

PALESTINIAN ECONOMIC BULLETIN

Bulletin 134 November 2017

Main reports

The Palestinian Minister of Public Works and Housing, Mr. Mofeed Al-Hasayna, signed several agreements on 26 October 2017, relating to the restoration of 270 factories destroyed during the 2014 Gaza War

Wataniya Mobile, one of the two Palestinian mobile telecommunication providers and a member of the Qatari Ooredoo Group, launched its cellular telephone service in Gaza on 23 October 2017

Palestinian Delegation Participates in 2017 Annual Meeting of the International Monetary Fund and the World Bank Group

New addition: *This issue of the bulletin includes the first of a regular Palestine Economic Dashboard.*

Doing Business Ranking 2018

In October 2017, the World Bank Group published its annual Doing Business Report. The report measures the regulations that enhance and constrain business activity. It presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies. Countries are ranked on their performance in ten areas of business regulation based on their distance to frontier (DTF) score, which measures performance against regulatory best practices.¹

In the 'Overall Doing Business' category, the 2018 report ranked Palestine 114 out of the 190 countries included, which is a major improvement from the 2017 ranking of 140.² Palestine's DTF score also increased from 54.9 in 2017 to 58.7 in 2018, placing it above the average DTF score for the MENA region (56.7). The best performing MENA country is the United Arab Emirates, with a rank of 21, and the worst performing are Syria (174), Libya (185) and Yemen (186).³

Table 1: Comparison of Palestine's rankings in the 2017 and 2018 Doing Business Reports

Indicator	Palestine's Ranking			Palestine's DTF Score		
	2017 ⁴	2018	Change	2017 ⁵	2018	Change
Starting a Business	169	169	0	69.36	69.59	+0.23
Dealing with Construction Permits	157	154	+3	55.98	56.70	+0.72
Getting Electricity	70	87	-17	74.38	71.46	-2.92
Registering Property	93	94	-1	62.71	62.71	0
Getting Credit	118	20	+98	40.00	80.00	+40.00
Protecting Minority Investors	158	160	-2	38.33	38.33	0
Paying Taxes	101	109	-8	68.84	68.84	0
Trading across Borders	99	49	+50	86.67	86.67	0
Enforcing Contracts	122	124	-2	52.51	52.51	0
Resolving Insolvency	169	168	+1	0.00	0.00	0
Overall Doing Business	140	114	+26	54.88	58.68	+3.80

Source: World Bank, 2018 Doing Business Report

According to the report, the main driver of Palestine's enhanced performance was the improvement in access to credit for businesses. In April 2016, Palestine introduced a new Secured Transactions Law, establishing the legal and institutional systems to regulate the use of movable assets as collateral. Traditionally, lenders required fixed assets such as land and real estate as collateral, which constrained access to finance for many small companies. The 2016 Law was supported by the creation of a collateral registry, recording the moveable assets agreed as collateral. The registry is now operational, unified geographically and searchable by individual debtor.

1 www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Profiles/Country/WBG.pdf and www.doingbusiness.org/data/exploreeconomies/west-bank-and-gaza

2 documents.worldbank.org/curated/en/155431478700771408/pdf/WP-DB17-PUBLIC-West-Bank-and-Gaza.pdf

3 www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Fact-Sheets/DB18/DB18-FactSheet-MENA.pdf

4 The data on the 2017 rankings of Palestine (both in the table and in the text) comes from the 2017 Doing Business Report as this data is not included in the 2018 Doing Business Report.

5 The data on the 2017 DTF scores for Palestine (both in the table and in the text) comes from the 2018 Doing Business Report as the scores have been adjusted due to data corrections since the 2017 Doing Business Report.

Economic Impact of the Political Reconciliation

On 12 October, Fatah and Hamas signed a reconciliation agreement in Cairo, ending the decade-long political division.⁶ The agreement has so far generated positive economic forecasts, as stability in Gaza is expected to boost economic recovery and accelerate reconstruction efforts. Major investment is required to fix the collapsing infrastructure in Gaza, as well as provide employment opportunities for Gaza's youth, who are currently experiencing an unemployment level of 64.9% according to the latest data from the Palestinian Central Bureau of Statistics (PCBS).

The reconciliation is expected to drive a 20-30% increase in the 2018 PNA budget, making it the largest PNA budget to date.⁷ In September 2017, prior to the reconciliation, the International Monetary Fund (IMF) estimated that in 2015 and 2016 the PNA's wage bill remained at 15.1% of Palestinian GDP, one of the highest levels in the world.⁸ This figure did not include the cost of the public sector workers in Gaza employed by Hamas, which is estimated at \$450-500m a year, or an additional 3-4% of GDP. This budget increase would be necessary to enable the PNA to absorb the 50,000 public sector employees, as well as recruit new security personnel.

