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Main reports

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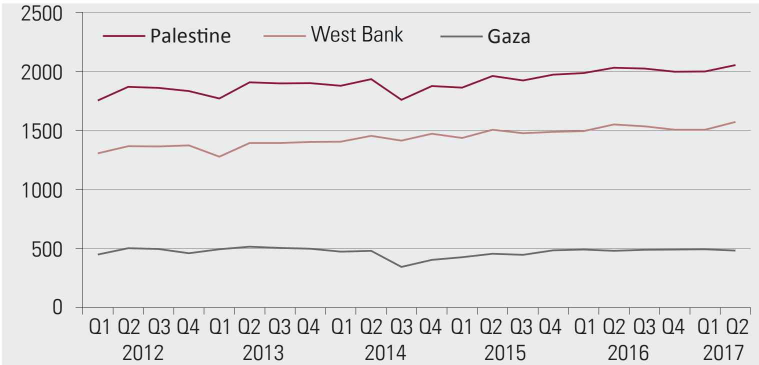
The Joint Jordanian-Palestinian Higher Committee met in Amman on 27 September for the first time in three years

National Accounts

According to preliminary results published by the Palestinian Central Bureau of Statistics (PCBS) on 28 September, Real GDP in Palestine amounted to $1,572m in Q2 2017, an increase of 2.7% compared to the previous quarter and of 1.1% compared to Q2 2016.[1] In the West Bank, Real GDP increased by 4.4% from the previous quarter and 1.3% from Q2 2016, while in Gaza it decreased by 2.5% from the previous quarter, but increased by 0.4% from Q2 2016. Since 2012, the Real GDP growth rate has been generally stagnent, with one major fluctuation resulting from the 2014 Gaza war.

Figure 1: Quarterly Real GDP by Region (Base Year: 2004), Q1 2012-Q2 2017

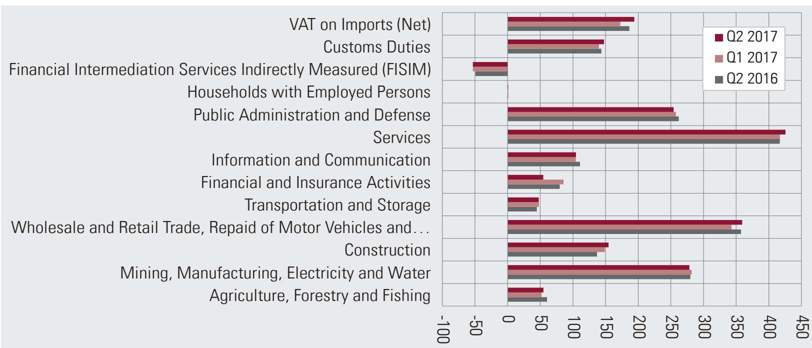


Source: PCBS

In Q2 2017, Real GDP per capita in Palestine increased by 2% from the previous quarter but dropped by 1.7% from Q2 2016. In the West Bank, Real GDP per capita improved by 3.7% compared to the previous quarter, but declined by 1.2% compared to Q2 2016. In Gaza, Real GDP per capita declined by 3.2% compared to Q1 2017 and by 2.9% compared to Q2 2016.

The most significant improvement in economic activity year on year (between Q2 2016 and Q2 2017) was in the construction sector (12.9%). The most significant decreases during the same period were in financial and insurance activities (31.7%), agriculture, forestry and fishing (9.4%) and information and communication (5.5%) sectors.

Figure 2: Value Added by Economic Activity in million USD (Base Year: 2004), Palestine, Q2 2016, Q1 2017 and Q2 2017



Source: PCBS

1 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-9-2017-NA-en.pdf

Biannual Meeting of the Ad Hoc Liaison Committee

On 18 September, members of the Ad Hoc Liaison Committee (AHLC) met in New York for their biannual meeting to review the progress of the Palestinian state building process and to discuss measures to improve and sustain the Palestinian economy.[2] The meeting was hosted by UN Under-Secretary General Mr. Jeff Feltman and chaired by Norway's Foreign Minister Mr. Børge Brende. The AHLC is a 15-member committee which serves as the principal policy level coordination mechanism for development assistance to the Palestinian people, chaired by Norway and co-sponsored by the EU and the US.

