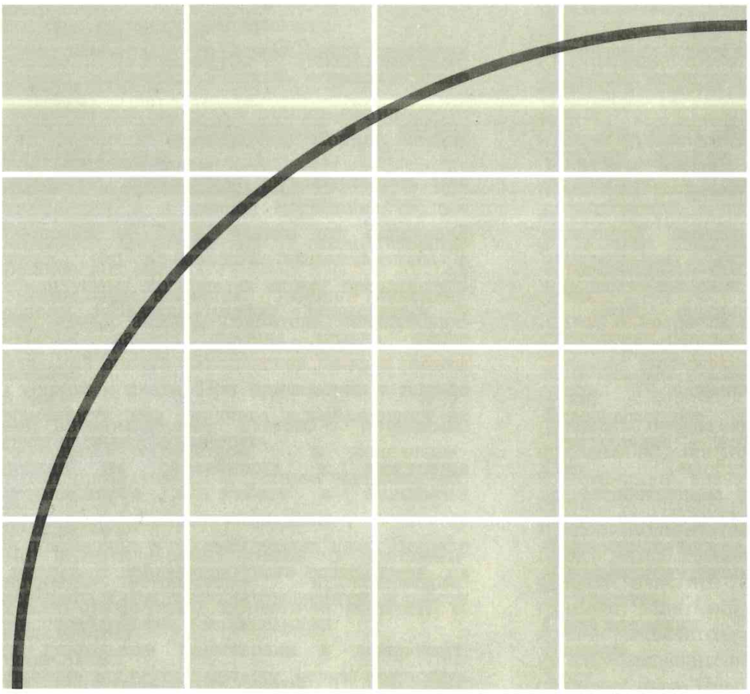
2015

Economic & Social Monitor



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Palestine Monetary Authority (PMA)

42

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FOREWORD

With the present issue of the *Quarterly Economic and Social Monitor*, we have completed the documentation and publication of the economic and socio-economic indicators up to mid-2015 according to schedule. For this, we thank all the staff from the three institutions who worked diligently to collect/provide data and to make this publication possible. Apart from the periodic reports produced by the three institutions, all issues of the *Monitor* contain boxes with topics that are directly or indirectly related to the Palestinian economy. The choice of topics is the prerogative of the *Editor* of the *Monitor* based on his reading and follow-up of economic developments at home and abroad, and who chooses material that he believes sheds light or widens perspective or arouses interest in theoretical as well as practical areas. When summarizing a report originally issued by another agency, or presenting results of a conference or a seminar, which the editor believes adds value to the understanding of developments in the areas covered by the *Monitor*, viewpoints expressed therein belong to their original authors, who are responsible for the material they make available to the general public.

With the release of this issue, Dr. Jihad Al-Wazir will be about to end his second and last term as Governor of the Palestine Monetary Authority (PMA). We, his colleagues in authoring this preface – President of the Palestinian Central Bureau of Statistics (PCBS) and Director General of the Palestine Economic Policy Research Institute (MAS), would like to pay tribute to his distinctive leadership and the achievements he has made over the eight-year period of his service and to thank him for his continued support for the *Monitor*. We are quite confident that cooperation with the PMA will continue in the same spirit and pace under the leadership of the new Governor, Mr. Azzam Shawa, whom we warmly congratulate and wish every success in the grand tasks awaiting him.

Nabeel Kassis	**Ola Awad**	**Jihad Alwazir**
Director General	*President*	*Governor*
Palestine Economic Policy Research Institute (MAS)	*Palestinian Central Bureau of Statistics (PCBS)*	*Palestine Monetary Authority (PMA)*

Executive Summary

Issue 42 of the *Quarterly Economic and Social Monitor* provides an overview of the key developments in the main economic indicators in the Palestinian Territory during the second quarter of 2015. It also includes seven boxes that discuss topical issues with direct or indirect relevance to the Palestinian economy.

Overview

GDP

At the end of Q2 2015, Palestinian real GDP totaled around USD 1.9 billion (2004 prices), a growth of 6 percent over Q1 (+5.1 percent in the West Bank and -9 percent in the Gaza Strip) and of 2.1 percent over the second quarter of last year. Real per capita GDP, meanwhile, reached USD 448.2, which is 5.2 percent higher than the figure in the previous quarter but 0.9 percent lower than the figure in the same quarter of 2014. Figures for expenditure on GDP show a continuing gap between domestic consumption and production, with final consumption expenditure reaching 119 percent of GDP during the quarter.

