

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Prime Minister Mohammed Shtayyeh announced on 26 April the launch of a project to build a new residential city called "Sama Quruntal" in Jericho

Exporting of dates increased in Ramadan by over 40%, compared to the sharp decrease of last year, where trading reached only 5% of usual demand

The Palestine Trade Center and Oxfam announced on 20 April the launch of the "Baladi" e-commerce platform, specialised in selling Palestinian national products

Al-Quds index reached 479.3 points in April 2021, a 2.8% increase from the previous month

PNA Budget for 2021 Announced

On 29 March, the Palestinian Council of Ministers approved the public budget for the 2021 fiscal year with an expected deficit of approximately \$1.7bn, a 4.4% increase compared to 2020.¹ Prime Minister Mohammad Shtayyeh explained that the Government would try to bridge this gap through continued administrative and financial reforms.²

Government spending

Government spending is expected to reach \$4.9bn in 2021, a 2% increase from the previous year. According to Shtayyeh, the emphasis of the budget is on addressing the socio-economic ramifications of the pandemic and implementing the Government's development plan that aims to create six thousand new jobs this year.³

Around \$1.4bn, or 30% of total expenditure, will be allocated to the Gaza Strip, a target that is likely to be inadequate in the light of the most recent developments. At the time of writing this issue of the Bulletin, Palestine faced renewed military escalation, accompanied by large protests across Israel, East Jerusalem and the rest of the West Bank against the Israeli Government (GoI) policies of forced transfers, evictions, demolitions, confiscations of homes, and settlement expansion. Popular protests in East Jerusalem during Ramadan sparked yet another round of violent confrontation between Israel and Hamas in the Gaza Strip, the fourth confrontation of this scale since Israel's "Cast Lead" operation in 2009. These developments are likely to increase pressure on public expenditure, especially since significant additional allocations will be needed in the Gaza Strip, in terms of funding for both humanitarian needs and reconstruction.

Table 1: Palestinian public budget for 2020 and 2021, \$m (accrual basis)

Item	2020 (actual)*	2021 (budget)	% Change
1. Net public revenues	3,450	3,880	12.5%
A. Domestic revenues	1,205	1,324	9.9%
B. Clearance revenues	2,359	2,663	12.9%
C. Tax rebates (-)	-114	-107	-6.3%
2. Public expenditure and net lending	4,809	4,905	2.0%
A. Salaries and wages	2,008	2,320	15.6%
B. Transfers	1,620	1,367	-15.6%
C. Operating expenses	659	733	11.2%
D. Net lending	340	229	-32.7%
E. Other current expenditures	181	256	41.4%
3. Current account deficit before financing	-1,359	-1,026	-24.5%
Development expenditure	278	683	145.9%
4. Total deficit before aid and grants	-1,637	-1,709	4.4%
A. Budget support	356	657	84.7%
Exchange rate (USD/ILS)	3.4	3.5	2.0%

Source: Palestinian Ministry of Finance⁴

In terms of composition of the approved budget, around 17% is allocated towards education, 12% towards the health sector, and 13% is devoted to social protection and development. These proportions are consistent with previous years, as is the largest sectoral share allocated to security (about 20%), mainly in the form of salaries and wages.

The PNA announced specific projects on which it will focus spending in 2021. These include \$60 million to enhance access to health, education, and electricity in Jerusalem, \$26 million to support the Government's Jerusalem cluster development

¹ This is the first regular public budget to be passed by the Cabinet in two years as 2019 and 2020 relied on an emergency spending plan due the clearance revenue crisis and the pandemic, respectively.

² www.wafa.ps/Pages/Details/20030

³ www.wafa.ps/Pages/Details/20030

⁴ www.pmf.ps/pmf/documents/accounts/monthly/2020/Dec.2020.ar.pdf

plan and \$70 million towards projects that aim to enhance the role of youth, women, and other marginalised groups. To support such projects, the development budget is forecast at \$683m in 2021, which is more than double the allocation for the previous year. In line with the updated National Policy Agenda, the agriculture sector is at the forefront of the development budget for 2021. The budget of the Ministry of Agriculture (MoA) is increased by 37% compared to the year 2020.

