

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Federation of Palestinian Chambers of Commerce and the Palestinian General Federation of Trade Unions have agreed with the Ministry of Labour to raise the minimum monthly wage

Reductions in private consumption and disruptions to international trade routes resulted in a significant decline in imports, without a similar effect on exports, which pushed the trade deficit down to pre-2014 levels

iPoke published a report on e-commerce and social media activity in Palestine during 2020

Al-Quds index reached 492.1 points on the last day of trading in January 2021, an increase of 4.4% from the previous month

PIF launches second phase of 'Esnad'

On 17 January, the Palestinian Investment Fund (PIF), Palestine's sovereign wealth fund, launched the second phase of its emergency lending programme "Esnad" for the benefit of 1,000 small and medium enterprises (SMEs), with a total budget of \$10m.¹ This phase aims to help otherwise unbankable SMEs recover from the adversity of the COVID-19 pandemic. The PIF had launched the first phase in May 2020 with a total budget of \$5m to help SMEs maintain their operations throughout the pandemic.

The 'Esnad' programme focuses on enabling SMEs to access the necessary financial liquidity to maintain their operations and retain employees to navigate the economic impacts of the pandemic.² The programme has two main components: the first is a lending programme of \$15 million implemented through partner microfinance institutions (MFIs) in two phases; the second is an additional loan guarantee scheme of a total amount of \$10 million to be announced at a later stage.³ Upon successful completion, the programme is expected to benefit 2,500 businesses and support the retention and creation of more than 5,000 jobs throughout the West Bank, East Jerusalem and Gaza.⁴

To date, \$2.3m has been distributed through 185 microloans under the first phase of the programme, helping to retain 490 jobs in various regions and sectors.⁵ Building on this work, the PIF launched the second phase of 'Esnad' with the aim of expanding the number of beneficiaries.⁶ Compared to traditional sources of finance, the programme offers competitive interest rates, an accelerated approval process, lenient conditions, and a grace period up to 6 months in which loans are repaid over a period of 24 months with no fees. The second phase has also raised the loan ceiling from \$25k to \$100k, enabling more SMEs not only to maintain levels of production, but also to expand activities.⁷ By doing so, the PIF aims to help enterprises transition from the 'resilience' stage to recovery.⁸

Over 140,000 businesses employ fewer than ten workers, representing 96% of all commercial establishments in Palestine. These companies employ more than 270,000 workers (32.8% of all those employed in the West Bank and Gaza in 2017 and 76.6% of those employed in the private sector).⁹ According to a recent survey by PCBS, 93% of businesses in Palestine suffered from a drop in sales because of the pandemic and its preventive measures, with the decline averaging around 50% compared to performance in previous years.¹⁰ As a result, 89% of the establishments faced cash shortfalls, 37% were not able to pay salaries in time, 36% had to borrow from family and friends and 14% were forced to lay off employees. Some 59% of the establishments were not able to access formal financial services even before the pandemic.¹¹

A Rise in the Minimum Wage

On 23 January, the Minister of Labour, Nasri Abu Jaish, announced that the Federation of Palestinian Chambers of Commerce and the Palestinian General Federation of Trade Unions (PGFTU) have agreed with the Ministry of Labour (MoL) to raise the minimum monthly wage from NIS 1,450 (\$440) to NIS 1,950 (\$590).¹² The agreement also included provisions to ensure that increases in the cost of living

¹ www.aliqtisadi.ps/article/79514/

² www.pif.ps/2020/05/03/

³ www.pif.ps/2020/05/03/

⁴ Based on the lending and beneficiary rates of the current PIF programme

⁵ www.pif.ps/2021/01/17/ and <https://bit.ly/3qmEoPv>

⁶ www.pif.ps/2021/01/17/

⁷ www.pif.ps/wp-content/uploads/2020/05/Esnad-Brochure-Final.pdf

⁸ www.aliqtisadi.ps/article/79514/

⁹ The percentages calculated based on the 2017 Population, Housing and Establishment Census and the Labour Force Survey of 2017: <https://bit.ly/3aAZyde> and <https://bit.ly/3k3xlZr>

¹⁰ <https://bit.ly/37tcWl6>

¹¹ *Ibid*

¹² www.aliqtisadi.ps/article/79642/

would be added automatically to the minimum wage if laws come into effect early next year.

