

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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World Bank Report on the Growth Prospects of the Palestinian Economy

On 22 November 2017, the World Bank Group (WBG) released a report entitled "Prospects for Growth and Jobs in the Palestinian Economy: A General Equilibrium Analysis".¹ This report uses a Computable General Equilibrium model (CGE)² to assess and quantify the overall prospects for growth, employment and broader economic benefits that could be achieved with an alleviation of external and internal constraints in Palestine. The report proposes five different scenarios that assume a sequential alleviation of external and internal restrictions and compares them to a baseline scenario, whereby the status quo persists.

Table 1: CGE Model Scenario Assumptions

Proposed Scenario	Scenario Description
Baseline Scenario Status-quo	<ul style="list-style-type: none"> No progress on the political track No reduction in Israeli restrictions No major domestic reforms in business environment or public finance
Scenario 1 Full access to Area C	<ul style="list-style-type: none"> Enabling improved access to land and water in the West Bank <ul style="list-style-type: none"> Augmented capital stock in productive sectors Lowering the need for water subsidies Increased productivity in agriculture from irrigation Improved infrastructure, lowering transport costs and enhancing productivity in key sectors No impact on Gaza.
Scenario 2 Improvements in trade and movement conditions	<ul style="list-style-type: none"> Lifting of restrictions on Gaza, enabling exports to reach their pre-restrictions level. Free movement of people and goods in the West Bank. Reducing non-tariff trade barriers <ul style="list-style-type: none"> Lower external petroleum prices (access to cheaper sources). Expanded A1/A2/B lists resulting in lower import tariffs. Less restrictive dual use list
Scenario 3 Reduced fiscal leakages	<ul style="list-style-type: none"> Resolving issues related to fiscal leakages between the PNA and the Gol.³ These issues include fees and trade taxes collected by Gol on behalf of the PNA, and deductions by the Gol from Palestinian workers in Israel, notably health and national insurance contributions.
Scenario 4 Improved domestic business environment and PNA fiscal reform	<ul style="list-style-type: none"> Improving the local business environment <ul style="list-style-type: none"> Improved performance in Doing Business indicators Increased land registration in the West Bank Focusing on vocational education and training to bridge the skill mismatch in the labor market, leading to higher growth, increased household savings rate and an enhanced supply of labor. Assuming the implementation of key fiscal reforms by the PNA, notably to enhance revenue collection, contain the wage bill and medical referrals, and phase out subsidies.
Scenario 5 Increased capital inflows from abroad	<ul style="list-style-type: none"> An improved political situation, lower political risk and a better business environment are expected to attract additional capital inflows and increase foreign investment.

Source: World Bank Group 2017

According to the report, the economic conditions in Palestine are likely to deteriorate further under the baseline scenario, exacerbating economic and social fragility. Under this scenario, GDP growth is expected to decrease to 2% in the West Bank by 2025 compared to 4.1% in 2016.⁴ In Gaza, GDP growth is expected to fall

1 <http://documents.worldbank.org/curated/en/952571511351839375/pdf/121598-WP-P159645-PUBLIC-PALESTINEPROSPECTSFORGROWTHANDJOBS.pdf>

2 CGEs are a class of economic models that use actual economic data to estimate how an economy might react to changes in policy, technology or other external factors.

3 Fiscal leakages under the revenue sharing arrangement instituted by the Paris Protocol between the PNA and the Gol.

4 www.pcbs.gov.ps/Downloads/book2344.pdf

from 5.1% to 4% during the same period. The report also forecasts real GDP per capita growth to reach negative levels in the West Bank by 2025 compared to 0.76% in 2016, and 0.5% in Gaza compared to the current figure of 5.8%. Unemployment in Gaza is expected to reach 48% by 2025, compared to 41.7% in 2016.⁵

The report forecasts that the alleviation of external constraints (a combination of scenarios 1, 2 and 3), would have the largest impact on growth in Palestine. According to the report, full Palestinian access to Area C, in addition to improvements in trade and labor movement, and a reduction in fiscal leakages, will increase GDP in the West Bank by 28.9% by 2025. Similarly, alleviating the external constraints on Gaza will increase Gaza's GDP by 27.7% during the same period.

Building on the alleviation of external constraints (scenarios 1-3), easing internal constraints (scenario 4) will also have a further positive impact on the Palestinian economy. The improvement of the business climate and acceleration of fiscal reform are expected to increase GDP by an additional 19.2% in the West Bank and 20.6% in Gaza by 2025. Furthermore, unemployment is expected to drop to 11.6% in the West Bank, from 18.5% in 2016, and to 35.2% in Gaza, from 44.8% in 2016.

