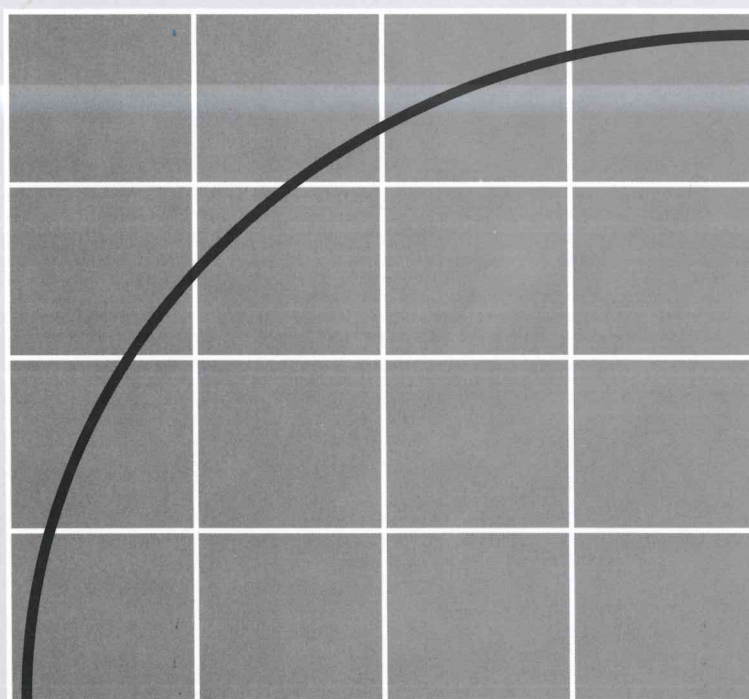


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Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)

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May, 2016

FOREWORD

With the present 44th issue of the *Quarterly Economic and Social Monitor* (QESM), we mark eleven years of rewarding partnership in the issuance of this publication (MAS and the PCBS teamed as of the first issue, and the PMA joined as of the third issue). While the data provided by the PCBS and the PMA comprise the fundamental material covered by the QESM, we look forward to developing our partnership to cover other aspects, including sustainability, evaluation, and development of this publication, in particular its analytic content. On this occasion, we wish to thank all those who have contributed to the issuance of the Monitor throughout the years. In particular, we thank the current teams from our three institutions which are involved in the Monitor and join them in their eagerness to see future issues benefit from the evaluation process currently underway, which aims at making this publication more responsive to the needs of stakeholders, researchers, and policy-makers, especially in the analytic aspects.

This is also an opportunity to extend our gratitude to all the donors who have supported the QESM in the past years, which has helped us sustain this important publication. We trust that this support will continue in the coming years to enable us to improve and enrich the content of the QESM, especially with respect to analysis and analytical content.

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Executive Summary

This publication of the *Quarterly Economic and Social Monitor* provides an overview of the key developments in the main economic indicators in the Palestinian territory during 2015 and its fourth quarter, focusing on the year-on-year change. It also includes five boxes that discuss issues pertinent to the Palestinian economy.

Overview

GDP

Palestinian 2015 GDP totaled around USD 7.722 billion (2004 prices), a growth of 3.5 percent over 2014. However the growth in real per capita GDP in 2015 was slight, at 0.5% (and even lower in the West Bank at 0.2%). The sectoral structure of GDP featured declines in the shares of agriculture, forestry and fishing by half a percentage point and in industry, mining and energy by 1.4 points, against rises in the shares of construction, retail trade and administrative services. Final consumption expenditure, meanwhile, reached USD 9.19 billion (in Constant Prices) (or 119% of GDP). The total value of fixed capital formation rose by 18.3% in 2015 to attain a share of 21.7% of GDP; hence, net exports constituted a deficit of 40.7% of GDP.

