

## PALESTINIAN ECONOMIC BULLETIN

Bulletin 148  
January 2019

### Main reports

*The Palestinian Central Bureau of Statistics (PCBS) published its preliminary estimates on the performance of the Palestinian Economy in 2018*

*The Private Sector Coordination Council calls for an emergency economic development programme for Gaza*

*On 23 December 2018, the PCBS published its Balance of Payments and International Investment Position reports for the third quarter of 2018*

*On an annual basis, the Al-Quds index decreased by 7.9% compared to the last day of trading in 2017*

### PCBS and PMA Publish Economic Forecasts for 2019

On 24 December 2018, the Palestinian Central Bureau of Statistics (PCBS) published its Economic Forecasts for 2019, built around three scenarios for the Palestinian economy.<sup>1</sup> The forecasts were prepared in consultation with the Advisory Committee for Economic Statistics, a body composed of the Ministry of Finance and Planning, the Palestinian Monetary Authority (PMA) and local economists and academics.<sup>2</sup>

The Baseline Scenario<sup>3</sup> assumes the economic and political situation in Palestine will remain the same as in 2018. Real GDP is expected to increase by 0.5% and the GDP per capita to decrease by 2%. The unemployment rate is expected to stay high, at 31.5% in 2019.

The Optimistic Scenario<sup>4</sup> assumes an improved political and economic situation that allows for real GDP to increase by 5% during 2019 and GDP per capita to increase by 2%. Unemployment would fall back to 2017 levels of 29% during 2019.

The Pessimistic Scenario<sup>5</sup> assumes a deteriorating political and economic situation where GDP is projected to decrease by 3% during 2019 and GDP per capita would decrease by 5%. The number of Palestinian employees in Israel would decrease by 12%, thus increasing unemployment to 33%.

The PMA's separate forecasting exercise largely corresponds to the projections of the PCBS. Despite the different methodologies and modelling techniques employed, both forecasts agree on the range of possible GDP outcomes and are close in projected unemployment figures.<sup>6</sup> However, in the baseline scenario, PMA's forecasts project slightly higher real GDP and per capita GDP growth prospects, based on its expectation that the same challenges constraining economic growth in 2018 would continue. Furthermore, the range between the PMA's worst and best outlook is narrower than that forecasted by PCBS.

1 Given the limitations in obtaining economic data from Gaza, the forecasts do not allow separate modelling of the West Bank and Gazan economies.

2 [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3341](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3341)

3 Baseline scenario economic and political assumptions based on declining donor support to finance the general budget, declining clearance revenues from Israel, increased government transfers, income tax collection and value of credit facilities, continuing restrictions on movement of people/goods inside Palestine, between regions, and with neighboring countries and population growth (birth and mortality rates) in Palestine remaining at current levels.

4 Optimistic scenario economic and political assumptions based on political reconciliation between the West Bank and Gaza, reconstruction of Gaza and donor support for Government budget, increased clearance revenues and improved tax collection efficiency (income tax, domestic value-added tax and clearance value added tax); increased development expenditure, decreased restrictions on movement of people/goods inside Palestine, between regions, and with neighboring countries, and population (birth and mortality rates) growth below current levels.

5 Pessimistic scenario economic and political assumptions based on decreased donor support for Government budget, fluctuations in the transfer of clearance revenues, a decline in the collection of domestic value added and clearance value added taxes, decrease in income tax collection, and a decrease in development expenditures, increased restrictions on movement of people/goods inside Palestine, between regions, and with neighboring countries and the number of workers in Israel decreasing.

6 [www.pma.ps/Default.aspx?tabid=343&ArtMID=957&ArticleID=2350&language=ar-EG](http://www.pma.ps/Default.aspx?tabid=343&ArtMID=957&ArticleID=2350&language=ar-EG)

**Table 1: Forecasts of PCBS and PMA for 2019**

Scenario	Baseline Scenario		Optimistic Scenario		Pessimistic Scenario	
	PCBS	PMA	PCBS	PMA	PCBS	PMA
Real GDP Growth	0.5%	0.9%	5.0%	5.1%	-3.0%	-2.5%
GDP per Capita Growth	-2.0%	0.4%	2.0%	2.9%	-5.0%	-0.9%
Unemployment Rate	31.5%	31.3%	29.0%	29.5%	33.0%	32.3%

Sources: PCBS and PMA

## Performance of the Palestinian Economy in 2018

According to preliminary estimates recently published by the PCBS, real GDP (2015 prices) in Palestine increased by 0.7% during the first three quarters of 2018, compared to the same period in 2017.<sup>7</sup> As a result of stagnant growth, the Palestinian labour market also performed poorly, as the unemployment rate reached 31% during 2018, an increase from 29% in 2017.

