

## PALESTINIAN ECONOMIC BULLETIN

**Bulletin 138**  
**March 2018**

### **Main reports**

*On 1 March 2018, the North Gaza Emergency Sewage Treatment Facility commenced its first phase of operation*

*The European Union hosted a pledging conference in Brussels on the Gaza Central Desalination Plant on 20 March 2018, raising financial commitments of €456m for what will be the biggest ever infrastructure project in Gaza*

*On 13 March 2018, the European Bank for Reconstruction and Development launched its first investment in Palestine: a \$5m loan to Cairo Amman Bank Palestine to increase access to finance for Palestinian businesses*

*Social Studio, a project to study the use of social media in Palestine, released its report on the status of Social and Digital Media in Palestine during 2017*

### **Economic Developments in Gaza**

The combination of episodes of war, restrictions on the entry and exit of people and goods and internal challenges have taken a toll on Gaza's economy. The most recent data reveals GDP growth of only 0.5% in Gaza during 2017. Unemployment reached 44% during the same period, despite a low labour participation rate of 75% for males and 18% for females. The quality of life for most Gaza residents is deteriorating, especially as access to basic utilities and services has continued to decline.<sup>1</sup>

#### **Electricity Shortage**

By 6 February 2018, emergency electricity generators ran out of fuel in three out of Gaza's 13 hospitals and 14 out of its 54 medical centres.<sup>2</sup> On 14 February, the Gaza Power Plant (GPP) was forced to stop operations temporarily due to an insufficient supply of diesel fuel required to operate the plant.<sup>3</sup> The possibility of additional medical facilities shutting down due to the lack of electricity was averted through a \$3.5m donation towards emergency fuel supplies from the United Arab Emirates (UAE), Islamic Development Bank (IDB) and the State of Qatar. The donation covers 54% of the \$6.5m required for the most critical medical facilities to continue their operations in 2018.<sup>4</sup>

While the GPP's total capacity is 140 MW, since 22 January 2018, it has produced at most 25 MW of electricity. The lack of fuel to operate the plant is mainly due to political and funding disputes which impact the provision of fuel imported from Egypt.<sup>5</sup>

#### **Housing Shortage**

On 19 March 2018, the Minister of Public Works and Housing, Dr. Mufid Al-Hasayneh announced that Gaza requires about 125,000 new housing units to meet current demand, in addition to 24,000 existing housing units that require full reconstruction.<sup>6</sup> Dr. Al-Hasayneh added that more than 70% of families in Gaza are financially unable to build housing units, noting that Gaza needs an additional 14,000 housing units each year on average. Currently, there are 285,000 housing units in Gaza, of which 55,000 need restoration or rehabilitation, while 20% of the Palestinian families in Gaza live in densely populated residential units with population growth rates of at least 3.3%.<sup>7</sup>

#### **Gaza Reconstruction Mechanism**

A joint review of the Gaza Reconstruction Mechanism (GRM) has been agreed between the Government of Israel (GoI) and the Palestinian National Authority (PNA) following a meeting on 14 February with Palestinian Prime Minister Dr. Rami Hamdallah, the GoI's Coordinator of Government Activities in the Territories (COGAT), Major General Yoav Mordechai, and United Nations (UN) Special Coordinator Mr.

1 <https://bit.ly/2DPE6aM>

2 <https://reut.rs/2HYAV2W>

3 <https://www.timesofisrael.com/gazas-only-power-plant-shuts-down-over-fuel-shortage/>

4 [https://reliefweb.int/sites/reliefweb.int/files/resources/hummonitor\\_february\\_2018.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/hummonitor_february_2018.pdf)

5 <https://reliefweb.int/sites/reliefweb.int/files/resources/UNSCO%20AHLC%20Report%20-%20March%202018.pdf>

6 <http://english.pnn.ps/2018/02/19/gaza-125000-homes-required-to-overcome-housing-crisis/>

7 <http://imemc.org/article/over-125000-units-needed-to-overcome-gaza-housing-crisis/>

