

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The Prime Minister's Office, in cooperation with the National Population Committee and the United Nations Population Fund, released on 10 December 2016 the "Palestine 2030 – Demographic Change: Opportunities for Development" report, which provides demographic projections up to 2050*

*The Palestinian Ministry of Finance announced on 29 December 2016, that all renewable energy equipment will be exempt from customs duties starting 1 January 2017*

*A shipment of Jordanian vegetables entered directly to the Palestinian market without the mediation of Israel for the first time on 29 December 2016*

*In December, the Al-Quds index increased by 1.43% from the previous month, reaching 530.16 points on the last day of trading in 2016*

### Economic Forecasts for 2017

The Palestinian Central Bureau of Statistics (PCBS)<sup>1</sup> and the Palestine Monetary Authority (PMA)<sup>2</sup> recently released their 2017 economic forecasts. 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.

**Table 1: 2017 Forecast of Real Sector Macro-Indicators**

Scenario	2016 estimates <sup>3</sup>		Baseline scenario		Optimistic scenario		Pessimistic scenario	
	PCBS	PMA	PCBS	PMA	PCBS	PMA	PCBS	PMA
Real GDP growth	3.9%	3.3%	3.6%	3.1%	6.7%	7.5%	-1.9%	-2.8%
GDP per capita growth	1.0%	0.9%	0.6%	0.8%	3.7%	5.1%	-4.7%	-4.9%
Unemployment rate	27.2%	27.3%	27.2%	27.6%	25.2%	25.5%	29.9%	31.2%

Sources: PCBS, PMA

Under the baseline scenario, both the PCBS and the PMA forecast a decline in real GDP growth (and real GDP per capita growth) during 2017. The PCBS predicts that the unemployment will remain constant at 27.2% (compared to 2016), while the PMA expects unemployment to rise further to 27.6%. Both the PCBS and PMA baseline forecasts are close to the forecasts that were presented by the International Monetary Fund (IMF) in September 2016<sup>4</sup> in its report to the Ad Hoc Liaison Committee (AHLIC). The IMF forecast a 3.5% growth in real GDP and an increase in the unemployment rate to reach 29% in 2017.

With regard to government finances, the PCBS baseline forecast projects a 9.5% increase in government revenues in 2017, mainly due to improvements in tax collection, whereas government expenses are anticipated to rise by 2.6%. The combined result would be a decline of 16.6% in the public budget deficit from 2016. The PMA report predicts that the Government will continue to follow a fiscal austerity policy and that growth in government revenues and expenditure will remain relatively unchanged from 2016 levels. In line with the forecasts, the Council of Ministers announced on 27 December that the Government will take austerity measures to cover the financing gap by lowering monthly expenses.<sup>5</sup> The announcement was based on a draft budget for the year 2017 presented by the Ministry of Finance (MoF). The draft budget includes a limited increase in total expenditure and net lending of 1% from 2016 and a 3% increase in wages and salaries.

Under the baseline scenario, the PCBS envisages a 4.9% increase in the trade balance deficit due to an expected increase of 6.1% in the value of imports,

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

2 <http://bit.ly/2jUGvZ6>

3 Final estimates are not prepared yet; preliminary estimates for 2016 based on the data available for the first three quarters of the year, and indicators for the fourth quarter.

4 [www.imf.org/en/Countries/ResRep/WBG](http://www.imf.org/en/Countries/ResRep/WBG)

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

which will not be offset by the anticipated increase in the value of exports of 9.2%. The PMA report forecasts that the growth in the value of imports (3.6%) is expected to exceed the growth in the value of exports (2.2%) in both absolute and relative terms, leading to a 4.4% increase in the trade balance deficit compared to 2016.

