

### Bulletin 193 October 2022

#### Main reports

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#### AHLC Meeting

On 22 September, the twice-yearly Ad Hoc Liaison Committee (AHLC) met in New York to track progress made since May and support individual, multilateral, and international efforts to improve economic and institutional conditions in Palestine.<sup>1</sup>

The Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO), the World Bank, the Office of the Quartet (OQ), and the International Monetary Fund (IMF) issued reports in preparation for the meeting. Produced annually for over 25 years, these provide a systematic analysis of the Palestinian economy and commentary on the performance of the Palestinian National Authority (PNA). Together, they have served as a roadmap for donor funding of Palestinian reforms and institution-building.

On this occasion, international monitoring shows a recovering Palestinian economy, with an expected GDP growth of 3.5% by the end of 2022.<sup>2</sup> Some positive developments are highlighted, including the PNA’s success in expanding its tax base and reducing the public deficit, improvements in the conditions for trade with the Gaza Strip and through Allenby Bridge, the establishment of an electronic payment system for Palestinian workers in Israel, and an increase in the numbers of Gazans permitted to work in Israel.

#### Public finances

The PNA’s fiscal deficit declined by 70% in the first half of 2022 compared to the same period in 2021, following a 26% increase in domestic tax collection and a 13% increase in clearance revenues.<sup>3</sup> The PNA maintained the same spending level despite increases in the wage bill, medical spending, and unplanned subsidies to Local Government Units (LGUs), by severely reducing spending on the National Cash Transfer Programme<sup>4</sup>, at a large cost to the social safety net.<sup>5</sup>

Despite these developments, the World Bank expects the PNA to face a financing gap of \$637m (3.3% of GDP) in 2022, after accounting for donor financing and unilateral deductions by Israel from clearance revenues (totalling an estimated \$569 million annually)<sup>6</sup>. As a result, the PNA is forecast to continue accumulating arrears to service providers and to continue with partial payment of public sector salaries. The World Bank’s report estimates current arrears to the private sector to be \$950 million and those to the pension fund at around \$2 billion, drawing liquidity from the market and so reducing the banking sector’s capacity to provide credit to the private sector and households. Nearly 40% of all banking sector credit facilities, or roughly \$4 billion, are owed by the PNA or public sector employees.

Reports state once again that significant PNA reforms regarding revenue collection and expenditures are needed to achieve a stronger public finance position.<sup>7</sup> Government debt (including arrears) is projected to reach 58% of GDP by 2027 under current public finance policies.<sup>8</sup> The World Bank report notes that spending reforms should target the wage bill, public pension system, and non-

<sup>1</sup> [www.un.org/unispal/wp-content/uploads/2022/10/AHLCSEPT22CHAIRSUMM\\_220922.pdf](http://www.un.org/unispal/wp-content/uploads/2022/10/AHLCSEPT22CHAIRSUMM_220922.pdf)

<sup>2</sup> <https://bit.ly/3epVzPg>

<sup>3</sup> Ibid

<sup>4</sup> The Ministry of Social Development is responsible for the provision of basic social protection to the most vulnerable families in the West Bank and Gaza through its National Cash Transfer Programme, which currently benefits 111,000 vulnerable Palestinian families

<sup>5</sup> <https://bit.ly/3yC1d7K>

<sup>6</sup> Including \$387m in net lending and \$183m in deductions by Israel for some of the payments made by the PNA to Palestinian prisoners in Israeli prisons, ex-prisoners, and families of those killed by Israel

<sup>7</sup> [www.bnews.ps/index.php/ar/node/19851](http://www.bnews.ps/index.php/ar/node/19851)

<sup>8</sup> <https://bit.ly/3g1CumX>

targeted transfers. Better management of health referrals and unplanned subsidies to LGUs are also key priorities. More can be done on the revenue side as the PNA collects insufficient revenue from Gaza. The tax base does not adequately cover high earning professionals, and penalties for non-payers are weak.

