

PALESTINIAN ECONOMIC BULLETIN

Bulletin 152
May 2019

Main reports

Members of the Ad Hoc Liaison Committee convenes a policy-level meeting in Brussels on 30 April to address Palestine's fiscal crisis and humanitarian situation

Al-Quds index reaches 527.6 points on the last day of trading in April 2019, a decrease of 0.54% from the previous month

Interview with Maher Hushaysh, CEO of the Union of Stone and Marble in Palestine, on the current status of the Palestinian Stone and Marble industry

PNA Emergency Budget 2019

On 24 April, the Palestinian Ministry of Finance made its first public presentation of the current Palestinian National Authority (PNA) emergency budget for the year 2019. The presentation took place during a workshop convened by the "Civil Society Team for Public Budget Transparency", a public forum consisting of various Palestinian research institutions, academics and specialists.¹

During the workshop, Farid Ghannam, Deputy Minister of Finance, presented an overview of the financial performance of the PNA over the period 2013-2018. According to Ghannam, during that period the Government increased revenues by 44%, mainly owing to a significant improvement in tax compliance and a 45% expansion of the tax base (from 167,000 registered tax-payers to 226,000). The Government had also worked to limit the increase in government expenditures, through halting new public employment and introducing an early retirement programme. Ghannam explained that high public debt levels persist despite these achievements, as improved financial management was outweighed by a significant decline (59%) in external financial support during the same period.

Regarding spending priorities under the current conditions, Ghannam explained that the Government is reducing spending substantially while giving priority to the families of those killed or wounded in conflict with Israel, political prisoners and retirees. The Government aims to reduce operating expenses by 20% and capital expenditure by 50% through suspending public appointments, promotions and asset acquisitions (including the purchase of cars, furniture and appliances).² Under the Emergency Budget there will be no new development expenditure commitments, but those obligated in 2018 will be honoured.³

The emergency measures were first announced by Finance Minister Shukri Bishara on 10 March, 2019, following an announcement by the Government of Israel (GoI) in February that it would cut by 5% the approximately \$190 million in tax revenues it collects on behalf of and transfers to the PNA each month from imports destined for the West Bank and Gaza Strip via Israeli ports (clearance revenues).⁴ The deduction represents an Israeli estimate of the amount of dues paid by the PNA to families of Palestinians imprisoned by Israel. In response, the Palestinian Government refused to receive incomplete clearance revenues transferred by Israel, declaring that it will not accept any revenues transferred unless these deductions are cancelled and any agreed deductions (net lending) are audited.

The clearance revenues, which amounted to around \$2.4bn in 2018, account for about 60% of the PNA's recurrent expenditures. For the past three months the Palestinian Government was unable to fully cover the wage bill of its employees, paying only 50% (reportedly increasing to 60% during Ramadan) of monthly salaries to public employees earning between ILS 2,000 and ILS 10,000 and crediting the remaining entitlements as payables on the Ministry of Finance accounts. The Government also

¹ www.aman-palestine.org/ar/activities/6508.html

² with the exception of special circumstances

³ Palestinian Prime Minister Shtayyeh announced in late May his Government's 100-day Plan, which will be covered in the forthcoming issue of the Bulletin.

⁴ <http://english.wafa.ps/page.aspx?id=ppmfvpa108716841684appmfvp>

increased its borrowing from the local banking sector and started accumulating arrears at an accelerated pace, as it is unable to pay private sector service providers.

According to Ghannam, the emergency budget is expected to stay in effect until the current clearance funds crisis with Israel is resolved. Ghannam affirmed that arrangements with the banking system and other measures would allow the PNA to maintain solvency until July 2019.

Meeting of the Ad Hoc Liaison Committee

On 30 April, members of the Ad Hoc Liaison Committee (AHLC) convened a policy-level meeting in Brussels to address Palestine's fiscal crisis and humanitarian situation. The AHLC is a 15-member committee which serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people.⁵

The meeting was addressed by the recently appointed Palestinian Prime Minister, Dr Mohammad Shtayyeh, who urged the international community and donor countries to stand with the Palestinian people against Israeli financial sanctions, reaffirming the Palestinian Government's commitment to the two-state solution.⁶

Ahead of the meeting, the World Bank Group (WBG), the Office of the UN Special Coordinator for the Middle East Peace Process (UNSCO) and the Office of the Quartet (OQ) submitted their periodic reports on the status of the Palestinian economy and humanitarian developments.