Under the optimistic scenario, the PCBS forecasts economic growth in real GDP to reach 6.7%, which is expected to drive an increase in real GDP per capita of 3.7%. The PCBS expects that the unemployment rate would decrease to 25.2%. The PMA's optimistic scenario envisages economic growth to reach 7.5%, corresponding to a 5.1% increase in real GDP per capita and a decrease in the unemployment rate to 25.5%.

Under the pessimistic scenario, the PCBS forecasts a 1.9% drop in real GDP, resulting in a decline of 4.7% in GDP per capita and an increase in the unemployment rate to 29.9%. The PMA pessimistic scenario envisages a 2.8% decrease in real GDP, corresponding to a decrease in GDP per capita of 4.9% and a rise in the unemployment rate to 31.2%.

## Demographic Projections

On 10 December 2016, The Prime Minister's Office, in cooperation with the National Population Committee and the United Nations Population Fund (UNFPA), released a report titled "Palestine 2030 – Demographic Change: Opportunities for Development". The report aims to provide a thorough understanding of the demographic trends and projections in Palestine which is a prerequisite for proper development planning.<sup>6</sup> The report outlines the historical and current demographic situation in Palestine and presents population projections up until 2050. The Palestinian population is projected to increase from 4.75m in 2015 to 6.9m in 2030 and 9.5m in 2050, despite the expected drop in fertility rates from 4.1 to 2.1 during the same period.

**Table 2: Total Fertility Rate (TFR) Projections by Region, 2015-2050, Medium Scenario<sup>7</sup>**

	2015	2030	2050
<b>Palestine</b>	4.1	2.9	2.1
<b>West Bank</b>	3.7	2.7	2.0
<b>Gaza</b>	4.5	3.2	2.4

Source: Prime Minister's Office, National Population Committee and UNFPA

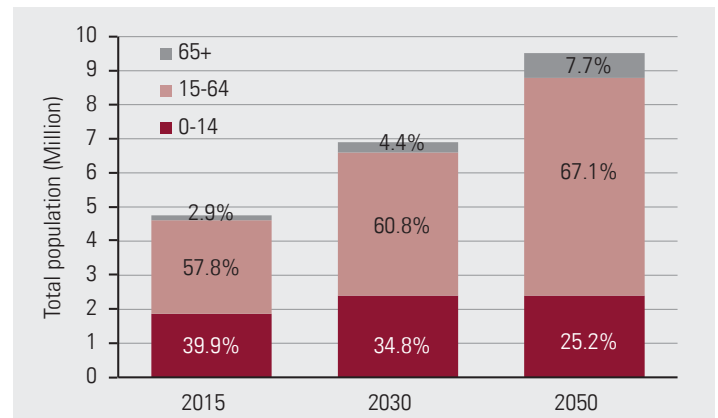
In addition to population growth, the age structure of the Palestinian population is projected to alter significantly during the relevant period. The proportion of youth is expected to drop from 39% in 2015 to 35% in 2030 and 25% in 2050, and the proportion of the elderly is expected to more than double, from 2.9% in 2015 to 7.7% in 2050. However, these figures are still far from indicating an

<sup>6</sup> <http://bit.ly/2jt5vln>

<sup>7</sup> The medium scenario is the most likely scenario, assuming that fertility will continue to decrease at the same rate as in 2006-2014.

aging population, which would typically require serious health care and social provision.

**Figure 1: Population Projections by Age Group, Palestine, 2015-2050, Medium Scenario**



Source: Prime Minister's Office, National Population Committee and UNFPA

The report highlights that the changing age structure of the population will lead to an increase in the proportion of working age population (15-64 years) from 58% in 2015 to 61% in 2030 and 67% in 2050. Further, the labor participation rate is expected to increase significantly over the next three decades with female labor force participation anticipated to increase from 19% in 2015 to 28% in 2030 and 32% in 2050, while the male rate is expected to remain the same. This would result in an increase in the size of the labor force from 1.3m potential workers in 2015 (28.1% of total population) to 2.3m (33.1%) in 2030 and 3.8m (39.7%) in 2050.

