

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Palestinian Central Bureau of Statistics reports that GDP is largely unchanged, decreasing by less than 1% in Q3 2009 compared to Q2 2009. A 5.5% increase was reported compared to the same period last year.

Research by the Palestinian Federation of Industries estimates the blockade of Gaza is causing annual losses of \$55m for Palestinian industrial firms. It also found that 55,000 truckloads of raw materials are required to meet the needs of reconstruction.

Groundbreaking of Rawabi, the first Palestinian planned city, took place in the first few days of 2010. Palestinian companies have been awarded major contracts for the project.

The European Investment Bank announced €5m anchor investment into the Middle East Venture Capital Fund. Once launched it will be the first venture capital fund in the Palestinian Territory and will target the ICT sector.

UNRWA Funding Issues

On 14 December, at a meeting of the Arab League, UNRWA's Commissioner-General, Karen Abu Zayd, launched a \$323m appeal for funding to cover UNRWA's emergency programmes in 2010. This includes the provision of food and water, as well as cash handouts. Some donors have already responded and \$2.5m has been committed by the United Arab Emirates, \$1m by India and €1m by Italy. Mauritania, Egypt and Qatar have also each donated \$20,000, \$25,000 and \$50,000 respectively. Based on the immediate response, and last year's overall commitments from donors, UNRWA expect to secure enough funding to see their emergency service provision maintained at current levels throughout 2010.¹

However, UNRWA's official spokesperson, Christopher Gunness, told the Bulletin that the organisation's financial health remains a cause for concern. Alongside the emergency fund, UNRWA's General Fund provides core education, healthcare and social services. According to Gunness the working capital of the General Fund dropped to -\$7.4m at the beginning of December 2009. Whilst the budget was balanced by the end of December, the General Fund starts 2010 with no operational reserves and a projected deficit of \$54m if donors do not increase their funding this year.

In December the European Union pledged €10m to UNRWA's education programmes and the UK donated £5m for the salaries of teachers working in UNRWA schools. Despite these pledges, Gunness said that the capacity of the General Fund to meet its current commitments, costing approximately \$34m per month, is still being determined on a month by month basis. This includes the salaries of UNRWA's 30,000 employees. To remedy the situation, cuts to services are under consideration, including a reduction in key medical treatments.

UNRWA Director of Operations in Gaza, John Ging, told the Bulletin that cuts to services in Gaza would have a devastating impact. 'The most basic medical services are already on the brink of collapse, while the impoverished education system is completely overwhelmed by the 450,000 children in Gaza. A lack of education spells doom for an entire generation, and dampens prospects for recovery and future development in Gaza' he said. There could also be a wider economic impact if UNRWA jobs have to be cut or salary payments are delayed.

UNRWA officials have attributed the financial crisis to two factors. First, there has been an increase in the number of individuals dependent upon UNRWA assistance. Second, there has been a decline in the contributions of major donors. Arab states, for example, previously pledged to provide 8% of the organization's operating budget, yet only contributed the equivalent of

¹ See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=244191> and <http://www.jordantimes.com/?news=22270> and <http://www.maannews.net/eng/ViewDetails.aspx?ID=241748> and http://www.itcoop-jer.org/newsletter_ing/index.php?subaction=showfull&id=1257244851&archive=&start_from=&ucat=4& and <http://www.jordantimes.com/?news=22270>

1% last year.² In addition the salaries and pensions of UNRWA staff in the West Bank, Gaza and Jordan have recently been increased due to inflationary pressures with staff in Lebanon and Syria expected to receive similar wage increases.³ Guinness also highlighted the problems associated with UNRWA's continuing status as a temporary organisation. In contrast to other UN agencies, which have centrally assessed budgets and receive regular and consistent payments, UNRWA relies almost entirely on voluntary and ad hoc contributions.

