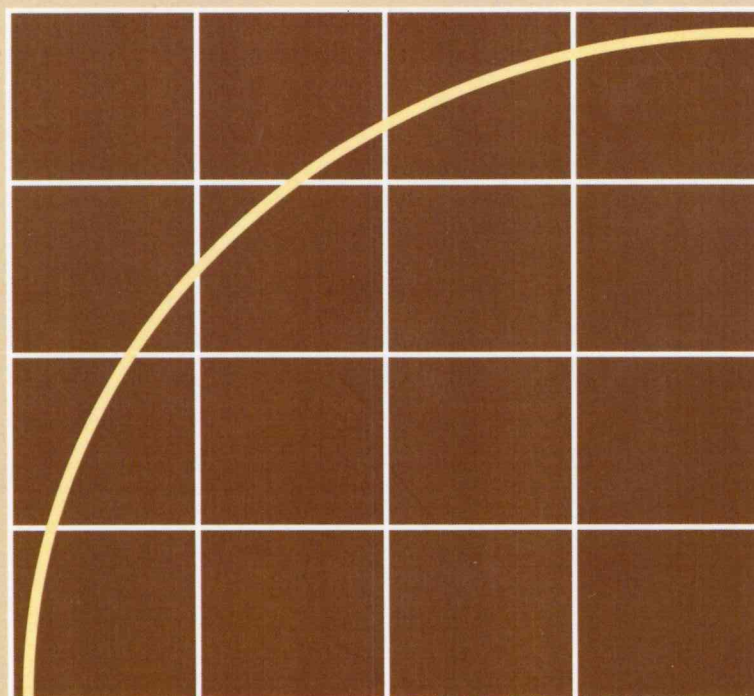


2017

Economic & Social Monitor



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

**Volume 25
July**

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July, 2011

FOREWORD

This issue of the *Economic and Social Monitor* presents a general statistical review and analysis of the main economic trends in the Palestinian Territory during the first quarter of 2011. Among the topics discussed in this issue are: National accounts data, public finance, labor markets, the indicators of economic activity, and prices and purchasing power. Also included in this addition, is an analysis of foreign trade figures (the trade balance and balance of payments). Finally, the traditional sections of the *Monitor*, such as banking sector data, laws and legislation and Israeli measures are also included.

We would like to emphasize once more that economic activity has a seasonal nature, meaning that some activities flourish in certain seasons and naturally shrink in others. Thus, comparing the economic activity in successive quarters often fails to account for seasonal dynamics and produces a skewed view of the inherent tendencies in economic performance. In order to account for seasonal shifts, the *Economic and Social Monitor* favors comparing analogous quarters from various years and thus provides time-series of quarterly figures.

One of the new features introduced in this issue of the *Monitor* is data on the quantity of newly registered vehicles in the West Bank during the first quarter of 2011. Many countries have recognized that the number of new cars purchased indicates the degree of confidence individuals have about their economic future (job security etc.). Moreover, it is thought to be predictive of the confidence banks have in the ability of their customers to service their debts.

The present issue of the *Monitor* includes eleven independent text boxes, each of which addresses a topical issue either directly or indirectly related to the policies and economic situation in the Palestinian Territory. For example, one box concentrates on the possible effects that a recent minimum wage hike in Israel may have on the West Bank and Gaza Strip workers. Other boxes deal with issues such as: the International Monetary Fund assessment of the economic impact of the Arab spring, the question of "forgone growth" in the Palestinian Territory due to Israeli measures, and the introduction of a new methodology to assess the effectiveness of international assistance in poverty alleviation.

We hope that this issue further strengthens the role of the *Economic and Social Monitor* as a reliable reference to the regular changes occurring in the Palestinian economy. Finally, we hope that this issue opens the door for necessary debate on the current restrictions and future possibilities of economic growth in the Palestinian Territory.

