



MAS

PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS

Tel: +972 (2) 298 7053/4 | Fax: +972 (2) 298 7055
info@mas.ps | www.mas.ps

Economic Monitor



سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY



هيئة سوق رأس المال
Capital Market Authority



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معهد أبحاث السياسات
الاقتصادية الفلسطيني (ماس)

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Editors:

- Dr. Fadel Naqib
- Raja Khalidi
- Dr. Nu'man Kanafani

Research Team:

- Islam Rabee
- Habib Hin
- Iman Saadeh
- Dr. Rabeh Murar
- Misayef Jamil

Coordinators:

- 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)

@ 2021 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

@ 2021 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

@ 2021 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

@ 2021 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

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Q3 2021 in Brief:

- ✧ **Gross Domestic Product (GDP):** During Q3 2021, GDP at constant prices (2015 base year) grew slightly, by 0.06% compared with the previous quarter, reaching about USD 3.7bn. This resulted from a growth rate of 0.13% in the West Bank and a decline of about 0.24% in the Gaza Strip. The increase in real GDP in Q3 2021 compared with the previous quarter led to a drop of about 0.6% in real GDP per capita (a decrease of about 0.4% in the West Bank and 1.0% in the Gaza Strip), reaching USD 755 (USD 1,097.4 in the West Bank compared with 296.9% in the Gaza Strip).
- ✧ **Employment and Unemployment:** The unemployment rate in Palestine increased by 0.9 percentage point between Q2 and Q3 2021, reaching 27.3% (14.7% in the West Bank and 50.2% in Gaza). The average daily wage in Palestine stood at NIS 137.8, distributed as NIS 125.6 for workers in the West Bank, NIS 60.5 in the Gaza Strip, and NIS 266.3 in Israel and the settlements. Around 28% of the private sector employees received less than the minimum wage, earning NIS 742 on average.
- ✧ **Public Finance:** During Q3 2021, net public revenues and grants increased to NIS 3.7bn compared to 3.6bn for the previous quarter. On the other hand, during the same period public expenditures decreased by 2.1% to about NIS 3.6bn (cash basis). Events had an impact on both public revenues and expenditures, leading to a surplus of about NIS 48m in the overall balance of grants and foreign aid. During this quarter, government arrears amounted to NIS 1,124.9m and dollar-denominated public debt rose by 2.5%, to USD 3.8bn (NIS 12.2bn).
- ✧ **Banking Sector:** By the end of Q3 2021, credit facilities had increased by 1.2% compared with the previous quarter to reach USD 10.5 bn, 22.7% of which is attributed to the public sector. Customer deposits grew by 3.2% during the same period to reach USD 16.2bn. Banks' net profits for this quarter amounted to USD 46.2m, an increase of 36.7% compared with the previous quarter.
- ✧ **Palestine Stock Exchange (PEX):** The market value of the shares of companies listed on the Palestine Stock Exchange reached USD 4.2bn by the end of Q3 2021, which represents a remarkable growth of 8% compared with the previous quarter. The Al Quds index closed at 579.5 points, an increase of 7% compared with the previous quarter.
- ✧ **Inflation and Purchasing Power:** In Q3 2021, the Palestinian economy witnessed positive inflation (a rise in prices) at a rate of 0.1% compared with the previous quarter. Consequently, for those who receive and spend their income in shekels, purchasing power declined at the same rate between the two quarters. As for those who receive their wages in U.S. dollars and cover their expenses in shekels, their purchasing power decreased by 1.0%. This resulted from the 0.9% drop in the U.S. dollar exchange rate relative to the shekel and a 0.1% increase in the inflation rate. Given that the JOD is pegged to the USD at a fixed exchange rate, the purchasing power of the JOD varied basically in line with the U.S. Dollar.

1- Real Economy and Infrastructure – Pockets of Recovery

Although economic activity saw a modest improvement during Q3 2021, driven by growth in consumer spending and fixed investment in buildings, an increase in merchandise imports weakened the chances of recovery. In terms of production, industry and health services were among the largest contributors to economic growth, which was offset by a drop in the value-added of the agriculture sector. There were clear signs of recovery in the West Bank, while Gaza Strip's economy endured further difficulties. The future remains uncertain, given a possible new wave of the Omicron variant of COVID-19 and limited sources of growth and development. In addition, although quarterly inflation rates were relatively moderate, there are still concerns over persistent increases in prices of goods and services.

In this section, we focus on economic performance in Q3 2021, including aspects relating to production, consumption, prices, and balance of payments (BoP). This issue of the Monitor also covers other topics related to economic infrastructures that we started examining in previous issues. In this issue, we review the latest indicators for the water and sanitation sector and the intractable crisis of the water sector. This crisis has been aggravated by the policies and measures of Israeli occupation authorities, and in turn are exacerbating the adverse impacts of the broader climate change crisis.

1.1 Economic Activity¹

Preliminary data from the Palestinian Central Bureau of Statistics (PCBS) indicates a slight growth in real Gross Domestic Product (GDP), which refers to the monetary value of all types of goods and services produced domestically (base year 2015). During Q3 2021, GDP rose by 0.06% compared with the previous quarter, reaching USD 3,738.8m (see Figure 1.1). This growth was due to an increase of 0.13% in the West Bank and a decline of 0.24% in the Gaza Strip over the two consecutive quarters. On a year-on-year basis, real GDP was 6.7% higher than it was in the corresponding quarter for 2020. Nevertheless, improvement in domestic economic activity has been insufficient to return GDP to pre-pandemic levels: it remained 4.9% lower than in Q3 2019. At the level of current prices, GDP reached USD 4,480m during Q3 2021.

Private and government final consumption expenditures grew by 1.5% and 3.0% in Q3 2021, respectively, compared with the previous quarter (Figure 1.2).² Total investments grew by 4.3% over the same period. In contrast, the trade deficit widened by 3.4% due to a larger increase in imports (2.7%) compared with exports (1.3%). On a year-on-year basis, a comparison with the corresponding quarter in 2020 shows a rise in expenditure on GDP in all indicators, albeit one that was offset by a widening trade deficit (15.9%).

Compared with the previous quarter, Q3 2021 also saw an increase in the value-added of all major service sectors. As for productive activities, the construction and industry sectors increased by about 4.05% and 7.65% in Q3 2021, while the agriculture sector declined by 3.1% compared with the previous quarter.

1 Most of the statistics in this section are sourced from PCBS, especially the quarterly national accounts statistics. Other sources are indicated where they are used. Unless otherwise indicated, all change ratios are measured at constant prices (base year 2015).

2 Private consumption expenditure includes final consumption by households and final consumption by non-profit enterprises serving households.

Figure 1.1: Real GDP in Palestine by Quarter, 2019-2021 (USD million) (base year 2015)

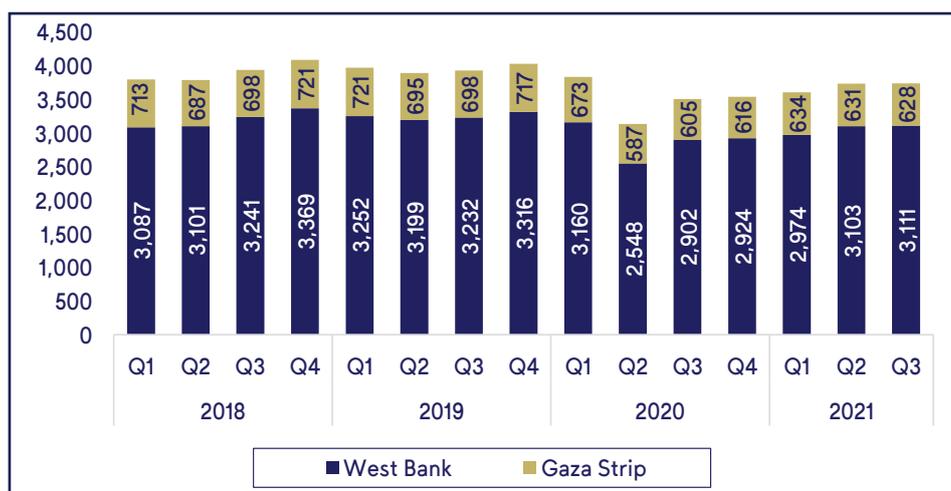
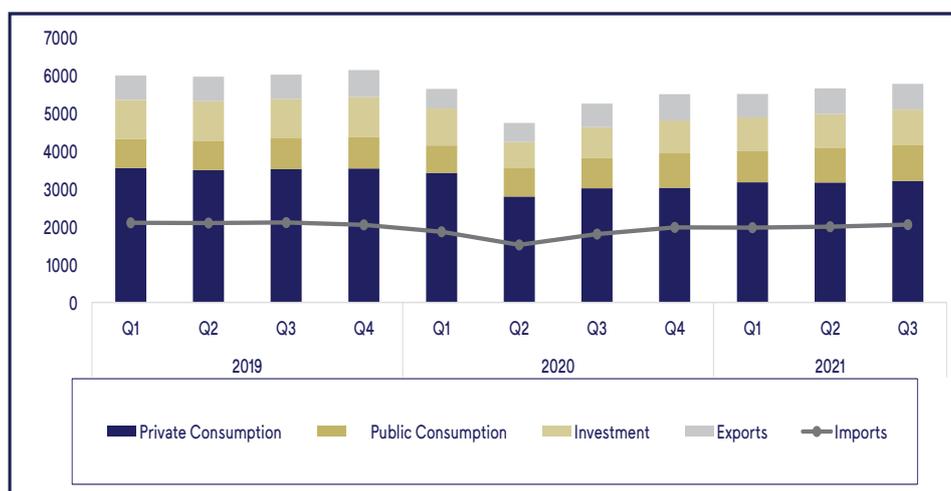


Figure 1.2: Quarterly Expenditure on GDP, 2019-2021, at constant prices (base year 2015)



1.1.1 GDP per capita

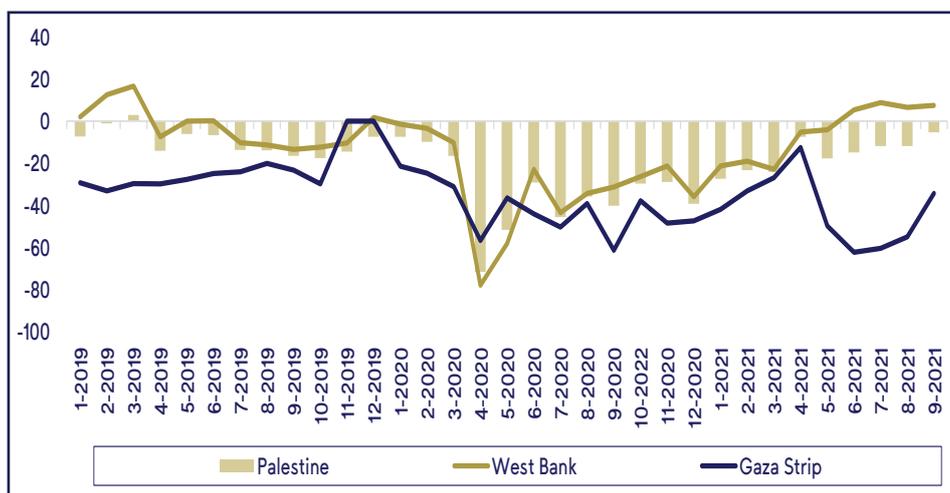
Due to real GDP in Q3 2021 increasing at a lower rate than the population growth rate compared with the previous quarter, real GDP per capita fell by 0.6% (distributed as a decrease of 0.4% in the West Bank and of 1.0% in the Gaza Strip). It reached USD 755 (USD 1,097.4 in the West Bank and USD 296.9 in Gaza Strip), an increase of 3.7% compared with the previous year (distributed as an increase of 4.3% in the West Bank and 1.3% in Gaza Strip). While GDP per capita reached USD 905.3 in current prices in Q3 2021 for all the occupied Palestinian territories, this figure conceals a vast and distressing gap between the West Bank's economic performance (USD 1,315.2) and that of devastated Gaza Strip (USD 355.6).

1.1.2 PMA's Business Cycle Index

The PMA Business Cycle Index indicates that economic activity improved in Q3 2021, but the value of the Index remains low. This is mainly ascribed to the severe decline of economic activity in the Gaza Strip as a result of the Israeli assault in May 2021 (Figure 1.3). The Index showed signs of recovery in the West Bank, where it recorded its highest value in more than two years.

The Business Cycle Index is calculated based on a survey of the opinions of a representative sample of managers of industrial establishments in the West Bank and Gaza Strip. It covers current levels of employment, production and sales, and their prospects for the coming months. The index gives a glimpse of the overall performance of the Palestinian economy during that month, and prospects for the coming months. The maximum value of the Index is +100, while the minimum value is -100. A positive value indicates a prevalence of opinions that economic conditions are good, with an increase in the positive value indicating improvement in the overall economic situation. If the Index value is close to zero, this indicates that conditions are stable, with no foreseeable changes in the near future.

Figure 1.3: PMA’s Business Cycle Index, 2019-2021

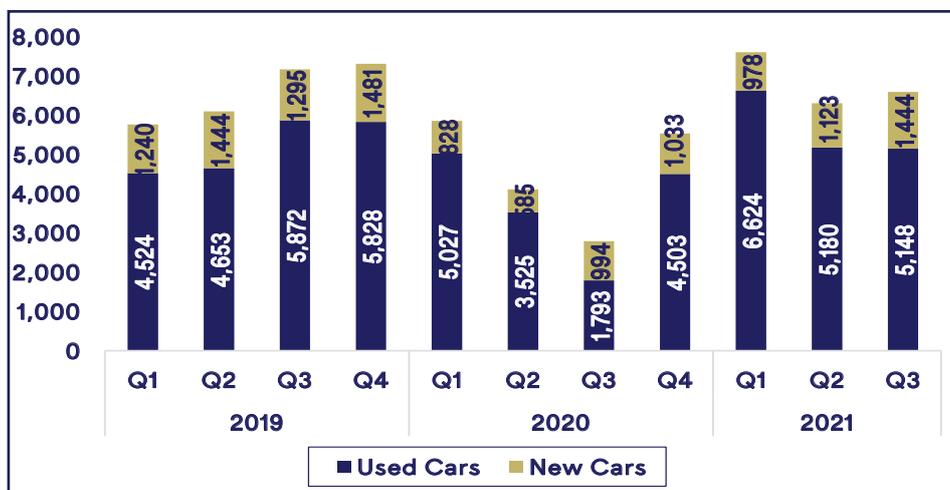


Source: PMA, 2021. Business Cycle Index, 2019- 2021. Ramallah, Palestine.

1.1.3 Vehicle Registration

According to the Palestinian Ministry of Finance (MoF) data, the number of registered vehicles in the West Bank increased by 4.6% in Q3 2021 compared with the previous quarter, reaching 6,592 (Figure 1.4). This increase can be attributed mainly to an increase of around 28.6% in the registration of new vehicles imported from overseas markets. The index is still below its level two years ago, another reflection of the fragmentation and slow recovery from the impact of the pandemic.

Figure 1.4: Quarterly Data on the Registration of Imported Vehicles in the West Bank, 2019-2021



Source: Ministry of Finance (MoF), 2021, Customs and Excise Dept., unpublished data. Ramallah, Palestine.

1.2 Productive Sectors: Agriculture, Industry, and Construction³

During Q3 2021, the value-added of the productive sectors increased by 3.9% and 6.3% compared with the previous and corresponding quarters in 2020, respectively. The contribution of the productive sectors to GDP increased from 22.8% in Q2 2021 to 23.7% in Q3 2021, coming close to its level from the corresponding quarter in 2020. Overall, the industrial and construction sectors showed signs of recovery during this quarter, while the performance of the agriculture sector was poor.

1.2.1 Agriculture Sector

In Q3 2021, the value-added of agriculture, forestry, and fishing activities decreased by 3.1% compared with the previous quarter and by 2.4% compared with Q3 2020. The sector's contribution to GDP declined from 6.4% in Q2 2021 and 6.8% in Q3 2020 to 6.2% in Q3 2021.

1.2.2 Industrial Sector

The value-added of the industrial sector in Q3 2021 rose by 7.65% from Q2 2021, with the sector's contribution to GDP increasing from 11.8% to 12.8% during the same period. On a year-on-year basis, the sector's value-added increased by about 7.2% between the corresponding quarters (Table 1.1).

Table 1.1: Quarterly Comparison of Value Added from Industrial Sub-sectors (USD million) (base year 2015)

Economic activity	Q3 2020	Q2 2021	Q3 2021	Change from the previous quarter	change from the corresponding quarter
Mining and quarrying	12.2	12.7	13.5	6.3%	10.7%
Manufacturing industries	386.2	380.2	404.4	6.4%	4.7%
Electricity, gas, steam, and air conditioning	31.6	33	40.4	22.4%	27.8%
Water, sanitation, waste management, and treatment	13.9	16	17.4	8.7%	25.2%
Industrial sector (Total)	443.9	441.9	475.7	7.6%	7.2%

Source: PCBS, 2021. Quarterly Statistics on National Accounts, 2000-2021. Ramallah, Palestine.

In Q3 2021, the total index of industrial production output rose by 5.8% and 9.6% compared with the previous and corresponding quarters, respectively, reaching about 108.4 points (base year 2019) (Figure 1.5).

³ Source of Figures: PCBS, 2021. National Accounts Quarterly Statistics, 2000-2019. Ramallah, Palestine.

Figure 1.5: Total Quarterly Index of Industrial Production Outputs, 2019- 2021 (Base Year 2019)



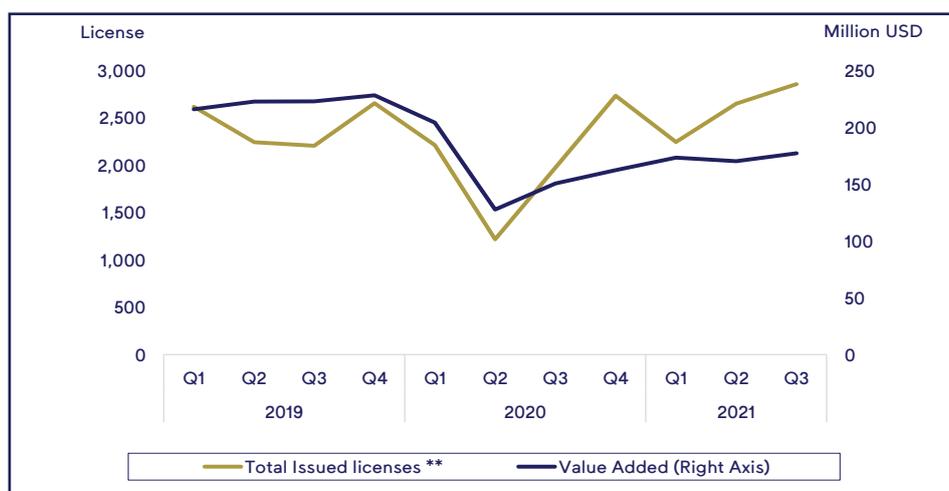
Source: PCBS, 2021. Price Indices Surveys, 2010-2021.

