Economic Monitor

60

2019

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

Economic Monitor Issue 60/2019

Editor: Nu'man Kanafani

Palestine Economic Policy Research Institute- MAS (General Coordinator: Islam Rabee)
The Palestinian Central Bureau of Statistics (Coordinator: Amina Khasib)
Palestine Monetary Authority (Coordinator: Dr. Shaker Sarsour)
Palestine Capital Market Authority (Coordinator: Dr. Bashar Abu Zarour)

Copyright
All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photo copying, or otherwise, without the prior permission of the Palestine Economic Policy Research Institute-MAS, the Palestinian Central Bureau of Statistics and Palestine Monetary Authority.

@ 2020 Palestine Economic Policy Research Institute (MAS)
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

@ 2020 Palestinian Central Bureau of Statistics (PCBS)
P.O. Box 1647, Ramallah
Telephone: +972-2-2982700
Fax: +972-2-2982710
E-mail: diwan@pcbs.gov.ps
Website: www.pcbs.gov.ps

@ 2020 Palestine Monetary Authority (PMA)
P.O. Box 452, Ramallah
Telephone: +972-2-2409920
Fax: +972-2-2409922
E-mail: info@pma.ps
Website: www.pma.ps

@ 2020 Palestine Capital Market Authority (PCMA)
P.O. Box 4041, AlBireh
Telephone: +972-2-2946946
Fax: +972-2-2946947
E-mail: info@pcma.ps
Website: www.pcma.ps

To Order Copies
Contact the Administration on the above addresses.

May 2020

2019 in Brief:

- **GDP:** On a year-on-year basis, GDP grew by 0.9% reaching USD 15.8 billion (at 2015 prices). This is attributed to a growth of 1.2% in the West Bank, while the Gaza Strip GDP did not witness any changes. Taking population growth into consideration shows a drop in the GDP per capita in Palestine by 1.6%, reaching USD 3,365 in 2019; distributed as USD 4,802 in the West Bank compared with only USD 1,417 in the Gaza Strip.
- **Unemployment:** Despite its decline by 0.9 percentage point in 2019 compared with the previous year, the unemployment rate in Palestine is still very high, reaching 25.4%. This drop is ascribed to a noticeable decline in the unemployment rate in the West Bank (from 17.5% to 14.5%) compared with two percentage points increase in the Gaza Strip (45.2%). About a third of private-sector waged workers earn an average monthly salary of NIS 753, which equals half the official monthly minimum wage level.
- **Public Finance:** Over the consecutive years 2018 and 2019, net public revenues and grants decreased by 9%, reaching around NIS 13.5 billion. This is attributed to a significant decline in foreign grants by 28%, clearance revenues by 3%, and domestic revenues by 10%. On the other hand, public expenditures dropped by 3% to NIS 13.7 billion. This led to a deficit in the total balance (current and developmental) of NIS 0.3 billion (on cash basis). During the year, government arrears totaled NIS 3.2 billion, and public debt rose by about 8% compared with the previous year, reaching NIS 9.7 billion.
- **Banking Sector:** During 2019, credit facilities increased by 7% compared with the previous year, reaching USD 9 billion, 17% of which were granted to the public sector. On the other hand, total deposits rose by 11%, reaching USD 14.7 billion. Banks' profits reached USD 164.2 million, a drop of 11% compared with the previous year.
- **PEX:** By the end of 2019, the market value of traded shares on the PEX was USD 3.8 billion, a rise of 1% compared with 2018. The Al Quds index closed at 526 points, a drop of 1% compared with 2018.
- **Inflation and Prices:** During 2019, the Palestinian economy witnessed positive inflation of 1.58% compared with the previous year, i.e. the purchasing power of the shekel declined by 1.56% compared with the previous year. Similarly, the purchasing power for those who receive their salaries and spend them in USD and JD has declined by 2.39% compared with the previous year, due to inflation and a drop in the USD exchange rate against the shekel.
- **Balance of Payments:** During 2019, the deficit in the Palestinian balance of payments decreased to USD 833 million, i.e. USD 307 million less than the previous year. This resulted from a 34% surge in current transfers, against a decline in income balance of 5%, whereas the balance of trade deficit rose by 1%.

Note: The fractional components of ratios in the Monitor's sections, except for GDP and Prices and Inflation and Interest Rates, are presented as integer figures.

CONTENTS

- **National Accounts**
  Box 1: Trade War between Israel and Palestine
- **Labor Market**
  Box 2: Labor in Israel: Short-term Gains and Long-term Losses
- **Public Finance**
  Box 3: Development of the Palestinian Government's Public Debt and Arrears 2012-2019
- **The Financial Banking Sector**
  Box 4: High Commissioner for Human Rights (OHCHR) Announcement of 112 Enterprises Supporting Settlements
- **The Non-Banking Financial Sector**
  Box 5: Financial Technology and Control and its Role in Promoting Financial Inclusion
- **Economic Environment**
  Box 6:: The World Inequality Lab: A Steady Drop in the Distribution of National Income in Palestine
- **Prices and Inflation**
  Box 7: Skills and Jobs Forecasting Model in the Palestinian Labor Market
- **Foreign Trade**
  Box 8: The History of Jerusalem Electricity Company: From the Ottomans to the Israeli Occupation
- **Economic Concepts and Definitions:**
  Monetary Policy vs. Fiscal Policy
- **Key Economic Indicators in Palestine 2015-2019**

M A S
Palestine Economic Policy Research Institute (MAS)

Palestine Monetary Authority (PMA)

Palestinian Central Bureau of Statistics (PCBS)

هيئة سوق رأس المال الفلسطينية
Palestine Capital Market Authority

1. National Accounts[1]

By the end of 2019, the Palestinian Central Bureau of Statistics (PCBS) released a new series of revised national accounts (refer to Box-1 in issue 59 of the Monitor). The new series of figures will be used henceforth.

GDP Growth

Quarter 4: Gross Domestic Product (GDP) is the monetary measure of the market value of all types of goods and services produced in an economy during a specific period of time. Palestinian GDP rose by 2.6% during Q4 2019, compared with the previous quarter, reaching USD 4,016.4 million (at 2015 constant prices). This rise was driven by similar growth rates in both the West Bank and the Gaza Strip, by 2.6% and 2.7% respectively. However, GDP recorded a drop of 1.8% in Q4 2019 compared with the corresponding quarter.

This GDP growth over the consecutive quarters, accompanied by an increase in the population, resulted in an increase in the per capita GDP by 1.9% in both the West Bank and the Gaza Strip. However, the per capita GDP over the corresponding quarters decreased by 4.2% (Refer to Table 1-1).

Table 1-1: Per Capita GDP* by Region (Constant prices, base year 2015)

	Quarter 4 2018	Quarter 3 2019	Quarter 4 2019
Palestine*	**886.4**	**832.9**	**848.8**
-West Bank	1,266.3	1,191.0	1,214.0
-Gaza Strip	368.9	348.1	354.9

Data do not include that part of Jerusalem governorate, which was annexed by Israel following the West Bank occupation in 1967.

Year-on-Year Comparison: During 2019, Palestinian GDP reached around USD 15.9 billion (at 2015 constant prices), a growth of 0.9% compared with 2018. The overall growth was driven solely by a growth rate of 1.2% in the West Bank, as Gaza's GDP maintained the same level as last year. Regarding per capita GDP in Palestine, it has declined by 1.6%, reaching USD 3,364,5 (refer to Table 1-2).

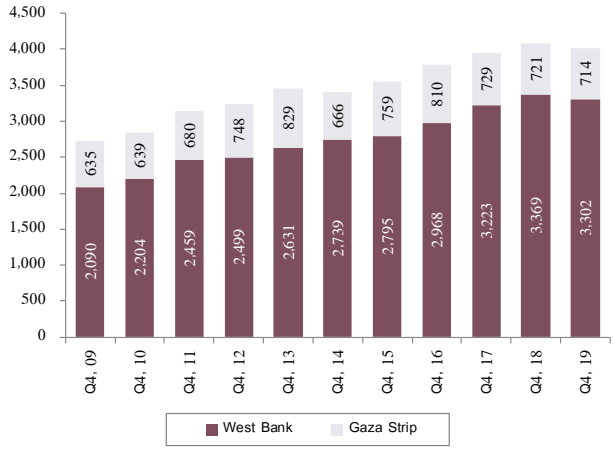
Table 1-2: Palestinian GDP* by Region (at 2015 constant prices) (USD million)

	2018	2019	Growth rate (%)
GDP (USD Million)	15,616.2	15,764.4	0.9
- West Bank	12,797.3	12,945.0	1.2
- Gaza Strip	2,818.9	2,819.4	0.0
Per capita GDP (USD)	3,417.7	3,364.5	(1.6)
- West Bank	4,854.4	4,802.5	(1.1)
- Gaza Strip	1,458.3	1,416.8	(2.8)

Data do not include that part of Jerusalem governorate, annexed by Israel following the West Bank occupation in 1967.
Figures between brackets indicate a negative value

1 Source of figures: PCBS, 2020. Periodic Statistics on National Accounts, 2000-2019. Ramallah, Palestine

Figure 1-1: Palestinian GDP* by Corresponding Quarters (at 2015 constant prices) (USD million)



Data do not include that part of Jerusalem governorate, annexed by Israel following the West Bank occupation in 1967.

The GDP Gap between the West Bank and the Gaza Strip

Figure 1-1 depicts the expansion in the Palestinian GDP gap between the West Bank and the Gaza Strip during the last decade. The Gaza Strip's share of GDP is still less than one-fifth of Palestine's GDP. The gap in per capita GDP between the West Bank and the Gaza Strip reached USD 3,385.7 during 2019, a decrease of USD 10.4 compared with its level in 2018 (Refer to Table 1-2). This means that per capita GDP in the Gaza Strip is less than one-third (30%) of per capita GDP in the West Bank.

Composition of GDP

Quarter 4: The contribution of productive sectors to Palestinian GDP increased by 0.5 percentage point between Q3 and Q4 2019, driven by a rise in the share of the agriculture sector. On the other hand, the share of the services sector and public administration and security sector decreased by 0.4 and 0.2 percentage point respectively, whereas the share of transportation, information, and finance remained unchanged compared with the previous quarter. Compared with the corresponding quarter in 2018, the contribution of the productive sectors increased by 0.3 percentage point, driven by a rise in the agriculture and industry sectors. Additionally, the share of the public administration and security sector rose by 0.9 percentage point. On the other hand, the share of trade, transportation, information, and finance decreased by 0.5 percentage point, while service activities decreased by 0.8 percentage point.

Year-on-Year Comparison: The share of the public administration and security sector increased by 0.6 percentage point between 2018 and 2019, against a drop in the share of trade, transportation, information, and finance by 0.3 percentage point, in addition to a drop in the share of the productive sectors by 0.5 percentage point. Reviewing the sectoral struc-

ture over the last decade (Figure 1-2) shows that the share of the economy's productive activities in the Palestinian GDP (agriculture, industry, and construction) followed a downward trend, from 28.4% to 25.6%. A drop was seen as well in administrative activities in contrast to a large expansion in the share of trade, transportation, information, and finance.

Expenditure on GDP

Quarter 4: The absolute decline in the GDP value between Q4 2018 and Q4 2019 amounted to about USD 73.3 million. This resulted from a drop in final consumption expenditure (public and private) and investments by USD 152.7 million, against a rise in exports by USD 6 million. This was accompanied by a drop in imports of USD 177.3 million, as shown in Table 1-3. The final consumption expenditure and investment (with net error and omissions) combined to reduce GDP growth by 6.2%, while the rise in exports and decline in imports led to GDP growth by 4.4%. The net of the two ratios was -1.8%, which reflects a decline in Palestine's GDP over the corresponding quarters, as mentioned earlier (Table 1-3).

Compared with the previous quarter, the GDP value in Q4 2019 increased by USD 101.1. Table 1-3 presents the contribution of the different items to GDP growth, which reached 2.6% as mentioned before.

Year-on-Year Comparison: The absolute increase in the GDP value between 2018 and 2019 amounted to about USD 148.2 million, distributed as an increase of USD 640.4 in private consumption and exports, and a drop of USD 265.2 million in public consumption and investments. The increase was financed by a surplus in imports over exports of USD 65.2 million. This signals a wide gap between resources used and those produced locally, which is a noticeable source of deficit in the Palestinian economy: financing the expanded consumption was achieved through increasing the external deficit (to the outside world). As Figure 1-3 shows, consumption (private and government) and investment increased by 45.8% between 2009 and 2019. On the other hand, imports surplus over exports increased by 25% during the same period. In 2019, the Palestinian economy's total resources used for consumption and investment was 153% of what the economy produced locally.

Figure 1-2: % Contribution of Economic Sectors to Palestinian GDP* (constant prices, base year 2015)

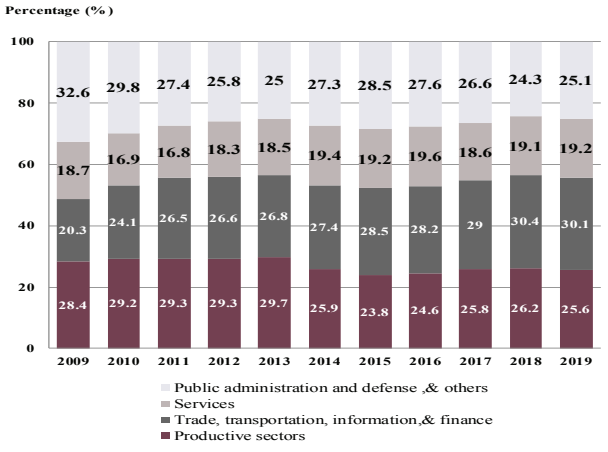
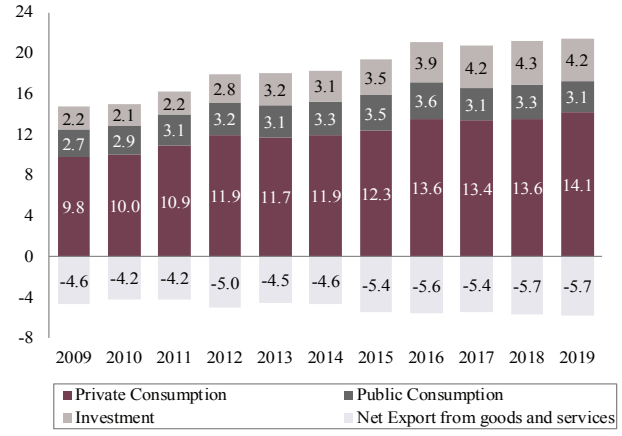


Figure 1-3: Expenditure on Palestinian GDP* (Constant prices, base year 2015) (USD billion)



Data do not include that part of Jerusalem governorate, annexed by Israel following the West Bank occupation in 1967.

Gross National Income (GNI)

GDP measures the levels of production and income produced within a country's geographic area, regardless of the

Table 1-3: Distribution of Expenditure on GDP in Palestine* and the Shares of Aggregate Demand in Growth (%)

Change in final consumption	Q4 compared with the Previous Quarter		Q4 compared with the Corresponding Quarter 2018	
	Amount	Contribution to Growth	Amount	Contribution to Growth
(+) Change in private consumption	18.0	0.4	(21.6)	(0.5)
(+) Change in Public Consumption	29.7	0.8	(61.9)	(1.5)
(+) Change in Investment	2.3	0.1	(69.2)	(1.7)
(+) Change in Exports	70.8	1.8	6.0	0.1
(-) Change in imports	(61.6)	(1.6)	(177.3)	(4.3)
(+) Net errors and omissions	(81.3)	(2.1)	(103.9)	(2.5)
GDP	101.1	2.6	(73.3)	(1.8)

*Note: Figures between brackets indicate a negative value

nationality of persons or corporations who contributed to production or expenditure. On the other hand, GNI measures the levels of production of citizens from a particular country, regardless of whether they work inside or outside their country. Thus, "Net Foreign Factor Income (NFFI)" is the difference between GDP and GNI, i.e. the aggregate income that a country's citizens earn abroad minus the aggregate income that foreign citizens earn in that country.

GDP is inadequate in providing an approximate indication of the available resources in an economy for the population as it does not take into consideration the positive and high value of the NFFI, which reached USD 571.4 million during Q4 and USD 2,267.5 million for all of 2019 in Palestine. Figure 1-4 also shows that Palestine's GNI exceeds its GDP by 14.2% after adding this item. It is noteworthy that the Palestinian labor force abroad (mainly in Israel) contributed to 97% of NFFI, while the rest came from Net Property Income from abroad.

National Disposable Income (NDI)

In principle, this means that GNI can be a better indicator of the resources available during a given year in the Palestinian case than GDP. However, GNI also does not show the complete picture, as it does not take into consideration "Net Unrequited Transfers (NUT)" from abroad, which include aid and gifts sent by citizens residing abroad to their families and friends in the home country, as well as assistance and donations from abroad to local private and public institutions. NUT to Palestine amounted to USD 410.5 million in Q4 2019 and USD 1,834.7 million in 2019. Adding these transfers to GNI gives the Gross National Disposable Income (GNDI), which is a more comprehensive indicator of resources available in the economy than the other two indicators considered. The value of the Palestinian GNDI is 25% above the value of GDP, both at the level of the gross and the per capita income, as illustrated by Figure 1-4.

Table 1-4: GDP, GNI, GNDI at constant Prices (USD million)

Variable	2018		2019		
	Q4	Total for the year	Q3	Q4	Total for the year
GDP	4,089.7	15,616.2	3,915.3	4,016.4	15,764.4
- NFFI	691.3	2,505.3	642.1	571.4	2,267.5
- GNI	4,781.0	18,121.5	4,557.4	4,587.8	18,031.9
- Net Unrequited Transfers	437.4	1,487.1	484.8	410.5	1,834.7
GNDI	5,218.4	19,608.6	5,042.2	4,998.3	19,866.6
- Per capita GNI (USD)	1,036.2	3,966.1	969.5	969.5	3,848.3
- Per capita GNDI (USD)	1,131.1	4,291.5	1,072.6	1,056.3	4,240.0

Note: Figures between brackets indicate a negative value

Box 1: Trade War between Israel and Palestine

Two large companies (Tnuva and Dabbah) dominate the beef and veal meat market in Israel. These companies import small calves, fatten them in their farms, then slaughter them in their own slaughterhouses and market them to retail sellers. Imported calves cover about 80% of the Israeli market's needs. The two companies avert from importing slaughtered meat due to the high custom tariffs imposed on meat imports, the high costs of veterinary tests, and the Jewish rituals on carcasses coming from outside of Israel. A report of Israel's Antitrust Authority in 2016 emphasized the two companies' monopoly power in the integrated chain of importing, fattening, slaughtering, and marketing of kosher meat. The report recommended the Ministry of Economy and Industry to take measures to encourage small producers and slaughterhouses, to import slaughtered meat to reduce monopoly of the meat market, and to improve business competitiveness. [1]

Israeli Products Specially Produced for the Palestinian Market

On the margin of an almost completely dominated market, a relatively small business sector has appeared over the few past decades, with around 400 farms designated exclusively to importing, fattening, and caring for calves and then selling them to the Palestinian market. This sector imports calves of about 180 kg, fattens them up to 350-600 kg, and sells them to Palestinian merchants at a price of about 11-18 shekels/kg, depending on the calf's weight (the price drops if the calf's weight is above 450kg).[2] Israeli sources indicate that annual export to the Palestinian market ranges between 120-140 thousand calves at a value of approximately USD 290 million. These imports cover about 80-85% of the Palestinian market's needs. [3]

The direct importing of small calves to be fattened in the Palestinian territories faces enormous difficulties, undermining the market's capability to compete with calves fattened in Israel. Most of these are administrative, logistical, and veterinary obstacles imposed by Israel on direct Palestinian importers, while Israeli importers are free from such treatment. Moreover, Palestinians do not benefit from economies of scale as individual merchants' im-

1 https://www.gov.il/en/departments/news/freshbeefinspectionreport

2 Interview with Mr. Ahmad Hajaj, Director of the Marketing Department at the MoA, dated 11/2/2020.

3 Haaretz Jan 31, 2020

ports of calves are limited. There is also no appropriate infrastructure or veterinary services for healthy fattening. Over the years, a network of financial facilities has been established between Israeli suppliers and Palestinian merchants which can't be established easily with other suppliers in the short run. There is a lot of evidence that the profit margin from selling calves to the Palestinian market is very high. For example, the average price of a calve imported from Israel is about NIS 5,200 (USD 1,500) while a calf imported from abroad costs NIS 4,800 (USD 1,350).

