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(PMA)**



**Palestinian Central Bureau of  
Statistics (PCBS)**



**Palestine Economic Policy  
Research Institute (MAS)**

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## Foreword

The *Economic and Social Monitor* is produced through the cooperation of the Palestine Economic Policy Research Institute (MAS), the Palestine Monetary Authority (PMA), and the Palestinian Central Bureau of Statistics (PCBS). The Monitor is a periodic report that traces the trends in key economic variables in the West Bank and the Gaza Strip, on quarterly basis, which allows for the comparison of economic activity in successive quarters. It is important to note that, due to the seasonal nature of economy, comparing said activity between consecutive quarters does not always reflect real trends. Therefore, comparison between corresponding quarters of different years is more appropriate; this is also enabled by the *Monitor*, which provides a time series of economic indicators for use in such comparisons.

This issue of the *Economic and Social Monitor* presents the developments in the Palestinian economy during the third quarter (July-September) of 2013. More specifically, the issue looks at changes in GDP, the government budget (public finance), and the labor market. It, additionally, offers an analysis of several other economic indicators, including the quantities of imported cement and the number of newly registered cars. Furthermore, this issue of the *Monitor* follows the change in prices (inflation rate, or shifts in the purchasing power of the NIS) along with fluctuations in the purchasing power of the US Dollar and the Jordanian Dinar in the third quarter of the year. Also included is a comprehensive overview of the banking sector, including the volume of deposits, loans, and bank profits, as well as share transactions in the stock exchange. Finally, the issue presents a look into the trade balance, the balance of payments, and the movement of capital, be it for investment or deposit purposes.

Moreover, this issue features ten analytical boxes that address economic matters which directly or indirectly impact the Palestinian economy.

We hope that the *Economic and Social Monitor* continues to strengthen its position as a reliable reference to the quarterly changes occurring in the Palestinian economy, and that it keeps consolidating its role in supporting economic knowledge and informed debate about the constraints on and opportunities for growth in the Palestinian Territory.

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## Executive Summary

**GDP:** The Palestinian 2013 Q3 GDP totaled \$1.752 billion, down by 1.3% from the previous quarter, but up by 2.6% over the corresponding quarter of 2012. Per capita GDP declined by 2% in comparison to the 2013 second quarter and by 0.4% as compared to 2012 corresponding quarter. At the same time, the final consumption expenditure totaled \$2.217 billion dollars, equivalent to 126% of GDP.

**The labor market:** The number of workers in the West Bank and the Gaza Strip fell from 900 thousand in the second quarter of 2013 to 886 thousand in the third quarter of 2013, of which 57.8% in the West Bank, 30.5% in the Gaza Strip and 11.7% in Israel and the settlements. In the meantime, the unemployment reached 23.7%, up from 20.6% in the second quarter 2013. Concurrently, while it remained unchanged in the West Bank (at approximately NIS 88.3), the average daily wage in the Gaza Strip dropped by 6.2% compared to the previous quarter (now standing at NIS 59.3). By contrast, the average daily wage for those employed in Israel and the settlements was NIS 179, up by 4% from the previous quarter.

**Public Finance:** Net public revenues and grants went up by 36.7% compared with the previous quarter, a growth largely spurred by a threefold increase in grants allocated for budget support. At the same time, the total public expenditure rose by 3.4%, primarily due to a swell in wages and non-wage expenses. Since local revenues did not post a parallel increase, the current deficit (before grants and aid) hiked to NIS 736 million, or 7% of GDP. However, the sizeable increase in international aid led to a surplus of NIS 627 million in the budget balance (on a cash basis). Yet, on accrual basis, the figures a continuing deficit to a total of NIS 217 million, despite grants and aid.

**The banking sector:** During the third quarter of 2013, the direct credit facilities totaled \$4.404 billion, up by 3.4% from the previous quarter of the same year and by 15% from the corresponding quarter of 2012. Loan facilities

accounted for the largest share of total direct facilities (71%). With \$876 million, consumer loans constituted 29% of total loans. Meanwhile, public deposits increased by 4.5% over the previous quarter, climbing to \$8,181.3 million. Banks operating in Palestine reported \$40.2 million as net profits in the third quarter, compared with \$32.4 million in the previous quarter; i.e. a growth of 24%.

**Palestine Stock Exchange:** Approximately 43.9 million shares were traded on the Palestine Stock Exchange during the third quarter of 2013, which is roughly the same figure reported in the previous quarter (43.7 million). The value of shares traded, however, declined to \$ 65.6 million (i.e. a drop of 18% compared to the previous quarter). During the same period, Al-Quds Index posted an improvement of 17.64 points over the previous quarter and 24.4 points over the corresponding quarter of 2012.

**Investment Indicators:** The *Monitor* uses four indicators to measure investment in the Palestinian territory:

- ❖ **Company Registration:** The number of companies newly registered in the West Bank during the third quarter totaled 302, a drop of 92 compared with the previous quarter, but an increase of 17 compared with the corresponding quarter of 2012. The capital of the newly registered companies totaled about 130 million Jordanian dinars.
- ❖ **Building licenses and import of cement:** The number of building licenses fell by 11.3% compared to the second quarter of 2013. The number of new and existing residential units rose to 4,582. On the other hand, the amount of Gaza's imported cement totaled 13 thousand tons, down from 13.1 thousand tons during the corresponding quarter of 2012. In the West Bank, the amount of imported cement was 327.5 thousand tons, up from 292.4 thousand tons during the corresponding quarter of 2012.
- ❖ **Car registration:** The number of new and used cars registered for the first time in the

West Bank was 4000, an increase of 3% over the second quarter of 2013 and 22% over the corresponding quarter of 2012.

- ✧ Hotel activity: There were 111 hotels operating in the West Bank at the end of 2013 Q3, up from 107 hotels in the second quarter of 2013. The number of hotel guests reported in this quarter totaled 135.8 thousand (down by 7.3% from the 2012 corresponding quarter), staying about 321 thousand nights.

**Prices and purchasing power:** In 2013 Q3, Consumer Price Index rose by 0.93% compared to the second quarter of 2013. The Wholesale Price Index also posted a growth of 1.5% during the same period. On the other hand, the purchasing power of the US dollar dropped by about 2.2% compared to the previous quarter. This also applies to the Jordanian dinar, which is pegged to the US dollar at a fixed exchange rate.

**Balance of trade and balance of payments:** The balance of trade deficit for reported goods in 2013 Q3 stood at \$985 million. During the same period, the current account deficit in the balance of payments amounted to about \$299 million (9.8% of GDP at current prices). This figure, however, is well below the figure reported in the previous quarter (declining by \$ 296.8 million) and it is still quite lower than the figure posted in the corresponding quarter of 2012. This improvement is attributed to a significant increase in the current transfers, primarily those flowing to the government treasury from the donor countries. This quarter also saw an increase of \$30 million in the balance of income, largely generated by a boost of \$337.7 million in the income of Palestinians working abroad.

**Net external deposits and external debt, 2012:** PCBS preliminary data reveal that the Palestinian net international investment in 2012 totaled \$ 667 million. Foreign assets (overseas investments by Palestinians) totaled \$5.262 billion, with foreign direct investment abroad representing only 4.4%. Meanwhile, the total foreign liabilities in Palestine totaled \$ 4.595 billion, 50.8 % of which was claimed by foreign direct investment in Palestine. Palestine's external debt in Q2 2013 totaled \$1.601 billion. The government was the main debtor (owing 68.5% of total external debt).

The banking sector accounted for 27.7% of the total external debt.

Textboxes: This issue of the *Monitor* includes 10 textboxes discussing different topical issues:

**Hurricane Alexa costs on the agricultural sector:** This textbox reviews the report released by the Food and Agriculture Organization about the losses the Palestinian agricultural sector incurred as a result of the low pressure weather system Alexa that hit the region in early December 2013. The report estimated the agricultural sector total loss at around \$69 million (\$ 23 million as cost of the destruction of the sector's holdings and \$46 million in production loss).

**Olive oil economy in Palestine:** This textbox reviews the most important findings of two reports issued by Oxfam in 2010 and 2013 on the olive oil sector in Palestine. Available information indicates that approximately 51% of the area of arable land in Palestine is planted with olive trees. The olive sector generates an annual value-added of \$5.4 million. The olive oil production amounts to \$100 million (25% of agricultural production in Palestine).

**Stanley Fischer: The labor market is the biggest risk to the Israeli economy:** This textbox summarizes a lecture delivered by Stanley Fischer (former governor of the Bank of Israel and the current deputy governor of the U.S. Federal Reserve) on the prospects for the Israeli economy. Fisher commended the performance of the Israeli economy; yet he warned of the demographic danger that will have a deep impact on the economy in the coming years. Fisher also voiced his concern over the low achievements in the Israeli educational system, and the low rank of Israel in international educational tests.

**Seasonality of tax revenues and government policies to increase these revenues:** This textbox briefly examines the seasonal nature of the Palestinian tax revenues, which are not evenly distributed throughout the months of the year. The textbox also discusses the issue of the low contribution of taxes to total domestic revenues, and accordingly it reviews the actions taken by the government in order

to increase tax revenues (particularly improving the efficiency of collection and expanding the tax base).

**The Red-Dead Water Canal in a Different Guise:** On December 9, 2013 Israel, the Palestinian Authority and Jordan signed a memorandum of understanding for the sharing of water. This memorandum involves the outlines of three initiatives. This textbox reviews the general scheme of the memorandum, drawing a comparison between it and the former framework of the Red-Dead Project, given the conflicting views, whether the project contained in the memorandum was different from the former project or merely a first step of that project (which was the subject of severe scrutiny by different Palestinian circles).

**The equal wages in the Palestinian formal and informal sectors:** This textbox outlines the results of a recent study on the Palestinian informal sector published by MAS. The study defined the informal sector as one based on commercial production and whose enterprises do not pay taxes. The study found this sector in the Palestinian territory to be quite sizeable, and spotted differences and similarities between it and the informal sector. Thus, even though the informal sector workers are less educated than their counterparts in the formal sector, the proportion of those with secondary or higher education among the informal sector workers is relatively high (31% compared to 45% in the public sector). The study also found that, when neutralizing the difference in the characteristics of workers (such as education attainment, experience, place of residence, etc), there is no wage gap between informal and formal employees, in contrast to findings in other countries.

**Gaza electricity, chronic insufficiency and periodical acute crises:** This textbox examines the electricity crisis that befell the Gaza Strip again in early October 2013, resulting in serious flaws that threatened the health, education and daily life of the population. The textbox investigates the chronic nature of the Gaza power crisis, largely engendered by structural, political, commercial and economic reasons. The textbox reviews in some detail the attempts to put an end to such a crisis. It concludes that

these attempts were only 'sedative' short-term procedures.

**Palestine ranks 138 among 189 countries in the Ease of Doing Business Index:** This textbox studies the World Bank's "Ease of Doing Business" report which tackles the conditions of doing business in many countries around the world. The textbox examines the justifications for measuring the ease of doing business and illustrates the methodology used in classifying countries. Though it fell back in 5 indices out of 10, Palestine jumped 7 steps forward in the 2014 report compared with the 2013 report. The decline of performance in these 5 indicators came as a result of other countries remarkable headway rather than a real retreat in the performance of Palestine. On the 'Starting Business Indicator', Palestine ranked 143 (moving 39 spots ahead of 2013). The reason behind this improvement was the revocation of the minimum capital required for the registration of companies.

**Survey of corruption in Palestine: 93% believe there is nepotism, but only 3% used it:** This textbox gives the results of the PCBS survey of corruption in the Palestinian territory, which consists of two parts: the first explores the individuals and households perceptions of corruption and its prevalence; and the other examines the perceptions of public officials of corruption and its prevalence. The results of the first survey showed that the majority of respondents have a hazy picture of the nature of corruption vis-à-vis the legal definition. 93% of respondents were found to believe that nepotism and favoritism exist in the public sector, whereas 86% said nepotism and favoritism exist in the private sector and NGOs sector. The results revealed a large gap between the perceptions of individuals about the existence of corruption in the oPt and their personal experiences, an observation confirmed earlier by the World Bank. For example, while 93% of respondents said that there is nepotism in the public sector, only 20% said they were actual victims of corruption (or experienced corruption) during the past two years.

**External factors are particularly important in explaining the growth of the Israeli economy:** This textbox reviews a study released by the Center for Research at the

Bank of Israel titled 'Periods of continuous growth and performance of the macro-economic policy in Israel'. It analyzes the sources of growth in the Israeli economy during the 1960-2006 period and tries to answer the basic question: Were growth shifts that the economy witnessed during certain periods due to exogenous factors independent of politics and politicians, or did they result of

the 'wise' macroeconomic policies implemented by the government? The study concludes that the exogenous factors dominated the performance of the Israeli economy, while the role of governmental policies (such as macroeconomic management, public investment and tax) was only minimal in stimulating growth.



## 1. GDP

### GDP Growth

GDP quarterly data show a 1.3 percent decline in 2013 Q3 compared to the previous quarter-exclusively resulting from a 4.7 percent drop in Gaza's GDP. Compared to the same period of the previous year (which, given the seasonal nature of economic activities, is a more authentic measure of growth), GDP saw a

growth of 2.6 percent. On the other hand, the per capita GDP (roughly equivalent to GDP growth minus the rate of population growth) shrank by 2 percent compared to the previous quarter and by 0.4 percent compared to the corresponding quarter of the previous year (see Table 1-1).

**Table 1-1: GDP in Palestine (constant prices, base year 2004)\***

Indicator	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>GDP (USD millions)</b>	<b>1,601.7</b>	<b>1,754.5</b>	<b>1,707.9</b>	<b>1,733.2</b>	<b>1,644.8</b>	<b>1,775.4</b>	<b>1,752.3</b>
West Bank*	1,187.8	1,283.8	1,256.1	1,302.8	1,180.4	1,288.1	1,287.8
Gaza	413.9	470.7	451.8	430.4	464.4	487.3	464.5
<b>GDP per capita (USD)</b>	<b>400.2</b>	<b>435.2</b>	<b>420.4</b>	<b>423.5</b>	<b>398.9</b>	<b>427.4</b>	<b>418.7</b>
West Bank*	499.4	536.1	521.0	536.8	483.1	523.6	520.0
Gaza	255.0	287.5	273.6	258.4	276.4	287.6	271.8

Source: Palestinian Central Bureau of Statistics (PCBS) 2013, National Accounts Statistics, Ramallah - Palestine.

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

### GDP Structure

Compared to the 2012 corresponding quarter, 2013 Q3 saw a growth in the shares of manufacturing and transport & storage sectors by 10 percent and 16.7 percent, respectively. In contrast, the shares of the agriculture and

construction sectors fell by about 4.7 percent and 4.1 percent, respectively. Apart from these, the GDP structure remained unchanged (See Table 1-2).

**Table 1-2: % Distribution of the shares of economic sectors in Palestinian GDP \* (constant prices, base year 2004)**

Economic Activity	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Agriculture, forestry and fishing</b>	<b>4.4</b>	<b>5.1</b>	<b>4.3</b>	<b>5.7</b>	<b>3.9</b>	<b>4.4</b>	<b>4.1</b>
<b>Mining, manufacturing, water and electricity</b>	<b>11.8</b>	<b>11.8</b>	<b>12.1</b>	<b>11.9</b>	<b>12.3</b>	<b>13.0</b>	<b>13.4</b>
-Mining and quarrying	0.8	0.7	0.7	0.6	0.6	0.8	0.8
-Manufacturing	9.4	9.6	9.8	9.9	9.9	10.7	10.7
-Electricity, gas and air conditioning supplies	1.5	1.4	1.5	1.3	1.6	1.4	1.7
-Water supply, sanitation activities and waste management & treatment	0.1	0.1	0.1	0.1	0.2	0.1	0.2
<b>Construction</b>	<b>12.9</b>	<b>15.6</b>	<b>14.5</b>	<b>13.1</b>	<b>15.8</b>	<b>16.4</b>	<b>13.9</b>
Wholesale & retail and repair of vehicles and motorcycles	14.4	14.0	13.9	13.7	13.1	13.1	14.0
<b>Transport and storage</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>	<b>1.6</b>	<b>1.9</b>	<b>2.1</b>	<b>2.1</b>
<b>Financial and insurance activities</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>	<b>3.3</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>
<b>Information and communication</b>	<b>7.0</b>	<b>6.7</b>	<b>7.1</b>	<b>6.8</b>	<b>6.5</b>	<b>6.3</b>	<b>6.5</b>
<b>Services</b>	<b>20.6</b>	<b>19.1</b>	<b>18.9</b>	<b>21.6</b>	<b>19.7</b>	<b>19.9</b>	<b>19.8</b>
-Accommodation and food services	0.6	0.7	0.7	0.7	0.6	0.8	0.7
-Real estate and renting	4.3	3.6	4.0	4.6	3.6	3.9	4.0

Economic Activity	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
-Professional, scientific and technical activities	1.1	1.0	0.9	1.3	1.1	1.0	0.8
-Administrative services and support services	0.6	0.5	0.7	0.5	0.6	0.6	0.9
-Education	8.0	7.8	7.1	8.4	8.0	7.9	7.8
-Health and social work	3.7	3.5	3.3	4.0	3.9	3.7	3.7
-Arts, recreation and leisure	0.6	0.5	0.6	0.5	0.3	0.3	0.3
-Other services	1.7	1.5	1.6	1.6	1.6	1.7	1.6
<b>Public administration and defense</b>	<b>12.1</b>	<b>11.6</b>	<b>12.2</b>	<b>11.6</b>	<b>12.4</b>	<b>11.4</b>	<b>11.5</b>
<b>Home Services</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Financial intermediation services indirectly measured	-2.5	-2.3	-2.4	-2.5	-2.7	-2.6	-2.6
Customs duties	6.0	5.3	6.1	6.2	6.2	5.9	6.7
Net value added tax on imports	7.9	8.0	8.2	6.9	7.3	6.7	7.1
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Palestinian Central Bureau of Statistics 2013, National Accounts Statistics, Ramallah - Palestine.

All data are preliminary and thus subject to further revision.

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

### GDP Expenditure

Table 1-3 shows spending on major items of GDP in 2012 and 2013 Q3. 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 of 2013 Q3 are shown below:

	USD millions
Private and institutional consumption	1,678
Government consumption	538
Investment (gross capital formation)	239
Exports	314
Imports (-)	(1,018)
<b>= GDP</b>	<b>1,752</b>

**Table 1-3: GDP by expenditure patterns in Palestine \***  
(constant prices, base year 2004) (USD millions)

Item	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Final consumption expenditure</b>	<b>2,125.5</b>	<b>2,213.6</b>	<b>2,223.0</b>	<b>2,162.0</b>	<b>2,060.4</b>	<b>2,225.0</b>	<b>2,216.8</b>
Household final consumption expenditure	1,602.5	1,602.6	1,679.7	1,552.0	1,534.4	1,657.9	1,630.3
Government final consumption expenditure	464.1	541.9	486.1	535.0	485.7	525.0	538.7
Final consumption expenditure of not-for-profit organizations that serve households	58.9	69.1	57.2	75.0	40.3	42.1	47.8
<b>Gross capital formation</b>	<b>232.0</b>	<b>297.4</b>	<b>264.9</b>	<b>279.7</b>	<b>231.2</b>	<b>262.0</b>	<b>239.1</b>
Gross fixed capital formation	292.7	386.1	341.6	332.6	299.4	360.6	310.1
- buildings	237.6	325.1	282.0	276.1	243.1	298.6	251.3
- non-buildings	55.1	61.0	59.6	56.5	56.3	62.0	58.8
Changes in inventories	-60.7	-88.7	-76.7	-52.9	-68.2	-98.4	-71.0
Net precious property	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Item	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Net exports of commodity and services</b>	<b>-755.8</b>	<b>-756.5</b>	<b>-780.0</b>	<b>-708.5</b>	<b>-646.8</b>	<b>-711.8</b>	<b>-703.6</b>
Exports	223.7	302.9	279.5	284.2	316.2	339.2	314.4
- commodity	145.4	222.1	193.1	199.9	244.2	264.3	244.0
- services	78.3	80.8	86.4	84.3	72.0	74.9	70.4
Imports	979.5	1,059.4	1,059.5	992.7	963.0	1,051.0	1,018.0
- commodity	846.6	916.8	919.1	857.4	838.3	918.1	892.8
- services	132.9	142.6	140.4	135.3	124.7	132.9	125.2
<b>GDP</b>	<b>1,601.7</b>	<b>1,754.5</b>	<b>1,707.9</b>	<b>1,733.2</b>	<b>1,644.8</b>	<b>1,775.4</b>	<b>1,752.3</b>

Source: Palestinian Central Bureau of Statistics 2013, National Accounts Statistics, Ramallah - Palestine.

All data are preliminary and thus subject to further revision.

\* Data do not cover 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 Table 1-3:

- ✧ The Palestinian final consumption expenditure during Q3 2013 outweighed GDP by 26.5 percent, and it was distributed as follows: 73.5 percent for household consumption, 24.3 percent for government final consumption expenditure and 2.2 percent for final consumption expenditure of non-profit organizations that serve households.
- ✧ Comparing corresponding Third Quarters (Q3) for 2013 and 2012, household final consumption declined by 2.9 percent government final consumption increased by 10.8 percent, and in expenditure and final consumption expenditure of non-profit organizations dropped by 16.4 percent.
- ✧ The gross capital formation fell by 9.7 percent compared to the same period a year ago, while investment experienced a drop of 8.8 percent from the previous quarter.
- ✧ Exports of goods and services hiked by 12.5 percent compared to 2012 corresponding quarter.
- ✧ Imports of goods and services fell by 3.9 percent compared to 2012 corresponding quarter.

### **Textbox 1: Losses incurred by the Agricultural Sector due to Hurricane Alexa**

Over four days (December 11–14, 2013), Hurricane Alexa devastated the Palestinian Territory, bringing with it heavy snow in the West Bank and unprecedented rainfall in the Gaza Strip. The low system yielded cumulative precipitation of up to 270 mm in the West Bank (15-56 percent of the average annual precipitation), and 256 mm in the Gaza Strip (33-61 percent of the average annual precipitation). The snow and rainfall coincided with high winds blowing at 80 kilometers per hour. Meanwhile, the snow covered about 41 percent of the area of the West Bank, particularly Hebron, Ramallah and Nablus.

This extraordinary weather, the worst winter storm on record since 1953, brought heavy losses to the WBGS agricultural sector, which is already fragile and dilapidated. The Food and Agriculture Organization provided estimates of the losses the Palestinian agricultural sector incurred in a report released early this year<sup>1</sup>.

The report grouped agricultural losses into three types:

- ✧ Damages to agricultural structures (such as greenhouses, sheds, machinery, irrigation equipment, fertilizers, animals, crop stocks and trees).
- ✧ Economic losses: loss of income derived from the destruction of greenhouses and fruit trees, animals' deaths and losses resulting from the decline in agricultural productivity.
- ✧ Macro-economic impact: reflected in the decline in the agricultural sector value added, as well as the rise in food prices and the loss of jobs in the sector.

