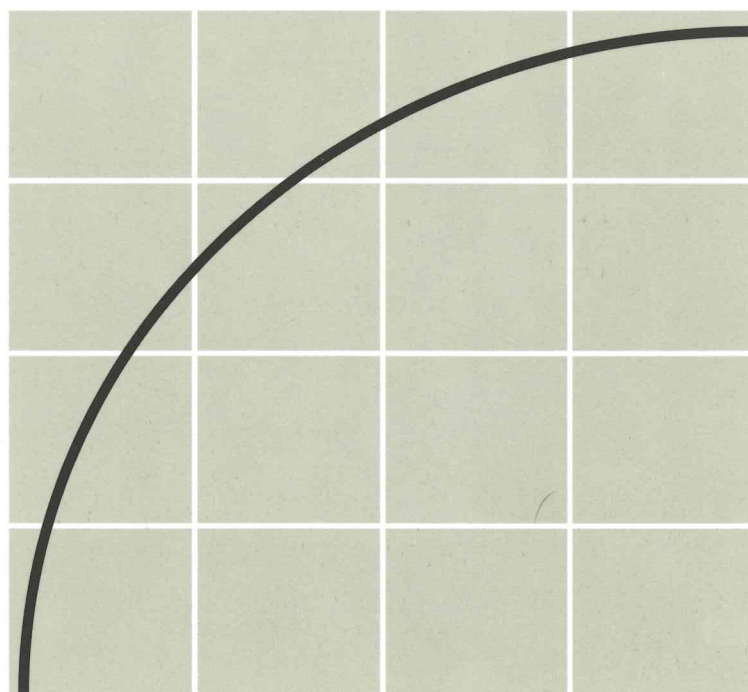


2015

Economic & Social Monitor



Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)

This issue is based on contributions from researchers of:

Palestine Economic Policy Research Institute –MAS (General Coordinator: Salam Salah)
The Palestinian Central Bureau of Statistics (Coordinator: Amina Khasib)
Palestine Monetary Authority (Coordinator: Shaker Sarsour)

Editor: Nu'man Kanafani

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P.O. Box 19111, Jerusalem and P.O. Box 2426, Ramallah

Telephone: +972-2-298-7053/4

Fax: +972-2-298-7055

e-mail: info@mas.ps

website: www.mas.ps

© 2015 Palestinian Central Bureau of Statistics

P.O. Box 1647, Ramallah

Telephone: +972-2-2982700

Fax: +972-2-2982710

e-mail: diwan@pcbs.gov.ps

website: www.pcbs.gov.ps

© 2015 Palestine Monetary Authority

P.O. Box 452, Ramallah

Telephone: +972-2-2409920

Fax: +972-2-2409922

e-mail: info@pma.ps

website: www.pma.ps

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FOREWORD

There is always a time lag between publishing an issue of the *Quarterly Economic and Social Monitor* and the period that it covers. The present issue – which is released in August with a slight delay – covers economic developments and indicators for the quarter that ended in March 2015. We hope that the readers will find in this issue information and data that are helpful in understanding the realities of the Palestinian economic situation during that specific period.

This issue of the Monitor features six text boxes, which is fewer than in previous issues, but it was never the intention to have a specified number of boxes as this depends on what is new and topical and has significant implication for the Palestinian economy. The box on the net general budget expenditure in the Gaza Strip is particularly interesting as it presents information made available for the first time on an issue that has occasionally stirred debate with political nuances unrelated to the socio-economic context. Needless to say, under normal and healthy conditions, revenues are allocated to different expenditure items not according to region or source of revenue, but rather depending on allocation policies informed by a national spending plan inspired by the principles of achieving equality and effectiveness. This is a point that we found important to stress in relation to this analytical text box.

Nabeel Kassis
Director General
Palestine Economic Policy
Research Institute (MAS)

Ola Awad
President
Palestinian Central Bureau
Of Statistics (PCBS)

Jihad Alwazir
Governor
Palestine Monetary Authority
(PMA)

Executive Summary

Issue 41 of the *Quarterly Economic and Social Monitor* provides an overview of the key development indicators in the Palestinian Territory during the first quarter of 2015. It also includes six boxes that discuss topical issues relevant to the Palestinian economy.