Palestinian Boycott

Since its formation in April 2019, the new Palestinian government defined clearly its top priorities, amongst which was reducing its dependence on Israel by encouraging alternative local production and direct importing from abroad. It seems that this choice was made primarily because of the high cost of importing calves from Israel (which represents 11% of the total value of agricultural imports)[4] and because of the possibility of building a local fattening foundation with forward and backward linkages with promising economic gains. However, to achieve this goal, Israel's measures that prevent the direct import of calves from abroad by Palestinians should be stopped. Given the limited options left for the Palestinian government, the latter decided to opt for a boycott to achieve its goal.

In September 2019, the Palestinian government declared halting the entry of calve imports from Israel and called on local merchants to import calves directly from abroad. A swift move was taken by the owners of Israeli farms by launching vitriolic campaigns in front of the headquarters of the Israeli Prime Minister, calling Israeli politicians to take action and end the Palestinian boycott. Farmers complained that they had no choice other than selling their fattened calves to the Palestinian market because of the two companies dominating the market and that they have sustained high losses, which might lead to their bankruptcy, in addition to fodder monthly costs averaging NIS 300 per head.[5] Soon, the Israeli security establishment intervened. Major General Kamil Abu Rokon - Coordinator of Israeli Government's Activities in the Occupied Territories - threatened the Palestinian government with similar measures and stated that Israel "will not allow any form of boycott of Israeli goods". [6]

This unstable situation lasted until mid-December 2019 when the Palestinian government suddenly lifted the ban and allowed the entrance of 4000 calves from Israel to the Palestinian market. Israeli security sources claimed that the Palestinian government withdrew their boycott decision, "fearing that the Palestinian people lost patience because of high prices". [7] However, Palestinian sources stressed that lifting the ban followed the conclusion of an agreement with Israeli authorities on the following: [8]

- Immediately allow the entry of calve imports from Israel in return for the immediate release of 15,000 calves imported from abroad by Palestinians that had been seized by Israel in quarantine facilities at the borders.
- Allow Palestinians access to direct imports without a set ceiling and not consider Israel as the sole source of imports. [9]
- Approve the establishment of a Palestinian quarantine area by Israel.
- Allow Palestinian egg produce into the Israeli market.
- Israeli Boycott and Ban on Palestinian Exports

Palestinian sources emphasize that Israel did not abide by the agreement. Their move to allow the export of 4000 heads may have been considered a temporary solution to alleviate the crisis of farm owners, or because of disputes between the Israeli civil wing (the Ministry of Agriculture) which have honored the agreement, and the military/security wing headed by the Minister of Defense, Naftali Bennett, who might have used this confrontation immediately before Israeli elections as a political maneuver. Importantly, in the middle of January 2020, the Palestinian government found itself forced to ignore the agreement and to reinstate the ban on calve imports from Israel.

Soon, the situation exacerbated. The Israeli Minister of Defense issued a decision on January 31 banning Palestinian agricultural exports to Israel (according to Israeli sources, these exports were 62,000 tons valued at USD 53 million in 2019). One week later, the Palestinian Ministry of Economy reacted by issuing a decision banning imports of four goods from Israel: vegetables, fruits, juices, and bottled water, whose value is estimated at USD 190 million annually.[10] The next day, the Israeli Minister of Defense issued a decision banning the export of Palestinian goods to or through Jordan as of 9th February 2020. However, escalations defused in less than two weeks when the two parties announced the conclusion of a new agreement, overcoming their "trade war".

A Settlement or a Mere Truce

It is quite certain that this is a mere truce between the two parties and not the end of their "trade war", considering the announced goal of the Palestinian government to reduce dependence on Israel would have massive economic implications for Israel, particularly in the short run and on sectors that have expanded particularly to supply goods to the Palestinian market. Signs of the next round of confrontations began to appear at the surface in the form of contradicting statements about the content of the last agreement. The Minister of Economy Mr. Khalid Al Asili stated in a press release that the agreement allows Palestinians to import calves directly from different countries in the world without restrictions and to import from Israel according to their needs. It also allows them to establish quarantine areas in the West Bank to receive imported livestock. On the other hand, the statement from the Israeli Minister of Defense did not mention anything other than lifting the ban on Palestinian exports after lifting the Palestinian's ban on importing calves from Israel. [11]

4 PCBS, 2019, Registered Foreign Trade Statistics.
5 See for example the article in "Times of Israel" Newspaper dated 19 December 2019
6 Haaretz Oct 16, 2019
7 Https://www.arab48.com/ cited by Haaretz Newspaper (11 December 2019).
8 Ja'efer Sadaqa, Wafa news agency, 18th Feb 2020.
9 This is set forth clearly in Paris protocol, and does not need a new agreement, rather an enforcement on the ground.
10 Haaretz Feb 5, 2020
11 Times of Israel, Feb 20, 2020.

2- Labour Market[1]

According to PCBS's definition, manpower includes all persons aged 15 years and above in Palestine. Manpower amounted to 3,097.6 thousand persons by the end of Q4 2019. The labor force (all persons qualified to work and actively seeking employment) amounted to 1,373.9 thousand. The difference between the labor force and the actual number of persons employed (workforce) measures the rate of unemployment (329.6 thousand persons). Figure 2-1 shows the relation between these three variables and the size of the population in Q4 2019 and 2019 as a whole.

As shown in Figure (2-1), the participation rate (percentage of labor force to manpower) reached 44% in Palestine. This ratio represents all employed persons aged 15 years and above. The Palestinian rate is close to the general average in the Middle East, reaching 48% in Turkey for example. However, compared to many developing countries, the Palestinian rate is considered low (63% in Latin America and 61% in South Korea).[2] This is mainly attributed to the low female participation rate in Palestine (refer to Box 2 in Monitor 51). Distribution of Workers

Quarter 4: Between Q3 and Q4 2019, the number of workers in Palestine increased by 2%, reaching 1,041 thousand: 60% in the West Bank, 27% in the Gaza Strip, and 13% in Israel and its colonies (around 135 thousand, 20% of whom working without permits). By sector, the public sector employed one-fifth of workers in Palestine during Q4 2019, while this ratio rose to 36% in the Gaza Strip (Figure 2-2).

Figure (2-1) presents the sectoral distribution of Palestinian workers. The table shows that the main difference between their distribution, whether including or excluding workers in Israel and its colonies, is seen in the construction and building sector where Palestinian workers in Israel concentrate

Figure 2-1: The Total Population, Manpower and Workforce in Palestine (Q4 2019) (Thousands)

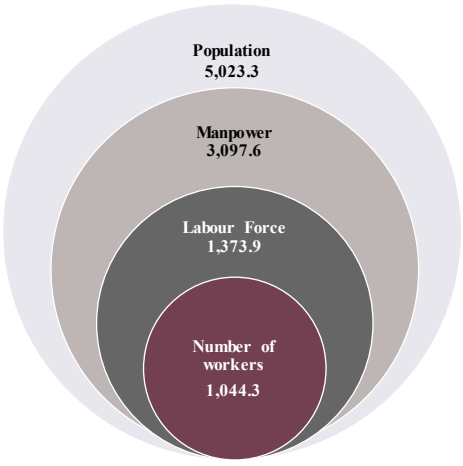


Figure 2-2: % Distribution of Palestinian Workers by Region and Sector, Q4 2019 (%)

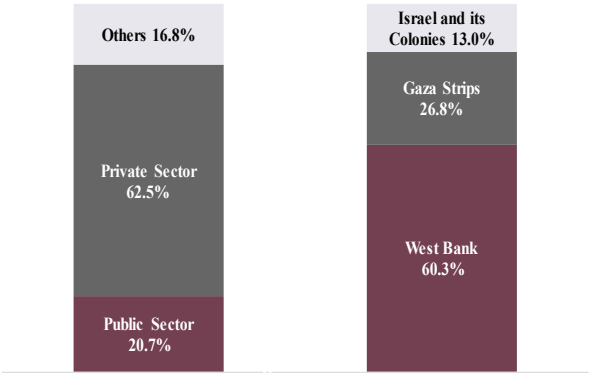


Table 2-1: % Distribution of Palestinian Workers by Economic Activity, Q4 2019 (%)

Economic activity	Including those working in Israel and its colonies				Excluding those working in Israel and its colonies
	West Bank	Gaza Strip	Israel and its Colonies	Palestine	Palestine
Agriculture, fishing and forestry	7.1	6.8	6.9	7.0	7.0
Quarry and manufacturing	14.0	5.8	13.0	11.7	11.5
Building and Construction	14.3	2.8	64.6	17.7	10.8
Trade, Restaurants, and Hotels	24.9	21.4	9.2	21.9	23.8
Communications	6.0	8.2	1.7	6.0	6.7
Services and other	33.7	55.0	4.6	35.7	40.2
Total	100	100	100	100	100

(65% of workers). The table also demonstrates a discrepancy in the relative distribution of employment between the West Bank and the Gaza Strip. The higher employment in the industrial and quarrying sector in the West Bank (14% compared with 6% in the Gaza Strip), is countered by a higher employment in the services sector in the Gaza Strip (55% in the Gaza Strip compared with 34% in the West Bank). Finally, figures indicate a significantly low proportion of Gazan workers working in the building and construction sector (a mere

1 Source of Figures: PCBS Labor Forces Survey, 2020. Ramallah, Palestine.
2 World Bank database.

3%), which is attributed to the unjustified and tight restriction on the entry of construction materials into the Gaza Strip (refer to a box about dual-usage material in Monitor 57).

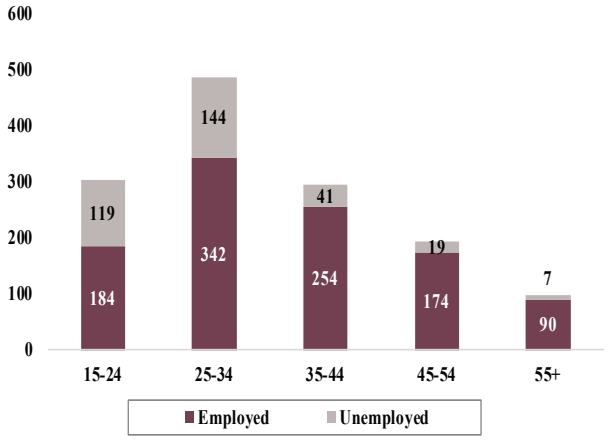
Year-on-Year Performance: The number of workers in Palestine increased by 6% over the consecutive years 2018-2019, reaching 1,010 thousand. In 2019, the increase in workers was distributed as 50 thousand in the local market and 4 thousand in Israel and its colonies. No significant change was noticed for workers' place of work or economic activity, which are mostly close to percentages indicated in Table 2-1.

Unemployment

Quarter 4: The number of unemployed in Palestine stood at 329.6 thousand by the end of Q4 2019. The unemployment rate (the number of unemployed workers divided by the labor force) was 24% in Q4 2019, 0.2 percentage points less than the corresponding quarter 2018, and 0.6 percentage points less than the previous quarter. The decline over the corresponding quarters was owed to the decrease in unemployment in the West Bank among both females and males, and its increase in the Gaza Strip among males (Table 2-2).

Year-on-Year Performance: The number of the unemployed in Palestine stood at 343.8 thousand by the end of 2019 (128.7 thousand in the West Bank against 215.1 thousand in the Gaza Strip). The unemployment rate was 25.4%, 0.8 percentage points less than the previous year 2018. The decline of the unemployment rate in Palestine was driven by the decline of unemployment in the West Bank by 2.7 percentage points reaching 14.6%, despite its rise in the Gaza Strip by 1.9 percentage points reaching 45.2%. The Gaza Strip's unemployment rate is one of the highest in the world, especially among females, where it reached 63.7%. This means that only four of every ten females seeking to work have a job.

Figure 2-3: Number of Employed and Unemployed in Palestine by Age Group (Q4 2019) (Thousands)



Unemployment in Palestine is concentrated among the youth. The unemployment rate in the age group 15-24 years reached 39% compared with 14% in the age group 35-44, and 10% for the age group 45-54, as Figure 2-3 shows (see Figure 2-4 and Box 1: Results of the Survey of the Youth Transition from Education to the Labor Market in Issue 46 of the Economic Monitor).

The unemployment rate decreases with the attainment of higher educational levels for males, in contrast to females. This disparity can be attributed to significantly higher female participation in the labor market in comparison to males (see Figure 2-4 and Monitor 53 -Box 1 which argue that the high unemployment rate of educated females compared with uneducated females is associated with their high participation rate in the labor market rather than their education).

Table 2-2: Unemployment Rate among Labor Force Participants in Palestine by Region and Gender (%)

Region/Gender		Q4 2018	Q3 2019	Q4 2019	2018	2019
West Bank	Males	13.1	10.6	11.3	14.6	12.1
	Females	27.2	25.9	24.9	29.3	25.8
	Total	15.8	13.3	13.7	17.3	14.6
Gaza Strip	Males	35.9	39.0	38.5	37.9	39.6
	Females	57.4	66.4	57.3	62.6	63.7
	Total	40.9	45.1	42.7	43.1	45.2
Palestine	Males	20.5	20.3	20.6	22.4	21.4
	Females	38.8	42.3	38.0	41.9	41.2
	Total	24.2	24.6	24.0	26.2	25.3

Note: The figures in the table are calculated based on the revised definition of unemployment that was adopted by PCBS and ILO. The narrow new definition states that unemployment includes only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking anymore for jobs (did not seek employment during the reference period). The revised unemployment standards have caused a slight change in the unemployment rate in the West Bank, while the change was larger in the Gaza Strip. This is attributed to the widespread atmosphere of job search frustration (the unemployment rate declined in the Gaza Strip from 52.0% to 43.2% in 2018). Refer to the statistical annex of the current issue of the monitor and Monitor 56 for a comparison of the rates of participation and unemployment based on the old and new standards.

Wages

Quarter 4: The average daily wage of workers in Palestine was NIS 125.6 in Q4 2019 – a significant drop of NIS 11.1 between Q3 and Q4 2019. This was the result of a decline in the average wage of workers in the West Bank (NIS 9.7), in Israel and its colonies (NIS 6.3), against its rise in the Gaza Strip (NIS 6.7). Yet the average daily wage of workers in Palestine (NIS 125.6 per day) masks the wide divergence between:

1. the average wage of workers in the West Bank and the Gaza Strip on the one hand, and that of workers in Israel and its colonies on the other hand.
2. the average wage of workers in the West Bank and that of workers in the Gaza Strip.

As Table 2-3 demonstrates, the average wage of workers in Israel and its colonies is double the wage of workers in the West Bank and four times the wage of workers in the Gaza Strip. Table 2-3 also shows that the average wage in the Gaza Strip is 53% of its level in the West Bank. The gap is even wider when considering the median wage, which is a more accurate indicator, as the average wage conceals significant disparities between low- and high-wage workers. The median wage marks the highest wage level for the bottom half of all workers (Figure 2-5). Although the average daily wage of workers in the Gaza Strip is 53% of that in the West Bank, as mentioned earlier, the median wage is around 40% of the median wage in the West Bank (Table 2-3).

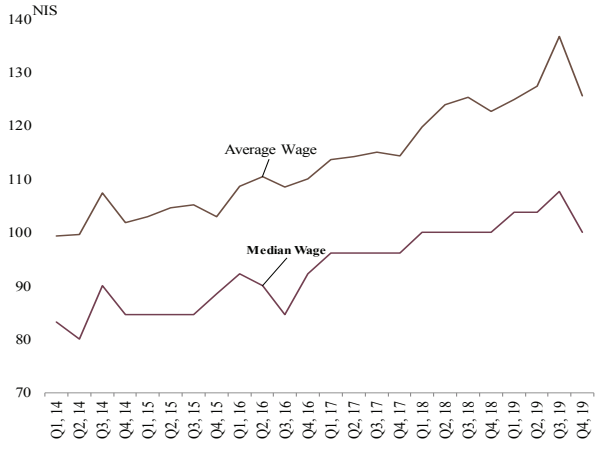
Table 2-3: Average and Median Daily Wages of Waged Workers, Palestine, (Q4 2019) (NIS)

Place of Work	Average Daily Wage	Median Daily Wage
West Bank	118.1	100.0
Gaza Strip	62.6	40.0
Israel and its Colonies	254.8	250.8
Total	125.6	100.0

Year-on-Year Comparison: In 2019, the average daily wage of workers witnessed a rise of NIS 5.6 over the previous year, reaching NIS 128.6. This resulted from a rise of NIS 9.5 in the average wage of workers in the West Bank, NIS 11.3 in Israel and its colonies, against a drop of NIS 1.9 in the Gaza Strip. The daily median wage for Palestinian workers rose from NIS 100 to NIS 103.8 over the consecutive years (Table 2-4).

Figure 2-4: Number of Employed and Unemployed in Palestine by Educational Attainment and Gender (Q4 2019) (%)

Figure 2-5: Average and Median Daily Wages of Waged Workers in Palestine (NIS)



Minimum Wage

Quarter 4: During Q4 2019, 31% of private sector waged-workers earned less than the monthly minimum wage (less than NIS 1,450): 35% females and 30% males. The average monthly wage of those workers was NIS 727. By region, 9% of the private sector waged workers in the West Bank earned sub-minimum wages, compared with 79% in the Gaza Strip (Table 2-5).

Year-on-Year Comparison: The number of waged workers who earned sub-minimum wages increased from 105 thousand by the end of 2018 to 109 thousand by the end of 2019

Table 2-4: Average and Median Daily Wages of Waged Workers, Palestine, (2018-2019) (NIS)

Place of Work	2018		2019	
	Average Daily Wage	Median Daily Wage	Average Daily Wage	Median Daily Wage
West Bank	109.4	100	118.9	100
Gaza Strip	63.1	44.2	61.2	40
Israel and its colonies	243.1	250	254.4	250
Total	123.0	100	128.6	103.8

- an increase of 4%: 17% in the West Bank against 12% in the Strip. Most of this increase was among males, whereas the number of female workers remained almost the same. The average monthly wage of those workers was NIS 753.

Child Labor

Quarter 4: Child labor in Palestine (children aged 10-17 years) decreased slightly during Q4 2019 from 3.3% to 3.2% compared with the previous quarter. By region, child labor constituted 4.5% of the employed labor force in the West Bank and 1.4% in the Gaza Strip (refer to Box 3 in the Economic Monitor issue 53).

Year-on-Year Comparison: Child labor in the West Bank increased slightly from 4% to 4.3% over the consecutive years 2018 and 2019, while the percentage remained unchanged in the Gaza Strip during the same period.

