

Palestine Macroeconomics in Q2 2012

Macroeconomics Overview of Palestine

Second Quarter 2012 and Latest Data Overview

- Preliminary estimates at constant prices showed an increase of 7.7 percent in GDP in the Palestinian Territory during the 2nd quarter 2012 compared to the 2nd quarter 2011, and it showed an increase of 9.0 percent at constant prices compared to the 1st quarter 2012 which recorded a decline of 3.1% compared to the 4th quarter 2011, noting that the base year is 2004. In the West Bank, GDP increased by 6.0 percent during the 2nd quarter 2012 compared to the 2nd quarter 2011. In Gaza Strip, GDP increased by 12.0 percent during the 2nd quarter 2012 compared to the 2nd quarter 2011. GDP for the 2nd quarter 2012 at constant prices was USD 1,203 million for the West Bank and USD 519 million for Gaza Strip.

Economic Indicator	Q2 2011	Q2 2012	Δ
GDP (\$ millions)	1,598.20	1,722.00	7.75%
GDP Per Capita	408.5	427.1	4.55%
Unemployment Rate	18.7	20.9	11.76%
Labor Force Participation Rate	42.7	43.6	2.11%

- GDP per Capita for the Palestinian Territory at constant prices was USD 427 during the 2nd quarter 2012; it showed an increase of 4.6 percent compared to the 2nd quarter 2011. As for the West Bank at constant prices it was USD 502 during the 2nd quarter 2012, it showed an increase by 3.2 percent during the 2nd quarter 2012 compared to the 2nd quarter 2011, and for Gaza Strip was USD 317 during the 2nd quarter 2012, and it showed an increase by 8.3 percent during the 2nd quarter 2012 compared to the parallel quarter 2011.
- Unemployment Rate in Q2 2012:** Unemployment rate in the Palestinian Territory was 20.9 percent for the 2nd quarter 2012, while it was 23.9 percent during the 1st quarter 2012 and 18.7 percent during the 2nd quarter 2011. The unemployment rate was 20.9 percent in 2011, 23.7 percent in 2010, 24.5 percent in 2009, and 26.6 percent for 2008. The unemployment rate in the West Bank for the 2nd quarter 2012 was 17.1 percent, compared to 20.1 percent during the 1st quarter 2012 and 15.4 percent during the 2nd quarter 2011. In Gaza Strip, unemployment rate was 28.4 percent for the 2nd quarter 2012, compared to 31.5 percent during the 1st quarter 2012 and 25.6 percent during the 2nd quarter 2011.
- Labor Force Participation Rate in Q2 2012:** The number of persons participating in the labor force in the Palestinian Territory was about 1.109 million in the 2nd quarter 2012: about 738 thousand in the West Bank and about 371 thousand in Gaza Strip. The labor force participation rate in the West Bank was 45.4% and 40.3% in Gaza Strip, the gap in the participation rate between males and females still very big it reached 69.2% for males compared with 17.3% for females.
- Wholesale Price Index (WPI) in Q2 2012:** The overall Wholesale Price Index (WPI) in the Palestinian Territory with its base year (2007=100) reached 117.59 in the 2nd quarter 2012, which indicates a decrease by 2.15% compared to the 1st quarter 2012. Wholesale Price Index for imported products (2007=100) reached 119.70 in the 2nd quarter 2012, which indicates a decrease by 0.37% compared to the first quarter 2012. Wholesale Price Index for local products (2007=100) reached 117.08 in the 2nd quarter 2012, which indicates a decrease by 4.26% compared to the first quarter 2012.
- The Palestinian Balance of Payment (BoP) in Q2 2012:** The deficit of the Palestinian Balance of Payments Account (BoP) amounted to \$793.6 million (29.5% of the GDP at current prices for the 2nd quarter of 2012) with an increase of 4.0 % compared to the 2nd quarter 2011. The deficit of Current Account was caused mainly by the deficit in the Trade Balance of goods which was \$1 237.5 million (46.0% of the GDP at current prices) with an increase of 4.0 % compared to the 2nd quarter 2011. The deficit in Services Balance amounted to \$90.9 million with an increase of 20.9% compared to the 2nd quarter 2011. The increase in this deficit was caused by the shrink of the exports in transportation services in addition to the increase of the imports in personal and cultural services and government services.
- Consumer Price Index (CPI) August 2012:** The overall Consumer Price Index (CPI) for the Palestinian Territory during August 2012 increased by 1.51% compared with July 2012 (2.23% in the West Bank, 1.58% in Jerusalem (those parts of Jerusalem which were annexed by Israel in 1967), 0.35% in Gaza Strip).

