

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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The Ministry of Finance announced the 2017 Palestinian National Authority (PNA) budget on 18 February 2017

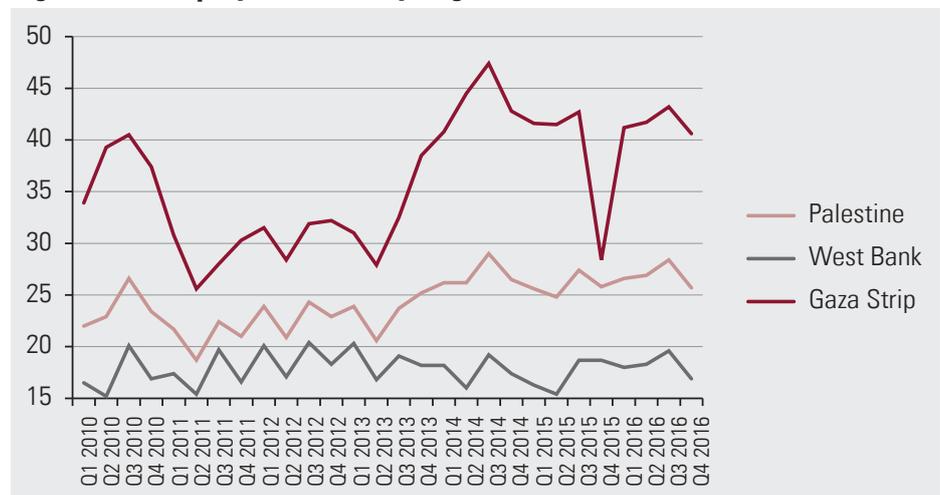
The Minister of Finance, Mr. Shukri Bishara, announced on 19 January 2017, that the Government is considering the privatisation of fuel trade in the domestic market over the coming months

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Labour Force

Latest labour force statistics published by the Palestinian Central Bureau of Statistics (PCBS) on 13 February 2016 show a decline in unemployment during Q4 2016. The unemployment rate in Palestine dropped to 25.7% in Q4 2016 from 28.4% in Q3 2016 and 25.8% in Q4 2015.¹ Following historical trends, the unemployment rate was significantly higher in Gaza (40.6%) than in the West Bank (16.9%) during Q4 2016.

Figure 1: Unemployment Rate by Region, Q1 2010-Q4 2016 (%)



Source: PCBS

Unemployment in Palestine is higher among females compared to males. The female unemployment rate reached 43.9% in Q4 2016, in contrast to the much lower unemployment rate for males, 21.0%. The situation is particularly extreme in Gaza, where female unemployment reached 64.4%, compared to 33.2% for males. In the West Bank, the unemployment rate for females reached 28.5%, compared to 14.2% for males.

Unemployment rates remain higher among youth. In Q4 2016, 41.6% of those aged 20-24 years and 35.3% of those aged 25-29 years were unemployed. The figures are particularly high for female youth, who face an unemployment rate of 67.1% for those aged 20-24 years and 62.2% for those aged 25-29 years. In addition, it should be noted that the most educated Palestinian women (13+ years of schooling) face an alarmingly high unemployment rate of 49.1%, despite having a high labour force participation rate (45.8%). If persistent, this reality may discourage females from pursuing higher education.

The total number of employed Palestinians increased by 18,800 individuals between Q4 2015 and Q4 2016. The number of Palestinians working in Israel and the settlements increased by 13,600 individuals from 115,200 in Q4 2015 to 128,800 in Q4 2016. Meanwhile the number of individuals employed in the West Bank and Gaza labour market increased by 5,200 individuals from 864,500 in Q4 2015 to 869,700 in Q4 2016.

1 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_13-2-2017-lb-en.pdf

In Q4 2016, the labour force participation rate in Palestine dropped slightly to 45.5%, a 0.6% decline from Q3 2016 and a 0.7% decline from Q4 2015. Although the labour force participation rate was similar in the West Bank (45.2%) and Gaza (45.8%), a significant difference exists between the female participation rate which remained particularly low at 18.9% and the rate for males at 71.4%.