Regional disparities also widened: growth in the West Bank reached 2.3% in the first three quarters of 2018, compared to a sharp GDP decline of -8% in Gaza during the same period. In Q3 2018, more than half (54.9%) of the labour force<sup>8</sup> in Gaza, and about one fifth (17.3%) of the labour force in the West Bank were unemployed.

## Private Sector Coordination Council calls for Emergency Economic Development Programme for Gaza

On 25 November 2018, the Private Sector Coordination Council (PSCC)<sup>9</sup>, called on the Palestinian National Unity Government to formulate an emergency economic development programme for Gaza and to address the need for job creation for unemployed workers.<sup>10</sup> The PSCC's call emphasised the long-standing demand for free movement of goods (including between the West Bank and Gaza) and called on the Government to support the abolition of the "Gaza Reconstruction Mechanism (GRM)"<sup>11</sup>, which PSCC claims has been a significant drain on the private sector's capacities due to the need to qualify for the highly conditional awarding of building contracts. The PSCC call also stressed the need to unify the laws and regulations and integrate government functions between the two regions.

7 [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3341](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3341)

8 Defined as the adult population, 16 years old and above, employed or seeking work.

9 Consisting of the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA), the Palestinian Federation of Industries (PFI), the Palestine Trade Centre – Paltrade, the Palestinian Federation of Businessmen's Associations (PBA), the Palestinian Information Technology Association of Companies (PITA), the Palestinian Banking Association (PBA), the Palestinian Contractors Union (PCU), the Union of Insurance Companies (UIC), the Administrative Services for Tourism Industry (ASTAP), and the Shipper's Council (SC)

10 [www.al-ayyam.ps/ar\\_page.php?id=12fc4731y318523185Y12fc4731](http://www.al-ayyam.ps/ar_page.php?id=12fc4731y318523185Y12fc4731)

11 A temporary mechanism between the Palestinian National Authority (PNA) and the Government of Israel (GoI) to allow the entry into Gaza of large amounts of materials considered 'dual-use' for the purposes of reconstruction following the conflict in 2014.

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

On 23 December 2018, PCBS published its Balance of Payments (BoP) and International Investment Position (IIP) reports for the third quarter of 2018. BoP is a record of all economic transactions between residents in Palestine and the rest of the world during a specific period of time. These transactions consist of imports and exports of goods, services and capital, as well as transfer payments such as foreign aid and remittances. IIP is a financial statement setting out the value and composition of a country's external financial assets and liabilities including overseas assets and liabilities held by a nation's Government, the private sector and its citizens. A positive net IIP value indicates a nation is a creditor nation, while a negative value indicates it is a debtor nation. The BoP and IIP combined constitute a country's international accounts.

Palestine has a persistent current account deficit reflecting a chronic trade deficit that has been worsening throughout 2018. The current account deficit, which indicates that Palestine is a net borrower from the rest of the world, increased by 19.1% in Q3 2018 compared to the previous quarter, reaching \$444.7m.<sup>12</sup> In Q3 2018, the trade deficit amounted to \$1,180.6m with a 3.5% increase from the previous quarter. This was caused by a 2.4% decrease in total exports (to \$262.0m) from the preceding quarter and a 2.4% increase in total imports (to \$1,442.6m).<sup>13</sup> Compared to Q3 2017, both exports and imports were higher by 3.1% and 5.2% respectively, causing a 5.7% increase in the trade deficit.

In Q3 2018, Palestine recorded a capital and financial account surplus of \$574.0m.<sup>14</sup> This constituted a doubling of the surplus from the preceding quarter as well as from the corresponding quarter in 2017. This increase was driven by significant growth in both the financial and the capital accounts. The financial account surplus reached \$463.4m, growing by 120.1% from Q2 2018 and 154.3% compared to Q3 2017, reflecting an increase in equity and debt portfolio investments from abroad. The surplus in the capital account increased to \$110.6m, up from \$77.8m in Q2 2018, and \$96.4m in Q3 2017, driven by an increase in donors' support to the general Government from \$22.1m in Q2 2018 and \$31.7m in Q3 2017, to \$49.0m in Q3 2018.<sup>15</sup>

12 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_23-12-2018-POB-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_23-12-2018-POB-en.pdf)

13 [www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/E-Ftrade%202018.html](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/E-Ftrade%202018.html)

14 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_23-12-2018-POB-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_23-12-2018-POB-en.pdf)

15 [www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/PCBS-BPM6-Q-english.html](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/PCBS-BPM6-Q-english.html)

