The Portland Trust

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Main reports

The Arab World for Research and Development (AWRAD) published the results of its most recent survey, titled "Survey on the State of the Palestinian Economy: Private Sector, Economists and Journalists" on 29 June

The United Nations published a report titled "Gaza Ten Years Later" on 11 July 2017, following up on a similar publication by the United Nations in 2012 titled "Gaza 2020: A livable place?"

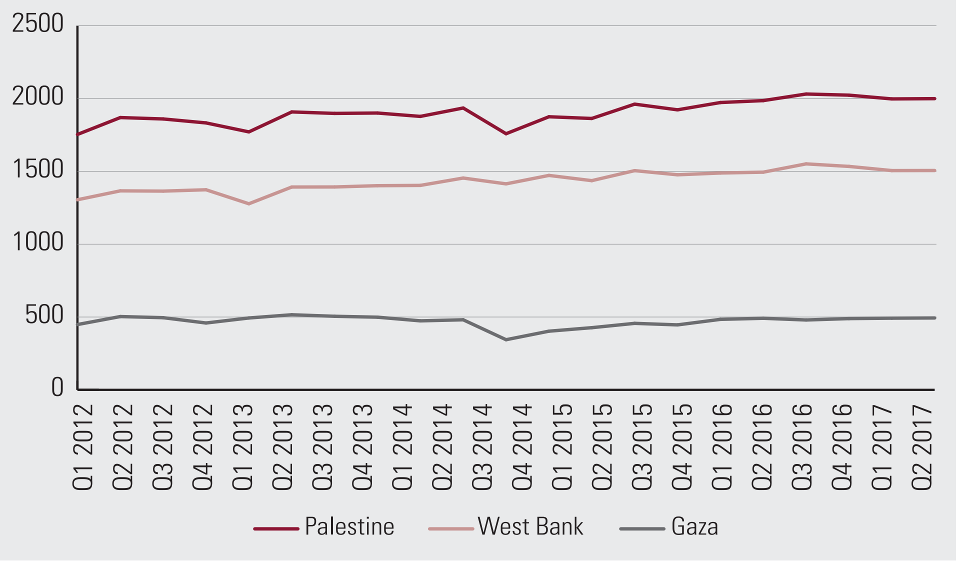
The Palestinian current account deficit decreased by 17.1% in Q1 2017, from the previous quarter

Ibtikar Fund announced a $2.5m capital increase on 5 July, as the International Finance Corporation (IFC), the Dutch Good Growth Fund (DGGF) and Reach Holding joined as investors, raising Ibtikar's total raised capital to $10.45m

National Accounts

According to preliminary estimates published by the Palestinian Central Bureau of Statistics (PCBS) in June 2017, real GDP[1] in Palestine reached $1,999m in Q1 2017, an increase of 0.1% compared to the previous quarter and 0.7% compared to Q1 2016.[2] In the West Bank, real GDP in Q1 2017 remained relatively unchanged from the previous quarter, while in Gaza, real GDP was up 0.3% from Q4 2016.

Figure 1: Quarterly Real GDP in millions USD (Base Year: 2004) by Region, Q1/2012-Q1/2017



Source: PCBS

Real GDP per capita in Palestine decreased in Q1 2017 by 0.6% from Q4 2016 and 2.1% from Q1 2016. In the West Bank, quarterly real GDP per capita declined by 0.6% from the previous quarter and 1.7% from Q1 2016. In Gaza, real GDP per capita decreased by 0.5% from Q4 2016 and 2.8% from Q1 2016.

At the sectoral level, the most notable year-on-year (Q1 2016 and Q1 2017) changes were in the agriculture, forestry and fishing, transportation and storage, and financial and insurance activities sectors. The value added by agriculture, forestry and fishing dropped by 19.3%, while the value added by the transportation and storage, and financial and insurance activities sectors improved by 11.4% and 11.2% respectively. The year-on-year changes reflect a historical trend characterised by the deterioration in the primary sectors, combined with a steady expansion of tertiary services.

1 in 2004 constant prices
2 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_22-6-2017-NA-en.pdf

Table 1: Value added in Palestine by economic activity (Base Year: 2004), Q1 2016, Q4 2016 and Q1 2017

