

Executive Summary

The PMA is pleased to publish its ninth annual report for the year 2003, which comes in terms of PMA's efforts in following up the situation of the banking system, and its role in economic development in Palestine. This period (2003) was characterized by the ability of the Palestinian economy to survive with the challenges, and used every available source in order to recover, in spite of the consequences of the Israeli aggressiveness on the infrastructure, public and private owned enterprises. This was in addition to the consequences of the establishment of the discrimination wall.

The report of the year 2003 contains five main chapters as follows: Economic Development, Financial Development, Foreign Sector, The Development of Banking Sector, and The Achievement of PMA.

The Main Economic Developments in 2003

1- Economic Output

The year 2003, specially in the first half, witnessed an easing of movement restrictions, combined with other measures including the release of tax revenue collected on behalf of the PNA, which supported a better economic performance – feeding into higher private investment, lower unemployment, and increased exports. As a result, the Palestinian economy showed different signs of recovery for the first time since 2000. The available primer data mentioned that at the end of 2003 the GDP was expected to achieve a positive growth rate equal to 10% compared with a decrease by 9% in 2002, so that, the GDP was expected to increase to US\$ 4143 million compared with US\$ 3780 million in 2002. The growth in GDP was positively affected the GDP per capita, which increased by 4% to reach US\$ 1136 compared with a decline by 13% in 2002.

On the other side, the GNI was expected to witness a growth equal to 10% compared with a decrease equal to 10% in 2002, and expected to reach to US\$ 4582 million, compared with US\$ 4161 million. As a result, the GNI per capita increased by 5% and reach to US\$ 1256 compared with a decline equal to 14% in 2002.

In terms of sectoral distribution of the GDP, it appears that the production sectors (agriculture, industry, construction) constitute around 28% of GDP, while the service sectors constitute 72% of the GDP in 2003.

2- Labor Market

The number of labor force in 2003 increased by 11% to reach 786 thousand, 525 thousand of them working in the Palestinian territories, 58 thousand working in the Israeli labor market. While the rest 204 thousand regarded as unemployment. The unemployment rate declined in 2003 to 26% of the total Palestinian labor force compared with 31% in 2002.

3- Inflation

With the decrease in unemployment and increase in per capita income, the CPI registered an increase in 2003 equals 4% compared with an increased equal to 6% in 2002.

While on the other hand, we can see the effects and consequences of the closure and restriction of the movement of people, goods and services, in terms of deteriorations of the standard of living, the economic dependency ratio, and the poverty levels to those people who are living in the territories.

Financial Developments in 2003

The outcome of the PNA budget in 2003 was affected by the whole situation in the Palestinian territories: Israeli occupation, improvement in the economic activities, and the institutional developments, including the reform of the financial system. In addition to release of tax revenue, which was collected on behalf of the PNA. The total revenue in 2003 increased by 64% to reach US\$ 1220 million (domestic revenues increased by 109% compared with 27% increased in grants), compared with a decrease equal to 29% in 2002. The total revenues in 2003 constitute 29% of GDP compared with 20% in 2002.

In order to face the expenditure pressures, the total expenditure witnessed a 21% increase to reach US\$ 1494 million (current expenditure increased by 20%, compared with 25% increased in the developing expenditure) compared with a zero change in 2002. Total expenditure constitutes about 36% of GDP compared with 33% in 2002.

These developments not only affected the coverage level of revenues to expenditures, which increased to 82% of total expenditures compared with 60% in 2002, but also affected the budget deficit. The current deficit declined from US\$ 699 million (18% of GDP) in 2002 to US\$ 537 million (13% of GDP) in 2003, while the deficit before grants declined from US\$ 903 million (24% of GDP) in 2002 to US\$ 793 million (19% of GDP) in 2003, whereas the deficit after grants decreased from US\$ 495 million (13% of GDP) in 2002 to US\$ 274 million (7% of GDP) in 2003.

The final outcome of the budget, represented by the decline of the financial gap (deficit after finance) from a negative US\$ 415 million (11% of GDP) in 2002 to a positive US\$ 87 million (2% of GDP) in 2003.

In addition, the accumulative public debt was increased by 7% in 2003 and reached to around US\$ 954 million, which constitutes about 184% of total grants, compared with 218% in 2002, 77% of current expenditure, compared with 86% in 2002, and 136% of local revenues, compared with 265% in 2002, while its equal to 23% of GDP, compared with 24% in 2002.

Foreign Sector Developments in 2003

The performance of this sector was mainly affected by the easing of movement restrictions on people, goods and services, which fed up into increasing exports. Total exports of goods and services increased in 2003 by 9% to reach US\$ 621 million, compared with a decrease equal to 15% in 2002, while total imports of goods and services are expected to increase by 6% to reach US\$ 2702 million, compared with a

decrease equal to 14% in 2002. As a result, the trade deficit is expected to increase by 5% and reach to US\$ 2081 million, compared with a decrease by 13% in 2002.

The net income from abroad is expected to increase by 15% to reach US\$ 439 million, compared with a decrease by 22% in 2002. This growth was affected mainly by the increase in both investment income and compensation of employees, mostly from Israel.

The increase in the compensation of employees resulted from an increasing number of workers, actual working days, and monthly wage rate. In spite of that, the percentage of the Palestinian workers working in Israel equals 10% of the Palestinian total labor force in 2002 and 2003 respectively.

