

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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The Palestinian Network for Small and Microfinance released its figures for MFI activity in 2007. These show that 12,828 loans were disbursed during the year, which brings the total number made to nearly 225,000, worth \$263m. 58% of the total value of the loans was distributed in the Gaza Strip, although 83% of 2007's loans went to the West Bank.

Palestine Investment Conference

The Palestinian Territory will set out its stall for foreign investors at the first-ever Palestine Investment Conference. The two-day event, to be held in Bethlehem on 21-23 May, will showcase business opportunities in the West Bank and Gaza and forge links between the Palestinian private sector and international investors. The conference is a top priority for the Palestinian Authority (PA), which considers it a follow-up to December's donor conference in Paris. The message of the conference is clear: Palestine is open for business.

Prime Minister Salaam Fayyad appointed Dr Hasan Abu Libdeh, recently the CEO of the Palestine Securities Exchange, to run the conference. In an interview with the Bulletin, Dr Abu Libdeh explained that the preparations for the conference were going well. With the countdown clock in his busy office reading 43 days to go, 858 invitations had been sent out and 174 foreign investors had registered.¹ Dr Abu-Libdeh stressed that this is not an academic exercise to discuss the Palestinian investment climate, but an opportunity for serious investment. The goal is to attract 300-400 participants, from the Palestinian Diaspora and the Arab and wider world, with at least \$1m to spend on projects in the Palestinian Territory.

Despite popular perceptions about doing business in the Palestinian Territory, the reality tells a different story. GDP growth in the five years from 1994 to 1999 averaged over 10% per year, while the Palestinian stock market is performing well. Dr Abu Libdeh emphasised that numerous investment opportunities exist to take advantage of the highly-educated Palestinian labour force, preferential trade agreements and generous tax breaks for businesses. He sees the enthusiasm from the PA to engage with the private sector as a key component of this. Dr Abu Libdeh expects some key announcements at the conference including measures to boost competitiveness, and to enhance the partnership of the public and private sectors.

Business Confidence Rises

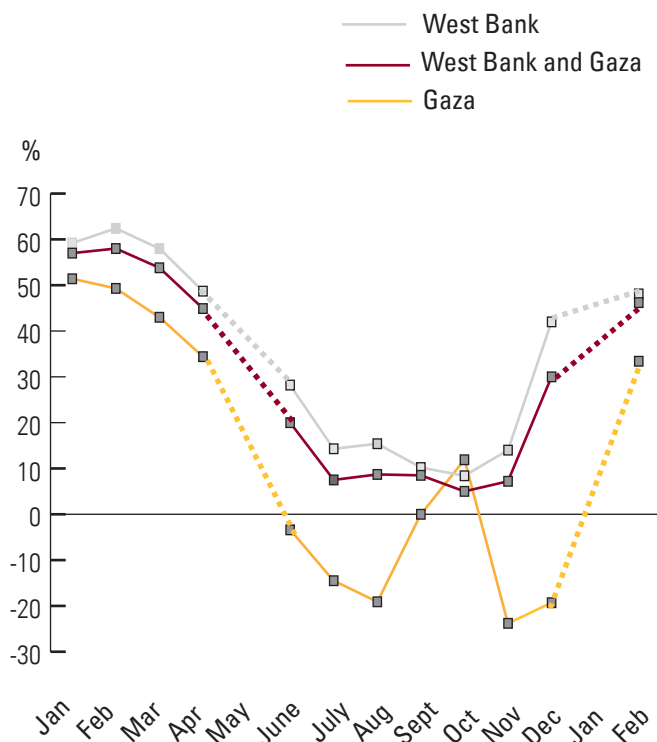
The monthly PCBS survey of industrial establishments suggests a positive change in outlook on the economic situation in the Palestinian Territory. 61.7% of owners and managers of the 496 businesses surveyed expected improved production in the next six months, the highest level since before the factional fighting in June 2007. Furthermore, only 15.5% expected their situation to worsen. The difference between the two figures is a useful measure of confidence and at 46.2% is at its highest since March 2007.

While medium-term optimism levels are similar in the West Bank (62.2%) and Gaza Strip (58.4%), the former have been rising fairly consistently while the latter have

1 To register for the conference online, go to www.pic-palestine.ps

fluctuated wildly with the changing situation in the Strip. The percentage of Gazan businessmen foreseeing an improvement in the coming six months rose from 20.3% in December, peaking at 78.9% in January, and settling at 58.4% in February. Rising optimism in January and February could be attributed to the border breach with Egypt.²

Medium-term business optimism*



* - *Optimism* is defined as the percentage of businesses expecting production to be somewhat or much better minus the percentage expecting it to be somewhat or much worse.

† - PCBS did not release surveys for May 2007 and January 2008 business confidence.

