

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*According to the Palestinian Central Bureau of Statistics (PCBS), the unemployment rate in Palestine reached 27% in Q1 2017*

*The Board of Governors of the European Bank for Reconstruction and Development (EBRD) approved at its May 2017 meeting the Bank's plans to invest in the West Bank and Gaza for an initial period of five years*

*The Palestinian Prime Minister Dr. Rami Hamdallah launched the Construction Industries Exhibition of 2017 in Hebron on 29 April 2017*

*According to recently released data from the PCBS, the total number of guests visiting Palestine decreased by 7.5% between 2015 and 2016.*

### Meeting of the Ad Hoc Liaison Committee

On 4 May 2017, members of the Ad Hoc Liaison Committee (AHLC) met in Brussels for their bi-annual meeting to review the Palestinian state building process and to discuss ways to support the Palestinian economy.<sup>1</sup> The meeting was hosted by the EU High Representative Ms. Federica Mogherini and chaired by Norway's Foreign Minister Mr. Børge Brende. Ahead of the meeting, the World Bank, International Monetary Fund (IMF), Office of the Quartet (OQ) and the Office of the UN Special Coordinator for the Middle East Peace Process (UNSCO) submitted their bi-annual reports to the Committee. The AHLC is a 15-member committee<sup>2</sup> that serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people.

The AHLC welcomed the efforts by all parties since its September 2016 meeting in New York, particularly the launching by the Palestinian Government of its National Policy Agenda (NPA) for 2017-2022 and its implementation through the revised local aid structures. However, the Committee also raised concern at the lack of serious development and the continuing deterioration of economic conditions in Palestine.

The AHLC concluded its meeting with a list of action points, focussing on three pillars: fiscal sustainability, economic development and Gaza reconstruction and recovery. Under each of these pillars, the AHLC identified constructive measures to be undertaken by the Palestinian National Authority (PNA), the Government of Israel (Gol) and the international community.

### Fiscal Sustainability

The action points and supporting reports submitted to the AHLC by participating organisations demonstrate that addressing the financing gap remains an urgent requirement. In their reports, the World Bank<sup>3</sup> and the IMF<sup>4</sup> predict challenging prospects for 2017 as donor budget support continues to decline. Both organisations project a historically high financing gap of around \$800m. Despite wide recognition of positive efforts by the PNA and the adoption of a new public financial management strategy under the NPA for 2017-2022, the reduction of the financing gap by restraining non-priority current spending and raising revenue continues to be emphasised. The World Bank and the IMF encourage further fiscal reforms by the PNA, such as civil service reform, a more progressive tax regime, and strengthening public financial management.

The AHLC also stressed the need to increase donor budget support to complement the Palestinian Government's efforts and to create the conditions for the Government to gradually invest more in the productive sectors of the economy. The AHLC highlighted the need for a more comprehensive and

<sup>1</sup> [www.regjeringen.no/en/aktuelt/ahlc\\_summary/id2552103/](http://www.regjeringen.no/en/aktuelt/ahlc_summary/id2552103/)

<sup>2</sup> Consisting of states (the PNA, the Gol, Canada, Egypt, Japan, Jordan, Russia, Saudi Arabia, Tunisia, Norway and the US) and international organisations (the World Bank, the IMF, the UN, the OQ and the EU)

<sup>3</sup> <http://bit.ly/2qboqN1>

<sup>4</sup> [www.imf.org/~media/Files/Publications/CR/2017/042017WBG.ashx](http://www.imf.org/~media/Files/Publications/CR/2017/042017WBG.ashx)

coordinated approach to reduce the high fiscal financing gap and promote medium-term fiscal sustainability. The Committee called on both the PNA and the Gol to revive discussions at the highest level to address economic and financial issues and challenges.

### Economic Development

According to World Bank and IMF estimates, economic growth in the West Bank and Gaza reached around 4% in 2016, an improvement from 3.5% in 2015. However, the reports stress that this improvement is neither sustainable nor sufficient to raise per capita income. Both reports also highlight that restrictions on trade and access to resources have led to a continuing decline in the productive base of the economy. Further, the reports voice concern over growing unemployment, which is now approaching 27% on average, with youth unemployment in Gaza more than twice as high (56.9%).

The reports predict that without a breakthrough in the peace process, growth is projected to continue at around 3.3% in the medium term<sup>5</sup> — insufficient to reduce unemployment and boost per capita income. Based on these predictions, the Committee called on the Gol to enable more Palestinian economic activity in Area C and to ease access to land. The AHLC also encouraged the PNA and the Gol to complete the interim power purchase agreement to supply energy to the Jenin power station, followed by the permanent power purchase agreement that would enable the Palestinian Government to shoulder greater responsibility for the energy sector.<sup>6</sup> Further, the AHLC called on all stakeholders to complete the “Red Dead Water Agreement”, which was signed by the Gol and Jordan in February 2015. The agreement enables a World Bank-sponsored project to build a desalination plant in Aqaba and a pipeline linking the Red Sea with the Dead Sea.<sup>7</sup> The plan is expected to secure 30 MCM of water for Palestinian needs in the West Bank and Gaza.