Also, the year 2003 witnessed a huge influx of money to the territories in terms of current transfers, which in turn was used with foreign debt or/and capital transfers of the private sector to finance the deficit in the current account. The net current transfers increased in 2003 by 15% and is expected to reach to US\$ 1270 million, compared with an increase by 14% in 2002.

As a result of these developments in foreign sector (trade, income from abroad and net current transfers), the current account deficit declined in 2003 by 24% to reach US\$ 373 million, compared with a decreased equal to 40% in 2002. This deficit constitutes 9% of GDP, compared with 13% in 2002.

Banking Sector Developments in 2003

The outcome of the Banking system performance in 2003 represented the success of PMA's efforts in developing sound, credibility, and effectiveness of the banking sector, which in turn resulted in an increase in Assets/ Liabilities of the banking system.

Assets/ Liabilities of PMA increased by 31% to reach US\$ 520 million in 2003, compared with an increase by 6% in 2002. This increase resulted from 37% increases in PMA's foreign assets, and 26% in balances of PMA with banks in Palestine. In spite of that, the PMA net profits decreased by 27% to US\$ 5 million compared with 6% decrease in 2002.

Assets/ Liabilities of banks operating in Palestine increased by 11% to reach US\$ 4729 million, compared with a decline by 3% in 2002. The growth of the Assets side was represented by the increases in: balances with banks in Palestine by 106%, cash 38%, other assets 29%, and direct facilities 12%. While the growth of the Liabilities side was represented by the increases in: deposits of banks operating in Palestine by 92%, provisions of non performing loans 38%, other liabilities 29%, other provisions 12%, equities 16%, deposits of PMA 7%, customer deposits 6%, and credit items incurs of transmission 2%.

These developments led to further changes in the ratios of facilities to deposits, balances abroad to deposits. Furthermore, the banks profits switched into losses for the second year respectively with the changes in international interest rate.

The clearinghouse in PMA witnessed an increase in the number of checks by 12% in 2003, compared with a decline by 32% in 2002, while the total amount of these checks increased by 20%, compared with a decline by 33% in 2002.

The Palestine securities exchange witnessed an increase in the number of dealing sessions, the amount of dealings and the value of shares, which in turn led to a growth of the stock parameter (Alquds) by 19 points in 2003 and reached to 180 point compared with 151 point in 2002.

Finally we can say that PMA made huge efforts in this area to prevent the banking sector from the negative effects caused by the Israeli arbitrary practices in the Palestinian territories generally and banking sector specifically.

PMA Achievements:

The PMA insists, in spite of all obstacles, to continue its efforts in organizing the banking sector in Palestine, and serving the economy and economic development, in addition to PMA's role in developing the Palestine Institute for Financial and Banking studies.

On the internal side, PMA continues its efforts to develop the personnel hierarchy in terms of training and experiences in order to achieve its goals. PMA also continues efforts in evaluating of the process of controlling and supervising. While on the external side, PMA continues its efforts in building more relations with more Arab and international financial institutions.

The key Economic Indicators In Palestine During (1999-2003)

(US \$ Million)

Indicator	1999	2000	2001	2002	2003
Population (Thousand persons)	3020	3150	3299	3472	3648
Economic Development					
GDP at current prices	4517	4442	4136	3780	4143
Growth rate (%)	6	-2	-7	-9	10
GDP per capita	1496	1411	1454	1091	1136
Growth rate (%)	2	-6	-11	-13	4
GNI at current prices	5454	5275	4622	4161	4582
Growth rate (%)	6	-3	-12	-10	10
GNI per capita	1806	1674	1401	1201	1256
Growth rate (%)	1	-7	-16	-14	5
Unemployment Rate (%)	12	14	26	31	26
Inflation Rate (%)	5	3	1	6	4
Consumption Expenditure/ GDP (%)	122	126	130	134	130
Investment Expenditure/ GDP (%)	44	31	25	18	20
Saving / GDP (%)	-22	-26	-30	-34	-30
Public Finance					
Total Revenue	1136	1364	1053	743	1220
Total Revenue/ GDP (%)	25	31	25	20	29
Total Expenditure	1194	1364	1239	1238	1494
Total Expenditure/ GDP (%)	26	31	30	33	36
Financial Position of PNA (Deficit After Financing)	-58	0	-265	-415	87
Budget Deficit/ GDP (%)	1	0	6	11	2
Public Dept	287	392	840	889	954
Public Dept/ GDP (%)	6	9	20	24	23
Foreign Sector					
Export of Goods and Services	892	868	670	572	621
Import of Goods and Services	3805	3405	2948	2553	2702
Trade Balance	-2913	-2537	-2278	-1981	-2081
Trade Balance/ GDP (%)	64	57	55	52	50
Remittances of Employees	888	785	362	300	353
Remittances of Employees/ GDP (%)	20	18	9	8	9
Current Transfers	399	586	671	1109	1270
Current Transfers/ GDP (%)	9	13	24	29	31
Current Account	-1577	-1118	-821	-491	-373
Current Account/ GDP (%)	35	25	20	13	9
Banking Sector					
Assets/ Liabilities of PMA	352	412	373	397	520
Growth Rate (%)	19	17	-9	6	31
Assets/ Liabilities of Banks	3857	4594	4423	4269	4729
Growth Rate (%)	16	19	-4	-3	11
Direct Facilities	1005	1348	1221	957	1072
Growth Rate (%)	21	34	-9	-22	12
Deposits	2875	3507	3399	3430	3624
Growth Rate (%)	19	22	-3	1	6



Palestine Monetary Authority

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