

## PALESTINIAN ECONOMIC BULLETIN

Bulletin 154  
July 2019

### Main reports

*The Palestinian Central Bureau of Statistics published on 26 June Palestine's Balance of Payments report for the first quarter of 2019*

*The United States Administration convened on 25 June the "Peace to Prosperity" workshop in Manama, Bahrain*

*The Palestinian Central Bureau of Statistics published on 19 June Palestine's International Investment Position and External Debt report for the first quarter of 2019*

*Al-Quds index reached 519.8 points on the last day of trading of June 2019, a decrease of 1.8% from the previous month*

### International Community Pledges \$110 million to UNRWA

On 25 June, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) held its annual donor pledging conference in New York. Representatives of governments and institutions gathered with the goal of fundraising for its services, which are offered to 5.4 million Palestinian refugees worldwide.<sup>1</sup> These services include food assistance for over one million refugees in the Gaza Strip, cash assistance for over 400,000 refugees in Syria, and the provision of education to around 532,000 Palestinian refugee children through 708 UNRWA schools.<sup>2</sup>

During the event, attendees reiterated their commitment to Palestinian refugees, pledging over \$110 million towards reducing UNRWA's 2019 funding gap.<sup>3</sup> This year, UNRWA launched an emergency appeal totaling \$1.2 billion, corresponding to the amount raised the previous year.<sup>4</sup> During 2018, the agency witnessed the biggest financial and institutional crisis to date, due to the ending of US annual contributions resulting in a deficit of \$446 million. In response, UNRWA cut its total expenditure by \$92 million and managed to secure contributions from a number of countries and institutions to cover the remaining deficit. This year, UNRWA is expected to face a similar situation.<sup>5</sup>

### Balance of Payments

On 26 June, the Palestinian Central Bureau of Statistics (PCBS) published Palestine's Balance of Payments (BoP) report for the first quarter of 2019. BoP is a record of all economic transactions between residents in Palestine and the rest of the world during a specific period. These transactions consist of imports and exports of goods, services and capital, as well as transfer payments such as foreign aid and remittances.

**Table 1: Breakdown of Balance of Payments into Sub-accounts**

<b>Balance of Payments = Current Account + Capital Account + Financial Account</b>
<b>1. Current Account</b> = Net Trade in Goods + Net Trade in Services + Net Income + Net Current Transfers
a. Net Trade in Goods and Services = Exports of Goods and Services – Imports of Goods and Services
b. Net Income = Receipts from Abroad <sup>6</sup> – Foreign Payments
c. Net Current Transfers = Net Transfers to General Government + Net Transfers to Other Sectors <sup>7</sup>
<b>2. Capital Account</b> = Net Capital Transfers + Net Acquisitions/Disposals of Non-Produced, Non-Financial Assets
<b>3. Financial Account</b> = Net Direct Investment + Net Portfolio Investment + Net Other Investment (including currency, loans and deposits) + change in Reserve Assets + Net Errors and Omissions

Source: PCBS

1 <https://bit.ly/2SiTiW0>

2 <https://bit.ly/30xXH14>

3 [www.aliqtisadi.ps/article/69039/](http://www.aliqtisadi.ps/article/69039/)

4 <https://bit.ly/2DFXFVX>

5 See issue B150 of the Bulletin.

6 Receipts from Abroad = Compensation of Employees in Israel + Compensation of Employees in Countries Other Than Israel + Foreign Investment Income

7 Net Transfers to the General Government and to other sectors are divided between transfers from donors and transfers from non-Donors

According to the latest data, the current account deficit reached \$306m (or 8.3% of GDP) in Q1 2019, a decrease of 23% compared to the previous quarter.<sup>8</sup> The shrinking of the current account deficit was mainly driven by a 3.8% (\$57.7m) decrease in the trade deficit, which stood at \$1.46bn. This decrease, which is a result of a drop in the value of both imports and exports, seems to reflect the recessionary economic climate rather than an improvement in terms of trade.<sup>9</sup> The large gap between the value of total imports (\$2,181.3m) and the value of total exports (\$718.7m) means that movement in the level of exports is miniscule in absolute terms when compared to movements in the level of imports.