The UNSCO report, which aims to provide an assessment of the efforts of the Palestinian Government toward state-building, warned of the unprecedented financial, security and political challenges currently faced by the Government, highlighting the financial crisis caused by the clearance revenue stand-off.⁷ According to the report, the current financial crisis is expected to jeopardise the delivery of basic services and social protection to the most vulnerable groups in society.

The same concerns were echoed by the WBG report, which aims to update the AHLC on recent economic developments in the real economy⁸, as well as the fiscal and banking sectors.⁹ According to the report, the PNA could face a fiscal gap exceeding \$1 billion for 2019 and accumulate considerable arrears to the private sector should the current standoff persist. This would cripple economic activity, push the West Bank into negative growth and increase risks for the banking sector, which is currently witnessing slow growth in deposits and credit, in addition to a rapid increase in non-performing loans.

The OQ report, which focused on the areas of energy, water, telecommunications, movement, trade and the rule

of law, outlined progress in the major projects currently underway in the West Bank and the Gaza Strip.¹⁰

- **Energy sector:** the energy crisis remains severe in the Gaza Strip, which received only 120-140MW per day (4 hours per day) for most of 2018, out of a total demand estimated at around 500MW per day. A \$60 million Qatari grant boosted the electricity supply produced by the Gaza Power Plant's (GPP) from 25MW last October to over 75MW, pushing the total energy supply in the Gaza Strip to 200MW per day (12-15 hours a day). According to the report, for the Gaza Strip to meet its energy demand other electricity sources will have to be developed.
- **Water Sector:** progress has been made on the Gaza Central Desalination Plant, which is expected to provide 55 million cubic meters (MCM) of potable water to the Gaza Strip by 2023. Additional €41.6m in pledges have been made to the programme by several countries and international organisations, settling total contributions at €448.3m and leaving a funding gap of €114m. Currently, only one in 10 households in the Gaza Strip has direct access to safe water due to pollution and the influx of seawater into the coastal aquifer.¹¹ The yield of the aquifer is estimated at 55 to 60 MCM per year, compared to the total water demand in the Gaza Strip of 180 MCM per year.
- **Movement and Trade:** The 'door to door' trade facilitation programme has continued to expand, with nine additional companies in the Hebron joining. The programme, first launched in July 2018, eases the movement of "low risk" goods manufactured at "secure 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 destinations in Israel or beyond.

Interview with Maher Hushaysh, CEO of the Union of Stone and Marble in Palestine

The Union of Stone and Marble (USM) was established in 1996 as an independent, non-governmental and non-profit membership-based organisation.¹² USM aims to promote the stone and marble industry and protect the interests of its more than 800 members, through its headquarter located in Bethlehem, and its three regional offices in Hebron, Nablus and Jenin.

The stone and marble industry is of great significance to the Palestinian economy, contributing around 5% to GDP¹³ with average total sales of \$700 million annually. There are about 1200 operating companies in the industry that create more than 20,000 direct jobs.

5 www.lacs.ps/article.aspx?id=6

6 <http://english.wafa.ps/page.aspx?id=R9QJEWa110250115767aR9QJEW>

7 https://unsco.unmissions.org/sites/default/files/unsco_ahlc_report_april_2019.pdf

8 The real economy refers to that part of the economy that is concerned with actually producing goods and services, as opposed to buying and selling on the financial markets.

9 <http://documents.worldbank.org/curated/en/942481555340123420/pdf/Economic-Monitoring-Report-to-the-Ad-Hoc-Liaison-Committee.pdf>

10 www.un.org/unispal/document/report-of-office-of-the-quartet-to-ad-hoc-liaison-committee-brussels-30-march-2019/

11 <https://blogs.unicef.org/blog/searching-clean-water-gaza/>

12 www.usm-pal.ps/about.php?lng=2

13 www.usm-pal.ps/industry.php?lng=1

The industry also constituted 22% (\$233m) of total Palestinian exports (\$1,064m) in 2017.¹⁴ Construction stone is the top exported commodity in Palestine in terms of value (16% of total exports), while 'marble and travertine' rank fourth with 3.2% of total exports. The products of the stone and marble industry reach markets in more than 70 countries, even though Israel remains the main destination, accounting for 65% of total exports.¹⁵

Palestinian Economic Bulletin (PEB): What are the main challenges facing the Palestinian stone and marble industry?

