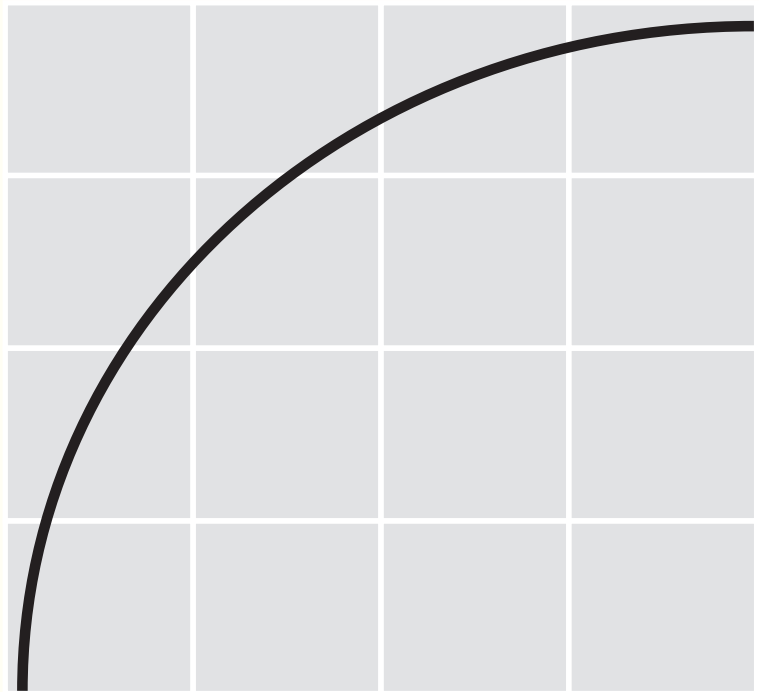


2014

Economic & Social Monitor



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



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(PMA)



Palestinian Central Bureau of Statistics
(PCBS)



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FOREWORD

With the publication of Vol. 38 of the *Quarterly Economic and Social Monitor*, we have issued all the volumes of the *Monitor* planned for 2014. Because of the time lag between the end of a quarter and the availability of the data pertaining to it, whence analysis is commenced, to be followed with technical production and printing, we see that the quarterly *Monitor* lags behind the quarter that it covers. Indeed, this volume covering the second quarter is issued in the fourth quarter of the year. We have tried in the past to narrow this gap to the minimum possible, but it turned out that it is not feasible to obtain some of the essential statistical data before two months after the end of the quarter, in particular the National Accounts. Editing and production need additional two months, which means a lag of four months.

This issue of the *Monitor* is one month behind schedule for reasons beyond our control. We shall endeavor in the future to keep the time gap between the quarter and its *Monitor* to within the routine four months but would like to stress that the quality of the contents of the *Monitor* remains a top priority for our three institutions while we do our utmost to make the publication available for users as early as possible so as to provide maximum benefit to them.

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Executive Summary

Gross Domestic Product (GDP). GDP in the second Quarter (Q2) of 2014 was USD 1,973.8 million, recording a rise of 5.1% in comparison with Quarter 1 of 2014, and up 3.9% over the corresponding quarter a year earlier. The share of per capita GDP in Q2 saw a rise of 4.3% compared to the previous quarter, and a rise of 0.9% over the 2013 corresponding quarter. In relation to the expenditures on GDP, the final consumption expenditure in Q2 accounted for about 119.7% of GDP.

The Labor Market. The number of workers in Palestine in Q2 of 2014 remained the same as in Quarter 1, at about 926,000 workers. However, the number rose by 26,000 workers compared to the corresponding quarter (Q2) in 2013. With regard to place of work, 61% of the workers worked in the West Bank, 27% in the Gaza Strip and 12% in Israel and the Settlements. Meanwhile, unemployment in Palestine remained unchanged between Q1 and Q2 of 2014, at 26.2%, with a slight decrease in the West Bank and a 3.7% increase in the Gaza Strip, reaching 44.5%. Additionally, Q2 witnessed a rise in average daily wage for those working in the West Bank and the Settlements relative to Q1 2014, whereas the average daily wage fell by 1.0% for Gaza workers. The average daily wage in Q2 relative to Q2 2013 grew by 2.4 for workers in the West Bank and by 7.1% for those working in Israel and the Settlements, but declined by 3.3% for Gaza's workers.

