Palestine Monetary Authority (PMA)

Palestinian Central Bureau of Statistics (PCBS)

Palestine Economic Policy Research Institute (MAS)

Quarterly
Economic and Social Monitor

Volume 40

April, 2015

This issue is based on contributions from researchers of:

Palestine Economic Policy Research Institute –MAS (General Coordinator: Arwa Abu Hashhash)
The Palestinian Central Bureau of Statistics (Coordinator: Amina Khasib)
Palestine Monetary Authority (Coordinator: Shaker Sarsour)

Editor: **Nu'man Kanafani**

P.O. Box 19111, Jerusalem and P.O. Box 2426, Ramallah
Telephone: +972-2-298-7053/4
Fax: +972-2-298-7055
e-mail: info@mas.ps
website: www.mas.ps

P.O. Box 1647, Ramallah
Telephone: +972-2-2982700
Fax: +972-2-2982710
e-mail: diwan@pcbs.gov.ps
website: www.pcbs.gov.ps

P.O. Box 452, Ramallah
Telephone: +972-2-2409920
Fax: +972-2-2409922
e-mail: info@pma.ps
website: www.pma.ps

To Order Copies
Contact the Administration on the above addresses.

This issue of the *Economic &Social Monitor* is supported by:

ARAB FUND FOR ECONOMIC & SOCIAL DEVELOPMENT
Arab Fund for Economic & Social Development

صندوق الاستثمار الفلسطيني
PALESTINE INVESTMENT FUND
Palestine Investment Fund (PIF)

April, 2015

FOREWORD

We are glad to present to the reader the 40th issue of the quarterly Economic and Social Monitor, which covers developments in the Palestinian economy during the 4th quarter of 2014, as well as in the year as a whole with a comparison to the previous year 2013. Unlike in previous 4th quarter issues, here we have included the whole-year data within the overall presentation and not as a separate section.

As we remarked in the foreword to the preceding issue, the National Accounts and the Labor Market data for the 3rd quarter of 2014 were not available at that time. To fill this gap, we have included these data in the current issue's tables. This publication also incorporates an analysis of the crisis caused by Israel's recent withholding of Palestinian clearance revenues (December 2014 through April 2015), to which we eluded in the previous issue of the Monitor. The analysis is presented in one of the ten analytical text boxes featured in this Monitor, which address economic matters that, directly or indirectly, impact the Palestinian economy. We hope that the reader will find the information and analyses in the text boxes useful and enriching.

With this publication, we have completed the 2014 issues and will embark next on preparing the 2015 issues with a new coordinator on behalf of MAS, which is a routine procedure at the Institute whereby young researchers are given different responsibilities from time to time to widen their experience. We wish to thank Arwa Abu Hashhash, the outgoing coordinator from MAS, for her work and effort and for a job well done over the past two years.

Nabeel Kassis
Director General
Palestine Economic Policy Research Institute (MAS)

Ola Awad
President
Palestinian Central Bureau Of Statistics (PCBS)

Jehad Alwazir
Governor
Palestine Monetary Authority (PMA)

CONTENTS

Executive Summary

Issue 40 of the Quarterly Economic and Social Monitor provides an overview of the key developments in the main economic indicators in the Palestinian Territory during the fourth quarter of the year as well as during the whole of 2014. The executive summary will focus on the year-on-year changes in addition to summarizing the topics discussed in the boxes.

Overview

We can sum up the economic performance in the Palestinian Territory during 2014 in few words: in 2014 the Palestinian economy has not witnessed noticeable changes, if it has not actually worsened. Consumption was 20 percent higher than production; the unemployment rate remained at around 25 percent; recorded exports were as little as 20 percent of imports; around a third of public revenuecame from grants and donations; and the government accumulation of arrears (on a commitment basis) reached 23 percent of current expenditure.

Fiscal policy has seen no changes either, as the primary (or even the only) concern of the budget remained paying the public staff salaries that depleted 68 percent of total domestic revenues, including clearance revenues. The public debt exceeded its ceiling, thus threatening the banking system.

One cannot, however, ignore the momentous events during the year, particularly the Israeli war on the Gaza Strip in the summer of 2014 and the withholding of clearance revenues, which had definite implications on the economic performance. Nevertheless, some may argue that the reconstruction efforts and the additional pledged aid were supposed to catalyze the economic activity in the Gaza Strip, and eventually in the West Bank. However, this unfortunately has never been the case. We should always remember that poor economic performance reflects – or perhaps is a product of – a stalled political process, both externally (the relationship with Israel) and internally (the national reconciliation).

The regulatory environment was not in a better condition and was arguably chaotic. The 2014 presidential executive order on the amendment of the Income Tax Law was the seventh amendment since 2007. This means that one of the most important laws that affect production and investment was amended once a year on average. As a case in point, the presidential executive order on public procurement, which was released in late May 2014, was amended by a new order before the end of the same year.

GDP

Palestinian 2014 GDP totaled around USD 7.5 billion (2004 prices), a growth of less than 0.5 percent over 2013 (+5 percent in the West Bank versus -15 percent in Gaza). This brought Gaza Strip's GDP share down from 27 percent to 22 percent. Per capita GDP, meanwhile, fell to USD 1,734, thus declining by 3.3 percent from 2013.

Labor Market

The number of West Bank and Gaza's workers rose to 917,000, an increase of 3.6 percent over 2013. By place of work, 60 percent of them worked in the West Bank, 27 percent in the Gaza Strip and 12 percent in Israel and the settlements. Public employment remained unchanged at 23 percent, with a massive share for Gaza (41 percent). Meanwhile, the unemployment rate stood at 27 percent (18 percent in the West Bank and 44 percent in Gaza), rising by 3.5 percentage points over 2013. On the other hand, the average daily wage rose to NIS 84.6. The average daily wage for West Bank workers was only 44 percent for those working in Israel and the settlements, while for Gaza Strip workers it was only 30 percent compared to those working in Israel and the settlements.

Public Finance

Compared to the previous year, 2014 public revenues and grants saw an increase of 8.1 percent to NIS 14.3 billion, thanks to a 20 percent growth in clearance revenue and a 5 percent increase in non-tax revenues. International aid (which made up 30 percent of total public revenue) fell by 10 percent, and tax revenues remained unchanged. Meanwhile, public expenditure reached NIS 12.8 billion (95 percent for current spending and 5 percent for developmental spending). These changes produced a surplus of NIS1.5 billion (on a cash basis), which the government used to pay off a large part of the banking sector's arrears. This is, however, not the case when figures are calculated on a commitment basis. The government liabilities hiked 64 percent over 2013 to NIS 2.8 billion. Finally, at the 2014 close, the public debt totaled NIS 8.6 billion (or 19 percent of GDP), of which around 50 percent was owed to the local private sector. Together the public debt and the liabilities produced a figure that was very close to 40 percent, the ceiling set for the public debt (See Monitor 37).

The Banking Sector

Total assets of banks grew during the year by 5.6 percent to USD 11.8 billion on a 9.3 percent rise in credit facilities. Total liabilities, on the other hand, saw an increase of 5.6 percent, with public deposits (the most important component of liabilities) touching USD 9 billion. Interestingly, the ratio of non-performing facilities to total facilities fell from 2.9 percent to 2.5 percent during the year. At the same time, the net profits of banks totaled USD 145.8 million though the difference between the average lending interest rate and deposit interest rate fell slightly for all traded currencies.

Investment Indicators

The number of companies newly registered in the West Bank in 2014 was 1,490, upby 318 (or 27 percent) from 2013.The new companies registered in the year had a capital of JD 224 million, down by 34 percent from the previous year.

Around 16,830 building permits (either for new or for annexes to existing housing units) were issued during 2014, with no significant change from 2013. Meanwhile, the amount of imported cement rose by 12 percent during the same period to 1.5 million tons. While cement import increased in the West Bank by 13 percent, it fell in the Gaza Strip by 23 percent (only 39 thousand tons).

Prices and Purchasing Power

The 2014 consumer price index saw a rise of 1.73 percent over 2013. The change basically resulted from an increase in the prices of beverages and tobacco (11.8 percent), medical services (8.7 percent) and lodging (3.3 percent), against a decline in transportation and telecommunication prices.

The purchasing power for individuals who receive their wages and salaries in USD or JD (but have their spending in NIS) fell by 2.7 percent (an inflation rate of 1.73 percent coincided with a 0.9 percent decline in the USD exchange rate).

Balance of Trade and Balance of Payments

Commodity imports fell to USD 5 billion, down by 2.1 percent from 2013. Similarly, commodity exports declined by 4 percent to USD 865 million. This produced a deficit of USD 4.2 billion, approximately the same figure reported in 2013. Meanwhile, the deficit in the balance of trade in services with Israel reached USD 15.3 million. The current account deficit in the balance of payments totaled USD 1.4 billion, down by 42 percent from 2013. This drop resulted from a 24 percent increase in the surplus in the income balance and a 128 percent growth in the current transfers. The current account balance deficit was financed by the capital and financial account, which provided USD 1.4 billion.

External Assets, Liabilities and Debt

Palestine's 2014 foreign assets totaled USD 5.9 billion, of which 2.8 percent was in the form of direct investment, while portfolio investment accounted for 19.9 percent. The total external liabilities, on the other hand, reached USD 4.7 billion, of which 52 percent was in the form of foreign direct investment. Palestine's external debt, in the meantime, totaled USD 1.6 billion, with the government as the largest holder (around 70 percent of total external debt).

Box Topics: Issue 40 of the Monitor has 10 boxes, each of which discusses a specific topic:

Middle East and North Africa (MENA) Regional Economic Developments and Outlook

The box sheds light on the IMF report on the prospects for growth and the challenges facing the MENA economies. The report, which was released in late 2014, focused on the prospects for medium-term economic growth and potential cooperation in the region. However, the developments that took place in late 2014 (namely the decline in oil prices and demand, exchange rate movements, and high interest rates) forced theIMF to make changes to its growth outlook. The box provides a review of the prospects for growth in the MENA in 2015 and highlights the decline in oil prices and the impact on oil exporters and importers.

Israel's Economy in 2014

This box summarizes the most important economic developments which Israel's economy saw in 2014. The GDP growth (2.8 percent) came mainly from a growth in domestic public and private demand. The slow growth, especially in the GDP per capita (0.8 percent), resulted from the continued slump in international trade, the shekel appreciation, and a fading demand for investment. The box also focuses on the steady decline in unemployment rate as a result of modest increases in wages and reduced working hours. Finally, it outlines the main elements of the trade balance as well as the key fiscal and monetary policies during the year.

A Study by the Bank of Israel: Greater Stability but Less Privileges for West Bank Workers in Israel

Box three summarizes the results of a report on Palestinian employment in Israel and its characteristics. The report found that the number of Palestinians residing in the West Bank and working in Israel (including both workers with a work permit and those without a work permit) has reached around 92,000 in 2014. The findings suggested three important highlights. First, there is high stability in the relationship between the West Bank workers (who hold work permits) and their Israeli employers. Second, among Palestinians working with a permit in the Israeli economy, only a very small share claimed that they are employed through a contract (only 2 percent, according to Palestinian labor force surveys). Third, there is a marked wage gap between the Israeli and Palestinian workers working in Israel.

Withholding Clearance Revenues: A Recurrent Crisis and Long-Term Economic Repercussions

This box examines the impact of Israel's recurrent withholding of Palestinian clearance revenue, particularly during the recent crisis between Israel and the PNA. The box spotlights the gap between revenues on a commitment basis and cash basis from April 2008 to February 2015, and the impact of this gap on the economic performance. The box then examines the economic effects of the freeze and the tools the PNA government used to solve the liquidity problem. In fact, the impact stretches beyond the short-term effects that end with the release of revenues to long-run implications on aggregate demand, the business cycle, the public debt interest onus, and the adverse effects on the sustainability of the banking system. Perhaps the first casualty is the investment climate, which will sustain serious threats with negative implications on production and employment in the long-run.

Trading Commission onthe Palestine Stock Exchange, the Highest in the Region

Is the high stock trading commission a result of low volume and value of shares traded? Or is the low trading a result of high commission? These are two questions that this box raises and tries to answer. After drawing a comparison between the stock trading commissions in the Palestine Stock Exchange and a group of stock exchanges in neighboring countries, the box concludes that the commission in Palestine is the highest. The Monitor team met with the Director General of the Securities Department in the Palestinian Capital Market Authority to learn more about such a high commission and its impact on the shares trade movement. According to the Director General, there are many reasons behind weak trading other than the high commission, which is the main source of revenue for the Authority and the securities sector institutions, the biggest losers of low trading. The real problem in the securities industry is that the current trading volume does not allow economies of scale that are necessary for the sustainability of the sector, he said. Accordingly, lowering the commission will never be the solution unless it is coupled with a set of policies that aim at enhancing trading. In his reflection on the problem, he gave, as an example, the levying of value added tax by government on both the buyer and the seller, which he maintained is a unique practice.

Liquidity Crisis in the Palestinian Economy

This box looks at the liquidity semi-chronic crisis facing the Palestinian banking system. This crisis is basically triggered by the Israeli recurrent violations of the Paris Protocol provisions on the use of the shekel as a trading currency in the Palestinian Territory and Israel's obligation to provide sufficient liquidity and withdraw the surplus of its currency through traditional banking channels. The liquidity crisis in the banking sector aggravated in the second half of 2007, when Israel declared the Gaza

Strip a hostile territory and severed all ties with banks operating in the Gaza Strip. This triggered a lack of liquidity crisis in the Gaza Strip against a shekel cash surplus in the West Bank. The crisis resurfaced again in 2009, when the surplus started to rise, reaching its historical high in 2013. The box outlines the effects of these changes and the efforts the Palestine Monetary Authority made to help the banking sector overcome these crises.

The Effects of NIS Appreciation on the Palestinian Economy

The box highlights the fluctuations in the USD exchange rates against the NIS and the resulting implications on the Palestinian economy. The USD/NIS exchange rate reached its historical high in 2011 (4.084). It then started to decline but rebounded thereafter, coming close to its 2011 rate in March 2015. This appreciation is a double-edged sword. On the one hand, it can increase exports and reduce imports, and thus improve the trade balance. On the other hand, it can lead to a rise in inflation and create a wage-price spiral, which adversely impacts the competitiveness of goods in the global market. The box focuses on the effects of the NIS/USD depreciation on the Palestinian economy in four areas: impact on individuals who are paid in dollars (or Jordanian dinars), impact on spending resulting from NIS higher prices, impact on the state budget, and impact on competitiveness of goods in the global market.

Have Palestinian Consumers Felt the Plunge in Prices of Global Crude oil?

This box tries to answer the question: why the oil prices in Palestine have not dropped in line with the fall in global markets. The box provides the percentage decrease in petrol and diesel prices in Palestine and Israel, compared to the fall in crude oil prices. The box shows the mechanism of setting oil prices in Palestine and the close linkage with the prices in Israel. The box highlights the Paris Protocolconstraints on oil prices and the high tax levied on petroleum products. The box finds that a price decrease in the Palestinian market proportional to that in crude prices is not necessarily justified, and that while gasoline prices in the Palestinian Territory fell in 2014 by a percentage similar to that in Israel (16 percent), the reduction in diesel prices was higher in Palestine. It is no secret, the box concludes, that the Palestinian government purpose of increasing its tax revenue keeps it from reducing oil prices in the local market to be in line with the decline in the prices of crude oil.

Different Effects of Lebanon and Gaza Conflicts on Israel's Economy

The box summarizes the findings of a study in the annual report of the Bank of Israel. The study, which examined the economic costs of the Israeli recent wars, drew a comparison between the economic effects of the recent war in the Gaza Strip and the Second Lebanon War (in 2006), both of which lasted for a long period and broke in the summer. The study found that the economic impact of the war on Gaza was peculiar to the demand side and did not significantly affect the supply side (i.e., production) of the Israeli economy. The effect of the Lebanon war was a far departure, with implications touching the supply side, in particular. The study also found that the difference in the sectoral impact of the two wars coincided with different social effects.

Israeli Universities Drop in International Rankings and Uncertainties in the Sustainability of the High-Tech Industry

The box highlights the significant decline in the academic ranking of Israeli universities in both the Times Higher Education World University Rankings and the Shanghai University Rankings. The box compares the Israeli universities places in the tables of the two systems in 2015 compared to previous years and provides explanations for the drop. The box then outlines the stumbling blocks to the high-tech industry and start-ups in Israel, with bleak outlook on the rosy, upbeat image among global businesses and media.

1. GDP

1.1 GDP Growth

Quarter 4
GDP grew (at constant prices) in the quarter by 6.8 percent over the third quarter of the year. Since economic activities have a seasonal nature, economists prefer year-on-year calculations of GDP. Based on this, we can see that GDP shrank by 1.1 percent compared to the corresponding quarter a year earlier. On the other hand, the rate of growth of per capita GDP (roughly equal to growth rate of total output minus the rate of population growth) was up 6 percent over the previous quarter, but 4 percent lower than the same quarter of the previous year.

Annual Comparison
GDP fell 0.4 percent from the past year. This decline was real (at constant prices), i.e., the nominal change minus the impact of price inflation. Also, per capita GDP fell 3.3 percent (18 percent contraction in Gaza vs. 2.3 percent growth in the West Bank).

Table 1-1: Palestine's GDP * (constant prices, base year 2004)

Economic Activity	2013	2014				
		Q1	Q2	Q3	Q4	Total
GDP (million dollars)	**7,477.0**	**1,877.2**	**1,934.9**	**1,758.3**	**1,878.6**	**7,449.0**
− West Bank *	5,464.3	1,403.5	1,454.0	1,414.1	1,470.9	5,742.5
− Gaza Strip	2,012.7	473.7	480.9	344.2	407.7	1,706.5
GDP per capita (USD)	**1,793.3**	**441.9**	**452.2**	**407.9**	**432.6**	**1,734.6**
− West Bank *	2,214.0	559.2	575.5	556.1	574.6	2,265.4
− Gaza Strip	1,182.9	272.5	274.4	194.7	228.7	970.3

Source: Palestinian Central Bureau of Statistics 2015, National Accounts Statistics, Ramallah - Palestine.
Data for 2014 Qs are preliminary and thus subject to further revision.
* Data do not include that part of Jerusalem governorate which was forcefully annexed by Israel following its occupation of the West Bank in 1967.

1.2 GDP Structure

Quarter 4
The structure of GDP in Q4 2014 saw some changes compared to Q4 a year earlier. The shares of mining & quarrying and construction dropped 0.7 and 3.8 percent, respectively, while that of services improved by 0.4 percent.

Annual Comparison
In 2014, some shifts were also reported in the different sectors contribution to GDP. While agriculture's share fell 0.3 percent, services contribution saw an increase of 0.8 percent. The changes were in line with the trends reported of late– a decline in productive sectors against a growth in services.

Table 1-2: % Distribution of the shares of economic sectors in Palestinian GDP * (constant prices, base year= 2004)

Economic Activity	2013	2014				
		Q1	Q2	Q3	Q4	2014
Agriculture, forestry and fishing	**4.1**	**3.6**	**4.1**	**3.0**	**4.3**	**3.8**
Mining, manufacturing, water and electricity	**15.5**	**15.0**	**14.7**	**14.4**	**13.7**	**14.5**
-Mining and quarrying	0.6	0.6	0.6	0.7	0.6	0.6
-Manufacturing	12.4	11.8	11.6	11.9	11.2	11.8
-Electricity, gas and air conditioning supplies	1.6	2.0	1.8	1.1	1.3	1.5
-Water supply, sanitation activities and waste management & treatment	0.8	0.6	0.7	0.7	0.6	0.6
Construction	**10.1**	**7.5**	**7.4**	**6.6**	**7.1**	**7.2**
Wholesale & retail and repair of vehicles and motorcycles	**17.3**	**19.2**	**17.4**	**16.0**	**16.7**	**17.3**
Transport and storage	**1.7**	**1.6**	**1.6**	**1.5**	**1.7**	**1.6**
Financial and insurance activities	**3.4**	**3.5**	**3.5**	**3.9**	**3.9**	**3.7**
Information and communication	**6.1**	**5.7**	**5.5**	**6.1**	**5.8**	**5.8**
Services	**19.8**	**20.7**	**21.0**	**21.2**	**20.1**	**20.6**
-Accommodation and food services	1.1	1.1	1.4	0.6	1.2	1.1
-Real estate and renting	3.9	4.3	4.0	3.5	3.2	3.7
-Professional, scientific and technical activities	1.6	1.7	1.8	1.7	2.0	1.8
-Administrative services and support services	0.6	0.7	0.8	0.7	0.5	0.7
-Education	6.9	6.9	7.0	7.8	7.0	7.1
-Health and social work	3.2	3.3	3.4	4.0	3.5	3.5
-Arts, recreation and leisure	0.6	0.6	0.6	0.7	0.6	0.6
-Other services	1.9	2.1	2.0	2.2	2.1	2.1
Public administration and defense	**12.4**	**12.2**	**12.7**	**14.1**	**13.2**	**13.0**
Home Services	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial intermediation services indirectly measured	-2.2	-2.3	-2.3	-2.6	-2.6	-2.5
Customs duties	5.2	5.4	5.8	6.7	6.7	6.2
Net value added tax on imports	6.5	7.8	8.5	9.0	9.3	8.7
Total (%)	**100**	**100**	**100**	**100**	**100**	**100**

Source: Palestinian Central Bureau of Statistics 2015, National Accounts Statistics, Ramallah - Palestine.
Data for 2014 Qs are preliminary and thus subject to further revision.
Data for 2014 are preliminary and thus subject to further revision.
* Data do not cover that part of Jerusalem governorate which was forcefully annexed by Israel following its occupation of the West Bank in 1967.

