

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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Fintech Palestine Summit took place between 23 and 24 August in Ramallah and through video conference in Gaza, with the aim of highlighting the latest trends in financial technology

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IMF Staff Visit

On 29 August, an International Monetary Fund (IMF) staff team concluded a two week visit to the West Bank and Gaza to assess recent economic developments.¹ This is the second staff mission this year, following four years of paused IMF engagement with Palestinian public finance reform.²

Slowing Growth

The IMF projects real GDP growth to decline to 4% in 2022 from 7.1% in 2021, driven by lower consumption and investment due to lower real incomes as prices rise, continued fiscal weaknesses, and increased uncertainty related to Russia's invasion of Ukraine. If that growth is achieved in 2022, it would return the economy by 2023 to pre-2020 output and income levels.

As has been noted in a variety of reports over the year, in 2021 the Palestinian economy experienced a rebound from the COVID-19 pandemic, real GDP grew by 7.1% after a 11.3% decline in 2020, however unemployment levels remain very high. Inflation is eroding purchasing power driven by higher food, fuel, and construction material prices. In Q2 2022, consumer prices increased by 1.9% after a 1.5% increase in Q1 2022.³ In the same period the unemployment rate for the West Bank and Gaza Strip combined increased from 25.9% to 26.4%. In the Gaza Strip, the unemployment rate remains abnormally high, reflecting 15-years of blockade and repeated wars, and is closely associated with a high prevalence of poverty. Growth in Gaza was only 3.4% in 2021, as reconstruction efforts have advanced slowly following the May 2021 military escalation. The escalations in Gaza in the first week of August add to a chronically uncertain and volatile environment and limit the prospects for recovery.⁴

Fiscal Situation

According to the IMF, the PNA fiscal deficit declined to 5.2% of GDP in 2021 and 0.4% of GDP in the first half of 2022, compared to 23.9% in 2007. The IMF expects the deficit to rise in the second half of 2022 to reach 3.5% of GDP at year-end.

The PNA faced a budget deficit of \$220.5m in the first half of 2022, with a financing gap of \$94 million (i.e., the deficit minus international budgetary and development aid).⁵ This represents a 53.2% decrease in the budget deficit and 76.3% drop in the financing gap compared to the first half of 2021. These improvements were the result of a larger increase in public revenues (35.4%) compared to public spending (18.2%), and a 168.3% increase in budget support (to \$79.8m). However, the restrained recurrent spending also exerts undesirable pressure on much-needed social transfers and development spending.

Structural challenges

While the PNA was able to contain the deficit during one of the deepest fiscal crises in its history, the IMF believes such fiscal improvements cannot be sustained as long as the root causes contributing to the deficit continue to prevail.⁶

The PNA currently struggles with a large public sector wage bill, especially in security, health, and education, as it employs an estimated 150,000 civil servants in the West Bank and Gaza. In 2021 the wage bill was estimated at \$2.4 billion, or 45.8% of public expenditures and 14.9% of GDP.

In addition, international aid to the PNA was halved in 2021 after years of gradual decline in support from the PA's four budgetary backers: the European Union, the

1 <https://bit.ly/3QJ73dT>

2 www.imf.org/en/Countries/ResRep/WBG

3 www.pcbs.gov.ps/site/lang_en/695/default.aspx

4 www.aljazeera.com/news/2022/8/5/israel-hits-gaza-with-air-strikes-as-tensions-escalate

5 www.pmf.ps/internal.php?var=11&tab=01

6 <https://bit.ly/3qEfRai> and refer to B187 for more details

World Bank, Saudi Arabia, and the United States, for a variety of political reasons and funding shortfall.