Labor Market

The number of West Bank and Gaza workers rose to 971 thousand, an increase of 2.2 percent over the previous quarter and of 4.9 percent over the same quarter of 2014. By place of work, 60.4 percent of employment was reported in the West Bank, 28 percent in the Gaza Strip, and 11.6 percent in Israel and the colonies. The public sector employment was 21.5 percent (37.8 percent in Gaza). Meanwhile, the unemployment rate fell by 0.8 percent (0.9 percent in the West Bank and 0.1 percent in Gaza) from the first quarter of the year to 24.8 percent. On the other hand, while the average daily wage in Gaza declined by 0.8 percent from Q1 2015, it rose by 1.2 percent in the West Bank and by 1.4 percent for those working in Israel and the colonies during the same period of comparison.

Public Finance

At the end of the investigated quarter, total public revenues climbed to around NIS 5 billion following Israel's release of clearance revenues that it withheld in the previous quarter. International aid, in turn, rose to NIS 1 billion, or 20 percent of total public revenue. Meanwhile, public expenditure surged to NIS 4 billion (96 percent for current spending and a scant 4 percent for developmental spending). The treasury, thus, had a surplus of around NIS 1 billion on a cash basis, which decreased the public debt during the quarter by 6.2 percent to NIS 8.9 billion (or 17.7 percent of GDP), of which more than 50 percent was owed to the local private sector.

Banking Sector

Total assets of banks during Q2 2015 reached USD 12.4 billion, a growth of 4.1 percent over the previous quarter, with a 5.7 percent rise in credit facilities. Public deposits (the most important component of total liabilities) reached USD 9.5 billion, a 5.4 percent improvement over the previous quarter. Meanwhile, the ratio of non-performing facilities to total facilities fell slightly to 2.5 percent during the quarter. At the same time, the net profits of banks fell by USD 3.9 million to USD 32.2 million though the difference between the average lending interest rate and the deposit interest rate declined slightly for the USD, but rose a little for the NIS and the JD.

Palestine Stock Exchange

The value of shares traded during the second quarter of 2015 reached around USD 49 million, a decline of 48 percent from the previous quarter. Meanwhile, Al-Quds Index closed the quarter at 478.37 points, 3.43 points higher than the figure in the previous quarter.

Investment Indicators

The number of companies newly registered in the West Bank in Q2 2015 was 418, up by 60 from the previous quarter and by 46 from the same quarter of 2014. The new companies registered in the quarter had a capital of JD 64 million, up by 72 percent from the previous quarter.

A total of 2,345 building permits for new and existing housing units were issued during the quarter, which is 19 percent higher than the figure in the previous quarter. Meanwhile, the amount of imported cement rose by 28.1 percent compared with the first quarter of the year.

Prices and Purchasing Power

The Q2 2015 consumer price index increased by 0.58 percent over Q1 2015, while compared to the corresponding quarter of 2014, it rose sharply by 2.78 percent. The change between the successive quarters resulted from an increase in the prices of food and soft drinks (2.52 percent) and transport and communications (1.87 percent) despite a 2.2 percent fall in housing prices.

The purchasing power (PP) (as measured by the change in NIS prices against the change in USD-and JD- exchange rates) saw some improvement during the quarter. The PP for individuals who receive their wages and salaries in USD or JD (but have their spending in NIS) increased by about 9 percent over Q1 2015.

Balance of Trade and Balance of Payments

The balance of trade (for registered goods) suffered a deficit of USD 1,028.9 million during Q2 2015. Imports and exports increased by 13.5 percent and 17 percent, respectively. The current account deficit in the balance of payments reached USD 372.7 million, up by 15.2 percent from the previous quarter. The current account balance deficit was financed by the capital and financial account (which by itself represents a debt for the economy), which made available around USD 413 million.

External Assets, Liabilities and Debt

At the end of Q2 2015, Palestine's foreign assets totaled USD 5.917 billion, of which only 5.9 percent was in the form of direct investment, while portfolio investment accounted for 19 percent. Total external liabilities, on the other hand, reached USD 4.672 billion, of which 51.1 percent was in the form of foreign direct investment. Palestine's external debt, in the meantime, totaled USD 1.6 billion.

