

Bulletin 184 January 2022

Main reports

According to provisional estimates by the Palestinian Central Bureau of Statistics, real GDP increased by 6.7% during 2021, indicating gradual recovery of business activity

Recent months have seen intensified participation by the PNA in regional and international events, with the aim of gaining support for infrastructure development

Over the course of December, Palestine and Jordan signed nine agreements aimed at strengthening economic cooperation between the two countries

The Al-Quds index increased by 1.4% in December, reaching 608.5 points on the last day of trading

New Companies Law

Following its approval by the Palestinian president on 2 October 2021, a draft of the new companies' law was published in the Palestinian Official Gazette on 30 December 2021 and is currently available on the Ministry of National Economy's website.¹ The law will enter into force three months following its publication. Once it takes effect, existing companies have two years to change their articles of incorporation and internal regulations in accordance with the new law.

The new law aims to unify regulations related to companies in Palestine and will replace the currently effective Jordanian Companies Law No. (12) of 1964 in the West Bank and the Egyptian Companies Law No. (19) Of 1930 in Gaza. The legal framework regulating companies has not undergone any major change since the 1960s, except for a law amendment in 2008 through a presidential decree.²

The most notable changes in the new law include the following:³

- removing the minimum capital requirement for all private-sector companies (except for public shareholding companies);
- allowing one-person company registration;
- additional legal business structures; most notably introducing a limited liability company (LLC);
- allowing the registration of home-based businesses;
- improving the processes of creating and dissolving companies;
- allows for electronic company registration;
- strengthening the mechanism of supervising the corporate registry;
- providing stronger protection for small shareholders by establishing provisions for pre-emptive rights;
- introducing new provisions for treasury stock;
- establishing new provisions for mergers, spin off and liquidation;
- allowing multinational companies to establish branches and subsidiaries in Palestine; and
- allows public shareholding companies to issue convertible bonds and stock options.

Several institutions, including chambers of commerce and the Palestinian Federation of Industries (PFI), praised the long awaited law, but others, including the lawyers' union and a number of private sector representatives, opposed it.⁴

On 18 November, the Coalition for Accountability and Integrity (AMAN)⁵ held a discussion on the new law, where participants expressed concern over its provisions, stating that they do not correspond to the Palestinian business environment.⁶ In particular, most of the critique was centred around limited representation by the private sector in the process of preparing and approving the law. Private-sector representatives noted that the approved draft is different from the one that was under discussion for years and that there was inadequate and restricted public or expert consultation on the draft before being submitted for approval.⁷ Passing laws has been increasingly difficult given that the Palestinian Legislative Council has been de facto inactive since 2007. New PNA laws issued by presidential decrees do not apply in the Gaza strip, where Hamas has adopted its own companies' law in 2012.⁸

¹ <http://www.met.gov.ps/Lows.aspx>

² <http://www.mas.ps/files/server/20141111133138.pdf>

³ <https://bit.ly/3JSX6Ze>; <https://bit.ly/3531R2k>; <https://bit.ly/3g2htV0>

⁴ <https://bit.ly/3FyNYp6>; <https://bit.ly/3lawi40>

⁵ A civil society organization that seeks to combat corruption and promote integrity, transparency and accountability in the Palestinian society

⁶ <https://www.aman-palestine.org/activities/16221.html>

⁷ *Ibid*

⁸ <https://www.mas.ps/files/server/20141911185010-1.pdf>

Economic Outcomes in 2021 and Forecasts for 2022

During 2021, the drop in new COVID19 cases and the progress of vaccination campaigns allowed for an easing of lockdown measures and a gradual recovery of business activity. According to provisional estimates by the Palestinian Central Bureau of Statistics (PCBS), real GDP⁹ increased by 6.7% during 2021, gross consumption increased by 5.7% and gross investment increased by a solid 11.1%.¹⁰ The recovery lifted most economic activities, with construction value-add increasing by 8% over the year, industry by 7% and services by 4%. In addition, employment increased some 4.5% to 925,000 workers in 2021.

