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(PMA)**



**Palestinian Central Bureau of
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January, 2013

FOREWORD

This issue of the *Economic and Social Monitor* covers the most salient economic changes that occurred in the Palestinian territory during the third quarter of 2012 (July-September). Among the topics discussed are: developments in GDP, public finance, labor market, economic activity indicators, as well as prices and purchasing power during the third quarter of 2012. Furthermore, this issue includes a section on foreign trade and the balance of payments, as well as the usual sections on the Palestinian banking sector and the Palestinian Exchange.

The *Economic and Social Monitor* is a quarterly publication, and it monitors the economic developments during the 4 quarters of a year. It is worth mentioning that economic activity follows a seasonal trend; some activities flourish in certain quarters and shrink in others. Thus, comparing two consecutive quarters and failing to take into account the seasonal variations can lead to misleading conclusions. In order to avoid the misinterpretation of trends, comparisons should be made between analogous quarters of different years.

This issue of the *Monitor* includes six analytical boxes, each addressing a topical issue that affects the economic climate in the Palestinian territory, whether directly or indirectly. One of the boxes analyses the shifts in Bank of Israel exchange rate policy in recent years and the developments in the Dollar/NIS exchange rate, with a special focus on 2012. Exchange rates directly affect prices of imports as well as competitiveness of exports, and influence the standards of living of a large segment of employees who get paid in foreign currencies. Another box analyses the effect of wars and armed conflicts on the gender gap in life expectancy using recent life expectancy data from Palestine. Another box discusses the reasons behind the unexpected increase in the Israeli budget deficit during 2012, and the expectations for the 2013 deficit. Another box uses 3 indicators, inspired by the PCBS Agricultural census, in order to analyze the size and the distribution of agricultural holdings. It found that most holdings are very small, and that there is significant inequality in the distribution of the holdings. Another box reviews a study analyzing whether there is strong ethnic bias in the Israeli marketplaces. Finally, the last box quantifies the loss of the Palestinian treasury from failing to fully collect the fees at Al Karameh crossing.

We hope that this issue further strengthens the role of the *Economic and Social Monitor* as a reliable reference for new developments in the Palestinian economy. We also hope it will increase access to economic information and thus open the door for public discussions about the restrictions as well as the prospects of economic growth in the Palestinian territory.

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Executive Summary

Gross Domestic Product: The Palestinian GDP scored a value of about 1,708 million dollar in the 3rd quarter of 2012. This represents a decrease of 2.7% compared with the previous quarter and an increase by 5.5% compared with its corresponding quarter in 2011. Conversely, GDP per capita decreased by 3.4% in the 3rd quarter of 2012 compared with the previous quarter but, increased by 2.4% with its corresponding quarter in 2011. On the other hand, expenditure on final consumption was about 2,223 million dollar in the 3rd quarter of 2012.

The Labor Market: The number of workers in the occupied Palestinian territory decreased from 877 thousand in the 2nd quarter of 2012 to 845 thousand in the 3rd quarter of 2012. The number of workers in 3rd quarter 2012 increased by 0.7% relative to 3rd quarter 2011. The unemployment rate increased to 24.3% in the 3rd quarter of 2012 compared with 20.9% in the previous quarter and 22.4% in the corresponding quarter 2011. On the other hand, the average daily wage of workers in the Gaza Strip increased by 2.7% to be NIS 66.1 in the 3rd quarter of 2012 compared with NIS 64.3 in the previous quarter. The vacancies advertised in the local newspapers, were distributed as follow: 43% for the NGOs, 40% for the private sector, and 17% for the public sector.

Public Finance: In the 3rd quarter of 2012 the domestic revenues increased by 48% compared with the previous quarter (to 742 million dollar). On the other hand, the current expenditures decreased by 3.6% (to 749 million dollar) during the same period. Thus, the pre-aid current budget deficit decreased by 87% (to 35 million dollar), whereas the total deficit (current and developmental) before foreign aid was 92 million dollar. After aid however, there was a surplus amounted 141 million dollar during the 3rd quarter of 2012.

The Banking Sector: The total direct credit facilities were 3,756 million dollar in the 3rd quarter of 2012. This accounted for 40.4% of the total net assets of banks operating in the occupied Palestinian territory. Loan facilities formed the largest proportion of total direct

credit facilities (74%). On the other hand, the net banking income (net profits minus expenses) amounted 29.7 million dollars in the 3rd quarter of 2012.

On the other hand, the number of checks offered for clearance increased by 6.1% in number to be 1,102,004 checks in the 3rd quarter of 2012 compared with 2nd quarter 2012. However, their value decreased by 3% to be 2,297.6 million dollar in the same period.

Palestine Exchange: The number of shares traded in the market decreased by 55% to be 18.1 million share during the 3rd quarter of 2012 compared with the previous quarter. The value of shares during the 3rd quarter of 2012 was around 31.1 million dollar, a decrease of 58% from the previous quarter. Lastly, the Al-Quds index increased by 1.76 point at the end of the 3rd quarter of 2012 compared with the previous quarter.

Investment Indicators- The following four indicators serve as proxies to indicate the current investment climate in the occupied Palestinian Territory:

Company registration: The number of newly registered companies reached 228 in the West Bank in the 3rd quarter of 2012. This represents a decrease by 18% compared with the previous quarter and 21% with the corresponding quarter of 2011. The total capital of these companies in the 3rd quarter of 2012 was about 454.5 million JD compared with 37.3 million JD in the previous quarter.

Building Licenses and Cement Imports: The number of building licenses in the occupied Palestinian territory increased by 30.6% during the 3rd quarter of 2012 compared with the corresponding quarter of 2011. However, it decreased by 18.8% compared with the previous quarter. On the other hand, the total space of registered buildings increased during the 3rd quarter by 4.1% compared with the corresponding quarter of 2011. The quantity of cement imported into the Gaza Strip was 13.1 thousand tons during the 3rd quarter of 2012 compared with 15.3 thousand tons in the corresponding quarter of 2011. In the West

Bank, the quantity of imported cement was 292.4 thousand tons during the 3rd quarter of 2012 compared with 294.7 thousand tons in the corresponding quarter of 2011.

Car Registration: 3,283 new and used cars were registered in the West Bank during the 3rd quarter of 2012. This represents a decrease by 10% compared with the previous quarter, and also a 35% decrease compared with the corresponding quarter of 2011. The majority of registered cars were used and imported cars from abroad (44%).

Hotels and Occupancy: The number of hotels in the West Bank decreased from 98 hotels in the 2nd quarter of 2012 to 92 hotels at the end of the 3rd quarter of 2012. The total number of guests staying in hotels located in the West Bank was 146,451 in the 3rd quarter of 2012 (of which 19.3% are Palestinian guests and 31.9% from the European countries). This is an increase of 39.2% compared with the corresponding quarter of 2011.

Prices and Purchasing Power: The Consumer Price Index (CPI) increased by 1.25% during the 3rd quarter of 2012 compared with the previous quarter. The Wholesale Price Index increased by 2.43% during the same period. On the other hand, the Construction Price Index for residential and non-residential buildings in the West Bank decreased by 0.14% in the 3rd quarter of 2012 compared with the previous quarter.

Trade Balance: The total value of commodity imports recorded during the 3rd quarter of 2012 was about 1,053 million dollar. The share of Israel was 66% of the good's imports. The value of commodity exports recorded during the same period was about 178 million dollar, the share of Israel was 159 million dollar (89% of the total). Consequently, the commodity trade balance deficit during this period was recorded at 875 million dollar.

Balance of Payment: The current account deficit during the 3rd quarter of 2012 was 672.6 million dollar, an increase by 65% compared with the corresponding quarter of 2011. This deficit was funded from the financial and capital accounts, by 614.1 million dollar.

This Issue's Box Topics- There is six boxes in this issue, each discussing a different topical topic

Impact of Armed Conflict on the Gender Gap in Life Expectancy: the traditional point of view held that wars and armed conflicts reduce life expectancy for males and thus widen the life expectancy gap between males and females. Recent research, however, suggests the opposite; that wars and armed conflicts reduce the age gap between males and females not to increase it. This box presents the theoretical and practical arguments of these two points of view, and uses figures from the Palestinian reality to determine which of the two arguments is more applicable.

Developments of Exchange Rate Policy of the Bank of Israel, and the Dollar/NIS Exchange Rates in 2012: Exchange rates have a significant impact on the Palestinian economy. They directly affect the price of imports as well as the competitiveness of exports. Furthermore, the exchange rates directly affect the livelihoods of a significant slice of employees whose salaries are paid in foreign currencies. This box sheds light on the changes in exchange rate policies undertaken by the Bank of Israel, and also looks at the exchange rate trends (dollar/ILS) in the recent years, especially 2012.

Palestinian Treasury Losses at Al Karameh Crossing: Passengers travelling through the Allenby Bridge pay exit fees. The distribution of exit fees between the authorities of the Palestinian- Israeli border is determined by an old agreement between the two parties. This box quantifies the leakage from the Palestinian treasury due to the failure to collect the full quota of exit fees by the Palestinian. This loss is estimated at \$8 million during the past two years only.

Gini Coefficient and Lorenz Curve for the Distribution of Agricultural Holdings in the Palestinian Territory: MAS has conducted a series of studies analyzing the agricultural census data collected by the Palestinian Central Bureau of Statistics in 2010. One of those studies, which dealt with the distribution of agricultural holdings in the Palestinian territories, has shown that 72% of the total

agricultural holdings have an area of less than 10 dunams each. This box reviews three indicators to demonstrate the small size of most of the agricultural holdings on the one hand, and the inequality in the distribution of land areas among the holdings.

Israel's 2012 Budget Deficit: Double the Projected Deficit: The Israeli budget deficit amounted to NIS 39 billion during the past year, which is equivalent to 4.2% of GDP. This deficit is two percentage points higher than the government had anticipated. This box discusses the reasons behind the increase in the deficit, as well as the expectations of the budget for the current year, 2013.

The Ethnic Bias at Israel's Marketplaces:

An Israeli researcher from the Hebrew University conducted a unique study that aimed to discover whether there is a strong in-group bias in the sale and purchase transactions in Israel (whether Jews and Palestinians in Israel prefer to buy and sell to people of their same ethnic background). The study found a significant in-group bias that intensified with the occurrence of military operations and the incidence of casualties on both sides.

1. GDP

GDP quarterly data show a 2.7% decline in the third quarter 2012 compared to the previous quarter- largely induced by a 9% fall in the share of the construction sector (from 273 to 248.3 million dollar) and an 18.7% decline in the contribution of the agricultural sector (from 90.3 to 73.4 million dollar). However, given that GDP is impacted by seasonal changes, economists appear in favor of drawing comparisons between corresponding

rather than successive quarters. As such, there was a 5.5% rise in the third quarter compared to the corresponding quarter of 2011. This growth is real (at constant prices), i.e., the nominal increase minus the impact of price inflation. On the other hand, the per capita GDP was down by 3.4% in Q3 2012 compared to the previous quarter, while it grew by 2.4% compared to the corresponding quarter of the previous year (see Table 1-1).

Table 1-1: GDP in the Palestinian Territory (constant prices, base year 2004)

| Economic activity | 2011 | | | | 2012 | | |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| GDP (\$ millions) | 1,527.2 | 1,629.1 | 1,618.6 | 1,646.5 | 1,601.7 | 1,754.5 | 1,707.9 |
| West Bank* | 1,133.6 | 1,205.3 | 1,195.2 | 1,230.6 | 1,187.8 | 1,283.8 | 1,256.1 |
| Gaza | 393.6 | 423.8 | 423.4 | 415.9 | 413.9 | 470.7 | 451.8 |
| GDP per capita (US \$) | 393.3 | 416.5 | 410.7 | 414.7 | 400.2 | 435.3 | 420.5 |
| West Bank* | 489.8 | 517.3 | 509.6 | 520.9 | 499.4 | 536.1 | 521.0 |
| Gaza | 250.9 | 267.9 | 265.4 | 258.6 | 255.0 | 287.5 | 273.6 |

Source: Palestinian Central Bureau of Statistics (PCBS) 2012, National Accounts Statistics, 2011-2012 Ramallah - Palestine.

Data of Qs 1 and 2, 2012 are preliminary and subject to further revision.

Data of Q3 2012 are preliminary and subject to revision.

* Data do not include that part of Jerusalem governorate which was forcefully annexed by Israel following its occupation of the West Bank in 1967.

As for the structure of GDP, the following elements are in evidence (see Table 1-2):

- ✧ A 15.7% decline in the agriculture sector contribution compared to the previous quarter; and a decline of 8.5% compared to the corresponding quarter of 2011.
- ✧ A 2.5% rise in the contribution of the sector of industry, electricity and water compared to the previous quarter; and a growth of 3.4% compared to the corresponding quarter 2011.
- ✧ A 7% drop in the contribution of the construction sector compared to the previous quarters; but a growth of 0.7% compared with the corresponding quarter of 2011.
- ✧ A 1% decline in the relative contribution of the services sector compared to the previous quarter; but a rise of 1.6% compared with the corresponding quarter of 2011.

Table 1.2: % Distribution of the shares of economic sectors in GDP in the OPT * (constant prices, base year 2004)

| Economic Activity | 2011 | | | | 2012 | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Agriculture and fishing | 6.0 | 5.8 | 4.7 | 7.3 | 4.4 | 5.1 | 4.3 |
| Mining, manufacturing, water and electricity | 12.5 | 12.6 | 11.7 | 11.4 | 11.8 | 11.8 | 12.1 |
| Mining and quarrying | 0.9 | 0.6 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| Manufacturing | 10.1 | 10.5 | 9.4 | 9.0 | 9.4 | 9.6 | 9.8 |
| Electricity, gas, steam and air conditioning | 1.4 | 1.4 | 1.4 | 1.4 | 1.5 | 1.4 | 1.5 |
| Water supply, sanitation activities and waste management & treatment | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 |

| Economic Activity | 2011 | | | | 2012 | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Construction | 12.7 | 14.6 | 14.4 | 14.1 | 12.9 | 15.6 | 14.5 |
| Wholesale & retail and repair of vehicles and motorcycles | 13.7 | 13.8 | 14.6 | 14.3 | 14.4 | 14.0 | 13.9 |
| Transport and storage | 1.9 | 1.8 | 1.9 | 1.9 | 2.0 | 1.9 | 1.8 |
| Financial and insurance activities | 3.4 | 3.2 | 3.2 | 3.2 | 3.3 | 3.1 | 3.2 |
| Information and communication | 6.7 | 6.8 | 7.2 | 6.8 | 7.0 | 6.7 | 7.1 |
| Services | 19.1 | 18.6 | 18.6 | 18.6 | 20.6 | 19.1 | 18.9 |
| Accommodation and food services | 0.6 | 0.6 | 0.6 | 0.8 | 0.6 | 0.7 | 0.7 |
| Real Estate and Renting | 4.0 | 3.6 | 3.7 | 3.5 | 4.3 | 3.6 | 4.0 |
| Professional, scientific and technical activities | 1.1 | 1.1 | 1.0 | 1.0 | 1.1 | 1.0 | 0.9 |
| Administrative services and support services | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.7 |
| Education | 7.3 | 7.3 | 7.5 | 7.4 | 8.0 | 7.8 | 7.1 |
| Health and social work | 3.4 | 3.4 | 3.3 | 3.4 | 3.7 | 3.5 | 3.3 |
| Arts, recreation and leisure | 0.6 | 0.6 | 0.5 | 0.5 | 0.6 | 0.5 | 0.6 |
| Other services | 1.6 | 1.5 | 1.5 | 1.5 | 1.7 | 1.5 | 1.6 |
| Public administration and defense | 13.2 | 12.5 | 12.6 | 11.9 | 12.1 | 11.6 | 12.2 |
| Home Services | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 |
| Less: brokerage and clearing | -2.5 | -2.4 | -2.4 | -2.4 | -2.5 | -2.3 | -2.4 |
| Plus: custom duties | 5.7 | 5.5 | 5.7 | 5.5 | 6.0 | 5.3 | 6.1 |
| Plus: Net value added tax on imports | 7.5 | 7.1 | 7.7 | 7.4 | 7.9 | 8.0 | 8.2 |
| Total (%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Palestinian Central Bureau of Statistics (PCBS) 2012, National Accounts Statistics, 2011-2012
Ramallah - Palestine.

Data of Qs 1 and 2, 2012 are preliminary and subject to further revision.

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* Data do not include that part of Jerusalem governorate which was forcefully annexed by Israel following its occupation of the West Bank in 1967.

Table 1-3 shows the value of spending on major items of GDP in Q3 2012. The table features the basic equation in the national accounts: Private consumption + investment +

government consumption + exports - imports = GDP (GDP = C + I + G + X - M).
Figures for the third quarter 2012 are as follows (\$ millions):

| | \$ millions |
|---|----------------|
| Household Consumption | 1,679.7 |
| + Government consumption | 486.1 |
| + Consumption of not-for-profit organizations that serve households | 57.2 |
| + Investment (capital formation) | 264.9 |
| + Exports | 279.5 |
| - Imports | 1,059.5 |
| = GDP | 1,707.9 |

Table 1-3: GDP and its expenditure in the Palestinian Territory *
(Constant prices, base year 2004)

| Item | 2011 | | | | 2012 | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Final consumption expenditure | 1,999.0 | 1,892.1 | 1,944.9 | 1,913.5 | 2,125.5 | 2,213.6 | 2,223.0 |
| Household final consumption expenditure | 1,486.2 | 1,381.3 | 1,453.2 | 1,392.3 | 1,602.5 | 1,602.6 | 1,679.7 |
| Government final consumption expenditure | 451.0 | 445.9 | 430.9 | 444.4 | 464.1 | 541.9 | 486.1 |
| Final consumption expenditure of not-for-profit organizations that serve households | 61.8 | 64.9 | 60.8 | 76.8 | 58.9 | 69.1 | 57.2 |
| Gross capital formation | 264.1 | 309.5 | 254.0 | 239.2 | 232.0 | 297.4 | 264.9 |
| Gross fixed capital formation | 302.3 | 366.8 | 309.5 | 308.5 | 292.7 | 386.1 | 341.6 |
| - buildings | 232.5 | 307.4 | 255.4 | 255.5 | 237.6 | 325.1 | 282.0 |
| - non-buildings | 69.8 | 59.4 | 54.1 | 53.0 | 55.1 | 61.0 | 59.6 |
| Changes in inventories | -38.2 | -57.3 | -55.5 | -69.3 | -60.7 | -88.7 | -76.7 |
| Net precious property | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net exports of commodity and services | -735.9 | -572.5 | -580.3 | -506.2 | -755.8 | -756.5 | -780.0 |
| Exports | 236.2 | 259.7 | 277.8 | 301.6 | 223.7 | 302.9 | 279.5 |
| - commodity | 187.2 | 210.0 | 223.7 | 235.4 | 145.4 | 222.1 | 193.1 |
| - services | 49.0 | 49.7 | 54.1 | 66.2 | 78.3 | 80.8 | 86.4 |
| Imports | 972.1 | 832.2 | 858.1 | 807.8 | 979.5 | 1,059.4 | 1,059.5 |
| - commodity | 892.8 | 741.7 | 751.6 | 705.5 | 846.6 | 916.8 | 919.1 |
| - services | 79.3 | 90.5 | 106.5 | 102.3 | 132.9 | 142.6 | 140.4 |
| GDP | 1,527.2 | 1,629.1 | 1,618.6 | 1,646.5 | 1,601.7 | 1,754.5 | 1,707.9 |

Source: Palestinian Central Bureau of Statistics (PCBS) 2012, National Accounts Statistics, 2011-2012 Ramallah - Palestine.

Data of Qs 1 and 2, 2012 are preliminary and subject to further revision.

Data of Q3 2012 are preliminary and subject to revision.

* Data do not include that part of Jerusalem governorate which was forcefully annexed by Israel following its occupation of the West Bank in 1967.

Several points can be concluded from the Table:

- ✧ The final consumption expenditure in the Palestinian Territory during Q3 2012 outweighed gross domestic product by 30%- suggesting that the Palestinian economy consumes more than it produces- a deficit that is balanced by import.
- ✧ The distribution of final consumption expenditure was as follows: \$1,679.7 billion (75.5%) for household consumption, \$486.1 million (21.9%) for government final consumption expenditure and \$57.2 million (2.6%) for final consumption expenditure of non-profit organizations that serve households.

