

## PALESTINIAN ECONOMIC BULLETIN

Bulletin 188  
May 2022

### Main reports

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### Global Inflationary Pressures Reach Palestine

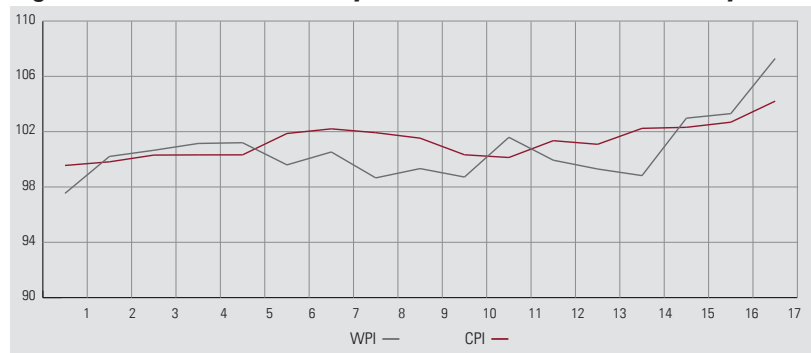
As Palestine imports most of its consumer goods, the global rise in prices is gradually leading to higher local prices, which presents a potential obstacle to economic growth, affecting the livelihoods of the most vulnerable in society. The general price level in Palestine has been steadily increasing since December 2021, with March 2022 recording the highest inflation rate over the past two years.

Recent statistics published by the Palestine Central Bureau of Statistics (PCBS) show a 1.03% increase in the Consumer Price Index (CPI) during March alone, 3.6% higher than March 2021.<sup>1</sup> In 2022, Palestine recorded an inflation rate of 1.5%. March inflation was mainly driven by a rise in food prices, including an 11.7% increase in fresh chicken prices and 6.2% in flour. Fresh chicken had already increased by 6.8% in February 2022, and January 2022 witnessed a staggering 18.8% increase in fresh vegetables prices. This is similar to the trend seen elsewhere, as the war in Ukraine exacerbated already soaring food prices, in part due to COVID-related supply-chain challenges.<sup>2</sup> The FAO global Food Price Index increased 3.9% in February, to a level 20.7% higher than a year before.<sup>3</sup>

The cost of consumer goods in Israel, Palestine's main trading partner, also rose by 0.6% in March compared to February 2022 and by 3.5% compared to March 2021. It rose by 1.5% in Q1 2022 compared to Q4 2021, indicating that Palestine's inflation is largely imported.<sup>4</sup> Israel accounts for 55% of Palestinian imports and 81.3% of exports.<sup>5</sup> The strong Israeli Shekel and slow wage growth have kept inflation modest in Israel relative to other countries over the past year,<sup>6</sup> but higher inflation rates are expected if the recent weakening of the Shekel against major currencies persists. On 11 April, the Bank of Israel's monetary policy committee decided to raise the benchmark interest rate from 0.1% to 0.35% in response to rising inflation and house prices in Israel, marking the first increase since November 2018.<sup>7</sup>

Palestine's Wholesale Price Index (WPI)<sup>8</sup> increased by 3.9% in Q1 2022 compared to the previous quarter, reflecting a 5.8% increase in the wholesale price of local products<sup>9</sup> and a 3.2% increase in the wholesale prices of imported products.<sup>10</sup> The overall increase was mainly driven by a 39.1% increase in the wholesale price of fruits and vegetables and a 14.5% increase in that of animal feed. Compared to Q1 2021, WPI increased by 8%.

Figure 1: Palestine's Quarterly CPI and WPI, 2018-2022 (base year is 2019)



1 [https://pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_CPI032022En.pdf](https://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_CPI032022En.pdf)

2 <https://bbc.in/3yIsYMR>

3 [www.fao.org/newsroom/detail/fao-food-price-index-rises-to-record-high-in-february/en](http://www.fao.org/newsroom/detail/fao-food-price-index-rises-to-record-high-in-february/en)

4 <https://bit.ly/38oN2ZV>

5 [www.pcbs.gov.ps/Downloads/book2537.pdf](http://www.pcbs.gov.ps/Downloads/book2537.pdf)

6 <https://bit.ly/3suYdar>

7 <https://bit.ly/38xxP8Y>

8 An index that measures and tracks the changes in the price of goods in the stages before the retail level.

9 Most inputs of local products (such as animal feed, fertilisers, insecticides, etc.) are imported, and prices of such products have been soaring