Table 2-5: The Number and Average Wage of Waged Workers Earning Less than the Minimum Wage (Excluding Workers in Israel and its Colonies) in Q4 2019

Region	Number of Waged Workers in the Private Sector (Thousand)			Number of Waged Workers Earning Sub-minimum Wages (Thousand)			Average Monthly Wage for Sub-minimum Wage Earners (NIS)		
	Males	Females	Both	Males	Females	Both	Males	Females	Both
West Bank	219	46	265	12	12	24	1,094	962	1,027
Gaza Strip	97	23	120	83	12	95	666	556	652
Palestine	316	69	385	95	24	119	718	760	727

Box 2: Labor in Israel: Short-term Gains and Long-term Losses

Researcher Johanes Agbahey, from Humboldt-University in Berlin, defended a thesis paper titled "Barriers to trade and labour mobility in conflict-affected regions: an economy-wide analysis with applications to the Palestinian economy".[1] The researcher's rationale for choosing this topic stemmed from the need for an assessment of the understudied, economy-wide implications of trade and labor policy options on the Palestinian economy. Moreover, most of the previous studies either used a descriptive analysis or highly aggregated databases which were unable to provide a detailed image of the multiple implications of the policy options. Although the thesis's title included Palestine's economy, the analysis focused only on the West Bank. The author attributed this to the embargo on workers from the Gaza Strip entering and working in the Israeli labor market, which was effective during the study period.

Objectives and Structure of the Thesis

The thesis included the following research objectives:
First, develop a detailed and coherent database to use in simulation models for assessing the economy-wide effects of policies in Palestine and more specifically in the West Bank (referred to as Social Accounting Matrix (SAM)). Then, identify the model specifications that capture the labor market conditions in the West Bank and quantify their implications for the simulation results.

Second, use the database and the model to analyze the short- and long-term effects of changes in the employment of Palestinians in Israel on the West Bank economy.[2]

Third, investigate the effects of changes in the current trade regime (customs union with Israel) on the West Bank economy.

The thesis has 10 chapters (293 pages). The first three chapters consist of a theoretical presentation of the methodology used in building social matrices and mathematical general equilibrium models. Chapter four provides a general idea about the structure of the West Bank's economy, along with a review of the nature of the restrictions it faces associated with its links with Israel. The following two chapters describe the development of SAM for the West Bank and building a mathematical model that better reflects the nature of the West Bank's labor market. Later, the following three chapters present the results of the simulation model, showing a change in the number of workers in Israel over the short- and long-term, as well as changes in the trade regime. In the tenth and final chapter, the author synthesizes policy recommendations in light of the simulation results.

Results of Analysis

Having developed a SAM and a mathematical model and tested its validity under different scenarios of the labor market, the author describes the empirical implementation of the model (simulation of the model) to answer two questions:

- First, what are the short- and long-term economic implications of a return of Palestinian employment in Israel to its pre-intifada level of 1999? The simulation results show a positive impact on the West Bank's economy in the short-term, while in the long-term, this will stimulate a surge in expenditure and consumption and a significant decline in unemployment (as a result of the increase in employment in Israel and employment in the domestic market as well). Quantification of the impacts was measured by assuming a 36% increase in Palestinian employment in Israel compared

1 Johanes Agbahey, "Barriers to Trade and Labour Mobility in Conflict-Affected Regions: An Economy-Wide Analysis with Applications to the Palestinian Economy". October 2018. file:///C:/Users/N/Downloads/dissertation_agbahey_johanes%20(3).pdf

2 Note that the difference between the short- and long-term analysis is represented by the variation in assumptions that govern the performance of the Palestinian labor market in the short and long term in the mathematical model.

to its level in the base year (2011). This simulation shows a drop in the unemployment rate from 17.3% to 10.9%, in addition to a rise in the West Bank's GDP of 3.6%, and an improvement of 5.5% for households' welfare on average.

However, the long-term implications are different, giving rise to the "Dutch Disease" and its ensuing consequences.[3] As the transfer of labor to Israel would stimulate a rise in wages in the West Bank, the large flows of income from Israel would cause a reallocation of labor and production away from the tradable goods sectors to non-tradable goods sectors in the West Bank. The rise in wages is associated with an increase in the real appreciation of the currency, reflecting the reduced competitiveness of the West Bank's exports in international markets. The quantitative assessment of the long-term implications shows that the domestic market output will experience a drop of 2.1% on average, the manufacturing sector will experience the highest drop, and that GDP will drop by 1.1%. On the other hand, additional income flow from Israel will increase households' expenditures and improve their welfare by 1.8% on average.

- Second, what is the best trade regime for the West Bank? The author simulated two scenarios compared to the current regime (i.e. a customs union with Israel). The first eliminates custom tariffs on all goods imported from any country (including Israel), whereas the second scenario simulates a non-discriminatory policy through the imposition of relatively high new tariffs on trade with other countries, including Israel. The findings show that the first scenario is better in terms of improving welfare and that eliminating tariffs leads to improving all macroeconomic indicators under the status quo regime: reduction in unemployment from 17.3% to 5.4%, a 13.3% increase in production, 6.4% increase in public revenues, despite losing tariff revenues, and the rise in household welfare of 19.9% (with a tend to be larger for rich households). The second scenario, however, is accompanied by a drop of 8.4% in GDP compared to the current regime. The analysis shows that having a liberal and non-discriminatory policy with Israel is better than the second scenario (leading to a drop in GDP of only 3.5%), yet worse than the first scenario in entrenching Israel as the main trade partner of the West Bank. Nevertheless, the author admits that disengagement from a customs union with Israel can provide the Palestinian economy with better and wider trade options in the long run, and cannot be captured by the mathematical model.

Recommendations

Given the limited opportunities and options for growth in the West Bank, increased employment opportunities in Israel are accompanied by a rise in welfare. Additionally, it is important to constrain the effects of the Dutch Disease. This can be achieved by imposing taxes on the wages of workers in Israel and using these tax revenues to boost investments in the domestic market and enhance the competitiveness of goods in the international market. The tax will act as a pull factor for those seeking work in Israel and limit the structural dependence on the Israeli labor market. Regarding the trade regime, the researcher reaffirms the significant effect of the real appreciation of the currency on the trade policy and the need for having control over the national currency and exchange rate in the future. He also points to the possibility of providing higher protection for agricultural and food products, but this would be at the cost of consumer welfare.

Expected Findings, but an Advanced Methodology and Comprehensive Database

The study's findings and recommendations are not different from those reached in previous studies, concluding that there is a trade-off (inverse relationship) between exporting more labor to Israel and exporting more goods and services to the rest of the world. The thesis analysis shows that increased Palestinian employment in Israel improves household welfare (expenditure) over the short- and long-term. However, over the long term it reduces economic growth by increasing local wages and reducing the competitiveness of exports in international markets. The thesis also confirms that a non-discriminatory trade regime (NDTR) introducing low tariff rates is the most-favored trade regime for a small country with limited resources.

Although the findings and recommendations of the study are neither new nor surprising, it is a good qualitative addition to the literature investigating mathematical modeling for the Palestinian economy. The SAM developed by the author, which can be used for applying alternative economic models, is considered one of the most thorough and detailed models for the West Bank's economy. It consists of 376 accounts (83 commodity groups, 49 activities, and 59 factor groups). The agricultural sector has 8 commodity groups and 4 activities. There is an account especially for not-for-profit organizations and zakat payments. SAM provides data on 110 household groups' behavior.[4] The general equilibrium model developed by the researcher is one of the best models for the West Bank's economy, especially in terms of its concentration on the labor market. The model takes into account the segmentation of the Palestinian labor market, the unemployment rate in the economy (short-term analysis), and the multiplier effect on the wages of workers in Israel. The thesis also provides a thorough review and presentation of social accounting matrices and the general equilibrium model building.

3 For a detailed discussion of the Dutch Disease and its economic implications, refer to Monitor Issue 55.

4 The researcher used a less detailed version of the social accounting matrix for applying the mathematical model he constructed. The less detailed version comprises 183 accounts, among which 48 are commodity groups produced by 36 activities, and 20 household groups classified based on income quintile and socioeconomic characteristics.

3- Public Finance[1]

Public Revenues

During 2019, the Palestinian government faced the recurrent fiscal challenges faced before, as a result of Israel's withholding clearance revenues from February to September. Obviously, this has reflected on the regular distribution of revenues and expenditures over the year's quarters. For more information on the reasons behind withholding clearance revenues, and the government's actions to cope with losing around half of its monthly revenues, refer to Monitor 57.

Quarter 4: During Q4 2019, net public revenues and grants reached around NIS 4.3 billion, a drop of 3% compared with the previous quarter and an increase of 28% compared with the corresponding quarter in 2018. This is attributed to the sharp decline in grants and foreign aid during Q4 compared with the previous quarter by 35% (Table 3-1). The increase achieved compared with the corresponding quarter is attributed to an increase in net public revenues by 54%, which came following an agreement with the Israeli side, upon which the withheld clearance revenues accumulating over the last months of the year were transferred. This also explains the rise in clearance transfers from NIS 1.6 to NIS 3 billion.

Table 3-1: Grants and Foreign Aid to the PA (NIS millions)

Item	2018		2019		
	Q4:	Whole year	Q3	Q4	Whole year
Budget support	679.4	1,840.5	517.5	292.4	1,776.4
Arab Countries Grants	410	1,090.1	278.7	107.3	876.3
Other Countries	269.4	750.0	238.8	185.1	900.1
Developmental Funding	156.1	571.1	107.7	114.7	(30.8)
Total Grants and Aid	835.5	2,411.6	625.2	407.1	1,745.6

* During Q1 2019, a sum of NIS 448.1 million was refunded to the US consulate to close an old US grant. This is reflected as a drop of NIS 354.4 million in the value of developmental projects' grants.
Note: Figures between brackets indicate a negative value

On the other hand, net public revenues and grants rose by 3% in Q4 compared with the previous quarter, reaching NIS 3.9 billion. This was due to a rise of 6% in clearance revenues, while domestic revenues remained at the same level of the previous quarter, reaching NIS 1 billion. Tax revenues rose by 7%, reaching NIS 0.7 billion, against the drop of 13% in non-tax revenues, reaching NIS 0.3 billion (Figure 3-1).

Year-on-Year Comparison: During 2019, net public revenues and grants decreased by 9% compared with 2018, reaching around NIS 13.5 billion, driven by the decline in all revenue items. Foreign aid and grants decreased sharply by 28%, standing at NIS 1.7 billion and clearance revenues decreased by 3% reaching NIS 7.9 billion. Domestic revenues declined as well by 10%, standing at NIS 4.3 billion, as a result of the drop in tax revenues by 9% (standing at NIS 2.7 billion), and

Figure 3-1: Structure of Public Revenues (NIS million)

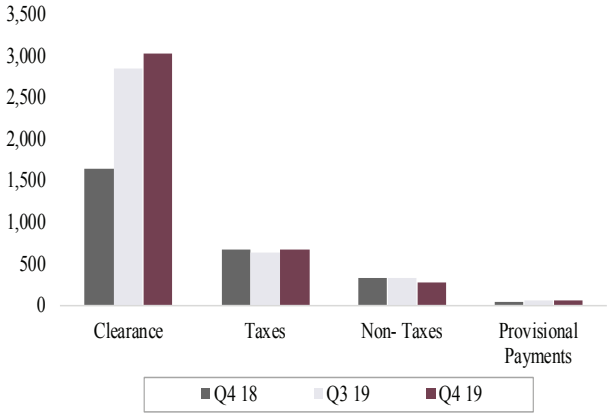
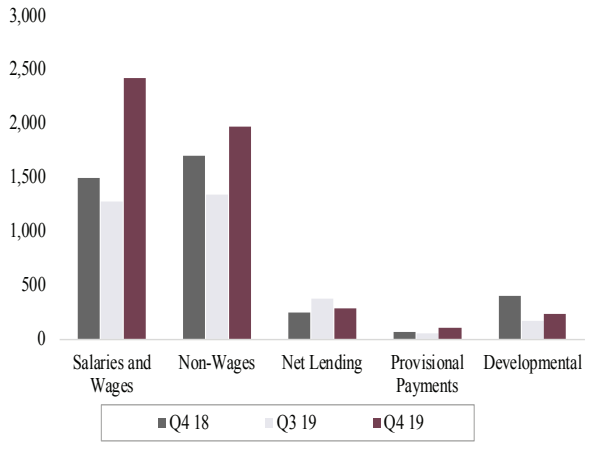


Figure 3-2: Structure of Public Expenditure (NIS million)



non-tax revenues by 17% (standing at NIS 1.3 billion). Tax revenues made up 63% of domestic revenues in 2019, compared with 29% for non-tax revenues (Table 3-2).

Public Expenditure[2]

Quarter 4: Compared with the previous quarter, actual public expenditure increased by 57% during Q4 2019, reaching NIS 5 billion. This is ascribed to the expenditures increase of 91% (doubled) reaching NIS 2.4 billion, because of paying wages and salaries in full during Q4, in addition to paying NIS 689.8 million of the wages and salaries arrears accumulating over the last quarters. In addition, non-wage expenditures increased by 48% reaching NIS 2 million. On the other hand, net lending dropped by 23% to NIS 0.3 billion. Compared

1 Source of data: MOF, Monthly Financial Reports 2019: Financial Operations, Expenditure and Revenues, and sources of Funding (Dec, 2019).

2 The MoF amended the registration system of the salaries and wages item in the budget by registering the item in the budget of the same month they were paid instead of the next month. This has caused this item to be registered 4 times instead of 3 times. Here, we have registered salaries and wages 3 times only in Q4 to allow for a comparison of expenditures between the year's quarters and with 2019 and the previous year.

with the corresponding quarter in 2018, public expenditures rose during Q4 2019 by 29%. This resulted in raising wages and salaries expenditures by 63%, non-wage expenditures by 17%, and net lending by 16% (Figure 3-2).

Year-on-Year Comparison: During 2019, actual public expenditure decreased by 3% compared with the previous year, reaching around NIS 13.7 billion. Salaries and wages remained almost at the same level of the previous year (a slight increase of 1%), reaching about NIS 6 billion. Non-wage expenditures decreased by 7%, reaching NIS 5.7 billion. Development expenditures dropped as well by 29%, reaching NIS 0.7 billion. Net lending expenditures, on the other hand, rose to around NIS 1.1 billion, while provisional allocations reached NIS 260.3 million, compared with NIS 166.1 million during 2018 (see Table 3-2).

Financial Surplus/Deficit

Quarter 4: Net public revenues and grants were equivalent to 85% of actual public expenditures during Q4 2019. The budget deficit on a cash basis reached 15% during the quarter, while it was higher on a commitment basis at 32% (Table 3-3).

Developments on both the revenue and the expenditure sides during Q4 2019 led to a deficit in the total balance (before grants and aid) of NIS 1.2 billion (7.5% of GDP). Grants and foreign aid reduced the deficit to around NIS 0.8 billion (on a cash basis), about 4.9% of GDP (Table 3-3). On a commitment basis, the deficit in the total balance (before grants and aid) reached NIS 2 billion compared with NIS 1.6 billion after grants and aid.

Year-On-Year Comparison: Net public revenues and grants covered 98% of actual public expenditures during 2019 (cash basis), compared with 105% in 2018. On a commitment basis, the deficit in the total balance was 16% in 2019 compared with 8% in 2018 (refer to Table 3-3).

The deficit in the total balance (before grants and aid) reached NIS 2 billion in 2019 (around 3.4% of GDP), compared with NIS 1.7 billion in 2018. After grants and foreign aid, the deficit was reduced to around NIS 0.3 billion in 2019 (on a cash basis), about 0.5% of GDP compared with a surplus reaching NIS 0.7 billion in 2018. On a commitment basis, the deficit in the total balance (before grants and aid) reached NIS 4.5 billion in 2019 compared with NIS 3.8 billion in 2018. The deficit dropped to NIS 2.7 billion after grants and aid in 2019 compared with NIS 1.4 billion in the previous year (Figure 3-3).

Figure 3-3: Government's Financial Balance (cash basis) as % to Nominal GDP

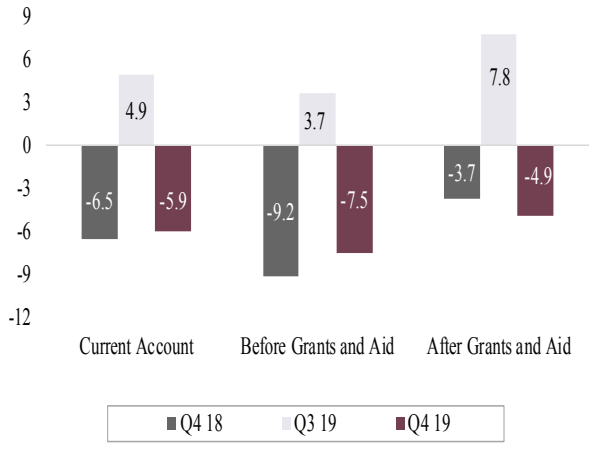


Table 3-2: Public Revenues and Expenditures, 2018-2019 (cash basis)

Item	2018	2019
Net public Revenues and grants	14,819.5	13,458.9
Total net revenues	12,407.9	11,713.3
Domestic revenues and tax refunds	4,315.9	3,844.5
Total Clearance revenues	8,091.9	7,868.8
Total expenditures	14,142.2	13,353.9
Wages and salaries	5,946.6	5,977.3
Nonwage expenditures and provisional allocations	6,220.2	5,920.5
Net lending	967.3	1,138.2
Development Expenditures	1,008.1	711.8

Government Arrears

Quarter 4: During Q4 2019, government arrears declined sharply reaching NIS 43.5 million, compared with the previous quarter (NIS 1.1 billion) and the corresponding quarter

Table 3-3: Budget Deficit on Cash and Commitment basis, Q4 2019 and 2019 (NIS million)

Item	2018		2019	
	Cash	Commitment	Cash	Commitment
Public Revenues	3,862.4	2,961.0	11,713.3	12,383.2
Grants and foreign aid	407.1	407.1	1745.6	1745.6
Expenditures	5,021.9	4,921.1	13,747.8	16,863.9
Before grants and foreign aid	(1,159.5)	(1,960.1)	(2,034.5)	(4,480.7)
After grants and foreign aid	(752.4)	(1,553.0)	(288.9)	(2,735.1)
Percentage of public revenues and grants to expenditure (%)	85%	68%	98%	84%

*Figures between brackets indicate a negative value.

(NIS 804.3 million). Arrears constituted 1% of total public revenues and grants during the quarter. Around NIS 490.2 million of arrears were in non-wages and salaries, NIS 144.4 million in developmental expenditures, and NIS 57.3 million in tax refunds. This drop in government arrears during the quarter is ascribed to fulfilling a large part of the government commitments and accumulated arrears. The wages and salaries bill was paid in full during the quarter, in addition to paying NIS 689.8 million in accumulated arrears. Also, all provisional allocations were paid, in addition to paying NIS 45.6 million of this item arrears. During Q4 2019, the government was also able to pay NIS 608.8 million in non-wages arrears and NIS 692 million in development expenditures and tax refunds (refer to Table 3-4).

Year-on-Year Comparison: During 2019, government arrears rose by 56% compared with the previous year, reaching NIS 3.2 billion compared with NIS 2.1 billion in 2018. Arrears distributed as NIS 1.9 billion in non-wages and salaries, NIS 0.7 billion in wages and salaries, NIS 0.5 billion in developmental expenditures, and NIS 0.2 billion in provisional payments and tax refunds. By the end of 2019, net accumulating arrears stood at NIS 14.5 billion, equivalent to USD 3.9 billion(refer to Table 3-4 and Box 3 in this issue of the monitor about the development of arrears between 2012-2019).