Abu Jaish stated that this decision was taken following studies on Palestinian wages conducted before the COVID-19 outbreak by the MoL, the International Labour Organization (ILO), and the private sector. He added that despite the PGFTU's demand for significantly greater increases in wages, the three parties tentatively agreed to a minimum of NIS 1,950.¹³

Taking into account the economic impacts of COVID-19 and the current vulnerable state of SMEs, the MoL decided to delay the enforcement of the law until the beginning of 2022.¹⁴ Should they fail to comply with the minimum wage decision, the Minister warned that employers from both the public and private sector would be held accountable and legal action would be taken against them, starting from next year.¹⁵

The increase in the minimum wage aims to broaden social protection, secure basic needs for workers and their families, and improve overall living conditions in Palestine. However, this raise is still not commensurate with the high cost of living in Palestine as wages remain under the poverty line of NIS 2,470 (\$740) per month.¹⁶

The minimum wage was first approved in 2012 through a decision issued by the Council of Ministers No. (11), for implementation in all areas under Palestinian National Authority (PNA) jurisdiction.¹⁷ At the time, the minimum wage was set at NIS 1,450 per month, or NIS 8.50 per hour. As of 2019, the implementation rate of the minimum wage was 89%, according to the Minister of Labour.¹⁸ However, the latest Labour Force Survey of Q4 2020 shows that 24% of wage employees in the private sector still receive less than the minimum wage (NIS 1,450 NIS), 6% in the West Bank and 79% in Gaza.¹⁹ Clearly the PNA will need to work hard to enforce the new, significantly higher level, something that studies by the Palestine Economic Policy Research Institute (MAS) and others have repeatedly highlighted.²⁰

International Trade

The COVID-19 pandemic caused a global drop in economic activity. In Palestine, sharp reductions in private consumption and disruptions to international trade routes resulted in a significant decline in imports, without a similar effect on Palestinian exports, which pushed the trade deficit (net imports as a share of GDP) down to pre-2014 levels. In 2020, the Palestinian trade deficit fell by \$780m, following a 13.1% drop in imports (\$754.4m) and a 2.4% increase in exports (\$25.6m). As a percentage of GDP, the trade deficit fell from 29.7% to 28.1%.²¹

Such a contraction of the Palestinian trade deficit is a usual corollary of a recessionary climate or adverse growth shocks, given the relatively weak domestic productive capacity and trade openness. Conversely, a high deficit usually reflects high growth periods. While detailed official statistics are not yet available, the drop is most likely related to reduced imports of fuel, vehicles, machinery, construction material and other discretionary goods. However, this improvement in Palestine's trade balance can be viewed as an opportunity to build on

13 www.maannews.net/news/2030655.html

14 www.aliqtisadi.ps/article/79642/

15 *ibid*

16 www.al-ayyam.ps/

17 www.al-ayyam.ps/

18 www.maannews.net/news/2030655.html

19 <https://bit.ly/3quQzK1>

20 <https://bit.ly/2NDBLKw>; <https://bit.ly/3aA0gS4>

21 <https://bit.ly/3dGHBG7>

Palestine's export capacity. January 2021 witnessed several positive developments related to export capacity in Palestinian industries.

Custom Duties on Imported Cars

On 27 January, Jalal Rabai'a, the President of the Imported Automobiles Federation, confirmed the Ministry of Finance decision to increase customs on imported cars by 6%, applying to all new or used cars imported in 2021. The Ministry of Finance explained that the decision was made due to the decline in the value of the US dollar locally and internationally, which in turn increased the value of imported cars.

Rabai'ah stated that the government did not provide any assistance to the sector during the pandemic, despite the great losses it suffered. He noted that the automobile import sector is one of the largest public revenue-generating sectors, and he believes the sector is being targeted due to its informality.²²

Custom Exemptions for Palestinian Dates Exports

On 29 January, Khaled al-Osaily, Minister of National Economy, called on exporters of dates to take advantage of the Turkish Parliament's decision to exempt Palestinian dates from customs as they enter the Turkish market. Turkey's decision includes expanding the existing exception quota from 1,000 tonnes to 3,000 tonnes annually.

