

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Already diminished in May, traffic in and out of Gaza almost completely ceased in mid-June when Hamas seized control of the Strip. Gaza's two primary passages for commercial traffic were virtually closed, with only isolated shipments of grain allowed through the Karni crossing and a trickle of people allowed through Rafah. Limited quantities of some essential goods were, however, able to pass through secondary crossings.

From January to March, for the third straight quarter, Palestinian GDP declined. It was down 4.2% compared to the last quarter of 2006 and down 13.4% compared to the first quarter of 2005. With the population rising, this meant an even steeper decline in GDP per capita.

Household consumption, supported by borrowing, declined only slightly in 2006, but the pattern of consumption shifted ever more heavily toward essential goods. Prices also rose in May, reversing a three-month decline.

British Gas, which had expected to announce an agreement to deliver gas from Gaza to Israel, said political uncertainty arising from Hamas' takeover of the Strip would postpone the deal. Hamas said that in principle it accepted the agreement, which was expected to be worth \$1bn to the Palestinian economy.

Minister: New government will revitalise economy, fight unemployment

Dr. Samir Abdullah, who was recently appointed Minister of Planning and Minister of Labour, spoke to the Bulletin about the priorities of the new emergency government. While acknowledging the Palestinian economy faces formidable challenges, Dr. Abdullah sounded a note of cautious optimism about its prospects.

Israel has begun transferring some of the approximately \$600m in tax revenues which it had been collecting on behalf of the PA but withheld since Hamas' assumption of power last year. International donors have also shown a willingness to support the new administration and are currently considering the size and shape of potential contributions. One likely use of the infusion of money is to pay down public-sector salary arrears, which have mounted to over \$600m.^[1] Unpaid PA bills from the private sector, meanwhile, total over \$350m, Dr. Abdullah estimated.

He said the new administration would aim to clear these debts within six months. He added that the Temporary International Mechanism, through which many public-sector employees had been paid, would be phased out over the next three months, after which budget support would be routed through the Single Treasury Account at the Ministry of Finance, as it was before Hamas' assumption of power.

Asked about salaries for government employees in Gaza, where over 40% of jobs are in the public sector, Dr. Abdullah said that they would be paid as long as workers continued to answer to the government of President Mahmoud Abbas. He stressed that while the emergency administration wanted to isolate Hamas, it had no wish to cause suffering among the people of Gaza.

As for his own ministerial responsibilities, Dr. Abdullah said that the Ministry of Planning would work with the public and private sectors, as well as with NGOs, to update its medium-term development plan. The Ministry of Labour hoped to initiate new employment generation schemes. It will also focus on kick-starting the Palestinian Fund for Employment and Social Protection in cooperation with the International Labour Organization.

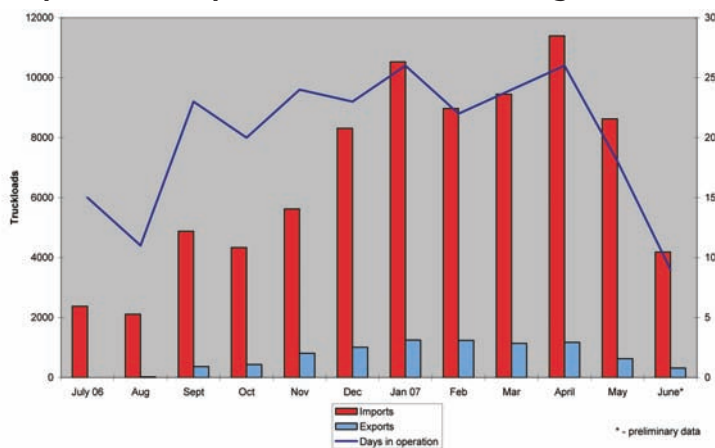
Gaza virtually sealed off

Even before the Hamas takeover of Gaza in mid-June, the Karni crossing between Israel and Gaza was fully operational for only 18 days in May, the worst monthly performance in 2007 up to that date.^[2] This was despite the terminal's newly extended operating hours, which, although notionally running until 11pm, were actually operating on only three days. Imports into Gaza fell 24% to 8,624 truckloads; exports fell 46% to 630 truckloads.

