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First Quarter

2023

Economic Monitor

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PALESTINE MONETARY AUTHORITY

هيئة سوق رأس المال
Capital Market Authority

Palestinian Central Bureau of Statistics

PALESTINE ECONOMIC POLICY RESEARCH INSTITUTE - MAS

Economic Monitor

Issue 73 / 2023

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SEPTEMBER 2023

Foreword

Economic Monitor 2023: Renewal and Re-Focus

This year marks the 19th year of fruitful cooperation between four Palestinian institutions in issuing the Quarterly Economic Monitor (QEM) on the Palestinian economy. Published for two decades without interruption, the Monitor provides comprehensive, archival data on developments in the Palestinian economy and the problems and difficulties that it experiences. Today, we are pleased to present QEM No.73, in its new format, necessitated by rapid technological developments in publishing and editing and called for by our readers.

The Monitor will no longer be issued in printed, paper format, switching fully to electronic publishing. At the editorial level, focus has been placed on important and most prominent variables in economic transformations during each quarter. Efforts have been made to move away from descriptive texts, and towards the numeric presentation of data in graphs and tables, simplifying their accessibility to the reader.

Within QEM, we have created a special section under the title "Economic Follow-Up", which provides brief analyses addressing contemporary and important economic issues (local or international) that concern the Palestinian citizen directly or indirectly, affecting his/her life and purchasing power. This issue contains three such monitoring reports, two of which are relatively long. Moreover, to further the dissemination of the numerous indicators and quarterly data series published in the QEM, MAS will soon be launching the digital QEM as an online platform, including a quarterly display and update of data from partners using a unified presentation system, benefiting both the casual reader and the specialized researcher.
We hope that this will attract the interest of policy-makers, as well as researchers and the general public and that the QEM will be useful in disseminating knowledge on Palestinian economics and culture.

Raja Khalidi
Director General

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1. Gross Domestic Product (GDP)[1]

- The Gross Domestic Product (GDP) in the first quarter of 2023 amounted to $4.693 million at current prices, 84% of which is produced in the West Bank and 16% in Gaza Strip. This skewed distribution was reflected in per capita of the GDP, which amounted to $1,348 in the West Bank and $336 in Gaza Strip. The GDP declined by 2.1% at constant prices compared to the previous quarter, while it grew by 3.1% annually (compared to the same quarter of 2022). However, this growth is largely superficial due to the significant decrease in GDP in the first quarter of 2022 arising from the sharp decline in external grants and aid. Figure 1 illustrates the fluctuations in the quarterly economic growth rates, primarily reflecting the volatile external factors that influence economic performance (clearance revenues, aid, and laborer transfers from Israel).
- GDP can be analyzed from two angles: the total value of production (value added) of the different economic sectors, and that of total consumption and investment expenditures on goods and services. Figure 2 shows that the services sector has the highest contribution to the economy, accounting for 20% of the GDP. The value added in the agriculture sector has also declined significantly (around 19%) between the first quarter and the previous quarter. Part of this decline might be attributed to a reassessment of the agriculture sector contribution conducted by the Palestinian Central Bureau of Statistics (PCBS). The figures suggest that the decline in agricultural production was responsible for 1.2 percentage points of the decrease in GDP, which measured 2.1% between the two quarters. Furthermore, reversals in the performance of the public administration and industry sectors accounted for 1.1 percentage decline in the GDP. Conversely, the services and trade sectors expanded along with value-added tax (VAT) on imports. Consequently, the decline in the contribution of production sectors and the expansion in services, trade, and finance have also continued during the quarter, such that the production sectors contribution to the GDP reached 21%.
- In terms of expenditure, the decline in the GDP between the two consecutive quarters is mainly attributed to a 17% decrease in general consumption. This is a result of the government austerity policy, accompanied by the increasing Israeli deductions from clearance tax revenues. Figure 3 shows that the Palestinian economy utilizes resources for consumption and investment purposes that exceed 51% of what it produces. domestically. This percentage was only 44% a year earlier.
- Therefore, GDP does not fully represent the actual resources available for consumption and investment in any country because it measures locally generated income only and doesn't take into account the transfers and grants from abroad. Table 1 shows that the available (disposable) income in Palestine during the first quarter of 2023 was 32% higher than the GDP. The income of Palestinians working in Israel and settlements accounted for about 13% of the total available national income.

Figure 1: Actual Growth Rates in the GDP (The Quarterly Growth Compared to the Previous Quarter %)

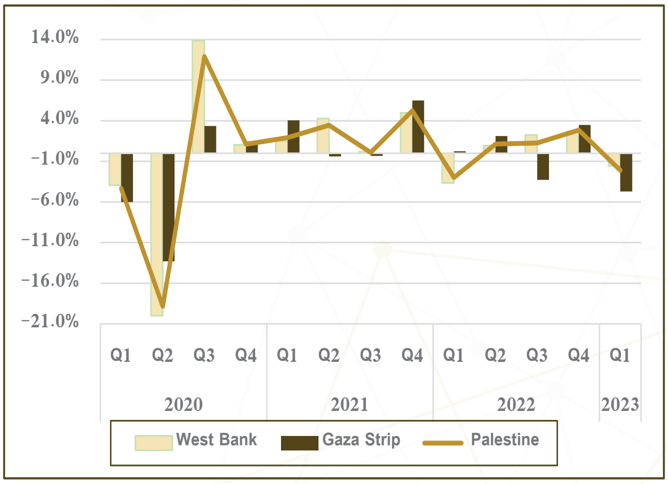
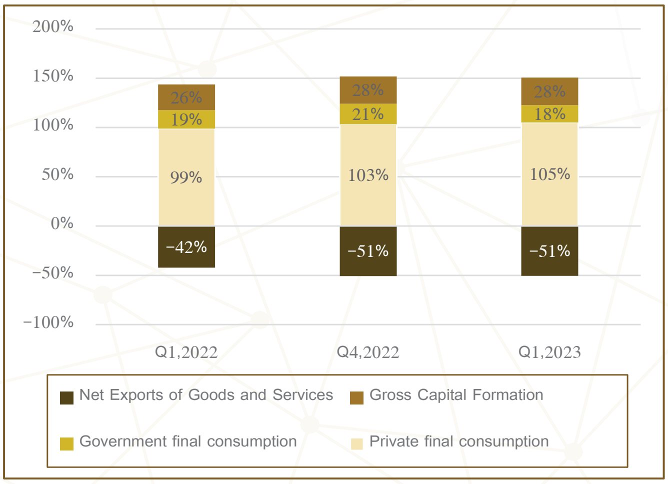


Figure 2: Added Value in Palestine according to the Economic Activity (At Fixed Prices, Million Dollars)



1 The QEM digital platform provides more detailed historical statistics. Please click on the link

Figure 3: Relative Distribution of Expenditure on GDP (%)

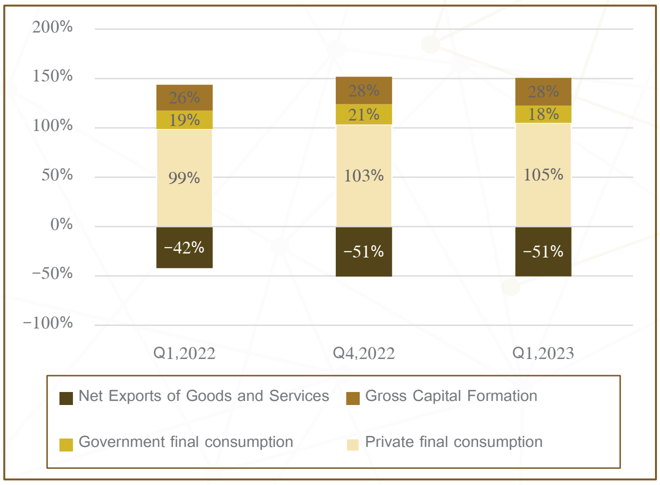


Table 1: National Income Available in the Quarters of the Year (At Fixed Prices, Million Dollars)

Variable	Q1, 2022	Q4, 2022	Q1, 2023
GDP	3,818	4,022	3,937
+Net Workers Compensation	699	657	695
+Net Property Revenues	18	38	28
+Net Current Transfers	424	500	525
Available National Income	4,958	5,216	5,185

