

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Kingdom of Saudi Arabia transferred \$40m in budgetary support to the PNA to cover the months of February and March 2018

The Palestine Investment Fund signed an agreement with ATsolar ApS on 25 April 2018, to build, operate and maintain two solar power plants in the Jericho and Tubas

The Palestinian Ministry of National Economy and the Palestinian Businessmen Forum concluded a conference in Hebron on Intellectual Property (IP) rights

The Palestine Economic Policy Research Institute hosted representatives and experts from the public, private, and legal sectors, to discuss the high rate of rejected cheques in Palestine

Palestinian Electricity Transmission Company and Israel Electric Company Sign Agreement on West Bank Power Supply

On 1 May 2018, the Israel Electric Company (IEC) and the Palestinian Electricity Transmission Company (PETC) signed an in-principle agreement to settle NIS 915m (approximately \$280m) in debt owed by the Palestinian National Authority (PNA) to the IEC. This amount, which will be paid in 48 equal installments, represents the balance of the NIS 2bn debt which the PNA had accumulated over more than a decade, before the parties reached an agreement in September 2016 to restructure relations between the Government of Israel (GoI) and the PNA with respect to electricity provision and consumption.¹

Under the terms of the 2016 agreement, which aims to position the PNA as the sole body responsible for electricity distribution across the West Bank, the PNA agreed to pay NIS 500m (\$132m) of the debt to the IEC immediately, while another NIS 1bn was agreed to be paid in installments. A remaining balance of NIS 500m was permanently erased from the debt.

The May agreement, which is currently pending approval by the IEC Board and Israeli regulators, also sets terms for the sale of power to the PETC over the next 15 years and includes collateral and a guarantee mechanism to ensure that the IEC is paid. The agreement provides for the IEC to supply the PETC with NIS 2.8bn (\$775m) worth of power transmission annually, via four high-voltage substations that will be built in Jalama, Nablus, Ramallah and Tarqumiya in the coming years by the IEC and the PNA. This arrangement will enable the PETC to take charge of electricity distribution in the West Bank in line with the 2016 agreement.

The PNA's debt to the IEC has accumulated, mainly because of difficulties in collecting dues from customers across the West Bank and Gaza. Most Palestinian power distribution companies, municipalities and local councils do not pay the full amount for electricity consumed citing high default rates by consumers or high theft rates as the reason for their inability to fully pay the IEC. To recover part of the debt to the IEC, the GoI has in the past made deductions from the customs duties it collects on behalf of the PNA at Israeli ports.²

Palestine currently receives more than 86% of its electricity from Israel, making it the single largest customer of the IEC. Palestinian Civil Affairs Minister Mr. Hussein Al-Sheikh, announced in a written statement that "The agreement ... frees the Palestinian electricity sector of complete Israeli control, which has lasted for decades."³

Growing Number of Rejected Cheques in Palestine

On 24 April, the Palestine Economic Policy Research Institute (MAS) hosted representatives and experts from the public, private, and legal sectors to discuss

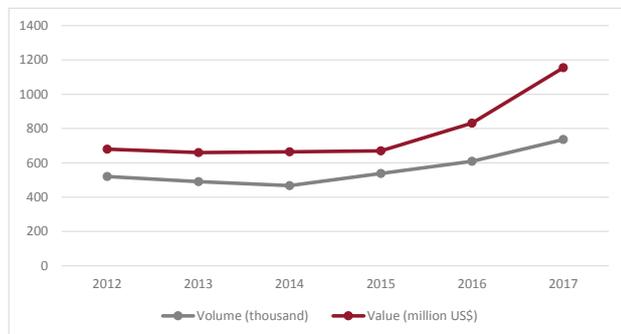
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3 <https://www.jpost.com/Middle-East/Israel-to-transfer-much-of-West-Bank-electric-grid-to-Palestinians-553248>

the high rate of rejected cheques in Palestine.⁴ In 2017, the total value of rejected cheques reached \$1,154m, or 7.7% of the value of all cheques issued in Palestine. This figure is very high when compared to neighboring countries such as Jordan⁵ (4.5% of all cheques by value) and the United Arab Emirates⁶ (3.4% of all cheques by value).

