

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Between 6-13 June, Palestinian individuals and businesses across Palestine and Israel participated in Palestine Economic Week

Several initiatives were launched this past month to aid micro, small and medium enterprises

The Gaza Rapid Damage and Needs Assessment report was published on 6 July revealing the cost of the physical damage and economic losses resulting from the recent military escalation in the Gaza Strip

Al-Quds Index increased by 1.3% in June compared to the previous month, reaching 539.9 points on the last day of trading

Renewed Interest in Digital Currencies

On 25 June, the Governor of the Palestine Monetary Authority (PMA), Dr Feras Milhem, announced that the PMA is studying the possibility of issuing a Palestinian digital currency, an attempt to reduce monetary dependence on Israel and safeguard the economy from potential Israeli interference.¹ With two studies examining the feasibility of a Palestinian cryptocurrency underway, Dr Milhem said that he hopes eventually to issue a Palestinian digital currency to be used both domestically and internationally, including in Israel.²

Why a digital currency?

The PMA is considering a Palestinian e-currency at a time when Palestinian banks are awash with shekels and having to borrow to cover foreign exchange payments to third parties.³ Palestine does not have a sovereign currency, relying primarily on the Israeli Shekel for day-to-day transactions along with the Jordanian Dinar and U.S. Dollar as stores of value. At the same time, Palestinian workers in Israel, who received \$2.4 billion in total compensation in 2020, are paid in Israeli Shekels in cash, creating a high degree of cash reliance.⁴ In addition, Palestinians from Israel expend an estimated billion dollars annually in cross-border cash purchase of goods and services from the West Bank.⁵ Due to Israeli anti-money laundering laws prohibiting large cash transactions, Palestinian banks can only transfer a limited number of shekels back into Israel monthly. This results in a significant excess of shekels inside the Palestinian territories, forcing the PMA to borrow to cover foreign exchange payments.⁶

Is a Palestinian Digital Currency feasible?

This is not the first time the PMA has suggested the launch of a digital currency. In 2017, the then head of the PMA, Azzam Al Shawwa, announced the PMA's plan to issue a Palestinian e-currency called the Palestinian Pound within five years.⁷ However, since then, progress on this front has been limited, and local economic analysts remain skeptical about the possibility of implementing a digital currency.⁸ Several studies by the Palestine Economic Policy Research Institute (MAS) over the years have examined the necessary macroeconomic structural conditions (not to mention political environment) that would be necessary for issuance of a sovereign currency, which manifestly are absent in the Palestinian case.⁹

Given the inherently weak Palestinian economy due to continued Israeli restrictions on the free flow of goods, people, and services and the heavy reliance of the economy on donor money and remittances from Israel, external financial balances could not sustain an independent Palestinian currency at the domestic and international levels.¹⁰ Palestinian economist Raja Khalidi has commented that "the macroeconomic conditions don't exist to allow a Palestinian currency -digital or otherwise - to exist as a means of exchange".¹¹ Khalidi argues that issuing a digital currency that people can use for daily transactions and store of value is not only inadvisable but also risky "under current political configurations with structural economic distortion and absent of sovereignty or an autonomous Palestinian macroeconomic space".¹²

1 www.aljazeera.com/economy/2021/6/24/

2 www.bnews.ps/ar/node/16175

3 www.aljazeera.com/economy/2021/6/24/

4 www.trtworld.com/magazine and <https://bit.ly/3y4Hp11>

5 <https://bit.ly/2UKrjVu>

6 www.etftrends.com/crypto-channel/

7 <https://english.alaraby.co.uk/news/palestine-hopes-launch-national-digital-currency-five-years>

8 www.trtworld.com/magazine/

9 www.mas.ps/files/server/20151002165628-2.pdf and <https://bit.ly/3i0u65N>

10 www.bloomberg.com/news/articles/2021-06-24/

11 *ibid*

12 *ibid*

In the 1994 Paris Protocol, the Palestinian National Authority (PNA) agreed not to issue its own currency, with the expectation of a two-state solution being reached within the following five years.¹³ Nearly three decades after signing the Protocol, the Palestinian economy remains monetarily reliant on and extremely restricted by Israel. It remains unclear how the e-currency would skirt the Paris Protocol which prohibits the PMA from issuing a currency and gives Israel veto power over the issuance of a Palestinian currency.¹⁴ In addition, without the PMA being truly independent from the executive branch of the government (in line with central banks globally), it is difficult to see how the PMA would be able to enforce and protect the new currency as well as the overall financial stability of the economy.¹⁵

How can the PMA develop the digital foundations of the economy?