GDP Expenditure

Table 1-3 fleshes out spending on major items of GDP in 2013 and 2014 Qs. The table features the basic equation in the national accounts: Private Consumption + Investment + Government Consumption + Exports - Imports = GDP (GDP = C + I + G + X - M).

Figures for 2014 (at constant prices 2004) are shown below

	USD billions)
Private consumption	6.9
Government consumption	2.0
Investment (gross capital formation)	1.4
Exports	1.5
Imports (-)	(4.4)
GDP	7.4

Table 1-3: Palestinian GDP and its expenditure * (Constant prices, base year 2004)

(USD millions)

Item	2013	2014				
		Q1	Q2	Q3	Q4	Total
Final consumption expenditure	8,516.4	2,133.3	2,286.1	2,286.8	2,299.0	9,005.2
Household final consumption expenditure	6,246.7	1,601.3	1,684.3	1,612.9	1,676.9	6,575.4
Government final consumption expenditure	1,957.6	444.9	510.9	583.1	500.3	2,039.2
Final consumption expenditure of not-for-profit organizations that serve households	312.1	87.1	90.9	90.8	121.8	390.6
Gross capital formation	1,644.0	352.6	397.0	271.1	342.6	1,363.3
Gross fixed capital formation	1,826.6	390.4	433.6	363.9	413.1	1,601.0
-buildings	1,425.3	286.4	322.0	269.5	313.9	1,191.8
- non-buildings	401.3	104.0	111.6	94.4	99.2	409.2
Changes in inventories	-182.6	-37.8	-36.6	-92.8	-70.5	-237.7
Net precious property	0.0	0.0	0.0	0.0	0.0	0.0
Net exports of commodity and services	-2,725.8	-675.5	-778.8	-746.7	-728.5	-2,929.5
Exports	1,333.4	344.6	359.1	346.2	437.1	1,487.0
-commodity	1,150.0	301.2	310.2	317.1	401.2	1,329.7
- services	183.4	43.4	48.9	29.1	35.9	157.3
Imports	4,059.2	1,020.1	1,137.9	1,092.9	1,165.6	4,416.5
- commodity	3,624.1	933.6	1,022.3	991.1	1,068.4	4,015.4
- services	435.1	86.5	115.6	101.8	97.2	401.1
Net errors and omissions	42.4	66.8	30.6	-52.9	-34.5	10.0
GDP	7,477.0	1,877.2	1,934.9	1,758.3	1,878.6	7,449.0

Source: Palestinian Central Bureau of Statistics 2015, National Accounts Statistics, Ramallah - Palestine.
Data for 2014 Qs are preliminary and thus subject to further revision.
Data for 2014 are preliminary and thus subject to further revision.
* Data do not cover that part of Jerusalem governorate which was forcefully annexed by Israel following its occupation of the West Bank in 1967.

Several points can be concluded from the Table above:

- The Palestinian final consumption expenditure during 2014 outweighed GDP by 21 percent, which is 7 percent higher than in 2013 on a rise in imports-GDP ratio from 54.3 percent in 2013 to 59.3 percent in the ensuing year.
- This expenditure was distributed as follows: 73 percent for private consumption (5.3 rise percent over 2013), 22.6 percent for government expenditure (4.2 percent higher than in 2013) and 4.4 percent for final consumption expenditure of non-profit organizations that serve households (up 25.2 percent from the previous year).
- Gross capital formation dropped 17.1 percent from 2013.
- Exports of services and commodity grew by 11.5 percent over 2013, while imports picked up by 8.8 percent. Despite that, the deficit in trade balance (for both services and commodity) rose 7.5 percent over 2013.

Box 1: Middle East and North Africa Regional Economic Developments and Outlook– 2015

In late 2014, the IMF released its annual report on the Middle East and North Africa Regional Economic Developments and Outlook for medium-term 2015-2017 economic growth and potential cooperation in the Region. According to the IMF estimates, in the MENAP oil exporters, growth is expected to edge up to 2.5 percent in 2015, while oil importers will record 3.7 percent growth. The report addressed in details the major economic challenges facing the region in the medium term, especially the security problems. Most oil exporters also need to adapt their economic models for more diversified growth rather than depending on increases in oil prices. The report saw a need to curtail rising public debts, proceed with economic reforms, and turn from inefficient generalized subsidies to channeling aid to the poor, particularly in oil importing countries.

The report included several appendices addressing the following topics[1]:

- MENA Medium-term growth prospects: The 2015-2017 projected growth, though varying considerably across countries in the region, will be weakening faster than in other regions of the world. The report examined the reasons behind such expected weak performance and gave policy recommendations for raising growth rates.
- Infrastructure investment: This Annex analyzed the importance of investing in infrastructure and its role in boosting growth and employment. It also discussed the factors that affect the efficiency of investment in infrastructure and possible sources for funding of public infrastructure projects, highlighting again the gap between oil exporters and importers.
- Potential for supporting small and medium-sized enterprises: Small businesses have a pivotal role in boosting growth, particularly inclusive growth, which ensures welfare for all social classes, especially the poor. The Annex examined the reasons behind the SME limited access to finance, and illustrated the role of global and local funding initiatives, including Islamic banking, in this regard.
- Consolidated regional growth: The Annex discussed the MENA poverty rates and social mobility, especially the change in the middle class. It also studied the impact of weak growth on basic social services channeled to the poor, as well as the negative effect of limited jobs on solidarity growth. Finally, it focused on the gender inequality in the region.

However, the regional and global developments that took place in late 2014 forced the IMF to revise its growth prognoses. The new projections, released on January 21, 2015, came to take account of three major changes that took place at the end of 2014. These are: [2]

Lower oil prices: Oil prices declined by about 55 percent between September 2014 and January 2015. Markets expect oil prices to be around USD 57 per barrel in 2015. However, uncertainty surrounding the future for the prices is still high. Prices for other commodities also declined, and they are expected to be 13 percent lower in the coming few years than was projected before. Lower oil prices have varying implications for oil exporters and importers. A decline in prices results in losses in export and fiscal revenues in oil-exporting countries, with possible impact on public spending. Oil-importing countries, on the other hand, gain from lower oil prices through reduced oil import bills and lower energy subsidy bills. Higher disposable incomes and lower production costs could raise domestic demand, and thus contribute to economic growth.

Weak external demand: Despite the positive effects of the large decline in oil prices, the IMF forecast of global growth for 2015 has been revised down by 0.3 percentage points to 3.5 percent. Russia's economy is now expected to shrink by 3 percent in 2015, with growth revisions of 3.5 percentage points. Projections for the euro zone have been revised downward from 1.4 percentage points to only 1.25 percentage points. For China, growth rate was revised down from 7.1 percent to 6.8 percent. Such slower-than expected growth will definitely have a negative impact on the economic performance of the MENA countries. Slow economic activity in the euro area will lead to weaker export prospects in the Maghreb non-oil exports. Further, a decline in global growth will adversely affect economies of oil exporters, and thus lower remittances, direct foreign investment and tourism in Mashreq countries.

Higher interest rates and turbulence in the currency markets

Largely driven by changes in the U.S. monetary policy, global interest rate and exchange rate developments have a bearing on the MENA prospects, albeit to a lesser extent than declines in oil and commodity prices, as well as external demand. The expected increase in U.S. interest rates is likely to pressure the financial

[1] IMF: Regional Economic Outlook- Middle East and Central Asia. Washington, October 2014. http://www.imf.org/external/pubs/ft/reo/2014/mcd/eng/mreo1014.htm

[2] IMF: Regional Economic Outlook- Update, Middle East and Central Asia Department. Washington. January 21, 2015. http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo0115.htm

conditions in the MENA region, particularly in the GCC because of their dollar exchange rate pegs. It is also likely to deepen the growth of private credit. Although some currencies in the region are pegged to the dollar, all local currencies in the region have nominally depreciated against the U.S. dollar since June 2014. Currencies in Iran, Morocco, and Tunisia depreciated by 6–13 percent against the dollar. However, it is the real exchange rate, rather than nominal, that counts in economic terms, and it is certain that the real decline in some countries was less than the nominal decline because of the depreciation of the euro and high domestic inflation rates. This means that the potential gains from lower nominal exchange rates are insubstantial and prospects for increased exports from the MENA countries are limited.

Growth prospects in the MENA Region– 2015

Security disruptions cast a shadow over the economic outlook for the MENA region. They will continue to be the main determinant of the 2015 MENA economic growth. The unrest in Iraq and Syria has persisted and even mushroomed to Yemen, creating spillovers for neighboring countries, especially Lebanon and Jordan. Conflicts curtail development, not only because they disrupt economic activity, but also as they reduce political space for the much-needed reforms that have a bearing on the long-term growth.

As Table 1 shows, real GDP growth in the MENA region is expected to reach 3.2 percent in 2015, and a little more in the following year, with the per capita GDP remaining almost the same in one of the worlds regions always reporting high population growth rates. Unfortunately, the fiscal surplus in 2014 (7.1 percent of GDP) is projected to turn into a deficit in 2015 on the decline in oil prices. The governments will have to run dramatically-increasing budget deficits, while the inflation rate is expected to remain high (6.6 percent) in spite of the stability– or even decline– in global prices of energy, commodity and raw materials.

Oil Exporting countries

The plunge in oil prices will lead to significant revenue losses for oil exporters as most of these economies are highly dependent on oil exports, which account for two-thirds of their total exports. Oil export losses in 2015 are projected at USD 300 billion or 21 percent of GDP in the GCC and around USD 90 billion in the non-GCC countries in the region. As a result, current account surpluses are projected to decline this year to 1.6 percent of GDP in the GCC, while non-GCC oil exporters in the region will post a deficit of 5 percent. Table 1 shows that the average current account deficit in the MENA oil exporters will reach about 0.9 percent of GDP, and the governments will run huge fiscal deficits. Most oil exporters need oil prices to be considerably above USD 57 to cover government spending. With the exception of Kuwait, all oil-exporting countries in the region will run fiscal deficits in 2015:10 percent in Arabia, 37 percent in Libya, 16 percent in Oman and 12 percent in Bahrain.

Table 1: MENA Region: Selected Economic Indicators

	2012	2013	2014	2015*	2016*
MENA					
Real GDP (annual growth)	4.6	2.1	2.6	3.2	3.8
Current account balance (as % to GDP)	13.6	10.8	7.1	-1.8	0.4
Overalls fiscal balance (as % to GDP)	4.1	1.1	-2.2	-7.4	-5.2
Inflation (annual growth)	10.1	10.4	6.8	6.6	6.5
MENA oil exporters **					
Real GDP (annual growth)	5.4	1.9	2.7	3.0	3.7
Current account balance (as % to GDP)	18.2	14.7	10.0	-0.9	2.0
Overalls fiscal balance (as % to GDP)	7.8	4.6	0.1	-7.1	-4.8
Inflation (annual growth)	10.5	10.4	5.9	6.1	6.2
MENA oil importers ***					
Real GDP (annual growth)	2.0	2.6	2.5	3.8	4.4
Current account balance (as % to GDP)	-7.9	-6.7	-5.0	-4.8	-5.1
Overalls fiscal balance (as % to GDP)	-8.7	-10.5	-9.9	-8.3	-6.4
Inflation (annual growth)	8.7	10.2	10.1	8.2	7.6

* Forecasts

** MENA oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen.

*** MENA oil importers: Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, and Tunisia (Data exclude Syria).

Most MENA oil-exporting countries have significant fiscal buffers which allow them to avoid sudden cuts in spending. Most of the slowdown in spending will affect capital spending there, while current expenditure will remain relatively the same though these countries seek to reform energy subsidies which deplete a significant part of public expenditure (about 5 percent of GDP in Iran and nearly 4 percent of GDP in Saudi Arabia). Spending from financial buffers practically means that growth rates in the oil-exporting countries will not be greatly affected. The IMF expects growth in MENA oil exporters to be around 3 percent in 2015, while growth in the GCC is projected to be around 3.45 percent, a downward revision of 1 percentage point relative to the previous expectations. Since the drop in oil prices is likely to be permanent, most oil exporters may need to adapt their fiscal positions to the new reality, so as to maintain fiscal sustainability. The potential procedures need to be supported by sound medium-term plans that would entail limiting current spending, including wage and subsidy bills. Careful prioritization and assessment of investment projects would also be crucial to ensure medium-term growth in non-oil sectors.

Oil Importing countries

MENA oil importers are gaining from lower oil prices. Energy import bills are reduced, extensive-energy production costs and subsidies decline. However, in the majority of oil-importing countries, gains from lower oil prices are offset by other adverse factors, such as weak demand in the euro area and the GCC. In addition, some countries export non-oil commodities, the prices for which have been declining. Therefore, the positive impact of lower oil prices varies across MENA oil importers. While it reaches around 5 percent of GDP in Morocco and 4.5 percent of GDP in Lebanon, it is very small in Egypt and almost zero in Sudan. External gains from lower oil prices in 2015 are estimated, on at about 1.5 percentage points of GDP on average in the oil-importing countries in the MENA region. This will be accompanied by an improvement in the fiscal balances of oil-importing countries in 2015 compared to 2014. Yet, the impact of lower oil prices on inflation will be minimal as oil derivatives are not important in the consumer price index, on the one hand, and because the reform of subsidy regimes (in Egypt and Tunisia, for example) will curb a significant drop in the prices of oil derivatives, on the other. Table 1 shows that the inflation rate in the MENA oil importers is expected to edge up by 7.6 percent in 2015. Oil importers, nevertheless, should not exaggerate the positive impact of the decline in oil prices on their economies. According to the IMF report, countries with concerns about fiscal sustainability (particularly, Egypt, Lebanon and Jordan) would have to save the fiscal windfall gains so as to strengthen buffers against adverse shocks or reduce their public debt. Lower oil prices also create favorable conditions for reforming subsidies (in Egypt and Tunisia), and for introducing tax reforms (in Lebanon), the report recommended.

http://www.imf.org/external/pubs/ft/reo/2014/mcd/eng/mreo1014.htm

Box 2: Israel's Economy in 2014

In late March 2015, the Bank of Israel released its annual report on the economy and economic policies in the country[3]. It reports that the GDP growth in 2014 was 2.8 percent, which is lower than in the previous two years as well as the annual growth rate in the previous decade. The slowdown echoed a lingering recession that is still pushing international trade; an appreciation of the shekel; and weak investment in the economy.

Per capita GDP saw a humble improvement of 0.8 percent– for the first time in a decade, per capita growth in Israel was below the median among OECD countries. The GDP growth in 2014 was powered by private and public consumption. Two factors helped boost private consumption: low real interest rates; and increase in employment due to moderate increases in wage rates.

The unemployment rate dropped to 5.6 percent, down from 6.2 percent in 2013, with the number of workers reaching 3.55 million. The decline in this rate was due to a slower increase in real wages and reduced hours worked per employed person[4].

Inflation rate in 2014 was –0.2 percent, below the lower bound of the Bank's inflation target range (between 1 and 3 percent). This was occasioned by a fall in the prices of non-tradable goods, excluding housing services, in addition to a decline in the prices of tradable goods. The declines were, in turn, a result of the shekel appreciation, a plunge in oil prices (in the second half of the year) and a decline in electricity and water prices. The new laws aiming at promoting the supply markets have helped reduce the prices of some basic services, such as communication.

The main challenge faced by monetary policy in 2014 was returning inflation to within its target range to mitigate depreciation. The policy had to reduce the forces for appreciation of the shekel and minimized economic risks as the monetary interest rate fell to near zero.

In the past two years, fiscal policy has managed to reduce the structural deficit by raising tax rates (in 2013) and reducing expenditure. In 2014, the government ran a deficit of 2.8 percent of GDP, which was consistent with the original budget program despite a steep increase in defense expenditure.

In the first half of the year, the shekel appreciated significantly. This appreciation, together with the pressure from slowdown in world trade, had a negative impact on foreign trade and lowered export growth, and thus GDP growth. However, clear signs of economic recovery in the US, coupled with the depreciation of the shekel in the last few months of 2014 (on reducing interest rate to 0.1 percent), gave exports a boost in the fourth quarter.

Table (1): Main developments in the Israeli economy (current prices), 2012-2014

	2012	**2013**	**2014**
GDP (NIS billion)	992	1,049	1,087
Per capita GDP (thousand NIS)	125	130	132
Goods and services exports (USD billion) *	85	86	87
Goods and services imports (USD billion) *	85	83	84
Current account of the balance of payments (Surplus USD billion)	2.1	6.9	9.0
Unemployment rate (%)	6.9	6.2	5.9
Inflation rate (%)	1.6	1.8	-0.2
USD/NIS exchange rate (yearly average)	3.86	3.61	3.58

*Excluding diamonds

Exports (excluding diamonds) grew by about 2.5 percent in 2014– faster than a year earlier but still relatively moderate compared to the past decade– due to continued slowdowns in global markets and the severe negative impact on incoming tourism that resulted from the Gaza war.

The current account surplus in 2014 was USD 9 billion (up from USD 6.9 billion in 2013), or about 3 percent of GDP. The significant improvement was due to the start of natural gas production at the Tamar Field, which

3 Bank of Israel (2015): Annual Report-2014, Chapter 1 The Economy and Economic Policy http://www.boi.org.il/en/NewsAndPublications/RegularPublications/Research%20Department%20Publications/BankIsraelAnnualReport/Annual%20Report%202014/chap-1.pdf

4 The Knesset passed a bill that would raise the minimum wage to 5,000 shekels a month. The law will be implemented in phases over the next two years starting from April 2015.

reduced the need for importing fuel, and to an improvement in total investment in gas projects as well as the acquisition of hi tech firms.

The report concludes that until the euro zone economies emerge from their crisis, Israel's exports and per capita GDP will not easily enjoy the growth rates posted in the decade ending in 2008.
Safa Sayef has co-authored this text box

2.The labor market

2.1 Labor force and participation rate

Quarter 4
During 2014 Q4, participation rate (i.e. the ratio of workers and the unemployed to those of the working age) in the West Bank and Gaza Strip was 45.8 percent, up from 45 percent in the third quarter of the year and 44.5 percent a year earlier (see Table 2-1). The number of workers in the Palestinian territories had fallen by 46 thousand between the second and third quarters of 2014 (due to the war on Gaza) before it grew by 56 thousand (6.4 percent) in Q4 of the year– an increase of 43 thousand over the same quarter of 2013 (see table 2-2).

Data for the target quarter show a drop in the participation rate of wage earners in the West Bank by about 2 percentage points compared to the previous quarter, while that of the self-employed rose by around 2 percentage points during the same period. The same trend is also found in Gaza, where wage earners participation rate dropped 2 percentage points against a 1 percentage point increase in the participation rate of unpaid employees (see Table 2-4).

Annual Comparison
Palestine's labor participation rate in 2014 rose to 45.8 percent from 43.6 percent in 2013 due to a 1.6 pp growth in the West Bank and a 3.2 pp growth in Gaza. Table 2-1 shows that participation rate disparity continues to broaden between the West Bank and the Gaza Strip on male low participation rate in the Gaza Strip compared to the West Bank (68.2 percent versus 73.4 percent). The growth in the participation rate during the year increased the number of workers by 3.6 percent compared with 2013 (from 885 thousand to 917 thousand: 21 percent in the West Bank, 27 percent in Gaza and 12 percent in Israel & the settlements). Most of the increase came from the growth in participation rate of the self-employed (see Table 2-4).

Table 2-1: WBGS labor force participation rate for individuals 15 years and above–by Region and Sex 2013-2014 (%)

Region & Sex	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Males & Females										
West Bank	45.0	44.4	44.9	45.7	45.0	47.2	46.4	46.3	46.4	46.6
Gaza Strip	40.5	40.4	41.4	42.4	41.2	44.8	45.2	42.8	44.9	44.4
West Bank & Gaza	**43.4**	**43.0**	**43.6**	**44.5**	**43.6**	**46.3**	**46.0**	**45.0**	**45.8**	**45.8**
Males										
West Bank	71.3	70.9	71.3	71.6	71.3	73.8	73.4	73.6	72.9	73.4
Gaza Strip	65.0	64.8	66.4	67.1	65.8	68.5	69.0	66.0	69.5	68.2
West Bank & Gaza	**69.0**	**68.7**	**69.5**	**70.0**	**69.3**	**71.9**	**71.8**	**70.8**	**71.6**	**71.5**
Females										
West Bank	18.0	17.3	17.8	19.0	18.0	19.8	19.0	18.3	19.2	19.1
Gaza Strip	15.4	15.4	15.8	17.2	16.0	20.5	20.8	19.0	19.7	20.0
West Bank & Gaza	**17.1**	**16.6**	**17.1**	**18.3**	**17.3**	**20.1**	**19.7**	**18.5**	**19.4**	**19.4**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

Table 2-2: Individuals (15 years and above) working in Palestine– by Place of Work, 2013-2014

Place of work	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Manpower (in thousands)	2,615	2,638	2,661	2,684	2,649	2,708	2,728	2,754	2,777	2,742
Workforce (in thousands)	1,134	1,133	1,161	1,194	1,155	1,254	1,254	1,239	1,273	1,255
No. of workers (in thousands)	862	900	886	893	885	926	926	880	936	917
- West Bank (%)	58.5	58.3	57.8	59.6	58.6	59.9	61.1	62.4	61.0	61.1
- Gaza Strip (%)	30.7	31.0	30.5	28.5	30.2	28.2	27.0	25.7	27.7	27.2
- Israel & the settlements (percent)	10.8	10.7	11.7	11.7	11.2	11.9	11.9	11.9	11.3	11.7

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

With a 66.2 percent share, the private sector was the main employer of the Palestinian labor during 2014, and its share in Gaza also improved to more than 50 percent. Yet, public sector employment in the Strip remained well above that in the West Bank: 41.5 percent versus 16 percent.