- ✧ The final consumption of households increased by 4.8% compared to the previous quarter. This coincided with a decline of about 10.3% in government final consumption expenditure and a drop of 17.2% in final consumption expenditure of non-profit organizations during the same period.
- ✧ The gross capital formation fell by 11% compared to the previous quarter; but rose by 4.3% compared to the corresponding quarter of 2011.
- ✧ The exports of goods and services declined by 7.7% compared to the previous quarter.

Textbox 1: Impact of armed conflict on life expectancy at birth for males and females

There is a relationship between life expectancy and the overall quality of health services and economic and social conditions in a given country. Life expectancy is the expected (in the statistical sense) number of years of life remaining at a given age. This indicator is closely linked to mortality rate in different age groups in a given country.

Life expectancy at birth is a frequently utilized and analyzed component of demographic data for the countries of the world. It represents the average life span of a newborn and is an indicator of the overall health of a country. Life expectancy can fall due to problems like famine, war, disease and poor health. Improvements in health and welfare increase life expectancy. A quick overview of life expectancy in different regions of the world provokes several notes:

1. During the Roman Empire, Romans had an approximate life expectancy of 22 to 25 years. In 1900, the world life expectancy was approximately 30 years and in 1985 it was about 62 years. Life expectancy rose rapidly in the twentieth century due to improvements in public health, nutrition and medicine. Life expectancy for women rose in the period between 1970 and 2010 by 12 years¹.
2. Life expectancy in the developed countries is higher than in developing countries: 78.5 years in the United States and 83.9 years in Japan, while it is 67.1 in India and 74.8 in China².
3. Life expectancy in most developed countries has stagnated and settled on about 85 years- due to aging rather than diseases that can be treated.
4. Life expectancy for women worldwide is higher than for men. For males, it is 65.6; for females it is 69.7. The reasons for the difference between male and female life expectancy are not fully understood. While some scholars believe that women are biologically superior to men and thus live longer, others argue that men are employed in harder and more hazardous occupations³.

Armed conflicts and their impact on life expectancy differences between men and women

Traditional literature suggests that the wars and armed conflicts reduce life expectancy for men and increase the gap between the average life expectancy between men and women, more likely because it is men who are mobilized for wars, and eventually it is men who get killed in wars. World War I, for example, had increased the gap in France from 4 years in 1913 to 25 years in 1915. World War II increased the gap in this country from 6 years in 1939 to 16.4 years in 1940⁴.

However, there have recently been different studies which suggest that wars and armed conflicts reduce this age gap rather than widen it. Proponents of this perspective argue that the age gap between males and females decreases because females are more affected by civil wars than males. The proponents of this approach give three reasons to explain this argument⁵:

1. The impact of economic destruction: civil wars and armed conflicts undermine agricultural systems, infrastructure and medical facilities. This raises the prices of medical services and reduces income at the same time. This deterioration affects women more because they are more vulnerable to food shortages owing to the dominance of men on the distribution of food resources.
2. The impact of displacement: armed conflicts and civil wars force people to move to camps where infectious diseases are rampant. Women make up the vast majority of the displaced population, which raises mortality rates among them due to the deteriorating health care services and severe overcrowding.
3. The impact of sexual violence: In times of armed conflicts and wars, women are subject to rape and sexual slavery, which engenders vaginal injuries that make women more vulnerable to sexually transmitted diseases. This eventually increases the mortality rate among them.

The different timelines of these two approaches can explain this controversy. In the short run, most combatants in armed conflicts are men, so naturally they are the most direct victims of war. However, armed conflicts have medium and long-term indirect consequences on women (economic, agricultural, public health provision and infrastructure). These consequences reduce the gap between life expectancy of males and females. Besides, the extent of the impact of indirect factors on females depends on the degree of gender discrimination in the community: the less the discrimination, the more equally-distributed the consequences.

¹ The Economist Dec. 15, 2012.

² CIA- The World Fact Book

³ Across the world, better-off people in the higher social classes tend to live longer than the poor. One factor behind low life expectancy for the poor is the nature of their work: they work in hard jobs. Another factor is that the rich enjoy better health services. However, the differences in lifestyle and nutrition are now the most important factors in explaining the gap. The longevity gap between the rich and the poor has widened by about a year in Britain since the early 1980s. In America the gap may have risen by almost five years since the 1970s. www.economist.com/longevity12

⁴ <http://epc2008.princeton.edu/papers/80229>

⁵ http://www.humansecuritygateway.com/documents/LSE_UnequalBurdenWar_EffectArmedConflictGenderGapLifeExpectancy.pdf

Life expectancy gap in Palestine

Using figures drawn from the World Bank Database for the World Development Indicators (WDI & GDF), we will now try to shed light on the life expectancy gap between males and females in the OPT⁶.

Figure 1: Male and Female life expectancy in the Palestinian territory: 1990-2010

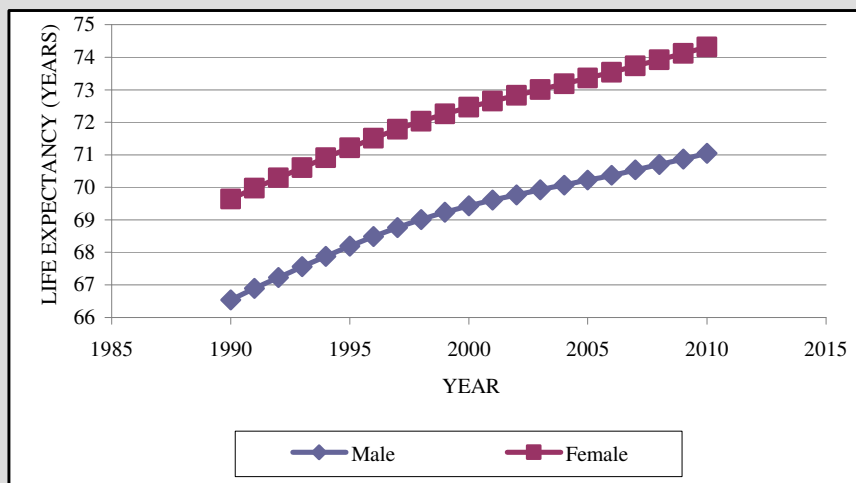


Figure 1 shows that life expectancy for females in the Palestinian territory is higher than that for males (as shown in the curve realization). As we noted before, this is a global phenomenon. The Figure also indicates an upward trend in the two curves- suggesting a general improvement in the health and nutritional status. The average life expectancy in 2010 in the Palestinian territory was 71.1 years for males and 74.3 years for females (close to the average life expectancy in Egypt in the same year: 71.3 years for males and 75.2 years for females). While females in Egypt live longer than males by 3.9 years, their Palestinian counterparts live 3.2 years longer than males.

To find out whether the gap in life expectancy between males and females in the Palestinian territory is growing or shrinking, we will examine the shift in the percentage of average female life expectancy divided by the average life expectancy for males. This percentage is more than 1 because women live longer than men. When this percentage increases, the age increases in favor of women. When it goes down, the gap diminishes all for men.

Figure 2 displays the changes of life expectancy between males and females in the Palestinian territory (ratio of female/male life expectancy is on the vertical line). The gap decreased between 1990 and 2000- suggesting that the average age for men was increasing faster than for females during that period. However, between 2000 and 2010, the gap widened, though it has remained unchanged since 2004. Though the widening and narrowing of the gap were marginal, such changes still need to be explained. It is important to note that due to the inaccuracy of figures and the dearth of data prior to 1990, it is difficult to provide explanations and definitive conclusions about changes in the gap. However, we will try to explain the changes in life expectancy guided by the theoretical framework proposed previously.

Data do not cover the period before 1990- the year which marks the end of the first intifada which claimed the lives of 2000 and left 120 thousand wounded (most of the victims were males)⁷. Thus the decline in the age gap between 1990 and 2000 might be a result of the decline in male mortality rate and to the indirect consequences of the uprising, which could have impacted women more than men, thus narrowing the life expectancy gap between males and females.

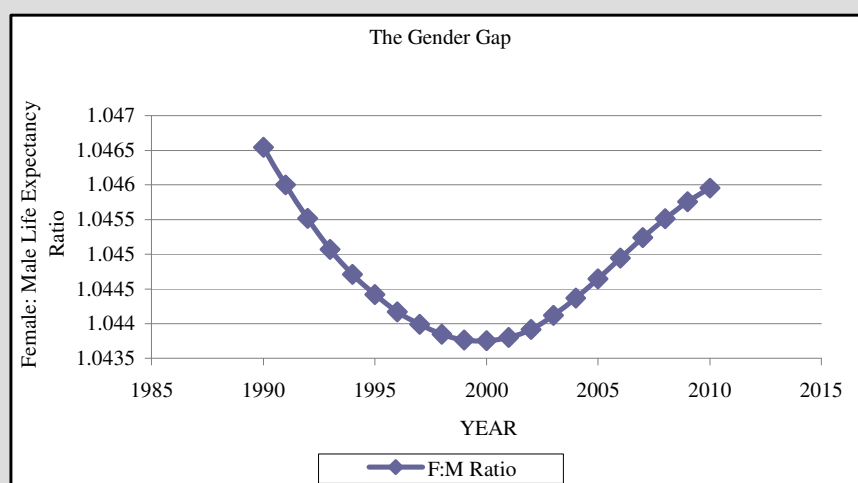
The year 2000 marked the start of the second intifada- bringing about some change in the life expectancy of males and females. Between 2000 and 2008, 5,901 Palestinians were killed (including 330 females)⁸. Obviously, the short-term direct effects of the second intifada owing to the rising mortality rates among young males had increased the life expectancy gap between males and females.

⁶ We have not used data from the Palestinian Central Bureau of Statistics because it uses decadal figures and estimates according to its expectations.

⁷ http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/nakba_61.pdf

⁸ http://www.btselem.org/arabic/statistics/first_intifada_tables

Figure 2: Change in male and female life expectancy gap in the Palestinian territory: 1990-2010



2. The Labor Market

2.1 The labor force and participation rate

During the third quarter 2012, participation rate (i.e. the ratio of workers and the unemployed to those of working age) in the West Bank and Gaza Strip stood at 43.4% compared with 43.6% in the previous quarter—declining by 0.2 percentage points from the corresponding quarter of 2011. Table 2-1

shows an ongoing disparity between the West Bank and Gaza Strip in the participation rate (45.2% in the West Bank and 40.4% in the Gaza Strip). This disparity is particularly occasioned by the low rate of female participation in Gaza compared to the West Bank (15.2% compared to 18.2%).

Table 2-1: Percentage of labor force participation for individuals 15 years and above in the West Bank and the Gaza Strip by Region and Sex between Q1 2011 and Q3 2012 (%)

| Region & Sex | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Males & Females | | | | | | | | |
| West Bank | 43.2 | 45.3 | 46.2 | 47.3 | 45.5 | 45.4 | 45.4 | 45.2 |
| Gaza | 37.0 | 38.1 | 39.0 | 39.5 | 38.4 | 39.9 | 40.3 | 40.4 |
| West Bank & Gaza | 41.0 | 42.7 | 43.6 | 44.4 | 43.0 | 43.4 | 43.6 | 43.4 |
| Males | | | | | | | | |
| West Bank | 69.0 | 71.2 | 73.1 | 72.2 | 71.4 | 70.8 | 71.5 | 71.4 |
| Gaza | 62.5 | 64.0 | 64.3 | 64.8 | 63.9 | 65.5 | 65.1 | 65.0 |
| West Bank & Gaza | 66.7 | 68.6 | 70.0 | 69.5 | 68.7 | 68.9 | 69.2 | 69.1 |
| Females | | | | | | | | |
| West Bank | 16.7 | 18.8 | 18.6 | 21.6 | 19.0 | 19.3 | 18.6 | 18.2 |
| Gaza | 11.0 | 11.6 | 13.2 | 13.6 | 12.4 | 13.7 | 14.9 | 15.2 |
| West Bank & Gaza | 14.7 | 16.2 | 16.7 | 18.7 | 16.6 | 17.3 | 17.3 | 17.1 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

Table 2-2: Individuals 15 years and above, working in the Palestinian Territory- By Place of Work, Q1 2011 – Q3 2012

| Place of Work | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|-------------------------------|---------|---------|---------|---------|-------|---------|---------|---------|
| Manpower (in thousands) | 2,432 | 2,455 | 2,477 | 2,500 | 2,465 | 2,523 | 2,546 | 2,569 |
| Workforce (in thousands) | 997 | 1,048 | 1,108 | 1,111 | 591,0 | 1,095 | 1,109 | 1,116 |
| No. of workers (in thousands) | 780 | 852 | 839 | 878 | 838 | 834 | 877 | 845 |
| West Bank (%) | 61.2 | 60.7 | 59.7 | 62.1 | 61.4 | 60.9 | 60.5 | 59.4 |
| Gaza Strip (%) | 28.8 | 29.4 | 29.9 | 28.3 | 28.8 | 29.9 | 30.3 | 30.2 |
| Israel & the settlements (%) | 10.0 | 9.9 | 10.4 | 9.6 | 9.8 | 9.2 | 9.2 | 10.4 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

Quarterly data show a 3.8% decline in the number of workers in the West Bank and the Gaza Strip– from 877 thousand in the second quarter of 2012 to 845 thousand in the third quarter 2012, particularly induced by a drop in the number of unpaid family members (see Table 2-4). Compared to the corresponding

quarter of 2011, the workforce increased by 6000 in Q3 2012. Distribution of workers in the third quarter 2012 by place of work was as follows: 59.4% in the West Bank, 30.2% in Gaza and 10.4% in Israel and the settlements (see Table 2-2).

Table 2-3: Percentage of workers 15 years and above in the Palestinian Territory- By Region and Sector, Q1 2011 – Q3 2012 (%)

| Sector | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| OPT | | | | | | | | |
| Public sector | 22.9 | 21.6 | 22.8 | 22.6 | 22.2 | 23.1 | 21.9 | 22.9 |
| Private sector | 63.3 | 64.8 | 63.1 | 64.8 | 64.5 | 64.2 | 65.6 | 63.6 |
| Other sectors | 3.8 | 3.7 | 3.7 | 3.0 | 3.5 | 3.5 | 3.3 | 3.1 |
| Israel & the Settlements | 10.0 | 9.9 | 10.4 | 9.6 | 9.8 | 9.2 | 9.2 | 10.4 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| West Bank | | | | | | | | |
| Public sector | 15.4 | 14.5 | 15.9 | 15.9 | 15.2 | 16.3 | 14.9 | 16.3 |
| Private sector | 68.2 | 69.1 | 67.0 | 68.9 | 68.9 | 68.5 | 70.0 | 66.9 |
| Other sectors | 2.4 | 2.4 | 2.3 | 1.8 | 2.1 | 2.0 | 2.0 | 1.9 |
| Israel & the Settlements | 14 | 14.0 | 14.8 | 13.4 | 13.8 | 13.2 | 13.1 | 14.9 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Gaza | | | | | | | | |
| Public sector | 48.0 | 41.7 | 38.6 | 38.8 | 39.4 | 39.1 | 37.9 | 38.0 |
| Private sector | 44.3 | 51.3 | 54.6 | 54.1 | 53.8 | 54.0 | 55.7 | 56.0 |
| Other sectors | 7.7 | 7.0 | 6.8 | 7.1 | 6.8 | 6.9 | 6.4 | 6.0 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

Table 2-3 reveals that Q3 2012 saw a 9% increase in the number of employees in the public sector in the West Bank compared to the previous quarter despite the financial crisis the government is going through. The Table also reveals that the private sector was the

main employer of the Palestinian labor in the West Bank during Q3 2012- absorbing 66.9% of the total employees. In the same period, the public sector remained the main employer in the Gaza Strip, employing more than 33% of the labor force.

With regard to the employment status of workers, the data show a drop in the share of unpaid family members in the third quarter 2012 compared to the previous quarter (see Table 2-4). In Gaza, the share of self-employed was down by 15.4% from the previous quarter.

According to quarterly data, during the third quarter of 2012, there was a slight change in

the distribution of employees by economic activity compared to the 2011 corresponding quarter (see Table 2-5). The only exception was in the share of the construction sector-growing from 13.9% to 15.3% between the corresponding quarters. Likewise, the share of the services sector in the Palestinian Territory rose from 34.9% in the second quarter 2012 to 36.4% in the third quarter 2012.

Table 2-4: Percentage distribution of workers in the Palestinian Territory- by Employment Status and Region (2011- Q3 2012) %

| Region and Employment Status | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| West Bank | | | | | | | | |
| Employer | 8.0 | 7.6 | 7.4 | 6.5 | 7.4 | 7.6 | 7.2 | 7.5 |
| Self-employed | 18.9 | 19.0 | 18.8 | 18.8 | 18.9 | 19.7 | 19.0 | 18.2 |
| Wage earner | 66.7 | 64.7 | 64.0 | 61.3 | 64.1 | 63.2 | 63.1 | 65.0 |
| Unpaid family member | 6.4 | 8.7 | 9.8 | 13.4 | 9.6 | 9.5 | 10.7 | 9.3 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Gaza | | | | | | | | |
| Employer | 3.0 | 3.0 | 5.7 | 3.7 | 3.9 | 2.9 | 3.2 | 5.0 |
| Self-employed | 18.7 | 20.3 | 15.8 | 16.3 | 17.7 | 16.5 | 15.5 | 17.9 |
| Wage earner | 73.9 | 70.3 | 71.8 | 75.1 | 72.7 | 74.4 | 74.2 | 70.7 |
| Unpaid family member | 4.4 | 6.4 | 6.7 | 4.9 | 5.7 | 6.2 | 7.1 | 6.4 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| OPT | | | | | | | | |
| Employer | 6.6 | 6.3 | 6.9 | 5.7 | 6.4 | 6.2 | 6.0 | 6.7 |
| Self-employed | 18.8 | 19.4 | 17.9 | 18.1 | 18.6 | 18.8 | 18.0 | 18.1 |
| Wage earner | 68.8 | 66.4 | 66.4 | 65.2 | 66.6 | 66.5 | 66.5 | 66.8 |
| Unpaid family member | 5.8 | 7.9 | 8.8 | 11.0 | 8.4 | 8.5 | 9.5 | 8.4 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

Table 2-5: Percentage distribution of workers in the Palestinian Territory by Economic Activity and Region (2011- Q3 2012) %

| Economic Activity and Region | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| OPT | | | | | | | | |
| Agriculture, fishing and forestry | 10.6 | 11.5 | 10.9 | 14.4 | 11.9 | 10.5 | 12.7 | 10.3 |
| Quarries and manufacturing | 11.5 | 12.3 | 12.1 | 11.3 | 11.8 | 12.2 | 11.7 | 11.3 |
| Building and construction | 13.8 | 14.5 | 13.9 | 13.3 | 13.9 | 13.5 | 14.7 | 15.3 |
| Trade, restaurants and hotels | 20.0 | 20.4 | 21.0 | 19.6 | 20.3 | 20.1 | 19.7 | 19.9 |
| Transport, storage and communications | 6.4 | 6.1 | 6.0 | 6.0 | 6.1 | 6.6 | 6.3 | 6.8 |
| Services and others | 37.7 | 35.2 | 36.1 | 35.4 | 36.0 | 37.1 | 34.9 | 36.4 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| West Bank | | | | | | | | |
| Agriculture, fishing and forestry | 10.6 | 12.3 | 11.5 | 16.4 | 12.8 | 11.4 | 14.4 | 11.4 |

| Economic Activity and Region | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|-------------|--------------------|--------------------|--------------------|
| Quarries and manufacturing | 14.1 | 15.0 | 14.7 | 13.6 | 14.4 | 14.9 | 14.4 | 14.1 |
| Building and construction | 17.4 | 18.0 | 17.3 | 15.8 | 17.1 | 16.4 | 17.4 | 18.0 |
| Trade, restaurants and hotels | 21.3 | 20.9 | 21.9 | 20.1 | 21.0 | 21.4 | 20.4 | 20.9 |
| Transport, storage and communications | 5.9 | 5.6 | 5.4 | 5.2 | 5.5 | 5.6 | 5.9 | 5.7 |
| Services and others | 30.7 | 28.2 | 29.2 | 28.9 | 29.2 | 30.3 | 27.5 | 29.9 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Gaza | | | | | | | | |
| Agriculture, fishing and forestry | 10.5 | 9.5 | 9.3 | 9.1 | 9.6 | 8.4 | 8.9 | 7.8 |
| Quarries and manufacturing | 5.0 | 5.7 | 5.8 | 5.5 | 5.5 | 5.9 | 5.4 | 4.6 |
| Building and construction | 4.9 | 6.2 | 6.0 | 6.8 | 6.0 | 6.7 | 8.7 | 9.0 |
| Trade, restaurants and hotels | 16.8 | 19.4 | 18.8 | 18.5 | 18.4 | 16.9 | 18.1 | 17.6 |
| Transport, storage and communications | 7.6 | 7.2 | 7.3 | 8.1 | 7.6 | 8.9 | 7.3 | 9.3 |
| Services and others | 55.2 | 52.0 | 52.8 | 52.0 | 52.9 | 53.2 | 51.6 | 51.7 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

2.2 Unemployment

The unemployment rate in Q3 2012 stood at 24.3% (20.4% in the West Bank and 31.9% in the Gaza Strip)– up by 3 percentage points from the previous quarter and by 2 percentage points from the corresponding quarter of 2011. This rise resulted from an increase of 3 percentage points in the unemployment rate in the West Bank and an increase of 4 percentage points in Gaza compared to the previous quarter (see Table 2-6).