The PMA has taken several steps to promote the digital transformation of financial services. Within the last year, five companies have been licensed to provide electronic payment services and two banks have received approval to provide e-Wallet services.¹⁶ This allows subscribers to deposit, withdraw, and transfer funds at any time through a network of traders and authorised agents. The PMA Governor explained that the total number of active e-Wallets is approximately 100,000 including 75,781 males and 19,525 females, while the total number of agents is 846 and the number of traders is 3,394.¹⁷ The PMA has also recently launched a new campaign to raise awareness of e-payment services available for Palestinians.¹⁸

The PMA is also joining central banking institutions globally, to explore the possible issuance of a central bank digital currency (CBDC).¹⁹ To date, no country has officially fully launched a central bank-backed digital currency. Unlike decentralised cryptocurrencies, CBDC are issued and controlled by a central authority, losing one of the most appealing components of cryptos: anonymity.²⁰ Government would be able to monitor all spending and transactions in real-time and around the world, which raises privacy concerns and discourages user adoption.²¹

Although difficult to monitor, approving existing cryptos for daily transactions is probably a more feasible route for countries with weak financial systems and infrastructure aiming to increase financial inclusion. For example, El Salvador, whose economy relies heavily on remittances, is choosing to go a different route and approving existing cryptocurrencies as official legal tender to increase financial inclusion while still maintaining high levels of privacy for its citizens.²² According to a 2018 Coindesk report, Palestinians, although not in large numbers, do use Bitcoin, particularly for international transactions.²³ However, a lack of access to online crypto exchanges that work with local banks remains a significant obstacle.

Palestine Economic Week

Between 6-13 June, Palestinian individuals and businesses across Palestine and Israel participated in Palestine

Economic Week, a youth-led grassroots campaign encouraging Palestinians to “Buy Palestinian.” The campaign gained mass support in the occupied Palestinian territories and amongst Palestinian citizens of Israel. In addition, the local government in a number of West Bank towns provided tax exemptions for shops empty of Israeli products.²⁴

During the Week, youth activist groups and local institutions circulated educational materials to inform Palestinians of the cost of economic dependence on Israel and engage the public with the vision of an economically self-reliant Palestine. The campaign also included farmers’ markets and seminars geared towards invigorating the local small business environment, the Palestinian economy, and a sense of national unity.

A focus on critical segments

Sectors of the Palestinian economy hard-hit by Israeli occupation policies and the Covid-19 crisis were featured during Palestine Economic Week. This included culture and arts activities and advertisements for the tourism industry, which incurred huge losses during the pandemic.²⁵ The campaign also highlighted the issues of Palestinian farmers, who have long struggled to compete with the flood of Israeli agricultural products. To this end, the campaign worked with agricultural cooperatives in areas threatened with land confiscation and featured their agricultural products in markets in Al-Bireh city.²⁶

The campaign also brought attention to the potential of economic integration and interdependence of Palestinians across the “Green Line” separating Israel from the occupied territories.²⁷

Economic disengagement

These efforts follow the most recent policy adopted since April 2019 by the PNA to pursue a policy of economic disengagement from Israel, which became unsustainable in the face of retaliation measures from Israel and the Covid-19 pandemic.²⁸ Earlier policies set the stage for greater economic self-reliance for Palestine, such as the Palestinian National Export Strategy, which aims to increase and diversify exports.²⁹

Attempts to reduce Palestine’s economic dependence on Israel have been largely constrained by the 1994 Paris Protocol, which still serves as the main agreement governing Palestinian-Israeli economic relations. The Protocol, with the declared goal of enabling Palestine’s independent economic development, now hinders this goal after years of Israel’s unilateral actions and a failure to update or revise the framework. As a result, Palestinian dependency on the Israeli economy has deepened.

