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The newly established Palestine Ijara Company will be the first to offer Islamic leasing products to SMEs in the Palestinian market

Economic Slowdown

In Q3 2013 Palestinian GDP was 2.6% higher than in Q3 2012 in real terms, but decreased by 1.3% with respect to the previous quarter.[1] GDP growth in the West Bank with respect to Q3 2012 reached a low 2.5%. Deceleration was greatest in agriculture, where value added dropped by almost 10% on a year-to-year basis. As a result, agricultural activities accounted for 3.6% of total value added in the West Bank in Q3 2013, down from 4.1% in Q3 2012.

Gazan GDP also registered a low overall year-to-year growth of 2.8% in Q3 2013, mostly as a result of a 19% drop in the value added by construction activities. In Q1 2013, construction represented 27.1% of GDP in the Gaza Strip and accounted for 80% of the observed 12% year-to-year growth. Following the slowdown in Q3 2013, construction's contribution to GDP dropped to less than 21%

The disappointing growth performance in Q3 2013, with rates below the long-term population growth rate, resulted in a year-to-year absolute decrease in GDP per capita. Palestinian real GDP per head in Q3 2013, at $419, was 0.4% lower than in Q3 2012. The annual drop was more pronounced in the Gaza Strip (-0.7%), where GDP per capita reached $272, than in the West Bank (-0.2%; $520).

Figure 1 shows a marked deceleration in quarterly GDP growth from 2012, following strong economic performance during 2010 and 2011.

Figure 1: Quarterly GDP year-to-year growth (%), 2010-2013

Source: PCBS

Economic Forecasts for 2014

The Palestinian Central Bureau of Statistics (PCBS) released a report reviewing the recent performance of the Palestinian economy and providing forecasts for the year 2014.[2]

1 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ32013E.pdf
2 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_EcoForecast2014E.pdf

Table 1 below shows past data and estimates for GDP growth and unemployment levels in Palestine in 2014. Forecasts were built based on three alternative scenarios. The 'base' case assumes that in 2014 the economic and political conditions will remain largely the same as those observed throughout 2013. Key variables include stable levels of donor support to the Palestinian Authority's (PA) budget and no variations in the clearance revenues transferred to the PA by the Government of Israel (GoI). It is also assumed that the PA will continue to pursue the objective of decreasing its budget deficit, through an estimated 7-8% increase in income tax and VAT collection and the continuation of the freeze in net hiring of public employees. Under this scenario, restrictions on movement and access imposed by the GoI are also assumed to remain unaltered. Although an unemployment drop of 1 percentage point is forecast, GDP and GDP per capita growth levels are estimated to remain at very low levels, showing no expectations of economic recovery in 2014 with respect to the previous year.

Table 1: Economic Forecasts

				2014 (forecast)		
	2011	2012	2013 (est)	Base	Optimistic	Pessimistic
GDP growth (%)	12.2%	5.9%	3.8%	3.8%	7.4%	-8.9%
GDP per capita growth (%)	8.9%	2.7%	0.8%	0.8%	4.2%	-11.7%
Total unemployment (%)	20.9%	23%	23%	22%	19%	25%

Source: PCBS. The drop in unemployment in the base scenario is expected due to a projected 6.3% increase in the number of people employed.

The 'optimistic' scenario uses the premise of an improvement in the economic and political conditions, including a 20% increase in donor aid and a reduction in restrictions on cross-border and internal movement of people and goods. An increase in the number of Palestinian workers in Israel and improved tax collection are also assumed. According to the PCBS, higher GDP growth would be partially driven by expansionary fiscal policy - including a 9% increase in public investment, improvements in infrastructure, a 10% rise in government transfers to poor households and a 2% increase in public sector employment. Increased government spending (+4.9%) is expected to be more than offset by rising revenue collection (+11.8%), resulting in a reduction in the central government's budget deficit (-11.4%).