While progress was noted on budgetary sustainability by the AHLC, the World Bank highlighted that the Palestinian National Authority's (PNA) fiscal position remained "an additional risk to the economy".[3] Despite recent cuts in the PNA's expenditure on payroll and net lending in Gaza and revenue transfers by Israel to offset fiscal leakages, the 2017 financial budget deficit is projected to reach more than $580m. The AHLC called for improved cooperation between the Palestinian and Israeli governments to eliminate clearance revenue losses in accordance with the 1994 Paris Protocol. The World Bank estimates that tax leakages due to indirect importing through Israel and the undervaluation of Palestinian imports from third countries, result in losses to the PNA of $285m per year.[4]

With respect to economic development, the AHLC welcomed the progress on strategic projects in the water and energy sectors such as the Red Sea-Dead Sea project and the Gaza Central Desalination Plant. The AHLC called for progress in opening Area C for Palestinian economic development; finalising the mechanism for the entry of 'dual use' materials and advancing regulatory reform related to water and wastewater services.[5]

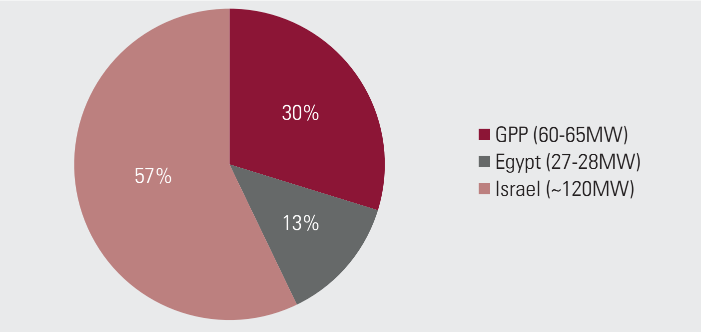
Focusing on Gaza, the Office of the Quartet (OQ) highlighted necessary future measures to increase the electricity supply to Gaza. As an immediate measure, it recommended that a payment and import schedule be agreed between the PNA and Gaza Electricity Distribution Company (GEDCO) and that continued, uninterrupted supply of 27MW of power from Egypt should be ensured through the existing distribution lines. These developments are expected to be encouraged following the reconciliation agreement signed by Hamas and Fatah on 12 October in Cairo.[6] The OQ also recommended expansion of solar photovoltaic deployments, upgrades to the existing electricity network and the establishment of a high voltage connection between Gaza and the Israel Electric Corporation (IEC) for additional electricity imports to Gaza, eventually up to 100MW.

Roundtable Discussion on the Power Supply Crisis in Gaza

On 27 September, the Palestinian Economic Policy Research Institute (MAS) held a roundtable discussion on the socio-economic ramifications of the power supply crisis in Gaza. The event, which was attended by representatives from the Palestinian Energy and Natural Resources Authority (PENRA), GEDCO, the Federation of Renewable Energy Industries (FREI) and other stakeholders from relevant private and public sector organisations, aimed to collate recommendations from energy sector stakeholders for alleviating Gaza's power supply crisis. The discussion concluded with several recommendations including tax exemptions on fuel consumed by factories operating electric generators; credit facilities to enable increased investment in renewable energy projects; and the establishment of secured energy lines for Gaza's industrial zones.

Gaza depends on three main sources of electricity supply: the Gaza Power Plant (GPP) in the Nusseirat area in central Gaza, fueled by industrial diesel imported from Egypt, two Egyptian feeder lines and ten Israeli feeder lines. Between 2006 and April 2017, the daily supply of energy from the three sources remained stagnant at a maximum of 210MW, which covered only 26-46% of the daily demand (450 MW).[7] Recent months however have seen a significant decline in energy supply due to the PNA halting its waiver of taxes on fuel for the GPP and reducing its payments for Israeli-supplied electricity. Whilst these reductions have been partially offset by an increase in the import of Egyptian fuel, the total supply currently stands at only 127MW (155MW when the Egyptian lines are functioning).

Figure 3: Percentage Breakdown of Electricity in Gaza by Source of Supply in Q1 2017



Source: United Nations – Gaza Ten Years Later

Based on estimated population growth, a conservative projection would result in a 22.2% increase in energy demand by 2020 (to 550MW, from the April 2017 level of 450MW). However, if Gaza's economic recovery were to commence in the coming months, the energy demand is estimated to increase by around 88.9% (to 850MW). In

2 www.quartetrep.org/files/server/20170918_AHLC_Chair_Summary_Final.pdf
3 http://documents.worldbank.org/curated/en/515891504884716866/pdf/119657-WP-PUBLIC-on-Monday-1-PM-sept-11-AHLC-report-September-8.pdf
4 www.worldbank.org/en/news/press-release/2016/04/18/palestinian-authority-incurs-us285-million-in-annual-fiscal-losses
5 www.quartetrep.org/files/flash/Office%20of%20the%20Quartet%20Report%20to%20the%20Ad-Hoc%20Liaison%20Committee%20-%20September....pdf
6 www.theguardian.com/world/2017/oct/12/hamas-claims-deal-agreed-fatah-control-gaza-strip
7 https://unsco.unmissions.org/sites/default/files/gaza_10_years_later_-_11_july_2017.pdf

response to Gaza's growing energy needs, several key projects, including the establishment of a high-voltage Israel-Gaza 161 kv line and the conversion of the GPP to use natural gas, are moving forward, albeit slowly.

