GDP per capita
West Bank (June 2021): 102.1

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

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.

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GDP (Q1 2021): $3,607.5m
GDP per capita (Q1 2021): $737.9

Imports (Q1 2021): $1,450.1m
Exports (Q1 2021): $316.4m
Trade Deficit (Q1 2021): $1,133.7m

GDP per capita (June 2021): 101.8
West Bank (June 2021): 102.1

Palestine (June 2021): -62.5
Source: PMA

1 The Portland Trust
2 www.alaraby.co.uk/news/palestine-hopes-launch-national-digital-currency-five-years
3 www.aljazeera.com/economy/2021/6/24/
4 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.
5 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.
6 www.aljazeera.com/economy/2021/6/24/
7 www.aljazeera.com/economy/2021/6/24/
8 www.aljazeera.com/economy/2021/6/24/
9 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.
12 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.

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.

Why a digital currency?
The PMA is considering a Palestinian e-currency at a time when Palestinian banks are awash with shekels and have to borrow to cover foreign exchange payments to third parties. 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.

In addition, Palestinians from Israel expend an estimated billion dollars annually in cross-border cash purchase of goods and services from the West Bank. 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.

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, Azizam Al Shawwa, announced the PMA’s plan to issue a Palestinian e-currency called the Palestinian Pound within five years. However, since then, progress on this front has been limited, and local economic analysts remain skeptical about the possibility of implementing a digital currency.

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.

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. Palestinian economist Raja Khaldi has commented that “the macroeconomic conditions don’t exist to allow a Palestinian currency -digital or otherwise - to exist as a means of exchange”.

Khaldi 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”.

1 www.epris.org/en/press/pressrelease161924
5 www.itrhind.com/crypto-channel
6 https://cryptolibrary.co.uk/view/palestine-hopes-launch-national-digital-currency-five-years
In the 1994 Paris Protocol, the Palestinian National Authority (PNA) agreed not to issue its own currency, with the exception ofonetown in the West Bank, El’Arabia. Since then, Palestinians have turned to cryptocurrencies within the following five years.15 Nearly three decades after signing the Protocol, the Palestinian economy remains monetarily reliant on and extremely restricted by Israel. It remains unclear how the currencystandards in the Paris Protocol which prohibits the PMA from issuing a currency and gives Israel veto power over the issuance of a Palestinian currency.16

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.17

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 systems and services. One of them was approved to provide e-Wallet services.18 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 3,394.19

The PMA has also recently launched a new campaign to raise awareness of e-payment services available for Palestinians.20

The PMA is also joining central banking institutions globally, to explore the possible issuance of a central bank digital currency (CBDC).21 To date, no country has officially launched a central bank-backed digital currency. Unlike decentralised cryptocurrencies, CBDC and central banks have promised and committed to one of the most appealing components of cryptos: anonymity.22

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.23

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 approve existing cryptocurrencies as official legal tender to increase financial inclusion while still maintaining high levels of privacy protection.24 According to a 2019 Cointelegraph report, Palestinians, although not in large numbers, do use Bitcoin, particularly for international transactions.25

However, a lack of regulation to prevent illegal exchanges that work with local banks remains a significant obstacle.26

Palestine Economic Week

Between 6-13 June, Palestinian individuals and businesses across Palestine and Israel participated in Palestine Economic Week. This included culture and arts activities and advertisements for the tourism industry, which incurred huge losses during the pandemic. The campaign was launched to inform Palestinians of the cost of economic dependence on Israel and engage the public with the vision of an economy with a self-reliant country, which 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 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 with the aim of helping Palestinian businesses recover from 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.28

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.29 The initiative originates from the European Palestinian Investment Platform, launched in 2020, under the framework of the European Investment to Palestine.30

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.31

This financing programme aims to create financial inclusion by providing technical support and other mechanisms to reduce risk in combination with the $50 million in loans to SMEs.

Estidama programme

On 8 June, the Governor of the PMA announced an amended version of the financing programme, launched last year, entitled “Estidama 2”.32 The first iteration of the programme allocated $300 million in financing for approximately four hundred medium, small and micro enterprises, leveraging a total of $100 million from total capital of which $10 million is allocated to micro projects, to provide further support to the MSMEs most affected by the pandemic and in need of additional funding.33

This funding programme 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 particular, 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.

Gaza Update

On 6 July, the Gaza Rapid Damage and Needs Assessment (RDNA) report revealed that the recent 11-day Israeli bombardment on Gaza resulted in up to $389m in damage and $190 million in economic losses.34 The RDNA was conducted by the World Bank Group (WBG), United Nations (UN), and the European Union (EU) in consultation with civil society organizations and the private sector in Gaza, between 25 May and 25 June 2021, immediately after the ceasefire.35

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.

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 that two-thirds of Gaza’s economic activity is supported by the Ministry of Information in Gaza in mid-May, indicating that the damage is even worse than initially anticipated.36

In terms of critical recovery, 45,000 Gazans need 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.27 Gaza recovery 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.

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 build a sustainable governance system and create 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 and exit 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.38

June Trading

Al-Dus Index increased by 1.3% in June compared to the previous month, reaching 529.5 points.39 In addition, total trading was $28.5m, a decrease of 11.6% from May.40 A total of 28.5m shares worth $4.6m were traded during the month, marking a 11.4% increase in the number and 195.3% increase in the value of traded shares compared to May. The report noted that the biggest increase in trading came in the highest index (6.3% to 102.3 points), followed by the insurance sector (4.7% to 105.1 points).

On 3 June, PEX released the consolidated performance of listed companies for Q1 2021, showing a bounce of 11% in net profits to $81.5m compared to its low level in Q1 2020.41 Of 46 listed companies, 37 reported profits ($82.5m in 95% increase), while five companies reported losses totalling $425,000. (Sources: Palestinian Ministry of Economy).42 Palestinian businesses have failed to disclose their results within the legal timeframe.

Table 1: Damages and losses according to the RDNA

<table>
<thead>
<tr>
<th>Sector</th>
<th>Description</th>
<th>Issues &amp; medium (in millions of USD)</th>
</tr>
</thead>
</table>
| Production | Agriculture, Industry, Trade, Services, and Finance | 90
| Infrastructure | Sanitation, Energy and Digital Infrastructure | 40-50

Source: RDNA

1 www.sauer.com/worldwide-east
2 www.etftrends.com/2021/06/
3 https://cnb.cx/3i8u3Vo
4 www.coindesk.com/crypto-gaza-west-bank-bitcoin-palestine
5 www.etftrends.com/2021/06/
6 20 https://cnb.cx/3i8u3Vo
7 22 www.palestineeconomy.ps/ar/Article/18005/
8 21 https://bit.ly/20Y7yUm
12 17 ibid
13 14 www.rauter.com/worldwide-east
14 www.rauter.com/magazine
15 ibid
16 ibid
17 www.pma.ps/en/Media/Press-Release/
18 www.etftrends.com/2021/06/
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46 44 www.etftrends.com/2021/06/
48 www.etftrends.com/2021/06/
49 https://bit.ly/3evoC0I
In the 1994 Paris Protocol, the Palestinian National Authority (PNA) agreed not to issue its own currency, with the expectation of the establishment of a Palestinian monetary authority. This was followed by the Agreement on Principles of 1995, signed in Wye River, Maryland, U.S., which called for the establishment of a Palestinian Monetary Authority (PMA) that would be a replacement for the Jordanian branch of the Bank of Israel. The PMA was officially fully launched in 2020, according to the PNA website.”

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 payments and services, and more are expected to be approved to provide e-Wallet services. 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, the number of merchants is 86, and the number of transactions is more than 95% of economic activity and approximately 85% of employment in Palestine.

A focus on critical segments

Sections of the Palestinian economy hard-hit by Israeli occupation policies and the Covid-19 crisis were fisheries, agriculture, and tourism. This included culture and arts activities and advertisements for the tourism industry, which incurred huge losses during the pandemic. The campaign also raised awareness of 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.

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.

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. 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. The PMA has also recently launched a new campaign to raise awareness of e-payment services available for Palestinians.

The PMA is also joining central banking institutions globally, to explore the possible issuance of a central bank digital currency (CBDC). To date, no country has officially launched a central bank-backed digital currency. Unlike decentralised cryptocurrencies, CBDCs are issued and controlled by central authorities, losing one of the most appealing components of cryptos: anonymity. 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. 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, has recently launched a CBDC route and approving existing cryptocurrencies as official legal tender to increase financial inclusion while still maintaining high levels of privacy. According to a 2019 CoinDesk report, Palestinians, although not in large numbers, do use Bitcoin, particularly for international transactions. However, a lack of access to CBDCs continues to be a challenge 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 momentum among Palestinian territiories 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.

During the Week, youth activist groups and local institutions collaborated to raise awareness of the need to inform Palestinians of the cost of economic dependence on Israel and engage the public with the vision of an economic self-reliance campaign. This included farmers’ markets and seminars geared towards invigorating the local small business environment, the Palestinian economy, and a sense of national unity.

Initiatives to Support SMEs

This past month, several initiatives were launched to aid SMEs, as the West Bank is in the fourth phase of 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.

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On 16 June, the PMA and the European Union assembled for the official launch of the Working Group on Financing Small and Medium Enterprises. The initiative originates from the European Palestinian Investment Platform, launched in October 2020, with a fund of €100 million to invest in Palestine. 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. This financing programme aims to create financial inclusion by providing technical support and other mechanisms to reduce risk in combination with the $50 million in loans to SMEs.

Estidama programme

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The Governor had promised $565 million in financing to Palestinian businesses.

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<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Water, Sanitation, Energy and Digital Infrastructure</td>
<td>$485m</td>
<td>$565m</td>
<td>$1,050m</td>
</tr>
<tr>
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<td>Agriculture, Trade, Services, and Finance</td>
<td>$190m</td>
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<td>$755m</td>
</tr>
</tbody>
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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 based on data collected by the Ministry of Information in Gaza in mid-May, indicating that the damage is even worse than initially anticipated.

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30 www.alhaya.ps/ar_page.php?id=6a841d3y111690195Y6a841d3
31 1912128068088
33 https://www.who.int/news-room/fact-sheet/detail/estidama-programme
34 http://www.etftrends.com/2021/06/18/2021-united-nations-sustainable-development-goals-world-forecast/
35 www.alhaya.ps/ar_page.php?id=6a841d3y111690195Y6a841d3
38 Ibid
41 Ibid
42 https://bit.ly/3evoC0I
43 https://bit.ly/3BeljVm
44 www.cartercenter.org/crypto-gaza-west-bank-digital-palestine
GDP and GDP Per Capita

Gaza (June 2021): 99.6
Palestine (June 2021): 101.8
West Bank (June 2021): 102.1

Source: PCBS

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

Palestine Economic Dashboard

Palestine Economic Dashboard

Palestinian Digital Currency

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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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