Maher Hushaysh (MH): The stone and marble industry struggles from a set of different challenges, many of which are common to all Palestinian industries, such as those created by the Israeli occupation. The major natural rock reserves are located in the Israeli-controlled "Area C", where acquiring permits for opening new quarries is extremely difficult. The stone and marble industry will soon face severe problems if quarries are unable to expand into Area C because the currently accessible reserves in Areas A and B are being depleted.

Also, quarry owners in "Area C" face additional challenges from Israeli measures that can result in confiscation of equipment and heavy fines. Israeli restrictions on movement and trade are another major challenge that increases the costs on producers and hinders the competitiveness of this industry.

PEB: How would you describe the industry's business environment? How does it affect the sector's performance?

MH: The Palestinian investment environment is particularly challenging for this industry. The high costs of utilities, particularly electricity and water, high wages, lack of water and the use of relatively less advanced technology are a few of the challenges that increase the cost of production and weaken the competitiveness of the industry. Pit miners still use traditional methods of quarrying, which are not efficient and can cause losses due to drilling in wrong places. Weak technologies also mean that the majority of companies are unable to produce in accordance with market standards and specifications. Equally challenging is the shortage in skilled labour and poor management, planning and marketing skills, the industry's limited access to finance, the weak regulatory environment and the difficulty in obtaining industrial licenses.

More industry-specific factors hindering its development include the absence of comprehensive studies on the distribution of quarries, their mining properties and their impact on the environment. Quarries, stone cutting plants and crushers are spread randomly across the West Bank, adversely affecting arable land, the environment and communities. Most stone cutting plants lack modern equipment required to properly treat waste, and suitable collection sites for waste are scarce. Therefore, the unregulated expansion of the stone and marble industry has had negative environmental externalities, causing

pollution and harming vegetation and biodiversity. The noise and dust adversely affect the health of people dwelling near these plants, not to mention the hazards resulting from the quarries left without restoration once the ore runs out.

PEB: What are the required steps to overcome the current challenges and further develop the Palestinian stone and marble industry?

MH: International pressure and donor support can mitigate some of the challenges, but the industry will not be able to flourish and achieve its potential without comprehensive initiatives, mainly from the Government's side. In terms of the legal framework, applying the provision of the Law by Decree No. (10) on Industry (2011), could promote the sector and improve its competitiveness as it sets special lower water and electricity prices for industrial companies. Also, USM has for long been asking the PNA to establish an industrial zone for stone and marble. This step would provide the necessary infrastructure, regulate the sector, facilitate transportation, and reduce overall production costs.

There is also a need to improve the type of technology used in production by introducing incentives for those who adopt up-to-date production techniques and comply with international standards. This will help ease the high costs of new machines and make them sound like a more feasible alternative. A first step towards this may involve introducing tax exemptions for the stone and marble industry through the Palestine Investment Promotion Law.

With regards to the environment, there is a need to allocate special areas for the disposal of stone and marble waste, introduce waste recycling technologies, to develop the infrastructure surrounding stone and marble extraction facilities, provide water filtration, and set up rehabilitation projects for ex- quarries.

USM is constantly working to enhance capacity building and local workers' capabilities and it has conducted several interventions in this regard, These include setting up the Palestinian Stone and Marble Center at the Palestine Polytechnic University (PPU) in cooperation with the Ministry of National Economy in 2009 to supply the sector with skilled labour and testing for export-oriented stone products, and granting Diplomas in Management and Technology of Stone and Marble at the Polytechnic University of Palestine.

April Trading

In April 2019, Al-Quds index reached 527.6 points on the last day of trading, a decrease of 0.54% from the previous month.¹⁶ During the month, a total of 12.6m shares with a total value of \$22.3m were traded, marking a 38.6% drop in both the number and value of traded shares compared to the previous month. This reflects a normal movement following dividend distribution. The Investment sector index witnessed the highest increase (2.42%), while the banking and financial services sector index deteriorated the most (3%).