Overview

GDP

At the end of Q1 2015, Palestinian real GDP totaled around USD 1.8 billion (2004 prices), shrinking by 0.8 percent from Q4 of the previous year (-2.9 percent in the West Bank versus +6.7 percent in Gaza). The same decline was also reported compared to the first quarter of the previous year. Per capita GDP, meanwhile, fell to USD 425.9, which is 1.5 percent less than in the previous quarter and 3.6 percent lower than in the same quarter of 2014. Expenditure data show a gap between domestic consumption and production, with the former amounting to 124 percent of GDP during the quarter.

Labor Market

The number of West Bank and Gaza's workers rose to 950 thousand, an increase of 1.5 percent over the previous quarter and 2.6 percent over the same quarter a year earlier. By place of work, 59.6 percent of employment was reported in the West Bank, 28.7 percent in the Gaza Strip and 11.7 percent in Israel and the settlements. Public employment as a share of the total fell by one percentage point from the previous quarter to 25.6 percent (16.3 percent in the West Bank and 41.6 percent in Gaza). On the other hand, the median daily wage remained unchanged at NIS 84.6, with a wide gap between the Palestinian Territory, on the one hand and Israel and the settlements, on the other. The daily average wage for Palestinian workers, however, rose by 1.1 percent to NIS 103 in Q1 2015 over Q4 2014.

Public Finance

Public revenues and grants totaled NIS 2.4 billion in Q1 2015, a drop of 25.7 percent from Q4 2014 and 33.4 percent from Q1 2014 – the result of a 62 percent plunge in clearance revenue from the previous quarter and 71 percent from the same quarter of 2014.

International aid made up around 35 percent of total public revenue. Meanwhile, public expenditure reached NIS 2.7 billion (92 percent for current spending and a scant 8 percent for developmental spending). The government, thus, had to run a deficit of NIS 265.3 million on a cash basis. The figure, however, rises to NIS 1.4 billion on a commitment basis when liabilities (NIS 470.3 million) are taken into consideration. Finally, at the end of the quarter, public debt totaled NIS 9.4 billion (or 20.4 percent of GDP), around 50 percent of which was domestic debt.

Banking Sector

Total assets of banks in the Palestinian Territory at the end of Q1 2015 totaled USD 11.9 billion, a growth of 0.9 percent over the previous quarter, due to a 4.7 percent rise in credit facilities. Deposits (the most important component of total liabilities) totaled USD 9 billion. Meanwhile, the ratio of non-performing facilities to total facilities rose slightly to 2.6 percent during the quarter. Net profits of banks fell by USD 3.3 million to USD 36.1 million even though the spread between average lending and deposit interest rates rose slightly for the JD and the NIS.

Investment Indicators

The number of newly registered companies in the West Bank in Q1 2015 was 358, down by 14 from the previous quarter and by 82 from the same quarter of 2014. The new companies registered in the quarter had a capital of JD 37 million, down by 37 percent from the previous quarter.

Around 1,970 building permits for new and existing housing units were issued during the quarter, which is 8.1 percent lower than the figure in the previous quarter. Meanwhile, the amount of imported cement declined by 3.1 percent during the same period. While the West Bank cement imports decreased by 12 percent, there was a remarkable increase of 146.9 percent in the Gaza Strip.

Prices and Purchasing Power

The Consumer Price Index (CPI) saw a slight decline of 0.03 percent relative to Q4 2014 but a

rise by 0.58 percent over the corresponding quarter of 2014. The change between the successive quarters basically resulted from a fall in the prices of transport and communications (2.66 percent), lodging (2.27 percent), and food and soft drinks (0.23 percent).

The purchasing power (PP), measured as the change in NIS prices against the change in USD (and JD) exchange rates, saw some improvement during the quarter. The PP for individuals who receive their wages and salaries in USD or JD (but have their spending in NIS) increased by about 12.1 percent over Q4 2014.

Foreign Trade and the Balance of Payments

The balance of trade (for registered goods only) suffered a deficit of USD 913 million during Q1 2015. Imports and exports fell by 7 percent and 10 percent, respectively. The current account deficit in the balance of payments reached USD 323.4 million, up by 66 percent from the previous quarter. This upsurge resulted from a 2 percent drop in the income balance and a 24 percent decline in the current transfers. The current account balance deficit was financed by a surplus in the capital and financial account (i.e., debt for the economy), which made available around USD 238 million.