The report estimated the agricultural sector total loss at around USD 69 million (USD 23 million in destruction of structures and USD 46 million in production loss). The report said that the added value of the

<sup>1</sup> FAO: "Winter Storm *Alexa* Damage Assessment and Response. West Bank and Gaza Strip", 14 January 2014. [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=8001](http://www.lfd.ps/documentsShow.aspx?ATT_ID=8001)

agricultural sector in GDP will decline by 6 percent (7 percent in the West Bank and 5 percent in Gaza). The report pointed to the substantial rise in the price of some food products in the WBGS markets (especially tomatoes, cucumbers, chicken and eggs) following the damage caused by the gigantic storm.

The Food and Agriculture Organization, along with other food security international organizations, in collaboration with the Palestinian Ministry of Agriculture, have developed a relief program that identified two intervention priorities, namely emergency support to the livestock sector through rehabilitation of animal shelters; and rehabilitation of greenhouses to prevent the total loss of the season. According to the report, FAO and food security partners have allocated resources from their ongoing interventions to repair damaged animal shelters and greenhouses worth USD 1.5 million. FAO and its food security partners have applied to the Emergency Response Fund for an additional amount of USD 3.3 million needed to finance the emergency response program.

### Textbox 2: Olive Oil Economy in Palestine

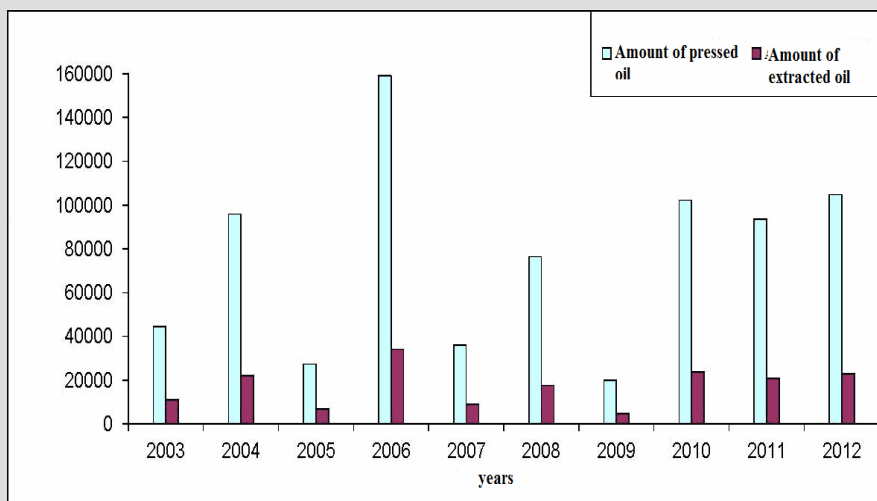
In October 2013, Oxfam released a report on 'The Olive Oil Industry in the Occupied Palestinian Territory'<sup>2</sup>. The Organization had in 2010 released a report on 'The Road to Olive Farming: Challenge to developing the economy of olive oil in the West Bank'<sup>3</sup>. The two reports examined the status of the olive oil sector in Palestine, its weight in the economy, the challenges that hinder its development and the means available to address these challenges. This textbox sheds light on the most important results and the latest figures from these reports.

Olive cultivation in Palestine has always been an integral part of the Palestinian agricultural sector. Nearly 51 percent of the cultivated land in Palestine is planted with some eight million olive trees. The olive oil industry reaches an average of USD 5.4 million as value added. It also contributes about USD 100 million, or 25 percent of the agricultural income for Palestine and supports the livelihoods of approximately 100,000 families. Additionally, it provides many job opportunities, especially in the olive harvest season.

#### Amount of olive oil extracted

The olive oil harvest in Palestine is almost cyclical, where a good year is usually followed by a bad one. In a good year, the sector produces up to 34 thousand tons, while in a bad year, the production is barely 5 thousand tons. In an abundant season, olive oil makes up 15-19 percent of the value of agricultural production. The figure below shows the amount of olives and olive oil produced in Palestine during 2003-2012.

Figure 1: Olives Pressed and Oil Extracted 2003-2012



Source: PCBS, 2012. Olive Presses Survey, 2011. Ramallah - Palestine.

<sup>2</sup> The Olive Industry in the Occupied Palestine Territory the Food Security Sector (2013): [http://www.ldf.ps/documentsShow.aspx?ATT\\_ID=7780](http://www.ldf.ps/documentsShow.aspx?ATT_ID=7780), Oxfam, October.

<sup>3</sup> The Road to Olive Farming (2010): <http://policy-practice.oxfam.org.uk/publications/the-road-to-olive-farming-challenge-to-developing-the-economy-of-olive-oil-in-t-115032>, Oxfam, October.

The local market is still the largest consumer of the Palestinian olive oil (about 12,000 tons annually) even though the average annual per capita consumption of the Palestinian olive oil dropped from 10 kg to 4 kg during the past 25 years. This decline is due to several reasons, most notably the increased consumption of imported oils, particularly in sterile years, when prices of local olive oil rise significantly, forcing consumers to opt for more affordable products, such as corn and sunflower oils.

#### **Palestine's exports and imports of olive oil (2008-2011)**

Palestine's exports of olive oil during 2008-2011 were approximately USD 12 million a year. The highest value of olive oil export was reported in 2011, totaling USD 16.4 million, or 2.3 percent of the total value of Palestinian exports. In 2009, the export was the poorest, resulting from a serious decline in production. Figure 2 shows the value of Palestinian exports and imports of olive oil between 2008 and 2011.

**Figure 2: Value of Palestine's exports and imports of olive oil, 2008-2011 (USD thousands)**

Year	Exports	Imports
2008	11,493	171
2009	7,525	332
2010	13,806	540
2011	16,450	790

Source:

[http://www.trademap.org/Country\\_SelProductCountry\\_TS.aspx](http://www.trademap.org/Country_SelProductCountry_TS.aspx)

The Gulf countries are the main importers of the Palestinian olive oil. In 2011, exports to Saudi Arabia and the UAE totaled USD 5.7 million (about 35 percent of the total exports of olive oil in that year). The United States is the second largest importer of the Palestinian olive oil, amounting to USD 2.9 million in 2011 (about 18 percent of the total exports of olive oil in that year). Palestine's imports of olive oil in 2011 amounted to USD 790 thousand, which is about 5 percent of its exports of the same commodity in that year.

Several important factors affect the export of Palestinian oil and reduce its competitiveness in global markets, namely the incompatibility with the standards in foreign markets; and the Israeli hurdles that lead to delays in delivery of goods, which, in turn, increases the cost of transport and labor, thus raising the price and reducing the quality. Despite these challenges, there are promising prospects for the export of oil if productivity is improved and market competitiveness is enhanced. This is particularly relevant in light of the trade agreements that give the Palestinian products preferential terms. For example, the trade agreement with the European Union allows an annual export of duty-free 3,000 tons of Palestinian olive oil.

Olive cultivation in Palestine endures several obstacles at the production, marketing and technical levels. At the production level, olive oil industry sustains lack of sufficient funding, fragility of the institutional framework and inefficiency of the regulatory framework. At the marketing level, most vendors are traditional wholesalers who focus on the local market and have limited experience in the modern methods of packaging and distribution. On the technical level, there are problems relating to the time and equipments of harvest, as well as methods of storage and pressing olive fruits<sup>4</sup>.

<sup>4</sup> See Textbox 10 in *The Economic and Social Monitor*, Issue 34.

## 2. The Labor Market

### 2.1 Labor force and participation rate

During 2013 Q3, West Bank and Gaza Strip (WBGs) labor participation rate (i.e. the ratio of workers and the unemployed to those of working age) stood at 43.6 percent compared with 43 percent in the previous quarter and 43.4 percent in the 2012 corresponding quarter. Table 2-1 reveals an ever-widening

gap between the West Bank and the Gaza Strip in terms of the participation rate (44.9 percent in the West Bank and 41.4 percent in the Gaza Strip), particularly due to the low rate of female participation in Gaza compared to the West Bank (15.8 percent and 17.8 percent, respectively).

**Table 2-1: Labor force participation rate for individuals 15 years and above in WBGs, by Region and Sex– 2012- Q3 2013 (%)**

Region & Sex	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
<b>Males &amp; Females</b>								
West Bank	45.4	45.4	45.2	46.1	45.5	45.0	44.4	44.9
Gaza	39.9	40.3	40.4	40.0	40.1	40.5	40.4	41.4
<b>West Bank &amp; Gaza</b>	<b>43.4</b>	<b>43.6</b>	<b>43.4</b>	<b>43.9</b>	<b>43.6</b>	<b>43.4</b>	<b>43.0</b>	<b>43.6</b>
<b>Males</b>								
West Bank	70.8	71.5	71.4	72.0	71.4	71.3	70.9	71.3
Gaza	65.5	65.1	65.0	64.4	65.0	65.0	64.8	66.4
<b>West Bank &amp; Gaza</b>	<b>68.9</b>	<b>69.2</b>	<b>69.1</b>	<b>69.2</b>	<b>69.1</b>	<b>69.0</b>	<b>68.7</b>	<b>69.5</b>
<b>Females</b>								
West Bank	19.3	18.6	18.2	19.5	18.9	18.0	17.3	17.8
Gaza	13.7	14.9	15.2	15.1	14.7	15.4	15.4	15.8
<b>West Bank &amp; Gaza</b>	<b>17.3</b>	<b>17.3</b>	<b>17.1</b>	<b>17.9</b>	<b>17.4</b>	<b>17.1</b>	<b>16.6</b>	<b>17.1</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

Quarterly data show a 1.6 percent decline in the number of WBGs workers from 900 thousand in 2013 Q2 to 886 thousand in 2013 Q3. Compared to the 2012 corresponding quarter, the employment rate saw a growth of 4.9 percent, by virtue of an increase in the

number of self-employed (see Table 2-4). By place of work, 57.8 percent of employment was reported in the West Bank, 30.5 percent in Gaza and 11.7 percent in Israel and the settlements (see Table 2-2).

**Table 2-2: Individuals (15 years and above) working in Palestine, by Place of Work**

Place of work	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
Manpower (in thousands)	2,523	2,546	2,569	2,592	2,557	2,615	2,638	2,661
Workforce (in thousands)	1,095	1,109	1,116	1,137	1,114	1,134	1,133	1,161
No. of workers (in thousands)	834	877	845	877	858	862	900	886
- West Bank (%)	60.9	60.5	59.4	61.0	60.4	58.5	58.3	57.8
- Gaza Strip (%)	29.9	30.3	30.2	29.0	29.9	30.7	31.0	30.5
- Israel & the settlements (percent)	9.2	9.2	10.4	9.9	9.7	10.8	10.7	11.7

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

**Table 2-3: Individuals (15 years and above) working in Palestine –  
By Region and Sector, 2012- Q3 2013 (%)**

Sector	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
<b>Palestine</b>								
Public sector	23.1	21.9	22.9	22.8	22.6	23.6	22.5	22.9
Private sector	64.2	65.6	63.6	64.5	64.5	62.4	63.6	62.4
Other sectors	3.5	3.3	3.1	2.8	3.2	3.2	3.2	3.0
Israel & the Settlements	9.2	9.2	10.4	9.9	9.7	10.8	10.7	11.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>West Bank</b>								
Public sector	16.3	14.9	16.3	15.7	15.8	16.6	16.4	17.1
Private sector	68.5	70.0	66.9	68.6	68.5	66.1	66.4	64.3
Other sectors	2.0	2.0	1.9	1.7	1.9	1.7	1.7	1.8
Israel & the Settlements	13.2	13.1	14.9	14.0	13.8	15.6	15.5	16.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Gaza</b>								
Public sector	39.1	37.9	38.0	40.1	38.8	39.3	36.2	36.2
Private sector	54.0	55.7	56.0	54.3	55.0	54.2	57.3	58.2
Other sectors	6.9	6.4	6.0	5.6	6.2	6.5	6.5	5.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013.  
Ramallah, Palestine.

Table 2-3 also reveals that the private sector was the main employer of the Palestinian labor in the West Bank during Q3 2013- employing 64.3 percent of the total workers. The employment of the public sector, on the other hand, accounted for 17.1 percent of total employment; yet, in the Gaza Strip, it touched as high as more than one third of workers, roughly the same share (36.2 percent) reported in the second quarter of the year.

With regard to the employment status of workers, 2013 Q3 data show a drop in the share of unpaid family members by half a percentage point compared to the previous quarter and one percentage point compared to the 2012 corresponding quarter (see Table 2-4).

By contrast, the share of wage earners increased slightly over the previous quarter of the same year and the corresponding quarter of

the last year. In addition, the share of WBGS self-employed saw some growth over the previous quarter of the same year and the corresponding quarter a year earlier.

Quarterly data also signal a slight change in the distribution of employees by economic activity compared to the previous quarter of the year. In the agriculture sector, for example, the proportion of workers saw a drop of one percentage point (while it remained unchanged compared to the prior year's corresponding quarter). Similarly, the percentage of workers in the quarrying and manufacturing sector fell from 12.3 percent in 2013 Q2 to 11.3 percent in 2013 Q3. By contrast, the construction sector share rose to 16.4 percent, up from 15.7 percent in 2013 Q2. Interestingly, nearly 50 percent of the workforce in Gaza works in the services sector, compared with only 28.6 percent in the West Bank.

**Table 2-4: Distribution of Palestine's Workers- by Employment Status and Region, 2012-Q3 2013 (%)**

Region and Employment Status	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
<b>West Bank</b>								
Employer	7.6	7.2	7.5	8.0	7.6	7.5	7.1	7.1
Self-employed	19.7	19.0	18.2	17.7	18.7	17.5	18.4	18.8
Wage earner	63.2	63.1	65.0	64.2	63.9	67.6	65.8	65.9
Unpaid family member	9.5	10.7	9.3	10.1	9.8	7.4	8.7	8.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Gaza</b>								
Employer	2.9	3.2	5.0	3.5	3.7	3.3	4.2	5.2
Self-employed	16.5	15.5	17.9	14.1	16.0	15.8	16.3	18.5
Wage earner	74.4	74.2	70.7	77.0	74.1	75.1	72.9	71.6
Unpaid family member	6.2	7.1	6.4	5.4	6.2	5.8	6.6	4.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Palestine</b>								
Employer	6.2	6.0	6.7	6.7	6.4	6.2	6.2	6.5
Self-employed	18.8	18.0	18.1	16.6	17.9	17.0	17.8	18.7
Wage earner	66.5	66.5	66.8	67.9	66.9	69.9	68.0	67.6
Unpaid family member	8.5	9.5	8.4	8.8	8.8	6.9	8.0	7.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

**Table 2-5: Distribution of Palestine's Workers- by Economic Activity and Region 2012- Q3 2013 (%)**

Economic Activity and Region	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
<b>Palestine</b>								
Agriculture, fishing and forestry	10.5	12.7	10.3	12.3	11.5	9.6	11.2	10.3
Quarries and manufacturing	12.2	11.7	11.3	12.5	11.9	13.5	12.3	11.3
Building and construction	13.5	14.7	15.3	13.9	14.4	15.0	15.7	16.4
Trade, restaurants and hotels	20.1	19.7	19.9	18.8	19.6	18.5	19.0	20.6
Transport, storage and communications	6.6	6.3	6.8	6.2	6.5	6.7	6.6	6.4
Services and others	37.1	34.9	36.4	36.3	36.1	36.7	35.2	35.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>West Bank</b>								
Agriculture, fishing and forestry	11.4	14.4	11.4	13.9	12.8	10.3	12.2	11.2
Quarries and manufacturing	14.9	14.4	14.1	15.4	14.7	16.8	15.2	14.1
Building and construction	16.4	17.4	18.0	17.0	17.2	18.6	18.9	20.5
Trade, restaurants and hotels	21.4	20.4	20.9	19.4	20.5	19.0	19.3	20.4
Transport, storage and communications	5.6	5.9	5.7	5.3	5.6	5.7	6.0	5.2
Services and others	30.3	27.5	29.9	29.0	29.2	29.6	28.4	28.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Gaza</b>								
Agriculture, fishing and forestry	8.4	8.9	7.8	8.3	8.4	8.2	9.2	8.3
Quarries and manufacturing	5.9	5.4	4.6	5.5	5.4	6.2	5.7	4.9
Building and construction	6.7	8.7	9.0	6.3	7.7	6.9	8.7	7.0
Trade, restaurants and hotels	16.9	18.1	17.6	17.2	17.5	17.3	18.3	21.0
Transport, storage and communications	8.9	7.3	9.3	8.4	8.4	8.9	7.9	9.2
Services and others	53.2	51.6	51.7	54.3	52.6	52.5	50.2	49.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.



## 2.2 Unemployment

The unemployment rate in Q3 2013 stood at 23.7 percent (19.1 percent in the West Bank and 32.5 percent in the Gaza Strip) – up by 3

percentage points from the previous quarter, but a slight decrease from the 2012 corresponding quarter (see Table 2-6).

**Table 2-6: Unemployment rate among individuals participating in the labor force (15 years and above) in Palestine- by Region and Sex: 2012-Q3 2013 (%)**

Region and Sex	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
<b>Palestine</b>								
Males	22.0	18.8	20.7	20.7	20.5	21.2	17.6	20.3
Females	31.5	29.5	39.0	31.7	32.9	35.3	33.6	37.8
<b>Total</b>	<b>23.9</b>	<b>20.9</b>	<b>24.3</b>	<b>22.9</b>	<b>23.0</b>	<b>23.9</b>	<b>20.6</b>	<b>23.7</b>
<b>West Bank</b>								
Males	18.6	16.1	17.9	16.7	17.3	18.6	14.9	16.8
Females	25.5	21.4	30.1	24.4	25.3	27.4	25.1	28.2
<b>Total</b>	<b>20.1</b>	<b>17.1</b>	<b>20.4</b>	<b>18.3</b>	<b>19.0</b>	<b>20.3</b>	<b>16.8</b>	<b>19.1</b>
<b>Gaza</b>								
Males	28.4	24.1	26.0	28.5	26.8	26.3	22.7	26.9
Females	46.5	47.2	57.7	48.3	50.1	51.6	50.4	56.7
<b>Total</b>	<b>31.5</b>	<b>28.4</b>	<b>31.9</b>	<b>32.2</b>	<b>31.0</b>	<b>31.0</b>	<b>27.9</b>	<b>32.5</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

### Features of unemployment in Palestine during Q3 2013

✧ Unemployment rate in Palestine is high among young people, reaching 42.6 percent for the age group 15-24 years, up from 42.2 percent in the 2012 corresponding quarter (see Table 2-7), suggesting that a large proportion of the unemployed are new entrants to the labor market. The youth unemployment rate was disproportionately distributed between females and males (69.3 percent and 37.7 percent, respectively).

✧ Unemployment is particularly reported among the most educated females: the 2013 Q3 unemployment rate among females with 13 years of schooling and over was 49.9 percent (down from 50.9 percent in the 2012 corresponding Q) compared to a low unemployment rate among uneducated female population who has recently entered the labor market. The representation is totally different for males: the more the years of education, the less the unemployment rate (see Table 2-8).

**Table 2-7 Unemployment rate among individuals participating in the labor force (15 years and above) in Palestine- by Sex and Age Group, 2012- Q3 2013 (%)**

Age Group	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
<b>Males &amp; Females</b>								
15-24	40.4	34.3	42.2	38.4	38.8	40.9	37.0	42.6
25-34	24.8	23.9	25.6	25.0	24.9	25.2	22.0	25.5
35-44	13.7	10.5	12.5	12.0	12.2	13.1	11.4	11.3
45-54	14.5	12.2	13.6	12.8	13.3	14.5	10.0	10.5
55+	10.9	7.7	8.1	10.2	9.2	9.9	6.8	10.1
<b>Total</b>	<b>23.9</b>	<b>20.9</b>	<b>24.3</b>	<b>22.9</b>	<b>23.0</b>	<b>23.9</b>	<b>20.6</b>	<b>23.7</b>
<b>Males</b>								
15-24	36.9	30.5	36.3	34.5	34.5	36.9	32.4	37.7

Age Group	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
25-34	20.2	18.9	18.6	19.2	19.2	18.1	14.9	17.8
35-44	13.9	10.5	11.4	12.3	12.0	12.8	11.0	11.0
45-54	16.0	13.7	15.2	14.6	14.9	16.8	10.9	11.8
55+	13.2	9.5	9.2	12.8	11.1	11.5	8.1	12.0
<b>Total</b>	<b>22.0</b>	<b>18.8</b>	<b>20.7</b>	<b>20.7</b>	<b>20.5</b>	<b>21.2</b>	<b>17.6</b>	<b>20.3</b>
Females								
15-24	58.1	56.1	73.8	60.2	62.2	64.4	65.2	69.3
25-34	40.2	41.0	48.1	43.6	43.3	48.1	45.8	50.8
35-44	12.8	10.6	17.0	11.1	12.8	14.3	12.9	12.7
45-54	7.1	5.7	6.3	5.2	6.0	4.1	6.1	4.4
55+	0.7	1.3	2.7	0.7	1.3	2.2	-	-
<b>Total</b>	<b>31.5</b>	<b>29.5</b>	<b>39.0</b>	<b>31.7</b>	<b>32.9</b>	<b>35.3</b>	<b>33.6</b>	<b>37.8</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

**Table 2-8: Unemployment rate among individuals participating in the labor force (15 years and above) in Palestine- by Sex and Years of Schooling, 2012- Q3 2013 ( %)**

Years of schooling	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
Males & Females								
0	4.6	7.9	12.0	13.7	9.4	18.5	6.2	10.2
1-6	24.8	18.5	18.8	20.5	20.6	21.3	15.7	20.0
7-9	23.1	19.6	22.5	22.1	21.8	21.8	19.5	21.7
10-12	22.1	18.2	21.4	20.9	20.7	21.6	18.6	20.1
+13	26.2	25.5	29.8	26.3	27.0	28.3	25.0	29.5
<b>Total</b>	<b>23.9</b>	<b>20.9</b>	<b>24.3</b>	<b>22.9</b>	<b>23.0</b>	<b>23.9</b>	<b>20.6</b>	<b>23.7</b>
Males								
0	6.9	17.6	22.4	27.4	18.2	26.2	14.1	23.4
1-6	27.6	21.5	21.3	22.5	23.3	24.3	17.5	22.3
7-9	24.6	20.8	23.6	23.7	23.2	23.2	20.4	23.0
10-12	22.5	18.9	21.5	21.5	21.1	22.0	18.9	20.5
+13	16.6	15.6	16.9	16.2	16.3	17.1	13.3	17.0
<b>Total</b>	<b>22.0</b>	<b>18.8</b>	<b>20.7</b>	<b>20.7</b>	<b>20.5</b>	<b>21.2</b>	<b>17.6</b>	<b>20.3</b>
Females								
0	2.2	1.3	1.2	1.7	1.6	10.9	-	-
1-6	4.2	1.9	1.8	5.3	3.2	2.6	3.6	3.9
7-9	6.9	6.9	8.9	6.4	7.2	5.1	9.7	4.0
10-12	19.0	11.4	20.8	15.3	16.5	16.9	15.2	14.6
+13	42.0	42.6	50.9	42.7	44.6	46.7	45.2	49.9
<b>Total</b>	<b>31.5</b>	<b>29.5</b>	<b>39.0</b>	<b>31.7</b>	<b>32.9</b>	<b>35.3</b>	<b>33.6</b>	<b>37.8</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

### 2.3 Unemployment among graduates of universities and high institutes

Table 2-9 sheds light on the rates of unemployment among individuals with intermediate diploma or higher- by major. The

unemployment rate among this group remained unchanged compared to the 2012 corresponding quarter. The table indicates that,

with 7.4 percent, the unemployment rate among those who obtained a degree in law was the lowest (i.e. for every one hundred graduates, there were 7 without a job), while

the rate among those with a degree in journalism and media was the highest (about 53.8 percent) during 2013 Q3.