Finally, the improvement in the political situation and business environment resulting from the impact of scenarios 1-4, is expected to increase capital inflows to Palestine from abroad (scenario 5). According to the report, by 2025, the increase in capital inflows would further increase the GDP in the West Bank by 2.1%, and in Gaza by 1.8%.

Palestine Investment Fund Launches Solar Plant in Tubas

In November, the Palestine Investment Fund (PIF) launched the Tubas Solar Power Plant, an \$11 million investment to bring 8MW of solar capacity to the residential, agricultural, and industrial sectors in the Tubas Governorate.⁶ The Plant is a critical component of 'Noor Palestine,' a solar energy programme launched in 2016 by Massader, PIF's investment subsidiary for energy and infrastructure. Massader is developing solar parks in the Jericho, Tubas, and Jenin Governorates for a combined total production capacity of 22MW. The Jericho station is expected to be operational by mid-2018.

Development of the Tubas Plant is a critical step towards building an independent energy system in Palestine. A recent Palestinian energy plan prepared by the World Bank estimates that the setup of an independent Palestinian energy grid will cost \$3bn and will take until

2030 to complete.⁷ This plan addresses an issue of growing importance as Palestinian electricity consumption grows at a rate of 3.5% per year.

Palestine currently receives more than 86% of its electricity from Israel, making it the single largest customer of the Israel Electric Corporation (IEC).⁸ A lack of diversity of energy sources and an overreliance on Israel exposes Palestinians to inflated energy costs, heightening the need for solar and renewable energy investments. According to World Bank Economist Vivien Foster, the author of the energy plan, "Solar energy is the only real local source of energy the Palestinians have... It can supply a margin of safety that will guarantee the basic needs of the population and a supply of electricity to hospitals, water, and sewage systems, and other facilities." Investments in solar power plants such as the one in Tubas, coupled with the installation of solar panels on commercial and residential rooftops, can provide Palestinians with a more diversified energy supply and bring them closer to energy security.

Drop in Public Debt in October 2017

According to the Palestinian Ministry of Finance and Planning, the Government's public debt decreased by 4.1% in October 2017 (NIS 8,901.2m) compared to the corresponding month in 2016 (NIS 9,283.2m).⁹ This drop was mainly driven by a 10.2% decline in foreign debt, from NIS 4,047.5m to NIS 3,614.6m. The decline in foreign debt was caused by exempting Palestine from a \$41.9m loan from the Arab Fund for Economic and Social Development and a \$5.6m loan from the Islamic Development Bank. In October 2017, the total debt owed to Arab financial institutions amounted to NIS 1,987m (22.3% of total public debt), a 14.7% decline from October 2016.

Furthermore, interest payments totalling \$450,000 due to the World Bank were postponed, resulting in a total of \$12.6m owed to the World Bank. The total debt owed to international and regional institutions fell by 7.7% compared to October 2016, reaching NIS 1,183m. During the same period, domestic debt increased by 0.6% to NIS 5,266.5m, distributed between NIS 2,997m of short-term loans and NIS 2,269.5m of long-term debt.

Accompanying the decrease in debt, total external support to the general and development budget until October 2017 fell by about 22% compared to the same period in 2016.¹⁰ Total support amounted to NIS 1,726.5m as of October 2017, compared to NIS 2,123m in October 2016. Grants from Arab States and organizations totalled NIS 319m, down by 44.6%, and other foreign countries support amounted to NIS 1,016.4m, a decrease of 22% compared to October 2016.

⁷ <http://bit.ly/2Bs730d>

⁸ www.mas.ps/files/server/20152909151817-1.pdf

⁹ www.palestineconomy.ps/article/11135/

¹⁰ www.palestineconomy.ps/article/111103/

⁵ www.pcbs.gov.ps/Downloads/book2266.pdf

⁶ www.pif.ps/page.php?id=ae99y44697Yae99

Palestine International Banking Conference 2017

On 20 November, the Palestine Monetary Authority (PMA) in cooperation with the Association of Banks in Palestine (ABP), the International Finance Corporation (IFC) and the European Palestinian Credit Guarantee Foundation (EPCGF) convened the annual Palestine International Banking Conference 2017 in Jericho titled "Women Banking."¹¹

