

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Bank of Palestine Group and Paltel Group Foundation signed an outcome funding agreement on 30 January for the first Development Impact Bond in Palestine and the Arab world

The Palestinian Prime Minister, Dr Rami Hamdallah, confirmed on 28 February 2019 that the Palestinian National Authority has returned February's clearance revenues to the Government of Israel in response to deductions from the Palestinian clearance revenues

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) launched its 2019 emergency appeal on 29 January based on a budget requirement totalling \$1.2bn

The Al-Quds index increased by 1.9% in February 2019 from the previous month, reaching 541.2 points on the last day of trading

Palestinian Labour Force Projections for 2019

On 3 March 2019, the Palestinian Economic Policy Research Institute (MAS) published its labour market projections for 2019. The projections were prepared in cooperation with the Palestinian Central Bureau of Statistics (PCBS) as part of a research project funded by the International Labour Organisation (ILO).¹

To develop the projections, MAS and PCBS utilised a macroeconomic simulation model based on data series for the past 30 years. The projections address baseline, optimistic and pessimistic scenarios. The analysis shows that under each of the three scenarios, Palestine is likely to suffer from recession in 2019. Assuming no significant changes in the political and economic situations, the economy is expected to continue to slow down during 2019, reaching a GDP growth rate of 0.7% and an unemployment rate of 32.8%.

Table 1. Projections of Key Palestinian Labour Market Indicators for 2019

Scenario	Description	GDP (billion USD)	GDP growth	Unemployment rate	Labour force participation	
					Male	Female
Baseline	Continuation of the economic trends of the last four years: <ul style="list-style-type: none"> • Increase in population • Increased income tax collection • Decreased VAT collection • Increase in closure days (stalled movement of people and goods) • Increased lending and government transfers • Decreased private financial aid from abroad • Increased government spending 	13.89	0.7%	32.8%	72.4%	19.8%
Optimistic	<ul style="list-style-type: none"> • Political improvements • Increased income tax and VAT collection • Decrease in closure days • Further increase in lending and government transfers • Increased private aid from abroad • Further increase in government spending • Increased public sector employment 	14.27	3.5%	31.9%	72.8%	19.9%
Pessimistic	<ul style="list-style-type: none"> • Political deterioration • Decreased income tax and VAT collection • Increase in closure days • Decreased lending and government transfers • Decreased private aid from abroad • Decreased government spending • Decrease in public sector employment 	13.60	-1.30%	33.8%	72.1%	19.7%

Source: MAS

Under all the scenarios, the unemployment rate is expected to increase during 2019, which is in turn expected to have an adverse effect on wages in most sectors. In the baseline scenario, average daily wages are projected to decrease by 0.6% in 2019. The sector with the highest expected growth in daily wages is the ICT sector, which is projected to increase by 2.3% in the baseline scenario, demonstrating its high growth and employment potential.

¹ www.mas.ps/download.php?id=87978y555384Y87978

The three scenarios also project 2019 to be a difficult year for the Palestinian labour market. This decline is a continuation of a negative trend driven by the persistent structural challenges facing the Palestinian economy. The Palestinian economy is characterised by high unemployment (51% in the Gaza Strip and 16% in the West Bank during Q4 2018)², mainly due to the adverse political situation, limited control over economic resources, inability of the productive sectors to generate sufficient employment opportunities, and the mismatch between educational outcomes and labour market demand. This lack of adequate employment opportunities disproportionately affects the most marginalised segments of society, especially youth and women (labour force participation rate is only 20% for women compared to 70% for men). It also forces many Palestinians to seek employment under unfavourable conditions in the informal economy and in precarious low-skilled jobs in Israel and Israeli settlements. The informality of employment, compounded with the weak institutional regulation of the labour market, contributes to poor protection of workers' rights (e.g. 50% of private sector employees work without a contract) and other labour rights issues (e.g. child labour remains high at 5% in the West Bank and 2% in the Gaza Strip).

Launch of Palestine's First Development Impact Bond

On 30 January, Bank of Palestine Group (BoP) and Paltel Group Foundation (PGF) signed an outcome funding agreement for the first Development Impact Bond (DIB)³ in Palestine and the Arab world, a pioneering, commercially-financed scheme that aims to limit the on-set development of Type II Diabetes Mellitus (T2DM) among Palestinian women.

T2DM — a condition that causes a person's blood sugar level to become too high — affects an estimated 15-21% of Palestinians compared to only 6% globally.⁴ The diseases' association with factors such as obesity means its onset is often preventable. Pre-diabetics can be identified through blood tests and introducing exercise and changes in diet can reduce their risks of developing diabetes. Based on the US Diabetes Prevention Program (DPP)⁵ and the Finnish Diabetes Prevention Study (DPS)⁶, which served as a model for the Palestinian programme, this would reduce the women's risk of developing Type II Diabetes in the next 10 years by 58%.