Labor Market

The number of West Bank and Gaza's workers rose from 917 thousand in 2014 to 963 thousand in 2015, of whom 59.5 percent worked in the West Bank, 28.8 percent in the Gaza Strip and 11.7 percent in Israel & its colonies. The overall unemployment rate fell from 26.9 percent to 25.9 percent., while the average daily wage in Gaza fell 3.1 percent to NIS 61.9.

Public Finances

Compared to 2014, net public revenues and grants in 2015 remained unchanged at NIS 14.3 billion. While aid and grants fell 29.5 percent, domestic collection and clearance revenue improved by 13.7 percent and 8.7 percent, respectively. International aid made up 21.7 percent of total public revenue. Meanwhile, public expenditure reached NIS 13.99 billion (95 percent on current spending and 5 percent for developmental spending). These changes produced a surplus of NIS 342 million (on a cash basis after grants and aid), which the

government used to pay off a part of the banking sector's arrears. This is, however, not the case when figures are calculated on a commitment basis, whereby the 2015 government liabilities of NIS 2.828 billion transform the surplus into a deficit of NIS 2.5 billion (or 5 percent of GDP at current prices). Finally, at the close of 2015, the public debt totaled NIS 9.9 billion (or 20 percent of GDP), of which around 50 percent was owed to the local private sector. Together the public debt and the liabilities produced a debt figure that was very close to 40 percent, the ceiling set for the public debt (See Monitor 37).

The Banking Sector

Total assets of banks grew during the year 6.7 percent to USD 12.6 billion on a 19 percent rise in direct credit facilities. Yet, total liabilities saw an increase of 6.7 percent, with the value of the public deposits (the most important component of liabilities) reaching USD 9.6 billion. Meanwhile, the ratio of non-performing facilities to total facilities fell from 2.5 percent to 2.1 percent during the year. At the same time, the figure for net profits of banks during 2015 was USD 133.9 million, down USD 11.9 from 2014 figure, though the difference between the average lending interest rate and deposit interest rate (the main source of profits for banks) rose slightly for all traded currencies (excluding the shekel).

Investment Indicators

The number of newly registered companies in the West Bank in 2015 was 1524, up 34 (or 2.3 percent) from 2014. The new companies registered in the year had a capital of JD 273 million, up 22 percent from the previous year. Around 17586 building permits for new and existing housing units were issued during 2015 (picking up from 16830 permits in 2014). The amount of imported cement rose 24 percent during the same period to 1.9 million tons. The improvement was mainly significant for Gaza, whose imports of cement hiked to 376 thousand tons, while the West Bank imports increased by only 2 percent to 1.5 million tons.

Prices and Purchasing Power

The 2015 consumer price index saw a rise of 1.43 percent over 2014. The change basically

resulted from an increase in the prices of alcoholic beverages and tobacco (by 10.92 percent), education services (by 4.98 percent), textiles, apparels & footwear (by 4.75 percent), and furniture & home appliances (by 3.41 percent) against a decline in lodging & related supplies (by 5.64 percent) and transportation & travel (by 1 percent). The purchasing power of those who receive wages and salaries in NIS, and also spend in NIS, declined by 1.436 (equivalent to the inflation rate). On the other hand, the purchasing power of individuals who receive their wages and salaries in USD (or JD) but spend in NIS, rose by 7.15 percent (equivalent to an 8.58 percent rise in USD/NIS exchange rate minus an inflation rate of 1.43 percent).

Foreign trade and balance of payments

The balance of trade (for registered goods) suffered a deficit of USD 4,029.7 million during 2015. Imports and exports dropped 13 percent and 3.4 percent, respectively. The current account deficit in the balance of payments reached USD 1,712.9 million, down 20.3 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 1549.4 million.

