

PALESTINIAN ECONOMIC BULLETIN

Bulletin 199
April 2023

Main reports

On 29 March, the Association of Banks in Palestine, in coordination with the Palestinian Monetary Authority, announced an initiative to reduce interest on household loans, starting from April until the end of 2023

On 20 March, the PMA and the Capital Market Authority announced the results of the latest financial inclusion survey, which was conducted in 2022 with support from the Alliance for Financial Inclusion

In the past month, the World Bank announced the financing of several new projects to improve essential services in Palestine

The AI-Quds index reached 656.7 points on the last day of trading in March 2023, a decrease of 0.1% from the previous month

Electronic Company Registration Programme

On 28 March, the Palestinian Ministry of National Economy (MoNE) announced the launch of the Electronic Company Registration Programme (ECRP), which is designed to speed up the process of registering companies and to help promote investment and enhance digitisation, governance and entrepreneurship by simplifying business operations.¹ The United Nations Conference on Trade and Development (UNCTAD) will start implementing ECRP within six months by providing the technical assistance needed to set up the infrastructure and systems for a streamlined electronic registration process.

Automating the registration process and also allowing electronic modifications will make it easier and more efficient for local and foreign investors to register and operate businesses in Palestine. The programme is part of the World Bank's Innovative Private Sector Development (IPSD) project, a \$22m initiative that aims to alleviate market failures related to gaps and binding constraints in the entrepreneurship ecosystem of the digital economy, including human capital, financing, product markets, enabling policies, institutional support and connectivity.²

Rise in company registrations

According to MoNE, the number of newly registered companies in 2022 increased by 17% compared to 2021, reaching 2,524 new companies, with a total capital of about \$700 million. Of these, 31 were foreign companies registered in Palestine³ and 59.4% had capital of less than \$100,000, 37.3% had capital between \$100,000 and \$500,000, and 2.8% had capital between \$500,000 and \$1,000,000. Only 0.5% had capital of one million dollars or more. The total capital of registered companies increased by 105% in 2022 compared to 2021. This compares to the number of registered companies in Jordan, which increased by 20% in 2022, reaching 5,896 companies, 88 of which are foreign companies.⁴

Legal reform setting the ground for automation

The automation of the registration process was enabled by implementing the 2021 Companies Law. This new law facilitated a more efficient company registration process, by enabling the establishment of a new type of limited liability private shareholding company. It also lifted many restrictions on the registration of foreign companies⁵ and allowed for the registration of sole ownership companies without a partner or a minimum capital investment.

Prior to this new law being implemented, company registration required obtaining approvals from several agencies, paying multiple fees and hiring a lawyer for a fee of over \$1,000. The previous law also required a minimum of two partners and set a minimum capital investment for establishing new companies. According to the 2020 World Bank Doing Business report, Palestine ranked 173 out of 190 countries in terms of 'starting a business', reflecting burdensome procedures, high costs and long delays.⁶

Combating Rising Interest Rates

On 29 March, the Association of Banks in Palestine, in coordination with the Palestinian Monetary Authority (PMA), announced an initiative to reduce interest on household loans, starting from April until the end of 2023.⁷ The initiative set a ceiling on interest rate increases until the end of the year: a maximum of 1.5% above the rate that the bank customer was paying in June 2022 for a housing loan and a maximum of 2% above the same benchmark for a personal loan.⁸

The initiative comes at a time when interest rates have been increasing rapidly. While data shows that the gap between borrowing and deposit rates has been shrinking in

1 <https://www.mne.gov.ps/newsdetails.aspx?NewsId=6536>

2 <https://www.ipds.ps/> and <https://www.ipds.ps/project-components>

3 <https://www.wafa.ps/Pages/Details/62559>

4 <https://bit.ly/3N3o0S2>

5 <https://bit.ly/3L9E2Z8>

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

7 <https://bit.ly/3GEzozM>

8 <https://bit.ly/416cCc8> and <https://bit.ly/41pIHvn>

the past decade, over the past year, the banking system has raised borrowing rates rapidly, in line with international developments, while continuing to pay very low rates on deposits. This led to historically high profits in 2022 for banks operating in Palestine, with some reporting increases of 45-100% compared to 2021.⁹