2. Labor Market:[2]

- Participation Rate: This rate is an important indicator of demographic developments and the economic situation in the country. It measures the proportion of the labor force (i.e., number of employed and unemployed individuals) to total manpower (all individuals aged 15 and above) (see Figure 1). The higher the participation rate, the lower will be the burden of support for each laborer. The participation rate is generally low in Arab countries due to the low participation of women in the labor market. The limitation of this indicator is that increased unemployment sometimes leads to frustration, as the unemployed stop looking for work, so that they are not counted amongst the unemployed. Nor does the increase in the rate necessarily indicate relative economic improvement. The labor force participation rate in Palestine in the first quarter of 2023 was about 45.1%, with an increase by 0.2 percentage from the previous quarter. The rate is significantly high among males (71.0%) and very low among females (18.6%). It's also higher in the West Bank (47.7%) than the Gaza Strip (41.0%).
- Number of Workers: The number of workers in the domestic market reached around 993.3 thousand in the first quarter of 2023 (see Figure 2 and Table 1). This was accompanied by a 3% decrease in the Gaza Strip, while the number remained relatively stable in the West Bank compared to the previous quarter. The number of workers in Israel and settlements also decreased by 4% to 152.4 thousand (about 20% of whom are without work permits). The percentage of workers in Israel and settlements relative to the total number of Palestinian workers decreased from 17.5% in the third quarter of 2022 to 13.3% in the first quarter of 2023 (see Figure 3).
- Unemployment: The unemployment rate reached 25.2% in the first quarter of 2023 (see Table 2). The rate amounted to 36.7% among the age group (15-29 years), with 22.5% in the West Bank and 61.5% in the Gaza Strip. The unemployment rate among females in Palestine reached 40.2% compared to 21.4% among males.
- Wages: The average daily wage for workers in the West Bank remained at 132 New Israeli shekels (NIS) in the first quarter of 2023 (see Table 3). This average varies between NIS147 for construction workers and NIS91 for agricultural workers. The average wage for workers in the West Bank is more than double the average in the Gaza Strip, but it's equivalent to 46% of the average wage for workers in Israel and settlements. The latter average varies between NIS316 for construction workers and NIS185 shekels for agricultural workers.
- Minimum Wage: The official minimum wage in Palestine is NIS1,880 per month. However, the percentage of employees earning less than the minimum wage in the private sector was about 37% (16% of those employed in the West Bank and 88% in the Gaza Strip). The average monthly wage is about NIS927 (NIS1,395 in the West Bank and NIS722 in the Gaza Strip).

2 The quarterly economic monitor›s digital platform provides more detailed historical statistics. Please click on the link

Figure 1: Population, Labor Force, and Workers in Palestine (First Quarter of 2023, in thousand persons)

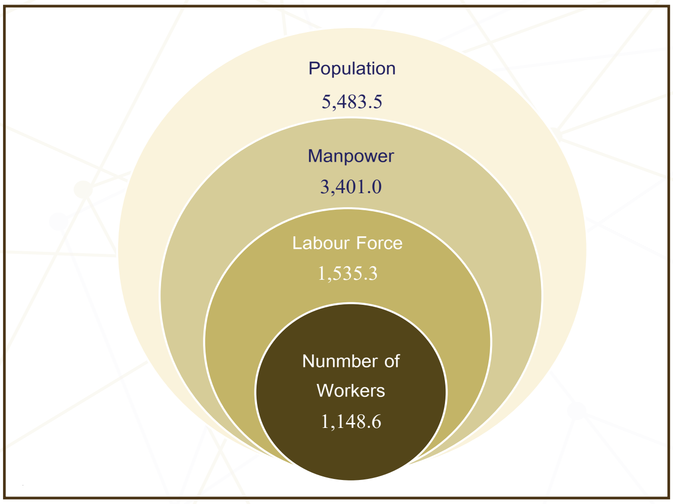


Figure 2: Distribution of Workers According to Place of Work and Sector (First Quarter 2023, %)

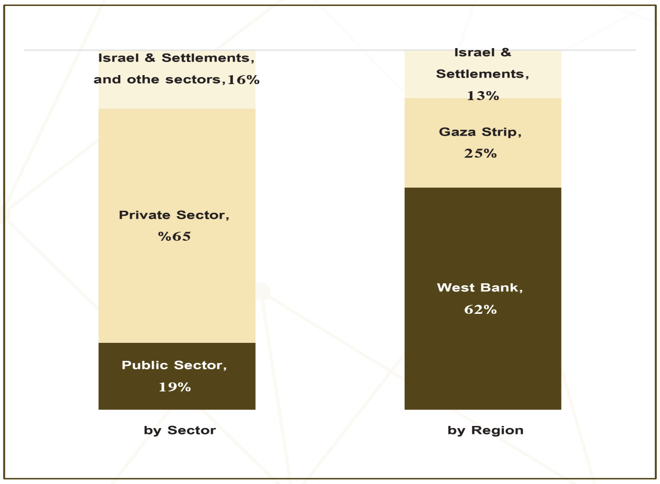


Figure 3: Number of Workers in Israel and Settlements (Quarters of the Years 2021-2023)

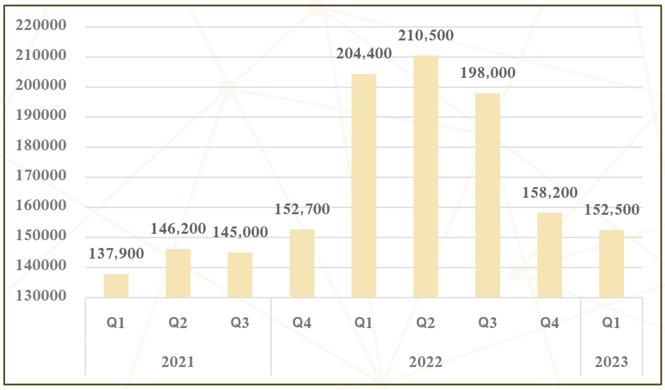


Table 1: Distribution of Percentage of Workers in Palestine according to the place of Work and Activity (First Quarter 2023, %)

Economic Activity	Workers in the Local Market	Workers in Israel and Settlements
Agriculture, Fishing and Foresting	5%	7%
Quarries and Transformational Industry	12%	13%
Building and Construction	11%	64%
Trade, Restaurants and Hotels	25%	11%
Transportation, Warehousing and Telecommunication	7%	1%
Services and Others	39%	4%
Total	**100%**	**100%**

Table 2: Unemployment Rate among Participants in the Labor Force according to the District (%)

District and Gender	Q1 2022	Q4 2022	Q1 2023
Palestine	25.4	23.4	25.2
West Bank	13.9	12.1	14.0
Gaza Strip	46.6	44.1	45.9

Table 3: Average Daily Wage for Known-Wage Workers According to the Work District (NIS)

Work District	Q1 2022	Q4 2022	Q1 2023
Local Market	38.8	110.5	110.1
- West Bank	118.8	134.6	132.4
- Gaza Strip	55.1	54.8	56.7
Israel and Settlements	268.4	284.1	284.3

3. Public Finance and Public Debt:[3]

- Public revenues witnessed a (15%) increase in the first quarter of 2023 compared to the same quarter of 2022. This increase was a result of a 9% increase in clearance revenues and a notable improvement in tax revenues (growing by approximately 25%) between the two quarters. In contrast, expenditure showed a gradual increase by only (3.4%) during the same period due to the increase of non-wage expenditure (23%) and development expenditure (83%). It is worth noting that the payroll and salary bill decreased by (13%) between the corresponding quarters. This reduction was a continuation of the policy to withhold salary payments (by around 20%) since 2021, with the government pledging that new hiring would not exceed 50% of the retirees in 2023. These developments in revenues and expenditure resulted in a positive budget balance increase between the corresponding quarters by almost a double to reach NIS1.189 million (see Table 1).
- The budget received significant external aid support in the first quarter of 2023 compared to the corresponding quarter in 2022, totaling NIS177 million, compared to NIS63 million in the corresponding Quarter of 2022 (see Figure 1). When adding external aid to the preceding budget surplus, the total surplus becomes NIS1.367 million. Part of this surplus was used to adjust the government's deposits in banks and repay borrowing from the banking system (NIS864 million shekels), and another part was used to repay some private sector arrears (NIS505 million shekels).
- However, this surplus does not reflect the actual financial situation of the government, as revenue and payment figures are cash-based (the actually received and paid during the quarter), but not accrual-based (what should be received and paid). The accrual-based surplus is about half of the cash-based surplus (NIS617 million). When adding external aid, the realized surplus in the first quarter, on an accrual basis, becomes NIS795 million.
- Arrears are the amounts owed by the government that haven't been paid yet and haven't been recorded as part of the public debt. The increase in arrears can be considered as the difference between the cash-based balance and the accrual-based balance (after adding external aid to both). Table (2) shows that Palestinian government arrears during the first quarter of 2023 amounted to NIS828 million, with 37% of it owed to the private sector. With this increase, the total accumulated arrears value reached NIS11.6 billion by the end of the first quarter of 2023.
- Public debt increased by NIS830 million between the first two quarters of 2022 and 2023, reaching NIS12.5 billion (18.6% of the Gross Domestic Product). However, it decreased by NIS63 million between the fourth quarter of 2022 and the first quarter of 2023. Local debt accounted for approximately 63% of total public debt. Most of this local debt is owed to local banks (see Figure 2).