Figure 1. Rejected Cheques by Volume and Value, 2012-2017



Source: Palestine Monetary Authority (PMA)⁷

According to analysis conducted by MAS, the causes of the rejected cheques phenomenon are attributed to the slow economy, weaknesses of the judicial process and penalties applied, as well as changing consumption patterns and growth of consumer credit.⁸ Despite the problem being addressed through the application of penalties on individuals and corporations that do not respect cheque obligations and through a set of terms and regulations imposed by the Palestine Monetary Authority (PMA) on banks operating in Palestine, these measures have so far proven inadequate. To address the issue and maintain financial stability, the PMA plans to launch a comprehensive database that provides relevant credit and demographic information concerning borrowers and their guarantors, individuals and corporations, as well as their credit scoring on the Bounced (rejected) Cheques System.⁹ This database will be accessible to banks, allowing them to improve their verification of borrowers and to limit the amount of credit accessible to individuals and corporations with low credit scores.¹⁰

Strengthening Intellectual Property Rights in Palestine

On 26 April 2018, the Palestinian Ministry of National Economy (MoNE) and the Palestinian Businessmen Forum concluded a conference in Hebron on Intellectual Property (IP) rights.¹¹ The conference highlighted issues related to intellectual property in Palestine, and the importance of establishing commercial brands, maintaining product specifications, and investing in product development.

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During the conference, Ms. Abeer Odeh, Minister of National Economy, announced that the draft Industrial Property Rights Law has been completed in cooperation with the World Intellectual Property Organisation (WIPO). Ms. Odeh stated that an agreement has been developed with WIPO to establish a technology and innovation support centre to serve as a point of contact between the MoNE and academic establishments. The centre will link students to international patent databases. Ms. Odeh also announced that the MoNE is currently working on a new electronic system to facilitate the provision of trademark related services. The system will allow for related applications and official transactions to be submitted electronically.

Dr. Talal Abu-Ghazaleh, Chairman of the Arab Society for Intellectual Property (ASIP), a non-profit organisation that offers technical assistance to Arab countries on Intellectual Property matters, pointed out that even under the current outdated law (in force since 1952), the Palestinian Registry has managed to register more than 30,000 trademarks and 300 patent applications since 1994.

Introducing a modern, comprehensive and enforceable intellectual property law in Palestine, has the potential to drive an increase in foreign investment, especially in the industrial and technology sectors. Furthermore, enforcing trademarks will protect the Palestinian consumer from the risks of buying counterfeit products.

Increased Budget Support to the Palestinian National Authority

On 24 April 2018, the Kingdom of Saudi Arabia (KSA) transferred \$40m in budgetary support to the PNA to cover February and March 2018.¹² This transfer reinstates KSA's commitment to the previous levels of \$20m per month, after it had fallen to \$7.7m in April 2016. The decrease of \$12.3m in support per month coincided with KSA's domestic spending reforms and falling crude oil prices.

In 2017, Palestine suffered an overall budget deficit of 7.8% of GDP (\$1.17bn) and a recurrent deficit of 5.3% of GDP (\$795.7m), a slight decrease from the figures recorded in 2016 of 8% (\$1.1bn) and 5.5% (\$745.3m),¹³ respectively. International aid to the PNA was further reduced in 2017 as external budget support declined to 3.6% from 4.5% of GDP in 2016. Since 2014, international aid to the PNA has declined on average by 20% annually.

Table 1: PNA Budget Deficit and Total External Budget Support, 2013-2017

In USD	2013	2014	2015	2016	2017	Gaza Budget	Unified Budget
Overall Budget Deficit	-1564.79	-1587.13	-1445.63	-1084.08	-1171.09	900	14,405
As percentage of GDP	-12.6%	-12.5%	-11.4%	-8%	-7.8%	900	14,591
Total External Support	1366.09	1231.609	800.919	758.856	720.672	1774	17,954
As percentage of GDP	11%	9.7%	6.3%	5.6%	4.8%	-	900
Total Deficit	5,388	4,874	4,335	4,434	4,584	1954	6,538
Total External Financing	3,881	2,921	1,326	2,576	2,160	-	2,160
Development Financing	956	603	546	609	630	-	630
Financing Gap	1,507	1,953	3,009	1,858	1,794	-	1,794 ¹³

Source: International Monetary Fund (IMF)

12 <https://bit.ly/2Grc32C>
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Agreement to build and operate Solar Plants in Jordan Valley

