

PALESTINIAN ECONOMIC BULLETIN

Issue 18

March 2008

Main reports

The value of total banking deposits in the Palestinian Territory grew by 22% reaching \$5.7bn: the majority were client deposits (\$5.12bn, up 22%). The credit-to-deposits ratio fell from 45.3% to 34.4%.

The International Finance Corporation signed an agreement with the Capital Markets Authority to develop the Palestinian Leasing Market. The IFC also signed a trade finance agreement with the Al Rafah Microfinance Bank to become an issuing bank in the IFC Global Trade Finance Programme.

The value of exports rose by just over 1% to reach \$339m. Imports were worth \$2,835m. 74% of imports came from Israel, which was also the destination for almost 90% of Palestinian exports. The total value of trade with the European Union fell by 15% to \$228m, almost all imports, while trade with the US declined 35% to \$23m - 90% imports. Trade with Arab countries increased to \$100m in 2006, with Palestinian exports worth \$34m.

Palestinian companies released their preliminary financial data showing improved pre-tax profits in 2007. Of the 35 firms on the Al-Quds index, all but nine reported profits and 24 did better than in 2006.

Palestinian population reaches 3.76 million

Preliminary findings from the Palestinian 2007 census suggest that the Palestinian population is 3.76 million.¹ This is a 29.9% increase from the previous census conducted in 1997, and represents an average annual growth rate of approximately 2.7%. But this falls short of the average 3.7% growth indicated by previous estimates, which projected the Palestinian population to hit 4 million by the middle of 2007.

In addition to declining fertility rates, it is likely that emigration played a large part in the low numbers, especially since the outbreak of the Intifada in 2000 and the subsequent economic slump. The net increase in the West Bank population (25.2%, or 2.3% p.a. on average) was much lower than that in Gaza (38.6%, or 3.3% p.a. on average).

The 2007 census also documents the number of establishments (including NGOs) and people they employ. According to the preliminary findings, there were 138,728 establishments in the Palestinian Territory, employing 314,506 individuals. The 2007 number of establishments is 18.4% higher than in 2004 (117,153), with the number of employees increasing by 22.1%. Hebron was the governorate with the highest number of establishments (20,144), increasing 25.2% from 2004, followed by the Gaza governorate with 18,947, a 24.5% increase from 2004.

Locality	2007 Population	% Δ from 1997
Palestinian Territory	3,761,646	29.9
West Bank (including East Jerusalem)	2,345,107	25.2
Gaza Strip	1,416,539	38.6
Palestinian Governorates with highest and lowest population growth		
Hebron Governorate	551,129	35.9
Tubas Governorate	48,771	33.2
Ramallah and Al Bireh Governorate	278,018	30.2
Tulkarem Governorate	158,213	18.0
Jerusalem Governorate	362,521	10.3

As always, Palestinian demographic figures provoked political debate. Some Israelis questioned the validity of the PCBS estimates, raising the issue of including students abroad in the census. Meanwhile, a row broke out in the West Bank over the population of East Jerusalem.² The 2007 census put the number at 208,000, far below the previous Palestinian estimate of 256,000, and even lower than the 210,000 figure from 1997. Hatem Abdel Kader, an advisor on Jerusalem affairs to the Palestinian Prime Minister, questioned the reliability of the East Jerusalem figures, suggesting that many Jerusalem homes were not visited. However, at a press conference held on 9 February, PCBS director Dr. Louay Shabaneh stood by the numbers, pointing out

¹ www.pcbs.gov.ps/Portals/_pcbs/PressRelease/census2007_e.pdf

² As opposed to the Jerusalem governorate

they were based on an actual house-to-house count and not on partial estimates, as the 1997 census had been. Indeed, the methodology of the 2007 exercise seems extremely robust: a large scale post-census enumeration study showed that 97.3% of the population was counted. Full and final 2007 census results are expected to be published in two to three months.

Deposits grow but credit shrinks

All six Palestinian banks listed on the Al-Quds index made healthy pre-tax profits, with the market-leader, Bank of Palestine, up 33%. The value of total deposits in the banks based in the Palestinian Territory grew by 22% reaching \$5.7bn: the majority were client deposits (\$5.12bn, up 22%).

The credit-to-deposits ratio in local banks reached 48.3%, with credit facilities increasing slightly from \$704m to \$709m over the course of 2007. During the same period though, the value of credit extended by the 11 foreign banks operating in the Palestinian Territory fell from \$1199m to \$1050m, i.e. 28.7% of their deposits were extended as credit. Overall the value of credit facilities fell by 8%, from \$1.9bn to \$1.76bn. The credit-to-deposits ratio (which excludes other banks' deposits) fell from 45.3% to 34.4% - below the 40% minimum threshold set by the PMA,³ and the lowest level since 2003.

The decrease in credit facilities is primarily felt in the Gaza Strip, where credit fell from \$525m to \$327m. Credit in the West Bank rose from \$1379m to \$1423m, slightly lower than the peak of \$1493m in Q2 2007.