**Table 2-9: Employed and unemployed graduates (with an intermediate diploma and above) by Major: Q3 2012-Q3 2013 (%)**

Major	Q3 2012		Q1 2013		Q2 2013		Q3 2013	
	Employed	Unemployed	Employed	Unemployed	Employed	Unemployed	Employed	Unemployed
Educational sciences & Humanities	51.4	48.6	58.8	41.2	55.5	44.5	54.5	45.5
Social and behavioral sciences	63.5	36.5	67.7	32.3	71.8	28.2	65.0	35.0
Journalism and media	65.4	34.6	63.0	37.0	70.2	29.8	64.7	35.3
Business and administration	61.1	38.9	67.3	32.7	63	37.0	46.2	53.8
Law	68.6	31.4	73.1	26.9	76.2	23.8	72.8	27.2
Natural sciences	88.6	11.4	91.5	8.5	92.4	7.6	92.6	7.4
Math and statistics	73.8	26.2	67.6	32.4	73.5	26.5	66.9	33.1
Computer	70.2	29.8	78.6	21.4	75.3	24.7	61.3	38.7
Engineering and engineering professions	69	31	67.9	32.1	65.3	34.7	66.1	33.9
Architecture and construction	74.4	25.6	78.1	21.9	82.9	17.1	71.7	28.3
Health	87.8	12.2	76.0	24.0	87.6	12.4	80.5	19.5
Personal services	78	22	78.2	21.8	79.7	20.3	78.4	21.6
Others	65.7	34.3	-	-	71.9	28.1	61.1	38.9
<b>Total</b>	<b>70.1</b>	<b>29.9</b>	<b>69.9</b>	<b>30.1</b>	<b>76.1</b>	<b>23.9</b>	<b>66.6</b>	<b>33.4</b>
	<b>68.0</b>	<b>32.0</b>	<b>70.0</b>	<b>30.0</b>	<b>72.9</b>	<b>27.1</b>	<b>67.9</b>	<b>32.1</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

## 2.4 Wages and working hours

The average daily wage for West Bank workers during 2013 Q3 was NIS 88.3, down by 0.3 percent from 2013 Q2. Likewise, the average daily wage of Gaza's workers (NIS 59.3) saw a decline of 6.6 percent during the same period. On the contrary, those working in Israel and the settlements enjoyed a 3.8 percent rise in their daily wage (up to NIS 178.9). In comparison with the previous year's corresponding quarter, the average daily wage in the West Bank and Israel & the settlements grew by 0.9 percent and 6.4 percent, respectively, while that of Gaza's workers fell by 11.3 percent.

The gap between average wages in the West Bank and Gaza is still relatively wide (the

average wage of Gaza's workers is only 67.2 percent of the average wage in the West Bank). The median daily wage in Gaza (the amount which divides the wage distribution into two equal groups, half having income above that amount, and half having income below that amount) further reflects a greater disparity between wages in the Gaza Strip and the West Bank, where the median daily wage in Gaza is only 60.1 percent of the average daily wage in the West Bank. This persistent disparity mirrors the demand for labor in light of the Israeli blockade placed on Gaza. On the other hand, the weekly working hours during 2013 Q3 hovered around the rates reported in previous quarters and years (see Table 2-10).

**Table 2-10: Average weekly working hours, monthly working days and daily wages (in NIS) of known-wage workers in Palestine- by Place of work: Q3 2012- Q3 2013**

	Average weekly hours	Average monthly working days	Average daily wage	Median daily wage
<b>Q1 2012</b>				
West Bank	43.0	22.4	85.4	76.9
Gaza Strip	36.9	23.5	63.9	50.0
Israel and the settlements	41.2	20.7	162.0	153.8
<b>Total</b>	<b>41.1</b>	<b>22.4</b>	<b>90.9</b>	<b>76.9</b>
<b>Q2 2012</b>				
West Bank	43.8	22.3	87.4	76.9
Gaza Strip	37.8	23.6	64.3	50.0
Israel and the settlements	41.8	20.3	163.2	153.8
<b>Total</b>	<b>41.9</b>	<b>22.3</b>	<b>92.1</b>	<b>76.9</b>
<b>Q3 2012</b>				
West Bank	43.1	22.2	87.5	76.9
Gaza Strip	37.8	24.3	66.1	53.8
Israel and the settlements	39.7	20.5	167.4	153.8
<b>Total</b>	<b>41.1</b>	<b>22.5</b>	<b>96.0</b>	<b>80.0</b>
<b>Q4 2012</b>				
West Bank	43.1	22.0	88.0	76.9
Gaza Strip	35.9	23.1	63.1	50.0
Israel and Settlements	41.1	20.3	163.4	153.8
<b>Total</b>	<b>40.9</b>	<b>22.1</b>	<b>92.8</b>	<b>76.9</b>
<b>Q1 2013</b>				
West Bank	43.5	22.2	88.8	76.9
Gaza Strip	36.6	23.3	65.2	50.0
Israel and Settlements	43.5	20.0	167.6	153.8
<b>Total</b>	<b>41.6</b>	<b>22.1</b>	<b>95.7</b>	<b>80.0</b>
<b>Q2 2013</b>				
West Bank	44.2	22.7	88.6	76.9
Gaza Strip	39.1	23.5	63.2	50.0
Israel and Settlements	43.0	19.9	172.1	153.8
<b>Total</b>	<b>42.6</b>	<b>22.5</b>	<b>95.4</b>	<b>76.9</b>
<b>Q3 2013</b>				
West Bank	43.3	22.3	88.3	76.9
Gaza Strip	38.0	23.8	59.3	46.2
Israel and Settlements	41.6	19.7	178.9	165.4
<b>Total</b>	<b>41.5</b>	<b>22.2</b>	<b>97.6</b>	<b>80.0</b>

Source: Palestinian Central Bureau of Statistics 2014, Labor Force Survey, 2012-2013. Ramallah, Palestine.

### Textbox 3: Stanley Fischer: The labor market is the biggest risk to the Israeli economy

In a public lecture in New York, Stanley Fischer (the former governor of the Bank of Israel, and senior economist who is credited with sparing the Israeli economy the consequences of the recession triggered by the global financial crisis) said that Israel is not looking for peace "to the extent that it should." Fischer commended the performance of the Israeli economy, saying that the Israeli military budget dropped from about a third of GDP on the eve of the Yom Kippur War in 1973 to only 8 percent in 2013<sup>5</sup>.

Fischer warned that demography is the biggest risk facing Israel, adding that the ultra-Orthodox sector doubles itself every 17 years, the Israeli Arab sector every 25 years and the rest of Israel doubles every 40 years<sup>6</sup>. Fischer warned that if these trends continue, ultra-Orthodox Jews and Arabs will become a majority within 45 years. If the participation rate of ultra-Orthodox Jews and Arabs in the labor market remains unchanged, there will be a very serious problem in Israel from an economic standpoint, Fischer cautioned.

Fischer also voiced his concern over the low performance of the Israeli educational system and the low rank of Israel in international educational tests, such as the PISA Test. He said that the reason for this is obvious: "the world is investing more in universities and schools, but Israel is not." The existence of four separate streams of Israeli education (secular, modern Orthodox, ultra-Orthodox and Arab) perpetuates the social division and the decline in the participation rate of religious Jews and Arabs in the labor market.

## 3. Public Finance

The public finance performance (on a cash basis) in 2013 Q3 saw some developments with relation to the previous quarter:<sup>7</sup>

- ✧ The total public revenues grew by more than one third (to NIS 3.7 billion) as a result of receiving NIS1.5 billion (or three times the amount received in the previous quarter) as budget support grants.
- ✧ The total public expenditure rose by 3.4 percent (to NIS 3.1 billion), echoing an increase in wages and non-wage expenses.
- ✧ The current deficit (before grants and aid) soared to NIS 736.5 million (7 percent of GDP, compared to 5.8 percent in the previous quarter).

- ✧ The public debt outstanding balance declined to NIS 8.3 billion (or 20.1 percent of GDP), which is 4.4 percent lower than the previous quarter.<sup>8</sup>

Compared to the same quarter a year earlier, the total domestic revenue had a decline of 22.3 percent, while the current spending remained unchanged, thus bloating the deficit in the current balance (before grants and aid) six-fold compared to the previous year's corresponding quarter. At the same time, grants and aid increased significantly by 62.6 percent compared to the 2012 corresponding quarter. Table 3-1 summarizes the financial developments in the PNA budget during the quarter.

<sup>5</sup> <http://www.haaretz.com/news/diplomacy-defense/premium-1.561562>

<sup>6</sup> The doubling time is the period of time required for a quantity to double in size or value. This time can be calculated using the following equation: (doubling time = 70 / exponential growth rate), i.e., if the population growth rate for a country is 2 percent per year, the population of this country will double in 35 years.

<sup>7</sup> Cash basis refers to the expenses actually paid (and received by debtor) during the year, no matter whether they were actually owed during this year or in the previous years. The commitment basis, on the other hand, refers to the expenses and revenues that are due and must be paid (or received by the debtor) during a given fiscal year, no matter whether they have been paid or not. For more information, see the *Economic and Social Monitor*, Issue 32.

<sup>8</sup> Public debt to GDP ratio = nominal outstanding public debt in USD end of the third quarter ÷ (gross domestic product in USD in the third quarter × 4).

**Table 3-1: Summary of the financial position of the PNA: Q3 2103**  
(NIS millions, cash basis)

Item	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Public revenues and grants (net)</b>	<b>2,911.2</b>	<b>2,802.9</b>	<b>3,778.1</b>	<b>2,743.2</b>	<b>4,198.5</b>	<b>2,724.9</b>	<b>3,726.2</b>
<b>Total domestic revenues (net)</b>	<b>2,118.4</b>	<b>1,904.6</b>	<b>2,845.8</b>	<b>1,780.0</b>	<b>2,311.8</b>	<b>2,188.9</b>	<b>2,210.6</b>
Tax revenues	578.4	383.1	425.7	464.7	676.0	470.7	467.4
Non-tax revenues	196.7	191.5	322.2	184.8	321.5	185.8	204.8
Clearance revenues	1,343.9	1,347.6	2,208.8	1,195.9	1,314.6	1,533.4	1,547.6
Tax rebates (-)	0.6	17.6	110.9	65.4	0.3	1.0	9.2
<b>External grants and aid</b>	<b>792.8</b>	<b>898.3</b>	<b>932.3</b>	<b>963.2</b>	<b>1,886.7</b>	<b>536.0</b>	<b>1,515.6</b>
For budget support	739.3	771.4	723.5	751.4	1,814.1	461.0	1,453.6
To support developmental projects	53.5	126.9	208.8	211.8	72.6	75.0	62.0
<b>Total public expenditure</b>	<b>2,776.3</b>	<b>3,187.1</b>	<b>3,185.4</b>	<b>3,394.3</b>	<b>3,087.8</b>	<b>2,997.7</b>	<b>3,099.1</b>
<b>Current expenditure, including:</b>	<b>2,608.6</b>	<b>2,993.3</b>	<b>2,958.6</b>	<b>3,169.6</b>	<b>2,962.9</b>	<b>2,803.1</b>	<b>2,947.0</b>
Wages and salaries	1,514.8	1,602.1	1,556.6	1,322.1	1,823.2	1,531.9	1,594.1
Non-wage expenses	946.8	1,265.8	1,150.0	1,300.0	1,039.6	1,050.8	1,123.7
Net lending	147.0	125.4	252.0	547.5	100.1	220.4	229.2
<b>Development expenses</b>	<b>167.7</b>	<b>193.8</b>	<b>226.8</b>	<b>224.7</b>	<b>124.9</b>	<b>194.6</b>	<b>152.1</b>
Treasury-funded	114.2	66.9	18.0	12.9	52.3	119.6	90.1
Donor-funded	53.5	126.9	208.8	211.8	72.6	75.0	62.0
<b>Current deficit (before grants &amp; aid)</b>	<b>(490.2)</b>	<b>(1,088.7)</b>	<b>(112.8)</b>	<b>(1,389.6)</b>	<b>(651.1)</b>	<b>(614.2)</b>	<b>(736.4)</b>
<b>Total deficit (before grants and aid)</b>	<b>(657.9)</b>	<b>(1,282.5)</b>	<b>(339.6)</b>	<b>(1,614.3)</b>	<b>(776.0)</b>	<b>(808.8)</b>	<b>(888.5)</b>
<b>Total deficit / surplus (after grants &amp; aid)</b>	<b>134.9</b>	<b>(384.2)</b>	<b>592.7</b>	<b>(651.1)</b>	<b>1,110.7</b>	<b>(272.8)</b>	<b>627.1</b>
<b>Net financing from local banks</b>	<b>(205.5)</b>	<b>364.2</b>	<b>(582.0)</b>	<b>913.1</b>	<b>(1,183.8)</b>	<b>582.1</b>	<b>(209.2)</b>
<b>Memorandum items</b>							
<b>GDP (million dollars)</b>	<b>2,473.6</b>	<b>2,638.1</b>	<b>2,520</b>	<b>2,622.9</b>	<b>2,627.9</b>	<b>2,913.1</b>	<b>2,932</b>
<b>Average exchange rate (USD against NIS)</b>	<b>3.76</b>	<b>3.81</b>	<b>3.99</b>	<b>3.83</b>	<b>3.69</b>	<b>3.62</b>	<b>3.60</b>

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

### 3.1 Revenues and Grants

During Q3 2013, public revenues and grants increased by 36.7 percent over the previous quarter (to NIS 3.7 billion), largely due to a remarkable boost of external aid and a slight growth in non-tax and clearance revenues (See Figure 3-1). Totalling NIS 467.4 million, tax

revenue, on the other hand, remained relatively unchanged in the comparison period. However, it posted a growth of 9.8 percent when compared to the 2012 corresponding quarter. For further details on the policies of tax revenues, see Textbox 4 below.

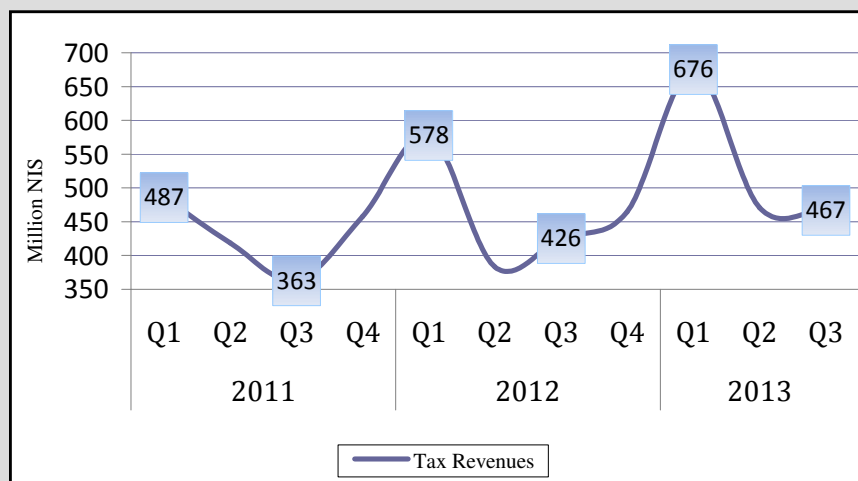
#### Textbox 4: Seasonality of tax revenues and government policies to increase them

Palestinian tax revenues are not evenly distributed over the months of the year. Income and property taxes are due in the first quarter of the year, making collections higher than in any other quarter of the year (see Figure 1). Another prominent feature of the Palestinian tax system is that the share of taxes in general (and income tax in particular) in domestic public revenues is relatively low. In 2009, the Palestinian income tax represented only 5 percent of the total domestic revenue, while in Jordan, Egypt and Israel, it made up 17 percent, 28 percent and 26.3 percent, respectively<sup>9</sup>.

Palestinian governmental policies seek to increase revenue by improving the efficiency of tax collection and expanding the tax base. These two measures would contribute disproportionately to raising domestic revenue. Findings of studies and practical experiences suggest that expanding the tax base renders greater returns and has more long-term positive impact.

The Departments of Income and Value-Added tax in the Ministry of Finance have taken up a package of measures to improve the efficiency of tax collection. The efforts focused on tallying the taxes the private sector owes and collecting those that are due. Another effort was broadening the taxable income through expanding the tax base. This particularly involved reassessing properties in territories under the PA's jurisdiction, which contributed to raising the collections made by the General Department of Property. The PA has also amended the Income Tax Law, broadening the tax base by eliminating a wide range of breaks granted under the previous law. This has contributed to increasing the income tax returns. The government has also raised the fees levied on some goods, such as excise on cigarettes.

Figure 1: Quarterly developments in tax revenues (NIS millions)



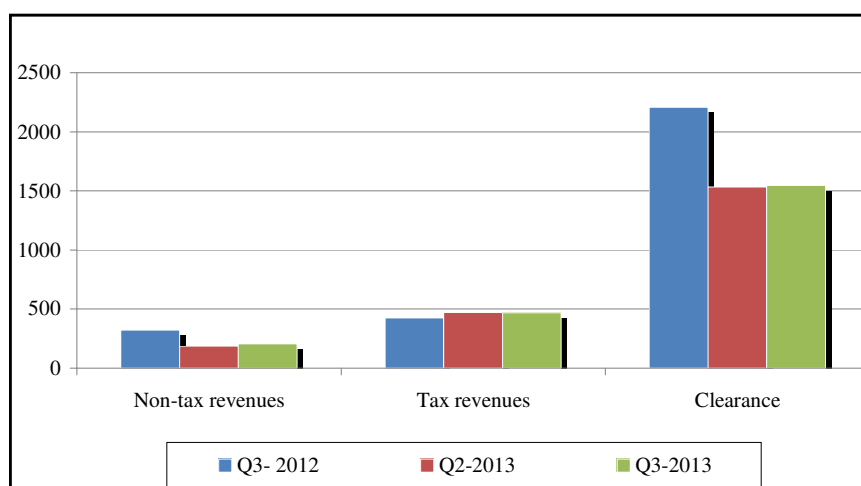
Source: Palestinian Ministry of Finance

<sup>9</sup> The ratio of VAT revenue to total domestic revenues in Palestine reached 30 percent in 2009. This figure is comparable to ratios found in the neighboring countries: 37.6 percent in Jordan, 21.7 percent in Egypt and 31.4 percent in Israel. See MAS (2013): Fiscal Sustainability of the Palestinian National Authority: Experience and Future Prospects. [http://www.mas.ps/2012/sites/default/files/Fiscal%20Sustainability%20of%20the%20Palestinian%20PA.Ar\\_.pdf](http://www.mas.ps/2012/sites/default/files/Fiscal%20Sustainability%20of%20the%20Palestinian%20PA.Ar_.pdf)

Q3 2013 non-tax revenues totaled NIS 204.8 million- up from NIS 185.8 million in the previous quarter (an increase of about 10.2 percent). Compared to the corresponding quarter of 2012, however, these revenues dipped by 36.4 percent. It is noteworthy that

the majority of these revenues was made up of fees (particularly, stamps sold for health and court services; land and education fees; as well as profits of investment portfolios) that are not directly influenced by the performance of economic activities.

**Figure 3-1: Structure of domestic revenues (NIS millions)**



Source: Palestinian Ministry of Finance

In this quarter, clearance revenues totaled NS 1.5 billion, only 0.9 percent higher than in the previous quarter<sup>10</sup>, but a whopping 29.9 percent lower than a year earlier<sup>11</sup>. Clearance revenues accounted for 70 percent of the total domestic revenues. The shares of tax revenues and non-tax revenues were only 21.1 percent and 9.2 percent, respectively.

On the other hand, international grants and assistance, allocated to support the budget and development projects, totaled NIS 1.5 billion, mainly appropriated to the general budget (95.9 percent).

**Table 3-2: Indicators of public revenues and grants**

Item	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Total domestic revenues (NIS millions)</b>	<b>2,118.4</b>	<b>1,904.6</b>	<b>2,845.8</b>	<b>1,780.0</b>	<b>2,311.8</b>	<b>2,188.9</b>	<b>2,210.6</b>
As % to total revenues and grants	72.8	68.0	75.3	64.9	55.1	80.3	59.3
As % to current expenditure	81.2	63.6	96.2	56.2	78.0	78.1	75.0
As % to GDP	22.8	18.9	28.3	17.7	23.8	20.8	20.9
<b>External grants and aid (NIS millions)</b>	<b>792.8</b>	<b>898.3</b>	<b>932.3</b>	<b>963.2</b>	<b>1,886.7</b>	<b>536.0</b>	<b>1,515.6</b>
As %to total revenues and grants	27.2	32.0	24.7	35.1	44.9	19.7	40.7
As % to current expenditure	30.4	30.0	31.5	30.4	63.7	19.1	51.4
As %to GDP	8.5	8.9	9.3	9.6	19.4	5.1	14.3

Source: Table (3-1)

<sup>10</sup> Clearance revenues in Q2 2013 saw the transfer of unusual cash payments equivalent to NIS 147 million representing amounts previously deducted by the Israeli side from the clearance transfers. These were retransferred in May 2013 following a court ruling (Source: Palestinian Ministry of Finance).

<sup>11</sup> This difference is mainly attributable to the significant rise in clearance revenues in 2012 Q3, when the Palestinian Authority received (in July and September) clearance revenues in advance.



Amounts allocated to support the budget totaled NIS 1,453.6 million, contributed by the Palestinian European Mechanism PEGASE (10.8 percent); World Bank (28.4 percent); the

United States (36.1 percent); India, France and Russia combined (5.6 percent); and Arab States- particularly Iraq, Arabia and Qatar- (19.1 percent). See Table 3-3.

**Table 3-3: Grants and foreign aid to the Palestinian Government**  
(NIS millions)

Tem	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Budget support</b>	<b>739.4</b>	<b>771.4</b>	<b>723.5</b>	<b>751.4</b>	<b>1814.5</b>	<b>460.9</b>	<b>1,453.6</b>
Arab grants	113.7	259.6	499.7	177.0	558.6	0.0	278.1
International grants	625.7	511.8	223.8	574.4	1,255.9	460.9	1,175.5
<b>Developmental funding</b>	<b>53.6</b>	<b>126.9</b>	<b>208.8</b>	<b>211.7</b>	<b>72.6</b>	<b>74.9</b>	<b>62</b>
<b>Total foreign aid</b>	<b>793.0</b>	<b>898.3</b>	<b>932.3</b>	<b>963.1</b>	<b>1,887.1</b>	<b>535.8</b>	<b>1,515.6</b>

Source: Table (7) - External Support Table.