**Table 2: BoP, Palestine, Q1 2018, Q4 2018 and Q1 2019**

Item	Q1 2018 (USD millions)	Q4 2018 (USD millions)	Q1 2019 (USD millions)	Change (%) (Q4 2018-Q1 2019)	Change (%) (Q1 2018-Q1 2019)
Current account	-442.1	-399.2	-306.0	-23.3%	-30.8%
Ratio of Current account to GDP	12%	12%	-	-	-
Trade Deficit	-1,359.3	-1,520.3	-1,462.6	-3.8%	7.6%
Ratio of Trade Deficit to GDP	37%	37%	-	-	-
Compensation of workers in Israel	556.8	533.2	630.9	18.3%	13.3%
Investment Income	34.7	117.9	46.8	-60.3%	34.9%
Current transfers (net)	348.3	508.8	516.8	1.6%	48.4%
Capital account (net)	95.2	105.3	-25.4	-124.1%	-126.7%
Financial account (net)	517.1	222.9	192.1	-13.8%	-62.9%

Source: PCBS and PMA

The adverse economic climate was further depressed by PNA's fiscal crisis. In Q1 2019, Palestine recorded a financial account surplus of \$192.1m, a 13.8% decrease from the preceding quarter. This decrease was driven by a significant decline in foreign currency held in Palestinian banks and the Palestine Monetary Authority (PMA), in addition to a decline of deposits of Palestinian institutions invested abroad. Furthermore, the capital account recorded a deficit, dropping by 124.1% in Q1 2019 from the previous quarter. This followed a steep decline (\$42m) in capital transfers from donors to the general government and a \$96.8m increase in capital outflows.

## US Administration publishes regional economic programme

On 25 June, the United States Administration convened the "Peace to Prosperity (PtP)" workshop in Manama, Bahrain. During the two-day workshop, the Administration released the economic component of its Middle East policy,<sup>10</sup> which aims to facilitate over \$50 billion in new investments for Palestinians (\$27.8bn), Jordan (\$7.4bn), Egypt (\$9.2bn) and Lebanon (\$6.3bn), over the next ten years.<sup>11</sup>

The initiative proposes 147 economic development projects in the West Bank and Gaza Strip, with a focus on infrastructure, transportation, private enterprise, economic industries, education, healthcare, property rights, governance and reform. The investment programme aims to utilise subsidised loans as the main source of funding for the programme (\$25.7bn), followed by grants (\$13.4) and private capital (\$11.6). A special fund is proposed to manage the financial and project support of these investments.<sup>12</sup>

According to the Administration, the proposed investment plan could, over the period of ten years, double Palestinian GDP, currently standing at \$14.6 billion,<sup>13</sup> and reduce the unemployment rate, which reached 30.8% in 2018,<sup>14</sup> to single digits by creating over one million jobs for Palestinians. These developments are also expected to halve the poverty rate, which reached 29.2% in 2017<sup>15</sup>.

The initiative reveals a similar approach to previous international investment plans for Palestine, including proposals by the private sector, government planning documents, independent analysis, in addition to previous studies by international organisations. Most prominently, the "Palestinian Economic Initiative", sponsored in 2013 by then US Secretary of State John Kerry, aimed to deliver a \$4bn private sector-led investment programme focusing on pivotal economic sectors and to reduce reliance on Israel.<sup>16</sup> The "Kerry Plan" had ambitious goals and projected significant results if implemented successfully; 50% growth in real GDP and a fall in unemployment from 23% to 8% within three years.<sup>17</sup>

While previous economic initiatives required internal Palestinian reforms, their success was ultimately dependent on the easing of Israeli restrictions on the Palestinian economy. Termed 'enablers' under the Kerry plan, proposed measures by the Government of Israel (GoI) to ease restrictions included the assumption of the GoI of its responsibilities under the Paris Protocol, granting Palestinians more access to land and resources in Area C, East Jerusalem, and the Jordan Valley, as well as the facilitation of crossings between Israel and the Gaza Strip.<sup>18</sup> According to a study published by the World Bank Group in 2014, alleviating Israeli restrictions on Palestinian access to and use of Area C<sup>19</sup> alone is likely to generate an \$3.4 billion per annum in value-added to the Palestinian economy.<sup>20</sup> Over ten years, this could generate around \$34 billion in additional output.