	Q1 2017 (USD millions)	Q4 2016 (USD millions)	Q1 2016 (USD millions)	Change (%) (Q4 2016-Q1 2017)	Change (%) (Q1 2016-Q1 2017)
Agriculture, Forestry and Fishing	52.1	59.1	64.6	-11.84%	-19.35%
Mining, Manufacturing, Electricity and Water	282	279.6	270.8	0.86%	4.14%
Construction	148.7	166.6	154.9	-10.74%	-4.00%
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	343	325.2	354.7	5.47%	-3.30%
Transportation and Storage	47.9	49.7	43	-3.62%	11.40%
Financial and Insurance Activities	85.6	83.7	77	2.27%	11.17%
Information and Communication	104.6	108.7	109.1	-3.77%	-4.12%
Services	417.2	402	410.4	3.78%	1.66%
Public Administration and Defence	257.9	261.6	250.2	-1.41%	3.08%
Financial Intermediation Services Indirectly Measured (FISIM)	-53.2	-52	-48.3	2.31%	10.14%
Customs Duties	139.7	136.7	121.4	2.19%	15.07%
VAT on Imports (Net)	172.7	175.4	176.9	-1.54%	-2.37%
Gross Domestic Product (GDP)	**1999.2**	**1997.3**	**1985.7**	**0.10%**	**0.68%**

Source: PCBS

Survey on the Status of the Palestinian Economy

On 29 June 2017, the Arab World for Research and Development (AWRAD), a research and consulting firm based in Ramallah, published the results of its most recent survey, titled “Survey on the State of the Palestinian Economy: Private Sector, Economists and Journalists”. The aim of the survey is to provide a snapshot of the prevailing opinions on the state of the Palestinian economy, especially in light of the recent reports of potential initiatives to jump-start both negotiations and the Palestinian economy. The survey, which was conducted between 13-19 July, included information from interviews with 250 Palestinian business owners, managers, economists and journalists.[3]

Around two thirds of the survey’s respondents describe the Palestinian economy as worse than a year ago, with over 90% of Gaza respondents expressing this opinion. Only 13.8% of respondents in the West Bank, and none in Gaza, see improvements from last year. These results reflect the generally stagnant state of the Palestinian economy, and the deteriorating conditions in Gaza. Real GDP in Palestine improved by a mere 0.1% between Q1 2016 and Q1 2017, while real GDP per capita dropped by 2.1% during the same period, indicating a deterioration in living standards. The situation is particularly worrying in Gaza where only 1.5% of respondents believe that Palestinians spend more on discretionary goods (92.4%, believed the opposite to be true), compared to 59.9% of respondents in the West Bank.[4]

With regards to the causes of the current economic downturn, around half of the respondents (49.1%) consider Palestinian internal politics and policies to be the driving factor, followed by Israeli government policies (31.2%) and the situation and economies of neighboring Arab states (12.4%). Furthermore, 30.7% of respondents see debts and loans as the most significant near term threat to Palestinian economic stability, in addition to youth unemployment (22.9%), occupation-related issues such as restrictions on the movement of goods (18.8%) and the absence of legislative authority and checks and balances (9.2%).

When asked about the external measures (by Israel, US and other actors) with the potential to induce a positive change in the economy, 30.7% of the respondents believe that easing the border restrictions on imports and exports would have the highest impact on the Palestinian economy in the short term. Other important measures include permitting development and investment in Area C (24.3%), increasing the permits for Palestinians working in Israel (18.8%) and establishing free trade zones (11%).

In terms of measures which could be taken by the Palestinian National Authority (PNA), the most important to respondents are improving the tax regime (23.9%), establishing industrial parks outside the major cities (20.2%), adopting legislation to ensure greater competition in the economy (12.4%) and negotiating more and better trade agreements (11.9%).

Finally, manufacturing is generally considered the most important sector for future investments (47.2% of respondents), followed by agriculture (20.6%), construction (10.1%) and banking (6.4%).

Gaza Ten Years Later

On 11 July 2017, the United Nations published a report titled “Gaza Ten Years Later”, which aims to reflect the current living conditions in Gaza.[5] The report follows up on a similar publication by the United Nations in 2012 titled “Gaza 2020: A livable place?”.[6] The 2017 report states that the current prospects are even worse than the predictions made in the 2012 report. While the population has increased slightly more than expected, the economy and basic infrastructure and services have been deteriorating faster than anticipated. In addition, the damage resulting from the 2014 Gaza war and the following intensification of restrictions on movement have further contributed to the slowdown of the economy and the post-war reconstruction efforts. Real GDP per capita was expected to grow at 0.6-1.5% annually, however, all recent figures show a decrease in this indicator. Between 2010 and 2016, relative to the population, the number of doctors, nurses and hospital beds dropped by 15%, 12% and 5% respectively. The teacher/student ratio dropped by more than 5% during the same period.