Table 1: Public Revenues and Expenditures in the First Quarter of 2022 and the First Quarter of 2023 (in million shekels)

Item	Q1 2022	Q1 2023
Total Revenues	4,061.3	4,669.1
Clearence Revenues	2,455.9	2,685.0
Tax Revenues	1,135.7	1,419.0
Non-tax Revenues	378.7	396.4
Allocated Proceeds	268.7	179.0
Tax Refunds	177.7	10.3
Total Expenditure	**3,366.3**	**3,479.9**
Wages and Salaries	1,943.6	1,690.1
No-Wages	985.8	1,211.6
Net Borrowing	334.3	324.5
Allocated Payments	36.6	133.2
Development Expenditure	66.0	120.5
Balance	**695.0**	**1,189.2**

Figure 1: Foreign Grants and Aid in the First Quarter of 2022 and the First Quarter of 2023 (by Million Shekels)

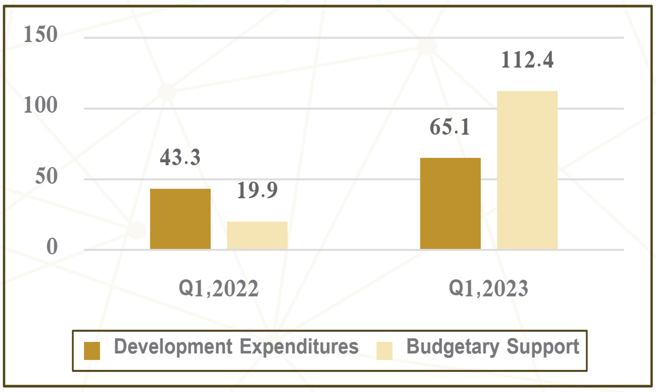


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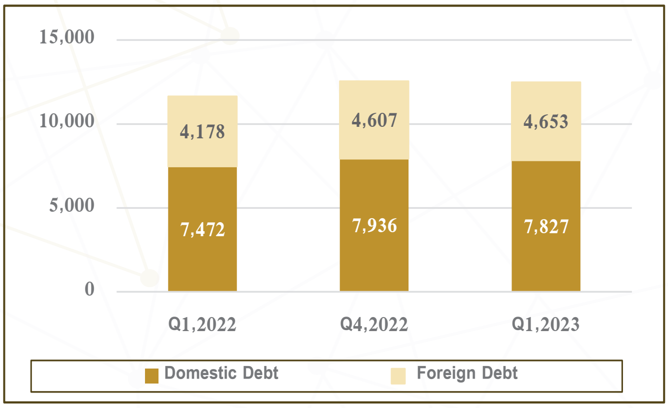
Table 2: Arrears awed by the Palestinian Government

Item	Q1 2022	Q1 2023
Tax refunds	42.3	69.8
Wages and Salaries	18.4	355
Non-Wage Expenditures	381.8	262.3
Development Expenditures	67.9	95
Allocated Payments	232.1	45.8
Total Arears	**742.5**	**827.9**

Figure 2: Government Public Debt Distributed into External and Local (by Million Shekels)



4. Banking Sector[4]:

- Credit Facilities: The assets/liabilities ratio of the 13 operating banks in Palestine reached $21.7 billion by the end of the first quarter of 2023. The value of credit facilities provided by these banks reached $11.2 billion by the end of the first quarter, demonstrating a 1.7% increase compared to the previous quarter, and a 3.7% increase on an annual basis (see Table 1). Credit facilities were distributed as 42% in dollars, 46% in shekels, and around 10% in dinars. When compared to the corresponding quarter in 2022, the total credit facilities granted in shekels and dinars decreased by 1% and 9%, respectively. In contrast, there was a 13% increase in total credit facilities granted in dollars. This is likely due to the higher interest rates on shekel loans compared to dollar loans. The increase in the dollar exchange rate against the shekel also played a role in this shift. Continuing a trend that has emerged and strengthened in previous years, credit growth on an annual basis was only 2.4% in the Gaza Strip, compared to 3.8% in the West Bank. More than 90% of the total credit was granted in the West Bank.
- Customer Deposits: The value of customer deposits in operating banks in Palestine increased by 2.2% between the fourth quarter of 2022 and the first quarter of 2023, reaching a total of $16.8 billion (see Table 2). Notably, there is a variation in currency distribution between credit facilities and deposits. For instance, while dollar credit facilities made up 42% of the total, the dollar deposits accounted for only 35%. This is one of the factors that adds complexity to banking operations in countries that use multiple currencies.
- Non-Performing Loans: The value of non-performing loans increased by around 4.6% between the fourth quarter of 2022 and the first quarter of 2023, reaching a total value of $468 million, or 4% of the total credit facilities (see Figure 1). The non-performance rate was higher than 7% in some sectors (such as tourism and general trade) and lower (less than 3%) in other areas (such as vehicle purchases and investment financing in stocks).
- Bank Profits: Operating banks in Palestine achieved profits (net income) amounting to $82 million during the first quarter of 2023. This represents a 56% increase from the previous quarter's profits. This increase was a result of the increased interest rates, as the banks' revenue from collected interest increased by $60 million to reach $202 million during the first quarter.
- Interest Rates: The average interest rates on loans and deposits increased for the three currencies between the first quarter of 2022 and the first quarter of 2023, reflecting the increase in global markets (see Figure 2). It can be noted in Table 3 that: first, the margin between loans and deposits interest rates increased for both the dollar and the dinar but remained stable for the shekel. Second, the percentage of the increase in deposit interest rates was significantly higher than the increase in loan interest rates. For example, the interest rate on shekel loans increased by 10% between the two corresponding quarters, while the interest rate on shekel deposits increased by 41% (in the next issue, we will address interest rate trends and their developments in the three currencies and the reasons for the increase in shekel interest rates).

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Table 1: Sectoral Distribution of Credit Facilities (in million dollars)

Item	Q4 2022	Q1 2023
Public Sector	2,194.4	2,138.9
Real-Estate and Construction	2,276.1	2,312.0
Mining and Industry	609.6	661.6
Trade	1,825.7	1,896.7
Services	1,055.3	1,132.3
Motor Purchase Financing	423.7	432.9
Consumer Goods Financing	1,438.2	1,417.1
Others in the Private Sector	1,222.0	1,244.3
Total	**11,045.0**	**11,235.8**

Table 2: Distribution of The Deposits of the Public at the End of the First Quarter of 2023 (Percentage)

Total Deposits (in Dollar)		16.8
Depositor	Private Sector	96%
	Public Sector	4%
District	West Bank	91%
	Gaza Strip	9%
Type of Deposit	Checking Deposits	39%
	Saving Deposits	34%
	Time Deposits	27%
Currency	Dollar	35%
	Shekel	44%
	Jordanian Dinar	19%
	Other Currencies	2%

Table 3: Interest rates on deposits and loans (%)

Period	NIS	JD	USD
Loan Interest (Q1, 2022)	6.43	5.40	5.42
Loan Interest (Q1, 2023)	7.08	6.45	6.32
Deposit Interest (Q1, 2022)	1.59	1.63	1.64
Deposit Interest (Q1, 2023)	2.25	2.00	2.19

Figure 1: Percentage of Non-Performing Loans

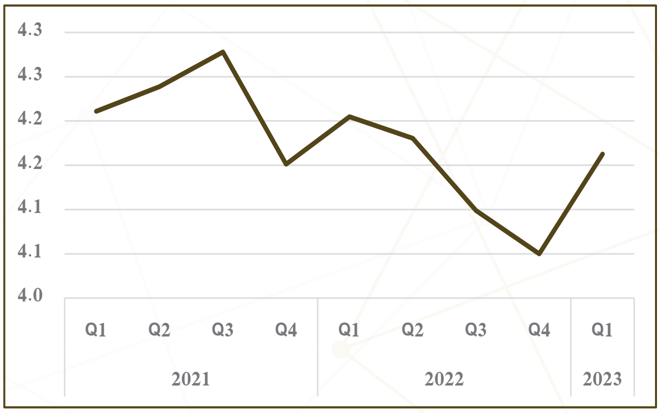
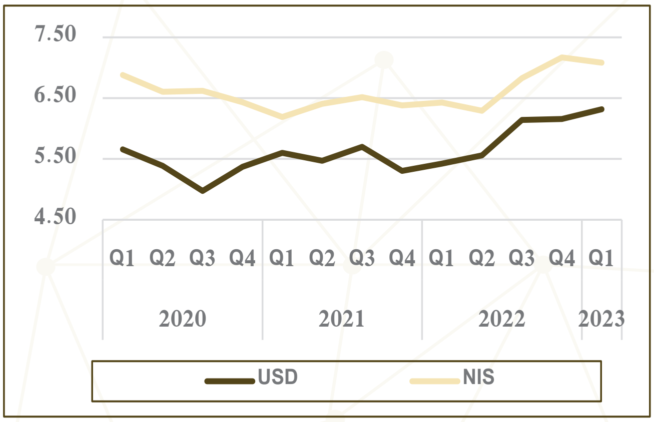


