

PALESTINIAN ECONOMIC BULLETIN

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Main reports

iPoke, a Palestinian company studying social media activities among Palestinians, published on 8 January a report on e-commerce activity among Palestinians during 2019

The Jerusalem District Electricity Company signed an agreement with the Jordanian National Electric Power Company on 15 January 2020, to increase electricity supply from Jordan to Palestine

Acting Commissioner-General of UNRWA, Christian Saunders, announced on 31 January that the Agency will require a minimum of \$1.4bn in order to finance its core activities and services in 2020

In this issue, the Palestinian Economic Bulletin interviews Ahmad Aweidah, the CEO of the Palestine Exchange

Palestinian-Israeli Trade Disputes – An End in Sight?

On 20 February, media outlets reported that the Government of Israel (GoI) and the Palestinian National Authority (PNA) reached an agreement to end the trade crisis that has been escalating in recent months.¹ The new understandings include a lifting of bans on trade put in place by both sides, as well as Israel allowing direct Palestinian import of cattle from abroad and export of Palestinian eggs to Israel.

The trade dispute reached its height on 9 February, when the GoI imposed a ban on all Palestinian agricultural exports, both through Israeli ports and via Jordan, the West Bank's only direct export route to the outside world.² According to the Palestinian Export Council, which mobilized in early February to coordinate the Palestinian response to these measures, preventing Palestinians from exporting agricultural products to the rest of the world is considered a breach of the Paris Protocol and World Trade Organization (WTO) Agreements.

The ban occurred at the peak of the agricultural export season and two months prior to Ramadan, when demand for agricultural produce is at its peak. These developments put further strain on the Palestinian agricultural sector, which faces limited access to land, water, and international markets. Further economic threats face the sector if the GoI proceeds with the annexation of the Jordan Valley,³ which accounts for 60% of vegetables produced in the West Bank and almost 100% of the date harvest in Palestine.

On 5 February, a few days prior to the announcement of the total ban, the PNA announced its intention to limit the entry of Israeli products into the Palestinian market, focusing on vegetables, fruits, juices, mineral water, and carbonated drinks.⁴ Its decision was in response to an earlier development, on 31 January, when the Israeli Defense Minister Naftali Bennett directed the Israeli Coordinator of Government Activities in the Territories (COGAT) to halt the imports of all Palestinian agricultural products into Israel. Palestine exports around \$132m of agricultural goods annually, of which 68% (\$88m) are exported to Israel.⁵ Palestinian exports to Israel include tomatoes, potatoes, beans, cucumbers, peppers, onions, and zucchini.⁶

Bennett's office explained that the decision came after failed attempts to negotiate a solution to the cattle issue. In response, the PNA asserted that the GoI had not abided by the agreement reached in December 2019, whereby the GoI would allow direct import of 10,000 calves from abroad, setting up a special cattle quarantine station and entry of Palestinian eggs to Israeli markets.

Trade tensions have been on the rise since September 2019, when the PNA announced its decision to cease calf imports from Israel.⁷ According to the PNA, this move was a part of a broader strategy to diversify sources of imports and decrease reliance on the Israeli economy.⁸

1 www.timesofisrael.com/israel-palestinian-authority-appear-to-reach-arrangement-to-end-trade-war/

2 www.timesofisrael.com/israel-blocks-palestinian-agricultural-export-in-escalating-trade-crisis/

3 <https://bit.ly/2V8cN7G>; <https://bit.ly/3bUdjfJ>; and see B157 <https://bit.ly/2VjsJEq>

4 <http://english.wafa.ps/page.aspx?id=x43r4va115027915827ax43r4v>

5 <https://bit.ly/2vnjGr0>; <https://bit.ly/2SiSUZK>

6 www.timesofisrael.com/pa-starts-banning-some-israeli-products-as-ag-war-heats-up/

7 See B158 for further details: <https://bit.ly/2vaJU07>

8 www.israelnationalnews.com/News/News.aspx/275400

e-Commerce in Palestine

Despite the spread of e-commerce worldwide, a recent Palestinian Central Bureau of Statistics (PCBS) report shows that only 8.1% of internet users in Palestine purchased goods and services online in 2019.⁹ Although 70.6% of Palestinians in the West Bank and Gaza Strip use the internet, only 9.4% in the West Bank and 5.5% in the Gaza Strip use it for e-commerce.¹⁰

On 8 January, iPoke, a Palestinian company studying social media activities among Palestinians, published a report on e-commerce activity among Palestinians during 2019. The report finds that over 1,000 e-commerce social media pages (on Facebook and Instagram) operated in Palestine in 2019, including approximately 700 in the Gaza Strip.