GDP

Preliminary national accounts' estimates show that Palestinian GDP for Q3 2009 was \$1.24bn, indicating a less than 1% change in the performance of the economy compared with Q2 2009 (GDP \$1.25bn). However, GDP has increased 5.5% from Q3 2008 (\$1.18bn) on account of increased activity in the first six months of 2009. GDP per capita for Q3 2009 is estimated to have been \$335, a decrease of 1.1% compared with Q2 2009 (\$339) but an increase of 2.5% compared to Q3 2008 (\$327).

The value added of agriculture was \$41.1m, 17.3% lower than Q2 2009 (\$49.7m) and 17.6% lower than Q3 2008 (\$49.9m). This is largely due to the two-year olive cycle. Construction fell, by 9.4%, from \$77.6m in Q2 2009 to \$70.9m in Q3 2009. However compared to the same period last year construction showed a 31.3% increase. A similar pattern is seen in the value added of real estate, renting and business services, which decreased by 9.2% during Q3 2009 from \$125.3m in Q2 2009 to \$114.7m but increased by 14.7% compared with Q3 2008 (\$100m). The value added of hotels and restaurants showed significant increases with a value added of \$31.2m for Q3 2009, which is 20% and 36.2% greater than in Q2 2009 (\$26m) and Q3 2008 (\$22.9m) respectively.

The contribution of the different economic sectors to GDP has varied little. Public administration and defence contributed 14% of value added in Q3 2009; wholesale and retail trade 10%; manufacturing 10%; transport storage and communications 9%; real estate, renting and businesses services 9%; agriculture and fishing 3% and construction 6%.⁴

Financial Losses from Gaza

Research by the Palestinian Federation of Industries (PFI) indicates that the annual financial losses of Palestinian industrial firms from the blockade on Gaza are \$55m (\$43m for West Bank firms and \$12m for Gazan firms). The losses are a consequence of the lost internal trade and limited availability of raw materials.

The research also examined the raw materials required for Gaza reconstruction and for restarting industrial production and the capacity of the border crossings between Gaza and Israel, and Gaza and Egypt. It is estimated that the Gazan industrial sector currently requires 55,000 truckloads of raw materials for reconstruction, including 50,000 tons of iron for the rebuilding of damaged buildings. If Gaza's borders were fully open it is predicted that 240,000 truckloads would need to pass through Gaza's crossing points to meet the needs of the population and the reconstruction effort. At present the total capacity of Gazan crossing points is approximately 210,000 truckloads per year.

PFI Director Amr Hamad presented the results of the research on 16 December during a workshop held at the Gaza Grand Palace Hotel. Hamad appealed to the donor community to help open channels of trade between the West Bank and Gaza. He also urged donors to purchase materials from Palestinian suppliers rather than importing them and emphasized the need to improve the capacity and efficiency of border crossings.

Rawabi Groundbreaking

In the very first days of 2010 construction commenced on Rawabi, the first Palestinian planned city situated 9km outside Ramallah.⁵ Bulldozers and heavy machinery are now on site and excavation works are underway. Final approvals from the Palestinian Ministry of Local Government were received in December, paving the way for groundbreaking.

Rawabi has, however, still to secure the full amount of infrastructure funding required and the necessary Israeli approvals for the main access road, which crosses through Area C land. Verbal assurances have been given that the approval will be forthcoming.⁶

In the meantime, Bashar Masri, the Managing Director of Bayti Real Estate Investment Company, which is a joint venture between Qatari Diar Real Estate Investment Company and Massar International and developer for the project, is undeterred and pushing forward to ensure that 'the city of Rawabi will still come to fruition'.⁷

Bayti hopes to start laying the foundations of the residential buildings in May 2010 and complete the first housing units two years later. The development is expected to create thousands of temporary and permanent jobs for local citizens. Palestinian companies have been awarded major construction contracts in

2 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=243640>

3 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=247108>

4 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PressQ3-09_%20E.pdf

5 See February 2009 Bulletin for further background on Rawabi.

6 Area C land is under full Israeli control, both administratively and militarily.

7 See: http://www.rawabi.ps/press_show.php?id=11&page=no

order to capitalise on local expertise, skilled labour and Palestinian products.⁸

Venture Capital for ICT

On 22 December the European Investment Bank (EIB) announced a €5m 'anchor' investment into the new Middle East Venture Capital Fund. The fund will target early stage export-orientated ICT enterprises with an emphasis on software development and web-based companies. In order to close and begin operations it is expected that further investment of around \$30-35m will be required. It will be the first venture capital fund in the Palestinian Territory once launched.⁹ The fund's management told the Bulletin that at least two US-based international financial institutions have committed to making "significant" or "lead" investments in the project and negotiations with other possible investors are ongoing.

