

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

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*The International Finance Corporation (IFC) and the Palestinian Education Fund (PEF) are to launch the first Palestinian private student loan facility, providing up to \$10m for approximately 8,000 students annually for four years.*

*The World Bank will provide \$12m towards the \$140m Electric Utility Management Project, which aims to improve electricity operating efficiency in the Palestinian Territory.*

*The Gaza Chamber of Commerce reported that its economy lost over \$1bn since June 2007. The report reveals that during the last two years, over 3700 plants and trade companies have shut down and more than 65,000 Palestinians have been made unemployed.*

### Budget Crisis

The international community has disbursed over \$920m in direct budget support since the Paris conference last December.<sup>1</sup> But the PA still faces a \$400m budget deficit for the remainder of 2008. All of the European Commission's budget support pledge (around €250m) was frontloaded, as were many of the other donor pledges, and will have been spent by August. More recently, in March and June, the EC paid €23m for salaries, €8m for social allowances, €8-9m on fuel in June and €15m in July for salaries and pensions. Mario Mariani from PEGASE told the Bulletin that the EU was considering additional budget support totalling €40m. The funds, if agreed, would be available in September.

Salaries after July are uncertain. The money has run out due in part to the PA agreeing to the public employees' demands to receive wage arrears in the first half of the year. The knock-on affect of the depreciation of the dollar has made net lending, salary, electricity and fuel payments, all of which are in shekels, more difficult.

Meanwhile, the German Government announced an additional €20m to pay for fuel imports to the Gaza Strip. The Italian Government is expected to pledge additional budget support to be distributed through PEGASE. Financial support from Arab League members is critical to bridge the 2008 budget deficit.

The Quartet urged all donors at the Berlin conference in June to quickly fulfil their fiscal commitments made in Paris last December. A report by the Ministry of Finance was given to donors, outlining areas in the PRDP needing urgent assistance and their respective time-frames.

Prime Minister Fayyad said that there are difficulties in paying the salaries of the employees in the Gaza Strip in July because the Israeli Government is preventing the importation of cash. He stressed that the PA had transferred money to all the banks in the Gaza Strip but there is no physical cash in the Gazan banks available for distribution. Fayyad said that the Palestinian Monetary Authority (PMA) is taking measures to solve this problem.

The World Bank transferred \$40m for PRDP development policy<sup>2</sup> and another \$40m for budget support on 9 June. Speaking about the latter, David Craig, World Bank Country Director for the West Bank and Gaza, said: 'This grant aims to support the PA's efforts to accelerate the implementation of reforms described in the PRDP, especially those aimed at strengthening its fiscal position and improving public financial management.'<sup>3</sup>

1 See: <http://domino.un.org/unispal.nsf/fd807e46661e3689852570d00069e918/1234bb45ed496e6d85257480004a7098!OpenDocument>

2 See: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:21793685~menuPK:50003484~pagePK:2865066~piPK:2865079~theSitePK:294365,00.html>

3 See: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:21797507~menuPK:50003484~pagePK:2865066~piPK:2865079~theSitePK:294365,00.html>

\$110m of contributions from the U.K, Norway, Australia, Finland and France has been channelled so far through the World Bank's PRDP Trust Fund (TF) directly to the Single Treasury Account of the Ministry of Finance. \$40m - of a total \$45.4m - came in the latest donation directly from the World Bank. This money will be used for education, healthcare and other social service sectors.

## New Credit Registry System

The PMA has introduced new networking technology that will improve the Palestinian banks' lending process and credit approval systems. The new system gives banks immediate access to a client's credit history anywhere in the West Bank and Gaza Strip.

The real-time data now available includes 16 indicators on the client's credit status such as the number and type of loans, credit card history, and whether the client is a guarantor. In the past, banks could only obtain general information such as blacklisting. It took 2-3 days to receive credit information from the PMA.

Ali Faroun, Deputy Director of the Banking Supervision Department, told the Bulletin that the system is now updated within three days, compared to almost 50 days beforehand. Within the next two months, history from lending institutions such as microfinance institutions will also be synchronized in the system. This means that a loan committee will be able to access information for any client with any type of loan history.

## Student Loan Programme

The International Finance Corporation (IFC) and the Palestinian Education Fund (PEF) are to launch the first Palestinian private student loan facility, offering an alternative to other sources of finance.<sup>4</sup> The Bank of Palestine will manage and fund the administration of the scheme. The IFC will assist the Bank of Palestine in its portfolio risk. The programme will provide up to \$10m for approximately 8,000 students annually for four years. The loans will make undergraduate, full time education more accessible to students struggling to pay tuition fees. It will also supply stable tuition income to universities.

With an increasingly young population, demand for tertiary education in the Palestinian Territory is growing. Youssef Habesch from the IFC told the Bulletin that loans will be given to students with good academic records in subjects that will help the Palestinian economy.

