2,902
Number of guests	99,811	142,795	123,531
Number of guests nights	272,567	417,847	336,822
Room occupancy (%)	23	25	23

Source: PCBS

Both the number of guests and guest nights experienced a decline from the previous quarter: by 13% and 19%, respectively. However, both indicators increased by 24% from the corresponding quarter in 2014. The quarter-on-quarter fall is a seasonal trend as generally more guests stay at hotels in the West Bank and East Jerusalem in the second quarter than in the third quarter of each year. At the same time, the relatively large year-on-year increase seems to represent a return to an upward trend from the low base in 2014.

² www.maannnews.com/Content.aspx?id=768900

³ <http://qz.com/554746/israel-is-finally-allowing-palestine-to-have-3g/>

⁴ <http://bit.ly/1MtjXnb>

⁵ www.pcbs.gov.ps/Downloads/book2168.pdf

⁶ www.pcbs.gov.ps/Downloads/book2165.pdf

⁷ Number of hotels which responded to the survey

Finance and Insurance Survey

Recently released statistics by the PCBS show that 36 financial enterprises, 9 insurance enterprises and 471 currency exchange enterprises were in operation during 2014.⁸ These enterprises employed 8,990 persons, of which 7,840 were employed in currency exchange enterprises and 1,150 were employed in insurance enterprises. The total output of financial intermediation enterprises stood at \$183m. The gross value added of the sector as a whole was \$349m. Net taxes on production were 10.7% of value added, or \$37.3m. In 2014, financial and insurance activities contributed 3.7% to GDP in Palestine.⁹

Food Security in Palestine 2014

According to recently released data by the PCBS and the Food Security Sector (FSS), food insecurity in Palestine remains very high, with more than one fourth of the population – 27% or 1.6 million people – food insecure, according to the annual Socio-Economic and Food Security (SEFSec) survey.¹⁰ These figures represent a mild improvement from 2013, when 29.7% of Palestinian households suffered from food insecurity.

SEFSec identifies four categories of food security which range from 'food secure' households that have sufficient food consumption to 'severely food insecure' households which face a severe or significant consumption gap that they cannot counter through economic means or coping mechanisms. The food insecure households in Palestine are evenly split between the severely food insecure and moderately food insecure (around 13% for each), while the marginally food secure account for another 15% and the remaining 58% of households are food secure.

According to the survey, the contrast between households in the West Bank and Gaza continued. 16.3% of West Bank households were food insecure compared to 46.7% in Gaza. Between 2013 and 2014, the proportion of food insecure households in the West Bank decreased by 5.8 percentage points, while it increased by 2.2 percentage points in Gaza.

In the West Bank, refugee households (22.4%) are more likely to be exposed to food insecurity than non-refugee ones (13.7%). Refugees in Gaza continue to report lower food insecurity rates than non-refugees (44.7% compared to 49.3% percent for non-refugees), likely due to the assistance provided by the UN¹¹. Another difference between the two regions is that in the West Bank, households in refugee camps¹² faced the highest rate of food insecurity (29.4%), followed by rural locations (19.7%)

and urban locations (13.9%). In Gaza, urban households suffered the most from food insecurity (47%), followed by those in refugee camps (45.7%) and rural areas (40.8%). Finally, in both regions female-headed households are more likely to experience food insecurity. However, the difference between households headed by men and households headed by women in the West Bank (15.2% and 24.5%, respectively) is much wider than in Gaza (46.1% and 49.5%).

Business Indicators

The Palestine Monetary Authority has recently released the results of its Business Cycle Index (PMABCI) for November 2015. These results showed that the indices of both the West Bank and Gaza had notably declined for the second consecutive month. Overall the PMABCI dropped to -16.8 points this month compared to 8.0 points in October and -6.5 points in November 2014.

In the West Bank, all industrial sub-sectors have declined, except for food and traditional industries which have remained relatively stable. The textile sub-sector declined sharply from 2.2 points to -11.2 points between October and November, followed by a decline in construction from 2 points to -2.5 points during the same period. The West Bank index dropped severely to the lowest value in a year (-20.3 points), compared with moderate levels in previous months at 12.2 points. According to the PMA, the recent political and security turmoil in the West Bank has had a deep adverse effect on the near term expectations, with both production and employment levels anticipated to decline during the three coming months.

