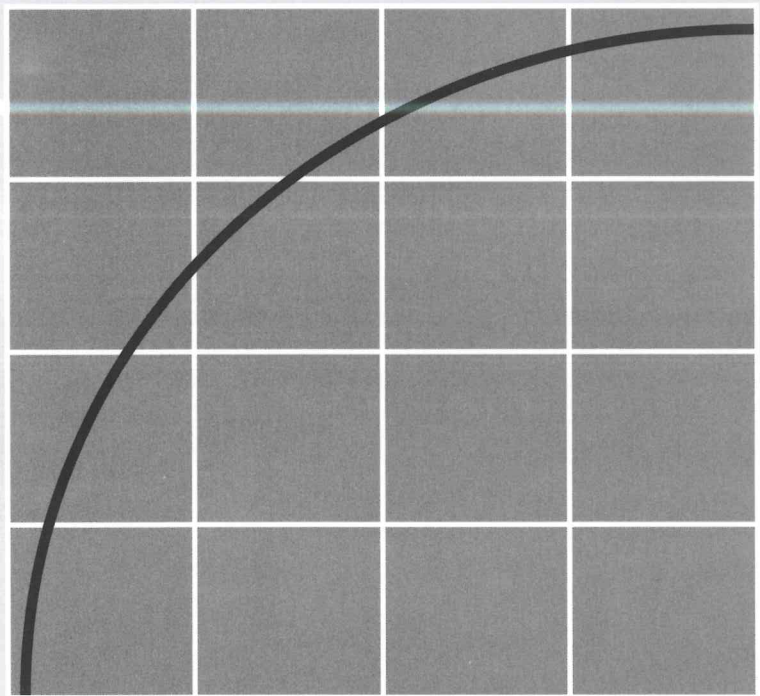


**2016**

# **Economic & Social Monitor**



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

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## **FOREWORD**

We are glad to present to the reader the 43<sup>rd</sup> issue of the Quarterly Economic and Social Monitor (QESM), which covers developments in the Palestinian economy during the 3<sup>th</sup> quarter of 2015. In addition to the periodic quarterly data presented in this Monitor, this issue contains five boxes discussing economic and socio-economic issues which were carefully selected to touch upon some of the most topical concerns that have emerged lately both locally and regionally, as reflected in reports, studies, and articles published in the specialized literature.

The QESM has maintained its present form for more than a decade now. In its early history, at the beginnings of MAS over twenty years ago, the Economic Monitor was published annually, and a Social Monitor was issued separately biennially. Obviously, the pattern and form of issuance have changed over time as a result of evaluation and development.

As representatives of the institutions involved in the issuance of the Monitor, we recognize that time has come to make an assessment of the past period, especially the last five years, in order to further improve this publication in a way that better serves the needs of stakeholders, especially in terms of analysis. Therefore, while work on the next issue, covering the last quarter of 2015, proceeds along the established pattern, we will endeavor to conduct in parallel an assessment with the aim of developing the publication. We hope that the results of the evaluation will be reflected in the issues referring to 2016 data, and meanwhile we will be happy and thankful to receive any critical remarks from our readers that would help us in this endeavor.

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## Executive Summary

Issue 42 of the *Quarterly Economic and Social Monitor* provides an overview of the key developments in the main economic indicators in the occupied Palestinian territory during the third quarter of 2015. It also includes five boxes that discuss topical issues with direct or indirect relevance to the Palestinian economy.

### Overview

#### GDP

At the end of 2015 Q3, Palestinian GDP totaled around USD 1.9 billion (2004 prices), a decline of 1.9 percent from Q2 (1.7 percent in the West Bank and 2.7 percent in Gaza), but a 9.6 percent increase over the third quarter a year earlier. Per capita GDP, meanwhile, reached USD 433, which is 2.6 percent lower than the figure in the previous quarter but 6.4 percent higher than the figure in the same quarter of 2014. Figures for spending on GDP show an persistent gap between domestic consumption and production, with final consumption expenditure reaching 125 percent of GDP during the quarter.

#### Labor Market

West Bank and Gaza's workers numbered during the Q3 947 thousand, a drop of 2.5 percent from the previous quarter, but an increase of 7.6 percent over the same quarter a year earlier. By place of work, 59.5 percent of employment was reported to be in the West Bank, 28.5 percent in the Gaza Strip and 12 percent in Israel and its settlements. Public sector employment accounted for 21.5 percent (36.5 percent in Gaza) of all employed. Meanwhile, unemployment rate jumped 2.6 percentage points (3.3 points in the West Bank and 1.2 points in Gaza) from the second quarter of the year to 27.4 percent. On the other hand, while the average daily wage in the West Bank declined by 2.5 percent from 2015 Q 2, it rose by 2.6 percent in Gaza and 0.5 percent for those working in and Israel and its settlements during the same period of comparison.