Revenues

The budget aims for a 12.5% increase in revenues during 2020, to \$3.9bn.⁵ To achieve this, the Government will implement its 2021-2025 tax revenue reform plan, which focuses on increasing government revenues by combating tax evasion and expanding the tax base without imposing additional financial burdens on citizens who already pay taxes.⁶

Although the PNA has made significant achievements in widening its tax base, the efficacy of its plan is likely to be determined by its capacity to introduce and implement the tax reform plan. In the past decade, the PNA's policymaking reach has been eroded, with some proposals for key social policies facing an uphill battle in gaining public endorsement.⁷ Palestinian elections were planned to take place in May 2021, presenting an opportunity to renew the legitimacy of PNA institutions, however, they were cancelled to widespread public dismay.⁸ The absence of democratic legitimacy and accountability, to re-energise the policy making capacity of PNA institutions, risks hindering the ability of the PNA to advance major economic legislative and policy reforms that it has been considering for some time or to introduce new initiatives.⁹

International support

Foreign aid support for the PNA budget is expected to reach approximately \$657m, the greatest amount in the past four years. In 2020, total aid granted to Palestine decreased to \$356m, a significant drop from an average of \$1.1 billion before 2013. Even if this ambitious projection is realised, net budget deficit will still reach \$1,052m.¹⁰

This figure also assumes the resumption of US aid to pre-Trump administration levels, in addition to support from Arab countries. Until February 2020, the PNA had not received any new support, while the new US administration pledged to restore \$235 million in funding for Palestine that was initially cut-off during President Trump's tenure.¹¹ However, US aid is prohibited by US law from funding the PNA, so the new US aid package includes \$150 million to the United Nations relief agency (UNRWA), \$75 million as U.S. economic and development assistance, and \$10 million for peace-building programmes.¹² The package comes in addition to funds previously granted to Palestine for COVID-19 relief and food security, amounting to \$15 million.¹³ While news of renewed support from the US has been welcomed by the PNA, the amounts committed are

5 www.aliqtisadi.ps/article/80709/

6 <https://bit.ly/3fudYqu>

7 <https://bit.ly/3hVqmmY>

8 <https://bit.ly/3flpdMs>

9 E.g., Companies Law, Competition Law, Social Security Law

10 www.aliqtisadi.ps/article/80724/

11 Before the inauguration of Trump in 2016, the median of total direct and indirect US aid funds amounted to approximately \$600 million.

12 www.reuters.com/article/uk-palestinians-usa-blinken-idUKKBN2BU30X

13 www.aliqtisadi.ps/article/80885/

still small compared to historical levels which generally surpassed \$500 million annually.

Regionally, it is still unclear whether support from Arab countries might reach previous levels of commitment. In a recent development, the Islamic Development Bank signed three separate support agreements, for a total of \$18 million, with the Palestinian Housing Council, the Ministry of Education, and the Palestinian Economic Council for Development and Reconstruction (PECDAR) to finance projects in housing, health and education in Jerusalem and Gaza.¹⁴

Housing and Real Estate Development

Sama Quruntal

On 26 April, Prime Minister Mohammed Shtayyeh announced the launch of a project to build a new residential city called "Sama Quruntal" in Jericho.¹⁵ The city will be built on an area of 6.6 km² and is expected to accommodate between 15-20,000 people in its first phase. According to Shtayyeh, the new city will be built in a sustainable manner that preserves the environment and saves energy, through renewable sources, rainwater harvesting, wastewater reuse, and attention to green spaces and biodiversity. Survey works on the project have begun, and environmental, geological, and socio-economic studies will soon be carried out. Upon completion of the studies and the structural designs of the project, building can start on the plots designated for housing.

