

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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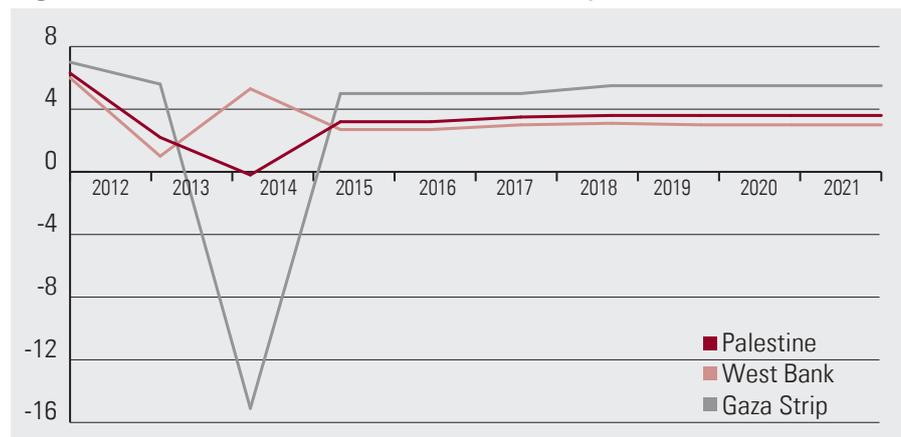
The total revenue loss for the Palestinian telecommunications sector between 2013 and 2015, based on a benchmarking with peer markets, ranges from \$436m to \$1,150m according to a World Bank report

On 22 March 2016, the Palestinian Council of Ministers announced a ban on imports to the West Bank from five Israeli food companies

Economic Monitoring Reports

The Palestinian economy continued to face impediments to its growth in 2015, according to recent reports to the Ad Hoc Liaison Committee. According to the IMF, Real GDP growth in the West Bank slowed to an estimated 2.7% from 5.3% in 2014, as investment remained weak, donor aid declined, and the suspension of clearance revenue transfers early in the year undermined confidence.¹ The economic recovery in Gaza from the 2014 war continued, albeit at a slower than expected pace of around 5%, reflecting delays in donor support and restrictions on imports of 'dual use' construction materials. Palestinian GDP grew in real terms by an estimated 3.5% in 2015, compared to -0.2% in 2014 and 2.2% in 2013, according to preliminary estimates by the Palestinian Central Bureau of Statistics (PCBS).²

Figure 1: Real GDP Growth (2012-2015) and Projections (2016 - 2021), %



Source: IMF

Unemployment in Palestine continued to be high at 27% in 2015.³ In the West Bank, it amounted to 19% by the end of 2015 while it was twice as high in Gaza. Unemployment is extremely high among Palestinian youth, particularly in Gaza where more than half of those aged between 15 and 29 are out of work. Inflation remained stable at 1.4 % in 2015, reflecting low growth and high unemployment.

The Palestinian National Authority's (PNA) fiscal deficit (before grants) narrowed from 24.6% of GDP in 2008 to 11.4% in 2015, according to the World Bank.⁴ Expenditure growth was high, exceeding 6% (in nominal NIS terms), mainly due to spending on transfers and goods and services. However, it was offset by strong revenue growth of 9%. Aid in 2015 dropped by almost 30% relative to the previous year and amounted to less than needed to cover the deficit, leading to a \$650m financing gap. The PNA resorted to accumulation of arrears and domestic borrowing to cover the gap which could increase risks to the private sector and local banks.

1 www.imf.org/en/Countries/ResRep/WBG

2 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ415E.pdf

3 www.imf.org/en/Countries/ResRep/WBG

4 www-wds.worldbank.org

The economic outlook continues to be highly uncertain.⁵ According to the IMF, under a baseline scenario that assumes no change to the Israeli restrictions on trade, movement and access, growth is expected to remain unchanged in 2016 at 3.2%. In the West Bank, growth is projected at 2.7% in 2016 whilst growth in Gaza is projected at 5% in 2016, as reconstruction advances. However, if reconstruction continues at its current slow pace, Gaza's GDP will not rebound to its level before the 2014 war until 2018. In the medium term, overall growth in the West Bank and Gaza is expected to remain at around 3.5 %, leading to stagnant per capita income and rising unemployment.

