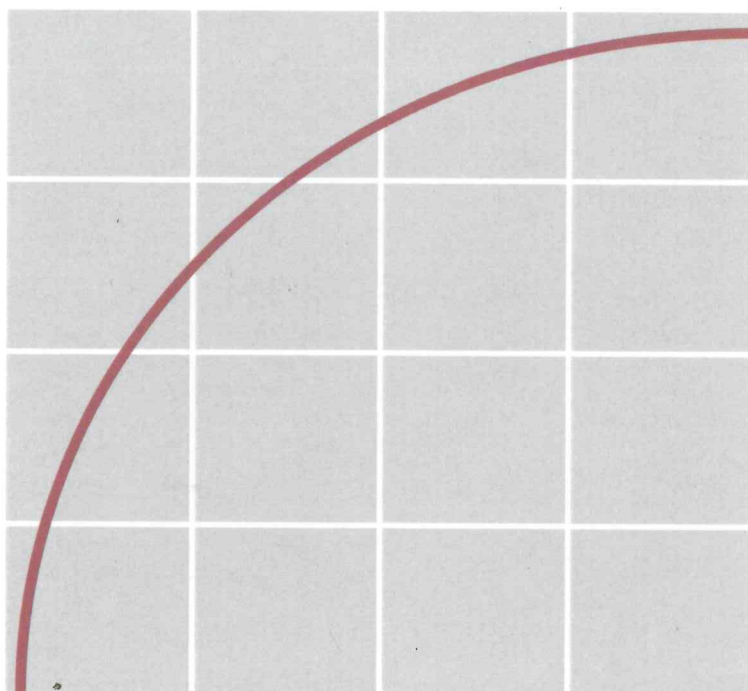


2012

Economic & Social Monitor



Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
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February, 2012

FOREWORD

This issue of the *Economic and Social Monitor* presents a general statistical review and analysis of the main economic trends in the Occupied Palestinian Territory during the third quarter of 2011. Among the topics discussed in this issue are: National Accounts data, public finance, labor market, the indicators of economic activity, and prices and purchasing power. Also included in this edition is an analysis of foreign trade (the trade balance and balance of payments). As well as the traditional sections of the *Monitor*, such as the banking sector data and the Palestine Exchange.

It should be reiterated that the *Economic and Social Monitor* is a quarterly bulletin. Hence, we would like to emphasize once more that economic activity has a seasonal nature, meaning that some activities flourish in certain quarters 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.

This issue of the *Monitor* includes eight analytical text boxes each of which addresses a topical issue either directly or indirectly related to the policies and economic situation in the Occupied Palestinian Territory. For example, one box discusses the Consumer Price Index (CPI) in 2011 and the reasons behind citizen's feeling that there is a difference between official figures of CPI and actual prices in the market. Another box deals with a recent study which concludes that each 100 work permits for Palestinian workers in Israel decreases the return of premium of education among the Palestinians by 13%. Another box analyzes the government budgets for Ramallah and Gaza authorities and compares between them. Another box presents the results of a survey of foreign investment in the Occupied Palestinian Territory in 2010. Moreover, there is a box which addresses the bilateral U.S. aid to the Palestinians from the mid-nineties until the present. Finally, there is a box that sheds light on the Palestinian protests on the new income tax law.

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. We also hope this issue opens the door for a necessary debate on the current restrictions and future possibilities of economic growth in the Occupied Palestinian Territory.

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Executive Summary

Gross Domestic Product: The Palestinian GDP scored a value of about 1.606 million dollar in the 3rd quarter of 2011. An increase of 0.5% compared with the previous quarter and an increase by 11.8% compared with its corresponding quarter in 2010. Conversely, GDP per capita decreased by 0.3% in the 3rd quarter compared with the 2nd quarter of 2011 but, increased by 8.5% compared with its corresponding quarter in 2010. Overall, total final spending was about 1,856 million dollar in the 3rd quarter of 2011.

The Labor Market: The number of workers Occupied Palestinian Territory decreased from 852.4 thousand in the 2nd quarter of 2011 to 839 thousand in the 3rd quarter of the same year. The distribution of workers is as follows: 60% work in the West Bank, 30% work in the Gaza Strip, and 10% in Israel and Israeli settlements. The unemployment rate increased to 22.4% in the 3rd quarter, whereas it was about 18.7% in the 2nd quarter. Moreover, the average wage of workers in the Gaza Strip, decreased by 4% to be 59.3 NIS in the 3rd quarter compared with 61.8 in the 2nd quarter.

