

PALESTINIAN ECONOMIC BULLETIN

Issue 91
April 2014

Main reports

In Q4 2013 the current account deficit increased by 44% compared with the previous quarter, reaching \$365m.

The Palestine Monetary Authority Business Cycle Indicator showed volatility during the first four months of 2014.

The Palestinian Authority approved the issue of three-year bonds to the banking sector worth \$200m.

The British Government will provide additional funding of £1.5m to DFID's Palestinian Market Development Programme.

March and April saw a number of events on the Palestinian entrepreneurship scene.

National Accounts

Preliminary National Accounts estimates show that Palestinian GDP (in current prices) reached \$3,484m in Q4 2013, bringing total estimated GDP in 2013 to \$13,290m. Nominal GDP per capita reached \$3,186 in 2013, registering stark differences between the West Bank (\$4,200) and Gaza (\$1,715).¹

Overall real GDP growth slowed in Q4 2013, reaching only 0.3% with respect to the previous quarter (as a result of a 1.2% increase in the West Bank and a 2.3% drop in Gaza). Annual growth between 2012 and 2013 is estimated at just over 2%.² This is significantly lower than previous years, when growth averaged 8.2% between 2006 and 2011 (reaching 12% in 2011) before falling to 5.9% in 2012. It is broadly recognised that much of the growth over these years was largely fueled by donor support. As international aid declined in the years running up to 2012 the Palestinian economy consequently slowed. Sustainable recovery will require significant efforts to reduce aid dependency and generate private sector-led growth.

Comparing the contributions of key economic sectors over time it appears that there has been an underlying structural shift in the Palestinian economy. Agriculture now only constitutes 3.7% of GDP, down from 7.1% in 2004 and 13.3% in 1994. Conversely the retail sector is now a larger part of the economy, increasing from 9.8% in 2004 to 17.8% in 2013. The construction sector contributed over 11% to Palestinian GDP in 2013. This is on a par with its contribution in 1994, but a significant increase compared to 5.7% in 2004. Construction was the greatest growth engine in Gaza during 2011 and 2012, contributing more than 20% to GDP. Gross Capital Formation, a measure of investment, was 22.3% of GDP in 2013, up from 15.8% in 2012.

Q4/2013 Balance of Payments

In Q4 2013 the current account deficit was \$365m, almost 45% higher than the previous quarter but 44% lower than in Q4 2012.³ The deficit represents nearly 10% of GDP at current prices, down from 24% in Q4 2012.

While the overall deficit is mainly due to a deficit in the trade of goods of \$1,126m, the increase in Q4 2013 was largely due to a drop of \$140m in the surplus in current transfers. Foreign assistance, a major component of current transfers, declined from \$393m in Q3 2013 to \$217m in Q4 2013 although this was up from \$61m in Q4 2012.

At the same time the capital and financial account surplus experienced a sharp increase of \$336m. This was mostly driven by an increase in currency and

¹ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ42013E.pdf

² A change in the presentation of National Accounts statistics (from 2004 prices to 2010 prices) means that year-on-year comparisons were not published by PCBS in this release and are not expected to be available until the end of April 2014. However analysis undertaken by the Palestine Economic Policy Research Institute (MAS) to transform the latest quarterly data back to 2004 prices indicates that the Palestinian economy grew by 2% in 2013.

³ www.pcbs.gov.ps/Portals/_Rainbow/Documents/E-QBOP-Q1%202011-Q4%202013.htm

deposits, which includes foreign currency in Palestinian banks and deposits of Palestinian institutions abroad.

Table 1: Balance of Payments Q3/Q4 2013 (\$ million)