Table 2-6: Unemployment rate among individuals participating in the labor force (15 years and above) in the Palestinian Territory- by Region and Sex: 2011- Q3 2012 (%)

| Region & Sex | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|-------------------------|--------------------|--------------------|--------------------|--------------------|-------------|--------------------|--------------------|--------------------|
| OPT | | | | | | | | |
| Males | 20.5 | 16.4 | 20.5 | 19.3 | 19.2 | 22.0 | 18.8 | 20.7 |
| Females | 27.3 | 28.6 | 30.5 | 27.2 | 28.4 | 31.5 | 29.5 | 39.0 |
| Total | 21.7 | 18.7 | 22.4 | 21.0 | 20.9 | 23.9 | 20.9 | 24.3 |
| West Bank | | | | | | | | |
| Males | 16.3 | 13.4 | 18.3 | 15.5 | 15.9 | 18.6 | 16.1 | 17.9 |
| Females | 21.8 | 23.3 | 25.3 | 20.3 | 22.6 | 25.5 | 21.4 | 30.1 |
| Total | 17.4 | 15.4 | 19.7 | 16.6 | 17.3 | 20.1 | 17.1 | 20.4 |
| Gaza | | | | | | | | |
| Males | 28.9 | 22.4 | 24.9 | 27.0 | 25.8 | 28.4 | 24.1 | 26.0 |
| Females | 42.1 | 43.6 | 43.4 | 46.4 | 44.0 | 46.5 | 47.2 | 57.7 |
| Total | 30.8 | 25.6 | 28.0 | 30.3 | 28.7 | 31.5 | 28.4 | 31.9 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

Features of unemployment in the Palestinian Territory during Q3, 2012

- ✧ Unemployment in the oPt is high among young people: with 42.2% among young people aged 15-24 years (73.8% among

young females and 36.3% among young males). This suggests that a large proportion of the unemployed are new entrants to the labor market (see Table 2-7).

Table 2-7: Unemployment rate among individuals participating in the labor force (15 years and over) in the Palestinian Territory- by Sex and Age Group (2011 – Q3 2012) (%)

| Age Group | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Males & Females | | | | | | | | |
| 15-24 | 38.2 | 30.3 | 37.9 | 36.4 | 35.7 | 40.4 | 34.3 | 42.2 |
| 25-34 | 22.5 | 20.6 | 22.5 | 21.5 | 21.7 | 24.8 | 23.9 | 25.6 |
| 35-44 | 12.2 | 10.2 | 14.2 | 11.2 | 12.0 | 13.7 | 10.5 | 12.5 |
| 45-54 | 13.6 | 12.1 | 12.8 | 13.3 | 13.0 | 14.5 | 12.2 | 13.6 |
| 55+ | 10.0 | 9.8 | 8.1 | 8.2 | 8.9 | 10.9 | 7.7 | 8.1 |
| Total | 21.7 | 18.7 | 22.4 | 21.0 | 20.9 | 23.9 | 20.9 | 24.3 |
| Males | | | | | | | | |
| 15-24 | 35.3 | 26.4 | 34.0 | 32.8 | 32.3 | 36.9 | 30.5 | 36.3 |
| 25-34 | 19.6 | 16.0 | 17.7 | 17.0 | 17.5 | 20.2 | 18.9 | 18.6 |
| 35-44 | 12.3 | 9.6 | 14.8 | 11.9 | 12.2 | 13.9 | 10.5 | 11.4 |
| 45-54 | 15.6 | 13.3 | 14.6 | 16.1 | 14.9 | 16.0 | 13.7 | 15.2 |
| 55+ | 10.9 | 11.3 | 9.6 | 9.7 | 10.4 | 13.2 | 9.5 | 9.2 |
| Total | 20.5 | 16.4 | 20.5 | 19.3 | 19.2 | 22.0 | 18.8 | 20.7 |
| Females | | | | | | | | |
| 15-24 | 53.8 | 51.0 | 58.1 | 51.5 | 53.5 | 58.1 | 56.1 | 73.8 |
| 25-34 | 33.8 | 37.3 | 40.0 | 36.7 | 37.0 | 40.2 | 41.0 | 48.1 |
| 35-44 | 11.9 | 12.9 | 11.4 | 8.6 | 11.0 | 12.8 | 10.6 | 17.0 |
| 45-54 | 3.1 | 6.9 | 5.1 | 2.0 | 4.2 | 7.1 | 5.7 | 6.3 |
| 55+ | 4.5 | 3.0 | 0.9 | 1.4 | 2.3 | 0.7 | 1.3 | 2.7 |
| Total | 27.3 | 28.6 | 30.5 | 27.2 | 28.4 | 31.5 | 29.5 | 39.0 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

✧ Unemployment is concentrated among the most educated females: the unemployment rate among females with 13 years of schooling and over was 50.9% during the third quarter 2012 compared to a very low unemployment rate among uneducated

female population who have recently entered the labor market (see Table 2-8). The picture is completely reversed for males: the more the years of education, the less the unemployment rate.

Table 2-8: Unemployment rate among individuals participating in the labor force (15 years and over) in the Palestinian Territory- by Sex and Years of Schooling 2011 – Q3 2012 (%)

| Years of schooling | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Males & Females | | | | | | | | |
| 0 | 15.5 | 11.9 | 10.4 | 10.4 | 11.8 | 4.6 | 7.9 | 12.0 |
| 1-6 | 23.1 | 16.5 | 20.3 | 19.1 | 19.8 | 24.8 | 18.5 | 18.8 |
| 7-9 | 22.6 | 17.8 | 21.5 | 20.0 | 20.4 | 23.1 | 19.6 | 22.5 |
| 10-12 | 20.5 | 16.1 | 20.4 | 19.8 | 19.2 | 22.1 | 18.2 | 21.4 |
| +13 | 22.1 | 22.8 | 26.0 | 23.7 | 23.7 | 26.2 | 25.5 | 29.8 |
| Total | 21.7 | 18.7 | 22.4 | 21.0 | 20.9 | 23.9 | 20.9 | 24.3 |
| Males | | | | | | | | |

| Years of schooling | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | 2011 | Q1 2012 | Q2 2012 | Q3 2012 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 0 | 23.4 | 18.5 | 19.9 | 20.4 | 20.6 | 6.9 | 17.6 | 22.4 |
| 1-6 | 25.6 | 18.4 | 22.7 | 22.2 | 22.2 | 27.6 | 21.5 | 21.3 |
| 7-9 | 23.4 | 18.6 | 22.2 | 21.6 | 21.5 | 24.6 | 20.8 | 23.6 |
| 10-12 | 20.6 | 16.4 | 21.0 | 20.6 | 19.7 | 22.5 | 18.9 | 21.5 |
| +13 | 15.1 | 13.1 | 17.2 | 14.0 | 14.9 | 16.6 | 15.6 | 16.9 |
| Total | 20.5 | 16.4 | 20.5 | 19.3 | 19.2 | 22.0 | 18.8 | 20.7 |

females

| | | | | | | | | |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 0 | 4.1 | 5.1 | 1.8 | - | 2.4 | 2.2 | 1.3 | 1.2 |
| 1-6 | 2.2 | 4.3 | 3.6 | 1.5 | 2.9 | 4.2 | 1.9 | 1.8 |
| 7-9 | 9.9 | 7.4 | 12.2 | 6.1 | 8.6 | 6.9 | 6.9 | 8.9 |
| 10-12 | 19.5 | 12.6 | 14.0 | 12.9 | 14.5 | 19.0 | 11.4 | 20.8 |
| +13 | 34.9 | 39.2 | 41.0 | 39.5 | 38.8 | 42.0 | 42.6 | 50.9 |
| Total | 27.3 | 28.6 | 30.5 | 27.2 | 28.4 | 31.5 | 29.5 | 39.0 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

2.3 Unemployment among graduates of universities and institutes

Table 2-9 sheds light on the rates of unemployment among individuals with intermediate diploma and higher– by major. The unemployment rate among this group rose to 32%, up from 27.2% in Q 2 2012 and 27.3% from the corresponding quarter of 2011. The table indicates that, with 11.4%, the unemployment rate among those who obtained

a degree in law was the lowest (i.e. for every one hundred graduates, there were 12 without a job). On the other hand, the unemployment rate among those who obtained a degree in educational sciences and teacher preparation was the highest (about 48.6%) during the third quarter 2012.

Table 2.9: Unemployed graduates (with an intermediate diploma and above) by Major: Q3 2011- Q3 2012 (%)

| Major | Q3 2011 | Q2 2012 | Q3 2012 |
|--|-------------|-------------|-------------|
| Educational sciences & preparation of teachers | 42.0 | 39.3 | 48.6 |
| Humanities | 26.1 | 29.5 | 36.5 |
| Social and behavioral sciences | 27.8 | 29.2 | 34.6 |
| Journalism and media | 36.8 | 41.2 | 38.9 |
| Business and administration | 26.8 | 25.9 | 31.4 |
| Law | 20.7 | 22.9 | 11.4 |
| Natural sciences | 16.9 | 17.5 | 26.2 |
| Math and statistics | 26.3 | 25.5 | 29.8 |
| Computer | 39.2 | 29.0 | 31.0 |
| Engineering and engineering professions | 26.5 | 23.3 | 25.6 |
| Architecture and construction | 21.8 | 11.9 | 12.2 |
| Health | 19.5 | 19.7 | 22.0 |
| Personal services | 19.4 | 17.3 | 34.3 |
| Others | 19.0 | 24.9 | 29.9 |
| Total | 27.3 | 27.2 | 32.0 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, Q3 2011- Q3 2012.

2.4 Wages and working hours

The average daily wage of West Bank workers remained unchanged during the 2012 Q3 compared to the previous quarter. However, it saw a 3.8% rise from the corresponding quarter. The average wage of Gaza's workers rose by 2.7% from the previous quarter and

11% from the corresponding quarter. Likewise, the average daily wage of those working in Israel and the settlements saw a growth of 2.5% compared to the previous quarter and 1.7% compared to the corresponding quarter of 2011.

Table 2-10: Average weekly working hours, monthly working days and daily wages (in NIS) of known-wage workers in the oPt- by Place of work: from Q3 2011 to Q3 2012 (%)

| Place of work | Average weekly hours | Average monthly working days | Average daily wage | Median daily wage |
|------------------------|----------------------|------------------------------|--------------------|-------------------|
| 2011Q3 | | | | |
| West Bank | 43.4 | 22.6 | 84.3 | 76.9 |
| Gaza Strip | 38.2 | 23.4 | 59.3 | 46.2 |
| Israel and Settlements | 38.8 | 21.2 | 164.5 | 153.8 |
| Total | 41.2 | 22.5 | 92.6 | 76.9 |
| Q4 2011 | | | | |
| West Bank | 43.7 | 22.5 | 85.7 | 76.9 |
| Gaza Strip | 36.9 | 23.3 | 60.6 | 50.0 |
| Israel and Settlements | 40.1 | 21.3 | 159.6 | 153.8 |
| Total | 41.4 | 22.5 | 91.1 | 76.9 |
| Q1 2012 | | | | |
| West Bank | 43.0 | 22.4 | 85.4 | 76.9 |
| Gaza Strip | 36.9 | 23.5 | 63.9 | 50.0 |
| Israel and Settlements | 41.2 | 20.7 | 162.0 | 153.8 |
| Total | 41.1 | 22.4 | 90.9 | 76.9 |
| Q2 2012 | | | | |
| West Bank | 43.8 | 22.3 | 87.4 | 76.9 |
| Gaza Strip | 37.8 | 23.6 | 64.3 | 50.0 |
| Israel and Settlements | 41.8 | 20.3 | 163.2 | 153.8 |
| Total | 41.9 | 22.3 | 92.1 | 76.9 |
| Q3 2012 | | | | |
| West Bank | 43.1 | 22.2 | 87.5 | 76.9 |
| Gaza Strip | 37.8 | 24.3 | 66.1 | 53.8 |
| Israel and Settlements | 39.7 | 20.5 | 167.4 | 153.8 |
| Total | 41.1 | 22.5 | 96.0 | 80.0 |

Source: Palestinian Central Bureau of Statistics 2012, Labor Force Survey, from Q1 2011 to Q3 2012.

The gap between average wages in the West Bank and Gaza is still relatively large (the average wage of Gaza's workers represents only 75.5% of the average wage in the West Bank). The median daily wage in Gaza (the pay received by half of the employees) reflects a greater disparity between wages in the Gaza Strip and the West Bank, where the median daily wage in Gaza is only 70% of the median daily wage in the West Bank. This continued

disparity mirrors the demand for labor in light of the Israeli blockade placed on Gaza enclave. On the other hand, the weekly working hours during the third quarter 2012 hovered around the rates reported in previous quarters and years. However, there was a slight drop in the weekly working hours in the West Bank, Israel and the settlements (see Table 2-10).

2.5 Vacancy announcements⁹

The number of vacancies posted in the third quarter 2012 was about 952, a 12% drop from the previous quarter, and a 20% decline from the corresponding quarter of 2011 (see Table 2-11). It is worth noting that in the third quarter of 2012, there were 69 announcements with no specific number of vacant posts. In addition, the posted vacancies do not necessarily cover all available job opportunities, though all government jobs, as per law, must be advertised¹⁰.

With 414 vacancy announcements, the NGO sector accounted for the largest share of job vacancies advertised in this quarter (43%). The shares of the private sector and the public sector were 40% (371 jobs) and 17% (167 jobs), respectively. The shares of the public sector and the NGO sector in the total vacancies advertised grew by 48% and 12%, respectively, while that of the private sector declined by 21% compared with the second quarter of the same year (see table 2-11).

Table 2-11: Number of vacancies advertised in daily newspapers in the oPt during Q2 & Q3 2012, and Q3 2011

| | Q3 2011 | Q2 2012 | Q3 2012 | | | |
|----------------------|---------|---------|---------|--------|-----------|------------|
| | | | July | August | September | Total |
| By Sector | | | | | | |
| Private sector | 514 | 533 | 121 | 125 | 125 | 371 |
| Public sector | 123 | 128 | 78 | 66 | 23 | 167 |
| NGOs | 556 | 422 | 175 | 123 | 116 | 414 |
| By Region | | | | | | |
| Northern West Bank | 176 | 160 | 39 | 27 | 23 | 89 |
| Central West Bank | 753 | 703 | 252 | 187 | 168 | 607 |
| Southern West Bank | 161 | 125 | 49 | 74 | 42 | 165 |
| Gaza Strip | 103 | 95 | 34 | 26 | 31 | 91 |
| By Degree | | | | | | |
| MA and above | 68 | 107 | 32 | 17 | 14 | 63 |
| BA | 887 | 698 | 264 | 200 | 188 | 652 |
| Intermediate Diploma | 98 | 88 | 41 | 51 | 18 | 110 |
| Below Diploma | 140 | 190 | 37 | 46 | 44 | 127 |
| Total | | | | | | |
| | 1,193 | 1,083 | 374 | 314 | 264 | 952 |

Source: MAS collected job advertisements from daily newspapers (Al-Quds, Al-ayyam and Al-Hayah) as well as from the website www.jobs.ps

With respect to the distribution of posted vacancies by region, data show that the central West Bank accounted for the majority of vacancies advertised (64%). The shares of both Southern and Northern West Bank governorates were 17% and 9%, respectively. The Gaza Strip's contribution was only 10%. As for the distribution of vacancies by the required degree, the BA degree was the most needed (68%) (see Table 2-11).

With a percentage of 33%, the demand for administrative and economic sciences had the largest share of advertised vacancies. Meanwhile, the demand for humanities and social sciences; applied sciences; other specializations and professions; and medical sciences posted 23%, 21%, 13% and 10%, respectively. The NGO sector claimed the majority (96%) of vacancies advertised in the Gaza Strip (see Table 2-12).

⁹ MAS collected job advertisements from daily newspapers (Al-Quds, Al-ayyam and Al-Hayah) as well as from the website www.jobs.ps

¹⁰ Article (19) of the Civil Service Law No. (4) of 1998 states that the government departments shall announce job vacancies in which appointment is made by the competent authority within two weeks of vacancy in at least two daily newspapers. The announcement shall contain detailed information about the job and conditions to be met.

Table 2-12: Number of vacancies advertised in daily newspapers in the oPt- by Major, Sector and Region— Q3 2012

| Major | West Bank | | | Gaza | | | Total |
|--|---------------|----------------|--------------|---------------|----------------|--------------|------------|
| | Public sector | Private sector | Civil sector | Public sector | Private sector | Civil sector | |
| Medical sciences | 18 | 29 | 44 | 0 | 0 | 2 | 93 |
| Humanities and social sciences | 32 | 50 | 103 | 0 | 0 | 36 | 221 |
| Applied sciences | 54 | 79 | 45 | 2 | 1 | 15 | 196 |
| Administrative and economic sciences | 50 | 109 | 122 | 0 | 1 | 32 | 314 |
| Other (craftsmen, maintenance, secretarial work, etc.) | 11 | 102 | 13 | 0 | 0 | 2 | 128 |
| Total | 165 | 369 | 327 | 2 | 2 | 87 | 952 |

Source: MAS collected job advertisements from daily newspapers (Al-Quds, Al-ayyam and Al-Hayah) as well as from the website www.jobs.ps

3. Public finance¹¹

Financial data indicate a decline in the financial position of the Palestinian Authority during Q3 2012. This most prominently figured in the inability of the PNA to meet its obligations, especially the delay of paying public servants' salaries. However, soon the PNA could pay these salaries in installments after receiving a bailout from Saudi Arabia and the United Arab Emirates, as well as receiving payments in advance from the clearing account. Meanwhile, people took to the streets to protest the rise in prices (particularly fuel prices) and VAT. To preempt further deterioration of the public order, the government had taken a series of procedures, most importantly freezing the increase of fuel prices, raising VAT by only 1/2 a percentage point instead of 1 percentage point and tightening control on prices. The government also took austerity measures that targeted governmental institutions (with the exception of health, education and social affairs).

Below are the most prominent developments in this quarter compared with the previous

quarter (The figures below reflect the budget on the cash basis rather than the accrual basis; i.e., the cash basis figures do not take into account the unpaid obligations accumulated on the PNA):

- ✦ The total public revenues and grants (net) grew by 29% (to 947.3 million dollars) as a result of receiving 191 million dollars in advance from the clearing account.
- ✦ The total public expenditure declined by 2.7% (to 805.9 million dollars) due to a drop in non-wage expenditures following the government's austerity measures.
- ✦ The current deficit dropped by 1.4% of GDP (\$35.2 million) compared to 10.6% in Q2.
- ✦ The public debt outstanding balance saw a decline of 6% (standing at 2,203.3 billion dollars).

When compared to the corresponding quarter of the previous year, we can notice that the total revenues and grants had a decline of 5.7%, echoing a decline of about 50% in the grants and aid and a rise of 5.4% in public expenditure. This, in turn, led to a decline in total surplus (after grants and aid) to \$141.5 million compared to \$240.4 in the corresponding quarter.