### 3.2 Public Expenditure

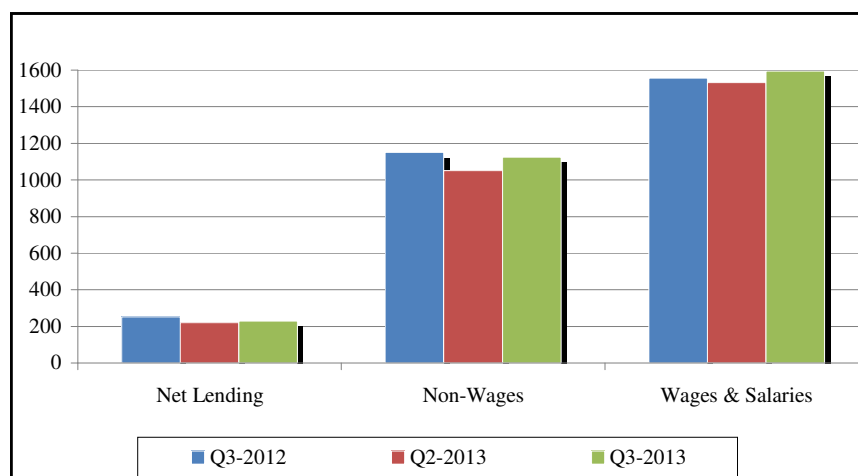
During Q3 2013, public expenditure stood at NIS 3.1 billion (or 29.3 percent of GDP)-rising by 3.4 percent over the previous quarter, and involving all items of government expenditure except for developmental spending, which fell significantly. Strikingly, public expenditure largely consisted of current spending (95.1 percent), while developmental spending was barely 4.9 percent of total public expenditure in the current quarter.

#### Current Expenditure

Current expenditure involves three items: the wage bill, non-wage spending and net lending. The wage bill depleted about 54.1 percent of the current expenditure, while non-wage

spending and net lending represented only 38.1 percent and 7.8 percent, respectively. During 2013 Q3, current expenditure grew by about 5.1 percent over the previous quarter, thus shooting up to NIS 2.9 billion. This was especially a result of an increase in wage and non-wage expenses, where wages and salaries item, in particular, saw a 4.1 percent rise, thus reaching NIS 1.6 billion, or more than 50 percent of current expenditure. The budget continued to suffer frequent deficits that undermined its ability to cover the wage bill. Quarterly data show that the actual amount paid as wages and salaries was NIS 133.1 million below the actual value of the bill<sup>12</sup>.

**Figure 3-2: Structure of current expenditure (NIS millions)**



Source: The Palestinian Ministry of Finance

<sup>12</sup> The actual wage bill cash shortage totaled NIS 71.4 million on average for each quarter of 2013, compared with NIS 204.1 million on average for each quarter of 2012.

Non-wage expenditure also swelled to NIS1.1 billion (an increase of 6.9 percent over 2013 Q2). This growth echoed an increase in the Palestinian government operational spending, on the one hand, and a rise in the government transfers to social services, on the other. Unusually, operational spending and social transfers are the most important components of non-wage expenditure<sup>13</sup>. Net lending also

increased from NIS 220.4 million in 2013 Q2 to NIS 229.2 in 2013 Q3<sup>14</sup> (See Figure 3-2).

### Developmental Expenditure

Developmental expenditure in 2013 Q3 totaled NIS 152.1 million, down by 21.8 percent from the previous quarter, mainly due to a decline in the allocations of the general budget and international aid for this item.

**Table 3-4: Public Expenditure Indicators**

Item	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Current expenditure (NIS millions)</b>	<b>2,608.6</b>	<b>2,993.3</b>	<b>2,958.6</b>	<b>3,169.6</b>	<b>2,962.9</b>	<b>2,803.1</b>	<b>2,947.0</b>
As % to total public expenditure	94.0	93.9	92.9	93.4	96.0	93.5	95.1
As % to GDP	28.0	29.8	29.4	31.5	30.5	26.6	27.9
<b>Developmental expenditure (NIS millions)</b>	<b>167.7</b>	<b>193.8</b>	<b>226.8</b>	<b>224.7</b>	<b>124.9</b>	<b>194.6</b>	<b>152.1</b>
As % to total public expenditure	6.0	6.1	7.1	6.6	4.0	6.5	4.9
As % to GDP	1.8	1.9	2.3	2.2	1.3	1.8	1.4

Source: Table (3-1)

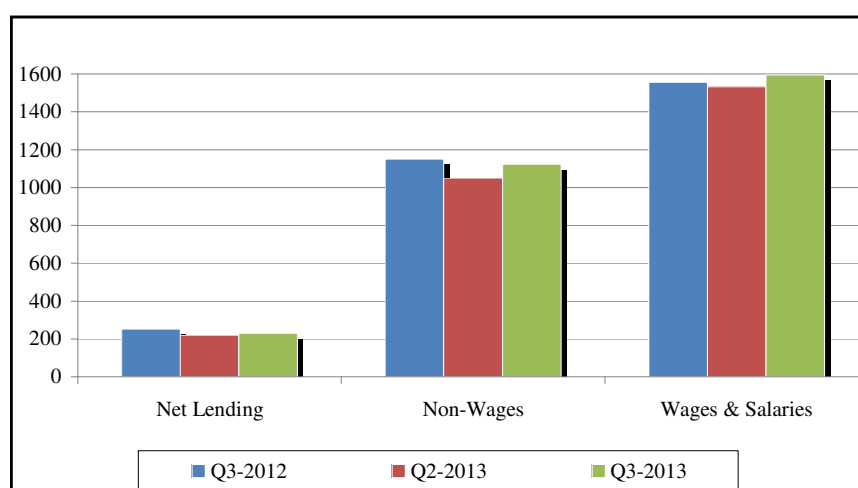
### 3.3 Financial Surplus / Deficit

During 2012 Q3, the increase in current expenditure, coupled with limited gross domestic revenues, led to a current deficit (on a cash basis and before grants) of NIS 736.5 million compared with NIS 614.2 million during the previous quarter, and six times higher than in the corresponding quarter of the previous year<sup>15</sup>. This deficit represented about

7 percent of GDP, compared with 5.8 percent in the second quarter of the year.

The total deficit (before grants and aid) totaled NIS 888.5 million or 8.4 percent of GDP, compared with 7.7 percent in the previous quarter (See Figure 3-3).

**Figure 3-3: Fiscal deficit as % to nominal GDP (current prices)**



Source: The Palestinian Ministry of Finance

<sup>13</sup> Palestinian government operational spending constituted about 36.6 percent of the non-wage expenditure, while social transfers accounted for about 61.1 percent of this item during the current quarter.

<sup>14</sup> The item 'net lending' refers to the amounts that are deducted from the clearance revenues and then transferred to utility companies in Israel to pay dues owed by local government bodies and electricity companies in Palestine.

<sup>15</sup> As we mentioned earlier, this difference is mainly attributable to the significant rise in clearance revenues in 2012 Q3, when the Palestinian Authority received (in July and September) clearance revenues in advance.

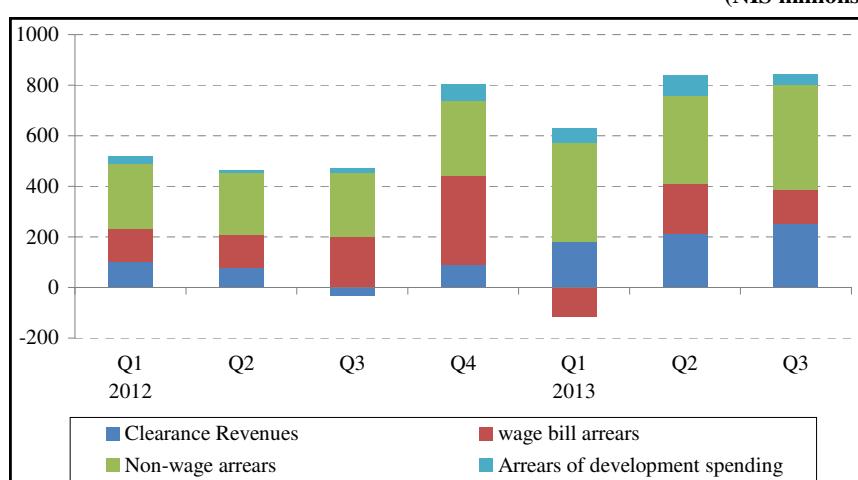
Nonetheless, the remarkable increase in international aid in this quarter yielded a budgetary surplus (after grants and aid) of NIS 627.1 million, compared with a deficit of about NIS 272.8 million during the second quarter. This surplus, in turn, helped in slashing the public debt (especially domestic debt); yet it could not reduce the accumulation of arrears.

### 3.4 Accumulation of Arrears

The PNA's net accumulation of arrears in Q3 2013 totaled NIS 844.6 million, involving

obligations owed to the private sector (NIS 417.2 million); outstanding tax rebates (NIS 253.8 million); wage bill arrears (NIS 133.1 million); and liabilities of development expenditure (NIS 40.5 million). The addition of the net accumulation of arrears (NIS 844.6 million) to the current deficit on a cash basis (NIS 888.5 million) renders a current deficit of NIS 1.733 billion on commitment basis before grants and aid, or NIS 217.5 million after grants and aid (See Figure 3-4).

**Figure 3-4: Quarterly developments in the net accumulation of arrears (NIS millions)**



Source: The Palestinian Ministry of Finance

### 3.5 Clearance Revenue (commitment basis)

Table 3-5 displays the developments in the revenues of customs, value added tax and other revenues that Israel's Ministry of Finance collects and transfers to the PNA as clearance revenues on an accrual basis<sup>16</sup>. The table demonstrates that in Q3 2013, clearance revenues were nearly NIS1.587 billion, a 11.7

percent increase from the previous quarter and a 9.5 percent lift on the 2012 corresponding quarter. The three major components of clearance (VAT, customs and fuel tax) had relatively equal shares (with the customs claiming a slightly higher proportion).

**Table 3-5: Clearance revenues (commitment basis)**

Item	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Clearing revenue</b>	<b>1,343.0</b>	<b>1,410.3</b>	<b>1,449.8</b>	<b>1,413.6</b>	<b>1,388.6</b>	<b>1,421.4</b>	<b>1,587.0</b>
Customs	465.8	473.7	522.6	511.9	459.3	492.5	<b>562.0</b>
Value added	449.5	485.5	456.5	469.4	488.6	457.9	<b>521.3</b>
Fuel	420.8	449.8	466.1	421.3	431.5	470.2	<b>503.0</b>
Purchase tax (sales)	4.5	(1.8)	4.6	7.7	5.5	(3.6)	<b>0.7</b>
Income tax deducted from the wages of Palestinians working in Israel	2.4	3.1	-	3.3	3.7	4.4	-

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

<sup>16</sup> Commitment basis is used because its data exclusively contain details of all clearance constituents.

### 3.6 Public Debt

The surplus in the total balance (cash basis) after grants and aid brought the public debt down to NIS 8,349.5 million, which is a 4.4 percent decline from the previous quarter. External debt represented 46.6 percent, while domestic debt constituted 53.4 percent of total public debt. The external debt involved obligations to Arab financial institutions (57.2 percent), international and regional institutions

(30.7 percent) and bilateral loans (12 percent). On the other hand, the largest part of domestic debt was owed to the banking system (with about 17.2 percent of this debt having the form of loans provided to the Petroleum Authority, with the PA government as a guarantor) – see Table 3-6. Meanwhile, the public debt service totaled NIS 26.6 million compared to NIS 34.5 million in the previous quarter.

**Table 3-6: Public Debt- Q3 2013**

Item	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>a. Domestic debt</b>	<b>4,092.7</b>	<b>4,760.2</b>	<b>4,329.8</b>	<b>5,142.8</b>	<b>4,257.3</b>	<b>4,774.5</b>	<b>4,457.5</b>
Bank loans	1,788.2	2,142.5	2,230.8	2,669.1	2,376.8	2,345.7	2,474.6
Bank facilities (overdraft)	1,664.3	1,893.2	1,423.9	1,783.8	1,255.1	1,666.9	1,171.7
Petroleum Authority loans	609.7	691.9	642.5	659.4	594.9	731.4	780.7
Other public institutions loans	30.5	32.6	32.6	30.5	30.5	30.5	30.5
<b>b. External debt</b>	<b>4,185.6</b>	<b>4,417.1</b>	<b>4,290.7</b>	<b>4,077.1</b>	<b>3,989.9</b>	<b>3,956.1</b>	<b>3,892.0</b>
<b>Arab financial institutions</b>	<b>2,342.9</b>	<b>2,467.9</b>	<b>2,457.8</b>	<b>2,335.9</b>	<b>2,283.0</b>	<b>2,266.7</b>	<b>2,226.3</b>
<i>Al-Aqsa Fund</i>	1,940.8	2,049.6	2,043.9	1,940.5	1,906.0	1,890.5	1,853.0
<i>Arab Fund for Economic and Social Development</i>	209.1	221.3	219.9	211.0	204.6	204.7	202.0
<i>Islamic Development Bank</i>	193.0	197.0	194.0	184.4	172.4	171.5	171.3
<b>International and regional institutions</b>	<b>1,256.0</b>	<b>1,338.4</b>	<b>1,335.6</b>	<b>1,257.5</b>	<b>1,244.1</b>	<b>1,223.8</b>	<b>1,192.9</b>
<i>World Bank</i>	1,095.8	1,151.5	1,141.5	1,077.8	1,051.9	1,038.0	1,008.2
<i>European Investment Bank</i>	77.0	99.2	106.0	95.9	109.8	104.0	104.0
<i>International Fund for Agricultural Development</i>	12.2	12.4	12.5	11.7	11.2	10.9	10.9
<i>OPEC</i>	71.0	75.3	75.6	72.1	71.2	70.9	69.8
Bilateral loans	586.7	610.8	497.3	483.7	462.8	465.6	472.8
<b>Total public debt</b>	<b>8,278.3</b>	<b>9,177.3</b>	<b>8,620.5</b>	<b>9,219.9</b>	<b>8,247.2</b>	<b>8,730.6</b>	<b>8,349.5</b>
<b>Debt service</b>	<b>27.4</b>	<b>18.9</b>	<b>41.2</b>	<b>31.2</b>	<b>52.8</b>	<b>34.5</b>	<b>26.6</b>
<b>Public debt as % to GDP</b>	<b>22.5</b>	<b>22.2</b>	<b>21.9</b>	<b>23.7</b>	<b>21.5</b>	<b>20.7 %</b>	<b>20.1</b>

Source: The Palestinian Ministry of Finance

#### Textbox 5: The Red-Dead Water Canal in a Different Guise

In December 2013, the World Bank announced that Palestinian, Israeli and Jordanian representatives signed, at the World Bank Headquarters in Washington, a memorandum of understanding for the management and sharing of water resources. According to a press release by the World Bank, this agreement will "support the management of scarce water resources and the joint development and use of new water resources through sea water desalination."<sup>17</sup>

The Memorandum of Understanding outlines three major initiatives: the development of a desalination plant in Aqaba at the head of the Red Sea, where the water produced will be shared between Israel and Jordan; increased releases of water by Israel from Lake Tiberias for use in Jordan; and the sale of about 20-30 million m<sup>3</sup>/year of desalinated water from Mekorot (the Israeli water utility) to the Palestinian Water Authority for use in the West Bank.

<sup>17</sup> <http://www.worldbank.org/en/news/press-release/2013/12/09/senior-israel-jordanian-palestinian-representatives-water-sharing-agreement>

The Press release stated that the MOU is an outcome of the cooperation since 2005 between the three parties on the Red Sea-Dead Sea Water Conveyance Study Program. Yet, the press release stressed that the MOU represents a new initiative arising from the Study Program and is not the same proposal on the conveyance of the water of the Red Sea to the Dead Sea. This ambiguous wording has raised doubts among different circles, believing that the MOU is a disguised version of the Red-Dead project.

### **The Red Sea–Dead Sea Conduit<sup>18</sup>**

The Red Sea-Dead Sea Conduit is a project for the construction of a 180 kilometer tunnel (and pipeline within) running from the Gulf of Aqaba on the Red Sea in the south to the Dead Sea in the north. The project mainly seeks to stop environmental degradation in the Dead Sea, provide the beneficiaries with fresh water, and produce hydroelectric power needed to operate the pumping stations and water desalination. The project will require USD 11 billion in capital. It involves setting up the largest pumping station in the world between Aqaba and Eilat, as well as a desalination plant in the farthest southern side of the Dead Sea. This station will annually pump 1.9 billion m<sup>3</sup> of water from the Red Sea at a nominal elevation of 220 m, and pour the pumped water in the canal leading to the Dead Sea. The head difference between the Red Sea and the Dead Sea provides the potential to generate hydropower used to desalinate sea water. Half of the water pumped from the Red Sea will be pumped directly into the Dead Sea, and the other half will be desalinated and distributed to the three parties.

In 2013, the World Bank published three extensive studies on the economic feasibility and the technical and environmental dimensions of this huge project. The World Bank paid more than 16 million dollars to produce these studies, whose results suggest that the project would be beneficial to all parties<sup>19</sup>. However, once the results of those studies were published, the proposal received resistance from various Jordanian, Palestinian and Israeli circles. Some opponents rejected the proposal, saying it encourages normalization with Israel; others believed the project would engender environmental hazards and other risks associated with changing the physical nature of the Dead Sea water.

### **The New Project**

The project involves setting up a new desalination plant in Aqaba with a production capacity of about 80 million cubic meters of potable water<sup>20</sup>. Jordan's annual share of this water is about 30 million cubic meters needed to cover the growing needs of the Aqaba Special Economic Zone until 2040<sup>21</sup>. The remaining 50 million cubic meters will be sold to Israel for a price to be set later by parties<sup>22</sup>.

In return, Israel will supply northern Jordan with an equivalent amount of water (50 million cubic meters) pumped from Lake Tiberias. According to the Water Authority of Jordan, the Jordanians will pay JD 0.27 per cubic meter. The project also includes building a pipeline from Aqaba to the Dead Sea for the disposal of brine resulting from the desalination process. The total cost of the project is estimated at USD 900 million. The Water Authority of Jordan website says that the government will work to secure part of this amount in grants from brotherly and friendly countries.

The Palestinian side, however, will only receive Israel's approval to sell Palestinians additional quantities of water amounting to 20 million cubic meters as a 'consolation prize.' Yet, the price of water sold to the Palestinians has not been set in the MOU. It goes without saying that determining a specific price is very much critical given the current disputes the Palestinians and Israeli have over the prices of water that the Palestinians currently purchase from Israel<sup>23</sup>.

### **A new project or the first phase of the Red-Dead?**

Despite the vague wording in the World Bank press release, which might mean that the new project differs from the Red-Dead Canal, the website of the Water Authority of Jordan considers the new project as the first phase of the Red-Dead Canal. The Israeli side also produced conflicting statements. The Minister of Water and Irrigation of Jordan reiterated that the current project is "a hundred percent Jordanian project with no

<sup>18</sup> For a comprehensive overview of the project (together with the feasibility reports released by the World Bank and the conflicting views about the benefits of the project from the Palestinian perspective), see MAS (2013): The Red Sea-Dead Sea Water Canal: The Project, the Assessments and Potential Benefits to the Palestinian Territory, a background paper for a roundtable discussion. [http://www.mas.ps/2012/ar/node/625#.UtuRn\\_uxXcs](http://www.mas.ps/2012/ar/node/625#.UtuRn_uxXcs)

<sup>19</sup> ibid

<sup>20</sup> <http://www.jpost.com/Enviro-Tech/Exclusive-Israel-Jordan-PA-to-sign-trilateral-water-swap-sales-agreements-334505>

<sup>21</sup> <http://waj.gov.jo/sites/ar-jo/Lists/List6/DispForm.aspx?ID=233>

<sup>22</sup> Al- Quds Al-Arabi Newspaper quoted Hazem Naser, Jordanian Minister of Water and Irrigation, as saying that the cost of desalination will be less than 0.5 dinars per cubic meter of potable water. Al-Quds Al-Arabi, January 7, 2014 <http://www.alquds.co.uk/?p=120779>

<sup>23</sup> For further information on the amount of water the Palestinians purchase from Israel and the problems of pricing, see *The Economic and Social Monitor*, Issue 32. <http://www.mas.ps/2012/ar/node/560#.UtKUMfsSZIE>

political agenda." However, the World Bank's endeavor to placate environmentalists that the transfer of brine from the desalination plant in Aqaba to the Dead Sea will only seek to "examine the implications of mixing brine with the water of the Dead Sea"<sup>24</sup> only contributed to raising doubts that the current project is merely the bedrock for the Red-Dead Canal.

In sum, the picture is still blurred, and the Palestinian potential gains will depend on the price that must be agreed upon and on Palestinian rights in the waters and resources of the Dead Sea- two issues unfortunately not addressed by the memorandum of understanding.

## 4. The Banking Sector

In Q3 2013, the main items in the consolidated balance sheet for banks saw some changes compared to the second Q of the year. On the assets side, direct credit facilities increased by 3.4 percent; while the 'cash and precious metals' item rose remarkably by 38.3 percent. On the liabilities side, public deposits and equity grew by 4.5 percent and 2.6 percent, respectively. Table 4-1 summarizes the developments of the main

items in the consolidated balance sheet for banks operating in Palestine between 2012 Q3 and 2013 Q3.

### 1. Assets

The net assets of banks totaled USD 10,984.5 million end of 2013 Q3 (an increase of 4.8 percent over the previous quarter and 15.1 percent over the corresponding quarter of 2012). Below, we present the most important changes occurring on the assets side.

**Table 4-1: Consolidated balance sheet for licensed banks operating in Palestine**

Item	2012		2013		
	Q3	Q4	Q1	Q2	Q3
<b>Total assets</b>	<b>9,541.7</b>	<b>10,050.2</b>	<b>10,372.0</b>	<b>10,479.3</b>	<b>10,984.5</b>
Direct credit facilities	3,829.5	4,199.2	4,077.1	4,258.2	4,404.0
Deposits at Palestine Monetary Authority & Banks	3,390.9	3,675.2	3,882.1	3,723.5	3,718.4
- Deposits held by PMA	938.8	998.9	1,031.3	970.3	976.2
- Deposits held by Banks	294.6	372.6	368.3	350.7	348.6
- Banks' offshore deposits	2,157.5	2,303.7	2,482.5	2,402.5	2,393.6
Securities Portfolio	752.9	745.3	799.0	827.2	850.8
Cash and precious metals	778.7	731.1	830.3	868.2	1,200.3
Investments	153.4	148.6	150.1	146.8	148.5
Bankers' acceptances	4.8	5.3	5.6	5.7	4.9
Other assets	631.5	545.5	627.8	649.7	657.6
<b>Total liabilities</b>	<b>9,541.7</b>	<b>10,050.2</b>	<b>10,372.0</b>	<b>10,479.3</b>	<b>10,984.5</b>
Total deposits of the public	7,200.8	7,484.1	7,713.2	7,830.9	8,181.3
Proprietorship (equity)	1,240.0	1,257.5	1,297.4	1,276.4	1,309.0
Deposits of PMA and Banks	501.4	725.2	734.7	731.0	813.8
Other liabilities	139.8	139.2	156.5	169.8	207.8
Executed and existing bankers' acceptances	9.1	10.0	14.2	13.1	11.6
Allocations and depreciation	450.6	434.2	456.0	458.1	461.0

Source: PMA – The Consolidated Balance Sheet for Banks.

