

## PALESTINIAN ECONOMIC BULLETIN

### Bulletin 142 July 2018

#### Main reports

*As part of a series on Palestine's industrial parks and special economic zones, this issue presents an interview with Mr. Laith Kassiss, the Director of the Palestine Techno Park.*

*The Palestinian Council of Ministers approved on 18 June an incentives package for projects and entrepreneurs in the Information and Communications Technology sector.*

*The Ministry of Finance, Bank of Palestine, and the Palestinian Fund for Employment and Social Protection signed an agreement on 26 June to finance small entrepreneurial projects with the potential to create jobs in Palestine*

*Leaders Organisation launched on 4 July a new Business Acceleration Program for 2018-2019.*

### Balance of Payments, International Investment Position and External Debt

In Q1 2018, the Palestinian National Authority's (PNA) current account deficit reached \$442.1m, an increase of 45.6% from the previous quarter.<sup>1</sup> Although the persistent current account deficit in Palestine reflects an underlying chronic trade deficit, the recent increase in the deficit was mainly caused by a 77.6% decrease in the current transfers from donors to the PNA during the same period.

Despite the gradual shrinking of the trade deficit in both the balance of goods and the balance of services in recent years, the improvement has been too slow to offset the significant decline in donor support. In Q1 2018, total exports amounted to \$562.8m, an increase of 14% from Q1 2017, while total imports reached \$1,686.4m, an increase of 9.2% during the same period.<sup>2</sup> Compared to Q4 2017, exports declined by 0.7% and imports dropped by 1.5%.

The capital and financial account surplus, a figure highlighting the net change in physical and financial asset ownership by Palestinians living in Palestine, amounted to \$612.3m in Q1 2018. This constituted an increase of 95.4% from the preceding quarter and of 195.1% compared to the previous year. This large increase was mainly driven by a significant growth in the financial account surplus, which in turn was partially driven by an increase in reserve assets held at the Palestine Monetary Authority (PMA).<sup>3</sup> The surplus in the financial account reached \$517.1m in Q1 2018, an increase of 168.1% from Q4 2017, and 342.3% from Q1 2017. The overall surplus in the capital account fell to \$95.2m from \$120.5m in Q4 2017 but increased slightly from \$90.6m in Q1 2017.

**Table 1: BoP, IIP and External Debt, Palestine, Q1 2017, Q4 2017 and Q1 2018**

Item	Q1 2017 (USD millions)	Q4 2017 (USD millions)	Q1 2018 (USD millions)	Change (%) (Q1 2017-Q1 2018)	Change (%) (Q4 2017-Q1 2018)
Current Account	-325.2	-303.5	-442.2	36.0%	45.7%
Current Transfers	476.2	538.7	348.3	-26.9%	-35.3%
Capital and Financial Account	207.5	313.4	612.3	195.1%	95.4%
Total External Assets	6,547	6,455	6,211	-5.1%	-3.8%
Total Foreign Liabilities	5,132	5,082	5,157	0.5%	1.5%
International Investment Position (Net)	1,415	1,373	1,054	-25.5%	-23.2%
External Debt	1,917	1,720	1,640	-14.4%	-4.7%

Source: PCBS and PMA

The stock of investments of Palestinian residents outside Palestine (total external assets) exceeded investments in Palestine by non-residents (total foreign liabilities) by \$1,054m in Q1 2018.<sup>4</sup> Palestine's International Investment Position (IIP)<sup>5</sup> decreased by \$317m (23.2%) from the previous quarter. The observed drop

<sup>1</sup> [http://www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_25-6-2018-BOP-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_25-6-2018-BOP-en.pdf)

<sup>2</sup> [http://www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_External%20Trade-March-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_External%20Trade-March-en.pdf)

<sup>3</sup> The financial account is the balance of financial assets and liabilities of the economy, including direct investment, portfolio investment and reserve assets

<sup>4</sup> [http://www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_21-6-2018-IP-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_21-6-2018-IP-en.pdf)

<sup>5</sup> External assets minus foreign liabilities

was the result of a \$244m decrease (5.1%) in external assets, combined with a \$75m (0.5%) increase in foreign liabilities. Compared to Q1 2017, IIP dropped by 25.5%.

Gross external debt amounted to \$1.6bn at the end of Q1 2018, a decrease of 4.7% from the previous quarter and of 14.4% compared to Q1 2017. The drop was triggered by a 12.9% decrease in the debt of private banks compared to Q4 2017 and of 34% compared to Q1 2017. The debt of the general government constituted 63.4% of the total debt, while the debt of private banks amounted to 32%.