#### Public Finance

At the end of the quarter under consideration, public revenues and grants totaled around NIS 4 billion, a drop from the previous quarter due in part to a decline in international aid and grants to levels that were the lowest in years (to less than half a billion shekels or about 12 percent

of the total public revenues and grants). The drop was also a result of the difference in clearance revenues between the third quarter and the second quarter, whereby Israel released clearance revenues that it withheld in the first quarter of the year. This coincided with a reduction in public expenditure (both current and developmental spending) to NIS 3.6 billion. The treasury, thus, had a surplus of around NIS 392 million on a cash basis. The figure, however, turns into a deficit of NIS 516.3 million on a commitment basis when the figure for net arrears accumulation (NIS 546.1 million) is included in the current account. At the quarter close, public debt fell 1 percent to NIS 8.8 billion (or 17.5 percent of GDP).

#### The banking sector

Total assets of banks during Q3 totaled USD 12.5 billion, a slight growth of 0.3 percent over the previous quarter. The total liabilities and the ratio of non-performing facilities to total facilities both remained unchanged. At the same time, the net profits of banks increased USD 4.2 million over the second quarter of the year to USD 36.4 million. During Q3 the difference between the average lending interest rate and the average deposit interest rate rose for the USD and the JD, but declined a little for the NIS.

#### Palestine Stock Exchange

The value of shares traded during the third quarter of 2015 reached around USD 61 million, an improvement of 26 percent over the previous quarter. Meanwhile, Al-Quds Index closed the quarter at 484.68 points, 6.31 points higher than the figure in the previous quarter.

#### Investment Indicators

The number of companies newly registered in the West Bank in 2015 Q3 was 340, down 78 from the previous quarter, but up 29 from the same quarter of 2014. The new companies registered in the quarter had a capital of JD 39 million, down 39 percent from the previous quarter.

Around 2225 building permits for new and existing housing units were issued during the quarter, a 5 percent decline from the figure in the previous quarter. Meanwhile, the amount of

imported cement shrank 8.7 percent compared with the second quarter of the year.

### **Prices and purchasing power**

The 2015 Q3 consumer price index rose 0.04 percent over 2015 Q2 and 0.88 percent over the corresponding quarter of 2014. The change between the second and third quarters basically resulted from increases in the prices of education services (1.2 percent), medical services (0.71 percent) and food & soft drinks (0.67 percent) despite the sharp decline in lodging prices (2.06 percent).

The purchasing power (as measured in the change in NIS prices (inflation) against the change in USD–and JD– exchange rates) during 2015 Q3 dropped 0.85 percent from Q2 of the year but improved 8.45 percent compared to the same quarter a year earlier. The figures for purchasing power are based on the assumption that individuals paid in USD or JD had their entire spending in NIS.

### **The balance of trade and the balance of payments**

The balance of trade (for registered goods) registered a deficit of USD 1,064 million during 2015 Q3. While commodity imports rose 0.5 percent, exports of commodities fell sharply by 11.7 percent. The current account deficit in the balance of payments reached USD 586.3 million, up 61 percent from the previous quarter. A sizable amount (USD 459.6 million) of the current account balance deficit was financed by the capital and financial account.

### **External Assets, Liabilities and Debt**

At the end of 2015 Q3, Palestine's foreign assets totaled USD 5.959 billion, of which only 5.8 percent was in the form of direct investment, while portfolio investment accounted for 18.6 percent. Total external liabilities, on the other hand, reached USD 4.721 billion, of which 52 percent took the form of foreign direct investment. Palestine's external debt, in the meantime, totaled USD 1.595 billion.

### **Box Topics: This Issue has 5 boxes, each discusses a specific topic:**

#### ***Box 1: MENA Regional Economic Outlook 2016***

The Box summarizes the results of a report released by the IMF in late 2015 on the

prospects for growth and the problems facing the economic growth in the MENA region. The projections the report provides are subject to improvement/decline in economic activity. Uncertainty, resulting from conflicts and deteriorating oil prices, was predominant in the report's outlook. The report found that for oil-importing countries, the drop in oil prices has accelerated growth and helped these countries make economic reforms. For the Euro zone, it drove high economic growth. The IMF projects the MENA oil-importing economies to grow at about 4 percent in 2015 and 2016. However, higher growth rates are still needed to provide sufficient job opportunities and raise living standards as a growth rate of only 5 percent over the medium term will not be adequate to significantly lower the unemployment rate. The report further discussed some issues, particularly the potential changes in the GCC foreign labor transfers to their home countries given the declines in oil prices and the economic cost of civil wars in the region.