1.2.3 Construction

In Q3 2021, the value added of the construction sector increased by 4.1% and 17.7% compared with the previous quarter and the corresponding quarter 2020, respectively. As a result, the construction sector's contribution to GDP increased to 4.7%, compared with 4.6% in Q2 2021 and 4.3% in Q3 2020.

In terms of building permits, preliminary estimates show an increase of 7.8% in licenses issued in Q3 2021 compared with the previous quarter, and an increase of 44.6% from an already-low level in Q3 2020 (Figure 1.6). There were 2,855 construction licenses issued for residential and non-residential buildings in Q3 2021, including 1,777 licenses for new buildings. There were 5,758 licensed housing units in Q3 2021, covering a total area of 887,000m², whereas the number of new housing units increased by 13% and 56% compared with the previous and corresponding quarters in 2020.⁴

Figure 1.6: Licensed Areas (1000 m²) and the Value Added of the Construction Sector in Palestine (base year 2015), Quarterly Data 2019-2021



Source: PCBS, 2021, Building Licenses Statistics and Quarterly National Accounts Statistics, 2000-2021. Ramallah, Palestine.

4 PCBS, 2021, Building Licenses' Statistics.

1.3 Commercial, Financial, and Services Sectors

Table 1.2 demonstrates the economic activities in the trade, financial, and services sectors within the Palestinian economy. The total value added of these sectors increased by 3.9% in Q3 2021, compared with the previous quarter, and by 9.5% compared with the corresponding quarter 2020. As shown in Table 1.2, the higher value added of these activities compared to the previous quarter resulted from the recovery of all sub-sectors.

Table 1.2: Quarterly Comparison of the Value Added of the Services' Sub-sectors, 2020-2021 (USD million) (base year 2015)

Economic Activity	Q3 2020	Q2 2021	Q3 2021	Change from the previous quarter	Change from the corresponding quarter
Wholesale and retail trade, repair of motor vehicles and motorcycles	674.2	680.8	690.8	1.5%	2.5%
Transportation & Storage	56.3	58	62.2	7.2%	10.5%
Financial and insurance activities	161.9	166.3	171.1	2.9%	5.7%
Information and communication	121.8	117.4	127	8.2%	4.3%
Accommodation and food service activities	41.3	48.3	52.1	7.9%	26.2%
Real Estate and leasing activities	148	164.6	167.4	1.7%	13.1%
Professional, scientific and technical activities	31.1	34.1	38.6	13.2%	24.1%
Administrative and support service activities	19.5	22.6	29	28.3%	48.7%
Education	234.1	249.2	252.9	1.5%	8.0%
Human health & social work activities	149.9	168.5	187	11.0%	24.7%
Arts, entertainment, recreation, and other service activities	15.1	9.9	13.3	34.3%	-11.9%
Other service activities	56.5	51.4	53.4	3.9%	-5.5%
Public Administration	406.4	459	473.3	3.1%	16.5%
Households with employed persons	1.5	1.5	1.5	-	-
Services sectors	2117.6	2231.6	2319.6	3.9%	9.5%

Source: PCBS, 2021, National Accounts Quarterly Statistics, 2000- 2021. Ramallah, Palestine.

1.4 Balance of Payments (BoP), International Investment Position (IIP), and External Debt (ED)

Palestine suffers from a chronic trade deficit, as the value of imports is usually three times more than the value of exports. Wages to workers in Israel, foreign aid, remittances, and income from investments abroad partially reduce the deficit, but they are insufficient to cover domestic consumption. As a result, Palestine suffers from a structural deficit in the current account, one that is usually financed through borrowing.⁵

⁵ A current account is a country's record of transactions with the rest of the world. The register contains the trade bal-

During Q3 2021, the current account deficit rose by 7.1% compared with the previous quarter, reaching USD 316 million. The 10.7% increase in workers' compensation in Israel and 4.6% increase in current transfers to NGOs were not sufficient to offset the expansion of the trade balance deficit, which grew by 5.5%. The 34.1% decrease in international donor aid to the public sector exacerbated the current account deficit. As a result, net foreign borrowing increased by 96.4% compared with the previous quarter (Table 1.3).

Table 1.3: Quarterly Comparison of Select Indicators of the BoP for 2020 and 2021 (USD million at current prices)

Indicator	Q3 2020	Q2 2021	Q3 2021	Change from the previous quarter	Change from the corresponding quarter
Current Account Deficit (net)	(200.0)	(295.0)	(316.0)	7.1%	58.0%
Trade Balance Deficit (exports-imports)	(1,351.0)	(1,645.0)	(1,736.0)	5.5%	28.5%
Exports	262.0	290.0	299.0	3.1%	14.1%
Imports	2,011.0	2,402.0	2,526.0	5.2%	25.6%
Total Income (Net)	697.0	831.0	906.0	9.0%	30.0%
Including: Compensation to workers in Israel	653.0	766.0	848.0	10.7%	29.9%
Including: investment income	71.0	76.0	69.0	(9.2%)	(2.8%)
Current transfers (net)	454.0	519.0	514.0	(1.0%)	13.2%
Including: transfers from donor countries	104.0	107.0	79.0	(26.2%)	(24.0%)
Including: other current transfers	439.0	496.0	523.0	5.4%	19.1%
Capital Transfers (net)	84.0	109.0	114.0	4.6%	35.7%
Net borrowing (financial account)	(62.0)	55.0	108.0	96.4%	(274.2%)
Including: direct investment (net)	61.0	31.0	16.0	(48.4%)	(73.8%)
Including: Deposits (in foreign currency)	192.0	187.0	(101.0)	(154.0%)	(152.6%)

Source: PCBS and PMA, 2021. Quarterly BoP Statistics, 2010-2021. Ramallah, Palestine.

* The numbers in parentheses are negative.

During Q3 2021, total investments made by Palestinians residing abroad (i.e., total assets invested overseas) exceeded non-resident investments in Palestine (i.e., foreign direct investments) by USD 3.6bn.⁶ Net international investments for Palestine increased by 8.1% compared with the previous quarter and by 48.3% compared with Q3 2020 (Table 4.1). The quarterly and annual growth resulted from increased domestic deposits in offshore banks, foreign exchange circulating in the Palestinian economy, and reserve assets. It is worth noting that about 66.9% of the total assets invested abroad are in the form of currency and deposits.

ance, net profit on foreign investment and net transfer payments. The current account deficit indicates that the country's financial obligations abroad outpaced its income and transfers from abroad.

6 The international investment position (IIP) is a statistical statement showing, at a given date, the status of the financial assets of residents in a given economy, including both claims on non-residents on one hand, and the obligations of residents to non-residents on the other. The net IIP takes into account the difference between external financial assets, and their counterpart at the level of liabilities.

Table 1.4: Quarterly Comparison of the IIP for 2020 and 2021 (USD million at current prices)

Item	Q3 2020	Q2 2021	Q3 2021	Change from the previous quarter	Percentage change from the corresponding quarter
Net international investments	2,432.0	3,338.0	3,607.0	8.1%	48.3%
1. Foreign Direct Investments (net)	(2,507.0)	(2,518.0)	(2,557.0)	1.5%	2.0%
2. Portfolio Investments (net)	679.0	766.0	691.0	(9.8%)	1.8%
3. Other investments (net)	3,635.0	4,306.0	4,679.0	8.7%	28.7%
4. Reserve Assets	625.0	784.0	794.0	1.3%	27.0%

Source: PCBS and PMA 2021, IIP and ED Quarterly Statistics, 2010-2021. Ramallah, Palestine.

*The net sub-items were calculated based on PCBS and PMA data.

* The numbers in parentheses are negative.

Total ED (accumulated) stood at approximately USD 2.13bn at the end of Q3 2021, up by 3.8% from the previous quarter and 5.8% from the corresponding quarter 2020 (Table 1.5).

Table 1.5: Quarterly Comparison of Foreign ED Components for 2020 and 2021 (USD million at current prices)

Economic Sector	Q3 2020	Q2 2021	Q3 2021	Change from the previous quarter	Percentage change from the corresponding quarter
Palestinian Government	1,303.0	1,318.0	1,323.0	0.4%	1.5%
Banks	669.0	674.0	748.0	11.0%	11.8%
Other sectors	37.0	43.0	43.0	0.0%	16.2%
Total ED	2,015.0	2,052.0	2,131.0	3.8%	5.8%

Source: PCBS and PMA 2021, IIP and ED Quarterly Statistics, 2010-2021. Ramallah, Palestine.

1.5 Prices⁷

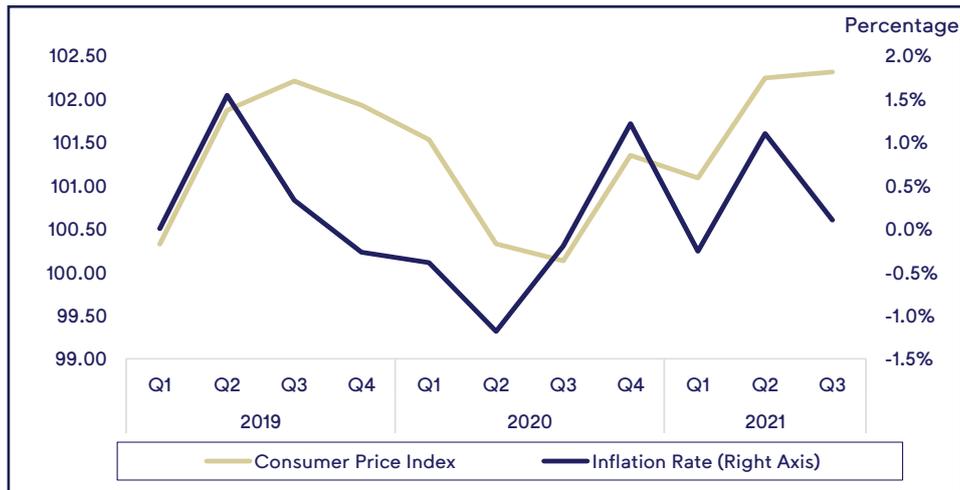
The Consumer Price Index (CPI) is the average price of a basket of basic goods and services that reflects the consumption patterns of a typical family in a country. This selected set of goods and services is called the “consumption basket”. The inflation rate is the rise in the value of this index between two specific dates, marking the change in an income’s purchasing power.

Consumer Price Index (CPI)

The figure below shows two curves. The first depicts CPI trends between Q1 2019 and Q3 2021, while the second measures the percentage change in the CPI in each quarter compared with the previous one, i.e., the quarterly inflation rate. During Q3 2021, CPI reached around 102.3 points, compared with about 102.2 in Q2 2021, meaning that the inflation rate stood around 0.1% (Figure 1.7). Also, CPI increased by 2.2% compared with the corresponding quarter 2020.

⁷ Source of Figures: PCBS, 2021. Price Indices Surveys, 2010-2021.

Figure 1.7: Quarterly Trends in CPI and Inflation Rate, 2019-2021 (base year 2018)

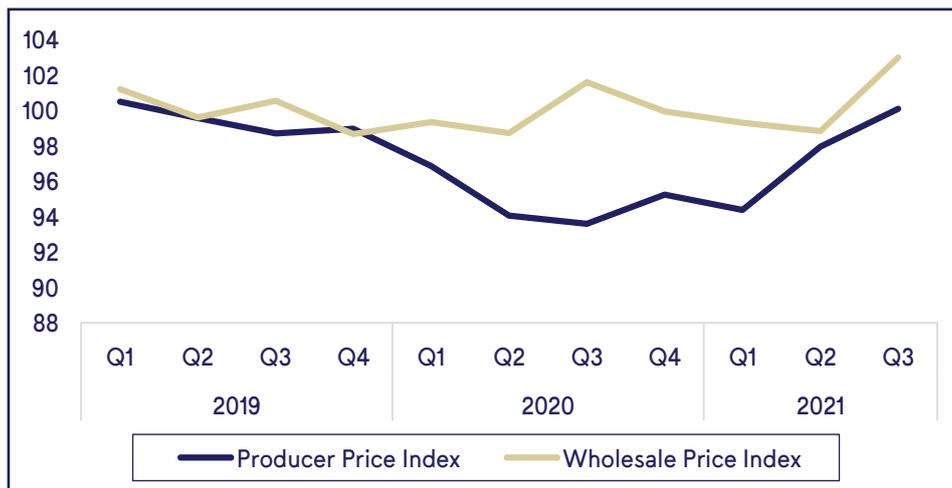


PCBS, 2021. Price Indices Surveys, 2010-2021.

1.5.1 Wholesale and Producer Prices⁸

The wholesale price index (WPI) (the selling price to retailers) increased by 4.2% between Q2 and Q3 2021 (Figure 1.8). This resulted from a 5.8% and 2.0% increase in wholesale prices of domestic and imported goods, respectively. The Producer Price Index (PPI) (prices received by domestic producers) rose by 2.2% over the two consecutive quarters, resulting from a 2.2% rise in producer prices for goods that were domestically produced and consumed and a 2.4% rise in producer prices for goods that were domestically produced and exported abroad. The increase in wholesale and producer prices may be linked to the rise in raw material prices and inflation rates globally due to accelerated demand, disrupted supply chains, and limited production capacity in the short term.

Figure 1.8: Quarterly Trends in WPI and PPI, 2019-2021 (base year 2019)



Source: PCBS, 2021. Price Indices Surveys, 2019-2021. Researcher calculations.

1.5.2 Residential Property Prices (RPPI)

The overall value of the PMA's residential property price index (RPPI) reached 107.9 points in Q3 2021, decreasing by 2.3% compared with the previous quarter (Figure 1.9). This aggregate index is comprised of two sub-indicators: the first reflects prices for apartments, which reached 105.4 points, with a growth rate of 0.9% over the consecutive quarters; while the second reflects prices for houses, including villas, which reached 109.7 points, dropping by 4.1% compared with Q2 2021). On a year-on-year basis, the overall value of the index increased by 13.9% compared with Q3 2020, due the houses index growing by 17.6% and the apartments index growing by 8.9%.

Figure 1.9: PMA's RPPI in Palestine, Q1 2018 to Q3 2021



Source: PMA, 2021. Residential Property Price Index in Palestine (RPPI).

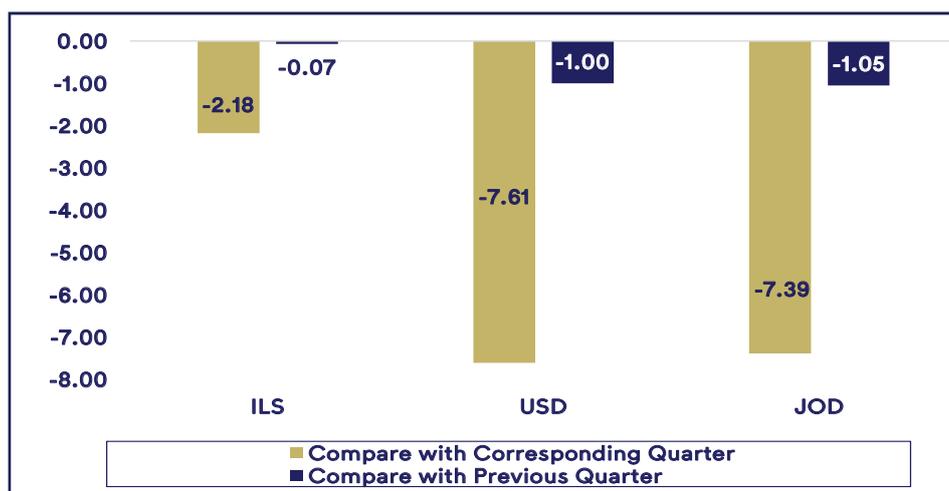
1.5.3 Purchasing Power⁹

NIS Purchasing Power: During Q3 2021, CPI increased by 0.1% and 2.2% compared with the previous and corresponding quarters, respectively, reflecting a drop in the purchasing power of the NIS by the same amount during the indicated periods (Figure 1.10). Note that the trend in the purchasing power of the Shekel is equivalent to the rate of change in consumer prices, but in the opposite direction.

USD Purchasing Power: During Q3 2021, the average exchange rate of the USD against the NIS fell by 0.9% and 5.4% compared with the previous and corresponding quarters, respectively. Accordingly, the purchasing power of individuals who receive their salaries in USD and meet all their expenditures in shekels decreased by 1.0% and 7.6%, respectively, during the same period. Given that the JOD is pegged to the dollar at a fixed exchange rate, the dinar's purchasing power witnessed roughly the same developments as the dollar.

⁹ The purchasing power measures the ability of the individual to buy goods and services using one's wealth. It is dependent on the level of income and variance in prices, add to that the change in the average prices and the currency's exchange rate. Based on this, the change in the purchasing power (assuming constant income) = the average change in the exchange rate of other currencies against the shekel – inflation rate.

Figure 1.10: Trends in the Purchasing Power of Locally Circulated Main Currencies, Q3 2021 vs. Q2 2021 vs. Q3 2020 (%)



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

1.6 Service Infrastructure: Water¹⁰

While Palestine faces serious shortages in all basic infrastructure services, the water crisis is the most prominent. This is especially true in the Gaza Strip, where water pollution and unsustainable levels of consumption of the coastal aquifer on the eastern Mediterranean persist. This problem stems mainly from the policies, practices, and procedures of the Israeli occupation which exploits resources and deprives Palestinians of their quota and denies them their legitimate right to water. These actions are reflected in the daily water consumption per capita of around 82 liters/day, which is below the minimum quantity recommended by the WHO (100 liters per capita/day) to realize basic daily needs and reduce the risk of disease. It is far below the daily per capita consumption of water in Israel and its colonies, which reaches 242 liters per capita/day, thus reflecting the stark inequality in access to water perpetuated by the prolonged Israeli occupation.¹¹

1.6.1 Water Resources

In 2019, the annual water supply in Palestine was 417.9 million m³ (213.7 million m³ in the West Bank and 204.2 million m³ in the Gaza Strip), distributed according to the following sources: pumped from groundwater wells¹² (69.2%), purchased from the Israeli Water Company (Mekorot) (20.1%), discharge from spring water (9.7%), and desalinated drinking water (1.0%) (Table 1.6).¹³ The domestic sector share is around 54.4% of all annual water supply, yet, a significant amount of water is wasted (37.5%: 28.5% in the West Bank and 47.5% in the Gaza Strip).