External Assets, Liabilities and Debt

Palestine's 2015 foreign assets totaled USD 5.855 billion, of which 6 percent was in the form of direct investment, while portfolio investment accounted for 18.5 percent. The total external liabilities, on the other hand, reached USD 4.956 billion, of which 50.1 percent was in the form of foreign direct investment. Palestine's external debt, in the meantime, totaled USD 1.649 billion. **Box Topics:**

This publication has 5 boxes, each discussing a specific topic:

Box 1: Millennium Goals, Sustainable Development Goals and Opportunities in the Arab States

The Box summarizes the Millennium Development Goals, the most important achievements and shortcomings. Much of the progress reported at the global level was in fact the result of the steady advances in a limited number of economies, particularly China. The Millennium Development Goals paid little heed

to the issues of sustainability and environmental preservation.

The Box then examines the successor “Sustainable Development Initiative” for 2015-2030, a new global agenda that was adopted by all UN member states (including Palestine as an observer state). This initiative includes a set of 17 goals and 169 targets that states will try to meet in the coming years. The box reviews a study that examines the pertinence of these goals to the Arab region. According to the authors, the Arab states have been of late particularly affected by armed conflicts and large fluxes of refugees and foreign workers, issues which have not been adequately addressed in the Sustainable Development Initiative. The study also raises the role of the state in this initiative, questioning the assumption that the state necessarily seeks the common good of its population. The study concludes that unless these issues are seriously discussed and given due attention— with support from a true global partnership committed to addressing these issues— the Sustainable Development Initiative goals are unlikely to materialize in the Arab region.

Box 2: PA 2015 and 2016 Budgets: modest ambitions and humble performance

This box analyzes the actual performance of FY 2015 budget versus the targets. Performance was relatively on target for net public revenues and total current expenditures, although one spending item (net lending) exceeded its target by about 45 percent. On the other hand, targets were not achieved with respect to developmental expenditure, which is usually financed by foreign aid. The Box also studies the FY 2016 budget proposed by the government and approved in early 2016. In light of the political stalemate and sluggish economic activity, the estimates, as in 2015, were based on expectations of continued spending cuts and relying heavily on assumedly increased domestic revenues.

Box 3: An international report: Businesses in the settlements contribute to Israel's violation of human rights

This Box summarizes the results of a Human Rights Watch report titled ‘How Settlement Businesses Contribute to Israel's Violations of Palestinian Rights.’ The report demonstrates that the Israeli companies that do business in or

with settlements are partners with the Israeli government in violating the fundamental rights of the Palestinians. By providing jobs to settlers and paying taxes to settlement municipalities, these companies contribute to sustaining and expanding the physical footprint of the settlements. Such businesses, the report continues, also benefit from Israeli policies that contribute to additional confiscation of Palestinian land and other resources. The settlement businesses entrench and benefit from a discriminatory system that promotes settlement and harms Palestinian livelihoods, not to mention abusing the rights of Palestinians working in the settlements.

The report urges Israeli companies to cease doing business in the settlements and to refrain from contributing to any activity linked to these settlements. The report does not, however, advocate a BDS initiative for boycotting, divesting or sanctioning these settlements. This raises questions about the justification of this 'indifference' and its incoherence with the findings and the main recommendation of the report.

Box 4: Israel's economy: poverty amidst prosperity and satisfaction amidst misery!

The Box outlines the findings of the OECD report on the performance of the Israeli economy and the OECD Better Life Index–Israel. Growth in Israel has exceeded most other OECD countries' rates for the last 13 years (4 percent annually), but Israel also has one of the highest poverty rates and large gaps in income distribution. The report also focused on the problem of low productivity, with Israel ranking next to last among the OECD states. On the Better Life Index (which consists of 11 sub-indices), Israel's performance was below the OECD average in the majority of sub-indices. Ironically though, Israelis are more satisfied with their lives than the OECD average.

Box 5: Human Development Index in Palestine and Jordan

This Box considers the structure of the United Nations Development Program's Human Development Index– country reports for Palestine and Jordan. Between 2009 and 2014, both countries performed relatively poorly. During that period, Palestine descended 13 notches to 113 and Jordan declined 8 notches to 80 (on a list of 188 countries). The Box studies specifically two sub-indices: gender-related development index and income distribution index in both countries.