Table 2-3: Individuals (15 years and above) working in Palestine - By Region and Sector, 2013-2014 (%)

Sector	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Palestine										
Public sector	23.6	22.5	22.9	23.1	23.0	22.9	22.4	23.5	22.9	22.9
Private sector	62.4	63.6	62.4	62.4	62.7	62.2	62.7	61.5	62.5	62.3
Other sectors	3.2	3.2	3.0	2.8	3.1	3.0	3.0	3.1	3.3	3.1
Israel & the Settlements	10.8	10.7	11.7	11.7	11.2	11.9	11.9	11.9	11.3	11.7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
West Bank										
Public sector	16.6	16.4	17.1	16.4	16.6	15.9	15.6	15.8	16.5	16.0
Private sector	66.1	66.4	64.3	65.4	65.5	65.7	66.4	66.5	66.3	66.2
Other sectors	1.7	1.7	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.7
Israel & the Settlements	15.6	15.5	16.8	16.4	16.1	16.6	16.3	16.0	15.6	16.1
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Gaza										
Public sector	39.3	36.2	36.2	39.5	37.8	40.5	40.7	45.7	39.6	41.5
Private sector	54.2	57.3	58.2	55.1	56.2	53.6	52.8	47.0	52.8	51.7
Other sectors	6.5	6.5	5.6	5.4	6.0	5.9	6.5	7.3	7.6	6.8
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

In the target year, the proportion of wage earners saw a slight decline due to a 2 percent drop in West Bank's share against a 3.3 percent growth in that of Gaza (see Table 2-4). Meanwhile, the share of unpaid family members in the Gaza Strip dropped to 3.1 percent from 5.2 percent in 2013.

Table 2-4: Distribution of Palestine's Workers- by Employment Status and Region, 2013-2014 (%)

Region and Employment Status	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
West Bank										
Employer	7.5	7.1	7.1	6.8	7.1	6.7	6.5	7.1	7.1	7.4
Self-employed	17.5	18.4	18.8	18.9	18.4	18.6	19.5	18.8	20.4	19.5
Wage earner	67.6	65.8	65.9	64.6	65.9	67.6	66.9	66.1	64.2	64.6
Unpaid family member	7.4	8.7	8.2	9.7	8.6	7.1	7.1	8.0	8.3	8.5
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Gaza										
Employer	3.3	4.2	5.2	3.6	4.1	7.5	7.6	3.7	3.8	3.9
Self-employed	15.8	16.3	18.5	19.1	17.4	18.8	20.2	15.9	17.1	17.3
Wage earner	75.1	72.9	71.6	73.8	73.3	64.8	63.5	77.2	75.2	75.7
Unpaid family member	5.8	6.6	4.7	3.5	5.2	8.9	8.7	3.2	3.9	3.1
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Palestine										
Employer	6.2	6.2	6.5	5.9	6.2	4.5	3.5	6.2	6.2	6.4
Self-employed	17.0	17.8	18.7	19.0	18.1	18.3	17.6	18.1	19.5	18.9
Wage earner	69.9	68.0	67.6	67.2	68.2	74.6	76.1	69.0	67.3	67.7
Unpaid family member	6.9	8.0	7.2	7.9	7.5	2.6	2.8	6.7	7.0	7.0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine

Data signal remarkable quarterly changes in the distribution of employees by economic activity (probably driven by seasonal changes), while year-on-year differences were slight (see Table 2-5). For example, though the number of Gazans working in agriculture, fishing and forestry sectors climbed by 55.2 percent over Q3 of the year, the proportion in 2014 remained almost the same compared to 2013. In contrast, due to severe restrictions on the entry of construction materials into the Gaza Strip, the percentage of Gazans working in the construction sector dropped from 7 percent in 2013 to only 2 percent in the target year.

Table 2-5: Distribution of Palestine's Workers- by Economic Activity and Region 2013-2014 (%)

Economic Activity and Region	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Palestine										
Agriculture, fishing and forestry	9.6	11.2	10.3	11.0	10.5	10.2	11.2	9.3	10.8	10.4
Quarries and manufacturing	13.5	12.3	11.3	11.6	12.2	12.4	12.8	12.7	12.4	12.6
Building and construction	15.0	15.7	16.4	15.2	15.6	14.9	15.0	16.0	15.1	15.3
Trade, restaurants and hotels	18.5	19.0	20.6	20.4	19.6	21.1	20.2	19.4	20.0	20.2
Transport, storage and communications	6.7	6.6	6.4	6.0	6.4	5.7	5.1	5.0	5.9	5.4
Services and others	36.7	35.2	35.0	35.8	35.7	35.7	35.7	37.6	35.8	36.1
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
West Bank										
Agriculture, fishing and forestry	10.3	12.2	11.2	12.1	11.5	10.6	11.7	10.5	11.5	11.1
Quarries and manufacturing	16.8	15.2	14.1	14.4	15.1	15.3	15.6	15.5	15.3	15.4
Building and construction	18.6	18.9	20.5	19.2	19.3	19.7	19.8	21.1	20.2	20.2
Trade, restaurants and hotels	19.0	19.3	20.4	20.4	19.8	21.5	20.5	19.9	20.5	20.6
Transport, storage and communications	5.7	6.0	5.2	5.6	5.6	5.3	4.8	4.6	5.4	5.0

Economic Activity and Region	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Services and others	29.6	28.4	28.6	28.3	28.7	27.6	27.6	28.4	27.1	27.7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Gaza										
Agriculture, fishing and forestry	8.2	9.2	8.3	8.0	8.4	9.4	10.0	5.8	9.0	8.6
Quarries and manufacturing	6.2	5.7	4.9	4.4	5.3	4.9	5.3	4.7	4.8	4.9
Building and construction	6.9	8.7	7.0	5.2	7.0	2.6	2.2	1.3	1.8	2.0
Trade, restaurants and hotels	17.3	18.3	21.0	20.4	19.2	20.2	19.5	18.3	18.6	19.2
Transport, storage and communications	8.9	7.9	9.2	7.1	8.3	6.6	6.0	6.1	7.4	6.6
Services and others	52.5	50.2	49.6	54.9	51.8	56.3	57.0	63.8	58.4	58.7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

2.2 Unemployment

Quarter 4

Unemployment rate in 2014 Q4 fell to 26.5 percent, down from 29 percent in Q3 which saw the Israeli aggression on Gaza. The decline in Q4 resulted from a significant decrease in Gaza (5 pp) and a humble drop in the West Bank (2 pp). Compared to the prior year's Q4, however, the rate rose 1.3 pp on a 4.3 pp increase mitigated by a 0.8 pp decline in the West Bank (see Table 2-6).

Table 2-6: Unemployment rate among individuals participating in the labor force (15 years and above) in Palestine- by Region and Sex: 2013-2014 (%)

Region and Sex	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Palestine										
Males	21.2	17.6	20.3	23.1	20.6	23.3	22.6	25.8	23.8	23.9
Females	35.3	33.6	37.8	33.5	35.0	36.5	39.4	41.5	36.5	38.4
Total	**23.9**	**20.6**	**23.7**	**25.2**	**23.4**	**26.2**	**26.2**	**29.0**	**26.5**	**26.9**
West Bank										
Males	18.6	14.9	16.8	16.9	16.8	15.9	13.2	16.7	15.2	15.2
Females	27.4	25.1	28.2	23.2	25.9	27.1	26.9	29.6	26.0	27.4
Total	**20.3**	**16.8**	**19.1**	**18.2**	**18.6**	**18.2**	**16.0**	**19.2**	**17.4**	**17.7**
Gaza										
Males	26.3	22.7	26.9	34.8	27.8	37.4	40.1	43.5	39.6	40.1
Females	51.6	50.4	56.7	53.4	53.1	52.4	59.3	61.5	54.3	56.8
Total	**31.0**	**27.9**	**32.5**	**38.5**	**32.6**	**40.8**	**44.5**	**47.4**	**42.8**	**43.9**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

Annual Comparison

In 2014, unemployment rate in Palestine stood at 26.9 percent (17.7 percent in the West Bank and 43.9 percent in the Gaza Strip), up 3.5 pp percent from 2013. This was particularly a result of a rise of Gaza's unemployment by 11 pp.

Palestine's unemployment highlights– 2014

- Palestine's unemployment in 2014 was particularly high among young people, reaching 43.6 percent for the age group 15-24 years compared to an overall rate of 26.9 percent, suggesting that a large proportion of the unemployed are new entrants to the labor market (see Table 2-7).

Table 2-7: Unemployment rate among individuals participating in the labor force (15 years and above) in Palestine- by Sex and Age Group, 2012-2013 (%)

Age group	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Males and Females										
15-24	40.9	37.0	42.6	43.2	41.0	42.1	41.2	46.8	44.5	43.6
25-34	25.2	22.0	25.5	27.9	25.2	29.4	31.0	32.2	29.8	30.6
35-44	13.1	11.4	11.3	12.7	12.1	14.9	14.4	16.6	13.5	14.8
45-54	14.5	10.0	10.5	13.4	12.1	13.9	14.1	17.1	14.8	15.0
55+	9.9	6.8	10.1	10.9	9.4	12.7	12.0	9.2	8.3	10.6
Total	**23.9**	**20.6**	**23.7**	**25.2**	**23.4**	**26.2**	**26.2**	**29.0**	**26.8**	**26.9**
Males										
15-24	36.9	32.4	37.7	40.5	36.9	38.9	36.8	42.7	41.4	39.9
25-34	18.1	14.9	17.8	21.4	18.1	21.8	23.0	24.5	22.9	23.0
35-44	12.8	11.0	11.0	12.8	11.9	13.9	12.6	16.3	12.9	13.9
45-54	16.8	10.9	11.8	15.0	13.6	15.3	15.6	18.7	16.0	16.4
55+	11.5	8.1	12.0	13.3	11.2	15.3	13.9	11.0	9.7	12.5
	21.2	**17.6**	**20.3**	**23.1**	**20.6**	**23.3**	**22.6**	**25.8**	**23.8**	**23.9**
Females										
15-24	64.4	65.2	69.3	59.5	64.7	60.1	64.0	66.4	60.3	62.8
25-34	48.1	45.8	50.8	47.3	48.0	51.0	54.8	55.8	50.5	53.0
35-44	14.3	12.9	12.7	12.6	13.1	18.9	20.7	17.8	15.7	18.2
45-54	4.1	6.1	4.4	6.6	5.3	8.8	8.5	10.1	9.7	9.2
55+	2.2	-	-	-	0.5	2.9	3.9	0.3	1.7	2.3
Total	**35.3**	**33.6**	**37.8**	**33.5**	**35.0**	**36.5**	**39.4**	**41.5**	**36.5**	**38.4**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

- Unemployment was particularly reported among uneducated males and educated females.Table 2-8 reveals that male unemployment dropped with higher education (28.1 percent among uneducated males compared to 19.1 percent among those with 13 years of schooling or above). The picture was totally different for females: unemployment rate for women with 13 years of schooling or above was 50.6 percent compared to a scant 3.6 percent among uneducated females.

Table 2-8: Unemployment rate among individuals participating in the labor force (15 years and above) in Palestine- by Sex and Years of Schooling, 2013-2014 (%)

Years of Schooling	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Males and females										
0	18.5	6.2	10.2	16.8	13.0	15.7	10.0	18.2	18.6	15.3
1-6	21.3	15.7	20.0	22.2	19.8	25.3	24.8	29.5	23.8	25.8
7-9	21.8	19.5	21.7	23.8	21.7	23.0	23.0	27.3	25.2	24.6
10-12	21.6	18.6	20.1	23.5	21.0	23.5	22.8	25.7	24.3	24.1
+13	28.3	25.0	29.5	28.7	27.9	30.9	32.2	33.2	30.0	31.6
Total	**23.9**	**20.6**	**23.7**	**25.2**	**23.4**	**26.2**	**26.2**	**29.0**	**26.5**	**26.9**
Males										
0	26.2	14.1	23.4	35.2	25.3	27.5	22.8	30.3	32.2	28.1
1-6	24.3	17.5	22.3	26.1	22.6	29.2	28.4	32.5	26.7	29.2

Years of Schooling	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
7-9	23.2	20.4	23.0	25.4	23.0	24.5	23.7	28.7	26.8	25.9
10-12	22.0	18.9	20.5	24.5	21.5	24.1	23.0	26.5	24.8	24.6
13+	17.1	13.3	17.0	17.8	16.4	18.8	18.9	19.7	18.9	19.1
Total	**21.2**	**17.6**	**20.3**	**23.1**	**20.6**	**23.3**	**22.6**	**25.8**	**23.8**	**23.9**
					Females					
0	10.9	-	-	1.7	2.8	6.0	0.0	4.6	4.1	3.6
1-6	2.6	3.6	3.9	1.6	2.8	5.8	5.1	9.1	6.8	6.5
7-9	5.1	9.7	4.0	6.3	6.4	9.1	15.0	10.9	9.4	11.1
10-12	16.9	15.2	14.6	12.1	14.7	17.7	20.7	16.1	19.3	18.6
13+	46.7	45.2	49.9	46.1	47.0	49.7	52.4	53.3	47.1	50.6
Total	**35.3**	**33.6**	**37.8**	**33.5**	**35.0**	**36.5**	**39.4**	**41.5**	**36.5**	**38.4**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

2.3 Unemployment among tertiary graduates

Table 2-9 sheds light on the rates of 2014 unemployment among individuals with intermediate diploma or higher. The unemployment rate among this group was 33.9 percent, up from 30.2 percent in 2013. With 9.7 percent, unemployment among those who obtained a degree in law was the lowest, while the rate among those with a degree in educational sciences and teacher preparation was the highest (about 50.8 percent). Those with a journalism degree also reported a very high rate (36.9 percent).

Table 2-9: Employed and unemployed graduates (with an intermediate diploma and above) by Major, 2013-2014 (%)

Major	2013		Q4 2014		2014	
	Unemployed	Employed	Unemployed	Unemployed	Employed	Unemployed
Educational sciences & preparation of teachers	57.3	42.7	50.2	49.8	49.2	50.8
Humanities	66.5	33.5	73.6	26.4	66.5	33.5
Social and behavioral sciences	65.7	34.3	64.2	35.8	62.3	37.7
Journalism and media	60.1	39.9	61.5	38.5	63.1	36.9
Business and administration	73.8	26.2	68.7	31.3	68.7	31.3
Law	91.6	8.4	88.5	11.5	90.3	9.7
Natural sciences	68.0	32.0	60.6	39.4	60.9	39.1
Math and statistics	69.2	30.8	66.7	33.3	62.4	37.6
Computer	67.4	32.6	73.0	27.0	68.6	31.4
Engineering and engineering professions	75.7	24.3	66.7	33.3	70.8	29.2
Architecture and construction	81.2	18.8	81.0	19.0	77.0	23.0
Health	78.9	21.1	77.2	22.8	75.6	24.4
Personal services	65.3	34.7	77.9	22.1	61.4	38.6
Others	69.2	30.8	76.7	23.3	72.4	27.6
Total	**69.8**	**30.2**	**68.0**	**32.0**	**66.1**	**33.9**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

2.4 Wages and working hours

Quarter 4

In the target quarter, the average daily wage for West Bank workers rose slightly over the previous quarter, while that for Gaza workers sank by 5.4 percent. Meanwhile, the average wage of Palestinians working in Israel and the settlements improved by 2.6 percent during the same period. In comparison with the corresponding quarter a year earlier, the average wage for Palestinians working in the West Bank, Gaza and Israel & the settlements increased by 1.3 percent, 2.6 percent and 6.2 percent, respectively (see Table 2-10).

Annual Comparison

In 2014, the average daily wage for Palestinians working in the West Bank, Gaza and Israel & the settlements picked up by 2.1 percent, 1.3 percent and 6.8 percent, respectively. The higher rise in the average wage for West Bank workers broadened the already existing wage gap between Gaza and the West Bank from NIS 25.9 in 2013 to NIS 27 in 2014. As such, the average wage in Gaza was only 70.3 percent of that in the West Bank. The median daily wage in Gaza (the amount which divides the wage distribution into two equal groups, half having income above that amount, and half having income below that amount) further reflects a greater disparity between wages in the Gaza Strip and the West Bank, where the 2014 median daily wage in Gaza was only 67.6 percent of its level in the West Bank. This persistent gap mirrors the weak demand for labor in light of the Israeli blockade placed on Gaza. On the other hand, the weekly working hours during 2014 remained unchanged compared to the last year's figure.

Table 2-10: Average weekly working hours, monthly working days and daily wages (in NIS) of known-wage workers in Palestine- by Place of work, 2013-2014

Place of work	Average weekly hours	Average monthly working days	Average daily wage	Median daily wage
2013 Q4				
West Bank	42.8	22.4	90.2	80.0
Gaza Strip	36.6	24.2	64.4	50.0
Israel and the settlements	41.8	19.7	182.9	173.1
Total	**41.0**	**22.4**	**100.3**	**84.6**
2013				
West Bank	43.4	22.4	89.0	76.9
Gaza Strip	37.6	23.7	63.1	50.0
Israel and the settlements	42.4	19.8	175.6	160.0
Total	**41.7**	**22.3**	**97.2**	**80.0**
2014 Q1				
West Bank	44.2	21.9	90.2	80.0
Gaza Strip	38.3	23.9	61.7	50.0
Israel and the settlements	43.1	19.8	182.6	173.1
Total	**42.4**	**22.0**	**99.3**	**83.3**
2014 Q2				
West Bank	44.7	22.7	90.7	80.0
Gaza Strip	37.3	23.8	61.1	50.0
Israel and the settlements	43.4	20.2	184.3	180.0
Total	**42.6**	**22.5**	**99.6**	**80.0**
2014 Q3				
West Bank	44.3	22.6	91.2	80.0
Gaza Strip	38.1	23.8	69.9	65.4
Israel and the settlements	41.8	20.0	189.2	180.0
Total	**42.9**	**22.3**	**107.4**	**90.0**

Place of work	Average weekly hours	Average monthly working days	Average daily wage	Median daily wage
		2014 Q4		
West Bank	43.4	22.9	91.4	80.0
Gaza Strip	37.2	24.0	66.1	56.5
Israel and the settlements	41.9	19.8	194.2	192.3
Total	**41.6**	**22.6**	**101.9**	**84.6**
		2014		
West Bank	44.1	22.5	90.9	80.0
Gaza Strip	37.7	23.9	63.9	54.1
Israel and the settlements	42.6	20.0	187.5	180.0
Total	**42.4**	**22.4**	**101.8**	**84.6**

Source: Palestinian Central Bureau of Statistics 2015, Labor Force Survey, 2013-2014. Ramallah, Palestine.

2.5 Vacancy announcements[5]

Quarter 4

The number of vacancies posted in Q4 2014 was 1024, a 1.3 percent rise over the third quarter of the year (see Table 2-11). However, there were 16 announcements with no specific number of vacant posts. Furthermore, the posted vacancies do not necessarily cover all available job opportunities, though all government jobs, as per law, must be advertised[6].

Annual Comparison

The number of vacancies advertised in 2014 was 3892, up 22.7 percent from 2013, with all sectors (private, public, NGO) reporting growth in employment (see Table 2-11). During the year, NGOs posted the largest number of job vacancies (49 percent of total posts). The private sector came second (with 37.8 percent), while the share of the public sector was only 13.2 percent.

Table 2-11: Number of vacancies advertised in daily newspapers in Palestine, 2013-2014

	2013	2014				
		Q1	Q2	Q3	Q4	Total
			By Sector			
Private sector	**1,310**	358	454	414	245	**1,471**
Public sector	**432**	99	150	137	129	**515**
NGOs	**1,431**	419	377	460	650	**1,906**
			By Region			
Northern West Bank	**418**	133	132	96	164	**525**
Central West Bank	**1,892**	505	616	647	417	**2185**
Southern West Bank	**412**	107	124	171	150	**552**
Gaza	**451**	131	109	97	293	**630**
			By Degree			
MA and above	**209**	**133**	**63**	77	69	**342**
BA	**2,244**	**505**	**741**	741	757	**2,744**
Intermediate Diploma	**297**	**107**	**92**	124	137	**460**
Below Diploma	**424**	**131**	**85**	69	61	**346**
			Total			
	3,173	**876**	**981**	1,011	1,024	**3,892**

Source: MAS collected job advertisements from Al-Quds daily newspaper as well as from the website www.jobs.ps

[5] MAS collected job advertisements from Al-Quds daily newspaper as well as from the website www.jobs.ps

[6] Article (19) of the Civil Service Law No. (4) of 1998 states that the government departments shall announce job vacancies in which appointment is made by the competent authority within two weeks of vacancy in at least two daily newspapers. The announcement shall contain detailed information about the job and the conditions to be met.

Annual data show that the central West Bank accounted for the majority of vacancies advertised (56.1 percent). The shares for the Southern West Bank, Northern West Bank and Gaza were 14.2 percent, 13.5 percent and 16.2 percent, respectively. As for the distribution of vacancies by the required degree, around 70.5 percent of job postings called candidates with bachelor's degrees. The demands for masters & and PhD, intermediate diploma and below diploma degrees were 8.8 percent, 11.8 percent and 8.9 percent, respectively (see Table 2-11).

With 35.7 percent, the demand for administrative and economic sciences had the largest share of job postings. Far below were the demands for applied sciences (20.9 percent) and humanities & social sciences (19 percent). The demands for medical & healthcare and other areas were 12.3 percent and 12.2 percent, respectively (see Table 2-12).