China Belt and Road Initiative in Gaza

On 1 October, Mr. Munib Al-Masri, the Chairman of the Palestine Development and Investment Company (PADICO) and the Vice Chairman of the Silk Road Chamber of International Commerce (SRCIC), announced a plan to establish a new Palestinian company with the mandate to cooperate with China's One Belt, One Road Initiative on investment projects in Gaza.[8] The company, which will be set up with a capital of $100m, will seek partnerships with Chinese companies through joint investment in key infrastructure projects such as the construction of a desalination station, a power plant, an airport, a seaport, industrial zones and agricultural projects.[9]

The One Belt, One Road Initiative, more commonly known as the Silk Road Economic Belt, was put forward by the Chinese President Mr. Xi Jinping in 2013, in order to build a trade and infrastructure network connecting Asia with Europe, Africa and beyond. The project, which is unprecedented in size and scope, will invest around $1 trillion in countries hosting 60% of the world's population and a third of the global GDP. Currently, 68 countries participate in the initiative, and $50bn has been spent.[10, 11]

The SRCIC was established in Hong Kong and aims to promote investment as well as financial and logistical development and to increase the trade exchange among countries along the Silk Road. In late September 2017, a delegation headed by the SRCIC Chairman Mr. Lu Jianzhong visited Palestine and met with various stakeholders including President Mahmoud Abbas and the Minister of National Economy, Ms. Abeer Odeh, in order to explore economic opportunities.

Building the Largest Shopping Mall in Palestine

On 24 September 2017, LACASA Holdings, a leading international architectural and engineering firm based in Dubai, announced its plans to launch a large-scale retail mall in Ramallah.[12] The total value of the project is $40m and its built-up area will amount to 50,000m^2. It will consist of 6 levels of retail space and 3 levels for parking, rendering it the largest of its kind in the country.[13] The mall is scheduled to open in the first quarter of 2019, with over 40% of its development completed to date.[14]

8 www.news.xinhuanet.com/english/2017-10/01/c_136653299.htm
9 news.cgtn.com/news/3d417a4e32494464776c6d636a4e6e62684a4856/share_p.html
10 www.brookings.edu/blog/order-from-chaos/2017/05/17/whats-driving-chinas-new-silk-road-and-how-should-the-west-respond/
11 www.theguardian.com/world/2017/may/12/the-900bn-question-what-is-the-belt-and-road-initiative
12 www.lacasa.ae/news/
13 www.constructionweekonline.com/article-46466-lacasa-to-launch-palestines-largest-shopping-mall/
14 www.meconstructionnews.com/25049/lacasa-designs-40m-shopping-mall-to-be-built-in-palestine

In 2016, wholesale and retail trade accounted for 17.2% of the Palestinian GDP, a significant rise from 10.6% in 2006. In the last decade, the sector has grown in value by around 300% in total value and absorbed more than 93,000 additional workers, resulting in it being one the fastest growing sectors in the country.[15, 16]

U.S. Launches $10 Million Water Investment in Jericho City

On 15 October, the United States Government announced a $10 million USAID investment to increase Palestinian access to agricultural water by expanding the Jericho wastewater collection system to an additional 10,000 residents.[17] The new water lines will expand the existing pipes installed by USAID in 2015 to connect a total of 70% of Jericho residents to the Japanese Government-funded Jericho-based wastewater treatment plant. In addition to its importance for protecting the environment and safeguarding public health, this investment will also increase critical water resources available to Palestinian farmers. Currently, only a few farms are connected to the Jericho wastewater treatment plan through the distribution network, however, more farms are expected to be connected as the network expands. The launch event was attended by Mr. Jason Greenblatt, the U.S. President's Special Representative for International Negotiations.

Such investment in wastewater treatment is a further step towards increased water availability in Palestine. Earlier this year, on 16 May 2017, the Israeli-Palestinian Joint Water Committee (JWC), established under Article 40 of the 1995 Oslo II Accords, resumed its meetings after a seven-year halt.[18] A new mechanism was developed to accelerate the implementation of infrastructure projects such as supply lines, tanks, water and sewage networks, water pumping stations and treatment plants across several Palestinian-controlled areas of the West Bank. Following the resumption of meetings, the Government of Israel (GoI) and the PNA concluded a water-sharing agreement in July 2017, whereby the West Bank and Gaza would receive an additional quarter of their current annual water needs at a reduced rate.[19]