Figure 2: Evolution of the average rate of credit and deposit interest on shekels and dollars during the period 2020-2023 by quarter (%)



5. Non-Banking Financial Sector[5]:

- Securities: Companies listed on the Palestine Stock Exchange achieved a net profit of $103 million in the first quarter of 2023, compared to $98 million in the corresponding quarter of 2022. This is reflected in trading levels and values as shown in Table 1. The "Jerusalem Index" also increased by 7% during the same period,reaching 656.7 points. The market value of stock exchange shares reached around $5 billion by the end of the first quarter of 2023. It can be observed from Figure 1 that companies' share of the market value of trading on the stock exchange reached 45%, compared to individuals' share which was 26%.
- Leasing: There are 8 leasing companies licensed by the Palestine Capital Market Authority (PCMA). The registered value of leasing contracts with the CMA amounted to $38 million, with 857 contracts by the end of the first quarter of 2023. It is expected that leasing activity will increase with the

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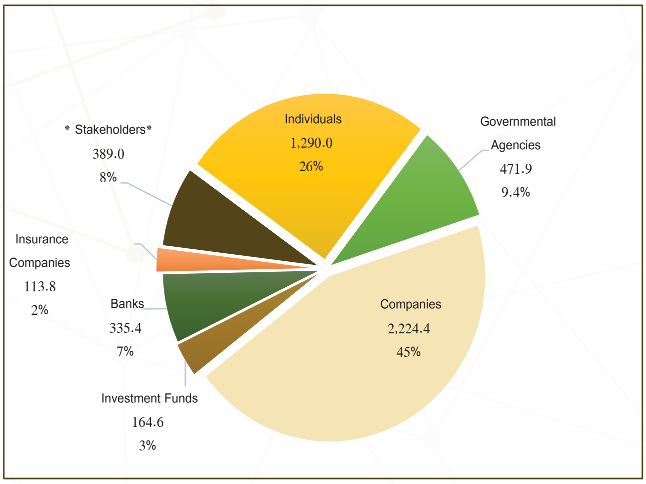
rise in global and local interest rates, in addition to attracting some lessees from Palestinians in Israel. Notably, vehicles for personal and commercial use still constitute the major share (around 94%) of the leasing portfolio in Palestine.

Table 1: Some Indicators of Trading Activity on the Palestine Stock Exchange

Statement	Q1 2022	Q4 2022	Q1 2023
Number of traded shares (million shares)	37	37	46
Value of traded shares (million dollars)	83	73	98
Market Value (million dollars)	4,467	4,896	4,998
Number of Deals	7,159	6,392	7,647
Number of trading sessions	62	63	63
* Market Cap/ Gross Domestic Product (GDP %	23	26	26

* GDP at current prices for the year 2022 was used, because the market value of traded stocks is at current prices.

Figure 1: Market Value of Stock Exchange Shares by Type of Participant End of the First Quarter of 2023, (million dollars)



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

6. Prices and Inflation:[6]

- The level of price developments in Palestine is affected by three factors: changes in prices among trading partners (import prices, especially from Israel), shifts in local demand in the Palestinian economy, and changes in the shekel exchange rate against the dollar.
- The inflation rate in Palestine in the first quarter of 2023 compared to the corresponding quarter of 2022 (i.e., on an annual basis) was 4.0%, distributed as 4.7% in the West Bank and 1.7% in the Gaza Strip. This represents an improvement compared to the inflation rate of the previous quarter of 4.3% (on an annual basis). In the West Bank, inflation resulted from higher prices in most categories of the consumption basket, on especially transportation (8.4%), and education (6.8%). In the Gaza Strip, the highest increase was observed in insurance and financial services (8.1%), telecommunications (6.0%), and housing (3.9%). A slight decrease in education and health prices was observed. It's worth noting that the fluctuating but steady increase in the value of the dollar against the shekel during the period (10.6%) contributed to mitigating the increase in import prices and thus easing inflation in Palestine compared to other countries in the region (such as Egypt, Lebanon, and Turkey).
- The "Inflation Report" of the Palestinian Monetary Authority indicates that the most significant factor behind the inflation observed in Palestine during the year was the increase in import prices by 11.4%. The report concluded that there was a delay in the responsiveness of local prices to developments that occurred in the global market, which witnessed a significant decline in prices, especially in energy and food prices.
- Evolution of Purchasing Power in Different Currencies: The rise in the Consumer Price Index (inflation) by 4.04% between the first quarter of 2023 and the corresponding quarter of 2022 led to a decline in the purchasing power of the shekel in the Palestinian territories by the same percentage. With the rise of the dollar exchange rate against the shekel by 10.61% between the two corresponding quarters, the purchasing power of those receiving their salaries in dollars and spending in shekels increased by (10.61% - 4.04%) = 6.58% This also roughly corresponds to the change in the purchasing power of the Jordanian dinar, given the dinar's fixed exchange rate with the dollar (see Table 1).

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Figure 1: Development of the Consumer Price Index and Quarterly Inflation Rates Compared to the Previous Quarter % (Base Year 2018)

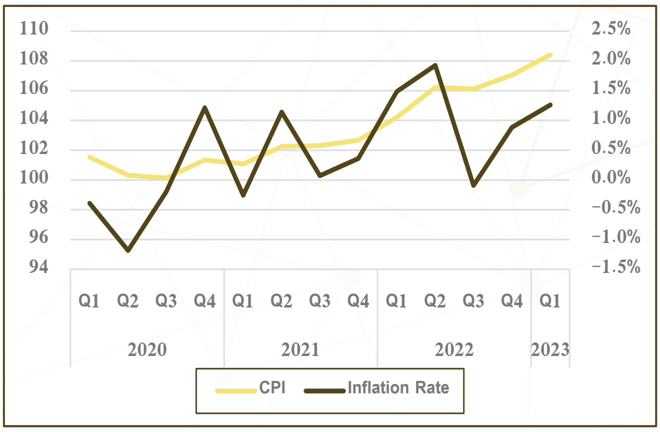


Table 1: The evolution of the purchasing power of different currencies in the first quarter of 2023 (annual basis %)

Currency	Change in Purchasing Power
NIS	-4.04
USD	6.58
JD	6.60

7. Foreign Trade[7]:

- “Registered” merchandise imports recorded a high growth by 9% in the first quarter of 2023 on an annual basis (i.e. compared to the corresponding quarter, 2022, see Figure 1).[8] In contrast registered merchandise exports increased at a higher rate, reaching 17% on an annual basis as well (see Figure 2). This is partly due to the fact that exports in the first quarter were low as approximately 58% of imports in the first quarter came from Israel, while 85% of exports went to it. As a result, the exports-to-imports ratio increased compared to the corresponding quarter, by two percentage points, but remained at the same level as the previous quarter, at around 21%. The difference between exports and imports represents the deficit in the merchandise trade balance, which amounted to $1.663 million in the first quarter, equivalent to about 35% of the gross domestic product (GDP).
- The value of service imports from Israel reached $75.9 million (a 17% annual growth rate), while service exports to it reached $60.5 million (a 19% annual growth rate). As a result, a surplus of $15.5 million was achieved in the service trade balance with Israel. The surplus in the service balance with Israel contributed to a slight improvement in the overall trade balance.