Overall, this performance highlights the volatile financial performance of the fragile Palestinian economy: persistent current account deficits in goods and services, balanced by a growing surplus in the current income account from labour in Israel, and falling current transfers of aid from abroad. However, Q1 2018 witnessed some positive developments, particularly in terms of the decrease in international indebtedness of the banking sector and a declining surplus in the net value of assets (i.e. Palestinian investments abroad) compared to liabilities (i.e. Palestinian debt to foreign parties abroad).

## Incentives Package for Projects and Entrepreneurs in the ICT Sector

On 18 June, the Palestinian Council of Ministers approved an incentives package for projects and entrepreneurs in the Information and Communications Technology (ICT) sector. The package was endorsed by the Palestinian Investment Promotion Agency (PIPA), an independent agency aiming to improve the economic environment to attract investment to Palestine.<sup>6</sup> As part of the package, tech startups and entrepreneurs will receive income tax exemptions as well as facilitation for the registration of their business, allowing them to register their company offices at incubators, recognised tech hubs, accelerators and universities that are designated for the purpose.<sup>7</sup> The official registration fees for the first company registration will be waived. Additionally, new and existing startup projects will receive income tax exemptions for up to four years and receive customs incentives for purchasing equipment.

The incentives will also benefit startup investors who will be able to deduct investments in ICT R&D for tech startups, universities, or accredited research and development centres from their taxable income. Financing and lending programmes targeting projects in this sector will be treated as small and medium-sized enterprises (SMEs) in terms of taxation, which will lower their tax bracket from 15% to 10%. PIPA estimates that the incentives package will immediately benefit more than 70 new and existing tech startups, create 350 direct jobs, and generate

\$480,000 of direct revenue to the public treasury in the form of VAT and other taxes and fees.

## New Business Acceleration Programme for 2018-2019

On 4 July, Leaders Organization launched a new Business Acceleration Program for 2018-2019.<sup>8</sup> The program will support 30 emerging startups by providing expert coaching, mentoring and consultations. These startups, which have been selected from more than 300 applicants, will compete and ten finalists will be chosen at the beginning of October to meet investors in Jordan and to spend a week at a Korean incubator. Ms. Dina Zabaneh, the Project Manager at Leaders Organization, stated that “mentoring is very important because Palestinian startups lack exposure not only to mentorship itself but global best practices, business networks and funding opportunities.”<sup>9</sup> Ms. Zabaneh highlighted that, “our program provides mentoring on specific entrepreneurial skills, which responds to the lack of specialisations at Palestinian universities, bridging the gap between theory and practice.”

Leaders Organization was founded in 2004 in Ramallah to advance economic and social development in Palestine through supporting digital entrepreneurship. The organization set up Palestine’s first startup accelerator and a mini-technology park, which has helped to accelerate notable startups such as Jobs.ps, Intaleq Digital Marketing, and BuildPalestine. Today, Leaders Organization is part of a wider startup support system in Palestine.<sup>10</sup>

## Palestine Techno Park: Interview with Director Laith Kassis

As part of a series to highlight the work of Palestine’s industrial parks and special economic zones, this issue of the Bulletin presents an interview with Mr. Laith Kassis, the Director of the Palestine Techno Park (PTP).<sup>11</sup> Mr. Kassis is one of the co-founders of the PTP and is currently a Board Member at the Higher Council for Innovation and Excellence. Prior to the establishment of PTP, Mr. Kassis worked as a senior consultant on Palestinian tech sector issues with the World Bank, GIZ, DAI Europe and the Palestinian Information Technology Association (PITA).<sup>12</sup>

*What is the Palestine Techno Park initiative?*

The PTP is a non-profit organisation established in 2016 with the support of the Government of India, which

6 <http://pipa.ps/page.php?id=27a8aby2599083Y27a8ab>

7 Previously, companies had to provide an office rental contract to be able to register.

8 [https://www.facebook.com/pg/LeadersOrganization/posts/?ref=page\\_internal](https://www.facebook.com/pg/LeadersOrganization/posts/?ref=page_internal)

9 Interview with Leaders Organization, Ms. Dina Zabaneh

10 <http://www.silatech.org/docs/default-source/publications-documents/fmap7.jpg?sfvrsn=8>;

11 Interview with Laith Kassis, Director of Palestine Techno Park (June 13 2018)

12 <https://www.linkedin.com/in/laithkassis/>

invested \$12m in the initiative. PTP aims to act as the bridge between Palestinian academics and institutions from the private and public sectors and to commercialise projects from academia and the private sector for the benefit of the local economy. It will also try to attract foreign direct investment in the fields of technology and knowledge production.