Public Debt

Quarter 4: During the quarter, total public debt (denominated in NIS) decreased by 5% compared with the previous quarter, reaching NIS 9.7 billion. This is ascribed to a decline in domestic debt against a rise in external debt by 6.5%. Paid debt service reached NIS 31.6 million during the quarter, NIS 26.4 million of which was interest paid on domestic debt, while the remaining NIS 5.2 million was paid on foreign debt.

Year-on-Year Comparison: Between 2018 and 2019, public debt increased by NIS 420 million, an 8% increase reaching NIS 9.7 billion (about 16.4% of nominal GDP). Public debt distributed as 56% domestic debt and 44% external debt[3] (refer to Table 3-5 and a Box in this issue of the monitor about the development of arrears between 2012-2019).

Table 3-5: Palestinian Government Public Debt (NIS million)

Item	2018	2019			
	Q4	Q1	Q2	Q3	Q4
Domestic debt	**5,034.0**	**4,668.0**	**5,628.8**	**6,200.2**	**5,451.8**
Banks	4,983.3	4,617.3	5,578.2	6,149.6	5,401.2
Public institutions	50.7	50.7	50.6	50.6	50.6
External debt	3,882.1	3,744.3	3,783.7	3,950.2	4,210.2
Total public debt	8,916.1	8,412.2	9,412.5	10,150.4	9,662.0
Paid interests	45.3	41.1	57.3	37.5	31.6
Public debt as % to nominal GDP	14.6%	13.6%	15.5%	17.1%	16.4%

* Figures differ slightly when calculated in USD due to changes in exchange rates.

Table 3-4: PA's Accumulated Arrears (NIS million)

Item	2018		2019				
	Q4	2018	Q1	Q2	Q3	Q4	2019
Tax refunds	19.1	110.1	38.5	17.6	19.6	57.3	133.0
Wages and Salaries	94.1	476.9	359.9	593.6	409.6	(689.8)	673.3
Nonwage Expenditures	468.9	1,086.5	333.4	556.7	492.7	490.2	1,873.0
Development Expenditures	237.6	294.9	105.0	130.8	122.9	144.4	503.1
Provisional Payments	(15.4)	108.2	75.1	27.6	9.9	(45.6)	67.0
Total arrears	804.3	2,076.6	911.9	1,326.3	1,054.7	43.5	3,249.4

Figures between brackets indicate a negative value

3 During Q4 2019, the government's debt (denominated in USD) decreased by 4.1% and 18% compared with the previous and corresponding quarters respectively, reaching US 2.8 million. Figures differ slightly when calculated in USD due to changes in exchange rate.

Box 3: Development of the Palestinian Government's Public Debt and Arrears, 2012-2019

This box discusses the level and characteristics of public debt based on the MoF data published in its monthly financial reports. It also touches upon the distribution of domestic and external debt, accrued interest on debt, and the Palestinian government's arrears.

Public Debt

Between 2012-2018, Palestinian public debt reached a plateau, ranging between USD 2.3-2.5 billion. However, by the end of 2019, it rose to USD 2.8 billion (NIS 9.7 billion), constituting 16.4% of GDP. This is ascribed to clearance revenues withheld during the year, which has led the government to borrow from banks to meet part of its commitments. When examining the components of the government's debt, domestic and external, it is clear that the external public debt has remained stable during the past years at about one billion dollars, except for a slight increase in 2019 following a loan by the National Bank of Qatar worth USD 175 million, which raised external debt to about USD 1.2 billion.

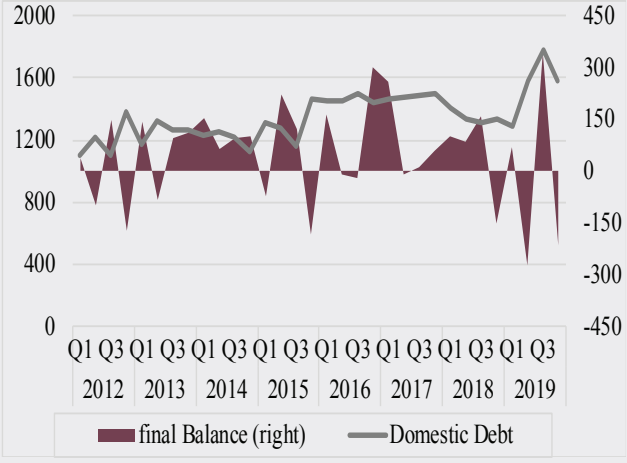
On the other hand, domestic public debt kept fluctuating due to its correlation with the financial status of the government and the flow and availability of the necessary financing (especially clearing revenues). About 99% of the government's domestic debt was borrowed from banks operating in Palestine, which indicates the government's high dependence on the banking sector to finance its commitments when it runs a final balance deficit. Figure-1 shows the direct correlation between domestic public debt and the deficit in the budget's final balance (after grants and foreign aid).

Half of the government's public debt was domestic, at an average of 55% between 2012-2019, equivalent to 9.2% of GDP; while the government's external debt made up about 45% of the total, at around 7.1% of GDP.

Domestic Public Debt

As mentioned earlier, banks are the main source of domestic government debt. This debt is either in the form of loans, overdrafts, or the Petroleum Authority's loans guaranteed by the MoF. Table-1 presents the composition of domestic debt between 2012-2019. Most of the domestic debt is granted for a short-term. Loans and overdraft accounts make up 59% of total bank credits. In addition to this are the percentage of loans granted to the Petroleum Authority (given that they are also short-term loans), which averaged 19% of total borrowing. On the other hand, the share of long-term loans amounted to about 22% of the total bank credits (see Table-1).

Figure-1: Development of Public Debt and Deficit in the Budget's Final Balance (USD millions)



Given that the bulk of the Palestinian government's revenues and expenditures are in shekels, the government relies on borrowing in this currency and avoids borrowing in other currencies to avoid exchange rate fluctuations. Therefore, by the end of 2019, the government's NIS credit facilities reached 73% of the total facilities.

External Public Debt

Unlike the government's domestic debt, most of the government's external debt is long-term debt and mostly comes in the form of grants and donations. External debt accounted for 44% of the government's total debt in 2019. As mentioned previously, the government's external debt tends to be stable, yet the clearance revenues crisis in 2019 caused an increase of 18% over the previous year. The highest value loans in 2019 are the Al-Aqsa Fund loan of USD 513 million, and the World Bank's loan of USD 272.7 million. Table-2 shows the distribution of external debt by the different creditors.

Table-1: Domestic Public Debt, 2012-2019 (USD million)

Year	Domestic debt	Banks	Loans		Public debt as % to nominal GDP	Other public institutions loans	Petroleum Authority Loans (Short Term)	Overdraft accounts
			Short term	Long term				
2012	1,384.8	1,376.6	382.0	336.6	11.3%	8.2	177.6	480.3
2013	1 267	1,253.0	363.1	298.2	9.4%	14.6	225.4	366.3
2014	1,128	1,114.6	165.7	465.3	8.1%	13.4	180.9	302.7
2015	1,466.5	1,453.1	124.0	674.9	10.5%	13.4	220.7	433.5
2016	1,439.8	1,426.2	112.3	704.6	9.3%	13.6	226.6	382.7
2017	1,501.2	1,486.2	141.4	673.0	9.3%	15.0	246.9	424.9
2018	1,337.9	1,324.4	134.1	503.9	8.2%	13.5	238	448.3
2019	1,577.1	1,562.5	601.4	342.2	9.2%	14.6	303.4	315.5

Interest Paid on Public Debt

Table-3 below shows the value of paid and accrued interest on the government's debt between 2012-2019. Based on the data presented, it is clear that interest paid on external debt is very low compared to that paid on domestic debt, which is due to the nature of the external government debt - mostly grants and favourable loans.

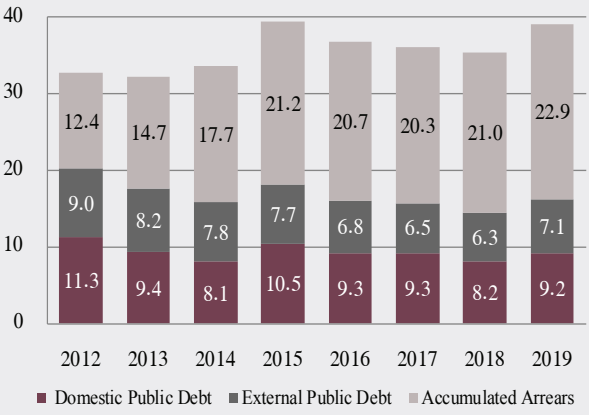
The data shows that despite the rise in government public debt during 2019, the interest paid on this debt declined during the same period due to the financial crisis that the government faced (the clearance revenues crisis) in addition to the global decline in interest rates.

The actual interest paid on domestic debt as a percentage of accrued interest during 2019 reached 88%.

Public Debt and Accumulating Arrears on the Government

Arrears are obligations due on the government but are unpaid and in this sense are similar to debt. By the end of 2019, data show that the value of accumulating arrears on the government was about USD 3.9 billion. Arrears in goods and services consumption had the largest share of the total accumulating arrears on the government (about 27%), followed by social contributions arrears (24%), and wages and salaries arrears (22%), as shown in Table-4. Despite the decline in the accumulating arrears between 2016-2018, their value doubled by the end of 2019 compared to their level six years ago, reaching NIS 3.9 billion.

Figure-2: Public Debt and Accumulated Arrears as a % of GDP



Official data show that the percentage of public debt to GDP declined over the study period, reaching around 16.4% (distributed as 9.2% for domestic debt and 7.1% for external debt) by the end of 2019. However, taking arrears into account changes the calculation. The government's debt after arrears rises to 39.2% of GDP in 2019, as shown in Figure-2. It should be noted that the Palestinian Public Debt Law states that the maximum permissible debt threshold is 40%.

Waseem Safi, PMA

Table-2: Distribution of Public External Debt, 2012-2019 (USD million)

	2012	2013	2014	2015	2016	2017	2018	2019
- Arab institutions	629	630.1	620.9	618.4	606	564.4	563.4	739.1
Al Aqsa Fund	522.5	523.9	517.4	518	512.4	513	513	513
Arab Fund	56.8	57.9	56.9	56	56.1	14.3	14.2	14.2
Qatar National Bank	-	-	-	-	-	-	-	175
ISDB	49.7	48.3	46.6	44.4	37.5	37.1	36.2	36.9
- International Organizations	338.5	342.5	347.7	337.4	329.8	342.3	339.1	336.3
World Bank	290.2	283.6	276.7	269.5	266.1	269	270.9	272.7
European Investment Bank	25.8	36.1	48.1	45.1	41.1	50.7	44.2	39
The International Fund for Agricultural Development (IFAD)	3.1	3	2.7	2.5	2.3	2.3	2.1	2
OPEC	19.4	19.8	20.2	20.3	20.3	20.3	21.9	22.4
-Bilateral loans	130.3	136	120.2	114.9	108.2	135.3	129.2	142.5
Spain	91.9	96	84.4	75.8	73	83.7	79.8	78.2
Italy	33.2	34.6	30.5	34.1	35.2	51.6	49.4	64.3
China	5.2	5.4	5.3	5	0	0	0	0
Total External Debt	1,097.8	1,108.6	1,088.8	1,070.7	1,044.0	1,0420	1,031.7	1 ,217.9

Table-3: Paid and Accrued Interests on the Government, 2012-2019 (NIS Million)

	2012	2013	2014	2015	2016	2017	2018	2019
Paid interests	86.5	247	171	228.1	284.1	277	242.7	167.5
Domestic debt	71.7	223	158	214.7	276.5	273	239.2	148.3
External debt	14.8	23.6	13.2	13.44	7.6	4.8	3.5	19.2
Accrued interests	-	324.8	198.6	178.29	296.2	273.8	235.2	187.9
Domestic debt	-	306.1	183.5	160.5	282.8	269.4	229	169.5
External debt	-	18.7	15.1	17.79	13.4	4.4	6.2	18.4
Paid interests/accrued Interest (%)	-	76%	%86.1	%127.9	%95.9	%101.2	%103.2	%89.1

Table-4: Accumulating Arrears, 2012-2019 (USD million)

	2012*	2013	2014	2015	2016	2017	2018	2019	Total accumulating arrears
Tax refunds	128.4	8.9	39.5	86.0	-4.1	18.2	30.6	37.4	344.9
Wages and Salaries	412.6	106.7	156.0	155.5	132.0	161.9	133.5	183.4	1,441.6
Social contributions	537.4	176.9	190.4	143.2	136.1	131.3	108.0	113.9	1,537.2
Consumption of commodities and services	96.6	85.8	260.4	262.0	312.7	275.5	175.5	286.5	1,755.1
Manufacturing	174.1	51.4	13.1	12.6	30.1	38.6	14.3	110.4	444.6
Small Capital	1.6	3.1	5.4	5.4	7.2	10.5	5.3	8.0	46.3
Interests		21.5	7.9	-12.9	3.3	-0.9	-3.0	5.7	21.6
Development Expenditures	161.6	18.4	98.8	53.3	121.6	112.0	79.9	140.9	786.5
Provisional Payments				23.6	40.1	30.1	31.3	17.7	142.8
Total	1,512.3	472.8	771.6	728.7	778.9	777.1	575.4	904.0	6,520.7
Payment of accumulating arrears			280.8	237.4	562.7	682.1	432.4	425.5	2,620.9
Net accumulating arrears	1512.3	472.8	490.8	491.3	216.2	94.9	143.0	478.4	3,899.8

* including arrears accumulating from previous years.

4- The Banking Sector[1]

By the end of Q4 2019, there were 14 banks operating in Palestine, 7 of which were domestic banks operating through 370 branches and offices, 312 of which were located in the West Bank and 58 in the Gaza Strip. During Q4, net assets (liabilities) of the banking sector increased by 3.0% compared with the previous quarter, and by 10.5% compared with the corresponding quarter in 2018, reaching USD 17.8 billion (Table 4-1).

Table 4-1: Consolidated Balance Sheet of Licensed Banks Operating in Palestine (USD millions)

Item	2018	2019			
	Q4	Q1	Q2	Q3	Q4
Total assets	**16,125.0**	**16,503.2**	**16,690.1**	**17,303.5**	**17,825.5**
Direct Credit Facilities	8,432.3	8,569.5	8,941.6	8,947.9	9,039.1
Deposits at PMA & Banks	3,763.7	3,712.9	3,534.5	3,870.5	4,329.1
Securities Portfolio and Investments	1,385.5	1,362.2	1,382.1	1,373.7	1,406.4
Cash and Precious metals	1,582.6	1,711.4	1,620.8	1,883.6	1,939.6
Other Assets	960.9	1,147.2	1,211.1	1,227.7	1,111.2
Total Liabilities	**16,125.0**	**16,503.2**	**16,690.1**	**17,303.5**	**17,825.5**
Total Deposits of the Public (non-bank deposits) **	12,227.3	12,394.4	12,591.4	13,025.5	13,384.7
Equity	1,912.0	1,931.4	1,956.0	1,942.4	1,985.2
Deposits of PMA and Banks (bank deposits)	1,033.6	1.116.8	1,041.7	1,151.3	1,274.2
Other Liabilities	269.5	361.3	363.5	408.9	392.5
Provisions and Depreciation	682.5	699.3	737.5	775.5	789.0

Items in the table are totals (including provisions).

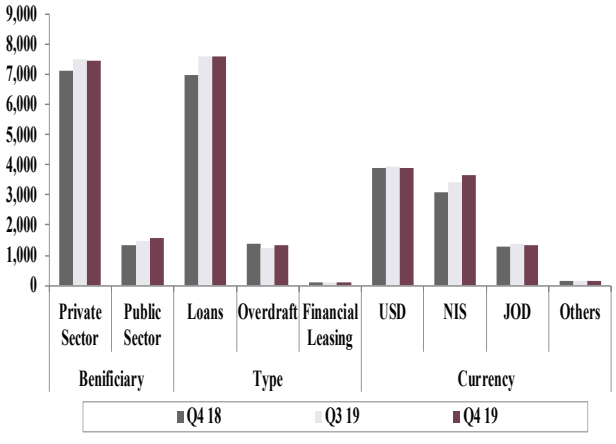
**Non-bank deposits including the private and public sectors' deposits.

1 Source of Figures: PMA, Feb 2020. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

Credit Facilities

Quarter 4: By the end of Q4 2019, credit facilities rose by 1% compared with the previous quarter, reaching USD 9,039 million (51% of the total banking assets). This improvement is ascribed to the increase in facilities granted to the public sector of 6.5%, reaching USD 1,558 million. On the other hand, facilities granted to the private sector declined slightly, standing at USD 7,481 million. Also, the private sector held the lion's share of credit facilities (83% of total) against 17% for the public sector. By region, the West Bank held the biggest share of total credit facilities, 90% compared with 10% for the Gaza Strip. By type of facility, loans were the predominant form of total credit facilities, at 84%, against approximately 15% for overdraft accounts. By currency, the US dollars continued to account for the biggest share of credit (43%), compared with 40% granted in Shekels, and 15% in Jordanian Dinars (Figure 4-1).

Figure 4-1: Distribution of Total Direct Credit Facilities (USD million)



Over the consecutive quarters, Q3 and Q4 2019, credit facilities increased by USD 91.2 million, driven by a 7% increase in credit facilities granted to the public sector (equivalent to USD 95.2 million). Total bank loans granted for purchasing cars rose by 18% (equivalent to USD 55.9 million), as well as those granted to the services sector by 6% (equivalent to USD 53.3 million), as shown in Figure 4-2.

Year-on-Year Comparison: Between 2018 and 2019, credit facilities increased by 7% as a result of a 5% increase in the private sector facilities, and a significant increase of 18% for those granted to the public sector. By type of facility, loans increased by 9% against a drop of 3% in the overdraft accounts. By currency, loans granted in shekels witnessed a marked increase of 18%, while loans in Jordanian Dinar loans rose by 4%, and other currencies by 5%. US dollar credits decreased by 0.2%. Credit facilities reached around 53% of nominal GDP during 2019 compared with 52% in 2018. This percentage saw a constant rise over the last years, as it was less than 42% by the end of 2015.

Non-performing Loans

Quarter 4: During Q4 2019, non-performing loans at banks rose by 3% (equivalent to USD 11 million) compared to the previous quarter. The final balance of non-performing loans stood at USD 358.6 million, equivalent to 4% of total loans (Figure 4-3).

By sector, non-performing loans were distributed as follows: 29% in the general trade sector, 21% in real estate and construction, and 16% in consumption loans. The remaining percentage (34%) were distributed throughout other economic sectors. By the default period, two-thirds of these loans (66%) were classified as bad loans, while sub-standard watch-list loans made up 12% and doubtful loans made up 22% of the total. [2]

Year-on-Year Comparison: During 2019, the value of non-performing loans increased markedly by 40% (equivalent to USD 102.2 million) compared with the previous year 2018, reaching USD 358.6 million compared with USD 278 million in 2018.

Deposits at PMA & Banks

Quarter 4: During Q4 2019, balances at PMA and banks grew by 12% compared with the previous quarter, reaching USD 4,328.1 million. This is ascribed to a decline in balances at banks abroad of 10%, and a rise in PMA balances in Palestine of 17% and balances at banks in Palestine of 2% (Figure 4-4).