The report estimates the number of daily transactions through electronic outlets at 20,000-40,000 requests daily in 2019, a 40% increase from the previous year. Shoes and sportswear topped the list of the most purchased commodities online, with 63% of individuals who shopped online having bought these products. Cosmetics came second (21.6%), and household goods, furniture, toys, and others came third (20.2%).

The report finds that the highest demand for e-commerce came from Gaza city, followed by Nablus, Ramallah and Jerusalem.¹¹ Of the Palestinians making online purchases, 86% used cash on delivery, 15.2% used credit card, 7.5% used bank transfer, 3.6% made use of online payment services. Only 1.9% used payment methods through mobile financial accounts (accounts linked to phone numbers).¹²

The slow adoption of e-commerce in Palestine is due to a number of factors:

- Lack of awareness of available e-commerce offerings among Palestinian companies and consumers¹³
- Low financial penetration rate,¹⁴ and the limited use of electronic payment services among consumers¹⁵
- E-commerce businesses operating in Palestine suffer from high transaction costs of transporting goods, as moving products into and outside of the West Bank is costly, and the Gaza Strip is blockaded
- International e-commerce platforms and services find it challenging to operate in Palestine due to the perception of political and economic instability, in addition to the absence of a legal environment governing online trade. Paypal, the international electronic payment system, does not provide its services for Palestinians in the West Bank and Gaza.¹⁶ In mid-February 2020, the e-commerce global giant, Amazon, announced that its free shipping promotion for customers within Israel would not include the Palestinian Territories.¹⁷ Both Amazon and Paypal drew accusations of biased

treatment, on the basis that their services are offered in Israel and Israeli settlements in the West Bank¹⁸

Energy Imports from Jordan

On 15 January 2020, the Jerusalem District Electricity Company (JDECO) signed an agreement with the Jordanian National Electric Power Company (NEPCO) to increase electricity supply from Jordan to Palestine from the current level of 26 megawatts (MW) (3.5% of total consumption) to 80 MW (10.7% of total consumption). According to Palestinian sources, the increased supply will start within 7 months upon completing the construction of the 33/132 kilovolt Power transmission station in Al Rama, Jordan.¹⁹ JDECO will bear the costs of constructing the transmission station.

This agreement came after the recent resolution of the JDECO crisis, which involved debt to the Israeli Electricity Company (IEC). The end to this chronic crisis, as well as the agreement with Jordan, will aid in solving the Palestinian electricity issue and the severe energy reliance on Israel. Palestine imports a total of 5.9m MW and of which the IEC currently supplies 94%.²⁰ The extent of this dependency came to light during the recent JDECO crisis, with many areas in the West Bank facing daily 3-hour electricity cuts for weeks.²¹ It is expected that this new source of power will enhance overall Palestinian strategic energy autonomy, through market diversification and rebuilding historic Palestinian-Arab economic ties.

UNRWA Updates

On 31 January, the Acting Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), Christian Saunders, announced that the Agency will require a minimum of \$1.4bn in order to finance its core activities and services in 2020. The announcement came after the UN General Assembly's recent extension of the UNRWA mandate and work for another 3 years.

The requested funding will be used to support crucial humanitarian aid projects for the year 2020, serving over 5 million Palestinian refugees spread across various countries in the Middle East. UNRWA will provide access to educational services to over 500,000 children in approximately 700 schools, as well as enable 8.5 million patient visits in its health facilities. The total amount requested is earmarked as follows;

- \$806m for health, education, relief, social services, infrastructure, camp improvement and microfinance²²
- \$270m to assist the Syria Regional Crisis Emergency Appeal, which works across Syria, including with Palestinian refugees in Syria, Jordan and Lebanon
- \$170m for priority projects, specifically rehousing and reconstruction programmes in Syria and Gaza, in addition to projects created to improve and enhance programme delivery and reforms²³

9 <http://pcbs.gov.ps/Downloads/book2510.pdf>

10 www.aliqtisadi.ps/article/73280/#

11 www.aliqtisadi.ps/article/72947/#

12 www.aliqtisadi.ps/article/73280/#

13 <http://ipoke.co/SocialMediaOnPalestine2019.pdf>

14 <https://bit.ly/37FLnIQ>

15 <https://bit.ly/37BBZpX>

16 <https://bit.ly/3c9eivv>

17 <https://bit.ly/2PjIKp0>

18 www.ft.com/content/7b5699fe-48c5-11ea-ae2-9ddbdc86190d

19 <https://bit.ly/2NKxthL> and <https://bit.ly/2NiO2Ro>

20 <https://bit.ly/3cectdY>

21 <http://english.wafa.ps/page.aspx?id=5M7QPga114456864027a5M7QPg>

22 www.unrwa.org/how-you-can-help/how-we-spend-funds

23 <https://bit.ly/2vhw8J9>

- \$155m to provide emergency humanitarian aid and services to the West Bank, East Jerusalem and the Gaza Strip, where education accounts for 58% of UNRWA funding and healthcare services account for 15%

Interview with Ahmad Aweidah, CEO of the Palestine Exchange (PEX)

Ahmad Aweidah has been the Chief Executive Officer of the Palestine Exchange (PEX) since June 2008. Prior to joining the PEX, Aweidah was VP Commercial and Operations (2005-2008) at PalTel Group and VP Head of Retail Banking (2002-2005) at the Arab Bank.

