

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Israeli Electricity Company announced on 22 September that it will begin cutting the power supply to the Jerusalem District Electricity Company for two hours per day

The World Bank approved a grant of \$12.6m to improve access to registered land and property-related services for Palestinians

Al-Quds index reached 523.6 points on the last day of trading in August, a decrease of 1.1% from the previous month

PNA Seeks Regional and International Partners

Against the backdrop of an ongoing financial crisis, the Palestinian Government has been actively seeking to expand its international and regional partnerships, in an effort to attract additional financial support.

These efforts also relate to the Palestinian Government's declared intentions to reduce Palestinian dependency on the Israeli economy.¹ In its '100 days plan' announced in May, the Government articulated its approach which includes leveraging external funds for investment that would boost local production and gradually reduce dependency on Israeli imports, in addition to diversifying trade partners.

International Support for Industrial Zones

A main focus of the announced plans is to spur sectoral growth through 'economic clustering', whereby interconnected businesses and institutions are agglomerated in a specified geographic region to generate positive spill-over effects and increase productivity. In line with this approach, the PNA has drawn up plans to establish new industrial zones and has started to reach out to potential supporters internationally. Work has begun on establishing an agriculture cluster in the northern West Bank, anchored in Qalqilya, and a tourism cluster is also envisaged.

On 8 August, the Palestinian Prime Minister Dr Mohammad Shtayyeh met with the Russian Ambassador to the PNA, Gocha Buachidze, to discuss the potential for establishing an industrial zone in the West Bank city of Nablus with Russian support.² According to the PNA, existing industrial areas in the city are in need of rehabilitation and development, especially in terms of infrastructure.³ The need for re-grouping industrial plants in a location away from residential areas was recognised over 20 years ago, when a feasibility study was prepared by the PNA for the establishment of an industrial zone south of Nablus, but funding was never secured.

On 30 August, the PNA signed an agreement with the People's Republic of China, for the implementation of \$15 million worth of projects in Palestine.⁴ According to the Chinese Ambassador to Palestine, Guo Wei, the projects respond to a pressing need for improving the level of services and infrastructure in Palestine, with a focus on clean infrastructure and energy, as well as public services. The Ambassador also announced the formation of a joint Palestinian-Chinese committee to ensure better use of aid provided by China.

1 Further details are provided in Bulletin Issue 153

2 <https://bit.ly/2millYJ>

3 <https://bit.ly/2MzfPP5>

4 www.middleeastmonitor.com/20190831-pa-signs-15m-agreement-with-china/

Boosting Regional Trade

The PNA is also seeking to diversify the sources of imports by identifying alternative trading partners. This is particularly important for critical imports such as electric energy and fuel, which are almost entirely imported from Israel and represent around a fifth of total imports (18.7% in 2018).⁵

On July 15, a Palestinian delegation, headed by Prime Minister Shtayyeh, visited Iraq in order to discuss the possibility of importing Iraqi fuel and strengthening economic cooperation between the two countries.⁶

A week before, during a meeting of the Joint Jordanian-Palestinian ministerial committee held in Amman on 6-7 July, the PNA also signed three memoranda of understanding with Jordan in the fields of energy, healthcare, and transport. The memoranda included an energy pact allowing Palestine to refine in Jordan any oil imported from Iraq.

During the same meeting, the Palestinian and Jordanian governments also announced an agreement to establish a logistics zone at a cost of \$42m in the Shuna area on the Jordanian side of the border between Jordan and Palestine.⁷ This zone has the potential to expand trade between the two countries by speeding up the process of exporting and importing. Palestine would also be able to expand its trade with other international markets through Jordan.

Since its formation this past April, the Palestinian government has attached great importance to strengthening economic cooperation with Jordan. The Government currently aims to increase imports from Jordan up to \$500m, around threefold the current level.⁸ In 2017, Palestinian trade volume with Jordan reached \$230m, including \$153m of imports from and \$77m of exports to Jordan. In comparison, trade volume with Israel reached \$4.1bn, \$3.2bn in imports and \$878.3m in exports.⁹

Electricity Cuts Over Accumulated Debt

On 22 September, the Israeli Electricity Company (IEC) announced that it will begin cutting the power supply to the Jerusalem District Electricity Company (JDECO) for two hours per day.¹⁰ Without the settlement of NIS 1.6bn in outstanding debt, the IEC will continue its power cuts to JDECO operational areas, which include East Jerusalem, Ramallah, Jericho, and Bethlehem (cities and surrounding villages).¹¹