Public Finance: In the 3rd quarter of 2011 the domestic revenues grew to 545.1 million dollars, an increase of 1.2% from the 2nd quarter of the same year. Additionally, public expenditures dropped to 678.5 million dollars, a decrease of 8.9% from the previous quarter. Consequently, the combination of these two factors decreased the budget deficit in the 3rd quarter to 133.4 million dollars compared to 208.2 million dollars deficit in the 2nd quarter.

The Banking Sector: The total direct credit facilities were 3,215.2 million dollars in the 3rd quarter of 2011. This is a decrease of about 6.3% from the previous quarter, 73% of these facilities were loans. Moreover, the number of checks offered for clearance increase to 1,010,402 in the 3rd quarter of 2011, but their value decreased by 0.11% compared with their value in the 2nd quarter of the same year.

Palestine Exchange: The number of shares traded in the market decreased by 65% during the 3rd quarter compared with the 2nd quarter of

the same year, and also decreased by 32% compared with the corresponding quarter of 2010. The value of shares during the 3rd quarter was around 48 million dollars, a decrease of 65% compared with the previous quarter, and a decrease of 30% compared with the corresponding quarter of 2010. Lastly, the Al-Quds index closed at 488.2 points at the end of 3rd quarter of 2011.

Company Registration: The number of newly registered companies reached 287 in the West Bank in the 3rd quarter of 2011. The total capital of these companies in the 3rd quarter of 2011 was about 38.9 million JD; a decrease by 27% in total registered companies' capital compared with the previous quarter but an increase by 69% compared with its corresponding quarter of 2010.

Building Licenses and Cement Imports: The number of building licenses in the West Bank increased by 16.2% during the 3rd quarter of 2011 compared with the corresponding quarter of 2010. On the other hand, the total space of registered buildings increased during the 3rd quarter by 16.3% compared with its corresponding quarter in 2010. The quantity of cement imported into the Gaza Strip increased to 15.3 thousand tons in the 3rd quarter of 2011 compared with one thousand tons in the corresponding quarter of 2010. In the West Bank the quantity of imported cement decreased by 6% through the same period.

Car Registration: 21,000 new and used cars were registered in the West Bank throughout 2011. The registered cars are distributed as follow: 63% of used cars are imported, 11% of used cars are imported from Israel and 25% of new cars are imported. In the 3rd quarter of 2011, the number of cars registered for the first time was 5,000.

Hotel Activity: The total number of guests staying in hotels located in the Occupied Palestinian Territory was 106,100 in the 3rd quarter of 2011; 12% of hotel guests were Palestinian while 30% were European. The total number of nights decreased by 25.1% from the

previous quarter. The average staying period in the Palestinian hotels throughout the 3rd quarter of 2011 was 2.4 nights per guest.

Prices and Purchasing Power: The Consumer Price Index (CPI) increased by 0.74% in the 3rd quarter of 2011. Likewise, the Producer Price Index (PPI) increased by 1.11% during the same period. The Construction Price Index for residential and non-residential buildings in the West Bank rose by 0.85% in the 3rd quarter of 2011 compared to the 2nd quarter of the same year.

Trade Balance: The total value of commodity imports recorded during the 3rd quarter of 2011 was about \$1,040 million. The value of commodity exports recorded during the same period amounted to approximately \$175 million. Consequently, the commodity trade balance deficit during this period was recorded at \$ 865 million.

Legal and Legislative Environment: The President of the PNA, Mahmoud Abbas, issued eight laws during 2011. Three of these laws were directly related to economics; an amendment to the investment promotion law, the public finance law for the fiscal year 2011, and the amendment on the income tax law.

Palestinian Population through History and in the Future: This section illustrates the change of Palestinian population figures from the late sixteenth century till present. During 2011, the total population of the Occupied Palestinian Territory reached 4.17 million. It is expected that the total number of Palestinians will reach 5.37 million in 2020 and 6.06 million in 2025.