¹¹ Data for financial operations are in NIS. The NIS monthly exchange rate was taken from the source. The shekels were converted to dollars, and then the monthly totals for each quarter were calculated accordingly. Data for the third quarter 2012 are preliminary- issued by the Palestinian Ministry of Finance- and are subject to updating and revision. Figures in brackets are of a negative value.

Table 3-1: Summary of the financial position of the PNA: Q3 2102 (cash basis)

| Item | (million dollars) | | | | | | |
|--|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2011 | | | | 2012 | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Public revenues and grants (net) | 796.9 | 683.4 | 1,005.0 | 668.3 | 770.8 | 734.5 | 947.3 |
| Total domestic revenues (net) | 580.6 | 536.1 | 545.2 | 514.2 | 559.6 | 496.8 | 714.1 |
| Domestic revenues | 591.5 | 538.7 | 545.2 | 514.2 | 559.8 | 501.3 | 742.0 |
| Tax revenues | 134.8 | 121.6 | 102.5 | 123.3 | 153.5 | 99.8 | 106.8 |
| Non-tax revenues | 44.4 | 68.4 | 66.1 | 41.2 | 48.6 | 48.2 | 80.6 |
| Clearing revenues* | 412.3 | 348.8 | 376.6 | 349.7 | 357.7 | 353.2 | 554.6 |
| Tax returns | 10.9 | 2.6 | - | - | 0.2 | 4.5 | 27.9 |
| External grants and aid | 216.3 | 147.3 | 459.8 | 154.1 | 211.2 | 237.7 | 233.2 |
| For budget support | 191.1 | 122.0 | 362.9 | 132.6 | 197.0 | 204.5 | 181.1 |
| To support developmental projects | 25.2 | 25.2 | 96.9 | 21.5 | 14.2 | 33.2 | 52.1 |
| Total public expenditure | 793.5 | 889.5 | 764.6 | 809.2 | 717.7 | 828.3 | 805.9 |
| Current expenditure, including: | 730.4 | 780.0 | 715.5 | 734.8 | 675.3 | 777.5 | 749.3 |
| Wages and salaries | 427.2 | 448.8 | 409.4 | 393.6 | 403.0 | 420.4 | 410.2 |
| Non-wage expenses | 270.1 | 301.5 | 277.8 | 293.4 | 233.0 | 324.3 | 284.6 |
| Net lending | 33.1 | 29.8 | 28.3 | 47.9 | 39.3 | 32.9 | 54.4 |
| Development expenses | 63.2 | 109.4 | 49.1 | 74.4 | 42.4 | 50.8 | 56.6 |
| Treasury-funded | 38.0 | 84.2 | (47.7) | 52.9 | 28.1 | 17.6 | 4.5 |
| Donor-funded | 25.2 | 25.2 | 96.9 | 21.5 | 14.2 | 33.2 | 52.1 |
| Current deficit / surplus | (149.8) | (243.9) | (170.3) | (220.6) | (115.7) | (280.7) | (35.2) |
| Total deficit / surplus (before grants and aid) | (213.0) | (353.4) | (219.4) | (295.0) | (158.1) | (331.5) | (91.8) |
| Total deficit / surplus (after grants and aid) | 3.3 | (206.1) | 240.4 | (140.9) | 53.1 | (93.8) | 141.4 |
| Financing | (3.3) | 206.1 | (240.4) | 140.9 | (53.1) | 93.8 | (141.4) |
| Net financing from local banks | 13.1 | 183.4 | (229.7) | 134.2 | (56.7) | 94.8 | (157.0) |
| The remaining balance | (16.5) | 22.8 | (10.6) | 6.7 | 3.6 | (1.0) | 15.6 |

Source: Data available in the financial reports published by the Palestinian Ministry of Finance (cash basis), Table (3).

* Clearance revenues include \$ 191 million in advance cash payments that took place in July and September.

Table 3-1 summarizes the financial developments in the PNA budget in accordance with the cash basis during Q3 2012:

3.1 Revenues and grants

During the third quarter 2012, public expenditure stood at about \$974.3 million, up by 29% from the previous quarter. This was a result of a growth in domestic revenues.

With respect to the components of domestic revenues, data indicate that clearance revenues accounted for the lion's share (75%). Tax revenues and non-tax revenues represented 14% and 11%, respectively.

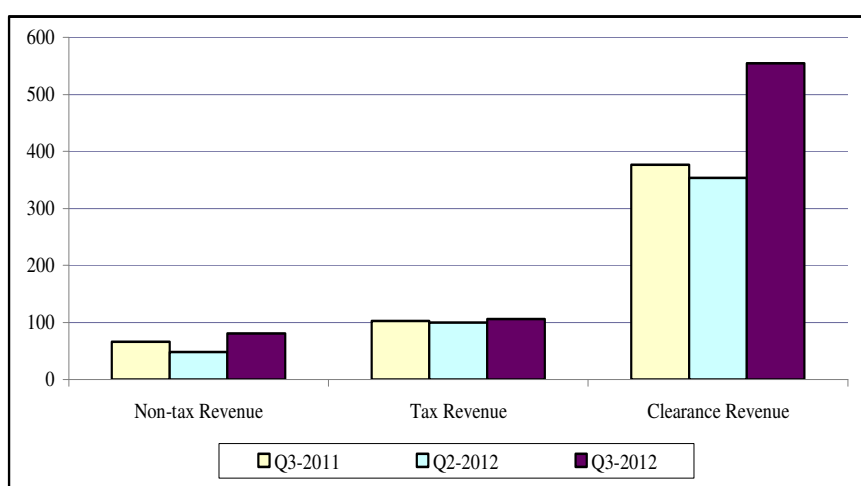
In the third quarter 2012, clearance revenues grew by 57% over the second quarter- totaling \$554.6 million. Compared to the corresponding quarter of 2011, these revenues

saw an increase of 47.3%¹². This was a result of receiving additional cash payments from the clearing account in July and September. In general, the share of clearance revenues in net domestic revenues has been growing since 2010: the monthly clearance revenue rose from \$105 million to \$121 million during 2012. This improvement was spurred by a package of administrative measures which were coordinated with the Israeli side in 2011 in order to improve methods of collecting clearing revenues¹³.

¹² Clearance revenues are collected in NIS, and therefore the nominal value of the item calculated in dollars is significantly affected by fluctuations in the exchange rate of the dollar against the shekel. Thus, when considering the developments on the clearance revenues collected in NIS, we notice that the real change was 65%.

¹³ These measures included a set of understandings that involved, among other things, 1. the estimation of clearing according to the Israeli database on trade between Israel and the West Bank and Gaza; and 2. settling electricity bills due to the Israel Electric Corporation after coordination with the Palestinian Finance Ministry rather than directly deducting these dues from clearing revenues.

Figure 3-1: Structure of domestic revenues



Source: Data available in the financial reports published by the Palestinian Ministry of Finance

Tax revenue grew to \$106.8 million, up by 7% from the previous quarter and 4.2% from the corresponding quarter. Likewise, with a total of \$80.6 million, non-tax revenues saw a significant growth, up from \$48.2 million in the previous quarter. This improvement came as a result of plentiful returns flowing to the PNA coffers from telecommunications companies.

Clearing Revenues (accrual basis)

Table 3-2 below shows that during the third quarter 2012, clearance revenues totaled \$363.7 million, declining by 1.6 and 4% from the previous quarter and the corresponding quarter, respectively. The three major components in the clearance revenues (VAT, customs and fuel) had relatively equal shares (with the customs component claiming a slightly higher proportion).

Table 3-2: Clearance Revenues (Accrual basis) *

| Item | 2011 | | | | 2012 | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Clearing revenue | 329.6 | 365.4 | 379.0 | 351.3 | 357.2 | 369.7 | 363.7 |
| Customs | 115.9 | 130.0 | 132.6 | 126.2 | 123.8 | 124.0 | 131.1 |
| Value added | 104.1 | 118.0 | 119.2 | 112.0 | 119.6 | 127.5 | 114.5 |
| Fuel | 109.9 | 115.6 | 119.2 | 112.7 | 112.0 | 117.8 | 116.9 |
| Purchase tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Income tax | 0.6 | 0.0 | 7.0 | 0.5 | 0.6 | 0.8 | 0.0 |
| Other | -0.8 | 1.8 | 1.1 | -0.1 | 1.2 | -0.5 | 1.2 |

Source: Tables of financial operations, details of revenue, expenditure and funding sources (accrual basis), Ministry of Finance.

* Accrual basis is used because the data in its tables are the only source that contains all components of clearing.

On the other hand, with about \$233.2 million, the amount of international grants and assistance (allocated to support the budget and development projects) during Q3 2012

remained unchanged compared to the previous quarter, but declined by about 50% compared to the corresponding quarter. About 77.6% of this aid was appropriated to the PNA budget.

Table 3-3: Indicators of grants and foreign aid to the Palestinian Authority– Q3 2012

| Item | 2011 | | | | 2012 | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Total domestic revenues (\$ millions) | 580.6 | 536.1 | 545.2 | 514.2 | 559.6 | 496.8 | 714.1 |
| As % to total revenues and grants | 72.9 | 78.5 | 54.2 | 76.9 | 72.6 | 67.6 | 75.4 |
| As % to current expenditure | 79.5 | 68.7 | 76.2 | 70.0 | 82.9 | 63.9 | 95.2 |
| As % to GDP | 25.1 | 21 | 22.1 | 21.1 | 22.6 | 18.8 | 28.3 |
| Foreign revenues (grants and donations) (\$ millions) | 216.3 | 147.3 | 459.8 | 154.1 | 211.2 | 237.7 | 233.2 |
| As % to total revenues and grants | 27.1 | 21.5 | 45.8 | 23.1 | 27.4 | 32.4 | 24.6 |
| As % to current expenditure | 29.6 | 18.9 | 64.3 | 21 | 31.3 | 30.6 | 31.1 |
| As % to GDP | 9.3 | 5.8 | 18.6 | 6.3 | 8.5 | 9 | 9.3 |
| GDP* (\$ millions) | 2314.5 | 2550.9 | 2467.6 | 2442.3 | 2473.6 | 2638.1 | 2520 |

Source: Table (3-1)

*Source: Palestinian Central Bureau of Statistics, Quarterly Bulletin of National Accounts, 2012.

This aid was a contribution from the Palestinian European mechanism PEGASE (9.8% or \$17.7 million), the World Bank (21.4% or \$38.7 million), and Arab states

(68.8%). The developmental support totaled about \$52.1 million, representing 22.3% of total aid and grants (see Table 3-4).

Table 3-4: Grants and foreign aid to the Palestinian Authority– Q3 2012

| Item | 2011 | | | | 2012 | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Budget support | 191.1 | 122.0 | 362.9 | 132.6 | 197.0 | 204.5 | 181.1 |
| Arab grants | 52.9 | 26.0 | 207.3 | 0.0 | 30.1 | 69.4 | 124.7 |
| International grants | 138.1 | 96.1 | 155.6 | 132.6 | 166.9 | 135.1 | 56.4 |
| Developmental funding | 25.1 | 25.2 | 96.9 | 21.4 | 14.3 | 33.2 | 52.1 |
| Total foreign aid | 216.2 | 147.3 | 459.8 | 154.1 | 211.3 | 237.7 | 233.2 |

Source: Table (7) - Table of external support.

3.2 Public Expenditure

During Q3 2012, public expenditure (current and development) stood at \$806 million (32% of GDP)- declining by 2.7% from the previous quarter due to a drop in current expenditure (particularly non-wage payments) following the austerity measures the PNA took in the face of the financial crisis.

The item of 'wages and salaries' is the largest component of current expenditure. During this quarter, the actual amounts paid as wages and salaries totaled \$410 million, which is \$30 million below the actual value of the bill (the same deficit the treasury sustained in the previous quarter)¹⁴.

Net lending¹⁵ totaled 54.4 million, up from \$32.9 million in the previous quarter of the year. Obviously, the relative weight of this item of current spending is on the decline as it dropped since early 2008 from about 14% to about 6% in 2012. Similarly, development expenditure rose to \$56.6 million compared with \$50.8 million during the previous quarter. The grants and foreign aid financed the bulk of this item (\$52.1 million).

¹⁴ The cash shortage in paying the actual wage bill totaled \$ 26.6 million on average for each quarter of 2011.

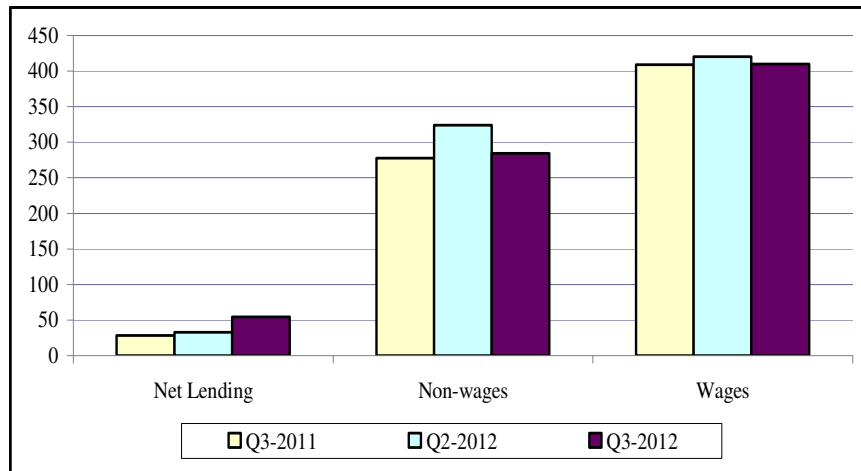
¹⁵ The item 'net lending' refers to the amounts that are transferred directly to Gaza Electricity Distribution Corporation and to pay dues owed by local government bodies, or indirectly via the amounts that are deducted from clearing revenue and transferred to utility companies in Israel.

Table 3-5: Indicators of public expenditure- Q3, 2012

| Item | 2011 | | | | 2012 | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Current expenditure (million dollars) | 730.4 | 780.0 | 715.5 | 734.8 | 675.3 | 777.5 | 749.3 |
| As % to total public expenditure | 92.0 | 87.7 | 93.6 | 90.8 | 94.1 | 93.9 | 93.0 |
| As % to GDP | 31.6 | 30.6 | 29 | 30.1 | 27.3 | 29.5 | 29.7 |
| Development expenses (million dollars) | 63.2 | 109.4 | 49.1 | 74.4 | 42.4 | 50.8 | 56.6 |
| As % to total public expenditure | 8.0 | 12.3 | 6.4 | 9.2 | 5.9 | 6.1 | 7.0 |
| As % to GDP | 2.7 | 4.3 | 2 | 3 | 1.7 | 1.9 | 2.2 |

Source: Table (3-1)

Figure 3-2: Structure of current expenditure



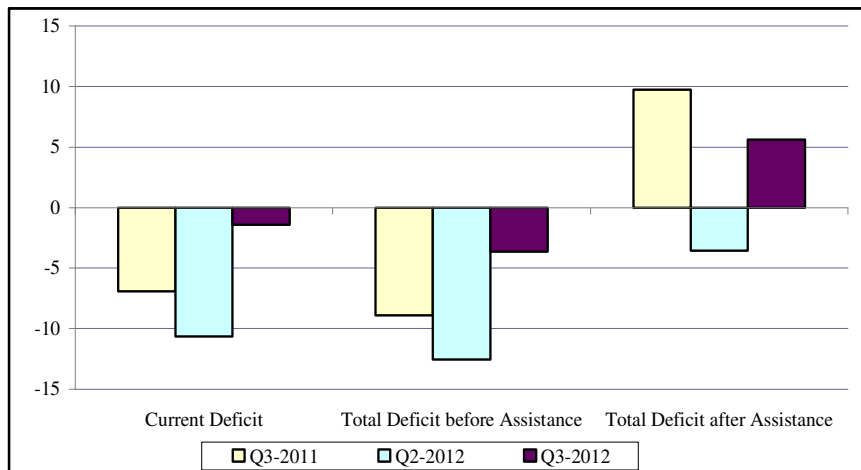
Source: Data published in the financial reports of the Palestinian Ministry of Finance

3.3 Financial Surplus / Deficit

During the third quarter 2012, the decline in current expenditure and the improvement in net gross domestic revenues reduced the current deficit (now standing at \$35.2 million compared with \$280.7 million during the previous quarter and \$170.3 million in the corresponding quarter of the previous year).

This deficit represented about 1.4% of GDP, compared with 10.6% in the second quarter 2012. All these figures, however, are calculated on a cash basis rather than an accrual basis which mirrors the financial position of the PNA more accurately (see next paragraph).

Figure 3-3: Indicators of the fiscal deficit as % to nominal GDP



Source: Table (3-1)

The total deficit before grants and aid totaled \$152.5 million- representing 3.6% of GDP (compared with 12.6% in the previous quarter). On the other hand, the budget balance (after grants and aid) posted a surplus of about \$141.4 million compared with a deficit of \$93.8 million in the previous quarter and a surplus of \$240.4 million in the corresponding quarter.

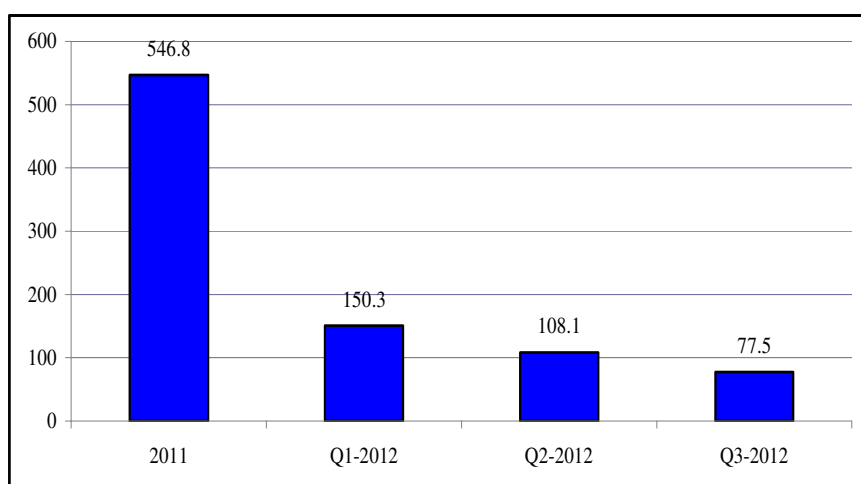
3.4 Net accumulation of arrears and the surplus / deficit: cash basis vs. accrual basis¹⁶

The PNA's net accumulation of arrears in Q3 2012 totaled 85.5 \$ million. These arrears involved obligations owed to the private sector (\$46.4 million); arrears of wages and salaries (\$30.6 million); and liabilities of

development expenditure (\$8.5 million). The PNA claims, on the other hand, totaled \$8 million, which brought the PNA's liabilities down to \$77.5 million. Adding the net accumulation of arrears (\$77.5 million) to the current deficit on a cash basis (\$35.2 million) results in a current deficit of \$112.7 million on an accrual basis.

The PNA's accumulation of arrears suggests that, without seeking grants from international donors, the PNA will always sustain difficulties in bridging the financial gap through local revenues. This will eventually curtail the PNA's ability to reduce its public debt or obtain other sources of funding due to the high risks and costs, thus exacerbating the negative pressure on the budget performance.

Figure 3-4: Quarterly developments in the net accumulation of arrears



Source: Data published in the financial reports of the Palestinian Ministry of Finance

3.6 Public Debt

Public debt in the oPt in Q3 2012 fell by 5.8% from the previous quarter, bringing the figure down to \$2.2 billion, distributed evenly between the external debt and the domestic debt. Arab financial institutions claimed 57.3% of external debt, international and regional institutions accounted for 31.1%, while the bilateral loans represented 11.6%. On the other hand, the larger part of domestic debt is owed to the banking system (with

about 14.8% of the total domestic debt owed to the banking system was in the form of liabilities owed by the Petroleum Authority) (see Table 3-6). The public debt service totaled \$10.4 million compared to \$5 million in the previous quarter. On the other hand, the ratio of public debt-gross domestic product during the third quarter 2012 was 21.9% compared to 22.2% in the previous quarter and 19.7% in the corresponding quarter 2011.

