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On 31 August, under the auspices of Prime Minister Dr. Rami Hamdallah, the Palestine Economic Policy Research Institute (MAS) held its Economic Conference 2016 under the theme "Towards a New Vision for the Revival of the Palestinian Economy"

The Government has maintained a stable level of current expenditure by decreasing its expenditure on employees' compensation, according to the recently published Financial Statement for General Government

PEX announced that the aggregated net profits of listed companies increased by 17.2% in the first half of 2016, reaching \$163m compared to \$139m during the same period in 2015

World Bank and IMF Reports to the AHLC

Political and security uncertainties limit the prospects for economic growth in Palestine in 2016, according to recent reports by the World Bank and the IMF to the Ad Hoc Liaison Committee (AHLC).¹ According to the documents, the Palestinian economic outlook is worrying in the context of a stalled peace process. The two institutions project medium-term growth in real GDP at 3.5%, which is insufficient to reduce unemployment and raise per capita income given the projected population growth. Once again, the World Bank and the IMF stressed the need for revived efforts by all relevant parties (the Palestinian National Authority – PNA, the Government of Israel – Gol and international donors) to reduce the pressure on the PNA's budget, to support the reconstruction of Gaza and to renew the peace process.

According to the World Bank, "Political instability and the long lasting restrictions on movement, access and trade are the main impediments to economic growth" in Palestine. These restrictions have significantly limited private sector activity and resulted in the "deindustrialization" of the Palestinian economy - with the share of manufacturing in GDP dropping from 18% in 1995 to around 10% in 2015. The share of agriculture in the economy has also decreased to 50% of what it was in 1995.

The World Bank also states that whilst the Palestinian economy will not be able to reach its potential until a permanent peace agreement has been established, there is much that can be done. One of the key constraints to economic growth continues to be Israeli restrictions on Palestinian access to Area C. A 2014 World Bank study suggested that unrestricted Palestinian economic activity in Area C, including the exploitation of its natural resources, could increase GDP by as much as 35% and create thousands of jobs, primarily through growth in the agricultural sector and Dead Sea minerals processing industries.²

The importance of Area C for economic development was emphasized by the members of the AHLC during a recent meeting in New York. The AHLC also stressed that further reforms by the Palestinian Government are required to improve the economic conditions, with particular attention to competitiveness and the business climate.

According to the World Bank, reforms to improve the business climate could also help support the Palestinian economy, with efforts needed on four priority areas. First, there is a need to reform the current legislation governing business, as it currently is a mixture of Ottoman, British Mandate, Jordanian, Egyptian and Palestinian laws, in addition to Israeli Military Orders. This has created many internal inconsistencies in the rules governing business activity in Palestine. Adoption by the PNA of pending legislation, including the Competition Law and the New Companies Law, would also significantly improve the business climate.

¹ <http://bit.ly/2d9BWHM> and <http://bit.ly/2deWuix>

² <http://bit.ly/2d9D8up>

Second, the World Bank highlights the need to accelerate land registration in Areas A and B, as only 30% of land in these areas is adequately registered. At the current rate it would take approximately 80 years to complete registration of all unregistered land. The introduction of a speedier process for land surveying, dispute resolution and registration could release significant assets and resources into the economy. Moreover, these additional assets could be used as collateral for businesses or individuals seeking loans. Third, access to finance continues to be a challenge for small and medium enterprises (SMEs). Greater access to finance could be achieved through development of non-bank financial institutions. Further, reform of the education system is required to equip graduates with skills required by the private sector.

Electricity Debt Agreement

On 13 September, the PNA and the Gol signed an agreement to resolve the payment of the accumulated debt of the PNA to the Israel Electric Corporation (IEC) and to restructure the relation between the Gol and the PNA with respect to electricity provision and consumption. Henceforth, the PNA will act as the sole body responsible for electricity distribution across the West Bank.³ The PNA is expected to pay 500m NIS (\$132m) of the debt to the IEC immediately, while another 1bn NIS (\$264m) will be paid in installments. A remaining balance of 500m NIS will be permanently erased from the debt.

The PNA's debt to the IEC has accumulated over more than a decade, mainly because of difficulties in collecting dues from customers across the West Bank and Gaza. Most Palestinian power distribution companies, municipalities and local councils which do not pay the full amount for electricity consumed cite high default rates by consumers or high theft rates as the reason for their inability to fully pay the IEC. To recover part of the debt to the IEC, the Gol has in the past made deductions from clearance revenues that it collects on behalf of the PNA, a mechanism commonly referred to as 'net lending'. The debt has been a source of tension between the PNA and the Gol, leading to numerous episodes of IEC-imposed power cuts, most recently in April in the Hebron, Bethlehem and Jericho areas, as well as the withholding of clearance revenues.

In addition, according to the newly signed agreement, the PNA will assume full responsibility for the collection of payments of electricity bills, taking over from local electricity distribution companies which until now held responsibility. The PNA will also act as the sole authority for electricity distribution in the West Bank, meaning that the Palestinian Government will purchase electricity from Israel and then provide it to local Palestinian electricity companies.