^[1] See *Palestinian Economic Bulletin No. 8, May 2007*

^[2] See http://www.paltrade.org/cms/images/enpublications/World_Bank%20Monthly-%20Report-%20May%202007.pdf

Imports and exports at the Karni crossing



Beginning on 12 June, which fell in the midst of Hamas' takeover of Gaza, Karni was closed to all traffic except for several thousand metric tons of wheat allowed through on 28 and 29 June on humanitarian grounds.^[3] The Erez crossing remained open for shipments of medical supplies and for emergency medical cases. Some additional basic goods, mostly foodstuffs, were allowed through the secondary passages at Kerem Shalom and Sufa, but these crossings are not large enough to handle shipments of the size of those passing through Karni at the end of June.

The UN's Office for the Coordination of Humanitarian Affairs (OCHA) estimated that towards the end of the month, imports were meeting only a fifth of Gaza's basic daily consumption needs, leaving it with less than 10 days' supply of flour and sugar.^[4] More recently, however, OCHA was reporting that by the last few days of June, imports were beginning to filter in again and were meeting 70% of Gaza's minimum food needs.^[5]

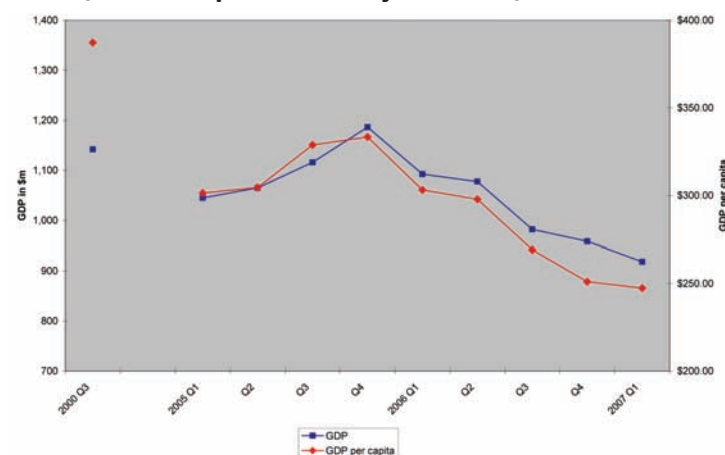
Closing the crossings had economic effects beyond disrupting the supply of staples. OCHA estimated that the closures had caused 75% of factories in Gaza to shut down or operate at less than 20% of capacity. Gaza also, under normal circumstances, consumes about 15% of the fruit grown in Israel, and the effective sealing off of the Strip forced the destruction of some crops.^[6] Losses to Israeli fruit growers exceeded \$5m in June.

Gaza's only other passage for general imports and exports, the Rafah border crossing with Egypt, has been formally closed since the European Border Assistance Mission, which monitors the crossing, suspended its operations on 13 June. Approximately 6,000 Palestinians have been stranded on the Egyptian side of the border.

GDP continues to decline

Palestinian quarterly GDP fell for the third time in a row, according to preliminary estimates by the Palestinian Central Bureau of Statistics (PCBS).^[7] Compared to the previous quarter, GDP in the first quarter of 2007 was down 4.2%; compared to the same quarter a year ago, it was down 13.4%. The decline in GDP per capita, due to a rising population (see below), was even more dramatic: down 5% over the previous quarter and 15.9% over the same quarter a year ago. Between 2005 and 2006, annual GDP fell 8.8%.

GDP (constant prices, base year 1997)



In light of this data, earlier assessments of Palestinian economic performance in 2006 seem to have underestimated the effects of the withdrawal of international aid following Hamas' assumption of power in March of last year.^[8] These latest first-quarter figures are more likely to accurately reflect the state of the Palestinian economy, which has been enduring a prolonged recession, even if they are later revised upward as much as the 5.4% that the previous quarter's were.

The sectors experiencing the biggest declines, in terms of the value they added, were real estate, renting, and business services (-30.5%); agriculture (-24.6%); and mining, manufacture, water, and electricity (-9.4%). Sectors experiencing increases included the hotel sector (36.2%), construction (17.2%), and wholesale and retail trade (10.3%). The fractions of GDP contributed by the two Palestinian economic mainstays, agriculture and manufacturing, declined compared to the previous quarter: agriculture from 12.7% to 8.5%, manufacturing from 12.1% to 11.4%. Meanwhile, the relative contributions to GDP of the transport sector and of the wholesale and retail trade sector both rose, from 12% to 13.7% and from 9.7% to 11.2%, respectively.