**Table 2: BoP, Palestine, Q3 2017, Q2 2017 and Q3 2018**

Item	Q3 2017 (USD millions)	Q2 2018 (USD millions)	Q3 2018 (USD millions)	Change (%) (Q2 2018-Q3 2018)	Change (%) (Q3 2017-Q3 2018)
Current account	-443.7	-373.3	-444.7	19.1%	0.2%
Compensation of workers in Israel	525.1	568.3	567.8	-0.1%	8.1%
Current transfers (net)	417.0	450.2	467.1	3.8%	12.0%
Capital account (net)	96.4	77.8	110.6	42.2%	14.7%
Financial account (net)	182.4	210.5	463.4	120.1%	154.3%
Direct investment (net)	64.6	110.5	64.2	-41.9%	-0.5%

Source: PCBS and PMA

In addition, with reference to IIP, the stock of investments of Palestinian residents outside Palestine (total external assets) exceeded investments in Palestine by non-residents (total foreign liabilities) by \$1,433m in Q3 2018.<sup>16</sup> Palestine's IIP decreased by \$59m (4.0%) from the previous quarter. The drop was the result of a \$135m (4.9%) increase in external liabilities (foreign investments in Palestine), partially offset with a \$76m (19.5%) increase in external assets (Palestinian investments abroad). Compared to Q3 2017, IIP increased by 19.9%.

**Table 3: IIP, Palestine, Q3 2017, Q2 2017 and Q3 2018**

	Q3 2017 (USD millions)	Q2 2018 (USD millions)	Q3 2018 (USD millions)	Change (%) (Q2 2018- Q3 2018)	Change (%) (Q3 2017- Q3 2018)
Net IIP	1,195	1,492	1,433	-4.0%	19.9%
Ratio of Net IIP to GDP	32.1%	41.9%	39.2%	-	-
1. Direct investment, net	-2,238	-2,356	-2,377	0.9%	6.2%
2. Portfolio investment, net	414	721	622	-13.7%	50.2%
3. Other investment, net	2,572	2,602	2,703	3.9%	5.1%
4. Reserve assets, net	447	525	485	-7.6%	8.5%

Gross external debt amounted to \$1.6bn at the end of Q3 2018, an increase of 1.6% from the previous quarter, and a decrease of 11.3% compared to Q3 2017. External debt refers to the portion of a country's debt that was borrowed from foreign lenders including commercial banks, governments or international financial institutions. The changes in gross external debt were triggered by significant fluctuations in the long-term debt of private banks (\$277m, an 11.2% increase from Q2 2018, though 22.2% less than Q3 2017). The general Government debt constituted 64.7% of the total debt, while the debt of private banks amounted to 30.0%.

**Table 4: External Debt, Palestine, Q3 2017, Q2 2018 and Q3 2018**

Economic Sector	Q3 2017 (USD millions)	Q2 2018 (USD millions)	Q3 2018 (USD millions)	Change (%) (Q2 2018-Q3 2018)	Change (%) (Q3 2017-Q3 2018)
General Government	1,035	1,027	1,037	1.0%	0.2%
Banks	699	466	481	3.2%	-31.2%
Other Sectors	70	42	42	0.0%	-40.0%
Direct investment: lending between affiliated companies	5	44	44	0.0%	780.0%
Gross External Debt Position	1,809	1,579	1,604	1.6%	-11.3%
External Debt to GDP	48.5%	44.4%	43.8%	-	-

## December Trading

The Al-Quds index grew by 0.42% in December 2018, reaching 529.35 points on the last day of trading in 2018.<sup>17</sup> A total of 8m shares were traded with a value of \$17.8m, marking a 5.5% reduction in the volume and a 77.4% increase in the value of traded shares.

On an annual basis, the Al-Quds index decreased by 7.9% compared to the last day of trading in 2017. In 2018, a total of 185.1m shares were traded on Palestine Exchange (PEX) with an overall value of \$353.5m. This marks a significant decrease in the volume (31.7%) and value (24.6%) of traded shares compared to 2017, driven by a deterioration in the Palestinian investment environment during 2018 caused by rising political tension and uncertainty, a drop in foreign aid and lack of progress in reconciliation talks between the West Bank and Gaza.

PEX also announced the new composition of the Al-Quds index for the year 2019. The index includes 15 out of the 48 listed companies, which constitute 75.9% of the total market capitalisation.<sup>18</sup> Only one modification was made to the index: Arab Islamic Bank (AIB) was replaced with Palestine Investment Bank (PIBC). The main criteria for inclusion in the Al-Quds index are sector, trading volume and value, turnover ratio, profitability, number of trades and market value.