\* The items listed in the table above are aggregate (including allocations).

<sup>24</sup> Al-Quds Al-Arabi, January 7, 2014. <http://www.alquds.co.uk/?p=120779>

## ✧ Direct Credit Facilities

During Q3 2013, direct credit facilities totaled USD 4,404 million, making up 40.1 percent of the total assets. This is a growth of 3.4 percent over the previous quarter and 15 percent over the 2012 same quarter. The gain resulted particularly from an increase in direct credit facilities granted to the private and public sectors. Those granted to the resident private sector, for example, increased by USD 100.8 million (a growth of 3.5 percent over the second quarter of the year), the majority of which (USD 73.2 million) went to the West Bank, while Gaza's share was barely USD 27.6 million. The facilities provided to the public sector increased with a percentage similar to

that of the private sector, and with a value of USD 45.5 million over the previous quarter. In other words, 31.4 percent of the credit facilities during the quarter went to the public sector, 67.7 percent went to the resident private sector and around a scant 1 percent went to the non-resident private sector. These ratios almost represent the accumulated total credit facilities in Palestine.

By currency, Table 4-2 reveals that the USD continued to hold the highest share of credit facilities (55 percent), ahead of the Israel shekel (33 percent) and the Jordanian dinar (11 percent).

**Table 4-2: Distribution of direct credit facilities portfolio by Beneficiary, Type and Currency-**

	(USD millions)				
	2012		2013		
	Q3	Q4	Q1	Q2	Q3
<b>By Beneficiary</b>					
Public sector	1,115.8	1,407.4	1,243.6	1,337.2	1,382.7
Resident private sector	2,659.9	2,746.7	2,792.3	2,882.6	2,983.4
Non-Resident private sector	53.8	45.1	41.2	38.3	37.9
<b>By Type</b>					
Loans	2,829.2	2,950.3	2,914.1	2,975.0	3,118.8
Overdraft	990.2	1,238.1	1,151.5	1,270.8	1,272.0
Lease financing	10.1	10.8	11.5	12.4	13.2
<b>By Currency</b>					
USD US	2,280.4	2,255.1	2,221.5	2,288.0	2,426.1
JD	548.6	549.7	516.1	503.8	478.4
NIS	965.7	1,367.6	1,315.4	1,436.3	1,462.9
Other currencies	34.8	26.8	24.1	30.0	36.6
<b>Total</b>	<b>3,829.5</b>	<b>4,199.2</b>	<b>4,077.1</b>	<b>4,258.2</b>	<b>4,404.0</b>

Source: PMA - The Consolidated Balance Sheet for Banks

Various economic activities capitalized on these facilities, albeit to varying degrees. With USD 876 million, or 29 percent, consumer loans continued to hold the largest share of credit, up 5.3 percent from the previous quarter<sup>25</sup>. Real estate and construction sector came second, with 21.8 percent, while the trade sector (both foreign and domestic)

received 18.1 percent of the total facilities granted to the private sector (see Table 4-3).

During the current quarter, assets held by banks and the PMA amounted to USD 3,718.4 million, down by 0.1 percent from the previous quarter. This decline was due to a drop in deposits at banks abroad by 0.4 percent, in addition to a 0.6 percent decline in deposits at banks in Palestine.

<sup>25</sup> Consumer loans include all loans provided by banks to residents, with the exception of loans secured by a real estate, private vehicles loans, educational loans, or cash-secured loans. Consumer loans involve, but not limited to, loans granted to purchase household items and electrical appliances, as well as loans granted for the purposes of travel, tourism and medical expenses.

**Table 4-3: Shares of various economic sectors of the facilities granted to the private sector (%)**

Economic Sector	2012		2013		
	Q3	Q4	Q1	Q2	Q3
Real estate and construction	21.4	21.1	21.1	21.8	21.8
Land development	1.2	1.5	1.4	1.8	1.9
Mining and manufacturing	8.9	6.2	6.1	6.2	6.2
Internal and external trade	20.8	18.0	18.3	18.3	18.1
Agriculture and livestock	1.2	1.3	1.0	1.2	1.2
Tourism, hotels and restaurants	2.0	2.1	2.0	2.1	2.0
Transport and communications	0.8	0.8	0.8	0.9	0.8
Services	9.6	9.6	9.9	8.4	8.0
Financing investment in equity and financial instruments	2.4	2.2	2.2	1.8	1.9
Financing car purchase	4.3	4.1	4.2	4.2	4.2
Financing consumer commodities	20.2	28.0	28.1	28.5	29.0
Others in the private sector	7.1	5.1	4.9	4.8	4.9
<b>Total Facilities (USD millions)</b>	<b>2,713.7</b>	<b>2,791.8</b>	<b>2,833.6</b>	<b>2920.9</b>	<b>3021.3</b>

Source: PMA

#### ❖ Banks' Deposits at the PMA

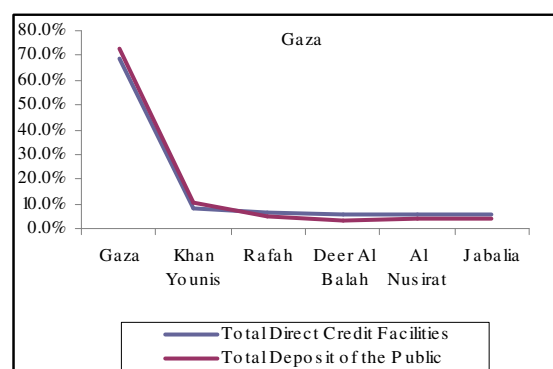
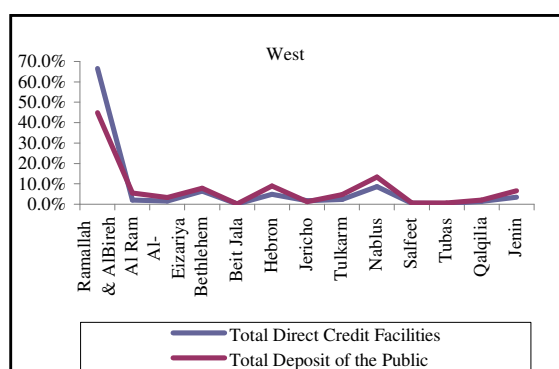
Assets of banks held by the PMA in 2013 Q3 totaled USD 976.2 million, a slight increase over 2012 Q2. However, the relative importance of these assets to total assets of banks fell from 9.3 percent to 8.9 percent during the comparison period. The assets took different forms, namely mandatory reserves (74.8 percent), current accounts (4.3 percent) and other accounts (20.9 percent).

#### 2. Liabilities

Deposits of the public at the end of Q3 2013 totaled USD 8,181.3 million, a growth of 4.5

percent over the previous quarter. The public deposits represented 74.5 percent of the total liabilities of banks, which is a drop of 0.2 percentage point from the previous quarter and one percentage point from the prior year's corresponding quarter. At the end of 2013 Q3, both the private and public sectors retained their previous shares of deposits, with the former claiming 91 percent (or USD 7,451.1 million) and the latter claiming 9 percent (or USD 730.2 million).

**Figure 4-1: WBSGS deposits and credit- by Governorate, as of end 2013 Q3.**



Source: PMA: Consolidated Balance Sheet for Banks



By region, the West Bank acquired about 89.7 percent of total public deposits, while Gaza' share was barely 10.3 percent. These figures suggest that Gaza's share is steadily declining, as demonstrated by the figures of the previous and corresponding quarters, where this share reached 10.6 percent and 11 percent, respectively. At the governorate level, Ramallah continued to acquire the biggest share, now with 45 percent of the West Bank's deposits. Nablus came second with 13.4 percent of total deposits in the West Bank. In the Strip, Gaza Governorate reported about 72.7 percent of the Strip's share of deposits. Figure 4-1 shows the distribution of deposits and credit by governorate in both the West

Bank and the Gaza Strip at the end of 2013 Q3.

Regarding type of deposits, quarterly data show that current (on-demand) deposits accounted for 41 percent of total public deposits. Saving deposits and time deposits represented 30 percent and 29 percent, respectively. By currency, with 42 percent, the US dollar retained its position as the leading currency of public deposits. The shares of the Israeli shekel and the Jordanian dinar were 28.6 percent and 25.3 percent, respectively. Other currencies (particularly the euro and the UK pound) accounted for 4.1 percent of total deposits (see Table 4-4).

**Table 4-4: Distribution of Public Deposits by Depositor, Type and Currency**

	(USD millions)				
	2012		2013		
	Q3	Q4	Q1	Q2	Q3
<b>By depositor</b>					
Public sector	566.4	620.2	691.4	651.6	730.2
Resident private sector	6,409.2	6,621.3	6,786.0	6,924.7	7,186.0
Non-resident private sector	225.2	242.6	235.8	254.6	265.1
<b>By type of deposit</b>					
Current deposit	2,894.8	2,984.4	3,121.0	3,163.1	3,317.1
Time deposit	2,167.6	2,234.9	2,258.9	2,276.2	2,380.9
Saving deposit	2,138.4	2,264.8	2,333.3	2,391.6	2,483.3
<b>By currency of deposit</b>					
USD	2,789.0	3,063.0	3,120.3	3,196.9	3,438.8
JD	1,781.4	1,740.4	1,838.9	1,898.6	2,067.7
NIS	2,306.3	2,323.6	2,353.4	2,384.4	2,342.6
Other currencies	324.1	357.1	400.6	351.0	332.2
<b>Total</b>	<b>7,200.8</b>	<b>7,484.1</b>	<b>7,713.2</b>	<b>7,830.9</b>	<b>8,181.3</b>

Source: PMA

PMA and banks assets in the month ending Q3 2013 saw a remarkable increase of 11.3 percent over the 2013 Q2. This improvement was a result of a 12.5 percent growth in PMA assets (to USD 192.2 million) and a 24.3 percent rise in overseas assets of banks (to USD 299.1 million).

#### **4.1 Banking System Performance Indicators**

The general indicators for the performance of banks operating in Palestine reveal some changes in Q3 2013. The ratio of foreign investments to total deposits slipped from 37 percent in 2013 Q2 to 35.7 percent in Q3 of

the year. The bulk of these investments (roughly 74.5 percent) was in the form of banks overseas assets. Likewise, the credit facilities- to-total assets ratio (which reflects the overall ability of banks to cope with risks) fell to 40.1 percent during the comparison period (see Table 4-5), so did the equity-to-assets ratio, which dipped to 11.9 percent, down from 12.2 percent in the previous quarter and 13 percent in the corresponding quarter of 2012, largely due to a steady growth in total assets. Similarly, credit facilities-to-public deposits ratio declined to 53.8 percent, down from 54.4 percent at the end of 2013 Q2, suggesting that deposits were growing faster than credit facilities.

Besides, the ratio of nonperforming credit facilities to the total facilities was 3.9 percent in 2013, down from 4.2 percent in Q2 of the year, signaling a slight improvement in the

quality of the credit portfolio, which, in turn, reinforced the financial position of the banks and enhanced their profitability.

**Table 4-5: Banking System Performance Indicators**

Indicator	2012		2013		
	Q3	Q4	Q1	Q2	Q3
Equity / total assets	13.0	12.5	12.5	12.2	11.9
Total credits / total assets	40.1	41.8	39.3	40.6	40.1
Interest income / total revenue	71.7	74.3	74.8	76.7	74.8
Credit facilities/ public deposits	53.2	56.1	52.9	54.4	53.8
Credit facilities of the private sector / private sector deposits	40.9	40.7	40.4	40.7	40.5
Foreign investments / total deposits*	37.5	36.8	37.8	37.0	35.7
Customer deposits / net assets	77.5	76.4	76.3	76.6	76.3
nonperforming credit facilities/ total facilities	4.6	4.1	4.4	4.2	3.9

Source: PMA

\* Foreign investments include banks overseas deposits, investments in investment instruments and facilities granted to clientele outside Palestine. On the other hand, total deposits = public deposits + bank deposits (PMA deposits + bank deposits).

#### ❖ Profits of banks operating in Palestine

The net profits of banks operating in Palestine at the end of 2013 Q3 totaled about USD 40.2 million, up from USD 32.4 million in the previous quarter (a growth of 24 percent) and from USD 29.7 million in the corresponding quarter of 2012 (a growth of 35 percent). The gain was stimulated by an increase in revenues and a decline of expenses. The cumulative

bank profits in the first three quarters of 2013 totaled USD 112.5 million, compared with USD 91.1 million in the corresponding period a year ago. Table 4-6 shows sources of revenue, expenses and net profits of banks during the second half of 2012 and the first three Qs of 2013.

**Table 4-6: Sources of revenue, expenses and net income of banks**

	2012		2013		
	Q3	Q4	Q1	Q2	Q3
<b>Net revenues</b>	<b>107.2</b>	<b>105.8</b>	<b>109.2</b>	<b>113.3</b>	<b>116.9</b>
Interest	76.9	78.6	81.7	86.9	87.5
Commissions	18.8	17.8	18.2	19.3	20.5
Debt securities & investment	3.0	2.9	0.73	-0.21	1.4
Operations of evaluating and exchanging foreign currency	6.7	7.0	7.3	6.2	6.2
Hedging and trading (derivatives)	0.4	0.1	0.13	0.07	0.08
Other operating revenue	1.4	0.6-	1.2	1.1	1.2
<b>Expenses</b>	<b>77.5</b>	<b>73.4</b>	<b>69.3</b>	<b>80.9</b>	<b>76.7</b>
Operating expenses	56.7	58.7	57.2	60.8	63.8
Allocations	8.7	0.3	1.4	4.5	1.7
Tax	12.1	14.4	10.7	15.6	11.2
<b>Net income</b>	<b>29.7</b>	<b>32.4</b>	<b>39.9</b>	<b>32.4</b>	<b>40.2</b>

Source: PMA

## 2. Average interest rates on deposits and loans

percent, while interest rates for JD loans remained constant at 9.5 percent (See Table 4-7). These figures reveal a wide gap between deposits and loans interest rates. They also demonstrate that the NIS interest rates (both deposits and loans) are by far higher than the JD and the USD interest rates. This is specifically a result of two factors: first, the JD value is fixed against the USD; and second, lending in NIS is associated with high risk.

At the end of 2013 Q3, interest rates saw some changes compared to 2012 Q2. The rates for JD deposits dropped from 2.4 percent to 2.1 percent; and those for the USD deposits fell from 0.8 percent to 0.5 percent, while interest rates for NIS deposits remained unchanged (at 1.4 percent). At the same time, the interest rates for USD loans decreased from 7.9 percent to 7.7 percent, and those for the NIS loans declined from 11.5 percent to 11.2

**Table 4-7: Weighted average interest rates for deposits and loans**

Period	JD		USD		NIS		
	Deposits	loans	Deposits	Loans	Deposits	Loans	
2012	Q1	1.5	7.7	0.4	7.1	1.0	11.5
	Q2	1.7	7.7	0.5	7.0	1.3	11.3
	Q3	1.6	7.6	0.4	6.4	1.2	11.1
	Q4	2.0	9.4	0.5	7.4	1.4	11.3
<b>Average</b>	<b>1.7</b>	<b>8.1</b>	<b>0.5</b>	<b>7.0</b>	<b>1.2</b>	<b>11.3</b>	
2013	Q1	1.7	8.7	0.5	7.3	1.1	11.7
	Q2	2.4	9.5	0.8	7.9	1.4	11.5
	Q3	2.1	9.5	0.5	7.7	1.4	11.2

Source: Quarterly Statistical Bulletin – PMA

## 4.3 Check Clearing

Data from the Palestine Monetary Authority clearance houses in both Ramallah and Gaza indicate that 2013 Q3 saw a change in the number and value of checks presented for clearing. About 1,093,428 checks (with a value of USD 2,698 million) were presented for clearing, a growth of 1.7 percent over the previous quarter. However, the value of these

checks was 0.3 percent less than in the previous quarter.

Compared to the 2012 corresponding quarter, the number of checks presented for clearing increased by 0.8 percent, while their value was 17.4 percent higher.

**Table 4-8: Number and value of checks presented for clearing & number and value of checks returned**

Quarter	Checks presented for clearing		Checks returned		
	No. (checks)	Value (USD millions)	No. (checks)	Value (USD millions)	
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
	Q4	1,137,567	2357.5	161,597	177.5
<b>Total</b>	<b>4,287,605</b>	<b>9,629.6</b>	<b>519,074</b>	<b>677.2</b>	
2013	Q1	1,021,161	2,326.7	139,098	164.4
	Q2	1,075,125	2,705.5	111,954	159.3
	Q3	1,093,428	2,698.0	112,562	161.3
<b>Total</b>	<b>3,189,714</b>	<b>7,730.2</b>	<b>363,614</b>	<b>485.0</b>	

Source: PMA, Monthly Statistical Bulletin

Returned checks increased in volume by 0.5 percent, but decreased in value by 1.2 percent compared with 2013 Q2. Compared to the 2012 corresponding quarter, their volume fell by 11.5 percent, while their value rose by 2.2 percent (see Table 4-8).

#### 4.4 Banking Penetration

At the end of Q3 2013, there were a total of 17 banks operating in Palestine (7 local and 10

foreign). A foreign bank opened a new branch, bringing the total number of branches/offices of foreign banks to 123. Meanwhile, the number of branches/offices of local banks was 123– the same figure reported in the previous quarter. In 2013 Q3, banks operated 482 ATM machines, up by 12 ATMs from the previous quarter. In parallel, the number of ATM cards increased by 7.1 percent compared with the previous quarter (See Table 4-9).

**Table 4-9: Banking Penetration in Palestine- as of September 30, 2013**

Item	Local banks	Foreign banks	Total
Number of banks	7	10	17
Number of bank branches and offices	123	112	235
Number of ATMs	263	219	482
Number of ATM cards	114008	32563	146571
Number of credit cards	26138	36874	63012
Number of debt cards	144990	232253	377243

Source: PMA

#### 4.5 Specialized lending institutions<sup>26</sup>

Specialized lending institutions operate through a network of branches and offices that totaled 57 end of 2013 Q3, with 523 employees serving 56953 clients, with females claiming 57 percent of clientele. The loan portfolio end of the quarter amounted to USD 91.3 million (68 percent in the West Bank and 32 percent in the Gaza Strip), a growth of 4.7 percent over 2013 Q2.

The average value of loans provided by these institutions was USD 1704 per loan. These credits were distributed with approximate shares between different economic sectors: the trade sector (23.1 percent), the housing sector (21.4 percent), the agriculture sector (16.9 percent), the services sector (16.4 percent), the production sector (12 percent) and the consumption sector (10 percent).

##### **Palestine Stock Exchange**

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

- ✧ Financial market indicators:
  - Market capitalization<sup>27</sup>: The share of market capitalization on the Palestine

Stock Exchange in 2012 was 28 percent, roughly the same share reported in 2011.

- Number of listed companies: The number of companies listed on the Palestine Stock Exchange at the end of Q3 2013 was 49 (9 companies working in banking and financial services; 12 manufacturing companies; 7 insurance companies; 8 investment companies; and 13 companies working in the services sector).

##### ✧ Liquidity Indicators

- Ratio of traded shares to GDP: In 2013 Q3, this ratio was only 2 percent, down from 3 percent in the previous quarter.
- Turnover<sup>28</sup>: In Q3 2013, turnover totaled 2.3 percent, down from 2.9 percent in the previous quarter. At the sectoral level, the turnover of the investment sector was 5.1 percent; the banking and financial services sector 2.9 percent; the manufacturing sector 1.8 percent; the insurance sector 1.6 percent; and the services sector 1.3 percent.

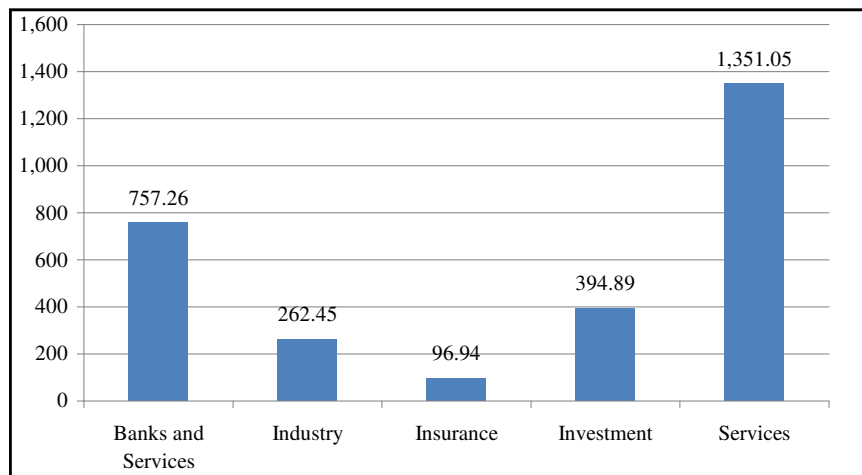
<sup>26</sup> Data particularly cover six lending institutions: ASALA, ACAD, FATEN, UNRWA, REEF and CHF.

<sup>27</sup> 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.

- Degree of Concentration<sup>29</sup>: About 74 percent of the total value of shares traded in Q3 2013 was held by the largest five companies on the Palestine Stock Exchange, namely Palestine Development and Investment (25 percent); Palestinian Telecommunications Group (20 percent); Bank of Palestine (16 percent); Palestine Islamic Bank (8 percent) and Birzeit Pharmaceutical Company (4 percent).

The market value of shares of companies listed on the Palestine Stock Exchange at the end of Q3 2013 amounted to USD 2.9 billion, up from USD 2.8 billion in the previous quarter. By sector, services retained their largest share of the total market value (47 percent). The banking and financial services sector came second, with 26 percent of total value (see Figure 4-2).

**Figure 4-2: Value of shares listed on PSE by Sector– Q3, 2013**  
(USD millions)

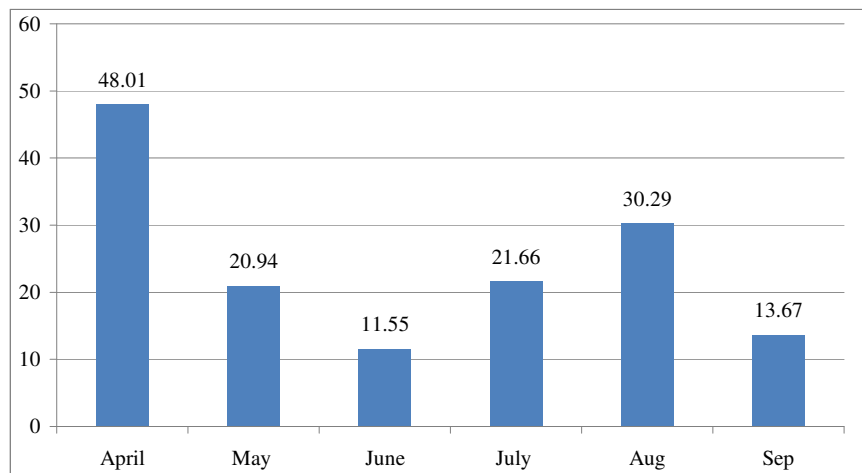


Source: Palestine Stock Exchange [www.pse.com](http://www.pse.com)

The number of shares traded on the Palestine Stock Exchange in 2013 Q2 totaled 43.9 million, a slight increase over the previous quarter's figure (43.7 million). Meanwhile, the

value of shares traded reached only USD 65.6 million, slipping by 18 percent from the previous quarter (see Figure 4-3).