Table 1: Key Economic Indicators

	2014	2015 (Estimate)	2016 (Projection)	2017 (Projection)
Real GDP Growth (%)	-0.2	3.2	3.2	3.5
- West Bank	5.3	2.7	2.7	3
- Gaza	-15.1	5.0	5.0	5.0
Inflation Rate (%)	1.7	1.4	1.9	1.3
Fiscal Balance (% of GDP before external support)	-12.5	-11.7	-10.9	-10.2
Current Account Balance (% of GDP)	-15.5	-11.6	-10.7	-11.2

Source: IMF

Downside risks that could significantly worsen the economic outlook remain. First, the pace of reconstruction and recovery in Gaza has been slower than anticipated and despite some acceleration in recent months, additional setbacks are possible. Second, according to the World Bank, economic outcomes in the West Bank may be worse than expected if "tensions continue to escalate". Finally, the IMF considers that further shortfalls in budget support or the inability to contain spending could undermine an already fragile fiscal position.

Electricity Generation Plant in Jenin

Dr. Mohammad Mustafa, Chairman of the Palestine Investment Fund (PIF), confirmed plans to establish an electricity generation plant in Jenin following approval from Israeli authorities. The gas fuelled plant is scheduled to commence power generation by the beginning of 2020. The plant could produce up to 450 megawatts of electricity, supplying up to 50% of all power needs of the Palestinian market. The plant could save the PNA up to \$40m annually in energy costs, create 1,000 employment opportunities and is estimated to cost up to \$620m to complete.⁶

Palestine is currently highly dependent on electricity provided by the Israel Electric Corporation (IEC) which supplies almost 90% of total consumption⁷. Since 2002, Israel has deducted unpaid electricity bills, along with other financial liabilities such as unpaid water bills and medical referral bills, directly from the clearance revenues it collects on behalf of the PNA in a practice called 'net lending'. By the end of 2015, the Palestine Monetary Authority (PMA) reported that net lending had reached \$300m.

5 www.imf.org/en/Countries/ResRep/WBG

6 www.maannews.com/Content.aspx?id=771102

7 <http://goo.gl/2tS56K>

The PIF announcement follows the commencement and suspension of the IEC's plan to reduce electricity supply to the Palestine market. The cuts would have resulted in the Palestinian cities of Jericho and Bethlehem suffering from prolonged power outages. The measure was suspended on 5 April after Palestinian electricity companies transferred \$20m in payments (out of a total of \$330m) and scheduled future payments for the remainder.⁸ Palestinian electricity companies speculate that the reduction of the electricity supply by the IEC would have not resolved the crisis citing more fundamental issues, such as payment tardiness and electricity theft, as major reasons behind their inability to repay debt to the IEC.

New Social Security Law

On 2 March 2016, President Mahmoud Abbas signed the Social Security Act (No.6). The purpose of the Act is to provide social security to workers who are not covered by existing social security laws, in the form of a national safety net. These groups include private sector and civil society employees as well as formal employees receiving wages (excluding public sector workers). Palestinian workers employed outside of Palestine are also covered. The Act excludes all security forces workers governed under Law No. 16 of 2004 and workers who work less than 16 days per month for the same employer. The Act covers issues relating to retirement and unemployment benefits, maternity and sickness leave, health insurance and on-the job injury insurance.⁹

The Act envisions a National Social Security Fund to operate as an autonomous state institution and draw on contributions from both workers and employers. In addition, the Fund would be responsible for implementing all articles in the Paris Economic Protocol of 1994 that relate to social security. These primarily focus on Palestinian workers working in Israel. The Act stipulates that employees would contribute 7.5% of their salaries toward the new Fund while employers would contribute 8.5%, for a total contribution of 16%. After the age of 60, workers become eligible for social security benefits if they have at least 15 years of service. Alternatively, workers can retire at the age of 55 if they have 30 years of service.

Due to widespread concerns over the implications of the Act¹⁰, the Palestinian Cabinet approved the formation of a ministerial committee, headed by the Minister of Labour, dedicated to consulting with labour representatives, employers and all other relevant parties, to develop a new version of the Act that is satisfactory to all relevant parties.¹¹

Telecommunication Sector

The total revenue loss for the Palestinian telecommunications sector between 2013 and 2015, based on a benchmarking with peer markets, ranges from \$436m

8 <http://felesteen.ps/details/news/162411/الكهرباء-هددت-بقطع-الكهرباء>

9 www.alhadath.ps/files/image/2016/3/19-3-2016/Social%20security.pdf

10 <http://maannews.net/Content.aspx?id=839360>

11 <http://maannews.net/Content.aspx?id=842739>

to \$1,150m according to a World Bank report¹². The revenue loss to operators directly attributed to the absence of 3G is between \$339m and \$742m. This direct impact constitutes up to 3% of GDP over the last three years.

