

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*Palestinian Prime Minister Dr. Rami Hamdallah and the Japanese Foreign Minister, Mr. Taro Kono, launched the second phase of the development of the Jericho Agro-Industrial Park (on 26 December 2017.*

*The United States Government announced on 16 January 2018 that it would with-hold \$65m out of a \$125m aid instalment earmarked for the UNRWA.*

*In response to a request from the PNA, the Government of Israel announced on 7 January 2018 the restoration of 50 MW of power to Gaza effective as of 8 January 2018.*

*The Palestinian Ministry of Education and Higher Education announced on 31 December 2017 the disbursement of NIS 6.12m (\$1.8m) to local universities to support scientific research.*

### Overview of Palestine's Economic Performance in 2017 and Forecasts for 2018

#### Economic Performance in 2017

According to preliminary estimates by the Palestinian Central Bureau of Statistics (PCBS), real GDP growth slowed down in 2017 to reach 3.2% compared to 4.1% in 2016.<sup>1 2 3</sup> This estimate is below a previous PCBS forecast<sup>4</sup> that predicted a 3.6% real GDP growth rate during 2017 and is closer to the Palestine Monetary Authority (PMA) forecast of 3.1% during the same period.<sup>5</sup>

As a result of slowing growth, the Palestinian labour market performed poorly during 2017. The PCBS has estimated that the unemployment rate reached 28.5% during 2017, an increase from 27.3% in 2016.<sup>6 7</sup> This estimate is higher than the December 2016 baseline scenario forecasts by the PCBS (27.2%) and the PMA (27.6%).

Despite the worrying political and economic prospects, there were a number of positive developments in the Palestinian economy during 2017.<sup>8</sup>

#### Strategic Projects

During 2017, the Palestinian private sector led by Palestine's national sovereign fund, the Palestine Investment Fund (PIF), commenced three strategic projects which aim to reduce resource-dependency on Israel and achieve energy security.

- The PIF is leading the construction of the first Palestinian conventional power plant in Jenin, with a total investment of over \$600m and a capacity of 450 MW. The construction of the plant, which began in 2017, is expected to be completed by June 2020.<sup>9</sup>
- In November 2017, Massader Company, PIF's investment subsidiary for energy and infrastructure, launched the Tubas Solar Power Plant, an \$11 million investment to bring 8 MW of solar capacity to the residential, agricultural and industrial sectors in the Tubas Governorate.<sup>10</sup>
- In a joint project, the PIF and the Jordanian Manaseer Group are leading the construction of the first Palestinian cement factory near Bethlehem with a total investment of around \$310m. Construction began in 2017 and is expected to be completed during 2018. The factory is expected to eventually produce enough cement to cover all the needs of the Palestinian market. Currently 90% of cement used in Palestine is imported from Israel and the remaining 10% comes from different countries (mainly Jordan and Egypt) for a total import bill of \$300m per year.<sup>11</sup>

1 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_GDP-28-12-2017-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_GDP-28-12-2017-en.pdf)

2 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_forca-26-12-2017-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_forca-26-12-2017-en.pdf)

3 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_28-3-2017-NA-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-3-2017-NA-en.pdf)

4 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_EcoForeCast2017E.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_EcoForeCast2017E.pdf)

5 <http://bit.ly/2n4gnNs>

6 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_forca-26-12-2017-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_forca-26-12-2017-en.pdf)

7 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_9-11-2017-LFS-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_9-11-2017-LFS-en.pdf)

8 <http://english.wafa.ps/page.aspx?id=n1fuNia95855803395an1fuNi>

9 <http://bit.ly/2mNdeBx>

10 [www.pif.ps/page.php?id=ae99y44697Yae99](http://www.pif.ps/page.php?id=ae99y44697Yae99)

11 <http://bit.ly/2rgEmhd>

## Growth in the Banking Sector

The Palestinian banking sector continued to show remarkable growth in all indicators during 2017.<sup>12</sup> The total value of assets of the 14 banks operating in Palestine increased to \$15.7bn in the first eleven months of 2017, a 10.8% rise from \$14.1bn in the first eleven months of 2016.<sup>13</sup> Total customer deposits increased to \$11.7bn by the end of November 2017, an increase of 12.3% from \$10.4bn at the end of November 2016. Direct credit facilities increased by 19.6% from \$6.64bn to \$7.95bn during the same period.