**Figure 4-3: Value of shares traded on PSE, Qs 2 and 3, 2013**  
(USD millions)



Source: Palestine Stock Exchange [www.pse.com](http://www.pse.com)

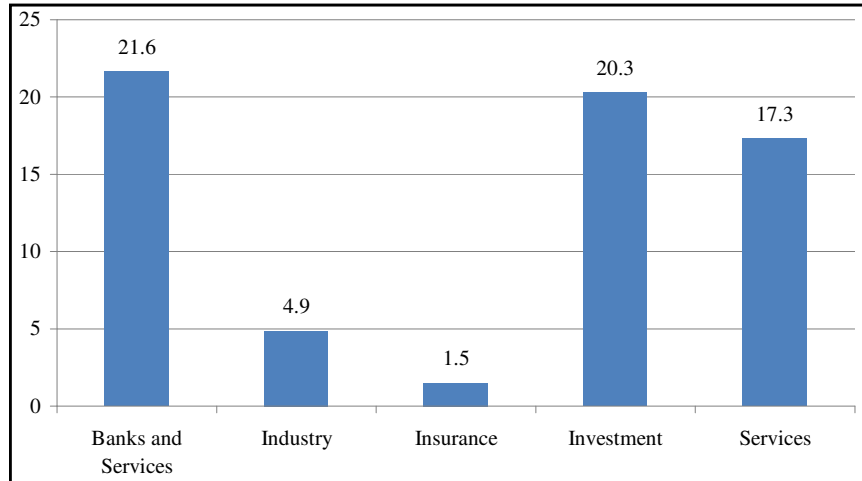
<sup>28</sup> This indicator calculates the volume or value of shares traded on a stock exchange during a day, month or year.

<sup>29</sup> This indicator is used to measure the influence of some large companies on changes in 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.

Of the total value of shares traded in Q3 2013, the banking and financial services sector had the largest share (with 33 percent), while the

investment and services sector lagged behind with 31 percent and 26 percent, respectively (see Figure 4-4).

**Figure 4-4: Value of shares traded on PSE, by sector - Q3 2013**  
(USD millions)



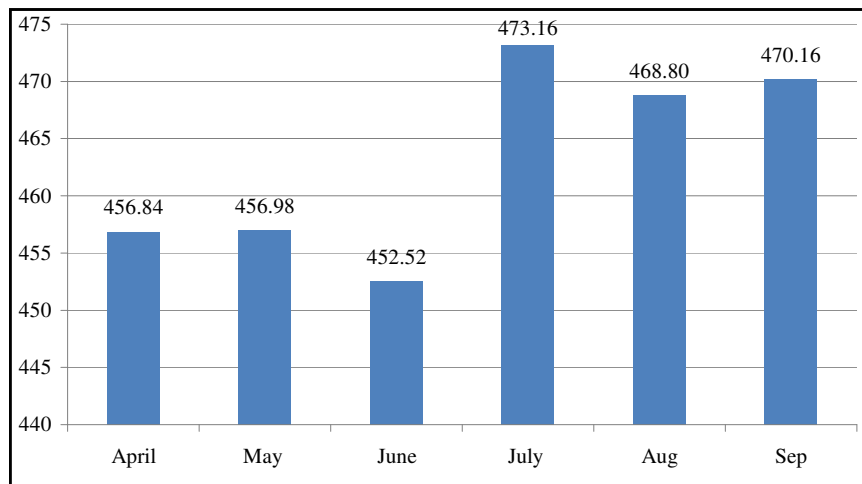
Source: Palestine Stock Exchange [www.pse.com](http://www.pse.com)

#### Al-Quds Index

At the end of Q3 2013, Al Quds Index closed at 470.16 points, gaining 17.64 points over the

previous quarter and 24.4 points over the 2012 corresponding quarter (see Figure 4-5).

**Figure 4-5: Al-Quds Index– Qs 2 & 3, 2013**



Source: Palestine Stock Exchange [www.pse.com](http://www.pse.com)

### **Textbox 6: Palestine's formal sector wages are on par with informal sector wages!**

MAS has recently published a study on the Palestinian informal sector<sup>30</sup>. The study particularly aimed at updating the data provided by a previous study also carried out by MAS in 2004<sup>31</sup>, as well as exploring the sector's socio-economic characteristics and comparing them with those of the formal sector.

Generally speaking, the informal sector plays a significant role in the economies of developing countries. Depending on the definition adopted, the informal sector's production in these countries is immense, ranging from 50 to 80 percent. However, economists still have conflicting views of whether this sector is beneficial or detrimental to the economies. Some believe the informal sector is highly resilient and capable of creating jobs, thus reducing unemployment rates. Others, however, believe that it creates development problems (basically arising from tax evasion and low productivity) and hinders the application of socioeconomic regulations set by the state.

The study defines an informal business as that part of an economy that produces commercially (i.e., producing and selling all or part of its products and services in the market) but without being subject to taxation. The study's primary source of information is the 2008 'Survey of Households and Enterprises' conducted by the Palestinian Central Bureau of Statistics.

#### **An overview of the Palestinian informal sector**

In 2008, Palestinian informal businesses (as defined above) totaled 62.5 thousand (representing 50 percent of the total number of businesses) with a workforce of 152 thousand people (or about 36.5 percent of the total workers in the private sector), with unpaid family members constituting approximately two-thirds of these employees. Females comprised 40 percent of total informal workers. The largest share of informal enterprises (40 percent) works in trade, hotels and restaurants— paradoxically the same activities that obtained the biggest share (46 percent) in the formal sector. Yet, while some 23 percent of the informal sector enterprises work in agriculture and fishing, only 2 percent of formal enterprises work in these activities. Both the mining & manufacturing sector and construction sector have attracted quite few numbers of informal companies, with 14 percent and 10 percent, respectively.

Personnel information suggests that informal workers fall behind their formal counterparts in terms of education attainment. While less than 5 percent of formal workers are illiterate (or have only received less than elementary education), this percentage is by far higher among informal workers (21 percent). Strikingly though, the percentage of those with secondary or higher education among informal workers is 31 percent, which is a high proportion and somehow compares with the ratio among formal workers (45 percent).

The study aimed to assess the impact of workers characteristics on the decision of joining the formal sector versus the informal sector. The results suggest that the level of education attainment plays a crucial role in taking such a decision. That is to say, those with elementary school or below are 40 percent more likely to work in the informal sector compared to those with more years of schooling. The study also found a significant gender impact (though not as significant as education impact) where males are more likely than females to join the informal sector. Other characteristics, such as the worker's age or place of residence (city, village or camp) have little significance.

#### **Wage Differential**

The study found that informal workers receive, on average, a wage (NIS 60 a day) that is 27 percent less than that received by formal workers. However, this gap is almost entirely due to differences in the characteristics and qualifications of workers in the two sectors. These characteristics particularly include sex, age, level of education, place of residence, nature of economic activity, type of occupation and work place (wage differences between governorates). Put differently, when characteristics of workers are taken into consideration, there is little difference between the wages in the two sectors. This is peculiarly interesting given the substantial differences between formal and informal sectors in all countries.

A report by the World Bank found that the wage gap between formal versus informal workers with identical qualifications is 50 percent in Morocco (for people aged 15-34 years), 30 percent in Egypt and 10 percent in Syria. It is likely that the peculiar findings of MAS' study resulted from the broad definition of the informal sector in the Palestinian territory. It is also likely that the indirect benefits of the formal sector (such as health insurance and retirement) have not been taken into consideration. We should also bear in mind that the strong influence of the Israeli labor market has yielded in the Palestinian market trends completely different from those found in the economies of developing countries. These results, coupled with multiple interpretations, require further research into the informal sector and its role in the Palestinian economy.

<sup>30</sup> Belal Al-Falah (2014): The Informal Sector in the Palestinian Territory. Palestine Economic Policy Research Institute (MAS).

<sup>31</sup> Malki, M. et al (2004). Social and Economic Characteristics of the Informal Sector in the West Bank and the Gaza strip. Palestine Economic Policy Research Institute (MAS).

## 5. Investment Indicators

### 5.1 Company Registration

The Ministry of National Economy registers companies in Palestine under two different laws in effect in the West Bank and the Gaza Strip<sup>32</sup>. This issue of the *Monitor* reviews the new companies registered in Q3 2013 in the West Bank only because data on the registration of companies in the Gaza Strip are not available to the Ministry of Economy in Ramallah.

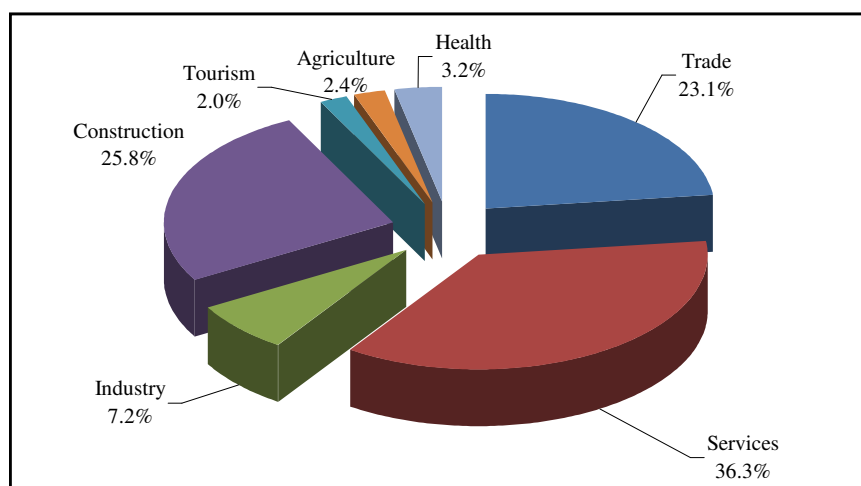
The number of registered companies in the West Bank in this quarter totaled 302, sinking by 92 from the previous quarter, but increasing by 17 over the 2012 corresponding quarter (see Table 5-1).

**Table 5-1: New companies registered in the West Bank (2008-2013)**

Quarter	2008	2009	2010	2011	2012	2013
1	247	454	334	389	319	272
2	334	412	428	373	278	317
3	315	349	164	287	228	302
4	287	438	290	337	245	
<b>Total</b>	<b>1,183</b>	<b>1,653</b>	<b>1,216</b>	<b>1,386</b>	<b>1,070</b>	

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2013.

**Figure 5-1: Percentage distribution of the capital of new companies registered in the West Bank- by Economic Activity, Q3 2013**



Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2013.

Newly-registered companies in the West Bank in Q3 2013 had a capital of JD 130 million<sup>33</sup>, which is an increase of 53 percent over the previous quarter. This growth is primarily due

to registering two large companies, namely PADICO Holding (with a capital of JD 70.6 million, or USD 100 million) and Deloitte Consulting (with a capital of JD 14 million, or

<sup>32</sup> 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.

<sup>33</sup> In Q3 2013, companies were registered in five currencies: the Jordanian Dinar, the U.S. Dollar, the Euro, the Russian Ruble and the Swedish Krona. The exchange rate was calculated according to the quarterly rate of the Jordanian dinar exchange rates against the U.S. Dollar, the Euro, the Russian Ruble and the Swedish Krona (with 0.7059, 0.9349, 0.0215 and 0.1077, respectively).



USD 20 million). With respect to the distribution of the capital by sector, data available show that with a share of 36 percent (JD 16.3 million), the services sector held the largest share of the capital of newly-registered companies. The construction sector ranked second with a share of 26 percent (JD 11.6 million). The trade and industry sectors came third and fourth, with 23 percent and 7 percent (JD 10.4 million and JD 3.3 million), respectively<sup>34</sup> (see Figure 5-1).

In terms of the legal form of companies registered in Q3 2013, data indicate that 108 companies were classified as public ordinary companies (accounting for 8 percent of newly-registered companies total capital), 180 were private joint stock companies (claiming 26 percent of newly-registered companies total capital), and 8 were foreign joint stock private companies (with 66 percent of total capital of the newly-registered companies). See Table 5-2.

**Table 5-2: Distribution of the value of capital of companies registered in the West Bank- by Legal Form Q1 2012 to Q3 2013**  
(JD millions)

Year	Legal Form				Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	
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
Q4 2012	12.115	28.233	0	17.628	57.976
<b>2012</b>	<b>56.490</b>	<b>96.365</b>	<b>5.000</b>	<b>477.988</b>	<b>635.842</b>
Q1 2013	13.936	16.346	0	14.346	44.347
Q2 2013	15.370	33.357	0	18.730	67.457
<b>Q3 2013</b>	<b>10.220</b>	<b>33.430</b>	<b>0</b>	<b>86.059</b>	<b>129.708</b>

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2013.

## 5.2 Building Licenses

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 (during winter). In general, the number of licenses issued in Palestine does not include all building activities in the construction sector, as a relatively large part of the construction activities, especially in rural areas, is not registered or licensed.

Building license data show a decline of 11.3 percent in the number of building permits during Q3 2013 compared to the previous quarter (down from 2501 to 2219) and a growth of 24.8 percent over the previous year's corresponding quarter.

Quarterly data also show that building areas licensed in 2013 Q3 saw a growth of 29.9 percent over the 2012 corresponding quarter (see Table 5-3).

<sup>34</sup> Capital figures of both PADICO Holding and Deloitte Consulting were excluded from the analysis of the distribution of capital by economic sectors owing to the huge size of their capitals (constituting about 65 percent of the total capital of companies registered in 2013 Q3).

**Table 5-3: Building licenses issued in Palestine: 2012-2013**  
(area in 1000 sq m)

Indicator	2012					2013		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
<b>Total licenses issued</b>	2,172	2,190	1,778	2,099	8,239	2,281	2,501	2,219
Residential buildings	1,904	1,930	1,624	1,860	7,318	2,053	2,282	2,026
Non-residential buildings	268	260	154	239	921	228	219	193
<b>Total licensed areas</b>	976.8	870.1	805.9	1,125.5	3,778.3	1,001.0	1,081.6	1,047.1
No. of new units	3,317	3,006	3,107	3,673	13,103	3,173	3,540	3,926
Area of new units	618.2	518.6	529.6	636.5	2,302.9	541.4	593.5	675.3
No. of existing units	526	643	541	623	2,333	1,035	829	656
Area of existing units	109.0	106.3	92.7	112.5	420.5	171.8	144.9	106.2

Source: Palestinian Central Bureau of Statistics (2013): Building Licenses Statistics, Ramallah - Palestine.

### 5.3 Cement Import

During this quarter, the quantity of cement imported into Palestine dropped by 16.4 percent from the previous quarter, but rose by 11.5 percent over the corresponding quarter of 2012. This year-over-year change was driven

by a 12 percent growth in the quantities imported into the West Bank and a decline of 0.8 percent in quantities allowed into Gaza (see Table 5-4).

**Table 5-4: West Bank and Gaza Imports of Cement: 2012-2013 (in thousand tons)**

Indicator	2012				2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
West Bank	254.3	341.9	292.4	328.3	246.3	393.4	327.5
Gaza	12.6	13.5	13.1	9.4	13.1	13.8	13.0
Palestine	266.9	355.4	305.5	337.7	259.4	407.2	340.5

Source: Palestinian Central Bureau of Statistics: Administrative Records, 2013. Ramallah, Palestine.

### 5.4 Vehicle Registration

This section tallies the number of new or used vehicles registered for the first time in the West Bank and imported from Israel and abroad. Vehicle registration 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. Since vehicles are expensive and because they are often purchased through borrowing from banks, improvement in this indicator reflects the confidence of both people and banks in the sustainability of employment and the ability of debtors to pay obligations.

During Q3 2013, 4000 new and used vehicles were registered in the West Bank, up by 3 percent from the previous quarter and by 22 percent from the same quarter a year earlier. About 51 percent of vehicles registered in the West Bank during this quarter were used vehicles imported from abroad, while 37 percent were new cars imported from abroad, and the rest (12 percent) were used cars purchased from the Israeli market (see Table 5-5).

**Table 5-5: New and used vehicles newly registered in the West Bank**

	Vehicles from international market (new)	Vehicles from international market (used)	Vehicles from the Israeli market (used)	Total
Q3/2012	1,182	1,440	661	3,283
Q2/2013	1,311	1,928	644	3,883
July	470	681	171	1,322
August	524	692	128	1,344
September	488	680	166	1,334
Q3/2013	1,482	2,053	465	4,000

Source: Department of Customs and Excise, unpublished data.

## 5.5 Hotel Activity

The total number of hotels operating in the West Bank rose to 111 end of Q3 2013, up from 107 during the previous quarter. In Q3 2013, hotel guests totaled 135,808 (a decline

of 11.3 percent from the previous quarter and 7.4 percent from the corresponding quarter of 2012). These guests lodged 321,264 nights in the West Bank's hotels (see Table 5-6).

**Table 5-6: Key Hotel Indicators in the West Bank, 2011-2013**

Indicator	2011	2012					2013		
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
No. of operating hotels	91	90	86	92	98	98	101	107	111
Average no. of employees	2,091	2334	2,471	2,446	2,476	2,449	2,635	2,793	2,794
No. of guests	507,372	117,470	159,254	146,612	152,159	575,495	120,441	153,085	135,808
No. of nights stayed	1,245,509	292,684	371,563	310,327	362,286	1,336,860	279,591	376,848	321,264
Average room occupancy	1417.1	1,167.8	1,655.0	1,487.6	1,519.7	1,513.7	1,212.0	1,539.2	1,374.1
Average bed occupancy	3412.4	3,152.1	4,087.3	3,369.2	3,937.9	3,652.6	3,106.6	4,141.2	3,492.0
Room occupancy %	28.4	23.1	34.2	28.3	28.2	29.1	22.0	26.2	22.9
Bed occupancy %	31.9	27.7	36.7	27.8	31.9	30.7	24.6	30.7	25.5

Source: PCBS, 2013: Hotel Activity in the oPt– Ramallah, Palestine.

### Textbox 7: Gaza Electricity, Chronic Insufficiency and Periodical Acute Crises

Power crisis blew the Gaza Strip again in early October 2013, resulting in serious flaws that menaced the health, education and daily life of the population. The spate of cold weather and heavy rain in December only exacerbated the crisis. The resulting disrupted drainage drowned several neighborhoods in bilge water.

Gaza's electricity crisis is inveterate and is largely an outcome of structural distortions (poor local distribution networks and serious shortage in power production, partly due to the damages Gaza Power Plant sustained in the 2008 war). The crisis is further intensified by some political reasons (the Israeli blockade, strained relations with Egypt and entrenched conflict between the Palestinian National Authority and Gaza's deposed government), commercial reasons (the nature of the contractual agreement between Palestinian Energy Authority and the company holding and running Gaza's Power Plant) and economic reasons (inefficiency of bill collection and fiscal deficits that have left Palestinians unable to pay their energy dues).

#### Sources of Gaza's Electric Power

The Gaza Strip receives electricity from three sources<sup>35</sup>:

First: The Strip imports electricity from Israel through 10 lines producing a total of 120 MW of power. This source provides about 57 percent of the total energy available in the Strip (approximately 212 MW). Israel

<sup>35</sup> See Palestinian Energy Authority website [http://www.penra.gov.ps/index.php?option=com\\_content&view=article&id=759:2012-11-14-09-22-07&catid=27:2012-11-14-08-37-30&Itemid=61](http://www.penra.gov.ps/index.php?option=com_content&view=article&id=759:2012-11-14-09-22-07&catid=27:2012-11-14-08-37-30&Itemid=61)

deducts Gaza's electricity dues from the clearance revenues it collects on behalf of the Palestinian Authority. According to the Ministry of Finance in Ramallah, Gaza's monthly electricity bill is somewhere between NIS 30 and 40 million<sup>36</sup>.

Second: The Strip imports electricity from Egypt through 2 main lines producing about 25 MW. The lines provide nearly 10 percent of the total energy available in Gaza with a monthly cost of NIS 5 million deducted from Egypt's yearly financial aid to the Palestinian Authority through the League of Arab States<sup>37</sup>.

Third: Gaza Power Plant produces, under normal circumstances, 65 MW, or 30 percent of the total power available in Gaza. Technically speaking, GPP can produce up to 140 MW; yet it has never reached its full capacity, even when fuel oil (necessary for its operation) is available.

These figures suggest that under normal conditions, the Strip avails only 210 MW versus a current actual need of 350-450 MW and a future need of 600 MW once the blockade Israel is placing on the Gaza Strip is lifted, thus yielding economic rebound<sup>38</sup>.

### **GPP recurring crises**

Since GPP establishment in 2003, the Palestinian Authority has pledged to pay Israel the costs of 300 thousand liters per day needed to run the plant. The PA could afford such costs in spite of poor collection of electricity bills from Gaza's citizens. As the PA's financial crisis heightened, the European Union started from the second half of 2006 to pay the bill of fuel needed to run the plant. However, a scant year after Hamas took over the Strip, the European Union stopped its aid. This of course led to a significant decline in the production of the plant, triggering a power crisis and shortage in electricity supply. Responding to the PA's appeals, the European Union pledged again to finance the diesel import, only to completely stop that in November 2009.

In the subsequent period, there had been several attempts to settle the disputes between the Energy Authority in Ramallah (represented by the Palestinian Authority) and GPP (represented by the deposed government). Among these attempts was an agreement concluded in April 2011 to the effect that Gaza Electricity Distribution Corporation transfers to the PA treasury in Ramallah a monthly sum of USD 4 million collected from consumers, so that the PA can pay for the fuel purchased from Israel. This worked well for a couple of months. However, the implementation of these understandings stopped after a while, perhaps owing to the availability of fuel smuggled through tunnels from Egypt at a price much lower than the price of fuel imported from Israel<sup>39</sup>.

Later, the Energy Authority in Ramallah and its counterpart in Gaza reached an agreement which stated that the treasury in Ramallah shall bear part of the cost of GPP imported fuel from Israel. The agreement also provided that GPP imported fuel is exempted from tax levied on oil derivatives (which is NIS 3 per liter). This tax is added to the prime cost including value-added tax (NIS 4.26), resulting in NIS 7.26 per liter. The agreement also stated that GPP shall pay NIS 4.26 per liter (two-thirds of the price)<sup>40</sup>. Thanks to this agreement, the Israeli company resumed its fuel supplies and the PA committed itself to paying the bill. However, following the persistent financial crunch, the PA reneged on the agreement, and accordingly declared that it would reduce the value of the tax break on fuel from 100 percent to 50 percent, which would in turn bring the price of one liter to NIS 5.76. The PA's decision was declined by Gaza's government, which at that time found the Egyptian diesel, rolling abundantly through the tunnels, more affordable at much lower prices<sup>41</sup>.

<sup>36</sup> Mr. Fouad Shobaki, director general of the General Directorate of Petroleum said (in a roundtable meeting held at MAS on November 25, 2013) that the amount is equivalent to NIS 50 million, and that the Palestinian Authority recovers only NIS 7 million deducted directly from the salaries of PA employees in Gaza.