¹⁰ Sources: Palestinian Energy and Natural Resources Authority (PNERA), 2019. Ramallah, Palestine. PCBS, 2019. Foreign Trade Database, 2018. Ramallah, Palestine. PCBS, 2019. Economic Survey Series, 2018. Ramallah, Palestine.

¹¹ <https://www.btselem.org/gap-water-consumption-between-palestinians-and-israelis>

¹² Excluding the quantities abstracted from unlicensed wells in the Gaza Strip, where safe pumping and the annual sustainable yield of the basin is estimated between only 50-60 million m³ out of the annually abstracted 198.6 million m³. More than 100 million m³ are extracted from sea water from the return flow or what is known as sea water intrusion.

¹³ [https://www.pcbs.gov.ps/Portals/_Rainbow/Documents/water % 20tables % 202019.pdf](https://www.pcbs.gov.ps/Portals/_Rainbow/Documents/water%20tables%202019.pdf)

Table 1.6: Annual Available Water Quantities in Palestine by Region and Source, 2019 (million m³)

Region/Source	Wells	Springs	Desalinated Drinking Water	Water Purchased from Israeli Water Company (Mekorot)	Total
West Bank	101.1	40.6	-	71.7	213.4
Gaza	187.6	-	4.1	12.5	204.2
Palestine	288.7	40.6	4.1	84.2	417.6

Source: PCBS, 2021. Water Tables for Palestine. PWA, 2019 Water Information System, unpublished data.

1.6.1.1 Surface water

There are a limited number of surface water resources in the West Bank and three resources in the Gaza Strip, two of which (Wadi Beit Hanoun and Wadi Gaza) have been drained as a result of the occupation's exploitation of water in natural flowing areas, while the third (Wadi Selqa) has scarce water due to poor rainfall.¹⁴ The Jordan River is the main permanent source of surface water in the West Bank. However, the occupation exploits the river for irrigation and domestic water supplies, and prevents Palestinians from exploiting or even accessing it.

Surface water also flows through the West Bank valleys, but for a few weeks each year it is usually in the form of temporary flash floods that are difficult to collect or exploit. The long-term annual wadi flood flows in the West Bank is around 165 million m³ per year on average.¹⁵ Only about 1 million m³ per year of wadi flood flows are used in several agricultural ponds in the Jordan Valley as well as small-scale dams in the Auja and Far'a areas.¹⁶

1.6.1.2 Groundwater¹⁷

Groundwater, particularly wells and springs discharge, is the main source of water supply in Palestine. Rainfall is the source of renewable groundwater, feeding it with 675-794 million m³ per year in the West Bank and 55-60 million m³ per year in Gaza Strip (Table 1.7). The rate of aquifer recharge varies from one year to another depending on the average rainfall input, intensity, and duration. Also, the vegetation cover, soil quality, and composition play an important role in the precipitation rates into the aquifer.

According to the Oslo Accords, the Palestinian quota of groundwater sources in the West Bank is 118 million m³ per year. In 2019, the quantity of water available from groundwater reached about 101.4 million m³, of which 40 million m³ was allocated for irrigating 115,000 dunums of agricultural land and 40 million m³ for domestic and industrial uses, while a large quantity was wasted.¹⁸

14 http://www.pwa.ps/userfiles/server/policy/stra_solid.pdf and http://pwa.ps/en_page.aspx?id=ZftsF-fa2719158321aZftsFf

15 http://pwa.ps/en_page.aspx?id=m1i5Xia2706785532am1i5Xi

16 http://www.pwa.ps/userfiles/server/policy/stra_solid.pdf

17 http://pwa.ps/en_page.aspx?id=LuBJw9a2707737285aLuBJw9 and https://www.pcbs.gov.ps/Portals/_Rainbow/Documents/water%20tables%202019.pdf

18 tp://palestinecabinet.gov.ps/WebSite/Upload/Documents/ % D8% A7% D9% 84% D8% A7% D8% B3% D8% AA % D8% B1% D8% A7% D8% AA % D9% 8A % D8% AC % D9% 8A % D8% A9% 20% D8% A7% D9% 84% D9% 82% D8% B7% D8% A7% D8% D8% B9% D9% 8A % D8% A9% 20% D9% 84% D985% D9% 8A % D8% A7% D8% A9% 2021_2023.pdf

Table 1.7: Estimation of recharge amounts of main aquifers, million m³ per year

Aquifer	Groundwater Recharge Volume 2015/2016	Average Recharge on the Long Run	Extracted Water 2019
Western Basin	144	125-197	36.9
Northeastern Basin	251	318-420	33.3
Eastern Basin	92	135-197	31.2
Total for West Bank	487	578-814	101.4
Total for Gaza Strip - Coastal Basin	76	55-60	88.1

Source: PCBS, 2021 Water Tables for Palestine. PWA, 2019 Water Information System, unpublished data.

1.6.1.3 Water from Non-conventional Sources¹⁹

There are three main desalination plants in the Gaza Strip with a total production capacity of about 22,000 m³ per day or about 7.5 million m³ per year, all of which use coastal groundwater aquifers. The private sector owns and operates about 125 small-scale desalination units with limited production capacity, ranging between 5 to 50 m³ per day. It also operates the Coastal Municipalities Water Authority in Khan Younis, Deir el-Balah, and Rafah with eight small groundwater desalination plants with a total production capacity of 1 million m³ per year, which are mixed with well water before distribution.²⁰

In addition to desalination plants, there are many projects for the reuse of treated wastewater in the West Bank and the Gaza Strip, such as projects in Jenin, Jericho, and Rafah. The quantities of treated water used in agriculture are about 2 million m³ annually.

Israeli National Water Company (Mekorot)

Due to Israeli policies, the PNA is forced to purchase an increasing quantity of water from the Israeli company, Mekorot, owing to growing demand and the inability to extract more water from wells and springs. According to PCBS data, the PNA purchased 84.2 million m³ of water from the Israeli company, Mekorot, in 2019, of which 71.7 million m³ were allocated to the West Bank and 12.5 million m³ to the Gaza Strip.²¹ This represents an increase of about 39.6% compared to 2010, with an increase in the West Bank of about 29.4%, and an increase in the Gaza Strip of about 155.1%.

1.6.2 Water Consumption

The per capita share of water consumed by Palestine's domestic sector is 81.9 liters per day, 85.6 liters per person per day in the West Bank, and 77.0 liters per person per day in the Gaza Strip. These figures reflect a shortfall in domestic water use coverage of 64.0 million m³ in the West Bank and 53.8 million m³ in the Gaza Strip, assuming that an individual needs 150 liters of water per day as recommended by the World Health Organization (WHO) (see Table 1.8). The shortfall in domestic water use coverage is expected to widen due to population growth and urbanization.

¹⁹ PWA, 2016. National Water Sector Strategic Plan and Action Plan (2017-2022), Palestinian National Water Sector and Prime Minister Office, 2020. National Development Plan – Sectoral Water Strategy (2021-2023)

²⁰ http://www.pwa.ps/userfiles/server/policy/stra_solid.pdf

²¹ [https://www.pcbs.gov.ps/Portals/_Rainbow/Documents/water % 20tables % 202019.pdf](https://www.pcbs.gov.ps/Portals/_Rainbow/Documents/water%20tables%202019.pdf)

Table 1.8: The amount of water required, supplied and consumed and the shortage in domestic use coverage by region as in 2019 (million m³ per year)

Region	Required water	Amount of Supplied Water	Consumed water	Total Loss	Shortage to cover household water consumption	Real shortage in household water consumption
West Bank	149.2	119.2	85.2	34.0	30	64
Gaza Strip	110.6	108.1	56.8	51.3	2.5	53.8
Palestine	259.8	227.3	142	85.3	32.5	117.8

Source: PCBS, 2021. Water Tables for Palestine. PWA, 2019 Water Information System, unpublished data.

In 2019, around 150.9 million m³ of underground wells were pumped for agricultural use, mostly in the Gaza Strip (64.3%)²². Agriculture is the Gaza Strip's main water consumer, requiring about 60% of the total water supply.²³ Due to the limited amount of water available to Palestinian farmers, only 6.8% of the land cultivated in the West Bank is irrigated.²⁴

In 2017, economic facilities consumed about 59 million m³ of water, 41 million m³ in the West Bank, and 18 million m³ in the Gaza Strip.²⁵

1.6.3 Quality of Service and Coverage

Although the majority of Palestinian households are connected to a public water network (93.3%), there is not enough water to provide 24h/7d running water. Palestinians suffer from persistent water outages, and sometimes this last for weeks, especially in the summer, prompting them to invest in storage facilities and use high-cost water tanks (by truck) to meet their basic needs. Many households also use booster water pumps to fill their rooftop tanks due to poor pressure in the water supply network. Intermittent water distribution causes the network to deteriorate at a faster rate, reducing its life span.²⁶

Around 48% of the Palestinian communities indicated that they were subscribers to water companies who needed to purchase water through movable water tanks. Out of the 557 communities, 291 suffer from water outages, 221 suffer from being in areas that are not served with water daily, and more than 49 (all in the West Bank) do not have a public water network. At the level of economic facilities, in 2017, 81% of them received water through a water network, which represents 85.2% of the West Bank's economic facilities and 72.3% of the Gaza Strip's economic facilities.²⁷

In terms of household water quality, 61.1% of Palestinian households describe it as good, compared with 13.1% that think it is of poor quality. Also, 237 communities are suffering from decay and aging water systems, 111 are suffering from water pollution, and 121 are suffering from water salinity, water loss, and high prices.²⁸ Water quality is particularly poor in the Gaza Strip, where the network-provided water (tap water) is not considered suitable for drinking because it contains high percentages

22 https://www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=613

23 <http://pwa.ps/userfiles/server/%D9%88%D8%AB%D8%A7%D8%A6%D9%82/%D8%A8%D8%B1%D9%86%D8%A7%D9%85%D8%AC%20%D8%A7%D9%84%D9%85%D8%AD%D8%B7%D8%A9%20%D8%A7%D9%84%D9%85%D8%B1%D9%83%D8%B2%D9%8A%D8%A9%20%D9%84%D8%AA%D8%AD%D9%84%D9%8A%D8%A9%20%D8%A7%D9%84%D9%85%D9%8A%D8%A7%D9%87.pdf>

24 <https://www.pcbs.gov.ps/Downloads/book1818.pdf>

25 <https://www.pcbs.gov.ps/Downloads/book2323.pdf>

26 http://www.pwa.ps/userfiles/server/policy/stra_solid.pdf

27 https://www.pcbs.gov.ps/site/lang_ar/1039/default.aspx?lang=ar

28 <https://www.pcbs.gov.ps/Downloads/book2323.pdf>

of chloride and nitrate, exceeding the permissible limits. Most of Gaza’s population depends on desalinated groundwater for domestic use. In terms of quality, 97% of the water pumped from the coastal basin annually does not meet the standards of the World Health Organization, and four out of five Palestinians in Gaza purchase drinking water from unregulated vendors.²⁹ Consumption of contaminated water leads to higher rates of transmission of water-borne diseases.

1.6.4 Cost and Prices

The cost of water in Palestine is high and constitutes a financial burden on households, especially the poor. The cost of water as a share of the average income of Palestinian households in the West Bank is about 8%, twice the internationally accepted standard.³⁰ As the economic situation of Palestinian households shows, the limited capacity to pay undermines the possibility of the collection of citizens’ bills for services. However, poor consumers who are not connected to a water network pay the highest costs, amounting to more than 17% of family income. Table 1.9 shows average consumer prices for water tariffs by region in 2019, which reveals a high disparity between the West Bank and Gaza Strip resulting from the West Bank’s significant dependence on water imported from Israel.

Table 1.9: Average consumer prices for water tariffs by region as of 2019 (NIS)

Item	Palestine	West Bank	Gaza Strip
Water tariff for consumption category (0 - 5) m ³ /month	2.98	3.25	1.39
Water tariff for consumption category (5.1 -10) m ³ /month	2.96	3.28	1.19
Water tariff for consumption category (10.1-20) m ³ /month	3.42	3.9	1

Source: PCBS, 2019. CPI, 2019. Ramallah, Palestine.

1.6.5 Water Crisis

The Israeli occupation’s control of water sources through unjust and unfair Accords against Palestinians and military force, in addition to its violations and arbitrary actions, has strangled and exhausted the PNA and created a permanent crisis in the water sector. The Authority is forced to buy water from the Israeli company, Mekorot, at a high cost. Palestinians are suffering from water scarcity and continuous outages because the occupation controls and exploits 90% of the common groundwater sources in the West Bank, prevents Palestinians from drilling wells more than 140 m³ deep, and deprives Palestinians of their rights in the Jordan River’s waters, which are estimated at 250 million m³ per year.³¹ The Israeli occupation also commits grave violations to put pressure on the Palestinian side. These practices include raising water prices, confiscating Palestinian wells, demolishing water facilities, preventing Palestinian water tankers from crossing into towns and villages, settlers’ infringements by closing water lines coming out of wells, and preventing the Israeli company responsible for the water lines to carry out any necessary repairs. In addition, Israeli permit regulations in the West Bank restrict the planning and development of Palestinian water, sanitation, and hygiene infrastructure, as the occupation does not grant the necessary licenses to establish water projects, particularly in the so-called area “C”, and restricts the drilling, deepening, and rehabilitation of wells.¹³

The Oslo Interim Accords set out the Palestinians’ share of water extraction at 1995-year levels and did not take into account population growth or increased demand for water. Nevertheless, Palestinians have only about 15% of the West Bank’s water network feeding capacity, that is, only 75% of the

29 <https://www.unicef.org/sop/media/226/file/Desalination%20in%20Gaza.pdf>

30 IBID.

31 <https://www.btselem.org/water>

levels allocated to them according to the Oslo Accords.¹⁴ In contrast, the occupation extracts more than 1.8 times its quota in the Oslo Accords from underground wells. Excessive extraction, coupled with reduced feeding, has led to risks to aquifers and a decline in water available to Palestinians despite growing demand.³²

Gaza's water crisis is exacerbated by the lack of energy to desalinate and transport water, as well as groundwater contamination with wastewater. Gaza's only natural water source, the coastal underground basin, is exhausted to a greater extent which undermines its sustainability in the long term (more than 100 million m³ per year over the limit), and the underground reservoir is affected by contaminants from seawater, sewage, and fertilizer leakages. The international community and donor countries are aware of the scale of the crisis in the Gaza Strip, but the planned projects or those under implementation do not even meet the basic water and energy needs of the population, and successive occupation attacks on the Gaza Strip have exacerbated the crisis.³³

Water loss is also one of the factors contributing to the water sector crisis. About 85.3 million m³, or 37.5% of the water supply, is wasted. One-third of the water supplied by the Israeli company goes in vain as it leaks from pipes due to the deteriorating state of the water network connecting Palestinian towns in the West Bank, as well as the deterioration of the internal water network in cities and villages. The PA has prepared plans to repair these water networks, which necessarily pass through the so-called area "C", but Israel refuses to comply with them.³⁴

32 <https://documents1.worldbank.org/curated/en/775491468139782240/pdf/476570SR0P11511nsReport18Apr2009111.pdf>

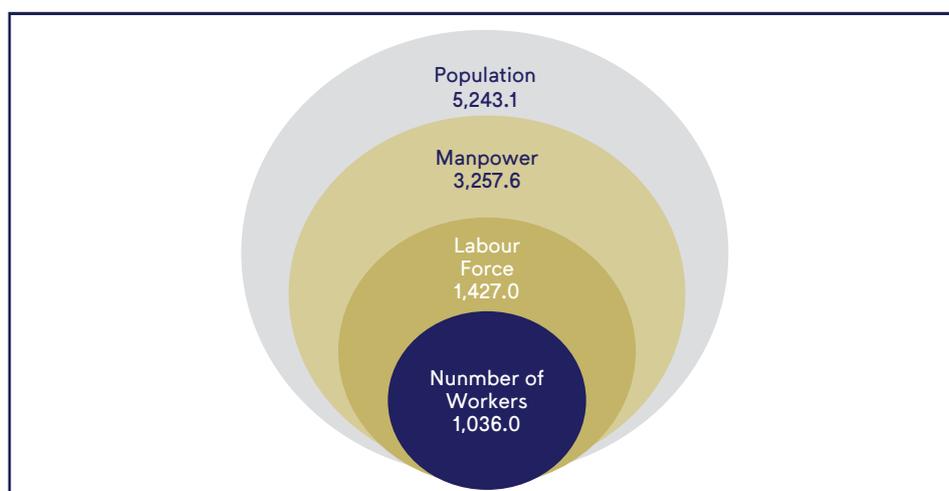
33 https://www.itrc.org.uk/wp-content/PDFs/PalestineFTA_online.pdf

34 <https://www.btselem.org/arabic/water/>

2- Labor Market³⁵

By the end of Q3 2021, manpower in Palestine totaled 3,257,600 people, a figure which, as defined by the PCBS, includes all individuals over the age of 15. The labor force, which accounts for the number of employed and unemployed people (looking for work), increased by 3.2% in Q3 2021 (about 44,4000 people), compared with the previous quarter; and by 9% compared with the corresponding quarter in 2020 to reach 1,427 thousand people. Labor force participation in Palestine, i.e., the ratio of the labor force to manpower, rose by 1.1% and 2.4% compared with the previous and corresponding quarters, standing at 43.8%. Figure 2.1 shows the relationship between total population, manpower, and the labor force in Palestine at the end of Q3 2021.

Figure 2.1: Population, Manpower, and the Labor Force in Palestine, Q3 2021 (1,000 persons)



2.1 Labour Distribution

Between Q2 and Q3 2021, the number of workers in Palestine increased by about 2% (approximately 20,400 workers) reaching 1,036,000. This growth was mainly caused by a 5% increase in the number of workers in the West Bank (where there were 32,600 new workers) whereas it decreased in Gaza Strip by 4.2% (11,000 workers), and Israel and the settlements by 0.8% (1,200 workers).

Regionally, in Q3 2021 61.8% of workers were employed in the West Bank, 24.2% in Gaza, and 14% (around 145 thousand workers, 27% of whom do not have work permits) in Israel and the settlements. Sectorally, the public sector employed a fifth of all workers in Q3 2021 (compared with 21% in Q2 2021), while 61.8% of workers were employed in the private sector (compared with 61% in Q2 2021). 17.7% of workers were employed in Israel and the settlements and other sectors (compared with 18% in Q2 2021)³⁶. Some 63% of the total West Bank workforce is concentrated in the private sector (compared with about 55.6% in the Gaza Strip), while 15.2% is concentrated in the public sector (compared with about 37.1% in the Gaza Strip). The low proportion of private-sector workers in the Gaza Strip is due mainly to the deteriorating economic and social conditions in Gaza. These conditions are a result of the Israeli blockade on Gaza that has been in place since 2006 and which has adversely affected all economic activities in the private sector (Figure 2.2).

