

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Members of the Ad Hoc Liaison Committee (AHLC) met in Brussels on 18 March, for their first biannual meeting of 2018

On 28 March, the Palestinian Central Bureau of Statistics published the preliminary results of the Palestinian Population, Housing and Establishments Census of 2017

The Palestine Investment Fund signed a \$20m loan agreement with the Arab Bank on 4 April 2018, to finance the construction of three solar parks in Palestine.

Shell reached an agreement with the Palestine Investment Fund on 4 April, to divest its interest in Gaza Marine

Palestinian National Authority Budget 2018

On 4 March 2018, President Mahmoud Abbas approved the general budget of the Palestinian National Authority (PNA) for 2018.¹ The approved budget includes two scenarios; a baseline budget covering the West Bank and Gaza under current conditions, and an additional budget for Gaza assuming successful national reconciliation.²

Table 1: PNA Budget for Fiscal Year 2016 – 2018, million NIS

Item	2016		2017		2018		
	Budget	Actual	Budget	Actual	Baseline Budget	Gaza Budget	Unified Budget
Net Public Revenues	11,189	11,456	13,451	12,617	13,505	900	14,405
Total Revenues	11,630	11,897	13,821	12,878	13,691	900	14,591
Total Expenditure and Net Lending	15,212	16,137	16,147	15,729	16,180	1774	17,954
Net Lending	850	1,029	950	960	900	-	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 ³

Source: Ministry of Finance and Planning

The 2018 baseline scenario demonstrates a Total Budget Deficit of NIS 4,584m, an increase of 3.4% from the 2017 actual deficit. International assistance is expected to cover NIS 2,160m of the deficit, leaving a financing gap of NIS 1,794m which constitutes a 40.1% drop from the 2017 budget and is more closely aligned with historical actual figures. The 2018 Gaza budget would add 11% (NIS 1,744m) in total expenditure and net lending, 6.7% in total revenues (NIS 900m) and 42.6% in total deficit (NIS 1,954m). The Gaza budget includes the cost of integrating 20,000 employees and emergency development expenditure. In total, under the 2018 unified budget, expenditure would increase by 11.2% from the 2017 actual budget while revenues would grow by 7.1% as the PNA would be able to collect more tax and clearance revenues from Gaza.

In related news, the Palestinian Cabinet released a statement on 27 February 2018, announcing additional measures to curb the projected budget deficit.⁴ According to the statement, the measures include developing the tax system by attracting new taxpayers and limiting tax evasion. The statement noted that these measures would lead to a 10% increase in the number of taxpayers and a 35% increase in tax revenues for the Treasury in 2018.⁵

Biannual Meeting of the Ad Hoc Liaison Committee (AHLC)

On 18 March, members of the Ad Hoc Liaison Committee (AHLC) met in Brussels for their biannual meeting of to review the progress of the Palestinian state building process and to discuss measures to improve and sustain the Palestinian economy.⁶

¹ <https://bit.ly/2vu6UXd>

² www.mas.ps/files/server/20182103104708-1.pdf

³ The Gaza Budget does not include additional estimates for potential external financing and the financing gap

⁴ <http://english.wafa.ps/page.aspx?id=4pDfqUa96688587270a4pDfqU>

⁵ <https://bit.ly/2EXHMrv>

⁶ <https://bit.ly/2vrZhke>

The AHLC is a 15-member committee which serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people.

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 biannual reports on the status of the Palestinian economy. All these reports raised concerns about the deterioration in the political and economic situations. While progress was noted on the PNA's budgetary sustainability in terms of increasing revenues and declining public expenditure, the international institutions remain concerned about the economic and financial sustainability of the Palestinian economy and the PNA. According to the reports, without a significant increase in donor support, the PNA will be forced to exhaust domestic sources of financing, placing enormous downward pressure on economic growth.

According to the IMF, if the current situation persists, growth is expected to stagnate at around 2.3% in 2018 (2.1% in the West Bank and 2.8% in Gaza).⁷ Such levels, which are below the population growth rate of 2.8% (2.5% in the West Bank and 3.3% in Gaza)⁸, would imply declining per capita income and increasing unemployment. As donor support continues to decline, reaching 4.8% of GDP in 2017 compared to 32% in 2008, these developments leave the Palestinian Economy vulnerable.

