

## PALESTINIAN ECONOMIC BULLETIN

Bulletin 153  
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### Main reports

*The Palestinian Prime Minister Dr Mohammad Shtayyeh announced on 20 May the launch of the Government's 100-day plan*

*Massader, the Palestine Investment Fund's subsidiary for investments in natural resources and infrastructure development, announced on 23 May that Palestine's first solar power station, Noor Jericho Solar Park, will go into operation in late June*

*The Al-Quds index reached 525.4 points on the last day of trading in May, a decrease of 0.74% from the last day of trading in April*

### Update on the PNA's Financial Crisis

On 5 June, the Palestinian Prime Minister, Dr Mohammed Shtayyeh, warned that the Government will not be able to continue operating for longer than a few months.<sup>1</sup>

The current 'clearance revenue' impasse,<sup>2</sup> as well as the ending of US aid, has led to a steep financial crisis, compounding the adverse impact of the lacklustre economic performance of 2018. As a result, for the past four months the PNA has paid only 50%-60% of monthly salaries to public employees earning more than ILS 2,000 (around \$550).<sup>3</sup> The PNA has also increased its borrowing from the local banking sector, accumulating arrears in the process as it is unable to pay private sector service providers.

The international community has been warning of the PNA's imminent financial crisis for years, often calling for the PNA to continue its austerity measures to reduce its deficit; for the international donors to increase financial aid for the PNA; and the Government of Israel (Gol) to ease its restrictions.<sup>4</sup> However, over the past five years, donor support has decreased by more than 58%,<sup>5</sup> with no signs of the easing of the restrictions by the Gol.

With limited space left for austerity measures, and the inability of international donors to cover the financial gap caused by the clearance revenue crisis, the PNA has called to activate the "Arab Financial Safety Net", a mechanism established during the Arab League meeting in Baghdad in March 2012.<sup>6</sup> Under this mechanism member states agreed to grant the PNA \$100m monthly to help partially compensate for the decline in donor aid and the withholding of clearance tax revenues by the Gol.<sup>7</sup> So far, only \$40m of the pledged amount has been received.<sup>8</sup>

On 6 May, Qatar pledged \$480m in support to the PNA.<sup>9</sup> Of the total amount, \$300m is to be allocated to the PNA's budget for health and education, of which only \$50m is a grant and \$250m is a loan to be repaid in \$21m monthly installments. The remaining \$180m will be allocated by the PNA to the Gaza Strip for humanitarian projects. On 28 May, Palestinian businessmen have also pledged loans to the PNA of up to \$150m to be provided over the next three months.<sup>10</sup>

1 [www.nytimes.com/2019/06/05/world/middleeast/palestinian-prime-minister-israel.html](http://www.nytimes.com/2019/06/05/world/middleeast/palestinian-prime-minister-israel.html)

2 Explained in the last issue of the PEB: <https://bit.ly/2lsi97a>

3 <http://palestinecabinet.gov.ps/Website/AR/ViewDetails?ID=43734/> salaries below ILS 2000 were paid in full

4 <https://carnegieendowment.org/sada/79050>

5 <https://bit.ly/2Xrj0xl>

6 <https://reut.rs/2X9Mtwf>

7 [www.middleeastmonitor.com/20190421-arab-league-pledges-100m-per-month-to-palestinian-authority/](http://www.middleeastmonitor.com/20190421-arab-league-pledges-100m-per-month-to-palestinian-authority/)

8 <https://reut.rs/2XACFee>

9 <https://reut.rs/2WowgyO>

10 [www.alquds.com/articles/1561181237061321600/](http://www.alquds.com/articles/1561181237061321600/)