The World Bank report highlights how the Palestinian telecommunications sector is suffering from several constraints which negatively impact the Palestinian economy, the consumer and the PNA. The sector has been hindered by years of delay in mobile broadband, the presence of unauthorised Israeli operators in the Palestinian market, restrictions on importing equipment and the absence of an independent regulator.

“With the unemployment rate at 26%, the Palestinian telecom sector has the potential to boost the economy and create job opportunities,” said Steen Lau Jorgensen, World Bank Country Director for West Bank and Gaza. “In order for that to happen, Palestinian operators should be able to access similar resources as their neighbors.”

The Principles Agreement on the Allocation of Spectrum was signed by the Government of Israel and the PNA in November 2015 after more than eight years of negotiations. The agreement allows Palestinian telecommunication companies to provide 3G services in the West Bank and allows Wataniya to provide 2G services in Gaza. According to a recent report by The Office of the Quartet, 3G services are projected to increase GDP per capita growth by 1.5 percentage points, increase investment by approximately \$120m, create 10,200 new employment opportunities, and provide an estimated \$54m in tax revenue for the PNA over the first two years.¹³

Ban on imported food products

On 22 March 2016, the Palestinian Council of Ministers announced a ban on imports to the West Bank from five Israeli food companies. The decision came as a direct response to Israel’s decision to halt imports of food products from five Palestinian companies which sell primarily in East Jerusalem. According to Fadi Abu Hilweh, Director of Marketing for Hamoda Company, one of the companies affected by the Israeli decision, the five Palestinian companies stood to lose \$310m annually if the ban on their produce continued.¹⁴ Efforts to reverse the initial Israeli measure reportedly have led to a reappraisal of the ban on the five Palestinian companies by an Israeli court.¹⁵

60 Projects for Women in the West Bank

As a part of the commemoration of International Women’s Day, Première Urgence Internationale (PUI), in cooperation with the Women for Life Organization, launched an initiative to fund 60 small-scale projects for women in the northern West Bank.¹⁶ The initiative, funded

by the EU’s Women Economic Empowerment project, will support a total of 60 projects run by women in the rural regions of the Qalqilia and Salfit districts. The head of PUI delegation in Palestine stated that the project aims to produce an inclusive system that connects women with both economically and socially impactful programs.

Balance of Payments

The current account deficit (excluding official transfers) declined to 11.1% of GDP in 2015 due to a narrowing of the trade deficit.¹⁷ Preliminary estimates indicate that the trade deficit as a share of GDP amounted to 35.9% in 2015, a decrease of four percentage points from 2014. According to the World Bank, this was due primarily to a decline in imports from Israel due to slower growth in the West Bank, lower fuel prices, and a growing trend among Palestinian consumers to substitute products imported from Israel by those from other countries. As a result, non-Israeli imports increased by 22% in 2015. Exports remained low and stagnant at 17% of GDP in 2015.

The current account deficit amounted to \$450m in Q4 2015, a decrease of 23.3% on the previous quarter.¹⁸ The ongoing deficit was mostly the result of a deficit in the trade balance of goods, which reached \$1.27bn, a decrease of 6% from the previous quarter.

Table 2: Balance of Payments

Item	Q4 2014 (USD millions)	Q3 2015 (USD millions)	Q4 2015 (USD millions)	Change (%) (Q4 2014-Q4 2015)	Change (%) (Q3 2015-Q4 2015)
Current Account	(\$441.5)	(\$586.3)	(\$449.8)	1.9%	-23.3%
Trade Balance of Goods	(\$1,151)	(\$1,349.4)	(\$1,268.9)	10.2%	-6%
Trade Balance of Services	(\$30.2)	(\$69.4)	(\$45.8)	51.7%	-34%
Income Balance	\$357.7	\$357.4	\$347.5	-2.9%	-2.8%
Balance of Current Transfers	\$382	\$475.1	\$517.4	35.4%	8.9%
Capital and Financial Account	\$301.2	\$459.6	\$570.4	89.4%	24.1%
Net Capital Account	\$210.4	\$101	\$112.3	-46.6%	11.2%
Net Financial Account	\$90.8	\$358.6	\$458.1	404.5%	27.7%

Source: PCBS and PMA

PMA’s Guide to Risk-Based Supervision

The PMA announced that it had completed a project for developing a comprehensive new Risk-Based Supervision Manual to be used by the PMA inspectors in the banking supervision department.¹⁹ The Manual, drafted in cooperation with the IMF enables the PMA to meet international best practices and standards in banking supervision.

