

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Palestine's current account deficit decreased by 26.7% in Q3 2019 compared to the previous quarter following a 20.4% increase in the compensation of workers in Israel and 43.1% increase in donor support to the general government

Prime Minister Mohammad Shtayyeh announced on 29 December 2019 a resolution to the Jerusalem District Electricity Company debt crisis

The Government of Israel announced on 29 December 2019 its withholding of an additional ILS 149m per year from the clearance revenues it collects on behalf of the PNA

The United States Congress passed a bill on 17 December allocating \$150m from the 2020 US government budget to the West Bank, Gaza, and East Jerusalem

Economic performance in 2019 and Forecast for 2020

In 2019, Palestine faced several economic challenges that limited its ability to improve the sluggish performance of 2018. According to recent estimates by the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA), real GDP (2015 prices) increased by 1.2% during 2019, which was insufficient to keep pace with the population growth rate of 2.5%. Hence, real GDP per capita decreased by 1.3%.¹ Growth in 2019 was driven by a 3.6% growth in Q4 2019 following the release of clearance revenues, otherwise, the economy would have tumbled into recession, as had been widely expected during the fiscal crisis. Growth in Q4 2019 was mainly the result of an increase in the value added of construction (17%) and services activities (8%).

Economic performance in 2019 was better than had been forecasted by both the PMA and PCBS at the beginning of the year with GDP above the baseline projection (Table 1). In particular, unemployment decreased from 26.8% in 2018 to 26%, even though the trade deficit increased by 7% and inflation reached 1.6% compared to earlier PMA projections of 0.7%.² However, this improved performance is likely to have been powered by an external shock rather than structural change or resilience within the economy. Among these possible external factors was a 9.3% increase in Palestinians gaining employment in Israel during Q3 2019³ compared to Q2 2019 and Q3 2018, reaching 140,800.⁴ Indeed, some unofficial estimates of the total number of Palestinian workers in Israel (with and without permits) are even higher.

Table 1: Actual Results vs Forecasts of PCBS and PMA for 2019

Scenario	Baseline		Optimistic		Pessimistic		Actual Performance
	PCBS	PMA	PCBS	PMA	PCBS	PMA	
Indicator							
Real GDP Growth	0.5%	0.9%	5%	5.1%	-3%	-2.5%	1.2%
per Capita	-2%	0.4%	2%	2.9%	-5%	-0.9%	-1.3%
Unemployment Rate	31.5%	31.3%	29%	29.5%	33%	32.3%	26%
Change in Trade deficit	-1.3%	2.7%	-0.4%	7.6%	-5.2%	-3.6%	7%
Change in Exports	4.6%	2.4%	7.9%	8.6%	-9%	-6.7%	3%
Change in Imports	1%	2.6%	2.7%	8%	-6.6%	-3.6%	4%

Sources: PCBS and PMA

For the year 2020, the PCBS and PMA published a joint economic forecast for the first time, using an average of the different forecast models.⁵ The forecast is built around three scenarios for Palestine's economy as outlined below:

- **The Baseline Scenario** assumes the economic and political situation in Palestine will remain the same as in 2019 and that the PNA will pursue its policy of economic disengagement from Israel. It assumes an increase in credit facilities, government transfers, better collection of income tax and clearance revenue, foreign transfers to the private sector and international grants and aid for development projects

¹ www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3636

² <https://bit.ly/30p6Js0>

³ Excluding employment of around 20,000 workers in Israeli settlements, a level which did not change.