Nickolay Mladenov. The GRM is a temporary mechanism agreed by the PNA, the GoI and the UN after the 2014 war to allow the entry into Gaza of materials considered 'dual-use' for the purpose of reconstruction.<sup>8</sup> While the agreement initially increased the annual amount of cement imported to Gaza by nearly 1,000%, the GRM has been less successful in facilitating imports of other dual-use materials. Further, the amount of cement imported through the GRM has started to decline with January 2018 being the second-lowest month on record since the GRM was introduced.<sup>9</sup> Mr. Mladenov stated that "All sides agreed on the need for a joint review of the Gaza Reconstruction Mechanism to improve its functionality, transparency and predictability."<sup>10</sup>

### **Gaza Wastewater Treatment Plant launched**

On 1 March 2018, the North Gaza Emergency Sewage Treatment Facility (NGEST) commenced its first phase of operation with the aim of becoming fully operational at the end of June this year. NGEST is intended to provide a long-term, sustainable wastewater management solution for over 400,000 residents of Gaza.<sup>11</sup> The four-month commissioning phase began following the conclusion of all works by the contractor and the testing of equipment installed in the new facility. The \$75m project received financial, technical and diplomatic support from the governments of Belgium, France, and Sweden, the European Commission, the World Bank (WB), the Office of the Quartet Representative (OQ) and the US State Department.<sup>12</sup> At the request of the PNA, the WB will extend its support throughout the commissioning period.

In addition to NGEST, the Gaza Central Waste Water Treatment Plant, which is currently under construction, is expected to start operation by the end of 2019. The two plants will support the other five wastewater treatment plants in Gaza, increasing total capacity of all plants to around 66 million cubic metres (MCM), equivalent to the sewage treatment capacity currently needed for Gaza.

The treatment facilities require sufficient power to operate, which is not consistently available due to the electricity shortage. The PNA and the GoI have agreed on a temporary power arrangement for NGEST which requires 6MW of power to operate during the current phase. The total energy required to operate all water and wastewater facilities in Gaza is estimated to reach around 100 MW by 2025. The long-term viability of sewage treatment operations require transboundary wastewater treatment agreements and an increased power supply through a dedicated electricity line built from Israel straight to the plant. While the GoI has approved the request for the power line, the plan has yet to be implemented.<sup>13</sup>

8 <https://grm.report/>  
9 <https://bit.ly/2pysPqe>  
10 <http://bit.ly/2ud06uC>  
11 <http://bit.ly/2FFB3Ys>  
12 <https://bit.ly/2FFB3Ys>  
13 <https://bit.ly/2HBtRcu>

### **European Union raises €456m for the construction of the Gaza Central Desalination Plant**

On 20 March 2018, the European Union (EU) hosted a pledging conference in Brussels on the Gaza Central Desalination Plant & Associated Works Project. The conference, co-chaired by the EU and the PNA, raised financial commitments of €456m for what will be the biggest ever infrastructure project in Gaza. The first phase of the project aims to provide a minimum of 55 MCM of potable water to the residents of Gaza. Upon the completion of the second phase, the total amount of potable water delivered by the plant is expected to reach 110 MCM.<sup>14,15</sup> Current demand for water in Gaza is estimated at around 180 MCM per year.<sup>16</sup> According to the Palestinian Water Authority (PWA), only 98 MCM of water is currently provided for domestic use in Gaza (54.4% of total demand), but overall domestic consumption is only 58.7 MCM (32.6% of total demand) due to the loss of 40% of the water through outdated and dilapidated infrastructure.<sup>17</sup>

The EU's Commissioner for Neighbourhood Policy and Enlargement Negotiations, Johannes Hahn said: "This project will meet the most urgent water needs in Gaza, providing drinking water and at the same time contributing to economic growth, environmental sustainability and stability." Prime Minister Dr. Hamdallah added: "The project will contribute to the political stability of the region as water scarcity can have grim repercussions and spark further tensions."