It is hoped that the injection of further liquidity into banks will be translated into increased credit for the private sector in 2008. Three banks have signed up to the \$228m US Loan Guarantee scheme (see July 2007 Bulletin), while six banks are working with KfW on their €50m scheme. However, Nabil Abu Diab, head of the Palestinian Banking Association, told the Bulletin that he doubted the credit-to-deposits ratio would recover rapidly, as banks' cautious lending strategies are deeply entrenched. He added that it is unlikely that new credit lines will be extended in Gaza in the near future.

IFC supports access to finance

Lars Thunnell, CEO of the International Finance Corporation (IFC), a member of the World Bank group, signed two agreements in February to support small

business development in the Palestinian Territory.⁴

The IFC agreed with the Capital Markets Authority (CMA) to develop the Palestinian Leasing market. Leasing, as an alternative to bank credit, is particularly advantageous in countries with poorly developed enforcement of collateral rights. There are four stages to the process. The first step is legislative reform. The IFC believe that new legislation will be required to establish a robust contractual framework that can attract investment in the sector. If first principles are agreed with the CMA quickly, a draft law could be produced within a month. The other stages in the process are capacity building, public awareness, and finally, if a strong partner can be found, investment from the World Bank. The timeframe for the programme is unclear: legislative delays in Jordan have meant the process is still incomplete after two years, while it took nine months in Yemen from start to finish.

The IFC also signed a trade finance agreement with Al Rafah Microfinance Bank, making this the first Palestinian bank to become an issuing bank in the IFC Global Trade Finance Programme. The Chairman of Al Rafah, Talal Nasserudin, said that the agreement will give the bank increased access to trade finance. This, in turn, will allow Al Rafah to provide greater services to its clients and expand its trade activities. The bank's share price jumped more than 10% following the announcement. It also announced new branches in Nablus and Hebron.

Banking Regulations

A number of new regulations to govern banking arrangements were put in place in February. A Memorandum of Understanding was signed on 4 February between the PMA and the Central Bank of Jordan to clarify and consolidate regulatory requirements – particularly Jordan's responsibilities in regulating Jordanian banks in the Palestinian Territory. A PMA source underlined the importance of the move, pointing out that eight of the 21 banks operational in the Palestinian Territory are Jordanian. The Jordanian banks account for 63% of the total assets in the Palestinian Territory. No plans are currently underway for a MoU with Egypt.

Additionally, Palestinian and Israeli banks agreed new regulations designed to prevent money laundering and the financing of terrorism. They were due to be implemented last November but were delayed until February to allow Palestinian banks more time to prepare. The bureaucratic measures include stronger identification requirements, in line with the Israeli system, when accepting cheques

³ Calculations based on unpublished PMA data

⁴ <http://www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=636CB2ADFD154199852573ED004CD141>

and money transfers.

Trade deficit widens to \$2.5bn in 2006

The PCBS released the preliminary results for the balance of foreign trade in 2006. Although the value of exports rose by just over 1% to \$339m, the highest value since before the Intifada, imports were worth \$2,835m. This represents a 6% increase from 2005, and with the exception of 1999, it is the highest figure on record. But this is entirely accounted for by a 35% increase in the value of imported petroleum products and electric power, worth \$967m in 2006. Had these items remained at 2005 levels, the trade deficit would have narrowed slightly.

74% of imports came from Israel, which was also the destination for almost 90% of Palestinian exports. The total value of trade with the European Union fell by 15% to \$228m, almost all imports, while trade with the US declined 35% to \$23m, 90% imports. Trade with Arab countries increased to \$100m in 2006, up from \$95m in 2005, with Palestinian exports worth \$34m.

Jordanian and Egyptian electricity

The Jordanian National Electricity Power Company (NEPCO) began supplying the Jericho plant with power in March. The Palestinian Territory joins seven countries with linked electricity grids: Egypt, Jordan, Libya, Syria, Lebanon, Iraq and Turkey.⁵ Jordan will offer electricity to the Jerusalem Electricity Power Company at different day and night tariffs. The power will be supplied directly to the existing Jericho grids until the Sea-Surface Electricity Plant in Jericho is completed in August 2008. The power supplied will be as much as 20MW. The project costs \$10m, with funding from Norway and the Islamic Development Bank.⁶

Egypt announced plans to increase the 17MW supply to Rafah. The plans go further than expected: a Saudi Bank has pledged \$32m to provide 250MW by improving the Egyptian grid connections with the Gaza Strip⁷. The project could be completed in as little as 12 months but no details are available on when work might begin.