MAS Economic Conference 2016

On 31 August, under the auspices of Prime Minister Dr. Rami Hamdallah, the Palestine Economic Policy Research

Institute (MAS) held its Economic Conference 2016 under the theme "Towards a New Vision for the Revival of the Palestinian Economy". The Conference was convened in response to the pressing need to tackle the challenges which have confronted the Palestinian economy over the last two decades and which have worsened in the past three years. The aim of the Conference was to identify feasible, practical solutions to existing social and economic problems to be implemented by the public and private sectors and civil society in the short to medium term.

The Conference was the culmination of a long preparatory process, including socio-economic research and a continuous dialogue between the key local stakeholders in the Palestinian economy. The Conference, featuring some of the most prominent Palestinian academics, public sector representatives and business leaders, was organized into four plenary sessions: Economic and Social Challenges to Growth; Business Environment and Economic Governance; the Productive Sectors; and Infrastructure and Housing.

The Conference concluded by issuing a set of 15 flagship recommendations for practical policies and measures aimed to redress the socio-economic challenges, enhance the resilience of the Palestinian economy and enable Palestinian society and institutions to safeguard their capacity to forge towards independence and sovereignty. In his statement to the Conference, Prime Minister Dr. Rami Hamdallah announced that he would establish a "permanent strategic partnership framework for building and resilience" to help the relevant parties implement these recommendations:

- Exploring the legal and technical parameters of the Paris Protocol on Economic Relations to fully exploit the potential of the existing trade regime, particularly in producing accurate estimates of the current needs of the Palestinian market; encouraging direct imports; and building a consolidated shipping system in order to reduce the costs of shipping and import.
- Increasing the area of registered land through enhancing the legal framework to facilitate registration, land settlement, and parcellation; and protecting Palestinian absentees' property while encouraging them to return to and invest in their homeland.
- Narrowing the social gaps to fight poverty and develop education, health care, and employment services; implementing the Minimum Wage Law; and narrowing the economic and developmental gaps between regions through decentralized regional planning and local development together with building the necessary administrative capacity.
- Supporting education by introducing reforms into compulsory education curricula; diversifying

³ www.maannews.com/Content.aspx?id=773123

investment in further as well as secondary education; encouraging and expanding technical and vocational education and training; and promoting collaborative training programs and partnerships with the private sector and trade unions.

- Designing and enacting industrial policies that are consistent with financial and trade policies while taking into consideration the requirements for supporting the industrial sector, stimulating investment, and promoting productive capacity.
- Establishing a formal permanent partnership framework that brings together all key Palestinian economic stakeholders to institutionalize and intensify cooperation in matters related to designing development policies; formulating trade policies aligned with international conventions; and developing models tailored to Palestine in order to embed the concepts of corporate social responsibility.
- Fostering local production and realigning government policies so as to stimulate further investment in the productive sectors, maintain the unity and contiguity of the local market, support exports, and design regulations for the agricultural production market.
- Enhancing the management capacity of staff working in governmental economic, regulatory, and supervisory positions; creating a one-stop-shop system for trade and investment procedures; assigning commercial attachés at the Palestinian embassies to provide information to assist in attracting tourism and investment; and creating specialized courts (insurance, land, property rights, labor, money laundering, etc.).
- Strengthening the Palestinian tourism support system, especially in Jerusalem; encouraging investment in tourism by providing incentives, training, and technical support; activating the Palestinian Higher Tourism Council, which should include strong private sector representation; and building the capacity of tourism staff along the value chain.
- Implementing priority medium-term projects in power generation (fossil fuel and renewable resources), water (desalination), environment (conservation of the coastal aquifer and treatment of solid waste and waste water), transport and communications (public transportation), and construction and housing.
- Developing the energy sector's regulatory framework and separating policy-making and control functions; developing energy specifications and standards system; stimulating investment in renewable energy sources; and

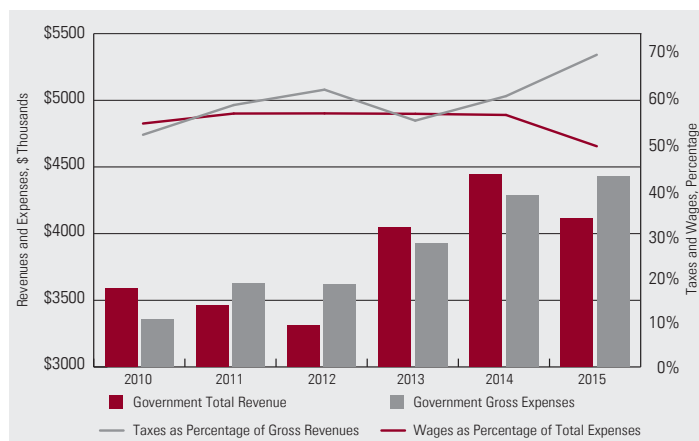
raising public awareness of the need to conserve energy and reduce leakage.