Public Finance. Total Public Revenues and Grants declined to NIS 3.2 billion in Q2 2014, a drop of 11.3% in comparison with the previous quarter. The reason behind that is the decrease in domestic revenues, and specifically the tax-related revenues which decreased by 44.8%. Meanwhile, the total public expenditure saw a slight increase (0.8%) during the same period, leading to a rise in the overall deficit after grants and aid to NIS 115.7 million (on cash basis).

The Banking Sector. Total direct credit during Q2 2014 saw a rise of 4.9% compared to Q1 2014 and an increase of 15.1% from Q2 2013, thus reaching USD 4,902.5 million. For credit to private sector, the largest share was directed

towards the funding of consumption goods (26.6%). Meanwhile, public deposits in Q2 2014 rose by 3.7% compared to the previous quarter and by 11.9% over the Q2 2013, reaching USD 8,765.3 million. Net income of banks at the end of Q2 2014 amounted to USD 34.6 million compared with USD 40.5 million in the previous quarter, i.e. a cumulative net income of USD 75.1 million in the first half of 2014.

Palestine Stock Exchange. The value of traded shares in Q2 totaled USD 57.2 million, a decline of 66% compared to the previous quarter. Al-Quds Index closed at 502.81 points at the end of Q2 2014, falling behind by 45.56 points compared to the end of the previous quarter.

Investment Indicators: The *Monitor* follows four indicators of investment in the Palestinian Territory:

- ✧ **Company Registration.** The number of companies newly registered in the West Bank during Q2 2014 totaled 367, a drop of 73 companies compared to the previous quarter and an increase of 50 companies in comparison with the 2013 corresponding quarter. The total capital of these newly registered companies amounted to JOD 58 million, a decrease of 2% from the previous quarter.
- ✧ **Cement Import.** The quantities of cement imported to the Palestinian Territory saw a growth of 5.2% compared to the corresponding quarter 2013, but the quantities of cement imported to Gaza remained very limited due to the continuing Israeli ban on import of construction materials. Gaza's cement import in Q2 amounted to 9.3 thousand tons, which is greater than in the previous quarter (5.6 thousand tons) but less than in Q2 2013 (13.8 thousand tons).
- ✧ **Vehicle Registration.** During Q2 2014, 4,402 new and used vehicles were registered for the first time in the West Bank. This shows a 17% increase compared to the previous quarter (Q1 2014) and a 13% rise over Q2 2013. 51% of the vehicles that were registered in Q2 2014 were used vehicles imported from abroad, while 36% were new vehicles imported from abroad and 13% were used vehicles imported from the Israeli market.

- ◇ **Hotel Activity.** 113 hotels were operating in the West Bank at the end of Q2 2014 compared to 116 hotels at the end of Q1 2014. The number of hotel guests reported in the West Bank in Q2 2014 totaled 207,083, lodging about 493,104 nights, which means an increase of 35.3% in the number of Hotel guests in Q2 2014 compared to Q2 2013 and of 38.5% compared to Q1 2014.

Prices and Purchasing Power. The Consumer Price Index in the Palestinian Territory saw a decline of 1.31% in Q2 2014 compared to Q1 2014, whereas this Index recorded a rise of 1.25% compared to Q2 of the previous year. The purchasing power of the USD and JOD rose by 0.4% in Q2 2014 in comparison with the previous quarter, but it declined by 5.4% compared to Q2 2013.

Balance of Trade and Balance of Payments. The Trade Balance deficit for *reported* goods in Q2 2014 stood at USD 1,166.9 million. During the same period, the current account deficit in the balance of payments amounted to USD 614.6 million. This deficit represents 16.6% of the GDP. The current account deficit in Q2 2014 recorded a 35.2% rise compared to the previous quarter, and a 3.2% increase compared to the Q2 2013. The current account deficit is the net sum of trade balance deficit, surplus in factors-income from abroad (mainly generated by Palestinians working abroad), and surplus in current transfers (predominantly in the form of foreign aid).

International investment position and external debt. Palestinian total international assets abroad totaled USD 5,875 million at the end of Q2 2014. Direct foreign investments by Palestinians made up only 3 % of the total, while portfolio investment abroad represented 18.9%. Meanwhile, the total foreign international liabilities in Palestine totaled USD 4,895 million, 50% of which was in the form of foreign direct investment in Palestine. Palestine's external debt in Q2 2014 totaled approximately USD 1,743 million. Some 63.4% belongs to the government, while the Banking sector's share of total external debt accounted to 32.9%.