10 [https://pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_WPIQ12022E.pdf](https://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_WPIQ12022E.pdf)

On 23 March, the Palestine Economic Policy Research Institute (MAS) held a digital seminar entitled “The Repercussions of the Russia-Ukraine War on Food Commodities and their Prices in Global Markets.”<sup>11</sup> The seminar’s background paper noted that over the past two years, Palestine has increased its imports of wheat and flour from Russia and Ukraine, reflecting an increased exposure to the impact of the war on the availability and prices of these commodities. Wheat imports from Russia, which began in 2017, reached 32.6% of total wheat imports in 2020, and its flour imports from Ukraine increased from 1.8% in 2011 to 32.3% in 2020.<sup>12</sup> The majority of Palestine’s wheat and flour is imported from Israel (51.1% and 43.4% in 2020, respectively), mostly from Israeli intermediaries who in turn import 45.8% of Israel’s wheat from Russia (24.6%) and Ukraine (21.1%). This indicates an even greater exposure from the war for Palestinians, already translating into higher food prices. The Palestinian National Authority’s (PNA) maintains negligible wheat reserves, instead relying on the private sector for surplus stock which itself can cover local demand for only two months, greatly exacerbating food risk and uncertainty. Palestine imports from Russia amounted to \$21.7m in 2020 (0.4% of total imports), while imports from Ukraine amounted to \$58.0m (1% of total imports).<sup>13</sup>

The surge in prices can be expected to have a major impact on the living standards of Palestinian households, especially lower-income households, which tend to have less disposable income. Households now face the prospect of deteriorating personal finances against the backdrop of weaker growth and an economy that has only partially recovered from the impact of COVID-19. The PNA Ministry of National Economy has been vocal in insisting that it would do whatever necessary to prevent price increases of basic commodities and foodstuffs, but available policy tools are limited to VAT exemptions on some commodities and market inspections of price-gougers.<sup>14</sup> These interrelated circumstances of high exposure to external price shocks, supply chain disruptions and food insecurity emphasise the structural weaknesses of distorted Palestinian markets and the constraints on economic policymaking under occupation.

## The Jordanian Palestinian Company for Marketing Agricultural Products

On 9 April, the Palestinian Minister of Agriculture, Riyad al-Attari, and his Jordanian counterpart, Khalid al-Hanaifat, inaugurated the headquarters of the Jordanian Palestinian Agricultural Products Marketing Company (JPACO) in Amman, Jordan.<sup>15</sup> JPACO was founded to boost the agriculture sectors in both countries by expanding agricultural production, improving quality and competitiveness of products, and maximising supply to local and global markets.

These developments follow the launch of JPACO in December 2021, when Jordan and Palestine signed several agreements aimed at enhancing economic cooperation between the two countries. Since then, the company has progressed through the initial stages of its establishment, including securing capital, completing

registration in both countries, appointing a CEO and assembling operational staff. The company is currently in the process of opening a Palestinian branch. Once operational, JPACO’s mandate will be to study the needs of the market, develop marketing mechanisms, generate local and international points of sale, process produce through packing centres, and transport produce.

Currently, Palestine primarily exports to Israel, and to a much lesser extent to Jordan and Gulf Cooperation Council (GCC) countries.<sup>16</sup> Palestine’s agricultural exports are dominated by olives and olive oil (31.9% of total agricultural exports), fruits such as citrus and dates (23.8%), and vegetables (20.0%). Palestine agricultural exports amounted to \$165.6m in 2019 (15.0% of total exports), while imports reached \$956.3m (14.4% of total imports).<sup>17</sup> The projected impact of JPACO would be to increase the trade flows and scope of agricultural goods traded between Jordan and Palestine, as well as expand Palestine’s agricultural exports to the rest of the world, especially the MENA region.

Overall, PNA budget support to the agricultural sector has been insufficient in recent years in the context of the sector’s shrinking share of GDP (from 8.9% in 2010 to 6.5% in 2021).<sup>18</sup> Government total budget expenditure on the agricultural sector in 2021 amounted to \$44.4m, only 67.7% of budget expenditure (\$65.6m).<sup>19</sup> Of this, 56% went to salaries and wages of Ministry of Agriculture staff. Actual spending dedicated to the development of the sector amounted to \$15.1m in 2021, 40.8% of the budgeted development expenditure (\$37m).