35 Source of Figures: PCBS, 2021, Labour Force Survey, Ramallah-Palestine.

36 Other sectors include civic and non-profit organizations.

Figure 2.2: Relative Distribution of Workers by Workplace and Sector in Q3 2021 (%)



Overall, in Q3 2021 the number of workers employed in the domestic market (i.e., the West Bank and Gaza Strip) rose by 2.5% compared with the previous quarter. This increase was uneven across different economic sectors, with some witnessing an increase in the number of workers and others a decrease. The number of workers decreased by 2.0% in the trade, restaurant, and hotel sector and by 12.6% in the agricultural sector. By contrast, there was an increase of 10.7% in the manufacturing sector, 8.1% in the construction and building sector, 10.7% in the transportation, storage, and communications sector, and 2.8% in the service activities.

Table 2.1 shows a discrepancy in the relative distribution of workers across the different economic sectors in the West Bank and Gaza Strip. A higher percentage of workers were employed in the industry and quarrying sector in the West Bank (15.0% in the West Bank, compared with 6.6% in the Gaza Strip), while more were employed in the services sector in the Gaza Strip (57.1% in Gaza compared with 33.1% in the West Bank). The figures also indicate a significant decline in the percentage of construction workers in Gaza Strip (about 2.3%), which is attributed to the tight blockade imposed by Israel on the entry of construction materials into the Strip (refer to the box on restrictions imposed by the Israeli occupation authorities on the import of dual-use materials in QEM Issue No. 57).

Table 2.1: Relative Distribution of Workers in Palestine by Region and Economic Sector, Q3 2021 (%)

Economic Sector	West Bank		Gaza Strip		Israel and the settlements		Palestine (excluding workers in Israel and the settlements)	
	Q2 2021	Q3 2021	Q2 2021	Q3 2021	Q2 2021	Q3 2021	Q2 2021	Q3 2021
Agriculture, Fishing, and Forestry	7.7	6.8	6.3	4.7	6.6	5.9	7.3	6.2
Quarries and Manufacturing	14.5	15.0	5.2	6.6	12.0	12.4	11.7	12.7
Trade, Restaurants, and Hotels	25.5	24.3	21.7	20.7	12.3	10.5	24.4	23.3
Transport, Storage, and Communications	5.1	5.7	8.2	8.6	1.6	1.2	6.1	6.5
Services and Others	32.9	33.1	55.6	57.1	3.7	3.8	39.6	39.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In terms of employment status, over the consecutive quarters (Q2 and Q3 2021) there was a 5.5% increase in the number of wage earners (about 39.3 thousand). By contrast, there was a decline of 5% (about 10.6 thousand) in the number of self-employed workers (employer and self-employed), and 17.9% in the number of unpaid workers (about 8.4 thousand).

2.2 Unemployment

During Q3 2021, the unemployment rate in Palestine rose to 27.3%, an increase of 0.9 percentage point compared with Q2 2021 and a decline of 1.2 percentage points compared with the corresponding quarter in 2020 (Table 2.2). Table 2.2 shows the regional disparity between the West Bank and the Gaza Strip in terms of unemployment rates: in the West Bank it decreased by 2.2 percentage points in Q3 2021 compared with Q2 2021, and by 4.0 percentage points compared with the corresponding quarter in 2020. By contrast, the unemployment rate in the Gaza Strip rose by 5.5 percentage points between Q2 and Q3 2021, and by 1.6 percentage points compared with the corresponding quarter in 2020.

Table 2.2: Unemployment Rate for Individuals Participating in the Labor Force in Palestine by Region and Gender (%)

Region/Gender		Q3 2020	Q2 2021	Q3 2021
West Bank	Males	15.8	14.3	11.0
	Females	32.3	28.5	31.5
	Total	18.7	16.9	14.7
Gaza Strip	Males	44.4	39.2	44.6
	Females	65.0	64.0	68.6
	Total	48.6	44.7	50.2
Palestine	Males	24.9	22.6	22.4
	Females	44.1	42.3	46.6
	Total	28.5	26.4	27.3

Among the most the most prominent characteristics of unemployment in Palestine during Q3 2021 are the following:

Unemployment is particularly concentrated among the youth. The unemployment rate reached 43.2% among those aged 15-19 and 45.3% among those aged 20-24, compared with 9.4% for those aged 45-49, and 10.2% for those over the age of 50.³⁷ This indicates that new entrants to the labor market constitute a significant proportion of the unemployed.

As shown in Table 2.2, the unemployment rate among females is greater than that of males. This is due to the limited number of economic sectors open to females compared with males. In Palestine, female employment is concentrated in the services sector, which employs 74.3% of females against 27.9% of males.³⁸

Among males, the unemployment rate declines as educational attainment rises. Among females, conversely, it rises with higher educational attainment among females. Among males with a primary education the unemployment rate stood at about 23.8% against 6.0% for females, and at about 20.8%

³⁷ For more information on youth unemployment, see the box "Youth Transition Survey from Education to the Labour Market" in Quarterly Economic Monitor Issue no. 47.

³⁸ For more information, see the box "Female in the Palestinian Labour market: why their participation is low and their unemployment higher?" in Quarterly Economic Monitor Issue no. 51.

among males with an intermediate diploma or higher against 52.0% for females. This discrepancy is mainly due to the significantly higher labor participation rate of educated females compared with males.³⁹

2.3 Wages

During Q3 2021, the average daily wage for workers remained at the same level as Q2 2021 (around NIS 137.8 per day). Regionally, the average daily wage of workers in Israel and the settlements increased by NIS 1.5 and by NIS 0.9 in the West Bank and Gaza Strip. The average wage in Palestine (NIS 137.8 per day) during Q3 2021 hides the wide discrepancy that exists between:

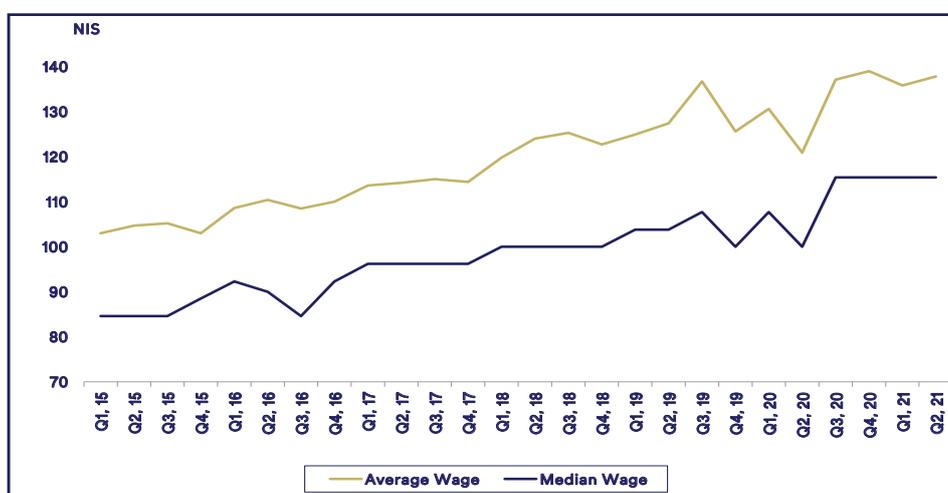
Average wages in the West Bank and the Gaza Strip, with wages in the latter only standing at about 48% of the average wage in the West Bank. The gap becomes even wider when the median wage is taken into account. Given that the average wage conceals significant disparities between low-wage and high-wage workers, the median wage is a more accurate indicator since it marks the highest wage level for the bottom half of all workers (Figure 2.3). For example, while the average wage in the Gaza Strip is 48% of the average wage in the West Bank, the median wage in Gaza stands at just 33% of that in the West Bank (Table 2.3).

The average wage of workers in the West Bank and Gaza, on the one hand, and the average wage of workers in Israel and the settlements, on the other hand. The data in Table 2.3 indicate that the average daily wage of workers in Israel and the settlements (NIS 266.3) is double that of workers in the West Bank (NIS 125.6) and four times higher than wages the Gaza Strip (NIS 59.6).

Table 2.3: Average and Median Daily Wage for Employees with Known Wages in Palestine (Q3 2021) (NIS)

Place of Work	Average Daily Wage	Daily Median Wage
West Bank	125.6	115.4
Gaza Strip	60.5	38.5
Israel and its Colonies	266.3	250.0
Total	137.8	115.4

Figure 2.3: Average and Median Daily Wage for Employees with Known Wages in Palestine (NIS)



³⁹ Refer to box no. 1 in the Quarterly Economic Monitor Issue no. 53, which shows that the higher unemployment of educated females compared with uneducated females is not due to their education, but a significantly higher rate of participation in the labour market.

2.4 Minimum Wages

The minimum monthly wage in Palestine is about NIS 1,450. According to data from PCBS for Q3 2021, however, 28% of workers (7% in the West Bank compared with 83% in the Gaza Strip) were paid less than the minimum wage, i.e., 1 percentage point drop. In Q2 2021, this figure stood at 29% (8% in the West Bank, compared with 80% in the Gaza Strip). During Q3 2021, of those workers making less than the minimum wage, their average wage stood at NIS 742 (NIS 1,110 in the West Bank and NIS 655 in Gaza), compared with NIS 744 in Q2 2021 (NIS 1,142 in the West Bank, compared with NIS 655 in Gaza).

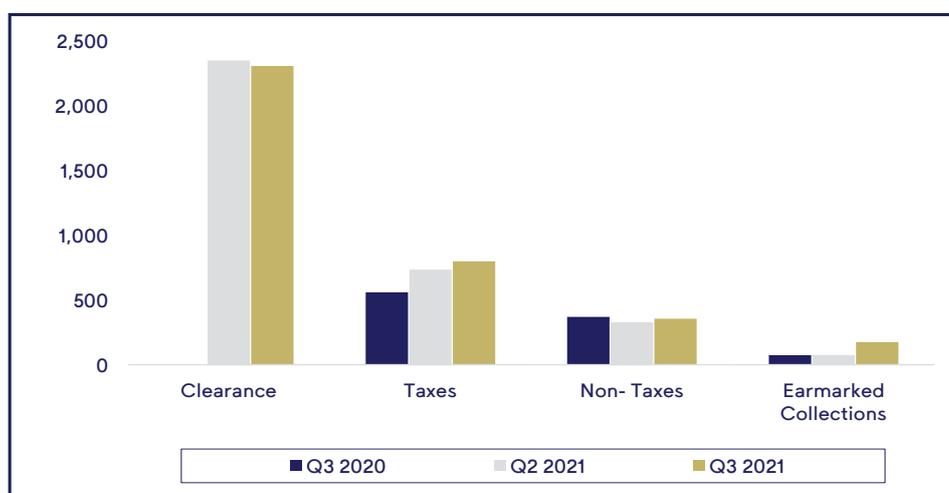
According to the PCBS statistics, average monthly spending for a family of five in the West Bank amounts to around USD 1,602.85, which is nearly four times the minimum wage. This disparity in turn reflects the wide gap between the average minimum monthly wage and what is needed to ensure a decent life for Palestinian families

3- Public Finance⁴⁰

3.1 Public Revenues

During Q3 2021, the clearing revenue transfers remained stable at NIS2.3bn, approximately the same level of the previous quarter. Note that no clearance revenues were transferred during the corresponding quarter in 2020 as a result of the clearing revenues crisis ongoing at the time. Clearance revenues during Q3 2021 accounted for 64.9% of total Palestinian public revenues. During Q3 2021, domestic revenue collection increased by 16.7% and 32.4% compared with the previous and corresponding quarters respectively, to reach about NIS 1.3bn (Figure 3.1). Foreign grants and assistance continued to decline, this time to their lowest levels, with most of the NIS 114m; going toward development projects (Table 3.1).

Figure 3.1: Structure of Public Revenues (NIS million)



As such, net public revenues and grants increased to NIS 3.7 billion during Q3 2021, compared with NIS 3.6bn and NIS 1.3bn during the previous and corresponding quarters, respectively.⁴¹ They accounted for 77.7% of public spending during this quarter (on commitment basis), compared with 81.6% during the previous quarter and 32.6% during the corresponding quarter in 2020. Table 3.1 shows the steady decline in the volume of foreign grants and aid, especially those allocated for budget support, which decreased significantly during the previous quarters.

Table 3.1: Grants and Foreign Aid Provided to the PA (NIS million)

Item	2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Budget Support	246.1	544.3	278	151	0	97.6	4
Grants from Arab States	111.1	21.3	0	0	0	0	0
Grants from other countries	135	523	278	151	0	98	4
Development finance	38.6	153.3	121	138	35.2	112.5	110.4
Total grants and Aid	284.7	697.6	399	289	35.2	210.1	114.4

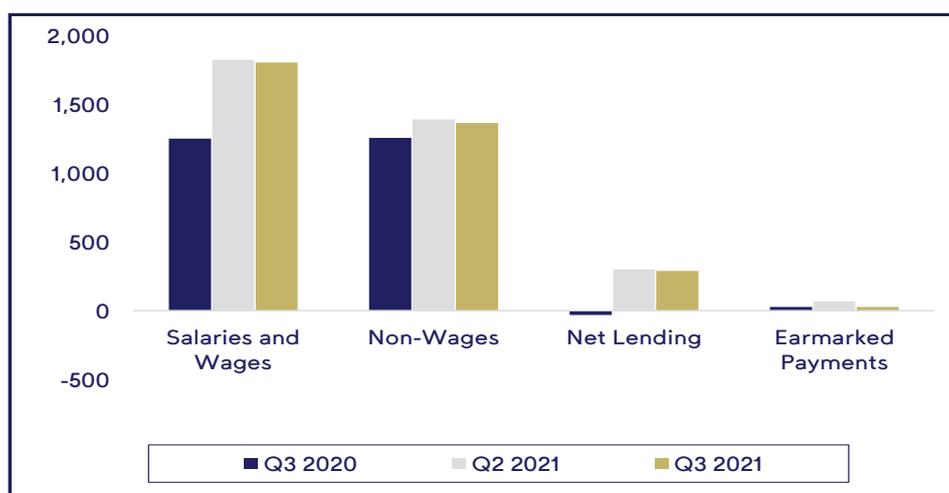
40 Source of Figures: Ministry of Finance, Monthly Financial Reports for 2021: Financial Operations – Revenue, Expenditure and Sources of Funding (September, 2021). These are raw data that can be adjusted and revised.

41 It should be noted that during Q2 2021, the amount of tax returns was about NIS 84.2m, compared with NIS 69.7m in the previous quarter and NIS 62.2m in the corresponding quarter.

3.2 Public Expenditures

During Q3 2021, actual public spending stood at NIS 3.6bn, a decrease of 2.1% compared with the previous quarter but an increase of 37% compared with the corresponding quarter in 2020. Wages and salaries dropped slightly by 1.1% compared with the previous quarter, while they rose by 44.5% compared with the corresponding quarter, reaching NIS 1.8bn. This increase is due to the government's inability to cover a significant portion of its expenses during the corresponding quarter in 2020 due to the suspension of clearance revenues at the time. Non-wage expenditures stood at NIS 1.4bn, which represents a decrease of 2% compared with the previous quarter but an increase of 8.5% compared with the corresponding quarter. During this quarter, net lending totaled around NIS 288.2m, compared with NIS 298.8m in the previous quarter. Actual development spending increased by 21.1% compared with the previous quarter but decreased by 3.2% compared with the corresponding quarter, reaching about NIS 128.9m (Figure 3.2).

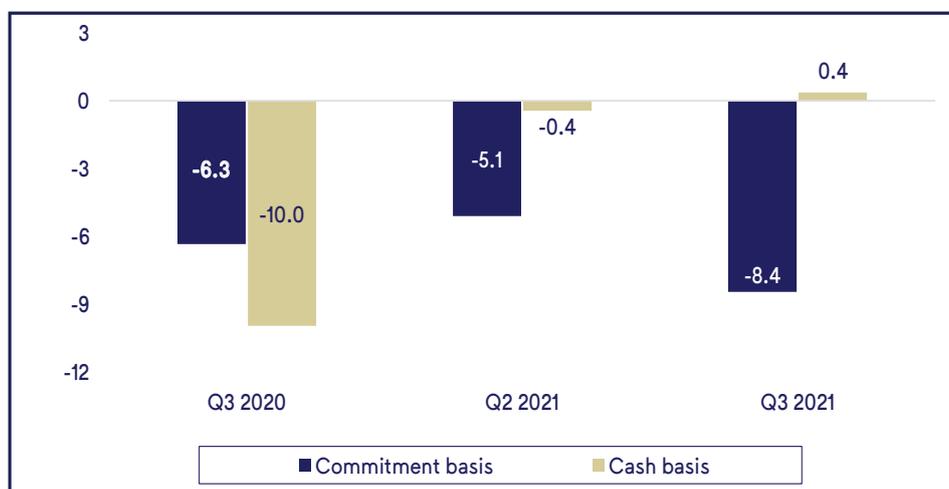
Figure 3.2: Structure of Public Expenditures (NIS million)



3.3 Financial Surplus/Deficit

Developments on both the revenues and expenditures side during Q3 2021 led to a surplus of NIS 48m in the overall balance (after foreign grants and aid, of NIS 48m), or 0.4% of nominal GDP.⁴² However, this balance does not reflect the real position of the government, as on a commitment basis the deficit rose to around NIS 1.2bn, or about 8.4% of nominal GDP (Figure 3.3).

Figure 3.3: Overall Balance after Grants and Aid as a Percentage of Nominal GDP (%)



⁴² Note that GDP data are preliminary, and still subject to revision and adjustment.

3.4 Government Arrears

During Q3 2021, arrears owed by the government amounted to about NIS 1,124.9m. Approximately NIS 710.2m of arrears were in non-wages, 186.6m in wages and salary, NIS 146.7m in earmarked payments, NIS 55.4m in development expenditures, and NIS 26m in tax refunds (Table 3.2).