¹⁶ Net accumulation of arrears = liabilities due for the PNA minus arrears owed by the PNA. This item represents the liquidity of the PNA, whereby a lower value indicates improved liquidity status and vice versa.

Table 3-6: Public Debt- Q3 2012

| Item | (\$ millions) | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2011 | | | | 2012 | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| a. Domestic debt | 839.6 | 907.2 | 827.6 | 1,100.5 | 1,101.7 | 1,213.4 | 1,106.4 |
| Bank loans | 345.1 | 402.6 | 376.9 | 508.1 | 481.4 | 546.1 | 569.9 |
| Bank facilities | 390.7 | 362.2 | 302.7 | 441.0 | 448.0 | 482.6 | 364.0 |
| Petroleum Authority loans | 95.0 | 133.2 | 139.3 | 142.8 | 164.1 | 176.4 | 164.2 |
| Other public institutions loans | 8.8 | 9.2 | 8.7 | 8.6 | 8.2 | 8.3 | 8.3 |
| b. External debt | 1,043.3 | 1,045.6 | 1,116.2 | 1,114.5 | 1,126.7 | 1,126.0 | 1,096.9 |
| Arab financial institutions | 539.4 | 539.2 | 617.3 | 617.2 | 630.7 | 629.1 | 628.3 |
| Al-Aqsa Fund | 444.1 | 444.1 | 522.7 | 522.4 | 522.4 | 522.5 | 522.5 |
| Arab Fund for Economic and Social Development | 42.6 | 42.1 | 42.4 | 43.3 | 56.3 | 56.4 | 56.2 |
| Islamic Development Bank | 52.7 | 53.0 | 52.2 | 51.5 | 52.0 | 50.2 | 49.6 |
| International and regional institutions | 348.3 | 346.6 | 342.4 | 341.9 | 338.1 | 341.2 | 341.4 |
| World Bank | 302.9 | 301.0 | 298.0 | 297.0 | 295.0 | 293.5 | 291.8 |
| European Investment Bank | 23.4 | 23.4 | 22.1 | 22.6 | 20.7 | 25.3 | 27.1 |
| International Fund for Agricultural Development | 3.4 | 3.5 | 3.4 | 3.3 | 3.3 | 3.2 | 3.2 |
| OPEC | 18.6 | 18.7 | 18.9 | 19.0 | 19.1 | 19.2 | 19.3 |
| Bilateral loans | 155.6 | 159.8 | 156.5 | 155.4 | 157.9 | 155.7 | 127.2 |
| Total public debt | 1,882.9 | 1,952.8 | 1,943.8 | 2,215.0 | 2,228.4 | 2,339.4 | 2,203.3 |
| Public debt as % to GDP ¹⁷ | 20.3 | 19.1 | 19.7 | 22.7 | 22.5 | 22.2 | 21.9 |

Source: Data published in the financial reports of the Palestinian Ministry of Finance

Textbox 2: In 2 years, PNA Treasury incurred a loss of more than \$ 8 million at Al-Karameh/ Allenby Border Crossing!

More than one million and three hundred thousand people (662,906 outgoing passengers and 630,136 incoming passengers) crossed Al-Karama (Allenby) Border between the West Bank and Jordan in 2012, a press release by the Department of Public Relations and Media in the Palestinian Police said in early January 2013. The Police statistics indicated that the passenger traffic during 2012 increased by 6% compared to the previous year¹⁸.

The PNA collects fees from outgoing passengers traveling via Al-Karameh Border Crossing. As stated in the agreement concluded between the Palestinians and the Israelis, the departure fee levied at Allenby Bridge Border is collected by the PNA, which, in turn, transfers it to the Israeli side, which later transfers 46% of the fees to the PNA and retains the 54%¹⁹.

The departure fee levied at Allenby Bridge Border was \$26 at the time of concluding the agreement. The Israelis have gradually raised the fee (standing now at \$40), which means that the share of the PNA should be 18.5 dollars for every traveler. This suggests that the Palestinian side loses \$6.5 dollars for every outgoing passenger.

A study conducted by the Palestine Economic Policy Research Institute (MAS) found that the PNA had in 2011 incurred losses of \$4.1 million²⁰. Using the figures of the Palestinian Police for 2012, the PNA lost \$4.3 million in 2012, an increase of 5% over 2011.

It is important to note that foreign nationals crossing the Border to Jordan also pay departure fees equivalent to the amount paid by the Palestinians, but all these fees go to the Israeli side.

¹⁷ The ratio of public debt to gross domestic product during the quarter was calculated as follows: the balance of outstanding debt at the end of the quarter divided by the (quarterly GDP × 4).

¹⁸ <http://www.wafa.ps/arabic/index.php?action=detail&id=145714>

¹⁹ World Bank (2012). Stagnation or Revival? Palestinian Economic Prospects. Economic Monitoring Report to the Ad Hoc Liaison Committee. March 21st, 2012.

²⁰ Fiscal Sustainability of the Palestinian National Authority. MAS. (2013).

4. The Banking Sector²¹

In the third quarter 2012, assets / liabilities of banks operating in the Palestinian territory grew by 2.7% compared with the previous quarter and by 4.9% compared to the corresponding quarter of 2011. The most significant developments in both assets and liabilities of the consolidated balance sheet for banks are summarized below:

Assets

- ✧ A growth of 29.2% in the cash item.
- ✧ A drop of 0.7% in net direct credit facilities.
- ✧ An increase of 10% in offshore assets of banks.
- ✧ A decline of 2.6% in assets of banks held by the Palestinian Monetary Authority.
- ✧ A decline of 13.5% in assets of banks operating in the OPT.
- ✧ A growth of 0.4% in total net investment.

Liabilities

- ✧ A growth of 2.8% in total holdings.
- ✧ A growth of 4.2% in the public (customers) deposits.
- ✧ A decline of 32.6% in assets of PMA held by banks.
- ✧ A 2.3% growth in total capital (equity) of banks.

Number of Banks (and their branches)

At the end of Q2 2012, the number of banks operating in the Palestinian territory remained 18, while 6 new branches were opened, bringing the total number of branches to 233.

Eight local banks- with 122 branched- (including two Islamic banks) and 10 foreign banks- with 111 branches- operate in the Opt. Table 4-1 presents the banking services penetration in the Palestinian territory as of end Q3 2012.

Table 4.1: Banking Penetration in the Palestinian Territory

| | West Bank | Gaza | Total |
|-------------------------------------|-----------|--------|---------|
| Number of bank branches and offices | 191 | 42 | 233 |
| Number of ATMs | 365 | 55 | 420 |
| Number of ATM cards | 83,317 | 25,839 | 109,156 |
| Number of credit cards | 41,660 | 14,254 | 55,914 |

Table 4-1: Consolidated balance sheet for banks operating in the OPT – from Q2 2011 to Q3 2012

| Item | 2011 | | | 2012 | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Budget Statement | | | | | | |
| Total assets ⁽¹⁾ | 8,837.2 | 8,860.5 | 9,110.3 | 9,151.1 | 9,045.4 | 9,293.6 |
| Direct credit facilities | 3,434.8 | 3,215.2 | 3,482.8 | 3,594.5 | 3,783.6 | 3,756.4 |
| Deposits of Palestine Monetary Authority & Banks | 3,502.2 | 3,722.2 | 3,743.7 | 3,600.3 | 3,264.8 | 3,390.9 |
| - Deposits held by PMA | 947.6 | 927.9 | 940.9 | 925.3 | 963.6 | 938.8 |
| - Deposits held by Banks | 291.8 | 259.3 | 335.3 | 337.9 | 340.4 | 294.6 |
| - Banks' offshore deposits | 2262.8 | 2535.0 | 2467.5 | 2337.0 | 1960.9 | 2,157.5 |
| Portfolio | 582.0 | 629.5 | 826.3 | 829.7 | 820.2 | 748.3 |
| Cash and precious metals | 539.6 | 545.4 | 496.7 | 518.5 | 602.8 | 778.7 |
| Fixed assets | 152.9 | 163.3 | 171.3 | 175.1 | 176.6 | 178.2 |
| Investments | 311.5 | 310.2 | 137.4 | 141.4 | 144.1 | 144.7 |
| Banker's acceptances | 5.4 | 5.2 | 5.9 | 6.1 | 6.4 | 4.7 |
| Other assets | 308.7 | 269.5 | 246.2 | 285.6 | 246.9 | 291.7 |
| Total liabilities ⁽²⁾ | 8,837.2 | 8,860.5 | 9,110.3 | 9,151.1 | 9,045.4 | 9,293.6 |
| Total deposits of the public | 6,950.3 | 6,820.5 | 6,972.5 | 7,045.4 | 6,911.5 | 7,200.8 |

²¹ The data in this section are preliminary and subject to change.

| Item | 2011 | | | 2012 | | |
|--|---------|---------|---------|---------|---------|---------|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Proprietorship (equity) | 1,131.7 | 1,156.3 | 1,182.0 | 1,232.3 | 1,212.4 | 1,240.0 |
| Deposits of PMA and Banks | 452.8 | 474.8 | 646.5 | 530.5 | 582.0 | 501.4 |
| Tax benefits & other allocations | 167.1 | 173.8 | 171.1 | 186.7 | 185.6 | 202.5 |
| Other liabilities | 117.5 | 217.4 | 122.0 | 141.8 | 142.3 | 139.8 |
| Executed and existing banker's acceptances | 17.8 | 17.7 | 16.2 | 14.5 | 11.6 | 9.1 |

Source: Palestine Monetary Authority – The consolidated balance sheet for banks.
⁽¹⁾ and ⁽²⁾ represent total assets (liabilities) minus allocations.

4.1 Key developments in the consolidated balance sheet for banks

Table 4-2 summarizes the key items in the consolidated balance sheet for banks operating in the Palestinian Territory:

1. Assets

The net assets of banks grew by \$248.2 million, up by 2.7% from the previous quarter. This item also posted a 4.9% increase over the corresponding quarter of 2011 (a growth of \$433.1 million). Direct credit facilities grew by 3.9% compared to the previous quarter (a growth of \$126.1 million). Likewise, the cash item saw an increase of about 29.2% (\$175.9 million), spurred by a 61.9% rise (equivalent to \$47.6 million) in cash deposits at banks operating in Gaza. This item also grew in the banks operating in the West Bank by about 24.3% (\$128.3 million). In the meantime, portfolio investment increased by 0.4% as a

result of an 0.6% increase in minority investments.

Conversely, net direct credit facilities and portfolio declined by \$ 27.2 million and \$ 72 million, respectively.

✧ Direct credit facilities

During the third quarter 2012, direct credit facilities made up 40.4% of the total assets of banks operating in the Palestinian Territory, down by 1.4 percentage points from the previous quarter, all for overseas deposits of banks. The decline echoed a drop of \$88.3 million in facilities granted to the Palestinian Authority during the third quarter compared to the previous quarter, as well as a drop of \$16.3 million in overdraft facilities granted to residents. The loans, overdrafts and lease financing represented 74.1%, 25.6% and 0.3%, respectively.

Table 4-3: Distribution of direct credit facilities portfolio- from Q1 2011 to Q3 2012

| | 2011 | | | | 2012 | | |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| (million dollars) | | | | | | | |
| By Beneficiary | | | | | | | |
| Public sector | 916.7 | 1,118.1 | 856.4 | 1,108.9 | 1,121.0 | 1,203.4 | 1,114.9 |
| Resident private sector | 2,116.8 | 2,256.2 | 2,303.8 | 2,318.2 | 2,419.0 | 2,526.2 | 2,589.2 |
| Non-Resident private sector | 61.3 | 60.5 | 55.0 | 55.7 | 54.5 | 54.0 | 52.3 |
| By type of facility | | | | | | | |
| Loans | 2,169.7 | 2,316.2 | 2,347.1 | 2,496.0 | 2,526.1 | 2,665.1 | 2,785.0 |
| Overdraft | 918.2 | 1,111.1 | 860.6 | 978.8 | 1,060.2 | 1,110.0 | 961.9 |
| Lease financing | 6.9 | 7.5 | 7.5 | 8.0 | 8.2 | 8.5 | 9.5 |
| By currency | | | | | | | |
| \$ US | 1,873.3 | 2,011.5 | 2,009.8 | 2,206.7 | 2,209.2 | 2,236.0 | 2,233.2 |
| JD | 320.5 | 454.0 | 419.5 | 404.9 | 427.8 | 538.0 | 539.5 |
| NIS | 879.8 | 948.6 | 764.4 | 851.2 | 935.0 | 985.5 | 949.1 |
| Other currencies | 21.2 | 20.7 | 21.5 | 20.0 | 22.5 | 24.1 | 34.6 |

Source: Palestine Monetary Authority – The consolidated balance sheet of banks.

By area, the share of the Gaza Strip represented 10.9%, a growth of 1.2 percentage points over the previous quarter. The West

Bank, thus, retained its largest share of the facilities (89.1%), including those granted to the public sector and non-residents.

During this quarter, both the public and the private sectors retained their shares, with 29.7% and 30.3%, respectively (see Table 4-3). In terms of credit facilities currencies, data show that the credit facilities granted in US dollar held the highest share (59.4%).

Table 4-4 shows that the real estate and construction sector had the largest share of direct credit facilities (21.4%). These are broken down into \$157 million granted to construction purposes; \$341 million offered to real estate (for building houses and improving housing conditions); and \$83.6 million given

to commercial and investment real estate. The trade sector received 20.8% of total credit facilities granted to the private sector, with internal trade acquiring \$457.9 million and external trade receiving \$105.2 million.

Consumer loans accounted for 20.2% of the total credit facilities, while the services sector received 9.6% of these credits. The services sector facilities were tailored to public services (telecommunications, health, education, utilities and craftspeople) and financial services, with 92.8% and 7.2%, respectively.

Table 4-4: Shares of various economic sectors of the facilities granted to the private sector- from Q1 2011 to Q3 2012

| Sector | 2011 | | | | 2012 | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Real estate and construction | 16.4 | 16.2 | 16.5 | 16.6 | 21.4 | 21.3 | 21.4 |
| Land development | 3.7 | 1.2 | 0.9 | 1.0 | 1.0 | 1.0 | 1.2 |
| Mining and industry | 12.8 | 12.4 | 12.0 | 12.3 | 10.5 | 10.4 | 8.9 |
| Internal and external trade | 19.1 | 20.9 | 20.5 | 20.0 | 21.2 | 21.0 | 20.8 |
| Agriculture and livestock | 2.2 | 1.3 | 1.3 | 1.4 | 1.8 | 1.2 | 1.2 |
| Tourism, hotels and restaurants | 2.4 | 2.1 | 2.1 | 2.0 | 2.1 | 2.1 | 2.0 |
| Transport and communications | 1 | 1 | 1.1 | 1.0 | 0.8 | 0.9 | 0.8 |
| Services | 20.5 | 16.1 | 15.6 | 12.0 | 11.3 | 10.5 | 9.6 |
| Financing investment through equity and financial instruments | 2.4 | 2.9 | 2.8 | 2.7 | 2.6 | 2.1 | 2.4 |
| Financing car purchase | 4.3 | 4.1 | 4.7 | 4.8 | 4.0 | 4.1 | 4.3 |
| Financing consumer commodities | 7.7 | 13.9 | 15.1 | 17.0 | 16.5 | 18.8 | 20.2 |
| Other | 7.5 | 7.9 | 7.4 | 9.2 | 6.7 | 6.6 | 7.1 |
| Total Facilities (\$ millions) | 2,238.4 | 2,381.6 | 2,428.2 | 2,451.9 | 2,536.1 | 2,644.6 | 2,713.7 |

Source: Palestine Monetary Authority

❖ PMA and Banks' Deposits

- Assets of banks held by PMA
During the third quarter 2012, with a total of \$938.8 million, the assets of banks held by the PMA represented 10.1% of total assets of banks operating in the Palestinian Territory. These holdings were in the form of mandatory reserves (70.2%), current accounts (10%) and other accounts (19.8%).
- Overseas holdings of banks
Witt \$2,157.5 billion, overseas holdings of banks represented 23.2% of total assets of banks operating in the Palestinian territory, up by 1.5 percentage points from the previous quarter. This coincided with an increase of the ratio of credit facilities

to the total assets of banks by about 1.4 percentage points during the same period of comparison. Overseas banks (that have branches in the oPt) held 64.3% (\$1,387 billion) of these Palestinian holdings, while the rest was held by foreign banks not operating in the Palestinian Territory.

- Holdings of banks operating in the oPt
Holdings of banks operating in the oPt constituted about 3.2% (or \$294.6 million) of the total net assets during 2012 third quarter, down by 13.5% (or \$45.8 million) from the previous quarter. These holdings had also represented 8.7% of the total deposits of the PMA and the banks.

2. Liabilities

Liabilities of banks operating in the Palestinian Territory primarily involve the total public deposits (77.5%). These involved resident deposits (74%) and non-residents deposits (2.4%). Deposits of the public at the end of Q3 2012 totaled \$7,200.8 billion, up by 4.2% from the previous quarter, and by 5.6% from the corresponding quarter of 2011. With \$1,240 billion, net equity came second in terms of relative importance (13.3%), up by 2.3% from the previous quarter as a result of a \$29.7 million increase in profits.

Current (on-demand) deposits accounted for 40.2% of total public deposits. Time deposits represented 30.1%, while saving deposits made up 29.7% of the total public deposits (see Figure 4-1). By currency, with 38.7%, the U.S. dollar retained its dominance of public deposits. The Israeli shekel and the Jordanian dinar held 32% and 24.7%, respectively (see Figure 4-2).

Table 4-5: Distribution of public deposits, from Q1 2011 to Q3 2012

| | 2011 | | | | 2012 | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Be Depositor | | | | | | | |
| Public sector | 695.0 | 556.3 | 522.8 | 584.5 | 566.1 | 515.9 | 566.4 |
| Resident private sector | 6,053.0 | 6,204.3 | 6,095.6 | 6,192.3 | 6,276.1 | 6,180.6 | 6,409.2 |
| Non-resident private sector | 180.7 | 189.8 | 202.1 | 195.7 | 203.2 | 215.0 | 225.2 |
| By type of deposit | | | | | | | |
| Current deposit | 2,762.3 | 2,755.8 | 2,736.8 | 2,773.0 | 2,746.1 | 2,691.0 | 2,894.8 |
| Time deposit | 2,273.2 | 2,219.6 | 2,134.5 | 2,172.4 | 2,200.9 | 2,122.4 | 2,167.6 |
| Saving deposit | 1,893.2 | 1,975.0 | 1,949.2 | 2,027.1 | 2,098.4 | 2,098.1 | 2,138.4 |
| By deposit currency | | | | | | | |
| US dollar (millions) | 2,936.6 | 2,882.5 | 2,704.9 | 2,115.8 | 2,740.8 | 2,709.1 | 2,789.0 |
| Jordanian dinar (millions) | 1,849.3 | 1,844.0 | 1,799.2 | 1,801.4 | 1,849.8 | 1,795.1 | 1,781.4 |
| NIS (millions) | 1,812.8 | 1,900.8 | 1,988.8 | 2,718.5 | 2,093.4 | 2,088.9 | 2,306.3 |
| Other currencies (millions) | 330.0 | 323.1 | 327.6 | 336.8 | 361.4 | 318.4 | 324.1 |
| Total (millions) | 6,928.7 | 6,950.4 | 6,820.5 | 6,972.5 | 7,045.4 | 6,911.5 | 7,200.8 |

Figure 4-1: Distribution of public deposits by Type of deposit- as end of Q3 2012

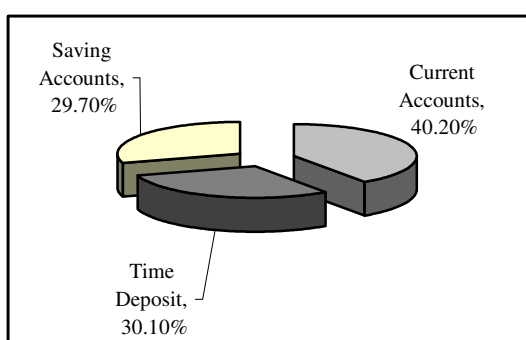
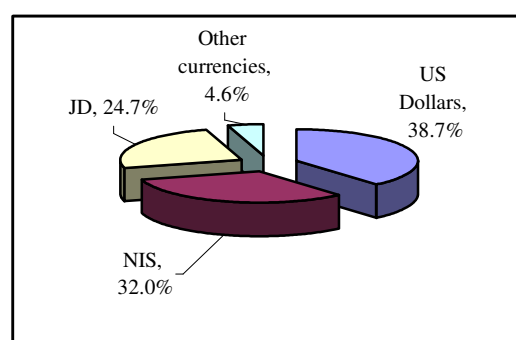


Figure 4-2: Distribution of public deposits by Currency- as end of Q3 2012



Source: Palestine Monetary Authority –The consolidated balance sheet for banks

4.2 Performance indicators of the banking system

The general indicators for the performance of banks operating in the Palestinian Territory reveal a decline of 2.1 percentage points in the

ratio of credit facilities to public deposits in the third quarter 2012 compared to the previous quarter. This decline is probably a result of a drop in credit facilities granted to the government, which coincided with an improvement of about 1/2 percentage point in

the credit facilities-private sector deposits ratio from the previous quarter and an increase of 3.4 percentage points over the corresponding quarter.

