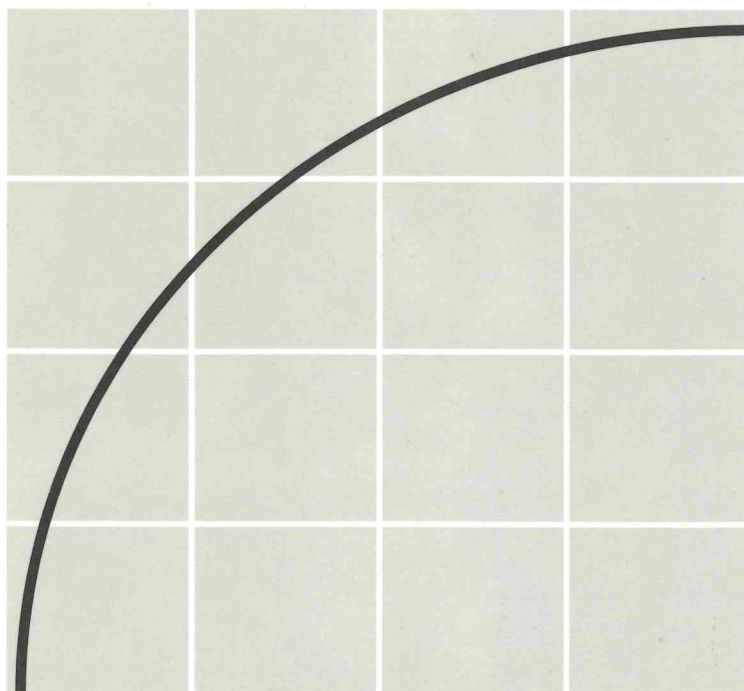


2015

Economic & Social Monitor



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

This issue is based on contributions from researchers of:

Palestine Economic Policy Research Institute –MAS (General Coordinator: Arwa Abu Hashhash)

The Palestinian Central Bureau of Statistics (Coordinator: Amina Khasib)

Palestine Monetary Authority (Coordinator: Shaker Sarsour)

Editor: Nu'man Kanafani

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P.O. Box 19111, Jerusalem and P.O. Box 2426, Ramallah

Telephone: +972-2-298-7053/4

Fax: +972-2-298-7055

e-mail: info@mas.ps

website: www.mas.ps

© 2015 Palestinian Central Bureau of Statistics

P.O. Box 1647, Ramallah

Telephone: +972-2-2982700

Fax: +972-2-2982710

e-mail: diwan@pcbs.gov.ps

website: www.pcbs.gov.ps

© 2015 Palestine Monetary Authority

P.O. Box 452, Ramallah

Telephone: +972-2-2409920

Fax: +972-2-2409922

e-mail: info@pma.ps

website: www.pma.ps

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This issue of the *Economic & Social Monitor* is supported by:



**Arab Fund for Economic
& Social Development**



Palestine Investment Fund (PIF)

January, 2015

FOREWORD

We are glad that the 39th issue of the Quarterly Economic and Social Monitor, which covers the 3rd quarter of 2014, is published as scheduled. Just about when the team working on the Monitor had collected and produced all the needed material, short of the National Accounts and the Labor Market data for Q3 2014, the team received a notice that the release of these data will be delayed. In fact, the schedule for publishing the Monitor is always worked out around that for publishing the National Accounts data. Thus, we were confronted with two choices: either to delay publishing issue 39 of the Monitor, or to publish it without the National Accounts and Labor Market data. It didn't take long to opt for the second and go ahead with the initial plans to publish issue no. 39 while aiming to include the missing data in the next edition. This should also reduce the pressure on the publication process. However, in order not to leave a gap in the published issue, the editor of the Monitor suggested to include an analysis of the quarterly GDP data for the past 14 years and Labor Market data for the last 10 years. This was done, making this edition unique as such an exercise obviously cannot be repeated every quarter. We hope that the reader will draw many benefits from this analysis and from the other regular material in this Monitor.

This issue is being published at a time when Israel is withholding the tax revenues that it collects on behalf of the Palestinian treasury (against a 3% fee). The effect of this illegal measure on the economy will be drastic, as a cursory look on the data in the public finance section will foretell. But it is too late now to include an analysis of the expected effect in this issue, so we aim to provide it in the next Monitor, especially since it is not the first time that Israel has applied this measure.

Nabeel Kassis
Director General
Palestine Economic Policy
Research Institute (MAS)

Ola Awad
President
Palestinian Central Bureau
Of Statistics (PCBS)

Jehad Alwazir
Governor
Palestine Monetary Authority
(PMA)

Executive Summary

GDP: Due to the delay in disclosing the national accounts figures for 2014 Q3, this issue of the Monitor analyzes GDP growth at constant prices for 57 quarters (from 2000 Q1 to 2014 Q1). The analysis– which involves growth rates in the Palestinian territories in general as well as the West Bank and the Gaza Strip– found sharp fluctuations in quarterly growth rates and uneven economic activities in the three areas, particularly in the Gaza Strip. There was also a remarkable increase in the relative weight of the West Bank's contribution to GDP during the period compared to that of the Gaza Strip.