As a result of the expected growth in the active population, the economic dependency ratio will fall from 3.5 dependents for each active person in 2015 to 2.5 in 2050. However, the increase in the proportion of active population will necessitate the creation of 72,000 new jobs per year in the period between 2030-2035 and 76,000 between 2045-2050, compared to 58,000 in 2015.

The high population growth expected in Palestine, necessitates the development of mechanisms to cope with the growing population and its needs. The age structure transformation and the relative decrease in dependency<sup>8</sup> offer an opportunity for boosting economic growth if accompanied by appropriate socio-economic measures. Based on the report's projections, if unemployment remains at the 2015 rate, the proportion of effective producers (people employed) will increase threefold between 2015 and 2050, whereas the proportion of effective consumers (people unemployed and outside the labor force, from all age groups) will shrink to almost half during the same period. The expected total dividend resulting from this expected change is a 31.7% increase in GDP per capita, or 1% per year.

<sup>8</sup> The ratio of economic dependents, youth and elderly, to active population (15-64 years old)

## Tax Exemption for Renewable Energy Equipment

The Palestinian Ministry of Finance (MoF) announced on 29 December 2016 that all renewable energy equipment will be exempt from customs duties starting 1 January 2017.<sup>9</sup> This exemption aims to encourage the expansion of the use of renewable energy in light of the growing demand for energy and increasing dependency on energy from Israel. The MoF also announced that it will introduced measures to encourage businesses to reduce equipment prices in order to decrease the burden on citizens. In addition, the Ministry of National Economy (MoNE) will start monitoring prices.

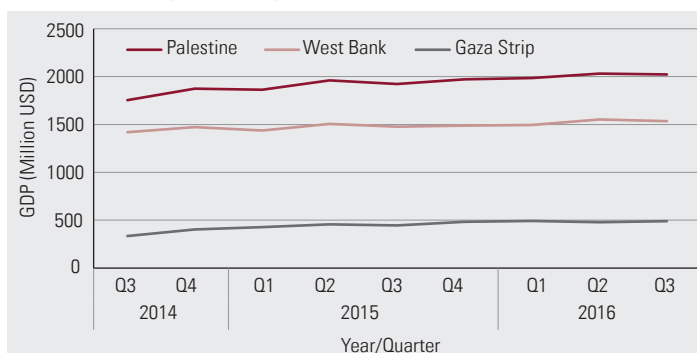
The decision by the Government is particularly relevant to Gaza, which is currently undergoing a major electricity crisis.<sup>10</sup> The growing demand, stagnant production capabilities, and the irregularity of electricity supply from Egypt and Israel are all factors that are intensifying the crisis in Gaza. Renewable energy experts in Gaza have endorsed the Government's decision which they anticipate will lead to an increase in the demand for renewable alternatives, thus helping to tackle the electricity crisis.<sup>11</sup> However, the experts have stressed the importance of further regulating the renewable energy sector and conducting quality assurance to protect consumers.

## National Accounts

Quarterly real GDP in Palestine increased by 5.2% in Q3 2016 compared to the corresponding quarter in 2015, according to recently published data from the PCBS.<sup>12</sup> However, compared to the previous quarter, GDP decreased by 0.4%.

Quarterly real GDP in the West Bank reached \$1,534m, up by 3.9% compared to the corresponding quarter of 2015, mainly due to an 11% increase in value-added by manufacturing activities and a 13.3% increase in value added by educational services. Real GDP in the West Bank decreased by 1.1% from Q2 2016, following a 6.3% drop in value-added by construction activities. In Gaza, real GDP increased by 9.7% compared to Q3 2015 and by 2% from Q2 2016. This rise was caused by a significant increase in the value-added by construction activities; 67.2% from Q3 2016 and 50.4% when compared to Q2 2016.