⁴ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_7-11-2019-LF-en.pdf

⁵ Given the limitations in obtaining economic data from Gaza Strip, the forecasts do not allow separate modeling of the West Bank and Gaza economies. Even though the two institutions released a joint forecast, the PMA also published its own forecast: <https://bit.ly/2TsXeq1>

- **The Optimistic Scenario** assumes an improved political and economic situation following progress in the political reconciliation between the West Bank and Gaza, and the preparations for the legislative and Presidential elections in Palestine. It also assumes an easing of restrictions imposed by Israel on the movement of people and goods to and from Palestine, an increase in the PNA budget support, along with improvements in public revenues and increased government expenditure and transfers
- **The Pessimistic Scenario** assumes a deteriorating political and economic situation characterised by an increase in movement and trade restrictions, along with a drop in the number of workers in Israel and Israeli settlements and an increase in the number of checkpoint closure days. It also assumes a decrease in budget support and international pledges to UNRWA, increasing tax evasion, interruptions in clearance revenue transfers, and a decrease in development expenditure

Table 2: PCBS and PMA Forecasts for 2020

Scenario	Baseline	Optimistic	Pessimistic
Real GDP Growth	2.4%	5.0%	-2.2%
Per Capita	-0.1%	2.5%	-4.5%
Unemployment Rate	24.4%	22.6%	28.9%
Public Revenues	7.1%	11.4%	-2.7%
Public Expenses	4.3%	14.0%	-9.5%
Current Account Deficit	-18.8%	-43.7%	44.9%
Trade Deficit	3.5%	4.7%	-0.7%

Sources: PCBS and PMA

The large variations between each of the scenarios highlight the structurally volatile historic trajectory of the Palestinian economy and its vulnerability to both positive and negative shocks.

Balance of Payments, International Investment Position and External Debt

Palestine imports more than fivefold the value of its exports, resulting in a chronic trade deficit that has been worsening throughout 2019. Compensation of workers in Israel, foreign aid, foreign transfers and income from investments abroad partially offset the deficit but are not sufficient to fund local consumption. As a result, Palestine has a persistent current account deficit that is usually funded through borrowing or foreign investment.⁶

Palestine's current account deficit decreased by 26.7% in Q3 2019 compared to the previous quarter following a 20.4% increase in the compensation of workers in Israel and 43.1% increase in donor support to the general government.⁷ Year-on-year, the current account deficit decreased by 32.2% following an increase of 9.8% in the compensation of workers in Israel, 14.8% in foreign transfers and 85.7% in donor support to the general government (from a low base

of \$79m in Q3 2018).⁸ As a result, net borrowing from abroad decreased by 32.5% from Q2 2019 and 42.8% from Q3 2018. Nonetheless, foreign investment decreased significantly over Q3 2019 and net direct investment reached -\$28m, indicating an outflow of investments from Palestine.

Table 3: BoP, Palestine, Q3 2018, Q2 2019 and Q3 2019

Item	Q3 2018 (million USD)	Q2 2019 (million USD)	Q3 2019 (million USD)	Change from Q2 2019	Change from Q3 2018
Current account (net)	-571.2	-528.5	-387.3	-26.72%	-32.20%
Balance of Trade (Imports-Exports)	-1,668.2	-1,637.7	-1,696.2	3.57%	1.68%
Compensation of workers in Israel	668.2	609.3	733.8	20.43%	9.82%
Current transfers (net)	389.8	478.4	538.9	12.65%	38.25%
Donor support to general government	79	102.5	146.7	43.12%	85.70%
Foreign transfers	386.9	428.5	444.3	3.69%	14.84%
Net borrowing (financial account)	409.5	347.3	234.3	-32.54%	-42.78%
Direct investment (net)	50.6	117.2	-28	-123.89%	-155.34%
Deposits of foreign currency	200.8	711.8	-136	-119.11%	-167.73%

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 \$2.1bn in Q3 2019.⁹ Palestine's International Investment Position (IIP) increased by \$193m (10.1%) from the previous quarter and by \$681m (47.6%) from Q3 2018. This confirms the drop in foreign investment reported in BoP figures and indicates that capital is flowing outside Palestine.

Palestine's lending from abroad amounted to \$1.84bn at the end of Q3 2019, an increase of 6.1% from the previous quarter, and 14.4% compared to Q3 2018.¹⁰ Year-on-year changes were triggered by a substantial increase in private banks' short-term (\$76m) and long-term borrowing (\$102), along with a notable increase in the general government short-term (\$48m) and long-term (\$49m) borrowing. These figures reflect the PNA borrowings during the fiscal crisis of 2019 in order to fund its current expenditures and core operations.