4 See: <http://ifcln001.worldbank.org/ifcext/pressroom/ifcpressroom.nsf/PressRelease?openform&CF8DF1F148C90F3985257471005472C5>

## Energy and Water

The World Bank will provide \$12m towards the \$140m Electric Utility Management Project, which aims to improve electricity operating efficiency in the Palestinian Territory. Further agreements with the French Development Agency, Norway, Sweden, European Investment Bank and the European Commission will be signed by the end of the summer.

The Northern Electricity Distribution Company (NEDCO), registered in January 2008, will manage the project. Jamal Abu Ghosh, Director of the Program Monitoring Unit (PMU) of the Palestinian Energy Authority, told the Bulletin that the project will establish the Palestine Electricity Resource Commission (PERC) which will regulate electricity for large areas of the Palestinian Territory. Previously each municipality, village council and refugee camp was largely autonomous with its own power distribution. The project is scheduled to start in August and will take three to five years to complete. The PMU also intends to announce an Egyptian tender to increase power lines to the Gaza Strip in the near future.

A \$300m agreement for solar power was signed in February 2008 between the Jerusalem District Electricity Company and the American clean energy company, Naanovo.<sup>5</sup> Other assessments on solar or wind power are being undertaken to consider the available renewable energy resources in the Palestinian Territory.

The World Bank announced that it will provide an additional \$18.7m towards the Water and Wastewater Management Projects (WWM). The projects will develop the institutional capacity of the Palestinian Water Authority (PWA) and strengthen the Coastal Municipalities Water Utility, as well as build an emergency sewage treatment plant in northern Gaza. To date, the WWM has disinfected almost all of the Gazan water systems and rehabilitated over 50% of water production wells.<sup>6</sup>

## AI Quds Investment Fund

Following the launch of the AI Quds Investment Fund at the Palestine Investment Conference (PIC), Munib Al Masri, chairman of PADICO confirmed that the fund will have initial capital of \$100m, \$25m provided

5 See: [http://www.naanovo.com/local/Palestine%20Project%20PR%20\[1\].pdf](http://www.naanovo.com/local/Palestine%20Project%20PR%20[1].pdf) and <http://www.perc.ps/news.htm>

6 See: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:21824109~menuPK:294383~pagePK:2865066~piPK:2865079~theSitePK:294365,00.html>

by PADICO. It will be governed by an investment advisory board that will be responsible for making investment decisions.

The fund is intended to finance small and large projects, concentrating particularly on housing projects in East Jerusalem as well as commercial buildings, entertainment centres, tourism and economic projects. It hopes to achieve above average returns. Munib Al Masri said that there are ongoing talks with the Ministry of Waqf and Religious Affairs, as well as with the local Church Authorities, in order to build housing units on land they own.

Al Masri revealed that there are plans for “mini” PIC conferences to be held every 3-4 months in different Palestinian cities to build on the connections established in Bethlehem. The first of these conferences will be held in Nablus next October.

**Bethlehem Industrial Zone**

French President Nicolas Sarkozy and Palestinian President Mahmoud Abbas signed an agreement in mid-June to establish an industrial zone in Bethlehem. The PA will provide a 530 dunum field while the French will contribute their expertise in industrial zones and public and private financing. A new financial training centre will also be established.

Nadim Asfour from the French Economic Mission told the Bulletin that the industrial zone will encourage the expansion of local industries and will provide space for existing plants to move from residential and commercial areas in the city.

The first stage of the Bethlehem zone should be completed by the end of 2008 and is expected to provide almost 2000 job opportunities in the first phase of its operation.

**Gaza Losses Exceed \$1bn**

The Gaza Chamber of Commerce reported that the Palestinian economy lost over \$1bn since June 2007. Over \$360m of the losses are due to the full closure of trade borders, according to Dr. Maher Tayseer, Head of Public Relations.

Following the Hamas takeover, the Israeli cancellation of the custom code in June 2007 ended any direct import or commercial agency arrangements and halted productive sectors such as manufacturing and agriculture. Palestinian importers pay \$50 a day for every container that is unable to return from the Gaza Strip and almost \$300 per container that has failed to reach Gaza and is consequently stored at the Ashdod port.

The report details the losses by sector, with particular focus on the construction, agriculture, clothing, furniture, and food-based industries. The construction sector has lost over \$370m on projects that were discontinued. Through shutting down of plants, cancellation of deals and subcontracting contracts, the clothing industry has lost \$100m and food based industries \$24m. Agriculture registered losses of more than \$120m as exports of potatoes, cherry tomatoes and strawberries were completely stopped.