^[9] See http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/exp_e.pdf

^[10] See http://www.oxfam.org/en/news/2007/pr070613_palestine_aid

^[11] See http://pcbs.gov.ps/Portals/_pcbs/PressRelease/Press_e_%2007_5.pdf

^[12] See *Palestinian Economic Bulletin* No. 9, June 2007

^[13] See <http://www.globes.co.il/serveen/globes/docview.asp?did=1000223689&fid=942>

^[14] See <http://quote.bloomberg.com/apps/news?pid=20601207&sid=atzXzArJprGg&refer=energy>

Some shifts in the weight of various sectors were seasonal, mirroring shifts seen in previous first quarters. Agriculture's share of the economy peaks in the fourth quarter when the olives ripen; electricity consumption is higher in the cold months; construction waxes with the length of days.

Consumption level stable, but pattern shifts

Despite a decline in per capita GDP, according to the 2006 consumption survey by the Palestinian Central Bureau of Statistics (PCBS), Palestinian household consumption, buoyed up by borrowing, fell only a little (-0.6%) from 2005 to 2006.^[9] The decline shows up, rather, in the pattern of consumption: a much smaller proportion of spending went to non-essential items. Spending on clothing and footwear fell by 8%, on recreation by 21%. Spending on medical care, by contrast, rose 31%. Worryingly, spending on education fell by 19%.

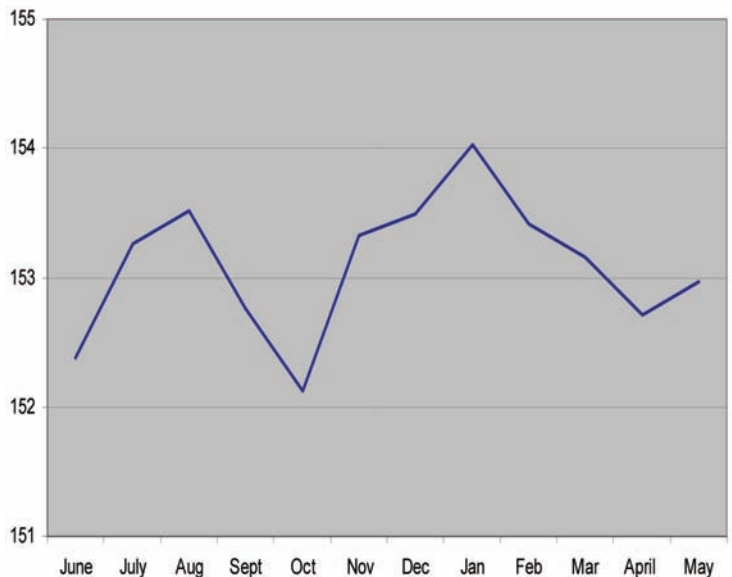
Debt rises in majority of Palestinian households

According to Oxfam International, 68% of households in Gaza and 53% in the West Bank took on more debt last year.^[10] The average Palestinian household owed \$1,750. A third owed more than \$2,500. Two in five had been forced to sell off personal assets like jewellery and furniture in order to afford basic services. Oxfam observed that the borrowing was driven by the unreliable payment of salaries to the 161,000 public-sector employees of the PA since Hamas assumed government power last March. The charity estimated that about one million Palestinians depend directly or indirectly on a wage earner in public employment.

Three-month fall in prices reversed

Prices rose by 0.17% in May, the first increase in the consumer price index (CPI) since January.^[11] The reversal was particularly pronounced for food prices, which rose 1% in the West Bank after having fallen 3.3% since their January peak. The extended decline in food prices had largely accounted for the fall in the CPI over the same period, but the cost of food for the average West Bank household has now nearly returned to its level at the end of 2006. Also rising was the cost of transportation and communication (up 1.02%), while the cost of textiles, clothing, and footwear fell (-0.89%). Gaza's price rises matched the West Bank's (0.21%). East Jerusalem experienced a more modest increase (0.16%).

Consumer Price Index (Base Year 1996 = 100)



Uncertain future for British Gas deal

The Hamas takeover of Gaza in mid-June threw into doubt a deal between British Gas (BG) Group and Israel.^[12] Before events overtook negotiations, an agreement, under which BG would supply Israel natural gas from a large field off the coast of Gaza for 15 years, had appeared imminent. Israeli government officials now expect the agreement to be postponed until at least the end of 2007.^[13] Hamas for its part gave assurances that it would not block the deal outright, suggesting, however, that the agreement might need to be revised.^[14] The deal was expected to contribute about a billion dollars to the Palestinian economy. According to a BG spokesperson contacted by the Bulletin, negotiations continue.