The report also notes that public sector salaries are misaligned with private sector benchmarks, with negative externalities to the local labour market. The PNA is currently considering a voluntary retirement scheme to stabilise its wage bill spending especially over the long term, although this runs the risk of losing skilled employees and negatively affecting government performance. The World Bank recommends alternative reforms addressing both employment and wage growth for better fiscal savings, with short-term controls to rein in spending and further structural reforms to improve wage bill management. The IMF report also suggests a list of short and medium-term reforms focusing on increasing transparency, reducing inefficiencies through integrating current services, and improving administrative capacities.<sup>9</sup>

During the meeting, the PNA committed to implementing a number of major fiscal reforms:<sup>10</sup>

1. Reduce the wage bill: a plan to retire around 30,000 out of 140,000 public employees by the end of 2023, in addition to an almost complete cessation of new public sector employment, rationing service contracts and reforming bonuses and promotions
2. Reform the healthcare system: commitment to reducing spending on outside medical referrals, improving public health services and building a more equitable health insurance system. Medical referrals amounted to around 30% of the PNA's total operating expenses in 2021
3. Control net lending: intensifying efforts to reduce net lending, namely the sum deducted by the Government of Israel (GoI) on clearance revenues in repayment of debts due to Israeli companies for electricity, water, and wastewater services provided to Palestinian municipalities and distribution companies. Net lending amounted to \$373m in the first half of 2022
4. Combat tax evasion: broadening the tax base through limiting customs and tax evasion and underreporting, especially among professionals<sup>11</sup>

### **Movement and Trade**

Trade across the border through Jordan saw a 28% increase in truckloads processed in the first half of 2022, as Palestinian imports were diverted from Haifa and Ashdod ports to the Jordanian port at Aqaba due to rising shipping costs in Israel.

The OQ report stresses the urgency of accommodating the growing volume of crossings through the Door-to-Door (D2D) scheme<sup>12</sup>, decreasing shipping costs and

increasing the competitiveness of Palestinian goods. According to the report, 55,000 truckloads of Palestinian products had been processed for entry into Israel as of June 2022. This resulted in a total cost savings of more than \$7.6 million since 2018, with 21 companies served.

Although it is too early to confirm whether the programme has been successful at achieving its goals, with growing complaints from Palestinian factories,<sup>13</sup> OQ has continued to expand the programme to small and medium enterprises (SMEs) through a Secured Joint Staging Facility. By the end of 2023, the facility is anticipated to be fully operational and serve as a model for replication in other regions.<sup>14</sup>

The report recommends that Israel facilitate further trade between Gaza and the West Bank, following recent developments that allow the movement of certified and pre-inspected goods, under the international ISO and PSI regimes, from Gaza to the West Bank. The IMF report emphasises that restrictions on the movement of goods and services, as well as access to land and water in Area C, are key structural causes of the persistent current account deficit.<sup>15</sup> This is reiterated in the UNSCO report, which calls for easing restrictions and increasing accessibility to Palestinian productive resources.<sup>16</sup>

### **Reform in the VAT system**

After a year of discussions, the Ministry of Finance and the private sector have agreed on a final draft for the new value-added tax (VAT) law.<sup>17</sup> The proposed law is the first of its kind in Palestine; currently, there is no dedicated law that governs the administration VAT. The signing of the Paris Protocol as Part of the Oslo Accords in 1994 established a customs union between the PNA and Israel, with VAT fixed at no less than 2% less than that applied in Israel.<sup>18</sup> The new law proposes changing the value-added tax from the current fixed rate of 16% to a varying rate of up to 16%, allowing for the taxation of products of national industry at lower rates to improve their competitiveness.<sup>19</sup>