This economic recovery was not sufficient to bring business activity back to pre-2020 levels or make up for the drop in GDP of almost 12% in 2020. Despite the expansion in employment, which was largely in the West Bank, the overall unemployment rate both there and in Gaza together slightly increased from 27.2% in 2020 to 27.8%, as the increase in the number of jobseekers outpaced that in vacancies. Economic recovery was not evenly distributed among different sectors and regions, indicative of some of the scars left by the pandemic. For example, value-add in agricultural activity dropped by 3%, with implications for food security. In addition, Gaza's economy remained almost stagnant, impacted by the 11-day conflict in May 2021, with unemployment reaching 51% in the first nine months of 2021. Following its collapse, the tourism sector has yet to begin to recover, indeed the decline may not have yet bottomed out after yet another blow with the annulment of the Christmas season owing to the latest Omicron virus surge.

Additional deductions by the Government of Israel from clearance revenues and further declines in levels of donor aid, have also worsened the fiscal situation of the Palestinian National Authority (PNA).¹¹ Public debt reached \$3.8bn in 2021, a 4% increase compared to 2020.

Forecast for 2022

Economic growth is expected to slow 2022 due to the low base effect and as sources of growth remain very limited with ongoing restrictions on movement, access and trade. PCBS economic forecasts for 2022 are built around three scenarios for the Palestinian economy, largely reflective of realistic best and worse case possible developments over the coming year.

- **Baseline Scenario:** assumes contained spread of COVID-19 and progress in vaccination, similar to 2021; no progress in the internal political situation or external diplomatic relations; and that Israel will continue its deductions from clearance revenues and there will be no major increase in foreign aid.
- **Optimistic Scenario:** assumes an improved political and economic situation following progress in Palestinian political reconciliation, and preparations for the legislative and presidential elections in Palestine. It further assumes US financial support returning to pre-2019 levels and increased budget support and public revenues, as well as an easing of Israeli restrictions on movement and trade.
- **Pessimistic Scenario:** assumes an accelerated spread of COVID-19 and the introduction of new containment measures, in addition to a worsening political situation and

a complete or partial freeze of clearance revenue transfers. It also assumes a drop in the number of work permits, a decline of donor support and increased tax evasion.

The Palestine Monetary Authority's (PMA) separate forecasting exercise largely corresponds to PCBS projections in terms of direction and scale of possible performance. Both sources converge on a spread of possible GDP outcomes and are close in expectations of unemployment. PMA's forecasts project higher real GDP prospects in the baseline scenario, assuming a larger increase in investment and slower increase in imports, compared to PCBS. Furthermore, the range between the PMA's worst and best outlook is narrower, the variations reflecting their different forecasting models and assumptions.

Table 1: Actual Results in 2021 and Forecasts for 2022

Scenario	Actual	Provisional data	Forecasts for 2022					
			Baseline Scenario		Optimistic Scenario		Pessimistic Scenario	
	2020	2021	PCBS	PMA	PCBS	PMA	PCBS	PMA
Indicator/ year	2020	2021						
GDP (\$m)	14,037.4	14,973.3	15,355	15,232	16,525	15,809	14,570	14,470
Real GDP Growth (%)	-11.3	6.7	2.5	2.8	10.4	6.7	-2.7	-2.3
per Capita (\$)	2,922.5	3,042.5	3,047	3,023	3,279	3,141	2,891	2,871
Unemployment Rate (%)	27.2	27.8	27.4	26.5	27.0	24.2	29.2	28.1
Consumption (%)	-10.6	5.7	2.0	2.1	6.6	5.0	-0.5	-1.9
Investment (%)	-20.3	11.1	7.9	10.8	10.3	16.0	-7.5	-2.2
Trade deficit (%)	-15.5	6.7	4.6	2.9	-1.6	4.6	0.9	-4.1
Exports (%)	-11.2	14.4	7.5	1.8	12.7	5.3	-1.6	-2.0
Imports (%)	-14.2	9.2	5.6	2.6	3.3	4.8	0.1	-3.4

Sources: PCBS and PMA¹²

Cooperation for Infrastructure Development

Recent months have seen intensified participation by the PNA in regional and international events, with the aim of gaining support for infrastructure development. This comes amid hopes that the return of the US administration into the political scene would improve prospects for increasing levels of donor aid and the easing of Israeli restrictions on the Palestinian economy. Infrastructure development projects are typically funded by donor countries, and the US was the major funder of such projects prior to the halt of US aid under the Trump administration.