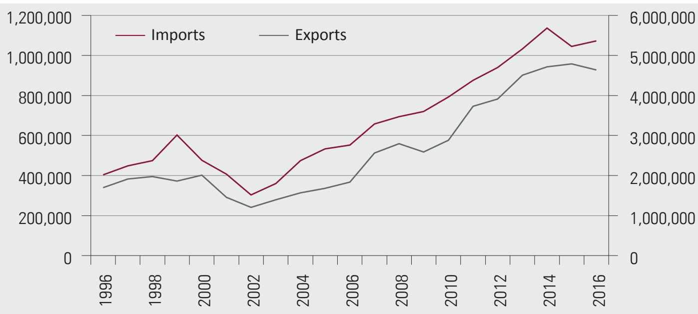
Foreign Trade

In October 2017, the PCBS published the 2016 year-end data on foreign trade in goods and services for Palestine.[20] In 2016, total Palestinian exports of goods amounted to $927m, a decrease of 3.3% compared to 2015, while total Palestinian imports of goods reached $5,364m, an increase

15 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-3-2017-NA-en.pdf
16 www.pcbs.gov.ps/Downloads/book1547.pdf
17 https://jru.usconsulate.gov/u-s-launches-10-million-water-investment-jericho-city-benefit-palestinian-farmers/
18 www.al-monitor.com/pulse/originals/2017/06/palestine-israel-joint-water-committee-dispute-meeting.html
19 www.aljazeera.com/news/2017/07/israel-palestinian-authority-reach-water-sharing-deal-170713165223323.html
20 www.pcbs.gov.ps/Downloads/book2287.pdf

of 2.6% compared to 2015. The decline in exports of goods was primarily driven by a $32.8m reduction in exports to Israel and an $18.5m drop in the industrial supplies category. This drop led to the constant trade deficit rising by 4%, to $4,437m. The West Bank was responsible for 99.5% of Palestinian exports and 87.5% of imports while 12.5% of imports went to Gaza.

Figure 4: Palestinian Exports and Imports, 1996-2016 ($ Thousand)



Source: PCBS

Israel remained the main trading partner for Palestine, accounting for 83.2% of Palestinian exports and 58.2% of Palestinian imports. After Israel, the largest Palestinian export markets were Jordan (5.6%), the UAE (2.5%) and Saudi Arabia (2.0%). The other main sources for imports were Turkey (8.9%), China (7.1%) and Germany (3.3%).

Table 1: Principal Exported/Imported Goods by % of Total in 2016

Principal 5 exported goods	As % of total exports	**Principal 5 imported goods**	As % of total imports
Articles of stone, plaster, cement, asbestos, mica, ceramics and glass	22.1	Mineral products	25
Vegetable products	12.7	Prepared foodstuffs, beverages and tobacco	14.1
Miscellaneous manufactured articles	11.3	Machinery, mechanical appliances and electrical equipment	9.2
Base metals and articles of base metal	9.6	Vegetable products	9.0
Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	9.6	Base metals and articles of base metal	6.7

Palestinian – Jordanian Economic Relations

The Joint Jordanian-Palestinian Higher Committee met in Amman on 27 September for the first time in three years after a recent improvement in relations.[21] The meetings were co-chaired by His Excellency Dr. Hani al-Mulki, Prime Minister of the Hashemite Kingdom of Jordan and Palestinian Prime Minister Dr. Rami Hamdallah. As part of these discussions, five memoranda of understanding were signed covering areas such as energy, education, health, construction and infrastructure. Total trade volume between Palestine and Jordan amounted to $176m in 2016 and $90m in the first half of 2017. His Excellency Prime Minister Dr. Hani al-Mulki expressed hope that the renewed economic cooperation would result in increased trade opportunities.

Other joint Palestinian-Jordanian projects that were discussed include the Red Sea-Dead Sea Water Project and the Japanese initiative "Corridor for Peace and Prosperity" that aims to enhance development and includes a proposal for an Agro-Industrial Park in the Jordan Valley.[22] Agreement was reached to establish joint Jordanian-Palestinian ventures to organise the transport of Palestinian Hajj and Umra pilgrims and to market agricultural products.[23]

September Trading

During September 2017, the Al-Quds index improved by 0.3%, reaching 567.8 points on the last day of trading.[24] A total of 18.0m shares worth $43.2m were traded during the month, marking a 43.6% decrease in the number and a 17.8% decrease in the value of traded shares compared to August 2017. The industrial sector witnessed the highest increase (2.6%), while the investment sector had the most significant decrease (2.2%).

21 www.al-monitor.com/pulse/originals/2017/10/jordan-palestie-joint-committee-economy-political-agreements.html#ixzz4vmSCYibT
22 www.mofa.go.jp/region/middle_e/palestine/concept0607.html
23 http://jordantimes.com/news/local/jordan-palestine-sign-five-deals-promote-partnership
24 www.pex.ps/PSEWebSite/NASHRA/20170930.pdf

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