The Portland Trust

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The 15th Expotech Technology Week took place in both the West Bank and Gaza between 24 and 26 September

The Palestine Trade Center launched the first phase of its 'Made in Palestine' initiative in the United Arab Emirates on 26 September

The Palestinian current account deficit reached $373.3m in Q2 2018, a decrease of 15.6% from the previous quarter

Al-Quds index deteriorated by 1.5% during September 2018, reaching 528.8 points on the last day of trading.

Meeting of the Ad Hoc Liaison Committee (AHLC)

On 27 September, members of the Ad Hoc Liaison Committee (AHLC) met in New York for their third meeting at ministerial level in 2018 to address the economic situation in Palestine and the critical humanitarian situation in Gaza.[1] The AHLC is a 15-member committee which serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people.[2] The meeting was attended and addressed by the Palestinian Prime Minister Dr. Rami Hamdallah.

In advance of the meeting, the World Bank Group (WBG), 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 and humanitarian developments. All these reports raised concerns about the deterioration in the political and economic situation following a combination of major and ongoing reductions in donor contributions, significant revenue losses due to fiscal leakages, and continued Israeli restrictions. The international institutions also raised concerns about the recent Israeli Knesset legislation (the Palestinian Prisoners Law, effective as of July 2018) that threatened to reduce the Palestinian National Authority's (PNA) income through withholding a portion of clearance revenues[3], further adding to the PNA's large budget deficit not covered by external financing. Furthermore, the reduction in donor support has forced the PNA to exhaust domestic sources of financing and resort to arrears, placing further downward pressure on economic growth. Prime Minister Hamdallah stressed the importance of uninterrupted transfer by the Government of Israel (GoI) of clearance revenues collected on behalf of the Palestinian Treasury as well as of continued support for the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) ensuring the continuation of its services in the carrying out of its UN mandate.

In view of the deteriorating economic outlook, the IMF projected overall GDP growth to reach around 1.4% in 2018 (3% in the West Bank and -4% in Gaza), well-below the IMF's March 2018 growth forecast of 2.3% in 2018.[4] National accounts recently published by the Palestinian Central Bureau of Statistics (PCBS) reflect an even more challenging situation, with a year-on-year drop of 1.34% in overall GDP between Q2 2017 and Q2 2018 (~0% growth in the West Bank and -6.13% in Gaza).[5]

In its report, the WBG stressed that the PNA's fiscal position holds an additional risk to the economy.[6] The financing gap for 2018 is expected to reach around

1 www.regjeringen.no/contentassets/d945041a1a8d47b4ae4e78e62684b06e/chairs_summary1809.pdf
2 Consisting of state representatives (the Palestinian National Authority (PNA) and the Governments of Israel (GoI), Canada, Egypt, Japan, Jordan, Russia, Saudi Arabia, Tunisia, Norway and the US) and international organisations such as the WBG, the IMF, the UN, the OQ and the EU)
3 As the IMF report describes, the new Israeli "Palestinian Prisoners Law" (promulgated on July 8, 2018) mandates withholding clearance revenues of an amount equivalent to the GoI's estimate of PNA payments to families of Palestinians imprisoned or killed for offences under Israeli law. https://bit.ly/2KuljnQ
4 https://bit.ly/2q9cQQc
5 http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_27-9-2018-NA-en.pdf
6 https://bit.ly/2AqTTOV

$600m, a significant increase from the 2017 financing gap of around $420m. This will have a negative impact on the economy by deepening the Government's reliance on bank credit and payment arrears owed to the private sector (i.e. inability to make outstanding payments to private sector suppliers). The WBG also highlighted that the Palestinian Prisoners Law could result in an estimated $350m reduction in clearance revenues. In addition, both the IMF and the WBG emphasised that Gaza's humanitarian and economic crisis is worsening at an accelerating rate, with all-time high poverty levels adding to the risk of deeper political unrest.[7]

The OQ report, focusing on the areas of energy, water, telecommunications, movement, trade and the rule of law, outlined recent progress and next steps in the development of major projects currently underway in the West Bank and Gaza.[8] These include the following:

- **Energy Sector:** The implementation of the September 2016 Electricity Agreement between the PNA and the GoI has progressed, including the construction of all four substations (located in the northern, central and southern parts of the West Bank) and the signing of a temporary Power Purchase Agreement which has resulted in 60MW of power supply to the north of the West Bank via the Jenin substation. Under the terms of the Electricity Agreement, the PNA is taking control over electricity distribution in the West Bank from the GoI.[9] Gaza continues to suffer from a chronic energy deficit with a maximum of five hours of electricity available each day. The OQ encouraged immediate measures to improve the situation through the provision of fuel to the Gaza Power Plant and the restoration of up to 27MW of electricity from Egyptian feeder lines, which have not been operational since February 2018.
- **Water Sector:** The Gaza Central Desalination Plant and Associated Works programme has seen progress, including a successful pledging conference in March 2018. Pledges were made for an estimated $488m out of the total $674m project costs, and the OQ encouraged donors to meet the remaining gap. The first phase of the programme will provide 55 MCM per year of desalinated water. Furthermore, the North Gaza Emergency Sewage Treatment Facility (NGEST) is now operating at full capacity, treating an average of 34,000m^3 per day of wastewater. Finally, the Palestinian Water Authority (PWA) has developed a list of priority water and wastewater projects which would enable an increase in domestic water supply by 67.5 MCM in the West Bank and 78 MCM in Gaza.
- **Movement and Trade:** The 'door to door' trade facilitation programme for moving goods from the West Bank to Israel is now being expanded with four new companies considered 'low-risk'. The programme, which currently facilitates almost 600 shipments per month, eases the movement of low risk goods manufactured at factories in the West Bank that comply with specific Israeli security procedures, allowing them to proceed directly from the Palestinian factory through an Israeli checkpoint with minimal inspection and to move on to their destination in Israel or beyond. To date, this has resulted in a 7.5-8% reduction in truck traffic through the Tarqumiya crossing (one of the main crossings between Israel and the West Bank). Furthermore, the GoI has recently announced its commitment to work towards a biometrically facilitated mechanism of passenger processing through the Al-Karamah/King Hussein (Allenby) Bridge crossing.

Expotech–Palestine's Technology Week 2018

Between 24 and 26 September, the 15th Expotech Technology Week took place in the West Bank and Gaza simultaneously.[10] The event, which is organised annually by the Palestinian Information Technology Association of Companies (PITA), brings together Palestinian and international experts and entrepreneurs to better position the Palestinian Information and Communication Technology (ICT) sector across regional and international markets. This year's event, which hosted ICT companies and thousands of visitors, adopted the slogan "Towards a Better Future" and included an ICT commercial exhibition, a technology conference and an entrepreneurship competition.[11]

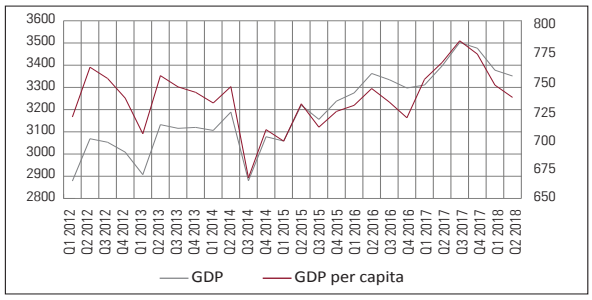
During the event, Eng. Adnan Samara, Chairman of the Higher Council for Innovation and Excellence (HCIE), stated that 250 companies specialising in information systems now exist in Palestine, including 17 broadband and communication companies. He added that there are three million mobile phone subscribers in Palestine and 100 radio and television stations. The Palestinian ICT sector has grown by 138% in value over the last decade and employs 6,923 staff of whom 920 are directly employed in the 'Computer Programming, Consultancy and Related Services' sub-sector.[12] The ICT sector overall now represents 3.7% of the Palestinian GDP.[13]

7 https://bit.ly/2KuIjnQ
8 https://bit.ly/2EFA6za& https://bit.ly/2D1AI5Y
9 https://reut.rs/2Jf8iQG
10 https://expotech.ps/about/about-expotech-2018
11 https://expotech.ps/about/about-expotech-2018
12 www.pcbs.gov.ps/Portals/_Rainbow/Documents/comm_annual1_2016e.html
13 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_27-9-2018-NA-en.pdf