In its report, the World Bank stressed that the PNA fiscal position continues to pose an additional risk to the economy.⁹ In 2017, the decline in donor support led to a financing gap of around \$420m, which was mostly covered by bank credit and additional private sector payment arrears. The financing gap for 2018 is expected to increase further to reach around \$440m (or up to \$1bn if the reconciliation is implemented).

Both the IMF and the World Bank stress that a successful reconciliation is likely to bring economic improvements in the medium to long-term. However, in the short-term, the IMF expects the reconciliation to add \$781m to the PNA's budget in 2018. Although, the agreement would allow the PNA to collect more domestic tax, non-tax and clearance revenues from Gaza, widening the tax base and improving tax administration in Gaza is expected to be a lengthy process. Hence, if the unified budget is implemented, the IMF expects the PNA to collect only an additional \$250m in revenues from Gaza during 2018, widening the financing gap by \$531m.

The OQ report, which focuses on the areas of energy, water, telecommunications, trade and the rule of law, outlines the recent progress and next steps in the

development of major projects currently underway in the West Bank and Gaza.¹⁰ These include the following:

- **Telecommunications sector:** the report highlights the importance of the launch of Wataniya Mobile 2G service in Gaza and the 3G services (by both telecom providers, Wataniya and Jawwal) in the West Bank. According to the report, these developments pave the way for further expansion of 3G and 4G services, which could have a transformative effect in Palestine.
- **Energy sector:** the OQ lauds the completion of the construction of the Jenin substation, which is expected to help alleviate the chronic electricity shortages in the northern West Bank by providing around 60 MW of power by April 2018. The OQ encourage the Government of Israel (GoI) to grant the remaining approvals required for the operation of the substation. Furthermore, donors are urged to provide the outstanding financing of \$24m to cover the costs associated with procurement of equipment, transfer of assets, and capacity building needs.
- **Water Sector:** the OQ welcomed the launch of the Northern Gaza Emergency Sewage Treatment (NGEST) facility as it will provide a long-term, sustainable wastewater management solution for over 400,000 residents of Gaza.¹¹ NGEST, which started operation on 1 March 2018, is expected to increase donor confidence, showing that progress in the sector is possible, including on the Gaza Central Desalination Program. The OQ noted an outstanding funding gap for NGEST of an estimated \$16.8m to cover operation and maintenance costs, as well as to enable cost recovery at the municipality level.

Population, Housing and Establishments Census, 2017

On 28 March, the Palestinian Central Bureau of Statistics (PCBS) published the preliminary results of the Palestinian Population, Housing and Establishments Census of 2017.^{12,13} The Census, which began in 1997, is conducted every ten years.

According to the Census, the number of Palestinians reached 4.9 million in 2017; 2.9 million in the West Bank and 1.9 million in Gaza. This number increased by 27% from 2007, with an increase of 22.6% in the West Bank and 34% in Gaza.¹⁴ The Hebron Governorate was the most populated Palestinian Governorate (707,000 inhabitants), followed by Gaza City Governorate (641,000) and Jerusalem Governorate (415,000).

10 http://www.quartetrep.org/files/OQ_AHLC_March_2018%20Report.pdf

11 <http://bit.ly/2FFB3Ys>

12 http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_Preliminary_Results_Report-en-with-tables.pdf

13 <http://www.pcbs.gov.ps/Downloads/book2364-1.pdf>

14 <http://www.pcbs.gov.ps/Downloads/book1430.pdf>

7 <http://www.imf.org/-/media/Files/Publications/CR/2018/west-bank-and-gaza-030918-report-to-ahlc.ashx>

8 http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/DEMO-2016-EEE.htm

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

Palestine's population is young, with 47% of the population aged 17 years old or less. However, the Census shows that this trend is slowing down, with 66.2% of the Palestinian population below the age of 30, compared to 68.3% in 2007. Furthermore, there was a drop in the average household size to 5.1, compared to 5.8 in 2007.

The Census demonstrates that Palestine enjoys relatively high levels of human capital, with one in four adults completing a higher education degree and only a 2% illiteracy rate. Despite this, there was a high unemployment rate of 27.2% in 2017 (13.2% in the West Bank and 48.2% in Gaza), especially among women (40.1%).