PEX is a fully automated and privately-owned stock exchange that was established in 1995 following the formation of the PNA. There are 48 companies listed on PEX with a market capitalisation of about \$3.7bn.

Palestinian Economic Bulletin (PEB): How did PEX perform in 2019?

Ahmad Aweidah (AA): In 2019, the Al-Quds index decreased by 0.6% compared to the last day of trading in 2018, closing at 525.95 points. PEX capitalisation increased by 0.60% and reached \$3.76bn mainly due to secondary market activities. A total of 142.8m shares were traded on PEX with an overall value of \$273.9m. This marked a significant decrease in the volume (22.9%) and value (22.5%) of traded shares compared to 2018, driven by a deterioration in the Palestinian investment environment, fear among investors, lack of large market transactions and rising uncertainty and political tension.

PEX mirrored the performance of the national economy during 2019, which grew by only 1.2%. Palestine Exchange witnessed the impact of the clearance revenue crises with the Gol for six months and its effect on fiscal and monetary policy and corporate earnings. Therefore, the drop in Al-Quds index was expected.

PEB: What were the main developments in PEX operations and activities during 2019?

AA: There were several important developments. Most important is implementing XStream-INET, developed by NASDAQ. It is the world's fastest exchange trading platform and is designed for markets that want to expand their offerings with new products or market models. The platform is expected to go live in July 2020. PEX also launched a new website in August 2019 to help users easily browse and access information. Also related to its technological infrastructure, PEX built an electronic central securities depository and broker management systems to improve the efficiency of securities transactions. PEX reopened its representative office in Ramallah and intensified its activity on social media for better outreach to the exchange's ecosystem.

In terms of activities, PEX organised many programmes, awareness campaigns, workshops, and training courses throughout the year. It also carried out initiatives to enhance regional and international cooperation. Among

these, PEX signed a statement of support for the Women's Empowerment Principles, produced by the United Nations Entity for Gender Equality, the Empowerment of Women (UN Women) and the United Nations Global compact. It also joined the World Federation of Exchanges (WFE) and International Organization for Securities Commission (IOSCO) in the inaugural "Ring the Bell for Financial Literacy" initiative, to draw attention to the importance of financial literacy. As for its local engagement, PEX hosted hundreds of school and university students in the "Visit the Exchange" programme which included awareness sessions on investment and securities and visited many national universities to raise awareness on the securities sector operations. Furthermore, PEX launched many awareness campaigns using social media such as "Know Your Right" to draw attention to shareholder rights during general assembly meetings and "The Exchange Terms" to simplify jargon related to exchange markets.

PEB: Are there any plans expand PEX's operations?

AA: We expect Tamkeen Islamic Insurance Co. and Al Safa Islamic Bank to go public and be listed on PEX in 2020, raising the number of listed companies to 50. As for PEX operations, our strategic vision beyond 2020 includes enhancing PEX product and service offering via introducing new asset classes such as trading right issues and introducing a fixed income market (such as bonds) that can help corporations, municipalities, and universities raise capital.

An FX derivatives market is another option under study. This market will meet the financial sector need in mitigating counterparty risk in FX deals and take it to an advanced level of organisation. Banks, moneychangers, and retail dealers will benefit from this market as FX derivatives are a useful tool for corporates to hedge their foreign currency risks.

PEB: What impediments prevent PEX from expanding?

AA: The geopolitical situation is the main challenge for PEX, as it negatively impacts the Palestinian economy and the overall investment environment. PEX also faces serious competition from other regional and international markets that attract the local Palestinian investor base. Declining liquidity, small market size and the inability to attract more companies to go public compound PEX challenges. However, these challenges are common among regional exchange markets and other frontier markets. PEX performance in 2019 was not the worst amongst its regional peers.

January Trading

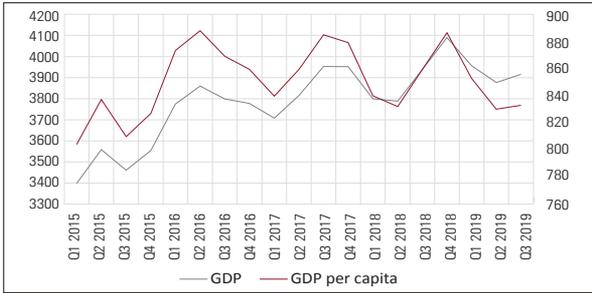
In January 2020, the Al-Quds index decreased by 0.7%, reaching 522.3 points on the last day of trading.²⁴ A total of 6.2m shares worth \$12.2m were traded during the month, marking a 10.8% decrease in the number and 16.2% decrease in the value of traded shares compared to December 2019. The services sector witnessed the highest decrease (1.9%), while only the banking and financial services sector index increased (0.7%).