*What are the latest developments you can share with the readers of the Economic Bulletin?*

PTP looks to open its flagship building at Birzeit University at the beginning of 2019, hoping to attract multinational companies (MNCs) and local startups under the same roof. Since August 2017, PTP has incubated six new startups through its Creative Cluster Campus (CCC) Startup Program with funding from the Islamic Development Bank and in coordination with multiple stakeholders. The incubation agreements signed with the six startups contributed to creating 40 direct job opportunities, in addition to indirect job creation. If and when new funding is secured, we hope to invite a second cycle of startups. Meanwhile, we are focusing on increasing awareness of newly emerging technologies. For example, on 24 May 2018, PTP signed a funding agreement with Palestinian Market Development Programme (PMDP) to launch an augmented and virtual reality training programme, and the first training session was held on June 23.

*How does this initiative relate to the wider Palestinian tech sector and economic development?*

We expect it to result in economic development, including job creation for the youth, while also enabling Palestinian enterprises to successfully operate locally and globally. To this end, clustering within a concentrated tech hub while increasing technical education, especially in new areas such as blockchain and virtual reality, are important components of our value proposition. The other major tech hub in the West Bank, the Rawabi Tech Hub, not far from our site, also aims to attract local and international players and provide facilities and training. Our unique value proposition is underlined by our capability to work closely with Birzeit University, bridging the gap between academia and the private sector, and facilitating the transfer of technology from Palestinian universities to vital economic sectors.

## Credit to Alleviate Unemployment and Poverty

On 26 June, the Ministry of Finance (MoF), Bank of Palestine (BoP), and the Palestinian Fund for Employment and Social Protection (PFESP)<sup>13</sup> signed an agreement to finance micro and small entrepreneurial projects

that have the potential to create jobs for unemployed graduates in Palestine.<sup>14</sup> Under the agreement, BoP will allocate a \$50m loan portfolio to young entrepreneurs with income-generating development projects, and PFESP will facilitate the application procedures and cooperate with BoP in assessing the funding applications.<sup>15</sup> This programme will commence in the second half of July 2018 and will continue for five years.

Through the initiative, young entrepreneurs will be able to apply for soft loans with a maximum interest rate of 5%, a repayment period of up to 5 years and a grace period of up to 6 months. Those interested in establishing productive projects will also have access to personal loans from BoP of up to \$15,000 per loan. The projects will be submitted to and studied by PFESP offices and BoP branches.

This initiative is intended to address a critical need in Palestine to create employment as the unemployment rate is reaching record-high levels. In Q1 2018, the unemployment rate in Palestine reached 30.2%: with 49.1% in Gaza and 18.3% in the West Bank.<sup>16</sup> Unemployment rates are noticeably high among Palestinian youth (49.6%) and women (48.9%). Latest available statistics show a poverty rate of 29.2% in Palestine, with a deep poverty rate of 16.8%.<sup>17</sup>

## June Trading

The Al-Quds index decreased by 0.3% during June 2018, reaching 540.1 points on the last day of trading.<sup>18</sup> A total of 10.1m shares worth \$21.4m were traded, marking a 5% decrease in the number and a 4.1% increase in the value of traded shares. The insurance sector delivered the highest increase (3.4%), while the industrial sector witnessed the highest decrease (1.8%).

In related news, total dividends distributed by listed companies in 2017 grew by 10% compared to 2016, reaching \$193m.<sup>19</sup> Total cash dividends were \$159.9 (4.5% increase compared to 2016) and the total value of stock dividends reached \$33.2m (50% increase). Of the 48 companies listed on the PEX, 25 companies managed to distribute dividends. Of these companies, 15 distributed cash dividends only, one company distributed stock dividends only and 9 companies distributed both cash and stock dividends.

14 <http://www.maannews.net/Content.aspx?id=953282>

15 <https://pfesp.ps/page/weare/en>

16 [http://www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_8-5-2018-LF-en.PDF](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_8-5-2018-LF-en.PDF)

17 [http://www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_20-6-2018-REF-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_20-6-2018-REF-en.pdf)

18 <http://www.pex.ps/PSEWebSite/publications/PEXinvestorNewsletter-Jun2018.pdf>

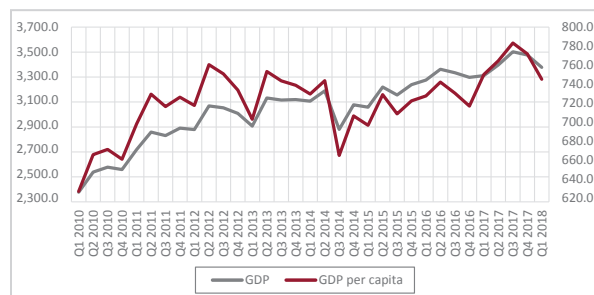
19 <http://www.pex.ps/PSEWebSite/NEWS/050720181.docx>

13 PFESP is an autonomous body that aims to generate sustainable employment opportunities through social and human capital development.

