

PALESTINIAN ECONOMIC BULLETIN

Bulletin 196
January 2023

Main reports

On 15 December, the World Bank released its latest report reviewing the Palestinian National Authority's wage bill, and provided policy recommendations

On 12 December 2022, a new EU-Palestine Business Forum was convened on the margins of the fourth official meeting of the EU-Palestine Investment Platform

Palestine's 18th "Expotech Technology Week" took place simultaneously in Ramallah and Gaza between 12 and 16 December 2022

The Al-Quds index increased by 1.3% in December 2022, reaching 639.7 points on the last day of trading

Economic Outcomes in 2022 and Forecasts for 2023

Palestine witnessed limited economic recovery in 2022, while facing record inflation of 3.8%, the highest in ten years. According to provisional estimates by the Palestinian Central Bureau of Statistics (PCBS), real GDP (at 2015 prices) increased by 3.7% in 2022, compared to 7% in 2021.¹ GDP growth in 2022 was driven by a 7% increase in consumption and a 15.3% increase in investment, which were offset by a 21.7% increase in the trade deficit. The growth of the past two years is relative, with the economy yet to return to pre-2020 levels.

In terms of sectoral performance in 2022, the value added to GDP from industrial activity grew by 6.3%, services by 2.9% and construction by 2.3%, while agricultural output declined by 2.6%. Along with an increase in labour force participation, unemployment decreased from 27.6% in 2021 to 25.7% in 2022, primarily driven by falls in West Bank unemployment, including higher rates of employment within Israel and Israeli settlements.

However, the macro-economic environment continues to be restrained by fiscal weaknesses that cripple the ability for public expenditure to stimulate aggregate demand. These fiscal weaknesses stem from the decline in foreign aid and ongoing Israeli deductions from clearance revenues amidst continuing restrictions on movement and access.

Economic forecast for 2023

Economic growth is expected to slow down further in 2023, to 2.1%, as sources of growth remain very limited.² If achieved, this would amount to a three-year recovery from the 2020 pandemic shock for the fragile Palestinian economy. Growth is expected to slow down as public consumption declines, purchasing power further deteriorates and political and security tension continues to build up. On 28 December 2022, PCBS and the Palestine Monetary Authority (PMA) published their Economic Forecasts for 2023, built around three scenarios:³

1. Baseline: economic and political conditions do not change, including deductions from clearance revenues and other restrictions.
2. Optimistic: advances in Palestinian political reconciliation efforts, transfer of withheld clearance revenues by Israel, easing of movement and access restrictions, an increase in donor support, and conducting parliamentary and presidential elections.
3. Pessimistic: deteriorating political and economic conditions, including decreases in donor support and work permits, a partial or complete freeze of clearance revenues and a worsening fiscal situation.

Table 1: PCBS and PMA Forecasts for 2023

Year	2022		2023				
	Provisional Estimates	Baseline		Optimistic		Pessimistic	
Scenario	PCBS	PCBS	PMA	PCBS	PMA	PCBS	PMA
Real Gross Domestic Product (\$ Million – 2015 prices)	15,575.9	15,905.5	15,945	16,558.4	16,623	15,258.7	15,342
Real GDP Growth (%)	3.7	2.1	2.5	6.3	6.9	-2	-1.4
GDP Per Capita (\$ - 2015 prices)	3,089.1	3,081.4	3,083	3,207.9	3,214	2,956.1	2,966
Change in Gross Consumption (%)	7	1.6	2	4.2	7.9	-1	-7
Change in Gross Investment (%)	15.3	3.3	2.8	7.6	9.2	2	-13
Unemployment Rate (%)	25.7	25.5	24.5	23.8	23.5	27.8	26.8
Change in Trade Deficit (%)	21.7	1.6	1.5	1.5	8.9	3.4	-23.3
Change in Imports (%)	16.9	1.3	1.4	1.8	9.6	1.9	-20.4
Change in Exports (%)	7.3	0.5	1.3	2.4	11.4	-1.5	-13.1

Source: PMA and PCBS⁴

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

2 Ibid

3 <https://bit.ly/3irTAfx>

4 The two sources employ different methodologies and modeling techniques.

Public Employment and Wage Bill

On 15 December, the World Bank released its latest report reviewing the public sector wage bill of the Palestinian National Authority (PNA), and provided policy recommendations.⁵ The report concluded that public wage bill spending has grown excessively over the past decade, despite the PNA's reforms.