The ratio of overseas assets to total deposits grew by 1.1 percentage points compared with

the previous quarter, but declined by 6.8 percentage points compared to the corresponding quarter. This had evidently mirrored a 15% decline in overseas holdings of banks, which coincided with an ongoing growth in total deposits.

Table 4-6: Performance indicators of the banking system- from Q1 2011 to Q3 2012

| Indicator | 2011 | | | | 2012 | | |
|---|------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Credit facilities / Non-bank deposits | 44.7 | 49.4 | 47.1 | 50.0 | 51.0 | 54.7 | 52.6 |
| Credit facilities of the private sector / private sector deposits | 34.9 | 36.2 | 37.5 | 37.3 | 38.3 | 40.5 | 40.9 |
| Overseas holdings / total deposits | 33.9 | 31.0 | 34.8 | 32.4 | 33.2 | 26.2 | 28.0 |
| Customer deposits / total assets | 79.4 | 78.7 | 77.0 | 76.5 | 77.0 | 76.4 | 77.5 |

Source: Palestine Monetary Authority –The consolidated balance sheet for banks

✧ **Profits of banks operating in the oPt**
The net revenues (net profits minus expenses) of banks operating in the oPt during the third quarter 2012 totaled about \$29.7 million (see

Table 4-7). The net cumulative profits of banks for the first three quarters of 2012 totaled \$91.1 million.

Table 4-7: Net profits of banks- Qs 1, 2 and 3, 2012

| Source of profit / loss | Q1 | Q2 | Q3 | Cumulative |
|--|--------------|--------------|--------------|--------------|
| Net profit | 101.2 | 102.1 | 107.2 | 310.5 |
| Interest | 73.5 | 77.3 | 76.9 | 227.7 |
| Commissions | 19.2 | 17.7 | 18.8 | 55.7 |
| Debt securities & investment | 1.8 | 0.1 | 3.0 | 4.9 |
| Operations of evaluating and exchanging foreign currency | 5.2 | 5.7 | 6.7 | 17.6 |
| Hedging and trading (derivatives) | 0.05 | 0.03 | 0.4 | 0.48 |
| Other operating revenue | 1.4 | 1.3 | 1.4 | 4.1 |
| Expenses | 63.2 | 78.7 | 77.5 | 219.4 |
| Operating expenses | 54.7 | 57.5 | 56.7 | 168.9 |
| Allocations | 3.1 | 7.6 | 8.7 | 19.4 |
| Tax | 5.4 | 13.6 | 12.1 | 31.1 |
| Net income * | 38.0 | 23.4 | 29.7 | 91.1 |

Source: PMA – The consolidated balance sheet for banks

* Net income = net profit - expenses

4.3 Clearing Houses Activity

Data from the Palestine Monetary Authority clearing houses in both Ramallah and Gaza show that in the third quarter 2012, about 1,102,004 checks (with a value of 2,297.6 million dollars) were presented for clearing, up by 6.1% in the number of checks, but down by 3% in the value of checks compared with the

previous quarter. During the comparison period, there was a significant increase in the number of returned checks (127 thousand checks with a value of \$158 million) owing to the delay in paying public servants salaries against the backdrop of the financial crisis.

Table 4-8: Number and value of checks presented for clearing & number and value of checks returned- from Q1 2011 to Q3 2012

| Period | | Checks presented for clearing | | Returned checks | |
|--------|----|-------------------------------|---------------------|-----------------|---------------------|
| | | No. (checks) | Value (\$ millions) | No. (checks) | Value (\$ millions) |
| 2011 | Q1 | 981,188 | 2,882.7 | 106,141 | 167.2 |
| | Q2 | 1,001,249 | 3,059.2 | 115,883 | 175.6 |
| | Q3 | 1,010,402 | 3,055.7 | 134,574 | 213.2 |
| | Q4 | 1,055,827 | 2,870.8 | 131,518 | 202.1 |
| 2012 | Q1 | 1,009,857 | 2,604.4 | 119,019 | 180.3 |
| | Q2 | 1,038,177 | 2,370.1 | 111,283 | 161.6 |
| | Q3 | 1,102,004 | 2,297.6 | 127,175 | 157.8 |

Source: PMA, Monthly Statistical Bulletin

✧ International money transfers

Quarterly data demonstrate that incoming and outgoing money transfers during the third quarter of the year fell by 10.7% from the previous quarter, totaling \$2.5 billion dollar by the end of the third quarter (44% outgoing, 56% incoming). About 25.3% of the total number of executed outgoing money transfers went to Israel (with 55.1% of the total value of outgoing transfers). On the other hand, 22.7% of the number of incoming transfers came from Israel, with a value of 59.4% of the total value of the incoming transfers.

✧ RTGS

Palestine Monetary Authority uses Real Time Gross Settlement systems (RTGS) to settle all payment processing and clearing operations between member banks on a "real time" and on "gross" basis. This system contributes significantly to promoting financial stability in the Palestinian territory because it reduces the risk of transfer of funds between banks. RTGS is the first global system that can settle payments in more than one currency at the same time.

The value of transactions carried out using RTGS since the beginning of 2012 until the end of the third quarter totaled \$4,767.3 million (a monthly average of \$529.7 million). Interbank transfers during this period had a value of \$1,955.1 million (48% bank transfers and 52% personal transfers). Cross-Border Transfers totaled \$2,217.5 million, while other banking operations (compulsory reserve operations, clearing settlement and other operations) had a value of \$594.7 million.

4.4 Lending institutions and money changers

At the end of Q3 2012, there were 11 lending institutions operating in the oPt with a credit portfolio of \$83.5 million. Under the Presidential Decree No. (132) of 2011 (which regulates the activities of lending institutions and actuates their role as a financing artery along with banks, especially in the field of micro-finance), these institutions are overseen and controlled by the Palestine Monetary Authority.

At the end of Q3 2012, the number of licensed money changers in the oPt was 275, including 233 in the West Bank and 42 in the Gaza Strip. Ninety-seven of these money changers have a company legal status, while the rest have an individual status. Again, the money exchange companies and offices are supervised and controlled by the Palestine Monetary Authority. Money exchange businesses involve many activities that help ease the burden on the banking system, increase the money supply in the national economy, and facilitate managing various foreign currencies.

4.5 Palestine Stock Exchange

The *Economic and Social Monitor* studies three groups of financial indicators of the Palestine Stock Exchange and its developments:

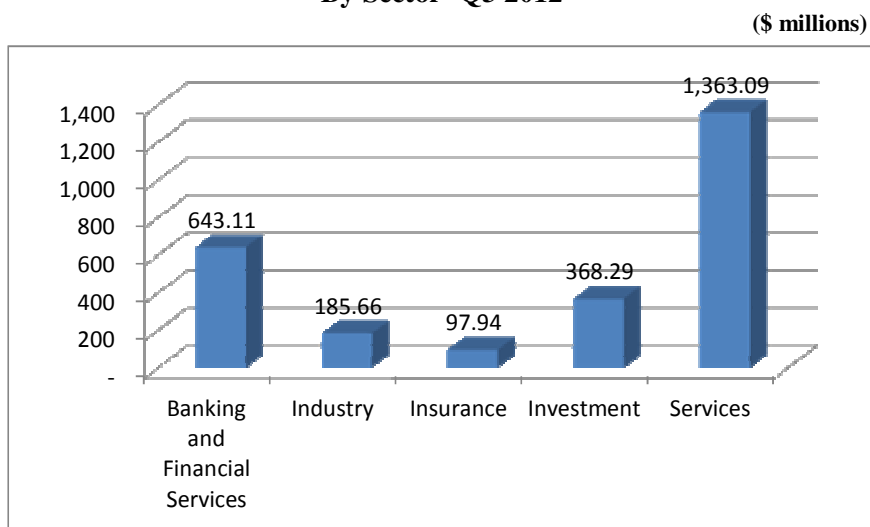
✧ Indicators of the financial market

- Market capitalization²²: The share of market capitalization on the Palestine Stock Exchange in 2011 was 32% compared to 29% in 2010.

²² This indicator is used to measure the importance and role of the financial market in an economy. It is calculated by dividing the market value of shares listed on the market to the GDP at current prices. This indicator is calculated for the entire year rather than quarters.

- Number of listed companies: The number of companies listed on the Palestine Stock Exchange at the end of the third quarter 2012 was 48 (9 companies working in banking and financial services; 11 manufacturing companies; 7 insurance companies; 8 investment companies; and 13 firms working in the services sector). In July 2012, PALAQAR (a real estate company) was listed on the PSE.
 - ◇ Liquidity Indicators
 - Ratio of traded shares to GDP: In the third quarter 2012, this ratio was 1.8% compared to 4.3% in the previous quarter.
 - Turnover²³: In the third quarter 2012, this indicator was 1.17%, down from 2.8% in the previous quarter. As per sector, the turnover of investment sector was 1.51%; the banking and financial services sector 1.35%; the industry sector 1.09%; services sector 1.01%; and insurance sector 0.98%.
 - ◇ Degree of Concentration²⁴
 - The five largest companies on the Palestine Stock Exchange held 79% of the total value of shares traded in the third quarter 2012. These companies are: Palestinian Telecommunications Group (40%); Bank of Palestine (22%); Palestine Development and Investment (12%); Alrafah Microfinance Bank (2%); and Wataniya Palestine Mobile Telecommunications Company (2%).
- The market value of shares of companies listed on the Palestine Stock Exchange at the end of Q3 2012 retained the figure it reached end of the previous quarter (\$2.7 billion). By sector, the services sector accounted for the largest share of the total market value (51%). The banking and financial services sector came second with 24% of total value (see Figure 4-3).

Figure 4-3: Value of shares listed on Palestine Stock Exchange, By Sector- Q3 2012



Source: Palestine Stock Exchange www.pse.com

The indicators of financial market in the oPt show a significant decline in the activity of the Palestine Stock Exchange in this quarter. The number of shares traded on the Palestine Stock Exchange totaled 18.1 million, down by

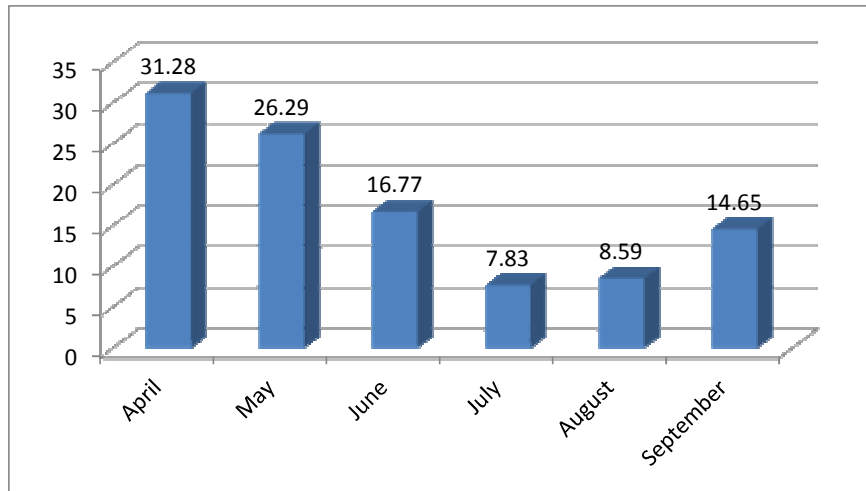
55% from the previous quarter. At the same time, the value of shares traded stood at \$31.1 million, down by 58% from the previous quarter (see Figure 4-4).

²³ This indicator calculates the volume or value of shares traded on a stock exchange during a day, month or year.

²⁴ This indicator is used to measure the influence of some large companies on changes in stock market indices, especially the stock prices. The influence is measured by calculating the contribution of the top five or ten companies to the value of shares traded on the stock market.

Figure 4-4: Value of shares traded on Palestine Stock Exchange- Qs 1 & 2 2012

(million dollars)

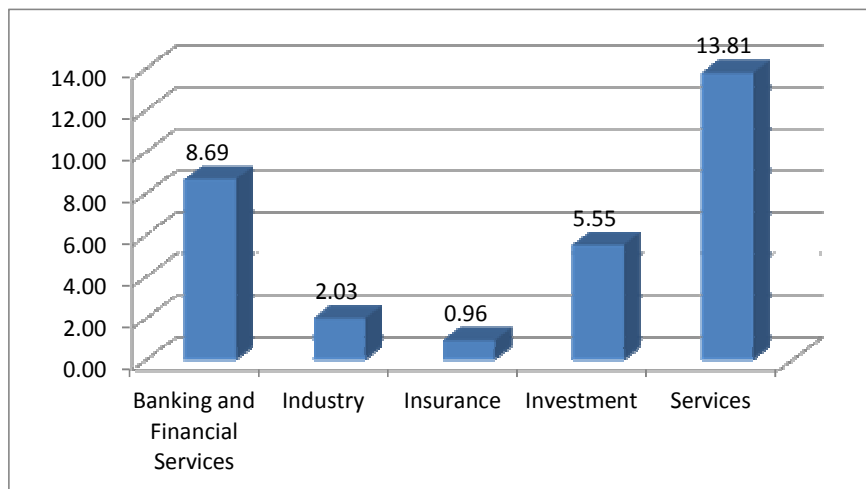


Source: Palestine Stock Exchange www.pse.com

Regarding the value of shares traded by sector, the services sector had the largest share with 44% of the total value of shares traded, while

the banking and financial services sector came second, with a share of 28% of the total value of stocks traded on the PSE (see Figure 4-5).

Figure 4-5: Value of shares traded on PSE, By Sector- Q3 2012 (\$ millions)



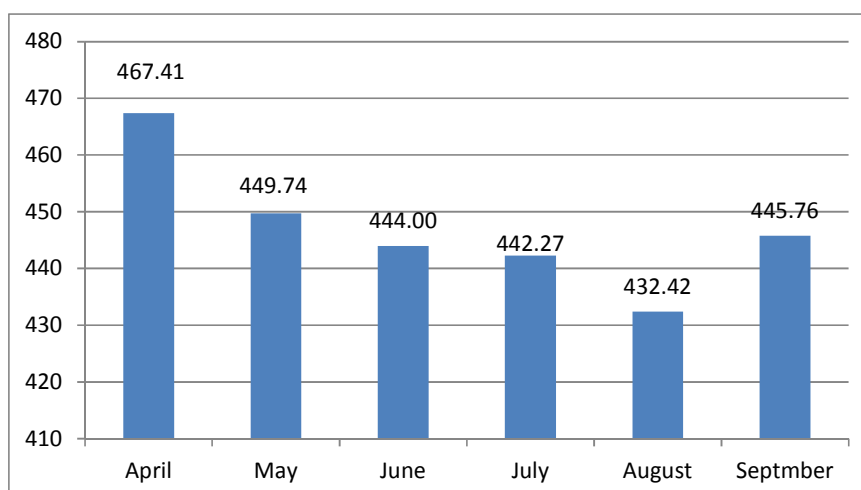
Source: Palestine Stock Exchange www.pse.com

Al-Quds Index

At the end of Q3 2012, Al Quds Index closed at 445.76 points, up by 1.67 points from the previous quarter (see Figure 4-6), but down by 42.44 points from the corresponding quarter 2011. The decline is likely an outcome

of the deterioration in the economic and political situation in the Palestinian Territory, as well as the PNA's financial crisis, eventually leading to the refrain of business investment in the Palestinian Territory.

Figure 4-6: Al-Quds Index- Qs 2 & 3 2012



Source: Palestine Stock Exchange www.pse.com

Textbox 3: Exchange rate policy of Bank of Israel and changes in \$-NIS exchange rate in 2012

It is no secret that fluctuations of the exchange rate of the Israeli shekel against other currencies considerably impact the Palestinian economy. These fluctuations definitely have implications on the costs of imports and the competitiveness of exports. They also directly affect the lives of the relatively large number of employees who receive their salaries in foreign currencies (the U.S. dollar in particular). The instability of the NIS exchange rate against hard currencies has also impacted the budget of the Palestinian government, since the PNA receives foreign aid in the US dollar or the Euro, while it spends in shekels.

The exchange rate is also very important to the Israeli economy, which is open and relatively small, with exports representing 40% of GDP.

In this textbox, we will review the Israeli policies of setting exchange rates, and consider the fluctuations in the NIS exchange rates against the US dollar over the past few years (particularly in 2012).

The exchange rate is the rate at which a foreign currency (US dollar) will be exchanged for a local currency (the shekel), for example \$ 1 = NIS 3.6. Thus, the increase in exchange rate (from 3.6 to 4.0 shekels, for example) means a decrease in the value of the shekel, and vice versa.

Since 2002, the Bank of Israel has used a floating exchange rate regime. This means that the exchange rate is determined by the free forces of supply and demand for the shekel. Figure 1 shows that the shekel reached its lower bound in early 2006 as a result of liberalization of the financial market and the flight of huge amounts of capital abroad.

In 2008 a significant shift occurred in the policy of the Bank of Israel. With the blowup of the global financial crisis and the relative stability in the Israeli economy compared to Western economies, a large influx of short-term capital flowed to Israel, occasioning a sharp rise in the value of the shekel (decline in the exchange rate), a phenomenon occurring in other emerging economies. In 2008, the value of the shekel rose by 20%: 1 \$ = 3.2 shekels (see Figure 1).

To moderate the shekel appreciation trend, the Bank of Israel had in 2009 reneged on its non-intervention policy and started to intervene in the foreign exchange market. The Bank would, thus, every day purchase about \$ 100 million from the market²⁵. By Q4 2009, the new policy of the Bank of Israel was unraveled: direct intervention in the market to ensure that the actual exchange rate of the NIS is as close as possible to the real equilibrium exchange rate, an exchange rate that corresponds to the economic fundamentals of the Israeli economy (such as unemployment conditions, the balance of payments and inflation)²⁶.

²⁵ Eckstein Z and A. Friedman: The Equilibrium Exchange Rate for Israel. BIS Papers, No. 57.

<http://www.bis.org/publ/bppdf/bispap57n.pdf>

²⁶ *ibid*

Figure 1: The exchange rate of the shekel against the dollar (2006-2012)



Source: <http://www.tradingeconomics.com/israel/currency>

An example of this new policy was the surprising decision by the Bank of Israel to gradually raise the interest rate from 0.5% in April 2009 to 2% at the end of 2010, while the key rates in the US and the euro zone were at historical lows. However, the decision was induced by the economic fundamentals, since the relatively sharp growth was foreshadowing an inflation that the Bank of Israel frantically tries to avoid. The Bank of Israel's decision to raise interest rates has induced a flow of short-run capital to Israel and exerted pressure on the exchange rate. To balance these pressures, the Bank of Israel continued its intervention and purchase of foreign currency. This led to an increase of foreign reserves from \$ 28 billion in 2008 to \$ 71 billion at the end of 2010. Thus, the shekel settled at what was believed to be its equilibrium level at the end of that year.

To conclude, the Bank of Israel actively intervened to ensure that the real exchange rate (i.e. after inflation is taken into account) is close to the equilibrium rate. The equilibrium rate supports growth (competitiveness in foreign markets and low interest rates) and keeps inflation within acceptable boundaries.