The intervention, expected to launch early April 2019, will be delivered by Juzoor for Health and Social Development, a non-governmental organisation with over ten years experience in public health administration in Palestine. The implementation will target 150 pre-diabetic refugee women, divided into two cohorts, in three Ramallah refugee camps. The goal of the three-year lifestyle

intervention is to help the women reduce their weight by a minimum of 5%. Through a systematic programme that delivers nutrition and physical education, the intervention aims to achieve a minimum of 35% success rate (5% weight loss maintained for three years).

The intervention follows a 2016 pilot programme that targeted 18 pre-diabetic women in the Jalazon refugee camp near Ramallah. The pilot was developed by The Portland Trust and implemented in partnership with UNRWA and Juzoor for Health and Development.

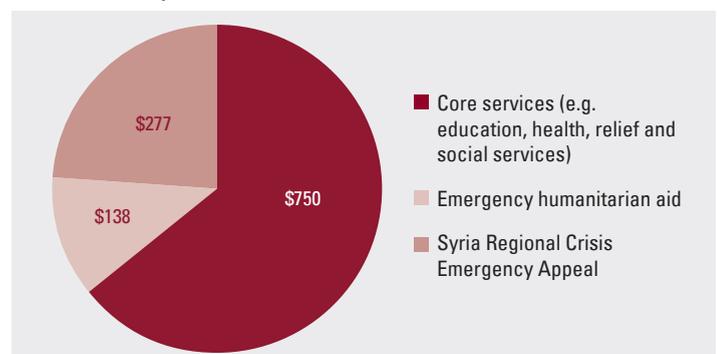
The final results of the intervention will be measured three years after the first cohort begins the trial. If this intervention is successful, the outcome funder, PGF, will repay the investor, BoP, the initial amount invested (principal), in addition to a return on investment reaching a maximum of 12%.

The Palestinian T2DM DIB is the 135th impact bond to be launched globally. Social and Development Impact Bonds are currently operating in 28 countries (now including Palestine) since the first launch in 2010.⁷ Funders of social impact bonds provide upfront capital to deliver social services, and the outcome funder pays only if predefined results are achieved.

UNRWA Launches 2019 Emergency Appeal

On 29 January, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) launched its 2019 emergency appeal based on a budget requirement totalling \$1.2bn.⁸ The sum would sustain the Agency's core operational and humanitarian services for 5.4 million Palestinian refugees across the Middle East at equal levels compared to 2018. The emergency appeal follows the significant funding shortfall caused by the decision of the US Government, previously the Agency's largest donor, to cut the last \$300m of its usual annual contribution last year. In 2018, UNRWA had successfully managed to replace US funding with contributions from, among others, the European Union and the Governments of Jordan, Sweden, Egypt, Turkey, Japan and Germany who contributed or pledged a combined \$425m.⁹

Figure 1 – Breakdown of UNRWA's Budget for 2019 (in million USD)



2 www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3381

3 It finances development programmes with investment from private investors who earn a return if the programme is successful, paid by a third-party outcome funder.

4 www.worlddiabetesfoundation.org/projects/west-bank-and-gaza-wdf15-1304

5 <https://bit.ly/2HJXCeY>

6 <http://care.diabetesjournals.org/content/26/12/3230>

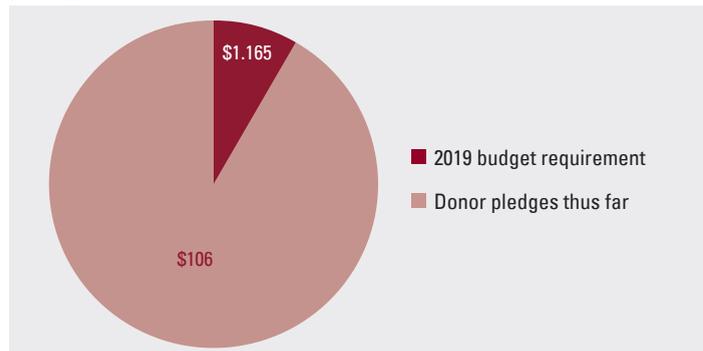
7 <https://brook.gs/20uj2xf>

8 <https://bit.ly/2UUTyvj>

9 <https://bit.ly/2ECh1Nt>

In line with figure 1, approximately \$750m will be required to continue the Agency's core operations in the areas of education, health, relief and social services in 2019. Further \$138m is required for emergency humanitarian aid to the West Bank, the Gaza Strip and East Jerusalem, and \$277m in support of the Syria Regional Crisis Emergency Appeal.¹⁰ More funding is also required for priority construction projects related to post-conflict reconstruction, initiatives for completing UNRWA programme reforms and for strengthening the organisation's programme delivery.