The OQ report highlighted progress in the pilot e-VAT system which was introduced in March, but stressed the need for wider adoption, tracking traders and transactions to reduce VAT leakages.<sup>3</sup> While participation in the system is required for Palestinian traders, it is currently voluntary for Israeli traders, which has led to minimal adoption. By July 2022, about 26,000 Palestinian merchants engaged in bilateral trade with Israeli businesses were registered, compared to just 400 participating Israeli merchants. Altogether, they have filed invoices electronically through the new system with a total value of over ILS 2 billion. Media and awareness campaigns were also launched to explain the new system to accounting firms and micro, small and medium-sized enterprises (MSMEs) in the West Bank and Gaza. According to the Israel Tax Authority, the programme will be used for all transactions between Israeli and Palestinian merchants if it is determined to be successful at the culmination of the pilot stage.<sup>20</sup>

13 <https://bit.ly/3Dt2twT>

14 <https://bit.ly/3Mu1As9>

15 <https://bit.ly/3EVne5s>

16 [https://unsc.unmissions.org/sites/default/files/unsc\\_report\\_to\\_the\\_ahlc\\_-\\_22\\_september\\_2022.pdf](https://unsc.unmissions.org/sites/default/files/unsc_report_to_the_ahlc_-_22_september_2022.pdf)

17 [www.bnews.ps/index.php/ar/node/19840](https://www.bnews.ps/index.php/ar/node/19840)

18 <https://bit.ly/3za8Qts>

19 [www.raya.ps/news/1137844.html](https://www.raya.ps/news/1137844.html)

20 <https://bit.ly/3TcXtlw>

9 Ibid

10 [www.bnews.ps/index.php/ar/node/19869](https://www.bnews.ps/index.php/ar/node/19869)

11 <https://bit.ly/3MtKCIX>

12 The scheme enables Palestinian factories to transport shipments from their production sites to recipients in Israel without undergoing the costly and cumbersome back-to-back transfer of shipments at Tarqumiya crossing (south of the West Bank).

## Inflation

With food and fuel prices on the increase, the World Bank report predicts that inflation will increase by 4.9% in 2022 - the highest level in over a decade.<sup>21</sup> It also notes that the poorest 40% of households could experience inflation of 7.34% by 2023, assuming prices continue to rise at the same rates as they did in the first half of 2022.

Palestine is particularly vulnerable to food and fuel price hikes from external shocks due to its dependency on imports.<sup>22</sup> It has the second highest food import share in the region, behind only Yemen, with food imports comprising about 34% of total imports. It also has very high import dependency ratios for wheat (91%) and vegetable oil (95%).

## Infrastructure needs

The OQ report estimates a \$600m gap in the financing of water and wastewater projects. An estimated \$72m is needed to ensure the construction of wastewater treatment facilities and duplicate plants elsewhere within the West Bank and Gaza. A further \$7.75 million is required to operate and maintain current facilities through to the year 2031.<sup>23</sup>

## Financial Sector Developments

The Palestinian Monetary Authority (PMA) and banks operating in Palestine have been intensifying efforts to expand adoption of digital payments and reduce reliance on cash transactions.<sup>24</sup> On 15 September, the PMA, alongside the Ministry of Fuel and the Gas Stations Owners Association, launched a campaign to encourage customers to pay with bank cards at gas stations.<sup>25</sup> On 14 September, Firas Melhem, PMA Governor, signed a contract with MadfootCom to supply, install and support the national billing display and payment system which the PMA aims to launch in Palestine.<sup>26</sup> The aim is to introduce more accessible and widespread electronic bill payment methods, and to stimulate the adoption of electronic payment services, as well as boost the market for local fintech. The system will also support the Palestinian government's efforts to launch a public electronic payment gateway.

The PMA aims to reduce the cost and increase the usage of Point-of-Sale (POS) systems as part of its wider strategy to enhance financial inclusion in Palestine. Earlier this year, the PMA launched a POS transactions service, through the 194 National Key System, which connects all points of sale in Palestine so that the transactions executed through it are internally cleared.<sup>27</sup> It also reduced the POS commission paid by merchants and service providers from 3% to 0.5%. Card users do not now pay commissions or fees on their transactions and the PMA does not charge the banks any fees for the passage of transactions through its system.