Meanwhile, the many shortcomings of the Paris Protocol on Economic Relations have long caused a lack of Palestinian sovereignty and allowed fiscal leakage to the treasury of Israel, which has entailed the loss of control of tax collection, minimisation of the tax base and weakening of access to information and tax records.⁷ As a result, the PNA suffers from fiscal leakage to Israel estimated by the United Nations in 2015 at around \$473.6m, 3.74% of GDP and 17.84% of total tax revenues.⁸ In 2021, the PNA's domestic revenue collection accounted for only around 36.3% of its overall revenues. The World Bank also estimates that only 30% of those that need to pay taxes do, mainly because the PNA cannot generate fiscal revenues in West Bank areas under Israeli civil and security control, known as Area C. The PNA also collects virtually no revenue in the Gaza Strip and East Jerusalem despite spending 30% of its budget there.⁹ In addition, the PNA remains dependent on import taxes that Israel collects on its behalf, from which it makes unilateral deductions for various reasons,¹⁰ including covering debts of Palestinian local government and utilities companies to Israeli utility companies ("net lending" - accounting for around 20% of the revenues on a monthly basis).¹¹

To make up for this chronic revenue gap, the PNA has accumulated arrears with its pension fund, public employees, and the private banking sector. Since December 2021, the PNA has only paid 70-80% of salaries due to its financial crisis and continued Israeli deductions from its revenues. At the same time, the pension fund's arrears reached an unprecedented \$3bn in the fourth quarter of 2021, while arrears to the private sector amounted to \$975m. By the end of 2021, the PNA's total debt to domestic banks (i.e., arrears plus newer obligations) reached \$2.5bn. In total, the PNA and its employees now account for around 40% of the banking sector's credits, leading the IMF to note the issue of banking sector "exposure" to eventual public debt risks, if not addressed.¹² By this account, government debt (including arrears to suppliers and the Palestinian Pension Agency) increased from 34.5% of GDP in 2019 to 48.4% of GDP at end 2021.

Public Finance Reform Goals

On 3 August, the Minister of Finance, Shukri Bishara, noted that the PNA financial reform plan aims to reduce the wage, pension and social assistance bills from 88.3% of revenues in 2021,¹³ to 70% of revenues by the end of 2022 through a voluntary retirement scheme, and to 50% of revenues over the coming years through a mandatory retirement scheme.¹⁴ The plan also aims to restructure government employment, promotions and bonuses; strengthen cost recovery for health services and limit net lending.¹⁵

Although welcomed by the IMF, it expects the Ministry of Finance's reforms to be of partial efficacy without resolving other outstanding structural fiscal challenges and easing Israeli restrictions on investment and on movement of goods and people.

Cross-border Travel Developments

On 9 August, the Israel Airports Authority (IAA) announced that selected flights will be launched for Palestinians living in the West Bank through Ramon Airport.¹⁶ The first flight of its kind took off on 22 August towards Cyprus, carrying 43 Palestinians. Israel later announced that the plan to allow flights for Palestinians from Ramon Airport was postponed to an unknown date, most recently advertised for the end of September.¹⁷

Ramon Airport, which opened in 2019, is about 300 kilometres (185 miles) from Jerusalem in the southern Negev desert and cost an estimated \$600 million to construct.¹⁸ It was designed to take any planes rerouted from Ben Gurion Airport, near Tel Aviv. The airport remained empty throughout the COVID pandemic, and even now is struggling to regain its footing in relation to international flights.¹⁹

Ramon Airport is located nearly a three-hour drive away from the West Bank at its closest point - and likely much longer with severe Israeli restrictions on travel in place. However, this option would constitute a major development for Palestinians living in the West Bank; this is due to the high cost of existing travel options, and the growing discontent over their treatment at the Jordanian and Egyptian borders when travelling overseas.²⁰

Current and previous travel arrangements

Currently, most Palestinians living in the West Bank must cross via the Allenby Bridge (King Hussein Bridge - KHB) to Jordan and then travel to Amman airport (Queen Alia International Airport). It can be a long trip that entails crossing through three checkpoints on foot, riding two buses, dealing with long chaotic queues, and paying multiple fees. Palestinians pay an exit tax of ILS 158 (\$46.5) to the Israeli authorities when they leave via KHB, in addition to an entrance fee of JOD 10 (\$14) and a fee of JOD 1 (\$1.4) for each piece of luggage paid to the Jordanian Authorities.²¹ They also pay ILS 40 (\$10) for bus transportation to cross the bridge.

In addition, KHB has limited working hours and pre-set daily capacity that force some to travel a day before their flight and spend a night in Jordan. The restrictions and travel procedures are far more complicated for Gazans travelling through Rafah Crossing.²² Only a few Palestinians can obtain the special permits required to travel via Israel's Ben Gurion airport near Tel Aviv, mostly PNA officials and senior business people.