Stock market

The Al-Quds index of 12 leading shares fell 6% from 11-14 June, during the fighting that resulted in Hamas' takeover of Gaza, but then recovered strongly upon the formation of the new emergency government. In the three trading days that followed the 17 June announcement of a new cabinet, the index rose by 13% in anticipation of a surge of cash flowing in from the release of Israeli-held clearance revenues and from international donors.

Jittery investors traded 36.8 million shares in 20 sessions, an increase of 44.8% compared to May. The value of the shares traded in June was \$81.3 million, up by 32% from the previous month. The Al-Quds index finished the month up 1%.

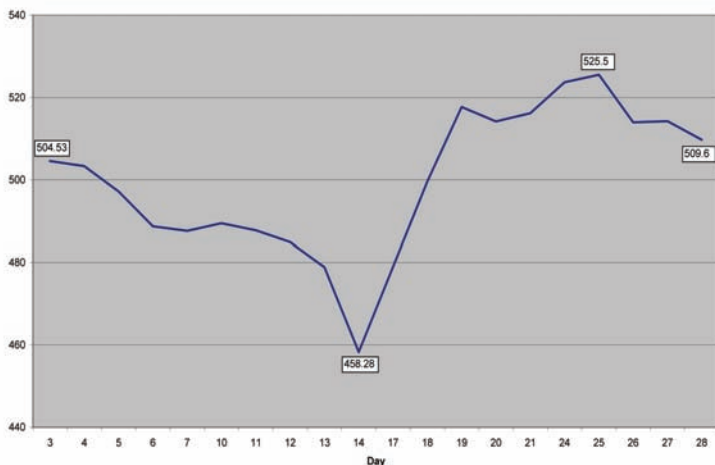
^[9] http://www.lcf.ps/file/download/aid_news/USAIDSMARTProgram.pdf?version_id=80090

^[10] See http://pcbs.gov.ps/Portals/_pcbs/PressRelease/CPIApril07_E.pdf

^[11] See http://www.paltrade.org/cms/images/enpublications/World_Bank%20Monthly-%20Report-%20April%202007.pdf

^[12] See http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/E_F_%20apr.pdf

June Al-Quds stock market index



Palestinian population passes the four million mark

The Palestinian Central Bureau of Statistics (PCBS) projected the number of Palestinians living in the West Bank would be 2,517,047 by 1 July 2007, while the population of Gaza would reach 1,499,369, putting the total population of the Palestinian Territories at 4,016,416. This represents a 3.2% increase over the previous year.^[17] Some commentators, however, question this politically consequential figure, believing that PCBS's methodology, based on population growth rates, overestimates the true number.

Industrial production index falls

An index newly inaugurated by the Palestinian Central Bureau of Statistics (PCBS) showed that industrial production fell 0.16% in the first quarter of 2007 compared to the 2006 average.^[15] The biggest declines in large sectors occurred in electricity production (-14.1%), manufacturing (-7.3%), and water supply (-9.1%). The biggest increases in large sectors were in the production of tobacco (21.9%), textiles (19.2%), and coke and refined petroleum products (18.8%).

As this was the first quarter measured by the PCBS index, the large swings in the industrial production figures, besides capturing real changes, may also reflect a fledgling survey methodology or may, especially when it comes to electricity, water, and tobacco, be the result of comparing quarterly data subject to seasonal variation with a yearly average. The Bulletin will continue to follow this index.

Al-Quds Electricity Company to connect Jericho to Jordanian grid

The Al-Quds Electricity Company obtained from Israel the permit it needed to bring electricity from Jordan to the Jericho Governorate.^[16] It planned to begin stringing the 8km connection to the Jordanian Electricity Company in late June, funded by a long-term \$5m loan from the Islamic Development Bank and a \$1m grant from Norway.

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^[15] See http://pcbs.gov.ps/Portals/_pcbs/PressRelease/PressIIP_07_E.pdf

^[16] See Al-Quds, 21 June

^[17] See http://www.pcbs.gov.ps/Portals/_pcbs/populati/demd1.aspx