<sup>16</sup> [www.pcbs.gov.ps/site/lang\\_\\_en/694/default.aspx](http://www.pcbs.gov.ps/site/lang__en/694/default.aspx)

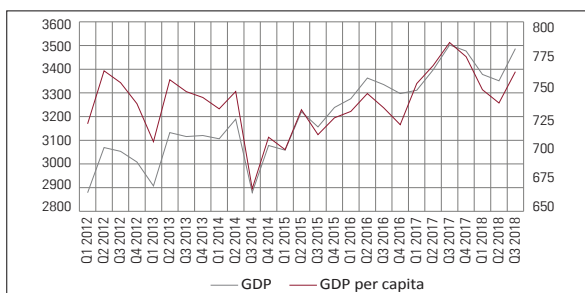
<sup>17</sup> <https://bit.ly/2MILJFL>

<sup>18</sup> <https://bit.ly/2S0f2tq>

# Palestine Economic Dashboard

## Growth

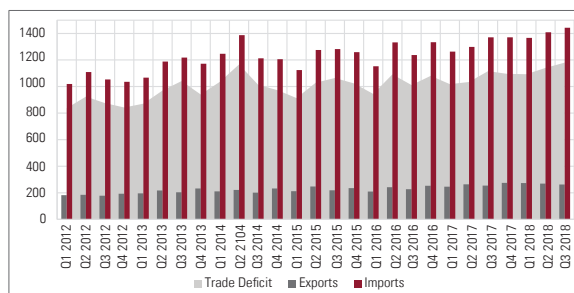
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2012–Q3 2018



GDP (Q3 2018): \$3,486.5m GDP per capita (Q3 2018): \$760.5  
Source: PCBS

## Trade

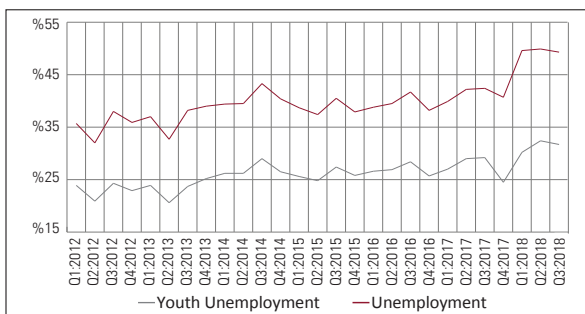
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2012–Q3 2018



Imports (Q3 2018): \$1,442.6m Exports (Q3 2018): \$262.0m  
Trade deficit (Q3 2018): \$1,180.6m Source: PCBS

## Unemployment

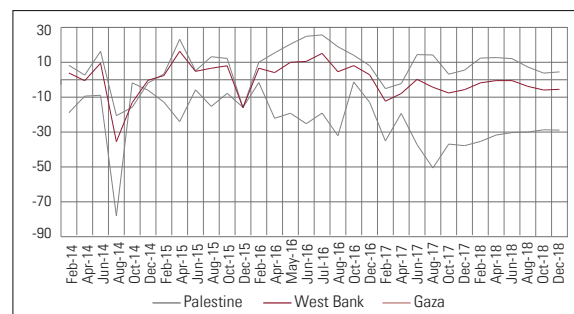
Unemployment & Youth Unemployment in Palestine, Q1 2012–Q3 2018



Unemployment rate (Q3 2018): 31.7% Youth Unemployment rate (Q3 2018): 49.3%  
Source: PCBS

## Business Cycle Index

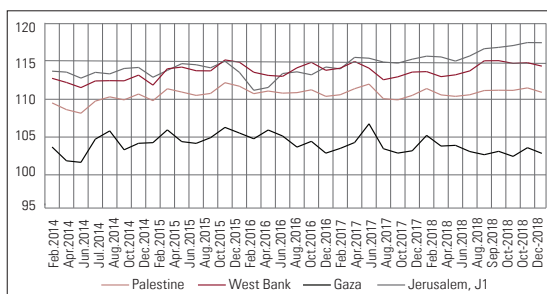
Palestine Monetary Authority Business Cycle Index, February 2014–December 2018



Palestine (December 2018): -5.5 West Bank (December 2018): 4.5  
Gaza (December 2018): -28.9 Source: PMA

## Inflation

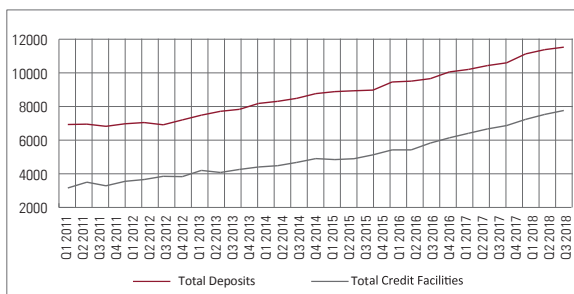
Consumer Price Index (Base year = 2010), February 2014 – December 2018



Palestine (December 2018): 110.85 West Bank (December 2018): 114.44  
Gaza (December 2018): 102.49 Source: PCBS

## Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2011–Q3 2018



Total Credit Facilities (Q3 2018): \$ 8,293.6m Total Deposits (Q3 2018): \$12,194.2m  
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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