The total number of POS devices in Palestine has increased by 41.4% since the inception of the National

Financial Inclusion Strategy in 2016, reaching 8,837 by the end of 2021. Around 929,000 transactions were conducted on POS devices in 2021, worth \$73.5m. This marks a 159.3% and 70.5% increase in the total number and value respectively, of these transactions since 2016. Furthermore, the number of bank cards increased by 71.6% over the same period, with 1.4m active bank cards at the end of 2021, of which 1.16m were debit cards, 166,600 cash (ATM) cards and 94,400 credit cards.<sup>28</sup> As of Q2 2022, there were 326,700 e-wallets in Palestine, with a total balance of \$3.7m. In addition, there were around half a million active users of mobile banking services.

## Digital Economy in Palestine

On 20 September, the Ministry of Telecommunication and Information Technology (MoIT) launched the World Bank-funded "Digital West Bank and Gaza Project", which aims to expand access to digital connectivity by supporting the introduction of several citizen-centric e-government services and the development of fibre optic infrastructure.

To strengthen the e-government offering, the project aims to strengthen the legal and regulatory environment necessary to deliver government-to-citizen and government-to-business e-services.<sup>29</sup> At present, laws on access to information, protection of personal data, cybersecurity, and digital signatures are lacking. The project will also finance the first phase of developing an e-government procurement system for high-spending government agencies.<sup>30</sup> Thus far, the government has developed 17 e-government services, and aims to digitise the remaining 1,400.

One of the project's first initiatives was providing technical assistance to help the MoIT identify optimal models for purchasing internet bandwidth and broadband services. It will finance the purchase of bandwidth to selected post offices that could serve as digital access points. The Ministry will then finance half of the total cost required, and the project will explore additional options for financial sustainability through a feasibility study.

This is one of several projects implemented by the World Bank to boost digital transformation in the West Bank and Gaza. Others include the Technology for Youth and Jobs Project (TechStart) and the Innovative Private Sector Development (IPSD) project.<sup>31</sup>

## September Trading

The Al-Quds index reached 628.5 points on the last day of trading in September 2022, a decrease of 0.7% from the previous month. A total of 17.5m shares with a total value of \$32.5m were traded, marking a 47.8% decrease in the number and 48% decrease in the value of traded shares compared to August 2022.

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

22 Ibid

23 <https://bit.ly/3T5kSp6>

24 [www.bnews.ps/ar/node/12121](http://www.bnews.ps/ar/node/12121) and [www.alhadath.ps/article/154861/](http://www.alhadath.ps/article/154861/)

25 [www.bnews.ps/index.php/ar/node/19841](http://www.bnews.ps/index.php/ar/node/19841)

26 <https://bit.ly/3T9TZzY>

27 <https://bit.ly/3g1Cluj>

28 Palestine Monetary Authority.

29 <https://bit.ly/3g1CKSX>

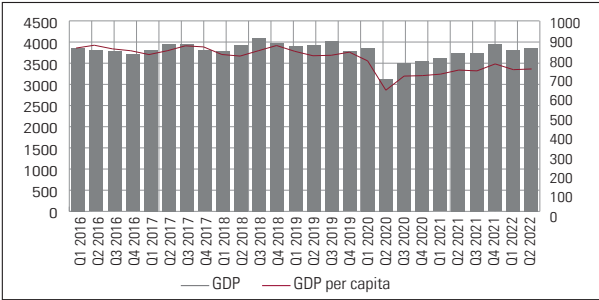
30 [www.bnews.ps/index.php/ar/node/19859](http://www.bnews.ps/index.php/ar/node/19859)