Textboxes: This issue of the *Monitor* includes 10 textboxes that bring into focus a number of critical issues:

The National Early Recovery and Reconstruction Plan for Gaza Program and International Pledges in the Cairo Conference. This textbox summarizes the core elements in the report which was presented by the Palestinian government to the international conference, held in Cairo on 12 October 2014, for rebuilding Gaza after the recent Israeli aggression. The program for rebuilding Gaza comprised of three phases of intervention: The first focuses on relief, the second on early recovery, and the third on reconstruction. The overall cost of the program is estimated at USD 4 billion. Additionally, the Palestinian government requested from the international community to support its budget by USD4.5 billion during the period of the program implementation (2014-2017). This brings the total required amount to USD 8.5 billion. The countries and organizations participating in the conference pledged to provide \$ 5.4 billion. The textbox addresses the main items of damage and categories of expenditure and lists the contributing countries with the pledged amounts. Finally the text touches upon the distinction in international aid parlance between pledges, commitments and disbursements, which explains the often-occurring gap between the pledges and disbursements and stresses the need to have safeguards to remedy the gaps once they appear.

A New Modified Time-Series for GDP. The Palestinian Central Bureau of Statistics (PCBS) issued a new modified series of data for GDP in Palestine at constant prices (for the period between 1994-2012) and current prices (for the period between 1994-2011). The difference between the new and old GDP figures was between 1% and 8% in different years. The revision was done for several reasons, including the PCBS' adoption of the new International Standard Industrial Classification which was recommended by the United Nations Statistical Commission, in addition to the PCBS' updating of some background data surveys on which the GDP figures are based. The textbox addresses the reasons behind the revisions in some details and compares the new and old data, with regard to both the volume and composition of GDP.

Productivity Analysis and Labor-Unit Cost: Not as Bad as Often Claimed. A recent World Bank report discussed the subjects of labor productivity, total factor productivity and labor-unit costs in the Palestinian Territory. The report provided information about these indicators in the three sub regions of Palestine: East Jerusalem, the rest of the West Bank, and Gaza Strip. It also provided comparative data from neighboring countries. The report reached some conclusions which are not totally in line with the prevalent 'conventional wisdom' which often claims that labor productivity is low and labor-unit cost is high in Palestine. The textbox reviews the conclusions of the study and the assumptions upon which it is based.

Public Debt in Palestinian: On the Brink of Abyss! This textbox presents a new report issued by the International Monetary Fund addressing the Palestinian Authority's Public Debt and arrears. This report shows that the PA's public debt kept rising during the first half of 2014, reaching USD 4.9 billion in June 2014, which is equivalent to 44% of the GDP. The IMF undertook a Public Debt Sustainability Analysis for the PA, based on a number of assumptions. These include a relatively low growth rate in the Palestinian Territory (at 3.7% annually on average during 2015-2019), and a modest interest rate level. The analysis found that the ratio of Public Debt to GDP will reach 51.1% before declining again to 49% in 2019, i.e. public debt of the PA will remain 'sustainable' (below 60%). However, the rate is far higher than the 40% ceiling stipulated in the Law. Furthermore, the Sensitivity Analyses in the IMF exercise shows some great risks that could have the PA's Public Debt exceed 60% in the future.

UNCTAD: Fiscal Leakage is 3.6% of GDP. The textbox presents a study conducted by UNCTAD (United Nations Conference on Trade & Development) regarding the leakage of Palestinian fiscal revenues to the Israeli Treasury. Fiscal Leakage refers to the indirect taxes, paid by West Bank & Gaza's Palestinians, but seized by the Israeli Treasury instead of refunding them to the PA. The study classifies the sources of leakage in a pedagogically useful manner and estimates the leakage at USD 313 million in 2011, equivalent to 3.6% of the GDP. This covers the imports via the proper 'legal' channel as well as 'smuggling' channel. The

textbox reviews the methodology applied in the study and compares it with the methodology and estimations of other studies addressing the same issue.

The EU Financial Auditors: Performance Indicators Needed for Palestine Aid. The textbox presents a report recently issued by the European Union's Office of Financial Auditors reviewing the EU's direct financial aid to the Palestinian Authority through the PEGASE mechanism. The report concluded that the European Commission has succeeded in carrying out the financial support to the Palestinian Authority under difficult circumstances, and that this contributed to the survival of the PA. Despite this success, the report cited a number of components within the financial support method that need to be reconsidered and revised. It pointed out that the sustainability of the current approach of aid will be questionable without making some necessary reforms and adjustments. The textbox reviews the critical points raised by the report and the recommendations, stressing in particular on the report's call for further fiscal reform by the PA and the need to formulate performance indicators to allow for assessing the effects and achievements of the European Aid program.

