

PALESTINIAN ECONOMIC BULLETIN

Bulletin 129
June 2017

Main reports

The Palestine Monetary Authority Business Cycle Index (PMABCI) improved to -0.4 points in May 2017, from -7.9 points in the previous month

According to the Palestinian Central Bureau of Statistics (PCBS), the Palestinian trade deficit in goods reached \$1,017.7m in Q1 2017, a decline of 5.9% from Q4 2016

The Palestinian Prime Minister, Dr. Rami Hamdallah, met the Israeli Minister of Finance, Mr. Moshe Kahlon, on 31 May to discuss strengthening economic cooperation as well as lifting certain regulatory constraints in the West Bank and Gaza

The Palestinian Minister of Education and Higher Education (MoEHE), Dr. Sabri Saidam, announced the launch of a \$100m education fund on the 21 May 2017

The International Labour Organisation Report

In May 2017, the International Labour Organisation (ILO) published the "Director-General's annual report on the situation of workers of the occupied Arab territories". The report aims to make as full an assessment as possible of the situation of workers in the West Bank (including East Jerusalem), Gaza and the Golan. The ILO findings are based on in-depth discussions and a number of field visits to Palestine and Israel in March 2017.¹

According to the report, insufficient employment generation in the Palestinian labour market persists as a long-standing problem. In 2016, the Palestinian labour force grew by 3.2% to 1.34m, while the labour force participation rate remained unchanged at 45.8%. The youth population (15-24 years of age) accounted for 35% of the total working-age population, however, youth comprise only 25% of the total labour force. Among the youth population, more than 330,000 (32.3%) were not in employment, education or training in 2016. The ILO highlights that the high proportion of idle youth constitutes a threat to the future employability and productivity of the Palestinian workforce due to the risk of skills erosion.²

The report indicates that the labour market is not providing enough employment opportunities across the educational and skills spectrum. This, in turn, is disproportionately affecting women, and particularly the most educated. While 68% of females in the labour force have completed tertiary education, around 51% remain unemployed. In contrast, among men, it is the least educated who face the highest unemployment rates.

Table 1: Unemployment Rate Among Individuals Aged 15 Years and Above in Palestine by Years of Schooling, 2016

Years of Schooling	Unemployment rate total (%)	Unemployment rate among females (%)	Unemployment rate among males (%)
0 (No education)	24.7	12.7	31.5
1-6 (elementary education)	26.7	16.5	27.8
7-9 (preparatory education)	22.9	29.0	22.4
10-12 (secondary education)	24.1	35.5	22.8
13+ (tertiary education)	31.5	50.6	19.1

Source: PCBS

Palestinian labour productivity, a key determinant of employment quality and overall economic development, increased by 2.2% in 2016. This growth comes after two consecutive years of negative productivity growth at -3.2% in 2015 and -5.0% in 2014. For the past decade, average productivity growth has been low at 0.6%, compared to international standards.

The report highlights the level and growth rate of workers' wages as the most direct measure of employment quality. In 2016, the average annual wage growth was 5.1%, compared to 1.9% in 2015. However, the positive change was

1 www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_554441.pdf

2 www.urban.org/sites/default/files/publication/23921/412887-Consequences-of-Long-Term-Unemployment.PDF

driven mostly by wage growth for Palestinian workers in Israel and the settlements (9.6%) with lower wage growth reported in the West Bank (4.2%). The average daily wage reached 109 NIS, boosted by significantly higher average wages in Israel and the settlements of 218 NIS. The latter figure is 3.5 times the average daily wage in Gaza and 2.2 times the average daily wage in the West Bank. In Gaza, average daily wages have fallen by 0.7%.

Currently, around 120,000 Palestinians (from the West Bank) work in Israel and the settlements – the highest number for the last 15 years. Despite the complicated daily commute through checkpoints and the high broker fees which Palestinians are often forced to pay to intermediaries in order to secure work permits, employment in Israel and the settlements offers an attractive opportunity for many Palestinians. According to the ILO, permit regulations have recently been relaxed, and reforms have been introduced to reduce workers' dependence on employers and brokers. The impact of these measures on the labour market is yet to be seen.

