

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Palestine Economic Policy Research Institute recently published a report presenting a short- and medium-term sectoral development agenda for East Jerusalem

Throughout July 2019, a number of countries have signed agreements reiterating their commitment to UNRWA

Al-Quds index reached 519.8 points on the last day of trading of June 2019, a decrease of 1.8% from the previous month.

Updates on Economic Performance

As the financial pressures on the Palestinian National Authority (PNA) continue to build, the prospects of the Palestinian economy remain fragile. The 'clearance revenue' impasse, which began in March 2019, has compounded the financial crisis created by the ending of US financial support to the PNA earlier this year.¹

Public finances

The Palestinian economy is consumption-driven, with a heavy reliance on public consumption (25.7% of GDP in 2018)² and the purchasing power of public sector employees (21.1% of Palestinian employed workforce in 2018).³ For the last six months, the PNA has been unable to cover in full the wage bill of its employees and has increased its borrowing from local banks whilst accumulating arrears, as it has been unable to pay private sector service providers. Without a resolution in sight, the PNA's financial position is likely to continue deteriorating.⁴

To alleviate some of the financial pressures, the Palestine Monetary Authority (PMA) has been working closely with local banks since the beginning of the crisis to reduce the mortgage burden for public sector employees, while government borrowing from the local banking sector has been increasing within limits that do not impinge on provision of private credit facilities.⁵ In April, the Ministry of Local Government also instructed municipalities and local government bodies to ease payment terms for basic services on public sector employees.⁶

On 22 August, the PNA announced that it had reached an agreement with the Government of Israel (GoI) by which the latter will release part of the clearance revenues it had held since March. Totalling about \$568m, the funds represent fuel taxes⁷ that Israel has been collecting on behalf of the PNA for the past seven months as part of the usual clearance tax arrangements.⁸ Under the new agreement, Israel will absolve the PNA from collecting fuel taxes via the clearance mechanism, allowing it instead to collect directly from Palestinian consumers, a long standing demand by the PNA that predates the crisis.⁹

The retrieved funds will be used to repay public sector employees for the first 50% salary payment withheld in March, as well as 60% of their August salaries as they have been paid since then,¹⁰ and to settle some of the PNA's debts to the Israeli Electricity Company (IEC). These funds are expected to reduce the burden of the crisis, but not to end it, as around two thirds of the clearance revenues continue to be withheld by the GoI.¹¹

1 See previous Issues of PEB

2 http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ418E.pdf

3 <http://pcbs.gov.ps/Downloads/book2433.pdf>

4 <https://bit.ly/2Xrj0xl>

5 <https://bit.ly/2HhA6Ez> and <http://www.bnews.ps/news/5cac5a762649ea58af0b0e4a>

6 www.wafa.ps/ar_page.aspx?id=0B8QT4a854008918653a0B8QT4

7 Under the Paris Protocol, Israel collects an excise tax on Palestinian fuel purchases and then it transfers them back to the PNA, minus a 3% administrative fee, along with other clearance revenues.

8 <https://bit.ly/33TPXTn>

9 www.alhayat-j.com/ar_page.php?id=460635fy73425759Y460635f

10 www.aliqtisadi.ps/article/70200/

11 www.wattan.tv/ar/news/289243.html

Electricity debt piling up

Shortly after the start of the crisis, Palestinian payments to the IEC were cut sharply. Total Palestinian debt to the IEC reached NIS 1.47bn (\$417.8m) by 1 June,¹² an increase of around 40% from NIS 1.05bn (\$297.7m) in February.¹³

On 28 July, the Israeli Ministry of Finance announced the deduction of NIS 500 million (\$141m) from the clearance revenues withheld by the Gol to be transferred to Israel Electric Corporation in order to pay for Palestinian electricity debt.¹⁴ After receiving the fuel tax from Israel on 23 August, the PNA settled NIS 300m of the outstanding debt of Palestinian electricity companies to the IEC.¹⁵

Resilient private sector

The private sector continues to demonstrate resilience amidst the fiscal crisis. In June, the percentage of returned cheques remained stable in terms of value (10.5%) compared to the previous month and the corresponding month in 2018.¹⁶ The percentage of returned cheques in terms of volume decreased to 13% in June, compared to 14.5% in May and 15.5% in June 2018. These figures indicate that the crisis has not yet affected the ability of most businesses and individuals to honour their financial commitments, and/or has made them more prudent in their financial dealings. According to the PMA, about 47% of the returned cheques in 2018 were issued by SMEs, while 27% were post-dated cheques issued by employees to purchase a car or an apartment.¹⁷

