

PALESTINIAN ECONOMIC BULLETIN

Bulletin 180
September 2021

Main reports

Hussein Al-Sheikh, Head of the Palestinian Civil Affairs Authority, announced on 31 August that the process to upgrade to 4G in the West Bank has been approved by the Israeli Government

Benny Gantz, the Israeli Minister of Defence, announced on 19 August agreement with the State of Qatar and the United Nations on a mechanism to transfer Qatari aid to the Gaza Strip

Nasri Abu Jaish, the Palestinian Minister of Labour, announced on 23 August the Council of Ministers' approval of the decision to raise the minimum wage from NIS 1,450 (\$452) to NIS 1,880 (\$586) per month, starting January 2022

The Al-Quds index reached 573.6 points on the last day of trading in August 2021, a decrease of 0.8% from the previous month

Israeli Confidence Building Measures

On 30 August, Benny Gantz, the Israeli Minister of Defence, announced the Israeli Government's intention to provide a \$150 million loan to the Palestinian National Authority (PNA), which continues to suffer from a chronic budget crisis.¹ The announcement followed Gantz's meeting with Palestinian President Mahmoud Abbas in Ramallah, the highest-level public meeting between the two Governments in over a decade.

Over the past few months, the Israeli Government has started rolling out a number of 'confidence-building measures', with the encouragement of the US administration. The first of these measures to be announced was an increase in permits for Palestinians working in Israel² and the willingness to consider approval of 5,000 of the 20,000 family reunification requests by Palestinians pending with Israel.³

Loan to the PNA

The \$150 million sum, aimed at providing some measure of financial stability to the PNA, has been described as a 'loan' that is to be repaid by future deductions from clearance revenues, i.e. Palestinian tax revenues collected by Israel on behalf of the PNA, which account for about 50% of its total revenues.⁴ Effectively, the sum amounts to an advance payment of near-term trade tax revenues, rather than a commercial or sovereign "loan" in the conventional sense.

These would not be the only ongoing deductions from Palestinian clearance revenues. Israeli law mandates that deductions are also made to penalise the PNA's policy of allocating widow, orphan, and welfare stipends to the families of Palestinians who are killed, wounded, or imprisoned by Israel. In July 2021, Israel announced it had withheld \$180 million of tax revenues collected in 2020 on behalf of the PNA, about 7% of its total tax revenue⁵ and almost the same amount as the proposed 'loan'. Some Israeli media reports suggest that the PNA may be able to use these previously confiscated funds to pay off the new loan.⁶ Such confiscations have become a recurrent measure that disempowers and further binds an enfeebled PNA Treasury. Given the compounding issues straining the PNA budget, the extent to which the 'loan' could influence the fiscal crisis remains unclear.

Construction Permits

In a further gesture in August, Gantz also approved the construction of about 1,000 Palestinian homes in Area C.⁷ In the past, Palestinian construction permits have rarely been approved in Area C, with just 21 receiving approvals between 2016 and 2018.⁸

1 <https://bit.ly/3lCdpy5>

2 Covered in the Palestinian Economic Bulletin - Issue 179 - August 2021

3 The latter only affects Palestinians "who entered Palestinian territories under a visitor permit or a visa to get citizenship and a Palestinian passport," according to a statement by the Civil Affairs Authority. It excludes thousands of cases of Palestinians with ID addresses in the Gaza Strip and other Palestinians who are not recognized by Israel to be legally resident in the West Bank, <https://bit.ly/3EGJ4ad>

4 <https://bit.ly/2YU1ior>

5 <https://reut.rs/39tdtuw>

6 <https://bit.ly/3ucMpcm>

7 <https://bit.ly/2VZlC6C>

8 www.alwatanvoice.com/arabic/news/2021/08/19/1428567.html

While this latest approval of permits could provide a record number of construction opportunities for Palestinians in Area C, approval does not, in practice, necessarily translate to real construction. In 2019, 700 building permits were approved for Palestinians in Area C, yet in the end a meagre 6 housing units were allowed to be built.⁹ At the same time, 8,457 settler housing units were advanced through plans in 58 settlements during 2019, with 1,917 new units starting the construction process in the same year. Similarly, this most recent round of construction permit approval was accompanied by approval for 2,000 new settler homes. In practice therefore, despite the new confidence-building measure, there are other policy measures (e.g., demolitions, evacuations, confiscations) that in practice are deployed to prevent Palestinian growth in Area C.