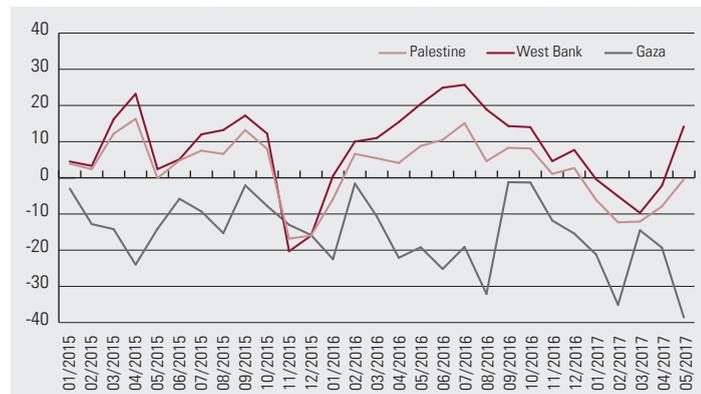
Business Cycle Indicator

In May 2017, the Palestine Monetary Authority Business Cycle Index (PMABCI) improved to -0.4 points from -7.9 points in the previous month, but declined from 8.8 points in May 2016.³

In the West Bank, the index improved to 14.2 points in May 2017 from -2.2 points in April 2017. The improvement was driven by increases in the indices of all sub-sectoral activities, most significantly in the furniture index, followed by the textile and engineering indices. Industrial business owners indicated that this significant surge was supported by higher production and sales in May.

In Gaza, the index dropped to -38.6 points in May 2017, its lowest level since the 2014 war in Gaza, from an already low -19.3 points in April 2017. The fall was attributed to decreases across sectoral indices, most significantly in the food, construction and engineering indices. Industrial business owners in Gaza indicated lower sales and accumulated inventories during May, and an expectation of even worse levels in the near future. The Gaza index has been negative since August 2013 (except for October 2013) because of the particularly poor economic situation. The electricity crisis in Gaza is often cited as the main reason for the persistent decline of the Gaza index.

Figure 1: Monthly PMABCI, January 2015 - May 2017 (points)



Source: PMA

The PMABCI is a monthly index measuring the state of industrial activities and trends in Palestine based on a survey distributed to owners of around 200 private sector companies from different industrial sub-sectors across the West Bank and Gaza.

External Trade in Goods

According to the Palestinian Central Bureau of Statistics (PCBS), the Palestinian trade deficit in goods reached \$1,017.7m in Q1 2017, a decline of 5.9% from Q4 2016. The shrinking deficit was mainly driven by a 5.3% drop in the total value of imports between Q4 2016 and Q1 2017.⁴ However, when compared with Q1 2016, the trade deficit in goods increased by 7.8% in Q1 2017, following a general trend that has been ongoing since Q3 2011. The increased deficit was mainly driven by a 9.6% rise in the total value of imports between Q1 2016 and Q1 2017.⁵

Figure 2: Quarterly Exports, Imports and Trade Deficit in Palestine (\$ million), Q1 2011-Q1 2017



Source: PCBS

The changes in the trade balance in Palestine are mostly due to fluctuations in the total value of imports, with exports remaining at a persistently low level. In Q1 2017, the total value of imported goods was \$1,263m, while the total value of exports was only \$245.3m. According to a report recently published by the United Nations Conference on Trade and Development (UNCTAD), this gap between the

3 <http://bit.ly/2tndsVM>

4 www.pcbs.gov.ps/Portals/_Rainbow/Documents/E-Ftrade%202017.htm
5 www.pcbs.gov.ps/Portals/_Rainbow/Documents/E-Ftrade%202016.htm

values of imports and exports is a result of two factors; firstly, the growth in income of workers in the services sector and those working in Israel and the settlements, and secondly, stagnating growth in the productive industries such as agriculture and manufacturing.⁶

Palestinian and Israeli Officials Discuss Economic Cooperation

On 31 May, the Palestinian Prime Minister, Dr. Rami Hamdallah, met the Israeli Minister of Finance, Mr. Moshe Kahlon in Ramallah to discuss strengthening economic cooperation as well as lifting certain regulatory constraints in the West Bank and Gaza.^{7,8}

One of the main reported outcomes of the meeting was an agreement to revive the Joint Economic Committee (JEC).⁹ Established under the Paris Protocol of 1994, the JEC was primarily designed to institutionalise economic cooperation between the Palestinian National Authority (PNA) and the Government of Israel (Gol), enabling the parties to coordinate on a large variety of issues ranging from import policy and tax clearance procedures to bilateral trade regulations and dispute resolution¹⁰. However, successive political tensions led to its progressive demise. Since the beginning of the Second Intifada in 2000, no meeting of the JEC has been held.