Aggregate spending on the wage bill increased by 22% between 2011 and 2021, from ILS 6.4 billion to ILS 7.8 billion (in nominal terms). It increased by 87% in the West Bank over the same period, but declined by 27% in the Gaza Strip. Public employment in the West Bank increased by 32% over this period, to 116,458 in 2021, while in the Gaza Strip it declined by 40% to 39,156.⁶

The public sector wage bill has grown primarily as a result of an increase in salary allowances, which constituted 41% of the PNA's wage bill between 2011 and 2021. Salary allowances are any monetary benefits offered to employees above their basic salary. Increased allowances are mainly a result of bargaining by trade unions, particularly in the health and education departments. The relevant ministries, of Health and Education, account for the largest share of wage bill spending (48%), followed by the security sector (32%). Increased employment only partly contributed to public wage bill growth, since only 2,040 individuals were employed in the public sector between 2011 and 2021.

Comparing Private and Public Sector Job Growth and Wages

The public sector accounted for 20.1% of total employment in Palestine in 2021, dropping from 22.7% in 2011.⁷ The share of the private sector in total employment also decreased slightly over the same period (from 67.5% to 65.9%), while employment in Israel and Israeli settlements increased from 9.8% to 14.1%. In comparison, over the same period the public sector accounted for 25% of total employment in Jordan, 25% in the wider MENA region and 14% in other low- and middle-income countries.

In the West Bank, the public sector pays lower salaries than the private sector, except at the lowest levels of income. Between 2011 and 2021, the average daily wage in the public sector in the West Bank increased by 37.8% (from ILS 94.3 to ILS 129.9), compared to 50.1% (ILS 84.4 to ILS 122.2) in the private sector, and 63.8% (to ILS 266.2) in Israel and Israeli settlements.⁸

The World Bank report highlighted that the public sector salaries structure in the West Bank is misaligned with the labour market, creating potential negative externalities for the PNA. At the lowest income levels, the public sector is overpaying its staff and creating incentives for labour market entrants to seek public sector jobs, at the expense of the private sector. At higher income levels (beyond the 20th income percentile), the effect is the opposite, as the public sector underpays its employees relative to other sectors. This creates incentives for job seekers to prefer positions in the private sector, thereby potentially depriving the public sector of much-needed senior talent.

In Gaza, on average, the public sector pays more than the private sector across almost all levels of income, except at the most senior levels. Between 2011 and 2021, public sector daily wages in the Gaza Strip increased by 21%, to ILS 95.8; over the same period, wages decreased by 18.6% (to ILS 42.5) in the private sector.⁹

PNA Reforms

In recent years, the PNA has made several attempts to address its wage bill, including the introduction of a Voluntary Retirement Scheme (VRS) in 2017 and holding back wages for public sector employees. However, the World Bank report notes that these reforms have not been successful in stabilising or sustainably reducing wage bill spending levels.

To address the issue, the PNA recently passed cabinet decisions to formalise workforce planning procedures with the aim of redeploying and reskilling surplus staff. Additionally, the PNA has set an employment attrition target specifying that annual recruitment should not exceed 50% of departures during the same year.

According to the World Bank report, the PNA is considering introducing a new VRS scheme targeting employees who have completed 15 years of service. The report suggests that this scheme is unlikely to generate significant fiscal savings in the absence of broader wage bill reforms.¹⁰ Conversely, a VRS that further reduces the number of employees with several years of experience may result in the loss of skilled employees and negatively affect the government's performance.

The report concludes that the wage bill is likely to become more fiscally burdensome if the PNA does not address the core drivers of wage spending, namely higher compensation through allowances. The report proposes a set of reform priorities to address underlying causes of wage bill growth, including transforming workforce management and planning, restructuring compensation, and reviewing the public sector pension scheme.

Economic Cooperation

The second half of 2022 witnessed renewed efforts towards economic cooperation, with several new developments in December.