Minister of Entrepreneurship and Empowerment, Osama al-Saadawi, stated in an interview that the cost of the first phase of the project is estimated at approximately \$210m.¹⁶ The value of the land for the project is 30% of the initial cost, which will be covered by the state, while the remainder of the cost will be in the form of investments. The private sector will be encouraged to build housing, residential and commercial complexes, and other buildings, where the project will be a joint investment between the government and the private sector.

The Minister stated that it is too early to determine these mechanisms of ownership in Sama Quruntal, and that prices will be determined after the completion of the development process and preparation of the housing plots.

Financial constraints to housing development

The PNA's significant budget deficit constitutes a threat to national developmental plans. In addition, there are many challenges to residential real estate ventures in Palestine. Similar projects have demonstrated low absolute margins, with inefficient project management skills and construction methods resulting in projects requiring longer duration to be completed (50-100% longer).¹⁷ Moreover, most raw materials are imported, which causes high costs, as well as potential delays in building.¹⁸

Structural gaps between supply and demand for housing

While there has been a significant growth in housing construction over the past decade (43.4% increase in the number of inhabited housing units), this was mainly fueled by the introduction of mortgage loans and new

14 www.al-ayyam.ps/ar_page.php?id=148ddf7ey344842110Y148ddf7e

15 www.aliqtisadi.ps/article/81187/

16 www.palestineconomy.ps/ar/Article/18032/

17 <https://bit.ly/3yINJLC>

18 <https://bit.ly/3yINJLC>

lending packages that were not accessible before 2008.¹⁹ These financial tools enabled many to get on the property ladder, however, the lack of financing alternatives generally exclude the self-employed and those working in the informal sector, leaving a large segment of Palestinian society with limited access to credit and forming a large gap between potential and actual demand for housing.²⁰

High prices, together with long-standing land registration issues, remain two of the greatest challenges for housing sector development.²¹ As a result, there is still a notable lack of affordable housing for lower income families and the PNA lacks a policy on public housing in general. The current standard housing offerings are too expensive for lower income groups. According to PCBS, 70.1% of Palestinian households are unable to construct any new housing units within the next 10 years while 62.2% are in need of at least one new housing unit within the same period.²² PCBS also estimated that there is a need for about 677,000 additional housing units between 2017 and 2030.

It remains unclear whether the most recent project will target the segments of society most in need of housing, as the cost of the new dwellings has not yet been declared. Unless real estate and housing development projects address growing demand, their outcomes are unlikely to be developmental. The inflationary nature of the housing sector, in addition to potential direct competition with the private sector, could result in such projects having unintended negative consequences.

Latest data on housing prices

On 22 April, the Palestine Monetary Authority (PMA) released its Index of Residential Real Estate Prices in Palestine for Q1 2021. The results indicate an increase of 3.8% compared to Q4 2020, to reach 110.1 points, due to an increase in prices for apartments and houses alike. The apartment price index increased by 6.4% compared to Q4 2020, reaching 103.7, while the house price index increased by 2.2% to reach 114.5. Compared to Q1 2020, the real estate price index rose by 4.1%, the apartment price index increased by 9.1%, while the house price index rose by 1.3%.²³

National Agricultural Production

Palestinian national production, especially in the agricultural sector, has had a turbulent and volatile year due to the COVID-19 pandemic, highlighting the need for intervention. Agriculture finance has declined overall in the past year. A recent survey that showed bank loans to the local agricultural sector decreased by 38% on a quarterly basis during Q4 2020.