Year-on-Year Comparison: During 2019, balances at PMA and banks grew significantly by 15%, compared with the previous year 2018. This can be attributed to an increase in balances at banks abroad by 15%, at the PMA by 16%, and at banks in Palestine by 10%.

Gaza Strip. Additionally, private sector deposits made up 96% of the total, compared with 4% for the public sector. By

2 Based on PMA instructions, non-performing loans are classified by default period: (1) Watch List facilities: are facilities where one or more of its installments are between 91 to 180 days past due. (2) Doubtful Loans: are loans where one or more of its installments are between 181 to 360 days past due. (3) Bad Loans: are loans where one or more of its installments are more than 360 days past due.

Figure 4-2: Distribution of Credit Facilities by Sector (%)

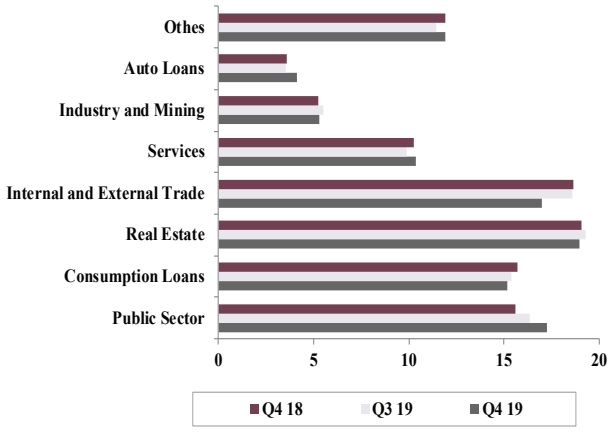


Figure 4-3: Final Balance of Non-performing Loans (million USD) and its Percentage to Total Loans (%)

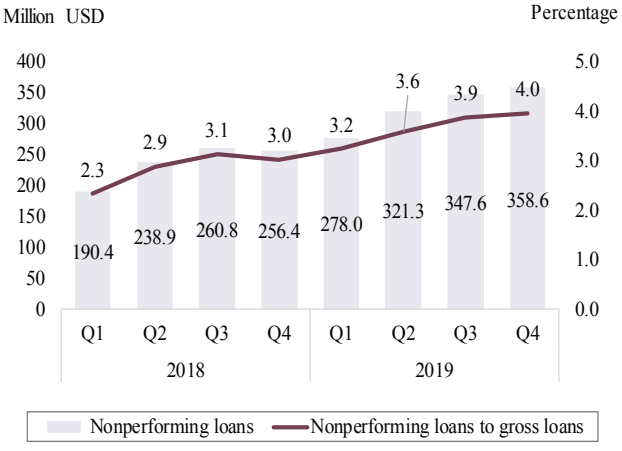
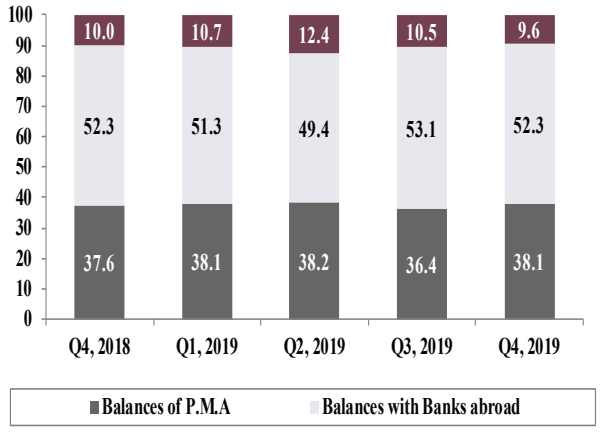


Figure 4-4: Deposits at PMA & Banks (%)



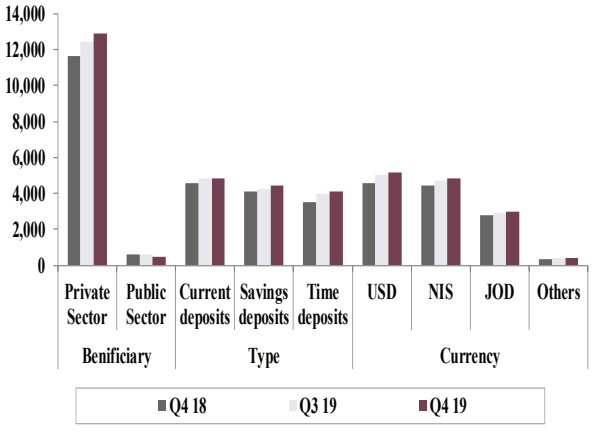
Deposits

Quarter 4: Deposits (bank and non-bank deposits) are the most important component of liabilities, constituting 82% during Q4 2019. By the end of Q4 2019, total deposits rose by 3% compared with the previous quarter, reaching USD 14.7 billion. Public deposits constituted around 91% of the total

during the quarter. Data show the concentration of deposits in the West Bank (90% of the total) against a mere 10% in the currency, the US dollar continued to dominate (39% of the total public deposits), followed by the Shekel (36%), the Jordanian Dinar (22%), and other currencies (3%). Finally, current deposits constituted 36% of the total, saving deposits averaged 33%, and time deposits were 31% (Figure 4-5).

Year-on-Year Comparison: During 2019, total deposits increased by 11% compared with 2018. However, its distribution by sector (whether public or private), currency, region (the West Bank and the Gaza Strip), or type did not undergo significant changes. Deposits by the public made up 78.5% of nominal GDP by the end of 2019 compared with 75.1% in 2018.

Figure 4-5: Distribution of Deposits (USD million)



Bank Profits

Quarter 4: By the end of Q4 2019, banks' net income rose by 2% compared with the previous quarter, standing at USD 40.2 million. This growth was driven by a 4% drop in expenditures which exceeded the drop in revenues of 2% (Table 4-2).

Year-on-Year Comparison: By the end of 2019, banks' net income declined sharply by 11% compared with 2018, reaching USD 164.2 million. This drop is attributed to a larger increase in expenditures than revenues, as the former rose by 9% compared with 5% for the latter (Table 4-2).

Average Interest Rates on Deposits and Loans

Quarter 4: The average interest rates on Jordanian Dinar (JOD) and Shekel (NIS) loans witnessed a downward trend during Q4 2019 compared with the previous quarter, reaching 6.79% and 6.99% respectively, whereas the average interest rate on USD loans hiked up to 5.94%. On the other hand, average interest rates on deposits in the three currencies dropped during the quarter to 2.97%, 2.83%, and 2.39% for the JOD, USD, and NIS deposits respectively. These changes over the consecutive quarters raised the margins between the deposits interest rates and those of lending facilities from 2.82 to 3.11 percentage points for the USD; and from 4.17 to 4.60 percentage points for the NIS. Yet, the margins between the deposits interest rates and those of lending facilities remained stable for the JOD at 3.82 percentage points (Table 4-3).

Year-on-Year Comparison: Average interest rates on loans in JOD and USD currencies rose during 2019 compared with the previous year, reaching 6.84% for JOD and 5.93% for USD. The average interest rates on loans in NIS dropped to around 7.07%. Similarly, average interest rates on deposits in the three currencies rose as well, reaching 3.21%, 2.785%, and 2.52% for the JOD, USD, and NIS deposits respectively. These changes caused a drop in the margins between the deposits interest rates and that of lending facilities in the three currencies, compared with the previous year, as the margin on the USD declined from 3.61 to 3.08 percentage points; from 5.07 to 4.55 percentage points for the NIS; and from 3.91 to 3.64 percentage points for the JOD (Table 4-3).

Table 4-2: Sources of Revenues and Expenditure of Licensed Banks (USD millions)

Item	2018		2019				
	Q4	year	Q1	Q2	Q3	Q4	year
Revenues	228.4	892.3	230.9	234.6	238.7	231.7	935.9
Paid Interest	164.2	642.4	163.1	166.0	171.9	169.6	670.6
Commissions revenues	31.1	126.4	30.6	32.3	32.7	35.2	130.8
Other Revenues*	33.1	123.5	37.2	36.3	34.1	26.9	134.5
Expenditures	180.0	707.6	183.2	200.7	199.3	191.5	774.7
Paid interests	36.2	127.9	33.0	36.7	37.2	38.7	145.6
Commissions	2.4	11.4	3.0	3.0	3.4	4.0	13.4
Other expenditures	18.8	77.1	23.9	31.5	35.5	23.0	113.9
Operational Expenditures	109.7	438.7	110.6	109.6	113.6	116.5	450.3
Taxes	12.8	52.5	12.7	19.9	9.6	9.3	51.5
Net Income	48.4	184.6	47.7	33.9	39.4	40.2	164.2

* Others include expenditures and revenues of financial securities and investments, currency exchange deals, off-budget operations, and other operational expenditures and revenues, in addition to allocations.

Table 4-3: Average Interest Rates on Deposits and Loans by Currency, (%)

Period	Jordanian dinar		USD		Shekel		Margin (percentage point)		
	Deposits	Loans	Deposits	Loans	Deposits	Loans	Dinar	Dollars	Shekel
2018	2.57	6.48	2.27	5.87	2.07	7.14	3.91	3.61	5.07
2019	3.21	6.84	2.85	5.93	2.52	7.07	3.64	3.08	4.55
Q1	3.36	6.66	2.84	5.87	2.44	7.23	3.30	3.03	4.79
Q2	3.27	6.86	2.74	6.10	2.38	7.03	3.60	3.36	4.65
Q3	3.24	7.06	3.00	5.82	2.87	7.04	3.82	2.82	4.17
Q4	2.97	6.79	2.83	5.94	2.39	6.99	3.82	3.11	4.60

Clearance of Cheques

Quarter 4: During Q4 2019, the value of cheques presented for clearance increased by 6% compared with the previous quarter, amounting to USD 3,405.8 million: 95% in the West Bank and 5% in the Gaza Strip. Compared with the corresponding quarter 2018, their value increased as well by 5%: 6% growth in the West Bank and a 13% drop in the Gaza Strip.

Year-on-Year Comparison: During 2019, the value of cheques presented for clearance increased meagerly by 0.3%, amounting to USD 12,766.4 million: 94% in the West Bank and 6% in the Gaza Strip.

Returned Cheques

Quarter 4: The value of returned cheques declined slightly by 0.2% compared with the previous quarter, while it rose by 15% compared with the corresponding quarter, reaching USD 335.9 million. The value of returned cheques in the West Bank dropped by 1% (to USD 317.4 million), while it rose in the Gaza Strip by 7% (to USD 18.5 million). The value of returned cheques as a percentage of total cheques presented for clearance dropped during Q4 2019 to 9.9% compared with 10.5% in the previous quarter, and 9.0% in the corresponding quarter (refer to Figure 4-6 and Box 4 in Monitor 53 "Returned Cheques: 1 out of 9 Cheques").

Year-on-Year Comparison: During 2019, the value of returned cheques increased sharply by 14% compared with the previous year, reaching USD 1,277.7 million, driven by a large growth of 17% in the West Bank against a drop of 24% in the Gaza Strip. During 2019, the value of returned cheques to total cheques presented for clearance rose to 10% compared with the previous year, a 1.2 percentage point increase.

Specialized Credit Institutions (SCIs)

Quarter 4: By the end of Q4 2019, the total assets of SCIs grew by 27% compared with the previous quarter, reaching USD 326.2 million. This resulted from the rise in all asset items including Islamic loans (USD 31.4 million), commercial loans (USD 6.5 million), deposits (USD 10.3 million), and net assets (USD 20 million). These companies' assets are distributed as 56% commercial loans, 14% Islamic loans, and 13% deposits. The credit portfolio rose by 23% during Q4 compared with the previous quarter, reaching USD 262.5 million (Table 4-3).

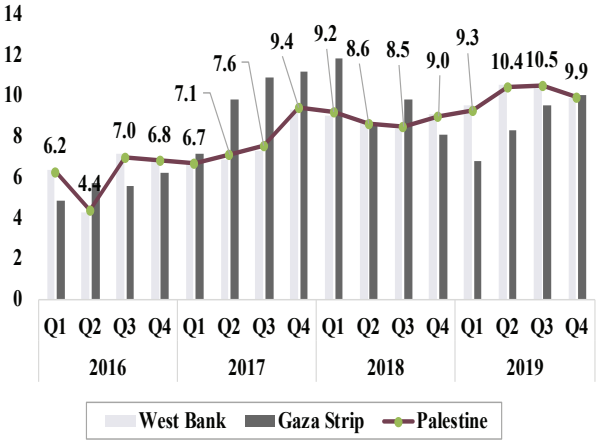
Table 4-3: SCIs data

Item	2018	2019			
	Q4	Q1	Q2	Q3	Q4
Total Loans Portfolio (USD millions)	**205.7**	**217.2**	**216.3**	**213.7**	**262.5**
West Bank	151.7	163.7	166.5	167.9	214.6
Gaza Strip	54.0	53.5	49.8	45.8	47.9
Active Clientele	65,458	80,314	78,186	76,502	75,444
No. of Offices and Branches	81	93	93	93	100
Employees	687	864	843	843	910

Real estate loans made up the biggest share of loans, around a third (33%), followed by the commercial sector (28%), and the agricultural sector and public services (11% each).

Year-on-Year Comparison: Between Q4 2018 and Q4 2019, the total assets of SCIs grew by 51%. The credit portfolio grew by 28% during the same period. Most of the growth was concentrated in the West Bank, while the value of loans dropped in the Gaza Strip. The number of active borrowers rose by 2%, reaching 75.4 thousand. The number of employees increased as well by 33% over the consecutive years, reaching 910 employees.

Figure 4-6: Percentage of Cheques Presented for Clearance to Returned Cheques (%).



Box 4: The High Commissioner for Human Rights (OHCHR) Announcement of 112 Enterprises Supporting Settlements

In November 2019, the Office of the High Commissioner for Human Rights (OHCHR) published a report about "Business enterprises that have trade relations with Israeli settlements in the Occupied Palestinian Territory".[1] The report was prepared upon an assignment to OHCHR by the UN Human Rights Council (HRC) in March 2016, to establish a database of all the enterprises that are running particular kinds of activities in the OPT. The report was published after a lengthy and unjustifiable delay, following a wave of objections and concerns that it would be left on the shelves.[2]

During the tenure of the previous High Commissioner, Mr. Zeid Ra'ad Al-Hussein, the OHCHR office released a report defining the methodology to be followed for producing a database of all business enterprises engaged in certain specified activities related to the Israeli settlements. Based on the information OHCHR received, the report indicated that the number of such enterprises was 321. A further investigation carried out by OHCHR showed that the activities of only 206 enterprises of these should be classified as meriting "further examination and scrutiny". The report also stated that all these enterprises should be contacted to confirm their relationship with settlements and define the nature of this relationship. Based on their responses and non-responses, OHCHR will produce a database of all enterprises involved in these activities.

Methodology

The international fact-finding mission set out a list of activities these enterprises are engaged in with settlements and which raise particular human rights concerns in the OPT, including East Jerusalem. The fact-finding mission compiled these activities into 10 categories. OHCHR investigation defined the database by reference to one or more of the listed activities, which were:

1. The supply of equipment and materials facilitating the construction and the expansion of settlements, the separation wall, and associated infrastructures;
2. The supply of surveillance and identification equipment for settlements,the wall, and checkpoints directly linked with settlements;
3. The supply of equipment for the demolition of housing and property, the destruction of agricultural farms, greenhouses, olive groves, and crops;
4. The supply of security services, equipment, and materials to enterprises operating in settlements;
5. The provision of services and utilities supporting the maintenance and existence of settlements, including transport;
6. Banking and financial operations helping to develop, expand, or maintain settlements and their activities, including loans for housing and the development of businesses;
7. The use of natural resources, in particular water and land, for business purposes;
8. Pollution, and the dumping of waste in or its transfer to Palestinian villages;
9. Captivity of the Palestinian financial and economic markets, as well as practices that disadvantage Palestinian enterprises, including through restrictions on movement, administrative and legal constraints;
10. Use of benefits and reinvestments of enterprises owned totally or partially by settlers for developing, expanding, and maintaining the settlements.

OHCHR's investigation was focused on enterprises engaged in one or more of the activities mentioned above. This means that enterprises doing other types of business not included in the fact-finding mission list (like producing and supplying consumption and food products) were neither covered by this investigation nor included in the database.

Findings of the Report

In the first stage, of the 206 enterprises that were investigated in the previous report, 18 enterprises were excluded due to insufficient evidence of their involvement, leaving the total number at 188 enterprises. These enterprises were contacted to confirm their involvement in one or more of the 10 listed activities in settlements during the period January 2018 to August 2019. Based on this exercise, an additional 76 enterprises were excluded. Therefore, the OHCHR report announced the names of 112 enterprises.

Table-1: Names and Nationalities of Non-Israeli Enterprises Listed in the OHCHR Report

Name of Enterprise	Enterprise`s Nationality	Type of Activities
Airbnb Inc.	USA	(5)
Booking.com B.V.	The Netherlands	(5)
Egis Rail	France	(5)
Expedia Group Inc	USA	(5)
JC Bamford Excavators Ltd.	United Kingdom (UK)	(1)
Opodo Ltd.	United Kingdom (UK)	(5)
Tahal Group International B.V.	The Netherlands	(5)
TripAdvisor Inc.	USA	(5)
Altice Europe N.V.	The Netherlands	(5)
eDreams ODIGEO S.A.	Luxembourg	(5)
Egis S.A.	France	(5)
General Mills Inc.	USA	(7)
Indorama Ventures P.C.L.	Thailand	(7)
Kardan N.V.	The Netherlands	(5)
Motorola Solutions Inc.	USA	(2)
Greenkote P.L.C.	United Kingdom (UK)	(7)

1 https://www.un.org/unispal/wp-content/uploads/2020/02/A.HRC_.43.71.pdf

2 Around 103 organization and association wrote a joint open letter to the High Commissioner for Human Rights on 29 Sep 2019, demanding the release of the report. Refer to: https://waronwant.org/more-100-organisations-call-release-un-database-businesses-engaged-activities-israeli-settlements

Around 96 of the 112 enterprises were Israeli while only 16 were non-Israeli. Table-1 below lists the names of these companies. These international enterprises consist of 5 from the USA, 4 from the Netherlands, 3 from the UK, 2 from France, 1 from Thailand, and 1 from Luxembourg. As shown in Table-1, the activities of most of these enterprises are listed under business activities (number 5), i.e. "The provision of services and utilities supporting the maintenance and existence of settlements, including transport".

Finally, the report concluded with two recommendations. Firstly, enterprises listed in the report may provide information indicating that it is no longer involved in the relevant listed activities in Israeli settlements. Where there are reasonable grounds to substantiate such claims, the business enterprise would be removed from the database. Secondly, the database should be updated annually and OHCHR should establish a council made up of independent experts for such a purpose and report directly to HRC.

5- The Non-banking Financial Sector

The Securities Sector

Quarter 4: By the end of Q4 2019, the market value of traded shares in the Palestine Stock Exchange (PEX) rose by 1%, compared with the previous and corresponding quarters 2018, i.e. maintaining the same level of USD 3.8 billion. The volume of traded shares, on the other hand, decreased by 19% compared with the previous quarter, while the value of traded shares rose sharply by 47%. The discrepancy between the volume and value of traded shares in Q4 was also seen when compared with the corresponding quarter 2018: an increase of 2% in the volume of traded shares, against a 79% increase in their value (refer to Table 5-1). This discrepancy can be ascribed to the increase in share price of a number of listed companies compared with the previous and corresponding quarters, such as the National Bank, al Mashriq and Al Takaful insurance companies.