²⁴ <https://bit.ly/31NTged>

Palestine Economic Dashboard

Growth

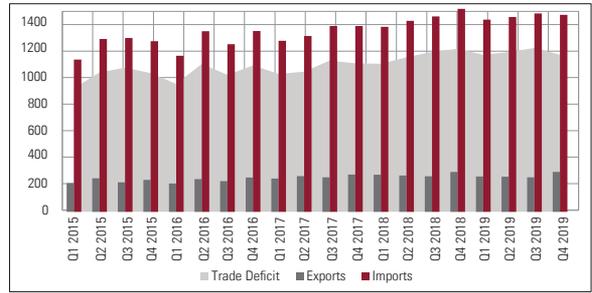
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q3 2019



GDP (Q3 2019): \$3,915.3m GDP per capita (Q3 2019): \$832.9
Source: PCBS

Trade

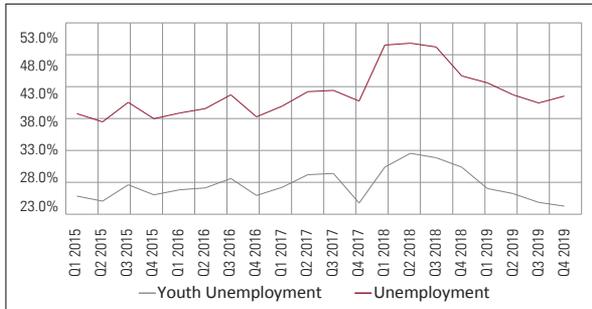
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q4 2019



Imports (Q4 2019): \$1,454.1m Exports (Q4 2019): \$294.2m
Trade deficit (Q4 2019): \$1,159.9m Source: PCBS

Unemployment

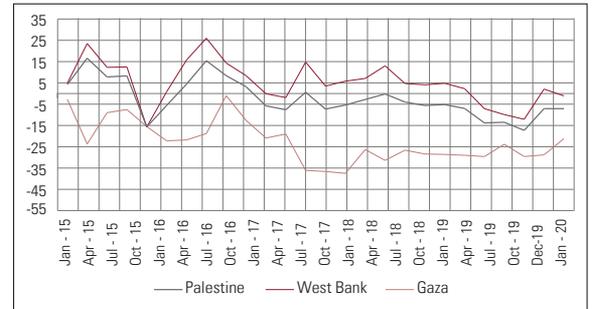
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q4 2019



Unemployment rate (Q4 2019): 24% Youth Unemployment rate (Q4 2019): 41.5%
Source: PCBS

Business Cycle Index

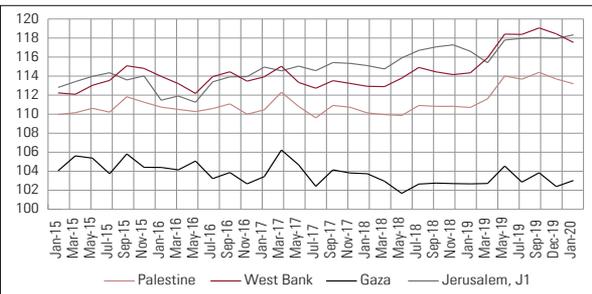
Palestine Monetary Authority Business Cycle Index, January 2015 – January 2020



Palestine (January 2020): -7.4 West Bank (January 2020): -1.4
Gaza (January 2020): -21.5 Source: PMA

Inflation

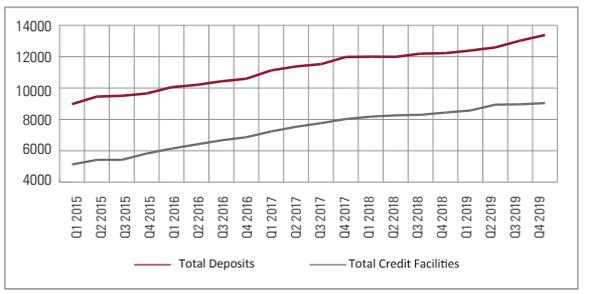
Consumer Price Index (Base year = 2010), January 2015 – January 2020



Palestine (January 2020): 113.5 West Bank (January 2020): 117.9
Gaza (January 2020): 103.1 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2019



Total Credit Facilities (Q4 2019): \$9,039.1m Total Deposits (Q4 2019): \$13,384.7m
Source: PMA

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

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