While the PNA’s inability to make sufficient investment in agriculture has compounded the sector’s low productivity and competitiveness, Israel’s occupation policies place overwhelming restrictions on the sector. Israeli military authorities have rejected 99% of Palestinian requests to develop projects or construction in Area C. Additionally farmers and villagers continue to be displaced, preventing Palestinians from utilising fertile land and natural resources to develop local food production.<sup>20</sup> Shepherds and livestock breeders are among the hardest-hit segments of the sector, who have been put under further strain by the recent spike in feed prices. Such communities in the southern West Bank include around 1,200 Palestinian residents of Masafer Yatta, 500 of whom are children, currently facing expulsion orders from lands they have lived on for generations. This is to make way for a military firing zone.<sup>21</sup>

## Renewable Energy Projects and Grants

This month saw a positive trend of investment in Palestine’s renewable energy sector with the establishment of several new projects in both the West Bank and the Gaza Strip.

### Waste-to-Energy

On 28 April, the Palestinian government signed an agreement with a special-purpose entity to generate energy from the waste in the Zahrat al-Finjan landfill located in the south of the Jenin Governorate.<sup>22</sup> The

11 <https://mas.ps/news/5852.html>

12 <https://bit.ly/3lQgA61>

13 Ibid

14 <https://bit.ly/3NsTJsJ>

15 [www.bnews.ps/ar/node/18726](http://www.bnews.ps/ar/node/18726)

16 <https://pcbs.gov.ps/Downloads/book2537.pdf>

17 [www.pcbs.gov.ps/Downloads/book2537.pdf](http://www.pcbs.gov.ps/Downloads/book2537.pdf)

18 [www.pcbs.gov.ps/site/lang\\_en/741/default.aspx](http://www.pcbs.gov.ps/site/lang_en/741/default.aspx)

19 [www.aliqtisadi.ps/article/87042/](http://www.aliqtisadi.ps/article/87042/)

20 [www.aliqtisadi.ps/article/87021/](http://www.aliqtisadi.ps/article/87021/)

21 <https://bit.ly/3G5X7Ye> and <https://bit.ly/3NsTMEV>

22 [www.bnews.ps/ar/node/18870](http://www.bnews.ps/ar/node/18870)

project serves dual functions as both an investment in electricity generation from alternative energy sources and a waste treatment plant to address the environmental and health hazards posed by the landfill. Zahrat al-Finjan is the largest operational landfill in Palestine, established in 2007 with over 240,000 m<sup>2</sup> of land and a total capacity of 2.25 million cubic meters.<sup>23</sup> Around 1200 tons of solid waste are transferred to Zahrat al-Finjan landfill on a daily basis, about 38% of the total daily solid waste generated in the West Bank.

### Solar in Gaza

Two solar power plants will be built in Gaza with funding of €16m from the German Government.<sup>24</sup> An agreement was signed on 20 April to build the two plants, which will have a total capacity of 18 megawatts and be located in Rafah and Sudania. The plants are strategically positioned to maximise the benefits to Gazans, with the Rafah plant serving as the first in the Rafah area, and the Sudania plant designed to supply energy to the water desalination plant.

### Electricity transmission infrastructure

While many of the renewable energy projects in Palestine have sought to increase electricity production, the World Bank is investing in electricity transfer infrastructure to improve electricity transmission. On 11 April, a \$23.5 million grant was approved to fund the second phase of the World Bank's eight-year multiphase "Advancing Sustainability in Performance, Infrastructure, and Reliability of Energy Sector (ASPIRE)" programme.<sup>25</sup> The second phase of the programme will upgrade the quality of existing transmission lines and build new lines, as well as supply smart meters to electricity distribution companies to improve the metering and billing process. The programme's objectives have been adapted in response to the May 2021 Gaza conflict, now including plans to replace Gaza's overhead transmission lines with underground cables which are more resilient in periods of conflict.

### Government efforts

On 27 April, a PNA Cabinet meeting was held on the latest developments in the energy sector.<sup>26</sup> The Cabinet approved the 2022 budget of the Palestinian Electricity Regulatory Council (PERC) and provided preliminary approval for the operation of the "Palestine Electricity Company". PERC, established in 2010, is an independent regulatory body entrusted with monitoring the electricity sector and ensuring fair competition through the commercialisation of registered companies. It specifies the regulations for selling and purchasing electricity, as well as developing net metering for renewable energy systems and projects.