Resolution of the JDECO debt crisis?

On 29 December 2019, Prime Minister Mohammad Shtayyeh announced a resolution to the Jerusalem District Electricity Company (JDECO) debt crisis. The announcement followed a ILS 670m syndicate loan provided to JDECO by banks operating in Palestine. Commenting on these new developments, Hisham al-Omari, General Manager of JDECO, stated that the new 7-year syndicate loan would contribute to ending the Israel Electricity Company (IEC) measures of cutting electricity to JDECO's concession areas.¹¹ This mechanism for helping JDECO resolve its financial crisis was first suggested at a MAS Roundtable discussion on the subject in November 2019.¹²

The new loan was issued at a 6% diminishing interest rate, compared to 9% imposed by IEC on JDECO's outstanding debt, thus reducing JDECO's financial losses and improving relations with the IEC.¹³ This also came after the PNA

⁸ 2018 witnessed a major decrease in donor support.

⁹ www.pcbs.gov.ps/site/lang_en/694/default.aspx

¹⁰ www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-EXD-Q2013-2019.html

¹¹ <https://bit.ly/39YIITT>

¹² www.mas.ps/files/server/20191012104921-1.pdf

www.mas.ps/files/server/20192711113809-1.pdf

¹³ <https://bit.ly/2FPNj6q> and <https://bit.ly/2NIIKpz>

⁶ Current Account: a nation's record of transactions with the rest of the world. It includes the balance of trade, net earnings on cross-border investments, and net transfer payments. A current account deficit indicates that a nation is a net borrower.

⁷ www.pcbs.gov.ps/Portals/_Rainbow/Documents/PCBS-BPM6-Q_english.html

decided to pay the outstanding debts of refugee camps, in installments over the next 6 years.¹⁴ The government will also provide ILS 4.3m of monthly financial support to JDECO, to partially compensate for the consumption by non-compliant residential communities.¹⁵

On 9 December 2019, the IEC sent a third warning to JDECO over the mounting debt, and by mid-December it had started cutting electricity for three hours per day provided to all of JDECO's concession areas.¹⁶ JDECO's outstanding debt as of the beginning of December was ILS 1.3bn, of which ILS 500m were frozen following a prior agreement between the PNA, JDECO, and IEC. Despite these important steps to resolve the crisis, JDECO's future remains at risk if certain practices persist, especially theft of electricity supply (estimated at around 10% of the total power distributed by JDECO).

Additional Clearance Revenues Withheld

On 29 December, the Government of Israel (Gol) announced its withholding of an additional ILS 149m per year from the clearance revenues it collects on behalf of the PNA. This move, spurred on by Israeli Defense Minister Naftali Bennet, is equivalent to the stipends paid by the PNA to the families of Palestinians killed or injured by Israeli forces.¹⁷

This brings the total amount of withheld clearance revenues to ILS 651.7m annually, or 6.8% of tax funds due to the PNA. The most recent clearance revenue crisis began in February 2019 after the Gol started withholding ILS 502.7m per year of the PNA clearance revenue, equivalent to the stipends paid by the PNA to those imprisoned by Israel and their families. The decision pushed the PNA into a fiscal crisis after it rejected the transfers of any clearance revenues for over six months, affirming that these stipends are made to help vulnerable Palestinian families.¹⁸ These developments risk dragging the anemic Palestinian economy into yet another crisis in 2020, as clearance revenues amount to about 65% of total PNA revenue.¹⁹

Aid and Funding Updates

On 17 December, the United States Congress passed a bill allocating \$150m from the 2020 US government budget to the West Bank, Gaza, and East Jerusalem.²⁰ The funding includes \$75m to the PNA's security forces, and an additional \$75m towards humanitarian and civilian institutions and programmes. This is considered a significant move as the US administration had slashed all aid to Palestinians over the previous 2 years, though it hardly constitutes a resumption of comprehensive US aid to the Palestinian people.