On 16 September, JDECO received the third and final official warning from the IEC, its main electricity provider, to pay outstanding debts.¹² The first notification was issued on August 11, after the IEC secured the required approval from the Israeli political and security authorities.¹³ Palestine relies almost completely on Israel as a source of electricity, whereby it imports 98% of its 1,497MW¹⁴ annual electricity consumption (at a value of NIS 2bn annually).¹⁵

JDECO, established in 1914, was re-registered under Israeli law after the occupation of East Jerusalem following the 1967 war and has a monopoly over electricity distribution in the Jerusalem area.¹⁶ As a result of its legal status JDECO receives different treatment to other distribution companies in the West Bank. The IEC settles debt with JDECO directly, while the debt of other companies is settled through the PNA. JDECO debt to IEC is added by the Israeli Government as part of the total Palestinian debt, and any payment made by the PNA on behalf of JDECO is added as a debt on JDECO to the PNA.¹⁷ On 10 August, one day before the IEC's first notification, the PNA announced that it would settle NIS 300m of JDECO's debts, following news that the PNA would receive its fuel taxes from Israel on 23 August.¹⁸

The total amount of debt is in itself an issue of contention between JDECO and IEC. The IEC claims that the debt exceeds NIS 1,600m, including approximately NIS 630m under which IEC and JDECO agreed in 2016 to settle within 48 monthly payments, NIS 70m delayed-payment fines that IEC imposed on JDECO and NIS 200m in issued bills that are not yet due.¹⁹ JDECO, however, claims that it is currently only obligated to pay NIS 700m of the debt as the remaining amount was either postponed as installments under previous agreements, is not yet due, or is in the form of delay fines that are not yet agreed upon. JDECO explained that the debts have accumulated over the years due to its inability to collect electricity bills from customers, particularly in areas under Israeli security control.²⁰ According to Hisham Al Omari, JDECO Chairman of Board of Directors, these uncollected bills cost the company around NIS 143m per annum and the company has already filed lawsuits against 12,000 subscribers in these areas covering NIS 300m of unpaid bills.²¹

Over the past few months JDECO collection rate deteriorated as the PNA is paying 60% or less of public

5 www.pcbs.gov.ps/Portals/_Rainbow/Documents/E-Ftrade%202018.html and <https://bit.ly/33TPXTn>

6 <https://bit.ly/2kgKT9w>

7 <https://bit.ly/2mgYaj2>

8 <https://bit.ly/2IU1dgY>

9 <http://www.pcbs.gov.ps/Downloads/book2388.pdf>

10 <https://bit.ly/2IHcPnR>

11 These areas cover around 30% of Palestinian households in the West Bank

12 <https://youtu.be/0tUhF8QHh1A>

13 <http://maannews.net/Content.aspx?id=994302>, The IEC measure was approved by the Israeli Prime Minister, the Minister of Finance, the Minister of Energy and the Coordinator of Government Activities in the Territories

14 www.pcbs.gov.ps/Portals/_Rainbow/Documents/EnergyB-2017-1E.html

15 <https://bit.ly/2VNKAQA>; www.mas.ps/files/server/20141911185132-1.pdf; <https://bit.ly/2AXM17g>

16 www.haaretz.com/israel-news/business/.premium-w-bank-power-co-gets-debt-reprieve-1.5289628

17 www.alhadath.ps/article/79648/

18 <https://bit.ly/2U4nx4r>

19 www.palestineconomy.ps/ar/Article/d7de04y14147076Yd7de04

20 www.wattan.tv/ar/video/289057.html

21 www.alhadath.ps/article/79648/

employees' salaries due to austerity measures brought on by the current clearance revenue crisis.²² Electricity cuts will add to the already strained economic activity in the West Bank under the current fiscal crisis and will further reduce JDECO's ability to pay its outstanding debt. Electricity cuts will potentially paralyse all aspects of life across socio-economic classes in the areas covered by JDECO, with an expected critical impact on large companies, factories, hospitals, educational institutions, water supply, telecommunications, and other vital sectors and services in JDECO concession areas.