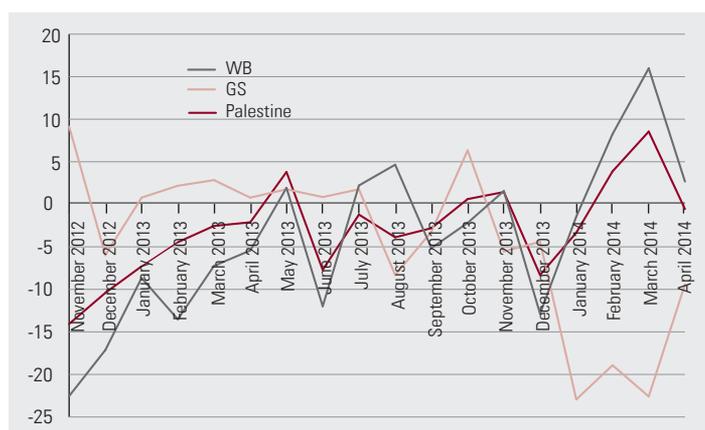
Item	Q3 2013	Q4 2013	Change (%)
Current Account	(252.7)	(365.3)	44.6%
Trade Balance of Goods	(1,174.6)	(1,125.7)	-4.2%
Trade Balance of Services	(96.6)	(139.1)	44.0%
Income Balance	340.8	361.4	6.0%
Balance of Current Transfers	677.7	538.1	-20.6%
Capital and Financial Account	143.4	479.5	234.4%
Net Capital Account	59.7	87.0	45.7%
Net Financial Account	83.7	392.5	368.9%

Source: PCBS

Business Cycle Indicator

The Palestine Monetary Authority Business Cycle Indicator (PMABCI) - a monthly index which aims to capture the state and evolution of economic activity in Palestine - experienced a period of steady improvement in the first three months of 2014, and then registered a heavy drop in April.⁴ Increasing in each consecutive month of Q1 2014, PMABCI for Palestine reached a level of 8.55 in March this year from -8.31 in December 2013. Underlying trends show a marked difference between the West Bank (which showed similar improving trends) and Gaza, which saw a marked decrease in the index. Mohammad Atallah, Director of the Research & Monetary Policies Department of the PMA, explained to the Bulletin that the behaviour of the overall index is mostly driven by the West Bank as over 80% of Palestinian industry (constituting the basis of the survey on which the index is built) is based there.

Figure 1: PMABCI, November 2012-April 2014



Source: PMA

The PMA attributes the positive development in the West Bank in the first quarter of 2014 to a more optimistic environment resulting from US efforts to support the peace process as well as a decreased fear of further deterioration in the security situation. Likewise, high levels of pessimism among Gazan companies are attributed to

the worsening economic, political and security situation in the Gaza Strip.

Volatility in the index over the longer term indicates that business expectations are driven by the short-term context. On this basis, April saw a sharp drop of the overall PMACBI (to -0.56), indicating decreased optimism in the West Bank due to the recent lack of progress in the peace talks.

PA Bonds

At the beginning of April the Governor of the PMA, Dr. Jihad Al Wazir, announced that the Palestinian Authority (PA) will issue three-year bonds worth \$200m to the banking sector. The bond issue is expected to enable better management of the PA's \$1.4bn public debt as the bonds will provide a longer-term debt option at a cheaper rate than overdrafts and short-term lending. The Palestinian Cabinet has approved the plan, which was presented by the PMA and the Ministry of Finance in agreement with the banks.⁵

The bonds will be traded within the banking sector and not on the open market. The PMA, with the assistance of the IMF, has already established an open market operations division in preparation for the bond issue. The issuance is expected to take place before the end of the year.

British Support for Business

During his recent visit to Palestine and Israel, the UK's Prime Minister David Cameron announced a number of initiatives designed to help Palestinian businesses expand and create jobs.⁶

The British Government will provide an additional £1.5m for the £11m Palestinian Market Development Programme (PMDP) to enable it to provide grants to another 100 Palestinian companies. The aim of the programme is to enable companies to target foreign investors and enter new markets. Matching grants are given to individual companies (a maximum of £35,000) or in groups (a maximum of £70,000) with a cost share of 25-75% based on the type of project. PMDP is funded by the UK Department for International Development and the EU in cooperation with the PA Ministry of National Economy.⁷

A further £1.5m of funding will also be provided for the £14.4m UNRWA job creation programme in Gaza to help 1,000 young women improve their skills and employability through short-term job opportunities. Finally, The Portland Trust and British Council announced a joint programme to bring Palestinian entrepreneurs and businesspeople to the UK for short placements in leading companies

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

6 <http://bit.ly/1f6zxvu>

7 pmdp.ps/about.html

4 <http://bit.ly/1jFs2aS>

to develop their skills and expose them to world-class business practices.