GDP grows

Initial estimates of national accounts for 2007, issued by the PCBS at the beginning of April³, show annual GDP rising by 0.7% reaching \$4.136bn. Following the census revised population figures, the per capita GDP emerges as \$1,178 in 2007.

The value added of agriculture fell by 32.5% from the Q4 2006, primarily because this year is the weaker year of the two-year olive cycle. Construction also fell, mainly because of the situation in Gaza. But the value added of wholesale and retail trade was 8% higher, hotels and restaurants gained 50%, and public administration and defence grew by 61.6%.

The contribution of different sectors to GDP varied little during 2007 compared with 2006. Transport and telecommunications contributed 11.6% of value added (11.3% in 2006); manufacturing contributed 10.5% (10.8% in 2006); wholesale and retail trade made up 10.0% (9.3%); and agriculture 8.2% (8.1%). Seemingly significant rises in public administration and defence (14.5%, up from 13.5%) and education (to 7.6% from 6.2%) take the contributions of these sectors closer to their average levels of 2001 – 2005.⁴

Unemployment Falls

The fourth quarter of 2007 saw a fall in unemployment from 29.1% to 28.8% according to the relaxed definition, and from 23.2% to 22.2% according to ILO standards, which exclude discouraged workers. After the shocks of the third quarter, ILO unemployment seems to have fallen in Gaza (from 32.9% in Q3 to 29.0% in Q4). But unemployment in the West Bank rose from 18.6% to 19.2% in the same period.

This time though, the PCBS's figures⁵ do not include any data on absolute numbers of those employed or in the labour force. This may be because the PCBS are waiting to finish their analysis of the census data. Therefore it appears from the percentages given that the labour force participation rate fell in Gaza by 6% and in the West Bank by 2%. Despite the changes in unemployment rates, it does not necessarily mean that the number of jobs in Gaza rose or that the number of jobs fell in the West Bank.

West Bank daily net NIS wages jumped three shekels to NIS 80.3, recovering to one shekel more than Q4 2006 rates. Gaza pay remained at NIS 64.1, still down from NIS 67 in the same quarter last year.

Increased PIF local investment

The 2008 Palestine Investment Fund Business Plan was ratified by its Board in March. Jamal Haddad, PIF spokesman, told the Bulletin that the efforts to move towards a greater proportion of investments in the Palestinian Territory would continue, and that it is hoped these will exceed 50% of the portfolio by the end of the year. This would represent a significant milestone (the proportion was 25% as recently as 2005/6). The PIF had hoped to move faster towards

² http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/marchEng2008+TABLE.pdf

³ http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PressQ4_E.pdf

⁴ Comparisons between Q4 2006 and Q4 2007 should be treated with a certain degree of caution because of the preliminary nature of the fourth quarter results

⁵ http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/tect-e.pdf

their 2012 goal of 70% invested within the Palestinian Territory but political developments affected investments such as telecoms (e.g. Wataniya) and energy (Gaza gas field). Mr Haddad told the Bulletin they intend to focus on different core investment areas such as finance and property until political progress is made.

PIF is poised to sign a Memorandum of Understanding in mid-April with international and local partners to launch the formation of a \$500m mortgage finance company – the first in the Palestinian Territory. Mr Haddad told the Bulletin that Tony Blair had played a key role in generating support for this venture, by acquiring British financial support for the early stages of operations. The company is expected to begin lending by the end of 2008. Lending will not be tied to any particular housing developments, but it will support the PIF's property ventures.

2008 Budget: Biggest Ever

The 2008 Budget was approved by the Cabinet on 31 March, and awaits the signature of President Abbas. Despite cuts to public sector employment, wage expenditure will rise by 15% to \$1.48bn, not including the final \$86m that government employees are owed in unpaid salaries. Non-wage expenditure will jump to \$964m, 33% higher than in 2007 and 25% more than predicted in the Medium-Term Fiscal Framework set out in the Palestinian Reform and Development Plan. With development expenditure rising to \$492m (up 59% from last year and 15% from the Plan), the total budget is worth \$3.34bn, by far the largest budget ever.

Of this figure, \$2.13bn will come from external financing. Minister of Planning, Dr Samir Abdullah, told the Bulletin that the figure was realistic, given the amount pledged in Paris and the amount already received. He stressed that the increased budget did not come as a result of having more donor funds but was largely a result of the weakened dollar in which it is denominated. The total expenditure allocated for 2008 in the PRDP is \$2.95bn, only 13% less than that announced this week, which is exactly the difference between the budgeted and actual dollar exchange rate. Farid Ghanam, DG of the Budget Unit at the Ministry of Finance, confirmed to the Bulletin that the PA was committed to the framework set out to donors in Paris.

Net Lending Measure Illegal

The PA was made to back down on its threat to cut salaries and refuse government services without proof being provided that utility debts had been paid (see February Bulletin). A high court ruling at the end of March found that the government's plan to force individuals to settle their debts was illegal. The PA since suspended the measure. But a PA source told the Bulletin that it was considering appealing the ruling. The 2008 budget plans for Net Lending to fall to \$400m (from \$535m in 2007).