External Assets and Debt

At the end of Q1 2015, Palestine's foreign assets totaled USD 5.923 billion, of which 2.7 percent only was in the form of FDI, while portfolio investment accounted for 19.6 percent. Total external liabilities, on the other hand, reached USD 4.615 billion, 51.7 percent of which was in the form of FDI. Palestine's foreign debt totaled USD 1.6 billion at the end of Q1 2015.

Box Topics: This Issue has six boxes, and we provide below a short summary of each box:

The Reasons behind the Sluggish Economic Growth in the Palestinian Territory

The box summarizes the results of a study by AIX Group on the constraints on economic growth in the West Bank and Gaza. The study first compared the growth rates in Palestine with those in the neighboring countries between 1997 and 2010 and concluded that the slow growth in Palestine does not reflect a general trend in the Arab economies. Rather, it is a result of the special situation in Palestine. The study

concluded that the decline in total factor productivity (TFP) – particularly during the first decade following the Oslo Accords – and the unwillingness of businesses to invest even in conditions of high profitability are the main reasons behind stagnation. The report concluded further that the restrictions on movement and access are the main reasons behind low productivity and the inability of the economy to take off.

The Gaza Strip: Per Capita Income Now Is Two-Thirds of Its Level in 1994 and Donors Have Fulfilled Less Than One Third of Their Pledges

The World Bank semi-annual report on the Palestinian economy was dedicated to the situation in Gaza following the war waged by Israel in 2014. In its report “*Gaza Economy: On the Verge of Collapse*”, the World Bank estimates that the 2014 war caused a 15 percent drop in Gaza's GDP, with real per capita GDP now 31 percent lower than its level in 1994. The war also increased the unemployment rate to 43 percent, the report estimated. The report also provided data on the aid so far received out of the pledges made by donors in the November 2014 Conference in Cairo. Pledges to the Palestinian Authority at the Conference reached USD 5.078 billion over the period 2014-2017, of which 70 percent was intended to support Gaza. More than six months after the Cairo Conference, total disbursement for the reconstruction of Gaza amounted merely to 27 percent of the pledges.

Net Government Spending in the Gaza Strip

New figures released by the Palestinian Ministry of Finance pointed out that government spending in Gaza in 2014 reached NIS 4 billion. During the same period, the government's revenue from Gaza (refunded by Israel on Gaza's imports) was only NIS 1.1 billion. This means that net spending totaled NIS 2.6 billion, which is 22 percent of the 2014 total budget spending. In other words, the public revenues from Gaza Strip amounts only to about one-third of what the Palestinian Authority spends there.

Public Debt: USD 5 Billion, with Arrears Comprising around 50 Percent

The IMF semi-annual report on the Palestinian economy examined the sustainability of the Palestinian Authority debt. Total debt (including

arrears) reached about 40% of the GDP, which is also the upper limit as put in the Public Debt Law. During 2014, net arrears grew by USD 420 million. The government has reduced its debt to local banks but increased the accumulating arrears, particularly to the Pension Fund. The IMF report pointed out that arrears on the external debt reached USD 52 million at the end of 2014. Also, arrears to local banks were estimated at more than USD152 million. The box contains a table that summarizes the structure of public debt, including arrears.

Ease of Doing Business Report 2015: A Decline in Palestine's Ranking Despite a Slight Improvement in Performance

The box summarizes the results of the World Bank's report on Ease of Doing Business in the West Bank and the Gaza Strip in 2015. The box outlines the most important modifications made to the methodology from earlier years and focuses on the indicators of the ease of starting and doing business in Palestine relative to other countries in general and Israel in particular. The West Bank and the Gaza Strip's economy ranked 143rd (out of 189 economies), declining by 5 places from 2014 despite the slight rise in the overall performance mark. Compared to Israel, the Palestinian economy's performance lagged far behind in most of the indicators, with a 100 ranking point in some indicators. However, the West Bank and the Gaza Strip's economy ranked higher than the Israeli one in few indicators, such as 'getting electricity', 'registering property', 'paying taxes', and 'enforcing contracts'. The box provides important data showing the large gap between Israel and Palestine regarding the costs of export and import. A significant part of the cost differential is due to Israeli restrictions and constraints on the Palestinian economy and trade.

