GDP per capita
West Bank
Gaza
Imports
Exports
Gaza (May 2019): 104.7 Source: PCBS
Palestine (May 2019): 114.3
West Bank (May 2019): 118.7
Consumer Price Index (Base year = 2010), January 2015
Inflation
Source: PCBS
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q4 2018
Unemployment rate (Q4 2018): 30.2%
Youth Unemployment rate (Q4 2018): 44.7%
Palestine, Q1 2015 – Q4 2018
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q4 2018
Update on the PNA’s Financial Crisis
On 5 June, the Palestinian Prime Minister, Dr Mohammed Shtayyeh, warned that the Government will not be able to continue operating for longer than a few months.1
The current ‘clearance revenue’ impasse,2 as well as the ending of US aid, has led to a steep financial crisis, compounding the adverse impact of the lacklustre economic performance of 2018. As a result, for the past four months the PNA has paid only 50%-60% of monthly salaries to public employees earning more than ILS 2,000 (around $550).3 The PNA has also increased its borrowing from the local banking sector, accumulating arrears in the process as it is unable to pay private sector service providers.
The international community has been warning of the PNA’s imminent financial crisis for years, often calling for the PNA to continue its austerity measures to reduce its deficit; for the international donors to increase financial aid for the PNA; and the Government of Israel (GoI) to ease its restrictions.4 However, over the past five years, donor support has decreased by more than 58%,5 with no signs of the easing of the restrictions by the GoI.
With limited space left for austerity measures, and the inability of international donors to cover the financial gap caused by the clearance revenue crisis, the PNA has called to activate the “Arab Financial Safety Net”, a mechanism established during the Arab League meeting in Baghdad in March 2012.6 Under this mechanism member states agreed to grant the PNA $100m monthly to help partially compensate for the decline in donor aid and the withholding of clearance tax revenues by the GoI.1 So far, only $40m of the pledged amount has been received.7
On 6 May, Qatar pledged $480m in support to the PNA.8 Of the total amount, $300m is to be allocated to the PNA’s budget for health and education, of which only $50m is a grant and $250m is a loan to be repaid in $21m monthly installments. The remaining $180m will be allocated by the PNA to the Gaza Strip for humanitarian projects. On 28 May, Palestinian businessmen have also pledged loans to the PNA of up to $150m to be provided over the next three months.9

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
Total Deposits (Q4 2018): $12,227.3m
Source: PMA

The Al-Quds index reached 525.4 points on the last day of trading in May, a decrease of 0.74% from the last day of trading in April

The Portland Trust

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PALESTINIAN ECONOMIC BULLETIN
Bulletin 153
June 2019
Main reports
The Palestinian Prime Minister Dr Mohammad Shtayyeh announced on 20 May the launch of the Government’s 100-day plan
Massader, the Palestine Investment Fund’s subsidiary for investments in natural resources and infrastructure development, announced on 23 May that Palestine’s first solar power station, Noor Jericho Solar Park, will go into operation in late June
The Al-Quds index reached 525.4 points on the last day of trading in May, a decrease of 0.74% from the last day of trading in April

1 www.nytimes.com/2019/06/05/world/middleeast/palestinian-prime-minister-israel.html
2 Explained in the last issue of the PEB: https://bit.ly/2Iyi4fa
3 http://palestinecabinet.gov.ps/Website/AR/ViewDetails?id=40734&salaries below ILS 2000 were paid in full
4 https://carnegieendowment.org/sada/79050
5 https://bit.ly/2Xrj0xl
7 www.middleeastmonitor.com/20190421-arab-league-pledges-100m-per-month-to-palestinian-authority/
8 https://reut.rs/2WowgyO
9 https://reut.rs/2XACFee
10 www.alquds.com/articles/156118123761321600/
stronger relations with more Asian countries). Furthermore, in order to reassure donors that the invested money would be used for the intended purposes, the project would have to take on extra credit with the PMA. Even though this would require closer cooperation with the Bank of Israel in order to establish a credit facility to ease PNA access to NIS reserves, it would create a better investment climate by stabilising inflation and real interest rates and avoiding the crowding out of the private sector.

