

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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On a recent visit to the Palestinian Territory, British PM Gordon Brown announced \$60m for economic development, half of which has been dispersed for direct budget support. This will result in the UK providing \$175m to the PA in 2008.

Japan hosted the third ministerial-level meeting of the four-party consultative unit for the "Corridor for Peace and Prosperity", which plans to start at the beginning of 2009. The "Corridor" will enable collaboration between the Palestinians, Israelis and Jordanians on regional projects and is expected to provide more than 6000 jobs.

Crisis Intensifies

The PA 2008 budget crisis intensified in July. Prime Minister Fayyad appealed to the World Bank for short-term emergency funding to pay public sector employees and cover some of the 2008 budget shortfall. The World Bank is in 'active discussions' with several donor countries to boost the World Bank Trust Fund by approximately \$120m. Planning Minister Samir Abdullah said, "We cannot continue with our reform plan and economic revival without budget support."¹

Various estimates have been circulating as to the true size of the budget gap. Some of these are as high as \$749m (up \$350m from a month ago). An unconfirmed Reuters report suggested that Prime Minister Fayyad had secured financing of \$78m from Wataniya Palestine Mobile Telecommunications Co. to cover August salaries. Wataniya is expected to provide the PA with more than \$354m in licence fees.²

UAE gave the PA \$42m in August. Kuwait provided \$80m. €4.7m was provided by the EC, through PEGASE, for private sector arrears payments³ in July. A further €14.7m was received in August and spent on monthly salaries and pensions.⁴ So far in 2008 the EC has provided 90% of the money it pledged for budgetary support - a total of approximately €255m. Funding from other Arab states is still outstanding and there is growing concern about their pledges.

The Ministry of Finance adjusted its real rate growth forecast to less than 1% for 2008 if conditions do not improve. The macroeconomic framework for 2009-2011 is based on assumptions that include opening Gaza's borders and a gradual relaxation of access and movement. With this scenario, real economic growth is projected at 3.6% in 2009, 5.2% in 2010 and 6.5% in 2011.

1 <http://www.haaretz.com/hasen/spages/1006741.html>

2 <http://www.reuters.com/article/reutersEdge/idUSL436351320080808>

3 See: <http://www.delwbg.ec.europa.eu/en/whatsnew/48.htm>

4 See: <http://www.delwbg.ec.europa.eu/en/whatsnew/50.htm>

Central Bank by 2010

Dr. Jihad Alwazir, Governor of the Palestinian Monetary Authority (PMA), briefed the Palestinian Legislative Council (PMC) in July about current developments in the PMA and their plans to establish the Palestinian Central Bank by 2010. In 2006 the "Strategic Transformation Plan" was launched when it became apparent that the current PMA was unable to fulfil the requirements and duties of a Palestinian Central Bank.

The Governor gave a special interview to the Bulletin last month and talked through the different aspects of the plan and the future of banking in Palestine. According to the plan, the PMA will be divided into two major groups - the Monetary Stability Group and the Financial Stability Group, together with the supporting Administration Group. So far, a new credit registry system⁵ and a PhD scholarship programme in macroeconomics and monetary policy have been established. Several laws and regulations have been issued to improve the legal environment, such as the new anti-money laundering law and a governance manual for banks. A new banking law is also expected.

A significant achievement has been the introduction of an advanced electronic payments settlements system for cheques and stock exchange transactions. This is a major step in reducing the money velocity (circulation) which – in the Palestinian Authority - is one of the highest in the world. The new Real Time Gross Settlement System (RTGS) should dramatically decrease the execution time of stock market transactions from three days to minutes, reducing market risks and accelerating the movement of money.

Alwazir explained that the PMA is already performing some of the duties of a Central Bank, such as assisting in replacing worn paper currency in Gaza or supporting a local bank in Nablus with needed liquidity. He confirmed that the goal of establishing a Palestinian Central Bank in 2010 is on track. The PMA is also considering issuing a national currency.

Banking Roundup

The Bank of Palestine (BOP) signed a strategic partnership with the International Financial Corporation (IFC) at the end of July. The IFC will invest \$15m, acquiring 5% of the bank's equity (approximately five million shares). The IFC's goal is to "help strengthen the domestic financial sector and facilitate sustainable

private sector development in a highly challenging environment"⁶. Hashim Shawa, BOP General Manager said that this partnership will "strengthen the bank's position in the market and will facilitate the different projects of the bank such as the student loan programme⁷, trade finance, housing mortgage, and SME lending projects."