Palestine Economic Week and similar campaigns show both the promise and the challenges of building Palestine’s economic self-reliance. The recent campaign—while only a small step towards an economy for a sovereign state — reflects the enduring popularity of ‘economic disengagement’ among the Palestinian public. As shown in an in-depth MAS study, disengagement is feasible even within current frameworks, but requires a set of coordinated trade and financial policies and industrial policy measures by the PNA, which so far has proven incapable of adopting.³⁰

13 *ibid*

14 www.reuters.com/world/middle-east

15 www.trtworld.com/magazine/

16 *ibid*

17 *ibid*

18 www.pma.ps/en/Media/Press-Releases/

19 CBDCs are cryptocurrencies regulated/ backed by reserves from the central bank. <https://bit.ly/3zy1zum>

20 <https://cnb.cx/3i8u3Vo>

21 <https://fortune.com/2020/07/30/china-digital-currency-yuan-cbdc/>

22 www.etftrends.com/2021/06/

23 www.coindesk.com/crypto-gaza-west-bank-bitcoin-palestine

24 <https://bit.ly/3iZfRxe>

25 www.maannews.net/news/2041889.html

26 www.alhaya.ps/ar_page.php?id=6a841d3y111690195Y6a841d3

27 www.mas.ps/files/server/2021/Press%20Release/PR_RT4.pdf

28 http://www.xinhuanet.com/english/2019-10/29/c_138510761.htm

29 <https://paltrade.org/uploads/16080491411253702946.pdf>

30 www.mas.ps/files/server/20201811144214-2.pdf

Any large-scale effort to ‘buy Palestinian’ would involve both major changes in Palestinian consumption and trade, in addition to long-term investments in Palestine’s infrastructure and productive sectors.

Initiatives to Support SMEs

This past month, several initiatives were launched to aid micro, small and medium enterprises (MSMEs) in their recovery after the Covid-19 crisis. MSMEs form the backbone of the Palestinian economy, accounting for more than 95% of economic activity and approximately 85% of employment in Palestine.³¹

European Palestinian Investment Platform

On 16 June, the PMA and the European Union assembled for the first meeting of the Working Group on Financing Small and Medium Enterprises.³² The initiative originates from the European Palestinian Investment Platform, launched in December of 2020 to attract investment to Palestine.³³ The Working Group set out to identify strategies for financing small and medium enterprises (SMEs) and the policies and legal interventions necessary to support them. As one result of these efforts, a partnership with the European Investment Bank (EIB) and Bank of Palestine was formed involving a loan of \$50 million to support SMEs in Palestine.³⁴ This financing programme aims to create financial inclusion by providing technical support and other mechanisms to reduce risk in combination with the \$50million in loans to SMEs.

“Estidama” programme

On 8 June, the Governor of the PMA announced an upgraded version of the “Estidama” financing programme, launched last year, entitled “Estidama 2”.³⁵ The first iteration of the programme allocated \$300 million in financing for approximately four hundred medium, small and micro projects. “Estidama 2” added to that for a total of \$435 million, of which \$10 million is allocated to micro projects, to provide further support to the MSMEs most affected by the pandemic as well as low-cost funding to newly launched projects. The funding targets projects in a range of fields, however, priority is given to projects in the sectors of information technology, renewable energy and agriculture, health, and education. In addition, the programme encourages entrepreneurship among target demographics, such as youth and women. By 19 April, the programme had provided \$65m in financing to Palestinian businesses.³⁶