The Economic Costs of the Palestinian-Israeli Conflict and Gains from a Two-State Solution

The box summarizes the results of two studies on the economic cost of the Palestinian-Israeli conflict. The first focused on the gains from a two-state solution for the Palestinian and Israeli economies. The second examined the costs of occupation on the Israeli economy. The first study aimed to estimate the economic gains/losses under five possible alternative outlooks for the development of political relations between the two parties. It concluded that the two-state solution could help generate USD 170 billion for the two economies over the next decade. The study projected that Israel's partial withdrawal (whether a coordinated withdrawal or unilateral) is not likely to bring significant economic gains. In contrast, the nonviolent resistance scenario and the violent uprising scenarios are likely to bring large losses to the two economies. With the latter scenario, Israel would lose about half of its GDP and the Palestinians three times the size of their GDP. The second study sought to estimate the direct economic costs of the conflict in the Middle East on the Israeli economy. The study found that the economic cost was about NIS 116 billion, or 15 percent of GDP in 2011. The costs are divided into 13 categories. More than 45 percent of the loss is a result of the decline in human capital, which is due to military conscription. However, the study did not calculate the additional costs associated with the construction and maintenance of the separation wall and bypass roads in the West Bank, as well as the funds allocated to subsidies and protection of the Israeli colonial settlements in the Palestinian Territory.

Key Economic Indicators in the West Bank and the Gaza Strip for the years 2000-2014