The agreement is expected to have a positive effect on government revenues, as the PNA will be able to collect tax revenues in Gaza.⁹ However, it is not yet clear whether these improvements will be sufficient to offset the increase in recurrent expenditure. Although the World Bank has estimated that incremental revenues could cover the costs of adding the public-sector employees to the PNA payroll, it is expected that the re-unification would undoubtedly lead to staff redundancies. These redundancies will need to be addressed through civil service reform.

According to the World Bank, the internal political divide ongoing since 2007, has resulted in two separate regulatory frameworks furthering the economic fragmentation between the West Bank and Gaza.¹⁰ Furthermore, following the political division, the restrictions imposed by the Government of Israel (GOI) have had severe consequences on Gaza's development.¹¹ Despite the partial easing of Israeli restrictions in recent years, the monthly average of truckloads leaving Gaza

with exports in 2016 amounted to only 17% of levels before the imposition of the 2007 restrictions.

Kuwait Donation for Reconstructing 270 Factories in Gaza

On 26 October 2017, the Palestinian Minister of Public Works and Housing, Mr. Mofeed Al-Hasayna, signed several agreements with representatives of the State of Kuwait, relating to the disbursement of \$200m previously pledged in 2014 by Kuwait for Gaza's reconstruction following the 2014 Gaza war.¹² The agreements earmark \$75m for the reconstruction of housing units, with the remaining funds to be directed towards the restoration of 270 out of the 860 factories destroyed during the 2014 war.

The overall estimated economic loss incurred during the 2014 war has been estimated at around \$3.1bn, accounting for 24.4% of the Palestinian GDP in 2014.¹³ According to the PNA's Detailed Needs Assessment (DNA)¹⁴, the total direct damage to private sector physical assets amounted to \$418m, while indirect losses due to lost income and business opportunities reached \$451m, bringing the total figure to \$869m, or 28% of the overall cost of the war to Gaza's economy. The DNA estimated the recovery needs of the productive sector in Gaza at \$602m.

As at 12 September 2017, only 53% of the total amount pledged for Gaza's reconstruction had been disbursed.¹⁵ Only \$16m out of the needed \$602m has been allocated to meet recovery needs of the productive sector, despite its critical role in building a strong, resilient and sustainable economy in Gaza.

Foreign Investment

According to preliminary data released by the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA) in November 2017, the total stock of foreign investments of resident enterprises in Palestine (known as external assets) reached \$5.88bn at the end of 2016¹⁶, a 0.63% decrease from 2015¹⁷. The majority of external assets (65.9%) comprised currency and deposits (\$3.8bn), while debt securities constituted 17.2% (\$1.0bn).

Meanwhile, the total foreign investment in Palestinian resident enterprises (foreign liabilities) amounted to \$2.93bn at the end of 2016, a drop of 2.1% from 2015. More than half of foreign liabilities (58.1%) were attributable to foreign direct investment (FDI). As much as 60.9% of FDI

6 www.al-monitor.com/pulse/originals/2017/10/palestine-reconciliation-egypt-border-opening-trade-economy.html

7 www.al-monitor.com/pulse/originals/2017/10/palestine-reconciliation-pa-budget-gaza-employees.html

8 <http://bit.ly/2BmvWq9>

9 www.al-monitor.com/pulse/originals/2017/10/palestine-reconciliation-gaza-west-bank-economy.html

10 documents.worldbank.org/curated/en/515891504884716866/pdf/119657-WP-PUBLIC-on-Monday-1-PM-sept-11-AHLC-report-September-8.pdf

11 <http://bit.ly/2idthu8>

12 www.kuna.net.kw/ArticleDetails.aspx?id=2652586&language=en

13 <http://bit.ly/2n7LM50>

14 A report issued by the Ministerial Committee for the Reconstruction of Gaza to provide a comprehensive assessment of the damage, economic loss and human impact of the 2014 Israeli war on Gaza

15 www.worldbank.org/en/programs/rebuilding-gaza-donor-pledges

16 www.pcbs.gov.ps/Downloads/book2325.pdf

17 www.pcbs.gov.ps/Downloads/book2231.pdf

in resident enterprises was in the financial intermediation sector, while only 3.1% was in the industrial sector. Most FDI originated from Jordan (79.9%), followed by Qatar (7.6%) and Egypt (2.8%). External assets exceeded foreign liabilities by \$2.95bn at the end of 2016.