Entrepreneurship

March and April saw a number of events on the Palestinian entrepreneurship scene. Most recently, on 8 April, Leaders Organization, a Ramallah based NGO aiming to engage Palestinian youth in the development process, launched eZone, the first business hub for entrepreneurs in Palestine. eZone is supported by USAID, MercyCorps, the Welfare Association, the Organization of the Petroleum Exporting Countries' Fund for International Development, Palestine for a New Beginning and the American Consulate General in Jerusalem. The hub provides a variety of resources such as office space, meeting rooms, super-fast internet, a mobile device testing lab, networking opportunities, training and administrative assistance. It is the first co-working space in Palestine and if successful could act as a pilot for expansion into other towns and cities. eZone is accessible to start-ups and offers more developed companies reduced rent and utilities.

On 6 April Arabreneur, in partnership with USAID and the Startup Bootcamp accelerator programme, held its second angel pitching event investment in Jerusalem.⁸ The companies which presented their ideas to investors included Fadfid (an online platform providing access to therapists around the MENA region), Imagry (a mobile image-recognition platform enabling users to search through images), iSurface (a portable interactive smart board), Jobreneur (a multi-lingual cloud-based platform matching MENA freelancers with international employers), Mobibox (a social mobile interactive game focused on the Arab and Muslim world), SooShef (an application allowing cooks to find and customise recipes) and BlueEngine (a web development platform enabling users to easily build, manage and develop high-quality multilingual websites). Once the selection process comes to an end in early May some of these companies will receive investment (ranging between \$50,000-\$150,000) and access to Arabreneur's co-working space. The first group of four startups supported by Arabreneur (receiving \$440,000 in investment) made significant progress over the last months. One company has expanded by signing contracts in Jordan, Saudi Arabia, Dubai, Iraq and Canada; a second start-up was selected to take part in Microsoft Ventures's acceleration programme. At the same time another Palestinian start-up took part in Google's Blackbox programme in Silicon Valley.

In the first week of April the Palestine StartUp Cup (PSUC) competition moved into its final stages following its launch in November 2013. StartUp Cup is a global entrepreneurship programme of locally-driven business

model competitions in over 45 countries.⁹ It is the first time that the competition has taken place in Palestine, where it is organised by ConnectME, a Palestinian-American company, in partnership with a host of local organisations. In recent months the process has moved through a series of selection, business development and training phases. Out of over 300 original submissions the seven most successful teams were selected to go through to the next phase of the competition. The teams were selected based on the projected company value, revenue generation and the validity of the target market. They included two food companies, two recycling companies, a healthcare manufacturing company, a paint manufacturing company and a design and engineering company. These seven companies will be further coached by PSUC to make final improvements to their models and pitches. The final phase of the competition will take place in May when the top three companies will be announced.

Economic Initiatives

On 9 April the Palestine Economic Policy Research Institute (MAS) held a roundtable discussion on the upcoming Palestinian National Development Plan (NDP) for 2014-2016 and other existing initiatives focused on Palestinian economic development. These include the 'Beyond Aid' private sector-led initiative¹⁰ and the US-launched Initiative for the Palestinian Economy (IPE).¹¹ The aim of the roundtable was to examine the consistency of these initiatives and the NDP with a view to ensuring that there were no competing requests for international support for development projects.

The NDP, which is being finalised, will provide a strategic policy framework and set out Palestinian development priorities for the period 2014-2016. It is expected to focus on four key sectors of economic development and employment, good governance and institution building, social protection and infrastructure. It is a government-led plan and current estimates are that it will seek \$1.8bn of foreign aid (assuming there is no change in the underlying political, financial and economic situation) to fund its measures.

Representatives from the Ministry of Planning and Administrative Development (which is responsible for the NDP) and the two private sector initiatives (Beyond Aid and IPE) highlighted the complementarity of the different programmes. PALTEL Group's CEO Ammar Aker, representing Beyond Aid, explained that there is no conflict of objectives between the governmental plan and the business-led initiatives, which are focused on seeking private sector investment. At the same time other roundtable attendees called for the creation of a central

⁹ www.startupcup.com/

¹⁰ <http://bit.ly/1hr6AEV>

¹¹ www.quartetrep.org/quartet/news-entry/ipe-overview/

⁸ <http://bit.ly/1II01X7>

national coordinating council for planning, including governmental, private sector and civil society experts, to provide guidance and further ensure consistency across the initiatives.

