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Main reports

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The Palestine Monetary Authority and the European Bank for Reconstruction and Development held their first joint workshop in Ramallah on 24 July

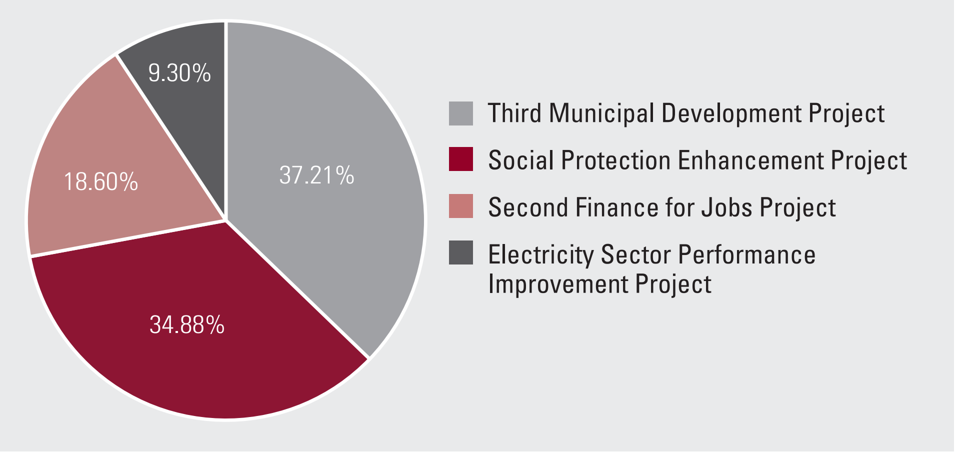
According to data released in July 2017 by the Palestinian Central Bureau of Statistics, the total number of new building licenses issued in Palestine declined by 24% in Q1 2017 compared to the previous quarter

According to the latest data issued by the PCBS, in Q1 2017, the number of hotel guests marked a decrease of 12.7% from the previous quarter, while the number of guest nights decreased by 8.2% during the same period

World Bank Approves $43m in Grants to Palestine

On 27 July, the World Bank approved $43m in grants to implement four new projects in Palestine.[1] The projects will support private sector initiatives for job creation, recovery and reconstruction in Gaza, and service delivery and social protection of the most vulnerable.

Figure 1: The Breakdown of Grants Approved by the World Bank on 27 July 2017



Source: World Bank

The largest portion of the grant funding was earmarked for the Third Municipal Development Project which will be funded by $16m from the Bank and $20m through donor co-financing from the Partnership for Infrastructure Development Trust Fund (PID MDTF).[2] The project will follow two previous ones implemented by the World Bank to improve municipal management practices in the West Bank and Gaza.[3] These projects allocated grant funding to municipalities for capital investments and service provision. In addition to supporting municipal innovation and efficiency, these projects also provided capacity building support for municipalities and the Municipal Development and Lending Fund (MDLF). A performance assessment issued by the Bank shows a satisfactory rating for these projects and their ability to meet their objective. The assessment concludes that the project design was highly relevant to the objectives, succeeding in financing municipal infrastructure services, while creating jobs and undertaking initiatives to foster local government and nongovernmental organization (NGO) collaboration.[4] The new project will build on the success of previous projects and will scale up operations to improve municipal performance and service delivery. It will also explore joint investments with the private sector in the delivery of municipal services to ensure their sustainability.

1 http://bit.ly/2vJyCtP
2 administered by the World Bank (PID MDTF)
3 www.projects.worldbank.org/P111741/municipal-development-program?lang=en
4 http://documents.worldbank.org/curated/en/103331468188676148/pdf/97405-PPAR-P111741-Box391504B-OUO-9.pdf

The World Bank also allocated $15m for the Social Protection Enhancement Project. Building on previous cash transfer programs and adding complementary services to address social vulnerabilities, the project will identify opportunities for vulnerable households to move out of poverty. The project will also focus on womens' empowerment, including counselling services for victims of violence.

The Bank will also continue to support private-sector driven job creation initiatives by allocating $8m to the Second Finance for Jobs Project, which will be co-financed by a $1.5m grant from the State and Peace building Fund.[5] The project will build on the first Finance for Jobs Project, which aimed to test the effectiveness of selected financial interventions such as the entrepreneurship ecosystem matching grant (EE-MG), a cost-sharing facility targeting early stage investment funds seeking to build a portfolio of investments in start-up and early stage enterprises.[6] The new project will continue to support innovative financing approaches to jump-start job creation. These will include support for early-stage financing of start-ups, investment for employment in medium and large companies, and investment in the skills needed by the private sector through a Development Impact Bond (DIB). DIBs provide upfront funding for development programs by private investors, who are remunerated by donors and earn a return if evidence shows that programs achieve pre-agreed outcomes.[7 8 9]

Finally, the Bank allocated $4m for the Electricity Sector Performance Improvement Project, which is co-financed by $7m from the PID MDTF. The project aims to strengthen the capacity of key energy sector institutions, improve the efficiency and service quality of the electricity distribution system, and pilot a new business model for solar energy in Gaza. The project will contribute to strengthening the financial sustainability of the sector and the creation of an investment environment conducive for private sector investment in power generation.

The EBRD and the PMA Hold Joint Workshop on SME Finance

On 24 July 2017, the Palestine Monetary Authority (PMA) and the European Bank for Reconstruction and Development (EBRD) held their first joint workshop in Ramallah.[10] The workshop, which is EBRD's first activity since the establishment of its program in Palestine, focused on the banking products needed to support the development of Small and Medium-sized Enterprises (SMEs) and achieve financial inclusion. The workshop included a panel discussion which highlighted EBRD's financial products that focus on SMEs, including credit lines, a trade finance program, and business advisory services.

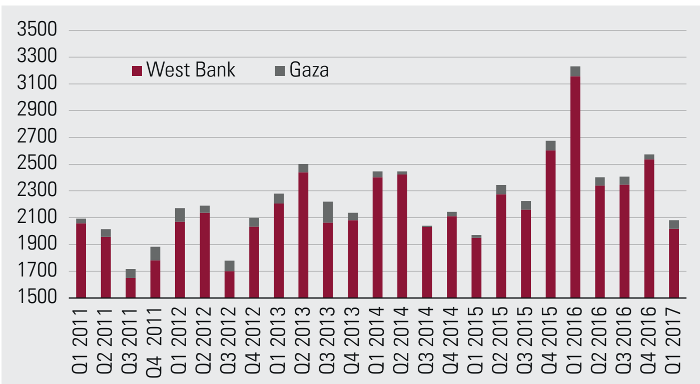
During the event, the Governor of the PMA, Mr. Azzam Shawwa, stated that, "The Bank's investment in the Palestinian economy will be reflected positively in an increase in financing for SMEs and will encourage the private sector." Mr. Shawwa added that the PMA is working to help SMEs overcome financing obstacles by granting incentives to banks and other lenders to increase the scale of lending. He also added that the growth of the SME sector will contribute to achieving the target financial services penetration rate[11] of 50% by 2025. Micro, small and medium sized enterprises (MSMEs) play a crucial role in the Palestinian economy, representing about 95% of economic output. Although, the credit portfolio in this sector has increased by 160% since 2013, reaching $1.3bn in Q1 2017, the financial services penetration rate in the sector is only around 36%.

Palestine is in the EBRD's Southern and Eastern Mediterranean (SEMED) region, which also includes Egypt, Jordan, Morocco and Tunisia. EBRD has been investing and engaging in policy dialogue in SEMED since 2012, providing €5.2 billion in loans and equity.

Building Licenses

Data released in July 2017 by the Palestinian Central Bureau of Statistics (PCBS), shows that a total of 1,340 licenses were issued for new buildings in Palestine in Q1 2017, a decline of 24% from the previous quarter and 28.5% from Q1 2016.[12] Of all the licenses for new property issued in Q1 2017, 1,287 were issued in the West Bank, and only 53 were issued in Gaza. Historical data (Figure 1) shows that the number of building licenses issued in Q1 2017 is the lowest since Q1 2015. The decrease in the supply of licenses for new buildings reflects a decline in investment in the construction sector, caused by the increased political uncertainty and the prolonged delay in the Gaza reconstruction efforts.[13]

Figure 2: Building Licenses by Region, Q1 2011-Q1 2017



Source: PCBS

5 www.worldbank.org/en/programs/state-and-peace-building-fund
6 www.projects.worldbank.org/P151089?lang=en
7 www.cgdev.org/initiative/development-impact-bonds-0
8 www.f4j.ps/dib
9 http://bit.ly/2xxcAwC
10 http://bit.ly/2wJ8I3H

11 The financial services penetration rate represents the percentage of the adult population that has access to any financial resources such as current bank account, loans, financial leasing, etc.,
12 www.pcbs.gov.ps/Downloads/book2271.pdf
13 http://bit.ly/2x4no7Q

In Q1 2017, most licenses for new buildings were issued in the residential sector (91.4%). According to the data, the licensed new residential buildings consist of 3,625 new residential dwellings, 3,016 in the West Bank and 609 in Gaza.

The supply of new residential dwellings in Palestine is insufficient to satisfy demand. According to a study published in 2013 by the Palestine Economic Policy Research Institute (MAS), the expected average annual demand between 2013 and 2025 will be around 48,000 housing units (dwellings), 29,300 in the West Bank and 18,700 in Gaza.[14] According to PCBS data, in 2016, only 17,511 new dwellings were licensed, covering only 38.5% of expected average annual demand.

Hotel Activities

According to the latest data issued by the PCBS, in Q1 2017, a total of 122,163 guests spent 362,600 guest nights in hotels operating in the West Bank (including East Jerusalem).[15] The number of guests marked a decrease of 12.7% from the previous quarter and 52.3% increase from Q1 2016, while the number of guest nights decreased by 8.2% and increased by 45.0%, respectively. Most guest nights were spent in the South of the West Bank (Bethlehem and Hebron, 56.0%), followed by East Jerusalem (24.5%) and the Middle of the West Bank (Ramallah and Jericho, 14.3%).

In Q1 2017, there were 125 hotels in the West Bank (including East Jerusalem), a 10.6% increase from 113 hotels in Q1 2016. Hotels employed 2,956 employees in Q1 2017, of whom 2,197 were male and 659 were female. Of all employees, 622 worked in hotel administration, while 2,234 worked in hotel services.

Table 1: Hotel Activities Main Indicators in the West Bank and East Jerusalem, Q1 2016, Q4 2016 and Q1 2017

	Q1 2016	Q4 2016	Q1 2017	Change Q1 2016-Q1 2017	Change Q4 2016-Q1 2017
Number of hotels	113	125	125	10.62%	0.00%
Number of rooms	6,766	7,104	7,312	8.07%	2.93%
Number of beds	14,903	15,534	16,102	8.05%	3.66%
Rooms occupancy	16.5	23	20.8	26.06%	-9.57%
Bed occupancy	18.5	28	25.4	37.30%	-9.29%
Number of hotel workers	2,856	2,940	2,956	3.50%	0.54%
Number of guests	80,228	140,001	122,163	52.27%	-12.74%
Number of guest nights	250,131	395,417	362,597	44.96%	-8.30%

Source: PCBS

According to data recently published by the UN World Tourism Organization (UNWTO), Palestine topped the list of the world's fastest growing tourist destinations in 2017.[16] Palestine registered a 57.8% increase in the number of foreign tourists during the first six months of 2017 and is expected to receive 630,000 tourists by the end of this year. This reflects a vigorous recovery from the low levels of previous years, rather than a significant structural transformation of the tourism sector, as most Palestinian hotels are still operating well below full capacity.

Incentives Package to Support Investment in Renewable Energy Sector

On 20 July 2017, the Ministry of National Economy (MoNE) announced an incentives program to support investment in the renewable energy sector in Palestine.[17] The incentives package is in line with the Government plan to provide an investment environment to support foreign and local investment under the strategic framework of the National Policy Agenda of 2017-2022. In addition, the program aims to increase the share of renewable energy in Palestine to 9.7% of total energy consumption, or 130 MW of electricity, by 2020.

Ms. Abeer Odeh, Minister of National Economy, announced that the scope of incentives given to each power plant will depend on the size of the plant and the number of long term jobs created. It is hoped that the stimulus in investment will generate about 30-40 MW in less than two years, and create 5,800 direct jobs at 800 new and existing facilities.[18] Ms. Odeh added that the new incentives package includes three different types of incentives. The first targets projects producing 1 MW or more by introducing income tax exemptions for the first seven years of the project, followed by reduced income tax of 5% for five years and 10% for the next three years.[19] The return on investment in such projects is expected to be around 14%. The second type, which is offered to projects with less productive capacity, including those for self-use, introduces separate incentives under the Palestinian Investment Promotion Law. The third type, will offer special tax treatment for credit facility programs focused on renewable energy projects, whereby these programs will be treated similarly to those focused on SMEs (in terms of tax) in order to lower lending rates.[20]

Currently, Palestinians consume 1,350 MW of electricity, 850 MW in the West Bank and 500 MW in Gaza. Palestinians import 92% of their electricity needs from Israel and only 23 MW from Egypt and 20 MW from Jordan. Around 90 MW are locally produced. In December 2016, the Palestine Power Generation Company Plc (PPGC) announced the launch of the Jenin Electric Power Generation Station. The station is expected to start operating in 2020 with a productive capacity of 450 MW.[21]

14 www.mas.ps/files/server/20152104110543-1.pdf
15 www.pcbs.gov.ps/Downloads/book2270.pdf
16 www.haaretz.com/middle-east-news/palestinians/1.805829
17 www.alquds.co.uk/?p=757070
18 www.alhaya.ps/arch_page.php?nid=303415
19 www.alquds.com/articles/1500714227126694100/
20 www.alquds.com/articles/1500714227126694100/
21 www.ynetnews.com/articles/0,7340,L-4790597,00.html

IMF Visit to West Bank and Gaza

During July, an International Monetary Fund (IMF) team led by Ms. Karen Ongley, the IMF's Mission Chief for the West Bank and Gaza, visited East Jerusalem and Ramallah, to assess recent economic developments and the financial situation of the Palestinian National Authority (PNA). The IMF team met with Finance Minister Mr. Shukri Bishara, PMA Governor Mr. Azzam Shawwa, and other Palestinian officials.

At the end of the visit, Ms. Ongley summarised the findings of the mission. She identified the main difficulties facing the Palestinian economy to be rising political uncertainty, declining aid flows, and insufficient investment.[22] Productive investment and growth are hindered by restrictions on the movement of people, goods and services. Furthermore, the slower reconstruction efforts and spending cuts are compounding the already difficult economic and social situation in Gaza.

The IMF estimates a slower GDP growth in 2017, reducing to 3% compared to 4% in 2016, with 2.7% GDP growth in the West Bank and 4.5% in Gaza. The expected growth is insufficient to absorb the number of young people entering the workforce or to bring Gaza to its pre-2014 war economic situation. According to Ms. Ongley, "Any lasting and meaningful improvement in prospects for the Palestinian economy ultimately depends on commitment to the peace process and a political breakthrough". If accompanied by reduced restrictions and enhanced control over resources, such a breakthrough, would allow for rapid private sector-led growth.

Ms. Ongley praised the efforts by the Ministry of Finance and Planning, as the fiscal performance during the first five months of 2017 exceeded expectations. As a result of the strong revenue mobilisation and spending restraint, the IMF expects the recurrent deficit to reach 6.1% of GDP by the end of 2017, 1.7% lower than previously projected. However, this does not lessen the harsh financing constraints facing the Government as a result of the declining aid flows. Ms. Ongley added that support from the international community remains essential to facilitate fiscal consolidation without further weakening growth prospects. She also called on donors to reverse the significant reduction in budget support observed in recent years.

22 http://bit.ly/2vrFFMK

While the IMF continues to support the efforts by the PNA to boost domestic revenues through improved tax administration, Ms. Ongley advised against granting new tax exemptions and instead suggested considering new measures that could yield additional revenue and contribute to a more progressive tax regime. Ms. Ongley, stressed that efforts to reduce expenditure should focus on containing the overall wage bill, increasing the efficiency of public health spending, and enhancing cost recovery for electricity and water consumption.

Launch of a $25m Fund to Support Jerusalemites

On 21 July, the Palestinian President announced the establishment of a $25m fund aimed at supporting the Palestinian population of Jerusalem, through programs focusing on citizens, merchants and institutions.[23] The announcement came as a response to the latest political developments surrounding the Aqsa Mosque in East Jerusalem.

On 25 July, the Government announced the allocation of $15m from the newly established fund to number of programs focusing on the Old City.[24] These programs include housing projects, subsidies for merchants and other grants aimed at compensating for the disruption to daily life and business caused by recent events.

July Trading

During July 2017, Al-Quds index increased by 1.8%, reaching 554.2 points on the last day of trading.[25] The index peaked at 567.0 points in the second week of trading and then declined gradually for the rest of the month. A total of 48.4m shares were traded in July, with a total value of $71.6m, an increase of 86.4% from the previous month. The industrial sector witnessed the highest increase (9.4%), while the services sector was the only one to drop (-0.2%). Market capitalization reached $3.7bn in July, rising by 1.5% from the previous month and 13.2% from July 2016.

23 www.alhadath.ps/article/61708/result.php
24 www.qudspress.com/index.php?page=show&id=34306
25 www.pex.ps/PSEWebSite/publications/PEXIssue88July2017.pdf

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