In his opening speech, Mr. Azzam Shawwa, the Governor of the PMA, explained that the Conference theme had been selected to highlight the findings of the field study prepared for the development of the National Strategy on Financial Inclusion in Palestine. The findings demonstrated a 20% gap between Palestinian men and women in relation to financial awareness. Moreover, according to World Bank data from 2014, only 15.4% of Palestinian women had accounts in financial institutions, compared to 42.1% of Palestinian men. The proportion of accounts held by women is just above the average for Arab countries of 13%. Mr. Shawwa added that the National Strategy on Financial Inclusion, expected to be formally launched in 2018, includes a plan and a specific timetable to promote the potential of women from all backgrounds. The conference recommended empowering women in banking and finance by launching awareness campaigns, developing programs to build the capacities of businesswomen and women entrepreneurs; launching incentive packages to motivate service providers to target women, and identifying loan guarantee programmes for women.

Global Entrepreneurship Week Palestine 2017

Global Entrepreneurship Week (GEW) Palestine 2017, an annual event which celebrates entrepreneurs through numerous entrepreneurship-focused activities, took place in both the West Bank and Gaza between 11 and 20 November.¹² This was the fifth year in which Palestine participated in this worldwide celebration attended by about 10 million participants from 170 countries.¹³

The biggest activity of this year's GEW Palestine was "Get in the Ring," a local version of a global one-day event where start-ups of similar size and valuation compete in front of a panel of judges and a live audience.¹⁴ The winning start-ups included Evantati, an online events and ticketing management platform, BambiNotes, a subscription-based multilingual online platform offering

the simplest way to communicate between pre-schools, kindergartens and parents, and RedCrow Intelligence, a platform helping organizations operate in volatile political environments by providing them with real time tactical intelligence to mitigate security risks.

The three winners will represent Palestine in the Global Meetup in Lisbon, Portugal in May 2018, where 500 corporates, investors and representatives of 150 selected start-ups will convene for training, networking, competitions and social activities.^{15, 16}

Expotech–Palestine's Tech Week 2017

Between 11 and 13 December, the fourteenth Expotech Technology Week took place simultaneously in the West Bank and Gaza.¹⁷ The event, which is organized annually by the Palestinian IT Association (PITA), brings 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, which hosted 42 companies and more than 65,000 visitors,¹⁸ included an IT commercial exhibition, a technology conference, and an entrepreneurship competition.¹⁹

During the event, Dr. Allam Mousa, Minister of Telecommunication and Information Technology, announced that the third-generation mobile telecommunications service (3G) will be launched in the West Bank during the next couple of weeks.²⁰ The Gol granted 3G frequencies to Palestinian telecommunications providers in the West Bank (2G in Gaza), following an agreement between the PNA and the Gol signed on 5 April 2017.

The Palestinian ICT sector has grown by 111% in value over the last decade and currently employs around 8,500 people and represents 5.6% of the Palestinian GDP.²¹

PEX Trading

In November, the Al-Quds index decreased by 2.78% to reach 553.92 points on the last day of trading.²² All sectors except industry (+1.2%) deteriorated during the month, with services companies performing particularly poorly (-5.1%). A total of 14.8m shares worth \$23.1m were traded during November. This marks a decrease of 19.1% in the number and 24.3% in the value of traded shares from the very high levels recorded in October 2017. Market capitalization was \$3.75bn in November.

11 www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=1181&language=en-US

12 www.psgew.co/about/

13 www.genglobal.org/global-entrepreneurship-week/about

14 www.getinthering.co/get-in-the-ring-ramallah-winners/ and www.psgew.co/event/gitr-2017/

15 www.getinthering.co/global-meetup-2018-cascais/

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17 www.expotech.ps/schedules-listing/

18 www.al-ayyam.ps/pdfs/2017/12/06/p26.pdf

19 www.maannews.net/Content.aspx?id=931694

20 www.maannews.net/Content.aspx?id=932730

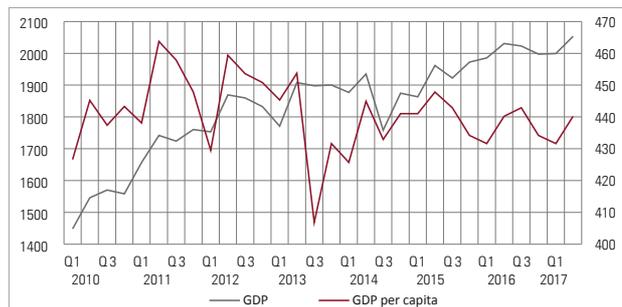
21 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_28-9-2017-NA-en.pdf