31 <https://bit.ly/3s3UgZo> and <https://bit.ly/3VAA71a>

# Palestine Economic Dashboard

## Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q2 2022

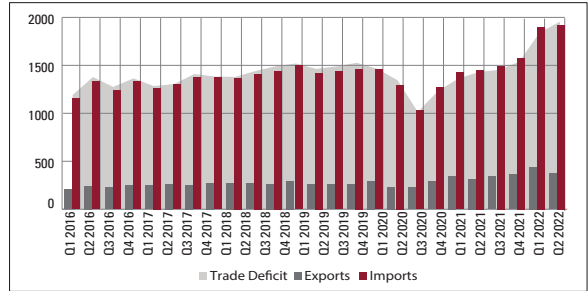


GDP (Q2 2022): \$3858.6m  
Source: PCBS

GDP per capita (Q2 2022): \$765.4

## Trade

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

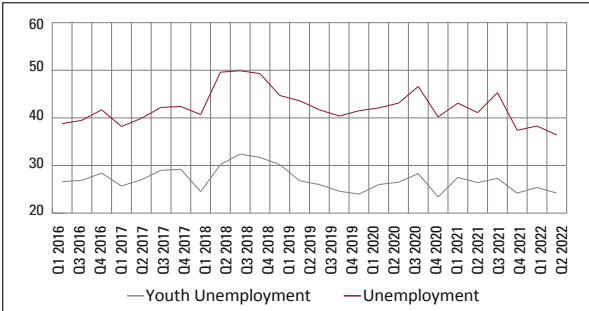


Imports (Q2 2022): \$1,991.3m  
Trade deficit (Q2 2022): \$1,630.9m

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

## Unemployment

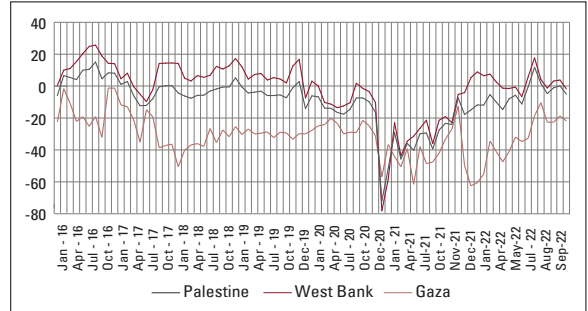
Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q2 2022



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 – September 2022

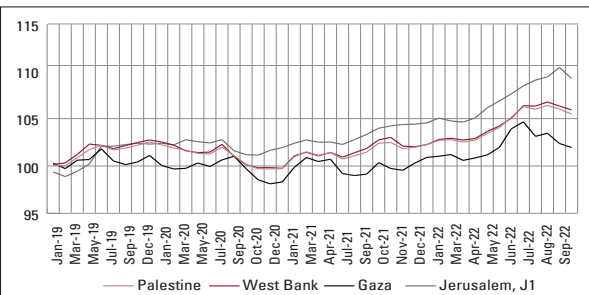


Palestine (September 2022): -5  
Gaza (September 2022): -21.8

West Bank (September 2022): -1.7  
Source: PMA

## Inflation

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

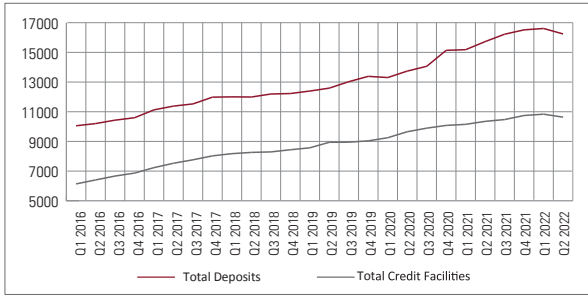


Palestine (September 2022): 106.86  
Gaza (September 2022): 104.12

West Bank (September 2022): 107.18  
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](mailto:feedback@portlandtrust.org)

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