Income Tax Law Signed

The tax cuts for individuals and businesses agreed by the Cabinet at the end of December (see January 2008 Bulletin) were signed into law by President Abbas at the end of March. Companies' tax rates and the highest individual tax band will fall to 15%.

PalTrade Report

PalTrade conducted a survey of its members as part of a needs assessment for business development services, market information and training.⁶ Interviews with 136 companies across all sectors and most Palestinian cities revealed their existing export markets and attitudes towards potential future markets. Unsurprisingly, the Gaza Strip is seen to be very heavily dependent on the Israeli market, with no significant alternatives available. Potential export markets for Gazan companies are seen to be heavily concentrated around local Arab countries, particularly Egypt and Saudi Arabia. West Bank companies are more diversified in terms of current export markets, though Jordan and Israel still dominate. But companies in the West Bank are more inclined to look to the West for future export markets – Europe and the US are considered the two top potential export markets, just ahead of Jordan. Companies evaluated PalTrade's current provision of market information positively, but over three quarters said that they were interested in obtaining more information about new export markets.

Palestinian Microfinance

The Palestinian Network for Small and Microfinance released its figures for MFI activity in 2007. These show that 12,828 loans were disbursed during the year, which brings the total number made to nearly

6 <http://www.paltrade.org/cms/images/enpublications/PalTrade-Needs-Assessment-Survey-2008-ENG.pdf>

225,000, worth \$263m. 58% of the total value of the loans was distributed in the Gaza Strip, although 83% of 2007's loans went to the West Bank. Network's members in Gaza now need to focus on rescheduling existing loans rather than making new ones.

Despite the difficult circumstances, there is significant cause for optimism for Palestinian microfinance. At the end of 2007, the Palestinian Monetary Authority (PMA) was confirmed as a monitor for the microfinance industry, providing regulatory confidence. The Network is working closely with the PMA to ensure appropriate regulation is in place, which is essential in an emerging sector that frequently falls outside existing structures. This relationship has helped ensure that not-for-profit companies were included in the revised draft Company Law. Currently only two of the nine MFIs in the Network are not-for-profit companies, but it is hoped that the others register as such, which will allow them to expand their outreach and impact.

The UNDP's DEEP programme signed agreements with three microfinance organisations, ASALA, FATEN and ACAD, to help launch new products in the Palestinian microfinance market. These will include Islamic loans, which have only been available in the Palestinian Territory for two years, and will be made in a significant, structured offering via Network members. Another important development is the agreement to institutionalise the publication of international performance indicators from the end of this month.

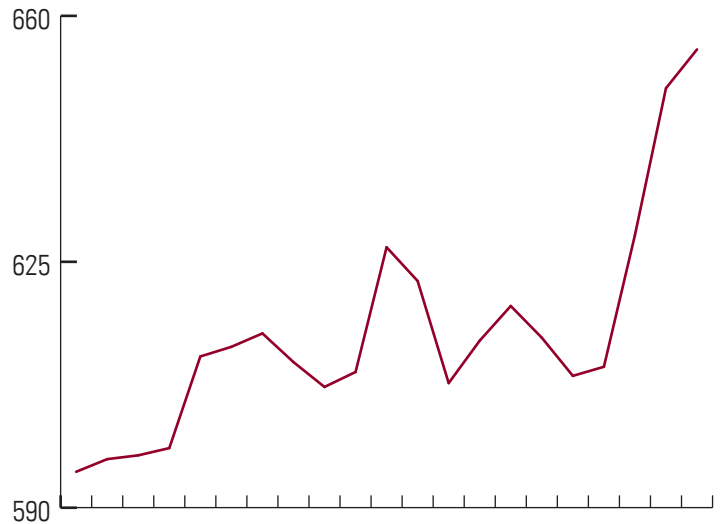
Afnan Mahmoud, the Director of The Palestinian Network for Small and Microfinance told the Bulletin that a lot had been accomplished by the MFIs working in the Palestinian Territory. They were following international best practices in their attempt to stop the rising dependency on handouts.

Record Trading

The Al-Quds index finished the month at 655.2 points, up 9.3% from the end of February and its highest end-of-month close for almost two years. Strong performances by PalTel (+16.3%) and the Bank of Palestine (+11.8%) led the charge, which was driven by the expectations of dividend payments to shareholders at companies' annual shareholder meetings held in April. Furthermore, the sale by an individual of 40% of the shares in Al-Quds Bank (which were bought by its Board) meant that trading volume rose by 94% to 45.7m shares, valued at \$128.8m. The final week of trading was the busiest in the PSE's

history. Market capitalisation grew by 7.6% to reach \$2.96bn.

March 2008 PSE activity



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