Most of Gaza's industrial sub-sectors decreased, particularly the food industry which dropped from -2.1 points to -9.3 points from October to November. Moreover, the indices of construction, furniture and chemical and pharmaceutical sub-sectors all declined during the same period. As a result, the Gaza index has witnessed a further fall during this month to around -13 points compared to -7.8 points in the previous month. Except for July 2015, the Gaza index has remained negative for two consecutive years, reflecting continuous weak political and economic conditions.

Finally, the West Bank index (-20.3 points) declined this month below the Gaza index (-13 points) for the first time in a year. This may indicate the firm owners' fears that the current political and security turmoil will continue to deteriorate, with possible adverse impact on economic performance.

Palestine Exporter Week 2015

Between 23 and 25 November, PalTrade organised the first Palestine Exporter Week in Ramallah, under the patronage of the Prime Minister Dr Rami Hamdallah, with the support of the United Nations Development Programme, the Palestinian Market Development Programme (PMDP),

8 www.pcbs.gov.ps/Downloads/book2166.pdf

9 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ22015E.pdf

10 <http://bit.ly/22mUAz7>

11 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_FoodSecuir2014E.pdf

12 In Palestine not all refugees live in refugee camps, and not all those who live in refugee camps are classified as refugees.

Canada Aid, and APIC.¹³ The event, titled “Building a Global Competitive Palestine”, was organised under the umbrella of the National Export Strategy (NES). The aim of the event was to promote exports as a driving force for Palestinian sustainable economic development and to enhance the positive image of Palestinian products and businesses.

Nassar Stone Group won the Palestinian Exporter of the Year Award for its contribution to building Palestine’s position and performance in international trade. 64 Palestinian exporter companies exhibited their products with the purpose of building trust in Palestinian businesses and enhancing the reputation of Palestinian products by showcasing Palestinian products and the capabilities of local businesses. Nearly 400 potential and existing exporters, public and private sector stakeholders participated in the workshops and seminars which aimed to equip them with the necessary knowledge to do business in the global market and to create an enabling export environment in Palestine.

Inflation

In October 2015, inflation, measured by the Consumer Price Index (CPI), reached 2.5% compared to October 2014.¹⁴ During this period, the CPI increased by 2.5% in the West Bank, 3.0% in Gaza and 0.9% in East Jerusalem. Meanwhile, prices increased slightly by 0.1% from the previous month. The most significant increases were in the prices of liquid fuel for households (1.9%), dried vegetables (1.7%) and liquid fuel for cars (1.6%), while the largest declines were in the prices of fresh poultry (16.3%), eggs (4.2%), fresh fish (2.4%) and milk products (2.1%).

November Trading

In November, the Al-Quds index increased by 5.6% to reach 520 points on the last day of trading. Peaking at 523 on 26 November, the index saw a pattern of steady increase throughout the month.¹⁵ All sectors appreciated

during the month, with investment companies performing particularly well (8.6%). Palestine Industrial Investment Company (PIIC) enjoyed the best performance, with its share price gaining 14.3%. Palestine Development and Investment Company (PADICO) came second in terms of performance with its share price rising by 10.1% during the month. A total of 10m shares worth \$16.6m were traded during November. This marks an increase of 21.3% in the number of traded shares and 38% in the value of traded shares from October 2015. Market capitalisation was \$3.3bn in November, up by 5.1% from the previous month.

PADICO and Bank of Palestine (BOP) enjoyed significantly more liquidity than other listed companies during November, providing together 45.7% (30.8% PADICO and 14.9% BOP) of the volume and 45.3% (21.4% PADICO and 23.9% Bank of Palestine) of the value of shares traded.

Comparison with the other 15 Arab markets shows that Palestine was the best performing market in November. Out of a total of 16 Arab markets (including Palestine), 11 experienced a decline (Sudan, Egypt, Amman, Tunis, Muscat, Dubai, Qatar, Abu Dhabi, Iraq, Damascus and Bahrain), one remained mostly unchanged (Casablanca) and only four showed an increase (Palestine, Beirut, Kuwait and Saudi Arabia). Egypt saw the heaviest decline during the month (-15.5%).

In related news, Palestine Exchange (PEX) and BOP signed a custody agreement by which BOP will become the third (in addition to Cairo Amman Bank and HSBC Middle East) custodian bank active on PEX. This agreement allows BOP to provide custody services to international and local investors. These services include organizing and saving accurate records of its customers, receiving the paid amount for sold securities from the brokerage and paying the value of the purchased securities to the brokerage on behalf of its customers.

¹³ <http://bit.ly/1Tel92k>

¹⁴ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_CPI102015E.pdf

¹⁵ www.pex.ps/PSEWebSite/publications/PEXIssue68_November2015.pdf

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