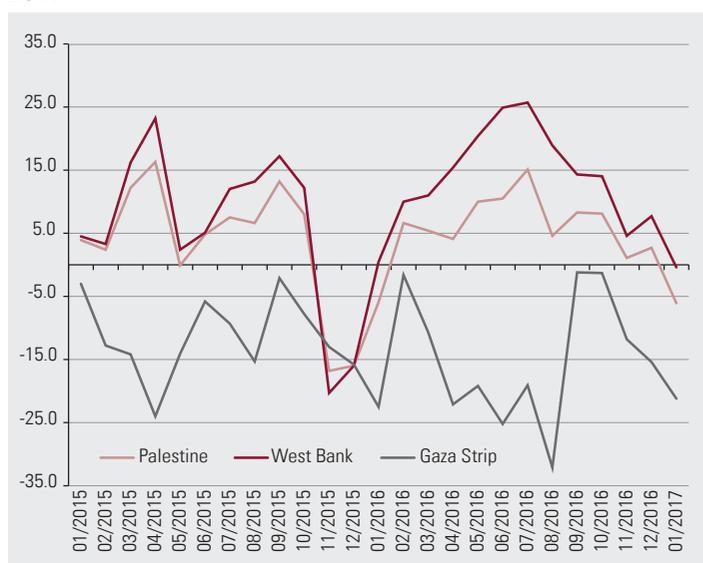
Business Cycle Index

In January 2017, the Palestine Monetary Authority Business Cycle Index (PMABCI) for Palestine declined to -6.1 points from 2.7 points in December 2016.²

In the West Bank, the index declined to -0.4 points from 7.7 points in December 2016. The fall was attributed to a slowdown in both production and sales, which in turn led to decreases in most sub-sectoral indices, mainly in the textile and food indices.

In Gaza, the PMABCI dropped to -21.2 points in January 2017 from -15.4 points in December 2016. The Gaza index has been negative since August 2013 (with the exception of October 2013) because of the particularly poor economic situation there. The electricity crisis in Gaza, which constitutes a major obstacle to industrial enterprises, in addition to the closure of the tunnel trade between Gaza and Egypt, are often cited as the main reasons for the persistent decline of the Gaza index. The monthly deterioration between December 2016 and January 2017 was driven by the negative changes in the furniture and food sub-sectors.

Figure 2: Monthly PMABCI (Points), January 2015-January 2017



Source: PMA

The PMABCI is a monthly index measuring the state of industrial activities and associated trends in Palestine based on a survey distributed to the owners of around

2 www.pma.ps/Media/PressReleases/TabId/205/ArtMid/793/ArticleID/1043/The-Monthly-PMA-Business-Cycle-Index-PMABCI-%E2%80%93-January-2017.aspx

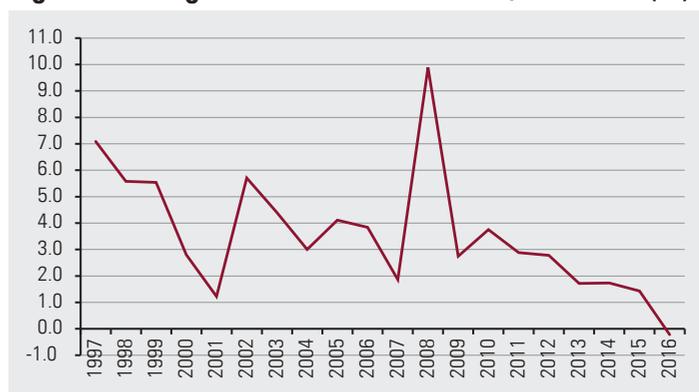
200 private sector companies from different industrial sub-sectors in various locations across the West Bank and Gaza. The survey looks at past, current and expected future performance, focusing on the following indicators: production levels, sales, employment and inventories. The PMABCI was developed by the PMA in late 2012 to provide real-time information about the economy, and thus, to help the PMA in designing appropriate and timely policy guidelines.

Inflation

In December 2016, the Consumer Price Index (CPI) in Palestine increased by 0.28% compared to the previous month.³ Prices increased in both the West Bank and Gaza (+0.37%), but decreased in East Jerusalem (-0.13%). The sub-groups which experienced the highest rise in prices were fresh vegetables (+10.1%), dried vegetables (+8.9%) and eggs (+4.8%), and the sub-groups with the most significant reductions in prices were fresh meat (-7.2%), fresh fruit (-3.4%) and fresh fish (-2.3%).

Latest PCBS data indicates a year-on-year decline of 0.22% in the CPI in 2016.⁴ Although inflation has been declining in Palestine since 2008, 2016 is the first year on record which marked the emergence of deflation (a decrease in the year-on-year general price level as opposed to a slowdown in the increase of the general price level). Prices declined in all regions: -0.96% in East Jerusalem, -0.84% in Gaza and -0.08% in the West Bank. The CPI decreased for housing services⁵ (-2.6%), food and soft drinks (-1.5%) and transportation (-0.8%), and increased for education services (+3.1%) and medical care (+1.1%).