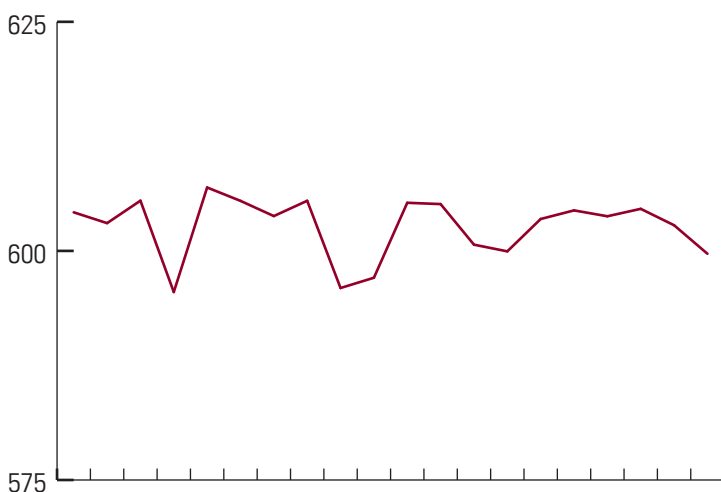
Hotel Recovery Continues

Q4 2007 hotel results are promising. 89,000 guests spent nearly 200,000 nights in Palestinian hotels. The number of guests is just 10% down on the pre-Intifada figure from Q4 1999. Unsurprisingly, Jerusalem accounted for more than half the guests, while Gaza only reached 0.4%. Tourism in the North still lags way behind the rest of the West Bank, with only three times more guests than in Gaza.⁸ Central and Southern West Bank each accounted for 24% of the hotel guests.

Stock Market

In 20 trading sessions, 23.6 million shares changed hands, 39% fewer than January but 46% more than December. The value of shares traded was \$78.3m, down 44% from January but up 46% from December. Accumulated market capitalisation remained at \$2.7bn.

February 2008 AI Quds Index



Modest falls in the insurance, services and investment indices were offset by a 9.3% rise in banking shares, bolstered by strong growth in the sector and particularly notable gains from the Bank of Palestine, whose shares increased in value by almost 17%. The AI-Quds index scarcely changed, ending the month at 599.7 points, up 0.6% from the end of January and 13.7% over the course of the year.

Correction: The European Commission pledged \$1,092m to the Palestinian Authority at the Paris Donor conference and not as wrongly stated in the February 2008 bulletin.

⁵ <http://www.haaretz.com/hasen/pages/ShArt.jhtml?itemNo=957881&contrassID=1&subContrassID=1>

⁶ <http://www.jordantimes.com/?news=5942>

⁷ <http://www.ynetnews.com/articles/0,7340,L-3512765,00.html>

⁸ PCBS figures

Strong corporate earnings

Palestinian companies released their preliminary financial data, showing improved pre-tax profits in 2007. This bodes well for the economy as a whole, and for domestic revenues. Of the 35 firms on the Al-Quds index, all but nine reported profits and 24 did better than in 2006. All complied with the time limit for disclosure set by the Securities Exchange.

December saw a marked upswing in the medium-term confidence of owners and managers of industrial establishments in the West Bank. While 19.5% expected better performance in the immediate future, a further 53.8% said they thought their situation would improve over the coming six months. This is the most optimistic outlook since April 2007. Gazans, however, remain pessimistic: 24.5% of respondents expected a medium-term improvement, and fewer than one in seven (13.3%) said things would improve early in 2008.⁹

Performance of biggest Palestinian companies in 2007 (preliminary results)¹⁰

Listed company	Reuters RIC	Pre-tax Profit 2007	Pre-tax Profit 2006	Change
Banking				
Al-Quds Bank for Development & Innovation	QUDS	\$ 1,270,615	- \$2,198,141 (loss)	+157%
Arab Islamic Bank	AIB	\$ 6,248,511	\$ 4,722,067	+32%
Bank of Palestine	BOP	\$ 25,109,126	\$ 18,891,556	+33%
Palestine Investment Bank	PIBC	\$ 5,003,122	\$ 5,640,145	-11%
Industry				
Birzeit Pharmaceuticals	BPC	JD 3,735,862	JD 1,460,604	+156%
Jerusalem Cigarette	JCC	JD 2,187,727	JD 2,646,453	-17%
Jerusalem Pharmaceutical	JPH	JD 1,724,460	JD 1,867,945	-8%
Services				
Palestine Electric	PEC	\$ 5,355,802	\$ 7,403,808	-28%
Palestine Telecommunications	PALTEL	JD 65,708,207	JD 57,890,921	+14%
Insurance				
Ahliea Insurance Group	AIG	\$ 2,351,041	\$ 1,847,324	+27%
National Insurance	NIC	\$ 3,275,300	\$ 1,073,131	+205%
Investment				
Palestine Development & Investment	PADICO	\$ 37,483,000	\$ 28,632,000	+31%
Palestine Real Estate Investment	PRICO	JD 1,019,437	JD 1,632,519	-38%
Union Construction & Investment	UCI	\$ 835,193	\$ 464,614	+80%

⁹ www.pcbs.gov.ps/Portals/_pcbs/PressRelease/EnglishFinal_December.pdf

¹⁰ Based on market capitalisation over \$30m. Compiled from a report provided to the PSE (www.p-s-e.com/PSEWEBSITE/ComapnyNewsArchive.aspx)

The Portland Trust

42 Portland Place
London W1B 1NB

P.O. Box Al Bireh 4102
Ramallah Al Masyoun

Azrieli 3
132 Menachem Begin Road, Tel Aviv 67023

Email: feedback@portlandtrust.org
Website: www.portlandtrust.org

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.