The Palestinian Islamic Bank announced plans to raise its paid up capital to \$100m, following a massive sale of its shares. 1,178,785 shares were bought, culminating in a total of 13,544,249 shares. Islamic banking is very popular especially in the Gulf countries, primarily because of the banking services provided, in particular the 12-year housing loans.

The shortage of liquidity facing Gazan banks in recent months appears likely to be resolved. Israel reportedly plans to transfer NIS 72m to Gazan banks.⁸

British Business in Bethlehem

During his recent visit to Israel and the Palestinian Territory, the British Prime Minister, Gordon Brown, and twenty-five leading British businessmen attended a business event in Bethlehem hosted by UK trade minister Lord Digby Jones and the CEO of the Palestine Investment Conference, Dr Hasan Abu Libdeh. Yahoo, Lloyds TSB and BT were among the companies represented, sending a strong message that the UK believes that 'Palestine is open for business.' Gordon Brown announced that Britain will host a follow-up to the Palestine Investment Conference in London later this year which will strengthen UK-Palestinian business community links.

Gordon Brown announced \$60m for economic development, half of which has been dispersed for direct budget support. This will result in the UK providing \$175m to the PA in 2008. The Department for International Development told the Bulletin that a further disbursement to the PA budget, as well as the UK's allocation for PRDP projects, is scheduled to happen before the end of the year.

⁵ See July 2008 Bulletin

⁶ See: <http://www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=6BACDB35BBEE320D852574940057253A>

⁷ See July 2008 Bulletin

⁸ See: <http://www.bloomberg.com/apps/news?pid=20601085&sid=aPIECv9g4v3A&refer=europe>

Palestinian Food Insecurity

Palestinians are eating less and a poorer quality of food, according to a recent report by three UN agencies.⁹ They are increasingly suffering from food insecurity. The recent report for the first quarter of 2008 bases estimates on income and consumption poverty. It considers food insecurity as occurring in households with income and consumption levels below \$1.9 per capita, per day.

Food insecurity increased by 4% during 2007, affecting 38% of the total population (compared to 34% in 2006): 56% in Gaza and 25% in the West Bank. In the Palestinian Territory, 44% of refugees are suffering from food insecurity. Between March 2007 and April 2008, 56% of income was spent on food in the West Bank with the figure in Gaza rising to 66%.

The report revealed that those most vulnerable to food insecurity were young families, families without employed breadwinners and families with a higher number of women. Highest levels of food insecurity are found in refugee camps, although urban areas faced the greatest increases over the past two years. The need to prioritise food means that many people are not paying electricity bills and 59% of people now rely on credit to buy food, although this is not an option for those without a steady income.

Agriculture is arguably the most under-funded of all PA sectors. According to the Palestine Assistance Monitory System (PAMS), the PRDP requested and received \$16m for Agribusiness Development.¹⁰ An appeal of \$70m from UN CAP for seven food projects was launched and funding has been pledged,¹¹ including: \$15-20m from the EC in 2009 for agricultural development projects and an extensive agriculture programme of around \$25m from Italy.¹² Global food grain prices have more than doubled in the last two years with 60% of the increase since January this year. In the Palestinian Territory, the Cost Price Index (CPI) for food rose by 20.3% between January 2007 and April 2008 while the cost of basic food commodities for an average household increased by 70%.

Peace Corridor in 2009

Japan hosted the third ministerial-level meeting of the four-party consultative unit for the "Corridor for Peace and Prosperity", which plans to start at the beginning of 2009. The "Corridor" will enable collaboration between the Palestinians, Israelis and Jordanians on regional projects. The "Corridor" is expected to provide more than 6000 jobs. The Japan International Cooperation Agency (JICA) will complete its feasibility study by November 2008. The first stage involves exporting fruits and vegetables from the West Bank to the Gulf States via Jordan.