Figure 3: Changes in the CPI in Palestine, 1996-2016 (%)



Source: PCBS

PNA Budget 2017

On 18 February 2017, the Minister of Finance, Mr. Shukri Bishara, announced the Palestinian National Authority (PNA) budget for 2017.⁶

3 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_12-1-2017-CPI-en.pdf

4 <http://bit.ly/2lJ2uoV>

5 Category includes liquid fuel for house, gas and electricity tariff

6 <http://bit.ly/2mfVJh4>

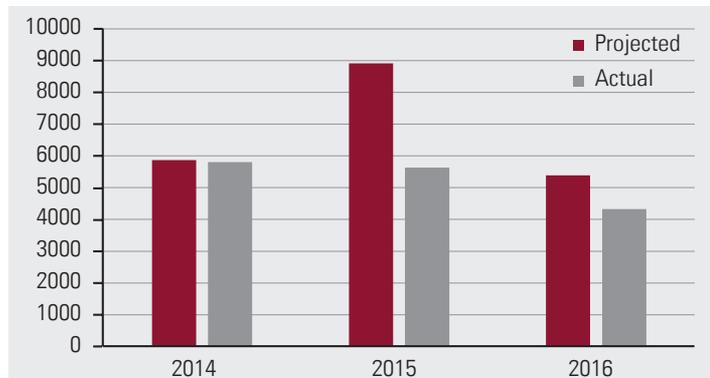
Table 1: PNA Budget for Fiscal Years 2016 and 2017

Item	Budget 2016 (Million NIS)	Actual 2016 (Million NIS)	Budget 2017 (Million NIS)
Net Public Revenues	11,189	13,258	13,451
Total Revenues	11,630	13,613	13,821
Total Expenditure and Net Lending	15,212	16,300	16,147
Recurrent Deficit	4,025	3,042	2,697
Total Deficit	5,388	4,329	4,335
Total External Financing	3,881	2,906	1,326
Financing Gap	1,507	1,423	3,009

Source: Ministry of Finance and Planning (MoFP)

The projected expenditure for 2017 is expected to increase by 6.15% compared to 2016 projections, while total revenues are expected to increase by 18.8%. Dependency on international aid and support is expected to decline by 65.8%, and net lending is anticipated to rise by 11.8% from the 2016 projected level to reach 950m NIS. The budget for development expenditure, at 546m NIS, is 42.9% less than the amount projected for 2016.

The budgeted level of revenues and expenditure leave a total deficit of 4,335m NIS, a decrease of 19.5% from the 2016 projected deficit. International assistance is expected to cover 1,326m NIS of the deficit, leaving a financing gap of 3,009m NIS.

Figure 4: Projected vs actual PNA Budget Deficit for Fiscal Years 2014-2016 (million NIS)

Source: Palestine Ministry of Finance and Palestine Economic Policy Research Institute (MAS)

The budget reflects the Government's austerity measures that aim to reduce the budget deficit, internal and external debt, and arrears to the private sector. It is also consistent with the Government's intentions to reduce reliance on external budget support, increase financial independence and prepare for the process of issuing a Palestinian national currency.

Islamic Banking in Palestine

At the end of 2016, Islamic banking assets accounted for 12% of total banking assets in Palestine. During 2016, Islamic banking assets grew by 27%, compared to 13% growth in assets for the banking sector (including Islamic banks). Additionally, the Loan-To-Deposit Ratio

among Islamic banks is 75% compared to 65% among commercial banks, indicating high demand for Islamic financial products.

On 17 January 2017, Middle East Business Magazine and News, in cooperation with the Palestine Economic Policy Research Institute (MAS) and Ernst and Young (EY), organised a workshop on Islamic Banking in Palestine.⁷ During the workshop, Mr. Eyad Nassar, Head of Banks Supervision Division at the PMA, stated: "There are strong indications of the growing demand for Islamic finance; recent market studies have shown that more than 50% of the people wishing to obtain credit facilities prefer Islamic banking." He also added that Islamic banks need more liquidity to fulfil the large expected future demand for these services.

Islamic banking refers to a system of banking that is consistent with the principles of *Shari'ah* law (Islamic rulings). *Shari'ah* prohibits acceptance of specific interest or fees for loans of money (known as *riba*, or usury), and the investment in businesses that provide goods or services considered contrary to Islamic principles (e.g.. pork or alcohol).

In Palestine, around 92% of all Islamic financing is in the form of *murabaha*, which is a mechanism whereby the bank buys a specific item from a client for a predetermined profit over the cost of the item and then sells the item back to the client in installments (in the form of profit rather than interest).⁸

Privatisation of the Fuel Industry

On 19 January 2017, the Minister of Finance, Mr. Shukri Bishara, announced that the Government is considering the privatisation of fuel trade in the domestic market over the coming months.⁹

Currently, the General Directorate of Petroleum at the Ministry of Finance is the sole body responsible for the sale of petroleum products to the West Bank and Gaza, in addition to regulating the Palestinian petroleum products market (including determining selling prices).¹⁰ In the past, the Directorate was an independent commission with its own budget, before being incorporated into the Ministry of Finance in 2003. Since the incorporation, the PNA has continuously expressed its intentions to eventually privatise the commercial activities of the Directorate, while maintaining its regulatory functions within the PNA.¹¹