Total bank loans to the agricultural sector in Q4 amounted to \$56m, compared to \$90.5m in Q3, and \$92.6m in Q4 2019. This represents the lowest level of loans since Q3 2016, which amounted to \$43m. The decrease is likely due to the pandemic decreasing domestic consumption and demand for agricultural products, thereby making producers less likely to request bank loans. Additionally, the banking sector views agriculture as high-risk, due

to the lack of compensation for losses from official institutions operating in Palestine, as well as the fact that the majority of agricultural lands are situated in Area C.²⁴

Improved performance during Ramadan

Ramadan spending habits are notable in a number of agricultural products, especially dates. Ibrahim Daig, head of the Palestinian Dates and Palms Council, estimates that Palestinians consume approximately 1,700 tonnes of dates during Ramadan, accounting for 25% of total annual sale of dates in the local market, which amounts to about 7,000 tonnes. He also noted that due to the pandemic-induced economic decline and decrease in consumer purchasing power, consumers are more likely to buy one kilo of dates rather than three or four as in the past. Additionally, Daig notes that Palestine produces approximately 13,500 tonnes of dates annually, 7-8,000 of which are exported.²⁵

Exporting of dates increased during Ramadan, where foreign orders grew by over 40%, compared to the sharp decrease of last year, where trading reached only 5% of the usual demand. This year, Turkey allowed the entry of 3,000 tonnes of Palestinian dates without taxes or customs, further increasing Palestinian date exports. Daig expects the share of the date palm sector in total Palestinian agricultural income to rise to NIS 120m annually, compared to NIS 80m in 2020.²⁶

Other exports are also expected to rise this year, notably olive oil. Fayyad Fayyad, Director General of the Palestinian Oil and Olive Council, stated it is expected Palestine will export approximately 2000 tonnes of olive oil in 2021. The value of olive oil exports is estimated at \$15-20M annually. Palestine produced approximately 14,000 tonnes of olive oil last year, the lowest in the last 3 years.²⁷

Efforts to support local products

On 20 April, Palestine Trade Center (PalTrade)²⁸ and Oxfam announced the launch of the "Baladi" e-commerce platform.²⁹ The platform specialises in selling Palestinian national products in order to support local producers, particularly owners of SMEs, and enable them to reach consumers across the West Bank and Gaza. Through the platform, producers can display and promote their products. Minister of National Economy, Khaled al-Osaily, stated that the platform launching during Ramadan was appropriate, due to the increase in spending on food products.

April Trading

Al-Quds index reached 479.3 points in April 2021, a 2.8% increase from the previous month.³⁰ A total of 8.2 million shares with a total value of \$17 million were traded during the month, marking a 58.4% increase in the number and 36.9% in the value of traded shares compared to the previous month.

24 www.aliqtisadi.ps/article/81277/

25 www.aliqtisadi.ps/article/81163/

26 <https://bit.ly/3bybBIF>

27 www.aliqtisadi.ps/article/80650/

28 A non-profit organisation that aims to promote Palestinian exports and support exporters: <https://bit.ly/3bzgACI>

29 www.wafa.ps/Pages/Details/22066/

30 <https://web.pex.ps/eyJDT05UUKVTSUQiOiJlY21lIiwiaTEFOR0lEljoiNzgifQ%3D%3D>

19 www.pcbs.gov.ps/Downloads/book2419.pdf

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

21 <https://bit.ly/3yINJLC>

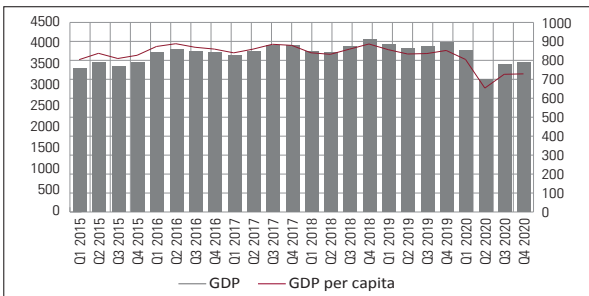
22 www.pcbs.gov.ps/Downloads/book2529.pdf