12 <https://bit.ly/30SCNn8>

13 [www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/E.QNA\\_Current.html](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/E.QNA_Current.html)

14 <https://bit.ly/2ZbAsDA>

15 [www.pcbs.gov.ps/Document/pdf/txt\\_e\\_poverty2017.pdf?date=16\\_4\\_2018\\_2](http://www.pcbs.gov.ps/Document/pdf/txt_e_poverty2017.pdf?date=16_4_2018_2)

16 [www.quartetoffice.org/files/image/quartet/documents/ahlc-sept-2013.pdf](http://www.quartetoffice.org/files/image/quartet/documents/ahlc-sept-2013.pdf)

17 [www.palestine-studies.org/jps/fulltext/164336](http://www.palestine-studies.org/jps/fulltext/164336)

18 [www.palestine-studies.org/jps/fulltext/164336](http://www.palestine-studies.org/jps/fulltext/164336)

19 60% of the West Bank is under the military & administrative control of the GoI

20 <https://bit.ly/2YSyY0R>

8 <https://bit.ly/2SzMLa8>

9 See issue B148 of the Bulletin

10 [www.whitehouse.gov/peacetoprosperty/](http://www.whitehouse.gov/peacetoprosperty/)

11 <https://bit.ly/2K2gVii>

The PtP initiative attracted widespread official and public condemnation in Palestine, largely due to the lack of political context.<sup>21</sup> Prime Minister Dr Mohammed Shtayyeh stated that the Palestinian National Authority (PNA) was not consulted about the workshop, and reiterated the Government's rejection of the 'economic peace' approach to the Palestinian-Israeli conflict.<sup>22</sup> Additionally, six representative Palestinian private sector institutions released a statement clarifying the reasons behind the Palestinian business community's rejection of the Manama workshop. The representatives stressed that the initiative ignored the real reasons for the stagnation of Palestinian economy, namely, the continued and "systematic restrictions" on Palestinian sovereignty over land and resources.<sup>23</sup> They stated that 'economic peace' has been "tried by successive US administrations and has failed every time precisely because sovereignty for Palestinians was lacking."<sup>24</sup>

## International Investment Position and External Debt in Q1 2019

On 19 June, the PCBS published the International Investment Position (IIP) and External Debt report for the first quarter of 2019. IIP reflects a nation's balance sheet with the rest of the world including overseas assets and liabilities held by the government, the private sector and citizens. External debt refers to the portion of a country's debt that was borrowed from foreign lenders including commercial banks, governments or international financial institutions.

According to the report, the stock of investments of Palestinian residents outside Palestine (total external assets of \$6,841m) exceeded investments in Palestine by non-residents (total foreign liabilities \$5,117m) by \$1,724m in Q1 2019.<sup>25</sup> Compared to the previous quarter, Palestine's IIP increased by 3.9%, driven by a 151.6% (\$191m) increase in the general government accounts receivable<sup>26</sup> (mainly the clearance revenues held by Israel). Compared to Q1 2018, IIP increased by 63.6%, also driven by a \$271m increase in the general government accounts receivable, along with a 19.5% (\$86m) decrease in foreign deposits at local banks and a 198.6% (\$280m) increase in local investments in foreign markets. These figures indicate a net outflow of capital from the local market.