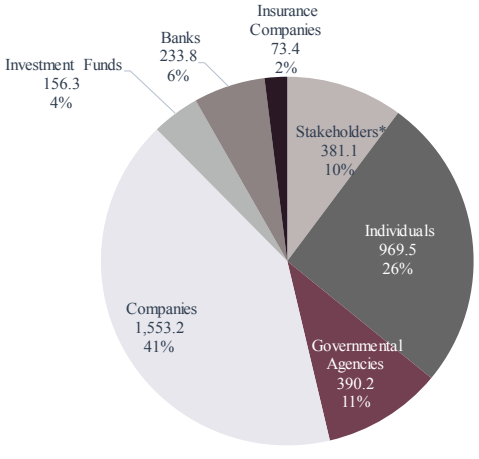
Year-on-Year Comparison: By the end of 2019, the Al-Quds index closed at 526 points, a decrease of 1% compared with the corresponding quarter 2018 (then 529.4 points). By the end of 2019, the market value of traded shares was USD 3.8 billion, representing around 22% of GDP at current prices [1]and an increase of 1% compared with 2018. However, the volume and value of traded shares decreased during 2019 by 23% compared with 2018, reflecting the unstable political and economic situation in Palestine. This situation has resulted in liquidity shortages for individuals and discouraged many investors from investing in securities. On the other hand, the number of PEX traders reached 70,193 by the end of 2019, 5% of whom were foreigners, mostly from Jordan (Table 5-1).

Figure 5-1 shows the distribution of market capitalization by their market shares, with the share of corporations at 41% (USD 1,553.2 million), compared with 26% for individuals (USD 969.5 million).

Table 5-1: A Selection of Financial Indicators on the Trading Activity in PEX

Item	Q4 2018	Q3 2019	Q4 2019	2018	2019
Volume of Traded Shares (million share)	24.7	31.0	25.1	185.1	142.8
Value of Traded Shares (USD million)	40.9	49.9	73.4	353.5	273.9
Market Value (million USD)	3,734.9	3,702.7	3,757.5	3,734.9	3,757.5
No. of Deals	5,761	6,884	6,041	35,030	29,276
Total Number of Traders at PEX	70,981	70,280	70,193	70,981	70,193
Palestinian	67,616	66,920	66,813	67,616	66,813
Foreigners	3,365	3,360	3,380	3,365	3,380

Figure 5-1: Distribution of Market Capitalization by Trader Type (by the end of 2019) (USD million)



* Individuals who have direct or indirect relation with the company because of their job position or relation.

1 The 2019 current prices of GDP are used to reflect the accumulative market value of traded shares.

Financial Leasing

Quarter 4: By the end of Q4 2019, the performance of leasing companies improved noticeably, as the volume of contracts reached 581, with an investment value of USD 26.4 million. This represents an increase of 19% and 15% in the value and volume of contracts respectively, compared with the previous quarter. Compared with the corresponding quarter, the value of contracts declined by 13%, whereas their volume increased by 12% (Table 5-2).

Year-on-Year Comparison: During 2019, there were 9 leasing companies registered with PCMA, compared with 13 by the end of 2018. By the end of the year, the total volume of contracts was 1,998 and valued at USD 90.9 million, a drop of 1% in value compared with 2018. By contrast, their volume increased by 21%, driven by an increase in individuals' financial leasing contracts (Figure 5-2).

By region, the financial leasing contracts are concentrated in Ramallah (35%), followed by Nablus and Hebron (around 15% each). Around 35% of contracts are distributed among the remaining Palestinian cities. Notably, the percent distribution of contracts was relatively stable over the previous years, due to factors such as the structure of the economy and the concentration of business in certain governorates. By the end of 2019, the financial leasing portfolio was still concentrated in motor vehicles (84% of total contracts). This may be attributed to the ease of registering vehicle ownership at the transportation department and therefore the low risk associated with their leasing, as well as the availability of a secondary market for repossession. Heavy trucks constitute 9% of the total portfolio, compared with 7% for movable assets (equipment, production lines, and so on).

Table 5-2: Total Value and Volume of Financial Leasing Contracts

	Total Value of Financial Leasing Contracts (USD Million)	Total Volume of Financial Leasing Contracts
Quarter 4, 2018	30.3	517
Quarter 3, 2019	22.1	504
Quarter 4, 2019	26.4	581
2018	92.1	1,645
2019	90.9	1,998

Box 5: Financial Technology and Control and its Role in Enhancing Financial Inclusion

The field of Digital Financial Services (DFS) has forcefully asserted itself in recent years, especially amid the ongoing coronavirus pandemic and attempts in the majority of countries worldwide to combat its spread through mandated home quarantine and social distancing. What is known as FinTech is now on the table of policymakers and regulatory bodies. This increased interest in FinTech and DFS comes as a result of intensified efforts to promote financial inclusion in developing and underdeveloped countries, with financial technology being one of the most important means for enhancing and increasing financial inclusion.

FinTech has garnered much attention in Palestine following the issuance of the National Financial Inclusion Strategy, with its fourth strategic goal of "optimal employment of information and communication technologies in expanding the reach and use of formal financial services".[1]

FinTech and its Role in Enhancing Financial Inclusion and Reducing Operating Expenses

DFS include a wide range of financial services and products, including digital and electronic payments, credit, saving, transfers, and insurance, in addition to mobile financial services. According to the data published by the Alliance for Financial Inclusion (AFI), most countries that have encouraged the use of DFS aimed to use it for enhancing financial inclusion by increasing access and use of financial services by different segments of society.

FinTech also helps financial service providers reduce the operating expenses of their services and products, which means lower costs for consumers. For example, interest rates on microcredit in Palestine are high due to high operating costs, which raise costs for financial service consumers who are often small entrepreneurs and small business owners. If specialized credit institutions were to employ FinTech services, this would mean a direct reduction in operating costs and thus lower prices for consumers. Another example is microinsurance, which is very important for entrepreneurs and small business owners. Because of the high operating costs and administrative expenses needed to market this type of insurance service, insurance companies avoid developing this product. Yet with the use of FinTech by insurance companies, it would become possible to develop and market this product and increase the rates at which it is accessed and used by people - fulfilling one of the basic pillars of financial inclusion.

The Role of Regulatory Bodies

The development of DFS has created a new reality and concept for the oversight and supervision of the financial sector, prompting a need for different, nontraditional regulatory mechanisms. It is incumbent upon regulatory bodies to create an environment conducive to DFS innovation, one that is unrestricted and favors creativity, while still safeguarding the integrity and stability of the financial system and protecting consumer rights. It should be noted that DFS are not associated with major new risks distinct from those faced by the traditional financial system, such as operation-

1 AFI Guideline Note19 (2016) digital financial services: Basic Terminology. www.afi-global.org

al, liquidity, and market risks. In fact, by contrast, in the case of DFS, these risks are distributed among a greater number of DFS players and providers, who should develop the capabilities needed to deal with these risks. In the field of DFS, the main focus of regulatory bodies is on the following:

Anti-Money Laundering and Terrorist Financing Guidelines and Requirements

These guidelines and requirements were drafted to guide regulatory bodies in enhancing financial inclusion and maintaining the integrity of the financial system.[2] They also aim to assist countries in creating an environment that encourages the innovation and use of DFS. These instructions, being based on the principle of relative importance, require the application of less intensive measures to combat money laundering and terrorist financing, given the level of risk associated with new DFS products and services.

Precautionary Regulations and Market Conduct

These regulations are concerned with maintaining the integrity of financial institutions and the stability of the financial system in general, in addition to consumers' and customers' protection from any unfair dealings or contracts and from any exaggerated costs. It also ensures competition between service providers. The interventions of regulatory bodies are mainly based on the assessment of risks associated with DFS, with a special focus on those services that pose major risks to the financial system. Accordingly, these bodies determine the requisite level of oversight and supervision, whether it be light or heavy, as in the case of traditional financial institutions.

Consumer Protection

Legislations and mechanisms for consumer protection aim to enable consumers from making informed financial decisions, exercise their rights, and fulfill their obligations through DFS. They also aim to ensure that consumers have access to financial services for a reasonable cost and time and to provide a clear mechanism for complaint submission and handling.

Timing of the Intervention

The important question that confronts DFS regulatory bodies is: when should the regulatory authority intervene? In this context, experiences worldwide differ according to the legal system that prevails in a given country. Countries with a civil law system first establish legislative and regulatory frameworks before permitting the implementation of electronic financial services and innovations. Common law countries, however, follow a different path, as digital financial innovations precede the development of the legislative and regulatory frameworks. Among the first international experiences in using DFS for enhancing financial inclusion were in the Philippines and Kenya. Both countries used the "examination and learning" approach in engaging with digital financial innovations.[3] This approach developed into what became known later, after its use in Britain and Singapore, as the Regulatory Sandbox: regulatory bodies allow holders of financial innovations to run a pilot model for their innovations in a virtual setting, under control, and per certain conditions; yet away from the traditional, intensive regulatory controls. In doing so, this system provides a safe place for testing a financial innovation and understanding the risks associated with it before its application on a large commercial scale. It is worth mentioning that the PCMA and PMA are now working on developing just such a system, to encourage and regulate financial technology innovations in Palestine.

Dr. Bashar Abu Za'rour, PCMA

2 FATF GUIDANCE Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, FATF, March, 2017, https://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf

3 GDDFI Discussion Paper (2016): Digital Financial Services: Regulating for Financial Inclusion. An ICT Perspective, https://www.itu.int/en/ITUD/Conferences/GSR/Documents/GSR2016/Digital_financial_inclusion_GDDFI.pdf

6- Economic Environment[1]

Building Licenses

Quarter 4: Figure 6-1 presents the changes in the number of registered building licenses and licensed areas. The number of issued building licenses reached 2,654 during Q4 2019, a rise of 20% compared with the previous quarter and 2% compared with the corresponding quarter. Licenses of non-residential buildings constituted 7% of the total. On the other hand, licensed areas of buildings amounted to around 1,180.8 thousand square meters in Q4 2019, which is 29% higher from the previous quarter and equivalent to the level of the corresponding quarter in the previous year.

Year-on-Year Comparison: The number of issued building licenses reached 9,717 during 2019, a decline of 2% compared with the previous year. This was accompanied by a decline of 3% in the licensed areas of buildings, which amounted to around 4,287 thousand square meters compared with the corresponding quarter in 2018 (Table 6-1). The number of registered licenses does not include all building activities in the construction sector, and a relatively large part of construction activities, especially in rural areas, is not registered or licensed.

Table 6-1: Issued Building Licenses and Licensed Areas in Palestine*

	Number of Licenses*	Licensed areas (thousand square meters)
2018	9,898	4,439
2019	9,717	4,287

Vehicle Registration

Because of their high prices, vehicles are often purchased via bank loans. Therefore, the number of vehicles registered for the first time is considered a good indicator of the economic situation and prospects.

Quarter 4: During Q4 2019, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 7,309, a decline of 142 vehicles compared with the previous quarter and 1,457 vehicles compared with the corresponding quarter 2018. Second-hand vehicles made up 80% of the total, 8% of which were imported from Israel (Table 6-2).

Year-on-Year Comparison: During 2019, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 26,337, which is less by 5,770 cars compared with the corresponding quarter, i.e. 18% drop. This decline was driven by a drop in the number of new and used cars (imported from abroad) by 13% and 20% respectively, in addition to a drop in used cars imported from Israel by 8% (Table 6-2).

1 Source of Figures: PCBS, 2020, Statistics on Building Licenses, and the MoF, 2019, MoF 2020, Palestinian Customs and Excise Dep. Unpublished data. Palestinian Monetary Authority (PMA), 2020, PMA business cycle

Figure 6-1: Issued Building Licenses and Licensed Areas in Palestine*

* Data do not include that part of Jerusalem, which was annexed to the Israeli occupation forcefully by its occupation of the West Bank in 1967.
*do not include licenses of fences

Table 6-2: New and Second-hand Vehicles Registered for the First Time, West Bank

Period	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
Quarter 4 2018	1,755	6,560	451	8,766
2018	6,303	23,892	1,912	32,107
Quarter 3 2019	1,295	5,469	403	7,167
Q4 2019	1,481	5,373	455	7,309
2019	5,460	19,122	1,755	26,337

PMA's Business Cycle Index (PMABCI)

PMABCI is a monthly index which aims at capturing the state and evolution of economic activity in Palestine, especially fluctuations in levels of production, sales, and employment. The index is calculated based on a survey of a representative sample of industrial enterprise managers in the West Bank and the Gaza Strip and their opinions of the current levels of employment, production and sales, and their expectations for the coming months. The PMA has been publishing PMABCI on a monthly basis since November 2012. The index provides real-time information about the economy, before the release of macroeconomic indicators whose collection and publication takes a relatively long time.

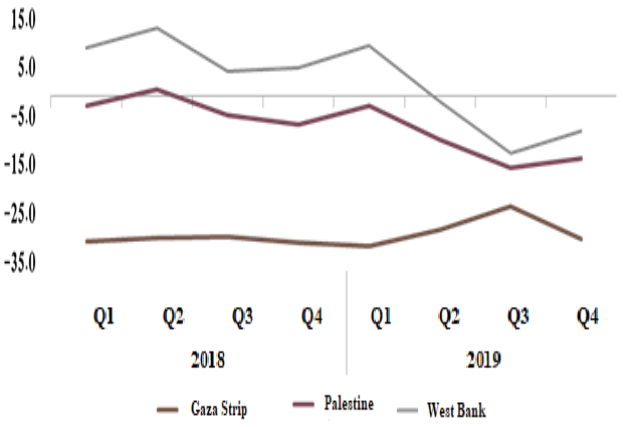
The value of the index ranges between a maximum of +100 points and a minimum of -100 points; a positive value indicates favorable economic performance, while a negative value indicates bad performance. On the other hand, a value close to zero indicates that economic performance did not change

and is unlikely to do so in the near future. The importance of the index comes from providing information about the percentage point change on a month-on-month basis, upward or downward.

Quarter 4: During Q4 2019, the index rose by 2.1 points compared with the previous quarter, scoring -12.7 points. This quarter's increase resulted from similar rises in the West Bank index by 4.7 points following the transfer of clearance revenues, reaching -7. On the other side, the Gaza Strip index declined by 6.7 points, reaching -29.3. Compared with the corresponding quarter 2018, the index fell by 6.9 points in Palestine, as a result of a remarkable decline in the West Bank index by 12.9 points and a slight improvement by 0.7 points in Gaza Strip (Figure 6-2).

Year-on-Year Comparison: During 2019, PMABCI has severely fallen by 7 points compared with 2018, scoring -9.5. This resulted from the index's large decline in the West Bank by 11.1 points, against its slight improvement in the Gaza Strip of 1.9 points.

Figure 6-2: PMA's Business Cycle Index (PMABCI) in Palestine



Box 6: The World Inequality Lab: A Steady Drop in the Distribution of National Income in Palestine

In recent years, the unequal distribution of income and wealth has received unprecedented attention. This came as a result of the large increase in the share of the rich from the total income and wealth in most countries of the world. Studies show that such unequal distribution is returning to levels not seen since the beginning of the last century, and that the post-World War II trend, which succeeded in redistributing income and reducing income and wealth gaps, had lost momentum by the early 1970s. Thomas Piketty's pioneering book, for example, documented how during the first decade of this century the share of the top 10% of the USA's population was around 50% of total income (including return on capital); this is a percentage close to the level seen in 1910 and, notably, one that was as low as 35% in the 1970s. The situation does not vary greatly in other countries. [1]

Because of the growing interest in documenting trends toward lower income distribution and researching the reasons and dynamics of this decline over time, a number of academics and researchers from around the world established the "World Inequality Lab". The Lab produces a periodical inequality report (once every two years) that tracks income and wealth inequality in a large number of countries.[2] The series of data presented and analyzed in this report rely on the World Inequality Database (WID), collected by more than 100 economists from 70 different countries around the globe. The database provides data on inequality for many countries, including Palestine and other Arab countries. This box focuses on the characteristics and methodology of the database, then compares the development of income and wealth inequality indicators in Palestine to their equivalents in Jordan.

World Inequality Database (WID)

Many countries do not produce detailed income and wealth inequality statistics. In such cases, the database relies on data in expenditure and households' income surveys to track inequality trends. However, these surveys give a general and inadequate image of the situation, failing to give precise information about the level of income and wealth of the wealthy class. To overcome data limitations, WID researchers developed a methodology that combines, in a systematic and transparent manner, large data sources to reach the most reliable data on income distribution from various sources, whether national, international or private. These sources include household income and expenditure surveys, income tax data, wealth data (from press sources such as Forbes and others), national accounts data, and many others. This innovative methodology has given researchers the ability to closely monitor developments in income and wealth inequality levels across a multi-year horizon across all countries of the world. This rare wealth of documented and systematic information is now available for the benefit of all researchers.[3]

National Income Rather than GDP

WID stresses the use of national income rather than GDP, as it is a better indicator for tracking developments in income distribution. It attributes this to two factors: first, GDP encompasses both residents and non-residents, while national income does not take non-residents' income into account yet still includes remittances from citizens abroad.[4] Second, calculating GDP takes into consideration capital depreciation, while national income does not, as it is not considered an income.

1 See Fig 8.5 in Thomas Piketty's Capital in the 21st Century.
2 World Inequality Database, World inequality report 2018, https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf.
3 The World Inequality Lab. https://wid.world/world-inequality-lab/
4 Refer to Box on "National accounts system", in the Economic Monitor no. 52.

On a different note, according to the methodology employed by the WID, income distribution is measured for those aged 20 years old and above. This means that there may be a wide data discrepancy between the lab results and national and international sources.

High income inequality in Palestine

Based on WID, the national income share of the top 10% of the Palestinian population rose from 48% in 1990 to around 50.5% in 2016. On the other hand, the share of the bottom 50% of the population declined from 14.9% to 13.5% during the same period. Additionally, the share of those below the top 10% and above the bottom 50% (40% of the total population) dropped from 37% in 1990 to around 36% in 2016. This amounted to a deterioration in income distribution in Palestine in the favor of the top 10% at the expense of other groups, especially the poorest. While the national income share of the top decile in Palestine was 42 times the share of the bottom decile in 1990, it rose to 50 times that in 2016.

Table-1: Distribution of National Income by Population Groups in Palestine and Jordan

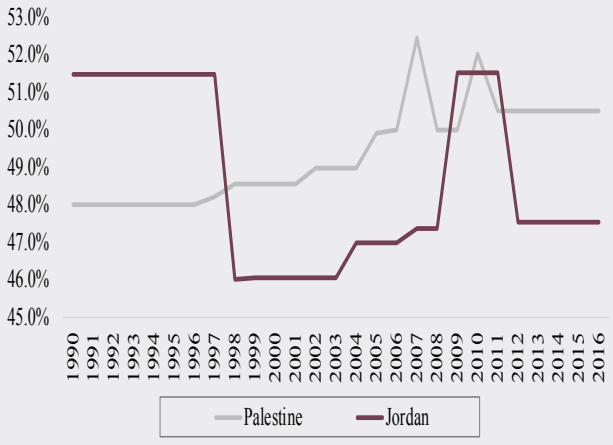
group	1998-1990	1999-2008	2009-2016
Palestine			
Top decile	%48.1	%49.5	%50.6
Middle and upper 40% group	%37.1	%36.4	%35.9
Bottom 50%	%14.8	%14.1	%13.4
Jordan			
Top decile	%50.9	%46.6	%49.0
Middle 40%	%33.4	%35.6	%34.0
Bottom 50%	%15.8	%17.8	%17.0

Source: World Inequality Database, 2019.