3 http://bit.ly/2tYEhf2
4 http://pcbs.gov.ps/Downloads/book2266.pdf
5 http://bit.ly/2t7MrGk
6 www.unrwa.org/newsroom/press-releases/gaza-2020-liveable-place

Table 2: Indicators as identified in the United Nations report, 2017

Indicator	2011/2012 (actual)	2016/2017 (actual)	2020 Projection (2012 report)	2020 Projection (2017 report)
Gaza Population	1.6m	2.0m	2.13m	2.2m
Population Density	4,383 person/km2	5,479 person/km2	5,835 person/km2	6,197 person/km2
Real GDP per capita	$1,165	$1,038	$1,058	$1,058
Unemployment rate	29%	42%	N/A	44.4%
% of energy demand met	60%	25-36%	N/A	pessimistic scenario: 25-38%, optimistic scenario: 46-71%
% of water aquifer safe for drinking	10%	3.8%	0%	0%
Hospital beds per 1000 persons	1.8 (2010 figures)	1.58	+800 additional hospital beds needed to maintain 2010 level	+1,000 additional hospital beds needed to maintain 2010 level
Doctors per 1,000 persons	1.68 (2010 figures)	1.42	+1,000 additional doctors (and 2,000 Nurses) needed to maintain 2010 level	+1,000 additional doctors (and 1,000 Nurses) needed to maintain 2010 level

Source: United Nations "Gaza Ten Years Later" and "Gaza 2020: A livable place?" reports

The report states that if the current situation continues, Gaza's only water source, the coastal aquifer, will be irreversibly depleted by 2020. In the 2012 report, the water aquifer had been projected to be unusable by 2016 but now this has shifted slightly to 2017. This revised estimate came after an increase in the supply of water by the Israeli water company (Mekorot), paid for by the Palestinian National Authority (PNA). While Gaza continues on its path of de-development, an immense need for humanitarian assistance and international support persists.

In related news, on 12 July 2017, the only operating power plant in Gaza was shut down after a severe deficiency in fuel.[7] On that day, people across Gaza received at best 3 hours of electricity. This electricity crisis has continued since mid-April after a dispute between Hamas and the PNA over control of tax revenues collected in Gaza. In addition, Israel announced in June that it would further reduce the electricity power it supplied to Gaza from 125 megawatts to 48 megawatts[8] as the PNA would cease to pay for that service. As a temporary solution, Egypt shipped around 4 million litres of fuel to operate the power plant in late June 2017, which lasted until the recent shutdown.[9]

Balance of Payments (BoP), International Investment Position (IIP) and External Debt

In Q1 2017, the Palestinian current account deficit decreased by 17.1% from the previous quarter, reaching $302.8m.[10] The decrease was caused by a shrinking trade deficit, both in the balance of goods and the balance of services of 8.2% and 9.2%, respectively. In Q1 2017, total exports amounted to $245m and total imports to $1,245m.[11] Compared to Q4 2016, imports dropped by 3.4% and exports declined by 6.7%. The current account deficit increased by 9% for the corresponding quarter in 2016, with imports and exports increasing by 17.2% and 8% respectively.

7 http://bit.ly/2vFgW2U
8 www.maannews.com/Content.aspx?id=777763
9 http://bit.ly/2vFgW2U
10 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_19-6-2017-BOP-en.pdf
11 pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_External%20Trade-March-en.pdf

The capital and financial account surplus (a figure highlighting the net change in physical and financial asset ownership in Palestine) amounted to $177m in Q1 2017. This constituted a drop of 50.1% from the preceding quarter. The overall surplus in the capital account fell to $91m from $145m in Q4 2016, while the surplus in the financial account (the balance of financial assets and liabilities of the economy) decreased by 58.9% to $86m. Reserve assets at the Palestine Monetary Authority (PMA) increased from $23m in Q4 2016 to $109m in Q1 2017.

Table 3: BoP, IIP and External Debt, Palestine, Q1 2016, Q4 2016 and Q1 2017

Item	Q1 2016 (USD millions)	Q4 2016 (USD millions)	Q1 2017 (USD millions)	Change (%) (Q1 2016-Q1 2017)	Change (%) (Q4 2016-Q1 2017)
Current Account	-277.8	-365.1	-302.8	9.0%	-17.1%
Current Transfers	528.7	585.4	472.4	-10.6%	-19.3%
Capital and Financial Account	198.8	354.5	176.8	-11.1%	-50.1%
Total External Assets	5,891	6,138	6,547	11.1%	6.7%
Total Foreign Liabilities	4,985	4,849	5,132	2.9%	5.8%
International Investment Position (Net)	906	1,289	1,415	56.2%	9.8%
External Debt	1,637	1,606	1,917	17.1%	19.4%

Source: PCBS and PMA[12 13 14]

The stock of investments of Palestinian residents outside Palestine (total external assets) exceeded investments in Palestine by nonresidents (total foreign liabilities) by $1,415m in Q1 2017.[15] Palestine's International Investment Position (IIP, defined as external assets minus foreign liabilities) increased by $126m (9.8%) from the previous quarter. The observed rise was the result of a $409m increase in external assets, partially offset by a $283m increase in foreign liabilities. Compared to a year earlier in Q1 2016, IIP grew by 56.2% following a 11.1% increase in external assets and 2.9% rise in foreign liabilities.