Table 1: Interest rates (%) on loans and deposits by currency, 2012-2021

Year	Jordanian Dinar		US Dollar		Israeli Shekel	
	Deposits	Loans	Deposits	Loans	Deposits	Loans
2012	1.7	6.5	0.5	6.2	1.2	9.2
2013	2.1	7.5	0.6	6.4	1.3	9.3
2014	2.1	7.2	0.8	6.1	1.5	9.1
2015	2.2	6.9	0.9	5.9	1.6	7.8
2016	2.3	6.3	1.0	5.9	1.5	6.9
2017	2.2	6.6	1.4	5.8	1.4	7.1
2018	2.6	6.5	2.3	5.9	2.1	7.1
2019	3.2	6.8	2.9	5.9	2.5	7.1
2020	2.6	6.8	2.4	5.5	2.2	6.9
2021	2.2	6.4	2.2	5.6	2.2	6.8

Source: PMA

Calls for a more active PMA role

On 2 March, the Social and Economic Policies Monitor (Al-Marsad) issued a report highlighting the difficulties borrowers were facing due to the recent rises in interest rates.¹⁰ The report notes that various legal mechanisms exist that could help alleviate the impact on borrowers and citizens, and the PMA still had scope to utilise these tools more effectively.

According to Article 51 of Law No. (2) of 1997 concerning the PMA, it can raise the mandatory reserve ratio, limit banks' ability to provide large credit facilities, intervene in the type of loans and their sectoral distribution, and set minimum and maximum interest rates.¹¹ While banks are free to set their own interest rates competitively, the PMA can impose a ceiling and floor, though it has never done so.¹² The report calls on the PMA to set a minimum rate on deposits, to reduce the outflow of deposits abroad and to cancel the origination fee, which is usually around 1-3%.¹³

Financial Inclusion

On 20 March, the PMA and the Capital Market Authority (PCMA) announced the results of the latest financial inclusion survey, which was conducted in 2022 with support from the Alliance for Financial Inclusion (AFI).¹⁴ The new data compiled by the Palestinian Central Bureau of Statistics (PCBS), and the related studies prepared by the Palestine Economic Policy Research Institute (MAS), show an improvement in most access and usage indicators of financial inclusion compared to 2015.

The uplift in financial products and services usage since 2015 correlates with the expansion of financial institutions in general, especially in the West Bank. Levels of financial knowledge have also improved, which correlates with the increased provision of education programmes through local bank branches, online and targeted services offered by providers and the regulator.¹⁵

9 <https://alresalah.ps/post>.

10 <http://almarsad.ps/>

11 <http://muqtafi.birzeit.edu/pg>.

12 <https://www.aliqtisadi.ps/ar/Article/93259>

13 Origination fee is a fee paid to a lender to process a loan application.

14 <https://bit.ly/401fV33>

15 <https://bit.ly/413LoDf>

Table 2: Palestinian adults (18 years and above) usage of select commercial financial services and products, 2015 and 2022

Financial Product	2015	2022
Current bank account	22.7%	29.3%
Debit card	NA	26.6%
Traditional private insurance policy	3.9%	16.0%
Electronic point of sale	NA	12.6%
Savings bank account	9.2%	11.8%
Mobile banking services	NA	11.3%
Bank cheques	7.8%	8.3%
Online banking services	NA	7.4%
Pay bills online	NA	6.7%
Credit card	4.4%	5.7%
Money transfer (i.e. bank transfer, Western Union, or MoneyGram)	NA	4.0%
Joint bank account	NA	3.5%
Loan from Bank	5.1%	3.5%
E-Wallet	NA	3.3%
Takaful insurance policy	0.5%	2.1%
A loan from a specialised lending institution	2.9%	1.8%
Overdraft or overdrawn account	NA	1.2%

Source: MAS 2022

Increased adoption of digital financial services

The survey highlights a positive trend in adopting digital financial services, as more than 50% of the respondents think they will use online and mobile banking in the near future and 49% see an increased demand for the facility to pay bills via mobile phones.¹⁶ In 2022, 15.1% of Palestinian adults (18 years old and above) owned or used at least one type of digital financial service, 7.4% used online banking services, 11.3% used mobile banking services, 3.3% owned a digital wallet, 6.7% paid bills online and 0.3% owned or used cryptocurrencies.