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Executive Summary

Gross Domestic Product: The Palestinian GDP grew by 0.4% between the fourth quarter of 2010 and the first quarter of 2011, an increase consistent with the trend of the previous year. Conversely, GDP per capita decreased by 0.4% compared to the previous quarter, however, increased by 5% compared with the first quarter 2010.

The labor market: The number of workers in the West Bank and Gaza increased from 767.2 thousand in the fourth quarter of 2010 to 780.2 thousand in the first quarter of 2011. Distribution of workers by region is as follows: 61.3% in the West Bank, 28.7% in the Gaza Strip, and 10% in Israel and Israeli settlements. The unemployment rate decreased from 23.4% in the fourth quarter of last year to 21.7% in first quarter of this year. Furthermore, the average wage of workers in the Gaza Strip increased by some 9% this quarter. Consequently, the average daily wage rose to 64.4 NIS, a 4.9 NIS increase from the final quarter of 2010.

Public Finance: In the first quarter of 2011 domestic revenues grew to \$573 million dollars, an increase of 33.8% from the fourth quarter of 2010. Additionally, public expenditures dropped to \$757 million, decreasing 12.2% from last year. The combination of these two factors reduced the first quarter budget deficit to \$141.3 million, a significant improvement from the \$358.7 budget shortfall of the fourth quarter in 2010.

The banking sector: Figures demonstrate a constant improvement in the Palestinian banking sector in the first quarter of 2011. The net assets of banks operating in the Palestinian territories (18 banks) were up by 1.6% from the fourth quarter of last year. Currently, direct credit facilities form the largest portion of the assets held by Palestinian banks. Finally, liabilities were also up, increasing by 1.5% from last quarter.

Palestine Securities Exchange: At 49.28 million, the number of shares traded during the first quarter of 2011 rose 5.6% when compared to the fourth quarter of 2010. Yet, while the number of shares traded was up, the value of shares traded declined by 12.6%. This decline

was the result of a fall in stock prices in some sectors, particularly the services sector which accounted for nearly 33% of the total shares traded in the first quarter of 2011. At the end of the first quarter of 2011 the Al-Quds index closed at 497.67 points, a jump of 1.65% over the fourth quarter of 2010.

Company registration: At 389, the total number of new companies registered in the West Bank during the first quarter of 2011 was up 34% compared to fourth quarter of 2010. However, while business registration was up, the total capital (\$80.78 million Jordanian dinars) of newly-registered companies decreased by approximately 66% from the fourth quarter of last year. With 34.7%, the Ramallah and Al Bireh region accounted for the lion's share of newly registered companies; Hebron was next with 16.2%, followed by Bethlehem with 10%.

Building licenses and cement imports: Compared to the first quarter of 2010, the number of building permits issued in the West Bank in the first quarter of 2011 increased by 34.7%. Similarly, the total number of licensed spaces for building increased during the first quarter of 2011, up about 69.5% from the corresponding quarter in 2010. In line with the increase in construction and number of building licenses, the quantity of cement imported into the West Bank during the first quarter of 2011 rose by about 55% from the fourth quarter of 2010.

Car registration: In the first quarter of 2011, 5,230 cars were imported into the West Bank. This represents a 5% increase when compared to 4,964 cars imported in the first quarter of 2010. 77% of all cars registered during the first quarter 2011 were both used and imported from abroad (countries other than Israel).

Hotel activity: The total number of guests staying in hotels located in the Palestinian territories was 132,112 in the first quarter 2011. 10.3% of hotel guests were Palestinians while 36.3% were European. The total number of guests decreased by 22.6% from the previous quarter, but increased by 6.4% when compared with the same quarter last year.

Prices and purchasing power: The Consumer Price Index (CPI) in the Palestinian territories rose by 0.36% in the first quarter of 2011, a slight increase from the previous quarter. Likewise, the Producer Price Index (PPI) rose by 2.5% during the same period. The Construction Price Index for residential and non-residential buildings in the West Bank increased by 1.35% when compared to the fourth quarter of 2010. Moreover, the first quarter of 2011 saw the purchasing power of the US dollar and the Jordanian dinar decline by 0.9% and 0.6% respectively, when compared to their values in the fourth quarter of 2010.