The privatisation of the fuel market is intended to allow Palestinian distributors to import fuel directly from Israel, or from new Jordanian or Egyptian sources,¹² which in

7 www.alhaya.ps/arch_page.php?nid=294434

8 www.investopedia.com/terms/m/murabaha.asp#ixzz4YqPqGRkG

9 www.alquds.com/articles/1484809452623020100/

10 www.pmf.ps/en/15

11 www.imf.org/external/pubs/ft/med/2003/eng/wbg/wbg.pdf

12 The Paris Protocol on Economic Relations between Israel and the PLO allows for the possibility of fuel imports from Jordan or Egypt, an option that has not been exercised largely owing to the sole-provider agreements with Israeli fuel suppliers

turn may bring about a reduction in fuel prices. According to the General Directorate of Petroleum, the Palestinian market consumes about 65-70m litres of fuel per month, with an average annual consumption of 800m litres, all of which is currently imported from Israel.¹³

Investment in Industrial Zones

On 15 December 2016, the Palestinian Industrial Estates & Free Zones Authority (PIEFZA)¹⁴ inaugurated part of the "Mahmoud Darwish Road", which is expected to improve access to the Jericho Agro-Industrial Park (JAIP). The commercial Mahmoud Darwish Road, extending 9.5km is expected to link the JAIP to Jordan and beyond via the King Hussein Bridge, enabling door-to-door movement of manufactured products, raw materials and machineries.¹⁵

The project, which was funded by the Government of Japan (\$320,000) through the United Nations Development Programme (UNDP), includes a 500-meter expansion and upgrading of the road, in addition to the removal of four high voltage power poles in the vicinity by the Jerusalem District Electricity Company (JDECO) and replacing them with underground connections. While the recently completed segment of the road is entirely in Area A, the complete project is intended to extend into Area C. So far, the Government of Israel remains unwilling to allow the construction of this segment.¹⁶ Currently vehicles are forced to make a 40km journey through Jericho and its surrounding villages.¹⁷

In related news, on 16 January 2017, Ms. Abeer Odeh, Minister of National Economy, stated that infrastructure investment in the four Palestinian industrial zones (Jericho, Bethlehem, Gaza and Jenin) amounted to \$122m to date.^{18,19} The Minister added that these investments provided hundreds of direct and indirect job opportunities, and stated that the Ministry hopes that the zones will

eventually provide 12,000 direct and more than 60,000 indirect job opportunities.

The four industrial zones are expected to contribute about \$614m to Palestinian GDP (7% of the total) once their operations reach full capacity.

January Trading

In January 2017, the Al-Quds index decreased by 2.3%, reaching 518.2 points on the last day of trading. Peaking at 537.0 points in the second week of trading, the index saw a steady decrease throughout the second half of the month.²⁰ The investment sector index witnessed the highest drop (-6.0%), followed by services (-3.8%). A total of 7.5m shares worth \$20.6m were traded during January. This marks an increase of 1.4% in the number of traded shares and 36.7% in the value of traded shares from December 2016.

In January, PEX launched an electronic initial public offering (e-IPO) system called "IKTITAB". The system aims to streamline public offering processes by connecting banks with the Central Securities Depository (CSD) platform, enabling investors to subscribe electronically and provide the issuer with a clean shareholder book. IKTITAB was first used last month for the IPO of SANAD Construction Resources Company.²¹

Furthermore, on 18 January 2017, Arab Palestinian Investment Company (APIC) issued new five-year bonds with a total nominal value of \$35m in a private subscription with the participation of nine banks and companies from Palestine, Jordan and Bahrain.²² The bonds are non-tradable, have a bullet repayment²³ after five years, and a call/early payment option. Furthermore, the bonds are non-convertible, represent a senior debt and have a 110% collateral coverage ratio.

13 www.alquds.com/articles/1485418401910123800/

14 In cooperation with the Ministry of National Economy, the Palestinian Industrial Estates & Free Zones Authority (PIEFZA), the Government of Japan, Jericho Municipality and the United Nations Development Programme (UNDP),

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

16 Based on information obtained from PIEFZA

17 <http://bit.ly/2IOhmTx>

18 www.alquds.com/articles/1484550979458001300/

19 Since 1999, the PA has sought to establish industrial parks for exports under Law No. 10/1998 to attract Arab investment to the areas.

20 www.pex.ps/PSEWebSite/publications/8202022017.pdf

21 www.pex.ps/PSEWebSite/NEWS/18012017.docx

22 <http://on.mktw.net/2ltBAkF>

23 A lump sum payment for the entirety of a loan amount paid at maturity.

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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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