### Gaza Reconstruction and Recovery

The AHLC expressed concern over the situation in Gaza, particularly regarding the current energy crisis. According to the World Bank report, the available power supply in Gaza only meets half of the existing demand. The Committee also stressed the precarious water situation in Gaza. The primary long-term focus of the international community for improving the water supply to Gaza is the construction of the Gaza Central Desalination Plant (GCDP). The first phase of the GCDP is expected to provide an additional 55 MCM of water per year to Gaza, which is currently facing a supply gap of over 100 MCM per year. The AHLC urged all relevant parties to address the outstanding issues regarding energy supply for

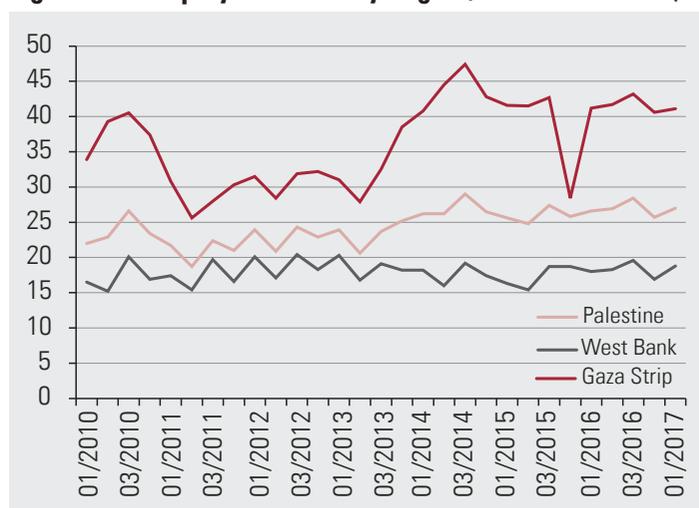
desalination and water treatment in Gaza, and to clarify entry procedures for materials used for construction, operations and maintenance.

The Committee called upon the United Nations to redouble its efforts to mitigate the impact on the most vulnerable in Gaza, and upon donors to fulfil pledges made at the Cairo International Conference on Palestine “Reconstructing Gaza” held in 2014.<sup>8</sup>

### Labour Market

According to the latest Labour Force Survey published by the Palestinian Central Bureau of Statistics (PCBS), the unemployment rate in Palestine reached 27% in Q1 2017, up by 1.3% from the previous quarter and 0.4% from the corresponding quarter of 2016.<sup>9</sup> The unemployment rate in the West Bank reached 18.8% in Q1 2017, an increase from 16.9% in Q4 2016 and 18.0% in Q1 2016. In Gaza, the unemployment rate reached 41.1%, marking an increase of 0.5% from Q4 2016 and a decline of 0.1% from Q1 2016.

Figure 1: Unemployment Rate by Region, Q1 2010-Q1 2017 (%)



Source: PCBS

The labour force participation rate for Palestine remained relatively unchanged in Q1 2017 (45.8%) when compared to Q4 2016 (45.5%) and Q1 2016 (45.8%). The major difference between the female participation rate (particularly low at 19.4%) and the male participation rate (71.6%) persisted. The wide gap in unemployment by gender also remained, as female unemployment reached 46.6%, compared to 21.9% for males. The situation is more pronounced in Gaza, where female unemployment amounted to 67.4%, compared to 32.7% for males. In the West Bank, the unemployment rate for females was 31.2%, compared to 15.9% for males.

Another persistent trend is youth unemployment, with 44.3% of those aged 20-24 years and 36.2% of those aged 25-29 years unemployed in Q1 2017. Among female youth,

5 IMF projections, which are also adopted by the World Bank, predict until 2022

6 <http://bit.ly/2rgtzDz>

7 [www.reuters.com/article/us-mideast-economy-water-idUSKBN0LU23Z20150226](http://www.reuters.com/article/us-mideast-economy-water-idUSKBN0LU23Z20150226)

8 <http://bit.ly/2qfNlul>

9 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_8-5-2017-LF-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_8-5-2017-LF-en.pdf)

the unemployment rate reached 66.9% for those aged 20-24 years and 64.2% for those aged 25-29 years. The most educated Palestinian women (13+ years of schooling) face a particularly high unemployment rate at 51.5%, despite exhibiting a relatively high labour force participation rate (47.1%). This is a particularly worrisome trend as it could discourage women from pursuing higher education.