In 2012, JDECO received a similar warning of electricity supply cuts by the IEC. At the time JDECO's debt to IEC was approximately NIS 458m.²³ In 2012, the PNA was similarly facing the withholding of clearance revenues and the resultant reduction in public employees' salaries. Debt to the IEC increased to NIS 1.2bn by 2014 and IEC filed a suit against JDECO in Israeli courts²⁴ and began implementing punitive measures by intermittent electricity supply cuts to some of the areas served by JDECO.²⁵

By 2016, the debt had accumulated to NIS 1.4bn and the IEC reverted to supply cuts²⁶ until the High Court of Justice issued a two month interim injunction putting a stop to such cuts.²⁷ JDECO petitioned the Israeli High Court arguing the reduction in power supply was a human rights violation, whilst asserting that the state-owned IEC abuses its monopoly. Later in 2016 the IEC restored full power to the West Bank after receiving payment for part of the debt and reaching an agreement with JDECO over a full debt repayment schedule.²⁸ In August 2017 however, the IEC renewed warnings of electricity cuts over the continued accumulation of debt, which was followed by a further interim injunction by the High Court to halt electricity cuts.²⁹ The Court responded in October 2017 by issuing an order stating that IEC cannot cut electricity supply without obtaining official written approval from the Israeli political and security authorities, which already had been obtained prior to the first warning issued by the IEC this year.³⁰

World Bank Grant to Improve Land Registration

On 22 July, the World Bank approved a grant of \$12.6m to improve access to registered land and property-

related services for Palestinians under the Real Estate Registration project.³¹ The project aims to support the Palestinian National Authority's (PNA) ongoing efforts to expand land titling and automate related real estate services. Of the total amount, \$5m was provided directly by the World Bank and the remaining amount as grants from multi-donor trust funds managed by the World Bank.

To date, only 34.6% of land in the West Bank is registered.³² In 2018, the World Bank reported that the collateral value of unregistered land in areas under Palestinian control is estimated to be between \$7-35 billion.³³ According to a Palestine Economic Policy Research Institute (MAS) study earlier in 2019, land titling will have a significant positive impact on land value, construction initiatives and access to finance in the West Bank while helping to expand the PNA tax base. The study further suggests measures to improve implementation including allocating a budget for infrastructure investments in recently titled areas, designing special lending programmes to help launch productive investments in newly titled land, strengthening the legal aspect of land titling, and increasing the number of judges involved in the titling process.³⁴

August Trading

In August 2019, Al-Quds index reached 523.6 points on the last day of trading, a decrease of 1.1% from the previous month.³⁵ During the month, a total of 4.3m shares with a total value of \$7.6m were traded, marking a 71.9% decrease in the number and 65.6% in the value of traded shares compared to the previous month. The insurance sector witnessed the worst performance for the second month in a row, with a 3.11% decrease to 92.2 points during August.

In related news, 36 of the 48 listed companies included in the Al Quds index reported a net profit of \$168.4m for the first half of 2019 a drop in profits by 1.0% compared to the first half of 2018.³⁶ Nine companies recorded a loss, and three companies failed to disclose within the set deadline.

In 2018, total dividends distributed by listed companies reached \$189m, a decline of 2.7% compared to 2017. Total cash dividends amounted to \$151.4m (5.4% decrease compared to 2017) and the total value of stock dividends reached \$36.7m (an increase of 9.1%). Overall, the PEX recorded a dividend yield of 5.3% in 2018.

22 <https://bit.ly/2P4zVCX>; further details are provided in B152.

23 www.haaretz.com/israel-news/business/.premium-w-bank-power-co-gets-debt-reprieve-1.5289628

24 www.middleeastmonitor.com/20140513-israel-electric-corp-sues-palestinians-over-153m-unpaid-debt/

25 www.timesofisrael.com/israel-cuts-power-to-west-bank-cities-for-second-time/

26 <https://bit.ly/2ITON8Q>

27 <https://en.globes.co.il/en/article-high-court-iec-cannot-disrupt-power-to-palestinians-1001119268>