EU-Palestine Business Forum

On 12 December 2022, a new EU-Palestine Business Forum was convened on the margins of the fourth official meeting of the EU-Palestine Investment Platform,¹¹ bringing together 200-300 business leaders, bankers, investors, and representatives of various governments.¹²

This new forum aims to help expand the engagement of the private sector in the workings of the EU-Palestine Investment Platform. It offers the business community a platform to engage with policymakers on strategic investment priorities and policies and learn about prospective investment opportunities and available financing possibilities, with

⁵ <https://bit.ly/3XvhQfg>

⁶ The World Bank report does not include or analyse public employment in Gaza outside of PNA (Hammas employees).

⁷ https://pcbs.gov.ps/pcbs_2012/Publications.aspx

⁸ PCBS averages do not consider differences in characteristics (i.e., education, years of experience, occupation, and location) between public and private sector employees. When these differences are accounted for, the results show that the private sector pays more for the exact same employee profile.

⁹ Between 2006 and 2021, Gazans were unable to access the Israeli labour market.

¹⁰ The exit package being considered is equivalent to 50-70% of an employee's salary, with the assumption that the MoF would be responsible for bearing the entire cost of the scheme and the resulting pensions.

¹¹ The EU-Palestine Investment Platform was established in December 2020 by the EU and the PNA to foster policy dialogue on investment and to help better identify, prioritise, coordinate, and promote investment opportunities that the EU External Investment Plan offers through its instruments in Palestine.

¹² <https://bit.ly/3W9IZmX>

the aim of ultimately boosting private and institutional investment in Palestine.

Five financing agreements, together worth €81.65 million, were signed during the forum, covering issues related to sustainable economic development, MSME financial inclusion, microfinance provision, start-up financing, and loan guarantees. The event also highlighted seven investments financed by Team Europe¹³ - Pharmicare, Nakheel Palestine, Shilleh Supplies Company, Massader Company, Palovina, Ibtikar Fund and European-Palestinian Credit Guarantee Fund.¹⁴ Additionally, it presented several investment opportunities from the National Investment Roadmap.¹⁵

The volume of trade between the EU and Palestine was estimated at around \$807.3m (\$799.1m in imports and \$8.2m in exports) in 2021.¹⁶ Major Palestinian imports from the EU include machinery and transport equipment, agricultural products, raw materials, and pharmaceuticals.¹⁷ Palestinian exports to the EU mainly consist of agricultural products and raw materials. Recent studies have highlighted that Palestine has yet to fully realise the opportunities for greater EU market access for potential exports.¹⁸

British-Palestinian Joint Committee

On 17 December, the British-Palestinian Joint Committee met for the second time to discuss prospects for economic and trade relations between the two countries.¹⁹ The discussion, which was held in London, focused on “Tasdeer” projects supported by the British Government, which aim to facilitate Palestinian trade by easing trade-related Israeli restrictions and obstacles. The committee also discussed issues relating to standards, customs and non-tariff obstacles faced by Palestinian products entering the UK market, especially those related to the export of olive oil.

The committee discussed other areas of cooperation, such as tourism, information technology (IT), education, and agriculture. The meeting also presented the recent significant activities of the UK Palestinian Tech Hub,²⁰ including a delegation of Palestinian start-ups which recently visited the UK, and highlighted opportunities for further cooperation to support emerging exporters and start-ups.

In 2021, the total trade volume between Palestine and the UK was estimated at \$71m (\$65m in imports and \$6m in exports).²¹ Palestine’s main imports from the UK include machinery, consumer products, industrial oil, cars, and construction materials.²²

Economic Cooperation with Russia

On 24 December, the Palestinian Minister of National Economy met virtually with the Russian Minister of Labour and Social Protection and members of the Joint Palestinian-Russian Committee to discuss possible areas of economic

cooperation.²³ Participants highlighted the importance of increasing the volume of trade between the two countries, which stood at \$33.8m in 2021. This included \$0.7m in Palestinian exports and \$33.1m in imports from Russia, such as wheat, chocolate, and raw sugar.²⁴ The meeting also touched on the Palestinian need for wheat imports. The different parties expressed an interest in additional areas of cooperation, which included renewable energy, pharmaceuticals, medical education, standards and measures, customs, tourism and information technology, and vocational training.