Figure 2: Quarterly GDP at Constant Prices by Region, Palestine, Q3/2014-Q3/2016



Source: PCBS

GDP per capita in Palestine reached \$442.9 in Q3 2016, an increase of 2.6% compared to the corresponding quarter of 2015 and a decrease of 1.1% compared to Q2 2016. GDP per capita in the West Bank reached \$572.6, an increase of 1.3% from Q3 2015 and a decrease of 1.8% from Q2 2016. GDP per capita reached \$259 in Gaza, an increase of 6.1% from Q3 2015 and 1.2% compared to Q2 2016.

## Balance of Payments

In Q3 2016, the current account deficit reached \$314.4m, a decrease of 19.6% from the previous quarter.<sup>13</sup> The ongoing and persistent current account deficit was mostly caused by the deficit in the trade balance of goods, which amounted to \$1.07bn in Q3 2016, down by 4.5% from Q2 2016. The deficit in the trade balance of services equalled \$221.7m, a drop of 4.4% from the previous quarter.

The income account, which includes compensation of employees and investment income, recorded a surplus of \$401.3m, down by 0.7% from Q2 2016. Compensation of Palestinian employees working in Israel (amounting to \$377.3m) formed the majority of the surplus. Meanwhile, the current transfers surplus increased by 3.5% from Q2 2016 to \$572.8m. This was caused by an increase in donor transfers to the government sector.

The capital and financial account recorded a surplus of \$281.6m, up 2.4% from Q2 2016. The surplus in the financial account was \$195m, and the surplus in the capital account was \$86.6m.

## Agricultural Trade

On 29 December 2016, a shipment of Jordanian vegetables entered directly to the Palestinian market without the mediation of Israel for the first time.<sup>14</sup> Previously, the process was conducted between Jordanian exporters and Israeli importers, and the Palestinian merchants would buy the produce from Israeli importers.

Dr. Sufian Sultan, Minister of Agriculture, stated, "We have recently signed a memorandum of understanding with the Israeli side to allow the import of agricultural and livestock products from Jordan, through Palestinian

9 [www.mof.gov.ps/index.php?option=com\\_content&view=article&id=1284](http://www.mof.gov.ps/index.php?option=com_content&view=article&id=1284)

10 <http://bit.ly/2jioAKf>

11 <http://bit.ly/2jt5tjJ>

12 [pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_28-12-2016-NA-en.pdf](http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-12-2016-NA-en.pdf)

13 [pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_21-12-2016-BP-en.pdf](http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_21-12-2016-BP-en.pdf)

14 [maannews.net/Content.aspx?id=883945](http://maannews.net/Content.aspx?id=883945)

importers, according to the specifications and quantities demanded by the Palestinian market.” Dr. Sultan added that the increased trade between Jordan and Palestine that is expected to result from the agreement would “lessen the burdens put on the Palestinians.”<sup>15</sup>

## International Investment Position and External Debt

In Q3 2016, the stock of investments of Palestinian residents outside Palestine (total external assets) exceeded investments in Palestine by non-residents (total foreign liabilities) by \$1,275m.<sup>16</sup> Palestine’s International Investment Position (IIP), which is defined as external assets minus foreign liabilities, increased by 2.8% from the corresponding quarter of 2015. The observed rise of \$37m was the result of a \$338m increase in external assets offset by a \$301m increase in foreign liabilities.