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 ^d
Population at mid year (thousands)															
Palestinian Territory	3,053.3	3,138.5	3,225.2	3,314.5	3,407.4	3,508.1	3,612.0	3,719.2	3,825.5	3,935.25	4,048.40	4,169	4,293	4,421	4,550
- West Bank	1,943.7	1,992.6	2,042.3	2,093.4	2,146.4	2,203.7	2,262.7	2,323.5	2,385.2	2,448.4	2,513.3	2,580	2,649	2,719	2,790
- Gaza Strip	1,109.7	1,145.9	1,182.9	1,221.1	1,261.0	1,304.4	1,349.3	1,395.7	1,440.3	1,486.8	1,535.12	1,589	1,644	1,702	1,760
Labor Market															
Employment (thousands)	600	505	477	564	578	603	636	690	667	718	745	837	858	885	917
Participation Ratio (%)	41.5	38.7	38.1	40.3	40.4	40.4	41	41.7	41.2	41.6	41.1	43	43.4	43.6	45.8
Unemployment (%)	14.1	25.2	31.3	25.6	26.8	23.5	23.7	21.7	26.6	24.5	23.7	20.9	23	23.4	26.9
- West Bank	12.2	21.6	28.2	23.7	22.8	20.4	18.8	17.9	19.7	17.8	17.2	17.3	19.0	18.6	17.7
- Gaza Strip	18.9	34.0	37.9	29.1	35.3	30.3	34.8	29.7	40.6	38.6	37.8	28.7	31.0	32.6	43.9
National Accounts															
GDP (Mill. USD)	4,313.6	4,003.7	3,555.8	3,968.0	4,329.2	4,831.8	4,910.1	5,505.8	6,673.5	7,268.2	8,913.1	10,465.4	11,279.4	12,476.0	12,765.8
<i>Private Consumption</i>	3,713.0	3,594.6	3,217.7	3,736.3	4,270.3	4,891.7	5,111.7	5,595.3	6,575.8	6,822.8	7,976.0	9,199.0	9,693.6	10,522.5	11,599.0
<i>Public Consumption</i>	1,098.9	1,116.4	985.8	906.0	1,227.0	1,363.3	1,374.5	1,603.2	1,832.8	2,342.7	2,500.8	2,892.3	3,126.9	3,381.7	3,578.3
<i>Final consumption of NGOs</i>	153.8	170.8	180.2	195.8	174.9	194.6	208.5	251.9	339.9	351.4	378.7	403.4	464.9	477.6	674.8
<i>Gross Capital Formation</i>	1,358.9	1,184.2	930.5	1,143.0	1,151.5	1,241.3	1,155.1	1,204.9	1,371.9	1,504.8	1,921.5	1,863.8	2,378.5	2,707.3	2,375.1
GDP per capita (USD)															
<i>In Current prices</i>	1,518.9	1,369.4	1,181.8	1,281.4	1,358.1	1,470.1	1,448.8	1,575.6	1,855.5	1,963.2	2,338.7	2,664.9	2,787.2	2,992.2	2,973.4
<i>In Constant 2004 prices</i>	1,526.7	1,345.0	1,143.7	1,267.0	1,358.1	1,459.4	1,360.1	1,406.0	1,449.1	1,529.8	1,606.4	1,752.5	1,807.5	1,793.3	1,734.6
Foreign Trade^b (Mill. USD)															
Commodity Exports		339	282	318	348	378	378	562	569	631	666	1,525	1,250	1,756.1	2,018.7
Commodity Imports		1,980	1,507	1,782	2,300	2,613	2,738	3,280	3,511	4,136	4,319	6,188	6,134	6,053.0	7,071.0
<i>Trade Balance (Goods)</i>		(1,641)	(1,224)	(1,464)	(1,952)	(2,236)	(2,352)	(2,718)	(2,942)	(3,504)	(3,653)	(4,663)	(4,884)	(4,296.9)	(5,052.3)
Services Exports		117	103	154	192	202	179	252	357	579	831	686	649	315.7	279.3
Services Imports		603	600	475	519	451	455	634	698	931	1,143	948	1,032	751.0	710.1
<i>Trade Balance (Services)</i>		(486)	(497)	(320)	(327)	(249)	(275)	(382)	(342)	(352)	(312)	(262)	(353)	(435.3)	(430.8)
<i>Current Account of BoP</i>		(875)	(452)	(854)	(1,334)	(1,020)	(944)	(467)	530	(713)	(691)	(2,430)	(2,815)	(1,317)	(1,387)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 ^d
Exchange Rates and Inflation															
Average USD/NIS	4.086	4.208	4.742	4.550	4.477	4.482	4.454	4.110	3.587	3.929	3.739	3.578	3.85	3.611	3.577
Average JOD/NIS	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.061	5.542	5.275	5.050	5.43	5.093	5.046
Inflation Rate (%) ^c	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75	2.88	2.78	1.725	1.733
Public Finance on Cash Basis, mill. USD															
Net Domestic Revenues (incl. Clearance)	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1,900.4	2,176	2,240	2,320	2,787
Recurent Expenditure	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,920	2,983	2,952	3,047	3,250	3,438
Development Expendt.	469	340	252	395	0	287	281	310	-	46.8	275.1	296	211	168	164
Deficit (before Grants)	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,342)	(1,083)	(776)	(807)	(931)	(651)
Foreign Grants	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,277	978	932	1,358	1,233
Surplus/deficit (after Grants)	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(81)	(94)	(86)	259	418
Public Debt	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,736	1,883	2,213	2,483	2,376	2,422
Banking Sector (Million Dollars)															
Assets/Liabilities	4,593	4,430	4,278	4,728	5,101	5,604	5,772	7,004	5,645	7,893	8590	9,110	9,799	11,191	11,822
Equity	242	206	187	217	315	552	597	702	857	910	1,096	1,182	1,258	1,360	1,467
Deposits	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111	6,802	6,973	7,484	8,304	8,935
Credit	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825	3,483	4,122	4,480	4,896

Source: Palestinian Central Bureau of Statistics, the Palestinian Monetary Authority.

All data exclude the part of Jerusalem governorate which was annexed illegally by Israel (with the exception of the data on unemployment and population). Figures in brackets are negative.

- a. The national accounts are in current prices, taken from the revised series of GDP values issued by PCBS in 2015. (for more information on the revised series, see the text box No. 2 in the Monitor No. 38)
- b. Foreign trade figures are taken from the balance of payments prepared by the Palestinian Central Bureau of Statistics in collaboration with PMA.
- c. The inflation rate is based on the comparison of average indices of consumer prices for the comparison year with its average in the previous year.
- d. Data for 2014 are Preliminary and subject to revision and amendments.