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

Foreign Investment Survey in the Occupied Palestinian Territory: The Palestinian Central Bureau of Statistics, in cooperation with the Palestinian Monetary Authority carried out a survey of foreign investments in the Occupied Palestinian Territory for the year 2010. The result of the survey shows that the foreign investment in Palestine was \$2.3 billion, while the Palestinian investment abroad amounted

\$5.3 billion. However, when we exclude money deposits and other similar items, we find that foreign direct and portfolio investment in the Occupied Palestinian Territory was about \$2 billion, versus less than \$1 billion of Palestinians investment abroad. This means that the foreign investments in Palestine exceeds the Palestinian investments abroad which contradicts results cited in the media and by some economist that Palestinian investments abroad exceed their investment in Palestine.

Recent Study: each 100 work permits in Israel decrease the return on the education for Palestinians by 13%: The research department in the Central Bank of Israel published a study in October with the title “The effect of Palestinian’s working in Israel has on the Palestinian job market.” This study aims to answer three questions: What is the effect of increasing the number of work permits for qualified Palestinian males on the employment of Palestinians in Israel? What is the correlation of employing the Palestinians in West Bank and what is the return on education? The study concludes that the short term benefits from increasing the number of work permits in Israel (which increases the employment and the wages of the unskilled workers) on the Palestinian economy are offset by losses in the long term (as it decreases the return on education). Finally, the study suggests an increase in taxes on the wages of workers in Israel to limit the deterioration of return on education.

Two Budgets for one Nation: This box tackles the political condition that the West Bank and Gaza Strip have two separate governments who each have their own budget. This box also studies both budgets to compare and contrast them. By the end of 2011, the Hamas government declared its budget to be 770 million dollar. This amount constitutes only 19% of the budget of the government in the West Bank. Additionally, the government in Ramallah transfers 1.5 billion dollars per year to Hamas to pay the salaries for their government employees and to pay for gas and water bills in the Gaza Strip.

U.S. Bilateral Aid to the Palestinians: This box discusses a report issued by the research center in the American Congress (The American Aid For The Palestinians). The report shows that

the American government promised \$4million in bilateral aid in the 1990s when the Palestinian Authority was established. This aid was requested by Congress and was supposed to be spend on three main points which were determined by Congress. This aid was heavily conditioned and regulated so that it could not to be channeled to terrorists. Finally, the report tackles America's decision to stop its aid program last year after the Palestinian Authority requested membership in the United Nations.

Electricity Prices: Consumers expected them to decrease but they increased by 18%! This box discusses the increase in the prices of electricity that the consumers faced through 2011. Although, the Council of Ministers declared a new, unified tiered system for pricing electricity which was expected to decrease prices, the prices increased instead. There are many reasons for this unexpected increase. On the one hand, the Israeli company increased its prices, on the other, the consumers were consuming more electricity as they expected prices to decrease. In addition, there are reasons such as the decline in the collecting percentage, theft of electricity and the high running expenses. However, the previous reasons were not acceptable for the Consumer Protecting Association as these reasons were known before the law was declared.

Consumer Price Index: between honesty and conspiracy theory! This box attempts to answer two questions. First, how is the Consumer Price Index calculated? Secondly, why do consumers feel that there is a disparity between the declared cost of living and the market prices? For the first question, the Palestinian Central Bureau of Statistics determines the most used products and their percentage in the average consumers expenses basket and then monitors their prices monthly. On the other hand, the feeling of the consumer that there is a disparity in the prices declared and the market prices is

caused by two factors. There is a difference between the increase in the prices in one region, Ramallah for example, and the average increase in the prices of all regions. Additionally, the Consumer Price Index measures the increase in the prices of the average basket, but families may choose other products that are not included in the chosen basket.

The Economy of Tunnels in the Gaza Strip:

The siege of the Gaza Strip in 2007 by the Israelis affects the tunnel trade positively because it became the sole source for goods. Consequently, in June 2012 after easing the siege on Gaza, the tunnel trade was affected negatively. It ceased to be the sole source for satisfying the consumers demand, but still covers the deficit in supply caused by prohibiting sufficient quantities to be imported to Gaza. It also satisfies the demand on goods that are prohibited from being imported, like construction materials or gasoline. Importing food stuffs and other consumer goods from Israel, which have a higher quality, caused the demand on the goods imported through tunnels to fall. Hence, easing the siege caused the profits of the tunnels' traders to decline. For the purpose of organizing this trade Rafah municipal council licensed the tunnels and established laws to regulate them.