Exchange rate fluctuations in 2012

Figure 2 shows that the value of the shekel against the dollar rose in early 2012. According to some experts, this appreciation was attributed to the weakness of the dollar, on the one hand, and the reverse of the U.S. market as a safe haven, on the other²⁷. As of the beginning of April 2012, the value of the shekel started depreciating in the backdrop of publishing the annual report by the Bank of Israel on March 28, which did not forecast a rosy outlook for the Israeli economy, especially in relation to unemployment²⁸. The depreciation continued during the later three months because of weak demand for Israeli exports, according to Wall Street Journal²⁹. Strikingly, a relatively strong counter movement raised the value of the shekel in the last week of June in conjunction with the visit of "Mitt Romney," the candidate for the American presidency³⁰.

During September 2012, the shekel regained some of its strength following Moody's assigning A1 to Israel's credit system. However, the value of the shekel depreciated again in October because of the Bank of Israel's decision to reduce the interest rate, on the one hand, and an expectation of an air strike against Iran, on the other. In November, the value of the shekel improved due to the weak dollar prior to the presidential election in the United States. Some analysts believe that such improvement was driven by Israel's assassination of the military commander of Hamas³¹.

Inordinately, the Israeli elections in mid-January 2013 did not influence the exchange rate of the shekel during the last month of 2012. This was probably because analysts did not expect any surprises in the results of these elections.

The Bank of Israel continued its functioning intervention in the currency market during 2012. The foreign currency reserves during 2012 saw a growth of \$991 million, totaling 75.8 billion dollars end of the year³².

²⁷ <http://www.globes.co.il/serveen/globes/docview.asp?did=1000722488&fid=1725>

²⁸ <http://www.investing.com/currencies/usd-all-advanced-chart>

²⁹ http://www.mfa.gov.il/MFA/IsraeliEconomy/Economic_News/Bank-of-Israel-Annual-Report-2011-28-Mar-2012

³⁰ <http://online.wsj.com/article/SB10001424052702304870304577488870685494742.html>

³¹ http://www.cbsnews.com/8301-18563_162-57481859/romney-visits-israel/

³² <http://www.bloomberg.com/news/2012-11-06/dollar-is-near-8-week-high-against-euro-before-u-s-poll-results.html>

Bank of Israel webpage.

Figure 2: Dollar-shekel exchange rate (2012)



Source: <http://www.tradingeconomics.com/israel/currency>

5. Investment Indicators

5.1 Company Registration

The Ministry of National Economy registers companies in the Occupied Palestinian Territory under two different laws in effect in the West Bank and the Gaza Strip³³. This issue of the *Monitor* reviews the new companies registered in the third quarter of 2012 in the West Bank only because the Ministry of Economy in Ramallah does not have any data on the registration of companies in the Gaza Strip. The number of registered companies in the West Bank in this quarter was 228, down by 18% from the previous quarter, and down by 21% from the corresponding quarter of the previous year (see Table 5-1).

The capital of new companies registered in the West Bank in the third quarter of 2012 totaled about 454.5 million Jordanian dinars³⁴, compared to JD 37.3 million in the previous quarter. The significant surge in the value of capital of newly-registered companies in this

quarter is a result of registering new three international companies: Roche Holding Ltd. (with a capital of 300 million dinars), F. Hoffmann La Roche Ltd. (with a capital of 110 million dinars), and Dai Nippon Construction Co. Ltd. (with a capital of 18 million dinars). The value of the shares of these three companies constitutes 94% of the total capital of newly-registered companies in the quarter.

With respect to the distribution of the capital by sector³⁵, data available show that with a share of 33% (JD 8.7 million), the trade sector was the largest contributor of the capital of newly-registered companies. The services sector ranked second with a share of 22% (JD 5.9 million). The construction sector and the industry sector came third and fourth, with 21% and 15%, respectively (see Figure 5-1).

³³ Jordanian Companies Law No. (12) of 1964 is applied in the West Bank, while the Companies Law No. (18) of 1929 is applied in the Gaza Strip.

³⁴ In the third quarter 2012, the companies were registered in four currencies: the Jordanian dinar, the U.S. dollar, the Swiss franc and the Japanese yen. The exchange rate was calculated according to the quarterly rate of the Jordanian dinar against the three currencies: (.70562), (.73341), (.00897), respectively.

³⁵ The foreign joint stock companies (Roche holding Ltd., F. Hoffmann-La Roche Ltd., and Dai Nippon Construction Co. Ltd.) were excluded given the immensity of their capital.

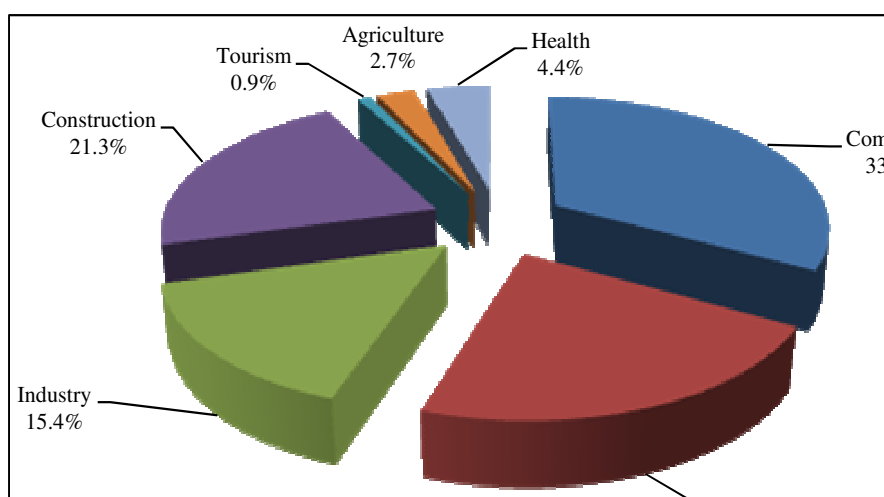
Table 5-1: Development of the number of new companies registered in the West Bank during the years 2008-2012

| 2012 | 2011 | 2010 | 2009 | 2008 | Quarter |
|------|--------------|--------------|--------------|--------------|--------------|
| 319 | 389 | 334 | 454 | 247 | 1 |
| 278 | 373 | 428 | 412 | 334 | 2 |
| 228 | 287 | 164 | 349 | 315 | 3 |
| | 337 | 290 | 438 | 287 | 4 |
| | 1,386 | 1,216 | 1,653 | 1,183 | Total |

Regarding the legal form of companies registered in the third quarter 2012, data indicate that 89 companies took the form of public ordinary companies, 135 were private joint stock companies, and 5 were foreign joint stock private companies. The joint stock private companies and the public ordinary

companies acquired 3.3% and 2.5% of the total capital of the newly-registered companies. On the other hand, the capital of the newly-registered foreign joint stock private companies represented 94.2% of the total capital of companies registered during the third quarter (see Table 5-2).

Figure 5-1: % Distribution of the value of capital of companies registered in the West Bank- by Sector, Q3 2012



Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2012.

Table 5-2: Distribution of the value of capital of companies registered in the West Bank- by Legal Form: from Q1 2011 to Q3 2012 (JD millions)

| Year | Legal Form | | | | Total |
|-------------|-----------------|----------------------|---------------------|------------------------------|----------------|
| | Public Ordinary | Private Shareholding | Public Shareholding | Foreign Private Shareholding | |
| Q1/2011 | 19.505 | 61.200 | 0 | 0.070 | 80.775 |
| Q2/2011 | 20.306 | 32.259 | 0 | 0.920 | 53.486 |
| Q3/2011 | 17.936 | 20.610 | 0 | 0.360 | 38.906 |
| Q4/2011 | 16.402 | 21.176 | 0 | 9.496 | 47.074 |
| 2011 | 74.149 | 135.254 | 0 | 10.846 | 220.249 |
| Q1/2012 | 15.514 | 35.488 | 5.000 | 30.110 | 86.112 |
| Q2/2012 | 17.580 | 17.594 | 0 | 2.123 | 37.296 |
| Q3/2012 | 11.281 | 15.050 | 0 | 428.127 | 454.458 |

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2012.

5.2 Building License

The number of building licenses issued during a given period may be taken as a significant indicator of investment activity in general and investment in the housing sector, in particular. The number of building licenses changes seasonally- increasing in the second and third quarters (during summer), while declining in the first and fourth quarters. Besides, the number of licenses issued in the oPt does not include all building activities in the construction sector, since part of the construction activities, especially in rural areas, is not registered or licensed. Therefore, drawing a comparison between corresponding quarters is much more indicative than comparing successive quarters.

Data of building licenses indicate that the number of building permits in the West Bank during the third quarter 2012 declined by 18.8% compared to the previous quarter, but climbed by 30.6% compared to the corresponding quarter of 2011. The total area licensed during the third quarter 2012 was about 805.9 thousand square meters, up by about 4.1% from the corresponding quarter. The number of licensed residential units (both new and existing) totaled 3648, compared with 2971 units in the corresponding quarter of 2011.

Table 5-3: Number of building licenses issued in the oPt: 2011-2012

| Indicator | 2011 | 2012 | |
|--|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 |
| Total licenses issued | 1,717 | 2,190 | 1,778 |
| Residential buildings | 1,499 | 1,930 | 1,624 |
| Non-residential buildings | 218 | 260 | 154 |
| Total licensed areas (1000 Sq. m) | 774.3 | 870.1 | 805.9 |
| No. of new units | 2403 | 3,006 | 3107 |
| Area of new units (1000 Sq. m) | 431.0 | 518.6 | 529.6 |
| No. of existing units | 568 | 643 | 541 |
| Area of existing units (1000 Sq. m) | 100.5 | 106.3 | 92.7 |

Source: Palestinian Central Bureau of Statistics (2012): Building Licenses Statistics, Ramallah - Palestine.

5.3 Cement Import

The 2012 Quarter 3 saw a 2.7% decline in the quantity of cement that had been allowed into Gaza compared to the previous quarter, and a fall of 14.3% compared to the corresponding quarter. In the West Bank, the quantity of cement imported dropped by 14.5% compared to the previous quarter and by 5.3% compared to the corresponding quarter of 2011 (see Table 5-4).

5.4 Car Registration

This section tallies the number of cars (new or used) registered for the first time in the West Bank and imported from abroad. This indicator can mirror the economic situation of the population, on the one hand, and the degree of reliability and optimism about the

future economic conditions, on the other. Because cars are expensive, they are often purchased through borrowing from banks. This indicator thus reflects the confidence of both people and banks in the sustainability of employment and the ability to pay obligations.

During Q3 2012, 3,283 new and used cars were registered in the West Bank, down by 10% from the previous quarter and by 35% from the corresponding quarter of 2011. Forty-four percent of cars registered in the West Bank during this quarter were used cars imported from abroad, while 36% were new cars imported from abroad, and the rest (20%) were used cars purchased from the Israeli market.

Table 5-4: West Bank and Gaza's Imports of Cement: 2009-2012 (thousand tons)

| Period | West Bank | Gaza | Opt |
|-------------|-----------|------|---------|
| 2009 | 1,230 | 0 | 1,230 |
| Q1/2010 | 301.6 | 0 | 301.6 |
| Q2/2010 | 381.5 | 0.6 | 382.1 |
| Q3/2010 | 312.9 | 1.0 | 313.9 |
| Q4/2010 | 344.1 | 2.7 | 346.8 |
| 2010 | 1,340.1 | 4.3 | 1,344.4 |
| Q1/2011 | 296.8 | 2.6 | 299.4 |
| Q2/2011 | 381.4 | 11.4 | 392.8 |
| Q3/2011 | 294.7 | 15.3 | 310.0 |
| Q4/2011 | 308.8 | 15.3 | 324.1 |
| 2011 | 1,281.7 | 44.6 | 1,326.3 |
| Q1/2012 | 254.3 | 12.6 | 266.9 |
| Q2/2012 | 341.9 | 13.5 | 355.4 |
| Q3/2012 | 292.4 | 13.1 | 305.5 |

Source: Palestinian Central Bureau of Statistics: Administrative records, 2012. Ramallah, Palestine.

Table 5-5: No. of new and used cars newly-registered in the West Bank

| | Cars from international market (new) | Cars from international market (used) | Car from the Israeli market (used) | Total |
|----------------|--------------------------------------|---------------------------------------|------------------------------------|--------------|
| Q3/2011 | 1,285 | 3,249 | 487 | 5,021 |
| Q1/2012 | 1,050 | 2,080 | 612 | 3,742 |
| Q2/2012 | 1,359 | 1,588 | 681 | 3,628 |
| July | 419 | 469 | 236 | 1,124 |
| August | 365 | 529 | 205 | 1,099 |
| September | 398 | 442 | 220 | 1,060 |
| Q3/2012 | 1,182 | 1,440 | 661 | 3,283 |

Source: Department of Customs and Excise, unpublished data.

5.5 Hotel activity

The total number of hotels fell to 92 end of Q3 2012, down from 98 during the previous quarter. In Q3 2012, the number of guests totaled 146,451: 19.3% were Palestinians and 31.9% came from the European Union countries. The number of guests was up by 39.2% from the corresponding, but down by 7% from the previous quarter (see Table 5-6).

During this quarter, the number of nights spent in hotels totaled 309,963, including 16% occupied by Palestinians, 38% by European Union nationals, and 7% by United States and Canada nationals. This is a 23.4% growth over

the corresponding quarter and a 16.4% decline from the previous quarter. The average length of stay was 2.1 nights per guest.

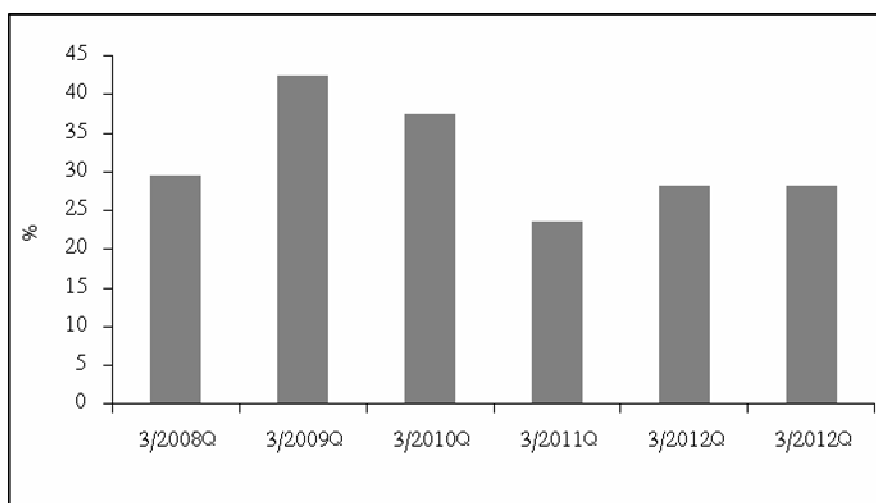
The average room occupancy was 1,487.6 rooms per day (i.e. 28.3% of total available rooms during the third quarter 2012) (see Figure 5-4). With a percentage of 48.4%, hotels of southern West Bank governorates accommodated the largest number of guests; and those of Jerusalem, Central West Bank, and northern West Bank accommodated 28.9%, 16.8% and 5.9%, respectively.

Table 5-6: Key Hotel Indicators in the oPt – Qs 2 & 3 2012 and Q3 2011

| Indicator | Q3 2012 | Q2 2012 | Q3 2011 |
|------------------------------------|---------|---------|---------|
| No. of operating hotels/ end of Q | 92 | 86 | 85 |
| Average no. of employees/ during Q | 2,446 | 2,471 | 2,118 |
| No. of guests | 146,451 | 605,715 | 105,202 |
| No. of nights stayed | 309,963 | 829,037 | 251,236 |
| Average room occupancy | 1,487.6 | 707.61, | 1219.3 |
| Average bed occupancy | 3,36.9 | 4,0249 | 2730.8 |
| Room occupancy % | 28.3 | 19.7 | 24.7 |
| Bed occupancy % | 27.8 | 25.7 | 25.4 |

Source: PCBS, 2012: Hotel Activity in the oPt

Figure 5-4: Hotel Room Occupancy Rates, third quarters of 2008, 2009, 2010, 2011 and 2012



Source: PCBS, 2012: Hotel Activity in the oPt

Textbox 4: Unequal distribution of agricultural holdings in the Palestinian Territory

MAS has conducted an analysis of the data obtained from the agricultural census carried out by the Palestinian Central Bureau of Statistics in 2010. One analytical study reviewed the data on the distribution of agricultural holdings in the Palestinian territory³⁶. The study found that the area of agricultural holdings in the Palestinian territory totaled 1.2 million dunums, and that the number of agricultural holdings is 97 thousand. While 80% of the area of agricultural land is found in holdings whose area is more than 10 dunums, 72% of the number of holdings has an area of less than 10 dunums. This means that 28% of the holdings cover about 80% of the total area of agricultural holdings in the Palestinian territory.

The analysis used three measures to demonstrate the small size of most of the agricultural holdings, on the one hand, and the injustice in the distribution of areas to holdings, on the other.

Dispersion and Concentration Measures

The average area of an agricultural holding in the Palestinian territory is roughly 12.4 dunums, while the median area (i.e., the actual area of most of the holdings) is only 4.5 dunums. This significant discrepancy between the average and the median (as well as the compelling standard deviation: three times the average)

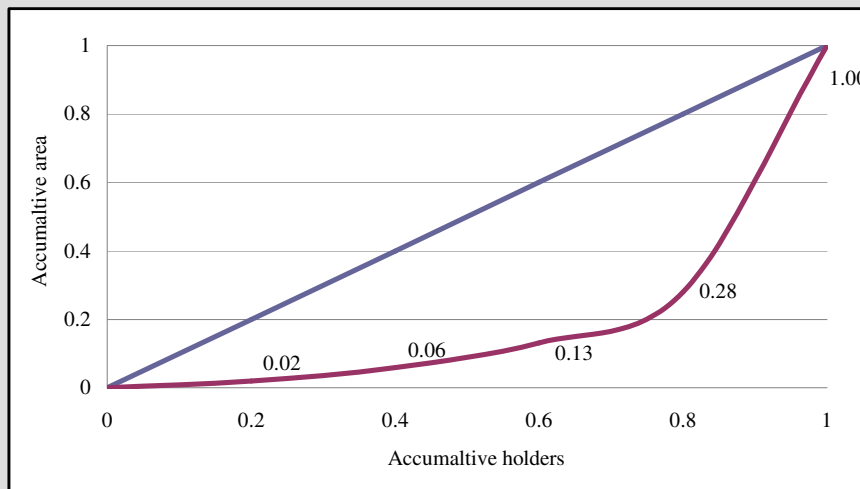
³⁶ PCBS, 2012. Project of publishing and analyzing agricultural data of 2010 census: fragmentation of agricultural holdings and the impact on production and productivity. Ramallah, Palestine.

signifies an imbalance in the distribution of the area to the holdings. The analysis found that the highest degree of disproportionateness is found in the Central West Bank (an average area of 13.6 dunums with a standard deviation of 3.4 times the average). In contrast, the least disproportionateness is found in the Gaza Strip (an average area of 5.9 dunums with a standard deviation less than three times the average). For comparison purposes; we found that the average area of a holding in Jordan is 40 dunums (according to the agricultural census for 2007: Rimawi, 2009), i.e., about 3.2 times the average in the Palestinian territory- denoting the small area of most of the agricultural holdings in the Palestinian territory.

Lorenz Curve and the Gini Coefficient

The Gini Coefficient is a numerical measure of equitable distribution. The lower the Gini coefficient, the more evenly spread the variable. If every 10% of the holdings fully covers 10% of the total area of agricultural land, then equitability is absolute and the value of the Gini Coefficient is zero. Contrarily, if 10% of the holdings possesses 100% of the area, then injustice is absolute, and the value of the Gini Coefficient is one. The actual value of the Gini Coefficient ranges between zero and one. The Gini coefficient measures the gap between the actual distribution curve and the diagonal line (see Figure 1). The wider the gap, the more uneven the distribution. Different points on the curve reflect the actual distribution. For example, the (*) point suggests that 80% of the holders own only 28% of the total area (absolute equitability requires that 80% possess 80%, i.e. the point should be on the diagonal line). The analysis found that the value of the Gini coefficient for the distribution of area to agricultural holdings in the Palestinian Territory is 0.6, which is a high value that indicates a relatively inequitable distribution. Yet, the distribution of holdings in the Palestinian territory is still relatively better than in Jordan, for example, where the Gini coefficient is around 0.68 (Agricultural census 2007: Rimawi, 2009)³⁷. On the other hand, the analysis indicated that the lowest value of the standard deviation is found in Khan Younis- suggesting less fragmentation and more equitable distribution. By contrast, the highest value of standard deviation is found in Jericho and the Jordan Valley.