Table 3.2: Arrears owed by the Palestinian Government (NIS million)

Item	2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tax returns	30.9	(4.3)	13.7	63.8	90.0	100.4	26.0
Wages and Salaries	155.0	1,085.8	485.2	(1,208.5)	789.3	106.1	186.6
Non-wage expenses	209.0	801.0	825.1	667.4	658.9	563.5	710.2
Development Expenditure	72.5	61.7	111.9	134.1	68.6	69.3	55.4
Earmarked payments	97.2	8.1	47.1	1.4	107.5	7.3	146.7
Total Arrears	564.6	1952.3	0.1,483	(341.8)	1,714.3	846.6	1,124.9
Payments of arrears, goods and services, and expenditures for previous years.	239.7	246.7	344.2	731.9	263.7	314	393.6
Net Arrears	324.9	1,705.6	1,138.9	(1,073.7)	1,450.6	532.6	731.3

The numbers in parentheses are negative.

3.5 Government Public Debt

By the end of Q3 2021, dollar-denominated public debt rose by 2.5% and 9.6% compared with the previous and corresponding quarters, respectively, reaching about USD 3.8bn (equivalent to NIS 12.2bn) or 22% of nominal GDP (Figure 3.3). Domestic government debt rose by 3.6% and 14.5% over the same period of comparison, to reach about USD 2.5bn. External government debt remained at the level of the previous quarter (with a slight increase of 0.4%), and increased by 1.5% compared with the corresponding quarter in 2020, standing at around USD 1.3bn. Interest on debt paid during the quarter stood at around NIS 132.8m, of which NIS 130.9m was interest on domestic debt and almost NIS 1.9m was interest on external debt (Table 3.3).⁴³

Table 3.3: Government Debt (USD Million)

Item	2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Domestic government debt	1,597.3	1,786.9	2,157.3	2,324.7	2,231.1	2,384.9	2,471.1
Banks	1,583.1	1,772.2	2,099.1	2,262.3	2,171.0	2,323.3	2,408.8
Public institutions	14.2	14.7	58.2	62.4	60.1	61.6	62.3
External government debt	1,289.0	1,294.1	1,302.8	1,324.7	1,314.4	1,317.5	1,322.8
Government public debt	2,886.3	3,081.0	3,460.1	3,649.4	3,545.5	3,702.4	3,793.9
Ratio of public debt to nominal GDP	17.3%	20.9%	21.7%	23.5%	20.9%	21.0%	22.0%

⁴³ It should be noted that these ratios differ when calculating figures in shekels, due to a change in the exchange rate, and that GDP data are preliminary, subject to revision and adjustment

4- Financial Sector

4.1 Banking Sector⁴⁴

By the end of Q3 2021, banks in Palestine were operating through some 381 branches and offices, 323 of which were in the West Bank and 57 in the Gaza Strip. By the end of this quarter, banks' consolidated balance sheet indicated that banks' assets/liabilities had grown by about 3.4% compared with the previous quarter and 14.5% compared with the corresponding quarter in 2020, reaching USD 21.3bn. The value of most asset items rose,⁴⁵ especially credit facilities, cash, and balances with the PMA, as well as the portfolio of securities and investments during this period (Table 4.1).

**Table 4.1: Consolidated Budget of Licensed Banks in Palestine
(USD million)**

Item *	2020		2021		
	Q3	Q4	Q1	Q2	Q3
Total Assets	18,625.0	19,886.2	20,059.9	20,624.4	21,321.6
Direct Credit Facilities	9,894.0	10,078.7	10,150.6	10,350.7	10,473.7
Cash at PMA and Banks	4,138.7	5,509.1	5,126.9	5,387.2	5,469.0
Securities, Portfolio and Investments	1,310.7	1,368.8	1,377.2	1,430.0	1,456.0
Cash and Precious Metals	1,981.3	1,770.9	2,151.6	2,307.2	2,785.2
Other Assets	1,300.3	1,158.6	1,253.7	1,149.4	1,137.7
Total Liabilities	18,625.0	19,886.2	20,059.9	20,624.4	21,321.6
Customer Deposits **	14,061.9	15,138.3	15,182.4	15,726.5	16,224.6
Property Rights	1,959.1	1,967.4	2,016.7	1,994.0	2,062.6
Cash at PMA and Banks	1,209.3	1,349.5	1,337.7	1,372.7	1,455.5
Other Liabilities	499.3	488.5	564.5	537.1	543.3
Provisions and Depreciation	895.4	942.5	958.6	994.1	1,035.6

* Figures cited in the table are totals (provisions included).

** Customer deposits include both private sector and public sector deposits.

4.1.1 Credit Facilities

Credit facilities continued to grow in Quarter 3 2021, rising by 1.2% and 5.9% compared with the previous and corresponding quarters, respectively, to reach USD 10.5bn. 22.7% of this portfolio was distributed in the public sector while 77.3% was distributed in the private sector. By contrast, facilities granted to the public sector increased by 2.0% compared with the previous quarter, standing at USD

44 Source of Figures: PMA, November 2021, Consolidated Banks' Balance Sheet, Profit and Loss Statement, and PMA Database.

45 Note that the decline in the dollar/shekel exchange rate by the end of the period, from NIS 3.253/USD in Q2 and NIS 3.444/USD in the corresponding quarter to NIS 3.219/USD at the end of Q3 2021, contributed to the further rise in dollar-denominated assets/liabilities during this period - especially on annual basis. The shekel accounted for about 42% of banks' total assets and 33% of their liabilities.

2.4bn, while facilities granted to the private sector increased by 1.0% during the same period and reached more than USD 8bn. Despite this growth, the public's credit-to-deposit ratio declined from 65.8% in Q2 to 64.6% in Q3, due to public deposits rising at a greater rate than credit facilities (1.2% for facilities against 3.2% for deposits). Credit facilities accounted for 60% of GDP at current prices.

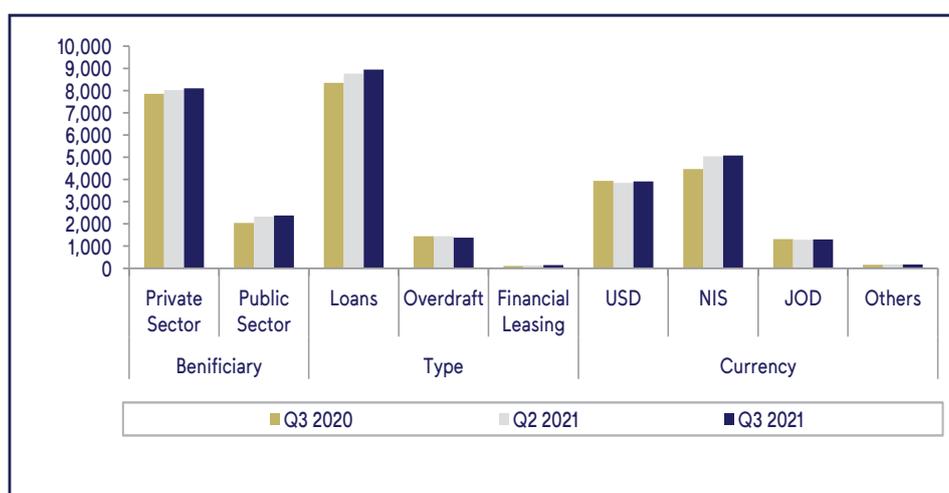
The rise in facilities granted to the private sector this quarter was driven by the increase in facilities granted to various sectors including real estate and construction, trade, consumer goods financing, mining and industry, land development, and car purchase financing. In total these sectors accounted for 77% of all facilities granted to the private sector. Facilities granted to other sectors declined by varying rates during the same period of comparison (Table 4.2).

Table 4.2: Credit Facilities by Sector (USD million)

Item *	2020		2021		
	Q3	Q4	Q1	Q2	Q3
Public Sector	2,041.8	2,205.4	2,141.7	2,327.6	2,374.3
Building and Construction	1,786.1	1,801.9	1,808.2	1,833.2	1,849.9
Mining and Manufacturing Industries	490.5	443.6	467.7	546.3	550.8
Trade	1,479.7	1,523.0	1,711.0	1,579.9	1,676.9
Services	1,173.7	1,125.2	1,068.5	1,107.3	1,046.5
Car Financing	442.5	405.3	392.0	391.1	398.9
Consumer Goods Financing	1,426.5	1,415.0	1,349.0	1,352.4	1,396.8
Other (private sector) *	1,053.2	1,159.3	1,212.5	1,212.9	1,179.6
Total	9,894.0	1,0078.7	10,150.6	10,350.7	10,473.7

* Other credit facilities for the private sector include facilities granted to the following sectors: land development, agriculture and livestock, tourism, hotels and restaurants, and transportation and communications, in addition to financing shares investment and other facilities not classified in any of these sectors.

Figure 4.1: Total Direct Credit Facilities (USD million)



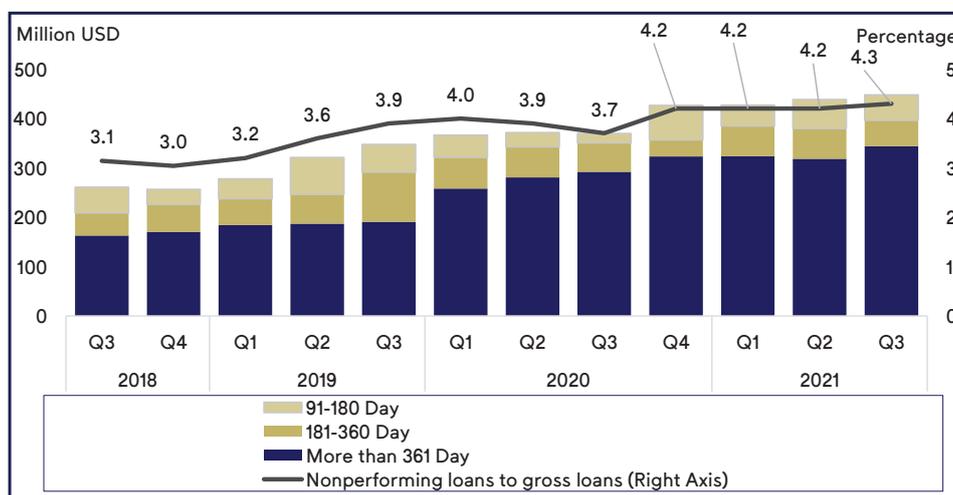
By currency, data indicate that credit facilities granted in US dollars and Jordanian dinars declined slightly on an annual basis, by 1.1% and 0.6% respectively. Credit facility granting favored the Israeli shekel,

with facilities in this currency rising by 13.6% compared with Q3 2020. In the same context, West Bank governorates received the majority of credit facilities, accounting for 91% of total facilities and totaling USD 9.6bn. This represents a rise of 1.1% compared with the previous quarter and 6.4% compared with the corresponding quarter in 2020. On the other hand, Gaza Strip governorates received just 9% of total facilities, an amount that totaled less than USD 0.9bn. This represents a rise of 2.2% compared with the previous quarter and a level similar to that achieved in the corresponding quarter in 2020 (Figure 4.1).

4.1.2 Non-performing Loans (NPLs)

At the end of Q3 2021, the value of non-performing loans (NPLs) rose to 448.1m, an increase of 2.1% to USD 448.1m compared with the previous quarter and 21.2% compared with the corresponding quarter in 2020. As a proportion of total facilities, their share increased slightly to 4.3%, compared with 4.2% in the previous quarter and 3.7% in the corresponding quarter in 2020 (Figure 4.2). This rise in the value of non-performing loans was accompanied by an increase in the ratio of coverage of provisions for NPLs, from 89% in the previous quarter to 90% in Q3 2021, a trend that reflects the strong ability of banks to withstand default risks.

Figure 4.2: Trends in Non-Performing Loans (USD million)

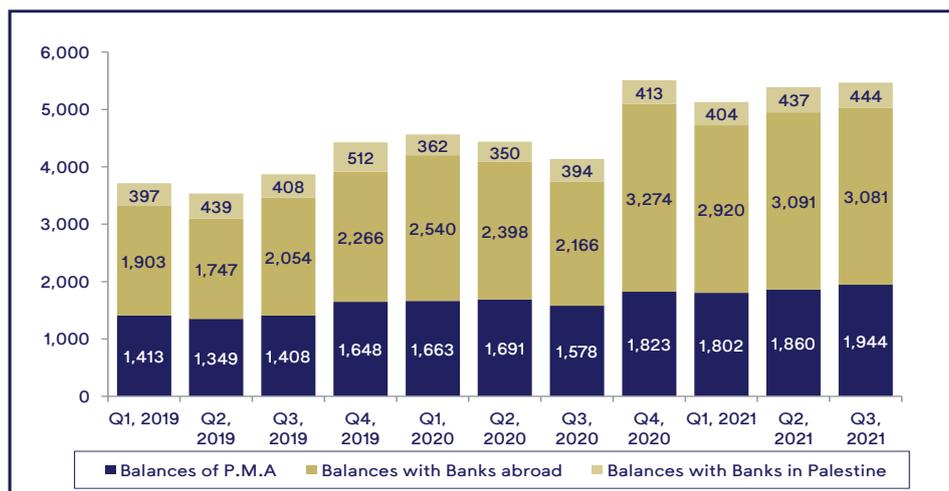


Data also showed that a high percentage of the period of NPLs exceeded 360 days (77% of total NPLs). On the other hand, NPLs from within a period of 181-360 days accounted for 12% of the total while NPLs from within a period of 91-180 days declined to 11% of total NPLs.

4.1.3 Cash at PMA and Banks

By the end of Q3 2021, bank and PMA balances had risen by 1.5% compared with the previous quarter, reaching USD 5.5bn, and by 32.1% compared with the corresponding quarter in 2020. This quarterly rise was driven by the increase in banks' balances with the PMA, which rose by 4.5%, to USD 1.9bn, driven by the 3.0% increase in mandatory reserves and the continuous rise in deposits. Banks' current accounts with the PMA also increased by about 13.1%, while other accounts also rose by 2.9% during the same period. On the other hand, the inter-bank balances in Palestine saw a rise of 1.7%, up to USD 444.2m. In contrast, banks' offshore balances decreased by 0.3%, standing at USD 3.1bn. On a year-on-year basis, these balances saw a significant increase equivalent to USD 1.3bn, mostly due to banks' offshore balances rising to USD 3.1bn - an increase of 42% during the period of comparison. This increase was due to varying degrees in the growth in balances with the PMA and inter-bank balances (Figure 4.3).

Figure 4.3: Cash at PMA and Banks (USD million)



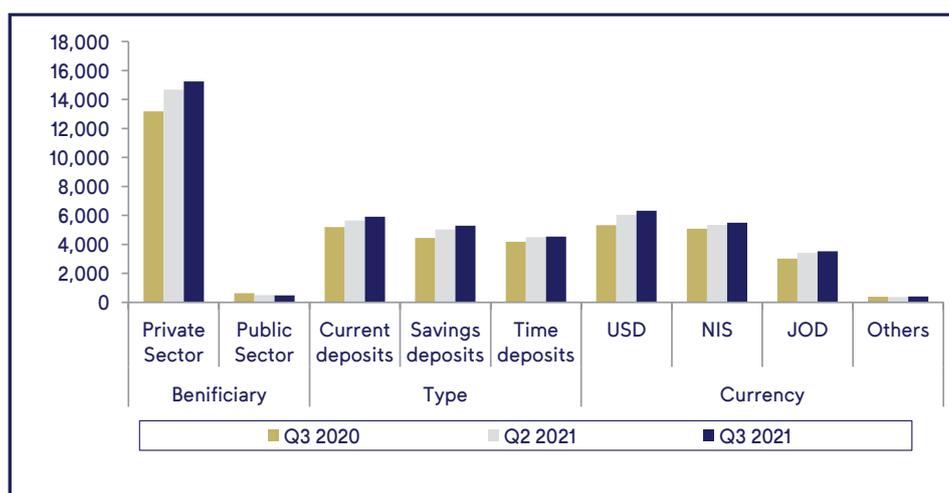
4.1.4 Cash and Precious Metals

Cash and precious metals increased by 21% compared with the previous quarter, and 41% compared with the corresponding quarter, reaching USD 2.8bn. This growth was driven by an increase in the volume of cash in shekels at banks, due to the reluctance of the Israeli authorities to transfer the surplus of shekels accumulating at banks. It is worth noting that the transfer of NIS 4-5bn in surpluses is completed each quarter. However, during the current year, the shekel surpluses rose following the resumption of visits by Palestinians inside Israel to markets in the West Bank markets as a result of the easing of preventive measures to combat the coronavirus, and a rise of about 7% in the number of workers in Israel and its colonies compared with Q3 2020.

4.1.5 Customer Deposits

During Q3 2021, customer deposits increased by 3.2% compared with the previous quarter, and by 15.4% compared with the corresponding quarter, reaching USD 16.2bn. This accounts for 92% of GDP, and about 76% of the total liabilities of the banking sector. This annual rise was driven by the increase in remittances and financial flows from abroad. Also, the 7% increase in the number of workers in Israel and its colonies has contributed to the increase in customer deposits (the number of workers in Israel and its colonies reached 145 thousand as compared with 135 thousand in the corresponding quarter). Private sector deposits rose by 3.2% compared with the previous quarter up to USD 15.7bn, accounting for the vast majority of customer deposits 97%. Meanwhile, public sector deposits increased by 2.5%, reaching USD 0.5bn, representing only 3% of customer deposits. Data analysis indicates that customer deposits of all types have increased, with current deposits accounting for the largest share (38% of total), exceeding USD 6bn, while the share of saving account deposits reached 34%, at USD 5.4bn, and 28.4% for term deposits, at USD 4.6bn. By currency, shekel deposits grew to USD 5.7bn (35.2% of total customer deposits), US dollar deposits grew to more than USD 6.5bn (39.8% of total), and Jordanian dinar deposits rose to USD 3.6bn (22.3% of total) (Figure 4.4).

Figure 4.4: Distribution of Customers Deposits (USD million)



4.1.6 Banks' Profits

During Q3 2021, net banks' income rose by 72% compared with the corresponding quarter in 2020, reaching USD 135.4m. On the one hand, this remarkable growth came mainly as a result of the increase in revenues by about 10%, reaching USD 568.5m. On the other hand, the decline in expenditures by 0.9% during the same comparison period, reaching USD 433.1m, was impacted by the decline in provisions by about 45%. Notably, banks' net income reached USD 46.2m during Q3 2021 compared with USD 33.9m during the previous quarter and USD 30.6m during the corresponding quarter in 2020 (Table 4.3).