ExpoTech 2022

Palestine’s 18th “Expotech Technology Week” took place simultaneously in Ramallah and Gaza between 12 and 16 December 2022.²⁵ The event was organised by the Palestinian Information Technology Association (PITA) in partnership with the Palestine Information and Communications Technology Incubator (PICTI). It brought together Palestinian and international experts and entrepreneurs to better position the Palestinian information and communication technology (ICT) sector across regional and international markets.

This year’s event was held under the banner of “The Interconnected Power of Technology: Palestine Meets Digital” and included a conference as well as a gala dinner. The conference, which featured over 40 speakers, had four main symposiums touching on cutting-edge topics and developments of relevance to the local ICT sector, including accelerating digital transformation in the public sector, ICT consortium strategy and next-generation technological transformation in the financial services sector.

The conference also presented a new strategy for the ICT sector in Palestine over the next three years, with recommendations for advancing the government’s e-services, accelerating the launch of electronic signatures, and approving incentives for companies in the ICT sector.²⁶

Tamer Baransi, Chairman of the Board of Directors of PITA, noted that the technology sector constitutes around 3% of Palestine’s GDP, with around 13,000 workers. Baransi also noted the export potential of the sector, which is currently valued at around \$100-120m, 30% of which goes to Israel.²⁷

December Trading

The AI-Quds index increased by 1.3% in December 2022, reaching 639.7 points on the last day of trading.²⁸ A total of 11.4m shares were traded during the month, with a value of \$21.8m, marking a decrease of 27.2% in volume and 25.6% in the value of traded shares, compared to the previous month.

On an annual basis, the AI-Quds index increased by 5.1% compared to the last day of trading in 2021. In 2022, a total of 243.5m shares were traded on the Palestine Exchange (PEX) with an overall value of \$472.8m. This marks a 21% increase in volume and a 12.9% increase in the value of traded shares compared to 2021.

¹³ Team Europe consists of the European Union, EU Member States — including their implementing agencies and public development banks — as well as the European Investment Bank and the European Bank for Reconstruction and Development.

¹⁴ <https://bit.ly/3w4f0lY>

¹⁵ <https://bit.ly/3H5gBOP>

¹⁶ <https://bit.ly/3il9nqJ>

¹⁷ <https://bit.ly/3QLtot1>

¹⁸ <https://bit.ly/3XCBirj> and <https://paltrade.org/uploads/16080477701846317454.pdf>

¹⁹ www.mne.gov.ps/newsdetails.aspx?NewsId=6498

²⁰ The UK Palestinian Tech Hub is an initiative implemented as part of the UK-funded Trade Facilitation and Customs Support (Tasdeer) programme. Its objective is to create and facilitate connections and partnerships between the British and Palestinian technology ecosystems.

²¹ <https://bit.ly/3il9nqJ>

²² <https://bit.ly/3Zzs5RT>

²³ www.bnews.ps/index.php/ar/node/20395

²⁴ <https://www.mne.gov.ps/newsdetails.aspx?NewsId=6500> and <https://bit.ly/3XhgUe0>