On 13 December, the United Nations General Assembly sent a strong message of support to the United Nations Relief and Works Agency in the Near East (UNRWA) by

extending its mandate of providing necessary services to Palestine refugees until 2023.²¹

In July 2019, due to an investigation by the Office of Internal Oversight Services (OIOS) into management misconduct at the organisation, several countries had also frozen their funding to UNRWA, widening the financial gap created by the complete halt of US funding for UNRWA since 2018.²² However, following an investigation report from OIOS that excluded fraud or misappropriation of operational funds by the previous Commissioner-General of UNRWA, various countries resumed their financial support to the organisation. A number of countries announced their contributions to UNRWA during December 2019:

- On 9 December, the Netherlands resumed financial support to UNRWA with an annual contribution of EUR 13m, adding EUR 6m for 2019²³
- On 11 December, the EU and Germany signed agreements with UNRWA, with the EU pledging another 21m EUR, in addition to their previously pledged EUR 82m. Germany also agreed to fund four UNRWA projects, worth EUR 59m²⁴
- On 13 December, Belgium reinstated its support for UNRWA, following a suspension of EUR 5.4m in support in July 2019²⁵
- On 15 December, the Qatar Fund for Development also agreed to contribute an additional \$20.7m to support the access of Palestinian refugees to basic services in Syria²⁶
- On 20 December, Switzerland confirmed it would allocate CHF700,000 to current UNRWA projects, and CHF2m to emergency aid programmes in the occupied Palestinian territories and Syria²⁷
- On 21 December, Japan signed two contribution agreements, amounting to nearly USD 11.15m, in support to UNRWA²⁸

December Trading

Al-Quds index grew by 0.85% in December, reaching 525.9 points on the last day of trading in 2019.²⁹ A total of 7m shares were traded with a value of \$14.5m, marking a decline of 47% in the volume and 70% in the value of traded shares.

14 <https://bit.ly/2NIIKpz>

15 <https://bit.ly/2qEi3TV>

16 <https://bit.ly/3805FxC>

17 <https://bit.ly/3aOpFoT>

18 See B150 and B158

19 https://unctad.org/meetings/en/SessionalDocuments/a74d272_en.pdf

20 <https://bit.ly/2RppDuH>

21 www.unrwa.org/newsroom/press-releases/immense-support-renewal-unrwa-mandate-un-general-assembly

22 <https://bit.ly/2NxWQTJ>

23 www.unrwa.org/newsroom/press-releases/netherlands-resumes-funding-unrwa

24 www.jpost.com/Middle-East/EU-and-Germany-pledge-additional-funding-to-UNRWA-610880

25 <https://reliefweb.int/report/occupied-palestinian-territory/belgium-reinstates-support-unrwa>

26 <https://reliefweb.int/report/syrian-arab-republic/qffd-and-unrwa-sign-us-207-million-agreement>

27 www.swissinfo.ch/eng/unrwa_switzerland-resumes-payments-to-palestinian-refugee-agency/45448758

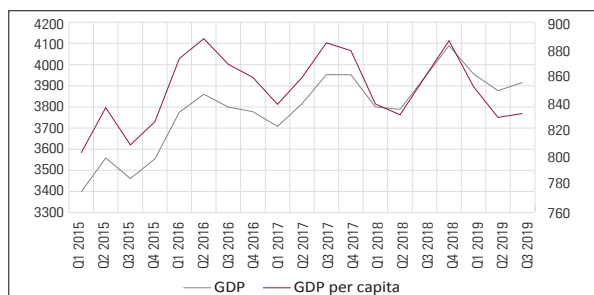
28 <https://bit.ly/2RyRCbz>

29 <https://bit.ly/3ac1laS>

Palestine Economic Dashboard

Growth

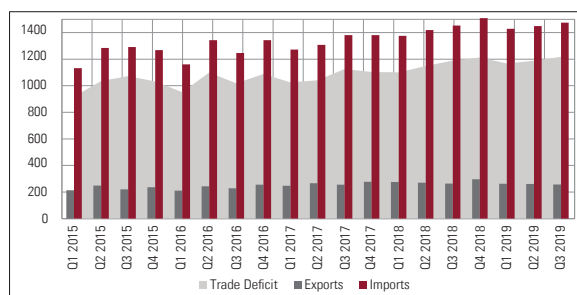
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q3 2019