Figure 1: Observed Goods Imports (million dollars)

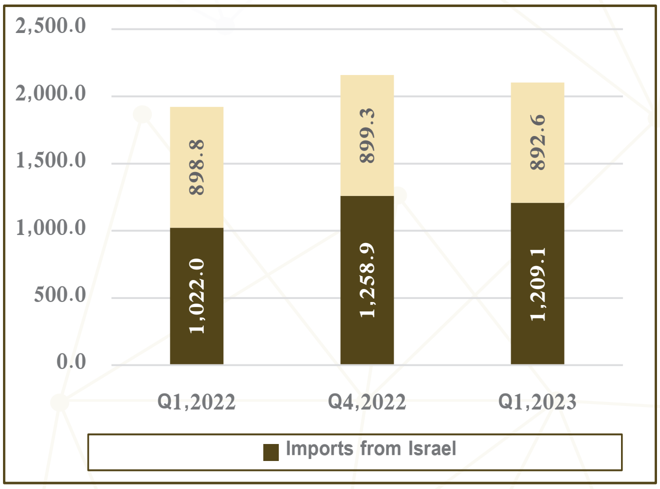
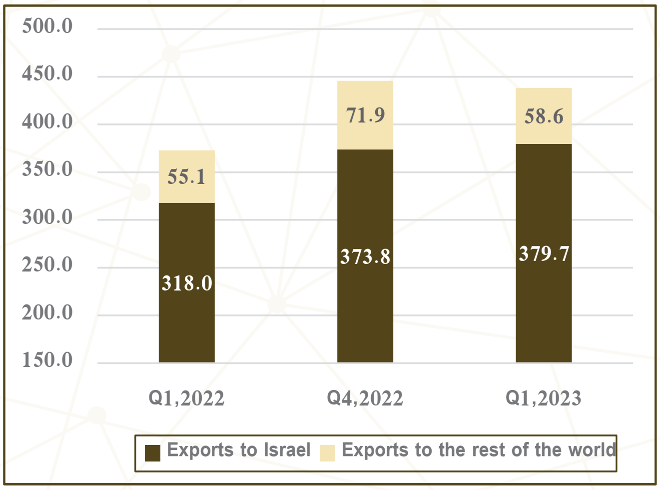


Figure 2: Observed Goods Exports (million dollars)



7 The quarterly economic monitor›s digital platform provides more detailed historical statistics. Please click on the link

8 Observed merchandise trade is the trade figures recorded in clearing bills, customs declarations, and trade in agricultural materials. It is significantly lower than the actual figures of Palestinian foreign trade.

Section Two: Economic Updates

The World Bank: Israel Withholds 460 Million Shekels from Departure Fees on King Hussein Bridge

The recent report by the World Bank (April 2023) highlighted two sources of financial leakage in the clearance accounts between Israel and the Palestinian Authority (PA).[9]

- The first source concerns the departure tax imposed on all residents of the West Bank when crossing the King Hussein Bridge (and Israeli airports). The Paris Protocol (1995) stipulates imposing an amount equivalent to $26 per departing person, with 54% of the amount going to Israel and 46% to the PA. This means Israel receives $14 and the PA receives $12 from each departing person. If the number of travelers in a year exceeds 75,000, the PA's share increases to $16. Israel unilaterally raised the departure tax to an amount equivalent to $36 in 2008, then to $44 in 2013, and further to $50 in 2021. However, Israel did not increase its transfers to the PA in parallel with the tax increase. Based on Israeli data, the World Bank estimated that Israel collected NIS1.82 billion (approximately $499 million) from the departure tax during the period 2008-2021, and that NIS697 million of that amount resulted from raising the tax value, which Israel did not share with the PA. The World Bank estimated that the unpaid share of the PA from this amount, according to the formula stipulated in the Paris Economic Protocol amounts to NIS392 million.
Indeed, Israel did not pay the full share of the PA, even assuming that the departure tax remained at the level of $26. The Bank estimated that the number of passengers during 2008-2021, multiplied by $26, requires transferring NIS561 million to the PA, but the actual amount received by the PA was 491 million, a difference of 70 million shekels.

- The second source concerns deducting 3% of clearing transfers to cover the administrative costs that Israel incurs for customs transactions and value-added tax on Palestinian imports. The World Bank emphasized that this deduction rate is extremely high and should not be imposed on fuel imports that do not require significant administrative efforts. The Bank concluded that deducting 3% from clearing transfers finances about a third of the total budget of the Israeli Customs and Value Added Tax Authority, noting that Palestinian imports represent only 6% of the total imports cleared by the Israeli Customs and Value Added Tax Authority. The Bank calculations also concluded that a fair deduction rate for covering administrative costs should not exceed 0.6% instead of 3%.

9 World Bank (2023). Economic Monitoring Report to the Ad Hoc Liaison Committee reports/documentdetail/099455304272328937/idu00e7074dc01c850437a0b9770f1fcae9a85c8n-committee-april-2023-enarhe

Palestinian Workers in Israel: Brokering and Transformations in the Work Permit System

Palestinian labor from the West Bank and Gaza Strip in Israel and settlements constitutes a fundamental element in the Palestinian economy for two reasons: the percentage of Palestinian labor in Israeli workplaces reached around 17% of the workforce in the West Bank (and about 1.3% in the Gaza Strip) in the first quarter of 2023. Additionally, the high Palestinian workers' contribution to Palestinian national income is approximately 13% of Gross National Income.

- Palestinian labor in Israel has gone through various stages where the legal framework (Israeli laws that regulate and control Palestinian labor), infrastructure (crossings & borders and movement), and administrative structure (Types of work permits, their conditions, and the labor law that regulates Palestinian labor) have changed. There has also been a change in the sectors and fields of work available to Palestinians (construction, agriculture, services, high-tech, engineers, doctors... etc.).
- Transformations resulted from the Oslo Accords (1993-1995): Palestinian labor became classified as daily migration between two neighboring economies. Of course, the matter was accompanied by repercussions related to the quality, quantity, and mechanism for clearing the deductions that Israel collects from workers (health insurance, retirement,

vacation allowance, etc.), and the conditions for transferring these amounts to the Palestinian Authority or to the workers.

- Transformations in the movement system: In 1970, the military governor issued a general pass permit enabling Palestinians to freely enter Israel. However, in 1991 Israel canceled this general permit and replaced it with a system of individual permits, which is the system in effect to this day. The individual permit system has evolved to include dozens of types of permits (see Table 1). The issue of Palestinian workers cannot be understood outside the context of the permit system that "regulates" their crossing into Israel and affects their work conditions ("legal" labor versus smuggling, for example), in addition to their rights (labor rights are linked to holding a "work permit").
- Changes in the Crossing Infrastructure for Workers: Israel gradually implemented a spatial control system based on the principle of separation. However, separation does not mean isolation, but rather imposing measures to control movement, so that crossing between the occupied territory and Israel is transformed into something similar to border crossing, through specific crossings and gates for the entry of workers, and security procedures and conditions.
- This update focuses on the shifts in the work permit system, specifically changes imposed by Israel in 2020-2021, relating to mechanisms and conditions for permit issuance, labor control, and distribution in the Israeli job market, as well as associated broker and smuggling patterns.

1. Types and Mechanism of Entry Permits to Israel

The Israeli Coordinator of Government Activities in the Territories (COGAT) annually publishes a list of permit types that regulate Palestinian entry into Israel. This list includes more than 70 types of permits, such as work permits, health permits, family reunification permits, economic and trade permits, religious visits, permits for businessmen and VIPs, and others. [10] The government imposes conditions on each permit regarding usage hours,designated crossing points (if applicable), and quotas that specify the quantity of each permit type that is allowed to be issued. Additionally, a socio-political-security profile is established to determine eligibility criteria for each permit based on the Israeli perspective.

10 COGAT, "Unclassified status of authorizations for entry of Palestinians into Israel, for their passage from Judea and Samaria into the Gaza Strip, and for their departure abroad, last updated 2020. See: https://shorturl.at/ySTW2

Table 1: Conditions for Obtaining a Work Permit or Other Permits Used by Workers to Enter Israel (July 2023)

Permit Type		Sector	Maximum Quota	Age
Permits for Work Purposes	Work Permits for All Israel	Construction	80,000	Above 22
		Industry and Services	12,050	Above 22
		Permanent Agriculture	8,000	Above 22
		Health	270	Above 21
		Elderly Shelters and Centers	1,000	Above 21
		Hotels	2,000	Above 22
		Hi-tech	500	Above 22
		Journalism Belonging to the PNA	25	Above 22
	Work Permits for Specific Districts	East Jerusalem Hospitals	2,680	Above 21
		East Jerusalem Hotels	300	Above 25 for Men/Above 22 for Women
		Atarout	3,600	Above 22
	Seasonal Permits	Agricultural	9,500	Above 22
Other permits that Palestinians in the West Bank and Gaza Strip can obtain to cross into Israel	Medical Needs		Open	Open
	Commerce		25,000	Above 25
	Re-unification		Open	Married and Above 35
	Wall Permits		Open	Above 22
	Work-Search Permits		Open	Above 22

Reference Number 1: The numbers in the table are updated based on the report of the Israeli Population and Immigration Authority, Foreign Workers' Office, presented in the Israeli Knesset on July 3, 2023, during a session to evaluate the current permit system and the phenomenon of permit brokerage in the black market: https://fs.knesset.gov.il/25/Committees/25_ci_bg_2806678.pdf