## Economic Forecasts for 2018

Overall, the economic trends of declining growth and rising unemployment are expected to persist in 2018. In December 2017, the PCBS and the PMA released their respective 2018 economic forecast reports.<sup>14,15</sup> Both reports present macro-economic projections based on a baseline assumption that the general economic situation in Palestine will remain subject to the ongoing political and economic uncertainty. Both reports also provide alternative forecasts based on an optimistic scenario whereby there would be an improved political and economic situation and a pessimistic scenario whereby conditions would deteriorate.

Based on the baseline scenario, both the PMA and the PCBS forecast a slowdown in the Palestinian economy during 2018. Real GDP is forecast to grow at a rate between 2.2% and 2.6%, GDP per capita is predicted to remain within a range between -0.2% (PCBS) and 0.3% (PMA) and the high unemployment rate is expected to continue to rise to between 28.7% and 29.3%.

**Table 1: 2017 Estimates and 2018 Forecasts of Macro-Economic Indicators**

| Scenario              | 2017 Estimates |       | 2018 Baseline Scenario |       | 2018 Optimistic Scenario |       | 2018 Pessimistic Scenario |       |
|-----------------------|----------------|-------|------------------------|-------|--------------------------|-------|---------------------------|-------|
|                       | PCBS           | PMA   | PCBS                   | PMA   | PCBS                     | PMA   | PCBS                      | PMA   |
| Indicator             | PCBS           | PMA   | PCBS                   | PMA   | PCBS                     | PMA   | PCBS                      | PMA   |
| Real GDP Growth       | 3.2%           | 2.9%  | 2.6%                   | 2.2%  | 7.0%                     | 6.3%  | -2.1%                     | -1.4% |
| GDP per Capita Growth | 0.1%           | 0.4%  | -0.2%                  | 0.3%  | 4.0%                     | 3.1%  | -4.8%                     | -3.6% |
| Unemployment Rate     | 28.5%          | 28.4% | 28.7%                  | 29.3% | 26.0%                    | 27.1% | 30.9%                     | 32.4% |

Sources: PCBS and PMA

## Phase II of Jericho Agro-Industrial Park

On 26 December 2017, Palestinian Prime Minister Dr. Rami Hamdallah and the Japanese Foreign Minister Mr. Taro Kono, launched the second development phase of the Jericho Agro-Industrial Park (JAIP).<sup>16</sup> Speaking during the launch ceremony, Mr. Kono confirmed that the Japanese Government will provide an additional \$40m in support of the Palestinian Government of which \$7.5m will be allocated to JAIP.

12 [www.english.wafa.ps/page.aspx?id=n1fuNia95855803395an1fuNi](http://www.english.wafa.ps/page.aspx?id=n1fuNia95855803395an1fuNi)

13 <http://pma.ps/Default.aspx?tabid=201&language=en-US>

14 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_forca-26-12-2017-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_forca-26-12-2017-en.pdf)

15 [bit.ly/2DiVadF](http://bit.ly/2DiVadF)

16 [www.palestineconomy.ps/article/11240/](http://www.palestineconomy.ps/article/11240/)

The JAIP, which is currently under construction in the Jordan Valley on a total area of 615,000m<sup>2</sup>, is a flagship project of the “Corridor for Peace and Prosperity” Initiative, an effort by the Government of Japan to promote economic and social development in Jericho and the Jordan Valley area through regional cooperation between Palestine, Israel, Jordan and Japan.<sup>17</sup>

The first phase of the development of JAIP, which started in 2009, was completed in 2017 on 140,000m<sup>2</sup> and included rehabilitation works for 1.8 km of connecting roads linking the Park with Al-Karama (Allenby) Bridge on Palestine’s border with Jordan.<sup>18,19</sup> The second phase, which includes the building of factories, industrial services facilities and logistic services over an area of 100,000m<sup>2</sup> is expected to provide 1,700 direct and 5,000 indirect jobs.

## US Funding to UNRWA

On 16 January 2018, the United States Government (US) announced that it would withhold \$65m out of a \$125m aid installment earmarked for the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).<sup>20</sup> The withholding of the funds is expected to have a major impact on UNRWA’s ability to implement its mandate, forcing it to limit the scope of its work. For nearly 70 years, UNRWA has provided assistance to Palestinian refugees<sup>21</sup> in the West Bank (including East Jerusalem), Gaza, Jordan, Lebanon and Syria.<sup>22</sup> According to the latest data available at UNRWA, the number of Palestinian refugees registered with UNRWA is estimated at 5.3 million.

