

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

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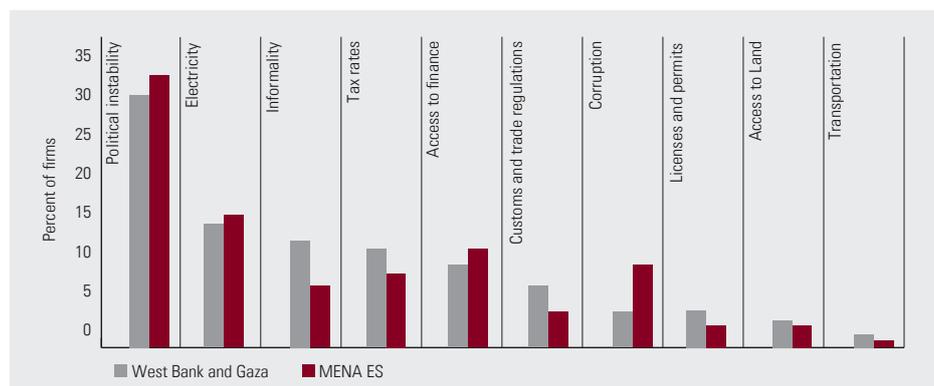
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### World Bank Report on Business Environment Obstacles

Political instability is reported as the top obstacle to growth by firms in the West Bank and Gaza, according to a recent report jointly produced by the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group (WBG).<sup>1</sup> The report presents the findings of the Enterprise Surveys conducted in eight economies in the Middle East and North Africa (MENA) region in 2013 and 2014. According to the report, just over 30% of Palestinian firms identified political instability as their most significant challenge, slightly below the average for firms in the MENA region. The report highlights that the negative effects of political instability go beyond the disruptive human and social impact of political turmoil and armed conflict by reinforcing an environment of uncertainty affecting economic policy and the regulatory environment. This in turn reduces sales, employment and labour productivity.

**Figure 1: Ranking of Top Business Environment Obstacles for Firms in the West Bank and Gaza**



Source: Enterprise Surveys

The unreliable provision of electricity is ranked second among obstacles for firms in Palestine and is particularly acute in Gaza. Palestinian firms reported the largest financial losses in the MENA region due to power outages at 6% of annual sales, reaching as high as 22% of annual sales in Gaza, where firms experience 29 outages per month. By comparison, in the West Bank losses due to power outages reach approximately 1% of sales and firms experience two outages per month. According to the report, "The blockade of the Gaza strip, political infighting, perpetual fuel shortages, a crumbling infrastructure, and perpetual conflict and insecurity all result in the very unreliable supply of electricity in Gaza."

Access to finance is also a key barrier for firms in the West Bank and Gaza. Palestinian firms are largely disconnected from the banking sector. Banks account for only 3% of finance for working capital, the remainder is financed using internal funds or supplier credit. Three quarters of firms surveyed did not apply for a loan (either reflecting sufficient internal capital for investment purposes or owing to the risks of taking on unsustainable credit). Approximately 30% of formal private sector firms do not have

<sup>1</sup> What's Holding Back the Private Sector in MENA? Lessons from the Enterprise Survey jointly produced by the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group (WBG), 2016.

a current or savings account and so cannot use the financial system for payment services. Only 6% of firms have made use of loan facilities or a line of credit. Meanwhile, barriers to the use of land as collateral (the bulk of Palestinian land is not properly registered) mean that Palestine has the highest share of movable collateral in the region.

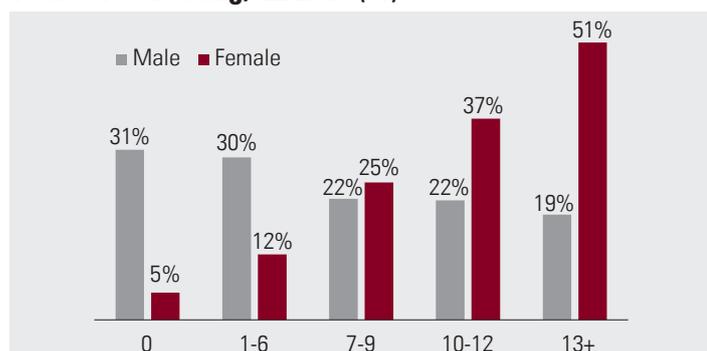
The report also demonstrated that the Palestinian economy continued to feature a lower level of female participation in the labour force and in the private sector, compared to the average for the MENA region. Only 6% of permanent, full-time workers are women, compared to the MENA average of 17%. In addition, only 13% of firms feature women's participation in ownership and a mere 1% have a woman as the most senior manager; the comparable averages for the MENA region are 25% and 6% respectively. According to the report, commonly cited reasons for low levels of participation by women include lack of job opportunities as well as social, cultural, and institutional norms. Due to persistent conflict and instability, additional concerns of personal safety and mobility restrictions further inhibit women's participation in the formal private sector.