The total number of employed Palestinians increased by 26,000 between Q1 2016 and Q1 2017. This increase was mainly driven by a steep rise in the number of Palestinians working in Israel and the settlements, to reach 139,600 in Q1 2017 compared to 114,000 in Q1 2016. This is in line with a recent announcement by the GoI to increase the number of West Bank Palestinians allowed to work in Israel.<sup>10</sup>

The average daily wage for Palestinians in Q1 2017 was 113.6 NIS (including Israel and the settlements), a 3.3% increase from Q4 2016 and a 4.6% increase from Q1 2016. There were large differences in average wage levels across sectors, ranging from 81.2 NIS per day in commerce, restaurants and hotels to 182.1 NIS in construction. Average wages also varied considerably between the West Bank (101.5 NIS) and Gaza (58.7 NIS), while reaching 219.5 NIS in Israel and the settlements.

In addition to the Q1 2017 Labour Force Survey, the PCBS also released the consolidated 2016 Labour Force Survey.

**Table 1: Main Labour Force Survey Indicators, 2016 and 2015**

Region	West Bank		Gaza		Israel and the Settlements		Palestine	
	2016	2015	2016	2015	2016	2015	2016	2015
Year	2016	2015	2016	2015	2016	2015	2016	2015
Unemployment rate (%)	18.2	17.3	41.7	41.0	-	-	26.9	25.9
Total number employed (thousand workers)	690	963	290	278			980	963
Labour force participation rate (%)	45.6	46.1	46.1	45.3	-	-	45.8	45.8
Wages (NIS)	98.1	94.1	61.6	61.9	218.0	198.9	109.3	103.9
Percentage of jobs contributed by the services sector (%)	33.2	33.7	53.8	55.5	1.9	2.7	35.5	36.4

Source: PCBS

## Hotel Activities

According to recently released data from the PCBS, a total of 484,000 guests spent 1.31 million nights in the 125 hotels operating in the West Bank in 2016.<sup>11</sup> These figures mark a decrease of 7.5% in the number of guests and 7.7% in the number of guest nights from 2015. Despite this decline, the number of operating hotels has increased from 112 in 2015 and from 87 in 2010. Most hotel guests came from the EU (28.4%), followed by Palestinians residing in Israel (19.5%), visitors from Asia (18.1%), the US and Canada (8.5%). The greatest volume of guests came in Q4 2016 (140,000), 74.5% more than in Q1 2016 (80,000). In 2016, West Bank hotels employed 2,903 workers, a decrease of 2.4% from 2015.

10 www.haaretz.com/israel-news/.premium-1.759885

11 www.pcbs.gov.ps/Downloads/book2265.pdf

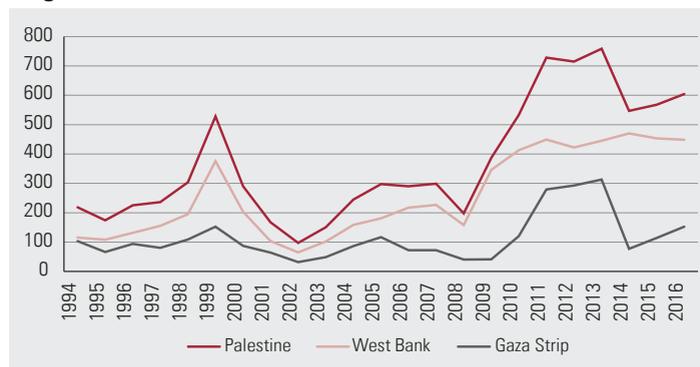
## Construction Industries Exhibition 2017

On 29 April 2017, the Palestinian Prime Minister Dr. Rami Hamdallah opened the Construction Industries Exhibition of 2017 in Hebron.<sup>12</sup> The event was organised by the Palestine Engineers Association to enhance communication between engineers, construction workers and different companies along the construction supply chain. Themes such as new technological advancements, occupational safety and security and new services and materials in the market were discussed.<sup>13</sup>

One of the major developments in the construction sector is the current work to establish the first cement factory in Bethlehem. With a total investment of \$310m, the project is expected to create 500 direct jobs and more than 1,000 indirect jobs during its construction and operation.<sup>14</sup> Upon completion, the factory will have capacity to produce 1.3m tonnes of cement per year, about one third of the Palestinian annual market demand.<sup>15</sup>

Preliminary National Accounts estimates for 2016 show that the construction sector contributed \$604.1m (7.5%) to GDP<sup>16</sup>, 7.4% in the West Bank and 7.8% in Gaza.<sup>17</sup>

**Figure 2: Value Added by the Construction Sector by Region (at 2004 Constant Prices), 1994-2015**



Source: PCBS

## Electricity Market Reforms

On 22 March, the Prime Minister Dr. Rami Hamdallah announced the PNA's plan to establish a new electricity market in Palestine, in line with the NPA 2017-2022.<sup>18</sup> The plan aims to establish a national grid, managed by a national company entirely owned by the Government. As stipulated in the plan, the company will establish four power plants in Ramallah, Nablus, Jenin and Hebron to decrease the reliance on external support in the energy sector. The national company will be responsible for transmitting electricity from these four plants, as well as from Israel and Jordan. The new plan will allow the