ICT is the only economic sector to have shown almost uninterrupted growth over the past decade and contributed approximately 5% to Palestinian GDP in 2008, compared to 3% in 1999.¹⁰ Palestinian technology start-ups benefit from a highly educated labour force and the sector is, in general, not affected by political instability or restrictions on movement and access.

Laith Kassis, CEO of both the Palestine Information Technology Association (PITA) and the Palestine ICT Incubator (PICI), told the Bulletin that the new fund will fill a gap in the market and prove critical to the development of the sector. Kassis emphasized that the provision of risk capital is only one potential benefit of the fund; equity-based investments also provide access to the expertise and international networks that are so important to effective business development. He indicated that a fully capitalised fund would create approximately 12 immediate investment opportunities for existing businesses seeking to expand and additional opportunities for the establishment of new enterprises.

Agriculture

Palestinian Central Bureau of Statistics' (PCBS) agricultural statistics, released on 27 December, show that the value of Palestinian agricultural production rose 23% from \$1.1bn in 2006-07 to \$1.4bn in 2007-

08.¹¹ 61% of agricultural production was plant-based (\$832m) and 39% was livestock (\$535m). The value of livestock production rose by 32%, from \$403m in 2006-07 to \$535m in 2007-08. The value added of agricultural production increased 77%, from \$496m to \$876m in the same period.¹²

The Ministry of Agriculture is in the process of updating its policy and strategy, which was first drafted in 1999, as part of the PA's medium term planning process. On 8 December, Minister for Agriculture Dr. Ismail Deiq, presented an overview of 14 new policy proposals at a meeting of the Agriculture Development Committee. The Committee is comprised of representatives from farmer's unions, the private sector and agricultural cooperatives from Nablus, Tubas, Jericho and the Jordan valley.

The proposals include new strategies for exports, the construction or rehabilitation of facilities for packaging, sorting, grading and freezing produce, better marketing of agricultural produce, and dissemination of industry news and agricultural techniques. Additionally, the Ministry aims to increase the quantity of water allocated to domestic agriculture. This will be achieved through the implementation of a water harvesting project and the construction of new wells.¹³

Attitudes to Insurance

A survey on Palestinian attitudes towards insurance, published on 9 December, has found that 30% of Palestinians have an insurance policy (37% in the West Bank, 18% in Gaza). Of these 2% have life insurance, 33% have health insurance and 74% have car insurance. The survey was commissioned by the Academy for Educational Development (AED) and conducted by Palestinian research organisation Alpha International.

Face to face interviews were conducted during the last two weeks of October in the West Bank and Gaza Strip. Over 1200 people aged 25 and above were surveyed. The questions focused on ownership of insurance products and the type of coverage chosen.

The survey also showed that 88% of respondents think that insurance is an important way of protecting oneself from risk. 80% said that having an insurance policy provides a sense of safety. Only 36% of respondents think that the different types of insurance policies available in the Palestinian Territory are sufficient to cover the various forms of risk.¹⁴

8 See: <http://www.sahem.ps/news.php?id=727&month=1>

9 See: <http://www.eib.org/about/press/2009/2009-269-european-investment-bank-supports-middle-east-venture-capital-fund-first-venture-capital-fund-in-palestinian-territories.htm?lang=en> and <http://www.eib.org/projects/pipeline/2009/20090347.htm>

10 See: http://thegovmonitor.com/world_news/europe/eib-makes-e5-million-anchor-investment-in-palestinian-territories-19477.html and <http://www.pita.ps/newweb/pdfs/PITA-ICT%20Study%20final%20copy%20.pdf>