The parties also agreed to pursue a number of other important initiatives. First, the Allenby/King Hussein Bridge between Jordan and the West Bank will gradually increase working hours to 24 hours per day in the coming months. Second, an industrial zone in Tarqumiya in the Hebron governorate will be established, including a customs clearance area and oil and gas reservoirs. Finally, Palestinian construction will be permitted in portions of Area C, which has been under full Israeli military and administrative control since the Oslo II Accord was signed in 1995, and constitutes more than 60% of the West Bank. The construction permits will be issued mainly in locations adjacent to Area A, which is under Palestinian military and administrative control, and Area B, which is under Israeli security control but Palestinian administrative control.

Palestinian E-Currency

During the annual meeting and business forum of the European Bank for Reconstruction and Development (EBRD) held between 9 and 11 May, the Governor of the PMA, Mr. Azzam Shawwa, announced that the Palestinian Government is considering the introduction of a Palestinian

e-currency in the next five years.¹¹ The e-currency would aim to alleviate the monetary challenges which arise in the absence of a Palestinian national currency.

The PMA, which aims to eventually become Palestine's Central Bank, is currently unable to independently exercise control over a national money supply, mainly due to the restrictive conditions of the 1994 Paris Protocol. As a result, the PMA has no money-printing facilities of its own. Furthermore, the appreciation of the shekel that has followed Israel's economic growth over the past years has meant that Israeli monetary policy needs cannot accommodate the needs of a stagnating Palestinian economy. Israel's GDP per capita reached \$35,729.4 in 2015, compared to a Palestinian GDP per capita of only \$2,866.8 in the same year.¹² It is assumed that the new digital currency could provide a monetary instrument to the Palestinian economy that would allow for a more accommodating macroeconomic environment in Palestine in the event that the Bank of Israel decides to tighten its own interest rates.

According to proponents of the idea, a digital currency could have certain technological similarities to cryptocurrencies like bitcoin, which is a global, decentralised, digital currency and payment system. Bitcoin is based on peer-to-peer blockchain technology and operates without interventions from a central authority or banks.^{13,14} It is not yet known how the PMA would oversee the supply and interest rates of such a new digital currency, given the uncertainties and fragilities inherent to the Palestinian economic situation.

New Business Registrations

On 21 May 2017, the Palestinian Ministry of National Economy (MoNE) announced that 165 new firms with a total capital value of \$20.7m were registered in the West Bank in April 2017.¹⁵ The number of business registrations in the West Bank dropped by 8.3% compared to the previous month, but increased by 18.7% compared to April 2016. Total capital value decreased by 54.1% from the previous month but increased by 13.1% compared to April 2016.

In addition to company registrations, the MoNE also registered 14 new factories in the West Bank, with a total capital value of \$25m, and issued 622 Certificates of Origin¹⁶ worth \$9.5m. The MoNE also issued 1,804 import licenses worth \$103.4m, and licensed 112 new merchants.

6 unctad.org/en/PublicationsLibrary/gdsapp2017d1_en.pdf

7 www.maannews.com/Content.aspx?id=777442

8 www.haaretz.com/israel-news/.premium-1.793069

9 www.palestineconomy.ps/article/10016/

10 www.quartetrep.org/page.php?id=5d9507y6132999Y5d9507

11 www.reuters.com/article/us-palestinians-currency-idUSKBN18820A

12 data.worldbank.org/indicator/NY.GDP.PCAP.CD

13 www.bitcoin.org/en/

14 www.bitcoin.com/you-need-to-know

15 www.maannews.net/Content.aspx?id=908446

16 A Certificate of Origin is a document that confirms that goods in each export shipment are wholly obtained, produced, manufactured or processed in a certain country.