The researchers argue that issuing bonds without an independent currency and a fully-fledged central bank capable of intervening in money markets would “shrink havoc on the economy”, by generating high interest rate volatility and financial instability. Typically, when governments issue bonds, central banks ensure that public debt remains a safe asset by acting as a “lender of last resort.” In the case of government default, the central bank would purchase government debt securities from the market. Without a fully-fledged central bank that is able to perform that function, the higher risk associated with issuing public debt, however, it also asserts that such a strategy is necessary to rectify the large imbalances through increasing the share of exports and therefore reducing the dependence on foreign currency reserves, as well as the vulnerability to Israeli clearances suspensions in the long-run.

The Palestinian Government’s One Hundred Days Plan

On 20 May 2019, the Palestinian Prime Minister Dr Mohammad Shtayyeh announced the implementation of Government’s 100-day plan that seeks to address the economic crisis currently faced by the Palestinian National Authority (PNA).14 The plan, as presented by the Prime Minister, aims to achieve economic, social, and political objectives through 125 Government interventions.15 These interventions focus on the following key themes: Economic disengagement from Israel: this involves reducing the PNA’s dependency on imported goods and services from Israel, encouraging domestic production and strengthening economic cooperation with neighboring countries. As a first step, the PNA ceased medical referrals for tertiary care to Israeli hospitals and imposed a 10% import duty on all Palestinian goods and services imported from Israel. Within the 100 days of the plan, local authority by-elections will be held in 14 municipalities where a majority of municipal positions are vacant. Within the 100 days of the plan, the plan to introduce technical and vocational training programmes for school and university graduates and establish a university college for technical education. Institutional reform: the PNA is launching new institutional reforms to improve transparency and representation, in addition to boosting public sector revenues. Social Development. The Government also intends to allocate $140.2 million to produce 200MW of electricity per annum, equivalent to 17.5% of Palestine’s current power consumption, within eight years. In addition to NJSP, the programme includes a number of solar energy projects: • Two solar parks are under construction in Tubas and Jenin with a total generation capacity of 13.5MW. • Solar PV systems are being deployed on the rooftops of 500 public schools across Palestine. The first stage of this project will be completed within three years and Massader expects it to generate 35MW of electricity. A plan to provide renewable energy to residential, commercial, and governmental buildings through rooftop solar PV systems. This project is expected to supply another 35MW of electricity. Massader aims to contribute to Palestine’s energy security and independence through these projects, as Palestine imports approximately 170% of its annual power needs from Israel.16 According to Dr Mustafa, the West Bank consumes about 700m a year in electricity and Palestine plans to cut imports from Israel by 50% over the next decade.

May Trading

The Al-Quds index reached 52.5 points on the last day of trading in May, a decrease of 0.74% from the last day of trading in April. Meanwhile, the PAIX index, with a value of $140.2m, were traded, marking a 25.2% decrease in the number and a decrease of 34.3% in the value of traded shares compared to April 2019. In related news, total net profits for listed companies during Q1 2019 amounted to $58.4m, an increase of 9.1% from the corresponding quarter in 2018.24 Out of 48 listed companies, 19 reported profits, six reported losses and three failed to disclose within the deadline.
New Study Proposes Policy Interventions for Sustainable Deficit Financing


The study was prepared by MAS, which has commissioned an international team of economists,12 upon request by the Palestine Monetary Authority (PMA).13

According to the study, the current modes of deficit financing cannot be sustained indefinitely, as domestic stocks of foreign reserves are being rapidly depleted, and the accumulation of arrears and debt is raising an alarming rate. This leaves the government with two monetary policy options: either continuing to issue debt securities on capital markets or introducing a Palestinian currency to finance expenditure via the PNA.14