Cost is an essential enabling factor for adopting digital financial services, as indicated by 63.5% of the survey respondents. Ease of use was second, with 60.6% of respondents saying it would encourage them to use digital channels. Some 60.2% responded they need incentives such as prizes or a new promotional campaign to encourage them to use these channels. More than half of all respondents (58.7%) would be encouraged to use digital financial services if they had more knowledge on how to use them to transact with their financial services providers.

Barriers to expanding financial inclusion

Despite improvements, levels of financial inclusion remain low. According to The Global Findex Database 2021, adults' bank account ownership in Palestine (34%) is well below the rates observed in Jordan (47%) and Israel (93%).¹⁷ Furthermore, the use of commercial finance is generally greater in the West Bank than in the Gaza Strip, and men have greater access to and make greater use of for-profit finance than women.

Lack of steady or adequate income remains the primary reason for not using commercial finance, with 75.6% of survey respondents that do not have a bank account citing it as the main reason. This is more pronounced in the Gaza Strip, where 82.1% of respondents cited it as the main reason compared to 69.9% in the West Bank. Almost 50% of respondents had no income (57.8% in the Gaza Strip and 44.5% in the West Bank), and over one-third (38%) lived in a household with a monthly income of less than 2,000 shekels (79.5% in the Gaza Strip and 11.7% in the West Bank).

16 <https://bit.ly/43wzLp0>

17 <https://www.worldbank.org/en/publication/globalindex/Report>

Table 3: usage of select commercial financial services and products by region, adults (18 years and above), 2022

Financial Product	West Bank	Gaza Strip
Debit card	34.0%	14.5%
Current bank account	36.3%	18.0%
Savings bank account	16.3%	4.7%
Mobile banking	15.0%	5.4%
Pay bills online	9.2%	2.6%
Online banking	9.6%	3.9%
Credit card	7.7%	2.5%
Electronic point of sale	14.4%	9.7%
Joint bank account	5.1%	0.9%
Takaful insurance policy	3.4%	0.1%
Money transfer	4.5%	3.1%
Loan from bank	3.9%	2.8%

Source: PCBS 2022

The Gender Gap

Despite efforts by regulators and financial institutions, progress in closing the gender gap in financial inclusion has been slow, and in some instances, the gap has widened. In 2015, about 11.9% of adult Palestinian women had a current bank account compared to 33.7% of adult men. Between 2015 and 2022, female current bank account ownership increased by 4%, while that of males increased by 8.8%. As such, the gender gap in current account ownership, the most prominent financial service, increased from 21.8% to 26.6%. The same trend is also apparent in saving accounts, where the gender gap increased from 4.3% to 10.3% because of a faster increase in men's ownership of saving accounts compared to women.

Table 4: percentage of select commercial financial product/service ownership/use by gender, 2022

Product/service	Male	Female	Gap
Current bank account	42.5%	15.9%	26.6%
Debit card	38.5%	14.3%	24.2%
Traditional private insurance policy	16.9%	15.2%	1.7%
Electronic point of sale	16.8%	8.3%	8.5%
Savings bank account	16.9%	6.6%	10.3%

Source: MAS 2022

The low labour force participation rate among women, and consequent lack of income at their disposal, is the primary reason they do not access financial services.¹⁸ In 2022, 77.5% of adult women did not have an income (compared to 22.2% of adult men) and 10.8% made less than ILS 2,000 a month (compared to 28.8% of adult men).

World Bank Support

In the past month, the World Bank announced the financing of several new projects to improve essential services in Palestine.¹⁹ The projects aim to advance the performance of basic infrastructure and institutions, support reforms and policy development, expand services to disadvantaged populations, and mitigate climate change and disaster risks.

Water Security

On 28 February, the World Bank Group announced \$51m support for the Water Security and Resilience Project (WSRO). This aims to improve the reliability and quality of the water supply and strengthen the capacity of the water sector's institutional capacity to design and implement measures to increase resilience to climate change and natural disasters.²⁰ WSRO will focus on extending access to safe water in the Jenin Governorate through investments in infrastructure, benefiting around 100,000 residents.