Delegations from 42 countries as well as eight institutions including the European Investment Bank (EIB), the WB, the OQ and the IDB expressed their support for the project. The pledged €456m cover more than 80% of the total amount needed for the construction (€562.3m).<sup>18</sup>

### **Japan to provide further support to Jericho Agro-Industrial Park**

On 1 March 2018, the Japanese Senior Deputy Minister for Foreign Affairs, Mr. Takeo Mori, and the Japanese Ambassador for Palestinian Affairs, Mr. Takeshi Okubo, visited Jericho Agro-Industrial Park (JAIP) to confirm the provision of \$7.5m of additional funds to develop a solar power project and to expand the administrative buildings in JAIP.<sup>19</sup> To date, the Government of Japan (GoJ) has provided over \$35m of assistance to JAIP.<sup>20</sup> The Park, which focuses on agro-industries, is expected to add 5,000 direct and indirect employment opportunities.<sup>21</sup> Thanking the GoJ, the Palestinian Minister of National Economy, Ms. Abeer Odeh, confirmed that 37 factories have signed lease agreements to become tenants of the Park, of which 11 factories have already commenced production.

14 [http://europa.eu/rapid/press-release\\_IP-18-2081\\_en.htm](http://europa.eu/rapid/press-release_IP-18-2081_en.htm)

15 <https://bit.ly/2DPE6aM>

16 <https://bit.ly/2uvulPw>

17 <https://www.btselem.org/water>

18 [http://europa.eu/rapid/press-release\\_IP-18-2081\\_en.htm](http://europa.eu/rapid/press-release_IP-18-2081_en.htm)

19 <http://maannews.net/Content.aspx?id=941145>

20 <http://english.wafa.ps/page.aspx?id=bftQyya95819636781abfTQyy>

21 [www.piefza.ps/en/jericho-agro-industrial-park-industrial-estate](http://www.piefza.ps/en/jericho-agro-industrial-park-industrial-estate)

The solar power project, which will receive \$3.5m out of the \$7.5m newly committed funds, involves the installation of rooftop photovoltaic panels for power generation.<sup>22</sup> The project will contribute towards lowering the overall electricity and production costs in the Park.

Currently under construction in the Jordan Valley on a total area of 615,000m<sup>2</sup>, JAIP is a flagship project of the “Corridor for Peace and Prosperity Initiative”, an effort by the GoJ to promote economic and social development in Jericho and the Jordan Valley area.<sup>23</sup>

## EBRD’s first investment in Palestine

On 13 March 2018, the European Bank for Reconstruction and Development (EBRD) launched its first investment in Palestine: a \$5m loan to Cairo Amman Bank Palestine to increase access to finance for the economy’s micro, small and medium-sized enterprises (MSMEs).<sup>24</sup> The signing ceremony took place at the Palestine Monetary Authority (PMA) in the presence of PMA Governor, Mr. Azzam Shawwa, EBRD President, Sir Suma Chakrabarti and Cairo Amman Bank Palestine Regional Manager, Mr. Joseph Nesnas.

During the ceremony, EBRD President Chakrabarti said: “Supporting small businesses through our first investment is highly symbolic. At the EBRD we believe that MSMEs are the backbone of the economy as they contribute to employment and economic growth.” MSMEs play a crucial role in the Palestinian economy, representing about 95% of economic output. Although lending to this sector has increased by 160% since 2013, reaching \$1.3bn in Q1 2017, only around 36% of MSMEs have benefitted from access to credit.<sup>25</sup>

In May 2017, the Board of Governors of the EBRD approved plans to invest in the West Bank and Gaza for an initial period of five years.<sup>26</sup> Palestine is in the EBRD’s Southern and Eastern Mediterranean (SEMED) region, which also includes Egypt, Jordan, Morocco and Tunisia. EBRD has been investing and engaging in policy dialogue in SEMED since 2012, providing €5.2bn in loans and equity.<sup>27</sup>

## Social and Digital Media in Palestine 2017

On 26 February 2018, Social Studio, a project to study the use of social media in Palestine, released its report on the status of Social and Digital Media in Palestine during 2017.<sup>28, 29</sup> The report shows that internet and social media penetration in Palestine is relatively low. According to the report, 61% of Palestinians in the West Bank and Gaza use the internet, compared to 80% in Jordan and 79% in Israel.