Figure 1: Lorenz Curve: Distribution of the Area of Agricultural Holdings to Holders in the oPt, 2010



Area possessed by the smallest 40% of the holders vs. area possessed by the biggest 20% of the holders

The third indicator the analysis used is 'the area possessed by the smallest 40% of the holders vs. the area possessed by the biggest 20% of the holders.' These values were 6% and 72%, respectively. The analysis concluded that the distribution of holdings in the Gaza Strip is more equitable than in the West Bank: 9% of the area of holdings is possessed by the smallest 40% of the holders in the Gaze Strip compared to 64% owned by the biggest 20% of the holders in the same territory.

³⁷ Rimawi, A. (2009). "The structure of agricultural holdings in Jordan: the general characteristics of the holder, the holdings and the agricultural labor." Analysis of the results of the 2007 Agricultural Census: Department of Statistics, Amman, Jordan.

6. Prices and Purchasing Power

6.1 Consumer prices

Indices of consumer prices in the Palestinian Territory during Q3 2012 was up by 1.25% over the previous quarter and 3.12% over the corresponding quarter of the previous year. The commodity group which had the strongest

influence on indices was the food and soft drinks group, rising by 1.76% from the previous quarter and by 2.56% compared to the corresponding quarter of 2011 (see Table 6-1).

Table 6-1: Average Change in CPI in the Palestinian Territory by Commodity Group (Base Year: 2004 = 100)

| Group | Change in Q3 2012 over Q2, 2012 | Change in Q3 2012 over Q3 2011 |
|--|---------------------------------|--------------------------------|
| Food Stuff and soft drinks | 1.76 | 2.56 |
| Alcohol beverages and Tobacco | 4.47 | 9.44 |
| Textiles, apparels, and footwear | (0.50) | 0.22 |
| Housing and related supplies | 0.54 | 4.68 |
| Furniture & home products and appliances | 1.39 | 2.34 |
| Medical care | 1.52 | 3.90 |
| Transportation & travel | 0.22 | 2.36 |
| Telecommunications | (0.30) | (0.11) |
| Recreational & cultural goods & services | 0.64 | 1.61 |
| Educational Services | (0.03) | 5.30 |
| Restaurant, Cafe, and Hotel Services | 0.24 | 2.41 |
| Miscellaneous goods and services | 1.11 | 4.82 |
| General CPI | 1.25 | 3.12 |

Source: PCPD.

* Figures in brackets indicate negative values (decline in prices).

Table 6-2: Price movement of main commodity groups— Qs 2 and 3, 2012

| Consumer group | Percentage Change (Q2 2012 – Q3 2012) |
|-----------------------|---------------------------------------|
| Automobiles fuel | (0.09) |
| Domestic fuel | 0.92 |
| Fresh Vegetables | 18.34 |
| Fresh Meat | 1.53 |
| Sugar | (2.21) |
| Rice | (1.65) |
| Fresh Chicken | (3.37) |
| Flour | 4.26 |
| Dairy Products & eggs | (2.28) |
| Fresh Fruit | (0.48) |

Source: PCBS.

Prices of basic consumer commodities had undergone various changes during Q3 2012. Table 6-2 tallies the movement of prices of some commodity groups in the Palestinian Territory during the third quarter 2012

compared to the previous quarter. The prices of fresh vegetables hiked by 18.34%. For example, the price of tomatoes posted a significant increase of 21.65% (the price of greenhouses tomato was 6.37 shekels / 1 kg

during September 2012). The price of flour rose by 4.26% (for example, the price of white flour (Haifa – Zero) was 166.35 shekels / 60 kg during September 2012). Likewise, prices of fresh meat prices increased by 1.53% (the price of local fresh lamb was 69.06 shekels / 1 kg during August 2012). By contrast, the price of poultry posted a decline of 3.37% (the price of local fresh skinned chicken was 15.99 shekels/ 1 kg during July 2012). Similarly, prices of car fuel fell by 0.09% (the price of unleaded gasoline 95 octane stood at 7.19 Israeli shekels / 1 liter during July) (see table 6.2).

6.2 Producer Prices and Wholesale Prices

In the third quarter 2012, the Wholesale Price Index (the sale price to retailers or to producers, including VAT and freight/shipping costs) posted an increase of 2.43% over the previous quarter. This resulted from a 6.07% rise in the prices of agricultural commodities (which constitute 29% of the wholesale price index). In parallel, prices of manufactured goods (which represent 70% of the wholesale price index) rose by 1%. Likewise, fishing prices increased by 1.06%. By contrast, prices of mining and quarrying fell by 0.07%. On the other hand, the index of wholesale prices posted an increase of 1.1% over the corresponding quarter of the previous year, while the price index of both imported goods and locally produced goods rose by 1.13% and 2.81%, respectively.

In this quarter, the Producer Price Index (prices received by domestic producers for their output after all taxes are deducted, including VAT and freight/shipping costs) posted an increase of 2.34% over the previous quarter. This rise occurred as a result of 1) a 4.91% hike in the prices of agricultural commodities (which represent 36% of the producer price basket); and 2) a 1.03% increase in the prices of manufactured goods (which constitute 61.66% of the producer price basket). Meanwhile, the prices of fishing and shrimp (which constitute 0.20% of the producer price basket) dropped by 9.37%. At the same time, prices of mining and quarrying (which represent 2.13% of the product price basket) remained unchanged. The increase in producer prices was a result of an increase in both imported and locally produced goods by 0.03% and 2.58%, respectively.

6.3 Construction and Road Costs Index

The construction cost index measures the changes that occur in the prices of construction materials and services. During Q3 2012, the construction cost index (for residential and non-residential units) in the West Bank saw a slight increase of 0.14% over the previous quarter. There are no updated data on the Gaza Strip.

The road cost index detects changes in the prices of materials and services used in the construction of roads in the West Bank. This index rose by 1.05% in the third quarter 2012 over the previous quarter. Again, there are no updated data on the Gaza Strip (see Table 6-3).

Table 6-3: Average monthly and quarterly percentage changes in the Construction and Road Costs Index (CRCI) in the West Bank (Base Month: January 2007 = 100)

| Period | CRCI | | Monthly Percentage Change | | Quarterly Percentage Change | |
|-------------------|-------------------|---------------|---------------------------|-----------|-----------------------------|-------------|
| | Construction cost | Road cost | Construction cost | Road cost | Construction cost | Road cost |
| April 2012 | 113.46 | 113.85 | (0.05) | 0.05 | | |
| May 2012 | 113.76 | 114.02 | 0.26 | 0.15 | | |
| June 2012 | 113.39 | 114.00 | (0.33) | (0.02) | | |
| Q2 average | 113.54 | 113.96 | | | 0.06 | 0.91 |
| July 2012 | 113.20 | 113.94 | (0.17) | (0.05) | | |
| August 2012 | 113.34 | 115.14 | 0.13 | 1.05 | | |
| September 2012 | 113.61 | 116.38 | 0.23 | 1.08 | | |
| Q3 average | 113.38 | 115.16 | | | (0.14) | 1.05 |

Source: PCBS, (2011).

*Figures in brackets indicate negative values.

6.4 Prices and purchasing power³⁸

The index of consumer prices increased by 1.25% in the third quarter 2012 compared to the previous quarter. At the same time, this quarter saw a growth of 4.15% in the

exchange rate of the dollar against the shekel (\$1= 3.98 shekels), which improved the purchasing power of the dollar by 2.9%³⁹ (See Table 6-4).

Table 6-4: % Change in Purchasing Power and Exchange Rates of \$ U.S. and JD against NIS- 2012

| Item | Inflation rate* | \$ US /NIS | | | JD / NIS | | | |
|------|-----------------|-----------------------|-----------------------------|--------------------------------|-----------------------|-----------------------------|--------------------------------|--------|
| | | Average exchange rate | Change in exchange rate (%) | Change in purchasing power (%) | Average exchange rate | Change in exchange rate (%) | Change in purchasing power (%) | |
| 2011 | Q1 | 0.36 | 3.60 | (0.50) | (0.86) | 5.09 | (0.20) | (0.56) |
| | Q2 | (0.05) | 3.44 | (4.52) | (4.48) | 4.85 | (4.81) | (4.76) |
| | Q3 | 0.74 | 3.55 | 3.23 | 2.49 | 5.01 | 3.23 | 2.49 |
| | Q4 | 1.20 | 3.65 | 2.76 | 1.56 | 5.14 | 2.76 | 1.56 |
| 2012 | Q1 | 1.10 | 3.77 | 3.42 | 2.32 | 5.32 | 3.42 | 2.32 |
| | Q2 | (0.45) | 3.82 | 1.31 | 1.77 | 5.39 | 1.31 | 1.76 |
| | Q3 | 1.25 | 3.98 | 4.15 | 2.90 | 5.61 | 4.16 | 2.91 |
| | July | 0.41 | 3.89 | 1.54 | 1.13 | 5.48 | 1.56 | 1.15 |
| | August | 1.51 | 3.99 | 2.50 | 0.99 | 5.62 | 2.50 | 0.99 |
| | September | 1.42 | 4.01 | 0.52 | (0.90) | 5.65 | 0.52 | (0.90) |

Source: Calculations based on data obtained from the PMA and the PCBS.

* The change inflation rate represents the purchasing power of NIS.

Figures in brackets indicate negative values.

Compared to the corresponding quarter of 2011, the exchange rate of the dollar and the dinar against the shekel improved by 12.1%. On the other hand, the inflation rate during 2012 third quarter was 3.1%, leading to a growth of 9% in the purchasing power (assuming fixed incomes) for those receiving their salaries in the dollar and the dinar.

Box 5: Israel's 2012 budget deficit: double the government target!

In early 2013, Israeli's Ministry of Finance published the 2012 government budgetary figures involving a deficit of NIS 39 billion, equivalent to 4.2% of GDP. These figures are more than double the target of the government, which set a deficit projection of 2% of GDP⁴⁰.

The salient increase in the deficit was engendered by an extravagant, irresponsible spending policy by the Israeli government in the previous year. The policy sought to buy votes in the parliamentary elections⁴¹. An example of squandering policies is the accusation made by former Israeli Prime Minister Ehud Olmert that the Netanyahu government spent 11 billion shekels on efforts to prepare for a military strike against Iran, which has not materialized.

Driven by bullish expectations of an improvement in the economy (without having to raise taxes), the government expected a 8.8% increase in tax revenues (which would have brought the figure to 232 billion

³⁸ The purchasing power is defined as the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. It is dependent on the income of the consumer, the change in prices and currency exchange rate. The change in the purchasing power (assuming constant income) can be measured as: (rate of change in the exchange rate of the currency against the shekel) minus (the rate of change in the index of consumer prices).

³⁹ Because the Jordanian Dinar is pegged to the U.S. dollar at a fixed exchange rate, the purchasing power in JD posted a growth identical to that of the dollar (2.9%) during the same period.

⁴⁰ These figures were obtained from the webpage of Israeli's Ministry of Finance.

⁴¹ Haaretz Newspaper (January 14): "The Netanyahu government doubled the budget deficit to buy votes."

shekels). However, the actual tax revenue was barely 219 billion, or about 6% less than the projected revenue⁴².

The significant increase in the budget deficit occasioned an increase in the public debt in Israel. The ratio of public debt to GDP is now 74%. Although this figure is still lower than in many Western countries, it also means that Israel can no longer boast a distinctive economic performance.

The 2013 government's budget is experiencing a dilemma, partly resulted from the deficit in the previous year. The maximum increase allowed for public spending this year is 15 billion shekels (about 3% of the budget)⁴³. However, the Israeli government has pledged 30 billion shekels as an increase in expenditure—suggesting that the government must now raise about extra 15 billion shekels (which is unlikely given the decline in economic activity) or cut spending in other areas (which is also challenging, especially when the government recalls the popular protests that erupted in the past year to protest the hike in prices).

7. Foreign Trade

7.1 Balance of Trade

The balance of trade records exports and imports of the Palestinian territory of goods and services. The value of registered⁴⁴ imports during Q3 2012 totaled about 1,053 billion dollars. Those coming from Israel comprised 66% of total commodity imports. Table 7-1 shows that the value of registered commodity imports during Q3 2012 declined by 5.1% from the previous quarter and by 3.6% from the corresponding quarter of 2011.

On the other hand, the value of registered exports totaled about \$178 million. About 89% (\$159 million) had Israel as their

destination. During this quarter, exports fell by 13.3% compared to the previous quarter, i.e. the commodity trade deficit, thus, reached \$875 million, down by 5.3% from the previous quarter and by 1.4% from the corresponding quarter of 2011.

On the other hand, the service imports from Israel totaled \$34.7 million, while exports of services to Israel totaled \$31.8 million in the third quarter 2012. As such, the services trade balance with Israel posted a deficit of \$2.9 million compared with a deficit of \$3.6 million in the previous quarter (see Table 7-1).

Table 7-1: Imports and Exports of registered goods and services- 2011 and Qs 1 & 2 2012 **

| Indicator | (million dollars) | | | | | | | |
|-------------------|-------------------|---------|---------|---------|---------|---------|---------|---------|
| | Q1/2011 | Q2/2011 | Q3/2011 | Q4/2011 | 2011 | Q1/2012 | Q2/2012 | Q3/2012 |
| Commodity imports | 1,029.9 | 1,077.4 | 1,092.0 | 1,021.8 | 4,221.1 | 1,019.5 | 1,109.2 | 1,053.0 |
| Service imports* | 27.1 | 28.8 | 26.9 | 17.4 | 100.2 | 33.8 | 36.4 | 34.7 |
| Commodity exports | 162.2 | 161.3 | 205.3 | 190.8 | 719.6 | 182.5 | 185.2 | 178.0 |
| Service exports* | 32.6 | 39.6 | 38.2 | 37.5 | 147.9 | 32.1 | 32.8 | 31.8 |

Source: Registered foreign trade, PCBS (2012).

* Exports and imports of goods and services from and into Israel only.

**Data for 2011 were adjusted based on 2011 foreign trade report, issued in December 2012. Data of 2012 were obtained from official sources, and they are subject to change.

⁴² Though the VAT increased by a percentage point (to settle at 17%) in September 2012.

⁴³ In accordance with the financial base approved by the Knesset in 2010: Budgetary Expenditure Limitation Law.

⁴⁴ Those documented in the clearing accounts and bills only.

7.2 Balance of Payments

According to the PCBS and the PMA, the current account deficit (goods, services, income, current transfers) in Q3 2012 totaled \$672.6 million (about 25% of GDP at current prices), down by 15.2% from the previous quarter. The 121 million dollars drop in the deficit echoed a decline in the deficit of the balance of goods and services (by \$12 million), and an increase in net current transfers to the government and other sectors (by \$ 89.7 million). The net income transfers and workers' remunerations remained unchanged.

When comparing the figures of trade in services in Table 7-1 and Table 7-2, we can notice that the services trade deficit with Israel was about \$ 3 million during the third quarter, while the total deficit of services trade was \$84.2 million. In Table 7-1, the commodity trade deficit was only \$ 875 million, while it was \$ 1232 million in the balance of payments table. This disparity is a result of the fact that

the balance of trade records only exports and imports that are registered (i.e. recorded in the clearing accounts and billing), while the balance of payments records the total expectations of import and export. Interestingly, the commodity trade deficit in the balance of payments represents 47% of gross domestic product, which is a grand figure.

Income account (workers' remunerations and investment income) posted a surplus of \$ 279.1 million, mainly driven by remunerations of workers employed in Israel (which totaled \$ 247.8 million). On the other hand, the income investment (interests owed to Palestinians having deposits in foreign banks) totaled \$ 32.1 million. The balance of current transfers also posted a surplus of \$ 364.5 million, an increase of 41.9% over the previous quarter. Transfers from donor countries accounted for 27.4% of the total external current transfers.

Table 7-2: Palestinian Balance of Payments- Q3, 2011 and Qs 2 & 3, 2012 (\$ millions)

| Item | Q3 2011 | Q2 2012 | Q3 2012 |
|--|-----------------|-----------------|-----------------|
| 1. Trade balance of goods and services* | -1,218.4 | -1,328.4 | -1,316.2 |
| Net goods | -1,126.2 | -1,237.5 | -1,232.0 |
| Net services | -92.2 | -90.9 | -84.2 |
| 2. Balance of income | 305.1 | 278.0 | 279.1 |
| - Workers' remunerations received from abroad | 309.2 | 272.8 | 269.4 |
| - Investment income received from abroad | 22.7 | 30.2 | 32.1 |
| - Income paid abroad | 26.8 | 25.0 | 22.4 |
| 3. Balance of current transfers | 505.2 | 256.8 | 364.5 |
| - Net transfers to the government | 344.9 | 117.5 | 129.2 |
| - Net transfers to other sectors | 231.4 | 211.3 | 308.8 |
| -Transfers paid abroad | 71.1 | 72.0 | 73.5 |
| 4. Balance of current account (1 +2 +3) | -408.1 | -793.6 | -672.6 |
| 5. Net capital and financial account | 430.7 | 875.2 | 614.1 |
| - Net capital transfers | 194.7 | 71.1 | 81.4 |
| - Net financial account | 236.0 | 804.1 | 532.7 |
| ➤ Net direct foreign investment | 49.1 | 48.1 | 69.3 |
| ➤ Net portfolio investment | 44.3 | -8.7 | 22.6 |
| ➤ Other net investment | 38.6 | 784.4 | 478.0 |
| ➤ Change in reserve assets | 104.0 | -19.7 | -37.2 |
| 6. Net errors and omissions | -22.6 | -81.5 | 58.4 |

Source: Palestinian Central Bureau of Statistics and the PMA, 2012. Preliminary results of the Palestinian Balance of Payments: Q32012.

* Figures of exports and imports of commodities and services in the balance of payments differ from the figures contained in the trade balance because the latter records only exports and imports that are registered (i.e. recorded in the clearing accounts and billing), while the balance of payments records the total expectations of import and export. In addition, import and export of services from Israel were recorded in the trade balance only, while the balance of payments records trade of services from different sources.

Textbox 6: Is there ethnic bias at marketplace in Israel?

Asaf Zussman, from the Faculty of Economics at the Hebrew University of Jerusalem, conducted a study designed to measure the influence of ethnic conflict on the ethnic structure of the marketplace. More specifically, the research sought to measure the impact of the Israeli - Palestinian conflict on trade relations (buying and selling) between the Palestinians (living in Israel) and Israeli Jews⁴⁵.

To achieve the goal of the study, the author used a unique dataset of figures that covered the world of private owner transactions in the Israeli market for used cars during 1998-2010. The study assorted these figures (more than 1.3 million deals) into 1. Transactions among Palestinians; 2. Transactions among Israeli Jews; and 3. Transactions between Palestinians and Israeli Jews. Of course, used cars transactions are very significant because they assume and require a high degree of trust and social and psychological intimacy between the seller and the buyer.

The figures suggested an ethnic bias in the Israeli marketplace. The study found that the share of Palestinian buyers of used cars is more than 6 times (83%) higher when the seller is Palestinian than when the seller is a Jew (14%).

The author could establish a link between these deals and the escalation/mitigation of the Palestinian-Israeli conflict, which is substantiated by the number of fatalities on both sides, as well as the public opinion of the peace process.

The analysis found robust evidence that ethnic segregation in the marketplace rises with conflict intensity. When a Jew is killed by Palestinians, the likelihood of buying a car (by Palestinians) from Jews lowers to 2% during the preceding 7 days, while at the same time the likelihood of buying a car (by Palestinians) from Palestinians increases by 0.9%.

Startlingly, the author found that the marginal negative effect of the Palestinian fatalities on segregation is by far less than the marginal negative effect of a Jewish fatality.

⁴⁵ Asaf Zussman: Ethnic Conflict and Segregation in the Marketplace - Evidence from Israel