The US is the largest contributor to UNRWA, providing a total of \$368m in 2016 (\$152m donated directly to UNRWA and \$216m donated to UNRWA-related projects), a quarter of the Agency’s budget.<sup>23</sup> The US contribution to UNRWA constitutes 31.5% of total US annual aid to Palestine (around \$1.17bn). The remaining funds are earmarked for budgetary support to the Palestinian National Authority (PNA, 34.3%), the financing of USAID projects (31.1%) and supporting the security forces (3.1%).

In response to the cuts, the Belgian government pledged an additional €19m (\$23m) in funding to UNRWA, while the Dutch government stated that it would fast track \$15m.<sup>24</sup>

17 [www.mofa.go.jp/files/000042388.pdf](http://www.mofa.go.jp/files/000042388.pdf)

18 <http://jaipark.com/about-jaip/>

19 [bit.ly/2Dh3DOS](http://bit.ly/2Dh3DOS)

20 [www.aljazeera.com/news/2018/01/cuts-unrwa-funding-180116193513823.html](http://www.aljazeera.com/news/2018/01/cuts-unrwa-funding-180116193513823.html)

21 Persons who meet UNRWA’s Palestine Refugee criteria are those “persons whose normal place of residence was Palestine during the period 1 June 1946 to 15 May 1948, and who lost both home and means of livelihood as a result of the 1948 conflict. Palestine Refugees, and descendants of Palestine refugee males, including legally adopted children, are eligible to register for UNRWA services.” For more information: <https://www.unrwa.org/userfiles/2010011995652.pdf>

22 [www.unrwa.org/where-we-work](http://www.unrwa.org/where-we-work)

23 [www.haaretz.com/middle-east-news/1.832747](http://www.haaretz.com/middle-east-news/1.832747)

24 [www.jpost.com/International/Belgium-Netherlands-to-supplement-UNRWA-funds-cut-by-US-539324](http://www.jpost.com/International/Belgium-Netherlands-to-supplement-UNRWA-funds-cut-by-US-539324)

## Electricity in Gaza

On 7 January 2018, in response to a request from the PNA, the Government of Israel's (GoI) Energy Minister, Dr. Yuval Steinitz, announced the restoration of 50 MW of power to Gaza effective as of 8 January 2018.<sup>25</sup> The restoration reverses the PNA's decision in June 2017 to decrease the electricity supply to Gaza by 50 MW, about 40% of the total supplied amount.<sup>26</sup> The decision resulted from the ongoing dispute between the PNA and the Hamas government in Gaza over the taxation of the fuel used to operate Gaza's power plant.<sup>27</sup> The PNA clarified that the electricity supply will be restored to its previous levels provided that the Gaza Electricity Distribution Company (GEDCO) commence payments for electricity consumption in Gaza. Gazans will be required to pay regular electricity bills from GEDCO, which in turn will be expected to make payments of NIS 10m (about \$2.8m) per month to the PNA.

Prior to the electricity cuts, Gaza received its electricity supply from three sources: 120 MW from Israel (under normal circumstances), 60 MW produced by the Gaza power plant (the plant is capable of producing up to 110 MW, but political and funding disputes have caused shortages in the supply of fuel) and 28 MW from Egypt. This totals a maximum daily supply of 218 MW compared to an estimated daily demand of 400-500 MW.

## Ministry of Education and Higher Education Supports Scientific Research

On 31 December 2017, the Palestinian Ministry of Education and Higher Education (MoEHE) announced the disbursement of NIS 6.12m (\$1.76m) to local universities, accounting for 30% of the funds allocated for scientific research.<sup>28</sup> The Ministry clarified that the disbursement is the first instalment of NIS 20.4m (\$6m) allocated by the Ministry to support scientific research in Palestinian universities following the signing of an MoU between the universities and the Ministry in November 2017.