22 [www.palestineconomy.ps/article/11627/](http://www.palestineconomy.ps/article/11627/)

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

24 <https://bit.ly/2GegUsF>

25 <http://pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=1129&language=en-US>

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

27 <http://pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=1129&language=en-US>

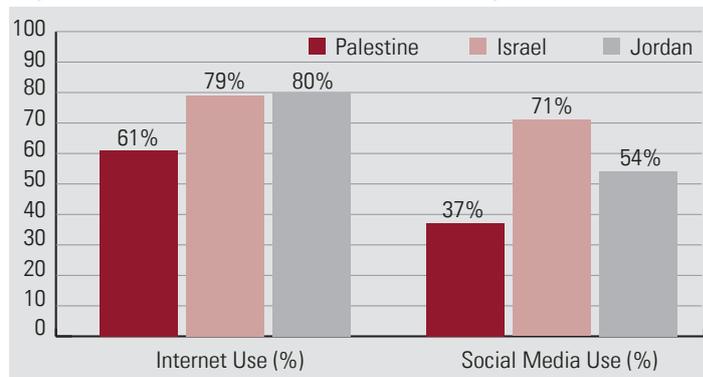
28 <https://socialstudio.me/>

29 <https://drive.google.com/file/d/1-00N23J01ZX9odVTraq89ueVzfZPC9tX/view>

Further, only 37% of the Palestinian population use social media, compared to 71% in Israel and 54% in Jordan.

The low penetration of internet and social media in Palestine has been commonly attributed to restrictions by the GoI on the provision of high-speed mobile data services. Consequently, the recent launch of 3G mobile services in the West Bank is expected to lead to further growth of social and digital media from mobile devices.

**Figure 1: Internet and Social Media Usage Indicators, 2017**



Source: Social Studio, 2017

The report indicates a growing use of e-commerce and online advertising. According to the report, 400,000 packages were collected from the Palestinian Post Office as part of e-commerce transactions during 2017. Furthermore, \$2.17m were spent on Facebook advertisements in Palestine, a 33.5% increase from last year. There are 114 Palestinian mobile applications and 4.4 million SIM cards in Palestine which are provided by local telecommunications operators Jawwal (67%) and Wataniya (23%) as well as by Israeli telecommunication operators (10%).

## February Trading

In February 2018, the Al-Quds index increased by 1.69% to reach 584.61 points on the last day of trading.<sup>30</sup> All sectors except services (-0.22%) improved during the month, with insurance and investment being the top performing sectors with 8.5% and 3.5% growth respectively. A total of 14.2m shares worth \$27m were traded during February. This marks a decrease of 26.7% in the number and 32.6% in the value of traded shares from January 2018. Market capitalisation was \$3.98bn, a 1.75% increase from January 2018.

During 2017, the net annual profits of Palestine Exchange (PEX) listed companies increased by 3.3% from 2016 to \$297m.<sup>31</sup> Preliminary financial results for 2017 show that 41 of the 48 listed companies reported profits with a total reported net profit of \$325m (9% increase from 2016). Total losses among the five lowest performing companies reached \$27.8m compared to \$10m in 2016. Two companies did not disclose their results within the legal time frame.

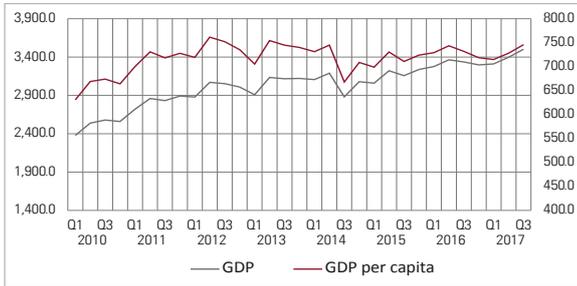
30 [www.pex.ps/psewebsite/publications/PEX-investor-Newsletter-Feb2018.pdf](http://www.pex.ps/psewebsite/publications/PEX-investor-Newsletter-Feb2018.pdf)