Palestinians previously used two airports to travel internationally, Jerusalem International Airport (Qalandia Airport), located between Jerusalem and Ramallah and closed by Israel in 2001, and Gaza Airport (Yasser Arafat international airport), which opened in 1998 and was destroyed by Israel in 2001.²³

Significant revenues to the PNA and Jordan

Travel through Jordan constitutes a significant economic opportunity, with growth potential, for both the PNA and Jordan. The Paris Protocol states that Israel should collect

7 https://unctad.org/en/PublicationsLibrary/gdsapp2019d2_en.pdf

8 Ibid

9 <https://bit.ly/3DuKKFX>

10 <https://bit.ly/3DnT4Hi>

11 Ibid

12 Prompting the Governor of the PMA to issue a statement emphasising the integrity and solid foundations of the banking sector - <https://bit.ly/3C0dnJN>

13 www.pmf.ps/documents/accounts/annual/2021/GFS.2021.ar.pdf

14 <https://wafa.ps/Pages/Details/52503>

15 Refer to B183 for more details

16 <https://en.globes.co.il/en/article-eilats-ramon-airport-to-launch-flights-for-palestinians-1001420961>

17 <https://bit.ly/3xkhGNi> and <https://bit.ly/3qAAUuv>

18 <https://english.alaraby.co.uk/analysis/why-israel-opening-ramon-airport-palestinians>

19 <https://bit.ly/3Q00BID>

20 <https://english.alaraby.co.uk/analysis/why-israel-opening-ramon-airport-palestinians>

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

22 <https://gisha.org/en/movement-of-people-via-rafah-crossing/> and <https://bit.ly/3QWYTOV>

23 www.aljazeera.com/news/2022/8/22/palestinians-fly-to-cyprus-in-israeli-airport-pilot-program

an exit fee of \$26 from each passenger at KHB crossing and transfer a share to the PNA, 46.2% for the first 750 thousand passengers and 61.5% beyond that.²⁴ However, Israel has unilaterally raised the exit fees without consultation with the PNA more than once and Gol retains the PNA's share resulting from this increase.²⁵ From 2008 to end-2017, Israel transferred only \$68m, while Palestinian exit fees due up to April 2017 are estimated at around \$145m.²⁶

According to Jordan's Ministry of Tourism and Antiquities, 254,757 Palestinian overnight and same day visitors who hold a Palestinian passport entered Jordan in 2021 (17% of the total foreigners that entered Jordan).²⁷ The Ministry data also indicates that 303,653 visitors entered Jordan through KHB in 2021.²⁸ Palestinian official figures show an even greater flow of travellers, with 152,203 people leaving and 120,790 entering Palestine through KHB in August 2022 alone.²⁹ This huge flow of travellers, and resultant spending, is a significant source of revenue for Jordan and the Jordanian government.

Palestinian and Jordanian rejection

The proposal to allow Palestinian travellers to pass through Ramon Airport was first raised during a meeting between Israeli Defense Minister Benny Gantz and Palestinian President Mahmoud Abbas in July 2022. Palestinian officials had spoken out against the plan, saying that it had not been coordinated with the PNA and undermines the Palestinians' right to a sovereign airport.³⁰ Some have also urged Palestinians not to travel through Ramon Airport.³¹

The announcement has also triggered Jordanian objection, concerned that the move would cause damage to the Kingdom's economy and voicing safety concerns about interference with air traffic to the Aqaba international airport.³² In 2019, Jordan submitted a formal objection to the International Civil Aviation Organisation (ICAO) against opening Ramon Airport, indicating that it violates international standards regarding respect for the sovereignty of airspace and territory of other countries.³³

In recognising the need for urgent modernisation of this Palestinian-Jordanian border crossing, on 31 August the Jordanian Minister of Tourism and Antiquities announced that his government is accelerating the launch of a JD 150m (\$212m) tender to upgrade and facilitate two-way travel procedures through King Hussein Bridge (KHB).³⁴

Additional restrictions on foreigners entering the West Bank

On 4 September, the Israeli government announced new rules for foreigners entering the West Bank. In their version as first published, the regulations laid out in a lengthy document include a demand on foreigners to inform the Israeli authorities within 30 days of starting a relationship with a Palestinian ID holder.³⁵ If they marry, they will be required to leave after 27 months for a cooling-off period of at least half a year.