The Manual is designed to meet the requirements of the standards of the Basel Committee on Banking Supervision, which require supervisory bodies, such as the PMA, to update supervisory methodologies and tools in order to improve and promote governance and risk management of banks.

12 <http://goo.gl/o9pgsc>

13 <https://goo.gl/4T1uxk>

14 www.maannnews.com/Content.aspx?id=770799

15 www.maannnews.com/Content.aspx?id=771116

16 www.alquds.com/articles/145742426373536000/

17 www-wds.worldbank.org

18 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_BoPQ42015E.pdf

19 <http://goo.gl/QG8eHR>

Support for Palestinian Start-ups

The Bethlehem Business Incubator (BBI) was launched on 13 April 2016. The BBI is designed to support local entrepreneurs with particular attention given to women and youth (of 15 to 29 years old) interested in non-ICT sector start-ups. The BBI will offer business development and incubation including business idea screenings, professional business events, practical training and workshops, one-to-one sessions, business funding and customised assistance and services for selected start-ups. The project will provide seed funding (grants) of up to \$10,000 each to ten businesses.

The BBI is located in Bank of Palestine's Bethlehem branch. It is part of the Building Entrepreneurial Excellence and Developing Economic Enterprises (BEEADEE) Project, sponsored by the United States Department of State and implemented by Indiana University's Kelley School of Business in collaboration with Bethlehem University. This three-year project, worth \$1.5m, aims to foster sustainable economic growth by enhancing the entrepreneurial environment in the West Bank, targeting Bethlehem and East Jerusalem.

In related news, Leaders Organization signed a cooperation agreement on 24 March with Paris&Co, the innovation start-up development arm of the Paris Municipality. Under the agreement, the City of Paris will provide support to Palestinian entrepreneurs to stay and work on their start-ups in Paris, while Leaders will be responsible for the selection of entrepreneurs for this programme. The agreement was signed by Nedal Zahran, Leaders Business Development Manager, Jean-Louis Missika, Deputy Mayor of Paris, and Karine Bidart, CEO of Paris & Co.

Cooperation Protocol with Russia

Palestine and the Russian Federation signed a cooperation protocol that aims to strengthen economic and commercial cooperation between the two countries on 15 March. The two Governments also signed a memorandum of understanding that aims to facilitate the exchange of expertise and standards in the fields of metrology and social security. The agreements were signed at the conclusion of a series of meetings of the Palestinian-Russian intergovernmental committee headed by the Palestinian Minister of National

Economy, Abeer Odeh, and the Russian Minister of Labor and Social Protection, Maxim Topilin.

Ms. Odeh stated that the new set of agreements could lead to a variety of economic growth opportunities for the Palestinian economy. The agreements could increase Palestinian exports to the Russian Federation by up to 16% during the upcoming five years, in 14 individual economic sectors. Furthermore, granting Palestine a favorable position under the Generalized System of Preferences (GSP) of the Customs Union Belarus, Kazakhstan and Russia may considerably boost Palestine's exports to those countries. Russia also assured the PNA of its intention to support the PNA's ongoing efforts to join the World Trade Organization.²⁰

Upcoming MAS Economic Conference 2016

In the summer of this year MAS plans to hold under the patronage of Prime Minister Dr Rami Hamdallah an Economic Conference titled "Towards a New Vision for Revival of the Palestinian Economy". In preparation for this conference, MAS is convening four technical preparatory symposia with prominent policy-makers and representatives of the private sector, civil society and academia. The first in this series of symposia was held on 20 April and focused on a diagnostic paper prepared by MAS on the prevailing key economic and social challenges besetting socio-economic development in Palestine. During the first symposium, Dr Nabeel Kassis, MAS Director General, said, "We intend to diagnose carefully the underlying causes of our economic problems, be they external or domestic. Most importantly, we shall focus on identifying concrete solutions for the urgent needs of the Palestinian economy in the short term and medium term."

PEX Monthly Trading

In March the Al-Quds index dropped by 4.8%, following a downward trend throughout the month. A total of 18.1m shares worth \$48.5m were traded in March. This is a decline of 25.5% in the number of shares but an increase of 8% in their value from February 2016. However, both the volume and value of traded shares decreased by 42.2% and 18.4% respectively from March 2015.

²⁰www.alquds.com/articles/1458108798093830600/

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