21 <https://bit.ly/2JZaJYt>

22 <https://bit.ly/2JKMXPJ>

23 <http://english.wafa.ps/page.aspx?id=uCwp0va110502330312auCwp0v>

24 <http://english.wafa.ps/page.aspx?id=uCwp0va110502330312auCwp0v>

25 <https://bit.ly/2JMNEJA>

26 the balance of funds due to the government but not yet paid

**Table 3: IIP, Palestine, Q1 2018, Q4 2018 and Q1 2019**

	Q1 2018 (USD millions)	Q4 2018 (USD millions)	Q1 2019 (USD millions)	Change (%) (Q4 2018- Q1 2019)	Change (%) (Q1 2018- Q1 2019)
1. Direct investment, net	-2,295	-2,374	-2,388	0.6%	4.1%
2. Portfolio investment, net	283	725	647	-10.8%	128.6%
3. Other investment, net	2,513	2,770	2,882	4.0%	14.7%
4. Reserve assets, net	553	538	583	8.4%	5.4%
Net IIP	1,054	1,659	1,724	3.9%	63.6%
Ratio of Net IIP to GDP	28.6%	44.8%	-	-	-

Source: PCBS and PMA

At the end of Q1 2019, Palestine's gross external debt amounted to \$1.7bn, an increase of 9.4% from the previous quarter, and 2.4% compared to Q1 2018. Changes in gross external debt between Q1 2019 and Q4 2018, were driven by a significant increase in the short- (40.8%) and long-term (30.0%) debt of private banks (\$146m), which increased by 35% during the same period. Such changes reflect the rising indebtedness and risk exposure of the local banking sector as it started to lend to the financially distressed Palestinian government as of March 2019. On the other hand, year-on-year changes were mainly caused by a 26% (\$59m) increase in private banks' long-term debt, partially offset by a 7.1% (\$21m) decrease in private banks' short-term debt.

The general government debt constituted 61.4% of the total debt in Q1 2019, while the debt of private banks constituted 33.5% (increased from 27.2% in Q4 2018). The remaining debt was held by other sectors (2.5%) and lending between affiliated companies (2.6%).

**Table 4: External Debt, Palestine, Q1 2018, Q4 2018 and Q1 2019**

Economic Sector	Q1 2018 (USD millions)	Q4 2018 (USD millions)	Q1 2019 (USD millions)	Change (%) (Q4 2018- Q1 2019)	Change (%) (Q1 2018- Q1 2019)
General Government	1,040	1,032	1,031	-0.1%	-0.9%
Banks	525	417	563	35.0%	7.2%
Other Sectors	70	42	42	0.0%	-40.0%
Direct investment: lending between affiliated companies	5	44	44	0.0%	780.0%
Gross External Debt Position	1,640	1,535	1,680	9.4%	2.4%
External Debt to GDP	44.4%	42.6%	-	-	-

Source: PCBS and PMA

## June Trading

Al-Quds index reached 519.8 points on the last day of trading of June, a decrease of 1.8% from the previous month.<sup>27</sup> Throughout the month, a total of 5.7m shares with a total value of \$10.3m were traded, marking a 39.5% drop in the number and a 29.5% decrease in the value of traded shares compared to May 2019.

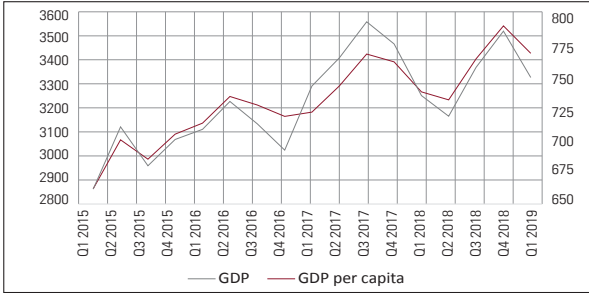
The banking and financial services sector index was the most affected during the month with a 5.17% decrease to 141.1 points. This may reflect the increased risk exposure of local banks as they expand their credit to the PNA, and the intensified uncertainty surrounding the Palestinian economy.