2. How Work Permits are Issued under the Old System?

The work permit system until 2020 entailed mechanisms that gave significant control to the employer. According to the old system, the employer in a specific sector (construction, agriculture, industry, services, etc.) would apply to the Israeli Population and Immigration Authority to hire Palestinian workers. The market weight of each employer played a crucial role in determining the quota of permits they could obtain, known as the "employer's quota." Employers could cancel a worker's permit and use the same quota to request a permit for a different worker. This system empowered Israeli employers and left the issue of labor vulnerable to permit brokers' intervention. The issuance process worked as follows: The employer had to be registered in the Israeli employers' registry. Based on their market weight (employer's quota), employers could request a certain number of permits, potentially hundreds. The employer would submit a request with the names and ID numbers of proposed workers to the Population and Immigration Authority for permit issuance. This phase includes three scenarios:

- The employer genuinely needs to hire the maximum number of workers according to his "employer's quota" and had the capacity and relations to recruit and register them with the Population and Immigration Authority for issuing permits in their names.
- The employer needs to hire workers based on his "employer's quota" but couldn't find suitable workers and does not control any channels that enable him to select the most suitable workers. In such a case, special brokers (often experienced workers with recruiting skills) play a role to assist the employer in connecting with workers.
- The employer does not actually need the maximum number of workers according to his "employer's quota." In this case, permit brokerage networks played a key role in purchasing additional permits from employers and selling them in the black market. The broker suggests certain names to the employer and sells work permits to Palestinian workers, who can now work for any Israeli employer. This arrangement is a win-win: the employer who issued the permit, but did not employ the workers, gets part of the brokerage amount, and the broker gets the other part. The actual employer for whom the workers work is free from paying various types of insurance. As for the workers themselves, although they pay high monthly sums to brokers, purchasing permits gives them the opportunity to choose the employer they want to work for, and to move relatively freely between employers.

After the list of workers' names was submitted to the Population and Immigration Authority and administrative and legal conditions were met for permit issuance, the Authority sends the worker lists to the Civil Administration for security screening before issuing the permits. Security rejection could occur for two main reasons: either national-political reasons or criminal offenses or financial debts (such as traffic tickets). In some cases, a specific type of broker could help employers bypass or manipulate the security screening process for "Unblock" fees or other brokerage fees. There is no procedures manual or laws regarding the standards involved in security-political rejection. On the other hand, the criminal security refusal is imposed in a fluid manner, and is sometimes decided by the government, which links obtaining the permit to the presence of a clean criminal record. Some other times this procedure is revoked/suspended. In any case, contrary to the prevailing impression, the "security ban" files are among the files that involve the most intermediation, manipulation, and interference by parties outside the security system. [11]

The work permit carries the worker's name as well as the name of the employer who had issued the permit. If the worker is employed by the same employer who issued the permit, the permit is considered a "legitimate work permit." However, if the worker had purchased the permit through a broker, their work situation would be considered invalid since they were not adhering to the conditions binding them to work for the employer who issued the permit. In all cases, employers who issued the permits, as well as brokers involved, if any, had the absolute "right" to cancel or keep validity of the permit, making the workers vulnerable to unfair conditions and coercing them to comply with existing power structures.

3. The New System

In December 2016, the Israeli government decided (Decision 2174) to replace the previous work permit system. The declared reasons for the change were to eliminate the phenomenon of brokerage, possibly due to pressures from human rights organizations,

11 Comptroller, "Annual Audit Report 70c," Staff Officers in the Civil Administration in the Judea and Samaria Area (Jerusalem: State Comptroller's Office, 2020), https://www.mevaker.gov.il/sites/DigitalLibrary/Pages/Reports/3602-7.aspx

the International Labor Organization, and others. On the other hand, the announcement of the work permit system reform coincided with a significant increase in the number of Palestinian workers allowed to enter Israel. The number of permits allocated by Israel for workers was increased from 70,000 permits at the end of 2016 to around 120,000 permits by the end of 2022. Additionally, around 20,000 workers from the Gaza Strip were also allowed entry .[12] This increase necessitated the reorganization of workers' entries, imposing more control and surveillance tools on them. Furthermore, it required the establishment of a massive database related to Palestinian labor - this is specifically what distinguishes the new system. The implementation of the new mechanism began in the construction sector in December 2020 and in the industry and service sectors in March 2021.

The new system replaces the "employer quota" with an individual quota, so that, the worker no longer needs to have his name endorsed by the employer within the "employer quota." Instead, workers became the holder of their own ("individual quota") and is responsible for maintaining it. The new system includes the following elements:

- The "Coordinator" unit created an electronic platform where the names of all workers who previously worked in Israel were listed. This means that former workers became holders of an "individual quota," which gives them the right to obtain work permits. Listing a worker's name on this platform requires a prior security check, in addition to proving their experience in the field of work. Experience can be demonstrated either through the worker's previous profile or by undergoing a questionnaire to verify their work experience. [13]
- A worker holding an "individual quota" needs to independently find an employer who wishes to hire him. After obtaining an "employer approval" from an Israeli employer, and the worker with the individual quota can apply for a work permit through the coordinator's electronic platform.
- However, since the electronic platform can accommodate only a limited number of worker names, which is the maximum number imposed by the Israeli government (see Table 1 above), a new situation has emerged: if a registered worker on the platform cannot find an employer (within 60 days for construction workers and 14 days for workers in other sectors), their name is removed from the platform. In other words, if they cannot find an employer, and obtain an "employer approval," and use it to obtain a work permit, their individual quota is forfeited, and other registered workers on the waiting list replace them.
- Due to the large number of workers on the "waiting list" waiting other workers to leave the platform for vacancy creation, opens up ample opportunities for brokers and stakeholders with intervention tools. Thus, brokerage continued to be an inherent part of the permit system, but it underwent transformations that corresponded to the new mechanism. Buying a permit from a broker now means that the broker can list the worker's name on the coordinator platform and enable them to obtain an "individual quota."The Israeli government aimed to increase surveillance and control mechanisms by transforming the "Coordinator" unit into a larger broker that regulates the Palestinian labor market in Israel, controlling the workers' database, work conditions, and employment opportunities. In conclusion, the new system did not reduce the channels of brokerage or the exploitation mechanisms by external players in the labor market. Instead, it systemized their operations and revealed their continued ability to enter and benefit from the occupier's loopholes and bureaucracy.

4. Current Situation: Duplicated Brokering, Exploitation, and Insistance to Undermine the Role of the Palestinian Authority

In May 2022, Israel formed a joint team among its ministries, led by the Head of the Foreign Workers Administration, and involving representatives from the Population and Immigration Authority, the Ministry of Labor, Finance, Defense, Foreign Affairs, and Justice. This team was established to examine the feasibility of the new system for issuing permits to Palestinian workers, particularly in the construction sector. The purpose was to study whether changing the employment method would reduce phenomena such as permit trafficking and other unlawful activities existing in the labor market. The committee found that the Foreign Workers Law of 1991, which forms the legal background for both employing Palestinian workers and enforcement and control measures, is violated in the following ways:

12 MAS Institute, "The Future of Palestinian Labor in the Israeli Labor Market in Light of Economic and Political Realities," Round Table No. (4) 2022. Palestinian Economic Policy Research Institute (MAS), Ramallah.

13 Wefaq Adnan and Haji Atkas, "Reform in the Permit System for Palestinian Workers in Israel: A Preliminary Evaluation," Mabat Al Magazine (View from Above), Issue 1533, Israel Institute for National Security Studies, 2021. See the following link: https://www.inss.org.il/he/wp-content/uploads/sites/2/2021/11/1533.pdf

1) Failure to submit transaction reports, allowances, and deductions on time or not submitting them at all.
2) Submitting false reports related to illegal or part-time employment.
3) Rampant brokerage through employing workers in other workplaces or playing the role of "buying/ selling labor contractor."
4) Violating labor laws by violating safety regulations at work, lacking tax records at Tax Authority, or lacking a contractor's license.
5) Not transferring employee salaries to bank accounts with Palestinian Authority banks, as stipulated in the new law.

The joint team's evaluation of the new permit system concluded the following:[14]

1) The new permit system, through the Coordinator Platform/Individual Quota, does not provide a valid mechanism for issuing permits – meaning that the reforms have failed.
2) The new system fails to ensure continuous work for the worker, with the rate of failing to find workers increasing by 46% among Israeli contractors employing less than 10 workers (relatively small employers) and among those who have projects in the southern district.
3) Enforcement and deterrence are lacking, which significantly reduces the state's capacity to combat brokerage, and this shortage increases by 42% among contractors with projects in the southern district of Israel.