## New Study Proposes Policy Interventions for Sustainable Deficit Financing

In March 2019, the Palestine Economic Policy Research Institute (MAS) published a new study, entitled "Macroeconomic Structure, Financial Markets, and the Financing of Government Activity: Lessons for Palestine". The study provides an analysis of the macroeconomic imbalances and constraints faced by the PNA and identifies feasible short- and long-term interventions, that can help the government achieve more sustainable deficit financing.<sup>11</sup> The study was prepared by MAS, which has commissioned an international team of economists,<sup>12</sup> upon request by the Palestine Monetary Authority (PMA).<sup>13</sup>

According to the study, the current modes of deficit financing cannot be sustained indefinitely, as domestic stocks of foreign reserves are being rapidly depleted, and the accumulation of arrears and debt is reaching an alarming rate. This leaves the government with two monetary policy options for deficit financing: either issuing debt securities on capital markets or introducing a Palestinian currency to finance expenditure via the PMA.<sup>14</sup>

The researchers argue that issuing bonds without an independent currency and a fully-fledged central bank capable of intervening in money markets would "wreak havoc on the economy", by generating high interest rate volatility and financial instability. Typically, when governments issue bonds, central banks ensure that public debt remains a safe asset by acting as a 'lender of last resort'.<sup>15</sup> In the case of government default, the central bank would purchase government debt securities from the market. Without a fully-fledged central bank that is able to perform that function, interest rates would start increasing during periods of economic difficulty and decreasing during periods of economic prosperity, subjecting government debt to the risk of default. Considering the inherently unstable and volatile nature of capital markets without a lender of last resort, the authors discourage PNA from financing the Palestinian deficit through issuing government bonds.

While the study recognises the merits of a national currency as critical to conduct independent monetary policy and exchange rate management, as well as stabilising government deficit financing, it asserts that the government should only consider the introduction of a Palestinian currency as a long-term goal. With its weak productive base, the absence of sovereign economic functions, and disproportionate trade and current account deficits, Palestine currently lacks the required institutional and economic environment for the introduction of a national currency. The study stresses that any attempt to introduce a national currency in the short-run could further destabilise economic development through highly volatile exchange rates and imported inflation.

As an alternative, the researchers recommend that the PNA should diversify its sources of external funding, to include a more geographically diverse set of international partners (e.g.

stronger relations with more Asian countries). Furthermore, in order to reassure donors that the invested money would be directly used for infrastructure and productive activities instead of consumption, the received funds should be embedded in a broader development strategy. The study also recommends avoiding the adoption of any legal ceilings on government debt, and instead allowing the government to take on extra credit with the PMA. Even though this would require closer cooperation with the Bank of Israel in order to establish a credit facility to ease PMA access to NIS reserves, it would create a better investment climate by stabilising inflation and real interest rates and avoiding the 'crowding out' of the private sector.

The authors further argue that strategic public spending on productive capacity and infrastructure, financed by international partners and enhanced credit facilities through the PMA, would incentivise private investments in export sectors and minimise further concentration of investments in consumption and real estate/construction. The study acknowledges the risks associated with higher public debt; however, it also asserts that such a strategy is necessary to rectify the large imbalances through increasing the share of exports and therefore reducing the dependence on foreign currency reserves, as well as the vulnerability to Israeli clearance suspensions in the long-run.

## The Palestinian Government's One Hundred Days Plan

On 20 May 2019, the Palestinian Prime Minister Dr Mohammad Shtayyeh announced the launch of the Government's 100-day plan that seeks to address the financial crisis currently faced by the Palestinian National Authority (PNA).<sup>16</sup> The plan, as presented by the Prime Minister, aims to achieve several economic, social and political objectives through 135 Government interventions.<sup>17</sup> These interventions focus on the following key themes:

