The Portland Trust

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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Energy sector developments

Noor Palestine

On 12 October, the North Electricity Distribution Company (NEDC) and Masdar, the energy and infrastructure division of the Palestinian Investment Fund (PIF), signed an agreement to construct the Noor Al-Shamal (North) solar power plant near Tulkarem. The plant will have an initial production capacity of five megawatts (MW).[1] This will be the second solar power plant in the north of the West Bank following "Noor Jenin", which went into operation in October 2020, also with a production capacity of five MW.

On 2 November, three weeks after the agreement on the Noor Al-Shamal plant, Masdar signed another agreement with the Jerusalem Electricity Company to establish the "Noor Ramoon" solar power plant in the Ramallah and Al-Bireh Governorate[2], expected to begin operation in 2022 with a production capacity of four MW.

These new solar power plants will join a number of other completed PIF solar energy projects as a part of its "Noor Palestine" programme, launched with the aim of creating energy independence and security for Palestine using renewable energy while investing in Palestine's sustainable economic growth.[3] These projects provide a valuable opportunity for electricity companies in Palestine to diversify energy sources and increase their capacity to provide a consistent electricity service to customers. The programme's goal is to produce a total of 200 MW from solar, about 17% of Palestine's current electricity needs.

JDECO's financial crisis

The new solar power plants announcements came as the Israel Electric Corporation (IEC) confirmed its decision to cut power to areas of the West Bank until the Jerusalem District Electricity Company (JDECO) and the Palestinian National Authority (PNA) settle their accumulated debts.[4] The IEC announced rolling blackouts would start from 10 November for Ramallah, Bethlehem, and areas near Jerusalem. Electricity would be cut for four hours per day until the debt was paid. However, the threat has not been carried out.[5] In fact, on 2 November, the Israeli Ministry of Finance announced that it would deduct the PNA's portion of the unpaid electricity bills (around $127m) from the clearance revenues it pays to the PNA.

This is the latest of a series of such blackout threats from the IEC on account of the debt that has been accumulating since 2016, when the PNA and the Israeli government signed a memorandum of understanding, which assigned sole responsibility for the electricity sector to the PNA.[6] As such, the PNA assumed JDECO debts, to be subsequently deducted from clearance revenues.[7] Since 2016, JDECO and the PNA have been caught in a tenuous relationship in which each party blames the other for the inability to pay debts to the IEC, debts rendered almost inevitable by regulatory inefficiencies, high operating costs, and the failure of some local authorities still directly linked to the Israeli grid to pay the company for services.[8] The IEC responded by repeatedly threatening to cut service to areas of the West Bank, most recently in 2019, when blackouts lasted approximately three months until the PNA paid about half of the outstanding debt to the IEC.[9]

1 www.pif.ps/2021/10/12/
2 www.pif.ps/2021/11/02/ and bit.ly/3bMEkTt
3 www.massader.ps/ar/project/1518342899
4 www.aliqtisadi.ps/article/84026/
5 bit.ly/3kpaaKv
6 www.mas.ps/files/server/20191012104921-1.pdf
7 The Palestinian tax revenues Israel is allowed by the Oslo Accords' Paris Protocol to collect on behalf of the PNA
8 Ibid.
9 bit.ly/3kpaaKv

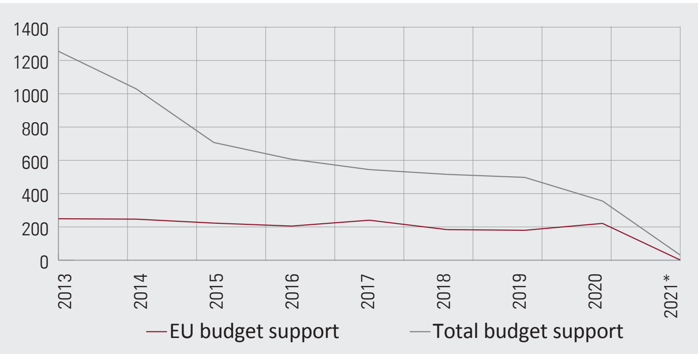
The root cause of the problem is that Palestine currently produces only around 3% of the electricity required by local demand, and so depends on Israel to supply almost all the remaining electricity needs.[10] As just the latest iteration of this long-term situation, the current crisis emphasises that this dependence is increasingly untenable and cannot deliver the stability of electricity supply on which the Palestinian economy depends. Threats to implement blackouts increase energy insecurity and discourage economic activity, emphasising the need for a secure energy supply.