In June, the industrial production index increased by 1.1% compared to the previous month and 7.7% compared to June 2018, attesting to sustained prospects for domestic light industries (e.g. food and beverages, furniture, construction materials) even as fiscal pressures mount.¹⁸

Despite the resilience of the private sector thus far, reduced public and household consumption is likely to affect its performance if the crisis continues. The latest data on the Business Cycle Index (BCI), which monitors fluctuations in economic activity as attested to by local businesses, points to expectations of an economic downturn in the near future.¹⁹ In July, the overall BCI dropped to -13.8 points from -6.7 points in the previous month. The decline has been driven by a deterioration of the West Bank index, which reached -10.2 points in July, its lowest level since December 2015.

East Jerusalem's Economic Development

The Palestine Economic Policy Research Institute (MAS), in collaboration with the Negotiations Affairs Department

at the Palestinian Liberation Organisation (PLO), and with support from the Representative Office of Norway to the PNA, recently published a report presenting a short- and medium-term sectoral development agenda for East Jerusalem (EJ).²⁰ The report provides an analysis of EJ's economy, including challenges and opportunities for economic growth and employment, and proposes short- and medium-term recommendations for alleviating those impediments.

Palestinians in EJ are mainly dependent on Israel's economy and labour market as a source of income (54%) and on national insurance payments (21.3%), while the local private sector contributes to only 13.1% of households' income. The unemployment rate in EJ has decreased from 19% in 2014 to 11.6% in 2017, owing to increased employment opportunities within the Israeli labour market. However, the male labour force participation rate (LFPR) in EJ remains at 56.4%, which is 15% points below the figure for the West Bank and the Gaza Strip. Female LFPR in EJ currently stands at 6.7%, almost half the level in the West Bank and Gaza Strip.

According to the report, 77% of EJ's Palestinian residents live below the poverty line, compared to 23% of Israelis living in West Jerusalem and Israeli settlements in EJ. Residents of EJ suffer from neglect by the Israeli municipal authorities. On average, Jerusalem's Israeli municipality allocates only 10% of its budget to the eastern part of the city, although EJ's Palestinian residents represent 37% of the population within the Israeli-declared municipal borders of the city.

The Tourism Sector

Tourism maintains a central role in Jerusalem's economy despite adversity. Hotels and restaurants contribute around 20% of Jerusalem's GDP. When adding the value-added of other related activities, the sector's contribution rises to around 40% of EJ's GDP.

Despite its central role, EJ's tourism sector has been suffering from multiple challenges, including a weak institutional cooperation at the intra and inter-sectoral levels, a lack of access to secure financing, and a shortage of skilled and well-trained staff. As a result, hotels and tourist shops are closing, citing the high Israeli tax burden and the inability to invest in improvements and rehabilitation needed to attract greater flows of tourists.

The report recommends initiatives to be implemented in the short- to medium-terms, these include:

- **Upgrading hotels:** a \$50m investment programme to develop and rehabilitate 20 existing hotels in EJ, to enable them to provide excellent services at competitive prices, in addition to a risk mitigation programme that would help revitalise closed hotels and prepare them for renewed business

12 <https://bit.ly/2P4zVCX>

13 <https://bit.ly/2ZjrP9g>

14 www.themarket.com/dynamo/energy/1.7581028

15 <https://bit.ly/2U4nx4r>

16 Unpublished figures obtained from the PMA

17 www.mas.ps/files/server/20182604153943-1.pdf

18 measures real output in manufacturing, mining, electric and gas industries

19 BCI is based on a monthly PMA poll of a sample of local businesses to monitor fluctuations in economic activity (i.e. production, sales and employment)

20 www.mas.ps/files/server/20191703143807-1.pdf

- **Bridging the skills gap:** a one-year hospitality training programme to upskill 500 hospitality professionals, in addition to developing hospitality-focused academic programmes at local universities and colleges in order to increase the number of tour guides with foreign language skills
- **Transportation:** a 30% subsidy (\$1.5m annually) for bus companies to provide regular shuttle buses between Palestinian cities, and facilitating credit for these companies to modernise their fleets

The Housing Sector

Since 1967, around 87% of EJ's land area has been confiscated by the Gol, minimising possibilities for expanding residential areas for EJ's Palestinians. There are also restrictions on the use of private land in the remaining 13% allocated for East Jerusalemites, which has led to increased 'no-permit' building and consequently an increased threat of house demolitions.

