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Main reports

Since the start of 2023, there has been an increase in labour union protests demanding improved wages and labour conditions

On 23 February, Siniora Food Industries Company signed an agreement with the Saudi Authority for Industrial Estates and Technology Zones (MODON) to establish a chilled and frozen meat factory in Jeddah

In February 2023, the AI-Quds index reached 657.6 points on the last day of trading, an increase of 2% from the previous month

Digital Banking

On 12 February, the Arab Bank and the Palestinian Telecommunications Group (PALTEL) jointly launched the first “neobank” in Palestine, Reflect.¹ It was first launched in Jordan as a virtual bank that operates exclusively through digital channels, providing a range of services such as current accounts, fund transfers and payment of bills and utilities.

Alignment with local needs and global trends

Compared to traditional digital banking, neobanks offer more convenient and accessible solutions, with a customer-centric approach and reduced operational costs.² These factors allow more competitive pricing and rates for customers by avoiding the operational costs associated with physical branches. Furthermore, neobanks are able to supply digital services to non-digital banks. From this perspective, Reflect’s launch aligns with the Palestine Monetary Authority (PMA) strategy to facilitate the development of electronic payment methods and financial inclusion in Palestine.³

This new development is also in line with the global trend of convergence between telecommunications operators and retail banks.⁴ The partnership allows Arab Bank to expand its customer base by providing new and innovative digital banking solutions that correspond to the needs of different societal segments. It also creates an opportunity for PALTEL to expand its services in the digital banking space and offer more integrated solutions to its customers, in addition to those currently available through JawwalPay (Jawwal’s digital wallet).⁵

Expected impact on fintech adoption

The use of technology among individuals and businesses in Palestine remains generally high, allowing the opportunity to expand the adoption of financial technology. Around 91.9% of economic establishments used a mobile phone in 2021 (92.6% in the West Bank and 90.5% in the Gaza Strip), and around 61.1% have access to the internet (69.9% in the West Bank and 47.7% in the Gaza Strip). Approximately 88% of individuals aged 10 years or older have access to the internet (91% in the West Bank and 44% in the Gaza Strip), and 71% own a smartphone (82% in the West Bank and 56% in the Gaza Strip).⁶ For both individuals and businesses, the potential for expanding fintech in Palestine appears promising.

The use of financial technology among individuals is already gaining traction, despite adoption rate starting from a low baseline. In 2022, only 3.3% of Palestinian adults (aged 18 and above) owned or used a digital wallet (2.9% in the West Bank and 4% in Gaza Strip).⁷ The PMA reported that the number of digital wallets owned by individuals reached 363,347 in Q3 2022, compared to 172,005 digital wallets in Q3 2021. The total value of these digital wallets also increased from \$1.2m to \$1.7m over the same period.⁸ Around 1.5m digital wallet transactions with a total value of \$129.4m were carried out in the first nine months of 2022, compared to 397,000 transactions totalling \$29.7m in the corresponding period in 2021.⁹

According to the latest financial inclusion data (from 2022), 15.1% of Palestinians aged 18 or above own or use at least one type of digital financial services, with 7.4% of Palestinian adults using online banking services, 11.3% using mobile banking services and 6.7% paying bills online.¹⁰ To put this data into perspective, the total percentage of Palestinian adults who hold or use a bank account stands at 34.8% (43.9% in the West Bank and 20% in the Gaza Strip).

¹ <https://www.alwatanvoice.com/arabic/news/2023/> and <https://on.ft.com/3IKyIBN>

² <https://www.sproutasia.com/blog/how-is-a-neobank-different-from-a-traditional-bank>

³ <https://www.alhadath.ps/article/> and <https://bit.ly/3yQff5y>

⁴ <https://bnews.ps/ar/node/20767>

⁵ Jawwal is the mobile network operator subsidiary of PALTEL; <https://www.jawwal.ps/Reflect>

⁶ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En ICTS2022E.pdf

⁷ www.financialinclusion.ps/item-1678961908/

⁸ <https://bit.ly/3mM9Qtv>

⁹ <https://bit.ly/3ZZECgl>

¹⁰ The survey and its main results published in late March will feature in the April Issue of the Bulletin.