Aid Related Developments

On 3 November, the European Union (EU) provided $18.8m to help the PNA pay October's salaries and pensions for staff in the health and education sector.[11] This is the first contribution from the EU to support the Palestinian budget in 2021.

Apart from humanitarian and development aid, European Union (EU) support to Palestine, which amounts to $200-300m annually, has been suspended since the beginning of this year due to technical difficulties related to the EU's financial system in general, affecting all aid receiving countries. On 29 October, Palestinian Prime Minister, Muhammad Shtayyeh visited Brussels and Luxembourg to urge the Union to resume its budget support to the PNA.[12] The EU duly pledged to transfer €600m by March 2022, which is the total of its financial allocations to Palestine for the years 2021 and 2022. This includes €280m in budget support, €170m for UNRWA and €150m for development and humanitarian projects.

Figure 1: PNA budget support, 2013-2021[13]



Source: Palestinian Ministry of Finance

Even though the EU's contribution has been relatively stable over the past years, total budget support has drastically declined, leaving the PNA with a large financing gap ($700m in the first nine months of 2021). Aid declined from 9.3% of the Government's budget in 2013 to just 2.9% in 2020, a drop of some 69%.[14] This is largely due to the absence of funding from Gulf Cooperation Council countries, lower contributions by donor countries to the World Bank's Multi Donor Trust Fund, and the halt of US support in 2019.

To deal with falling donor support, the PNA was forced to resort to the further accumulation of arrears and domestic bank lending.[15] Net accumulated arrears reached $1.06bn in the first nine months of 2021, adding to the already existing $1.76bn[16] from previous years. The stock of domestic debt increased from $2.32bn at the beginning of 2021 to $2.47bn in September, with foreign debt remaining at around $1.32bn. Faced with acute financial constraints the PNA will have to consider possible cuts in essential spending and delaying wage payments, both of which have severe implications for the economy and the most vulnerable households. They also result in the PNA being less able to cope with any delays in clearance revenues from Israel.

Rising Consumer Prices

At the end of October, the Palestinian President Mahmoud Abbas directed a "crisis unit", composed of representatives from the Ministry of National Economy, the Consumer Protection Society and other relevant actors, to institute price ceilings and related measures to monitor the price of consumer goods.[17] These actions were prompted by public concern over price hikes in basic commodities in recent months, reducing the purchasing power of Palestinian consumers.

The Palestinian Chambers of Commerce and the Ministry of National Economy have been monitoring the prices of goods in local markets and prices being paid by importers in order to develop a list of indicative price ceilings that will be enforced on the sale of basic goods.[18] At the same time, suppliers of basic commodities have committed to not raise prices until the end of the year.[19] To enforce these new measures, the Ministry is issuing penalty fines to merchants and suppliers who refuse to sell or attempt to increase the price of basic commodities.[20]

Though official bodies were hasty in introducing these new measures, preliminary estimates released by the Palestinian Central Bureau of Statistics (PCBS) on 14 November show only a modest increase in inflation of 0.08% in October 2021 compared to September 2021, and 1.28% compared to October 2020.[21] These follow September's increase of 0.43%, the highest monthly price rise in the past six months.[22] Also worth noting, October recorded the highest oil prices (ILS 6.23 per litre of 95 octane gasoline) since October 2014.[23] The high price of fuel reflects elevated oil prices in the global market, which have almost doubled over the last year.