27 <https://bit.ly/2y4CxoW>

# Palestine Economic Dashboard

## Growth

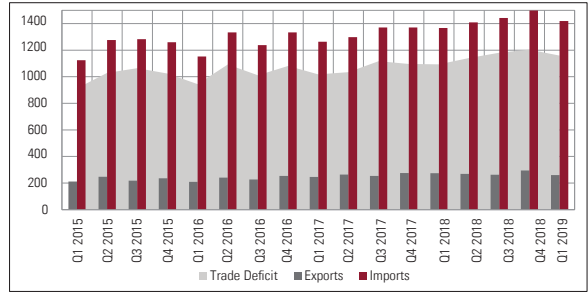
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2019



GDP (Q1 2019): \$3,504.6m    GDP per capita (Q1 2019): \$755.4  
Source: PCBS

## Trade

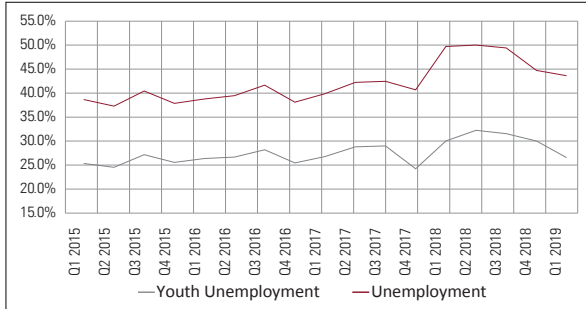
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2019



Imports (Q1 2019): \$1,419.2m    Exports (Q1 2019): \$260.2m  
Trade deficit (Q1 2019): \$1,159m    Source: PCBS

## Unemployment

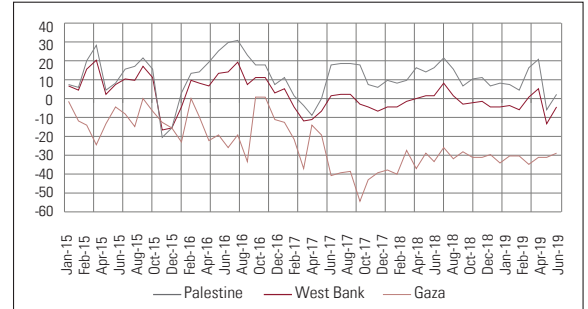
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q1 2019



Unemployment rate (Q1 2019): 26.8%    Youth Unemployment rate (Q1 2019): 44.7%  
Source: PCBS

## Business Cycle Index

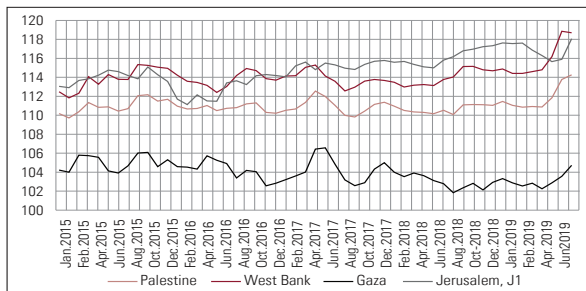
Palestine Monetary Authority Business Cycle Index, January 2015 – June 2019



Palestine (June 2019): -6.7    West Bank (June 2019): 0.1  
Gaza (June 2019): -24.9    Source: PMA

## Inflation

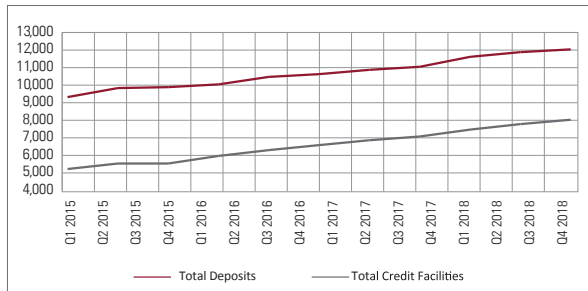
Consumer Price Index (Base year = 2010), January 2015 – June 2019



Palestine (June 2019): 113.7    West Bank (June 2019): 118.3  
Gaza (June 2019): 103.4    Source: PCBS

## Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2018



Total Credit Facilities (Q4 2018): \$ 8,437.9m    Total Deposits (Q4 2018): \$12,227.3m  
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](mailto:feedback@portlandtrust.org)

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