Establishing 4G services

In another measure, the Israeli Government has approved longstanding Palestinian broadband demands, with Hussein Al-Sheikh, Head of the Palestinian Civil Affairs Authority, announcing on 31 August that the process to upgrade to 4G in the West Bank could begin.¹⁰ Upgrading from 3G will have a major impact on the development of the Palestinian digital economy and is a necessary, though not sufficient, step to increasing the competitiveness of Palestinian commerce internationally. A 2016 World Bank report estimated that Palestinian cellular companies suffered between \$436 million and \$1.5 billion in losses of potential revenue due to restrictions on frequencies as well as other Israeli restrictions on competitiveness.¹¹

It is expected that the establishment of 4G services will take time. According to Ammar Aker, CEO of the Palestine Telecom (Paltel) Group, Palestinian telecommunications companies will need at least six months to set up services, as they will be required to build the network and upgrade outdated technology.¹²

Palestine was one of the last countries in the Middle East to access 3G, due to Israeli restrictions on this service until 2018 (and then only in the West Bank), with imports of telecommunications equipment and the establishment of infrastructure repeatedly delayed by the Israeli Government on 'security' grounds. This compares very unfavourably to the situation for Israeli companies, who have been provided with 5G mobile broadband services since September 2020, 4G having been available since 2014.¹³ This means that Palestinian telecommunications companies remain a generation behind Israel technologically, and that the competitiveness of Palestinian firms compared to Israeli firms will always be on an unequal playing field.

Qatari Aid to Gaza

On 19 August Benny Gantz announced agreement with the State of Qatar and the United Nations (UN) on a mechanism to transfer Qatari aid to the Gaza Strip, allowing for urgently needed relief to enter the enclave some months after the 11-day war in the Strip in May this year.¹⁴

Aid Distribution Plan

Despite the increasing need for humanitarian aid due to the prolonged humanitarian crisis, the Israeli Government has been blocking aid disbursement into Gaza, demanding a mechanism to ensure that the funds will not reach Hamas.¹⁵ However, bypassing the authorities in Gaza has proven to be challenging in the past, given that Hamas remains fully in power there.¹⁶

Israel and Qatar have now agreed on a UN-led mechanism to transfer the aid, in which funds will be directly transferred by the UN to the bank accounts of Gaza recipients approved by Israel.¹⁷ According to the agreement, the money will first be transferred to the Qatari UN bank account in New York, then to the PNA in Ramallah and from there it would be sent to Gaza. Recipients in Gaza, previously granted approval from Israel, will be issued UN credit cards to receive the funds.¹⁸ However, implementation of the agreement has now stalled, as the PNA has declined to serve as intermediary for funds which could potentially expose the Palestinian banking system to international litigation.¹⁹

While pledging a total of \$500 million for Gaza's reconstruction, Qatar only transferred an initial block of \$40 million to the UN under this new agreement on emergency relief, to cover the period until the end of 2021.²⁰ Mohammad Al Emadi, Qatar's envoy to Gaza, explained that funds will be channeled through the UN's World Food Programme (WFP) to benefit 100,000 families. Each family will receive a total of \$100 monthly, starting this September.²¹

Minimum Wage Amendment

On 23 August, Nasri Abu Jaish, the Palestinian Minister of Labour, announced the Council of Ministers' approval of the decision to raise the minimum wage from NIS 1,450 (\$452) to NIS 1,880 (\$586) per month, starting January 2022.²² This 29.6% percent increase has been in development for over two years and is the outcome of the first National Social Dialogue Conference and multiple studies.²³

9 <https://bit.ly/3EKiyNw> and <https://bit.ly/3zwU6eC>

10 www.aliqtisadi.ps/article/83027/

11 <https://bit.ly/3k37cM6>

12 <https://bit.ly/39QqNsS>

13 <https://bit.ly/2ZJ4XG3>

14 <https://bit.ly/3AS1Qcz>

15 <https://reut.rs/3no8qng>

16 <https://on.wsj.com/3m8ppHS>

17 <https://bit.ly/3AS1Qcz>

18 *ibid*

19 <https://reut.rs/2Y6ktLz>

20 www.aljazeera.com/news/2021/9/15/qatar-resumes-aid-to-gaza-families

21 <https://bit.ly/3AS1Qcz>

22 www.alhadath.ps/article/144479/

23 *ibid*

Low minimum wages

The minimum wage aims to broaden social protection and secure basic needs for workers and their families. However, the approved raise is not commensurate with the high cost of living in Palestine as a large proportion of wages remain at a level keeping people under the poverty line of NIS 2,470 (\$740) per month.²⁴