Labor market: As labor market data for 2014 Q3 have not yet been published, the Monitor sheds light on the changes in labor participation and unemployment rates in the whole Palestinian territories as well as the West Bank and the Gaza Strip in a ten-year period (from 2004 Q1 to 2014 Q2), in addition to the usual section on the number and distribution of vacancies in the Palestinian territories.

Public Finance: Compared to the previous quarter, public revenues and grants in the target quarter saw an increase of about one third to NIS 4.23 billion- thanks to a growth in local revenues from clearance, on the one hand, and a significant increase in grants and foreign aid, on the other. Meanwhile, public expenditure hiked by 28.2 percent to NIS 4.21 billion, basically due to government's advance payment of part of the wage bill, in addition to a rise in non-wage expenditure. These changes produced a surplus of NIS14.9 million (on a cash basis) in the total balance after grants and aid.

The banking sector: The banking sector's Q3 direct credit facilities dropped by 1.2 percent from the previous quarter, but increased by 10 percent over the 2013 corresponding quarter to NIS 4.843 billion, with consumer loans having the biggest share. By contrast, public deposits grew to NIS 8.884 billion, thus rising by 1.4 percent over the previous quarter and by 8.6 percent over last year's corresponding quarterly. Concurrently, net profits of banks totaled USD 31.3 million compared to USD 40.2 million in the corresponding quarter of 2013, bringing the

cumulative total profits of banks from January to September 2014 to USD 106.4 million.

Palestine Stock Exchange: The value of shares traded on PSE amounted to USD 54.86 million, 4 percent lower than in 2014 Q2. At Q3 end, Jerusalem Index closed at 511.14 points, 8.33 points higher than the Q2 close.

Investment Indicators: The *Monitor* studies investment conditions across four indicators:

Registration of companies: The number of companies newly registered in the West Bank in the target quarter was 311, down 56 (or 15 percent) from the previous quarter and 4 from the 2013 corresponding quarter. The new companies registered in 2014 Q3 had a capital of JD 47 million, down by 17 percent from the previous quarter.

Building licenses and cement import: Building license data show a decline of 8.1 percent in the number of building permits during Q3 2014 compared to the previous year's corresponding quarter, while housing units dropped by 25.4 percent from the corresponding quarter a year earlier. Still, the amount of imported cement rose by 0.2 percent during the same period. In the Gaza Strip, the imported quantities remained modest at the backdrop of the continued Israeli ban on the entry of construction materials. The 2,300 tons allowed into Gaza in the target quarter are by far less than the amounts allowed in the previous quarter (9,300 tons) and the 2013 corresponding quarter (13,000 tons).

Vehicle registration: During the target quarter, about 4529 new and second-hand vehicles were registered in the West Bank, up 3 percent from the previous quarter and 13 percent from the same quarter a year earlier. Around 50 percent of vehicles registered in the West Bank during this quarter were second-hand imported from abroad, while 37 percent were new cars imported from abroad, and the rest (13 percent) were used vehicles purchased from the Israeli market.

Hotel activity:

The total number of hotels operating in the West Bank end of Q3 2014 dropped to 109 from 113, the figure reported in the second quarter of the year. During the quarter, the number of hotel guests in the West Bank reached 99,811 and the number of nights lodged was 272,567.

Prices and purchasing power: Consumer price index in Q3 2014 saw a sharp rise of 1.92 percent from the second quarter of the year and was 2.25 percent higher than the same quarter a year earlier. Besides, the target quarter saw a 1.46 percent improvement in the US dollar's exchange rate against the shekel. Together, these changes resulted in a decline in the purchasing power of the US dollar (assuming spending in the shekel) by 0.45 percent compared to the previous quarter. The same change also applies to the Jordanian dinar, which has a fixed exchange rate against the USD.

The balance of trade and the balance of payments: The total trade deficit for registered goods was USD 1.013 billion in the third quarter of 2014. The current account deficit in the balance of payments amounted to USD 246.3 million, down 55.3 percent from the previous quarter and 57.8 percent from the 2013 corresponding quarter. The drop in the current account deficit resulted from an increase in the surplus in the income balance (generated mainly from Palestinian workers abroad) and a growth in the current transfers (mostly international aid).