Global and local factors

Concerns about rising prices in the Palestinian market mirror similar disquiet across the world as a result of the coronavirus pandemic. Lower supply of goods, caused by reduced production capacity in exporting countries, supply chain bottlenecks, increased costs of manufacturing and shipping, in addition to shifts in demand all contribute to the increased cost of commodities globally. The global upward pressure on prices is partially offset in Palestine by the record increase in the exchange rate of the shekel against the dollar. Currently at less than 3.1 per dollar, the shekel is at its strongest level in 25 years.[24]

10 www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=528
11 www.news.cn/english/2021-11/04/c_1310289574.htm
12 bit.ly/3GYrDmR
13 www.pmof.ps/pmof/internal.php?var=11&tab=01 – *Only until September 2021
14 www.pmof.ps/pmof/internal.php?var=11&tab=03 and bit.ly/3CghlL5
15 bit.ly/30y5onp

16 Net amount excluding payments made in 2021
17 pnn.ps/news/615085
18 pnn.ps/news/614963
19 www.alhadath.ps/article/147306/
20 pnn.ps/news/615085
21 pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_14-11-2021-CPI-ar.pdf
22 bit.ly/3nntDxa
23 www.aliqtisadi.ps/article/83917/
24 bloom.bg/3Fyustt

Yet, the public disquiet at upward trend in prices facing Palestinians is attributable not just to global factors, but the unique constraints placed on the local economy. The PNA, as a result of its lack of control over the entry and exit of goods, and the current budget crisis, has relatively few tools to moderate prices for consumers, unlike other governments faced with the challenges of the pandemic. As a result of the Paris Economic Protocol, a value-added tax (VAT) must be imposed in Palestine at a rate matching Israel's VAT rate (allowing for Palestinian VAT rate to be 1-2% below the Israeli rate).[25] Furthermore, Palestine's dependence on the Israeli market for imports exacerbates the situation, as Palestine must continue to import commodities from Israel despite its rising prices, rather than import from a third country.[26] All goods entering and exiting have to pass through Israeli channels, severely restricting Palestinian import and export choices as a result of Israeli border control.

At the same time, consumers are also being confronted with potential price hikes for services. According to a draft proposal published by the Electricity Sector Regulatory Council, fixed fees may be added to electricity services in Palestine.[27] The proposal, if approved by the Council of Ministers, will introduce fees for services including maintenance requests, initiating a new electricity account, and meter examinations. Similarly, the Palestinian Federation of Insurance Companies (PFI) announced that premiums for supplementary vehicle insurance would increase at the beginning of November by an average of 30%,[28] although this decision was subsequently suspended by the Palestinian Capital Market Authority (PCMA) ruling it to be illegal.[29] The PCMA stated that insurance premiums for vehicles are governed by Cabinet Resolution No. 2 of 2008, and thus PFI does not have the authority to issue minimum insurance premiums.

Although both these proposed price hikes therefore do not affect consumers at this point, the attempt by service firms to raise fees alongside the price hikes expected in the goods sector has understandably contributed to great concern in the market.

New Permits for Workers in Israel

On 7 November, and in an unprecedented move, the Government of Israel (GoI) approved a pilot project to gradually issue 500 work permits for Palestinian technology employees in the West Bank over a period of three years.[30] Until now, it was largely only permits for Palestinian workers in construction and agriculture that had been approved. Some Palestinians are already employed in Israel at tech firms, but largely on a case-by-case basis, rather than as a matter of government policy. The move came as the Israeli tech sector faces a labour shortage and some Israeli firms are already working with skilled Palestinian tech suppliers and individuals through outsourcing.

Potential impact on the Palestinian ICT sector

In 2020 and 2021, around 1,700 students graduated from Palestinian higher education institutions with a degree in ICT fields each year, and a similar number of graduates in other STEM (science, technology, engineering and mathematics) fields.[31] Despite the increasing number of graduates in tech-related fields, employment opportunities are limited and many graduates work for Palestinian firms that contract with Israeli companies. In 2018, around 8,815 Palestinians worked in ICT activities, 4,805 (54.5%) of which were in telecommunications, and 1,677 (19%) in computer programming.[32] In 2020, 28.2% of ICT graduates were unemployed, 15.9% in the West Bank and 47.1% in Gaza. Unemployment is much higher among young ICT graduates: 59.6%, 42.8% in the West Bank and 85.9% in Gaza[33].