#### ***Box 2: Population growth despite the decline in total fertility rate***

The Box looks into the Palestinian population growth since the early 1990s. The population growth rate is determined by two factors: net reproduction and net migration. The rate of natural increase is the crude birth rate minus the crude death rate. The total fertility rate reflects the general trend of the birth rate. The fertility rate in both the West Bank and the Gaza Strip has steadily fallen over the past decades in parallel with a slight decrease in the mortality rate, suggesting that because of natural growth, the population has increased despite the sharp decline in fertility. As data on Palestinian bilateral migration stock are not available for the Palestinian Central Bureau of Statistics, we used estimates from the World Bank, which indicate that net migration was positive in the period 1991-2000, reaching 105 thousand people. This was reversed in 2000-2015 period, when 324 thousand repatriates arrived in the West Bank and Gaza. According to the estimates by the Palestinian Central Bureau of Statistics, the WBG population doubled between 1991 and 2014, and was growing at a modest annual rate of 3.5 percent.

#### ***Box 3: Prepayment meters: pros and cons***

The Box examines the impact of prepayment meters (water meters in particular) on the

dilemma of net lending. It has been found that this technology has not yet reduced the net lending bill. The Box presents the views of prepayment meters supporters and opponents and the reasons behind such views. It is found that to date, no concerned body has conducted an assessment of this technology and whether it achieved the envisioned objectives. The National Development Plan 2011-2013 stipulated that water and electricity bills for poor and vulnerable families be supported by the government. The Ministry of Social Affairs has been providing partial support of the electricity bills for many such families, simultaneously with the installation of prepayment meters.

***Box 4: Palestinian olive production: middle way between sterile and diamond***

The Box reports on the Palestinian olive sector and its socioeconomic implications. In 2004, olive production started to fluctuate before it leveled off in recent years. The sector faces several major challenges. The first are constraints of the occupation (the segregation wall which annexed more than 40 thousand dunums as buffer zones; the huge areas around

the colonial settlements, which the Palestinians are denied access to; let alone the Israeli deliberate actions such as cutting down Palestinian olive trees ). Second, the sector suffers production and marketing problems. Furthermore, the sector lacks a neutral international testing of the quality of Palestinian olive oil. An assessment of Palestinian olive oil by the International Olive Oil Council has yet to be conducted.

***Box 5: Israel's computers and internet-security software exports offset the decline in arms exports***

The Box summarizes an article by the *Economist* on the prosperity of computers and online security technologies in Israel, according to which, in 2014 Israel's security software exports exceeded arms exports. The demand for security products has boomed because businesses and governments have come to realize that they need to protect themselves against information leak and hackers assaults. The article, however, reported some Israeli entrepreneurs voicing concerns that the boom may be turning into a cyber bubble.

## 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 <sup>d</sup>
<b>Population at mid year(thousands)</b>															
<b>Palestinian Territory</b>	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
<b>Labor Market</b>															
<b>Employment (thousands)</b>	600	505	477	564	578	603	636	690	667	718	745	837	858	885	917
<b>Participation Ratio (%)</b>	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
<b>Unemployment (%)</b>	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
<b>National Accounts</b>															
<b>GDP (Mill. USD)</b>	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
<b>Private Consumption</b>	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
<b>Public Consumption</b>	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
<b>Final consumption of NGOs</b>	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
<b>Gross Capital Formation</b>	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
<b>GDP per capita (USD)</b>															
<b>In Current prices</b>	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
<b>In Constant 2004 prices</b>	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
<b>Foreign Trade<sup>b</sup>(Mill. USD)</b>															
<b>Commodity Exports</b>		339	282	318	348	378	378	562	569	631	666	1,525	1,250	1,756.1	2,018.7
<b>Commodity Imports</b>		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
<b>Trade Balance (Goods)</b>		(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)
<b>Services Exports</b>		117	103	154	192	202	179	252	357	579	831	686	649	315.7	279.3
<b>Services Imports</b>		603	600	475	519	451	455	634	698	931	1,143	948	1,032	751.0	710.1
<b>Trade Balance (Services)</b>		(486)	(497)	(320)	(327)	(249)	(275)	(382)	(342)	(352)	(312)	(262)	(353)	(435.3)	(430.8)
<b>Current Account of BoP</b>		(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 <sup>d</sup>
<b>Exchange Rates and Inflation</b>															
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 (%) <sup>c</sup>	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
<b>Public Finance on Cash Basis, mill. USD</b>															
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
Recurrent 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
<b>Banking Sector (Million Dollars)</b>															
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.