Earlier in 2017, Minister of Education and Higher Education, Dr. Sabri Saidam, announced the launch of the Palestine Education Trust, a Palestinian-European initiative based in Switzerland, aimed at supporting the efforts of the MoEHE to drive positive change within the Palestinian education sector through enhancing quality education. The Trust will establish an endowment of \$100m to be used in cooperation with international educational establishments and the private sector. Of this amount, \$10m were pledged by Palestinian private sector companies.<sup>29</sup>

Despite economic hardship, Palestinian households continue to prioritise investing in higher education.<sup>30</sup> From 1994 to 2017, the enrolment rate of students in higher education increased by 193,493 (776%), with a higher proportion of females enrolling each year.<sup>31</sup> A total of 218,415 students enrolled in higher education in Palestine in 2017 (60.9% female and 39.1% male). There was a total of 44,446 graduates, 2,381 of whom graduated with a Master's degree.<sup>32</sup>

## December Trading

In December 2017, the Al-Quds index improved by 3.73% from the previous month, reaching 574.6 points on the last day of trading in 2017.<sup>33</sup> A total of 45.9m shares were traded with a value of \$83.2m, marking a 209.7% increase in the volume and 259.5% increase in the value of traded shares. Historically, the last month of every year is characterised by price trend fluctuations, driven by listed companies executing transactions and moving between investment positions in order to affect the investment evaluation. Market capitalisation reached \$3.9bn, a 3.9% increase from November 2017.

On the last day of trading in 2017, the Al-Quds index increased by 8.4% compared to the last day of trading in 2016.<sup>34</sup> In 2017, a total of 271.2m shares were traded on Palestine Exchange (PEX) with an overall value of \$469.1m. This marks a 16.4% increase in number and a 5.4% increase in share value compared to 2016. These improvements can be mostly attributed to the investment and services sectors. Slightly over two fifths of the trading volume and value were in the banking sector. Market capitalisation increased by 14.8% through the year.

PEX also announced the new composition of the Al-Quds index for the year 2018. The index includes 15 out of the 48 listed companies, which constitute 75.9% of the total market capitalisation. National Insurance Company (NIC) was replaced by Ahlia Insurance Group (AIG), Palestine Real Estate Investment (PRICO) was replaced by Union Construction and Investment (UCI) and Birzeit Pharmaceuticals (BPC) was replaced by Golden Wheat Mills (GMC). The main criteria for inclusion in the Al-Quds index are sector, trading volume and value, turnover ratio, profitability, number of trades and market value.<sup>35</sup>

25 <http://reut.rs/2n81euH>

26 [www.aljazeera.com/news/2018/01/gaza-residents-pay-israel-electricity-180104125108369.html](http://www.aljazeera.com/news/2018/01/gaza-residents-pay-israel-electricity-180104125108369.html)

27 [www.gisha.org/en-blog/2017/06/19/the-gaza-electricity-crisis-faqs/](http://www.gisha.org/en-blog/2017/06/19/the-gaza-electricity-crisis-faqs/)

28 [www.alhaya.ps/ar\\_page.php?id=3749172y57971058Y3749172](http://www.alhaya.ps/ar_page.php?id=3749172y57971058Y3749172)

29 [www.al-ayyam.ps/pdfs/2017/05/21/p05.pdf](http://www.al-ayyam.ps/pdfs/2017/05/21/p05.pdf)

30 [www.faf.no/media/com\\_netsukii/20138.pdf](http://www.faf.no/media/com_netsukii/20138.pdf)

31 <http://bit.ly/2DxfhB0>

32 <http://bit.ly/2GdSSu3>

33 [www.pex.ps/PSEWebSite/publications/PEXinvestorNewsletterDec2017.pdf](http://www.pex.ps/PSEWebSite/publications/PEXinvestorNewsletterDec2017.pdf)

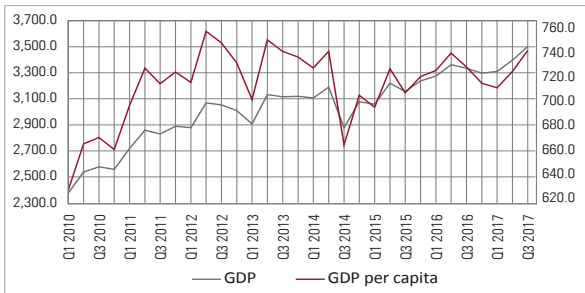
34 [www.pex.ps/PSEWebSite/NASHRA/Yearly2017.pdf](http://www.pex.ps/PSEWebSite/NASHRA/Yearly2017.pdf)