While the new announcement provides opportunity for some individuals, it also has negative consequences for the wider sector and its attempts to climb the value curve. Highly-skilled and experienced IT workers are clearly attracted to the higher wages in Israel that local IT firms cannot match, but leave gaps for the struggling Palestinian sector, draining it of essential highly-skilled and experienced resources and negatively affecting its competitiveness. At ILS 133.7,[34] the average daily wage for ICT graduates in Palestine is just over half the national daily minimum wage in Israel (ILS 244.62[35]) and just one-fifth of the average starting salary of comparable ICT workers.[36] To a degree, this can be mitigated with interventions to upgrade Palestinian higher education institutions' curricula and offer more specialised disciplines that match market needs and expose students to the skills needed to enter the job market, but these are slow to develop and expensive to deliver.

Increased employment in the Israeli labor market

More broadly, in late October, the GoI announced it was issuing 9,000 additional work permits for Palestinians in the West Bank,[37] itself part of the 15,000 work permits announced in August as one of the "confidence building measures" with the PNA.[38] The GoI also announced 3,000 permits for Palestinians in the Gaza Strip, bringing the total permits there to 10,000.[39] Around 5,000 permits were granted to Gaza merchants back in November 2018 and 2,000 permits were issued in 2020.[40] Although these permits are classified as 'merchant permits', they are mostly granted to workers in towns surrounding the Gaza Strip, in the agriculture and construction sectors.[41]

October Trading

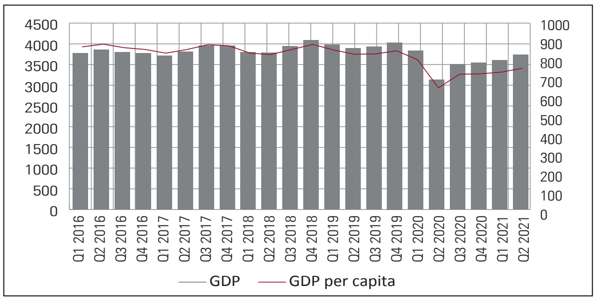
The Al-Quds index reached 583.1 points on the last day of trading in October 2021, an increase of 0.6% from the previous month.[42] During the month, a total of 9.7m shares with a total value of $23.0m were traded, marking a 45.2% decrease in the number and 37.0% decrease in the value of traded shares compared to September 2021.

25 pnn.ps/news/614963
26 Ibid
27 www.aliqtisadi.ps/article/83657/
28 www.aliqtisadi.ps/article/84010/
29 www.aliqtisadi.ps/article/84011/
30 bit.ly/3kndnKM - an initial 200 will be issued in 2022, followed by an additional 200 in 2023 before maxing out at 500 in 2024
31 bit.ly/3CktU8a - the figure does not include graduates from foreign universities
32 bit.ly/3qM49vl
33 19-29 years old with at least an associate diploma
34 pcbs.gov.ps/pcbs_2012/Publications.aspx
35 bit.ly/3c0SXCJ
36 bit.ly/3D4IUZ4
37 bit.ly/3ko1TGC
38 bit.ly/3F1nrRA
39 bit.ly/3CXQ69r
40 bit.ly/3knQ7w0 and bit.ly/30kLEDs
41 bit.ly/3wx3fUs
42 bit.ly/3nql1Wo