Palestine produces approximately 12,000 tonnes of dates annually, 6,000 of which are for local consumption, with the remainder exported to a number of countries. Date exports make up the largest share of Palestinian agricultural exports, with 350,000 palm trees in the Jordan Valley.²³

International Export Certification

On 28 January, the Palestinian Trade Centre (PalTrade) and the Ministry of National Economy announced that eight local companies obtained the ISO certification, GLOBAL G.A.P. certification, and organic agricultural production certification.²⁴ This certification process is part of an EU-funded project aimed at enabling a green economy in Palestine.

The PalTrade project provided companies with technical support and capacity building in the field of green production, by developing green production systems, helping them apply for international certifications, and spreading awareness of the concept of a green economy within the Palestinian community. The project also worked on developing a policy framework for green exports in line with the sustainable development goals and the national development plan. Khaled al-Osaily, Minister of National Economy, noted that these certificates allow companies to compete in international markets, which diversifies national exports and supports national production.

Gaza Textile Exports

The Federation of Apparel and Textile Industry in Gaza stated that the volume of textile exports from the Gaza Strip increased by over two thirds in 2020, from \$9m in 2019 to \$15m. The President of the Federation, Tayseer al-Ustath, noted that the likely reason behind the increase in exports is factories focusing on the production of face masks and protective clothing.

In 2020, the Gazan textile production sector consisted of 226 factories employing 5,500 workers, compared with 203

22 www.alhadath.ps/article/135642/

23 www.alhadath.ps/article/135726/

24 www.alquds.com/articles/1611840496877824600/

factories employing 5,000 in the previous year. Al-Ustath noted that the total number of companies exporting clothes reached 100 in 2020, 75 of which target the West Bank.²⁵

Digital Reality, E-Commerce and Communications

On 11 January, iPoke, a Palestinian company studying social media usage among Palestinians, published a report on e-commerce and social media activity in Palestine during 2020. The report discussed how COVID-19 increased the use of social media worldwide, and especially in Palestine. It also found that 43% of Palestinians surveyed by iPoke reported using social media sites for e-commerce.²⁶

E-commerce has been steadily on the rise in Palestine, with over 1,000 e-commerce pages operating on various social media platforms in 2019, processing between 20,000-40,000 deliveries, with businesses active in the field spending approximately \$5000-\$10,000 on digital marketing.

Restrictions on internet infrastructure

The development of e-commerce is limited due to Israeli restrictions on the Palestinian ICT sector's access to 4G/5G and outdated internet infrastructure in Palestine.²⁷ As a result, Palestine has a fragmented telecommunications spectrum, with the West Bank using 3G, and Gaza still reliant on 2G. This spectrum is largely obsolete as most of the world uses 4G or 5G, and fast mobile internet and data mining are necessary pillars of the digital economy, especially for entrepreneurs and start-ups. Moreover, Israeli operators with networks covering all the occupied territory have been marketing their 4G/5G services to Palestinians at low prices, posing a threat to Palestinian mobile and internet operators. A 2016 World Bank report estimated these revenue losses resulting from unlicensed Israeli competition valuing from \$436m to \$1.1bn.²⁸

On 28 January, the PNA issued a warning that Palestine's progress towards becoming a developed digital economy is stalled due to Israeli control over 4G/5G access. In a letter addressed to the international donor community working in Palestine, the PNA reported the negative consequences of this Israeli control, especially as the pandemic is increasing Palestinians' reliance on digital communications without an efficient broadband infrastructure in place. The letter called for action by international partners to aid in developing Palestine's digital economy by helping to remove Israeli restrictions on the telecommunications spectrum.