Yellow Pages Sales Reach \$1m

Advert sales at the newly established Yellow Pages–Palestine have reached \$1m. Local branches have opened in Hebron and Nablus, in addition to their headquarters in Ramallah. Mohammad Sbeih, General Director, explained to the Bulletin that the company will publish a directory, free of charge which will contain data on more than 25,000 establishments, ranging from small grocery shops and restaurants to physicians' clinics and large companies. The first version is expected to be published in December 2008. Almost 100,000 copies will be distributed in the West Bank and Gaza Strip, revenue to be earned from extra marketing rather than the standard three line entry in the book. Yellow Pages Palestine also has a web presence.¹³

PSE in English

After a decade of trading, the Palestinian Stock Exchange (PSE) released its first English language guide to companies listed on the PSE. The 300 page investment guide provides statistical information about the Palestinian Economy in 2007 as well as documenting developments within the PSE. It dedicates five pages to each publicly listed company and provides details of the Board of Directors, financial performance and activities for three fiscal years and the market values of the company's shares. The PSE represents, says Khalid Hasan Jian, Acting Executive Manager 'one of the most important foundations of transparency in the financial market.'

Although there are 114 Public Shareholding Companies, only 35 are listed on the PSE since many are too small to be qualified for listing. The Services sector has the largest market capitalization at \$1bn and accounted

⁹ See: www.un.org/unrwa/publications/pubs08/RapidAssesmentReport_May08.pdf

¹⁰ See: http://db.mop.gov.ps/amc/prdp_programs.asp

¹¹ See: <http://ochaonline.un.org/cap2005/webpage.asp?Page=1667>

¹² LACS Minutes of Agriculture Sector Working Group 25 June 2008

¹³ See: www.yellowpages.com.ps

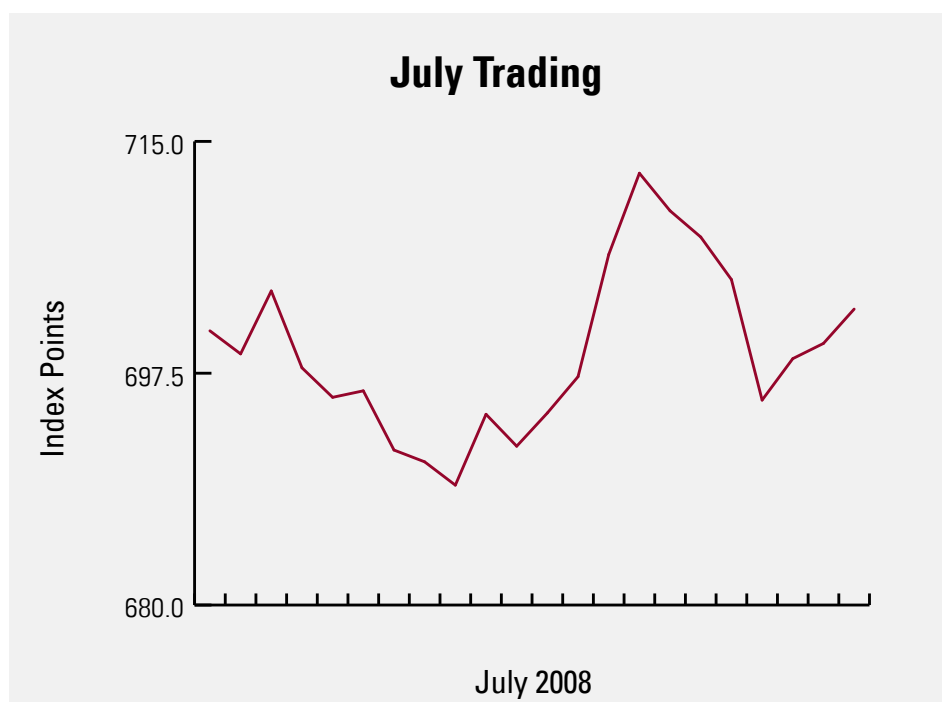
for 25% of the total value of traded shares. The banks, whose market capitalization was less than half of that of the service sector, accounted for 42% of the value of shares traded on the PSE.

In 2007, the market capitalization of the exchange decreased by 9.3%, with the Al-Quds Index declining by 12.9%. However, the PSE shareholders' base rose from 70,000 to nearly 110,000 by the end of 2007. As of April 2008, there were a total of 12,433 registered Palestinian Companies in the West Bank and 8,542 in the Gaza Strip.

July Trading

The Al-Quds index increased by 2.1%, or 14.34 points, to reach 702.34 points on the last day of trading in July. The index peaked at 712.6 points in the third trading week.

In the 22 trading sessions of July, 13.7 million shares changed hands, which represents a decrease of 63% compared with June 2008 (37.1million shares). The value of traded shares in July 2008 decreased by 61% to \$47.4m. The accumulative market capitalization increased by 3%, reaching \$3.2bn in July.



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

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