Income distribution in Palestine compared to Jordan

Figure-1 below presents the developments in the national income share of the top decile in both Palestine and Jordan during the period from 1990-2016, based on WID data. It is possible to distinguish between three main time series. The first comprises the 1990s, when the share of the top decile in Jordan was higher than that in Palestine (around 51% of income in Jordan compared with 48% in Palestine). The second period covers the years 1999-2008, when the share of the top 10% Jordanian people dropped significantly (to 46%), while the Palestinian top decile continued rising slowly. During this period, the share of Palestinian top decile was higher than its Jordanian counterpart. Yet, the last period, starting in 2009, witnessed a convergence in the wealthiest shares of total income in the two countries, followed by a drop in the share of the

Figure-1: The Top 10% National Income Share in Palestine and Jordan, 1990-2016



Source: World Inequality Database, 2019.

Jordanian top decile against the stability of the share of Palestine's wealthiest people (at about 51% of total income).

The disparity in the share of top deciles of the two countries during the three time series reflected on unequal distribution of the total income. As shown in Table-1, the share of the bottom 50% in Jordan rose from 15.8% to 17.0% between 1990 and 2016, whereas the equivalent share in Palestine dropped from 14.8% to 13.4% during the same period. The share of the middle and upper groups (below the top 10% and above the bottom 50%) witnessed the same trends. In summary, the trajectory of income distribution inequality in Palestine has been, worryingly, steady and growing during the last decades.

Islam Rabee, MAS

7- Prices and Inflation[1]

The consumer price index (CPI) measures the prices of a selection of primary goods and services that reflect the average consumption pattern of families in an economy (this group of goods and services is referred to as the "consumption basket"). The average change in the CPI between the beginning and the end of a given period measures the inflation rate, which reflects the average change in the purchasing power of families and individuals' income. If nominal wages and salaries are assumed to be fixed, an inflation rate of 10% per year means that the purchasing power of families and individuals will decline by the same percentage.

Price index

Figure 7-1 shows two curves: the first measures the average change in CPI (right axis) between Q1 2010 and Q4 2019; the second curve (left axis) measures the percentage change in the CPI each quarter compared to the previous quarter, i.e. the quarterly inflation rate.

Quarter 4: During Q4 2019, the CPI reached 101.93 compared with 102.20 in Q3 2019. This means that the inflation rate over the consecutive quarters (Q3 and Q4 2019) was negative (drop in prices) by 0.27%. This drop is due to the drop in prices of the garments, clothes, and footwear group (by 7.16%), the food and soft drinks (non-alcoholic) group (by 1.36%), and the prices of different commodities and services (by 0.23%). During Q4 2019, the Palestinian CPI rose by 1.60% compared with the corresponding quarter.

Year-on-Year Comparison: During 2019, the CPI picked up by 1.58% compared with the previous year 2018, reaching 101.58 (price inflation). This was driven by a rise of 1.81% in the West Bank, 1.37% in Jerusalem area J1, and .40% in the Gaza Strip. The net rise in Palestinian CPI can be attributed to the rise in the prices of specific products and services against the price drop of others. For example, the prices of food and non-alcoholic drinks group rose by 3.33%, the alcoholic drinks and tobacco group by 1.36%, the cultural and recreational services group by 4.19%, and the restaurants, coffee shops, and hotels group by 2.33%. By contrast, the prices of the garments, clothes, and footwear group dropped by 2.63%, the housing and related items group by 0.14%, the furniture and home appliances group by 1.11%, and the telecommunication group by 3.08%.

Wholesale Prices and Producer Prices

Quarter 4: The wholesale price index -WPI (sale price to retailers) declined by 1.86% between Q3 and Q4 2019, driven by a decline in wholesale prices of local goods by 1.91% and a decline in wholesale prices of imported goods by 0.91%. The producer price index- PPI (prices received by domestic producers) has also risen by 0.26% quarter on quarter. This resulted from the rise in the producer prices of locally-produced and consumed goods by 0.34% and by 0.50% in the producer prices of locally-produced exports (Figure 7-2).

Year-on-Year Comparison: During 2019, the Palestinian WPI rose by 0.11% compared with 2018, driven by a rise in wholesale prices of local goods by 1.41%, against a drop in wholesale prices of imported goods by 0.86% compared with the previous year. On the other hand, the Palestinian producer price index- PPI dropped by 0.58% during 2019 compared with 2018, driven by a drop 0.60% in the producer prices of locally-consumed goods and 0.42% in the producer prices of locally-produced exports.

1 Source of figures: PCBS, 2019. Price Indices Surveys, 2010-2019. Calculations of the purchasing power was made in cooperation with PMA.

Figure 7-1: Change in the Average CPI and the Inflation Rate (Base year 2018)

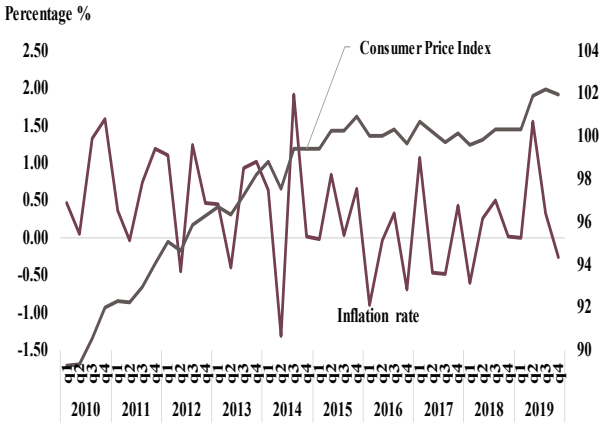
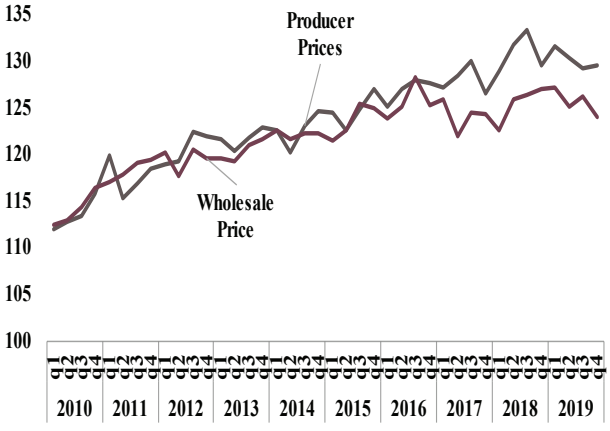


Figure 7-2: Evolution of WPI and PPI (base year 2007)



Prices and Purchasing Power

NIS Purchasing Power: the rate of inflation in an economy measures the development in the purchasing power of all individuals who receive their salaries in NIS and spend all their income in that currency, i.e. the change in the NIS purchasing power is equivalent to the inflation rate, but in the opposite direction, during the same period.

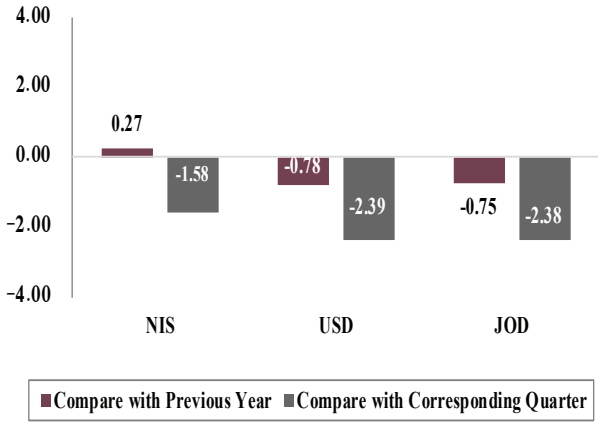
Quarter 4: Statistics indicate a CPI drop of .27% during Q4 2019 compared with the previous quarter and a rise of 1.60% compared with the corresponding quarter. This represents an improvement in the NIS purchasing power compared with the previous quarter, and a decline of the same inflation rate values compared with the corresponding quarter (Figure 7-3).

Year-on-Year Comparison: The inflation rate increased by 1.58% in 2019 compared with 2018, meaning a 1.58% drop in NIS purchasing power.

USD Purchasing Power: During Q4 2019, the USD exchange rate against the NIS decreased by about 1.05% and 5.62% compared with the previous and the corresponding quarters, respectively. With the rise in the inflation rate, the purchasing power of individuals who receive their salaries in USD and spend them in NIS has decreased by 0.78% and 7.20% during this quarter compared with the previous and corresponding quarters, respectively. Given that the JOD exchange rate is pegged to that of the USD, the purchasing power of the JOD has seen almost the same developments as that of the USD (Figure 7-3).

Year-on-Year Comparison: During 2019, the USD exchange rate against the NIS decreased by 0.81% compared with the previous year, which means that the purchasing power of individuals who receive their salaries in USD and spend all their income in NIS has decreased by 2.39% during this year. The same applies to the JOD, as the JOD exchange rate is pegged to that of the USD (Figure 7-3).

Figure 7-3: Change in Purchasing Power by Type of Currency (percentage %)



Source: Figures were calculated based on PMA and PCBS data.

Box 7: Model to Forecast Skills and Jobs in the Palestinian Labor Market

In early 2020, the United Nations Educational, Scientific, and Cultural Organization (UNESCO) launched the Skills Forecasting Model in Palestine, in partnership with the Palestine Economic Policy Research Institute (MAS). This initiative is part of UNESCO's Youth Employment in the Mediterranean project (YEM), which addresses the issue of youth unemployment in the region by improving workforce preparation as well as the quality and relevance of the Technical and Vocational Education and Training Programme (TVET). This model is not the first of its kind in Palestine, as a similar Skills Forecasting Model had been developed by UNESCO in early 2017 in partnership with MAS. The current model was developed based on that older model, to better reflect the changing reality of the Palestinian labor market.

The importance of the model lies in its ability to provide a forecast of the skills needed in the Palestinian job market and the occupations required by each economic sector in the near future. This will encourage students at different educational stages to pursue those specializations with the greatest demand in the labor market, and to avoid those with a low demand. This, in turn, will reduce the high unemployment rate in Palestine.

The model will help achieve a balance between the supply and demand for labor in Palestine. On the demand side, the number of workers for each economic sector is forecasted according to three scenarios (baseline, optimistic, and pessimistic). These three scenarios were developed by simulating the economic and political conditions in Palestine. The baseline scenario assumes continuity in the political and economic situation prevailing in 2019. The optimistic scenario assumes an improvement in the political atmosphere that stimulates economic growth; while the pessimistic scenario assumes the opposite, i.e. a deterioration of that atmosphere. As for the supply side, the model includes new entrants into the labor market and the unemployed. Because of regional divergence in the characteristics of the Palestinian labor market, two versions of the model were developed: one for the West Bank and another for the Gaza Strip.

According to the baseline scenario, the Palestinian economy will create 200.7 thousand job opportunities between 2019-2022, with 120.3 thousand in the West Bank and 80.4 thousand in the Gaza Strip. However, the Palestinian labor market does not have the capacity needed to absorb either new labor market entrants graduating from universities, or the unemployed. If the situation were to remain unchanged, it is expected that the number of the unemployed will increase by 512.7 thousand workers, with 198.3 thousand in the West Bank, and 313.8 thousand in the Gaza Strip. By the end of 2020, the rate of unemployment is expected to reach 32.3%; 20.6% in the West Bank, and 50.8% in the Gaza Strip.

The results show that sales will enjoy the greatest demand in the Palestinian labor market, followed by education, construction, manufacturing, and transportation. All occupations will see, to varying degrees, a surplus in labor supply over demand. As for those occupations with the greatest surplus of workers, the manufacturing, construction, and transportation jobs came first (despite the high demand for this work), followed by law, science, and engineering. As for the occupations with the lowest supply of workers, these included senior administrative jobs, information technology, and agriculture-related jobs.

The model is an important forecasting tool that will inform a range of decision-makers and policymakers. It also supports those overseeing the coordination of supply and demand - i.e. education and work - in the labor market. However, the model can still be developed further for better use. The model shows the number and types of jobs required in the labor market only at the general level, and needs to be developed to include the four, precise levels articulated by the International Occupations Classification (ISCO), instead of just two levels. Furthermore, developing the model to reflect skills insofar as they match available jobs would help in anticipating specific skills rather than occupations in general. These improvements, however, require conducting sectoral surveys to identify the specializations and skills each sector either possesses or requires. In the event that resources and capacities are secured, the regular PCBS Labour Force surveys can provide the needed data.

Ali Jabarin, MAS

8- Foreign Trade[1]

Balance of Trade

Quarter 4: The value of "registered" merchandise imports[2] during Q4 2019 was about USD 1,454.1 million, which represents a drop of 1% compared with the previous quarter and 3% compared with the corresponding quarter 2018. Meanwhile, the value of merchandise exports was USD 294.2 million, a rise of 15% compared with the previous quarter, while it remained at the same level compared with the corresponding quarter. The value of exports was close to 20% of the value of imports during Q4. The difference between exports and imports (deficit) amounted to USD 1,159.9 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (USD 7.3 million) (Refer to Figures 8-1 and 8-2).

Figure 8-1: Imports and Exports of "Registered" Merchandise (USD million)

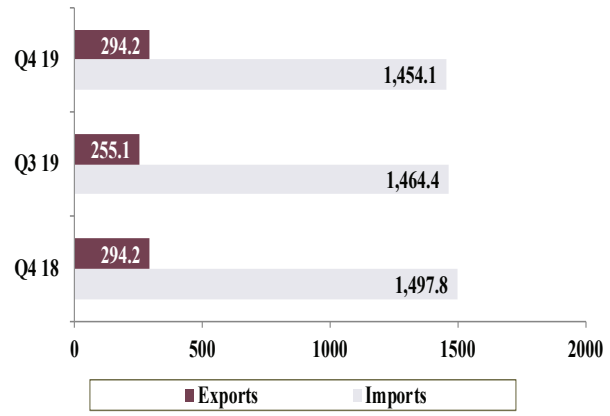
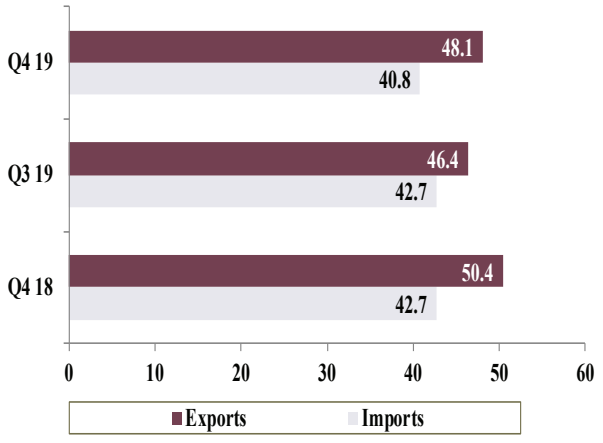


Figure 8-2: Exports and Imports of Registered Services from Israel (USD million)



1 Source of figures: PCBS, 2019, Registered Foreign Trade Statistics, PMA & PCBS, 2020, Palestinian Balance of Payment, Q4 2019.

2 Registered trade commodities are those registered in the clearance accounts of primary external trade (between Palestine and Israel) and in the customs data (including direct trade with overseas markets). Add to that the agricultural goods (which are registered by the Ministry of Agriculture). The registered trade figures are significantly lower than the actual figures of the Palestinian foreign trade. The actual figures are placed in the Palestinian balance of payments.

Year-on-Year Comparison: The value of "registered" merchandise imports during Q4 2019 was about USD 5,776.1 million (a 1% slight rise over the corresponding quarter 2018). On the other hand, the value of merchandise exports was USD 1,068.2 million, a drop of 3% compared with the previous year. The value of exports was close to 18% of the value of imports in both 2019, as compared to a previous percentage for the previous year. The deficit in the trade balance stood at USD 4,707.9 million in 2019, which is USD 89.8 million higher than the previous year 2018. The deficit has seen a slight improvement because of the surplus in the balance of service imports from Israel (USD 20.6 million) (Figures 8-3 and 8-4).

Balance of Payments

The current account in the balance of payments (referred to as the current account deficit or surplus) is the net aggregate of three sub-balances:

1) the balance of trade (net trade in goods and services),
2) the balance of factor income (the net international transactions associated with income on factors of production, like the remittances of Palestinian workers in Israel and overseas), and 3) the balance of current transfers (international aid to the government and private transfers).

Quarter 4: As primary results of the Palestinian balance of payments show, during Q4 2019 the current account deficit rose by 7% compared with the previous quarter, reaching USD 413 million. On the other hand, the deficit dropped sharply by 27% compared with the corresponding quarter in 2018. The current account deficit resulted from deficits in the trade balance (USD 1,315 million) balance of services (USD 242 million), against a surplus in the balance of income of USD 685 million, generated mainly from compensations of Palestinian workers in Israel, and a surplus in the balance of transfers of USD 459 million (Table 8-1).

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 549 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive (Table 8-1).

Year-on-Year Comparison: The deficit in the Palestinian current account reached USD 1,833.5 million in 2019, a drop of 14% compared with the previous year. This was achieved despite a drop in the transfers of the workers in Israel of 3% (income balance). The drop in the deficit can be attributed to the large increase in current transfers (34%). The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 1,705.6 million (Table 8-1). Theoretically, there should be a perfect balance between the current account deficit and the surplus of the capital and financial account, i.e. the net value of the two should be zero. However, there is often a difference between

Figure 8-3: Imports and Exports of "Registered" Merchandise, 2018-2019 (USD million)

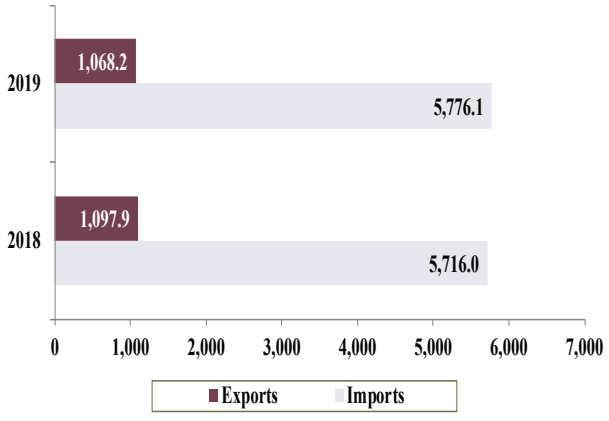
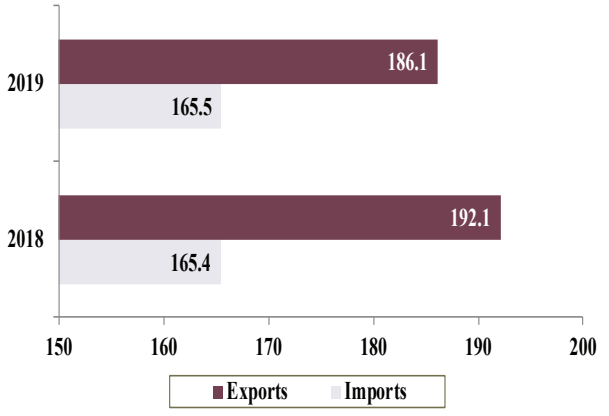


Figure 8-4: Exports and Imports of Registered Services from Israel, 2018-2019 (USD million)



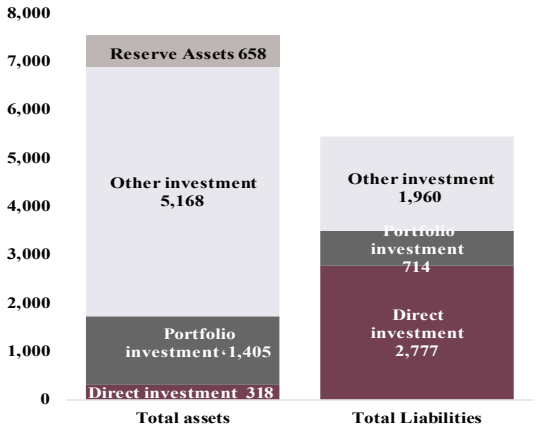
the two accounts, usually recorded under "errors and omissions", because of insufficient data and smuggling activities .