The 'pessimistic' scenario assumes a profound deterioration of the political and economic situation. This includes a decline in tax collection, withholding of clearance revenues by the GoI and an extension of restrictions on movement and access. The dramatic GDP and GDP per capita drops expected under the 'pessimistic' scenario are indicative of the urgent need for increased fiscal stability and progress on the political front. Overall unemployment, at 25%, would reach its highest level since 2008.

Agricultural Losses

Extraordinarily heavy snow and rainfall, low temperatures and high winds between 11 and 14 December 2013 caused major damage to the agricultural sector in the West Bank and Gaza. The weather conditions observed during the winter storm "Alexa" are considered to be the worst on record in Palestine since 1953.

The Food and Agriculture Organization of the United Nations (FAO) estimated that almost $23m worth of agricultural structures (including greenhouses and animal sheds) were damaged or destroyed.[3] Cumulative costs, including production losses, are estimated at $69m. According to FAO, these damages "*...could lead to an increase in humanitarian needs for farming and herder households who suffered losses to their productive assets and livelihoods*", since "*it is not until crops reach maturity and are sold in the local market that farmers are able to repay their debts and earn income to cover their basic living expenses – including food, education and health care*".

In Gaza more than 2,000 greenhouses and over 20,000 dunums of agricultural land were totally or partially damaged by heavy flooding and more than 500,000 animals, the majority poultry, were reported dead. As a result, losses in livestock and crops reached $4m and $4.8m, respectively. In the West Bank, although only 15% of greenhouses were affected, even higher economic losses were registered due to the severity and nature of the damage. Around 280,000 animals (mostly poultry) were reported dead in the West Bank, with livestock and crop losses amounting to $8m and $5.8m, respectively.

Overall, FAO estimates that total annual animal production will decrease by $10m and annual plant production will fall by $39m. This is equivalent to a 6% drop in the total annual value added of the agricultural sector across Palestine. Shortages in supply are also likely to result in increased food prices. Prices of chicken meat and eggs were reported to have increased by 21% and 13% immediately after the storm. Agricultural employment is also expected to be affected, with total job losses estimated at between 3,000 and 5,000.

According to FAO, Food Security Sector partners identified the provision of emergency support to the livestock sector through the rehabilitation of animal shelters and greenhouses (to prevent the total loss of productive assets) as the two critical interventions needed in the short term. While $4.8m in funding to cover these emergency responses is expected to be secured, there are outstanding needs to cover the costs of road rehabilitation, damage to open field crops and the death of productive animals.

3 www.ldf.ps/documentsShow.aspx?ATT_ID=8001

Palestinian-Dutch Cooperation Forum

Following a Palestinian trade mission to the Netherlands in October 2013[4], the first Palestinian-Dutch Cooperation Forum took place in Bethlehem on 7-8 December. With the participation of 70 Dutch companies and 100 Palestinian firms, specific areas of cooperation were explored in the fields of water management, agriculture, IT and energy.[5] The event, organised by the NL Agency and the Netherlands Representative Office in Ramallah, was attended by Palestinian Prime Minister Rami Hamdallah, his Dutch counterpart Prime Minister Mark Rutte and senior officials of the Dutch government, including the Ministers of Foreign Affairs and of Foreign Trade and Development Cooperation. The forum, to be held every two years, is expected to strengthen bilateral relations by increasing cooperation in the field of innovation and by bringing together relevant representatives from the government, private sector, knowledge institutions and civil society from both countries.