- **Producer Price Index (PPI) - August 2012:** The overall Producer Price¹ Index (PPI) for the Palestinian Territory with its base month (January 2011=100) reached 104.08 in August 2012, it increased by 3.39% compared to July 2012.
- **Industrial Production Index (IPI) July 2012:** The overall Quantity of Industrial Production Index (IPI) in the Palestinian Territory reached 116.36 in July 2012 (base month January 2011=100) with an increase of 1.46% compared to the previous month (June 2012). Quantity of Industrial Production Index for July 2012 increased due to the increase in the manufacturing industry by 3.50% compared to the previous month, which has a share of 80.56% from the total industry while water supply and electricity industry decreased by 6.27% compared to the previous month which has a share of 14.85% of the total industry, and mining and quarrying industry decreased by 0.85% during July 2012 compared to the previous month which forms a share of 4.59% of the total industry.
- **Exports & Imports July 2012:** Exports increased in July, 2012 by 2.3 percent compared to June, 2012 and increased by 14.3 percent compared to July, 2011 and reached USD 61.6 Million. Exports to Israel increased in July, 2012 by 1.0 percent compared to June, 2012. Also, exports to other countries increased by 13.5 percent during the same period compared to June, 2012. Exports to Israel represented 89.1 percent of total exports in July, 2012. Imports increased in July 2012 by 3.3 percent compared to June, 2012 and increased by 6.6 percent compared to July, 2011 and reached USD 367.5 Million. Imports from Israel increased by 3.5 percent in July, 2012 compared to June, 2012. Imports from Israel represented 64.9 percent of total imports in July, 2012. On the other hand, and imports from other countries increased by 2.9 percent compared to June, 2012. The trade balance which represents the difference between exports and imports showed an increase in trade deficit by 3.5 percent compared to June, 2012 and increased by 5.2 percent compared to June, 2011 and reached USD 305.9 Million.
- **Population June 2012:** the total population of the Palestinian Territory at mid 2012 was about 4.29 million; 2.18 million males and 2.11 million females. The estimated population of West Bank was 2.65 million of which 1.35 million males and 1.30 million females. While the estimated population of Gaza Strip totaled 1.64 million of which 835 thousand males and 809 thousand females. The percentage of urban population mid-2012 was about 73.8%, while the percentage of population in rural and camps areas was 16.8% and 9.4% respectively.

Economic Highlights from 2011

- **Poverty Line in 2011** :the poverty line and deep poverty line for the reference household (two adults and three children) stood at 2,293 NIS (637 US\$) and 1,832 NIS (509 US\$) respectively. Slightly more than one out of four Individuals (25.8%) was living below poverty line in 2011, (17.8% in the West Bank and 38.8% in Gaza Strip). Similarly about 12.9% of Individuals were living below the deep poverty line in 2011 (7.8% in the West Bank and 21.1% in Gaza Strip).
- | Location/2011 | Living below poverty line | Living below deep Poverty line |
|---------------|---------------------------|--------------------------------|
| West Bank | 17.80% | 7.80% |
| Gaza Strip | 38.80% | 21.10% |
- **Average daily wages ADW in 2011:** average daily wages in the Palestinian Territory showed no change in 2011 compared with 2010. ADW reached 91.1 NIS in Q4 2011 compared with 92.6 NIS in the third quarter of 2011 and 92.2 in 2010 Q4.
 - **Inflation rate:** In 2011, Palestine Territories y-o-y inflation rate witnessed the smallest rate with 2.9 percent, while it reached 4.4 percent, 10.1 percent, and 3.5 percent in Jordan, Egypt, and Israel respectively. In 2011 Q4 Palestine Territories' y-o-y inflation rate reached 2.3 percent compared with 3.4 percent, 8.5 percent, and 2.5 percent in Jordan, Egypt, and Israel respectively.
 - **Interest Rate Charge:** the banks in the Palestinian Territory are paying a lower deposit rate on NIS and JD deposits than that in Israel and Jordan, while they are paying almost the same rate on USD deposits as in the USA. Deposit rates in the Palestinian Territory are dependent on those in the countries of origin for currencies circulating in the Palestinian Territory. The interest rate on USD deposits in the Palestinian Territory was almost fixed during the recent years, while it increased from about 0.29 % in 2010 to about 0.30 % in the first three quarters of 2011. On the contrary, interest rates on NIS and JD deposits in the Palestinian Territory were relatively low compared to their counterparts in countries of origin. Deposit rates in the Palestinian Territory increased from about 1.1 % and 0.3 % on JD and NIS deposits respectively to about 1.2 % and 1.1 % during 2010 Q3 – 2011 Q3. At the same time, the interest rate on deposits in Israel increased from 1.7 % to 2.8 % during the same period, and it was relatively stable on the deposits in Jordan at about 3.4 %. In general, the lending rate on NIS loans is the highest among lending rates in the Palestinian Territory. Real deposit rates fluctuate around (-2.7% %), while real lending rates fluctuate around (5.2 %). Hence, the average real deposit rate on USD, JD and NIS, during 2009 –2011, was about -2.9 %, -1.8 %, and -2.7 %, respectively. While the average real lending rate on USD, JD, and NIS loans, during the same period, was about 3.2 %, 4.3 %, and 8.0 %, respectively.