In addition, offering user-friendly digital banking with reduced costs and improved services is expected to encourage more businesses to adopt digital payments. Currently, Palestine has a low rate of adoption of digital financial solutions, despite regulators' and international organisations' efforts to boost the uptake.¹¹ A recent survey by the Palestine Central Bureau of Statistics (PCBS) showed that in 2021, around 14.4% of economic establishments in Palestine used digital payment methods, 17.1% in the West Bank and 9% in the Gaza Strip.¹² When the remaining 85.6% of the surveyed economic establishments were asked about the reasons they opted not to use electronic payment methods, 75.2% stated that they are unwilling to use them, 19.6% said that they did not know that such services existed in Palestine, 17.4% complained about the high cost and 17.3% did not know how to use them.

The provision of new digital banking services is also expected to help increase the expansion of e-commerce, which is currently being utilised by only 1.5% of businesses in Palestine (1.9% in the West Bank and 0.2% in the Gaza Strip). Generally, businesses in both areas rely almost entirely on cash on delivery, or COD (93.8% in the West Bank and 100% in the Gaza Strip).

Banking sector performance remains sound

In the first half of 2022, banking sector capital (16.7% of risk-weighted assets) remained adequate, and profitability (10.4% return on equity) had recovered to above its pre-pandemic level, while non-performing loans (NPLs) remained steady at 4.2% of total loans.¹³ Preliminary estimates also indicate that the sector maintained its improved profitability in the second half of 2022.¹⁴

Table 1: Banking system profitability indicators, 2018-2021

	2018	2019	2020	2021
Net interest revenue (\$m)	578.3	609.2	591.5	631.6
Net fees revenue (\$m)	124.5	126.1	117.9	121.3
Other revenues (\$m)	91.1	97.0	87.9	117.7
Net profits (\$m)	203.4	190.9	126.4	197.8
Net profit margin	25.6%	22.9%	15.8%	22.7%
ROA	1.3%	1.1%	0.6%	0.9%
ROE	10.6%	9.7%	6.4%	9.4%

In 2021, total revenues of the Palestinian banking sector reached \$870.6m, an increase of 109.2% from 2011.¹⁵ Net interest income increased by 127.3% between 2011 and 2021 and is the main source of revenue for Palestinian banks, representing 72.6% of total bank revenue. Credit facilities, the main source of interest income, increased by 202.7% between 2011 and 2021.¹⁶ Net banking fees, the second largest source of banking revenues (13.9% of banks total revenues in 2021), saw an 86.5% increase over the same period.

The Palestinian banking system relies extensively on interest income and service fees to generate revenues. This is in contrast to international banks, which generally also rely on other sources of revenue, such as trading securities, investment banking and fiduciary activities, instruments which are limited in Palestine.¹⁷ The PMA's recently-introduced ceilings on bank fees and commissions should encourage banks to seek new profit-generating opportunities.¹⁸ In the longer term, consolidated banking

system net profits reached \$197.8m in 2021, a 49.4% increase compared to 2011. Despite this growth in banks' profits, profitability metrics such as the return on equity dropped from 11.2% in 2011 to 9.4% in 2021. Returns on assets registered a similar trend, reaching 0.9% in 2021, compared to 1.4% in 2011.

Rising Labour Market Tensions

Since the start of 2023, there has been an increase in labour union protests demanding improved wages and labour conditions. Public sector teachers, doctors and engineers are demanding salary increases promised in previous wage negotiations.¹⁹

To make matters more complex, public sector employees, including teachers, engineers, and doctors, have been receiving only partial wages since November 2021. The Minister of Finance, Shukri Bishara, announced last year the PNA's inability to pay wages in full due to the ongoing fiscal crisis.²⁰ As a result, Bishara requested to postpone implementing any wage increase agreements with public sector employee unions, citing an ILS 840m increase in the PNA wage bill per annum. However, unions are now demanding the PNA fulfil its commitment to previously signed agreements.²¹

Disruptions to vital social services

Crucially, the current wave of strikes involves employees in vital areas such as health and education. In both these sectors, employees have been persisting with demands, with no clear resolution in sight.