31 [www.pex.ps/PSEWebSite/NEWS/21-02-2018.docx](http://www.pex.ps/PSEWebSite/NEWS/21-02-2018.docx)

# Palestine Economic Dashboard

## Growth

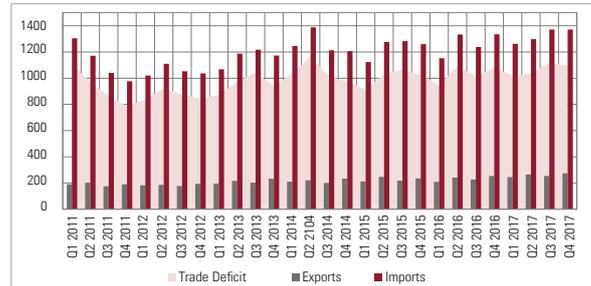
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q3 2017



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

## Trade

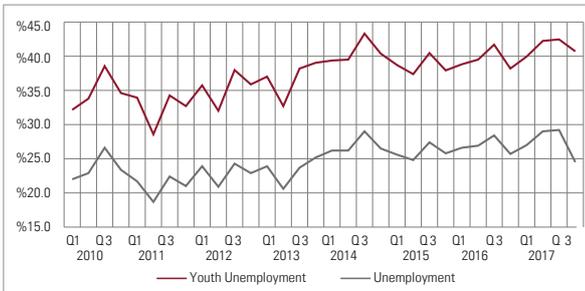
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2011–Q4 2017



Imports (Q4 2017): \$1,370.9m Exports (Q4 2017): \$274,800  
Trade deficit (Q4 2017): \$1,096.1m Source: PCBS

## Unemployment

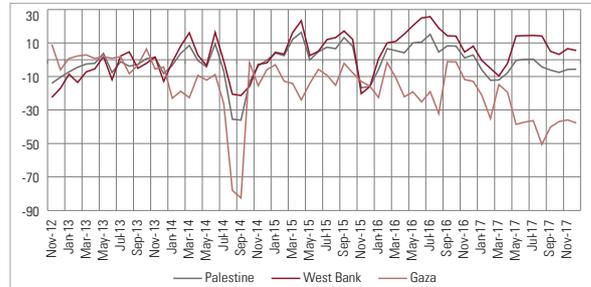
Unemployment and Youth Unemployment in Palestine (%), Q1 2010–Q4 2017



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

## Business Cycle Index

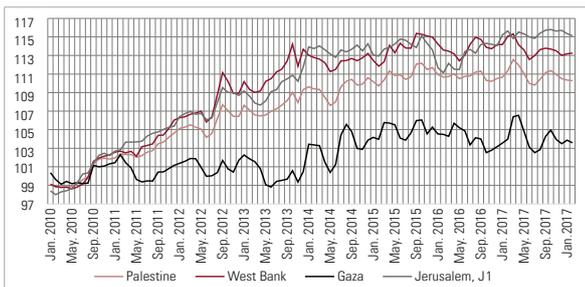
Palestine Monetary Authority Business Cycle Index, Nov 2012–Dec 2017



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

## Inflation

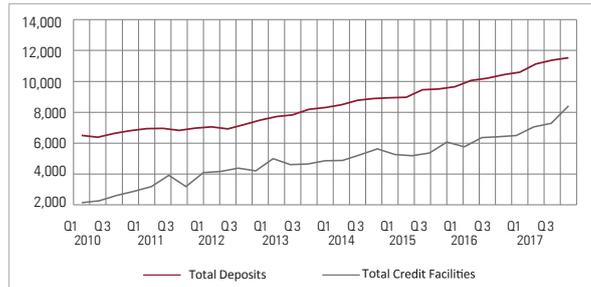
Consumer Price Index (Base year = 2010), January 2010 – February 2018



Palestine (February 2018): 111.04 West Bank (February 2018): 113.66  
Gaza (February 2018): 104.45 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](mailto:feedback@portlandtrust.org)