Table 2-12: Number of vacancies advertised in daily newspapers in Palestine- by Major, Sector and Region- 2014

Major	West Bank			Gaza			Total
	Public sector	Private sector	Civil sector	Public sector	Private sector	Civil sector	
Medical & health sciences	28	129	267	8	4	43	479
Humanities and social sciences	116	112	348	4	36	123	739
Applied sciences	150	305	167	6	34	151	813
Administrative and economic sciences	142	541	529	23	18	135	1,388
Other (craftsmen, maintenance, secretarial work, etc.)	51	310	70	6	2	34	473
Total	**487**	**1,397**	**1,381**	**47**	**94**	**486**	**3,892**

Source: MAS collected job advertisements from Al-Quds daily newspaper as well as from the website www.jobs.ps

Box 3: A study by the Bank of Israel: West Bank workers in Israel: greater stability and less privileges

In its 2014 annual report, the Bank of Israel devoted a small annex to discuss the conditions of the Palestinians working in Israel's economy[7]. The estimates are based on periodical labor force surveys of the Palestinian Central Bureau of Statistics (PCBS), as well as data from Israel Tax Authority on work permit-holding Palestinian workers[8].

The report found that in 2014, the number of Palestinians residing in the West Bank and working in the Israeli economy has reached around 92,000 (59,000 workers with permits and 33,000 without permits), apart from 18,700 workers from East Jerusalem.

The number of West Bank workers in Israel and the settlements (always excluding those from East Jerusalem) doubled between 2010 and 2014. The rate of increase among those with a work permit (120 percent) was higher than the increase rate among those without a permit (90 percent). Around 50 percent of the Palestinians who worked in 2013 in Israel's economy were employed in the construction industry. The main increase in the past two years in this industry derived from growth in the number of Palestinian workers, as the number of Israeli and foreign workers did not change markedly. While Palestinian employment in Israel is only 2.2 percent of total employment in the economy, it reaches around 15.3 percent of total employment in construction. Without providing any evidence, the report claims that "the increase in Palestinian employment in the construction industry reduces the incentive for investment in capital, in improved technology, and in workforce training."

The findings of the publication suggested three important highlights about Palestinian employment in Israel's economy:

---

7 http://www.bankisrael.gov.il/en/NewsAndPublications/PressReleases/Pages/030315-PalestinianEmployment.aspx

8 The labor force survey is conducted is in one week of every month, and so the annual reported figures represent the average of the total monthly figures. In technical terms, if a Palestinian works only one week a month in Israel, the possibility for this worker to be included in the monthly survey is 25, which is also the average annual figure. According to the BOI report, Israel Tax Authority's estimate of the number of workers holding a permit is different than the parallel estimate of the PCBS, because each of those groups uses a different unit of measurement.

First, there is high stability in the relationship between the West Bank workers (who hold work permits) and their Israeli employers. In 2006, only about one-third of these workers remained for two years with the same employer, and that share rose gradually to reach two-thirds in 2012. The average number of annual work months of Palestinian workers also increased significantly, approaching the figure among Israeli workers in companies that employ Palestinians (see Table 1). Even during economic crises and security instability, Israeli employers preferred to keep Palestinian workers. According to the report, in recent rounds of hostilities, including the period in which the Gaza war was taking place, the defense establishment allowed most Palestinian workers to continue to enter Israel on a regular basis.

Second, among Palestinians working with a permit in the Israeli economy, only a very small portion declared that they have written contracts (only 2 percent, according to Palestinian labor force surveys). As such, quite few of Palestinians working in Israel are eligible for pension allowances, sick leave and vacation days. The publication cites the State's Comptroller report on "Employment of Palestinian workers in Israel's construction industry" warning that in actuality Palestinian workers' rights are only exercised to a limited extent. Authors of the BOI report believe that "this derives, to a certain extent, from the only partial awareness of Palestinian workers of their rights." Thus, the authors suggest that "informing Palestinian workers of their rights may enhance the utilization of these rights."[9]

Table 1:Employment persistence and availability: Palestinians employed in Israel's economy

		2006	2007	2008	2009	2010	2011	2012
Share of workers employed for two years at companies that employ Palestinians together with Israelis (%)	Palestinians	33	52	59	60	60	67	67
	Israelis	73	74	75	59	74	78	72
Average number of months of work per year at companies that employ Palestinians together with Israelis	Palestinians	5.9	7.8	8.2	8.6	8.7	8.7	8.5
	Israelis	6.8	7.1	7.2	8.5	7.3	7.5	8.2

(Males whose employment was reported to the Israel Tax Authority)

Third, there is a marked wage gap between the Israeli and Palestinian laborers employed at the same working place. Table 2 shows the wages of Palestinians and Israelis working for the same employer by number of years of work. For example, in the first year of employment, the average wage for a Palestinian worker is NIS 3,700 a month. This reaches NIS 4200 for the worker working for the same employee from 2006 through 2012 (i.e. 7 years in the job).

Table 2: Monthly NIS Salary of Israelis and Palestinian workers, by number of years of work of at place of work,

Years at work	1	2	3	4	5	6	7
First year of work	2012	2011	2010	2009	2008	2007	2006
Average wage for workers from the West Bank	3700	3900	400	400	4100	4100	4200
Average wage for Israelis	8600	9100	9500	10000	10400	10800	10900

(Males whose employment was reported to the Israel Tax Authority)
Note: Wages for Israelis who work for companies that employ Palestinians (mostly in construction) are 16 percent less than wages for Israelis who work in companies that do not employ Palestinians.

The table shows that average pay for an Israeli is 2.5 times the average pay for a Palestinian working in Israel regardless of number of years in the job. According to the report, part of the wage gap is due to the difference in working hours (while Palestinians work 29.1 hours a week, their Israeli counterparts work 37.1 hours a week). But, even when this is taken into consideration, the wage gap is still very wide (with Israelis wage remaining as twice as that for Palestinians). Another explanation to the marked gap, according to the report, is the fact that Palestinians and Israelis work in different professions. However, the report fails to explain how they are different or whether such differences can fully justify the wage gap.

---

9 For more information on deductions from the wages of West Bank workers employed in Israel's economy, the destination of the deducted funds and the reasons why the Israeli law gave Palestinian workers rights equal to those of their Israeli counterparts, see *Economic and Social Monitor,* Issue 33 (August 2013).

3. Public Finance

The public finance performance for the 2014 full year and quarter four of the year are thoroughly discussed below (see Table 3-1).

Table 3-1: Summary of the financial position of the PNA, 2013 Q4- 2014 Q4

(NIS millions, cash basis)

Item	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4		
Public revenues and grants (net)	**3,317.0**	**3,633.2**	**3,218.5**	**4,247.5**	**3,254.0**	**13,276.1**	**14,353.2**
Total domestic revenues (net)	**2,361.8**	**2,837.7**	**2,362.9**	**2,726.4**	**2,023.9**	**8,361.0**	**9,950.9**
Tax revenues	550.1	848.9	468.7	401.7	429.4	2,157.3	2,148.7
Non-tax revenues	183.3	276.0	242.8	216.8	230.0	921.3	965.6
Clearance revenues	1,693.4	1,825.7	1,856.2	2,253.8	1,382.2	6,089.0	7,317.9
Tax rebates (-)	65.0	112.9	204.8	145.9	17.7	806.6	481.3
External grants and aid	**955.2**	**795.5**	**855.6**	**1,521.1**	**1,230.1**	**4,915.1**	**4,402.3**
For budget support	802.2	631.5	690.1	1,347.7	1,006.8	4,531.6	3,676.1
To support developmental projects	153.0	164.0	165.5	173.4	223.3	383.5	726.2
Total public **expenditure**	**2,931.2**	**3,097.7**	**2,994.0**	**3,902.8**	**2,866.3**	**12,342.4**	**12,860.8**
Current expenditure, including:	**2,801.2**	**2,904.3**	**2,932.2**	**3,806.5**	**2,631.4**	**11,735.0**	**12,274.4**
Wages and salaries	1,599.6	1,615.6	1,662.0	2,045.2	1,443.7	6,548.2	6,766.5
Non-wage expenses	990.3	1,076.7	982.7	1,475.8	950.3	4,426.9	4,485.5
Net lending	211.3	212.0	287.5	285.5	237.4	759.9	1,022.4
Development expenditure	**130.0**	**193.4**	**61.8**	**96.3**	**234.9**	**607.4**	**586.4**
Treasury-funded	(23.0)	29.4	(103.7)	(77.1)	11.6	223.9	(139.8)
Donor-funded	153.0	164.0	165.5	173.4	223.3	383.5	726.2
Current account	**(439.4)**	**(66.6)**	**(569.3)**	**(1,080.1)**	**(607.5)**	**(3,374.0)**	**(2,323.5)**
Total account (before grants and aid)	**(569.4)**	**(260.0)**	**(631.1)**	**(1,176.4)**	**(842.4)**	**(3,981.4)**	**(2,909.9)**
Total account (after grants and aid)	**385.8**	**535.5**	**224.5**	**344.7**	**387.7**	**933.7**	**1,492.4**
Net financing from local banks	**(143.8)**	**(523.1)**	**191.6**	**(197.5)**	**22.3**	**(895.0)**	**(506.7)**
Remainder	**(242.0)**	**(152.8)**	**122.5**	**(166.3)**	**178.5**	**(38.7)**	**(18.1)**
				Reminders			
Nominal GDP (NIS millions)	**11,680.4**	**11,530.4**	**11,631.4**	**10,917.0**	**11,479.4**	**44,985.7**	**45,558.1**
Government liabilities (NIS millions)	**640.6**	**463.4**	**779.0**	**439.5**	**1097.7**	**1693.4**	**2779.4**
Average exchange rate (NIS/USD	**3.52**	**3.51**	**3.47**	**3.51**	**3.81**	**3.61**	**3.57**

Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).
Figures in brackets indicate negative values.

3.1 Revenues and Grants

Net public revenues and grants
Quarter 4

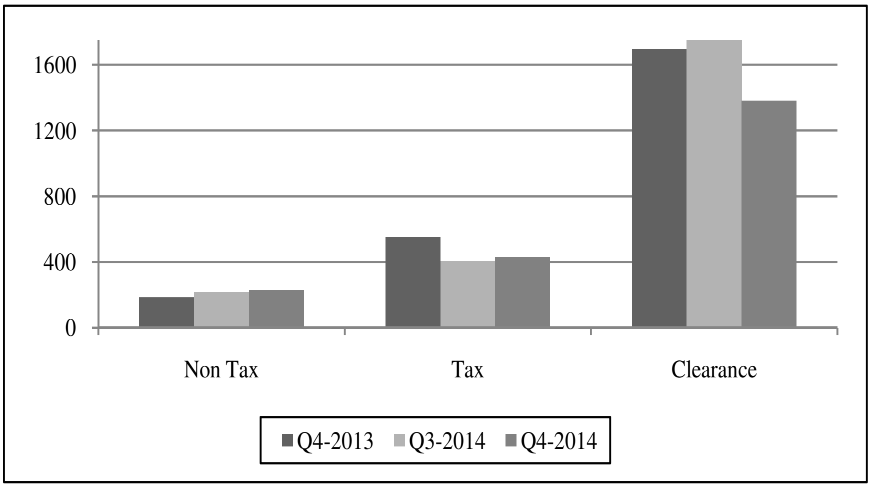
During the quarter, public revenues and grants totaled around NIS 2 billion, plunging by 25.8 percent from Q3 on a decline of clearance revenues (that account for 68.3 percent of total public revenues). Clearance revenues sank to NIS 1.4 billion (down 38.7 percent from the previous quarter and 18.4 percent from the prior year's same quarter) due to Israel's withholding of NIS 491.6 million of these revenues following the PA's access to the Rome Statute and the International Criminal Court. Despite that significant decline, the government used the clearance revenue to finance 52.5 percent of current spending (on cash basis)[10].

[10] The figures are on a cash basis. Clearance revenues on a commitment basis are detailed in Table 3-5 below. On a commitment basis, the revenues saw an increase of around 4.7 percent over the previous quarter and about 10 percent over the same quarter a year earlier.

With 21.2 percent of net public revenue, tax revenue in Q4 totaled NIS 429.4 million, up 7 percent from the previous quarter. This growth derived from three developments: a 9.2 percent rise in VAT revenues following the Ministry of Finance decision to grant a discount of 8 percent for those paying their VAT dues in advance[11]; a 25.2 percent increase in non-clearance customs revenue to NIS 80.6 million; and a 16.9 percent boost in cigarette tax revenues. These three sources contributed around three-quarters of tax revenues.

Figure 3-1: Structure of domestic revenues

(NIS millions)



Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

Non-tax revenues (which accounted for 11.3 percent of net public revenues) grew to NIS 230 million, a 6.1 percent gain over Q3 of the year. The bulk of these revenues was made up of fees (particularly, stamps sold for health and court services; land, vehicle registration and education fees; as well as profits of Palestine Investment Fund) that are not directly influenced by the performance of economic activities.

External aid and grants

As aid transfers from Arab states were zero in 2014 Q4, external aid declined markedly by 19.1 percent from Q3 to about NIS 1.2 billion. Around 81.8 percent of this aid was appropriated to support the general budget (see Table 3-2). About 24.8 percent of foreign aid was contributed by the Palestinian European Mechanism- PEGASE; while the World Bank's share was 37.4 percent.

Table 3-2: Grants and foreign aid to the Palestinian Government

(NIS millions)

Item	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4		
Budget support	**802.2**	**631.5**	**690.0**	**1,347.6**	**1,006.9**	**4,531.6**	**3,676.0**
Arab grants	551.7	452.5	264.0	747.3	0.0	1,388.4	1,463.8
International grants	250.5	179.0	426.0	600.3	1,006.9	3,143.2	2,212.2
Developmental funding	**152.8**	**164.0**	**165.5**	**173.4**	**223.3**	**383.3**	**726.2**
Total foreign aid	**955.0**	**795.5**	**855.5**	**1,521.0**	**1,230.2**	**4,914.9**	**4,402.2**

Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

11 In 2014 Q4, non-clearance VAT revenues totaled NIS 178.8 million, up from NIS 163.8 million in the previous quarter.

Overall, the total public revenues and grants (net) in 2014 Q4 declined to NIS 3.3 billion, down 23.4 percent from Q3 of the year, primarily on a decline in clearance revenues which Israel withheld at the end of December, as well as a drop in foreign aid.

Table 3-3: Indicators of public revenues and grants

Item	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4		
Total domestic revenues (NIS millions)	**2,361.8**	**2,837.7**	**2,362.9**	**2,726.4**	**2,023.9**	**8,361.0**	**9,950.9**
As % to total revenues and grants	71.2	78.1	73.4	64.2	62.2	63.0	69.3
As % to current expenditure	84.3	97.7	80.6	71.6	76.9	71.2	81.1
As % to GDP	20.2	24.6	20.3	25.0	17.6	18.6	21.8
External grants and aid (NIS millions)	**955.2**	**795.5**	**855.6**	**1,521.1**	**1,230.1**	**4,915.1**	**4,402.3**
As %to total revenues and grants	28.8	21.9	26.6	35.8	37.8	37.0	30.7
As % to current expenditure	34.1	27.4	29.2	40.0	46.7	41.9	35.9
As % to GDP	8.2	6.9	7.4	13.9	10.7	10.9	9.7

Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

Annual comparison

Notwithstanding the developments during the fourth quarter, total net public revenue in 2014 full year witnessed a remarkable growth of 19 percent over 2013 thanks to improvements in clearance and non-tax revenues which offset the 10.4 percent decline in foreign aid.

With NIS 7.318 billion, clearance revenues in 2014 were 20.2 percent higher than the 2013 figure. This item accounted for around three-quarters of total domestic revenues and financed about 60 percent of current spending. The total improvement in clearance during 2014 resulted from individual increases in the main components over 2013: VAT by 13 percent to NIS 2,278.3 million, customs by 21.6 percent to NIS 2,520.6 million, and fuel revenues by 25.6 percent to NIS 2474.4 million.

Despite the governmental incentives to taxpayers and the frequent talk about improving collection methods, non-tax revenue grew by only 4.8 percent during the same period (to NIS 965.6 million). Despite the small contribution of non-tax revenue, its growth is important as it signals the extent to which the PA's measures to improve collection efficiency were successful.

Around 83 percent of donor aid during the year was allocated to support the general budget, and the rest to developmental spending. Out of NIS 4.4 billion in aid, 33 percent came from Arab countries.

Tax rebates fell during the year to around NIS 481.3 million, a remarkable decline for the 2013 figure (NIS 806.5 million).

3.2 Public Expenditure

Quarter 4

During Q4 2014, public spending totaled NIS 2.9 billion (25 percent of nominal GDP), falling by 26.6 percent from the previous quarter. Current spending accounted for 91.8 percent of total expenditure, while the share of development was only 8.2 percent.

Current Expenditure

Quarter 4

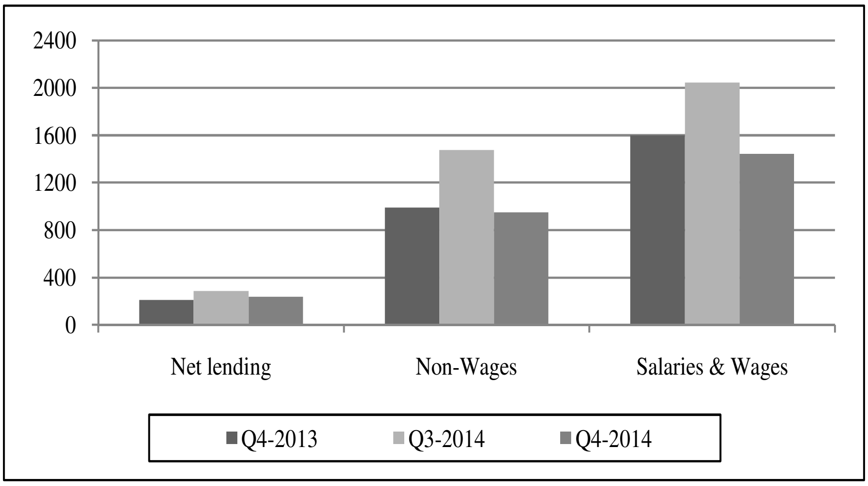
Palestinian current expenditure involves three items: the wage bill (55 percent), non-wage spending (36 percent) and net lending (9 percent). In 2014 Q4, current expenditure declined to NIS 2.6 billion, down 30.9 percent from the previous quarter and 6.1 percent from the same quarter of 2013 (see Figure 3-2).

According to quarterly data, the wage bill in 2014 Q4 totaled NIS 1.4 billion, 29.4 percent decline from Q3 of the year. This quarter was disappointing for the public staff. Israel's suspension of transferring clearance revenues to the PA produced a quarterly cash shortage of NIS 433.1 million or an average of 70 percent of the monthly wage bill.

Non-wage spending was also affected by Israel's withholding of clearance revenues, with such spending reduced by almost 50 percent in conjunction with the reduction of operational spending by about 2 percent from Q3. Operational spending and social transfers are the most important components of the non-wage expenditure[12]. Non-wage spending fell (on a cash basis) by 35.6 percent from the previous quarter, while net lending spending declined to NIS 237.4 million from NIS 285.5 million in quarter 3 of the year.

Figure 3-2: Structure of current expenditure

(NIS millions)



Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

Development expenditure inflated by 44 percent over the previous quarter to NIS 234.9 million on increased foreign aid allocated to developmental spending (NIS 223.3 million compared with NIS 173.4 million for the previous quarter).

Table 3-4: Public expenditure indicators

Item	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4		
Current expenditure (NIS millions)	**2,801.2**	**2,904.3**	**2,932.2**	**3,806.5**	**2,631.4**	**11,735**	**12,274.4**
As % to total public expenditure	95.6	93.8	97.9	97.5	91.8	95.1	95.4
As % to GDP	24.0	25.2	25.2	34.9	22.9	26.1	26.9
Developmental expenditure (NIS millions)	**130.0**	**193.4**	**61.8**	**96.3**	**234.9**	**607.4**	**586.4**
As % to total public expenditure	4.4	6.2	2.1	2.5	8.2	4.9	4.6
As % to GDP	1.1	1.7	0.5	0.9	2.0	1.4	1.3

Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

Annual Comparison

Current spending

Current expenditure of 2014 stood at NIS 12.3 billion (an increase of 4.6 percent over the previous year's figure), of which NIS 6.8 billion went to wages; i.e. a rise of 3.3 percent over 2013 when the wage bill was NIS 6.5 billion. Despite this increase, it remained NIS 569.7 million below the actual dues, a deficit engendered by Israel's suspension of transferring clearance revenue.

[12] Operational expenditure represented 49.2 of total expenditure. Non-wage spending also accounted for a sizable portion (35.8 percent) of the total expenditure. Interest rate payments constituted 1 percent, while the rest went to capital spending.

The non-wage spending, which made up 36.5 percent of current expenditure, increased 1.3 percent to NIS 4485.5 million on raising operational spending and transfers (pensions, social subsidies, etc.).

Net lending expenditure grew to around NIS 1 billion from NIS 759.5 million in 2013.

Developmental Expenditure

In 2014, developmental spending fell by about 3.5 percent from 2013 to NIS 568 million as the government deducted NIS 140 million and appropriated them to the current account.