Palestinian Exports

The PMA has recently published a study that investigates the effect of exogenous factors on Palestinian export levels.¹² A range of factors were considered including Israeli GDP, exchange rates and the number of days of closure when a crossing is fully or partially closed to Palestinian trade by Israeli authorities.

Based on analysis of data from 2000 to 2013 the study found that Israeli GDP had a significant and positive impact on Palestinian exports. Given Israel accounted for 86% of all Palestinian exports in 2013 this relationship is to be expected. At the same time the study found that exchange rates and closures had a statistically significant negative impact on Palestinian exports.

International Investment Position Q4/2013

In mid-March quarterly data (for Q4 2013) setting out the International Investment Position and gross external debt were released for the first time. Until now these data were released on annual basis only.¹³ At the end of Q4 2013, the stock of investments by Palestinian residents outside Palestine (external assets equal to \$6,101m) exceeded investments in Palestine by non-residents (foreign liabilities equal to \$4,940m) by \$1,161m.

The banking sector was the main contributor in terms of both external assets (73% of the total) and foreign liabilities (33% of the total). With regards to Palestinian residents' investments abroad, 63% comprised of residents' deposits in banks outside Palestine and foreign currency cash in the Palestinian economy. Meanwhile, half of non-residents' investments in Palestine were classified as foreign direct investments.

12 <http://bit.ly/1rnXHBP> and interviews with the author

13 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_IIPExDSQ42013E.pdf

Table 2: IIP Q4 2013 (\$ million)

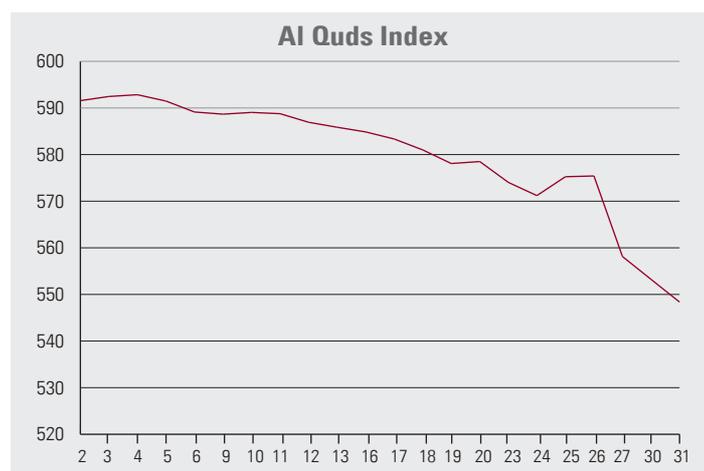
	TOTAL
International Investment Position	1,161
Total External Assets	6,101
FDI Abroad	315
Portfolio Investments Abroad	1,145
Other Investments Abroad	3,956
Currency and Deposits	3,862
Reserve Assets	685
Total Foreign Liabilities	4,940
FDI in Palestine	2,450
Foreign Portfolio Investments in Palestine	791
Foreign Other Investments in Palestine	1,699
Loans from Abroad	1,152
Currency and Deposits	547

Source: PCBS and PMA

March Trading News

In March the Al-Quds index decreased by 7.2% to reach its lowest point of 548.37 on the last day of trading. It remained below 600 throughout the whole month and peaked at 592.84 on 4 March. The fall was largely driven by the 13.2% drop in PALTEL's shares,¹⁴ which make up more than a third of total market capitalisation.¹⁵

Figure 2: Al-Quds Index, March 2014



Source: PEX

All 49 companies listed on the Palestine Exchange have now reported final financial results for 2013. 35 of the companies achieved profits, and net profits exceeded \$240m, a growth of 24% compared to 2012.

14 www.pex.ps/PSEWebSite/publications/PEXIssue-06apr2014.pdf

15 www.sahem-inv.com/reports/marketperformance/en/20140407172828.pdf

The Portland Trust



The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

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