Table 4.3: Sources of Revenues and Expenditures for Licensed Banks (USD million)

Aggregate 2021	Q3 2021	Q2 2021	Q1 2021	Q2 2020	Item
Revenues	170.8	183.4	192.5	192.6	568.5
Net income from interests	132.3	132.1	136.7	142.1	410.9
Non-interest income	38.5	51.3	55.8	50.5	157.6
- Commissions	27.2	25.9	27.1	30.3	83.3
- Profits/losses of financial instruments	-2.2	6.0	7.3	3.2	16.5
-Other revenues	13.6	19.4	21.4	17.0	57.8
Expenses	140.2	128.1	158.7	146.3	433.1
Non-interest expenses	104.1	109.2	115.0	114.1	338.3
Provisions	27.1	6.1	21.5	13.6	41.2
Taxes	9.0	12.8	22.2	18.6	53.6
Net Income	30.6	55.3	33.8	46.2	135.4

4.1.7 Average Deposit and Lending Interest Rates

The weighted average interest rate on lending in dollars declined to 5.59%, while it rose on dollar term deposits to 2.31% in Q3 2021 compared with the previous quarter. The same trend was seen in Jordanian dinars, where interest on lending in dinars dropped to 6.39%, and interest on dinar

deposits rose to 2.24%. The trend was upward for both the lending and deposits in shekels during the same comparison period, standing at 6.86% on loans, and 2.34% on deposits. These marginal changes in lending and deposit interest rates led to a drop in interest margins on the dinar and dollar currencies, reaching 4.15 and 3.28 points respectively, while it rose to 4.52 points for interest margins on the shekel during the same period (Table 4.4).

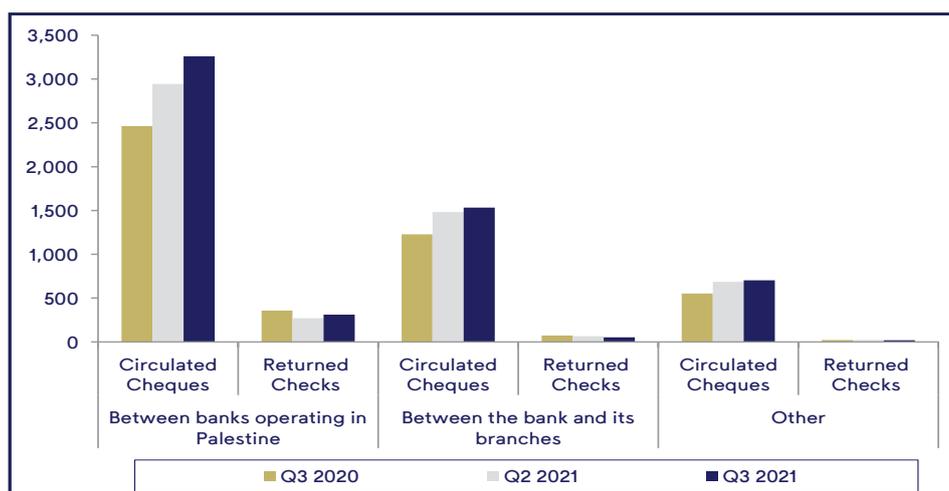
Table 4.4: Average Debt and Credit Interest Rates for Different Currencies

Currency	Deposit Interest (%)		Lending Interest (%)	
	Q2 2021	Q3 2021	Q2 2021	Q3 2021
USD	2.29	2.31	5.65	5.59
JOD	2.10	2.24	6.45	6.39
NIS	2.28	2.34	6.78	6.86

4.1.8 Checks Circulation in Palestine

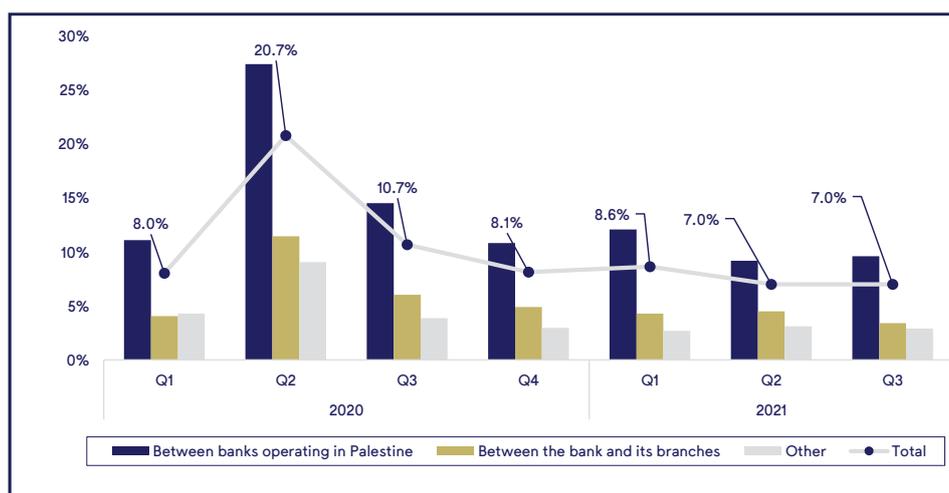
During Q3 2021, the value of checks circulated in Palestine increased by 7.6% compared with the previous quarter to reach USD 5.1bn, and by 29.5% compared with the corresponding quarter in 2020. Checks submitted for clearance through the PMA's national clearing system accounted for 59% of the total value of checks circulated in Palestine, followed by intrabank checks (between banks and their own branches) at 28%. The remaining percentage (13% of total circulated checks) included checks drawn on Israeli banks operating in Palestine. However, the value of returned checks increased, as compared with the previous quarter, by 6% and 8% in volume and value, respectively, reaching around 198,636 checks with a value of USD 384.9m. This increase was driven by an increase in checks submitted for clearing between banks operating in Palestine (national clearance) by 15.6%, reaching USD 311.8m by the end of Q3 2021 (Figure 4.4).

Figure 4.5: Checks Circulation (USD million)



In the same context, the value of returned checks as a proportion to the total value of traded checks remained stable as in the previous quarter at 7.0%. This resulted from the increase in interbank checks in circulation in Palestine to 9.6%, compared with the drop in intrabank checks in circulation (between banks and their branches) to 3.4%. This percentage has also fallen in another item, including returned checks and checks drawn for Israeli banks, to 2.9% (Figure 4.6).

Figure 4.6: % Returned Checks Presented for Clearance



4.1.9 Specialized Lending Institutions (SLIs)

By the end of Q3 2021, the total assets of the specialized lending institutions (SLIs)⁴⁶ increased by 1.6% compared with the previous quarter, and by 4.1% compared with the corresponding quarter, reaching USD 336.8m. This increase was mainly driven by the growth of the commercial loan portfolio during the comparison period. Data also demonstrate an increase in the number of borrowers to 65,257 - 34% of whom were females. Moreover, the number of employees working in SLIs decreased to 813 (Table 4.5).

Table 4.5: Data for Specialized Lending Institutions (SLI)

	2020			2021		
	Q2	Q3	Q4	Q1	Q2	Q3
Total loan portfolio (USD million)	265.2	259.7	249.8	247.3	253.9	265.0
- West Bank	220.2	216.7	211.0	210.0	217.2	227.6
- Gaza Strip	45.0	43.0	38.8	37.3	36.8	37.4
Number of active borrowers	73,853	72,360	68,027	65,790	65,041	65,257
Number of Branches and Offices	100	97	96	96	96	95
Number of employees	852	846	849	845	835	813

In the same context, the credit portfolio provided through SLIs continued to rise for the second consecutive quarter, at a rate of 4.4% compared with the previous quarter, reaching USD 265.0m. This was driven by 4.8% growth in the West Bank, reaching USD 227.6m, and 1.7% growth in the Gaza Strip, reaching USD 37.4m. In terms of the distribution of the portfolio by economic sectors, four economic sectors controlled more than 80% of the SLIs total portfolio, namely: the real estate sector (32% of the total value of the portfolio), the commercial sector (29%), the public services sector (11%), and the agriculture sector (11%). Regarding the risky portfolio (irregular portfolio), data show a decline in its value by 2.7% at the quarterly level and by 13.1% at the annual level, recording USD 26.7m by the end of Q3 2021, of which 84% were in the West Bank. Furthermore, provisions covered approximately 89% of this portfolio.

46 As of 30/9/2021, the number of SLIs licensed by the PMA was 8.

4.2 Non-banking Financial Sector

4.2.1 Securities Sector

The Al-Quds Index closed at 579.5 points at the end of Q3 2021, a 7% increase compared with the end of the previous quarter (Q2 2021) and a 32% increase compared with the end of the corresponding quarter (Q3 2020). On the other hand, market value at the end of Q3 2021 grew by 8% and 29% compared with the previous and corresponding quarters, amounting to USD 4.2bn, equivalent to 27% of GDP at current prices (up by nearly two percentage points over the previous quarter).

The total trading volumes and values at the end of Q3 2021 increased by 40% and 59%, respectively, compared with Q2 2021, while it increased by 78% and 64% compared with the end of the corresponding quarter in 2020 (Table 4.6). This rise in trading volumes and values is led by the insurance and industry sectors. The significant rise in trading activity at the end of Q3 2021 compared with the previous and corresponding quarters was also due to the natural rebound of the trading curve, especially since the corresponding quarter in 2020 witnessed a weakening of demand by investors on investing in stocks because of the spread of the coronavirus and the difficult political and economic situation in the country. Moreover, there was an increase in the number of major deals during Q3 2021 compared with the previous and corresponding quarters and a rise in the prices of most of the companies listed on the PEX. The total number of PEX traders reached 69,865 by the end of Q3 2021, of which 5% were foreign traders.

Table 4.6: Select Indicators of Trading Activity at PEX

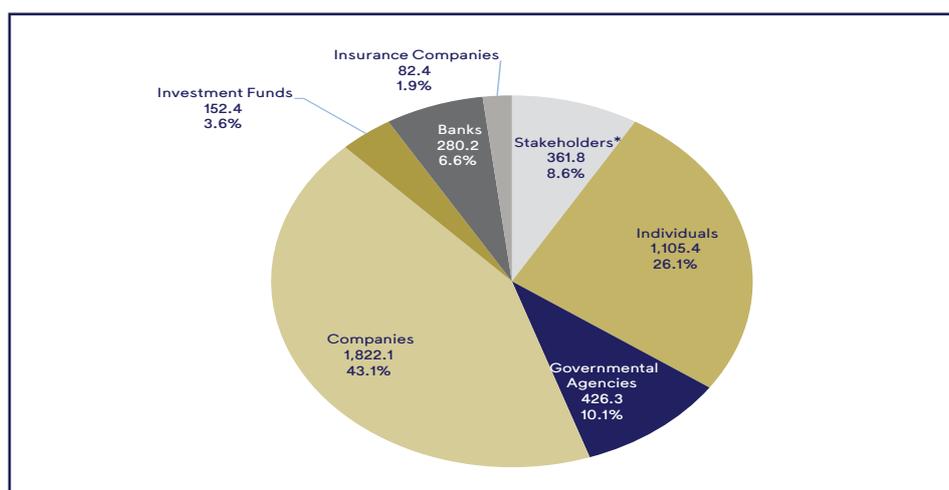
Item	Q3 2020	Q2 2021	Q3 2021
Number of Traded Shares (million shares)	39.2	49.9	69.9
Value of Traded Shares (million shares)	87.4	90.0	143.0
Market Value (USD million)	3,271.8	3,926.4	4,229.7
No. of deals	3,533	8,661	11,038
Number of trading sessions	62	60	61
Market value as a percentage of GDP (at current prices)*	21.0%	25.2%	27.2%

* GDP was used at current prices for 2020 because the market value of traded shares is at current prices.

Figure 4.7 shows the type of traders at PEX according to their relative shares of the market value of transactions at the end of Q3 2021. It shows that corporate shares accounted for 43%, compared to about 26% for individuals.

The total number of shareholders in companies listed on the PEX reached 63,343 shareholders at the end of Q3 2021. About 85% of them were in the West Bank and 15% were in the Gaza Strip. It is worth noting that male participation is higher than female participation in the securities sector in both the West Bank and the Gaza Strip.

Figure 4.7: Distribution of the Market Value of Shares by Type of Trader as of the end of Q3 2021 (USD million)



*Persons who have a direct or indirect relationship with the company by virtue of their position.

4.2.2 Finance Leasing Sector

As of the end of Q3 2021, there were 9 finance leasing companies licensed by the Palestine Capital Markets Authority (PCMA). The total value of finance leases recorded at the PCMA was approximately USD 26.4m, through 498 contracts. This represents a 4% and 3% increase in the value and number of finance lease contracts, respectively, compared with the end of the previous quarter. As compared with the corresponding quarter in 2020, the value and number of contracts increased significantly by 63% and 56%, respectively (Table 4.7). The significant increase in the value and number of finance leases at the end of Q3 2021 compared with the corresponding quarter in 2020 is ascribed to the gradual return of normal economic life. In 2020, many economic sectors were closed to limit the spread of the coronavirus, which adversely affected the performance of companies and caused a decrease in the volume of their activities at the time.

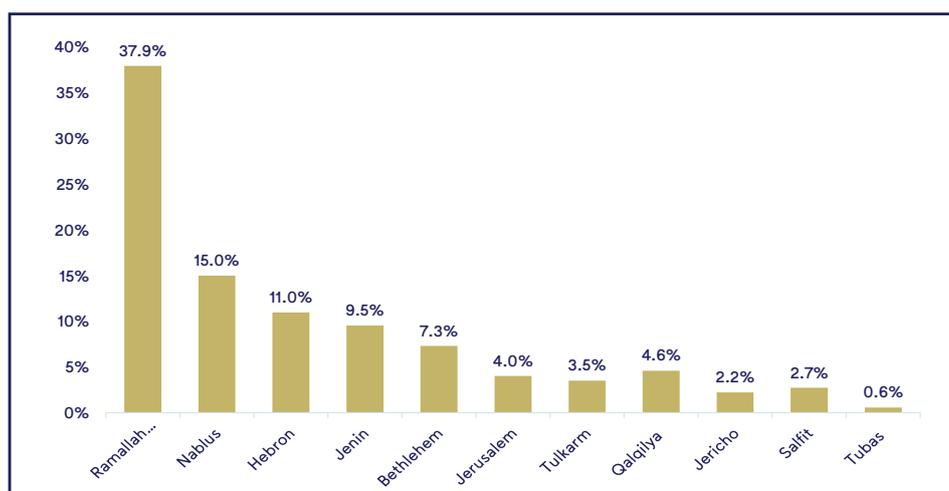
By the end of Q3 2021, there was still a high concentration in the number of finance leases in Ramallah at 38%, followed by Nablus at 15%, and Hebron at 11%. It should be noted that the distribution of these leases among these cities has been stable over the past years, owing to factors related to the structure of the economy and the concentration of businesses in some governorates (Figure 4.8)

Table 4.7: The Total Value and Number of Finance Leasing Contracts

Quarter, Year	Value of Finance Lease (Contracts (USD million)	Number of Finance Lease Contracts
Q3 2020	16.2	327
Q2 2021	25.3	498
Q3 2021	26.4	511

On the other hand, vehicles still hold the largest share (53%) of the finance leasing portfolio by the end of Q3 2021. This is explained by the ease of registering the ownership of vehicles in the traffic services department and the low risk of having a secondary market and re-registration. Trucks, heavy vehicles, and commercial vehicles accounted for 41%, while moveable assets (equipment, production lines, etc., not including vehicles) accounted for 7%.

Figure 4.8: Geographical Distribution of Registered Finance Leasing Contracts at the end of Q3 2021



4.2.3 Insurance Sector

The number of insurance companies licensed by the PCMA reached 10 by the end of Q3 2021. The total insurance portfolio (written premiums) at the end of Q3 2021 was around USD 85m, a 4% increase compared with the end of Q2 2021. This comes in the context of the seasonal fluctuation of total written premiums between the quarters. Net incurred compensation to the sector increased by 7% compared with the end of Q2 2021, reaching USD 52m. On the other hand, investments by insurance companies totaled USD 228m (Table 4.8). The statistics do not include financial data related to Al Ahliya Insurance Group.⁴⁷

Table 4.8: Select Financial Indicators for the Insurance Sector in Palestine (USD million)

Item	Q3 2020	Q2 2021	Q3 2021
Gross Written Premiums	75.8	81.7	84.6
Total Investments of Insurance Companies	240.3	215.3	227.5
Net Compensations Incurred by the Insurance Sector	56.8	48.6	51.9
Net Earned Premiums/Gross Written Premiums	87.9%	82.9%	85.1%
Net compensation incurred/net premium earned	85.2%	71.8%	72.1%

* The statistics do not include financial data related to Al Ahliya Insurance Group.

**The numbers in parentheses are negative.

⁴⁷ Note that a quarterly comparison of the insurance sector financial indicators with the corresponding quarter was not performed owing to data inconsistency, as the data for Q2 and Q3 2021 do not include the financial statements of Al Ahliya Insurance Group.

5- Social Development

The Ministry of Social Development (MoSD)'s Services for Marginalized Groups During 2020

In a follow-up of the *Economic Monitor* review of social development in Palestine, initiated by the Palestine Economic Policy Research Institute (MAS) in 2020 to explore various aspects of multidimensional poverty, the Social Development Section of this issue attempts to introduce the MoSD's services and programs targeting marginalized groups, especially the poor, women, children and Persons with Disabilities (PwD). The importance of evaluating and reviewing these programs and identifying their inclusiveness, gaps, and flexibility during times of emergencies stems from the fact that they represent the Government and the MoSD's main response toward the needs of marginalized groups, especially during the coronavirus pandemic, which has burdened these groups the most. The review is based on the results of MoSD's Annual Statistical Report issued in 2019. It details all programs, numbers of beneficiaries, and policies implemented by MoSD during the coronavirus pandemic. The first chapter of the report tracks the MoSD's interventions to combat the effects of the coronavirus. Then each of the five chapters focuses on the programs of one specific group; poor households, children, women, PwD, and the elderly, exploring the reality of each group, interventions, and the number of beneficiaries. The report concluded with several recommendations based on what the social protection sector faced during the pandemic and on how to deal with the sector during times of emergency. These recommendations constitute an actionable workplan that needs to be implemented to avoid any deficiencies in service provision during any other emergency situation.

5.1 The Interventions of the MoSD during the Coronavirus Pandemic:

In addition to its serious health impacts, the spread of the coronavirus had significant social and economic implications on Palestinian society, in both the West Bank and Gaza Strip, creating new, large numbers of poor people. According to the World Bank report, the number of poor households is expected to rise significantly due to the pandemic. Poverty rates are⁴⁸ expected to rise in the West Bank from 14% to 30%, and in the Gaza Strip from 53% to 63%.⁴⁹ The rise in poverty rise in Palestinian society is accompanied by a rise in food insecurity among Palestinian households, especially in the Gaza Strip, where nearly 75% of households suffered from food insecurity in 2020 compared with 72% in 2018.⁵⁰

The Ministry has provided assistance to poor households affected by the pandemic in order to prevent risks and mitigate the negative effects of the pandemic. The total number of households who benefited from interventions during 2020 was about 162,000 with a total of NIS 49m.⁵¹ Aid was not confined to financial assistance, which benefited 32,115 households by NIS 16m, but also included food and healthcare assistance, which accounted for the largest proportion (about 60%) of the assistance provided to 112,180 households. This came in addition to assistance disbursed under the emergency assistance rubric to 329 households and assistance to Palestinians in the diaspora, which benefited 17,500 households.