12 www.maannews.net/Content.aspx?id=905325

13 www.palevents.ps/event/construction2017/#prettyPhoto

14 www.pif.ps/page.php?id=9c06y39942Y9c06

15 http://bit.ly/2rgEmhd

16 Total value added in constant prices

17 www.pcbs.gov.ps/portals/\_pcbs/PressRelease/Press\_En\_28-3-2017-NA-en.pdf

18 http://bit.ly/2qVfYAO

Government to purchase more electricity at prices 20% lower than the current price.

The announcement builds on an agreement, signed by the PNA and the Gol in September 2016 to resolve the payment of the accumulated debt of the PNA to the Israel Electric Corporation (IEC) and to restructure the arrangements between the Gol and the PNA with respect to electricity provision and consumption.

In related news, on 3 May 2017, the Director General of the Jerusalem Electricity Company, Mr. Hisham Al-Omari, announced the opening of the largest Palestinian solar power station in Jericho.<sup>19</sup> The station will produce up to 5 MW from solar energy, with plans to increase its capacity to 20 MW in the next two years.

## The European Bank for Reconstruction and Development to Invest in Palestine

At its May 2017 meeting, the Board of Governors of the European Bank for Reconstruction and Development (EBRD) approved the Bank's plans to invest in the West Bank and Gaza for an initial period of five years. Operating from its offices in Amman, the Bank's investments will focus on private sector competitiveness and innovation, increasing access to finance for micro-enterprises and SMEs as well as on the energy sector. The decision was welcomed by the Palestinian Minister of National Economy, Ms. Abeer Odeh, who represented Palestine at the EBRD Board meeting in Nicosia, Cyprus.<sup>20</sup>

The West Bank and Gaza are part of the EBRD's southern and eastern Mediterranean (SEMED) region, which also includes Egypt, Jordan, Morocco and Tunisia, where the EBRD has been investing and engaging in policy dialogue since 2012. To date, the Bank has provided some €4.8 billion to these four countries alone in the form of loans and equity investment. Eighty per cent of these investments are in the private sector.<sup>21</sup>

## Startup Weekend Bethlehem

Startup Weekend Bethlehem 2017 took place between 6 and 8 April.<sup>22</sup> This is a three-day competition where entrepreneurs form teams to pitch ideas and develop them into a working prototype with help from expert mentors. The event was organised by the Bethlehem Business Incubator (BBI) and the Palestine Ahliya University College (PAUC), with support from the Middle East Partnership Initiative (MEPI) and the Bank of Palestine. A total of 39 participants, divided into eight teams, competed to develop their ideas and present them to a panel of Palestinian experts. The three winning ideas were: Tahawaj (a website and a mobile application that facilitate shopping from the Palestinian market), Cleanos (an application that provides pick-up, cleaning and delivery services) and Allimni (Teach Me, an application that provides on-demand tutoring by connecting students with qualified tutors).

## April Trading

The Al-Quds index dropped by 3.92% during April 2017, reaching 517.8 points on the last day of trading.<sup>23</sup> The index reached a peak of 542.7 points on 5 April, but then experienced a negative trend throughout the rest of the month. A total of 17.1m shares worth \$28.8m were traded, marking a 6.5% increase in the number and 1.3% increase in the value of traded shares. The services sector witnessed the highest drop (6.5%), while the investment sector was the only one to increase (2.7%).

In related news, total net profits for listed companies during Q1 2017 amounted to \$82.6m, a 2.7% increase from Q1 2016.<sup>24</sup> Out of 49 listed companies, 37 reported profits, nine reported losses and three failed to disclose within the deadline.

19 [www.palestineconomy.ps/article/9833/](http://www.palestineconomy.ps/article/9833/)

20 [www.english.wafa.ps/page.aspx?id=JU6Phxa86060361519aJU6Phx](http://www.english.wafa.ps/page.aspx?id=JU6Phxa86060361519aJU6Phx)

21 [www.ebrd.com/news/2017/ebrd-to-invest-in-west-bank-and-gaza.html](http://www.ebrd.com/news/2017/ebrd-to-invest-in-west-bank-and-gaza.html)

22 <http://bit.ly/2qb6mCJ>

23 [www.pex.ps/PSEWebSite/publications/PEXIssue85April2017.pdf](http://www.pex.ps/PSEWebSite/publications/PEXIssue85April2017.pdf)

24 [www.pex.ps/PSEWEBSITE/NEWS/070520173.xlsx](http://www.pex.ps/PSEWEBSITE/NEWS/070520173.xlsx)

## The Portland Trust



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