Trade balance: The total value of commodity imports recorded during the first quarter of 2011 was about \$1.3 billion. The value of commodity exports recorded during the same period amounted to approximately \$192 million. Consequently, the commodity trade balance deficit reached \$1,114 million in the first quarter of 2011.

Legal and legislative environment: The President of the PNA, Mahmoud Abbas, issued four laws during the first quarter of this year. New additions to the legal code include: an amendment to the investment promotion law, an amendment to the law of expropriation, a law concerning Sharia, and a law dealing with the ratification of the appointment of the President of the General Personnel Council.

Israeli Violations: In the first quarter of 2011, 220 Palestinians were injured and 34 were killed. Of the dead, 7 were from the West Bank and 27 were from the Gaza Strip. Additionally, the number of prisoners held by the Israelis reached 835, including 826 in the West Bank and 9 in the Gaza Strip. The number of temporary checkpoints throughout the West Bank was 2,193 last quarter. Crossing points between Gaza and Israel were closed 288 times, and international crossings were closed 129 times.

Living conditions of children in the Palestinian territories: The total number of children in the Palestinian territories under the age of eighteen reached 1.97 million in the first half of 2010. As things stand, this demographic constitutes roughly 49% of the total population in the Palestinian territories. The statistics of marriage and divorce show that the proportion of female children (under the age of eighteen) who were married in the West Bank during

2009 reached 23% - an alarmingly high ratio. In 2010, the percentage of children who suffer from chronic malnutrition in the West Bank and the Gaza Strip stood at 11% and 10% respectively.

Migration survey in the Palestinian territories (2010): Nearly 22,000 Palestinian persons emigrated from the Palestinian territories in the period between 2007 and 2009. On the other hand, each year for the past five years, between 5,000 and 7,000 Palestinians have returned to the West Bank and Gaza.

Box topics – The following boxes cover the eleven different topics that have been discussed for this issue:

Estimating “forgone” economic growth in the Palestinian territories: The IMF issued a report on April 13, 2011 estimating the magnitude of lost economic growth in the Palestinian territories since the Oslo accords (1994-2010). The purpose of the report was to assess the growth level that could have been achieved under more stable political circumstances and to compare that estimation to the actual growth level. The report refers to the difference between potential and actual growth levels as the “income gap”. Moreover, it presents three approaches used by the IMF in its estimation of the “income gap”.

Raising minimum wage in Israel: potential effects on Palestinian workers: Last May, the Israeli government approved a resolution to increase the minimum wage from 3,850 NIS to 4,300 NIS. The two-step process will make minimum wage 4,100 NIS in October, 2011 and 4,300 NIS in November, 2012. This box discusses the potential effects this policy could have on three categories of Palestinians working in Israel and the settlements: those who do not have work permits, those who do have work permits, and Palestinian workers who hold a blue ID card (residents of Jerusalem) or a foreign passport.

Clearance and fiscal leakage: This box addresses the types of clearance revenues that Israel collects on behalf of the Palestinian Authority, as dictated by the Paris Protocol. The Palestinian Authority suffers from serious fiscal leakage due to the Israeli government’s seizure of large shares of the indirect taxes paid by Palestinian consumers. Therefore, this box seeks to gauge the extant level of fiscal leakage.

PADICO issues corporate bonds: gains and precautions: PADICO recently issued seven thousand corporate bonds with a nominal value of ten thousand US Dollars each, and a maturity date of five years. This box explains how these bonds create an opportunity for banks to use their deposits toward investment in the local economy. Moreover, it also highlights a set of precautions which should be considered when banks invest in corporate bonds.

Palestine Investment Fund (PIF): In 2003 a presidential decree created the PIF in order to “administer the funds of the Palestinian people and maintain them as national savings that are invested to retain a strong and independent economy.” This box sheds light on the PIF; its foundation, development and the vital sectors in which it invests. Currently, PIF investments are divided into five vital sectors: real estate and tourism, telecommunications, energy, commercial and industrial, and finance. Additionally, this box aims to shed light on the administrative complications that the PIF is facing and the importance of resolving them.