In his speech at the opening of the forum Mr Rutte said: "*Our trade volumes may not yet be enormous, but they are growing at lightning speed. Direct Palestinian exports to the Netherlands have multiplied in recent years. And we are already one of the biggest export markets for Palestinian products in Europe*", adding that both countries can "*…gain a lot by stepping up our cooperation.*" [6]

As part of the forum activities, Dutch participants visited Palestinian business developments including the city of Rawabi, Al-Jebrini Dairy & Food Industries, Nassar Stone Group, Dead Sea Salt Works, Thimar Horticulture Company and ASAL Technologies. Working groups were formed in each of the four prioritised sectors. As a result, eight partnership statements between Palestinian and Dutch government authorities, businesses and institutions were signed. In addition to two agreements in the water sector, a letter of intent was signed to develop a capacity building programme with regards to the World Trade Organization's framework on sanitary and phytosanitary standards. This is expected to facilitate the export of Palestinian food products to the Netherlands and other international markets. Furthermore, a memorandum of understanding was signed between the Mayor of Rawabi and his counterpart from the Dutch city of Deventer, stating that the Palestinian city will receive technical assistance in urban organisation. At the same time, the Palestinian company Super Nimer reached an initial agreement with Merford Special Doors B.V. to exchange knowledge in the production of doors. Discussions included the possibility of establishing a new company to export doors to the Arab market.

Finally, the forum included the establishment of the Palestinian-Dutch Joint Business Council by the Palestinian Federation of Business Associations and the Netherlands-Middle East Business Council. The new body is aimed at further promoting joint business between Palestinian and Dutch firms.

London Roadshow

On 16-17 January a delegation of Palestinian business leaders visited London with the objective of reinforcing trade links between Palestine and the UK and, at the same time, attracting foreign investment to Palestine's stock market (PEX).[7] The delegation was led by the national export body PalTrade and PEX. Participants included senior representatives of Palestine's largest listed companies, such as Bank of Palestine, PADICO Holding and Paltel Group.

The road show was part of the Trade in Services Project under implementation by PalTrade in partnership with the Ministry of National Economy (MoNE) and funded by the EU under the Trade Diversification/Competitiveness Enhancement Program. Initiated in 2011, the project aims to support and empower the services sector within the Palestinian economy. The roadshow included business-to-business meetings between Palestinian and British companies, in which potential investment opportunities and success stories of Palestinian listed companies were portrayed.

During the press conference which followed a full day of business-to-business meetings, Paltel's CEO Ammar Aker told the Bulletin: "*We saw great interest from different institutional investors to invest in Palestine, or at least explore the Palestinian market. We had more interviews and meetings than in previous years, and we will continue to work to translate these into actual investments*". Ahmad Aweidah, CEO of PEX, added: *"We get a very good response every time we come to London and it is just important that we continue to work in this direction, no matter the circumstances. We do not expect people to start investing immediately in the exchange. This is a cumulative long-term process and we will continue to be active as we believe we have a very good story to tell."*

Palestine Ijara Company

On 5 December 2013 the Palestine Investment Fund (PIF), the Palestine Islamic Bank (PIB) and the Islamic Corporation for the Development of the Private Sector (ICD) launched the Palestine Ijara Company (PIC).[8] This event marked ICD's first investment in Palestine and the establishment of the first Ijara company in the country, with the intention of offering Islamic leasing products to SMEs in the local market. Ijara refers to a Shariah-compliant form of leasing (with no interest being charged) where the lessee (an individual or a company) is given the right to use the assets (real estate or equipment) for a certain period of time, while the lessor (usually a bank) retains ownership of the assets for the full lease period.

4 www.portlandtrust.org/sites/default/files/peb/bulletin_87_a4_final.pdf
5 www.bit.ly/1fZwcyr
6 www.bit.ly/1ik0FaE
7 www.pex.ps/PSEWebSite/NEWS/231220133.doc
8 www.sharakat.ps/wordpress/pic-pr/?cats=10

Speaking at the launch Deputy Prime Minister for Economic Affairs and PIF's Chairman Dr Mohammed Mustafa said that "*…one of the major impediments to the growth of the Palestinian economy is the lack of business financing options*", and welcomed the new Islamic Ijara products since they "*…will satisfy the needs of many Palestinian SMEs that are looking for a Shariah-compliant mode of financing.*"

PIC is expected to offer financing to SMEs across various economic sectors, including agribusiness, industry, construction, education, healthcare and tourism. The lease ticket size will range from $100,000 to $1m.