Key Economic Indicators in the West Bank and the Gaza Strip for the years 2000-2015

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 ^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	4,682
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	2,862
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	1,819
Labor Market																
Employment (thousands)	600	505	477	564	578	603	636	690	667	718	745	837	858	885	917	963
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	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	25.9
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	17.3
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	41.0
^a National Accounts (Mill. USD)																
GDP	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	12,715.6	12,677.4
Private Consumption	3,866.80	3,765.40	3,397.90	3,932.10	4,445.20	5,086.30	5,320.20	5,847.20	6,915.70	7,174.20	8,354.70	9,602.40	10,158.5	11,062.60	11,840.4	11,795.7
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	3,478.2	3,374.9
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	2,415.0	2,689.5
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	2,960.1	2,865.8
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	1,737.4	1,745.9
Foreign Trade ^b (Mill. USD)																
Commodity Exports	712.8	526.1	410.2	452.1	525.3	581.7	629.8	903.6	974.9	929.4	1,110.0	1,492.5	1,547.9	1,756.1	1,858.1	2,018.6
Commodity Imports	2,526.2	2,269.9	1,859.7	2,229.3	2,850.3	3,231.6	3,328.7	3,803.2	4,145.4	4,365.7	4,613.4	5,100.6	5,574.7	6,053.0	6,496.9	6,860.2
Trade Balance (Goods)	(1,813.4)	(1,743.8)	(1,449.5)	(1,777.2)	(2,325.0)	(2,649.9)	(2,698.9)	(2,899.6)	(3,170.5)	(3,436.3)	(3,503.4)	(3,608.1)	(4,026.8)	(4,296.9)	(4,638.8)	(4,841.6)
Services Exports	172.2	89.8	67.6	63.0	71.5	141.6	106.5	162.7	190.1	203.9	257.3	306.9	323.2	315.7	314.2	304.1
Services Imports	369.2	426.3	373.9	287.1	287.1	342.3	354.7	480.9	499.9	577.5	650.9	622.6	725.2	751.0	712.0	641.2
Trade Balance (Services)	(197.0)	(336.5)	(306.3)	(224.1)	(215.6)	(200.7)	(248.2)	(318.2)	(309.8)	(373.6)	(393.6)	(315.7)	(402.0)	(435.3)	(397.8)	(337.1)
Current Account of BoP	(857)	(828)	(486)	(1071)	(1588)	(1365)	(1233)	(418)	381	(1143)	(1307)	(2070)	(1821)	(2383)	(2149)	(1713)
Exchange Rates and Inflation																
Average USD/NIS	4.086	4.208	4.742	4.550	4.478	4.482	4.454	4.110	3.567	3.929	3.739	3.578	3.85	3.611	3.577	3.884
Average JOD/NIS	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.042	5.542	5.275	5.050	5.43	5.093	5.046	5.483

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 ^d
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	1.431
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.	1,900	2,176	2,240	2,320	2,787	2,891
Recurent Expenditure	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,920	2,983	2961	3,047	3,250	3,438	3,426
Development Expendt.	469	340	252	395	0	287	281	310	-	46.8	275.1	296	211	168	164	176.8
Deficit (before Grants)	)260(	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,342)	(1,083)	)785(	(807)	(931)	(651)	(534.4)
Foreign Grants	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,277	978	932	1,358	1,233	798
Surplus/deficit (after Grants)	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(81)	(103)	(86)	259	418	88
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	2,547
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	8,590	9,110	9,799	11,191	11,822	12,602
Equity	242	206	187	217	315	552	597	702	857	910	1,096	1,182	1,258	1,360	1,464	1,462
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	9,655
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	4,895	5,824.7

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

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

- 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)
- Foreign trade figures are taken from the balance of payments prepared by the Palestinian Central Bureau of Statistics in collaboration with PMA.
- 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.
- Data for 2015 are Preliminary and subject to revision and amendments.