35 <http://www.pex.ps/PSEWebSite/publications/CDSReport20171231.pdf>

# Palestine Economic Dashboard

## Growth

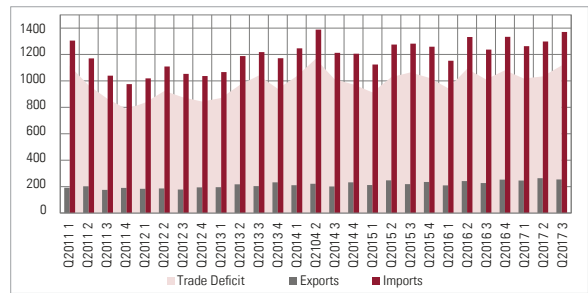
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q3 2017



GDP (Q3 2017): \$3,502.3m GDP per capita (Q3 2017): \$745.6  
Source: PCBS

## Trade

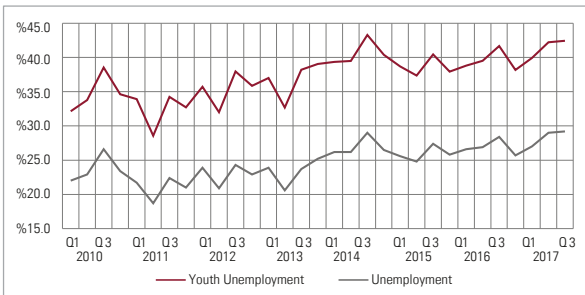
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2011–Q3 2017



Imports (Q3 2017): \$1,370.9m Exports (Q3 2017): \$254,000  
Trade deficit (Q3 2017): \$1,116.9m Source: PCBS

## Unemployment

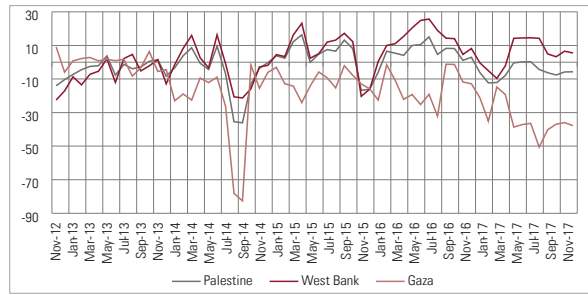
Unemployment and Youth Unemployment in Palestine (%), Q1 2010–Q3 2017



Unemployment rate (Q3 2017): 29.2% Youth Unemployment rate (Q3 2017): 42.4%  
Source: PCBS

## Business Cycle Index

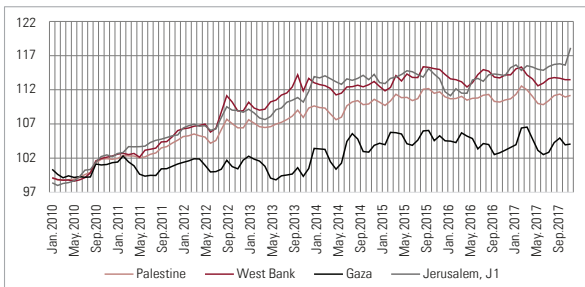
Palestine Monetary Authority Business Cycle Index, Nov 2012–Nov 2017



Palestine (December 2017): -5.7 West Bank (December 2017): 5.5  
Gaza (December 2017): -37.8 Source: PMA

## Inflation

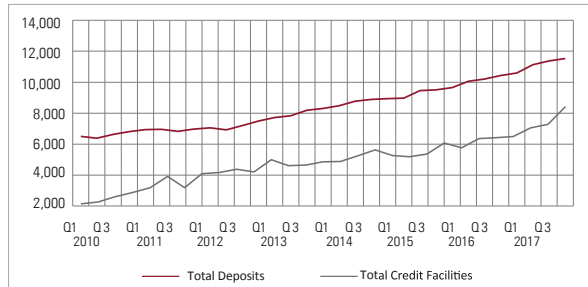
Consumer Price Index (Base year = 2010), January 2010 – December 2017



Palestine (November 2017): 110.95 West Bank (November 2017): 113.49  
Gaza (November 2017): 103.95 Source: PCBS

## Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2010–Q3 2017



Total Credit Facilities (Q2 2017): \$7,528.8m Total Deposits (Q2 2017): \$11,379.4m  
Source: PMA

The Portland Trust



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](mailto:feedback@portlandtrust.org)