18 <https://bit.ly/43nR3pf>

19 <https://bit.ly/3oakHy7>

20 <https://projects.worldbank.org/en/projects-operations/project-detail/P176025>

It will also cover the operation and maintenance of the Hebron wastewater treatment plant. Finally, the project will invest in building the capacity of the Palestinian Water Authority to develop and implement water sector policies and strategies related to establishing regional water utilities, greater cost efficiency and cost recovery to tackle the arrears issue.

Although around 90% of Palestinian households are connected to a public water network, the quality and available amount of drinking water per capita in Palestine does not meet World Health Organisation standards. Palestinians consume an average of 86.3 litres of water per person per day (89 litres in the West Bank and 82.7 litres in the Gaza Strip), which is less than one-third of the average for Israelis.²¹

Municipal Services

On 28 February, the World Bank also announced \$22m support for the Resilient Municipal Services Project (RMSP). This is designed to strengthen municipal capacity to deliver accountable, sustainable, inclusive and resilient services in the West Bank and Gaza.²² The project will support up to 159 municipalities through block grants and performance-based service delivery grants to ensure equity and incentive- the improvement of institutional and financial performance, so ultimately improving service delivery at the local level. It will provide technical assistance and capacity building for critical ministries and municipalities to strengthen regulatory oversight, increase transparency and accountability, increase local government revenues, improve the enabling framework for public-private partnerships and expand the access of local governance units to private financing. In addition, technical assistance and financing to municipalities will also address natural hazards and climate change risks.

Health Sector Efficiency

On 7 April, the World Bank announced a \$10m grant to support the Palestinian National Authority (PNA) through the Health System Efficiency and Resilience Project (HSERP),²³ which will increase the availability and quality of public primary health care services and improve public hospitals' service delivery. It is also intended to enhance the PNA's ability to respond effectively in the event of an emergency and support the project management unit at the Ministry of Health.²⁴ The initiative addresses preventing and treating priority, non-communicable diseases, particularly hypertension, diabetes, and cancers, at the primary care level in areas with lower access. It will also contribute toward establishing radiotherapy services in Gaza, the lack of which is causing a significant bottleneck for treating cancer patients there.

Due to the unavailability of services in public facilities, the Ministry of Health depends on a system of outside medical referrals to provide tertiary-level services for patients for specialised health services, which constitute a substantial fiscal burden. According to Stefan Emblad, the World Bank's Country Director for West Bank and Gaza, PNA spending on health constitutes 4% of GDP, which is higher than many regional peers.

March Trading

The Al-Quds index reached 656.7 points on the last day of trading in March 2023, a decrease of 0.1% from the previous month. A total of 15.8m shares with a total value of \$39.7m were traded, marking a 74.6% increase in the number and a 135.4% increase in the value of traded shares compared to February 2023.

During 2022, the net annual profits of PEX-listed companies reached \$407m, a 9% increase from 2021.²⁵ Preliminary results for 2022 show that 42 of the 47 listed companies reported profits, four reported losses, and one company failed to disclose its results within the legal period. The banking and financial services sector was the most profitable (\$140m, a 23% increase from 2021), followed by the services sector (\$126m, 5% increase) and the investment sector (\$77m, 3% increase).

21 https://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_WWWD2023A.pdf

22 <https://projects.worldbank.org/en/projects-operations/project-detail/P178723>