Figure 2. UNRWA 2019 budget requirements and donor pledges (in million USD)



In related news, on 24 February 2019, the European Union signed an EU-UNRWA contribution agreement in support of the Agency's 2019 development worth a total of €82m.¹¹ Additional funding of a combined \$24m towards UNRWA's 2019 budget has been pledged by the Governments of Japan¹² and Indonesia.¹³

Palestinian National Authority Returns Clearance Revenues

On 28 February 2019, then Palestinian Prime Minister Dr Rami Hamdallah confirmed that the PNA has returned February's clearance revenues¹⁴ to the Government of Israel (Gol) because of a Gol deduction of additional ILS 41.8m (\$11.6m) from the clearance revenues.¹⁵ This came after the Gol enacted a law in July 2018 to withhold funds from the PNA as a penalty for paying stipends to Palestinians imprisoned by the Gol and their families.¹⁶ The law stipulates that the annual sum of these stipends, as estimated by the Gol, will be divided by 12, and the amounts will be withheld from the monthly clearance revenue transfers made to the PNA. The Gol estimated annual stipend transfers at about ILS 502.7m (\$138m).

The clearance revenues, which amounted to \$2.4bn in 2018, usually cover about 60% of the PNA's recurrent

expenditures.¹⁷ This latest development means that the PNA cannot fully cover the wage bill for approximately 140,000 employees in both the West Bank and Gaza Strip.¹⁸ In response, the Palestinian Minister of Finance, Mr. Shukri Bishara, announced on 10 March 2019, that the Government will dispense full salaries in March to 40% of government employees who are at the lowest pay-grades, while paying only 50% of salaries above ILS 2,000, with a cap on salary payments set at ILS 10,000.¹⁹ It is expected that this arrangement will apply throughout April.²⁰ These expenditure cuts are likely to have an adverse impact on the already challenging economic outlook which had been hit by declining foreign aid and a recessionary economic environment, and also put at risk various critical PNA operations, service deliveries and governance efforts. The reduced clearance revenues will also accelerate the build-up of PNA payment arrears and eventually require the PNA to increase its borrowing from the local banking sector. According to Mr. Bishara, the PNA's borrowing has already been agreed between the Palestinian banks and the PMA in order to mitigate disruption to the financial system and to indebted households.

February Trading

In February 2019, the AI-Quds index increased by 1.9% from the previous month, reaching 541.2 points on the last day of trading.²¹ A total of 19m shares worth \$31.1m were traded during the month, marking a 2.5% decrease in the number of traded shares and a 2% decrease in the trading value compared to January 2019. The banking and financial services sector experienced the highest increase (4.3%), while the industrial sector was the only sector to decrease (-0.1%).

During 2018, the net annual profits of Palestine Exchange (PEX) listed companies increased by 2% from 2017 to \$300.2m.²² Preliminary financial results for 2018 show that 40 of the 48 listed companies reported profits with a total reported net profit of \$308.9m (4% decline from 2017). Total losses among the six lowest performing companies reached \$8.7m compared to \$27.8m in 2017. Two companies did not disclose their results within the legal time frame.

10 For Palestinian refugees in Syria and for Palestinian refugees from Syria displaced to Lebanon and Jordan

11 <http://english.pnn.ps/2019/02/27/eu-announces-an-e82-mln-contribution-to-unrwa/>

12 <https://bit.ly/2YqXUN2>

13 www.maannews.com/Content.aspx?id=782768

14 Clearance revenues are Palestinian fiscal revenues (Value Added Tax and customs duties) collected by the Government of Israel on behalf of, and transferred monthly to, the PNA.