It's important to note that Israel's permit system has two aspects: a security aspect (protecting Israel's security by controlling Palestinians entry to Israel) and a colonial aspect concerning tightening control mechanisms related to managing Palestinian population. According to a document presented by the "Ma'an" Labor Union Organization to the Knesset session on July 3, 2023, around 30,000 Palestinian workers are employed in Israel through permits purchased from brokers. The average brokerage fee is about 2,500 shekels per month, yielding profits to brokers amounting to around 850-1,100 million shekels annually. In addition to workers who purchase permits, there are about 40,000 others who enter Israel without permits (smuggling). This implies that approximately 70,000 workers (about 45% of workers across various sectors) work in Israel without any control over their work conditions, workplace, or salary payment systems by the Israeli authorities. [15]

"Amit" Organization (an Israeli fund to support and enhance the construction sector and labor development) shows in one of its reports that foreign workers (i.e. workers coming from foreign countries, not Palestinians) enjoy the advantages of a different system for several reasons, the most important of which are: 1) the presence of registered mediation organizations that operate in accordance with the law; 2)

The existence of clear and satisfactory agreements between Israel and labor-exporting countries, unlike practices between Israel and the Palestinian Authority, where such agreements are absent.[16]

However, "Amit's" position on the new permit system, inherently incorporating brokerage mechanisms, is incomplete. It's not just about the absence of agreements between Israel and the Palestinian Authority related to attracting, entering, and employing workers, but the new system intentionally sidelines the Palestinian Authority's role (the Ministries of Labor and Civil Affairs). The Coordinator (COGAT) and the Israeli Civil Administration become directly responsible for the social, economic, work conditions, and monthly income of approximately 204,000 Palestinian workers residing within Palestinian Authority areas.[17]

Walid Habbas

14 The ministerial team wrote about 60 position assessment papers, listened to reports from all local and foreign labor organizations and observers, conducted a survey in which about 400 Israeli employers participated, including about 360 contractors in the construction sector, and conducted several sessions in the competent Knesset committees, the last of which was on July 3. 2023.

15 A position paper dated January 2022. The paper can be read on the Knesset website at the following link: https://fs.knesset.gov.il/25/Committees/25_cs_bg_2805928.pdf

16 A position paper dated February 2023. The paper can be read on the Knesset website at the following link: https://fs.knesset.gov.il/25/Committees/25_cs_bg_1897987.pdf

17 In the next issue of Al-Monitor, we will discuss the issue of deductions from the wages of West Bank and Gaza Strip workers in Israel, and the new amendments related to the conditions for transferring wages directly to the workers' bank accounts (editor).

Is the Dominance of the US Dollar Vulnerable to Threats?

The aim of this discussion is to address a topic that has recently garnered attention from media outlets and social media platforms: Is the dominance of the US dollar in international transactions weakening, and is it on the decline? To tackle this subject, this section will first highlight the specifications that a currency must possess to be considered a "hard currency," and what gains countries possessing such a currency attain.

1. Hard Currency

By definition, a hard currency is a currency that is characterized by a high degree of the following specifications:

- Relative Stability: The currency is not subject to fluctuations that influence its real value (purchasing power) due to positive or negative inflation.
- Acceptance: It is generally accepted in various markets for settling payments in exchange for goods and services in the international market. Acceptance is primarily linked to the currency's reliability over the medium and long term.
- Liquidity: The currency is available in sufficient quantities to cover the requirements in currency exchange markets (for making payments and fulfilling the needs of individuals, companies, and entities, whether held as a reserve to support the local currency or as a safe store of value). This requires that cash/capital transfers to and from the issuing country be free and smooth.
- Economic Foundation Strength and Legal Framework Soundness: (Providing protection to currency holders), efficiency of the bureaucratic monetary system (including the correctness of economic policies and the central bank's independence from the executive authority), and political stability in the issuing country.

In short, a hard currency is any internationally traded currency that is stable and enjoys general acceptance as a safe safe-haven and as a store of value. It's evident that the most critical factor for a hard currency is the level of trust from savers and investors. The relationship between a currency and the level of trust is like a snowball effect—increased trust leads to increased usage, which in turn further boosts trust. This is the explanation behind the common saying, "The dollar is widely used because it's widely used."

2. Dominance of the US Dollar

There are several currencies with varying degrees of the above-mentioned four specifications, including the US dollar, euro, yen, Swiss franc, pound, Chinese yuan, and others. Four indicators are relied upon to measure the relative importance of different hard currencies in the international market: the degree to which they are held as official reserves by central banks, their use as payments in international trade (cross-border transactions), their share of the foreign currency exchange market, and finally their share of international debt and loan issuances.

Table 1 indicates that about two-thirds of the world's official foreign currency reserves are held in US dollars. While the euro holds the second position, its share does not exceed one third of the dollar's share. Therefore, the dollar remains the primary reserve currency globally, and other competing currencies still have a long way to go before posing a significant threat.

Table 1: Distribution of Official Global Reserves by Foreign Currency (End of the First Quarter of 2023 %)

Currency	Share Percentage
US Dollar	59.0
Euro	19.8
Japanese Yen	5.5
British Pound	4.9
Chinese Yuan (Renminbi RMB)	2.6
Canadian Dollar	2.4
Australian Dollar	2.0
Swiss Franc	0.2
Other Currencies	3.7

Source: IMF Database, 2023
https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4

Regarding the share of the US dollar in cross-border global trade invoices, the Bank for International Settlements (BIS) states that it constitutes approximately half of the total.[18] This percentage varies significantly across geographical regions, and it is very high in trade deals between South American countries and low in Europe, where the euro dominates trade settlements between the

18 https://www.bis.org/publ/qtrpdf/r_qt2212x.htm

EU States[19] The BIS also indicates that around half of the total value of international debt and bond issuances (excluding those denominated in national currencies and except those related to US citizens) are conducted in US dollar. Furthermore, the BIS estimates that by the end of 2022, the US dollar was involved in 45% of the total value of currency transfer transactions (amounting to $6.6 trillion per day). The euro ranked second with a share of about 15% by the end of 2022, compared to slightly less than 20% in 2010. The Chinese yuan's use has grown to offset the decline in the shares of the euro and yen, accounting for about 7% of the world's total currency transfer transactions by the end of 2022. An additional factor that solidifies the dollar's position and the global need for it is that most raw materials, including oil, are priced in dollars.

It is evident from the presentation of these four measuring indicators that the US dollar is the unequivocal primary safe-haven currency in the world. The dollar has maintained and expanded this position since it displaced the British pound as the world's primary hard currency after World War I. This was based on the economic strength of the United States, supported by appropriate economic policies and favorable political institutions[20]

3. The gains of the United States from adopting the dollar as the leading hard currency

There are four key channels of the gains of the United States from the world-wide adoption of the dollar as the safe-haven currency:[21]

- Currency Conversion Cost Savings when import from and export to the rest of world countries, ensuring the availability of a local currency of stable value and relatively protected from the risks of exchange rate fluctuations.
- Seigniorage Revenue (Revenue generated by "printing" paper currency for which the Federal Reserve obtains real value when it is exchanged in the market).[22] There is now an estimated $250 billion of such seignorage circulating outside the United States. These billions generate important income for the United States, and they also serve as interest-free loans, free loans that benefit the American economy.
- Financing the huge deficit in the balance of payments (6% of its GDP) with almost no costs as a result of foreign (non-US) banks holding about $5 trillion in US Treasury bonds.
- Relatively Cheap Funding for Investment and Consumption: The high external demand for the dollar allows the US to maintain relatively low internal interest rates, whereby borrowers within the US can access relatively cheap funding. This means that they receive gains at the expense of the outside world, which suffers from higher interest rates: "It is as if the poor of the world are financing the consumption and well-being of the richest people in the world in America," as the distinguished economist Barry Eichenberg suggests.

In return for these important gains achieved by the global safe-haven currency country, there is one negative aspect. The high external demand for the dollar can lead to a high exchange rate, which negatively affects US exports' competitiveness and encourages imports. This contributes to the US trade balance deficit, increasing the liquidity of the dollar and its availability in foreign markets.

4. Cracks in Confidence in the US Dollar

The dollar was established as the primary reserve currency globally during the Bretton Woods conference, following World War II. The conference decided to link the dollar value with a fixed weight of gold and the US pledged to exchange any amount of dollars for gold at a fixed rate. (1 ounce of gold = 35 dollars). This pledge, supported by the economic strength of the United States, the solidity of economic and judicial institutions, and the Europe Reconstruction Program (the Marshall Plan), along with political stimulus, opened a wide way for the dollar to become the preferred global currency.