- Per Capita Expenditure in the West Bank and Gaza Strip 2011 (Current Prices):** there is an increase in the monthly average of per capita expenditure in 2011 compared to 2010; in 2011, the per capita expenditure was 188.1 JDs in the West Bank, while it was 173.1 JDs in 2010, with an increase of 8.7 %. While in Gaza Strip the monthly average of per capita expenditure increased 2011 compared to 2010 by 6.5 %, the per capita expenditure was 109.8 JDs in 2011, while it was 103.1 JDs in 2010.
- International Investment Position (IIP) 2011:** The primary results of the IIP (external assets – foreign liabilities) for the Palestinian Territory by the end of 2011 revealed that the net IIP had amounted to about USD 721.0 million , which means that the Palestinian economy of its various sectors had invested outside Palestinian Territory by more than the investment amount in the Palestinian Territory from abroad. The cash deposits of local banks in foreign banks and foreign exchange in the Palestinian economy had contributed of major value in the external assets, which represented by 63.6% of their total value. The total stocks of External Assets for the Palestinian Territory (Stocks of residents in the Palestinian Territory invested abroad) had amounted to USD 5,233.0 million, The Foreign Direct Investment abroad had contributed to 3.7%, Portfolio Investments abroad reached 21.9%, while Other Foreign Investments abroad reached 64.9%, and Reserve Assets amounted to 9.5%. According to sectoral level, the external investments of banking sector had contributed a major value in the external assets, represented by 72.5% of the total value of external assets. The total stocks of Foreign Liabilities at the Palestinian Territory (Stocks of non- residents invested in the Palestinian Territory) had amounted to USD 4,512.0 million ,The Foreign Direct Investment in the Palestinian Territory had contributed 51.6%, Portfolio Investments in the Palestinian Territory reached 13.5%, and Other Investments in the Palestinian Territory amounted to 34.9%.

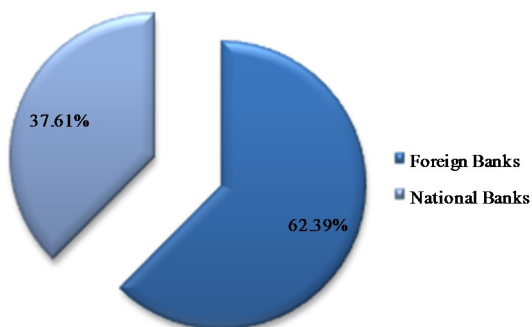
The Palestinian Banking Sector

Aggregated Items in 2011

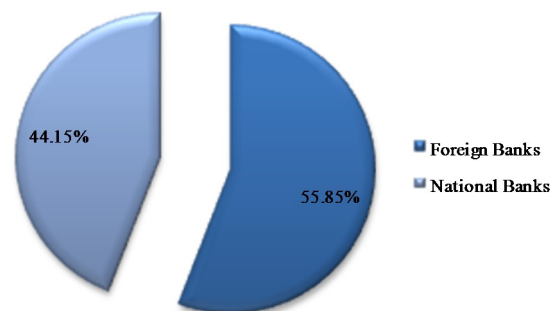
Aggregated Banking Sector's items (USD)/ 2011	Foreign Banks	National Banks	All Banks
Net Assets	5,626,154,740	3,489,735,358	9,115,890,098
Paid-up Capital	483,007,052	391,595,847	874,602,899
Equity	690,477,139	494,219,717	1,184,696,856
Net Income	81,699,325	47,326,568	129,025,893
Customer Deposits	4,417,593,562	2,555,084,906	6,972,678,468
Total Deposits	4,753,276,230	2,865,861,022	7,619,137,252
Total Direct Facilities	1,992,286,050	1,558,410,688	3,550,696,738
Net Direct Facilities	1,949,776,182	1,541,172,795	3,490,948,977
Indirect Facilities	469,034,973	374,434,708	843,469,681
Provisions	42,509,867	17,237,893	59,747,760
Investments	580,267,298	389,563,996	969,831,294