While the PNA appears committed to its strategy to increase electricity generation through renewable energy projects, issues stemming from poor governance slow these investments. Many investors find that the PNA does not credibly commit to agreements and statements, is plagued by organisational confusion, and has weak regulatory and enforcement capabilities.<sup>27</sup> An indicator of investors' low confidence in the Government has been the widespread use of direct agreements between investors and municipalities, local authorities, and distribution companies.

23 <https://bit.ly/3sHAaoK>

24 <https://www.bnews.ps/ar/node/18802>

25 <https://bit.ly/3yycNBD>

26 [www.bnews.ps/ar/node/18866](https://www.bnews.ps/ar/node/18866)

27 [www.bnews.ps/ar/node/18727](https://www.bnews.ps/ar/node/18727)

The PNA's role in the electricity sector is in turn impeded by the ongoing issue of net lending and subsequent financial burden on the central Government. The Israeli Electricity Company (IEC) this month announced that it will once again cut off power to Jerusalem District Electricity Company's (JDECO) service areas due to accumulated debts.<sup>28</sup> The announced outages will occur six times a month for six continuous hours in Jerusalem, Ramallah, Bethlehem and Jericho. JDECO accrues debt to IEC on account of multiple factors, including its high operating costs, low sector regulation, and the failure of local authorities to pay for the company's service. However, as the PNA is responsible for paying JDECO's debts, this recurrent issue ultimately takes away from the public budget and the Government's ability to fund sector development initiatives. At the same time, the issue highlights that, while investments in Palestine's future electricity generation are necessary, the Government must also deal effectively with the pressing concerns of net lending and governance of the electricity sector.

## Perpetual Bonds

On 26 April, the General Assembly of Al-Quds Bank approved the issuance of perpetual bonds worth \$15 million over the next three years.<sup>29</sup> Salah Al-Hidmi, CEO of Al-Quds Bank, explained that the goal of issuing perpetual bonds is to diversify the Bank's sources of financing and increase its capital adequacy,<sup>30</sup> enabling it to extend more credit in the future. He added that the bond would be issued in three phases, the first of which will be before the end of this year.

A perpetual bond is a bond with no maturity date (the issuer does not redeem the principle), and theoretically, the issuer would pay coupons on perpetual bonds forever. Perpetual bonds are primarily issued by government entities and banks. Banks usually issue such bonds to meet their capital requirements, as the capital received through perpetual bonds qualifies as Tier 1.<sup>31</sup>

Corporate bond issuance is very rare in Palestine, as only two listed companies have attempted to issue them. The first bond was PADICO Holding in 2011 (\$85m), which succeeded in making two more bond issues worth \$120m each in 2016 and 2021.<sup>32</sup> Arab Palestinian Investment Company (APIC) also issued \$73.8m worth of corporate bonds in 2020.<sup>33</sup> If successful, Al-Quds Bank's perpetual bond would be the first of its kind in Palestine.

## April Trading

Al-Quds index reached 607.1 points in April 2022, a 1.1% decrease from the previous month.<sup>34</sup> A total of 11.2m shares with a total value of \$26.2m were traded during the month, marking a 26.3% decrease in the number and 26.2% drop in the value of traded shares compared to March 2022.

28 [www.aliqtisadi.ps/article/87192/](https://www.aliqtisadi.ps/article/87192/)

29 [www.aliqtisadi.ps/article/87160/](https://www.aliqtisadi.ps/article/87160/)

30 <https://bit.ly/3MtzdYY> - The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world.

31 <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/perpetual-bonds/> - Tier 1 capital refers to the core capital held in a bank's reserves and is used to fund business activities for the bank's clients. It includes common stock, as well as disclosed reserves and certain other assets.