Public school teachers are now approaching the fourth week of strike action with overwhelming participation of almost 90% of public teachers.²² Teachers demanded the enforcement of last year's strike demands, which included the democratisation of teacher representation and a 15% wage increase by January 2023, as well as an additional 5% increase by 2024.²³ Other demands included linking overall salaries to real cost of living and guarantees that salaries are paid without prejudice.²⁴

On 1 February, the doctor's union set a 50% price increase on medical examinations and called on private clinics and doctors to halt their dealings with health insurance companies until the latter have committed to covering the new rates.²⁵ This decision led to a dispute between the union and Palestinian insurance companies relating to a 2018 agreement between the two parties that set limits for rate increases.²⁶ On 19 February, a meeting was initiated by the Palestinian Ministry of Health to discuss the stand-off,²⁷ resulting in the increase in the price of medical examinations being set at 20%.²⁸ While this compromise could potentially alleviate the current deadlock, ordinary Palestinians will bear the consequences by paying higher premiums for private health insurance, while public resources needed to cover Ministry of Health referrals to private clinics due to limited capacity will be additionally burdened by the increase.²⁹

Persistent structural challenges

While around 95,000 people entered the Palestinian labour market in 2022, the market was only able to generate an

11 www.wattan.net/ar/video

12 <https://pcbs.gov.ps/Downloads/book2632.pdf>

13 <https://bit.ly/3T8AVDr>

14 www.wattan.net/ar/news/396152.html

15 www.abp.ps/public/files/server/05/31-12-2021.pdf and <https://bit.ly/429TRp6>

16 <https://www.pma.ps/ar/Statistics/MonthlyStatisticalBulletin>

17 <https://cba.ca/bank-revenues-and-earnings-profits>

18 <https://bit.ly/3jHW365>

19 <https://www.wattan.net/ar/video/397379.html>

20 <https://bit.ly/3yvZW1N>

21 <https://bit.ly/3Fimar1>

22 <https://qudsn.co/post/197401/حراك-المعلمين-الموحد-بالضفة-يعان-عن-سلسلة-من-الفعاليات-والمطالب>

23 <https://bit.ly/3Lg06Sv>

24 www.dooz.ps/p/210484

25 <https://bit.ly/3FkLWMM6>

26 www.wafa.ps/Pages/Details/65795

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

28 www.bnews.ps/ar/node/20827

29 www.financialinclusion.ps/item-1678961908/

additional 51,000 jobs between 2021 and 2022. The Israeli labour market, however, absorbed an additional 47,000 workers, employing a total of 193,000 Palestinians by the end of 2022. The services sector is the largest employer in the local labour market, while the construction sector is the largest employer of Palestinians in Israel and Israeli settlements.

According to Palestine Central Bureau of Statistics (PCBS), the unemployment rate stood at 24.4% in 2022, a drop from 26.4% in 2021. Unemployment remains persistently high among people aged 19-29 (48.3%), women (40%), and Gaza Strip residents (45%).³⁰ The average unemployment period for West Bank residents is 12.3 months, compared to 21 months in the Gaza Strip.³¹ There is also a large gap in the labour force participation rate between the West Bank (47.5%) and the Gaza Strip (41%), and between men (70.7%) and women (18.6%). Total labour underutilisation - the unmet need for employment as a result of mismatches between labour supply and demand - reached 31% (or 500 000 people) in 2022.

In terms of labour protection, 65% of wage employees in the private sector are hired without a verbal or written contract, and 56% of female wage employees do not have paid maternity leave benefits. A striking 40% of wage employees in the private sector receive less than the new minimum wage (ILS 1,880) that came into force at the start of 2022 (19% in the West Bank and 89% in the Gaza Strip).³²

The National Employment Strategy 2021-2025

An international meeting on employment in Palestine between Palestinian government, the International Labour Organization (ILO) and the Arab League took place in Amman on 24 and 25 February sponsored by the German government,³³ the meeting served as a platform for communication and coordination to support the implementation of the latest Palestinian National Employment Strategy (PNES), spanning 2021-2025.³⁴ On the sidelines of the meeting Palestinian Minister of Labour Nasri Abu Jaish signed eight agreements with local and international bodies to support the implementation of PNES over the next three years, together worth \$55m.³⁵ The agreements aim to support vocational training and education and create job opportunities for youth and women across several sectors.³⁶ A budget of \$25m was allocated to the employment generation programmes, which aim to create 2,500 permanent and 3,000 temporary job opportunities over the next two years. This includes cash for work, temporary employment and support for SMEs and the self-employed.³⁷

The National Employment Strategy 2021-2025 aims to achieve 'full employment', reducing informal work, improving gender equality in the labour market, enhancing social protection for workers and increasing the participation of underrepresented groups in the labour force.³⁸ It also paved the way for raising the national minimum wage from ILS 1,450 to ILS 1,880 per month (from approximately \$437 to \$567), which came into effect in 2022. However, progress has been slow and limited due to various challenges, including a lack of resources and funding, limited access to international markets, and ongoing political instability.