23 <https://cutt.ly/fbEQt0F>

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q4 2020

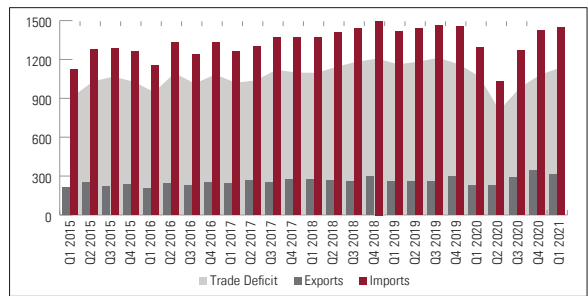


GDP (Q4 2020): \$3,540.6m
Source: PCBS

GDP per capita (Q4 2020): \$728.8

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2021



Imports (Q1 2021): \$1,450.1m

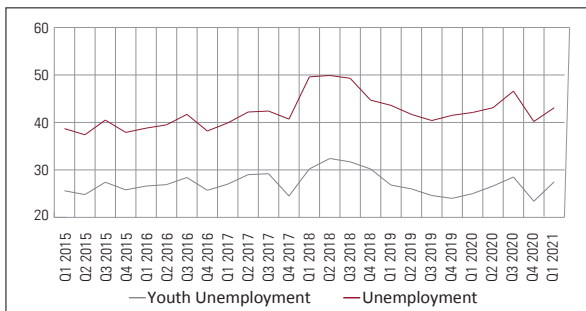
Exports (Q1 2021): \$316.4m

Trade deficit (Q1 2021): \$1,113.7m

Source: PCBS

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q1 2021

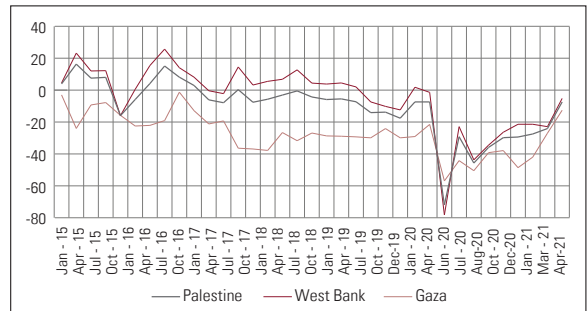


Unemployment rate (Q1 2021): 27.5%
Source: PCBS

Youth Unemployment rate (Q1 2021): 43.1%

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2015 – April 2021



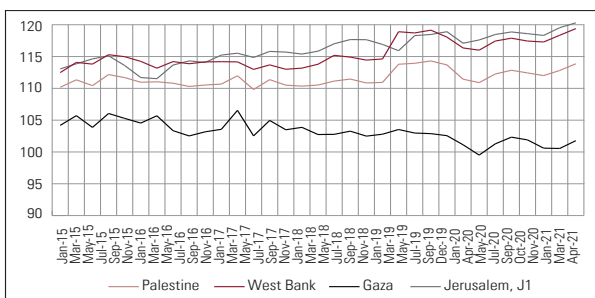
Palestine (April 2021): -7.4
Gaza (April 2021): -12.6

West Bank (April 2021): -5.2

Source: PMA

Inflation

Consumer Price Index (Base year = 2010), January 2015 – April 2021



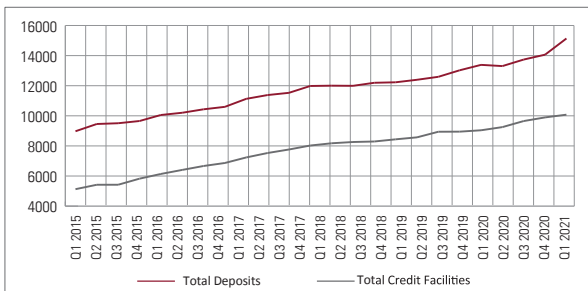
Palestine (April 2021): 113.9
Gaza (April 2021): 101.8

West Bank (April 2021): 119.4

Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q1 2021



Total Credit (Q1 2021): \$10,150.6m
Source: PMA

Total Deposits (Q1 2021): \$15,182.4m

The Portland Trust



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