Given the restrictions imposed by the Israeli occupation on productive industries such as manufacturing and agriculture, the PNA estimates the minimum wage based on living expenses and not productivity. It justifies a minimum wage below the poverty line by assuming that, on average, more than one person works in each household. However, this is not the case on the ground. A recent International Labour Organisation (ILO) report highlights the significantly high economic dependency ratio²⁵ in Palestine,²⁶ which stood at an alarming 4, compared to 1.6 in Spain and 1.8 in Italy.²⁷ Given the high unemployment and economic dependency rates in Palestine, the average number of workers per household is below one (~0.94), emphasising the need for a higher minimum wage.²⁸

Difficulties in minimum wage implementation

Shaher Saad, Secretary General of the Palestinian General Federation of Trade Unions, stressed that the focus should not only be on the value of the minimum wage, but also on the safe and smooth implementation of this agreement, especially for working women who are still severely underpaid, with many still not receiving the minimum wage previously set in 2012 of NIS 1,450 (\$453).²⁹ "We look forward to the establishment of penalties and a list of sanctions to ensure that employers - in all sectors - abide by the new minimum wage law", said Saad.³⁰

Rami Mahdawi, the Ministry of Labour spokesperson, explained that the Ministry will "monitor the implementation of the new minimum wage through continuous inspection and general administration with trade unions and the representatives of the private sector, as well as direct communication with the public, mainly through the dedicated open phone line and social media platforms".³¹ Experience from other countries, such as the UK, shows that public "naming and shaming", especially of large companies, can have a significant impact, as can criminal proceedings.

However, the PNA has limited operational capacity and human resources to monitor the implementation of the new minimum wage, especially given high levels of informal economic activity. Although the minimum wage

was first approved in 2012 through a decision issued by the Council of Ministers, to be implemented in all areas under the jurisdiction of the PNA,³² the most recent PCBS labour force survey found that as of the second quarter of this year, approximately 100,000 Palestinian workers in the private sector were paid less than the minimum wage, of which 81,700 were in Gaza.³³ For those earning below the 2012 minimum wage, the average wage in Gaza is approximately NIS 655 (\$205) per month, significantly less than in the West Bank, where it is NIS 1,142 (\$355). According to the PCBS, as many as 50,000 workers in Palestine were paid less than NIS 700 (\$218) per month in 2020, just half of the 2012 minimum wage.³⁴ These low wages contribute to the number of Palestinians resorting to the Israeli labour market to secure living wages.³⁵ As a result of raising the level, it is expected that an additional 60,000-70,000 workers will be added to the 100,000 already below the minimum level.

August Trading

The Al-Quds index reached 573.6 points on the last day of trading in August 2021, a decrease of 0.8% from the previous month.³⁶ During the month, a total of 27.6m shares with a total value of \$53.8m were traded, marking a 12.2% increase in the number and 2.1% increase in the value of traded shares compared to July 2021.

The Palestine Exchange (PEX) listed companies' net profits reached \$187m in the first half of 2021, a 157% rebound from the corresponding pandemic-disrupted period in 2020. 41 out of 47 listed companies made \$190.2m in profit, an increase of 118%. The top gainers are the Vegetable Oil Industries Company (VOIC) and Palestine for Investment and Development (PID). Four companies made a total loss of \$3.6m, a decline of 75%. Two companies, Pal Aqar for Real Estate Development and Management and Ahleia Insurance Group, failed to disclose within the set deadline.

24 https://portlandtrust.org/sites/default/files/peb/bulletin_173_-_english_a4.pdf

25 The economic dependency ratio refers to the ratio of the number of employed persons to unemployed persons and persons in the inactive population. The inactive population includes persons aged 0-14, students and pupils, conscripts and those in non-military service, pensioners, and others

26 Economic dependency ratio= non-employed population (unemployed, outside the labor force, children, retirees) /employed population.

27 www.ilo.org/wcmsp5/wcms_774731.pdf

28 www.pcbs.gov.ps/Downloads/book2383.pdf

29 www.alhadath.ps/article/144782

30 www.alhadath.ps/article/144782

31 www.alhadath.ps/article/144706/F

32 https://portlandtrust.org/sites/default/files/peb/bulletin_173_-_english_a4.pdf