**Table 3: International Investment Position (IIP) Stock, Palestine, Q3 2014, Q2 2015 and Q3 2015**

Item	Q3 2015 (USD millions)	Q2 2016 (USD millions)	Q3 2016 (USD millions)	Change (%) (Q3 2015-Q3 2016)	Change (%) (Q2 2016-Q3 2016)
<b>International Investment Position (Net)</b>	<b>1,238</b>	<b>1,172</b>	<b>1,275</b>	<b>3.0%</b>	<b>8.8%</b>
<b>Total External Assets</b>	<b>5,959</b>	<b>6,020</b>	<b>6,297</b>	<b>5.7%</b>	<b>4.6%</b>
Foreign Direct Investment Abroad	345	422	444	28.7%	5.2%
Portfolio Investments Abroad	1,109	1,120	1,159	4.5%	3.5%
Other Investments Abroad	3,957	4,076	4,359	10.2%	6.9%
Of which: Currency and Deposits	3,937	3,926	4,010	1.9%	2.1%
Reserve Assets	548	402	335	-38.9%	-16.7%
<b>Total Foreign Liabilities</b>	<b>4,721</b>	<b>4,848</b>	<b>5,022</b>	<b>6.4%</b>	<b>3.6%</b>
Foreign Direct Investment in Palestine	2,454	2,504	2,570	4.7%	2.6%
Foreign Portfolio Investments in Palestine	672	651	750	11.6%	15.2%
Foreign Other Investments in Palestine	1,595	1,693	1,702	6.7%	0.5%
Of which: Loans from Abroad	1,122	1,134	1,118	-0.4%	-1.4%
Of which: Currency and Deposits	473	556	581	22.8%	4.5%

Source: PCBS and PMA

The gross external debt amounted to \$1.7bn at the end of Q3 2016, an increase of 0.7% from the previous quarter and 6.9% compared to the corresponding quarter of 2015. The general government debt constituted 62% of the total, while the debt of banks amounted to 34.1%. The debt of other sectors (non-financial, insurance enterprises, NGOs and households) constituted 3.7% of the total.

## December Trading

In December, the AI-Quds index increased by 1.43% from the previous month, reaching 530.16 points on the last day

15 <https://www.maannews.com/Content.aspx?id=774656>

16 [pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_28-12-2016-IP-en.pdf](https://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-12-2016-IP-en.pdf)

of trading in 2016.<sup>17</sup> A total of 7.41m shares worth \$15.1m were traded, marking a drop of 15.5% in the volume and 34.5% in the value of traded shares. Market capitalisation was \$3.34bn, up by 2.5% from November.<sup>18</sup>

Overall, the AI-Quds index dropped by 0.48% between the last day of trading in 2015 and the last day of trading in 2016. Throughout 2016, a total of 233m shares were traded on PEX with an overall value of \$445m. This marks a 32.9% increase in number and a 38.9% increase in value compared to 2015. These improvements can be mostly attributed to the investment and services sectors. Slightly over two fifths of the trading volume and value was in the banking sector. Market capitalization increased by 1.53% through the year.

**Figure 3: AI-Quds Index Performance during the financial year 2016**



Source: Sahem Trading and Investment Company

PEX announced the new composition of the AI-Quds index for the year 2016. The index includes 15 out of the 48 listed companies. These 15 companies amount to 83.5% of the total market capitalisation. The main criteria for inclusion in AI-Quds index are sector, trading volume and value, turnover ratio, profitability, number of trades and market value.

In related news, the Palestinian National Authority (PNA) has recently renewed Paltel Group’s cellular and fixed line licenses for a further 20 years at a total cost of \$290m.<sup>19</sup> Half of the price agreed will be paid upon signing the license renewal agreement, and the remaining half will be paid in four installments over the next two years.<sup>20</sup>

17 [www.sahem-inv.com/reports/marketperformance/en/20170104151521.pdf](http://www.sahem-inv.com/reports/marketperformance/en/20170104151521.pdf)

18 [www.pex.ps/PSEWebSite/publications/PEXIssue81\\_December2016.pdf](http://www.pex.ps/PSEWebSite/publications/PEXIssue81_December2016.pdf)

19 [www.pex.ps/PSEWebSite/Generalizations/Major-Events-PALTEL-29122016.pdf](http://www.pex.ps/PSEWebSite/Generalizations/Major-Events-PALTEL-29122016.pdf)

20 [maannews.net/Content.aspx?id=883820](http://maannews.net/Content.aspx?id=883820)

## 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)

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