According to the report, EJ is suffering from an acute housing shortage (40,000-50,000 housing units) for the Palestinian population. To restrict further growth in that shortage, the report estimates that a minimum of 2,000 additional apartments will be needed annually.

The report presents initiatives aiming to address the challenges facing EJ's housing sector, these include:

- **Affordable housing:** a \$20m fund to invest, alongside the private sector, in housing for young couples and low-income families
- **Urban planning:** a \$5m programme to develop 50 detailed plans for housing projects and vital services (schools, hospitals, parks and sport infrastructure)
- **Legal assistance:** a technical assistance office that to provide support for poor households preparing documents and applications for building permits
- **Stakeholder coordination:** establishing a Coordination Council comprised of the main sector stakeholders and professionals to facilitate collective efforts to combat the housing crisis

Food and Artisanal Industries

According to the report, restrictions on the import and export of products into and out of EJ, high operational and taxation costs, and strict Israeli standards and regulations, have impeded the development of various traditional industries. This is particularly evident in the Old City of Jerusalem, home to small family-run workshops producing artisanal handicrafts and traditional products. According to the report, closed shops currently account for around 30% of total shops in the Old City market.

The report presents initiatives to address the challenges facing EJ's food and artisanal industries, these include:

- **Modernising traditional industries:** a \$10m investment programme to upgrade 30 handicraft workshops. This includes equipment and tools for design, production,

and packaging, and technical, marketing, and administrative training for workers

- **Food production:** the facilitation of \$20m in credit for livestock production businesses
- **Upgrading skills:** \$5m programme to invest in providing vocational training and education to 1,000 young crafts workers in EJ
- **Rehabilitation of closed shops:** programme to rehabilitate 600 closed shops in the Old City

New Pledges to Support UNRWA

Throughout July 2019, a number of countries have signed agreements reiterating their commitment to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). The United Arab Emirates (UAE) announced that it will provide US\$50 million to UNRWA in support of its 2019 programmes in healthcare, education and social services.²¹ The Kingdom of Saudi Arabia, the third largest donor to UNRWA, pledged an additional US\$2 million to its already large contribution of \$160. The amount will fund UNRWA's core services in all countries of operation.²² Austria also restated its commitment of EUR 1.95m to support UNRWA's health programme in the West Bank and Gaza Strip.²³ France contributed EUR 353,905 to support the training and development of teachers and to support French language programmes mainly in Lebanon.²⁴

In 2019, the Agency requires a total of US\$ 1.2 billion for its operations in the region, including both development and humanitarian aid service delivery. In UNRWA's annual donor pledging conference held in June, donors stepped forward in their commitment, pledging over \$110 million towards reducing UNRWA's 2019 funding gap.²⁵

These contributions come at a critical time for UNRWA, which is still facing significant challenges to meet all financial requirements by the end of this year. UNRWA has experienced financial difficulties since the cutting of US aid and has been relying on increased donations from members of the international community to support the services it delivers to 5.4 million Palestinian refugees.

July Trading

In July, Al-Quds index reached 529.4 points on the last day of trading, an increase of 1.85% from the previous month. During the month, a total of 15.3m shares with a total value of \$22.2m were traded, marking a 167.5% increase in the number and a 114.9% surge in the value of traded shares compared to the previous month.

²¹ <https://bit.ly/2yOwC7N>

²² <https://bit.ly/2MNFRxf>

²³ <https://bit.ly/2YRj0Hn>

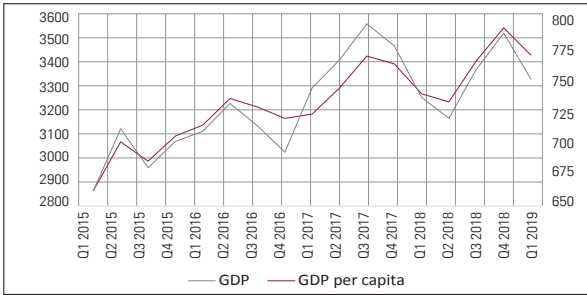
²⁴ www.unrwa.org/newsroom/press-releases/france-supports-unrwa-education-eur-350k-contribution