3.3 Financial surplus/deficit

Quarter 4

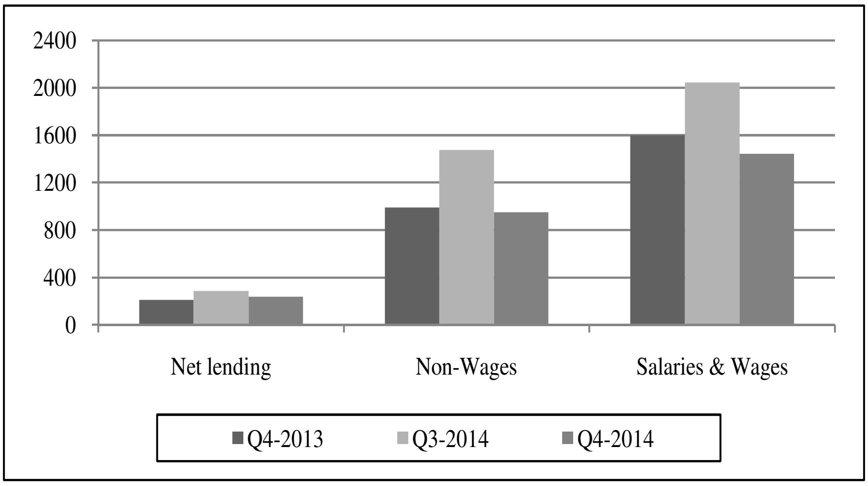
The decline in current expenditure at a pace faster than the drop in public revenues lowered current deficit before aid (on a cash basis) to nearly NIS 607.5 million (or 5.6 percent of GDP) during the fourth quarter of 2014, compared with a deficit of NIS 1.080 billion (or 9.8 percent of GDP) in the previous quarter. Meanwhile, the total deficit (before grants and aid) was NIS 842.4 million, a decline of 28.4 percent from Q3.

The overall balance after grants and aid enjoyed a surplus of NIS 387.7 million. However, when developmental spending arrears (NIS 231.5 million) are taken into account, the surplus falls to NIS 156.2 million[13].

Annual Comparison

The growth in total domestic revenues during 2014 was larger than that reported in current expenditure, which reduced the current deficit by around one-third to NIS 2.3 billion (or 5.3 percent of GDP), down from NIS 3.4 billion (or 7.7 percent of GDP) a year earlier. Domestic revenues financed 81.1 percent of public expenditure during the year.

Figure 3-3: Fiscal deficit as % to nominal GDP



Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

On the other hand, foreign grants and aid to the Palestinian government (specifically budget-supporting aid), totaled NIS 4.4 billion, which is 10.4 percent lower than in 2014. This inflow helped finance the entire current deficit, slashed goods, services and developmental expenditure arrears, and generated a cash overflow in the government budget (after grants and aid) of NIS 488.6 million against a deficit of NIS 933.7 million in 2013.

[13] Based on a recommendation made by the IMF, the Ministry of Finance has changed its method of publishing development expenditures and payments for goods and services. According to the new method, the payments the PA makes for expenditure arrears are recorded under a new item titled "goods, services and development expenditure arrears."

3.4 Net arrears accumulation

Quarter 4

The government's net arrears accumulation in the target quarter totaled NIS 1,097.7 million, comprising wage bill arrears (NIS 433.1 million), outstanding debt stock to the private sector (NIS 491.8 million); tax rebates (NIS 87.5 million); and liabilities of developmental expenditure (NIS 85 million). During the quarter, Israel owed the PA NIS 491.6 million in clearance arrears.

Taken together, the net accumulation of arrears (NIS 1,097.7 million), the current deficit on a cash basis before grants and aid (NIS 842.4 million) and the NIS 491.6 million Israel owes the PA produced a total deficit of NIS 1,448.5 million on a commitment basis before grants and aid (1,097.7 million + 842.4 million – 491.6 million). The figures for the PNA's accumulation of arrears suggest that without seeking grants from international donors, the PNA will always sustain difficulties in bridging the financial gap through local revenues.

Annual Comparison

The payments the government made to slash its debt stock to banks have drained the after-aid overflow, rendering it incapable of reducing arrears accumulation or plugging its debt. Throughout 2014, the government outstanding debt swelled by 64.1 percent over 2013 to NIS 2.8 billion, comprising wage bill arrears (NIS 569.8 million), outstanding debt stock to the private sector (NIS 1,711.9 million); tax rebates (NIS 146.5 million); and liabilities of developmental expenditure (NIS 351.2 million).

Taken together, 2014 arrears (NIS 2.8 billion) and the current balance (before grants and aid) on a cash basis (a deficit of about NIS 2.3 billion) raised the current deficit on a commitment basis to around NIS 5.1 billion.

Table 3-5: Net arrears accumulated

(NIS millions)

Item	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4		
Tax rebates	125.7	93.1	-44.2	10.2	87.4	26.9	146.5
Wages and salaries	160.8	144.2	159.9	-167.5	433.2	379.7	569.8
To the private sector	324.2	169.2	553.7	497.2	491.8	1220.8	1711.9
Developmental expenditure	29.9	56.9	109.6	99.6	85.1	66.0	351.2
Total	**640.6**	**463.4**	**779.0**	**439.5**	**1097.5**	**1693.4**	**2779.4**

Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

3.5 Clearance Revenue

Quarter 4

Table 3-5 summarizes the quarterly developments in clearance revenues on a commitment basis[14]. In Q4 2014, clearance revenues were nearly NIS 1,873.8 million, a 4.7 percent increase over the previous quarter and a 10 percent lift over the 2013 same quarter. The three major components of clearance (VAT, customs and fuel tax) had relatively equal shares.

Annually, clearance revenue totaled NIS 7.3 billion, a 20 percent gain over 2013, mainly on a 25 percent rise in fuel tax. The clearance figures are on a commitment basis, and thus they do not account for the amounts Israel withheld in December 2014.

[14] Commitment basis is used because its data exclusively contain details of all clearance constituents.

Table 3-6: Clearance revenues (commitment basis)

(NIS millions)

Item	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4		
Customs	559.5	565.9	631.7	651.3	671.7	2,073.3	2,520.6
VAT	548.7	579.6	575.6	549.8	573.3	2,016.5	2,278.3
Purchase tax (sales)	0.0	-1.1	7.3	-0.6	1.0	2.6	6.6
Fuel	565.6	634.4	631.0	589.2	619.8	1970.3	2474.4
Income tax*	31.8	37.7	5.6	0.0	8.0	39.9	51.3
Total	**1,705.6**	**1,816.5**	**1,851.2**	**1,789.7**	**1,873.8**	**6,102.6**	**7,331.2**

Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

* The income tax revenues do not include one of the Palestinian-Israeli clearance components (i.e. clearing invoices). Yet, the Ministry of Finance includes the income tax revenue in the clearance accounts.

3.6 Public Debt[15]

Public debt increased during 2014 Q4 by 0.84 percent over Q3. The four quarters of 2014 combined added 4.6 percent to the public debt, bringing the total figure to NIS 8.7 billion or 19 percent of GDP. Three factors led to a rise in the NIS-denominated debt: the developments in the public finance management; pressures emanating from the accumulation of arrears and the government's incidental need to borrow in order to pay for the outstanding debt stock owed to the private sector and public staff; and changes in the exchange rate of the NIS against other currencies.

Table 3-7: Public Debt- 2014

(NIS millions)

Item	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4		
a. Domestic debt	**4,408.8**	**4,268.3**	**4,290.4**	**4,514.1**	**4,399.4**	**4,408.8**	**4,399.4**
Bank loans	2,300.1	2,228.8	2,079.0	2,253.1	2,460.9	2,300.1	2,460.9
Bank facilities (overdraft)	1274.0	1171.1	1396.2	1464.9	1180.5	1274.0	1180.5
Petroleum Authority loans (short-term) *	783.9	817.6	762.9	743.8	705.7	783.9	705.7
Other public institutions loans (short-term)	50.8	50.8	52.3	52.3	52.3	50.8	52.3
b. External debt	**3,856.1**	**3,854.7**	**3,791.6**	**4,060.3**	**4,246.7**	**3,856.1**	**4,246.7**
Arab financial institutions	**2,191.8**	**2,195.7**	**2,152.5**	**2,298.7**	**2,421.6**	**2,191.8**	**2,421.6**
Al-Aqsa Fund	1,822.2	1,826.9	1,774.7	1,909.2	2,018.0	1,822.2	2,018.0
Arab Fund for Economic and Social Development	201.4	202.2	200.2	210.7	221.7	201.4	221.7
Islamic Development Bank	168.2	166.6	177.6	178.8	181.9	168.2	181.9
International and regional institutions	**1,191.3**	**1,185.2**	**1,175.8**	**1,300.1**	**1,356.4**	**1,191.3**	**1,356.4**
World Bank	986.3	982.3	961.4	1,026.4	1,079.3	986.3	1,079.3
European Investment Bank	125.6	122.8	135.6	188.9	187.7	125.6	187.7
International Fund for Agricultural Development	10.5	10.6	10.2	10.5	10.6	10.5	10.6
OPEC	68.9	69.5	68.6	74.3	78.8	68.9	78.8
Bilateral loans	**473.0**	**473.8**	**463.3**	**461.5**	**468.7**	**473.0**	**468.7**
Total public debt	**8,264.9**	**8,123.0**	**8,082.0**	**8,574.4**	**8,646.1**	**8,264.9**	**8,646.1**
Paid interests	**59.3**	**52.0**	**58.5**	**45.0**	**15.6**	**246.7**	**171.1**
Public debt as % to GDP	**17.9%**	**17.4%**	**18.3%**	**19.4%**	**19.4%**	19.6%	19.0%

Source: Palestinian Ministry of Finance, monthly financial reports for 2013-2014 (financial operations: income, expenditures and sources of funding).

15 The public debt is mostly owed in foreign currencies, but denominated in NIS. Therefore, the changes in NIS exchange rates against these currencies, particularly the dollar, affect the values of the public debt.

The Q4 total balance after grants and aid reported a surplus of about NIS 156.2 (after taking into account the payments the treasury made to finance developmental, goods and service expenditures), which was very small relative to the size of government debt. The arrears grew during the quarter on a decline in foreign aid and the suspension of transferring clearance revenue. Therefore, the small rise in the NIS-denominated debt during the quarter can be attributed to the changes in the NIS exchange rate against other major currencies. In fact, the USD-denominated government debt fell in Q4 4.6 percent to around USD 2,216.8 million from USD 2,323.8 million in Q3 of the year.

Domestic debt represented 50.9 percent against 49.1 percent for external debt. The latter involved obligations to Arab financial institutions (57 percent), international and regional institutions (32 percent) and bilateral loans (11 percent). On the other hand, the largest part of domestic debt was owed to the banking system (with about 16 percent of this debt having the form of loans provided to the Petroleum Authority, with the PA government as a guarantor)– see Table 3-7. During the quarter, the public debt-GDP ratio rose 1 percent. Finally, a significant decline was reported in the interest rates payments during Q4: NIS 15.6 million against NIS 45 million in the previous quarter.

Box 4: The withholding clearance revenues: A Recurring Crisis with Long-Term Adverse Effects on Palestinian Economy.

The Palestinian government started 2015 on the back foot with a severe financial crisis that emanated from Israel's withholding of clearance revenues starting from November 2014, thus adding insult to injury.

The clearance revenues are taxes that Israel collects on behalf of the Palestinian National Authority (PNA) under the Paris Protocol, which governs economic relations between Israel and the Palestinian territories. Clearance revenues comprise three types of taxes: direct taxes (income tax levied on Palestinians working in Israel and the Israeli settlements)[16]; indirect taxes levied on imports from Israel (value-added tax on all imports from Israel and purchase tax on petroleum products, cigarettes and alcohol products); and (3) indirect tax on imports from abroad (value-added tax, customs, purchase tax and others). Israel deducts 3 percent of the revenues as service fees.

In 2014, clearance revenue amounted to USD 2.1 billion, made up 75 percent of total domestic revenue (i.e. excluding foreign grants) of the PNA's budget (USD 2.73 billion). It helped finance around 50 percent of public expenditure which totaled USD 4.1 billion in the same year. The revenues from clearance covers 99 percent of the PNA's wage bill, which signals the crucial role these revenues. And since the clearance revenues are transferred on a monthly basis, they are important also for solving the liquidity problem when foreign donors delay their payments to the budget.

In late March 2015, four months into Israel's suspension of transferring revenues, the Israeli Prime Minister's Office announced the government's decision to release the funds but only after deducting the PNA's debt to the Israeli hospitals as well as to Israeli water and electricity suppliers[17]. The Palestinian government rejected the Israeli claims about the amount of the debt. It also refused these deductions unless it checks the bills. The PA government, thus, returned the revenues Israel transferred and threatened to lodge the case to international arbitration or even courts. In April WAFA News Agency reported that the Palestinian Finance Ministry and the Israeli authorities reached an agreement, under which Israel releases the clearing revenues (NIS 2.5 billion) after deducting NIS 500 million (instead of NIS 1 billion) for Israeli utility companies.

[16] Strictly speaking, the income tax levied on Palestinians working in Israel and the settlements is not part of the clearance revenue. The latter involves 'clearance' of bills of Palestinian purchases from Israel and Israeli purchases from Palestine to settle indirect taxes account between the two sides. Unlike the clearance revenues– which are transferred on a monthly basis, the collections of income taxes are transferred to the PA quarterly or semi-annually. Israel deducts 25% of income taxes on Palestinian workers in Israel before transferring the remaining amount to the PA. Still, the Ministry of Finance reports income taxes as part of the "clearance" revenues.

[17] Israel announced on February 26 that it had deducted NIS 300 million to pay part of PNA's debt to the Israeli Electricity Company, estimated at NIS 1.9 billion. In its meeting number 41, the Palestinian Cabinet questioned in a press release the credibility of this figure. The press release pointed out that around 230 meter reading points cannot be accessed by the Palestinian side, and the reading is done by a contractor working for the Israeli company. For information on the dispute between the Palestinian side and the Israeli water supplier Mekorot, see *Economic and Social Monitor*, Issue 32, "Mekorot claims Palestinian Water Authority owes it half a billion shekels."

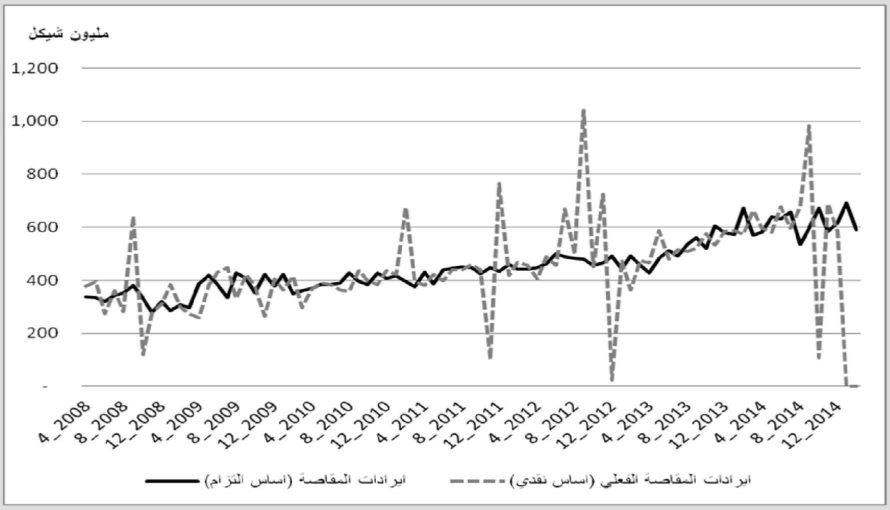
Table 1 shows dates of Israel's suspension or delays of transferring clearance revenues to the PNA

Table 1: Periods of withholding/delaying clearance revenue

Suspension/delay period	Israeli lame excuses
August-September 1997	Security unrest
December 2000-December 2002	Second Intifada
March 2006-July 2007	Hamas win of elections
May 2011	Palestinian bid for statehood
November 2011	Palestine's access to UNESCO
December 2012-January 2013	Accepting Palestine as a non-member observer in the UN
April 2014	A reaction to Palestine request to join UN agencies
December 2014-March 2015	Palestine's access to the ICC

Figure1 compares between the clearance revenue on commitment basis (funds that due for transfer from Israel to the PNA) and clearance revenue on a cash basis (the actual fund transferred). When the actual figures are higher than the due amount this can be either because of payments in advance or late payments from the previous months. On the other hand, the lower values of the cash basis suggest that either Israel failed to meet its obligations or money is deducted to pay for PNA's bill to Israeli utility companies. The gap between the two curves in figure 1sumpolises the degree the uncertainty and fluctuation in clearance (and PNA"s budget) revenues which negatively affects planning and accurate budgetting.

Figure 1: Clearance revenue: cash basis vs. commitment basis
(April 2008–February 2015)



Source: Ministry of Finance, monthly reports

It is estimated that the withheld clearance revenues between December 2014 and March 2015 amounts to some NIS 2.4 billion. In its effort to face the crisis, the PNA delayed payment of staff salaries (paying only part of the wage bill)[18] as it did in earlier similar crisis. Table 2 summarizes the government legislation in this regard. Strikingly, in the first month of interruption, the government did not consider the vulnerability of those with a monthly salary of NIS 2,000 or lower, and deducted 40 percent of their pay. Fortunately, it rectified that in the subsequent months. In previous crises, however, the government would exclude this segment from deductions.

[18] See MAS website for detailed periods of *interruptions* and late payments of *public servants' salaries since 2006* www.mas.ps

Table 2: Staff salaries payments (the first 3 months of the crisis)

Month payment due	Date of payment	Payment details
December 2014	19/01/2015	60% of salary
January 2015	09/02/2015	60% of salary with NIS 2000 as minimum, or all pay for those with salaries totaling NIS 2000 or less
February 2015	05/03/2015	60% of salary with NIS 2000 as minimum, or all pay for those with salaries totaling NIS 2000 or less
March 2015	03/04/2015	60% of salary with NIS 2000 as minimum, or all pay for those with salaries totaling NIS 2000 or less

To mitigate the impact of the squeeze on the public staff, the Palestinian Monetary Authority, also just like in the previous crisis, instructed the banks to provide special allowances to public employees. Banks were asked to:

- Debt service deduction should not exceed 50 percent of the pay slip or the amount transferred from the treasury to the public employees.
- Postponing loans monthly payment maturing in December.
- Banks should not collect fees for a returned check, provided that it was due on or after January 7, 2015 and that its value did not exceed the employee's monthly salary.

Tackling the financial crisis through borrowing

In the previous financial crises, the Palestinian government would have recourse to alternative sources of funding that partially offset the suspension of clearance transfers. The most important source was the EU mechanism known as "PEGASE Mechanism". The PEAGASE funds were used to pay staff salaries and spend on basic services at times of fiscal shocks, particularly the Israel's freeze of transferring clearance revenues from March 2006 to July 2007, with amounts withheld reaching USD 1.1 billion[19]. The government would also seek loans from the Islamic Development Bank, as well as funds to finance basic services from the World Bank and the European Union, in addition to Arab assistance that would help mitigate the impact of the crisis. These external sources are gradually running dry, and now it seems that the only remaining source of liquidity is borrowing from local banks, thus risking raising public debt and threatening the sustainability of the banking system and the investment climate in the Palestinian territories.

In its efforts to face the current crisis, the PNA's Ministry of Finance agreed with local banks to raise its overdraft ceiling during the first two months to NIS 200 million (50 million from Cairo Amman Bank and 75 million from the Arab Bank and the Bank of Palestine). Meanwhile, it added NIS 300 million to its outstanding bank credit facilities (100 million from the Bank of Palestine and 200 million from the Arab Bank), with 6.8 percent to 7.15 percent as interest rates (see Table 3). Further, on February 24, the Ministry of Finance obtained a USD 100 million loan from the Bank of Palestine with an interest rate of 4 percent. It also agreed with Qatar in early April on a USD 100 million loan deal to tackle the lack of liquidity.

Long-term repercussions

In fact, the impact of the interruptions of transfer stretches beyond the short-term effects that end with the release of revenues. There are long-run implications of the interruption on the performance of the economy. Blocking 40 percent of the purchasing power for almost 23 percent of the labor force in the economy (public employment is 215 thousands person) surely has persistent negative impact on aggregate demand and on business cycle. Public demand will also decline, not only because of the seizure of more than 70 percent of domestic revenue, but also because of lower tax revenues resulting from weak private demand. Add to this the extremely adverse effects on investment climate and the negative consequences of higher public debt and higher interest burden and interest rate.

---

[19] PEGASE was previously known as "Temporary International Mechanism" (TIM). It was supposed to be a temporary method of channeling aid. For more information on PEGASE, see Economic and Social *Monitor,* Issue 30: "PEGASE: From a Temporary Program to a Permanent Mechanism! See also *Economic and Social Monitor*, Issue 28 on clearance chronic problems.

Table 3: Lifting overdraft ceiling or extending overdraft, January-February 2015

(NIS millions)

	27-01-2015		**17-02-2015**		**24-02-2015**		**08-04-2015**	
	Amount	**Interest rate**	**Amount**	**Interest rate**	**Amount**	**Interest rate**	**Amount**	**Interest rate**
Arab Bank*								
− Lifting overdraft ceiling	75	7.15%						
− Extending overdraft	200	7.15%	275	7.15%				
Bank of Palestine**					390***	4.0%		
− Lifting overdraft ceiling	75	6.9%						
− Extending overdraft	100	6.9%	100	6.9%				
Cairo Amman Bank								
− Lifting overdraft ceiling	50	6.8%						
− A USD 100 million loan from Qatar							392	

Source: Council of Ministers

* The Arab Bank offers the government an ongoing overdraft protection of NIS 450 million, in addition to a monthly overdraft of NIS 200 million. The Bank raised the arranged overdraft to NIS 525 million, which brought the total figure to NIS 725 million. This debt is secured by the clearance funds, which are transferred via the Arab Bank.

** The facilities the Bank of Palestine grants the government (NIS 100 million) are renewed every other month, and they are secured by domestic revenues. Paying for the NIS 75 million increment in the debt ceiling is contingent on resuming the transfers of clearance revenue.

*** A USD100 million, to be repaid when the Israeli side releases the full clearance amounts withheld. In case more that 50 percent is transferred to the Palestinian treasury, the government pays 50 percent of the principal, in accordance with the Council of Ministers' executive order.

There is also the negative effects on the banking system, with debtors from the public sector defaulting on payments and a public debt growing to NIS 8.9 billion (more than 50 percent of which is owed to domestic debt) at the end of February 2015.This threatens the sustainability of the banking system, expansion plans and prospects for further borrowing. All in all, the first casualty is the investment climate in the country with its long-term consequences. The recurrent shocks, inability to make accurate predictions, accumulation of public arrears towards banks and private suppliers, higher interest rates and ever-growing public debt undermine prospects for investment, with long-run implications on production and employment.