Palestine Economic Dashboard

Growth

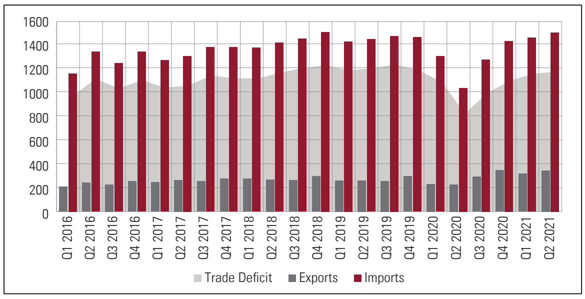
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q2 2021



GDP (Q2 2021): $3,734.7m *GDP per capita (Q2 2021): $758.9*
Source: PCBS

Trade

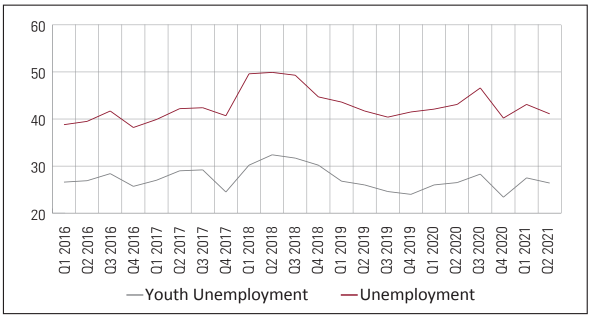
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q2 2021



Imports (Q2 2021): $1,494m *Exports (Q2 2021): $342.7m*
Trade deficit (Q2 2021): $1,151.3m *Source: PCBS*

Unemployment

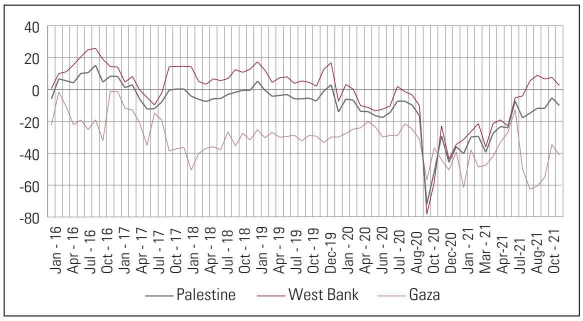
Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q2 2021



Unemployment rate (Q2 2021): 26.4% *Youth Unemployment rate (Q2 2021): 41.1%*
Source: PCBS

Business Cycle Index

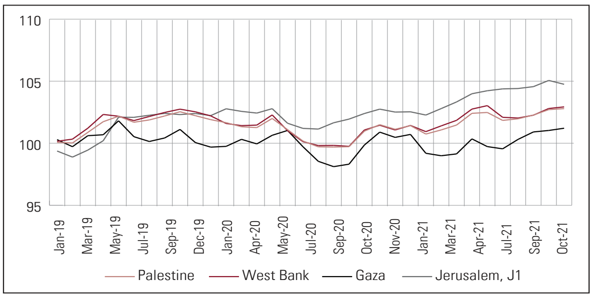
Palestine Monetary Authority Business Cycle Index, January 2016 – October 2021



Palestine (October 2021): -10.1 *West Bank (October 2021): 2.5*
Gaza (October 2021): -41.1 *Source: PMA*

Inflation

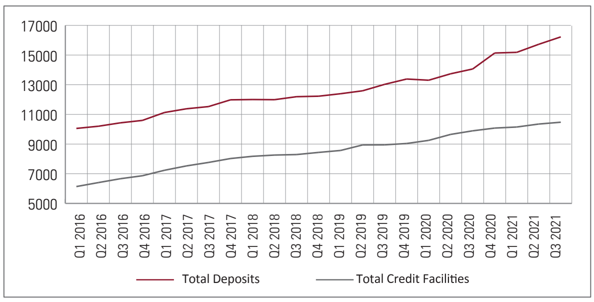
Consumer Price Index (Base year = 2018), January 2019 – October 2021



Palestine (October 2021): 102.79 *West Bank (October 2021): 102.93*
Gaza (October 2021): 101.21 *Source: PCBS*

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q3 2021



Total Credit (Q3 2021): $10,473.70m *Total Deposits (Q3 2021): $16,224.57m*
Source: PMA

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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