Palestinian Delegation Participates in 2017 Annual Meeting of the International Monetary Fund (IMF) and the World Bank Group (WBG)

In October, Mr. Azzam Shawwa, Governor and Chairman of the PMA, headed a delegation participating in the 2017 annual meeting of the IMF and the WBG in Washington.¹⁸ The meeting brought together central bankers, ministers of finance and development, private sector executives, representatives from civil society organizations and academics to discuss issues of global concern, including the world economic outlook, poverty eradication, economic development and aid effectiveness.¹⁹

Mr. Shawwa reported that intensive discussions took place during the meeting concerning the need to transform the PMA from its current status as an organization with limited authority over monetary policy, to a modern and sophisticated central bank, able to promote stability and issue a Palestinian currency in the future.²⁰ He pointed out that the Palestinian economy has witnessed remarkable improvement, with deposits increasing by 15% annually and currently standing at around \$12bn.²¹

Wataniya Mobile Launches Operations in Gaza

On 23 October 2017, Wataniya Mobile, one of the two Palestinian mobile telecommunication providers and a member of the Qatari Ooredoo Group, launched its cellular telephone service in Gaza.²² Wataniya Mobile has been operating in the West Bank since 2009 but has incurred difficulties and lengthy delays in obtaining the necessary approvals from the GOI to import its equipment to launch operations in Gaza.²³

Jawwal, the only other Palestinian mobile telecommunication company, has been the sole mobile operator in Gaza since its establishment in 1999. The launch of Wataniya's services in Gaza will allow for more competition in the mobile telecommunications market which is expected to benefit Palestinian consumers in Gaza in terms of quality and price. The launch is also resulting in new investment in Gaza. Mr. Haitham Abu

Shaaban, Wataniya Mobile's Director of Gaza Operations, confirmed that the company has invested \$40m in Gaza to date and plans to add another \$20m to upgrade networks and infrastructure.²⁴

Commenting on Wataniya's market entry, Dr. Allam Mousa, Palestinian Minister of Information Technology and Telecommunications, said that the launch of the new cellular provider in Gaza will create more jobs and lead to technological progress in the area.²⁵ Wataniya expects the launch to create 500 new jobs in Gaza.²⁶ Dr. Mousa stated that the Ministry is currently working to obtain necessary approvals from the GOI to upgrade from 2G to 3G network services in Gaza. The GOI only granted 3G frequencies to Palestinian telecommunications providers in the West Bank on 5 April 2017.²⁷ Whilst 3G services have not yet been rolled out in the West Bank, these are expected in 2018.²⁸

October Trading

In October 2017, the Al-Quds index increased by 0.35% from the previous month, reaching 569.76 points on the last day of trading. A total of 18.5m shares worth \$30.5m were traded during the month, marking a 2.4% increase in the number of traded shares but a 29.3% decrease in the trading value compared to September 2017. The insurance sector experienced the highest increase (3.2%), while the industrial sector witnessed the greatest drop (-1.8%).

On 5 November 2017, the Palestine Exchange (PEX) published results for its Q3 2017 disclosure period, with 89% of the disclosed companies reporting profits.²⁹ Collective net profit after tax reached \$236.7m in Q3 2017, a decline of 3.3% compared to the same period in 2016. This decrease follows a 1.8% year-on-year net profit decline reported for 1H 2017³⁰, which is indicative of the stagnating economic outlook for Palestine throughout 2017. 41 out of the 48 listed companies made after-tax profits, totalling \$245.9m. Five companies reported a total loss of \$9.2m and two companies failed to disclose within the permitted period.

18 www.wafa.ps/ar_page.aspx?id=4PfzWUa800094966462a4PfzWU

19 www.imf.org/external/am/2017/about.htm

20 <http://english.wafa.ps/page.aspx?id=3FVDj7a92124931635a3FVDj7>

21 <http://english.wafa.ps/page.aspx?id=3FVDj7a92124931635a3FVDj7>

22 <http://english.wafa.ps/page.aspx?id=2Deyvua92228672712a2Deyvu>

23 <http://dailym.ai/2ncJ91V>

24 <http://reut.rs/2zHe6ky>

25 <http://reut.rs/2ia2YoY>

26 <http://www.pif.ps/page.php?id=aae2y43746Yaae2>

27 <http://bit.ly/2A967fp>

28 Based on telecommunications company sources

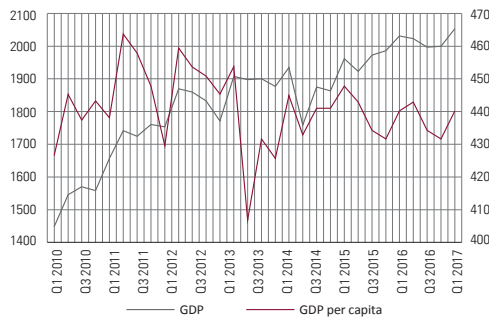
29 www.pex.ps/PSEWEBSITE/NEWS/FS-Quarter3-2017-Disclosure-English.xlsx