But cracks soon began to appear. The first signs came in 1971, when President Nixon's administration was forced, due to the costs of America's war in Vietnam, to abandon the fixed price of the dollar

19 Although there are more than 150 official currencies in the world, only two or three currencies account for almost all cross-border payments in the world. About 80% of international SWIFT transactions are made in dollars and euros, with small shares (above 1% for the pound, yen, Canadian and Australian dollars, and Hong Kong dollars). The yuan has made significant progress in recent years, with a share of 2.5% at the end of 2021. The SWIFT system was established (SWIFT) was established in 1973 as a correspondent institution for cross-border cash transfers. It involves 11,000 banks and monetary institutions in more than 200 countries. https://www.elibrary.imf.org/downloadpdf/journals/001/2023/072/001.2023.issue-072-en.xml

20 Despite the economic and political power of the United States, what is striking is the discrepancy between its share of world trade (10%) and the dollar's share in financing global trade (50 as well as between its share of the global gross domestic product (15%) and the share of the dollar in the world's foreign currency reserves (65%).

21 Barry Eichengreen (2010): Exorbitant Privilege. The Rise and Fall of the Dollar and the Future of the International Monetary System. Oxford UP.

22 See the expanded definition of Seigniorage in Issue No. 65 of the Quarterly Economic Observer.

in exchange for gold. Despite the gravity of this decision, it did not leave a strong and lasting impact on the position of the dollar. Perhaps the reason behind this is that the dominance of the dollar had reached very high levels at that time in addition to the lack of an alternative currency that was reliable and liquid enough to satisfy the needs of reserves and international trade.

Calls for an alternative (or diversified) global currency to the dollar have grown over the past decades due to both internal and external reasons.

- Internal Reasons: on top of internal reasons was the rise in the US public debt to unprecedented levels ($31 trillion in 2022 compared to $3 trillion in 1990), with a large deficit in the balance of payments (reached $944 billion in 2022). These two deficits raise the risk of inflation and a decline in the value of the dollar, which contradicts the required quality of the hard currency. On the other hand, doubts have escalated in recent years about the soundness of American economic policies (and the solidity of political institutions as well), which was crystallized by sharp fluctuations in the American financial market and the recurrence of banking crises that were expanding and extending to the rest of the world. This is because the desire of the outside world to obtain the dollar automatically leads to the transfer of crises from America to other countries: "America ignites the fire, but its fuel comes from those holding the dollar abroad."
- External Reasons: over the past decades, a shift in economic power and international trade dynamics has occurred, which raised doubts about the dollar adequacy as a prevailing international currency in the world economy. The American economy accounted for 21% of the world's gross domestic product in 1980, but this share had decreased to 15% in 2023, as estimated by the International Monetary Fund. In parallel China's share during the same period increased from 2.3% to about 19% (at purchasing power equivalent prices).[23] A fundamental change has also occurred in international trade trends. In 2001 (the year in which China joined the World Trade Organization), 152 countries trade with America was higher than the trade with China (out of 190 countries whose statistics are available). But by early 2018, this number decreased to 57 countries. On the other hand, the number of countries whose trade with China is higher than trade with America reached 127. There were also 90 countries that increased the value of their trade with China than the value of their trade with America.[24] By 2022, China was the most important commercial partner (exports with imports) to 61 countries compared to only 30 countries for the United States.[25] The yuan share in global trade financing increased by twice in one year and reached 4.5%, just slightly less than the euro share.[26] The role of the Chinese yuan in the total exchange in the currency markets has increased from less than 1% before twenty years to 7% now.[27]

Finally, there is an important factor that has strongly contributed to the growing calls to abandon the dollar: the United States' use of the dollar and cross-border money transfer systems as tools to enforce its foreign policies and to punish countries and individuals whose behavior is not accepted by the United States of America. This sometimes involves using the dollar as an alternative sometimes and as an equivalent to military power other times. Despite the difficulty in quantifying the number of sanctions, confiscations, and financial blockades imposed by the United States in recent years, one study managed to identify the following figures: between 2009 - 2019, the US imposed sanctions and blockades on 3,197 individuals, 3,392 companies or entities, and 810 ship or aircraft-related entities.[28] Another source indicates that the US imposed sanctions on around 10,000 individuals/entities in 50 countries, collectively representing about 27% of global GDP. Additionally, the US has imposed a boycott on several countries, starting with Cuba, passing through Syria, and ending with Myanmar.[29] The boycott and confiscation measures against Russia reached unprecedented levels following the invasion of Ukraine, including freezing the assets of the Russian central bank, banning Russian banks from using SWIFT and CHIPS systems (effectively preventing them from conducting external transactions in dollar or using the dollar), and freezing the assets of over 10,000 Russian individuals or entities, among other actions… etc.[30]

23 https//:www.imf.org/external/datamapper/PPPSH@WEO/EU/CHN/USA
Note that the percentages differ when calculated at current prices (America 25% compared to China 17% in 2020). See the definition of purchasing power parity in Issue 48 of the Quarterly Economic Monitor.

24 https://interactives.lowyinstitute.org/charts/china-us-trade-dominance/us-china-competition/
25 https://www.cnbc.com/2023/04/24/economic-and-political-factors-behind-acceleration-of-de-dollarization.html
26 https://www.ft.com/content/0ab31d6c-7b08-4af7-acee-c27d8496e909
27 https://www.bis.org/publ/qtrpdf/r_qt2212x.htm
28 https://www.cnas.org/publications/reports/sanctions-by-the-numbers
29 The Economist May 13, 2023
30 https://www.foreignaffairs.com/united-states/dollar-still-dominates
CHIPS is an abbreviation for the American system: Clearing House Interbank Payments System. The corresponding Chinese system is called CIPS: China's Cross-Border Interbank Payment System

All these reasons have prompted an increasing number of countries to consider or actively work on: a) reducing the share of the dollar in their official reserves in hard currencies, b) conducting cross-border trade transactions using alternative currencies to the dollar, and c) using cross-border banking payment systems as an alternative to Western systems (such as the Chinese CIPS system, which currently processes 15,000 daily transactions involving different currencies including the dollar, euro, and yuan, compared to the US CHIPS system that handles 250,000 transactions daily). One of the key indicators of this shift is that China's current assets of US Treasury bonds, reached $849 billion at the beginning of 2023, which is the lowest level in 12 years. Moreover, the share of the dollar in official foreign currency reserves in 2022, although still high at 59%, is the lowest in two decades as it was of an average of 65%.[31]

5. The Future Hard Currency

The Chinese currency has made tangible progress in recent years as an international reserve currency and as a currency for international trade exchanges. However, its share in both areas remains relatively modest (3% and 4.5% respectively)[32]. China's share of global merchandise trade is also increasing (15%). China has established agreements with Russia, Brazil, and India to conduct trade using their own currencies. The BRICS and ASEAN countries are also working towards similar goals. China has taken significant steps to promote the adoption of the yuan as an international currency (removing restrictions on capital movement across borders, allowing the yuan's exchange rate to be determined by free market forces, and providing foreign investors with increased access to the Chinese bond market). China is working to provide its currency for use by other countries as a reserve and for trade transactions. However, the yuan still faces institutional constraints, including the lack of central bank independence and governance issues, as noted by the International Monetary Fund (IMF).

It seems that talk about the chances of the dollar being removed as the top world's hard currency in the foreseeable future remains as unlikely wishes. The dollar occupies an unshakable position due to its global liquidity, the liquidity of the stock market, the openness of the huge US economy to trade and investment, and the confidence that the US institutions enjoy.

Therefore, it is not expected that the near future will witness a radical change in the map of global hard currencies. However, the expansion of the use of other currencies, in addition to the dollar, will continue, especially with the expectation of an increase in China's share of international trade and institutional developments within America. This means that we are actively moving towards a multi-currency international financial system in parallel with the multipolar world. But there is another crucial factor that could turn the image of the traditional hard currency system upside down. What is meant here is central banks' digital currencies. This type of currency provides a more effective means of commercial financing than using traditional currencies. China has begun using this currency (e-CNY) since 2016. This currency is used to finance commercial transactions independently of existing payment and monetary correspondence systems. It is the cheapest, fastest and most secure means of payment. With the development of the digital currency, in addition to the completion of the banking correspondence system (CIPS), the importance of the Chinese yuan (the RMB) is expected to increase significantly in international trade and global reserves in the coming years.

N.K.

31 See Reference No. 18. The well-known American economist Paul Krugman argues that the dollar›s dominance is never in danger and that the warnings about losing its role as the global reserve currency are exaggerated. He stresses that even if this happens, it is not a disaster, "as the loss of the British pound as a global hard currency did not lead to the destruction of the United Kingdom's economy."

32 At the end of 2016, the International Monetary Fund introduced the yuan into the Special Drawing Rights Basket of currencies at a rate of about 10.92% (it rose to 12.28% later). This was an "official announcement" to crown the yuan as a hard currency. (See definition of Special Drawing Rights in Quarterly Economic Observer No. 69). The value of yuan reserve funds is now estimated at $336 billion. The largest share is in Russia (105 billion), followed by Brazil, Switzerland, Mexico, Israel, Chile and South Africa.