On 14 December, US and Palestinian officials held economic talks for the first time in five years.¹³ These bilateral talks represent a reopening of US- Palestinian official economic dialogue after ties were severed in 2017 under the Trump administration. US and Palestinian officials discussed infrastructure development, access to US markets, US regulations, free trade, financial issues, renewable energy and environmental initiatives, connecting Palestinian and American businesses, and addressing obstacles to Palestinian economic development.

Energy

In the first week of December, the Palestinian Minister of Energy and Natural Resources met with representatives of the European Union (EU) to discuss funding mechanisms for future and ongoing energy programmes in Palestine.¹⁴ EU representatives stated that there are plans to provide financing for Palestine's renewable energy and energy-efficiency projects, including switching away from energy imports from Israel towards local production and imports from regional partners like Jordan and Egypt.

These developments emerged as Prime Minister Mohammad Shtayyeh pledged to supply all schools and public buildings with solar energy, building on the PNA's progress in

⁹ Base line: 2015 prices

¹⁰ <https://bit.ly/3rscpiT>

¹¹ <https://bit.ly/3tu5318>

¹² <https://bit.ly/325DuQj>; <https://bit.ly/3F1DVbS>

¹³ <https://bit.ly/3rAyw78>

¹⁴ <https://bnews.ps/ar/node/17834>

already supplying 600 schools with solar energy.¹⁵ He also announced a plan to invest in transforming solid waste at the Zahrat Al-Finjan landfill for electricity generation.

In addition to Government plans, current energy projects in Palestine include the recent agreement with the Qatari Committee for the Reconstruction of Gaza to supply gas (instead of diesel) to the only power plant in the Gaza Strip.¹⁶ The Qatari committee will finance the construction of the \$60 million gas pipeline.

In 2019, electricity supply amounted to 7,060 GWh in 2019, of which 88.5% is imported from the Israel Electric Corporation, and very small amounts from Egypt and Jordan due to weak electrical connectivity.¹⁷ The Palestine Electricity Company produces around 590 GWh and renewable energy projects and private generators generate around 220 GWh. As much as 13.3% of imported electricity is lost before it reaches the final consumer, a stark indication of the dilapidated network and inadequate investment in its repair and upgrade. In Israel, the latest figures show a transmission and distribution loss of only 2.9%.¹⁸

Electricity consumption in Palestine is expected to reach 9,071 GWh by 2030.¹⁹ This will increase dependency on imported energy if no new large-scale energy generation projects are constructed and are able to secure an uninterrupted flow of necessary inputs for operation. Renewable energy, especially solar, constitutes the only independent source of energy that could lessen Palestinian dependence on Israel for energy and bring down the fuel import bill. Solar therefore represents the most attractive short-term solution economically and politically. Yet, such investment also entails infrastructural upgrade to enhance electricity interconnectedness and transmission network, as well as accessing land in Area C for constructing new stations, both of which require Israeli approval.

Telecommunications

On 26 December, the Palestinian Minister of Communications and Information Technology, Ishaq Sidr, participated in the meeting of the Council of Arab Ministers of Communications and Information.²⁰ In his speech, the Minister listed necessary measures to ensure the competitiveness of the ICT sector in Palestine, including upgrading to 4G and 5G networks, and called for Arab support to achieve these goals.

While Palestine received Israeli approval to upgrade to 4G in August 2021, since the initial announcement in August 2021, no progress has been reported on this issue. Implementation is likely to require at least another year, to allow for building the network and for telecommunication companies to upgrade old technology.²¹ The Palestinian ICT sector has already suffered sizable losses from Israel's restrictions on frequency, estimated at between \$436 million and \$1.5 billion in lost potential revenue. The sector's development is expected to continue to be limited in comparison with Israel, which upgraded to 5G service in 2020.²²

Economic Cooperation with Jordan

Over the course of December, Palestine and Jordan signed nine agreements aimed at strengthening economic cooperation between the two countries. These agreements include a plan to supply Jordanian oil products to meet about