33 <https://www.aliqtisadi.ps/article/82706/>

34 *ibid*

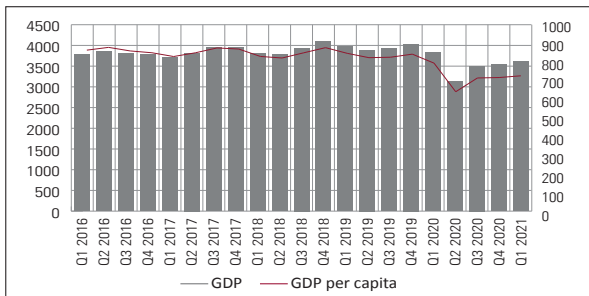
35 www.alhadath.ps/article/144479/

36 <https://web.pex.ps/>

Palestine Economic Dashboard

Growth

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

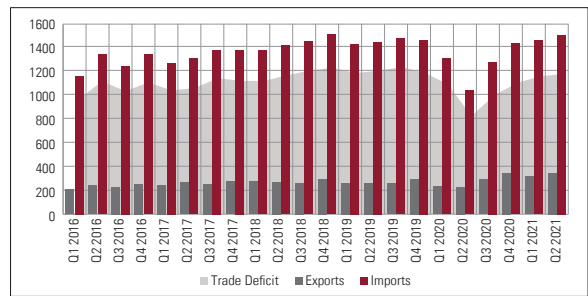


GDP (Q1 2021): \$3,607.5m
Source: PCBS

GDP per capita (Q1 2021): \$737.9

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q2 2021



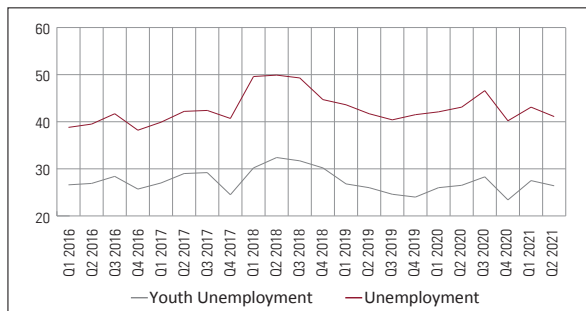
Imports (Q2 2021): \$1,494m

Exports (Q2 2021): \$342.7m

Trade deficit (Q2 2021): \$1,151.3m
Source: PCBS

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q2 2021

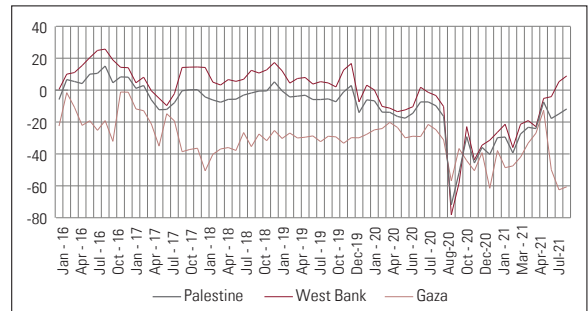


Unemployment rate (Q2 2021): 26.4%
Source: PCBS

Youth Unemployment rate (Q2 2021): 41.1%

Business Cycle Index

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

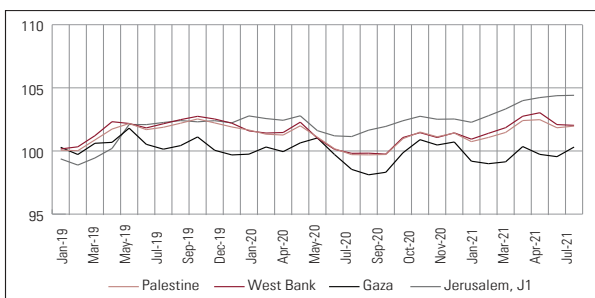


Palestine (August 2021): -11.9
Gaza (August 2021): -55.2
Source: PMA

West Bank (August 2021): 6.5

Inflation

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

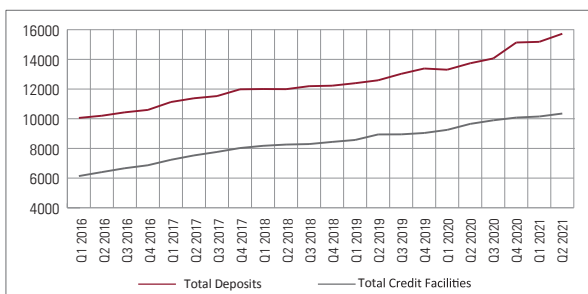


Palestine (August 2021): 102.27
Gaza (August 2021): 100.91
Source: PCBS

West Bank (August 2021): 102.26

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q2 2021



Total Credit (Q2 2021): \$10,350.7m
Source: PMA

Total Deposits (Q2 2021): \$15,726.5m

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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