²⁵ Previous issue of the PEB

Palestine Economic Dashboard

Growth

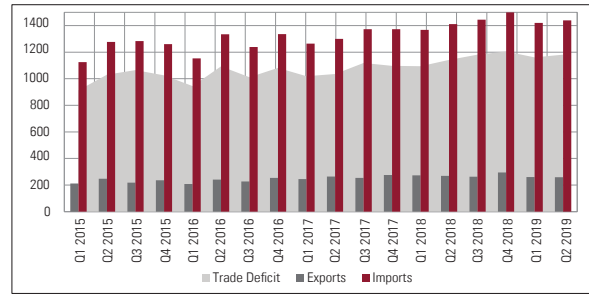
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2019



GDP (Q1 2019): \$3,504.6m GDP per capita (Q1 2019): \$775.4
Source: PCBS

Trade

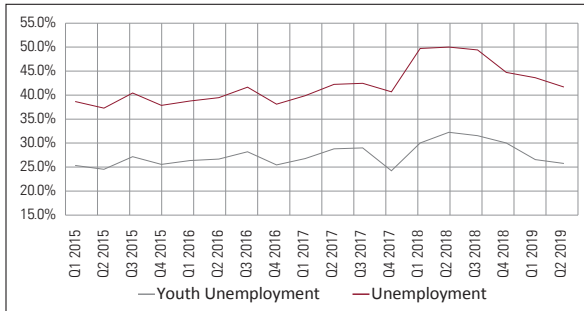
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q2 2019



Imports (Q2 2019): \$1,438.4m Exports (Q2 2019): \$258.7m
Trade deficit (Q2 2019): \$1,179.7m Source: PCBS

Unemployment

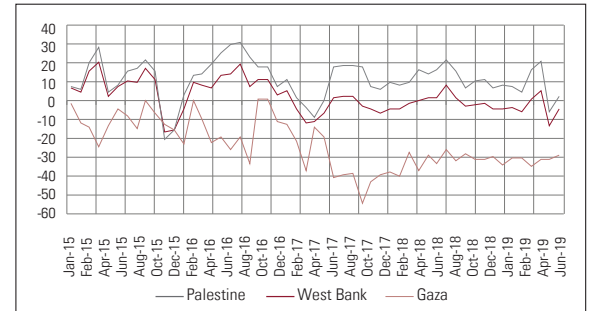
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q2 2019



Unemployment rate (Q2 2019): 26% Youth Unemployment rate (Q2 2019): 41.7%
Source: PCBS

Business Cycle Index

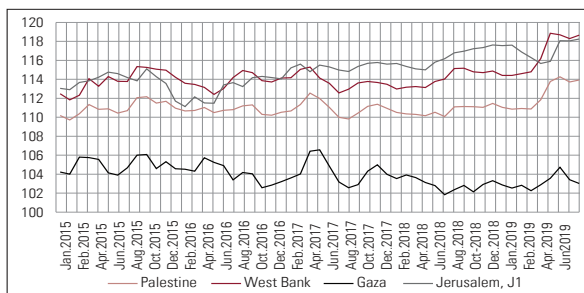
Palestine Monetary Authority Business Cycle Index, January 2015 – July 2019



Palestine (May 2019): -13.8 West Bank (May 2019): -10.2
Gaza (May 2019): -24.1 Source: PMA

Inflation

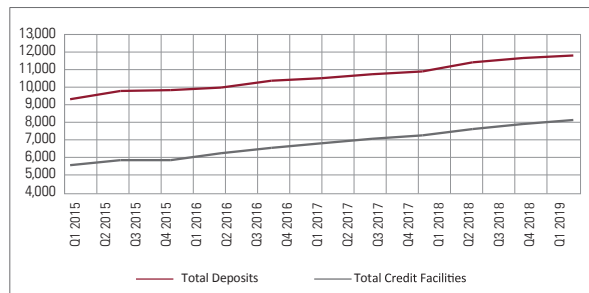
Consumer Price Index (Base year = 2010), January 2015 – July 2019



Palestine (July 2019): 113.9 West Bank (July 2019): 118.7
Gaza (July 2019): 102.9 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q1 2019



Total Credit Facilities (Q1 2019): \$8,569.6m Total Deposits (Q1 2019): \$12,394.4m
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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