Over and above all of that there are the social and psychological effects of withholding the clearance revenues. As public sector employees wouldn't be able to afford the basic needs of their families, a situation which is likely to disorganize social coherence and threaten the civil peace with long-term repercussion which is unlikely to disappear with the resumption of money transfer.

Salam Salah has co-authored this text box

4. The Banking Sector

Table 4-1 summarizes the developments of the main items in the consolidated balance sheet for banks operating in Palestine between 2013 Q4 and 2014 Q4, together with the quarterly and year-on-year change rates. We will focus on assets; liabilities; indicators of the performance of banks; interest rates; payments system; and performance of specialized lending institutions.

Table 4-1: Consolidated balance sheet for licensed banks operating in Palestine, as of end 2014 Q4

(USD millions)

Item*	2013	2014				(%)hange	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Year-on-year
Total assets	**11,191.2**	**11,450.8**	**12,006.0**	**11,895.2**	**11,822.3**	**-0.6**	**5.6**
Direct credit facilities	4,480.2	4,675.5	4,902.5	4,843.4	4,895.9	1.1	9.3
Deposits at PMA & Banks	4,130.3	4,108.4	3,999.8	4,359.2	4,378.9	0.5	6.0
- Deposits held by PMA	*996.6*	*984.0*	*1,047.6*	*1,131.1*	*1,041.5*	*-7.9*	*4.5*
- Deposits held by Banks	*452.6*	*472.4*	*486.3*	*441.4*	*509.8*	*15.5*	*12.6*
- Banks' offshore deposits	*2,681.1*	*2,652.0*	*2,465.9*	*2,786.7*	*2,827.6*	*1.5*	*5.5*
Securities Portfolio	857.3	788.4	901.7	937.2	985.5	5.2	15.0
Cash and precious metals	956.0	1,023.3	1,180.6	808.8	658.5	-18.6	-31.1
Investments	155.1	158.6	143.4	147.1	144.9	-1.5	-6.6
Bankers' acceptances	7.6	5.3	5.8	4.4	6.0	36.4	-21.1
Other assets	604.7	691.3	872.2	795.0	752.6	-5.3	24.5
Total liabilities	**11,191.2**	**11,450.8**	**12,006.0**	**11,895.2**	**11,822.3**	**-0.6**	**5.6**
Total deposits of the public**	8,303.7	8,454.4	8,765.3	8,884.0	8,935.3	0.6	7.6
Proprietorship	1,359.9	1,411.2	1,376.5	1,410.7	1,466.9	4.0	7.9
Deposits of PMA and Banks	900.2	911.1	970.6	839.2	729.2	-13.1	-19.0
- Deposits held by PMA	*189.5*	*200.0*	*249.2*	*279.8*	*134.6*	*-51.9*	*-29.0*
- Deposits held by Banks	*445.4*	*458.6*	*470.5*	*427.0*	*499.9*	*17.1*	*12.2*
- Banks' offshore deposits	*265.3*	*252.5*	*250.9*	*132.4*	*94.6*	*-28.5*	*-64.3*
Other liabilities	167.5	202.7	415.6	260.1	245.8	-5.5	46.7
Allocations and depreciation	459.9	471.4	478.0	501.2	445.1	-11.2	-3.2

Source: PMA – The Consolidated Balance Sheet for Banks, December 2104.
* The items listed in the table above are aggregate (including allocations).
** Public deposits comprise the deposits of both the private and public sectors (non-bank deposits).

4.1 Assets

The assets involve four items detailed below.

Quarter 4

The net assets of banks totaled USD 11.8 billion end of 2014 Q4, down 0.6 percent from Q3 of the year. The main components (PMA deposits, cash and precious metals, investment and other assets)[20] all saw some declines as detailed below (see Table 4-1).

✧ **Direct Credit Facilities**

In Q4 2014, direct credit facilities grew over the previous quarter by 1.1 percent to USD 4.9 billion (see Table 4-1), thanks to a 4.2 percent lift in direct credit facilities granted to the resident private sector (to USD 3.7 billion) against a 7 percent drop (to USD 1.2 billion) in credit given to the public sector (see Table 4-2).

By type, loans accounted for 78.7 percent of total direct credit facilities, an increase of 3.8 percent over Q3, while overdraft share fell 8.2 percent to 20.9 percent on a decline of the overdraft granted to the public sector. Lease financing share rose 22.3 percent to 0.4 percent of the total figure of credit (see Table 4-2).

[20] Other assets include dues under collection, interbank operations, intra-bank operations, financial instruments, interest on outstanding debt, interest on non-performing debt, and other.

By region, the Gaza Strip's share of resident private sector facilities edged up by 12.5 percent following the war to 15.8 percent of total credit granted to resident private sector, while that for the West Bank picked up by only 2.8 percent to 84.2 percent. Within the West Bank, Ramallah area received 62 percent of the total West Bank's share, while Nablus came second (with 10.5 percent). Within the Gaza Strip, 68.6 percent of credit went to Gaza governorate.

By currency, the USD continued to hold the highest share of credit facilities (58 percent), ahead of the Israeli shekel (29.5 percent) and the Jordanian dinar (11.9 percent).

Table 4-2: Distribution of direct credit facilities portfolio– by Beneficiary,Type and Currency

(USD millions)

	2013	2014				Change (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Year-on-year
By Beneficiary							
Public sector	1,373.2	1,355.8	1,382.8	1,333.3	1,239.8	-7.0	-9.7
Resident private sector	3,070.5	3,285.1	3,491.2	3,484.4	3,632.1	4.2	18.3
− West Bank	*2,577.1*	*2,775.6*	*2,954.8*	*2,973.4*	*3,057.5*	*2.8*	*18.6*
- Gaza Strip	*493.4*	*509.5*	*536.4*	*510.9*	*574.6*	*12.5*	*16.5*
Non-Resident private sector	36.5	34.6	28.5	25.7	24.0	-6.6	-34.2
By Type							
Loans	3,207.7	3,442.5	3,577.0	3,714.2	3,854.5	3.8	20.2
Overdraft	1,258.5	1,218.2	1,309.9	1,112.6	1,021.1	-8.2	-18.9
Lease financing	14.0	14.8	15.6	16.6	20.3	22.3	45.0
By Currency							
USD	2,464.1	2,696.9	2,799.7	2,789.8	2,839.4	1.8	15.2
JD	471.1	472.4	513.1	544.9	582.7	6.9	23.7
NIS	1,510.7	1,470.7	1,552.6	1,478.0	1,443.6	-2.3	-4.4
Other currencies	34.3	35.5	37.1	30.7	30.2	-1.6	-12.0
Total	**4,480.2**	**4,675.5**	**4,902.5**	**4,843.4**	**4,895.9**	**1.1**	**9.3**

Source: PMA - The Consolidated Balance Sheet for Banks, December 2014

Table 4-3: Shares of various economic sectors of the facilities granted to the private sector (%)

Economic Sector	2013	2014				Change (%)	
	Q4	Q1	Q2	Q4	Q1	Q2	Q4
Real estate and construction	20.9	21.4	21.2	21.8	21.6	3.2	21.5
Land development	1.8	1.7	1.8	1.1	1.1	5.9	-28.2
Mining and manufacturing	7.2	7.0	7.1	7.0	7.0	4.5	15.8
Internal and external trade	19.8	19.3	19.2	20.4	20.4	4.3	21.6
Agriculture and livestock	1.2	1.9	1.9	1.2	1.3	6.9	21.8
Tourism, hotels and restaurants	1.9	1.7	1.7	1.7	1.6	-1.1	1.6
Transport and communications	0.7	0.7	0.6	0.6	0.8	34.1	38.4
Services	7.8	10.3	10.6	10.5	10.2	2.0	54.7
Financing investment in equity and financial instruments	1.6	1.2	1.0	0.8	0.8	0.0	-42.4
Financing car purchase	4.2	3.7	3.7	4.5	4.5	5.3	26.4
Financing consumer commodities	28.5	26.8	26.6	25.8	25.2	2.0	4.1
Others in the private sector	4.4	4.8	4.6	4.5	5.4	24.5	43.3
Total Facilities (USD millions)	**3,107.0**	**3,319.7**	**3,519.7**	**3,505.6**	**3,656.1**	**4.3**	**17.7**

Source: PMA, Monthly Statistical Bulletin, December 2014.

By economic activity, there were no salient changes. With 25.2 percent, consumer loans continued to hold the largest share of credit. The real estate and construction had a share of 21.6 percent, closely followed by the trade sector (both foreign and domestic) at 20.4 percent (see Table 4-3).

✧ **Banks' Deposits at the PMA**

At the end of Q4 2014, assets held by banks totaled USD 509.8 million, a growth of 15.5 percent over the previous quarter, while overseas assets of banks grew 1.5 percent to USD 2.8 billion. Meanwhile, deposits held by the PMA fell 7.9 percent to almost USD 1 billion due to a 23.3 percent decline in the current deposits and a 30 percent drop in other deposits against a 0.7 percent rise in mandatory reserves. Together these changes increased deposits held by the PMA and banks by 0.5 percent (to USD 4.4 billion) over the previous quarter (see Table 4-1).

✧ **Cash and precious metals**

Quarter four cash and precious metals data reveal a drop of 31.1 percent from the same quarter a year earlier to USD 658.5 million due to transferring to the Bank of Israel around NIS 9 billion as superfluous cash[21].

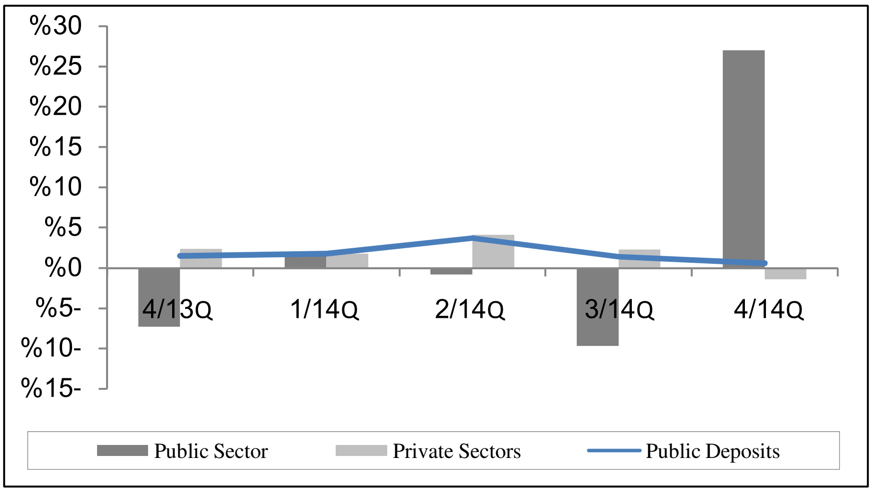
4.2 Liabilities

Quarter 4

✧ **Public deposits**

Public deposits end of 2014 Q4 saw a growth of 0.6 percent over quarter three of the year, which brought the figure up to USD 8.9 billion, thus constituting 75.6 percent of total liabilities of banks (See Table 4-1).

Figure 4-1: Growth in public deposits



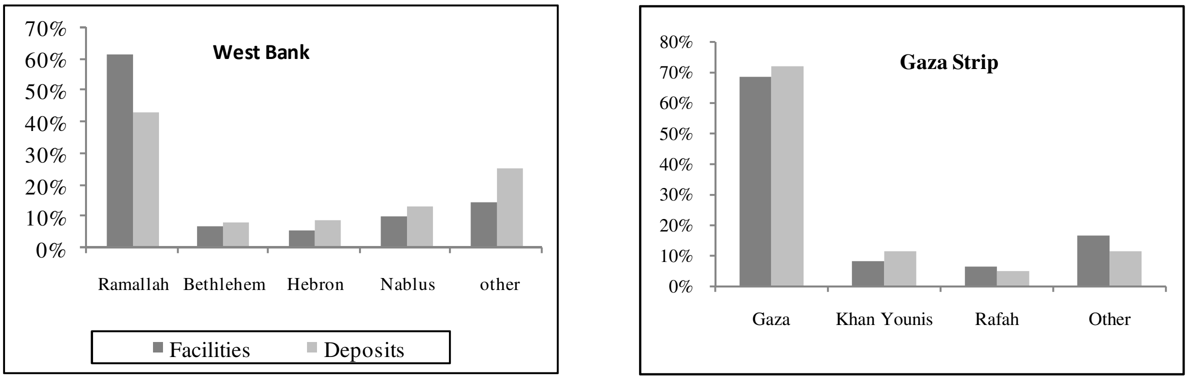
Source: PMA - The Consolidated Balance Sheet for Banks,

The public sector deposits in Q4 increased by 27 percent over Q3 (a USD 161.2 million rise in PA deposits and USD 8.3 million increase in deposits of local government councils), which brought the figure up to USD 785.2 million. Deposits of other sectors, however, saw a 1.4 percent decline to USD 8.2 million. The public deposits consisted of the public sector deposits (8.8 percent) and deposits of the resident and non-resident private sector (91.2 percent). Figure 4-1 shows quarterly figures for public deposits from 2013 Q4 to end of Q4 2014.

By region, Gaza's share fell during the quarter 0.5 percentage points to 11.1 percent (or USD 994.1 million) of total public deposits in the Palestinian economy. Meanwhile, the governorate of Gaza had the biggest share (72 percent) of total deposits in the Strip. The West Bank continued to retain its enormous share of about 88.9 percent. Within the West Bank, Ramallah acquired bout 43.5 percent of total deposits in the West Bank, by far followed by Nablus at 13.6 percent. Figure 4-2 shows the distribution of deposits and credit by governorate in both the West Bank and the Gaza Strip at the end of 2014 Q4.

[21] No transfers were reported from Gaza during this period. However, the damaged banknotes were replaced with new ones, while new metal coins were transferred to the Strip (See the box on liquidity crisis in the Palestinian economy below).

Figure 4-2: Deposits and Credit– By Governorate, as of end Q4 2014



Source: PMA

By type, deposits were either with interest or interest-free, with 51.3 percent and 48.7 percent, respectively. Current on-demand deposits represented 39.2 percent of total public deposits. Saving deposits made up 31.8 percent, while time deposits accounted for 29 percent of total deposits (see Table 4-4).

Table 4-4: Distribution of Public Deposits by Depositor, Type and Currency

(USD millions)

	2013	2014				Change %	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Year-on-year
By Depositor							
Public sector	676.9	689.7	684.5	618.2	785.2	27.0	16.0
Resident private sector	7,345.4	7,465.4	7,757.8	7,946.2	7,840.9	-1.3	6.7
Non-resident private sector	281.4	299.3	323.0	319.6	309.3	-3.2	9.9
By Type of Deposit							
Current deposit	3,339.2	3,380.1	3,450.9	3,607.6	3,506.5	-2.8	5.0
Time deposit	2,381.6	2,410.2	2,803.2	2,462.8	2,591.5	5.2	8.8
Saving deposit	2,582.9	2,664.1	2,511.2	2,813.6	2,837.3	0.8	9.8
By Currency							
USD	3,460.6	3,477.2	3,507.4	3,481.6	3,551.2	2.0	2.6
JD	2,106.0	2,226.2	2,284.2	2,337.0	2,299.4	-1.6	9.2
NIS	2,409.9	2,430.7	2,662.1	2,716.6	2,750.5	1.2	14.1
Other currencies	327.2	320.3	311.6	348.8	334.2	-4.2	2.1
Total	**8,303.7**	**8,454.4**	**8,765.3**	**8,884.0**	**8,935.3**	**0.6**	**7.6**

Source: PMA – The Consolidated Balance Sheet for Banks, December 2104.

By currency of deposits, the USD held the largest share (39.7 percent or USD 3.6 billion), ahead of the Israeli shekel (30.8 percent or an equivalent of USD 2.8 billion) and the Jordanian dinar (25.7 percent or an equivalent of USD 2.3 billion)– see Table 4-4.

✧ Equity

Equity, which accounts for about 12.4 percent of total liabilities, rose in 2014 Q4 by around 4 percent from the third quarter of the year (see Table 4-1).

✧ Deposits at PMA

In the target quarter, assets held by banks and the PMA totaled USD 729.2 million, plunging 13.1 percent from the previous quarter. Deposits of the PMA skidded 51.9 percent to USD 134.6 million, while deposits held by banks sank 28.5 percent to USD 94.6 million (see Table 4-1).

Annual comparison

Total liabilities in the consolidated balance sheet for banks increased in 2014 by 5.6 percent or USD 631.1 million over 2013 (see Table 4-1).

Below is a summary of the developments in the main components of the liability side during 12 months.

✧ **Public deposits**

During 2014, public deposits rose by about 7.6 percent from the previous year (see Table 4-1). The public sector deposits saw a marked growth of 16 percent (see Table 4-4). There was also a change in the weight of currencies, where deposits in the NIS grew at the expense of the USD deposits.

✧ **Equity**

Due to higher paid-up capital, as well as improved legal reserves and increased profits, equity rose by 7.9 percent from 2013 (see table 4-1).

✧ **Deposits at PMA**

Deposits at the PMA during the year shrank 19 percent on a 65 percent plunge in overseas deposits of banks (see Table 4-1).

4.3 Banking System Performance Indicators

Most indicators for the performance of banks operating in Palestine saw some improvements in Q4 2014. The ratio of nonperforming credit facilities to total facilities dropped to 2.5 percent (or USD 124.4 million) from 2.7 percent in the prior quarter. In annual terms, the ratio declined by 0.4 percentage points, suggesting an improvement in the quality of the credit portfolio (see Table 4-5).

Table 4-5: Banking System Performance Indicators (%)

Indicator	2013	2014			
	Q4	Q1	Q2	Q3	Q4
Equity / total assets	12.2	12.3	11.5	11.9	12.4
Interest income / total revenue	73.5	75.3	74.4	74.3	68.0
Credit facilities/ public deposits	53.9	55.3	55.9	54.5	54.8
Credit facilities of the private sector / private sector deposits	40.7	42.7	43.6	42.5	44.9
Foreign investments / total deposits*	38.2	36.8	34.6	38.3	39.4
Nonperforming credit facilities/ total facilities	2.9	2.9	2.6	2.7	2.5

Source: PMA – The Consolidated Balance Sheet for Banks, December 2104.
* Total deposits = public deposits + bank deposits (PMA deposits + bank deposits).

During 2014 Q4, credit facilities-to-total public deposits ratio advanced 0.3 percentage points over Q3 to 54.8 percent. Meanwhile, the ratio of private sector facilities to the total deposits of the sector mounted 2.4 percentage points to 44.9 percent during the same comparison period. At the same time, the ratio of foreign investments to total deposits posted an increase of 1.1 percentage points to 39.4 percent (see Table 4-5).

✧ **Banking penetration**

At the end of Q4 2014, there were a total of 17 banks in Palestine[22] (7 local and 10 foreign) operating through 258 branches/offices, up 5 from quarter 3. Throughout the year, the banks opened new 21 branches/offices (17 for local banks and 4 for foreign banks).

✧ **Profits of banks operating in Palestine**

The net profits of banks operating in Palestine for 2014 Q4 totaled about USD 39.4 million, up from USD 31.3 million in the previous quarter. The cumulative bank profits in 2014 reached USD 145.8 million, compared with USD 144.8 million a year earlier. Around 90.6 percent of 2014 revenue came from interest and commissions. Table 4-6 shows the year-over-year sources of revenue, expenses and net profits of banks.

[22] In February 2015, the National Bank (local) signed a strategic partnership agreement with the Jordan-based Bank al Etihad, under which the National Bank acquired the assets and liabilities of Bank al Etihad in Palestine. In return, the latter became a strategic partner to the National Bank with 10 percent of the paid-up capital. This acquisition brought the number of licensed banks in Palestine down to 16 as of March 1, 2015.

Table 4-6: Sources of revenue, expenses and net income of banks, 2012-2014

(USD millions)

	2013	2014				2013	2014
	Q4	Q1	Q2	Q3	Q4	Total	total
Net revenues	**122.2**	**118.6**	**123.8**	**122.7**	**129.8**	**463.7**	**494.3**
Interest	89.8	89.3	92.1	91.0	88.3	347.1	360.7
Commissions	22.3	19.8	21.5	21.7	24.0	80.4	87.0
Debt securities & investment	3.2	3.0	2.1	0.5	0.6	6.3	6.2
Operations of evaluating and exchanging foreign currency	5.0	4.4	6.4	7.2	7.3	24.6	25.3
Hedging and trading	0.05-	0.6	0.2-	1.0	0.5	0.22	1.9
Other operating revenue	2.0	1.5	1.9	1.3	8.5	5.1	13.2
Expenses	**91.9**	**78.1**	**89.2**	**91.4**	**89.8**	**318.9**	**348.5**
Operating expenses	69.7	64.7	75.3	77.2	78.3	251.4	295.5
Allocations	1.4	1.6	0.3	0.03	-0.05	11.2	1.9
Tax	20.8	11.8	13.6	14.2	11.5	56.3	51.1
Net income*	**30.3**	**40.5**	**34.6**	**31.3**	**39.4**	**144.8**	**145.8**

Source: PMA: profit and loss statement, December 2014 (unpublished data).
* Net income = net revenue – expenses

4.4 Average interest rates on deposits and loans

Quarter 4

Compared to the third quarter of the year, 2014 Q4 interest rates increased for USD, NIS and JD deposits (see Table 4-7). Interest on time deposits rose for the three traded currencies: by 0.01 percentage points to 2.14 percent for the JD, by 0.16 percentage points to 0.92 percent for the USD, and by 0.13 percentage points to 1.59 percent for the NIS. Meanwhile, interest rate for the NIS and the USD loans rose to 10.82 percent and 6.88 percent, respectively, while that for the JD fell to 8.69 percent from 9.35 percent in the previous quarter.