23 <https://bit.ly/41rig8q>

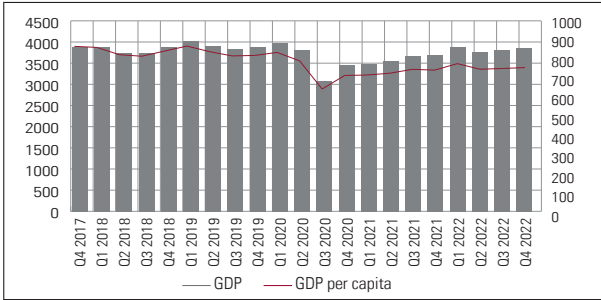
24 <https://bit.ly/3UzoEs9>

25 <https://bit.ly/41fGfYm>

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q4 2017 – Q4 2022

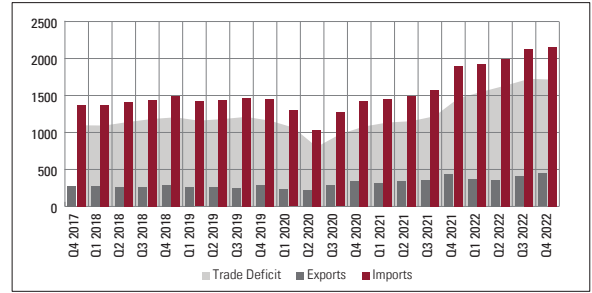


GDP (Q4 2022): \$4,201.7m
Source: PCBS

GDP per capita (Q4 2022): \$787.9

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q4 2017 – Q4 2022

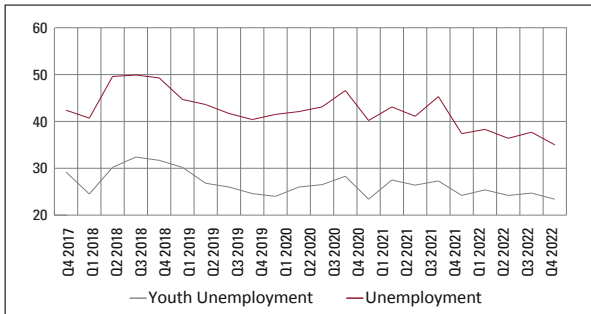


Imports (Q4 2022): \$2,158.2m
Trade deficit (Q4 2022): \$1,712.5m

Exports (Q4 2022): \$445.7m
Source: PCBS

Unemployment

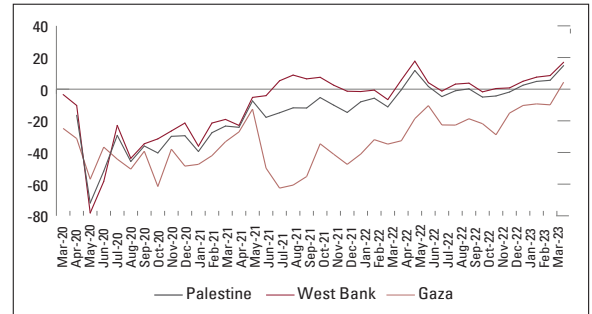
Unemployment and Youth Unemployment in Palestine, Q4 2017 – Q4 2022



Unemployment rate (Q4 2022): 35% Youth Unemployment rate (Q4 2022): 23.40%
Source: PCBS

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, March 2020 – March 2023

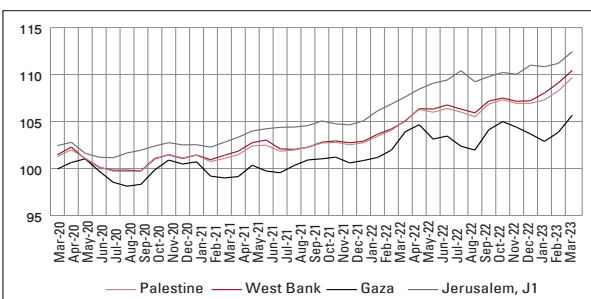


Palestine (March 2023): 14.9
Gaza (March 2023): 4.4

West Bank (March 2023): 17.0
Source: PMA

Inflation

Consumer Price Index (Base year = 2018), March 2020 – March 2023

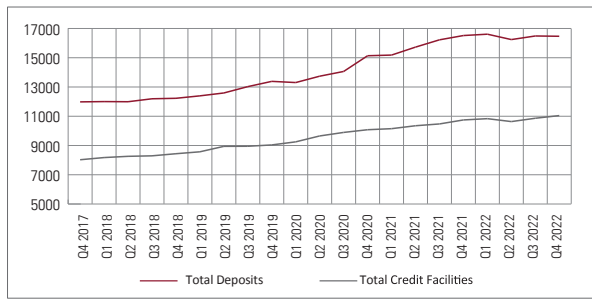


Palestine (March 2023): 109.68
Gaza (March 2023): 105.76

West Bank (March 2023): 110.44
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q4 2017 – Q4 2022



Total Credit (Q4 2022): \$11,045.05m
Source: PMA

Total Deposits (Q4 2022): \$16,468.16m

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

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR. © 2023 The Portland Trust