Natural Gas Diplomacy in Israel. The discoveries of huge natural gas reserves in Israel open the opportunities for new regional role for that country. The textbox discusses these new opportunities and reviews the attempts made by the company holding the concession of the "Leviathan" gas field to find long-term customers for the Israeli gas. The text addresses the company's effort to sign gas deals with Egypt, Turkey and Jordan and points out that so far the only certain deal that has been signed is the one with the Palestinian Authority.

The Investment Environment in Palestine: Complex and Suffering from Political and Geographic Fragmentation. The textbox presents a World Bank report that assess investment environment in the Palestinian Territory. The report is based on two surveys: the first for firms in the formal sector, and the second covers firms in the informal sector. The report's aim is to record the opinions of the people in these firms regarding the main impediments that affect their activity as well as the investment environment in the Palestinian

Territory. It concludes that foremost among the impediments is the political instability and the restrictions imposed on the free movement of individuals and goods. This same general finding was concluded in the Bank's survey carried out in 2006. The textbox reviews the other impediments singled out by the firms with emphasis on internal ones.

Fuel 'Subsidy': 33% of Taxes Refunded to Consumers. The aim of this textbox is to discuss and analyze fuel 'subsidy' in the Palestinian Territory, making use of the limited information available. The textbox clarifies first the concept of 'subsidy' with reference to the peculiarity of the Palestinian fuel market. It studies the price differences of petroleum products in the Israeli and Palestinian markets, along with the amount of 'subsidy' which has significantly increased in recent years, thus exacerbating the crisis in the PA's budget. The box concludes that the 'subsidy' seems to be far higher than what is needed to fill up the price differences between Israel and Palestine. This raises the suspicion that inefficiency and waste at the Palestinian Petroleum Authority may be behind the accelerated increase in petroleum products 'subsidy'.

Expats' Transfers cover 75% of Balance of Payments Deficit. A new World Bank report addresses the issue of migration and financial transfers by immigrants in 210 countries across the world. The volume puts forward three different definitions for external transfers: Workers' Remittances, Labor Indemnities, and Capital Transfers. The report, as well as the related website, provide information about transfers from and to the Palestinian Territory during 2003-2012. It reports that the amount of cash transfers to the Palestinian Territory, under the above-mentioned three definitions, quadrupled during 2003-2012, reaching USD 2 billion in 2012. Meanwhile, the amount of transfers from Palestine totaled USD 50 million only in the same year. It is also reported that the number of immigrants from the West Bank and Gaza Strip reached 3 million persons in 2010. The text emphasizes the important role played by the transfers in Palestine, which covered some 75% of the Balance of Payments deficit in 2011.

Key Economic Indicators in the West Bank and the Gaza Strip for the years 2000-2013