Table 2: New Registrations and Year-on-Year and Month-on-Month Changes, West Bank, April 2017

Item	April 2017		March 2017		April 2016	
	Business registrations (#)	Capital Value (USD m)	Business registrations (#)	Capital Value (USD m)	Business registrations (#)	Capital Value (USD m)
Companies	165	20.7	180	17.44	139	18.3
Factories	14	25	15	32.13	18	6.1
Import licenses	1804	103.4	2230	80.03	1396	85.5
Certificates of origin	622	9.5	582	8.28	542	7.5
Merchants	112	N/A	154	N/A	133	N/A

Source: Ministry of National Economy

Opening of Organic Fertiliser Production Stations in the West Bank

In May 2017, two new organic fertiliser production stations (OFPS) opened in Jericho and in the village of Beitelu, near Ramallah.¹⁷ The privately owned and operated stations are expected to produce 2,700 tonnes of compost each year. With the establishment of the new stations, the number of OFPS operating in the West Bank and Gaza has risen to 14.

While most existing OFPS currently operate with farm waste only, the new Beitelu station, which receives 3-4 tonnes of waste per week from the Ramallah Municipality, will also have the capacity to recycle organic waste collected from homes and restaurants. As part of the Municipality's ongoing environmental awareness campaign, an agreement was recently signed between the Municipality and a number of restaurants and hotels in the city to separate waste in return for special tax incentives. Additionally, the Municipality will be providing special containers for separating waste to participating businesses.

Local production could lower the price of compost, enabling more Palestinian farmers to use organic fertilisers. A 10 kg bag of Palestinian compost is currently sold for 10 NIS, compared to 15 NIS for its Israeli alternatives.

Palestinian Education Fund

On the 21 May 2017, the Palestinian Minister of Education and Higher Education (MoEHE), Dr. Sabri Saidam, announced the launch of a \$100m education fund.¹⁸ The fund aims to advance education in Palestine and to introduce modern methods to the educational system,

17 www.palestineconomy.ps/article/9972/

18 www.al-ayyam.ps/pdfs/2017/05/21/p05.pdf

with a special focus on critical thinking, problem solving and learner-centric education. The fund will work with national and international organisations to provide training to teachers and introduce best-practice quality standards comparable to those adopted across the region and the rest of the world.

The establishment of the fund addresses a pressing need for higher quality education among Palestinian youth. The Palestinian education system is facing many challenges that are inhibiting its ability to scale up the highly-skilled workforce necessary for increased investment in high value-added industries such as information technology and digital entrepreneurship. Commonly cited challenges are outdated teaching and assessment methods, lack of adequately trained teachers, insufficient school infrastructure, difficulty in access to schooling in Area C, and an insufficient number of schools in Gaza.

Dr. Saidam stated that Mr. Samer Khoury, President Engineering & Construction, Consolidated Contractors Company¹⁹ (CCC), and Mr. Khalid Abdullah Janahi, Executive Director of Ithmaar Holding, have already committed \$10m to the fund.²⁰ The remaining \$90m will be provided by donors from various Arab countries. The fund will be managed by an independent board of directors and monitored by the MoEHE.

May Trading

During May 2017, the Al-Quds index improved by 2.0%, reaching 528 points on the last day of trading.²¹ The index experienced a positive trend throughout the first week of the month, peaking at 530.7 points on 8 May. The index then gradually decreased throughout the rest of the month until it bounced back in the last week of the month.

A total of 15.9m shares worth \$25.7m were traded during May 2017, marking a 7.7% increase in the number and a 10.7% decrease in the value of traded shares compared to April 2017. The investment sector witnessed the highest increase in value (5.37%), while banking and financial services were the only sector to decrease in value (1.0%).

19 One of the largest international construction companies operating throughout the Middle East, Africa, CIS, Europe and America

20 Bahrain-based investment bank with a global portfolio

21 www.pex.ps/PSEWebSite/publications/PEXIssue86May2017.pdf

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

© 2017 The Portland Trust

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR