

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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According to data recently released by the Palestinian Central Bureau of Statistics, the Palestinian trade deficit in goods reached \$1,034m in Q2 2017, an increase of 1.6% from Q1 2017

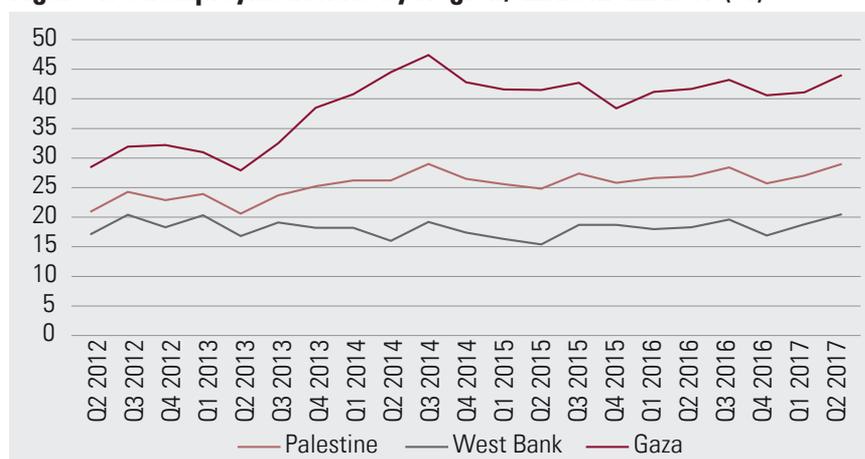
The Palestine Investment Fund (PIF) announced on 30 August 2017, the commencement of the construction of the Al-Nuaima Solar Power Station in the Jericho and Jordan Valley Governorate

AppMahal, a Palestinian mobile application developer, completed a \$4m Series B financing round led by Siraj Fund Management Company

Labour Market

According to the latest Labour Force Survey published by the Palestinian Central Bureau of Statistics (PCBS) in August 2017, the unemployment rate in Palestine reached 29% in Q2 2017, an increase from 27% in the previous quarter and from 26.9% in the corresponding quarter of 2016.¹ The unemployment rate in the West Bank reached 21% in Q2 2017, an increase from 18.8% in Q1 2017 and 18.3% in Q2 2016. In Gaza, the unemployment rate reached 44%, an increase from 41.1% in Q1 2017 and 41.7% in Q2 2016.

Figure 1: Unemployment Rate by Region, Q2 2012-Q2 2017 (%)



Source: PCBS

The total number of employed individuals decreased by 29,800 between Q1 2017 and Q2 2017. The decrease was mainly driven by a loss of 20,500 jobs in Gaza and 11,200 jobs in Israel and Israeli settlements during the same period.

The labour force participation rate for Palestine remained relatively unchanged in Q2 2017 (45.4%) when compared to Q1 2017 (45.8%) and Q2 2016 (45.7%). The major difference between the female participation rate (particularly low at 18.5%) and the male participation rate (71.6%) persisted. The wide gap in unemployment by gender also remained, as female unemployment reached 50%, compared to 23.7% for males. The situation was more pronounced in Gaza, where female unemployment amounted to 71.5%, compared to 36.2% for males. In the West Bank, the unemployment rate for females was 36.2%, compared to 16.8% for males.

Another persistent trend is youth unemployment, with 46.3% of those aged 20-24 years and 39.2% of those aged 25-29 years unemployed in Q2 2017. Among female youth, the unemployment rate reached 72.7% for those aged 20-24 years and 69.1% for those aged 25-29 years. The most educated Palestinian women (13+ years of schooling) also face a high unemployment rate at 57.4%, despite exhibiting a relatively high labour force participation rate (46.7%). This is a particularly worrisome trend as it could discourage women from pursuing higher education.

¹ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_7-8-2017-LF-en.pdf

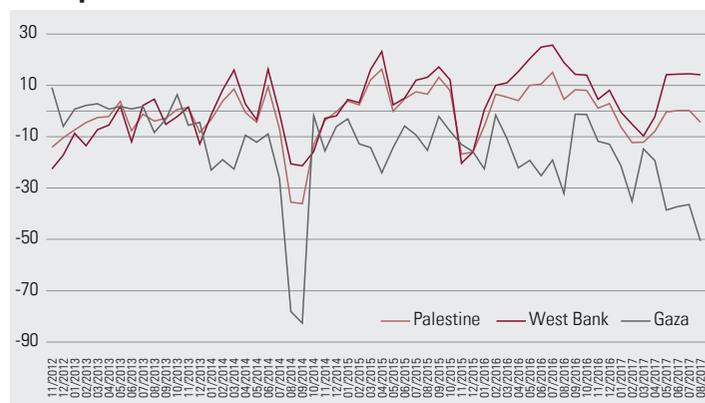
Business Cycle Index

In August 2017, the Palestine Monetary Authority Business Cycle Index (PMABCI) deteriorated to -4.3 points from 0.3 points in the previous month, and 4.6 points in August 2016.²

In the West Bank, the index dropped to 14.2 points in August 2017 from 14.5 points in the previous month. The decline was driven by a slight drop in the indices of all sub-sectoral activities, mainly in the food and furniture indices. Industrial business owners indicated that the higher production and sales in August were offset by a drop in future expectations of production and employment levels.

In Gaza, the index dropped to -50.6 points in August 2017, its lowest level since the 2014 war, from an already low but stable level in May (-36.4), June (-37.2) and July (-36.4) 2017. The fall was attributed to a significant drop in the furniture and construction indices. Industrial business owners in Gaza indicated lower sales and accumulated inventories during the month of August, driving future expectations to their lowest level in three years. 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 in the Gaza index.

Figure 2: PMABCI by Region, November 2012 – August 2017 (points)



Source: PMA

The PMABCI is a monthly index measuring the state of industrial activities and trends in Palestine based on surveys 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 PCBS, the Palestinian trade deficit in goods reached \$1,034m in Q2 2017, an increase of 1.6% from Q1 2017.^{3,4,5} The growth of the deficit was driven by a 2.8% rise in the total value of imports, partially offset by a 7.6% increase

2 www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=1145&language=en-US

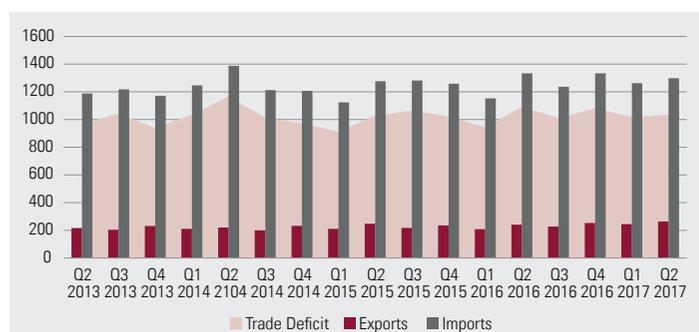
3 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_23-8-2017-ET-en.pdf

4 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_24-7-2017-ET-en.pdf

5 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_19-6-2017-ET-en.pdf

in the value of exports during the same period. When compared with Q2 2016, the trade deficit in goods decreased by 5.3% in Q2 2017, driven by a 2.6% drop in the total value of imports, and a 9.5% rise in the total value of exports.

Figure 3: Exports, Imports and Trade Deficit (\$ million), Q2 2013-Q2 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 Q2 2017, the total value of imported goods was \$1,298.4m, while the total value of exports was only \$264m. This gap between the values of imports and exports is the result of two factors: firstly, the growth in the income of workers in the services sector and for those working in Israel and the settlements (driving an increase in aggregate demand), and, secondly, stagnating growth in the productive industries such as agriculture and manufacturing (preventing sufficient increase in domestic output).⁶

General Government Finance 2016

On 28 August 2017, the PCBS and the Ministry of Finance and Planning (MoFP) published the results of the General Government Finance for Palestine statement for the year 2016.^{7,8} The statement, which presents the revenues collected and amounts spent by the Government in 2016, highlights the continuation of the Government's 2015 policy to strengthen revenues and to reduce expenditure. Compared to 2015, total revenue increased by around 14.6%, while current expenses increased by only 5.3%.

The current expenses of the General Government reached \$4,316m in 2016, an increase of 5.3% from 2015. The increase has been mainly driven by an 8.4% rise in employee compensation, which constituted 54.5% of the Government's current expenses in 2016. This indicates increasing pressure from public sector employees on the PNA, which in recent years has been focusing on stabilising the wage bill.

General government revenues amounted to \$4,713m in 2016, an increase of 14.6% from 2015. The increase has

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

7 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-8-2017-gov-en.pdf

8 Data excludes Gaza and those parts of Jerusalem which were annexed by Israel in 1967

been mainly driven by a 13.7% rise in the revenue received from taxation and a 52.1% rise in other revenues (such as fees collected for the resale of electricity and water, administrative fees, fines, property income and voluntary transfers), which constituted 67.8% and 15.1% of total revenue in 2016, respectively. The increase in revenues received from taxation is in line with the Government's policy to strengthen the tax base. This effectiveness of this policy has been recently praised by the International Monetary Fund (IMF) in its latest report to the Ad-hoc Liaison Committee (AHLC).⁹

Overall, the net operating balance (revenues minus expenses) recorded a surplus of \$397.2m, a significant increase from a low \$12m in 2015.

Government net lending and borrowing (net operating balance minus acquisitions of non-financial assets) demonstrated a surplus of \$112m, which is a significant improvement from a net borrowing of \$315.9m in 2015. Net acquisitions of financial assets during the year 2016 amounted to \$494m, of which 90% were domestic and the remainder foreign acquisitions.

Table 1: General Government Finance for Palestine¹⁰, 2016

	General Government	Central Government	Local Government
1. Total Revenues	4,713.0	4,293.9	419.1
Taxes	3,197.6	3144.0	53.6
Social Contributions	1.5	0.0	1.5
Grants and Aids	800.6	762.2	38.4
Other Revenues	713.3	387.7	325.6
2. Current Expenses	4,315.8	3,954.9	360.9
Compensation of Employees	2,352.0	2242.1	109.9
Use of Goods and Services	833.0	683.6	149.4
Consumption of Fixed Capital	25.9	0.0	25.9
Interest	79.5	79.3	0.2
Subsidies	18.7	17.9	0.8
Grants	33.2	32.0	1.2
Social Benefits	858.2	845.5	12.7
Other Expenses ¹¹	115.3	54.5	60.8
(N.O) Net Operating Balance	397.2	339.0	58.2
3. Transactions in Nonfinancial Assets (Net Acquisition of):	284.9	153.8	131.1
Fixed Assets	237.7	117.9	119.8
Change in Inventories	27.5	23.2	4.3
Valuables	0.0	0.0	0.0
Non-Produced Assets	19.7	12.7	7.0
Gross Expenses (2+3)	4,600.7	4,108.7	492.0
(N.L) Net lending (+) / Borrowing (-)¹²	112.3	185.2	-72.9
4. Net Acquisition of Financial Assets	494.2	438.6	55.6
5. Net Incurrence of Financial Liabilities	-338.2	-354.3	16.1

Source: PCBS

9 www.imf.org/-/media/Files/Publications/CR/2017/091117WBG.ashx

10 Data excludes Gaza and those parts of Jerusalem which were annexed by Israel in 1967

11 Includes scholarships and any educational benefits, NGO support and any emergency expenses for the central government, insurance and maintenance of vehicles in addition to workers' allowance.

12 Net lending/borrowing = Net operating balance - Net acquisition of non-financial assets.

Russian-Palestinian Economic Cooperation

Representatives of the Joint Russian-Palestinian Committee, a working group consisting of government representatives from both countries, attended meetings with a group of 30 Palestinian business executives in Ramallah in September.¹³ Following the visit, the Palestinian Ambassador to Moscow, Mr. Abdel Hafiz Nofal, announced the signing of 39 business contracts in areas such as pharmaceuticals and industrial zones.

The growing collaboration between Russia and Palestine will also extend into the area of labour market development. As part of the Joint Committee's visit to Ramallah, Mr. Samer Salameh, Director General of the Palestinian Ministry of Labour, met Russian Deputy Minister of Labour Mr. Alex Cherkasov to discuss additional areas of cooperation. Mr Cherkasov agreed to provide support to Palestinians in areas such as vocational training, occupational health and safety and labour legislation.¹⁴ Mr. Khaled Ghazal, a member of the Ramallah Municipality, noted that these renewed talks could lead to greater levels of investment in Palestine and to a revival of scientific and educational cooperation and exchange between Palestine and Russia which has slowed down in recent years.

This renewed cooperation adds to a \$40 million investment to develop a cultural centre in Bethlehem, announced by Russian President Vladimir Putin in May 2017.¹⁵ Russian Orthodox pilgrims have become an increasingly important visitor group, constituting approximately one quarter of visitors to Palestine annually.¹⁶

Palestinian Startup Receives Funding to Develop Arabic Messaging Application

In August, AppMahal, a Palestinian mobile application developer, completed a \$4m Series B financing round led by Siraj Fund Management Company, a subsidiary of Massar International, the developer behind the city of Rawabi.¹⁷ AppMahal was founded in 2014 to develop mobile applications for Arab-speaking markets.¹⁸ Sila, an instant messaging app designed for the needs of Arabic speakers, is the company's second product following the success of its original product AppMahal, a social discovery platform for Arabic-language apps that has attracted over 3 million downloads since 2014.¹⁹ The recent investment round received substantial interest from regional investors.

Following its public launch in April 2017, Sila's popularity has quickly increased in the region, already attracting

13 <http://bit.ly/2xw0GGn>

14 www.maannnews.net/Content.aspx?id=922140

15 <http://bit.ly/2hwJji7>

16 <http://bit.ly/2xw0GGn>

17 <http://prn.to/2k2EqhJ>

18 www.appmahal.com/

19 www.wamda.com/2017/04/appmahal-hopes-middle-eastern-chat-app-hit

more than one million users across the Arab world. Sila provides a localised version of the popular messaging app WhatsApp, similar to other localised messaging apps such as WeChat in China or Telegram, which is popular in countries such as Russia and South Korea. Localised messaging apps have an advantage over their international competitors by providing keyboards, dialects and services specifically tuned to the regional context.

Ms. Mona Haddad, CEO of AppMahal, said: "We are excited to complete this financing round. The funding and support we receive from the investor group will help us implement our vision of providing Arabic-speaking users with a unique experience in a platform that meets all their needs for instant messaging with friends and family, as well as a wide range of different services."²⁰

Construction of Al-Nuaima Solar Power Station in the Jordan Valley

On 30 August 2017, the Palestine Investment Fund (PIF) announced the commencement of the construction of the Al-Nuaima Solar Power Station in the Jericho and Jordan Valley Governorate.²¹ This is the first project in the Noor Palestine Solar Energy programme, which was announced by the PIF at the end of last year. With a total investment of \$50m, the programme aims to generate 36 megawatts of renewable energy annually from a number of power stations that it is developing. To implement this initiative, Massader Company (the PIF subsidiary focused on the development of natural resources and infrastructure projects) is developing solar cells in the governorates of Jericho, Tubas and Jenin with a total capacity of 23 megawatts. The first solar power station is expected to be fully operational in Q2 2018.

As part of the project, Massader Company signed an agreement with the Jerusalem District Electricity Company (JDECO) to connect the Jericho Plant to the electricity distribution network of JDECO. The agreement will allow the transmission of electricity from the Jericho plant to the power grid, which will be transmitted to the Ramallah, Al-Bireh and Jerusalem municipalities. The electricity

will be used to power street lighting, water pumps for municipalities and for commercial establishments.

The Jericho power station will be built on an area of 100 dunums (100,000 sq. mi) with a capacity of 7.5 megawatts and an annual production rate of 13m kilowatt hours. It has an investment value of \$10m, and Massader Company is currently in the process of selecting a contractor to install the solar panels.

In related news, the Acting Chairman of the Palestinian Energy and Natural Resources Authority (PENRA), Eng. Zafer Melhem, announced a potential reduction of up to 15% in electricity prices in Palestine by the end of this year.²² This follows energy price reductions in Israel over the past two years with a third cut scheduled by the Israel Electricity Authority for 2018.²³ Palestine currently covers 92% of its electricity needs through imports from Israel, the figure is expected to drop to ~89% as the new power station goes live. The Palestinian electricity consumption is approximately 1,350 megawatts with 500 megawatts for Gaza and 850 megawatts for the West Bank.

August Trading

During August 2017, the Al-Quds index improved by 2.2%, reaching 566.1 points on the last day of trading.²⁴ The index experienced a positive trend throughout the month, peaking at 566.2 in the last week of August. A total of 31.9m shares worth \$52.5m were traded during August 2017, marking a 34.1% decrease in the number and a 26.6% decrease in the value of traded shares compared to July 2017. The industrial sector witnessed the highest increase (5.2%), while insurance services was the only sector that experienced a value decrease (3.1%).

In related news, 38 of the 48 listed companies in the Al-Quds index reported a net profit of \$161m for the first half of 2017. This constituted a drop of 0.36% compared to H1 2016.²⁵ Seven companies recorded a loss, and three companies failed to disclose within the set deadline. Aggregate net profit across the index amounted to \$156m, a decline of 1.8% compared to the same period in 2016.

²² <http://bit.ly/2xFVFKv>

²³ www.timesofisrael.com/electricity-price-cut-delayed-until-february/

²⁴ www.pex.ps/PSEWebSite/publications/PEXIssue89August2017.pdf

²⁵ www.pex.ps/PSEWEBSITE/NEWS/CopyofFS-Quarter2-2017-Disclosure-Arabic.pdf

²⁰ www.maannews.net/Content.aspx?id=920179

²¹ www.pif.ps/ar_page.php?id=14a9fy84639Y14a9f

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