The interventions include two specific frameworks; first, the "Waqfat Ezz" Fund (Stand with Dignity), and second, the Emergency Social Protection Project. The Ezz Fund aims to provide cash emergen-

48 World Bank. (2021). Economic Monitoring Report to the Ad Hoc Liaison Committee.

<https://documents1.worldbank.org/curated/en/443631635864878225/pdf/Economic-Monitoring-Report-to-the-Ad-Hoc-Liaison-Committee.pdf>

49 Ministry of Social Development (MoSD). 2021. Annual Statistical Report 2019. Ramallah, Palestine.

50 Palestine Economic Policy Research Institute (MAS). 2020. Socio-Economic and Food Security Survey. Palestine <http://www.mas.ps/files/server/2021/studies/Food%20security%20report%202020.pdf>.

51 Ibid.

cy support to poor households affected by the pandemic. The number of households and infected cases that received assistance from the MoSD through the Ezz Fund during times of emergency was around 30,000, which included poor households and marginalized groups (elderly, women, etc.), in addition to nursery and kindergartens, etc. The Hebron governorate had the largest proportion of beneficiaries, where 3,900 households benefited from emergency support. These households were the most affected by the pandemic in terms of the number of coronavirus cases during that period. However, the Gaza Strip governorates were the least targeted due to the limited spread of the pandemic in southern governorates during the first five months of the virus outbreak.

The Emergency Social Protection Project, funded by the World Bank with a capital worth of USD 18.4m, aimed to provide cash assistance to 65,000 households after verifying their data, in partnership with the MoSD, MoL, MoF, and the Employment Fund. The amount of support is around NIS 500-750 and is disbursed only once. In the first phase of the project, 53,000 households were targeted and work is underway to reach the targeted number of households.

5.2 MoSD's Programs for Different Marginalized Groups

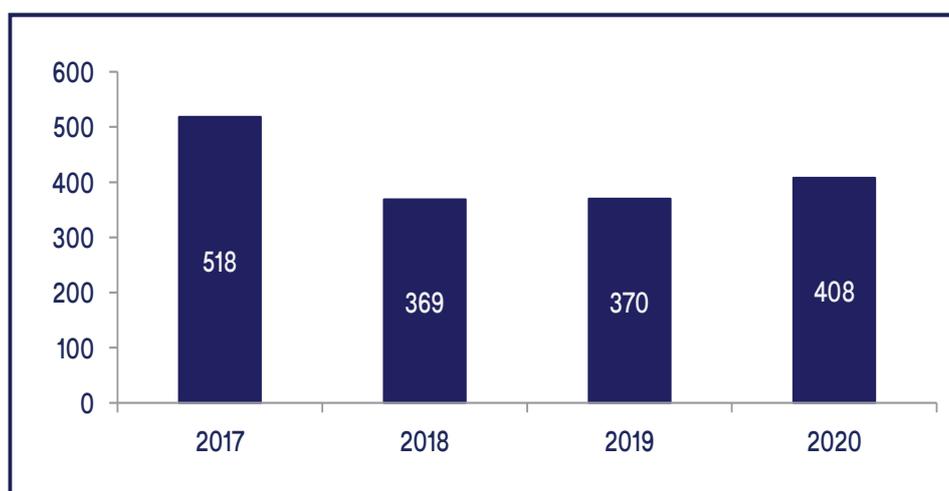
5.2.1 Poor Households

Poor and marginalized households are targeted by the MoSD cash transfer program (CTP) for households incapable of meeting their basic needs. This program provides regular cash support to these households in four payments per year, ranging between NIS 250-600 each. These payments are the basic and only source of income for a large number of households, over 86% of which (around 98,292 households) fall below the extreme poverty line.

In 2020, a total of 114,000 households benefited from CTP (about 610,000 people); the Gaza Strip had the largest proportion of beneficiaries of 69% of total beneficiary households, as the poverty rate in the Gaza Strip is higher than in the West Bank. The largest proportion of beneficiary households (86%) fell below the extreme poverty line, at about 98,292 households. The number of households falling between the national poverty and extreme poverty line reached 8,764, or about 8% of the beneficiary households. Data also showed that the number of households over the national poverty level and benefiting from CTP was 7,343, which is 6% of the total number of beneficiary households. CTP is therefore of great importance to households in order to meet their basic needs, especially food. When compared with Palestine's extreme poverty rate, data show that the Ministry covers about 77% of households below the extreme poverty line. The Ministry also covers 50% of households below the national poverty line. This means that the program is still incapable of meeting the needs of all the poor in Palestine or more than the minimum needs of those assisted. Again, this means that further efforts and funding are required to reach all the poor in Palestine and to avoid leaving them on their own facing poverty and destitution without any help.

Despite their limited value and massive need for cash transfers, the program has been underfunded since 2018, which is reflected in a reduction in the number, value, and irregularity of payments. Figure (5-1) shows how transfer values paid to households declined since 2018; decreasing from NIS 518.4m in 2017 to NIS 408.5m in 2020, and the number of payments was reduced to only three instead of four regular payments, despite the pandemic-related economic and social challenges met this year. The total amount of the three payments for 2018 and 2019 was around NIS 370m per year, a 29% decrease from 2017.

Figure 5.1: The Value of CTP Disbursed Payments (NIS million), 2017-2020



Source: Ministry of Social Development (MoSD), 2021. Annual Statistical Report 2019.

Regarding some of the economic and demographic characteristics of CTP beneficiary households:

- 1) Refugee status:** the data shows that about 68% of the total beneficiary households in the Gaza Strip are refugee families, numbering 53,535 households, while the beneficiary households in the West Bank are mostly non-refugee households (70%).
- 2) Educational attainment of the head of the household:** We note from household data that the educational level for 81% of the heads of the households benefiting from the CTP was middle school level and less compared with about 19% of household heads with a secondary school certificate or high school diploma. This indicates that the higher the educational level of the household head, the lower the poverty rate.
- 3) Employment status of the head of household:** The number of households headed by a head with an irregular wage reached 19,376 households, representing about 83% of the total working heads of households benefiting from the CTP.
- 4) Ownership of the place of residence:** the number of households benefiting from CTP that live in a household owned by the family is about 94,974 households, and they accounted for about 83% of the total beneficiaries of the CTP.

The MoSD also provides other programs for the poor: the Emergency Assistance Programme, the Food Assistance Programme, and the Health Insurance Programme. Approximately 82,000 households in the OPT had insurance coverage in 2020; 48,000 in the West Bank and 34,000 in the Gaza Strip. Note that all households receiving cash support are entitled to health insurance, however, the number of insured households is still lower than those receiving cash support.

5.2.2 Children

MoSD targets children through five programs. First, the children of households benefiting from CTP, whose number is about 215,000 (82% in the Gaza Strip and 18% in the West Bank). Those constitute 9.5% of the total number of Palestine's children and 35% of CTP's total beneficiaries.

Second, in its endeavors to protect children and provide them with decent and healthy living conditions, the MoSD also targets child victims of violence, neglect, and exploitation through the Child Protection Programme. The number of reported cases to the child protection counselors as having been neglected and exploited in all the Ministry's directorates in the West Bank reached 911 children in 2020, compared with 1202 in 2019. This drop in the number of reported cases is not necessarily an indication of decreasing levels of violence against children, but may be due to difficulty or issues related to reporting due to closures imposed by official authorities in 2020 to curb the spread of the coronavirus. It is noteworthy that this program is only run in the West Bank and not in the Gaza Strip, which indicates a gap and deficiency in the geographical coverage of this program.

Regarding the demographic characteristics of children benefiting from this program; according to MoSD statistics, 55% of reported children are males and 45% are females. In terms of age, 45% of child cases reported as exposed to violence are within the age group of 6-12 years, 23% are within the age group of 13-15, 17% are under 5 years, and 15% are within age group of 16-18. In addition, 8% of abused children have health issues. In terms of the type of abuse, neglect and maltreatment are among the most common types of abuse suffered by children. About 75% of cases of abused children were exposed to neglect and maltreatment, 9% were exposed to physical abuse, and 8% of them were exposed to economic exploitation. Services for abused children vary and include child protection within the same family, protection in a substitute family, or protection by a foster institution. This service was provided to 13% of children.

Third, there is a program for licensing nurseries, ensuring that a healthy and safe environment is provided, and inspecting their capabilities to provide childcare and protection. The number of licensed nurseries is around 171, the majority of which are in Ramallah city (54%).

Fourth, the unknown parentage child program provides services like issuing birth certificates to those children (a total of 18 children) or finding eligible foster homes for them.

Fifth, the number of children in juvenile detention reached 1,666 children in the West Bank in 2020, 98% of whom were males. As for their age, 57% of them are within the age group (16-18 years) and 33.7% are under 15 years. With regards to education level, about 64% of juvenile children are currently in primary school. The charges against them ranged from altercations, threats, possession of drugs, and attempted murder. In 2020, this program facilitated mediation for 688 children, reduced litigation procedures, and avoided bringing children before the courts. There are still 606 cases that have not been adjudicated in courts. Juveniles are accommodated in government rehabilitation centers run by the MoSD, namely: Dar El Amal Institution for Boys, and Girls' Care Home (GCH). In addition to the Youth Rehabilitation Centre, which provides vocational training for children in order to reintegrate them into the community.

5.2.3 MoSD Programs for Women

One of the MoSD missions is to provide protection and empower women who are subjected to violence, abuse, and exploitation, and suffer from poverty. To achieve this, the Ministry provides social, psychological, and legal services and protects battered and poor women and reintegrates them into their families and the society. Various services are provided to women through the CTP for marginalized households considering that they are the heads of poor households, in addition to the Gender-based Violence Program (GBVP) targeting women victims who report to the Ministry about being subjected to violence.

As for the beneficiaries of the CTP, the number of women-headed households benefiting from CTP reached 47,649 households, 60% of which are in the Gaza Strip, and 40% are in the West Bank, ac-

According to MoSD statistics. The number of households headed by women with disabilities benefiting from CTP reached 5,716, about 57% in the West Bank, and 43% in the Gaza Strip.

As for the GBVP, this program is of central importance considering that the MoSD is the first party responsible for protecting women and children from gender-based violence and providing them with protection. The MoSD assisted 358 women who were subjected to violence during 2020, and the biggest proportion (47%) of them were married women.

In terms of the type of gender-based violence, 40% of those cases were subjected to psychological violence, 30% to physical violence, 7.3% were detained and denied liberty, and around 6% were subjected to economic violence and forced labor. Due to such violence, 60% of women fled their homes, 18% attempted suicide, and other women suffered fractures, bruises, and mental and physical illnesses, according to the MoSD's statistics.

As for the types of interventions carried out by MoSD to address gender-based violence, the major intervention is to provide support and social counseling (provided to 36.9% of cases), counseling and psychological support (provided to 28.6% of cases), and protection (used to protect 21.8% of abused women). 4.8% of women were provided cash and in-kind assistance, 7.1% were provided legal services, and 0.9% benefited from the economic empowerment component.

Battered women are among the marginalized groups that have the right to benefit from MoSD's services. Therefore, about 36% of them benefited from medical insurance services, 30% from cash assistance, 11.7% from the economic empowerment component, 9.2% from emergency support, and 3.1% from exemption from school fees.

Despite the importance of MoSD's role in protecting women from violence, it seems that women's access to these interventions and other services is limited in light of the high rates of violence in Palestinian society, as the Ministry's figures show. Hence, it is necessary to ensure that all women have access and can report that they have been subjected to violence, and to ensure that procedures for dealing with cases of violence maintain privacy and confidentiality for their own safety.

5.2.4 MoSD Programs for Persons with Disabilities (PwD)

There were 48,263 PwD who benefited from CTP, constituting about 8% of the total beneficiaries of the program. The number of PwD-headed households benefiting from CTP reached about 18,177, making up about 16% of the total. Looking at the geographical distribution of PwD-headed households benefiting from CTP, they were distributed as 47.4% in the West Bank and 52.6% in the Gaza Strip.

5.2.5 MoSD Programs for the Elderly

The MoSD also pays constant attention to the elderly by providing care and other services. The number of the elderly who benefit from CTP reached 63,230, or around 23% of the elderly population (those over 60 years old). The data indicate that about 49% of elderly-headed households benefiting from CTP live in urban areas (cities), compared with 30% in villages, and 21% in refugee camps. The Gaza governorate had the highest percentage of the number of elderly persons benefiting from CTP, reaching 15% of the total beneficiaries, while the Jericho governorate had the lowest percentage among all governorates, standing at 1%. Also, the MoSD works on providing a package of basic services for the elderly who suffer from difficult social, health, and economic conditions. Also, the MoSD uses the service purchase program to purchase shelter services for the elderly.

5.3 Recommendations of the MoSD Report

The MoSD's Annual Statistical Report presented important recommendations for dealing with marginalized groups during times of emergency. The most important of these is the need to allocate sufficient funds in the public budget to allow swift responses to the needs of the poor and marginalized groups in cases of emergency after developing a national emergency plan and strategy. If such a key recommendation is implemented, it will enable faster responsiveness, efficiency, and comprehensiveness during times of emergency, given the availability of resources allocated for this purpose.

The report also recommended developing the information systems of government agencies to increase their efficiency in quickly responding to crises and disasters. It also stressed the need to have specific crises forms incorporated in the national social register that meets the needs of the competent institutions involved in providing social protection services. Developing information systems is of high importance especially if taken into account to facilitate citizens' access to the services they need, as in the cases of battered women, children, PwD, or the elderly. Having an electronic information system facilitates service access, especially in times of emergencies and curfews. The importance of establishing an electronic system becomes more crucial if other government institutions are obliged to coordinate with the MoSD in supporting poor and marginalized groups and to control the distribution of such assistance through a unified support portal to prevent duplication and enhance equal access among all service beneficiaries.

In summary, the report shows that there must be an inclusive and robust social security system that is capable of serving all marginalized groups, leaving no one behind to face poverty or illness, and providing all with the economic security and services that they need. This is what the coronavirus pandemic showed when thousands of workers were laid off from their jobs or did not receive their wages and the government was unable to respond to their needs, which burdened the MoSD with new households who entered the cycle of poverty overnight. In addition to CTP, some programs are of great importance and may be parallel to CTP, such as programs for protecting women from gender-based violence and child protection. However, these programs are still limited, as demonstrated by the numbers of beneficiaries. Economic empowerment projects can also play a role in strengthening the social protection fabric of the poorest and most marginalized groups. Hence, the importance of ensuring that all those in need of such programs have access to them and have safe and easy mediums to report what they are exposed to. This will reduce the rates of violence and deprivation in society, thus creating healthy generations capable of giving and achieving inclusive social development for all.

6- Prospects of Economic Growth in Arab Countries in 2021 and 2022

In October 2021, the Arab Monetary Fund (AMF) published a report on the prospects of economic growth in Arab countries. The report projected a 2.7% overall growth rate in all Arab countries in 2021, approximately 0.2 percentage point below AMF projections issued in May 2021. According to the report, several factors contributed to this growth, including:

- Progress made in the national vaccination campaigns and the rising number of vaccinated people, which encouraged Arab governments to ease restrictions on economic activities to foster the recovery of some economic sectors⁵².
- The positive forecast for economic global growth at the rate of 5-6% in 2021, concurrent with the growth in the volume of international trade during the same year to 10.8%.
- Increasing global energy demand and global oil market recovery and an increase in international oil prices by 65% in the period from the beginning of 2021 to the end of October in the same year.
- Arab central banks and finance ministries continued implementation of a part of the financial support programs that had been adopted in 2020 to boost economic recovery. This came in the context of economic stimulus packages amounting to USD 341.5b during the coronavirus pandemic period until September 2021.

The report also presented the main challenges confronting Arab countries in their endeavors to pursue economic recovery, which included:

- The fast spread of coronavirus variants that weaken the effectiveness of vaccines, threatening efforts of Arab countries to continue opening their economies and hindering the return of economic activities to their previous levels.
- The tendency of rich industrial countries to follow anti-inflationary monetary policies. This, in turn, will reflect in rising interest rates, thereby placing pressure on interest rates and exchange processes in some Arab countries with high levels of foreign borrowing, which run a high deficit in the current account balance. These countries also witnessed an outflow of foreign capital, which will reflect in higher costs of external foreign borrowing in these countries.
- Accumulation of high levels of public debt for borrowing Arab countries, as the debt-to-GDP ratio for these countries is about 120%.
- Significant losses incurred by important economic sectors as a result of closures, such as tourism and aviation. Therefore, there is a need to continue supporting these sectors to prevent them from exiting the market.

In 2022, economic activities are hoped to improve in all Arab countries with a rise in the economic growth rate of 5.2% as a result of a combination of factors, most notably: the expected increase in production volumes of oil for oil-exporting countries within the context “OPEC Plus” Declaration of Cooperation (DoC) which will enter into force in May 2022, concurrent with the global oil prices maintaining their high levels during 2022.

In terms of inflation, the report expects the inflation rate to reach 13.2% in Arab countries in 2021. This rise is attributed to a number of factors, the most important of which are: the rising prices of energy products, the marked rise in global food prices, the escalation of inflationary pressures as a result of increased levels of domestic demand in some Arab countries due to increased money supply and higher wages. These have also been the result of the impacts of climatic changes on ag-

⁵² The most important of these sectors are export, tourism, construction, public works, internal trade, manufacturing, medicines, and telecommunications.

gricultural production volume and supply of agricultural products. However, inflation is expected to fall in 2022 to around 6.1%, as inflationary pressures are expected to dampen with the easing of some supply-chain bottlenecks, as well as the expected higher supply of goods and services.

6.1 Oil-exporting Countries

These countries will see an improvement in economic activity because of a combination of factors, the most important are: an increase in international oil prices by 65% from the beginning of 2021 until October 2021, as well as the pickup of non-oil sectors in the Gulf Cooperation Council (GCC) countries as a result of continued stimulus packages and implementation of strategies aimed at greater economic diversification

In addition to improving the internal conditions in other Arab oil-exporting countries, based on these factors, Arab oil-exporting countries witnessed a growth of about 2.8% in 2021. These countries are expected to see stronger growth in 2022, as a result of the expected increases in oil production and a continued rise in oil prices. Inflation was expected to reach around 3.3% and is expected to fall in 2022 to about 2.9%.