GDP (Q3 2019): \$3,915.3m GDP per capita (Q3 2019): \$832.9
Source: PCBS

Trade

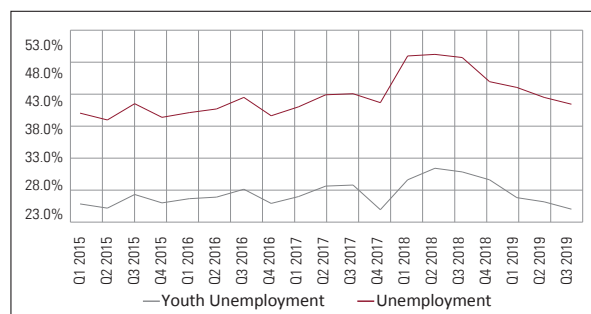
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q3 2019



Imports (Q3 2019): \$1,464.4m Exports (Q3 2019): \$255.1m
Trade deficit (Q3 2019): \$1,209.3m Source: PCBS

Unemployment

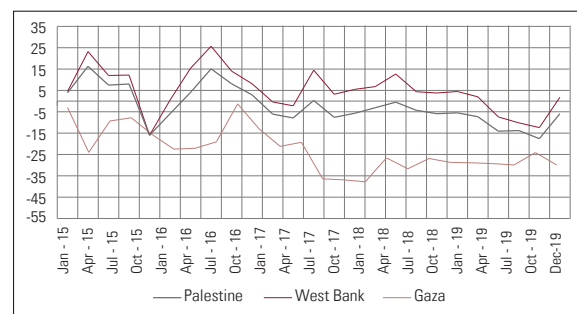
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q3 2019



Unemployment rate(Q3 2019): 24.6% Youth Unemployment rate (Q3 2019): 40.4%
Source: PCBS

Business Cycle Index

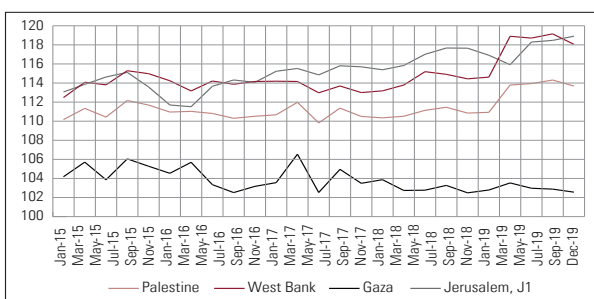
Palestine Monetary Authority Business Cycle Index, January 2015 – December 2019



Palestine (December 2019): -5.9 West Bank (December 2019): 1.8
Gaza (December 2019): -29.1 Source: PMA

Inflation

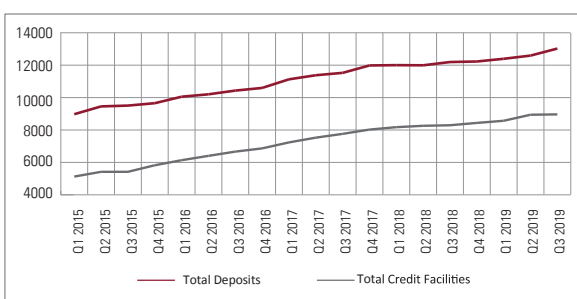
Consumer Price Index (Base year = 2010), January 2015 – December 2019



Palestine (December 2019): 113.7 West Bank (December 2019): 118.1
Gaza (December 2019): 102.6 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q3 2019



Total Credit Facilities (Q3 2019): \$8,963.9m Total Deposits (Q3 2019): \$13,025.5m
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

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