The PNA has made other attempts at levelling the playing field in the e-commerce world, where the Ministry of Communications and Information Technology is in correspondence with major e-commerce platforms, including AliExpress, to treat Palestinian consumers as they do Israeli consumers. AliExpress places extra shipping fees when Palestine is selected as the country of destination, as do other e-commerce platforms. The Ministry is also corresponding with e-commerce platforms on the approval of the new Palestinian postal codes (see below), which is expected to ease shipping processes and fees.²⁹

Restrictions on Palestinian Postal Services

On 7 February, the PNA announced it will begin using its own postal codes to ease the delivery of parcels to and from the West Bank, with about half a million buildings already assigned postcodes.³⁰ The establishment of postal codes will also soon be extended to the Gaza Strip.³¹

The PNA asked the Universal Postal Union (UPU) to notify its member states that Palestinian postal codes were coming into force.³² The Palestinian Minister of Communications and Information Technology, Ishaq Sidr, stated that starting in April, postal items that do not indicate the Palestinian postcode will not be processed.³³ He also called on citizens, corporations, banks, and all institutions to amend their addresses and use the Palestinian Postal Code assigned to each region in Palestine.

According to the PNA, the postcode project would help establish a Palestinian postal addressing system that would facilitate Palestinian mail (currently largely shunned for international communications) and would constitute an essential component of an infrastructure that would enable the public and private sectors to provide services in a manner that depends on geographical location. Israel has agreed to give more autonomy for Palestinian international postal services. This is a significant step in Palestinian control over its external trade and serves the PNA policy of gradual disengagement from dependency on the Israeli economy. International mail sent to or from Palestine has to pass through Jordan or Israel. In both cases, it must be cleared by Israel, which controls the entry of goods and customs. Shipments are often seized in Jordan or Israel, with approximately six tonnes of packages held up in Jordan since 2018. There were over 7,000 violations of postal items by the Israeli authorities in 2020 alone, with Israeli officials opening the packages, seizing them, or calling on their recipients for investigation.

Israel and the PNA signed an agreement in 2008 that would give more autonomy for Palestinian postal services and allow for direct postal exchange via Jordan, but it never materialised.³⁴ The lack of an agreement created a huge postal backlog in 2010 which resulted in mailed items being stuck in Jordan.³⁵ Both parties renewed the agreement in 2016 to give Palestinians postal rights and gradually regulate direct transfer of mail from around the world to Palestine through Jordan and Israel, subject to Israeli security screening.³⁶ The agreement was yet again not implemented. In 2018, the Palestinian post office received 10 tons of mail that were stuck in Jordan for eight years waiting for Israeli approval.

January Trading

In January 2021, Al-Quds index reached 492.1 points on the last day of trading, an increase of 4.4% from the previous month.³⁷ During the month, a total of 14.3m shares with a total value of \$28.7m were traded, marking a 30.0% increase in the number and 3.9% in the value of traded shares compared to the previous month.

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

31 <https://en.royanews.tv/news/25357/2021-02-08>

32 The Universal Postal Union is a United Nations specialised agency that coordinates postal policies among UN members, as well as non-member states with special privileges, to organise and improve global deliveries