Gaza Update

On 6 July, the Gaza Rapid Damage and Needs Assessment (RDNA) report revealed that the recent 11-day Israeli bombardment of Gaza resulted in up to \$380m in physical damage and \$190 million in economic losses.³⁷ The RDNA was conducted by the World Bank Group (WBG), United Nations (UN), and the European Union (EU) in consultation with civil society organisations and the private-sector in Gaza, between 25 May and 25 June 2021, immediately after the ceasefire.³⁸

Table 1: Damages and losses according to the RDNA

Sector	Description	Losses (\$ million)
Social sectors	Housing, Health, Education, Social Protection and Jobs	180 (93% housing)
Infrastructure	Municipal Services, Transport, Water and Sanitation, Energy and Digital Infrastructure	60-85
Production	Agriculture, Industry, Trade, Services, and Finance	90

Source: RDNA

The report estimates that recovery costs will amount to \$485m during the first 24 months for immediate and short-term relief and reconstruction. RDNA estimates are much larger than the \$322m estimated by the Ministry of Information in Gaza in mid-May, indicating that the damage is even worse than initially announced.³⁹

In terms of critical recovery, 45,000 Gazans require cash assistance for food and non-food assistance, about 4,000 destroyed or partially damaged homes need to be prioritised as more than 7,000 children have lost their homes, and at least 20,000 additional full-time jobs should be provided for 12 months. Early intervention should focus on improving food production in the agri-food and fishery sectors, as well as reconstructing the most damaged micro and small enterprises that provide critical goods, jobs, and services to the community. Recovery efforts should also focus on rebuilding critical infrastructure with a focus on sustainable energy and water efficient resources.⁴⁰

The report highlights that beyond the immediate and short-term reconstruction period, systematic efforts are critical to allow for a sustainable recovery. It recommends that the PNA builds a sustainable governance system and creates an enabling environment that will allow for private sector-led growth and emphasises the importance of upgrading the services at the Karm Abu Salem crossing to allow for necessary relief and reconstruction materials to enter the Gaza Strip. Moreover, the report calls for the support for job creation programmes, the expansion of healthcare services, and the development of mechanisms to ensure the protection of women, youth, and refugees.⁴¹

June Trading

Al-Quds Index increased by 1.3% in June compared to the previous month, reaching 539.9 points on the last day of trading.⁴² A total of 28.5m shares worth \$54.6m were traded during the month, marking a 114.1% increase in the number and 195.3% increase in the value of traded shares compared to May 2021. The industrial sector witnessed the highest increase (6.9% to 102.3 points), followed by the insurance sector (4.7% to 105.1 points).

On 9 June, PEX released the consolidated performance of listed companies for Q1 2021, showing a bounce of 118% in net profits to \$81.5m compared to its low level in Q1 2020.⁴³ Of 46 listed companies, 37 reported profits (\$82.5m, 95% increase), while five companies reported losses totaling \$0.98m. Four companies failed to disclose their results within the legal timeframe.