Box Topics: This Issue has 7 boxes, each of which discusses a specific topic:

Box 1: Chaos of Legislation in the Absence of the Palestinian Legislative Council

Box 1 summarizes the results of a paper titled *Chaos of Legislation in the Absence of the Palestinian Legislative Council,* which has been recently released by the Palestinian Institute for the Study of Democracy (Muwatin). The paper provided a review of the presidential decrees issued between 2007 and 2014. Out of the 113 decrees, 42 are meant to regulate economic and commercial issues. The detailed analysis of the decrees, which were issued based on the recommendations of the Legislative Plan adopted by the Palestinian government, found some violations of the principle of the constitutionality of the laws in general and of the Basic Law in particular. The analysis also suggested the existence of legislative chaos and haste in the issuance of ill-considered laws that did not include input from all concerned stakeholders including civil society organizations. The authors found that the legislation allows the governmental authorities to encroach upon the fundamental rights of the individuals. Some decrees also disregarded the condition that the Legislative Council has the power to consider the decrees for approval, amendment, or, otherwise, flat rejection when it reconvenes.

Box 2: World Bank Proposals to Improve the PA's Financial Position

In its latest semi-annual report on the financial position of the PA, the World Bank acknowledged the existence of binding constraints to achieving a balance between the PA's revenues and expenditures. It found that financial sustainability is difficult to achieve and is subject to removing the Israeli restrictions on economic activity. The report, however, suggested that the government can still intervene to cut spending and reduce improvidence. The report also provided global figures for comparison and offered, under six headings, some practical suggestions for reform and expenditure cuts.

Box 3: The General Budget's Dilemma of Net Lending

The box cites the most important findings of the background paper presented at MAS' roundtable on net lending in the government budget. The paper started with a historical background of net lending and its development from 2003 to 2014. The paper then surveyed the procedures taken by the government to curb the increase in net lending, reducing it from USD 535 million in 2007 to only USD139 million in 2011 before surging again to USD 287 million in 2014. The paper proposed policies and procedures to tackle the problem. Particularly, it advised the government to divide households into such that are needy and unable to pay utility bills and such that are able to pay them. Legal action must be used to compel the latter to pay their dues, the author recommended. The author also suggested that it would be necessary to proceed with electricity and water reforms, amend agreements with power producers to become competitive agreements, and prioritize production of power from alternative sources.

Box 4: Rapid Credit Growth in the West Bank and Gaza: Is it a Ccause for Worry?

In its semi-annual report on the Palestinian economy, the International Monetary Fund (MF) provided an analysis of the high private sector credit growth in the West Bank and Gaza. To the question of whether we should worry about that growth, the report's answer was something like 'no..., but'. According to the analysis, the growth reflects either a start from a low base or a financial deepening. The problem is that the statistical analysis of the available figures does not lead to conclusive evidence of the degree of risk associated with the growth of credit in the Palestinian Territory. However, the absence of unequivocal statistical evidence does not rule out the existence of an unjustified expansion of loans. The loan-to-deposit ratio increased from 31 percent in 2008 to 55 percent in 2014, indicating that the rapid extension of loans did not go hand in hand with the growth in deposits. It is true that the PMA has implemented a range of strong policies, that the banking system is well capitalized by international standards, that non-performing loans are below 3 percent, and that liquidity is high. However, there has been a steady decline in capital adequacy. Further, liquidity management by banks is constrained by the absence of a functioning interbank market, strained political relations with Israel, and a lack of access to capital markets, the analysis found.

Box 5: In Israel, Tax Avoidance Is Equal to Income Tax Revenue

This box summarizes the results of a report prepared by a committee headed by the Director General of the Israeli Prime Minister's Office to examine ways to reduce the use of cash in the Israeli economy to curb the unrestrained tax evasion. According to the Israeli Tax Department, the shadow economy in the country is about 20 percent of GDP. For illustration, the report mentions that the amounts the treasury loses through avoidance and evasion are equal to the income taxes collected from taxpayers. The committee made a range of recommendations to reduce the use of cash, the main shady method of smuggling, evasion and money laundering.

Box 6: Why Is the Diamond Industry Excluded from Israel's Foreign Trade Figures?