Progressive price of electricity: supports the poor and improves competitiveness: The Palestinian Electricity Regulatory Council and the Energy Authority approved a new pricing policy which is set to be implemented in June, 2011. This box addresses how the new pricing policy will affect electricity consumption in poor families, as well as the special pricing structure which has been imposed on Jericho and the Jordan Valley region due to its distinct economic and strategic features.

The International Monetary Fund and the Arab Spring: The IMF issues a periodic report regarding the conditions and opportunities for economic growth in the Middle East and North Africa. It emphasized the recent revolutions in the area and pointed out how these radical transformations, while negative in the short-run, could lead to economic growth in the long-run. This box both summarizes and criticizes the key results of the report, noting in particular that until very recently the IMF had issued positive assessments about the economic performance of Egypt and Tunisia.

New international report about education in the Arab World – The quality of education and unemployment: Education in the Arab World suffers from chronic underperformance which is clearly demonstrated by the relatively

low quality of learning in the region. Although Arab country’s expenditure on education as proportion of GDP is slightly higher than world average, the gap in the quality of education remains large. This box discusses a report released by the IMF and the Islamic Development Bank entitled *Education for Employment: Realizing Arab Youth Potential*. The report calls for reducing unemployment in the Arab World and addressing the shortcomings of the educational system by bridging the skills gap – that mismatch between skills demanded by firms and those offered by the education system.

The World Food Programme report on the economic conditions of the Gaza Strip: Last June, the World Food Programme issued a report on Palestinian households and markets. This report challenged allegations made by the Israeli Ministry of Foreign Affairs that the siege on Gaza had been relaxed. This box sheds light on the situation faced by producers and wage earners in Gaza and takes a broader look at the economic performance of Gaza as a whole. Finally, it recommends strategies that could help improve Gaza’s economic environment.

A new methodology to assess and rationalize international aid against poverty eradication: There are two schools of thought for evaluating the impact of international aid. The first suggests that such aid is beneficial for developing countries as it reduces poverty and helps create an investment-friendly environment. The second school of thought argues that the negatives of international aid outweigh the positives. In particular, it focuses on the ways in which international aid acts as an obstacle to development of recipient nations. This box examines some attempts that have been made to empirically assess the effectiveness of aid in general. Following from this, it analyses the effectiveness of international aid in the Palestinian context.

Brain drain: advantage of disadvantage? This box discusses a recent article from “The Economist” entitled *Drain or Gain?: Poor Countries Can End up Benefiting When their Brightest Citizens Emigrate*. The article explores the effects of the emigration of educated citizens out of developing countries. The central argument is that contrary to popular impression regarding the phenomenon of “brain drain,” the emigration of educated citizens can actually be beneficial to developing countries.

Key Economic Indicators in the West Bank* and the Gaza Strip for the years 2000-2010