31 <https://bit.ly/3ycLABi>

32 <https://bit.ly/3qKx40X>

33 <https://bit.ly/3reAvNT>

34 <https://bit.ly/3hYzBlN>

35 <https://bit.ly/3kX2JeG> and www.pma.ps/ar/

36 www.palestineconomy.ps/ar/Article/18005/

37 www.worldbank.org/en/news/press-release/2021/07/06/

38 Ibid

39 www.palestineconomy.ps/ar/Article/18077/

40 www.worldbank.org/en/news/press-release/2021/07/06/

41 Ibid

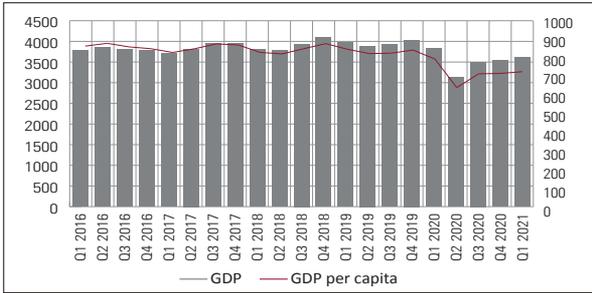
42 <https://bit.ly/3evoC0I>

43 <https://bit.ly/3BeljVm>

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q1 2021

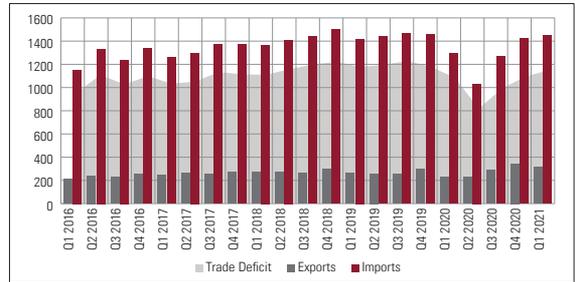


GDP (Q1 2021): \$3,607.5m
Source: PCBS

GDP per capita (Q1 2021): \$737.9

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q1 2021



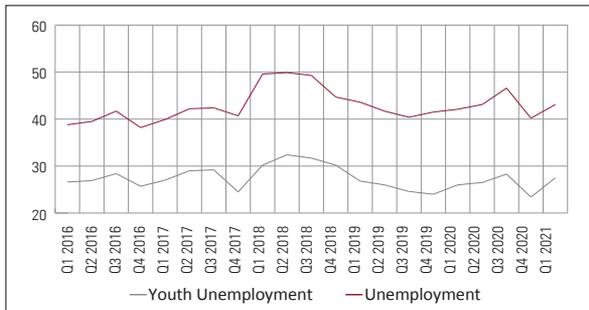
Imports (Q1 2021): \$1,450.1m

Exports (Q1 2021): \$316.4m

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

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q1 2021

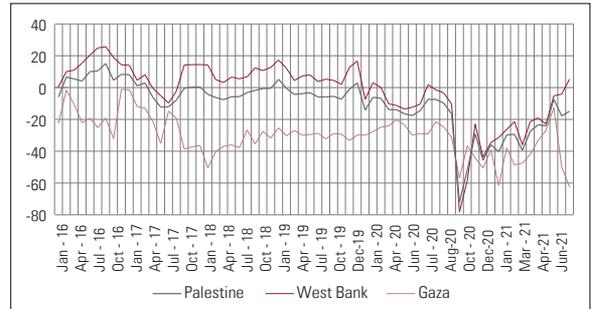


Unemployment rate (Q1 2021): 27.5%
Source: PCBS

Youth Unemployment rate (Q1 2021): 43.1%

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2016 – June 2021

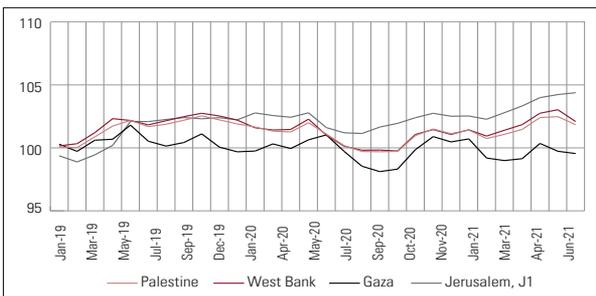


Palestine (June 2021): -14.9
Gaza (June 2021): -62.5
Source: PMA

West Bank (June 2021): 5.3

Inflation

Consumer Price Index (Base year = 2018), January 2019 – June 2021

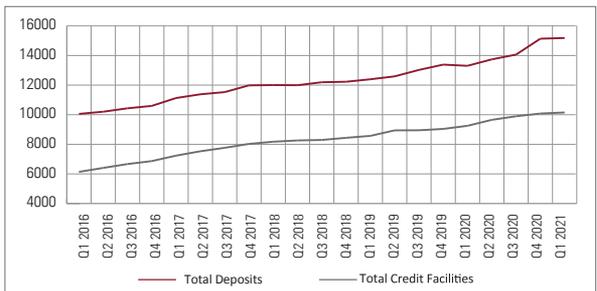


Palestine (June 2021): 101.8
Gaza (June 2021): 99.6
Source: PCBS

West Bank (June 2021): 102.1

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q1 2021



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

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

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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