<sup>37</sup> Phone call with Tariq Nabih, the Palestinian Energy Authority (January 15, 2014).

<sup>38</sup> <http://www.al-monitor.com/pulse/tr/contents/articles/originals/2013/11/gaza-electricity-crisis-sewage-power-israel-egypt.html>

<sup>39</sup> Fouad Shobaki (ibid). Some references say that the cost of producing 1 liter of diesel in the refinery is estimated at NIS 2.2, and that the difference between this price and the price of 1 liter of diesel in the Israeli market (roughly NIS 7.26) goes to taxes (See Omar Shaban in Shobaki, ibid).

<sup>40</sup> The Hamas Government in Gaza considers the matter from a different angle. It views the entire value of tax levied on oil derivatives (which the Palestinian Authority recovers through the clearance account) a right rather than a privilege. See <http://paltoday.ps/ar/post/182503/>

<sup>41</sup> For further details on the standpoint of the deposed government, see <http://paltoday.ps/ar/post/182503/>, and for further details on prices, see <http://www.al-monitor.com/pulse/tr/contents/articles/originals/2013/11/gaza-electricity-crisis-sewage-power-israel-egypt.htm>

### **Tentative Solutions**

One of the attempts meant to solve the GPP crisis was the Qatar Initiative at 2012 midyear. At that time, Qatar shipped about 22 million liters of fuel oil to Egypt, to be conveyed later to GPP. Yet, GPP received only 10 million liters, and the rest was not delivered due to technical issues and security concerns following the restrained relations between the Strip and Egypt<sup>42</sup>. Later Qatar made another initiative to alleviate the crisis triggered by the reduced opportunities of smuggling cheap Egyptian oil through tunnels, as well as the Israeli supply cutoff. The initiative included allocating USD 10 million to the Palestinian National Authority to pay the bill of fuel purchased from Israel to the GPP. This interim solution will enable the GPP to operate with less than half of its full capacity, and only for 90 days (starting from mid-December 2013)<sup>43</sup>.

The previous discussion suggests that the electricity crisis in the Gaza Strip is manifold and further complicated all the time. It is a result of intertwined technical, political, commercial and economic factors, and to tackle one factor (e.g. the price of fuel) will by no means render a satisfactory long-term (or even medium-term) solution.

### **Textbox 8: Palestine ranks 138th out of 189 countries on the Ease of Doing Business Index**

In late 2013, the World Bank released the 2014 'Ease of Doing Business' report that reviews the conditions of doing business in 189 countries around the world<sup>44</sup>. The first report was released in 2003, with only 133 participating countries. Palestine was listed on the Ease of Doing Business Index in 2006, and ranked 125<sup>th</sup> out of 155 countries in that year. In the 2014 report, Palestine jumped from the 145<sup>th</sup> to the 138<sup>th</sup> place.

This textbox examines the justifications for measuring the ease of doing business and illustrates the methodology used in classifying countries.

Governments around the world strive to stimulate the private sector investment in order to create jobs, enhance productivity and open new opportunities for the poor, so as to improve their living standards. To achieve this, governments implement different macro-economic policies (such as monetary and fiscal policies) which seek to influence interest rates, inflation rates, budget items and others. Though macro policies remain crucial to boosting the performance of the economy, there is a growing consensus that the quality of the procedural / regulatory environment and the effectiveness of the institutions responsible for implementing these regulations are important determinants of the private sector's entrepreneurship.

The Ease of Doing Business report is grounded in the conception that regulations defining property rights and facilitating the settlement of disputes are instrumental to economic activity, particularly the prosperity of the private sector. The legislative framework reinforces the uniformity of economic relations and protects contracting parties against abusive practices and violations of contractual obligations. The quality of the procedures and methods of implementing regulations have also a substantial impact on how benefits are distributed in the community, on the one hand, and how all citizens should bear the cost of development strategies and policies, on the other. As such, the top ranked countries are not those with legislation and government procedures, but those whose governments have managed to establish rules to facilitate market transactions, help the private sector flourish, prevent the spread of corruption, enhance transparency and create an effective competition environment.

#### **Methodology**

To measure the ease of doing business, the World Bank report has developed a questionnaire with ten key indicators related to regulatory procedures in every country. The indicators show the extent to which a country's regulatory environment influences the process of starting a business. The key indicators are: *Starting a Business*, *Dealing with Construction Permits*, *Getting Electricity*, *Registering Property*, *Getting Credit*, *Protecting Investors*, *Paying Taxes*, *Trading Across Borders*, *Enforcing Contracts*, and *Resolving Insolvency*. To measure these indicators, the report uses an averaging approach for weighting sub-indicators. For example, to measure the ease of *Starting a Business*, four sub-indicators are considered: the number of procedures required to register the business, the time (days), the cost (as a percentage of per capita GDP) and the paid-in minimum capital required (as a percentage of per capita GDP). The same applies to the other key indicators.

<sup>42</sup> <http://paltoday.ps/ar/post/182503/>

<sup>43</sup> <http://www.haaretz.com/news/middle-east/1.563655>

<sup>44</sup> <http://doingbusiness.org/reports/global-reports/doing-business-2014>

In constructing the indicators of the 'Ease of Doing Business', the report uses two types of data. First, it reviews laws and government procedures together with their interpretations. The World Bank team, in collaboration with local experts, examines labor laws, corporate laws, the civil law and other regulations governing economic activity. In fact, roughly three quarters of the data used in the report are of this type. Second, the team conducts field interactions with respondents who give estimates about the efficiency in achieving a regulatory goal, such as the number of procedures and the time taken to give a business a legal identity.

#### **How is the 'Ease of Doing Business' calculated?**

The 'Ease of Doing Business' report uses a simple averaging approach to calculate rankings. Under this approach, each component of the key indicators is assigned an equal weight. For example, when calculating the 'ease of starting a business' in Denmark, the report considers four sub-indicators: number of procedures (4), time needed to register a company (5.5 days), fees as a percentage of per capita GDP (0.2 percent), and the paid-in minimum capital as a percentage of per capita GDP (24 percent). These four indicators make Denmark stand at 12, 11, 1 and 79 positions. When taking the simple average of these four sub-indicators (25) and calculating the value of the average in other countries, we find that Denmark ranks 40 on the 'ease of starting a business'. This is also how the performance of Denmark is calculated for the other nine indicators. Later, the simple average for Denmark is calculated for the ten indicators combined (17), making Denmark stand at 5 in the overall ease of doing business ranking.

#### **Methodology Assumptions**

To make the data comparable across economies, the 'Ease of Doing Business' report, like any other measurement, uses several assumptions about the business and the procedures. These assumptions, however, may not be entirely realistic and thus they might confine the implications of scientific results. The key assumptions of the report are:

1. The subject business (which represents the general situation in the country) operates in the economy's largest business city (i.e. Ramallah in Palestine).
2. The business has a limited liability, which is the most popular form among firms.
3. The report does not measure the full range of factors and policies that affect the quality of the business environment in the country or its ability to compete at the national level. It does not, for example, cover security issues (the spread of corruption, bribery, macroeconomic stability conditions or occupation, in the case of Palestine).
4. Time estimates involve judgment/estimations of respondent experts, making the data subject to personal experiences.
5. The business has full information about the procedures and the requirements of time and cost, and that the business can acquire such information in a timely manner without exerting more efforts.

#### **An overview of the performance of Palestine**

Palestine ranked 138<sup>th</sup> on the 2014 'Ease of Doing Business Index'. According to the report, starting a business requires 9 procedures and 45 days at a cost of up to 85.5 percent of per capita GDP. Registering a property needs 8 procedures and 56 days at a cost of up to 3 percent of the value of the property. The issuance of a building permit requires 18 procedures performed in 87 days at a cost of up to about 1,034 percent of the per capita GDP. The import process needs 6 documents and 28 days, while the export process requires a similar number of documents and 23 days. Getting electricity requires 5 procedures and 63 days at a cost of up to 1,472 percent of per capita GDP.

Table 1 shows Palestine rankings on the 'Ease of Doing Business Index' in different years.

**Table 1: Palestine rankings on the 'Ease of Doing Business Index' (2010-2014)**

<b>Year</b>	<b>Palestine</b>	<b>No. of Countries</b>
2010	139	183
2011	128	183
2012	131	183
2013	<sup>45</sup> 145	185
2014	138	189

Source: 'Ease of Doing Business' Reports 2010-2014.

<http://doingbusiness.org/reports/global-reports/doing-business-2014>

<sup>45</sup> In the 2013 annual report, Palestine ranked 135. Later, however, the World Bank modified the data and accordingly gave Palestine the 145 position. For further details on the modified data, see <http://www.doingbusiness.org/data/exploreeconomies/west-bank-and-gaza#trading-across-borders>

The table reveals that Palestine's ranking is constantly moving up and down. This fluctuation, however, does not necessarily suggest an improvement or deterioration of Palestine's performance. The notion sometimes depends on external factors such as the advancement or regression of other countries, or an increase in the number of countries covered by the report.

Palestine jumped 7 positions forward in the 2014 report though it fell back in 5 indicators, namely Dealing with Construction Permits (-7), Getting Electricity (-3), Registering Property (-5), Getting Credit (-3) and Trading Across Borders (-7), with a total of 25-point decline. The decline of performance in these 5 indicators came as a result of other countries' remarkable headway rather than a real retreat in the performance of Palestine. In contrast, Palestine achieved remarkable progress (39 spots) on the 'Starting Business' indicator. The reason behind this improvement was the revocation of the paid-in minimum capital required for the registration of companies. Palestine also moved two positions ahead in terms of Paying Taxes. The indicators of Protecting Investors, Enforcing Contracts and Resolving Insolvency remained unchanged. For the Resolving Insolvency indicator, Palestine came at the bottom of the list, as regulatory procedures are not available.

Palestine's ranking lags behind the other MENA countries. On the 'Starting Business' indicator, for example, procedures take 45 days (compared to a regional average of 19.8 days) with a cost of 85.5 percent of per capita GDP (compared to a regional average of 28.9 percent). On the 'Trading Across Borders' indicator, Palestine stood at 123 places, compared to 57 for Jordan. It is worth noting that the 'Trading Across Borders' indicator is declining steadily since 2007, retreating from 65 in 2007 to 77 in 2008 to 85 in 2009 to 123 in 2014, probably due a constant rise in the costs of import and export.

To sum up, Palestine performs well in some important indicators such as paying taxes (62), protecting investors (80), getting electricity (87), and enforcing contracts (88). In contrast, the data show that Palestine comes at the bottom of the list for other indicators, particularly resolving insolvency (189), getting credit (165), and starting business (143), thus detrimentally impacting its overall ranking.

## 6. Prices and Purchasing Power

### 6.1 Consumer Prices

Indices of consumer prices in Q3 2013 grew by 0.93 percent from the previous quarter and by 1.44 percent from the corresponding quarter of 2012. 'Food and soft drinks' group had the

strongest influence on indices, rising by 1.05 percent from the previous quarter and by 0.12 percent compared to the previous year's corresponding quarter (see Table 6-1).

**Table 6-1: Average Change in CPI in Palestine- by Commodity Group**

Group	Change in Q3 2013 over Q2, 2013	Change in Q3 2013 over Q3 2012
Food stuff and soft drinks	1.05	0.12
Alcohol beverages and tobacco	4.00	13.78
Textiles, apparels, and footwear	(0.10)	(0.41)
Lodging and related supplies	0.90	3.13
Furniture & home appliances	(0.08)	1.70
Medical care	0.58	1.12
Transportation & travel	0.47	(1.09)
Telecommunications	0.06	(0.06)
Recreational & cultural goods & services	(0.04)	(0.97)
Educational Services	2.72	8.80
Restaurant, cafe, and hotel services	0.32	3.87
Miscellaneous goods and services	(0.25)	(2.02)
<b>General CPI</b>	<b>0.93</b>	<b>1.44</b>

Source: PCBS.

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

Table 6-2 outlines the movement of prices of some commodity groups in Palestine during 2013 Q3 compared to the previous quarter. Looking at some representative commodity groups in details, the prices of fresh fruit group rose by 4.15 percent. The price of lemons, in particular, posted a significant increase of 38.7 percent (the price of local lemons reached NIS 6.15 / 1 kg during July 2013). At the same time, prices of bananas soared by 23.25 percent (the price of Israeli bananas climbed to NS 4.87 / 1 kg during August 2013). Likewise, there was a 3.85 percent increase in the prices of fresh vegetables group. Particularly, the prices of zucchini jumped by 28.62 percent (the price of small-sized stuffing zucchini reached NIS 5.02 / 1 kg during September 2013). Similarly, car fuel prices posted a growth of 1.81 percent (the price of unleaded

Israeli gasoline 95 octane was NIS 7.46 / 1 liter during September 2013, while the price of Israeli diesel reached NIS 6.90 during the same month).

By contrast, the prices of the sugar group saw a decline of 2.64 percent (the price of white sugar (Crystal– UK) dropped to NIS 167.13 / 50 kg during September 2013). Likewise, prices of the flour group declined by 1.89 percent (the price of white flour (Haifa – Zero) fell to 163.38 shekels / 60 kg during September 2012). Meanwhile, rice prices witnessed a decline of 1.47 percent. In specific, the prices of short-grain rice dropped by 1.87 percent (the price of short-grain rice (Sun White – Australia) was NIS 105.28 / 25 kg during August 2013).

**Table 6-2: Price movement of main commodity groups in Palestine— Q3 2013**

Consumer Group	% Change in Q3 2013 over Q2 2013
Automobiles fuel	1.81
Domestic fuel	0.84
Fresh vegetables	3.85
Fresh meat	(0.06)
Sugar	(2.64)
Rice	(1.47)
Fresh chicken	(0.64)
Flour	(1.89)
Dairy products & eggs	(0.35)
Fresh fruit	4.15

Source: PCBS.

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

## 6.2 Producer Prices and Wholesale Prices

The Wholesale Price Index (the sale price to industry and commerce retailers or producers, including VAT and freight/shipping costs) grew by 1.5 percent during Q3 2013 compared to the previous quarter. This resulted from a 3.76 percent hike in the prices of agricultural commodities (which constitute 29 percent of the wholesale price index value), as well as a 0.59 percent rise in the prices of manufactured goods (which represent 70 percent of the wholesale price index value). On the other hand, prices of the fishing group declined by 2.37 percent, and those of mining and quarrying saw a 0.29 percent drop.

Meanwhile, the price index of locally produced goods rose by 2.53 percent, whereas the price index of imported goods rose only by 1.29 percent. Compared to the corresponding quarter of the previous year, the Wholesale Price Index saw a scant growth of 0.48 percent.

The Producer Price Index (prices received by domestic producers for their output after all taxes are deducted, including VAT and freight/shipping costs) posted a growth of 1.12 percent over the previous quarter. This gain occurred as a result of a 3.02 percent rise in



the prices of agricultural products (which represent 36 percent of the producer price basket), a 0.04 percent increase in the prices of manufactured goods (which constitute 61.66 percent of the producer price basket), as well as a 22.58 percent jump in the prices of fish and shrimp (which constitute 0.20 percent of the producer price basket). Meanwhile, prices of mining and quarrying (which account for 2.13 percent of the product price basket) declined by 0.80 percent. Whereas the Producer Price Index posted a 1.27 percent increase for locally produced goods, it declined by 0.30 percent for the exported goods.

### 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 2013, the West Bank Construction Cost Index (for residential and non-residential units) saw a slight decline of 0.01 percent from 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 0.35 percent 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**

Period	CRCI		Monthly Percentage Change		Quarterly Percentage Change	
	Construction cost	Road cost	Construction cost	Road cost	Construction cost	Road cost
	Base month: December 2007 = 100	Base month: December 2008 = 100				
April 2013	113.40	116.99	(0.25)	(0.26)		
May 2013	113.26	116.53	(0.13)	(0.40)		
June 2013	112.99	116.95	(0.24)	0.36		
<b>Q2 average</b>	<b>113.22</b>	<b>116.82</b>			<b>(0.06)</b>	<b>0.04</b>
July 2013	112.94	117.06	(0.04)	0.10		
August 2013	113.16	117.26	0.19	0.17		
September 2013	113.50	117.36	0.30	0.09		
<b>Q3 average</b>	<b>113.20</b>	<b>117.23</b>			<b>(0.01)</b>	<b>0.35</b>

Source: PCBS.

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

### 6.4 Prices and Purchasing Power<sup>46</sup>

As we noticed earlier, the consumer price index during 2013 Q3 grew by 0.93 percent over 2013 Q2. This was accompanied by a 1.3 percent decline in the exchange rate of the USD against the NIS (NIS 3.58 for 1 USD, according to the PMA), suggesting that the purchasing power of the USD fell by 2.2 percent from the previous quarter. This coincided with an equivalent decline in the purchasing power of the Jordanian dinar,

which has a fixed exchange rate against the USD. With regard to the change in the purchasing power of the two currencies in the 12 months separating 2012 Q3 and 2013 Q3, Table 4-6 demonstrates that it sank by 11.4 percent as a result of a 1.4 percent growth in the inflation rate and a 10 percent decrease in the exchange rate during the year. In other words, the purchasing power for individuals

<sup>46</sup> 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 directly dependent on the income of the consumer and the change in the rate of 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) plus (the rate of inflation).

who receive their wages and salaries in USD or JD fell by 11.4 percent during the year compared to a decline of 1.4 percent for those receiving their wages and salaries in NIS. This calculation is based on two assumptions: that

those receiving their salaries and wages in USD or JD have their entire spending only in the NIS; and that the nominal value of salaries and wages is constant.

**Table 6-4: % Change in Purchasing Power and Exchange Rates of USD and JD against NIS**

Period	Inflation rate*	USD / 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 (%)	
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
	Q4	0.46	3.85	(3.36)	(3.82)	5.42	(3.36)	(3.82)
2013	Q1	0.45	3.70	(3.67)	(4.12)	5.22	(3.68)	(4.12)
	Q2	(0.40)	3.63	(2.00)	(1.61)	5.12	(2.00)	(1.61)
	Q3	0.9	3.58	(1.3)	(2.2)	5.05	(1.3)	(2.2)
	July	0.2	3.61	(0.7)	(1.0)	5.09	(0.7)	(1.0)
	August	0.4	3.58	(0.8)	(1.2)	5.05	(0.8)	(1.1)
September	0.5	3.57	(0.2)	(0.6)	5.03	(0.4)	(0.9)	

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

\* Inflation rate represents the change in the NIS purchasing power.

### **Textbox 9: Survey of corruption and its spread in Palestine: 93 percent believe there is nepotism, but only 3 percent used it**

On December 9<sup>th</sup> 2013, which marked the International Anti- Corruption Day, PCBS made public the results of its survey of corruption in Palestine<sup>47</sup>. The survey involves two parts: a survey of households and individuals perceptions of the status and prevalence of corruption in Palestine, and a survey of public civil servants perceptions of the status and prevalence of corruption in Palestine.

#### *First: Survey of households and Individuals perceptions*

The survey sample comprised 2500 households (1580 from the West Bank and 920 from the Gaza Strip). The sample was a stratified random cluster involving three stages. Below are the key results of the survey:

- ✧ Thirty-two percent of Palestinian individuals (18 years and above) have exhaustively heard or read about anti-corruption. The majority of these said their knowledge of the subject matter and anti-corruption law came from hearing other people. Strikingly, what is tagged by most of respondents as 'corruption' is not corruption according to the legal definition of the term. For example, 95 percent of the respondents tagged as 'corruption' the failure of a private company to pay income tax or a debt evasion by a minister. Legally, these actions, however, cannot be classified under corruption.
- ✧ Ninety-three percent of respondents said nepotism and favoritism do exist in the public sector, and 86 percent believed they exist in the private and civil sectors, while 63 percent said they are found in the local government councils. This means that nepotism and favoritism, from the respondents' perspective, are the most prevalent forms of corruption in Palestine.
- ✧ Over 83 percent of respondents think that bribery exists in the public sector, and 73 percent believe it exists in the private and civil society sectors. However, the ratio drops to only 44 percent for local government councils.

Consistent with earlier studies, the PCBS survey found a wide gap between the perceptions of individuals about the existence of corruption in Palestine and their personal, first-hand experiences. For example, while

<sup>47</sup> <http://www.pcbs.gov.ps/site/512/default.aspx?tabID=512&lang=ar&ItemID=974&mid=3915&wversion=Staging>

93 percent of respondents said there is nepotism in the public sector, only 3 percent of them said they actually used it in conducting their business. Additionally, only 20 percent said they experienced or witnessed a corruption behavior during the past two years. Also, 23 percent of those working in the public sector said they used cronyism to get the job.

*Second: Survey of public civil servants perceptions*

The survey sample comprised 800 senior staff members (heads of departments and above) working in the PA ministries in the West Bank. Their responses were very much similar to those of the household survey in that nepotism and favoritism are the most prevalent forms of corruption. Eighty-seven percent of these respondents said nepotism and favoritism do exist in the public sector, but only 37 percent said their ministry's appointments were crony-based. While 62 percent of them said there is bribery in the public sector, only 11 percent said that nomination in their ministry is based on bribery. Again, these figures signal a wide gap between the perceptions of public servants about the existence of corruption in Palestine and their personal, first-hand experiences.

One of the most important findings, that might be promising and a reason for optimism, is that only 18 percent of public servants have experienced incidents of corruption during the past two years, and that nearly half of them (45 percent) have reported such incidences to concerned authorities.

## 7. Foreign Trade

### 7. 1. Balance of Trade

The balance of trade is an account of Palestine's registered exports and imports of goods and services<sup>48</sup>. The value of registered commodity imports during Q3 2013 totaled about USD 1,183.8 million, down by 0.4 percent from the previous quarter and by 3.7 percent from the corresponding quarter of 2012. On the other hand, the value of commodity exports totaled about USD 199 million— a drop of 8.3 percent from the previous quarter, but an increase of 6.8 percent over the 2012 corresponding quarter. Interestingly, the decline in the recorded commodity imports coincided with a rise in exports between the corresponding quarters. From an economic theory perspective, this inverse effect is predictable when the value of the currency increases, thus rising prices of

imports and improving the competitiveness of exports. However, attributing the change in the Palestinian trade balance to the NIS appreciation during the period may be hasty, as the bulk of the Palestinian foreign trade is in NIS, and with Israel. The phenomenon, thus, needs more scrutiny before giving generalizations.

On the other hand, the recorded service imports from Israel fell slightly to USD 38.3 million. Also, exports of services to Israel declined, resulting in a marginal deficit of USD 2.2 million, compared to a surplus of USD 10 million a year earlier. Indeed, the balance of trade in services with Israel had been around zero in the first three quarters of 2013.

**Table 7-1: Imports and Exports of Registered Goods and Services, 2011-2013**

(USD millions)

Indicator	2011**	Q1/2012	Q2/2012	Q3/2012	Q4/2012	2012 **	Q1/2013	Q2/2013	Q3/2013
Commodity imports	4,373.6	1,099.6	1,197.3	1,228.8	1,171.7	4,697.4	1,067.1	1,188.0	1,183.8
Service imports*	126.6	30.5	32.2	29.6	26.7	119.0	36.9	38.6	38.3
Commodity exports	745.7	188.2	192.4	186.5	215.3	782.4	195.8	217.1	199.1
Service exports*	159.0	35.6	41.7	39.2	41.3	157.8	34.8	39.1	36.1

Source: Registered Foreign Trade, PCBS (2014).