Palestine Economic Dashboard

Growth

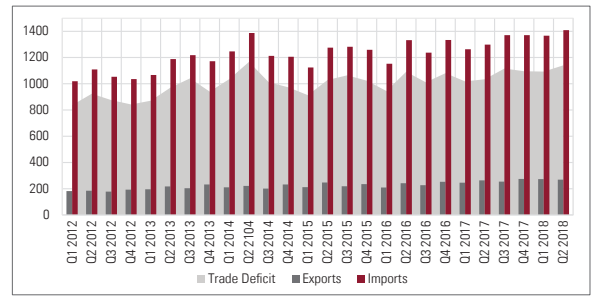
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2012–Q2 2018



GDP (Q2 2018): $3,351.3m GDP per capita (Q2 2018): $735.8
Source: PCBS

Trade

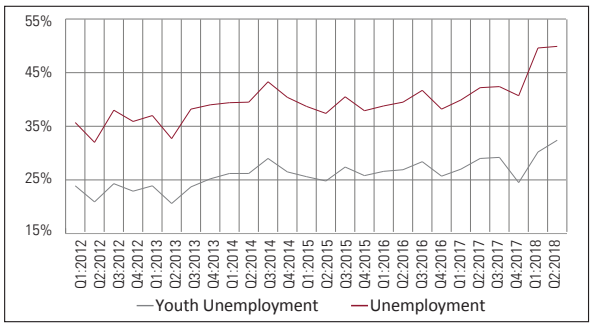
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2012–Q2 2018



Imports (Q2 2018): $1,409.2m Exports (Q2 2018): $268.4m
Trade deficit (Q2 2018): $1,140.8m Source: PCBS

Unemployment

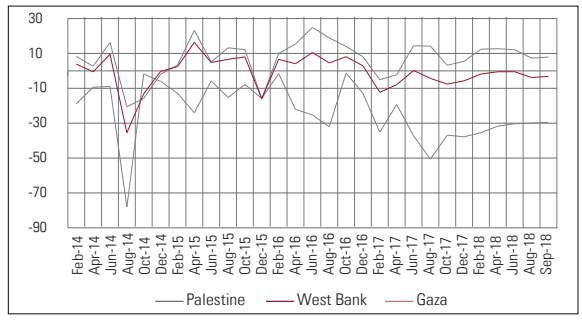
Unemployment & Youth Unemployment in Palestine, Q1 2012–Q2 2018



Unemployment rate (Q2 2018): 32.4% Youth Unemployment rate (Q2 2018): 49.9%
Source: PCBS

Business Cycle Index

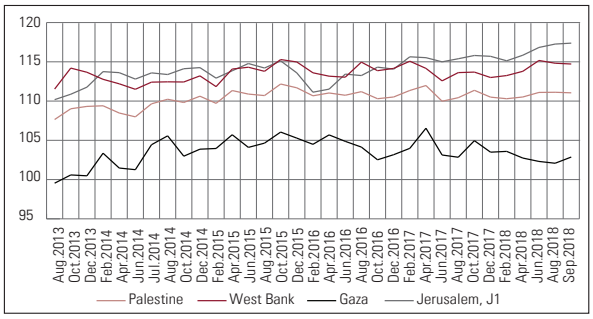
Palestine Monetary Authority Business Cycle Index, February 2014–September 2018



Palestine (September 2018): -3.2 West Bank (September 2018): 7.9
Gaza (September 2018): -29.5 Source: PMA

Inflation

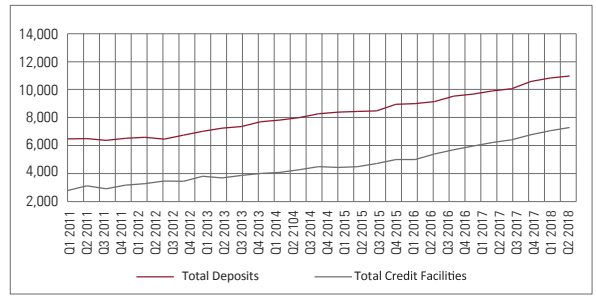
Consumer Price Index (Base year = 2010), August 2013 – September 2018



Palestine (September 2018): 111.05 West Bank (September 2018): 114.72
Gaza (August 2018): 102.87 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2012–Q2 2018



Total Credit Facilities (Q2 2018): $ 8,259.96m Total Deposits (Q2 2018): $11,993.06m
Source: PMA

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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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