On 25 April, Massader, the impact investment division for energy and infrastructure of the Palestine Investment Fund (PIF), signed an agreement with ATsolar ApS, a Danish company specialising in solar panel provision and operation, to build, operate and maintain two solar power plants owned by PIF in the Jericho and Tubas.¹⁴ The two plants will together generate 16.5 MW of solar capacity, bringing clean, consistent, and affordable energy to Palestinians, who currently rely on imports from Israel to meet their electricity needs.^{13,15} Mr. Azem Bishara, CEO of Massader, stated: “the two stations will help cut end-users electricity bills by 50% over the next 25 years, creating jobs and contributing to the development of Palestine’s renewable energy resources.”¹⁶ The Jericho and Tubas plants are expected to be built over the coming months and become operational by the end of 2018.¹⁷

The agreement comes as part of Massader’s Noor Palestine Solar Programme which aims to develop utility scale solar plants in Tubas, Jericho, and Jenin, with a total generation capacity of 21.5 MW. The three plants under the scheme are developed under a new ownership model whereby each plant will be collectively owned by its customers, with each customer owning a part of the plant capacity according to its individual consumption needs. This model is designed to reduce costs for consumers, who will benefit from economies of scale.¹⁸

Award for Palestinian Startup at MIT Enterprise Forum

On 19 April, the MIT Enterprise Forum (MITEF) of the Pan Arab Region announced the winners of the 11th Arab Startup Competition.¹⁹ The annual competition supports and celebrates innovation in the Arab world and provides entrepreneurs with a platform to develop and showcase their ideas.

The Palestinian startup “Sunbox”, an affordable off-grid, self-installable small solar kit for families suffering from electricity shortages, was placed third in the Social Entrepreneurship category.²⁴ The entrepreneur behind the innovation is a recent graduate in civil engineering, Ms. Majd Al-Mashharawi, from Gaza.²⁰ According to Ms. Al-Mashharawi “Gaza has an extreme shortage of electricity - receiving just three to six hours a day. But the entire Middle East suffers from a lack of sufficient electricity”. To tackle this, the young entrepreneur has plans to expand Sunbox beyond Gaza, hoping to grow in other market segments,

such as refugee camps in the West Bank and Jordan and off-grid Bedouin communities throughout the Middle East.²⁵

Establishment of a Food Processing Plant in the West Bank

On 15 April 2018, Sharakat - PIF’s investment arm for Small and Medium Enterprises (SMEs) - signed a Memorandum of Understanding (MoU) with Mr. Mowaffak Darghameh, investor in and exporter of agricultural products, and Zuhair Al-Qasrawi, CEO of Qasrawi Industrial & Trading Company Ltd. Under the terms of the MoU, a \$5m plant will be established to produce potato crisps. The plant, which is the first of its kind in Palestine, will comply with international standards to produce high quality products with a total production capacity of about 500 kg per hour of potato crisps using locally grown potatoes. The plant will cover part of the local market demand for this product category.²¹

Dr. Mohammed Mustafa, Chairman of PIF, stated that this project is aligned with PIF’s strategy to develop the agriculture and food industries, improve local production and support the economy. Mr. Nassim Nour, Executive Director of Sharakat, affirmed that investment in sustainable agriculture and agribusiness remains a top strategic priority for Sharakat, in addition to technology and human capital development.

April Trading

The Al-Quds index dropped by 4.9% during April 2018, reaching 538 points on the last day of trading.²² The index experienced a steady decline throughout the month. A total of 14.5m shares worth \$30.8m were traded, marking a 70.4% decrease in the number and 71.1% decrease in the value of traded shares. The significant changes in the value and volume of traded shares can be attributed to the exceptional figures reported last month following the acquisition of 31.3m shares of the Palestinian Islamic Bank (ISBK) by The National Bank (TNB) and other investors.²³ The banking and financial sector witnessed the highest drop (4.7%), followed by the services sector (4.5%). None of the economic sectors appreciated during April.

In related news, total net profits for listed companies during Q1 2018 amounted to \$87.5m, a 6% increase from Q1 2017.²⁴ Out of 49 listed companies, 39 reported profits, five reported losses and four failed to disclose within the deadline.