Annual Comparison

During the full year, interest on time deposits rose for the three traded currencies: to 2.15 percent for the JD, 0.82 percent for the USD, and 1.46 percent for the NIS (see Table 4-7). However, interest rate on loans for JD, USD and NIS decreased to 9.03 percent, 6.41 percent and 10.69 percent, respectively. This has reduced the year-on-year gap between deposits interest rates and loans interest rates for all traded currencies: from 7.09 percentage points to 6.88 percentage points for the JD; from 6.89 percentage points to 5.59 percentage points for the USD; and from 10.26 percentage points to 9.5 percentage points for the NIS. Obviously, the difference between the deposit interest and the loan interest for the NIS was double the difference figure for the USD and the JD.

Table 4-7: Weighted average interest rates for deposits and loans (%)

Period		JD		USD		NIS	
		Deposits	Loans	Deposits		Deposits	Loans
2013	Q1	1.70	8.69	0.45	7.33	1.09	11.65
	Q2	2.40	9.50	0.80	7.90	1.40	11.50
	Q3	2.11	9.53	0.49	7.73	1.38	11.19
	Q4	2.09	8.98	0.75	7.06	1.40	11.97
Average		**2.08**	**9.17**	**0.62**	**7.51**	**1.32**	**11.58**
2014	Q1	2.13	9.38	0.77	6.01	1.40	11.35
	Q2	2.19	8.71	0.85	6.18	1.40	11.05
	Q3	2.13	9.35	0.76	6.57	1.46	10.61
	Q4	2.14	8.69	0.92	6.88	1.59	10.82
Average		**2.15**	**9.03**	**0.82**	**6.41**	**1.46**	**10.96**

Source: PMA: Monthly Statistical Bulletin, December 2014.

4.5 Payments system

Check Clearing

Quarter 4

Checks presented for clearing rose in 2014 Q4 by 10.2 percent in number (to 1.3 million) and 2.6 percent in value (to USD 2.8 billion) as compared to quarter 3 of the year. NIS checks accounted for a massive 93.3 percent of the total number, while those in the USD and JD had small shares: 4.1 percent and 2.4 percent, respectively (see Table 4-8).

Yet, the total value of returned checks saw a drop of 9.7 percent to only 5.8 percent of the total value of checks presented for clearing, down from 6.6 percent in the prior quarter (see Table 4-8).

Annual Comparison

According to year-on-year data, checks presented for clearing in 2014 increased by 6.7 percent in number (to 4.6 million) and 5.1 percent in value (to USD 11 billion) over 2013. Returned checks, still, declined by 4.1 percent in number though they rose by 0.7 percent in value during the same comparison period (see Table 4-8).

Table 4-8: Number and value of checks presented for clearing & number and value of checks returned

Quarter		Checks presented for clearing		Checks returned	
		No. (checks)	Value (USD millions)		No. (checks)
2013	Q1	1,021,161	2,326.7	139,098	164.4
	Q2	1,075,125	2,705.5	111,954	159.3
	Q3	1,093,428	2,698.0	112,562	161.3
	Q4	1,156,713	2,837.5	123,730	174.2
Total		**4,346,427**	**10,567.7**	**487,344**	**659.2**
2014	Q1	1,093,504	2,779.3	110,488	168.4
	Q2	1,140,775	2,802.0	107,158	154.0
	Q3	1,143,268	2,724.5	124,461	179.4
	Q4	1,260,225	2,795.6	125,329	162.0
Total		**4,637,772**	**11,101.4**	**467,436**	**663.8**

Source: PMA: Monthly Statistical Bulletin, December 2014.

- **Buraq real-time settlement operations**

Quarter 4

During 2014 Q4, the total value of Buraq interbank real-time settlement operations was USD 8.3 billion, a decline of 7.4 percent over Q3 of the year, even though operations were higher in number (47880). Operations between member banks comprised bank transfers (49.4 percent), personal remittances (18.5 percent), non-bank transfers (22.2 percent) and clearing (9.3 percent)– (see Table 4-9).

Table 4-9: Total operations via Buraq, Q4 2013–Q4 2014

(USD millions)

Members		2013	2014				2013	2014
		Q4	Q1	Q2	Q3	Q4	Total	Total
Bank transfers	**Number**	1,893	2,101	2,230	1,894	1,726	**8,223**	**7,951**
	Value	3,246.7	3,636.1	3,877.6	4,545.1	4,120.2	**14,822.97**	**16,179.0**
Personal remittances	**Number**	34,789	35,078	37,144	39,033	42,820	**142,926**	**154,075**
	Value	1,527.7	1,557.5	1,823.6	1,833.4	1,547.4	**6,344.9**	**6,761.9**
Non-bank transfers	**Number**	615	601	610	556	544	**2,629**	**2,311**
	Value	1,945.5	1,744.3	2,164.8	1,766.3	1,851.1	**7,383.4**	**7,526.5**
Clearing remittances	**Number**	1824	1,986	2,046	1,928	1,937	**7,758**	**7,897**

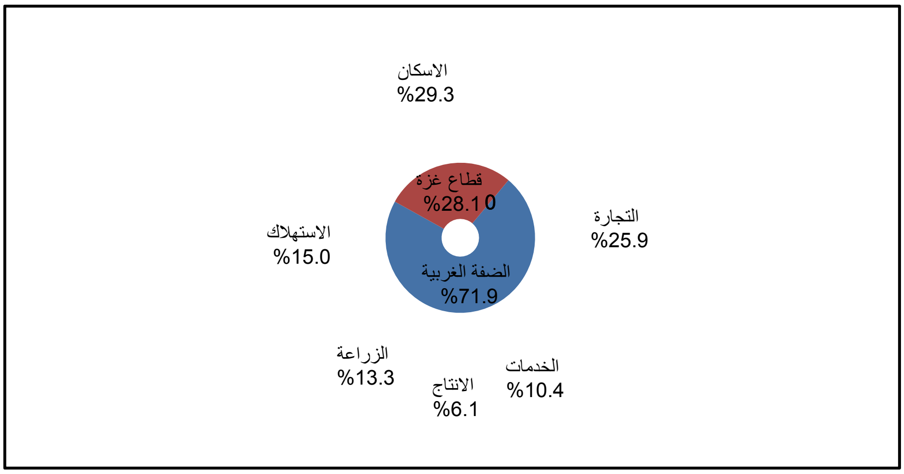
Members		2013	2014				2013	2014
		Q4	Q1	Q2	Q3	Q4	Total	Total
	Value	817.6	799.6	834.9	809.8	778.3	**3,356.3**	**3,222.6**
stock exchange transfers	Number	315	336	360	363	396	**1,128**	**1,455**
	Value	35.2	39.5	16	15.9	12.8	**72.28**	**84.2**
Other operations	Number	396	343	381	383	457	**1,506**	**1,564**
	Value	34.8	25.9	27	44.9	37.3	**131.2**	**135.1**
Total	Number	39,868	40,445	42,771	44,157	47,880	**164,170**	**175,253**
	Value	7,607.6	7,802.9	8,743.9	9,015.4	8,347.1	**32,111.1**	**33,909.3**

Source: www.pma.ps

4.6 Specialized lending institutions[23]

Specialized lending institutions operate through a WBGS network of branches and offices that totaled 67 end of 2014 Q4, with 540 employees. These institutions provide services to a large number of clientele that reached 59,702 (67.4 percent in the West Bank and 32.6 percent in Gaza) at the end of the quarter, with females representing 44.3 percent of clientele.

Figure 4-3: Regional and sectoral distribution of SLI facilities



The loan portfolio end of the quarter amounted to USD 109.6 million (71.9 percent in the West Bank and 28.1 percent in Gaza), a 4.6 percent lift over the previous quarter. By beneficiary, the housing sector continued to have the biggest share (29.3 percent), ahead of the commercial sector (25.9 percent), the consumer sector (15 percent), agriculture (13.3 percent), services (10.4 percent) and production (6.1 percent).

4.7 Palestine Stock Exchange

Three groups of financial indicators of the Palestine Stock Exchange are discussed below.

- Financial market indicators:
  - ✧ Market capitalization[24]: In 2014, market cap on the Palestine Stock Exchange advanced to 25 percent from 24 percent a year earlier.
  - ✧ Number of listed companies: At the end of 2014 Q4, 48 companies were listed on the Palestine Stock Exchange (8 companies working in banking and financial services; 12 manufacturing companies; 7 insurance companies; 8 investment companies; and 13 companies working in the services sector).

[23] Data were obtained from the Palestinian Network for Small and Microfinance (Sharakeh), an umbrella for six lending institutions: ASALA, ACAD, FATEN, UNRWA, REEF and CHF.

[24] This indicator is used to measure the importance and role of the financial market in an economy. It is calculated by dividing the market value of shares listed on the market to the GDP at current prices. This indicator is calculated for the entire year rather than individual quarters.

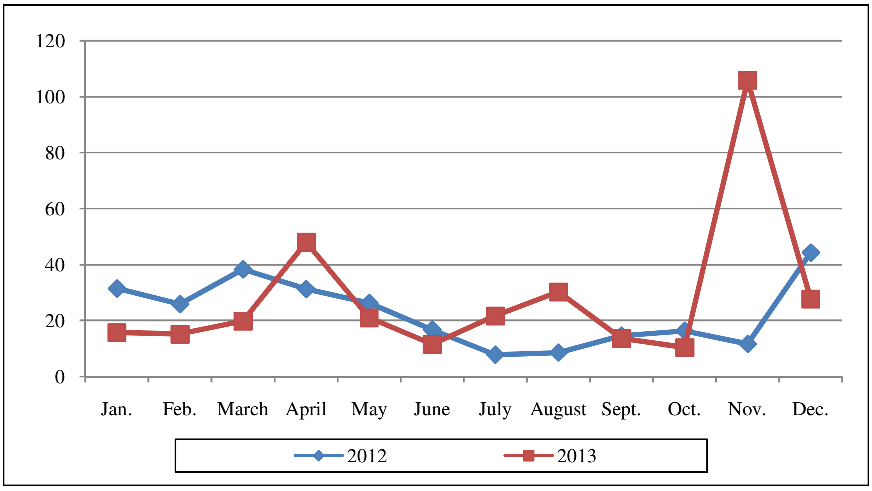
- Liquidity Indicators
  - ✧ Ratio of traded shares to GDP: At the end of December 2014, this ratio was only 2.8 percent, up from 2 percent in 2013.
  - ✧ Turnover[25]: The reading of this indicator was 11.1 percent in 2014, up from 10.5 percent in the prior year. At the sectoral level, the turnover of the investment sector was 20.1 percent; the banking and financial services sector 13.3 percent; the manufacturing sector 3.3 percent; the insurance sector 4.1 percent; and the services sector 8.4 percent.
- Degree of Concentration[26]: Around 79.3 percent of the total value of shares traded in 2014 was held by the largest five companies on the Palestine Stock Exchange, namely Palestinian Telecommunications Group (28.5 percent); Palestine Development and Investment (25.1 percent); Bank of Palestine (16.6 percent); the National Bank (5.5 percent) and the Arab Palestinian Investment Company– APIC (3.5 percent).

Shares traded on the Palestine Stock Exchange during 2014 totaled 181 million, down 10.8 percent from 2013 (when they were 203 million). The market value of shares traded in 2014 was USD 354 million, an increase of 3.8 percent over the figure a year earlier (see Figure 4-4).

The market value of shares for the companies listed on the Palestine Stock Exchange at the end of 2014 was USD 3.2 billion, the same figure reported in 2013. By sector, services retained their largest share of the total market value (45 percent). The banking and financial services sector came second, with 26 percent of total value (see Figure 4-5).

Figure 4-4: Value of shares traded on PSE, 2013-2014

(USD millions)



Source: Palestine Stock Exchange www.pex.ps

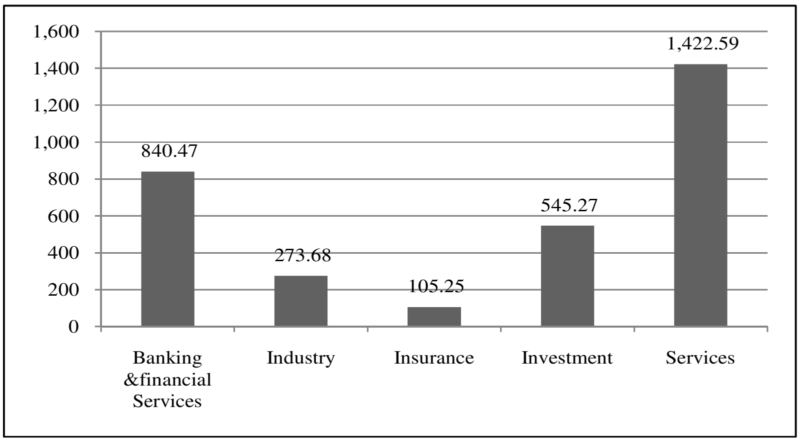
Of the total value of shares traded during the quarter, the services sector acquired the largest share (33.7 percent). The banking and financial services sector followed with 31.5 percent, ahead of investment (31 percent)– (see Figure 4-6).

[25] This indicator calculates the volume or value of shares traded on a stock exchange during a day, month or year.

[26] This indicator is used to measure the influence of some large companies on changes in stock prices. The influence is measured by calculating the contribution of the top five or ten companies to the value of shares traded on the stock market.

Figure 4-5: Value of shares listed on PSE by Sector– end of 2014

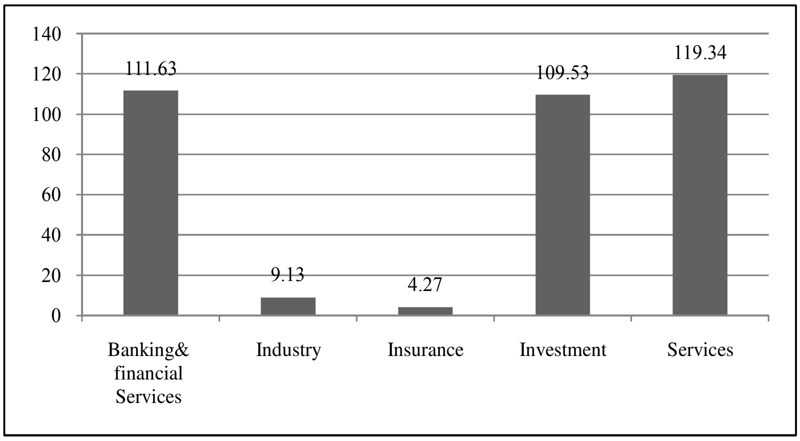
(USD millions)



Source: Palestine Stock Exchange www.pex.ps

Figure 4-6: Value of shares traded on PSE by Sector– 2014

(USD millions)

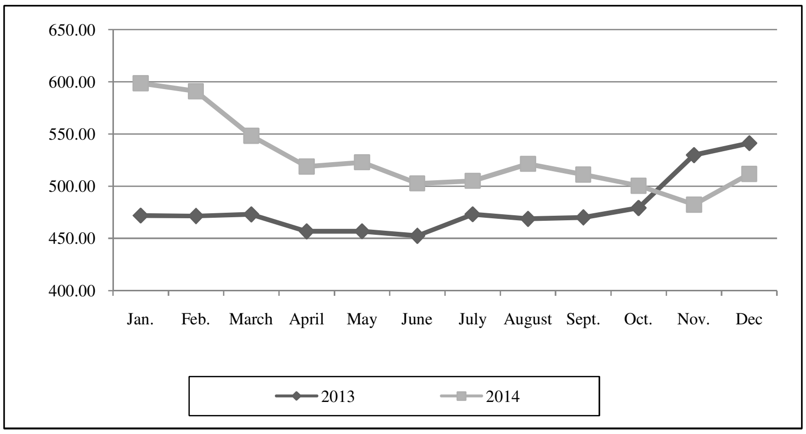


Source: Palestine Stock Exchange www.pex.ps

Al-Quds Index

Al Quds Index closed 2014 at 511.77 points, 29.68 points lower than 2013 end-year figure (see Figure 4-7).

Figure 4-7: Al-Quds Index, 2013-2014



Source: Palestine Stock Exchange www.pex.ps

Box 5: Trading Commission on Palestine Stock Exchange, the highest in the region

Is the high trading commission in the Palestinian stock exchange a result of the low volume and value of shares traded or is it the other way around? This is similar to the question on chicken and egg: which came first, which is the cause and which is the result?

The first column in Table 1 draws a comparison between stock trading commissions in Palestine Stock Exchange and a group of stock exchanges in neighboring countries, with the value of commissions being the percentage of the stocks purchase price. The second column records the recipients' shares of the commission funds: the Capital Market Authority, the broker, tax department and others.

The trading commission in Palestine is the highest among the target countries: as twice as that of Syria's and three times as that of Egypt's.

In fact, an increase in the number and value of shares traded creates an opportunity to reduce the commission without affecting negatively on the revenue of the securities sector institutions. This revenue is necessary for financing administrative and operational costs of the stock exchange. Column 3 shows that the higher the turnover rate (the value of traded stocks with relation to the value of listed stocks), the lower the trading commission. Save for Syria, with very unusual conditions, the stock turnover rate in Palestine Stock Exchange is the lowest, at 10.5 percent compared with 58 percent in Egypt, for example.

The *Monitor* team met with Buraq Nabilsi, Director General of the Securities Department in the Capital Market Authority– CMA, to learn more about such a high commission and its impact on the shares trade movement.

In his reflection on the issue, the Director General said:

1. It is true that the trading commission in Palestine is the highest in the region (which is one of the main reasons behind weak trading since 2008), yet there are other reasons related to the components and regulation of the financial sector. The Monetary Authority, the Ministry of Finance and the Ministry of Economy have roles they need to assume side by side with the CMA.
2. The trading commission is the main source of revenue for the CMA and the securities sector. Between 2011 and 2013, the funds from commission made up 14 percent of the average revenue for the CMA, covered around 90 percent of Palestine Stock Exchange total operating revenue and constituted 56 percent of the average income of securities companies.
3. The CMA's share is comparable to those found in neighboring markets.
4. The plunge in trading has reduced revenues for all institutions working in the securities sector. If weak trading continues, a decrease in the trading commission will never be a convenient solution; rather it will lower revenues to the degree that the CMA, the Palestine Stock Exchange and securities firms will not be able to cover their average variable costs of operation. This in turn will drive firms to seek trade on foreign stock exchanges, which weakens trading on the Palestine Stock Exchange and impedes the CMA efforts to promote the technological competitiveness of the Palestine Stock Exchange, which in turn harms trading.
5. The real problem in the securities industry is that the current trading volume does not allow economies of scale that are necessary for the sustainability of the sector. Accordingly, lowering the commission to enable competition will never be the solution unless it is coupled with a set of policies that aim at enhancing trading, an envisioned joint effort by the Ministry of Finance, the Ministry of National Economy Ministry, the Income Tax Department in the Ministry of Finance and the Companies Comptroller. Equally important is enhancing domestic/foreign investors' confidence in Palestine Securities Market. Nowhere else in the world the government levies value added tax on both the buyer and the seller as it does in Palestine, a problem that needs a joint effort to be tackled properly.

Table 1: Trading commission and stock turnover in selected markets in the Arab region

	Trading commission		Turnover rate	
	Trade currency (as % of purchase price)	**Recipients of commission (%)**	**Turnover (trading value/market cap) %**	**Market cap & trading value (2014)**
Palestine	**0.8272**	- CMA 0.05 - PSE 0.2 - Broker 0.47 - Tax 0.1072	10.56	Market cap: USD 3.141 billion Trade: USD 331.8 million
Jordan	**0.74-0.54**	- Stock Exchange 0.14 - Broker 0.4–0.6	12.1	Market cap: JD 18.1 billion Trade: JD 2.18 billion
UAE	**0.0275**	- Stock Market Commission 0.005 - Financial Market 0.005 - Broker 0.015 - Clearance 0.005 - + AED 10 as deal fees	**106.5**	-Market cap: AED 357.18 billion - Trade: AED380.38
Egypt	**0.22**	- Financial Supervisory Authority 0.001 - Egyptian Exchange 0.0012 - Broker 0.002 - Central Depository 0.005 - Clearing 0.0013 - insurance - + 6% as capital gains tax	**58.1**	Market cap: EGP 500 billion Trade: EGP 291 billion
Qatar	**0.275**	- Qatar Stock Exchange 0.055 - Broker 0.22	**29.45**	Market cap: QAR 676.19 billion Trade: QAR 199.29 billion
Saudi Arabia	**0.12**	-Commission: - 0 SAR – SAR 10,000 = SAR 12 - 10,000 ≤ = 0.0012	**118.40**	Market cap: SAR 1.8 trillion Trade: SAR 2.1 trillion
Kuwait	**0.1**	- 0–1600=2 KWD - 1600–50,000: 0.00125 + 500 fils - 50,000 ≤: 0.001 + 500 fils	**20.45**	Market cap: KWD 30.19 billion Trade: KWD 6.18
Syria	**0.45-0.65**	- Broker 0.0034–0.0054 - Central Depository 0.0005 - Damascus Securities Exchange 0.0006	**2.51**	Market cap: SYP 132.35 billion Trade: SYP 3.33 billion

Sources: Data were obtained from online sources. For more information, contact the Monitor editing board.