- 1. Economic disengagement from Israel:** this involves reducing the PNA's dependency on imported goods and services from Israel by encouraging domestic production and strengthening economic cooperation with neighboring countries. As a first step, the PNA ceased medical referrals for tertiary care to Israeli hospitals, and instead is securing care for patients in Palestinian hospitals and other hospitals in Jordan and elsewhere in the region. In the past, the Palestinian Ministry of Health referred patients to hospitals in Israel, costing the PNA an estimated \$5-10 million a month.<sup>18</sup>
- 2. Industrial Policy:** the PNA aims to support national production through comprehensive industrial planning. A main focus of this policy is 'economic clustering', whereby interconnected businesses and institutions are agglomerated in a specified geographic region to generate positive spillover effects and increase productivity. The Government has identified clusters across the West Bank: an agriculture cluster spanning the northern governorates of Jenin, Tubas, Tulkarem and Qalqilya, industrial clusters in the Nablus and Hebron governorates, and tourism clusters in Bethlehem and Jerusalem.

11 <https://bit.ly/31RSeg0>

12 Heiner Flassbeck, Patrick Kaczmarczyk and Michael Paetz

13 <https://bit.ly/2KGIhxd>

14 the regulator of the banking sector, putatively the Palestinian central bank

15 A lender of last resort is an institution, usually a country's central bank, that offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse.

16 <http://palestinecabinet.gov.ps/Website/AR/ViewDetails?ID=43725>

17 [www.youtube.com/watch?v=ATWvPIFzFus](http://www.youtube.com/watch?v=ATWvPIFzFus)

18 <https://bit.ly/2MWLIY8>

3. **Improving Energy Infrastructure:** the PNA seeks to restructure the electricity sector to reduce energy imports from Israel and the ensuing financial burden on Palestinian electricity companies. As a means of disengagement from Israel, the Government is exploring the possibility of purchasing electricity from Jordan. The PNA has also decided to allocate \$50m to deal with current problems in the electricity sector and to enable an increase in power supply ahead of increased consumption during the summer months. Finally, the Government has decided to borrow a total of ILS 50m from local banks to subsidise a 'price support' mechanism for electricity in anticipation of rising prices during the summer.
4. **Economic Empowerment:** the PNA has introduced a number of measures aimed at stimulating investment as part of its economic strategy. This includes the establishment of an Investment Bank for Development, and the promotion of entrepreneurship. The PNA seeks to assume responsibility for an economic empowerment programme, which was previously managed by the United Nations Development Programme (UNDP). This would be allocated to empowerment programmes valued at \$27m annually provided by the Ministry of Social Development. The Government also intends to work on the governance of economic empowerment programmes and funds within a unified framework. The goal of this policy is to prevent fragmentation of available investment funds, and to strengthen links with civil society institutions.
5. **Vocational Training:** the PNA aims to address unemployment by fostering greater synergies between its education system and labour market.<sup>19</sup> It intends to put in place technical and vocational training programmes for school and university graduates and establish a university college for technical education.
6. **Institutional reform:** the PNA is launching new institutional reforms to improve transparency and representation, in addition to boosting public sector revenues. Within the 100 days of the plan, local authority by-elections will be held in 14 municipalities where a majority of municipal council members have resigned. The Government will also launch a governance programme to improve planning, measuring and monitoring at a number of Government departments and will establish a national media team to improve communication between the Government and the general public.

The PNA has allocated \$245m in Government funding to the 100-day economic strategy. This decision has been made, however, at a time when the PNA already faces a critical fiscal situation.

## Noor Jericho Solar Park

On 23 May, Massader, the Palestine Investment Fund's (PIF) subsidiary for investments in natural resources and infrastructure development,<sup>20</sup> announced that Palestine's first solar power station, Noor Jericho Solar Park (NJSP), will go into operation in late June.<sup>21</sup> At a total cost of \$10m,

19 In the fourth quarter of 2018, unemployment stood at 30.2% in the West Bank and Gaza, while youth unemployment was at 44.7%. (PCBS)

20 [www.massader.ps/en/page/about-massader](http://www.massader.ps/en/page/about-massader)