The researchers argue that issuing bonds without an independent currency and a fully-fledged central bank capable of intervening in money markets would “weaken havoc on the economy”, by generating high interest rate volatility and financial instability. Typically, when governments issue bonds, central banks ensure that public debt remains a safe asset, as the lender of last resort.15 In the case of government default, the central bank would purchase government debt securities from the market. Without a fully-fledged central bank that is able to perform that function, defaulting countries risk ending up in a potentially unstable and volatile nature of capital markets without a lender of last resort, the authors discourage PNA from financing the Palestinian deficit through issuing government bonds. While the study recognises the merits of a national currency as critical to conduct independent monetary policy and contribute to economic stability as well as stabilising government deficit financing, it asserts that the government should only consider the introduction of a Palestinian currency as part of a broader development strategy. The PNA, would incentivise private investments in export sectors and minimise further concentration of investments in consumption and real estate/construction. The study acknowledges the risks associated with issuing public debt; however, it also asserts that such a strategy is necessary to rectify the large imbalances through increasing the share of exports and therefore reducing the dependence on foreign currency reserves, as well as the vulnerability to Israeli clearance suspensions in the long-run.

The Palestinian Government's One Hundred Days Plan

On 20 May 2019, the Palestinian Prime Minister Dr Mohammad Shtayyeh announced the Government’s 100-day plan that seeks to address the critical fiscal situation. The plan, as presented by the Prime Minister, seeks to achieve economic, social and political objectives through 135 Government interventions.16 These interventions focus on the following key themes:

1. Economic disengagement from Israel: this involves reducing the PNA’s dependency on imported goods and services from Israel. As part of this, the Government aims to encourage domestic production and strengthening economic cooperation with neighboring countries. As a first step, the PNA ceased medical referrals for tertiary care to Israeli hospitals and increased the price of medical goods. Additionally, within the 100 days of the plan, local authority by-elections will be held in 14 municipalities where a majority of municipal council members have resigned. The plan also aims to put in place technical and vocational training programmes for school and university graduates and establish a university college for technical education.

2. Industrial Policy: the PNA aims to support national production through competitive industrial planning. A main focus of this policy is ‘economic clustering’, whereby interconnected businesses and institutions are aggregated in specific geographic areas under positive spillover effects and increase productivity. The Government has identified clusters across the West Bank: an agriculture cluster spanning the northern governorates of Jenin, Tubas and Nablus, an industrial cluster in the Nablus and Hebron governorates, and tourism clusters in Bethlehem and Jericho.

3. Improving Energy Infrastructure: the PNA seeks to restructure the electricity sector to reduce energy imports, which cost the PNA an estimated $5-10 million a month.17 As an alternative, the researchers recommend that the PNA aims to support national production through competitive industrial planning. A main focus of this policy is ‘economic clustering’, whereby interconnected businesses and institutions are aggregated in specific geographic areas under positive spillover effects and increase productivity. The Government has identified clusters across the West Bank: an agriculture cluster spanning the northern governorates of Jenin, Tubas and Nablus, an industrial cluster in the Nablus and Hebron governorates, and tourism clusters in Bethlehem and Jericho.

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4. Economic Empowerment: the PNA has introduced a number of measures to encourage entrepreneurship, with a view to finance expenditure via the PNA as part of its economic strategy. This includes the establishment of an Investment Bank for Development, and the promotion of entrepreneurship. The PNA seeks to create an enabling environment for micro and small businesses via a multi-level solar energy investment programme that aims to provide 200MW of electricity per annum, equivalent to 17.5% of Palestine’s current power consumption, within eight years. In addition to NJSP, the programme includes a number of solar energy projects:

- Two solar parks are under construction in Tubas and Jenin with a total generation capacity of 13.5MW18
- Solar PV systems are being deployed on the rooftops of 500 public schools across Palestine. The first stage of this project will be completed within three years and Massader expects it to generate 35MW of electricity19
- A plan to provide renewable energy to residential, commercial, and industrial buildings through rooftop solar PV systems. This project is expected to supply another 35MW of electricity20
- Massader aims to contribute to Palestine’s energy security and independence through these projects, as Palestine imports 90% of its annual power needs from Israel.21 According to Dr Mustafa, the West Bank consumes about $700m a year in electricity and Palestine plans to cut imports from Israel by 50% over the next decade.22

May Trading

The Al-Quds index reached 52.4 points on the last day of trading in May, a decrease of 0.74% from the last day of trading in April.23 At the same time, the Palestine Exchange (PEX) index with a value of $140.2m, were traded, marking a 25.2% decrease in the number and a decrease of 34.3% in the value of traded shares compared to April 2019.24

In related news, total net profits for listed companies during Q1 2019 amounted to $98.4m, an increase of 11.7% from the same period in the previous year.25 Net profits for listed companies during Q1 2019 amounted to $98.4m, an increase of 11.7% from the same period in the previous year.25

Norcerich Solar Park

On 23 May, Massader, the Palestine Investment Fund’s (PIF) subsidiary for investments in natural resources and development,26 announced that the PIF is launching the first solar power station, Noor Jericho Solar Park (NJSP), will go into operation in late June.27 At a total cost of 101 million, the project will assemble 20,000 solar panels spread over 10 hectares of land on the outskirts of the West Bank city of Jericho.28 The project is expected to generate 7.5MW of electricity per year,29 to be distributed through the Jerusalem District Electricity Company (JDECO) power network.30

NJSP is part of Massader’s Noor Palestine Solar Program, a multi-billion-dollar programme that aims to produce 200MW of electricity per annum, equivalent to 17.6% of Palestine’s current power consumption, within eight years. In addition to NJSP, the programme includes a number of solar energy projects:

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22 This amount is enough to cover the annual electricity consumption needs of 36,000 homes. (Source: https://bit.ly/2VNKAQa)
24 www.massader.ps/en/project/1518342842
25 www.massader.ps/en/project/1518342842
26 https://bit.ly/30RmLV1
27 https://bit.ly/30RmLV1
28 www.massader.ps/en/project/1518342187
29 www.massader.ps/en/project/1518342187
30 www殆sge.at/afii.html?A=404a4u1965061472a4b68a46a
31 In the fourth quarter of 2018, unemployment stood at 30.2% in the West Bank and 38.9% in the Gaza Strip, compared with 26.8% and 32.1% in the previous quarter respectively. 
32 In the fourth quarter of 2018, unemployment stood at 30.2% in the West Bank and 38.9% in the Gaza Strip, compared with 26.8% and 32.1% in the previous quarter respectively. 
33 This refers to the government’s 100-day plan that seeks to address the critical fiscal situation.
GDP per capita

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q4 2018

Imports

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

Unemployment

Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q4 2018

Growth

Trade

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

Source: PCBS

Unemployment rate (Q4 2018): 30.2%     Youth Unemployment rate (Q4 2018): 44.7%

Banking Sector

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

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1 www.nytimes.com/2019/06/05/world/middleeast/palestinian-prime-minister-israel.html
2 Explained in the last issue of the PEB: https://bit.ly/2ZJdA
3 http://palestinecabinet.gov.ps/Website/AR/ViewDetails?ID=70&IDT=4D374A/salaries below ILS 2000 were paid in full
4 https://carnegieendowment.org/sada/79050
5 www.middleeastmonitor.com/20190421-arab-league-pledges-100m-per-month-to-palestinian-authority/
6 https://bit.ly/2Xrj0xl
7 www.alquds.com/articles/1561181237061321600/
8 https://reut.rs/2WowgyO
9 https://bit.ly/2Isi97a
10 www.alquds.com/articles/1561181237061321600/