Siniora's New Factory in Saudi Arabia

On 23 February, at the 2023 Gulfood event in Dubai, Siniora Food Industries Company (Siniora) signed an agreement with

the Saudi Authority for Industrial Estates and Technology Zones (MODON) to establish a chilled and frozen meat factory on a 25,000-square-metre land plot in Jeddah's second industrial area.

The new facility is expected to cost around \$3 million and aims to meet the growing demand for such products in the Saudi market while helping Siniora expand its reach in regional markets.³⁹ By manufacturing from within the Saudi market, Siniora aims to reduce its transportation costs, decrease delivery times and improve its responsiveness to the local market's demand.⁴⁰ The new facility will also allow Siniora to diversify its product range and introduce new products that cater to the local Saudi market's preferences. It will also help Siniora avoid import duties and taxes, which can reduce its production costs and improve its competitiveness in the Saudi market.⁴¹

Siniora's expansion trajectory

The expansion of Siniora, a subsidiary of the Arab Palestinian Investment Company (APIC), into Saudi Arabia is part of the company's long-term strategic plan to expand its operations in the Middle East and beyond.⁴² Siniora Food Industries has a long-standing history that began in 1920, when the company was founded in Jerusalem. Its commitment to producing high-quality deli meat products soon cemented it as a household name in the Middle East.⁴³

In 1992, the company established a factory in Jordan to meet the increasing demand for its products. With time, Siniora's success led to it being acquired by the Arab Palestinian Investment Company (APIC), which allowed it to expand beyond Jordan and Palestine to supply markets across the region, including Syria, Lebanon, Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Oman, Yemen, and Bahrain.⁴⁴

In 2009, the company established the Siniora Trading Company to distribute its products in the Saudi market. In 2014, Siniora Gulf General Trading was established to enter the UAE market. Subsequently, in 2016, Siniora acquired the Dubai-based Diamond Meat Processing Company, further increasing its reach in the Middle East regional (GCC) market.⁴⁵

Apart from expanding in the GCC market, Siniora has also expanded its business in Jordan and Turkey. In 2013, APIC established the Jordanian Poultry Company (JPC), which has since become one of the leading producers of poultry in Jordan. JPC's success prompted APIC to expand its poultry business to Turkey, where it established a new facility in 2017. This expansion allowed APIC to expand its customer base beyond Palestine and Jordan. With its latest acquisition of a Turkish company, Tarakya, and signing this new agreement, Siniora is well placed to tackle new markets and solidify its position as a leading player in the meat and dairy industry.⁴⁶

February Trading

In February 2023, the Al-Quds index reached 657.6 points on the last day of trading, an increase of 2% from the previous month.⁴⁷ During the month, a total of 9m shares with a total value of \$16.8m were traded, marking a 59.4% and 58.3% drop in the number and value of traded shares, respectively, compared to January 2022.