15% of Palestine's market needs, launching the Palestinian-Jordanian Agricultural Marketing Company, building a free trade zone, and increasing the volume of trade between Jordan and Palestine.²³

The Palestinian Minister of National Economy stated that the ambition of the two countries was to increase annual trade from its 2020 level of about \$200 million (Jordanian exports of \$152 million and Palestinian exports of \$50.5 million) to \$1 billion, although no target date was set for that.²⁴ Under the new plans, Jordan's exports to Palestine would increase to \$730 million, with \$500 million of exports entering the Palestinian market customs-free after meeting Palestinian guidelines, with the remaining \$230 million entering customs-free after meeting Israeli requirements.²⁵

These agreements are not the first aimed at expanding trade between the two countries. Between 2014 and 2018, the door-to-door trade facilitations programme doubled the cargo volume processed at the Allenby Bridge from 32,000 truckloads to over 64,000.²⁶ Yet in recent years, attempts to increase Palestinian-Jordanian trade relations have stagnated. In 2018, Jordan and Palestine agreed to increase Jordan's exports to Palestine from its 2017 level of \$230 to \$500 million, a goal yet to be achieved.²⁷

The limited progress in increasing trade between the two countries despite repeated efforts over many years can be explained mainly by Israeli border restrictions and limitations on Palestine's trade relations. Therefore, the success of such ambitious plans will be contingent on Israel's cooperation, including expanding operation times for commercial movement at the border, expediting security and customs clearance and widening the list of items the Palestinian government can import from other countries.

Recently, there have been positive signs on this front, with Israel considering the replacement of the back-to-back pallet system currently used to transport goods between the West Bank and Jordan with another system using containers. While international mediators such as the Office of the Quartet have been working on this project since the early 2010s, with limited results to date, starting in January 2022, container shipments of Palestinian exports will begin as a part of a three-month pilot programme.²⁸ Containerisation is expected to reduce costs for traders and consumers, ultimately resulting in a significant positive effect on trade flows.²⁹

December Trading

The AI-Quds index increased by 1.4% in December, reaching 608.5 points on the last day of trading.³⁰ A total of 15.3m shares were traded with a value of \$29.2m, marking a decrease of 47.9% in the volume and 61.9% in the value of traded shares compared to the previous month.

On an annual basis, the AI-Quds index increased by 29.1% compared to the last day of trading in 2020.³¹ In 2021, a total of 201m shares were traded on the Palestine Exchange (PEX) with an overall value of \$419m. This marks a significant increase in the volume (132.8%) and value (120.3%) of traded shares compared to law base in 2020, reflecting a recovery in business activity as COVID-related measures have been eased.