External Assets, Liabilities and Debt:

At the end of 2014 Q3, Palestine's foreign assets totaled USD 5.936 billion, of which 3.2 percent was in the form of direct investment, while portfolio investment represented 19.5 percent, and the rest was in the form of deposits by banks broad. At the same time, the total external liabilities reached USD 4.765 billion, of which 52.2 percent was in the form of foreign direct investment. Palestine's external debt, in the meantime, totaled USD 1.616 billion end of 2014 Q3.

Textbox Topics: This issue of the *Monitor* has 7 textboxes, each discussing a specific topic:

The mechanism for building materials entry into Gaza: The institutionalization of the Blockade! This textbox sheds light on the agreement– mediated by the UN Special Coordinator for the Middle East peace process, Robert Serry– on the mechanism for the entry of construction materials into Gaza for the purposes of reconstructing what Israel destroyed during its 2014 offensive as well as its earlier attacks. The agreement, disclosed by the Coordinator's office, has strict conditions for the use of building materials, which was severely criticized by civil society organizations in Gaza.

Spending on research and development in the Palestinian territories: half a percentage point of GDP: This textbox reviews a survey issued by the Palestinian Central Bureau of Statistics on research and development in Palestine in 2013. According to the survey, spending on research and development was USD 61 million in 2013 (0.5 percent of GDP for the same year) with the public sector having the biggest share of this spending (56 percent of the total). The number of those who worked in R&D was 8700, 30 percent of whom were PhDs, producing 4200 research papers and 9 patents. Compared to other countries, the research output is still low, and spending on R&D is limited compared to developed countries and the nearby countries, as well. Spending on research and development was 3.93 percent of GDP in 2012 in Israel, 3.56 percent in Korea in 2009 and 1.1 percent in Tunisia.

MAS holds the sixth annual Yusuf A. Sayigh Development Lecture: Since 2009, MAS has organized an annual lecture on economic development in memory of the renowned Palestinian economist Yusuf A. Sayigh. The 2014 lecture, titled 'A tri-level model of social change: analyzing and designing paths for social transformation', was given by Matthias Weiter, Professor of Development Studies at the Humboldt University, Berlin, Germany. The lecturer expounded on methods of decision-making and enactment of laws in modern societies and discussed the feasibility and limits for applying this model in developing countries, particularly Palestine.

Food security gap in the Arab States: The Arab Forum for Environment and Development (AFED) held its annual conference in Amman on November 26, 2014. The conference aimed

at presenting a realistic analysis of the Arab food security situation, with focus on the challenges that it faces, and to discuss sustainability options and formulate suggestions to improve the status of food security. The conference published a detailed report on the issues that it dealt with, which this textbox reviews and summarizes.

Palestine-Jordan trade: Encouraging technical indicators but dominating non-tariff barriers: This textbox reviews the main results of a study conducted by the Palestine Trade Center– Pal Trade on trade between Palestine and Jordan. The study sought to assess the impact of both the free trade agreement between Jordan and Palestine and the Greater Arab Free Trade Area (GAFTA) on trade between the two economies. The study found that trade between Palestine and Jordan is modest and restricted to few goods (especially commodities exported to Jordan). The study concluded that despite the removal of tariff barriers between the two countries, there exist non-customs obstacles that dramatically reduce trade opportunities, including the problematic procedures Jordan imposes on registering the branches of the Palestinian companies in Jordan, denying the Palestinian suppliers the opportunity to compete for bids in Jordan, and the failure to regulate the service trade between the two countries.

Trade relations between Jordan and Israel: This textbox studies the development of Israel-Jordan trade relations which began after concluding the 1995 trade and economic cooperation agreement between the two parties. The relations were marked by two different periods: the 1995-2008 period saw a constant growth of Israeli exports to Jordan, reaching a

peak in 2008 (USD 288 million.); and the 2008-2013 period marked by a drop in Israeli exports to USD 100 million in 2013. The Jordanian exports to Israel were modest between 1995 and 2009, but they grew significantly after that to reach USD 266 million in 2013. This turned Jordan's trade balance deficit of USD 182 million in 2008 to a surplus of USD 168 million in 2013. Obviously, the structure of trade relations between the two countries has changed substantially over the period of their relations.

Human capital behind 40 percent of growth in Israel: The textbox summarizes a report published in the Bank of Israel's Journal 'Recent Economic Development'. The report focused on the human capital of Israel and its role in the economy. A country's human capital is measured by the average number of years of schooling for individuals in the working age. The report utilized a model that calculates the contribution of human capital to economic development (i.e. return to schooling) and found that Israel's growth in human capital from 1974 to 2011 led to a 0.7 percent annual growth in per capita GDP. As the per capita GDP in Israel saw an actual annual growth of 1.8 percent during that period, the growth in human capital was then responsible for 40 percent of per capita GDP growth. The report found that the human capital contribution to the growth in Israel has diminished with time due to several reasons, including the dwindling rate of those who obtain higher education.

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	8,590	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.