Income Tax Law: protests upon issuing, applying and editing it! The Council of Ministers reformed the number of tax segments and imposed a higher tax on higher incomes. This box discusses the positive and negative sides for this decision which treats both personal taxable income (of more than 80 thousand NIS) and a company's profit the same. Furthermore, the box also discusses the protesters point of view. The fierce protests forced the government to delay implementing the new tax segments until the mid of February.

Key Economic Indicators in the West Bank* and the Gaza Strip for the years 2000-2011

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	4,170
West Bank	1,943.7	1,992.6	2,042.3	2,093.4	2,146.4	2,203.7	2,262.7	2,323.5	2,385.2	2,448.4	2,513.3	2,580
Gaza Strip	1,109.7	1,145.9	1,182.9	1,221.1	1,261.0	1,304.4	1,349.3	1,395.7	1,440.3	1,486.8	1,535.12	1,590
National Accounts (Million Dollars)												
GDP**	4,146.7	3,810.8	3,301.4	3,800.5	4,198.4	4,559.5	4,322.3	4,554.1	4,878.3	5,239.3	5,754.4	6,257.8
GDP per capita (USD)**	1,460.1	1,303.5	1,097.2	1,227.3	1,317.0	1,387.2	1,275.4	1,303.2	1,356.3	1,415.2	9,950.1	1,595.0
Household Expenditure**	3,981.3	3,884.5	3,589.7	4,088.9	4,400.3	4,467.5	4,197.5	4,591.2	4,851.9	5,229.4	5,413.4	
Public Expenditure	1,080.3	1,003.7	930.3	886.4	1,048.9	833.3	870.4	892.7	995.9	1,159.5	1,520.7	
Gross Capital Formation**	1,386.7	992.3	841.7	1,063.0	1,022.3	1,265.7	1,347.2	1,122.9	1,060.5	1,137.3	1,443.2	
Net Balance of Goods Trade**	(2,239.4)	(1,887.8)	(1,917.3)	(2,194.3)	(2,209.8)	(2,009)	(1,668.6)	(1,970.5)	(2,047.4)	(2,289.5)	(2,686.3)	
Commodity Imports**	2,748.3	2,225.9	2,235.5	2,561.4	2,622.1	2,466.5	2,203.8	2,508.3	2,642.4	2,881.3	3,419.5	
Commodity Exports**	508.9	338.1	318.2	367.1	412.3	457.5	535.2	537.8	595.0	591.8	733.2	
Net Balance of Services Trade**	(197.3)	(346.0)	(327.3)	(243.9)	(215.6)	(194.7)	(613.2)	(268.1)	(273.5)	(302.9)	(306.1)	
Services Imports**	386.6	424.6	390.1	305.0	287.1	334.9	707.0	430.5	471.5	533.8	572.2	
Services Exports**	189.3	78.6	62.8	61.1	71.5	140.2	93.8	162.4	198.0	230.9	266.1	
Prices and Inflation												
Average Exchange Rate of the USD Against the Shekel	4.086	4.208	4.742	4.550	4.477	4.482	4.454	4.110	3.587	3.929	3.739	3.578
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	5.061	5.542	5.275	5.050
Inflation Rate (%)***	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75	2.88
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	

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public Finance (Million Dollars)												
Net Domestic Revenues *****	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1,900.4	2,176
Current Expenditures and Net Lending	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,920	2,983	2,952
Development Expenses	469	340	252	395	0	287	281	310	-	46.8	275.1	296
Surplus (deficit) Budget before Support	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,342)	(1,083)	(776)
Total Grants & Assistance	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,277	978
Total Surplus (deficit) Budget	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(81)	(94)
Public Debt	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,732	1,883	2,213
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	8590	9,110
Equity	242	206	187	217	315	552	597	702	857	910	1,096	1,182
Clients' Deposits	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111	6,802	6,973
Credit Facilities	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825	3,483
Number of Banks	21	21	20	20	20	20	21	21	21	20	18	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. Base year is 2004 (2004=100).

* 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.

**** 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 refund.

- Figures in brackets are negative.