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population (mid year, thousands)														
- 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	4,420
• West Bank	1,943.7	1,992.6	2,042.3	2,093.4	2,146.4	2,203.7	2,262.7	2,323.5	2,385.2	2,448.4	2,513.3	2,580	2,649	2,719
• Gaza Strip	1,109.7	1,145.9	1,182.9	1,221.1	1,261.0	1,304.4	1,349.3	1,395.7	1,440.3	1,486.8	1,535.12	1,589	1,644	1,701
Labor Market														
• Employment (thousands)	600	505	477	564	578	603	636	690	667	718	745	837	858	885
• Participation Rate (%)	41.5	38.7	38.1	40.3	40.4	40.4	41	41.7	41.2	41.6	41.1	43	43.4	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	23.4
• West Bank	12.2	21.6	28.2	23.7	22.8	20.4	18.8	17.9	19.7	17.8	17.2	17.3	19.0	18.6
• Gaza Strip	18.9	34.0	37.9	29.1	35.3	30.3	34.8	29.7	40.6	38.6	37.8	28.7	31.0	32.6
National Accounts**														
• GDP (US \$ million)	4,313.6	4,003.7	3,555.8	3,968.0	4,329.2	4,831.8	4,910.1	5,505.8	6,673.5	7,268.2	8,913.1	10,465.4	11,279.4	12,579.4
• Household Consumption	3,713.0	3,594.6	3,217.7	3,736.3	4,270.3	4,891.7	5,111.7	5,595.3	6,575.8	6,822.8	7,976.0	9,199.0	9,693.6	10,890.9
• Public Consumption**	1,098.9	1,116.4	985.8	906.0	1,227.0	1,363.3	1,374.5	1,603.2	1,832.8	2,342.7	2,500.8	2,892.3	3,126.9	3,295.7
• Final Consumption of NGOs	153.8	170.8	180.2	195.8	174.9	194.6	208.5	251.9	339.9	351.4	378.7	403.4	464.9	477.6
• Gross Capital Formation	1,358.9	1,184.2	930.5	1,143.0	1,151.5	1,241.3	1,155.1	1,204.9	1,371.9	1,504.8	1,921.5	1,863.8	2,378.5	2,775.4
GDP per capita (US\$)														
• Current prices	1,518.9	1,369.4	1,181.8	1,281.4	1,358.1	1,470.1	1,448.8	1,575.6	1,855.5	1,963.2	2,338.7	2,664.9	2,787.2	3,015.8
• Constant prices (base year 2004)	1,526.7	1,345.0	1,143.7	1,267.0	1,358.1	1,459.4	1,360.1	1,406.0	1,449.1	1,529.8	1,606.4	1,752.5	1,807.5	1,788.1
Balance of Payments***														
• Commodity Exports		339	282	318	348	378	378	562	569	631	666	1,525	1,250	1,675
• Commodity Imports		1,980	1,507	1,782	2,300	2,613	2,738	3,280	3,511	4,136	4,319	6,188	6,134	6,122
• Net Balance of Goods Trade		(1,641)	(1,224)	(1,464)	(1,952)	(2,236)	(2,352)	(2,718)	(2,942)	(3,504)	(3,653)	(4,663)	(4,884)	(4,447)
• Services Exports		117	103	154	192	202	179	252	357	579	831	686	649	608
• Services Imports		603	600	475	519	451	455	634	698	931	1,143	948	1,032	1,038
• Net Balance of Services Trade		(486)	(497)	(320)	(327)	(249)	(275)	(382)	(342)	(352)	(312)	(262)	(353)	(430)
• Current Account		(875)	(452)	(854)	(1,334)	(1,020)	(944)	(467)	530	(713)	(691)	(2,430)	(2,815)	(1,317)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exchange Rates and Inflation														
• <i>Average US\$/NIS</i>	4.086	4.208	4.742	4.550	4.477	4.482	4.454	4.110	3.587	3.929	3.739	3.578	3.85	3.61
• <i>Average JOD/NIS</i>	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.061	5.542	5.275	5.050	5.43	5.09
• <i>Inflation Rate (%)***</i>	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75	2.88	2.78	1.72
Public Finance (US \$ million, on Cash Basis)														
• <i>Net Domestic Revenues</i>	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1,900.4	2,176	2,240	2,320
• <i>Current Expenditures</i>	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,920	2,983	2,952	3,047	3,250
• <i>Development Expenditure</i>	469	340	252	395	0	287	281	310	-	46.8	275.1	296	211	168
• <i>Budget Surplus (before aid)</i>	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,342)	(1,083)	(776)	(807)	(931)
• <i>Grants & Assistance</i>	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,277	978	932	1,358
• <i>Surplus after Aid</i>	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(81)	(94)	(86)	259
• <i>Public Debt</i>	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,736	1,883	2,213	2,483	2,376
Banking Sector (US \$ million)														
• <i>Assets/Liabilities</i>	4,593	4,430	4,278	4,728	5,101	5,604	5,772	7,004	5,645	7,893	8590	9,110	9,799	11,195
• <i>Equity</i>	242	206	187	217	315	552	597	702	857	910	1,096	1,182	1,258	1,362
• <i>Deposits</i>	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111	6,802	6,973	7,484	8,306
• <i>Credit Facilities</i>	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825	3,483	4,122	4,480

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

* West Bank: excluding the part of Jerusalem governorate which was annexed by Israel following its occupation in 1967 (with the exception of unemployment and population figures).

** The national accounts data are in current prices and taken from the revised time series issued by the PCBS in September 2014. For more information on the revised data see the text box no. 2 in the current volume of *the Monitor*

*** Foreign trade figures are taken from the Balance of Payments tables prepared by the PCBS and the PMA.

**** The inflation rate is calculated as the percentage change of consumer price index relative to the average in previous year.

- Figures in brackets are negative.