15 <https://bnews.ps/ar/node/17838>

16 <https://bnews.ps/ar/node/17955>

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

18 <https://bit.ly/3r08H0F>

19 <https://bit.ly/3GRQfxj> - assuming a growth rate of 3.5%

20 <https://bnews.ps/ar/node/17956>

21 <https://bit.ly/3lhrb32>

22 <https://bit.ly/32a6qH4>

23 <https://bnews.ps/ar/node/17872>

24 <https://bit.ly/3fDZSDH>

25 <https://english.wafa.ps/Pages/Details/127105>

26 <https://bit.ly/3Ai211h>

27 <https://bit.ly/3fyrmdM>

28 <https://bit.ly/3ldC2uL>

29 <https://bit.ly/3FRDL05>

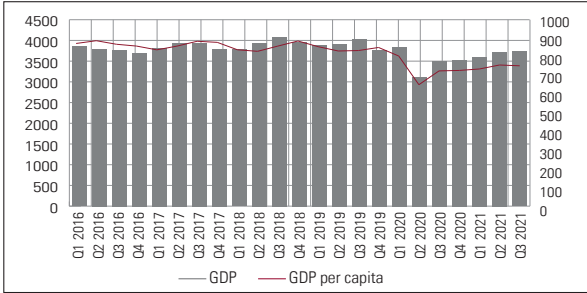
30 <https://bit.ly/3rpfW6>

31 <https://bit.ly/3le074q>

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q3 2021

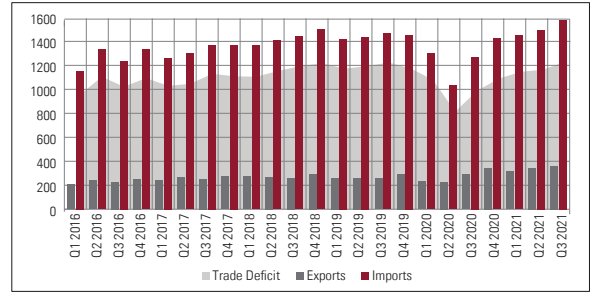


GDP (Q3 2021): \$3,738.8m
Source: PCBS

GDP per capita (Q3 2021): \$755.5

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q3 2021

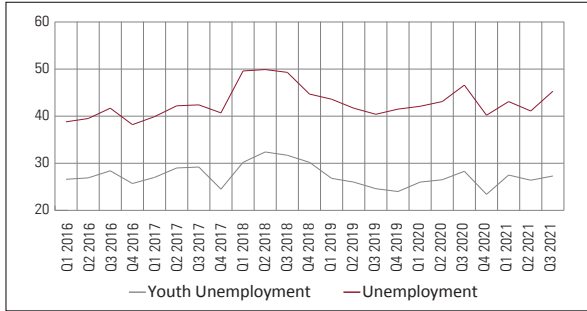


Imports (Q3 2021): \$1,578.1m
Trade deficit (Q3 2021): \$1,218.5m

Exports (Q3 2021): \$359.6m

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q3 2021

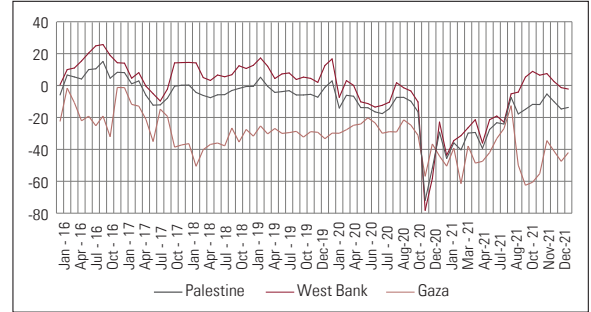


Unemployment rate (Q3 2021): 27.3%
Source: PCBS

Youth Unemployment rate (Q3 2021): 45.3%

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2016 – December 2021

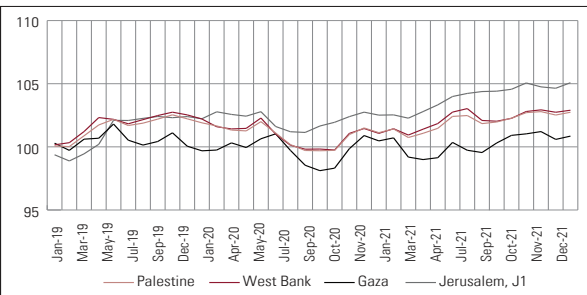


Palestine (December 2021): -13.7
Gaza (December 2021): -42

West Bank (December 2021): -2.2
Source: PMA

Inflation

Consumer Price Index (Base year = 2018), January 2019 – December 2021

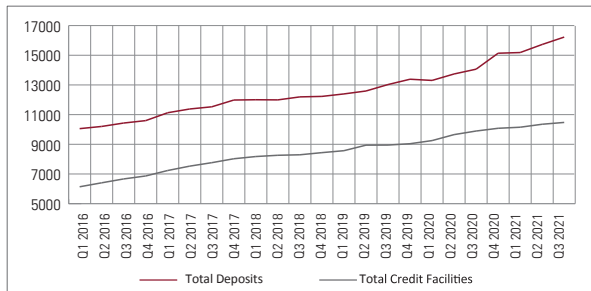


Palestine (December 2021): 102.74
Gaza (December 2021): 100.85

West Bank (December 2021): 102.9
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q3 2021



Total Credit (Q3 2021): \$10,473.70m
Source: PMA

Total Deposits (Q3 2021): \$16,224.57m

The Portland Trust



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