21 <http://english.wafa.ps/page.aspx?id=8B40eNa110459501427a8B40eN>

the project will assemble 20,000 solar panels spread over 10 hectares of land on the outskirts of the West Bank city of Jericho. Once fully operational, the project is expected to generate 7.5MW of electricity per year<sup>22</sup>, to be distributed through the Jerusalem District Electricity Company (JDECO) power network.<sup>23</sup>

All NJSP output has already been purchased by three Palestinian companies, namely: the Istishari Hospital in the new Rihan suburb of Ramallah, Birzeit Pharmaceutical Company and The National Bank. This output is expected to reduce the import of electricity by around \$1.25m annually, saving around \$31m over the 25 years of the project's expected lifespan. These funds will feed into further development of the PIF's alternative energy programme, according to Dr Mohammad Mustafa, Chairman of the PIF.

NJSP is part of Massader's Noor Palestine Solar Program, a multi-level solar energy investment programme that aims to produce 200MW of electricity per annum, equivalent to 17.6% of Palestine's current power consumption, within eight years. In addition to NJSP, the programme includes a number of solar energy projects:

- Two solar parks are under construction in Tubas and Jenin with a total generation capacity of 13.5MW<sup>24</sup>
- Solar PV systems are being deployed on the rooftops of 500 public schools across Palestine. The first stage of this project will be completed within three years and Massader expects it to generate 35MW of electricity<sup>25</sup>
- A plan to provide renewable energy to residential, commercial, and government buildings through rooftop solar PV systems. This project is expected to supply another 35MW of electricity<sup>26</sup>

Massader aims to contribute to Palestine's energy security and independence through these projects, as Palestine imports 98% of its 1,134MW annual power needs from Israel.<sup>27</sup> According to Dr Mustafa, the West Bank consumes about \$700m a year in electricity and Palestine plans to cut imports from Israel by 50% over the next decade.<sup>28</sup>

## May Trading

The Al-Quds index reached 525.4 points on the last day of trading in May, a decrease of 0.74% from the last day of trading in April.<sup>29</sup> During the month, a total of 81.0m shares, with a value of \$140.2m, were traded, marking a 25.2% decrease in the number and a decrease of 34.3% in the value of traded shares compared to April 2019.

In related news, total net profits for listed companies during Q1 2019 amounted to \$98.4m, an increase of 11.7% from the corresponding quarter in 2018.<sup>30</sup> Out of 48 listed companies, 39 reported profits, six reported losses and three failed to disclose within the deadline.

22 This amount is enough to cover the annual electricity consumption needs of 36,000 homes. districts.

24 [www.massader.ps/en/project/1518342899](http://www.massader.ps/en/project/1518342899)

25 [www.massader.ps/en/project/1518342842](http://www.massader.ps/en/project/1518342842)

26 [www.massader.ps/en/project/1518342187](http://www.massader.ps/en/project/1518342187)

27 [www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/EnergyB-2017-1E.html](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/EnergyB-2017-1E.html)

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

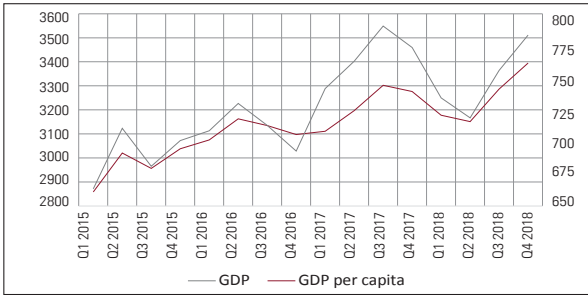
29 <https://bit.ly/2Fn6kNs>

30 <https://bit.ly/2MYhvCl>

# Palestine Economic Dashboard

## Growth

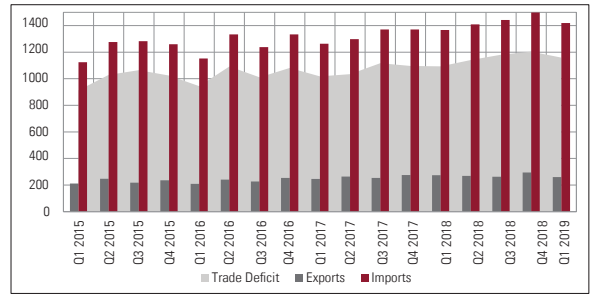
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q4 2018