The Census reveals that there are 159,000 operating establishments in Palestine, (68.5% in the West Bank and 31.4% in Gaza), a 35.8% increase from 2007 (30.9% increase in the West Bank and 47.6% in Gaza). Most of these establishments operate in the wholesale and retail trade sector (51%), followed by services (35%), industry (13.1%) and construction (0.5%).

Careem resumes service in Ramallah

On 28 March, ride-hailing app Careem resumed services in Ramallah after reaching an agreement with the PNA.¹⁵ Careem suspended services in Ramallah in November 2017, four months after launch, following protests by Ramallah taxi drivers in coordination with the Transport Workers Union.¹⁶

According to Careem, an agreement was reached with the Palestinian Ministry of Transport for its fares to match metered taxis. Initially, Careem will only work with licensed taxi drivers. Earlier this year, Careem launched services in Nablus and Gaza City.¹⁷

Shell relinquish Gaza's offshore gas field

On 5 March 2018, Royal Dutch Shell announced that it would be relinquishing its 55% ownership stake in Gaza Marine, an undeveloped natural gas field 30km off the coast Gaza, which it had acquired during its takeover of BG Group in 2016.¹⁸ The Gaza Marine is estimated to hold over 1 trillion cubic feet of natural gas. Plans to develop the field have been repeatedly delayed due to Palestinian political disputes and the ongoing blockade of Gaza by the Gol.

On 4 April, Shell reached an agreement with the Palestine Investment Fund (PIF) to divest its interest in the Gaza Marine.¹⁹ The PIF, which acts as the Palestinian sovereign wealth fund, announced that under the new structure, PIF and Consolidated Contractors Company (CCC) will each hold 27.5% of the development rights pursuant to existing

options under the license agreement, and a future international operator will hold 45%.²⁰

PIF, together with CCC, will now focus on identifying an international operator interested in developing the Gaza Marine field. According to PIF Chairman Dr Mohammad Mustafa, developing the gas field would cost around \$1bn and the work could start in 2021 provided that an international operator is identified.²¹

PIF and Arab Bank Sign \$20 Million Solar Power Financing Agreement

On 4 April, PIF signed a \$20m loan agreement with the Arab Bank to finance the construction of three solar parks in Palestine.²² The agreement was carried out through Massader, PIF's impact arm for energy, infrastructure, and natural resources. The solar parks will be situated in Jericho (7.5 MW), Tubas (9 MW) and Jenin (5 MW).

The agreement is the largest solar finance loan to date in Palestine. It is part of Massader's Noor Palestine program, which seeks to build 200 MW of green power capacity by 2026 through a mix of solar parks and solar panels on the rooftops of public schools, institutions, and commercial and residential buildings. Azem Bishara, CEO of Massader, explained that "the first of the solar parks is expected to be operational in 2018, and is expected to save users up to 50% on their electricity bills over the next 25 years."

March Trading

The Al-Quds index decreased by 3.3% during March 2018, reaching 565.6 points on the last day of trading.²³ The index was relatively stable in the first half of the month and dropped significantly during the second half following company announcements regarding dividends and profits. A total of 48.9m shares worth \$106.5m were traded, marking a 244% increase in the number and a 295% increase in the value of traded shares. The services sector witnessed the highest drop (-5.3%), while banking and financial services was the only sector to increase (0.2%).

The increase in trading was partially driven by the acquisition of 31.3m shares in Palestinian Islamic Bank (ISBK) by the National Bank (TNB) and other investors on 29 March, worth \$70m.²⁴ As a result, TNB now owns 45% of ISBK. That trading day also witnessed the highest trading value (\$74.4m) since PEX was launched in 1997, breaking the 2013 record of \$48.4m.²⁵

20 www.pif.ps/en/article/166/Press-Release---New-Arrangements-for-Gaza-Marine-Development-License

21 www.middleeastmonitor.com/20180417-work-on-gazas-offshore-gas-field-expected-to-start-in-2021/

22 bit.ly/2HdBdms

23 www.pex.ps/psewebsite/publications/PEXinvestorNewsletter-March-2018.pdf

24 www.palestineconomy.ps/article/11800/

25 www.pex.ps/psewebsite/NEWS/040420181.docx

15 <https://reut.rs/2qMbJFV>

16 www.jpost.com/Middle-East/Popular-ride-sharing-app-halts-service-in-territories-at-PAs-request-513521