6.1.1 Gulf Cooperation Council (GCC) Member Countries

By the end of 2022, the economies of GCC countries are expected to recover from the coronavirus pandemic. The most important factor underpinning this improvement is the continuation of stimulus packages supporting economic activities, along with the improvements in the oil sector. These countries are expected to see a growth of about 2.5% in 2021, and about 5.5% in 2022. According to the report, inflation is projected to reach 2.2% in the GCC region in 2021, while it is expected to drop in 2022 by 0.1 percentage point, to 2.1%

6.1.2 Non-GCC Oil-exporting Countries

The financial condition of those countries does not allow the adoption of stimulus packages to support economic recovery due to narrow fiscal space. However, this will not prevent the economic recoveries of those countries, which are expected to witness an economic growth rate of 3.7% in 2021 as a result of the increase in global oil prices. Also, these countries are expected to achieve a growth rate of about 5.2% in 2022 due to the increase in oil production quantities and improvement in their domestic conditions. The report also expects inflation to reach 6.4% in these countries during 2021, but is expected to drop by 1.2 percentage points in 2022, reaching 6.2%.

6.2 Oil-importing countries

Internal and external imbalances prevented these countries from adopting financial packages to support economic recovery, especially in light of the high levels of public debt. However, these countries benefited from the recovery of external demand and the improvement in production in a number of economic sectors. These economies are expected to achieve a growth rate of about 2.5% during 2021, while in 2022 the pace of economic improvement is expected to pick up due to a number of factors: most importantly, the recovery of external demand and the rejuvenation of some economic activities such as trade, tourism, and investment. As a result, these countries are expected to see a growth rate of about 4.6% in 2022. According to the report, these countries are expected to witness a high inflation rate of 27.7% in 2021, but it is expected to decline by 16.9 percentage points to reach 10.8%.

With regards to Palestine, the report predicted that the Palestinian economy would grow at a rate of 4.4% in 2021, benefiting from a number of factors: the regular transfer of clearance revenues to the

Palestinian government; the return to previous levels of consumer expenditure, investment, and foreign trade before the pandemic; the availability and possible distribution of COVID-19 vaccines to a large segment of the population, which will reduce the health impacts of the pandemic; and improved levels of external financial support to the Palestinian Government.

In 2022, the report predicts a 3% improvement in the Palestinian economy as a result of improved levels of total consumption and private investment, as well as improved economic activity in a number of economic sectors (agriculture, manufacturing, services, and construction). Regarding the inflation rate, overall prices will be impacted in Palestine due to the high costs of imports resulting from the rise in the price of global food products and raw materials. Also, overall prices will be affected by increased domestic demand, especially household consumption. Accordingly, the report predicts that the inflation rate in Palestine will reach about 1.5% in 2021 and 1.8% in 2022.

7- Economic Concepts and Definitions

The Theory of Money: From Keynes to Friedman to Modern Monetary Theory

The French poet Paul Valéry (1871-1945) often said that a great man dies twice, the first time as just a man, and the second time as a great man. The point is that when a great man is gone, the achievements of his lifetime and the ideas that he embodied remain influential and relevant, just as if he were still alive. However, with the passage of time and the emergence of new concerns and circumstances, the ideas of the man become increasingly irrelevant, until the day arrives when his impact on current affairs ceases completely. At that point, it is almost as if he dies again.

More than in any other discipline, it can be argued that this reasoning is relevant to the giants of economic thought. Today, we are witnessing a blatant and resounding renunciation of the great “monetary theory”. The September 2021 edition of *The New Republic* featured a picture of Milton Friedman (1912-2006) on its front cover, with the title, “The Second Death of Milton Friedman”.

Written by Zachary Carter, the article narrates how Friedman, along with his theories, has become an ineffectual pariah. It was Friedman who coined the term “monetarism”, an ideology adopted by the International Monetary Fund (IMF) in the 1970s, and then by the most important central banks across the globe in the early 1980s.

The fact of the matter is that this announcement is more than two decades late. Since the early 1990s, the flaws in “monetary” theory and its practical failures had already become evident. Nevertheless, the declaration of its termination today is historically significant.

This significance is all the more evident when we take into account the fact that Friedman and his followers did not put forward the theory of “monetarism” as a “revolution” in economic thought, but rather as a “counter-revolution” that aimed to refute the fundamentals of the Keynesian revolution.⁵³ Therefore, it seems appropriate to announce the failure and end of “Friedman’s counter-revolution” at the time when the “Keynesian revolution” is witnessing a revival within the context of “Modern Monetary Theory”.

Understanding the fundamentals of “Modern Monetary Theory” in the historical context of the development of economic thought calls for defining the concepts put forward by Friedman’s “monetary theory” vis-à-vis the theories embedded in Keynesian thought. This illustrates the failure of these concepts at the theoretical and practical levels, leading to the emergence of “Modern Monetary Theory”. This is the topic of the “Economic Concepts and Definitions” section in this issue, and the next issue, of the Monitor.

One of the most important proposals in Keynesian thought is that monetary policy (that the central bank controls the size of the money supply) is an ineffective policy framework, unsuitable for overcoming the crises that the economy is frequently exposed to, whether they are crises caused by economic recessions and outbreaks of unemployment, or an inflation crisis with continuous acceleration in price increases. The reason for this, according to Keynesian theory, is that the effect of any change in the size of the money supply on economic activity is indirect and not guaranteed. For example, during an economic recession, the central bank increases the money supply in the economy, by carrying out Open Market Operation through the purchase of government bonds from

53 See: Harry, G. Johnson (1971), “The Keynesian Revolution and the Monetarist Counter-Revolution,” *American Economic Review*. Vol.61. No.2. P 1-14.

James Tobin (1981). “The Monetarist Counter-Revolution—An Appraisal,” *The Economic Journal*, (March 1981) 91, p 29-41.

financial markets. However, an increase solely in the money supply does not automatically lead to an increase in spending on investment or consumption. For this to happen, a low interest rate is necessary. Secondly, it is also necessary to convince investors that it is in their interests to borrow from banks at a low interest rate and invest, and to convince consumers that it is in their interests to borrow in order to finance the purchase of durable goods. However, the occurrence of both of these events concurrently is not guaranteed. In times of a persistent and long recession, expectations are so pessimistic that banks and other financial institutions do not attempt to get rid of the increase in the amount of money in their portfolios by increasing their spending. Rather, they hoard this additional cash in the hopes that conditions will improve in the future. This is what Keynes called the “Liquidity Trap”. Concerning the second requirement, it is possible that the increase in the money supply will reduce interest rates, but this does not guarantee that investors and consumers will respond by increasing their levels of spending. As the saying goes: “You can take a horse to the river, but you cannot force it to drink”.

On the other hand, Keynesian theory put forward “fiscal policy” (public spending and taxation) as an effective tool, because it has a direct and immediate effect on economic activity. When economic stagnation occurs, unemployment worsens and businesses are reluctant to invest because of their pessimistic expectations. In response, governments can borrow unutilized money and spend it on public projects to employ the jobless and generate new income that, in turn, contributes to an increase in public spending. This stimulates economic activity and contributes directly to ending the recession. This also happens when governments reduce taxes, increasing disposable incomes that results in increased spending by the public through improved economic activity.

Friedman’s monetary school fundamentally opposed the Keynesian hypothesis with regards to the effectiveness of fiscal policy. This school developed two basic rationalizations for this opposition. The first is the concept of “crowding out”, which questions the effectiveness of financing government spending by borrowing. The second is the concept of “permanent income”, which questions the effectiveness of financing increased public spending by increasing taxes.

The concept of “economic expulsion” means that when governments resort to borrowing from financial markets (by selling government bonds) to finance their public spending, this leads to higher interest rates and a reduction in private investment. In other words, the increase in public spending leads to a crowding out of private sector investors, causing them to exit the market. Therefore, an increase in governmental spending is balanced out by a decrease in private investment, such that overall levels of spending in the economy remain unchanged.

The concept of “permanent income” is based on the premise that an individual chooses their annual consumption and saving levels not based on their income for that year, but on their current income as it relates to their permanent income, that is, their expected average income over the long-run. Thus, in a year in which current income is higher than permanent income, they do not spend more, but rather save more. Conversely, in a year in which current income is less than their permanent income, they do not reduce consumption levels, but rather borrow to keep consumption consistent with permanent income. This means that lowering or raising taxes does not lead, as Keynesian theory claims, to an increase or decrease in private spending, but rather to an increase or reduction in savings.

Friedman adopted the theory of “monetary policy,” which postulated that the money supply – not government spending or the level of taxation – is the variable that affects economic activity both directly and effectively. Friedman’s position is that the “transmission mechanism” adopted by Keynesian theory is in fact a false one, given the effect of the money supply on economic activity via its impact on interest rates. Friedman described the real mechanism as follows: every individual and every organization has a portfolio that includes all the assets they own: real estate, stocks, bonds, durables,

and money. The quantities of these assets in each portfolio are determined according to what the owner believes is the optimal situation for them. When a central bank increases the money supply in the economy (by buying government bonds from individuals and institutions), the amount of money in these portfolios increases, resulting in a suboptimal situation. In order to restore optimality, each individual and each institution disposes of surplus money by purchasing additional assets such as durable goods, for example. This means that the effect of the change in the money supply instigated by the central bank is direct and does not occur via changes in interest rates. However, the direct impact on economic activity⁵⁴ does not take place immediately, but is delayed for an unspecified period of time, maybe a few weeks or possibly even longer than a year. Therefore, Friedman argued that it is best to utilize monetary policy according to fixed laws and not as a reaction to prevalent economic conditions. That is, the money supply should be increased every year at a rate consistent with the rate of growth in GDP. Thus, Friedman's theory stripped government of all its tools, labelling fiscal policy as a useless tool that should be avoided, while emphasizing that monetary policy is an effective policy tool, provided that central banks do not use it "according to circumstances."

Political and economic conditions in the United States in the late 1960s resulted in a suitable setting for the application of Friedman's proposals and his monetary theory. President Lyndon Johnson's administration financed the Vietnam War and his administration's "Great Society"⁵⁵ projects not by taxing, but by borrowing. This situation led to great inflationary pressures because it did not happen at a time of economic stagnation, but on the contrary, at a time of economic recovery. When the Johnson administration tried to curb inflation by using fiscal policy tools, through imposing new taxes, the policy did not succeed in halting inflation. Friedman and his supporters were quick to label this a failure of Keynesian theory. With the beginning of the 1970s and the energy crises that led to "stagflation," alongside the inability of fiscal policy tools to address it, Friedman and his followers were able to convince a large segment of economists in the United States and Britain of the failures of Keynesian theory and the superiority of monetary theory.

The first institution to adopt monetary theory was the IMF. In Friedman's constant calls to reduce government spending and limit the state's role in the economy, the IMF found the intellectual justification for the stability programs that it wanted developing countries to implement as a precondition for obtaining IMF loans. When Margaret Thatcher became Prime Minister of Britain, one of her first acts was to appoint Professor Alan Walters, then one of Friedman's most prominent followers in Britain, as her economic advisor. She then announced that her government fully embraced Friedman's monetary school of thought in the fight against inflation. Two years later, one of President Ronald Reagan's first acts was to invite Friedman to the White House and to listen to his advice and guidance. Press reports noted that Friedman's invitation to the White House, in a festive atmosphere, was confirmation of the victory of his counter-revolution over Keynesian economic thought.⁵⁶

In the second part of this economic review, we will see how these celebrations were exaggerated, coinciding with the rise of conservative political thought on both sides of the Atlantic. In fact, monetary theory was not a scientific theory, as promoted by Friedman and his followers, but a pure ideological principle exercised by right-wing forces across the world as a tool to serve their interests in limiting the role of government in the economy. We will see how the collapse of Friedman's monetary theory led spontaneously to the emergence of "Modern Monetary Theory". We will also see that this "modern" theory does not actually contain anything new, as it borrows its principles from Keynesian thought, with some unnecessary and useless exaggerations.

54 Among the questions asked by first-year students of macroeconomics is the following: If the amount of money in individuals' wallets is at an optimal level, why do they respond to the wishes of the central bank by selling bonds to the bank in order to obtain more money for their wallets, resulting in a sub-optimal level of assets? The answer, of course, is that individuals do this because they are making a net profit.

55 Great Society projects included reforms in education, health, transportation, urban degeneration, rural poverty, and helping black citizens to overcome the legacies of decades of racial discrimination.

56 Some commentators went as far as describing the celebration of Friedman at the White House as "The Restoration," a term used to describe the restoration of the monarchy in Britain in 1660 after the Civil War and the Protectorate (republic).

Key Economic Indicators in Palestine, 2016-2021¹

Indicator	2016	2017	2018	2019	2020	2020 ¹		2021 ¹		
						Q3	Q4	Q1	Q2	Q3
Population (One thousand)										
oPt	4,632.0	4,733.4	4,915.3	5,039.0	5,101.2	5,116.9	5,148.4	5,179.9	5,227.2	5,243.1
West Bank	2,803.4	2,856.7	2,953.9	3,020.0	3,053.2	3,061.6	3,078.4	3,095.2	3,120.4	3,128.9
Gaza Strip	1,828.6	1,876.7	1,961.4	2,019.0	2,048.0	2,055.3	2,070.0	2,084.7	2,106.8	2,114.2
Labor market (based on the new definition adopted by PCBS)²										
No. of workers (thousand)	939.6	948.7	956.3	1,013.00	956.0	936.0	995.0	994.1	1,015.6	1,036.0
Participation rate (%)	43.8	44	43.5	44.3	40.9	41	41.0	42.9	43.0	43.8
Unemployment rate (%)	23.9	25.7	26.2	25.3	25.9	28.3	23.4	27.8	26.4	27.3
West Bank-	17.5	18.4	17.3	14.6	15.7	18.5	14.9	17.1	16.9	14.7
Gaza Strip-	35.4	38.3	43.1	45.1	46.6	48.6	43.1	47.9	44.7	50.2
National accounts (at constant prices) (base year 2015) (million dollars)³										
GDP	15,211.0	15,426.9	15,616.2	15,829.0	14,015.4	3,504.2	3,543.1	3,611.0	3,736.4	3,738.8
Household expenditure-	3,342.9	13,420.3	13,570.1	14,126.5	12,367.2	3,021.2	3,028.9	3,178.2	3,169.8	3,217.2
Government expenditure-	3,584.7	3,093.6	3,318.9	3,202.3	3,207.6	810.8	916.7	823.7	910.1	937.8
Gross capital formation	3,873.8	4,166.9	4,260.3	4,177.1	3,207.1	806.6	866.4	893.7	905.0	943.5
Exports	2,208.3	2,515.6	2,578.7	2,630.5	2,445.9	623.1	693.6	619.2	673.9	682.7
(-) Imports	7,796.3	7,901.5	8,256.8	8,376.1	7,084.7	1,782.1	1,808.3	1,978.7	2,003.1	2,056.8
GDP per capita (USD)										
at Current prices	3,534.4	3,620.5	3,562.3	3,656.7	3,235.0	800.9	837.4	866.3	903.8	903.8
at Constant prices (base year 2015)	3,489.8	3,463.1	3,417.7	3,378.3	2,913.9	800.6	837.0	867.5	904.9	905.3
Balance of Payment (USD millions)										
Trade Balance	(5,664.5)	(5,967.4)	(6,425.7)	(6,500.7)	(5,452.9)	(1,351.0)	(1,504.0)	(1,600.0)	(1,736.0)	(1,736.0)
Income Balance	1,896.0	2,129.0	2,786.2	2,658.0	2,546.6	697.0	741.0	750.0	831.0	906.0
Current Transfers Balance	1,626.2	1,708.7	1,499.1	2,009.2	1,833.6	454.0	470.0	422.0	519.0	514.0
Current account Balance	(2,142.7)	(2,129.7)	(2,140.4)	(1,833.5)	(1,072.7)	(200.0)	(293.0)	(428.0)	(295.0)	(316)
Exchange Rates and Inflation										
USD/NIS exchange rate	3.84	3.6	3.59	3.56	3.441	3.419	3.335	3.272	3.264	3.234
JOD/NIS exchange rate	5.42	5.08	5.07	5.03	4.840	4.798	4.692	4.615	4.593	4.548
Inflation rate (%) ⁴	(0.22)	0.21	(0.19)	1.58	(0.73)	(0.20)	1.21	(0.26)	1.14	0.07
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	3,551.9	3,651.5	3,462.9	3,290.6	3,802.1	275.8	1,789.1	1,026.3	1,047.5	1,099.7
Current expenditure	3,661.7	3,794.8	3,660.0	3,660.1	4,686.8	731.9	1,972.8	665.9	1,159.0	1,090.9
Developmental expenditure	216.5	257.9	276.9	200.0	207.8	39.1	75.3	21.7	32.6	39.9
current budget deficit/surplus	(326.4)	(401.3)	(474.0)	(569.5)	(1,092.6)	(495.1)	(258.9)	(328.7)	(144.1)	(31.1)
Total grants and aid	766.3	720.4	664.8	492.1	565.9	101.8	85.0	11.0	64.6	35.4
Total budget deficit/surplus	440.0	319.1	190.9	(77.3)	(526.7)	(393.3)	(173.9)	(317.8)	(79.6)	4.3
Public debt	2,483.8	2,543.2	2,369.5	2,795.1	3,649.2	3,460.2	3,649.2	3,545.2	3,702.4	3,793.9
The Banking Sector (USD millions)										
Banks assets/liabilities	14,196.4	15,850.2	16,125.0	17,825.5	19,934.0	18,625.0	19,934.5	20,059.9	20,624.4	21,321.6
Equity	1,682.4	1,892.7	1,912.0	1,985.2	1,973.8	1,959.1	1,967.4	2,016.7	1,994.0	2,062.6
Deposits at banks	10,604.6	11,982.5	12,227.3	13,384.7	15,137.0	14,061.9	15,138.3	15,182.4	15,726.5	16,224.6
Credit facilities	6,871.9	8,026.0	8,432.3	9,039.1	10,075.0	9,894.0	10,078.7	10,150.6	10,350.7	10,473.7

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).
¹ Quarter's figures for 2019-2020 are preliminary and subject to further revision.

² PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment include 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.

³ PCBS has revised the national accounts data at current and constant prices for the years 2004-2018. Therefore, the figures of previous years and quarters will differ in light of these revisions.

⁴ 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 update of data issued by PCBS, PMA, and PCMA.

** Figures between brackets indicate negative values.