Latest data from the PCBS shows that Gazan unemployment reached 29.8% (ILO definition) - or 35.5% on the relaxed definition which includes ‘discouraged’ workers - in the first quarter of 2008. The report reveals that during the last two years, over 3700 plants and trade companies have shut down and more than 65,000 Palestinians have been made unemployed.<sup>7</sup>

**Poverty Figures**

Following the latest Household Survey on Expenditure and Consumption in the Palestinian Territory, the PCBS released its 2007 figures for income and consumption based poverty levels.<sup>8</sup> The PCBS provides two measures of poverty: absolute poverty lies below NIS 1,886 for a reference six person family; relative poverty stood at NIS 2362 per annum.

Area	Relative Poverty (2007) 2006	Absolute Poverty (2007) 2006
Palestinian Territory	30.3% (30.8%)	18.3% (18.5%)
West Bank	19.1% (22.0%)	9.7% (11.0%)
Gaza Strip	51.8% (47.9%)	35.0% (33.2%)

These poverty figures, based on actual consumption, incorporate emergency relief on top of income. Without such relief payments, poverty would have been substantially worse. Relative poverty increases to 57.2% in the Palestinian Territory and deep poverty rises to 46.3%.

The distribution of consumption was also more polarised - with the poorest 10% consuming 1% less and the richest 10% some 5% more. In the West Bank there was an 8.4% increase in per capita expenditure between 2006 and 2007 compared with a decrease of 13.6% in Gaza. 35.4% of total expenditure was spent on food in the West Bank and 41.3% in Gaza. Transport and communications were the second largest area of expenditure in the Palestinian Territory, accounting for 14.6% of all spending.

<sup>7</sup> One Year After Gaza Siege: Economic losses exceed \$1 billion Dr. Maher Tabbaa, The Gaza Chamber of Commerce. June 2008, Gaza, Palestine.  
<sup>8</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/poverty\\_ee.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/poverty_ee.pdf)

The statistics also revealed that a greater proportion of total expenditure was spent on tobacco and cigarettes than on each of education, personal care and recreational activities. On average, JD 28.1 was spent on tobacco and cigarettes on average each month. JD 20.9 was spent on education, JD 16.2 on personal care and JD 14.8 on recreational activities.

## CPI Figures

The PCBS released new CPI figures for June 2008 which show an increase of 0.6% from May 2008 and a rise of 11.7% compared to June 2007. From May–June 2008, transportation prices increased by 2.4%, furniture and household goods by 0.6% and food and soft drinks by 0.6%.<sup>9</sup>

Construction related costs increased significantly in May 2008 following the announcement of major housing projects in the Palestinian Territory<sup>10</sup>; the cost of iron and metal products increased by 9.2%, electric extensions rose by 7.2% and plumbing and sanitary supplies by 5.0%.

The PCBS updated the base year for CPI, changing it from 1996 to 2004 and revising the weighting in the expenditure basket accordingly.<sup>11</sup> The class 'transportation and communication' was divided in two, the 'food, beverage and tobacco' class was rearranged and a new class 'restaurants and cafes' was added.<sup>12</sup>

Since 1996, the weight for 'recreational, cultural goods and services' rose from 1.6% to 4.8% in 2004, while the housing weighting rose from 6.9% to 10.4%. The food and soft drinks group had the greatest weight (37.6%) followed by housing and transportation (9.9%).<sup>13</sup>

9 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/cpi/Press%20Release%20CPI%20\\_English\\_%20June%202008.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/cpi/Press%20Release%20CPI%20_English_%20June%202008.pdf)

10 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/03-07-2008e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/03-07-2008e.pdf)

11 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/cpi/6f20f6d6-ac6d-4b76-8c30-c4e8165e5d64.htm](http://www.pcbs.gov.ps/Portals/_pcbs/cpi/6f20f6d6-ac6d-4b76-8c30-c4e8165e5d64.htm)

12 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/cpi/6f20f6d6-ac6d-4b76-8c30-c4e8165e5d64.htm](http://www.pcbs.gov.ps/Portals/_pcbs/cpi/6f20f6d6-ac6d-4b76-8c30-c4e8165e5d64.htm) and [http://www.pcbs.gov.ps/Portals/\\_pcbs/cpi/relative.aspx](http://www.pcbs.gov.ps/Portals/_pcbs/cpi/relative.aspx)

13 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Press%20A08.05E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Press%20A08.05E.pdf)

## June Trading

The Al Quds index decreased by 1.2% or 8.12 points to reach 688.58 points by 30 June. The index fell to 683.15 points in the second trading week and peaked at 712.45 points in the third trading week.

In twenty-two trading sessions, 37.1 million shares changed hands, a 13% decrease compared to May 2008 (42.8 million shares). The value of traded shares in June decreased by 33% from last month to \$122.3m. The accumulative market capitalisation in June remained the same as in May - \$3.1bn.



New entrant, Nablus Surgical Specialty Center (NSC) closed its first trading session on 29 June with a share price of JD 0.74 and 3,550 shares traded. The NSC is the eighth service company listed on the PSE.

Correction: 63,000 Palestinians work in Israel and the settlements and not as wrongly stated in the June 2008 bulletin.

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