30 https://pcbs.gov.ps/pcbs_2012/PressEn.aspx

31 <https://bit.ly/31o8WVM>

32 https://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_LFSSY2022A.pdf

33 <http://mol.pna.ps/news/891>

34 www.bnews.ps/ar/node/20845

35 www.wafa.ps/Pages/Details/66578 and <http://mol.pna.ps/news/891>

36 www.alhadath.ps/article

37 www.mol.pna.ps/news/893

38 www.ilo.org/beirut/media-centre/news/WCMS_774736/lang--en/index.htm

39 www.wafa.ps/Pages/Details/66450 and <https://bit.ly/3zeU4u3>

40 www.foodbusinessafrica.com

41 <https://finance.yahoo.com/news/siniora>

42 www.zawya.com/en/press-release/companies-

43 <https://arn.ps/post/237102.html>

44 www.siniorafood.com/en-us/About-Us/Company-Overview

45 www.foodexport.org/export

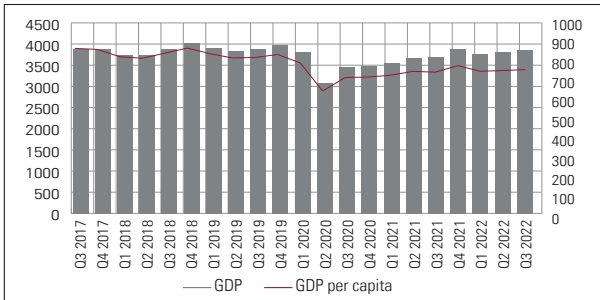
46 <https://apic.ps/siniora/>

47 <https://bit.ly/3JdKlit>

Palestine Economic Dashboard

Growth

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

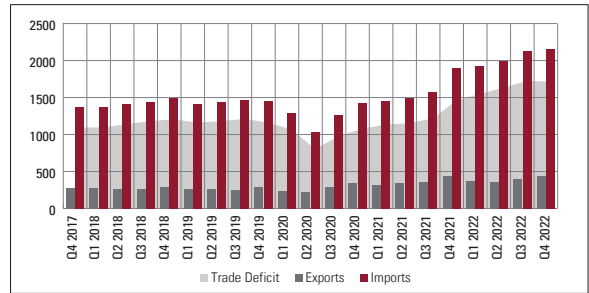


GDP (Q3 2022): \$3910.5m
Source: PCBS

GDP per capita (Q3 2022): \$770.9

Trade

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

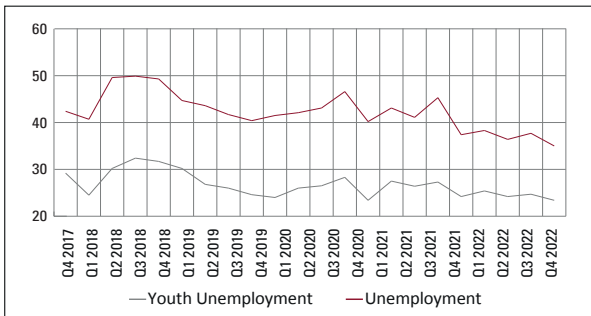


Imports (Q3 2022): \$2,158.2m
Trade deficit (Q3 2022): \$1,712.5m

Exports (Q3 2022): \$445.7m
Source: PCBS

Unemployment

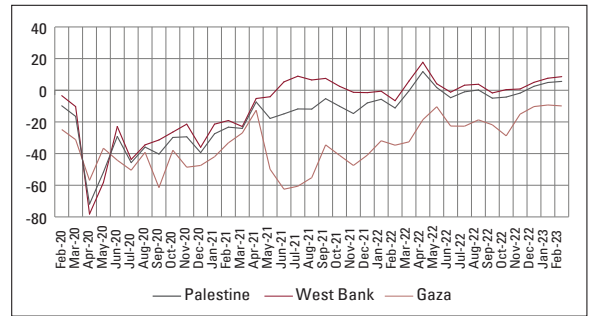
Unemployment and Youth Unemployment in Palestine, Q4 2017 – Q4 2022



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

Business Cycle Index

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

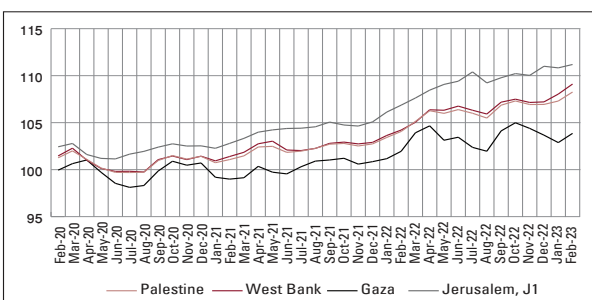


Palestine (February 2023): 5.6
Gaza (February 2023): -9.9

West Bank (February 2023): 8.6
Source: PMA

Inflation

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

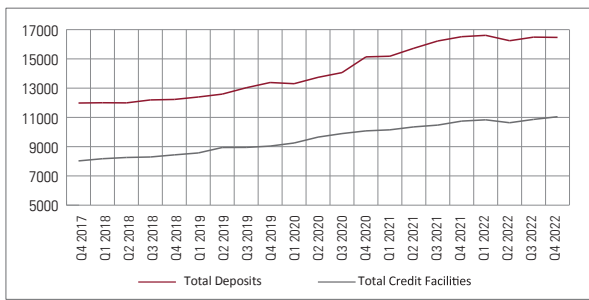


Palestine (February 2023): 108.26
Gaza (February 2023): 103.86

West Bank (February 2023): 109.11
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

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