# Palestine Economic Dashboard

## Growth

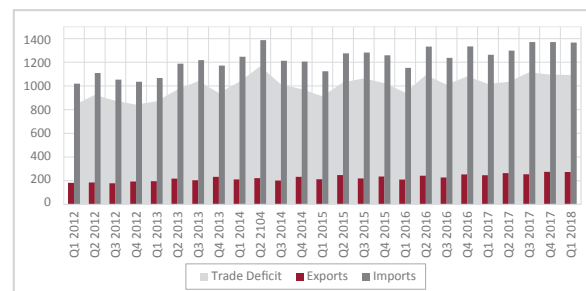
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q1 2018



GDP (Q1 2018): \$3,377.6m GDP per capita (Q1 2018): \$746.2  
Source: PCBS

## Trade

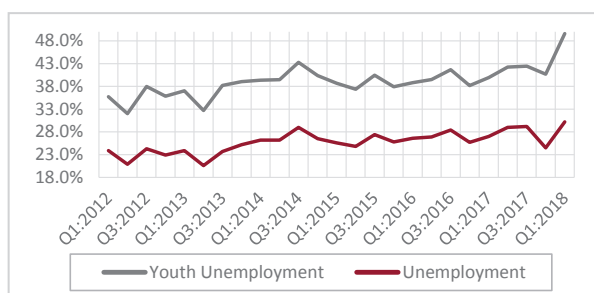
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2012–Q1 2018



Imports (Q1 2018): \$1,366.4m Exports (Q1 2018): \$273.1m  
Trade deficit (Q1 2018): \$1,093.3m Source: PCBS

## Unemployment

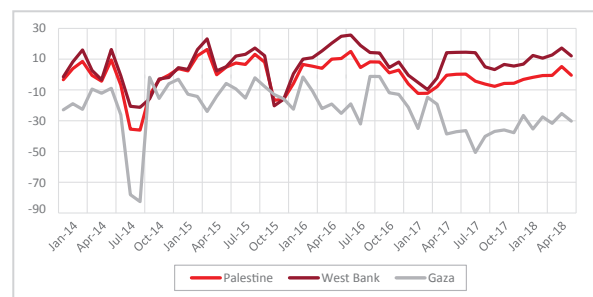
Unemployment and Youth Unemployment in Palestine (%), Q1 2012–Q1 2018



Unemployment rate (Q1 2018): 30.2% Youth Unemployment rate (Q1 2018): 49.6% Source: PCBS

## Business Cycle Index

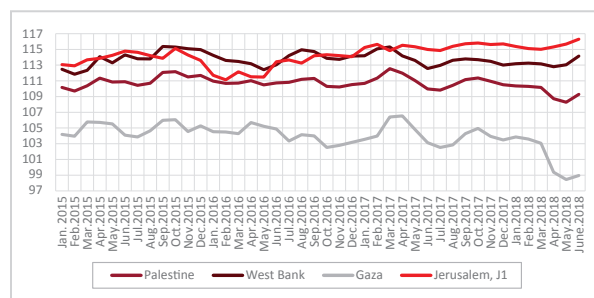
Palestine Monetary Authority Business Cycle Index, Jan 2014–June 2018



Palestine (June 2018): -0.4 West Bank (June 2018): 12.1  
Gaza (June 2018): -30.3 Source: PMA

## Inflation

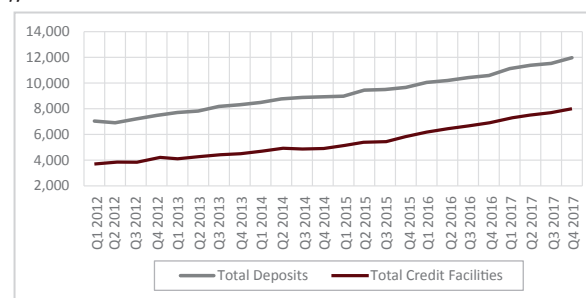
Consumer Price Index (Base year = 2010), January 2015 – June 2018



Palestine (June 2018): 109.28 West Bank (June 2018): 114.14  
Gaza (June 2018): 98.96 Source: PCBS

## Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2012–Q4 2017



Total Credit Facilities (Q4 2017): \$ 8,027.5m  
Total Deposits (Q4 2017): \$ 11,973.4m Source: PMA

## 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](mailto:feedback@portlandtrust.org)

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