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population by mid year (thousands)											
Occupied Palestinian Territory	3,053.3	3,138.5	3,225.2	3,314.5	3,407.4	3,508.1	3,612.0	3,719.2	3,825.5	3,935.25	4,048.40
West Bank	1,943.7	1,992.6	2,042.3	2,093.4	2,146.4	2,203.7	2,262.7	2,323.5	2,385.2	2,448.4	2,513.3
Gaza Strip	1,109.7	1,145.9	1,182.9	1,221.1	1,261.0	1,304.4	1,349.3	1,395.7	1,440.3	1,486.8	1,535.12
National Accounts (Million Dollars)											
GDP**	4,118.5	3,765.2	3,264.1	3,749.6	4,198.4	4,559.5	4,322.3	4,554.1	4,878.3	5,241.3	5,728.0
GDP per capita (USD)**	1,450.2	1,287.9	1,084.8	1,210.9	1,317.0	1,387.2	1,275.4	1,303.2	1,356.3	1,415.7	1,502.4
Household Expenditure**	3,982.0	3,901.4	3,627.8	4,103.1	4,400.3	4,467.5	4,197.5	4,591.2	4,851.9	5,285.4	-
Public Expenditure	1,100.7	1,022.7	947.9	903.1	1,048.9	833.3	870.4	892.7	995.9	1,105.5	-
Gross Capital Formation**	1,561.1	1,120.0	954.1	1,204.0	1,022.3	1,265.7	1,347.2	1,122.9	1,060.5	1,137.3	-
Net Balance of Goods Trade**	(2,432)	(2,055)	(2,082)	(2,382)	(2,210)	(2,009)	(1,668.6)	(1,970.5)	(2,047.4)	(2,289.4)	-
Commodity Imports**	2,978.5	2,418.6	2,423.8	2,776.8	2,622.1	2,466.5	2,203.8	2,508.3	2,642.4	2,881.2	-
Commodity Exports**	546.6	363.2	341.8	394.4	412.3	457.5	535.2	537.8	595	591.8	-
Prices and Inflation											
Average Exchange Rate of the USD Against the Shekel	4.086	4.208	4.742	4.550	4.478	4.482	4.454	4.110	3.567	3.93	3.73
Average Exchange Rate of the JOD Against the Shekel	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.042	5.54	5.27
Inflation Rate (%)***	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75
Labor Market											
Number of Employees (thousands)	600	505	477	564	578	603	636	690	667	718	745
Participation Rate (%)	41.5	38.7	38.1	40.3	40.4	40.4	41	41.7	41.2	41.6	41.1
Unemployment (%)	14.1	25.2	31.3	25.6	26.8	23.5	23.7	21.7	26.6	24.5	23.7
Social Conditions											
Poverty Rate (%) ****	-	27.9	-	-	25.9	24.3	24	31.2	-	26.2	25.7
Deep Poverty Rate (%) ****	-	19.5	-	-	14.2	15.3	13.7	18.8	-	13.7	14.1
Public Finance (Million Dollars)											
Net Domestic Revenues *****	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1,834.7
Current Expenditures and Net Lending	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,919.6	2,923.4
Development Expenses	469	340	252	395	0	287	281	310	-	46.8	273
Surplus (deficit) Budget before Support	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,412.7)	(1,089)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Grants & Assistance	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,210
Total Surplus (deficit) Budget	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(174.2)
Public Debt	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,732	1,883
Banking Sector (Million Dollars)											
Assets/Liabilities	4,593	4,430	4,278	4,728	5,101	5,604	5,772	7,004	5,645	7,893	8,608
Equity	242	206	187	217	315	552	597	702	857	910	1,097
Clients' Deposits	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111	6,802
Credit Facilities	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825
Number of Banks	21	21	20	20	20	20	21	21	21	20	18

Source: Palestinian Central Bureau of Statistics, the Palestinian Monetary Authority. For a series data for the period before 2000, please refer to issue 23 of Monitor between hands.

- * West Bank: means the West Bank except that part of Jerusalem governorate which was annexed forcefully by Israel following its occupation of the West Bank in 1967 (with the exception of the data on unemployment and population).
 - ** Data in constant prices. Base year for the 2000-2003 is 1997; base year for 2004-2010 is 2004. Data for 2010 is preliminary and subject to revision and amendment and is based on quarterly estimates.
 - *** The inflation rate is based on the comparison of average indices of consumer prices for the comparison year with its average in the previous year. Base year for the period 2000-2006 was 1996 (1996=100), base year for the period 2007-2010 is 2004 (2004=100).
 - **** The PCBS defines poverty in relation with the family budget. Deep Poverty: any standard family (5 members: two adults and 3 children) possessing a budget to cover the expenses of food, clothing and housing. Relative poverty: any standard family possessing a budget to cover the expenses of food, clothing, housing, health, education, transportation and other expenses.
 - ***** The total net revenues is the total current revenues after the deduction of tax revenues.
- Figures in brackets are negative.