30 <http://www.pex.ps/PSEWebSite/NEWS/21082017E.docx>

Palestine Economic Dashboard

Growth

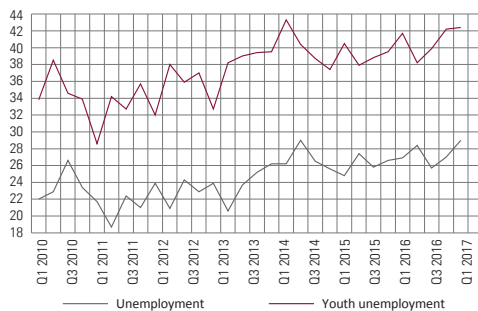
GDP (million USD) and GDP Per Capita (USD), Q1 2010–Q2 2017



GDP (Q2 2017): \$2,053,300,000. GDP per capita (Q2 2017): \$440.2
Source: PCBS

Unemployment

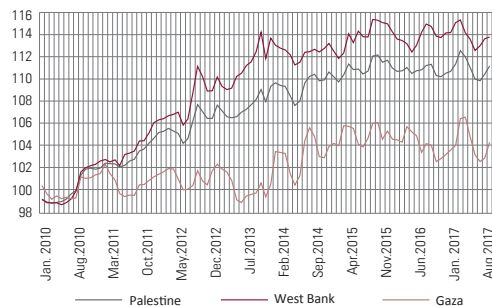
Unemployment and Youth Unemployment (%), Q1 2010–Q2 2017



Unemployment rate (Q2 2017): 29% Youth Unemployment rate (Q2 2017): 42.4%
Source: PCBS

Inflation

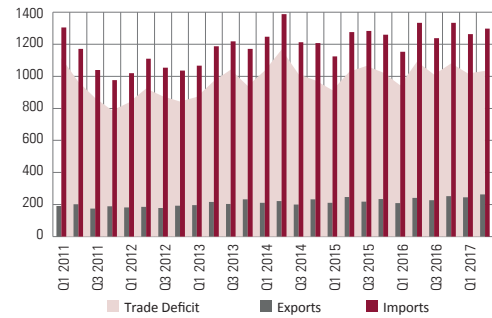
Consumer Price Index (Base year = 2010), Jan 2010 – Sept 2017



Palestine (September 2017): 0.65%, West Bank (September 2017): 0.14%
Gaza (September 2017): 1.39%. Source: PCBS

Trade

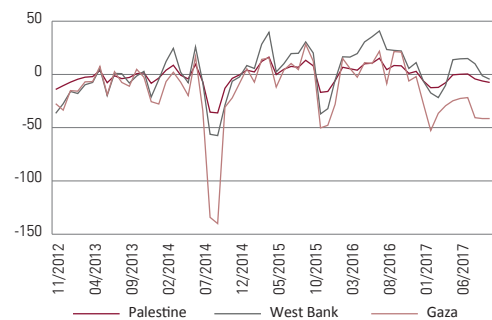
Exports, Imports and Trade Deficit ('000 USD), Q1 2011–Q2 2017



Imports (Q2 2017): \$1,298.4m, Exports (Q2 2017): \$264,000
Trade deficit (Q2 2017): \$1,034.4m. Source: PCBS

Business Cycle Index

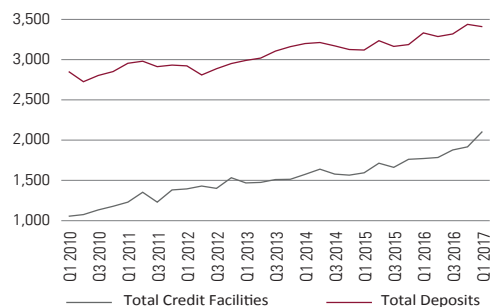
Palestine Monetary Authority Business Cycle Index, Nov 2012–Oct 2017



Palestine (October 2017): -7.6, West Bank (October 2017): 3.2
Gaza (October 2017): -36.9. Source: PMA

Banking Sector

Total Credit Facilities and Total Deposits (million USD), Q1 2010–Q1 2017



Total Credit Facilities (Q1 2017): \$2,107.4m, Total Deposits (Q1 2017): \$3,409.2m.
Source: PCBS

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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

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