The document also laid out new restrictions on Palestinian universities, a quota for 150 student visas and 100 foreign lecturers, while there are no such limits in Israeli ones.

24 https://unctad.org/en/PublicationsLibrary/gdsapp2019d2_en.pdf

25 <https://bit.ly/3LqZes7>

26 https://unctad.org/en/PublicationsLibrary/gdsapp2019d2_en.pdf

27 www.mota.gov.jo/ebv4.0/root_storage/ar/eb_list_page/w_arrivals_by_month-2021-0.xls

28 This includes the number of local and international travellers

29 www.palpolice.ps/content/451143.html

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

31 <https://reut.rs/3S6FMmv>

32 <https://bit.ly/3UmDRMD>

33 <https://bit.ly/2FJFz70>

34 <https://jordantimes.com/news/local/govt-launch-jd150m-tender-develop-king-hussein-bridge>

35 www.bbc.com/news/world-middle-east-62730164 and <https://bit.ly/3Bsf0mL>

The Israeli authorities can also require a guarantee of up to ILS 70,000 (\$20,500) from foreigners entering the West Bank.³⁶ The rules also set strict limitations on the duration of visas and visa extensions, in many cases preventing people from working or volunteering in the West Bank for longer than a few months.

After being challenged in the courts and facing widespread international public condemnation and media attention, Israeli authorities later amended some of the more extreme regulations and delayed implementation until October.³⁷ If and when implemented, the regulations would affect foreigners wishing to visit, do business, reunite and reside with their Palestinian families, work or volunteer in the West Bank, and study or teach at Palestinian academic institutions.

Fintech Palestine Summit

Fintech Palestine Summit took place between 23 and 24 August in Ramallah (and via video conference in Gaza), with the aim of highlighting the latest trends in fintech and the role of innovation in enhancing the reputation and profitability of financial institutions and start-ups.³⁸ More than 300 local and international experts, regulators, startups, technologists, and representatives from the financial sector participated in the event.

During the event, keynote speakers explored opportunities for the development of fintech solutions and approaches to tackling challenges that face its growth in Palestine.³⁹ The event included panel discussions, networking sessions and demos dedicated to topics including digital banking, payment innovations, buy-now-pay later (BNPL), blockchain and artificial intelligence.

Firas Milhem, the governor of the Palestine Monetary Authority (PMA), noted that the PMA has been encouraging the use of financial services, especially digital payments and money transfers. The PMA has licensed five electronic payment companies and facilitated the entry of Apple Pay to the Palestinian market. It is also currently working on a central system for electronic bill payment that will connect all payment service providers (banks and payment companies) with private sector billers and government service providers. Work is also underway to operate an instant payment system that will link digital payment companies with banks to facilitate the transfer of funds between bank accounts and electronic wallets.⁴⁰

August Trading

The Al-Quds index reached 632.7 points on the last day of trading in August 2022, a decrease of 0.3% from the previous month.⁴¹ During the month, a total of 33.5m shares with a total value of \$67.6m were traded, marking a 113.5% increase in the number and 97.4% increase in the value of traded shares compared to July 2022.

The net profits of companies listed on the Palestine Exchange (PEX) reached \$200m in the first half of 2022, a 10.5% increase from the corresponding period in 2021.⁴² Out of 49 listed companies, 41 made \$205m in profit, an increase of 9.3%. Five companies made a total loss of \$5m, a decline of 24%. Two companies failed to disclose within the set deadline.