The box tries to find answers to the question of why the diamond industry is excluded from the foreign trade figures in Israel. The main features of the global diamond industry are also discussed in the box. The diamond market remains an oligopoly, where only seven major centers worldwide work in diamond cutting and trade. Tel Aviv is one of those centers, though it is not the most important one. Currently, around 9 percent of world diamonds are polished in Israel. The Diamond Exchange District, in the outskirts of Tel Aviv, is home to Israel's diamond industry, with four high-rise buildings containing the diamond exchange. The figures for the Israeli imports and exports of crude and polished diamonds reveal a kind of a transit trade. While diamond exports represented 13 percent of the total Israeli commodity exports in 2014, the net exports (exports minus imports) were barely 1.1 percent of total exports. This (together with the fact that the size of diamond export/import reflects basically the economic developments in the countries that import diamonds from Israel rather than developments in Israel's economy) is the main reason why the figures for the diamond industry are excluded from the country's foreign trade.

Box 7: Renewal of the Canada-Israel Free Trade Agreement: Costs rather than Gains for Palestine

The box summarizes the adverse effects of Israel's free trade agreements with other countries on the Palestinian economy. In the Canada-Israel free trade agreement, Canada has considered both Israel and the Palestinian Territory as a single customs territory, and therefore it expanded the terms of the agreement to include the Palestinian Territory instead of signing an independent free trade agreement with Palestine. The box found that the Palestinian Territory is rarely allowed to trade on zero tariff exports to Canada, while the Palestinian market remains open to Canadian exports via the Israeli market.

Key Economic Indicators in the West Bank and the Gaza Strip for the years 2000-2014

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014[d]
Population at mid year(thousands)															
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	4,421	4,550
- 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	2,790
- 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	1,702	1,760
Labor Market															
Employment (thousands)	600	505	477	564	578	603	636	690	667	718	745	837	858	885	917
Participation Ratio (%)	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	45.8
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	26.9
- 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	17.7
- 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	43.9
National Accounts															
GDP (Mill. USD)	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	12,476.0	12,765.8
Private 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	10,522.5	11,599.0
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	3,381.7	3,578.3
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	674.8
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	2,707.3	2,375.1
GDP per capita (USD)															
In 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	2,992.2	2,973.4
In Constant 2004 prices	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	1,793.3	1,734.6
Foreign Trade[b](Mill. USD)															
Commodity Exports		339	282	318	348	378	378	562	569	631	666	1,525	1,250	1,756.1	2,018.7
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	6,053.0	7,071.0
Trade Balance (Goods)		(1,641)	(1,224)	(1,464)	(1,952)	(2,236)	(2,352)	(2,718)	(2,942)	(3,504)	(3,653)	(4,663)	(4,884)	(4,296.9)	(5,052.3)
Services Exports		117	103	154	192	202	179	252	357	579	831	686	649	315.7	279.3
Services Imports		603	600	475	519	451	455	634	698	931	1,143	948	1,032	751.0	710.1
Trade Balance (Services)		(486)	(497)	(320)	(327)	(249)	(275)	(382)	(342)	(352)	(312)	(262)	(353)	(435.3)	(430.8)
Current Account of BoP		(875)	(452)	(854)	(1,334)	(1,020)	(944)	(467)	530	(713)	(691)	(2,430)	(2,815)	(1,317)	(1,387)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014[d]
Exchange Rates and Inflation															
Average USD/NIS	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	3.611	3.577
Average JOD/NIS	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	5.093	5.046
Inflation Rate (%)[c]	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	1.725	1.733
Public Finance on Cash Basis, mill. USD															
Net Domestic Revenues (incl. Clearance)	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	2,787
Recurent Expenditure	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	3,438
Development Expendt.	469	340	252	395	0	287	281	310	-	46.8	275.1	296	211	168	164
Deficit (before Grants)	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,342)	(1,083)	(776)	(807)	(931)	(651)
Foreign Grants	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,277	978	932	1,358	1,233
Surplus/deficit (after Grants)	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(81)	(94)	(86)	259	418
Public Debt	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	2,422
Banking Sector (Million Dollars)															
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	11,191	11,822
Equity	242	206	187	217	315	552	597	702	857	910	1,096	1,182	1,258	1,360	1,467
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	8,304	8,935
Credit	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	4,896

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

All data exclude the part of Jerusalem governorate which was annexed illeagaly by Israel (with the exception of the data on unemployment and population). Figures in brackets are negative.

a. The national accounts are in current prices, taken from the revised series of GDP values issued by PCBS in 2015. (for more information on the revised series, see the text box No. 2 in the Monitor No. 38)

b. Foreign trade figures are taken from the balance of payments prepared by the Palestinian Central Bureau of Statistics in collaboration with PMA.

c. 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.

d. Data for 2014 are Preliminary and subject to revision and amendments.