33 www.aliqtisadi.ps/article/79752/

34 <https://bit.ly/3ajhkLR>

35 <https://bit.ly/3bbLaB0>

36 <https://bit.ly/37xXnzh>

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

25 www.al-ayyam.ps/ar_page.php?id=14663e41y342244929Y14663e41

26 <http://ipoke.co/SocialMediaOnPalestine2020.pdf>

27 <https://7amleh.org/wp-content/uploads/2020/02/Ecommerce-Research.pdf>

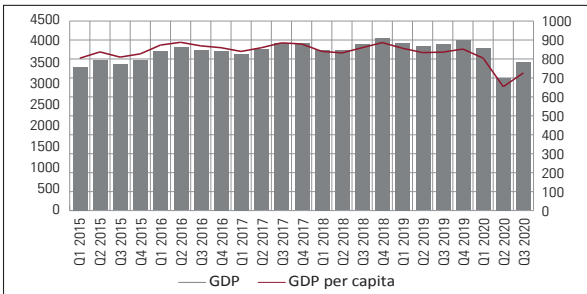
28 <https://prn.to/2ZkPnNf>

29 www.palestineconomy.ps/ar/Article/17739/

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q3 2020

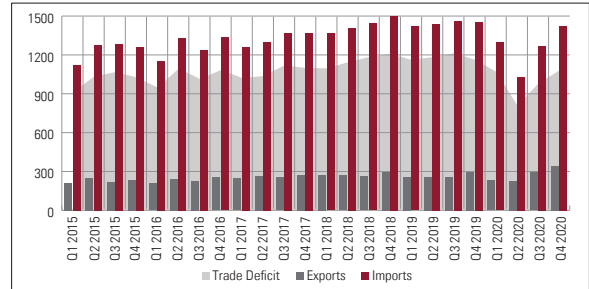


GDP (Q3 2020): \$3,506.2m
Source: PCBS

GDP per capita (Q3 2020): \$726.5

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q4 2020

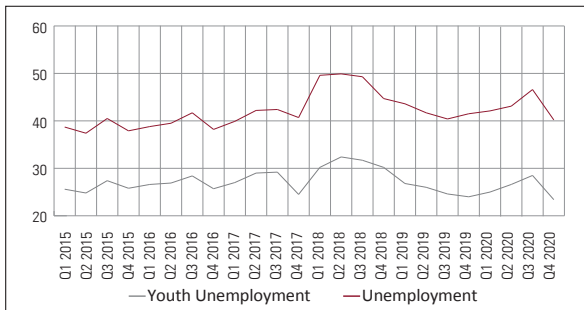


Imports (Q4 2020): \$1,423.6m
Trade deficit (Q4 2020): \$1,079.1m

Exports (Q4 2020): \$344.5m
Source: PCBS

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q4 2020

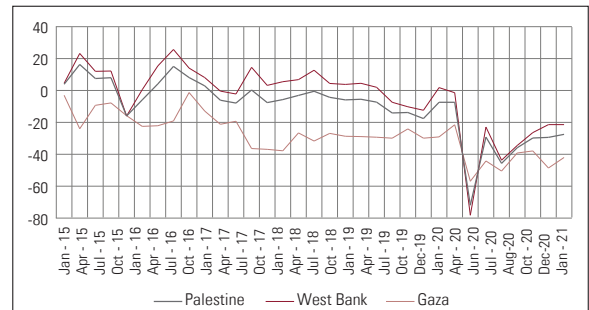


Unemployment rate(Q4 2020): 23.4%
Source: PCBS

Youth Unemployment rate (Q4 2020): 40.2%

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2015 – January 2021

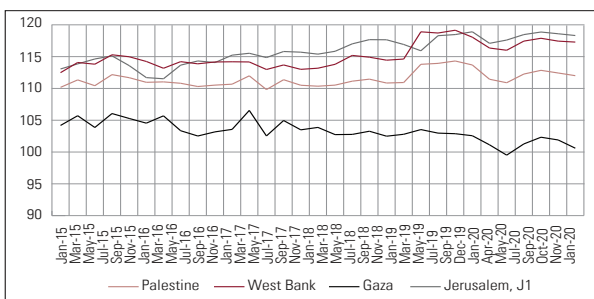


Palestine (January 2021): -27.5
Gaza (January 2021): -42

West Bank (January 2021): -21.4
Source: PMA

Inflation

Consumer Price Index (Base year = 2010), January 2015 – January 2021

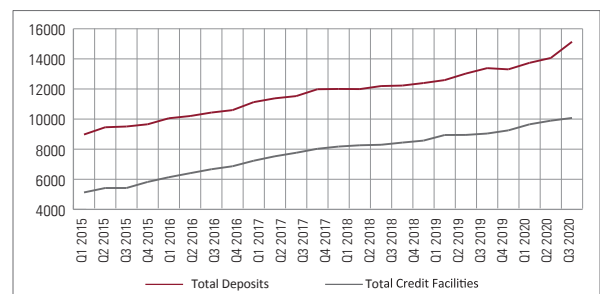


Palestine (January 2021): 112
Gaza (January 2021): 100.6

West Bank (January 2021): 117.2
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2020



Total Credit (Q4 2020): \$10,075.1m
Source: PMA

Total Deposits (Q4 2020): \$15,137.4m

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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