The gross external debt amounted to $1.9bn at the end of Q1 2017, an increase of 19.4% from the previous quarter and of 17.1% compared to Q1 2016. The debt of the general government constituted 55% of the total debt, while the debt of private banks amounted to 41.5%.

Overall, this performance highlights the fragile financial structure of the Palestinian economy; increasing international indebtedness of the banking sector and persistent current account deficits in goods and services, balanced by a growing surplus in the current income account from labour in Israel, falling current transfers of aid from abroad and a surplus in the net value of assets compared to liabilities abroad.

New Funds for Investment in Palestinian Startups

On 5 July, Ibtikar Fund, a Palestinian early stage venture capital fund, announced a $2.5m capital increase as the International Finance Corporation (IFC), the Dutch Good Growth Fund (DGGF) and Reach Holding joined as

12 http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_19-6-2017-BOP-en.pdf
13 http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-3-2017-BP-en.pdf
14 http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_PmaBoP2016Q1E.PDF
15 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_18-6-2017-EI-en.pdf

investors.[16] This investment brings Ibtikar's total raised capital to $10.45m. Ibtikar Fund invests in innovative Palestinian startups at seed level, post-acceleration, and series A level. Since its launch in May 2016, the Fund has made 14 investments in Palestinian startups including in Mashvisor, an online real estate data platform that became the first Palestinian startup to join the prestigious Silicon Valley accelerator programme "500 Startups" in November 2016. Ibtikar's capital increase demonstrates that the Fund's growing investment portfolio can attract regional and global investors and also marks the first investment in Palestinian venture capital for the IFC and the DGGF, who are active global investors

Entrepreneurship has been emerging as a growing opportunity for Palestine over the past decade, reflecting a global trend and the fact that the Palestinian economy has certain positive attributes including proximity to international technology companies based in the region, the ability to access Arab markets and good English language skills among graduates.

Despite the positive developments, major obstacles for Palestine's high-tech sector remain, including movement restrictions which hinder MNC engagement as well as restrictions on wireless mobile telecommunications technology.[17] Changes in the regulatory regime, including allowing startups to issue preferred shares for investors and stock options for employees, would be a boost for the sector.[18] Curriculum modernisation in university STEM programmes (Science, Technology, Engineering and Mathematics) is also needed to ensure that new graduates are sufficiently prepared to fill the needs of the growing high-tech sector.[19]

Cooperation between Palestine and India

On 16 May 2017, during the State visit of President Mahmoud Abbas to India, the Palestinian Minister of Foreign Affairs Mr. Riad Malki and the Indian Minister of External Affairs, Ms. Sushma Swaraj, signed Memoranda of Understanding (MoU's), including on IT and agricultural cooperation.[20] [21] IT cooperation will extend to areas such as e-governance, m-governance, e-public services delivery, cyber security, software technology parks and the start-up ecosystem.[22] Agricultural cooperation will focus on the fields of agricultural research, irrigation, climate change, and veterinary sciences, including capacity building of Palestinian veterinary services and animal health. The cooperation will also cover areas such as plant and soil nutrition and modern irrigation technology through exchange of experiences, training and capacity building. According to the MoU, a steering committee will be formed to decide on programmes and action plans in addition to setting an agenda for cooperation in order to assure that the objectives of the MoU are fulfilled.[23]

Agriculture, despite being Palestine's sixth largest economic sector representing 3.2% of GDP in 2015, faces external challenges such as access to farming resources and internal constraints such as a limited modernisation of practices and adoption of new technology.[24] The proposed increase in agricultural cooperation with India has the potential to help modernise the sector by providing greater access to technology and transfer of know-how. In terms of bilateral trade cooperation, the volume of total trade transactions between Palestine and India was $33.9m in 2015, consisting primarily of Indian exports to Palestine.[25]

June Trading

The Al-Quds index increased by 3.09% during June 2017, peaking at 544.36 points on the last day of trading after an upward trend throughout the month.[26] A total of 25.9m shares worth $38.4m were traded, marking a 63.0% and a 49.2% increase in the number and value of traded shares, respectively. The investment sector witnessed the highest increase (3.2%), while the industrial sector was the only one to face a modest drop (0.18%).

In related news, the Arab Palestinian Shopping Centres (BRAVO) was delisted from PEX as of 20 June 2017, after transforming into a private shareholding company.[27] With BRAVO delisting, only 48 companies are now listed on the PEX.

16 http://bit.ly/2uwCWQ9
17 www.foreignaffairs.com/articles/israel/2017-06-13/start-palestine
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26 www.pex.ps/PSEWebSite/publications/PEXIssue87June2017.pdf
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