14 www.pcbs.gov.ps/Downloads/book2388.pdf

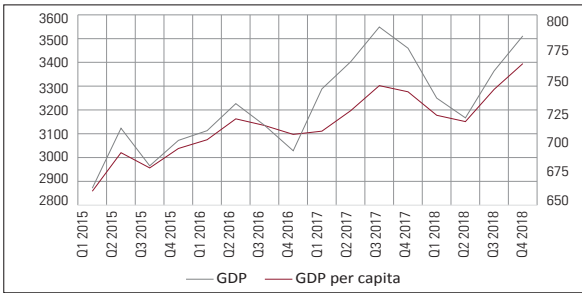
15 www.mas.ps/download.php?id=85452y545874Y85452

16 www.pex.ps/FileManagerWeb/Default.aspx?AID=1&UID=1&WFID=29&DocActi on=610&HashCode=759&PathCode=1&TRID=39271&TID=536

Palestine Economic Dashboard

Growth

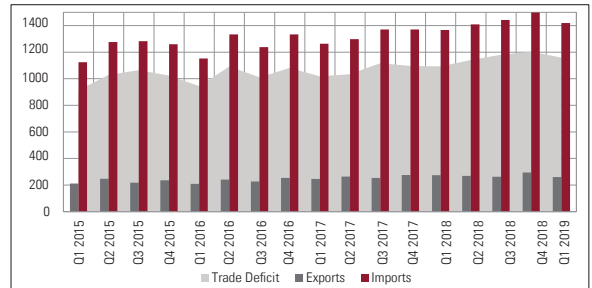
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q4 2018



GDP (Q4 2018): \$3,594.4m GDP per capita (Q4 2018): \$778.9
Source: PCBS

Trade

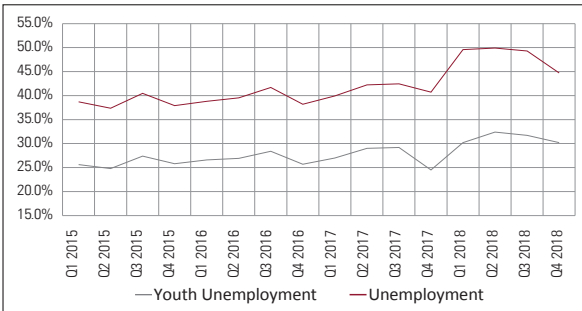
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2019



Imports (Q1 2019): \$1,419.2m Exports (Q1 2019): \$260.2m
Trade deficit (Q1 2019): \$1,159m Source: PCBS

Unemployment

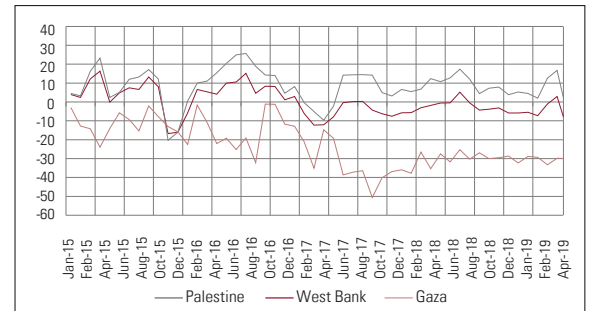
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q4 2018



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

Business Cycle Index

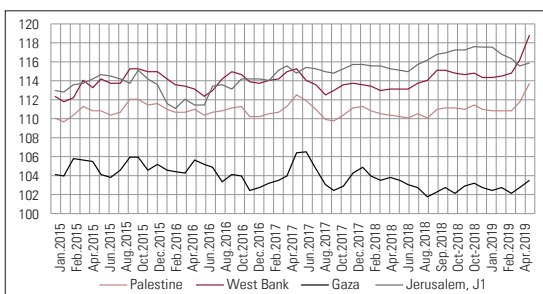
Palestine Monetary Authority Business Cycle Index, January 2015 – April 2019



Palestine (April 2019): -14.1 West Bank (April 2019): -7.4
Gaza (April 2019): -29.9 Source: PMA

Inflation

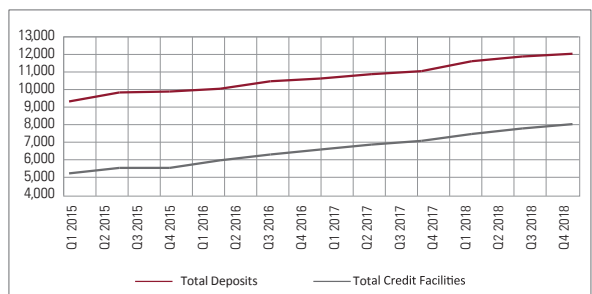
Consumer Price Index (Base year = 2010), January 2015 – April 2019



Palestine (April 2019): 113.8 West Bank (April 2019): 118.9
Gaza (April 2019): 103.5 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2018



Total Credit Facilities (Q4 2018): \$ 8,437.9m Total Deposits (Q4 2018): \$12,227.3m
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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