15 <http://english.wafa.ps/page.aspx?id=3fBcJfa108588355029a3fBcJf>

16 <https://bit.ly/2ut9pWw>

17 www.imf.org/~media/Files/Publications/CR/2018/wbg091718.ashx

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

19 www.palestineconomy.ps/ar/Article/14370/

20 www.aliqtisadi.ps/article/67125/

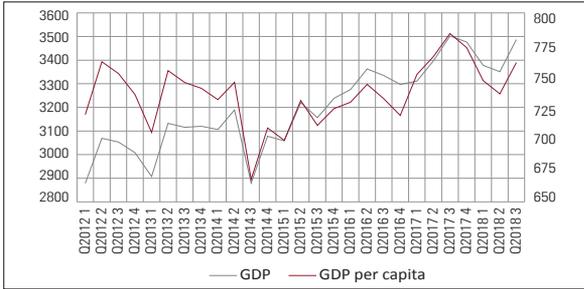
21 <https://bit.ly/2Wu9kxY>

22 <https://bit.ly/2HTTVTr>

Palestine Economic Dashboard

Growth

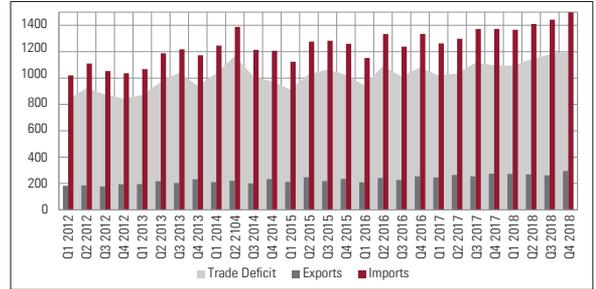
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2012 – Q3 2018



GDP (Q3 2018): \$3,486.5m GDP per capita (Q3 2018): \$760.5
Source: PCBS

Trade

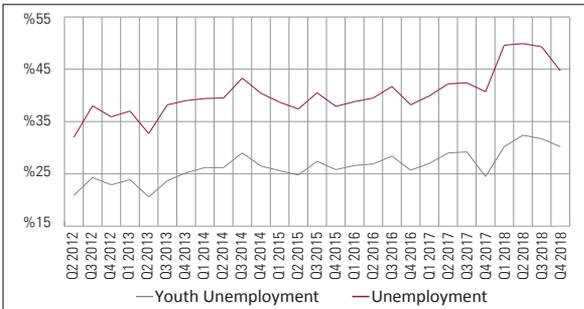
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2012 – Q4 2018



Imports (Q4 2018): \$1,497.8m Exports (Q4 2018): \$294.2m
Trade deficit (Q4 2018): \$1,203.6m Source: PCBS

Unemployment

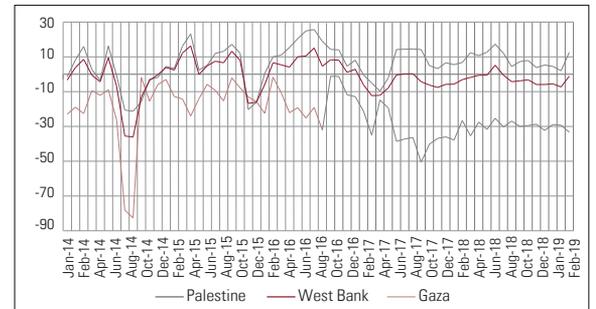
Unemployment & Youth Unemployment in Palestine, Q2 2012 – Q4 2018



Unemployment rate (Q4 2018): 30.2% Youth Unemployment rate (Q4 2018): 44.7%
Source: PCBS

Business Cycle Index

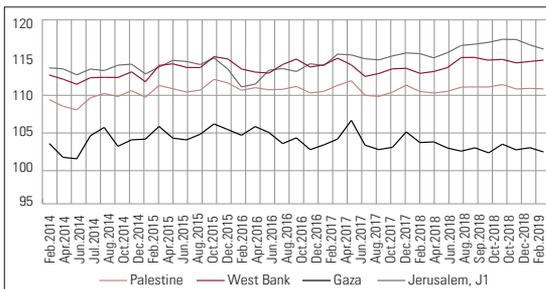
Palestine Monetary Authority Business Cycle Index, January 2014 – February 2019



Palestine (February 2019): -1.1 West Bank (February 2019): 12.6
Gaza (February 2019): -33.3 Source: PMA

Inflation

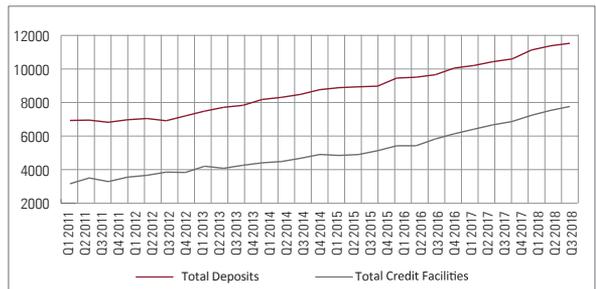
Consumer Price Index (Base year = 2010), February 2014 – February 2019



Palestine (February 2019): 110.87 West Bank (February 2019): 114.8
Gaza (February 2019): 102.2 Source: PMA

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2011–Q3 2018



Total Credit Facilities (Q3 2018): \$ 8,293.6m Total Deposits (Q3 2018): \$12,194.2m
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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