22 www.pex.ps/PSEWebSite/NAshra/20171130E.pdf

Palestine Economic Dashboard

Growth

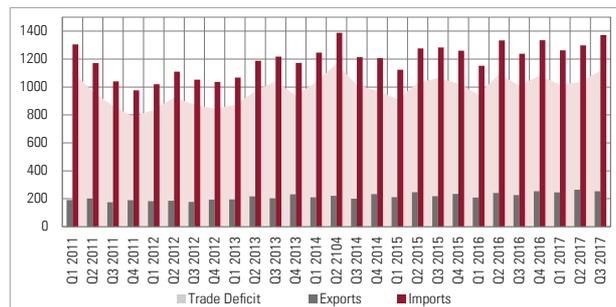
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q2 2017



GDP (Q2 2017): \$2,053,300,000, GDP per capita (Q2 2017): \$440.2
Source: PCBS

Trade

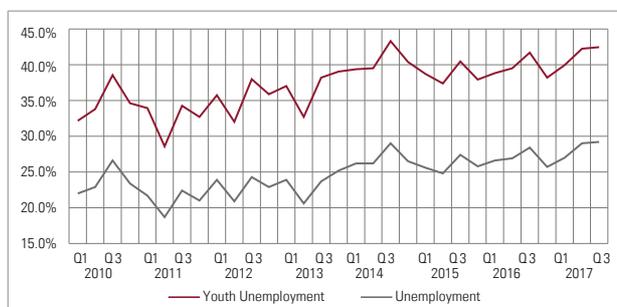
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2011–Q3 2017



Imports (Q3 2017): \$1,370.9m, Exports (Q3 2017): \$254,000
Trade deficit (Q3 2017): \$1,116.9m, Source: PCBS

Unemployment

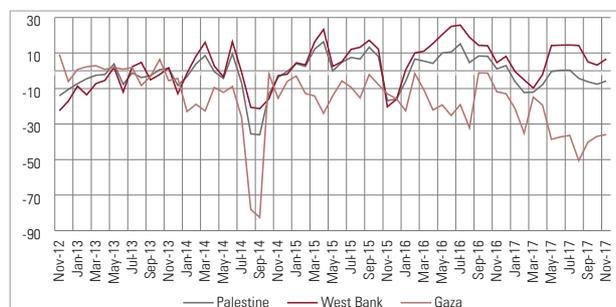
Unemployment and Youth Unemployment in Palestine (%), Q1 2010–Q3 2017



Unemployment rate (Q3 2017): 29.2%, Youth Unemployment rate (Q3 2017): 42.4%
Source: PCBS

Business Cycle Index

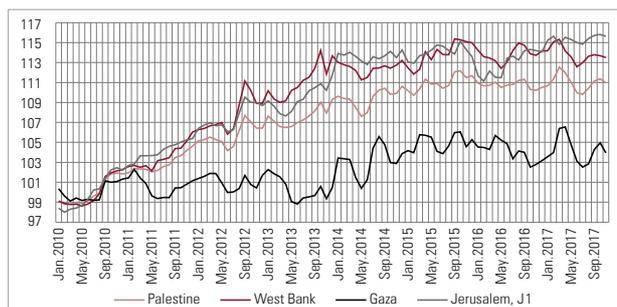
Palestine Monetary Authority Business Cycle Index, Nov 2012–Nov 2017



Palestine (November 2017): -7.6, West Bank (November 2017): 3.2
Gaza (November 2017): -36.9, Source: PMA

Inflation

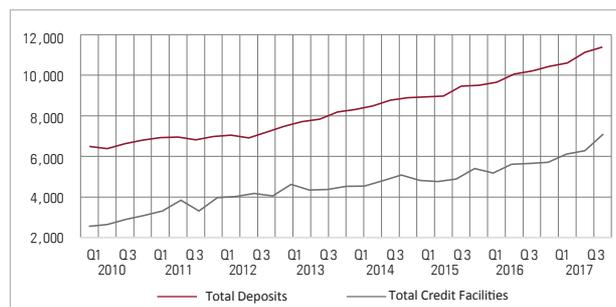
Consumer Price Index (Base year = 2010), January 2010 – November 2017



Palestine (November 2017): 110.95, West Bank (November 2017): 113.49
Gaza (November 2017): 103.95, Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2010–Q2 2017



Total Credit Facilities (Q2 2017): \$7,528.8m, Total Deposits (Q2 2017): \$11,379.4m
Source: PMA

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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