Balance of Payments

In Q3 2013 the current account deficit amounted to $298.9m, representing a 50% drop from the level observed in the previous quarter, and a 55% decrease with respect to Q3 2012.[9] The deficit constituted 9.8% of quarterly GDP at current prices, down from almost 20% in Q2 2013. With the high deficit in the trade balance of goods ($1.2bn, or 41% of quarterly GDP), largely unchanged from both the previous quarter and from Q3 2012, the decrease in the current account deficit came as a result of a sharp rise of the surplus in current transfers. Donor aid constituted more than 60% of total current transfers. At the same time, the capital and financial account surplus experienced a sharp drop, both from the previous quarter and from Q3 2012. This was mostly driven by a 70% drop in the net financial account surplus.

Table 2: Q3 2012, Q2 and Q3 2013 Balance of Payments

Item	*Q3 2012 (USD Millions)*	*Q2 2013 (USD Millions)*	*Q3 2013 (USD Millions)*	*Change (%) Q2-Q3 2013*	*Change (%) Q3 2012-Q3 2013*
Current account	**-$672.6m**	**-$595.7**	**-$298.9**	**-49.82%**	**-55.56%**
Trade Balance of Goods	-$1,232.00	-$1,226.90	-$1,244.60	1.44%	1.02%
Trade Balance of Services	-$84.2	-$99.80	-$100.30	0.50%	19.12%
Income balance	$279.1	$310.50	$340.80	9.76%	22.11%
Balance of Current Transfers	$364.5	$420.50	$705.20	67.71%	93.47%
Capital and financial account	**$614.1**	**$646.80**	**$235.70**	**-63.56%**	**-61.62%**
Net Capital Account	$81.4	$59.10	$59.70	1.02%	26.66%
Net Financial Account	$532.7	$587.70	$176.00	-70.05%	-66.96%

Source: PCBS and PMA

9 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BopPresQ32013E.pdf

December Trading News

In the last month of 2013 the Al-Quds Index prolonged its solid performance and rose by 2.2%, closing at 541.45 points on the last day of trading (a 13.4% increase from the end of 2012). The index reached its lowest (526.15) and highest (546.00) levels on 8 and 26 December, respectively. In December 2013 a total of 12.3m shares worth $27.8m were traded in 19 sessions, and market capitalisation was $3.2bn. In 2013 the total number of traded shares increased by 37.8% (to 203m) from the previous year, and their total value grew by 24.6% (to $341m).

In related news, on 18 December Standard & Poor's Dow Jones announced that it had added coverage of Palestine to its suite of frontier market indices.[10] The existing indices for Palestine are currently standalone country indices and are not included in the S&P Frontier BMI or Dow Jones Global Total Stock Market Index. Palestine will remain on the S&P Dow Jones Indices watch-list for potential future inclusion in the aforementioned indices. Such development typically depends on turnover, number of listings and attraction of foreign investors.[11] It is expected that the new inclusion will increase PEX's exposure and liquidity and attract more international investment. John Davies, Vice President, Global Exchange Traded Products at S&P Dow Jones Indices, said: *"We don't build indices simply because we feel they are needed. We build them because our clients are asking for them. The establishment of the new Index is evidence that there is significant demand for investment in Palestine."*[12]

At the same time, the Financial Times and Stock Exchange (FTSE) Indices, owned by the London Stock Exchange Group, informed PEX that in 2014 FTSE will be reviewing the eligibility of including Palestine as a frontier market within the FTSE Country Classification scheme.[13]

10 www.spindices.com/documents/index-news-and-announcements/20131218-palestine-zimbabwe-launch.pdf
11 www.us.spindices.com/indices/equity/sp-palestine-bmi
12 www.pex.ps/PSEWebSite/NEWS/210120141.docx 56 words
13 www.pex.ps/PSEWebSite/NEWS/231220132.docx

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