## Labour Force

The unemployment rate (among labour force participants) in Palestine reached 26.9% in Q2 2016, an increase from 26.6% in Q1 2016 and from 24.8% in Q2 2015, according to the Palestinian Central Bureau of Statistics (PCBS).<sup>2</sup> Unemployment remained a significantly larger problem in Gaza, where the unemployment rate was 41.7%, compared to 18.3% in the West Bank.

PCBS labour force data indicates that unemployment amongst Palestinian youth remained very high in Q2 2016. The highest unemployment rate was observed among those aged between 20 and 24 years of age at 42.6% and reaching 68.4% among women in the same age bracket. The problem is particularly acute in Gaza, where more than half of those aged between 15 and 29 were unemployed. With regards to education, those with 13+ years of schooling suffered from the highest unemployment rate in Palestine at 32%, reaching 50.9% for women. Unemployment has recently become increasingly high among the more educated Palestinians as it is harder for them to find suitable job positions in a depressed market environment.

**Figure 2: Unemployment Rate in Palestine by Gender and Years of Schooling, Q2 2016 (%)**



Source: PCBS

2 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_LFSQ22016E.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ22016E.pdf)

The number of people employed in the local market in Palestine increased by 2,500 between Q1 and Q2 2016, consisting of an increase of 7,000 people in the West Bank and a decrease of 4,500 in Gaza. During the same period, the number of Palestinians working in Israel and Israeli settlements remained broadly unchanged at 114,200 persons, resulting in 9.8% of all employed Palestinians working in Israel and another 2% working in Israeli settlements. At present, all Palestinian workers in Israel and Israeli settlements are from the West Bank as those living in Gaza are prohibited from working there.

In the West Bank and Gaza the service sector was the largest employer, providing 35.2% of all working positions, followed by commerce, restaurants and hotels (21.7%) and construction (15.2%). The importance of the service sector is even more pronounced in Gaza, where this sector accounted for 55.6% of all those employed. This was followed by commerce, restaurants and hotels (22.5%) and transportation, storage and communication (6.6%). In the West Bank, 26.8% of workers were employed in the service sector. The service sector is particularly important for Palestinian women employees, providing 65.1% of their employment in Q2 2016 and reaching 85.4% in Gaza.

The lack of implementation of the Minimum Wage Law remained a major problem in Palestine with 38.9% of all wage employees in the private sector receiving less than the monthly minimum wage set at 1,450 NIS. In the West Bank, 19.6% of private sector wage employees worked for less than this amount, with a total of 42,500 individuals receiving an average monthly wage of 1,104 NIS. The problem is much more severe in Gaza, where 78% of private sector wage employees were paid below the minimum wage and 83,900 persons received an average wage of 734 NIS.

## Job Creation in Gaza

The Islamic Development Bank (IDB) and the United Nations Development Programme (UNDP), in association with the Palestinian Ministry of Labour, signed an agreement on 28 July to provide \$5m to help stimulate Gaza's stagnant economy and labour market.<sup>3</sup> The agreement aims to reduce Gaza's unemployment rate and targets projects focused on job creation in the public and private sectors which could create up to 2,500 jobs.

## The Housing Sector in East Jerusalem

The housing sector requires \$3bn of investment between 2015 and 2020 in order to build and rehabilitate 30,000 Palestinian housing units in East Jerusalem, according to a working paper presented by the Palestinian Housing Council (PHC) at a workshop entitled "Housing in Jerusalem: Realities and Challenges" on the 1st of August 2016.<sup>4</sup> Delegates at the workshop included Mr. Ahmed Al Ruweidi, representative

3 [maannews.net/Content.aspx?id=859285](http://maannews.net/Content.aspx?id=859285)

4 [www.alhaya.ps/arch\\_page.php?nid=286171](http://www.alhaya.ps/arch_page.php?nid=286171)

of the Organisation of Islamic Cooperation (OIC), Mr. Hisham Al Omari, Chairman of the PHC, Mr. Omar Khuffash, General Director of PHC in the northern governorates and, Mr. Izz-Eldin Abu Taha, President of the Union of Housing Cooperatives-Palestine (PUHC).