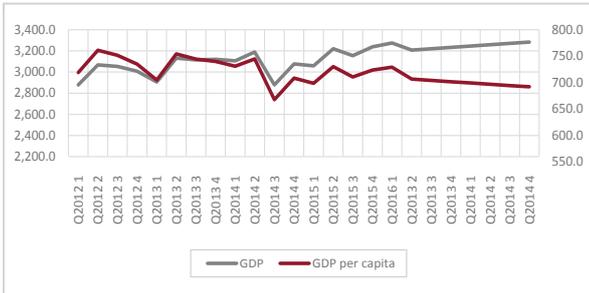
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Palestine Economic Dashboard

Growth

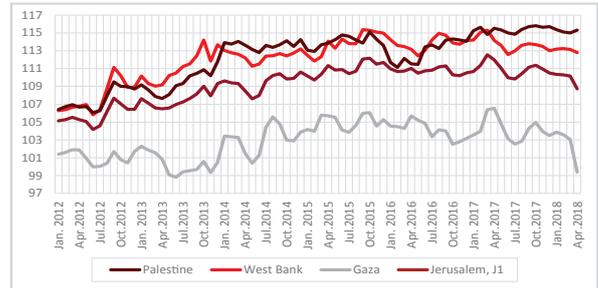
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q4 2017



GDP (Q4 2017): \$3,476.5m GDP per capita (Q4 2017): \$734.9
Source: PCBS

Trade

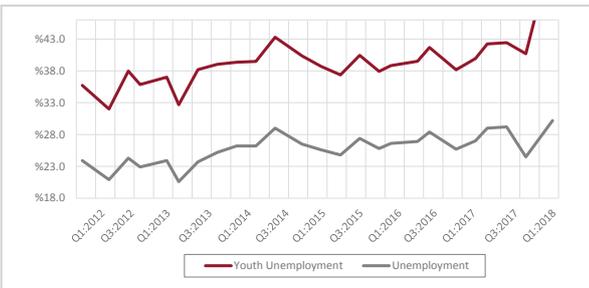
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2011–Q1 2018



Imports (Q1 2018): \$1,366.4m Exports (Q1 2018): \$273.1m
Trade deficit (Q1 2018): \$1,093.3m Source: PCBS

Unemployment

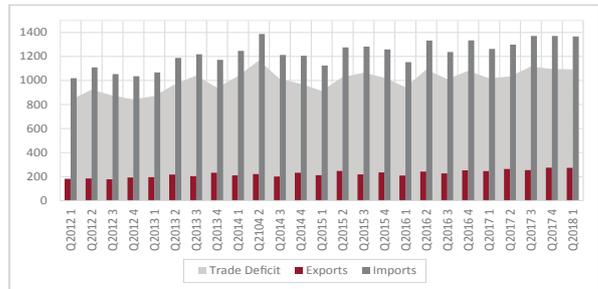
Unemployment and Youth Unemployment in Palestine(%), Q1 2010–Q1 2018



Unemployment rate (Q4 2017): 24.5% Youth Unemployment rate (Q4 2017): 40.7%
Source: PCBS

Business Cycle Index

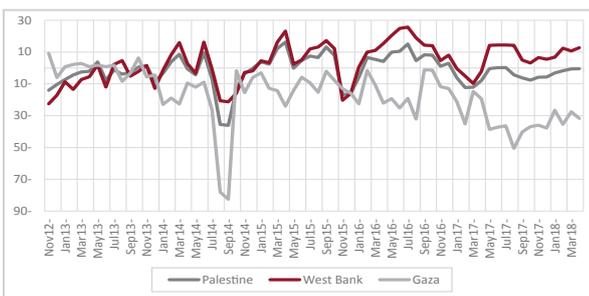
Palestine Monetary Authority Business Cycle Index, Nov 2012–April 2018



Palestine (April 2018): -0.5 West Bank (April 2018): 12.7
Gaza (April 2018): -31.7 Source: PMA

Inflation

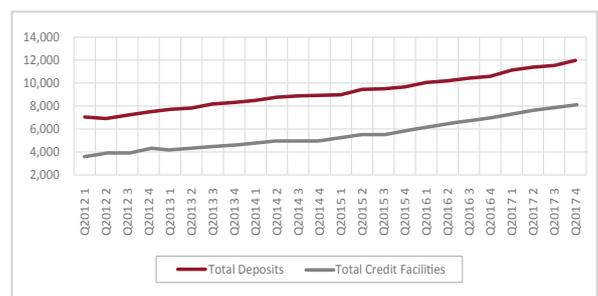
Consumer Price Index (Base year = 2010), January 2010 – April 2018



Palestine (April 2018): 108.72 West Bank (April 2018): 112.79
Gaza (April 2018): 99.38 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2010–Q4 2017



Total Credit Facilities (Q4 2017): \$ 8,027.5m
Total Deposits (Q4 2017): \$ 11,973.4m 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

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