- Maintaining and upgrading existing water networks; building new ones as needed; and raising awareness of the issues related to saving water.
- Reorganizing the construction and housing sector by enacting new legislation that classifies related professions; training workers in the sector and licensing them; creating a comprehensive database and publishing periodic statistics on housing availability, especially for low-income households; and providing mortgage services to low-income individuals.
- Enacting fiscal policies that drive investment in the productive sectors, such that development-oriented policies are reflected in the fiscal and general budget policies; continuing the efforts to expand the tax base; and enhancing the capacity of the Customs Control Department.
- Building and enhancing confidence in the financial and banking sectors; attracting Palestinian expatriate capital; adopting lending policies that stimulate growth; and promoting trade, investment, and financial linkages between all parts of Palestine, especially between Gaza and the West Bank.

Government Finances 2015

The Palestinian Central Bureau of Statistics (PCBS) and the Ministry of Finance and Planning (MoFP) recently published the Financial Statement for General Government, which presents the revenue collected and expenditure accrued in 2015.⁴ The Statement highlights a major trend in government spending, namely its efforts to enhance revenues by broadening the tax base as well as on reducing expenditure by decreasing spending on employees' compensation.

Figure 1: Government Finances, Expenditures and Revenues, 2015



⁴ <http://bit.ly/2avB42p>

The gross expenditure of the general government reached \$4,430m in 2015, an increase of 3.3% from 2014. The Statement indicates that the increase has been mainly driven by a rise in the net acquisition of non-financial assets (especially by local government). The Government has managed to maintain a stable level of current expenditure by decreasing its expenditure on employees' compensation (around a 9% drop in absolute terms between 2014 and 2015). This decrease could be attributed to the PNA's active effort to stabilize the wage bill.

Despite an increase in revenue received from taxation, the significant drop in the amount of grant and aid funds (mainly aid to the central government) resulted in general government revenue falling by 7.5% from 2014 to \$4,110m in 2015. PCBS data on taxation between 2010 and 2015 shows that the absolute value of collected taxes increased by 51.8% over the five-year period, signifying improved tax collection by central government.

As a result of the decrease in revenues from 2014 and the lack of substantial change in current expenses, the net operating balance (revenues minus current expenses) of the general government dropped from \$342m in 2014 to only \$12m in 2015.

More recent data on government finance during the first half of 2016 (available in the latest World Bank report to the AHLC) suggests that while the PNA could align its spending and revenue capacity in the medium to long term, in the short term there remains an urgent need for additional donor support, with a \$600m financing gap projected for 2016.

August Trading

In August, the Al-Quds index decreased by 0.72% from the previous month, reaching 507.8 points on the last day of trading.⁵ A total of 29.8m shares worth \$49.4m were traded during the month, marking an increase from July 2016 of 105% and 82.4% in the number and value of traded shares, respectively. Market capitalization reached \$3.25bn.

5 www.pex.ps/psewebsite/publications/PEXIssue77_August2016.pdf

In related news, PEX announced that the aggregated net profits of listed companies increased by 17.2% in the first half of 2016, reaching \$163m compared to \$139m during the same period in 2015.⁶ The majority of listed companies (39 out of 49) achieved a combined net profit of \$166m (a 9% increase from the first half of 2015). There were eight companies which recorded a loss, totaling \$3m. Among the companies that achieved profit, Palestine Telecommunications (PALTEL) is ranked first, with an after-tax profit of \$40.8m (-4.4% year-on-year change), followed by Bank of Palestine (BOP) (\$24.4m; +7.3%) and PADICO Holding (\$13.5m; -11%).⁷

PEX also announced that the cash and stock dividends distributed in 2015 by listed companies amounted to \$180m, a growth of 5% compared to 2014.⁸ Cash dividends were \$155m and stock dividends were \$25.2m. Union Construction and Investment (UCI) ranked first with a dividend distribution of 17.6% of market value, followed by Arab Company for Paints Products (APC) with 11.1% and Palestine Real Estate Investment (PRICO) with 9.1%. The average dividend yield for PEX was 5.94%, calculated by dividing total dividends by total market value.

This month PEX started officially trading as a frontier market, a status upgrade which the FTSE Russell Governance Board granted to PEX last September to take effect in September 2016.⁹ Although this upgrade does not provide any of the 49 listed companies with a similar change in status, it is a precondition for their future inclusion. On the occasion, Mr. Ahmad Aweidah, PEX CEO, said, "Our market might be small, but it's definitely operated with the best international practices, and it is actually one of the most open and liberal exchanges in the Middle East".

6 www.pex.ps/PSEWebSite/NEWS/0409201645.docx

7 www.pex.ps/PSEWebSite/NEWS/30082016100.xlsx

8 www.pex.ps/PSEWebSite/NEWS/0409201655.docx

9 <http://bloom.bg/2cVpZUy>

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