36 <https://bit.ly/3dnIm92>

37 <https://bit.ly/3f3042o> and <https://bit.ly/3Lq0muy>

38 <https://fintechpalestinesummit.com/>

39 www.raya.ps/news/1136558.html

40 <https://bit.ly/3eMAH4A>

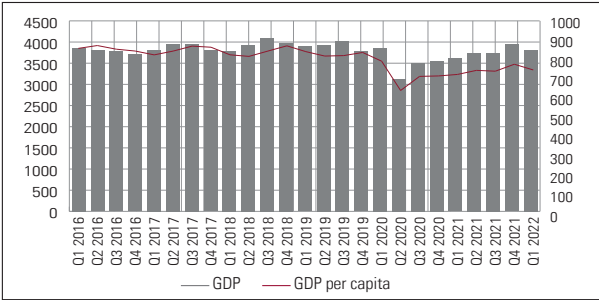
41 <https://bit.ly/3dijKzb>

42 <https://bit.ly/3UdKktv>

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q1 2022

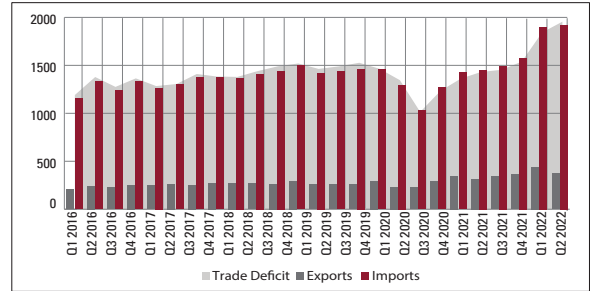


GDP (Q1 2022): \$3,817m
Source: PCBS

GDP per capita (Q1 2022): \$761.8

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q2 2022

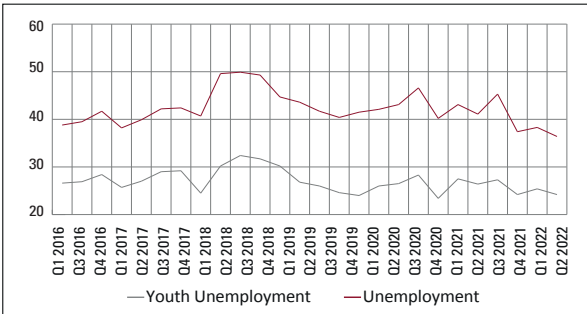


Imports (Q2 2022): \$1,991.3m
Trade deficit (Q2 2022): \$1,630.9m

Exports (Q2 2022): \$360.4m
Source: PCBS

Unemployment

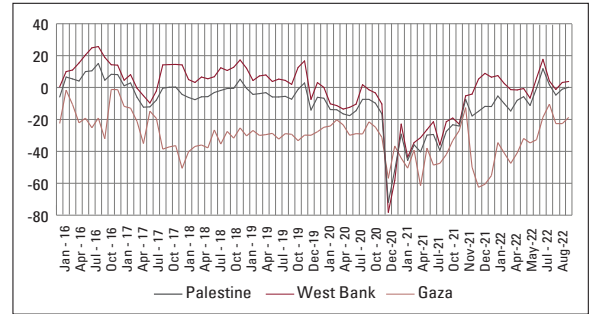
Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q2 2022



Unemployment rate (Q2 2022): 36.40% Youth Unemployment rate (Q2 2022): 24.20%
Source: PCBS

Business Cycle Index

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

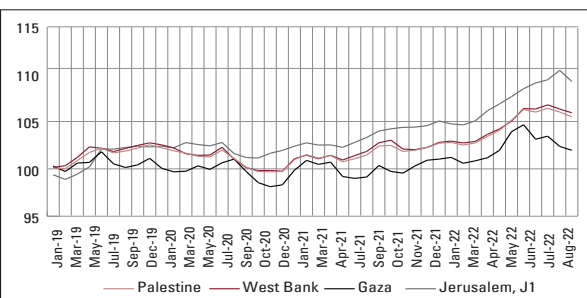


Palestine (August 2022): 0.2
Gaza (August 2022): -18.7

West Bank (August 2022): 3.8
Source: PMA

Inflation

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

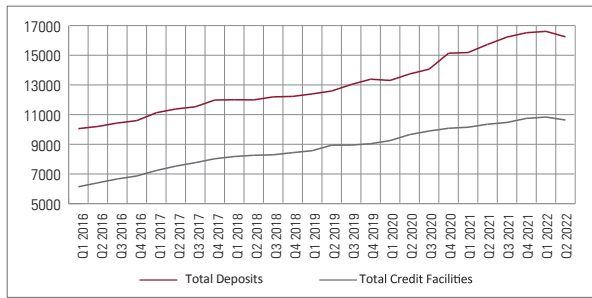


Palestine (August 2022): 105.49
Gaza (August 2022): 101.96

West Bank (August 2022): 105.92
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q2 2022



Total Credit (Q2 2022): \$10,635.18m
Source: PMA

Total Deposits (Q2 2022): \$16,242.19m

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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