11 The Palestinian agricultural year runs from October to October.

12 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/agri_stat_E.pdf

13 See: <http://web.alquds.com/node/220155>

14 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2281

Inflation

PCBS figures released on 14 December showed that the Consumer Price Index remained steady throughout November and only marginally increased, by 0.6%, from October. This follows a series of relatively small changes throughout the previous 12 month period, which collectively gave a total increase of 3.2% compared to November 2008.¹⁵

	N08	D08	J09	F09	M09	A09	M09	J09	J09	A09	S09	O09	N09
CPI	123.1	122.4	121.6	121.5	122.8	122.6	123.05	123.5	124.2	125.6	126.28	126.22	127.01
% change	-0.84	-0.52	-0.71	-0.03	1.05	-0.21	0.4	0.35	0.6	1.11	0.54	-0.04	0.63

Housing has seen some of the greatest price increases in recent months, rising by 1.7% in November and 0.9% in October. Significant increases were also recorded in November in the transportation group (1.2%) and the food and soft drinks group (0.6%). Prices in the communications group, whilst steady in November, decreased by 3% in October 2009.

US Support to the PA

In December, US President Barack Obama signed the 2010 Foreign Aid Budget Law which allocates \$500m in aid to the PA for the year, \$100m of which is earmarked for training the Palestinian security forces. As in previous years, aid will only be transferred to a Palestinian government that recognises the conditions of the International Quartet. On 14 December, the US transferred \$75m in budget support to the PA. This is a 50% advance on the pledged budget support for the PA from the US for 2010.¹⁶

¹⁵ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/cpi_11-09e.pdf and http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_10_2009e.pdf

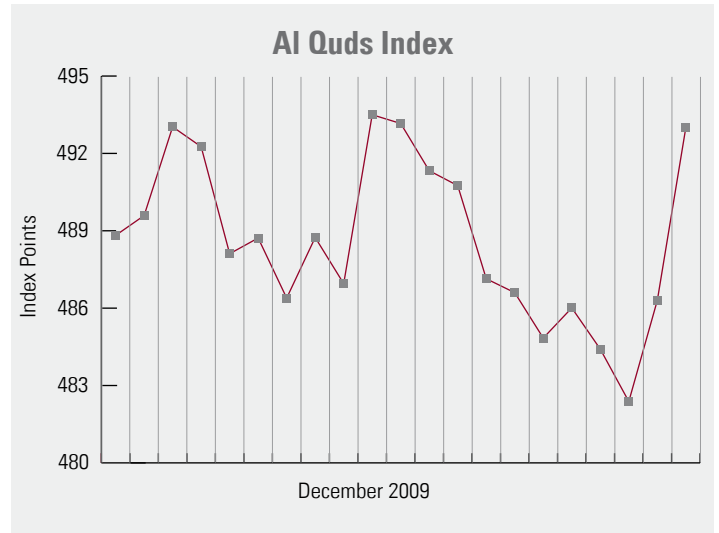
¹⁶ See: <http://www.ynet.co.il/english/articles/0,7340,L-3821976,00.html> and <http://www.maannews.net/eng/ViewDetails.aspx?ID=246950>

Building Licenses

1,296 building licenses were issued in the West Bank in Q3 2009 - a decrease of 1% compared with Q2 2009 (1,309) but an increase of 18% compared with Q3 2008. The licenses affect 1,806 dwelling units with 382,000m² designated for new areas and 128,200m² for existing areas.¹⁷

December Trading

The AI Quds index decreased by 1.8%, or 9.1 points, to 493 points on the last day of trading in December. In 21 trading sessions, 18.7 million shares changed hands, an increase of 115% compared to November 2009 on account of the low trading levels during the Eid holidays. The value of traded shares in December was \$34.2m and market capitalisation stood at \$2.4bn.



¹⁷ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/license-eq1-09.pdf and http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/license_eq_309.pdf

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