International Investments

By the end of Q4 2019, Palestine's foreign assets totaled USD 7,549 million, 4% of which represented direct foreign investments and 19% represented portfolio investments. On the other hand, total external liabilities amounted to about USD 5,451 million, more than 51% of which were direct investments, and 13% of which were portfolio investments.[3]

The difference between assets and liabilities means that overseas investments by Palestinians were USD 2,098 million higher

Figure 8-5: International Investments Balance (as of the end of Q4 2019) (Million USD)



than investments by non-residents. A significant portion of these assets (69%) is cash deposits (mostly by local Palestinian banks) in foreign abroad, and are not considered conventional outward investments. When examining foreign direct investments in Palestine, figures show that it outweighed Palestinian investments abroad (by residents in the West Bank and Gaza Strip) by USD 2,459 million (Figure 8-5).

Table 8-1: Palestinian Balance of Payments * (US$ million)

	Q4 2018	Q3 2019	Q4 2019	2018	2019
1. Trade Balance of Goods and Services**	(1,678.2)	(1,696.2)	(1,556.5)	(6,425.7)	(6,500.7)
- Net goods	(1,409.4)	(1,419.9)	(1,314.6)	(5,393.0)	(5,458.1)
- Net services	(268.8)	(276.3)	(241.9)	(1,032.7)	(1,042.6)
2. Balance of Income	709.3	770.0	685.1	2,786.2	2,658.0
3. Balance of Current Transfers	406.1	538.9	458.8	1,499.1	2,009.2
4. Balance of Current Account (1 +2 +3)	(562.8)	(387.3)	(412.6)	(2,140.4)	(1,833.5)
5. Net Capital and Financial Account	410.6	324.8	549.0	1,775.7	1,705.6
6. Net Errors and Omissions**	152.2	62.5	(136.4)	364.7	127.9

Data do not include that part of Jerusalem governorate, which was annexed by Israel following the West Bank occupation in 1967.
** Exceptional financing has been calculated within the "Net errors and omission" item. Figures between brackets have negative values.
*** data for the whole year 2019 is an aggregate of the four quarters of the year.

3 Exceptional financing has been calculated within the "Net errors and omission" item. Therefore, net errors and omissions in the table do not equal the difference between the current account and the capital and financial accounts.

Box 8: The History of the Jerusalem Electricity Company: From the Ottomans to the Israeli Occupation

The following is an edited excerpt from a book chapter titled "Sovereign Materialism: Workers, Wires and the Struggle for Jerusalem" written by Omar Jabary Salamanca, a Research Fellow at Ghent University, Belgium

In contrast to smaller municipal and cooperative grids populating the West Bank energy landscape before the Israeli invasion of 1967, the case of the Jerusalem Electricity Company (JEC) is rather unique. The JEC's history begins during the last years of the Ottoman Empire, in January 1914, when Euripide Mavrommatis, a Greek Orthodox Ottoman subject living in Istanbul, obtained a concession for the construction and operation of electricity, water, and tramways within a twenty-kilometer perimeter around Jerusalem. In the following two years, Mavrommatis also received concessions to provide electricity and water in Jaffa and exploit resources in the Jordan Valley. Mavrommatis's achievement was nothing short of remarkable, particularly given the politics and fierce competition that characterized the Ottoman Empire at the turn of the twentieth century, which included British, German, French as well as Arab and Zionist concession bidders. Representing the French Périer Co. banking firm and supported by the Arab-run Commercial Bank of Palestine, Mavrommatis became one of the most successful concession-hunters for infrastructure services in Palestine.

British Mandate

Following the outbreak of the First World War, Britain conquered Palestine in 1917, signaling the eventual demise of the Ottoman Empire. That same year, the British government approved the Balfour Declaration, which laid out the scaffolding that would transform the maximalist political and territorial claims of Zionism. Central to this form of imperial colonization was the exclusive distribution of commercial concessions to the Jewish Agency, the only official institution recognized by the British government to exploit resources and operate public services and utilities in Palestine. Most significant and controversial among these was a monopoly on the production of hydro-electricity granted to Pinhas Rutenberg, a Russian engineer deeply implicated in the Zionist project. These concessions overlapped and clashed with Mavrommatis's prior acquisitions.

International Court of Justice

After three years of failed attempts to recover his concession through negotiations, Mavrommatis, represented by the Greek state, sued Britain in the Permanent International Court of Justice in the Hague in May 1924. In March 1925, the court in the Hague resolved to uphold Mavrommatis's concessions for electricity and water in Jerusalem. The tribunal, however, stated that it lacked jurisdiction over the concessions for Jaffa and the Jordan Valley, as these were signed after the declaration of World War I. The ruling's simultaneous recognition and denial meant that Mavrommatis kept the concession for electricity provision in Jerusalem, while Rutenberg conserved the monopoly for the rest of Palestine. Rutenberg's concessions gave birth to the Palestine Electric Company (PEC), an Anglo-Zionist capital endeavor. Given these conditions and the pernicious determination of the British government, Mavrommatis ended up selling the concession to Balfour Beatty, a subsidiary of Power Securities Corporation, a major firm executing large civilian and military infrastructure projects for the British Empire in the Middle East and beyond. Using the concession rights bought from Mavrommatis, Balfour Beatty established the Al Quds Electricity Company (JEC).

Post- British Mandate

On the eve of their departure from Palestine on March 1st, 1948, the British rushed to amend the Jerusalem electricity concession. The adjustment accommodated an agreement between the two electricity companies in Palestine whereby the Palestine Electricity Corporation would provide bulk supplies to the Al Quds Electricity Company to supply the region it serves. The agreement stipulated that JEC would pay £400,000 to PEC for the necessary construction works, with no right of ownership to the supply line or other related infrastructure. This was a significant figure given that JEC's net profit for 1946/47 was £115,824. The amendment, which had a legislative effect, extended the Jerusalem concession for another 60 years and included a clause that gave PEC a priority right for purchasing the Jerusalem company. This murky agreement opened the door for PEC to absorb the electricity company in Jerusalem.

Post-Nakba

The Nakba shattered the world previously represented by Jerusalem, as the capital was split into two parts. The modern and wealthy western side- covering eighty-five percent of the city's total land- was looted, ethnically cleansed, and occupied by the new State of Israel. The partition meant that Balfour Beatty's concession and power grid were also de facto split, with the main company's power station remaining on the Israeli side. After 1948, the company exclusively focused on repairing infrastructure and improving services for Jewish residents in West Jerusalem. Palestinians in East Jerusalem, however, were subjected to a blackout for more than twelve months, only to receive minimal electricity provision in the following three years. As noted by the Jerusalem British Consulate, Balfour Beatty had a "bland unconcern for the interests of the Arab population" and systematically refused to repair the grid and install new generators. The company was anticipating an unrealistic agreement between Jordan and Israel that would connect East Jerusalem to its power station in the West. Balfour Beatty finally decided to split and sell the concession and company assets along the armistice borders through two separate agreements: one with Israel, in April 1954, and another with Jordan, in April 1957.

Anxious to take over the ownership and management of electricity services, the municipalities of Jerusalem, Ramallah, Al-Bireh, Bethlehem, Beit Sahour, and Beit Jala came together to register a new concern in 1956, the Jordan Jerusalem District Electricity Company (JEC). With an initial capital outlay of £200,000, Palestinian municipalities bought the concession and assets from Balfour Beatty through the Jordanian government. The capital was divided into 20,000 shares at ten pounds each, with the largest stock owned by the Beit Sahour municipality (8050), followed by the Jerusalem municipality (2750) and private shareholders (5000).

Economic Concepts and Terms:

Monetary Policy Versus Fiscal Policy

Economic policies are the set of measures and interventions taken by national or local authorities to influence economic performance and achieve specific goals. There are various types of economic policies, such as agricultural, industrial, and trade policies. However, monetary and fiscal policies are of special importance because they impact economic activity across all sectors.

Monetary Policy and Fiscal Policy

Monetary policy is the set of measures related to the use of two main instruments to influence economic activity: interest rates and the amount of money circulated in the economy (money supply). Central banks in different countries take on the responsibilities of implementing monetary policy, with varying degrees of independence from executive authorities. In cases of total autonomy (as in the case of the European Central Bank and the US Central Bank, known as the Fed), central banks often have a declared goal that governs their decisions, such as maintaining the inflation rate within a certain margin. Generally speaking, central banks use their control of the interest rate and money supply to influence the number of loans granted by different financial institutions to the private and business sectors, which subsequently affects economic activity in general. This indirect control is exercised through three channels: changing the obligatory cash reserve ratio at banks (the minimum reserves of the deposit base that banks are required maintain at the central bank); changing the "discount" rate (which is the lowest interest rate charged by a central bank or by other financial institutions for loans to banks); and. finally, what is known as open market operations (i.e. when the central bank purchases or sells treasury securities, whereby purchases increase the money supply and sales reduce it.

On the other hand, fiscal policy refers to the set of governmental measures related to tax collection and public spending (i.e. the governmental budget). The executive authority (authorized by the legislative authority) shoulders the implementation of fiscal policy. Besides financing the activity of public administration, fiscal policy seeks to influence economic activity by making decisions related to the level and structure of public spending, the budget deficit, and borrowing (public debt). The most important fiscal instrument for stimulating economic activity is increasing public spending, a component of aggregate demand. This increase can be financed either by raising taxes (assuming that the increase in aggregate demand due to the increase in public spending will be larger than its reduction from higher taxes); or by increasing public debt (deficit spending).

Keynesian Theory and Monetarism

Keynesian theory emphasizes the important role of fiscal policy, particularly deficit spending, in stimulating the economy out of periods of recession and severe unemployment. Additionally, it calls into question the role and efficacy of monetary policy in pushing the economy forward. In particular, this theory argues that the expansion of the monetary base cannot influence the interest rate when the latter is nearly zero or very low (this is called the "Liquidity Trap"). On the other hand, monetarism attaches great importance to monetary policy and holds that change in the monetary base drives any shifts in economic activity. Monetarism argues also that expansion in public spending is often offset by a decrease in private investment (known as "Crowding-Out"). This means that fiscal policy may affect the spending structure between the private and public sectors, yet it has a weak effect on macroeconomic activity.

Pros and Cons

Aside from the difference between the Keynesian and the monetarist schools regarding the effectiveness of using the interest rate and the money supply (monetary policy) compared to using taxation and public spending (fiscal policy) to influence economic activity, we present the following observations on the two policies:

- Formulating and implementing a shift in monetary policy to address emergency conditions is often faster and easier than making a change in fiscal policy, because the latter requires - in democratic systems - drafting laws and ensuring the parliament's approval. However, managers of central banks can take independent and quick decisions related to the interest rate and the monetary supply. On the other hand, compared to fiscal measures, the impact of monetary policies on the economy takes a long time to have visible results; monetary policies depend on the effect of shifting interest rate on investment demand, which requires a somewhat long time to show results.
- Unlike fiscal policy, because monetary policy has a direct impact on the currency exchange rate and capital inflows and outflows, its use requires the utmost care. Also, using monetary policy to stimulate the economy is effectively unavailable in countries that adopt a fixed currency exchange rate, which requires directing the interest rate and the monetary supply toward only one goal, i.e. to protect the currency's exchange rate.
- Finally, though both fiscal and monetary policies impact all sectors of the economy, fiscal policies provide a greater potential than is found with monetary policies to focus directly on specific sectors and toward specific social goals.

Key Economic Indicators in Palestine, 2015-2019

Indicator	2015	2016	2017	2018	2019	2018	2019[1]			
						Q4	Q1	Q2	Q3	Q4
Population (One thousand)										
oPt	**4,530.4**	4,632.0	4,733.4	4,915.3	5,039.0	4,900.0	**4,930.7**	**4,961.3**	**4,992.2**	5,023.3
West Bank	2,750.0	2,803.4	2,856.7	2,953.9	3,020.0	2,945.7	**2,962.1**	**2,978.5**	**2,995. 0**	3,011.6
Gaza Strip	1,780.4	1,828.6	1,876.7	1,961.4	2,019.0	1,954.3	**1,968.5**	**1,982.8**	**1,997.2**	2,011.7
Labor market (based on the new definition adopted by PCBS)[2]										
No. of workers (thousand)	**928.9**	**939.6**	**948.7**	**956.3**	**1,010**	**1,005.30**	**986.4**	**998.1**	**1,022.2**	**1041.4**
Participation rate (%)	**44**	**43.8**	**44**	**43.5**	**44.2**	**44.1**	**44.3**	**44.3**	**44.0**	**44.0**
Unemployment rate (%)	**23**	**23.9**	**25.7**	**26.2**	**25.4**	**24.2**	**26.8**	**26**	**24.6**	**24.0**
- West Bank	**16.6**	**17.5**	**18.4**	**17.3**	**14.6**	**15.8**	**16.4**	**15**	**13.3**	**13.7**
- Gaza Strip	**34.8**	**35.4**	**38.3**	**43.1**	**45.2**	**40.9**	**46.3**	**46.7**	**45.1**	**42.7**
National accounts (at constant prices) (base year 2015) (million dollars)[3]										
GDP	**13,972.4**	**15,211.0**	**15,426.9**	**15,616.2**	**15,764.4**	**4,089.7**	**3,956.1**	**3,876.6**	**3,915.3**	**4,016.4**
- Household expenditure	**12,348.3**	**3,342.9**	**13,420.3**	**13,570.1**	**14,135.4**	**3,567.9**	**3,557.5**	**3,503.3**	**3,528.3**	**3,546.3**
- Government expenditure	**3,494.5**	**3,584.7**	**3,093.6**	**3,318.9**	**3,115.3**	**880.6**	**749.1**	**758.5**	**789.0**	**818.7**
Gross capital formation	**3,505.4**	**3,873.8**	**4,166.9**	**4,260.3**	**4,198.7**	**1,125.6**	**1,035.6**	**1,052.6**	**1,054.1**	**1,056.4**
Exports	**2,244.3**	**2,208.3**	**2,515.6**	**2,578.7**	**2,623.8**	**700.2**	**641.1**	**641.1**	**635.4**	**706.2**
Imports (-)	**7,645.5**	**7,796.3**	**7,901.5**	**8,256.8**	**8,368.4**	**2,229.6**	**2,103.1**	**2,099.1**	**2,113.9**	**2,052.3**
GDP per capita (USD)										
at Current prices	**3,277.90**	**3,534.40**	**3,620.50**	**3,562.30**	**3,640.1**	**898.6**	**892.2**	**894.5**	**914.8**	**938.6**
at Constant prices (base year 2004)	**3,277.90**	**3,489.80**	**3,463.10**	**3,417.70**	**3,364.5**	**886.4**	**852.7**	**830.1**	**832.9**	**848.8**
Balance of Payment (USD millions)										
Trade Balance	**(5,400.9)**	**(5,664.5)**	**(5,967.4)**	**(6,425.7)**	**(6,500.7)**	**(1,678.2)**	**(1,610.3)**	**(1,637.7)**	**(1,696.2)**	**(1,556.5)**
Income Balance	**1,712.2**	**1,896.0**	**2129.0**	**2,786.2**	**2,658.0**	**709.3**	**572.1**	**630.8**	**770.0**	**685.1**
Current Transfers Balance	**1,749.4**	**1,626.2**	**1,708.7**	**1,499.1**	**2,009.2**	**406.1**	**533.1**	**478.4**	**538.9**	**458.8**
Current account Balance	**(1,939.1)**	**(2,142.7)**	**(2,129.7)**	**(2,140.4)**	**(1,833.5)**	**(562.8)**	**(505.1)**	**(528.5)**	**(387.3)**	**(412.6)**
Exchange Rates and Inflation										
USD/NIS exchange rate	**3.88**	**3.84**	**3.60**	**3.59**	**3.56**	**3.7**	**3.64**	**3.592**	**3.529**	**3.492**
JOD/NIS exchange rate	**5.48**	**5.42**	**5.08**	**5.07**	**5.03**	**5.22**	**5.14**	**5.066**	**4.977**	**4.926**
Inflation rate (%)[4]	**1.43**	**(0.22)**	**0.21**	**(0.19)**	**1.58**	**0.01**	**0**	**1.54**	**0.33**	**(0.27)**
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	**2,890.2**	**3,551.0**	**3,656.5**	**3,469.1**	3,994.6	**676.1**	**708.4**	**213.7**	**1,018.0**	1,099.4
Current expenditure	**3,424.3**	**3,659.3**	**3,791.4**	**3,660.4**	3,660.1	**940.8**	**668.3**	**587.8**	**808.7**	1,362.9
Developmental expenditure	**176.7**	**216.5**	**255.3**	**277.2**	200.0	**108.8**	**42.2**	**44.1**	**47.1**	67.9
current budget deficit\surplus (before grants)	**(710.9)**	**(324.7)**	**(390.2)**	**(468.6)**	(569.5)	**(373.4)**	**(2.0)**	**(418.2)**	**162.2**	(331.4)
Total grants and aid	**799.0**	**766.9**	**719.8**	**666.5**	492.1	**225.9**	**69.3**	**127.8**	**176.6**	115.8
Total budget deficit\surplus (after grants and aid)	**88.1**	**442.3**	**329.5**	**197.9**	(77.3)	(147.6)	67.3	(290.4)	338.8	(215.6)
Public debt	2,537.2	2,483.8	2,543.2	2,369.6	2,795.0	2,369.6	2,315.2	2,637.1	2,914.8	2,795.0
The Banking Sector (USD millions)										
Banks assets/liabilities	**12,602.3**	**14,196.4**	**15,850.2**	**16,125.0**	**17,825.5**	**16,125.0**	**16,503.2**	**16,690.1**	**17,303.5**	**17,825.5**
Equity	**1,461.7**	**1,682.4**	**1,892.7**	**1,912.0**	**1,985.2**	**1,912.0**	**1,931.4**	**1,956.0**	**1,942.4**	**1,985.2**
Deposits at banks	**9,654.6**	**10,604.6**	**11,982.5**	**12,227.3**	**13,384.7**	**12,227.3**	**12,394.4**	**12,591.4**	**13,025.5**	**13,384.7**
Credit facilities	**5,824.7**	**6,871.9**	**8,026.0**	**8,432.3**	**9,039.1**	**8,432.3**	**8,569.5**	**8,941.6**	**8,947.9**	**9,039.1**

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).
Figures for 2017 are preliminary and subject to further revision.
Figures between brackets indicate negative values. Figures between brackets indicate negative value
PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment includes only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking anymore for jobs (did not seek an employment during the reference period). The table includes calculations of the Palestinian labor market indicators based on the old and the new definitions.
PCBS revised the national accounts figures at current & fixed prices for the years 2004-2018. Therefore, figures differ from previous quarters and years.
The inflation rate estimation is based on year-over-year comparisons of the average CPI in the target year (each quarter) with its average in previous year (quarter).
* The figures in the table are based on the latest updated data from PCBS, PMA, and PCMA.