²⁵ <https://expotech.ps/>

²⁶ <https://bit.ly/3H4jYoW>

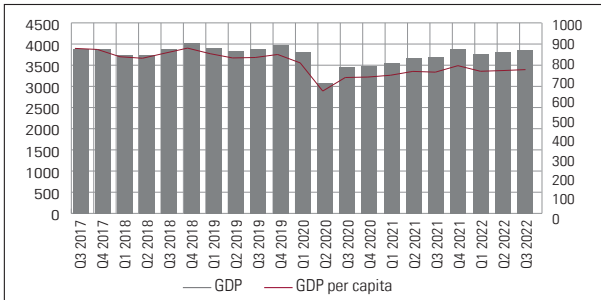
²⁷ www.aliqtisadi.ps/ar/Article/91550

²⁸ www.pex.ps/eyJDT05UUKVTSUQ0iJlB21liwiTEFOR0IEIjo1NzkifQ%3D%3D

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q3 2017 – Q3 2022

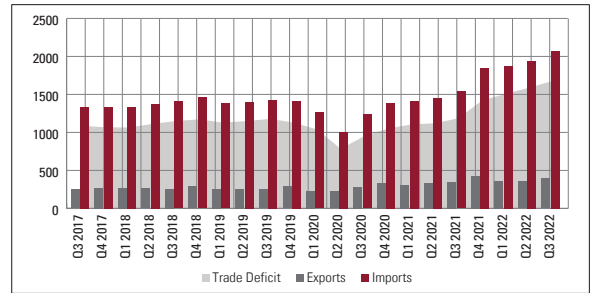


GDP (Q3 2022): \$3910.5m
Source: PCBS

GDP per capita (Q3 2022): \$770.9

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q3 2017 – Q3 2022

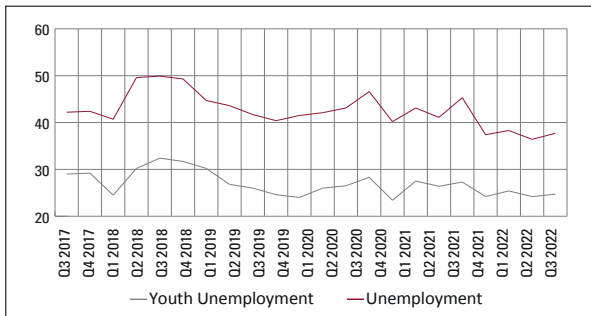


Imports (Q3 2022): \$2,126.7m
Trade deficit (Q3 2022): \$1,721.2m

Exports (Q3 2022): \$405.5m
Source: PCBS

Unemployment

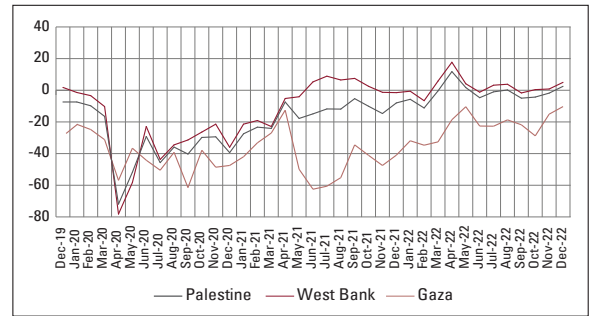
Unemployment and Youth Unemployment in Palestine, Q3 2017 – Q3 2022



Unemployment rate (Q3 2022): 37.70% Youth Unemployment rate (Q3 2022): 24.70%
Source: PCBS

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, December 2019 – December 2022

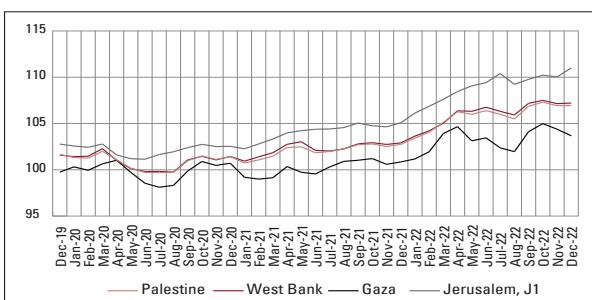


Palestine (December 2022): 2.5
Gaza (December 2022): -10.3

West Bank (December 2022): 5
Source: PMA

Inflation

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

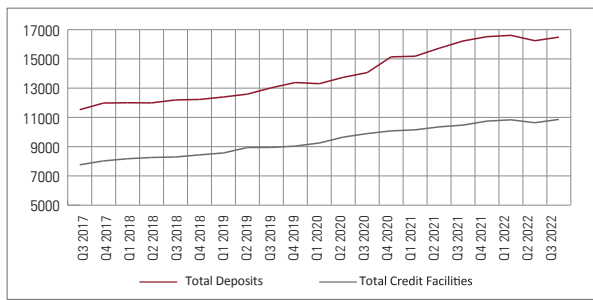


Palestine (December 2022): 106.94
Gaza (December 2022): 103.67

West Bank (December 2022): 107.21
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q3 2017 – Q3 2022



Total Credit (Q3 2022): \$10,862.82m
Source: PMA

Total Deposits (Q3 2022): \$16,487.59m

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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