The Technical Director of the PHC in the northern districts, Mr. Zuheir Ali, highlighted in the paper progress attained by the PHC in managing and facilitating housing projects in Jerusalem for 13,000 Palestinians, valued at \$83.5m. The workshop focused on the need to facilitate access to credit and housing financing for Palestinians in East Jerusalem. Panelists suggested that part of the solution could entail lowering collateral requirements in East Jerusalem.

## Pending Social Security Law Amendments

Deputy Minister of Labour, Mr. Nasser Qatami, met with representatives of the National Campaign for Social Security in the Ministry's headquarters in Ramallah on 26 July 2016, to continue the dialogue on the proposed amendments to the Social Security Law.<sup>5</sup> Mr. Qatami announced that the Ministerial Committee had received proposed amendments from a wide range of experts and non-governmental organisations. All proposed amendments would be discussed and implemented only if deemed beneficial to the overall goal of the Law of providing a complete social protection net. Minister of Labour Mr. Ma'moun Abu Shahla confirmed that the Social Security Law will reaffirm workers' collectively bargained rights, including minimum wage and end of service severance.<sup>6</sup> He pointed to the requirements of the Law that presuppose compliance with all previous laws as a prelude to enforcement.

## IMF Mission to the West Bank and Gaza

In July, an IMF mission visited East Jerusalem and Ramallah to assess recent economic developments in the West Bank and Gaza and the financial situation of the Palestinian National Authority (PNA).<sup>7</sup> The mission met Prime Minister Dr. Rami Hamdallah, Minister of Finance Mr. Shukri Bishara, the Palestine Monetary Authority (PMA) Governor Mr. Azzam Shawwa and other Palestinian officials.

According to the IMF mission, under current security conditions, growth should reach 3.3% in 2016, slightly down from 3.5% in 2015. It will average 3.5% in the medium term, which is insufficient to generate the additional jobs required in the economy or to raise significantly per capita income. The mission concluded that despite some favourable developments this year, the Palestinian economy continues to face "some considerable headwinds". The boost in economic activity in Q1 (21% growth in Gaza due to donor-funded reconstruction and 4.2% in the West Bank, reflecting resilient private consumption), was accompanied by too few

employment opportunities and a high unemployment rate (27% at the end of March).

The IMF confirmed that fiscal pressures had eased during the first half of 2016 as revenues increased due to domestic revenue collection efforts and ongoing dialogue between the PNA and the Government of Israel to boost clearance revenue transfers. Consequently, the fiscal balance improved despite unbudgeted wage increases and the unpredictable cost of domestic health referrals. Improved revenue collection efforts meant that although donor aid continues to decline, the PNA minimised borrowing from banks and continued repaying arrears to the private sector.

## Business Start-up Incubator Support Program

On 25 July, the EU launched the €3.5m Business Start-up Incubator Support (BSIS) Program to be implemented by the Belgian Development Agency (BTC). The program will support start-up incubators by providing entrepreneurs with shared office space and resources, business advice, training and coaching in Ramallah, Nablus, Bethlehem, Hebron, East Jerusalem and Gaza. The program aims to help entrepreneurs translate their ideas into new businesses and to make those businesses financially sustainable by enhancing their skills.

The BSIS Program will offer institutional capacity building for participating incubators. At least 30 Small Business Advisors will receive training to prepare them for international accreditation. Also, at least 20 mentors will be trained to provide business coaching to start-up incubatees. At the end of the programme, 120 start-up businesses are expected to be operating and fully supported in the local market.

During the launch event, Mr. Ricardo Rossi, Head of Economic Development, Private Sector, Trade & East Jerusalem Programme at the Office of the EU Representative said, "Supporting the creation of new companies is essential to promote private sector led sustainable development and employment. This is one of the main priorities of the EU support to the Palestinians."

## Trade

In May, Palestinian exports increased by 4.4% from the previous month and decreased by 1.8% compared to May 2015.<sup>8</sup> Meanwhile, imports increased by 21.5% and 19.7% compared to April 2016 and May 2015, respectively. Exports amounted to \$83.5m, while imports reached \$492.1m, which led to a negative trade balance of \$409m. The trade deficit increased by 25.7% in comparison with the previous month and by 25.3% in comparison with the corresponding month of 2015.