GDP (Q4 2018): \$3,594.4m GDP per capita (Q4 2018): \$778.9  
Source: PCBS

## Trade

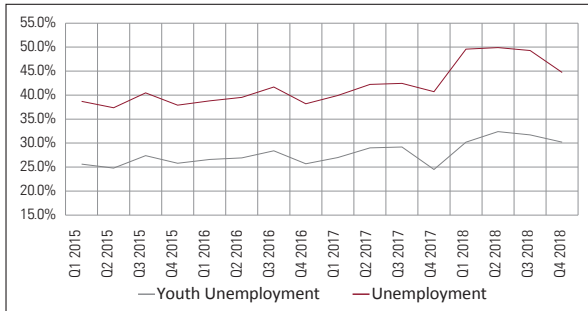
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2019



Imports (Q1 2019): \$1,419.2m Exports (Q1 2019): \$260.2m  
Trade deficit (Q1 2019): \$1,159m Source: PCBS

## Unemployment

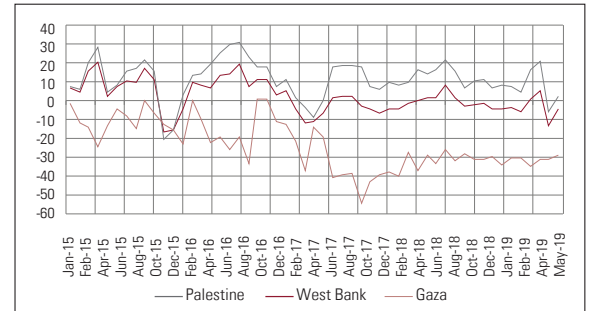
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q4 2018



Unemployment rate (Q4 2018): 30.2% Youth Unemployment rate (Q4 2018): 44.7%  
Source: PCBS

## Business Cycle Index

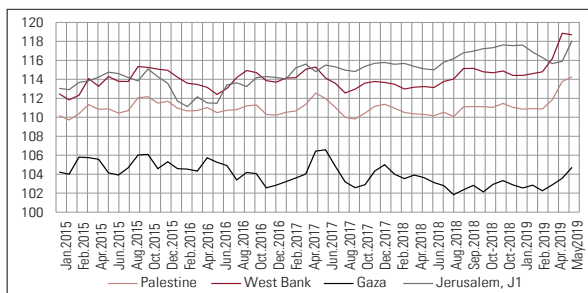
Palestine Monetary Authority Business Cycle Index, January 2015 – May 2019



Palestine (May 2019): -6.1 West Bank (May 2019): 3.1  
Gaza (May 2019): -27.7 Source: PMA

## Inflation

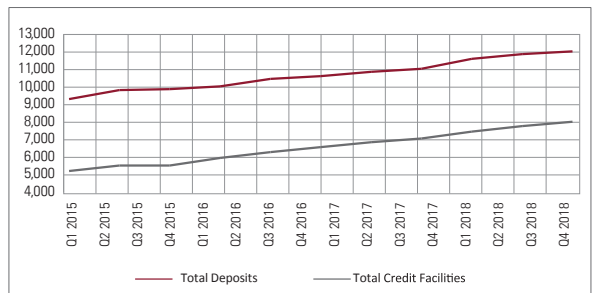
Consumer Price Index (Base year = 2010), January 2015 – May 2019



Palestine (May 2019): 114.3 West Bank (May 2019): 118.7  
Gaza (May 2019): 104.7 Source: PCBS

## Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2018



Total Credit Facilities (Q4 2018): \$ 8,437.9m Total Deposits (Q4 2018): \$12,227.3m  
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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