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

\*\* Data for 2011 and 2012 are revised.

<sup>48</sup> The values of exports and imports of goods cover only the recorded data obtained from official sources. The data do not certainly include all actual exports and imports. In addition, data of services cover exports and imports from and into Israel only. To account for these limitations, the term 'registered' is used in the balance of trade.

The previous figures demonstrate that the deficit in the commodity balance of trade reached USD 985 million in 2013 Q3, which is an increase of 1.5 percent over the previous quarter (USD 971 million). However, this deficit was 5.5 percent less than in 2012 Q3 (when it totaled USD 1.042 billion). Because the balance of trade in services with Israel is around zero, adding the services item does not yield a significant difference between the balance of trade and the commodity balance of trade during 2013 Q.

## 7.2 Balance of Payments

According to the PCBS and the PMA, the current account deficit (the balance of trade plus income generated from trade with international markets and offshore current transfers) totaled USD 299 million in Q3 2013 (representing about 9.8 percent of GDP at current prices in the same period), down by USD 296.8 million from the previous quarter and a quite larger figure compared to the corresponding quarter of 2012 (see Table 7-2).

This decline in the deficit was occasioned by a significant rise in net current transfers to the government (mostly aid), as well as an increase of USD 30 million in the balance of revenues (income generated mainly from Palestinian workers abroad and totaling USD 337.7 million).

The current account deficit was financed by the surplus in the capital and financial account, which made available an amount of USD 235.7 million. It is necessary to note that this item (the capital and financial account) represents a debt on the national economy as long as it has a positive value. Technically speaking, there should be a perfect balance between the current account deficit, on the one hand, and the surplus of capital and financial account, on the other. In other words, the net value of these two items must be zero. However, there is often a gap between them, usually tallied under 'errors and omissions', the value of which was USD 63.2 million in Q3 2013.

**Table 7-2: Palestinian Quarterly Balance of Payments, Updated Figures for 2011–2013**

(USD millions)

	2011	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013
<b>1. Trade balance of goods and services*</b>	<b>-4,729.5</b>	<b>-1,316.2</b>	<b>-1,270.7</b>	<b>-5,266.5</b>	<b>-1203.2</b>	<b>-1326.7</b>	<b>4.9413-</b>
- Net goods	<b>626.04-</b>	-1,232.0	-1,159.3	<b>-4,884.0</b>	<b>-1106.1</b>	<b>-1226.9</b>	<b>6.44-12</b>
- Net services	<b>-103.6</b>	-84.2	-111.4	<b>-382.5</b>	<b>-97.1</b>	<b>-99.8</b>	<b>100.3-</b>
<b>2. Balance of income</b>	<b>1,217.2</b>	<b>279.1</b>	<b>273.6</b>	<b>1,072.4</b>	<b>292.9</b>	<b>310.5</b>	<b>340.8</b>
- Workers' remunerations received from abroad	<b>1,258.9</b>	269.4	258.4	<b>1,051.2</b>	<b>292.5</b>	<b>306.7</b>	<b>337.7</b>
- Investment income received from abroad	<b>99.3</b>	32.1	29.8	<b>122.8</b>	<b>28.6</b>	<b>30.2</b>	<b>33.9</b>
- Income paid abroad	<b>140.9</b>	22.4	14.7	101.7	<b>28.6</b>	<b>26.4</b>	<b>30.8</b>
<b>3. Balance of current transfers</b>	<b>1,319.8</b>	<b>364.5</b>	<b>339.1</b>	<b>1,379.4</b>	<b>670.1</b>	<b>420.5</b>	<b>705.2</b>
- Net transfers to the government	<b>750.5</b>	129.2	69.2	520.2	<b>314.1</b>	<b>134.1</b>	<b>402.2</b>
- Net transfers to other sectors	<b>1,226.4</b>	308.8	323.2	1,129.4	<b>393.1</b>	<b>326.1</b>	<b>344.3</b>
- Transfers paid abroad	<b>657.1</b>	73.5	53.3	270.2	<b>37.1</b>	<b>39.7</b>	<b>41.3</b>
<b>4. Balance of current account (1 +2 +3)</b>	<b>-2,192.6</b>	<b>-672.6</b>	<b>-658.1</b>	<b>-2,814.8</b>	<b>-240.2</b>	<b>-595.7</b>	<b>298.9-</b>
<b>5. Net capital and financial account</b>	<b>2,155.7</b>	<b>614.1</b>	<b>633.9</b>	<b>2,832.0</b>	<b>191.9</b>	<b>646.8</b>	<b>235.7</b>
- Net capital transfers	<b>536.2</b>	81.4	65.1	297.9	<b>144.2</b>	<b>59.1</b>	<b>59.7</b>
- Net financial account	<b>1,619.5</b>	<b>532.7</b>	<b>568.9</b>	<b>2,534.1</b>	<b>47.7</b>	<b>587.7</b>	<b>176.0</b>
- Net direct foreign investment	<b>605.2</b>	<b>69.3</b>	<b>42.7</b>	<b>246.1</b>	<b>71.3</b>	<b>13.2</b>	<b>34.2</b>
- Net portfolio investment	<b>-69.5</b>	<b>22.6</b>	<b>2.6</b>	<b>44.0</b>	<b>-72.1</b>	<b>-38.0</b>	<b>24.9-</b>
- Other net investment	<b>1,050.2</b>	<b>478.0</b>	<b>521.8</b>	<b>2,410.0</b>	<b>69.3</b>	<b>595.1</b>	<b>133.9</b>
- Change in reserve assets - = rising )	<b>33.7</b>	<b>-37.2</b>	<b>1.7</b>	-166.0	<b>-20.8</b>	<b>17.4</b>	<b>32.8</b>
<b>6. Net errors and omissions</b>	<b>36.9</b>	<b>58.4</b>	<b>24.2</b>	<b>17.2-</b>	<b>48.3</b>	<b>-51.1</b>	<b>63.2</b>

Source: PCBS and the PMA, 2013. Preliminary results of the quarterly and annual Palestinian Balance of Payments.

\* Figures of exports and imports of commodities and services in the balance of payments differ from the figures 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 are recorded only in the trade balance, while the balance of payments records services from different sources.

### 7.3 External Assets, Liabilities and Debt– 2012<sup>49</sup>

The External Assets and Liabilities Balance involves flows of capital from Palestinian individuals/companies/government (or other individuals/companies operating in Palestine) into foreign markets (net foreign assets), on the one hand, and domestic investments and assets held by foreign individuals/companies/governments (external liabilities), on the other.

PCBS preliminary data reveal that Palestine's net international investment position (or foreign assets minus external liabilities) in 2012 totaled USD 667 million; i.e. the

Palestinian net foreign assets outweighed external liabilities by USD 667 million, which is 7.4 percent less than the 2011 figure (see Table 7-3).

Foreign assets (overseas investments by Palestinians) totaled USD 5,262 million. Nearly 60 percent of these assets took the form of currency and other deposits (by foreign banks operating in Palestine), while 13 percent were reserve assets. Overseas deposits of foreign banks operating in Palestine represented a whopping 71 percent of the total foreign assets in 2012, while direct investment was scantily 5 percent of the total assets.

**Table 7-3: Net international investment position (NIIP), 2010-2012**  
(USD millions)

Side / Item	Year		
	2010	2011	2012
<b>Net external deposits and investments (net foreign assets)</b>	<b>1,286</b>	<b>721</b>	<b>667</b>
<b>Total assets</b>	<b>5,424</b>	<b>5,233</b>	<b>5,262</b>
Direct foreign investment abroad	241	192	232
Foreign portfolio investment abroad	806	1,147	1,030
Other foreign investments abroad, including	3,846	3,397	3,336
<i>Currency &amp; other deposits</i>	<i>3,671</i>	<i>3,326</i>	<i>3,234</i>
Reserve assets	531	497	664
<b>Total liabilities</b>	<b>138</b>	<b>4512</b>	<b>4,595</b>
Direct foreign investment in Palestine	2,177	2,328	2,336
Foreign portfolio investment in Palestine	611	611	676
Other foreign investments in Palestine	1,350	1,573	1,583

Source: PCBS, 2012: Press release on international investment position and external debt in 2012.

#### External Debt

Palestine's external debt– that part of the total debt in a country that is owed to creditors outside the country– totaled USD 1,601 million in 2013 Q3. The government (68.5 percent) and the banking sector (27.7 percent) were the main debtors; while non-financial

corporations, insurance companies, civil institutions and households were liable for a combined 2.7 percent of the total foreign debt (See Table 7-4).

**Table 7.4: Palestine's total external debt, by sector (2011-2012)**  
(USD millions)

Sector	As of end 2011	As of end 2012
<b>Government</b>	<b>1114</b>	<b>1097</b>
Short-term debt	64	85
Long-term debt	1050	1012
<b>PMA</b>	<b>0</b>	<b>0</b>

<sup>49</sup> Only annual data are considered here since quarterly data of external assets and investments are not available.

Sector	As of end 2011	As of end 2012
Short-term debt	0	0
Long-term debt	0	0
<b>Banks</b>	<b>359</b>	<b>443</b>
Short-term debt	359	443
Long-term debt	0	0
<b>Other sectors</b>	<b>100</b>	<b>43</b>
Short-term debt	6	7
Long-term debt	94	36
<b>Direct investment (Intercompany lending)</b>	<b>24</b>	<b>18</b>
<i>Debt liabilities to affiliated enterprises</i>	0	0
<i>Debt liabilities to direct investors</i>	24	18
<b>Gross external debt</b>	<b>1597</b>	<b>1601</b>

Source: PCBS, 2012: Press release on international investment position and external debt in 2012.

### Textbox 10: Exogenous factors behind the growth in the Israeli economy

A few years ago, the Research Department at the Bank of Israel published a working paper titled 'Persistent Growth Episodes and Macroeconomic Policy Performance in Israel.'<sup>50</sup> The study results have recently acquired new momentum and resurfaced with Karnit Flug, a co-author of the paper, nominated as the governor of the Bank of Israel following Stanley Fischer's resignation.

The study aimed to analyze the growth episodes in the Israeli economy during the years 1960-2006 in order to answer a basic question: Were growth episodes during certain periods in Israel's economy a result of exogenous variables versus macroeconomic policy variables controlled by policy-makers?

The study classified the history of Israel's economy into three periods: persistent growth, growth and recession. The study defined the persistent growth period as 5 consecutive years of positive quarterly business sector per capita growth with pauses that last for one quarter, in addition to a per capita GDP growth annual rate of 3 percent or more. On the other hand, the periods of normal growth are characterized by high growth in per capita GDP, but within a short period, while a recession period is characterized by a low or negative per capita growth rate of GDP

The figures suggest that Israel has only had three periods of persistent growth, and that two of these periods were in the 1960s, when the state was still nascent. The third occurred in the 1990's, a period when flows of immigrants from the Soviet Union started to arrive to the country. The average per capita growth during the third period (3.1 percent) was significantly lower than the growth in the two previous periods in the sixties. The study results suggest that episodes of growth after 1973 were scarce and short. For example, in August 1999, the economy enjoyed some growth that lasted for 13 months, only to be followed by a sharp decline as a result of the high-tech bubble burst and the outbreak of the second intifada.

After classifying the history of Israel's economy into three periods, the study proceeds to identify the reasons behind the uneven performance during different periods: Is it a result of exogenous variables or macroeconomic policy variables? The study takes into account four independent variables, three exogenous variables and one policy variable. The external variables that can have an impact on economic performance are boom or contraction of international trade; the annual flow of migrants; and the overall security situation. The policy variable represents the efficiency of macroeconomic management. The study assesses this variable through calculating the weighted average of five variables: the general government surplus; the inflation rate; and three variables related to the exchange rate management regime, particularly the exchange

<sup>50</sup> Karnit Flug and Michel Strawczynski (2007): Persistent Growth Episodes and Macroeconomic Policy Performance in Israel. Research Department, Discussion Paper No. 2007-08. Bank of Israel. <http://www.bankisrael.gov.il/deptdata/mehkar/papers/dp0708e.pdf>

rate departure from the equilibrium level. Table 2 shows the average values of the explanatory variables during different periods of growth in the Israeli economy.

**Table 1: Growth Episodes and Recessions in Israel**

Period	From-until	Duration (months)	Cycle	GDP growth	Per capita GDP growth	Industrial productivity
Young economy	January 1960-June 1965	66	Persistent growth	9.7	5.6	1.1
Immigration exhaustion	July 1965-June 1967	24	Recession	0.0	-3.2	0.5
Post-Six-Day War	July 1967-December 1972	66	Persistent growth	13.5	9.9	0.1
Post-October 1937 War	January 1973-December 1976	36	Recession	3.5	0.8	-0.5
Erlich's period (then Finance Minister)	January 1977-April 1979	28	Growth	4.5	2.1	0.3
Horowitz's period (then Finance Minister)	May 1979-July 1980	14	Recession	2.9	0.5	-1.5
Aridor's period (then Finance Minister)	August 1980-September 1983	37	Growth	3	1.1	-0.3
Banking crisis	October 1983-October 1985	24	Recession	5.2	3.6	0.3
Stabilization period	November 1985-August 1987	21	Growth	4.8	3.2	1.5
Post-stabilization	September 1987-December 1989	27	Growth	2	0.2	0.8
Immigration (from Russia)	January 1990-September 1996	69	Persistent growth	6.8	3.1	0.4
Immigration exhaustion + contractionary policy	December 1996-July 1999	33	Recession	3.7	1.2	0.6
Hi-tech boom	August 1999-September 2000	13	Growth	9.2	6.3	4.0
Intifada	December 2000-March 2003	29	Recession	-1.1	-3.3	-1.5
World trade acceleration	June 2003-December 2006	42	Persistent growth?	5	3.2	1.0
<b>Growth periods</b>				<b>7.1</b>	<b>4.9</b>	<b>1.0</b>
<b>Recession periods</b>				<b>2.3</b>	<b>-0.3</b>	<b>-0.2</b>

Source: Bank of Israel (2007). Persistent Growth Episodes and Macroeconomics Policy Performance in Israel

The study used a linear probability model to assess the quantitative impact of the four exogenous independent variables on growth episodes, and concluded that:

- ✧ Exogenous factors (such as global trade boom and security events) had a larger impact on growth than did the policy variables (such as macroeconomic management, public investment and tax).
- ✧ Episodes of growth in Israel are brought about by demand variables (world trade and security situation) and supply variables (government investment and the labor market experience of integrated immigrants).
- ✧ Exogenous demand variables account for two-thirds of the transition from recession in the late 20<sup>th</sup> century to 2003-2006 growth, which means that only one-third of growth is explained by policy variables<sup>51</sup>.

<sup>51</sup> Asaf Oron argues that the conclusion of this study (that exogenous variables, but not the radical neoliberal policies applied by Netanyahu when he was a minister of finance between 2003 and 2006, where Israel survived one of the worst economic crises ever between 2001 and 2003) explains why Netanyahu heatedly opposed nominating Karnit Flug (a co-author of the study) for the Governor's office. Netanyahu's attempt to exclude Flug, however, failed because the other candidates that he had nominated were

**Table 2: Change in explanatory (independent) variables**

Exogenous Variables				Policy Variables		
Period	Cycle	Security Events	Immigration (as % of Population)	World Trade (% of Change)	Annual Inflation (%)	General Budget Surplus (% of GDP)
Young economy	Persistent growth		0.5	9.7	7.4	5.0
Immigration exhaustion	Recession	Six-Day War	0.2	7.6	4.6	0.0
Post-Six-Day War	Persistent growth		0.3	13.3	7.7	-8.3
Post-October 1937 War	Recession	October 1937 War	0.2	7.8	38.0	-15.8
Erlich's period (then Finance Minister)	Growth		0.2	5.8	49.5	-15.1
Horowitz's period (then Finance Minister)	Recession		0.2	6.6	128.6	-10.8
Aridor's period (then Finance Minister)	Growth	Lebanon War I	0.1	0.4	124.3	-11.7
Banking crisis	Recession		0.1	6.9	390.6	-7.2
Stabilization period	Growth		0.1	8.8	19.3	2.0
Post-stabilization	Growth	First Intifada	0.1	9.3	18.7	-3.3
Immigration (from Russia)	Persistent growth		0.5	8.7	13.0	-4.2
Immigration exhaustion + contractionary policy	Recession		0.3	10.6	6.5	-4.5
Hi-tech boom	Growth		0.3	13.7	1.1	-3.0
Intifada	Recession	Second Intifada	0.1	4.9	3.0	-4.6
World trade acceleration	Persistent growth?	Lebanon War II	0.1	9.3	0.6	-3.6
<b>Growth periods</b>			<b>0.3</b>	<b>8.8</b>	<b>27.9</b>	<b>-4.9</b>
<b>Recession periods</b>			<b>0.2</b>	<b>7.6</b>	<b>84.4</b>	<b>-6.6</b>

Source: Bank of Israel (2007). Persistent Growth Episodes and Macroeconomics Policy Performance in Israel.

not well-prepared to take the position. See <http://972mag.com/whats-behind-israels-biggest-economic-boom-the-occupation/81038/>



## Key Economic Indicators in the West Bank\* and the Gaza Strip for the years 2000-2012

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Population by mid year (thousands)</b>													
Occupied Palestinian Territory	3,053.3	3,138.5	3,225.2	3,314.5	3,407.4	3,508.1	3,612.0	3,719.2	3,825.5	3,935.25	4,048.40	4,169	4,293
West Bank	1,943.7	1,992.6	2,042.3	2,093.4	2,146.4	2,203.7	2,262.7	2,323.5	2,385.2	2,448.4	2,513.3	2,580	2,649
Gaza Strip	1,109.7	1,145.9	1,182.9	1,221.1	1,261.0	1,304.4	1,349.3	1,395.7	1,440.3	1,486.8	1,535.12	1,589	1,644
<b>National Accounts (Million Dollars), constant 2004 prices</b>													
GDP	4,146.7	3,810.8	3,301.4	3,800.5	4,198.4	4,559.5	4,322.3	4,554.1	4,878.3	5,239.3	5,724.5	6,421.4	6,797.3
<i>GDP per capita (USD)</i>	1,460.1	1,303.5	1,097.2	1,227.3	1,317.0	1,387.2	1,275.4	1,303.2	1,356.3	1,415.2	1,502.1	1,635.2	1,679.3
<i>Household Expenditure</i>	3,981.3	3,884.5	3,589.7	4,088.9	4,400.3	4,467.5	4,197.5	4,591.2	4,851.9	5,229.4	5,204.0	5,713.0	6,436.8
<i>Public Expenditure**</i>	1,080.3	1,003.7	930.3	886.4	1,048.9	833.3	870.4	892.7	995.9	1,159.5	1,322.3	1,772.2	2,027.1
<i>Final consumption of NGOs</i>	135.1	164.1	184.3	200.4	152.3	196.7	189.0	185.9	290.9	305.5	270.2	264.3	260.2
<i>Gross Capital Formation</i>	1,386.7	992.3	841.7	1,063.0	1,022.3	1,265.7	1,347.2	1,122.9	1,060.5	1,137.3	1,090.5	1,066.8	1,074.0
<i>Net Balance of Goods Trade</i>	(2,239.4)	(1,887.8)	(1,917.3)	(2,194.3)	(2,209.8)	(2,009)	(1,668.6)	(1,970.5)	(2,047.4)	(2,289.5)	(1,908.7)	(2,235.3)	(2,779.4)
Commodity Imports	2,748.3	2,225.9	2,235.5	2,561.4	2,622.1	2,466.5	2,203.8	2,508.3	2,642.4	2,881.3	2,604.0	3,091.6	3,539.9
Commodity Exports	508.9	338.1	318.2	367.1	412.3	457.5	535.2	537.8	595.0	591.8	695.3	856.3	760.5
<i>Net Balance of Services Trade</i>	(197.3)	(346.0)	(327.3)	(243.9)	(215.6)	(194.7)	(613.2)	(268.1)	(273.5)	(302.9)	(253.8)	(159.6)	(221.4)
Services Imports	386.6	424.6	390.1	305.0	287.1	334.9	707.0	430.5	471.5	533.8	422.4	378.6	551.2
Services Exports	189.3	78.6	62.8	61.1	71.5	140.2	93.8	162.4	198.0	230.9	168.6	219.0	329.8
<b>Prices and Inflation</b>													
Average Exchange Rate of the USD Against the Shekel	4.086	4.208	4.742	4.550	4.477	4.482	4.454	4.110	3.587	3.929	3.739	3.578	3.85
Average Exchange Rate of the JOD Against the Shekel	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.061	5.542	5.275	5.050	5.43
Inflation Rate	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75	2.88	2.78
<b>Labor Market</b>													
Number of Employees (thousands)	600	505	477	564	578	603	636	690	667	718	745	837	858
Participation Rate (%)	41.5	38.7	38.1	40.3	40.4	40.4	41	41.7	41.2	41.6	41.1	43	43.6
Unemployment (%)	14.1	25.2	31.3	25.6	26.8	23.5	23.7	21.7	26.6	24.5	23.7	20.9	23

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Social Conditions</b>													
Poverty Rate (%) ***	-	27.9	-	-	25.9	24.3	24	31.2	-	26.2	25.7		
Deep Poverty Rate (%) ***	-	19.5	-	-	14.2	15.3	13.7	18.8	-	13.7	14.1		
<b>Public Finance (Million Dollars)</b>													
Net Domestic Revenues	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1,900.4	2,176	2,240
Current Expenditures and Net Lending	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,920	2,983	2,952	3,047
Development Expenses	469	340	252	395	0	287	281	310	-	46.8	275.1	296	211
Surplus (deficit) Budget before Support	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,342)	(1,083)	(776)	(807)
Total Grants & Assistance	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,277	978	932
Total Surplus (deficit) Budget	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(81)	(94)	(86)
Public Debt	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,732	1,883	2,213	2,483
<b>Banking Sector (Million Dollars)</b>													
Assets/Liabilities	4,593	4,430	4,278	4,728	5,101	5,604	5,772	7,004	5,645	7,893	8590	9,110	9,799
Equity	242	206	187	217	315	552	597	702	857	910	1,096	1,182	1,258
Clients' Deposits	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111	6,802	6,973	7,484
Credit Facilities	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825	3,483	4,122
Number of Banks	21	21	20	20	20	20	21	21	21	20	18	18	17

Source: Palestinian Central Bureau of Statistics, the Palestinian Monetary Authority. For a series data for the period before 2000, please refer to issue 23 of Monitor between hands. Base year is 2004 (2004=100).

\* Except the part of Jerusalem which was annexed forcefully by Israel following the 1967 war.

\*\* The inflation rate is based on the comparison of average indices of consumer prices for the comparison year with its average in the previous year.

\*\*\* The PCBS defines poverty in relation with the family budget. Deep Poverty: any standard family (5 members: two adults and 3 children) possessing a budget of 1,783 NIS (2010) to cover the expenses of food, clothing and housing. Relative poverty: any standard family possessing a budget of 2,237NIS (2010) to cover the expenses of food, clothing, housing, health, education, transportation and other expenses.

- Figures in brackets are negative.