17 <http://english.wafa.ps/page.aspx?id=NpoB6da95955737460aNpoB6d>

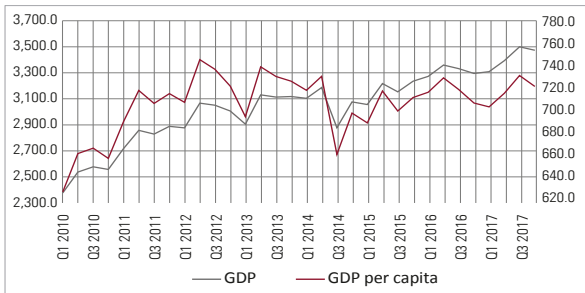
18 <https://reut.rs/2EZyoDN>

19 <https://reut.rs/2J4GvRR>

Palestine Economic Dashboard

Growth

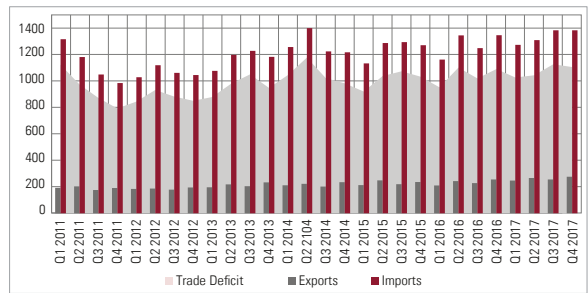
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q4 2017



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

Trade

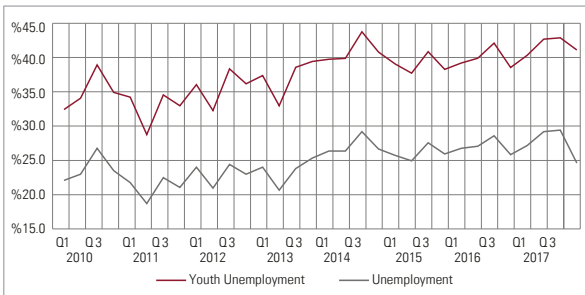
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2011–Q4 2017



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

Unemployment

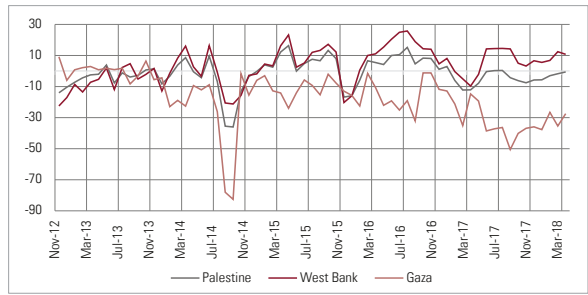
Unemployment and Youth Unemployment in Palestine (%), Q1 2010–Q4 2017



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

Business Cycle Index

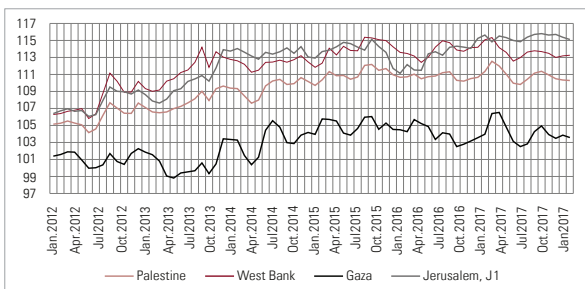
Palestine Monetary Authority Business Cycle Index, Nov 2012–March 2018



Palestine (March 2018): -0.6 West Bank (March 2018): 10.7
Gaza (March 2018): -27.5 Source: PMA

Inflation

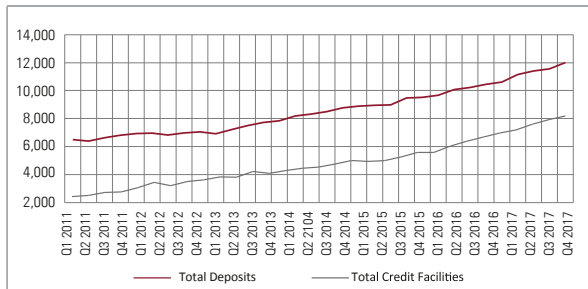
Consumer Price Index (Base year = 2010), January 2010 – February 2018



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

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