28 <https://bit.ly/2ITON8Q>

29 www.wafa.ps/ar_page.aspx?id=y2g9Tba796718146818ay2g9Tb

30 <https://www.alhadath.ps/article/66868/>

31 <https://bit.ly/2yRaYzC>

32 <https://lwsc.ps/index.php>

33 <https://bit.ly/2yRaYzC>

34 www.mas.ps/files/server/20191106154110-1.pdf

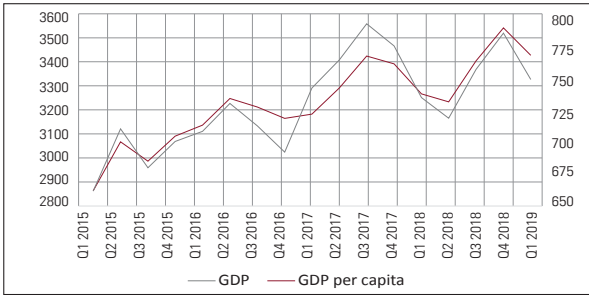
35 <https://bit.ly/2IR3ERr>

36 <https://bit.ly/2mmYSeV>

Palestine Economic Dashboard

Growth

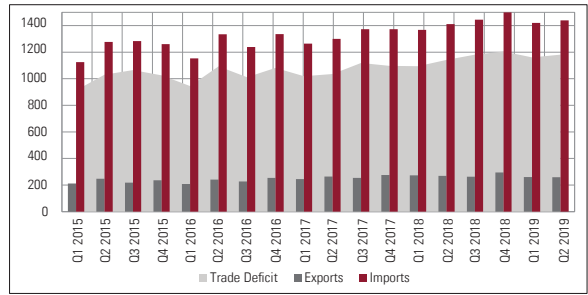
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2019



GDP (Q1 2019): \$3,504.6m GDP per capita (Q1 2019): \$775.4
Source: PCBS

Trade

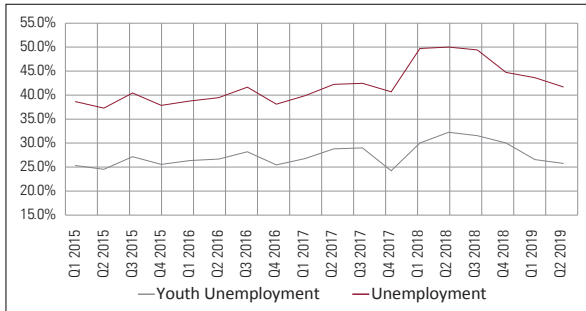
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q2 2019



Imports (Q2 2019): \$1,438.4m Exports (Q2 2019): \$258.7m
Trade deficit (Q2 2019): \$1,179.7m Source: PCBS

Unemployment

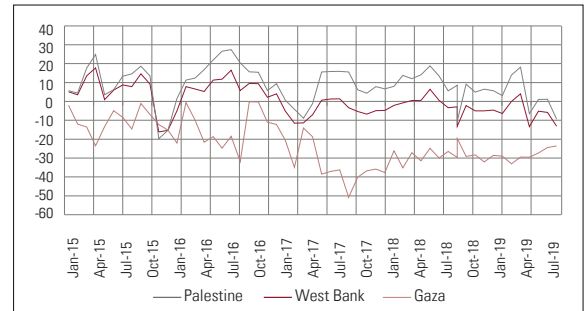
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q2 2019



Unemployment rate (Q2 2019): 26% Youth Unemployment rate (Q2 2019): 41.7%
Source: PCBS

Business Cycle Index

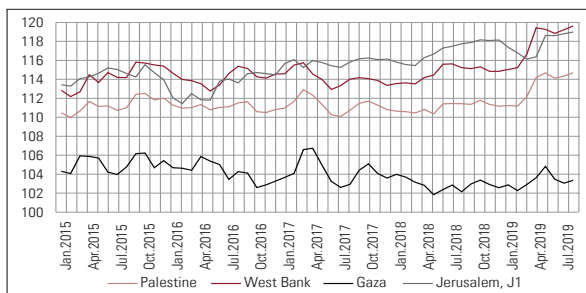
Palestine Monetary Authority Business Cycle Index, January 2015 – August 2019



Palestine (August 2019): -13.9 West Bank (August 2019): -11.3
Gaza (August 2019): -20.2 Source: PMA

Inflation

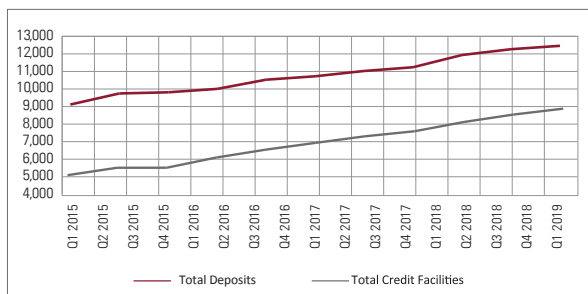
Consumer Price Index (Base year = 2010), January 2015 – August 2019



Palestine (August 2019): 114.3 West Bank (August 2019): 119.1
Gaza (August 2019): 103.3 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q1 2019



Total Credit Facilities (Q1 2019): \$8,942.7m Total Deposits (Q1 2019): \$12,591.4m
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

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