- The total number of banks operating in Palestine reaches 18 banks divided into 6 local banks, 2 Islamic banks and 10 foreign banks. According to the aggregated financial results of the entire banking sector operating in Palestine, net assets for all banks hit \$9.11 billion in 2011, foreign banks' net assets stood at \$5.62 billion; constituting 61.72% of the entire banking sector's net assets, while national banks' net assets aggregated at \$3.49 billion; constituting 38.28% of the entire banking sector's net assets.
- The entire banking sector's equity stood at \$1.18 billion in 2011, where foreign banks' equity hit \$0.69 billion; constituting 58.28% of the total banking sector's equity. On the other hand, national banks' equity constituted 41.72% of the total banking sector's equity to amount for \$0.49 billion.
- Foreign bank's deposits amounted to \$4.75 billion in 2011, constituting 62.39% from the entire banking sector's deposits that stood at \$7.62 billion, while national bank's deposits stood at \$2.87 billion, constituting 37.61% of the entire banking sector's deposits .
- Net direct facilities for national banks constituted 44.15% of the entire banking sector's net direct facilities , hitting \$1.54 billion in 2011, while the foreign banks' net direct facilities aggregated at \$1.95 billion in 2011; constituting 55.85% of the entire banking sector's net direct facilities that stood at \$3.49 billion in 2011.

Distribution of Total Deposits in 2011



Distribution of Net Direct Facilities in 2011



Update: Palestinian Banking Sector as of July 2012

- Based on an abstract statement on the performance of the banking system for the first seven months of the current year by The Inspection and Supervision Department at the PMA The volume of credit reached record levels as credit ratio comprised 55.4 percent of customers’ deposits. The ratio of outside placements & investments rose to 37.6 % of total deposits. Total paid-up capital stabilized at \$ 900 million while Owners’ equity rose by about \$27.9 million reaching \$1.22 billion that primarily resulted from the \$72.4 million rise in the realized profits during the first seven months of the current year.
- The assets of the banking system dropped during July by about \$ 96.2 million (1.1 %) to \$8.95 billion . According to data analysis, banks placements at PMA dropped by approximately \$68.2 million and the volume of credit by \$38.9 million (1.0 %) to about \$3.81 billion the reported drop of credit volume was due to the decrease of credit facilities granted to the public sector by \$68.3 (5.7%) reaching about \$1.136 million, and the increase of credit facilities granted to the private sector by \$29.3 million reaching \$2,674 million. Thus, comprising 71.2 % of total credit facilities compared with 29.8 % for the public sector.
- As a result of the above, the credit ratio dropped from 55.7 % to 55.4 % by the end of July 2012. This concurred with a drop in investments in the stocks and securities portfolio by about \$15.8 million reaching \$957.2 million. Whereas banks’ placements outside Palestine rose by \$37.5 million which led to a rise of outside placements and Investments by \$25.5 million (0.9 %) to almost \$2.78 million, comprising 37.6 % of total deposits compared with 36.8 % at the end of June.
- With regard to the liabilities’ side, Total deposits and customers’ deposits witnessed a decrease by almost \$101.4 million (1.4 %) and \$32.9 million (0.5 %) respectively. The total volume of total deposits reached \$7.39 billion by the end of July 2012 with customers’ deposits comprising \$6.88 billion at the ratio of 93 %.
- The banking system’s Owners’ equity rose by \$10.4 million (0.2 %) to \$1.22 million. This resulted in a rise in realized profits by almost \$10.9 million to \$72.4 million, while paid-up capital stabilized at \$900 million.

Palestinian Macroeconomics Historical Facts

Economic indicator	2004	2005	2006	2007	2008	2009	2010	2011
GDP (\$ million)	4,198	4,560	4,322	4,554	4,878	5,241	5,728	6,339
Δ	-	8.60%	-5.20%	5.36%	7.12%	7.44%	9.29%	10.67%
GDP per Capita	1,317	1,387	1,275	1,298	1,290	1,390	1,502	1,613
Δ	-	5.32%	-8.07%	1.80%	-0.62%	7.75%	8.09%	7.37%
Labor Force Participation Rate	40.4	40.7	41.3	41.9	41.3	41.6	41.1	43.0
Δ	-	0.74%	1.47%	1.45%	-1.43%	0.73%	-1.20%	4.62%
Unemployment Rate	26.8	23.5	23.6	21.5	26.0	24.5	23.7	20.9
Δ	-	-12.31%	0.43%	-8.90%	20.93%	-5.77%	-3.27%	-11.81%

Report's Sources

- Palestine Central Bureau of Statistics—PCBS.
- Palestine Monetary Authority—PMA

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