32 <https://bit.ly/3yu5Sti> and <https://bit.ly/3MDediy> and <https://bit.ly/3yBCpxw>

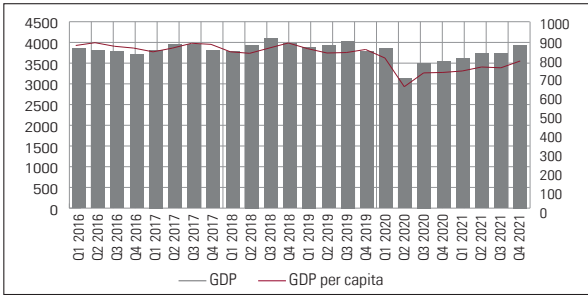
33 <https://prn.to/38rUldP>

34 <https://bit.ly/3Pjt8jU>

# Palestine Economic Dashboard

## Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q4 2021

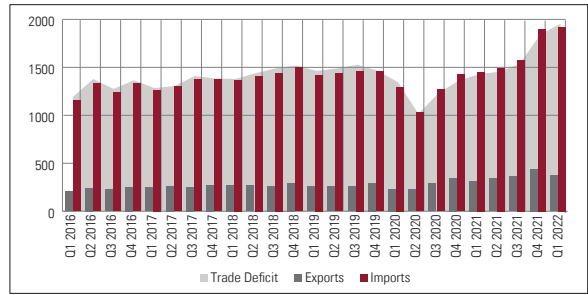


GDP (Q4 2021): \$3,940.9m  
Source: PCBS

GDP per capita (Q4 2021): \$791.4

## Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q1 2022

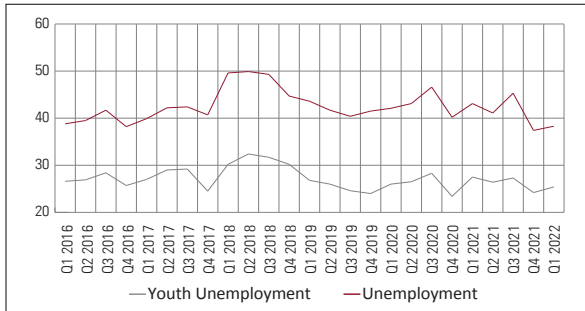


Imports (Q1 2022): \$1,920.8m  
Trade deficit (Q1 2022): \$1,547.7m

Exports (Q1 2022): \$373.1m  
Source: PCBS

## Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q1 2022

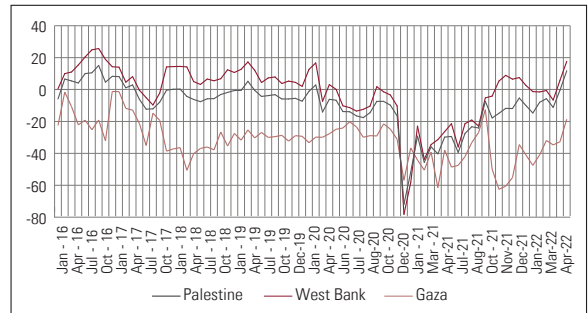


Unemployment rate (Q1 2022): 25.4%  
Source: PCBS

Youth Unemployment rate (Q1 2022): 38.3%

## Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2016 – April 2022

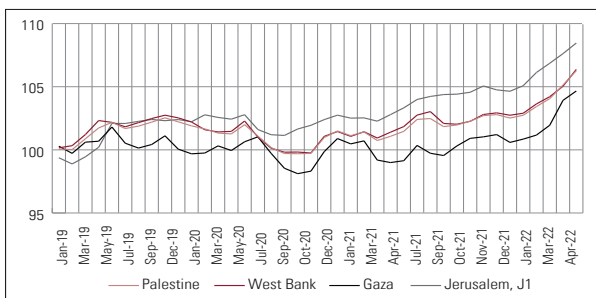


Palestine (April 2022): 11.8  
Gaza (April 2022): -18.6

West Bank (April 2022): 17.7  
Source: PMA

## Inflation

Consumer Price Index (Base year = 2018), January 2019 – April 2022

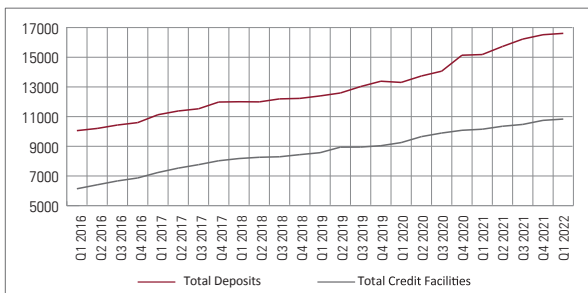


Palestine (April 2022): 106.27  
Gaza (April 2022): 104.66

West Bank (April 2022): 106.37  
Source: PCBS

## Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q1 2022



Total Credit (Q1 2022): \$10,835.09m  
Source: PMA

Total Deposits (Q1 2022): \$16,610.30m

## 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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