5 [www.alhaya.ps/arch\\_page.php?nid=285881](http://www.alhaya.ps/arch_page.php?nid=285881)

6 [www.al-ayyam.ps/ar\\_page.php?id=113a602dy289038381Y113a602d](http://www.al-ayyam.ps/ar_page.php?id=113a602dy289038381Y113a602d)

7 <http://bit.ly/2bm7ljU>

8 <http://bit.ly/2bzcSI8>

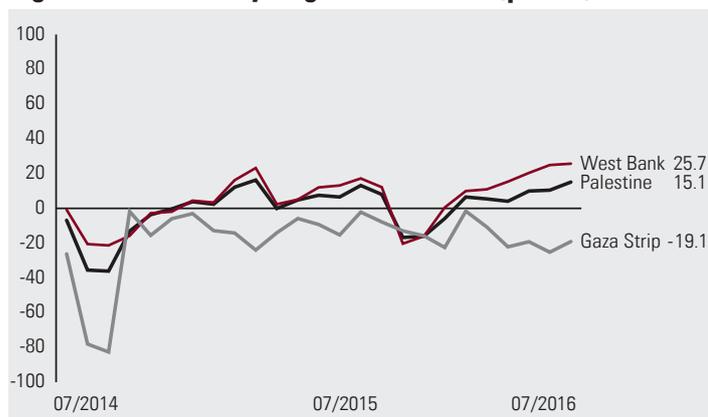
## Palestine Monetary Authority Business Cycle Index

In July, the Palestine Monetary Authority Business Cycle Index (PMABCI) for Palestine increased to 15.1 points, from 10.5 points in June 2016 and 7.5 points in July 2015.<sup>9</sup> The improvement reflected high sales (and consequent decline in inventory) during the month of Ramadan and the Eid Al-Fitr holiday. The index measures the state and evolution of economic activity by tracking the performance of the industrial sector with a focus on production and employment levels.

In the West Bank, the index increased to 25.7 points, reaching a new all-time peak (since the PMA started measuring the BCI in late 2012) after reaching an earlier peak in June at 24.9 points. This minor increase resulted from improvements in the indices for the food (from 6.4 points to 8.5 points), textiles (from 6.2 points to 7.8 points) and engineering (from 3.8 points to 4.4 points) sub-sectors.

The Gaza index, chronically in the negative range, however improved from -25.2 points in June to -19.1 points in July, following an increase in sales. This increase was the result of a sizeable rise in the food (-9.3 points to 2.1 points) and textiles (-6.8 points to -2.3 points) sub-sectors.

**Figure 3: PMABCI by Region, 2015-2016 (points)**



Source: PMA

<sup>9</sup> <http://bit.ly/2bm85dW>

## PMA Awarded for Special Achievement in GIS

At its annual User Conference on 4 July 2016, Esri, an international supplier of geographic information system (GIS) technology, presented the PMA with a Special Achievement in GIS Award.<sup>10</sup> The PMA was selected from over 300,000 eligible candidates for its innovative application of technology, data collection, geospatial information visualization and thought leadership in GIS in the field of central banking. Mr. Jack Dangermond, Esri Founder and President, said: "A Special Achievement in GIS Award recognizes best practices for organizations implementing technology to change the world. Highlighting good work benefits the entire GIS community and that's very valuable."

For the PMA, the implementation of GIS helped to streamline the process required to advise private banks on how to provide services to neglected cities and villages, contributing to the PMA's financial inclusion strategy. GIS has also enabled the monitoring of cash at bank branches, allowing for a more efficient redistribution of excess cash to headquarters and other financial institutions.

## Monthly Trading

In July, the Al-Quds index increased by 1.52%, reaching 511.45 points on 31 July.<sup>11</sup> The lowest and highest levels occurred on 3 July (502.70 points) and on 18 July (515.49 points).

A total of 14.5m shares, worth \$27.1m were traded in July. These figures represent a decline of 56% in the volume and 46.5% in the value of traded shares since June. They also represent an increase of 70.4% in the number and 1.13% in the value of traded shares compared to July 2015.

<sup>10</sup> <http://bit.ly/2bN14CP>

<sup>11</sup> <http://bit.ly/2bflKnh>

## 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](mailto:feedback@portlandtrust.org)

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