Box 6: Liquidity crisis in the Palestinian economy

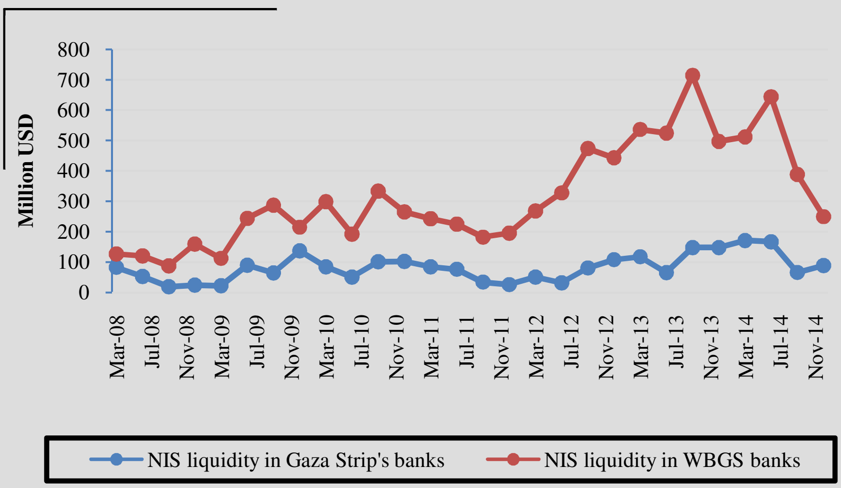
The Palestinian economy has suffered semi-chronic liquidity crises, with overarching adverse implications on the banking sector and the economy at large. The crises are in the first place triggered by the Israeli recurrent violations of the Paris Economic Protocol, which establishes in paragraph 14 that both sides will allow corresponding relations between each others' banks. The PMA will have the right to convert at the Bank of Israel (BOI) excess NIS received from banks operating in the Areas into foreign currency, in which the BOI trades in the domestic inter-bank market. According to paragraph 18, the exchange of foreign currency for NIS and vice-versa by the PMA will be carried out through the BOI Dealing Room, at the market exchange rates.

The liquidity crisis in the banking sector aggravated in the second half of 2007, when Israel declared the Gaza Strip a hostile territory and severed all ties with banks operating in the Gaza Strip, including foreign banks. Check clearing as well as incoming and outgoing remittances with Israeli correspondent banks came to a halt, triggering a lack of USD and JD liquidity, and later a shortage in NIS liquidity. The banks in the West Bank were not spared– finding themselves unable to supply their Gaza branches with hard currency. Meanwhile, the West Bank market was struggling with excess shekel that the BOI refused to receive. The tremendous efforts the Palestine Monetary Authority made with international bodies (such as the International Monetary Fund and the Quartet) to pressure Israel to comply with the Paris Protocol and allow the flow of all currencies (specifically to Gaza) turned out well.

The crisis resurfaced again in 2009, when the surplus started to rise, reaching its historical high in 2013 before it started to drop following an agreement between the PMA and the BOI, which allowed transferring the excess NIS amounts to Israel.

An interim mechanism allowed for transferring NIS 120 million a month from local banks that do not have interbank relations with the Israeli banks. As of July 2013, the amount was raised to NIS 300 million. Irregular amounts of NIS 1 billion a month were transferred over three months (September-November), which brought the total figure of transfers during 2013 to NIS 9.6 billion. Israel did not allow Gaza banks to transfer their shekel surplus to the BOI. However, in 2013 it authorized transferring NIS 200 million to the West Bank, replaced damaged banknotes with new ones and transferred a total of NIS 54 million in metal coins to the Strip.

Figure 1: NIS liquidity (USD-denominated) in the Palestinian banking system, March 2008-December 2014



In 2014, around NIS 9 billion were transferred to Israel, of which NIS 4.6 billion were carried out by Jordanian banks operating in Palestine, with direct business with Israeli correspondent banks. During the same period, NIS1.9 million in metal coins were transferred to Gaza, while a total of NIS 200 million of damaged currency notes were replaced with new ones. Ratio of NIS liquidity to the total assets of banks operating in Palestine declined in 2014 end year to 11 percent from 30 percent a year earlier. Figure 1 shows sharp fluctuations in the NIS liquidity in WBGS banks.

In some rough estimates, about 8-10 percent of the NIS volume is traded in the Palestinian territories. Thus, the NIS superfluity in the Palestinian territories impacts inflation in Israel and defames the currency. The central banks, as per international banking traditions, should accept transfers of its currency excess no matter the amount or the party holding that liquidity.

This text box is prepared by the PMA staff

5. Investment Indicators

5.1 Company Registration

The Ministry of National Economy registers companies in Palestine under two different laws in effect in the West Bank and the Gaza Strip[27]. Below, we provide a review of the new companies registered in Q4 and full year 2014 in the West Bank only because data on the registration of companies in the Gaza Strip are not available to the Ministry of Economy in Ramallah.

Quarter 4

The number of registered companies in the West Bank in Q4 reached 372, a 20 percent rise over the previous quarter and 32 percent over the 2013 same quarter (see Table 5-1). With a capital of JD 59.7 million, the new companies were exclusively public ordinary and private joint stock companies, with the latter holding around 57 percent of this capital.

Annual Comparison

During the year, some 1490 new companies were registered in the West Bank, an increase of 27 percent (or 318 companies) over 2013. The total capital of these companies was JD 224 million, down 34 percent from the figure a year earlier.

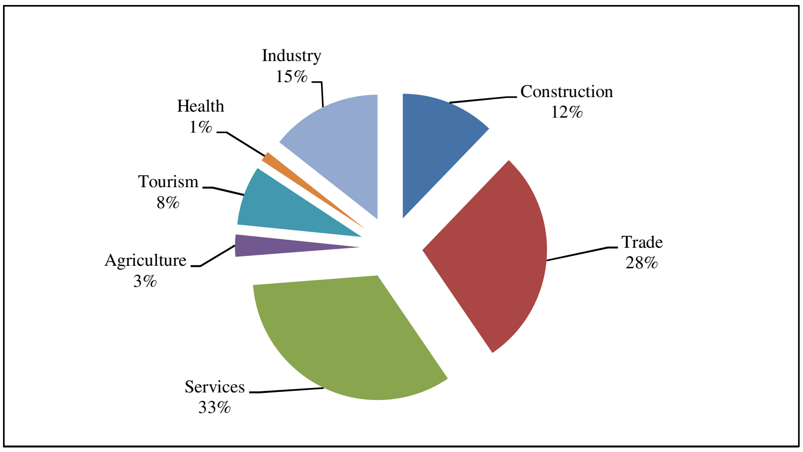
Table 5-1: New companies registered in the West Bank (2008-2014)

Quarter	2008	2009	2010	2011	2012	2013	2014
1	247	454	334	389	319	272	440
2	334	412	428	373	278	317	367
3	315	349	164	287	228	302	311
4	287	438	290	337	245	281	372
Total	**1,183**	**1,653**	**1,216**	**1,386**	**1,070**	**1,172**	**1,490**

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2015.

With a share of 33 percent (or JD 75 million), the services sector held the largest share of the capital of newly-registered companies in the year, closely followed by the trade sector at 28 percent. The industry and construction sectors came third and fourth, with 15 percent and 12 percent, respectively (see Figure 5-1).

Figure 5-1: Percentage distribution of the capital of new companies registered in the West Bank- by Economic Activity, 2014



Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2015.

27 Jordanian Companies Law No. (12) of 1964 is applied in the West Bank, while the Companies Law No. (18) of 1929 is applied in the Gaza Strip.

Annual data show that the newly registered companies took different legal forms: 898 private joint stock; 582 public ordinary; and 11 foreign joint stock, with 65.7 percent, 29.2 percent and 5.4 percent of total capital, respectively (see Table 5-2).

Table 5-2: Distribution of the value of capital of companies registered in the West Bank- by Legal Form, 2013-2014

(JD millions)

Period	Legal form				Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	
2013	**51.081**	**119.846**	**2**	**169.268**	**342.195**
Q1 2013	20.882	38.295	0	0.672	59.244
Q2 2013	16.743	29.534	0	11.345	57.627
Q3 2013	13.010	34.651	0	0	47.662
Q4 2013	14.850	44.887	0	0	59.736
2014	**65.485**	**147.367**	**0**	**12.017**	**224.269**

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2015.

5.2 Building Licenses

The number of building licenses issued during a given period may be taken as a significant indicator of investment activity in general and investment in the housing sector, in particular. The number of building licenses changes seasonally- increasing in the second and third quarters (during summer), while declining in the first and fourth quarters (during winter). In general, the number of licenses issued in Palestine does not include all building activities in the construction sector, as a relatively large part of the construction activities, especially in rural areas, is not registered or licensed.

Quarter 4

Quarter four building license data show a rise of 5.1 percent in the number of building permits compared to the previous quarter (from 2039 in Q3 to 2144 in Q4), against seasonal tendency. Compared to the prior year's same quarter, there was an increase of 0.3 percent in the number of permits and a rise of 14.4 percent in building areas licensed.

Annual comparison

While the number of licenses remained relatively the same between 2013 and 2014, licensed building areas (around 4 million m²) saw a growth of by 2.3 percent though licensed housing units (new and existing) were 130 lower than in 2013 (see Table 5-3).

Table 5-3: Building licenses issued in Palestine: 2013-2014 (area in 1000 m²)

Indicator	2013	2014				
		Q1	Q2	Q3	Q4	Total
Total licenses issued	**9,138**	**2,445**	**2,447**	**2,039**	**2,144**	**9,075**
Residential buildings	**8,315**	**2,239**	**2,257**	**1,866**	**1,950**	**8,315**
Non-residential buildings	**823**	**206**	**190**	**173**	**194**	**763**
Total licensed areas	**3,984.3**	**1,149.4**	**1,032.0**	**917.6**	**978.0**	**4,077.0**
No. of new units	**13,566**	**3,804**	**3,592**	**2,929**	**3,452**	**13,777**
Area of new units	**2,318.2**	**686.5**	**640.7**	**600.2**	**618.7**	**2,546.1**
No. of existing units	**3,394**	**842**	**905**	**642**	**664**	**3,053**
Area of existing units	**575.0**	**140.3**	**151.1**	**105.3**	**104.0**	**500.7**

Source: Palestinian Central Bureau of Statistics (2015): Building Licenses Statistics, Ramallah - Palestine.

5.3 Cement Import

Quarter 4
Cement import during the quarter increased by 18.6 percent over the previous quarter– a rise resulting from a 12.8 percent growth in the quantities imported into the West Bank and a massive 882.6 percent upturn in Gaza import. Compared to the prior year's same quarter, the amounts rose by 13.6 percent (see Table 5-4).

Annual Comparison
The volume of 2013 cement imports grew by 12.1 percent over 2013 on 13.5 percent lift in WB import against 23 percent decline in GS import.

Table 5-4: West Bank and Gaza Imports of Cement: 2013-2014 (in thousand tons)

Indicator	2013	2014				
	Total	Q1	Q2	Q3	Q4	Total
West Bank	1,313.6	350.6	419.2	339.1	382.5	1,491.4
Gaza	51.7	5.6	9.3	2.3	22.6	39.7
Palestine	1,365.3	356.2	428.5	341.4	405.0	1,531.1

Source*:* Palestinian Central Bureau of Statistics: Administrative Records, 2015, Ramallah, Palestine.

5.4 Vehicle Registration

Quarter 4
During the quarter, some 4780 new and used vehicles were registered in the West Bank, up 6 percent from the previous quarter and 23 percent from the same quarter a year earlier (see Table 5-5). Used vehicle imports during the quarter rose by 7.2 percent, while those from Israel increased by 15.5 percent compared with the previous quarter. No significant changes reported for new vehicles imports from abroad.

Annual Comparison
In 2014, the West Bank imports of new and second-hand vehicles totaled 17500 (51 percent used vehicles imported from international market, 35 percent new vehicles imported from international market and 14 percent used vehicles imported from Israel). The figure suggests a growth of 15 percent over 2013, resulting from a 26 percent increase in second-hand vehicle imports from abroad and a 10 percent rise in new vehicle imports from international market against a drop of 6 percent in second-hand vehicle imports from Israel.

Table 5-5: New and used vehicles newly registered in the West Bank 2013-2014

	Vehicles from international market (new)	Vehicles from international market (used)	Vehicles from the Israeli market (used)	Total
Q4 2013	1,535	1,743	606	3,884
2013	**5,602**	**7,069**	**2,530**	**15,201**
Q1 2014	1,259	1,903	601	3,764
Q2 2014	1,601	2,241	560	4,402
Q3 2014	1,657	2,301	571	4,529
Q4 2014	1,660	2,466	654	4,780
2014	**6,177**	**8,911**	**2,386**	**17,475**

Source: Department of Customs and Excise, unpublished data, 2015.

5.5 Hotel Activity

Quarter 4
The total number of hotels operating in the Wet Bank fell to 109 end of Q4 2014, down from 111 end of the previous quarter. Hotel guests totaled 152,531 (a growth of 50.7 percent over the previous quarter, but a decline of 20.1 percent from the 2013 same quarter). These guests lodged 406,394 nights in the West Bank's hotels.

Annual Comparison
A total number of 109 hotels were operating in the Wet Bank end of 2013, down from 113 a year earlier. However, hotel employment grew by 7.1 percent, while the number of hotel guests fell 1.7 percent. The average length of stay rose from 2.4 nights per guest in 2013 to 2.5 nights in 2013.

Table 5-6: Key Hotel Indicators in the West Bank, 2013-2014

Indicator	2013	2014				
		Q1	Q2	Q3	Q4	2014
No. of operating hotels	**113**	116	114	111	109	**109**
Average no. of employees	**2,797**	3,035	3,015	2,960	2,970	**995,2**
No. of guests	**600,362**	149,506	207,083	101,227	152,531	**610,347**
No. of nights stayed	**1,467,709**	361,704	493,104	276,109	406,394	**1,537,311**
Average room occupancy	**1,458.5**	1,527.4	2,029.4	1,520.6	1,650.5	**1,681.9**
Average bed occupancy	**4,021.1**	4,018.9	5,418.7	3,001.2	4,417.3	**4,211.8**
Room occupancy %	**24.9**	23.1	30.6	22.8	24.5	**25.2**
Bed occupancy %	**29.9**	27.4	36.8	20.3	29.6	**28.5**

Source: PCBS, 2015: Hotel Activity in the West Bank 2014
* Data under revision

Box 7: The Effects of USD Appreciation on the Palestinian Economy

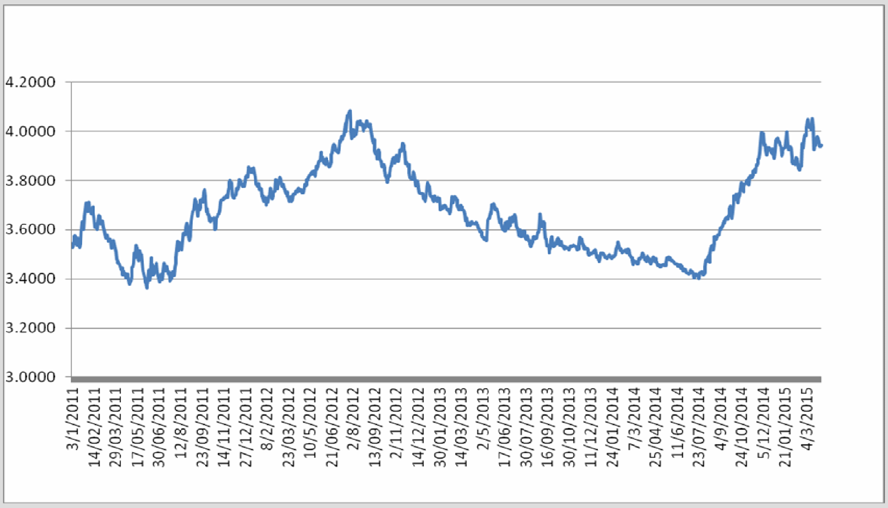
A quick look at the USD exchange rates against the New Israeli Shekel (NIS) over the past few years (Figure 1) reveals the degree of volatility in the foreign exchange market and the turbulent in the monetary policy of the Bank of Israel. The USD/NIS exchange rate has seen sharp fluctuations, declining to its lowest in May 2011 (NIS 3.35) before a gradual appreciation over the next few years, culminating with a historical high in July 2012 (to NIS 4). It then started to decline, but rebounded thereafter, reaching NIS 4.053 in late March 2015.

This volatility is not due to the working of free market forces (i.e. USD supply and demand) in the Israeli economy. The Bank of Israel has abandoned in 2009 its decade-long exchange rate non-interference policy and started to intervene actively in the market to influence the exchange rate. Exchange rate regime in Israel, turned thus from a floating system to a managed floating system. During periods of heavy pressures on the shekel, the BoI was purchasing more than USD 100 million per day to curb its depreciation (see *The Social and Economic Monitor* 31, for review Bank of Israel monetary policy).

It is well known that volatility of exchange rate, and the resulting uncertainty, has strong implications on economic performance. Also depreciation of currency is a double-edged sword. On the one hand, it can improves the competitiveness of national products (thus increasing exports), and rises the prices of imports as denominated in national currency (thus reducing imports). On the other hand, it can lead to a rise in domestic prices and create a wage-price spiral, which adversely impacts the competitiveness of national goods in the global market.

The appreciation of the NIS between the mid-2012 and mid-2014 was a result of different internal factors. Oil and gas discoveries reduced the need for importation (and thus the demand for the dollar) and drew large foreign investments both for in gas exploration and acquisition of Israeli high-tech firms (which increased the demand for the shekel). Low interest rates in international markets and the QE policy by the US Federal Bank have stimulated more capital inflows to Israel, resulting in a relatively large appreciation of the NIS against the USD and the Euro. In an effort to tackle the NIS appreciation, the Bank of Israel did massive buying of the dollar from the Israeli market. By early 2014, the Central Bank had accumulated dollar reserves in excess of USD 80 billion. The BoI efforts only helped to avoid the worst scenarios, and the massive buying did not curb the persistent decline in the value of the USD, which depreciated to as low as NIS 3.40 in July 2014.

Figure 1: USD/NIS exchange rate, from January 3, 2011 to April 9, 2015



Bank of Israel: http://www.boi.org.il/en/Markets/ExchangeRates/Pages/Default.aspx

Signs of recovery in the US and Europe in summer 2014 have relieved the NIS from some of the pressure. The forecasts about potential rising of interest rates in the US (following the Fed decision to stop injecting dollars via bond-buying, i.e. QE) have also augured well for the Bank of Israel in its effort to maintain a low value for the NIS to boost economic growth. The value of the NIS experienced some decline in the third quarter 2014 following the Gaza war. It appears now that the Bank of Israel is determined to continue with this policy. Once the NIS started to appreciate again relative to the USD in mid-February 2015, the Bank reduced the interest rate from 0.25 percent to only 0.10 percent, which resulted in appreciation of the dollar, from NIS 3.88 on February 9 to NIS 3.966 on February 23. The fact that annual inflation rate in Israel was only 0.5 %, far below the target of 1-3 %, encouraged the BoI to take the step of reducing the interest rate. Israel's reduction of interest rate was in line with an international tendency, as at least 16 central banks around the world reduced their interest rates during February to prevent the appreciation of their currencies and maintain economic recovery. This chain of attempts by different countries to force currency depreciation is now known as 'the currency war', and it seems that the BoI has decided to be engage in this war as well.[28]

The effects of exchange rate fluctuation on the Palestinian economy

In a previous Issue of the *Monitor (No. 36),* we examined the impact of exchange rate volatility on Israel's economy[29]. We will discuss here the effects of the dollar appreciation (NIS depreciation) on the Palestinian economy. Table 1 records the development in the exchange rate of the dollar against the shekel. The date shows that between July 2014 and April 2015, the dollar appreciated by about 15 percent against the NIS.

Table 1: USD/NIS exchange rate and % of change

Date	USD/NIS	Change
10/2/2014	3.525	
10/3/2014	3.474	-1.45%
10/4/2014	3.467	-0.20%
9/5/2014	3.452	-0.43%
10/6/2014	3.462	0.29%
10/7/2014	3.429	-0.95%
11/8/2014	3.472	1.25%
10/9/2014	3.614	4.09%
10/10/2014	3.722	2.99%

28 http://www.haaretz.com/business/1.643831
29 http://www.mas.ps/old-2012/sites/default/files/Monitor%2036%20.pdf

Date	USD/NIS	Change
10/11/2014	3.782	1.61%
10/12/2014	3.948	4.39%
9/1/2015	3.958	0.25%
9/2/2015	3.880	-1.97%
9/3/2015	4.017	3.53%
9/4/2015	3.943	-1.84%

Bank of Israel: http://www.boi.org.il/en/Markets/ExchangeRates/Pages/Default.aspx

The impact on income: An increase of 15 percent in the USD/NIS exchange rate means that those who are paid in USD (or JD, which is pegged to USD) enjoyed an increase of 15 percent in their salaries denominated in the NIS[30]. According to a survey conducted by the PCBS on behalf of MAS, 7 percent of the total workers in the Palestinian territories receive their wages and salaries in USD or JD. This figure rises to over 60 percent for employees of the non-governmental organizations in Palestine (see Table 2).

Table 2: Currencies of Wages & Salaries in the Palestinian Territories (%)

	NIS	USD	JD
Public sector	98.7	0.7	0.7
Private sector	92.9	4.0	3.8
NGOs	38.2	50.2	11.6
Israel & settlements	98.6	0.8	0.6
Total	93.0	4.5	2.5

Source: A survey conducted by the PCBS on behalf of MAS,

Impact on expenditure: The question now is the following: Does the nominal increase of 15 percent in the salaries of around 7 percent of the employees increase the purchasing power of this group? The answer depends on two factors:

- First, the currency of expenditure: This is a question of whether individuals receiving their salaries in dollars or dinars have their spending in shekels. The data from the Palestinian Monetary Authority (PMA) indicates that the USD is the currency for most of the housing loans and house rent (the most important items in consumers' basket) in the Palestinian territories. According to PMA data, around 85 percent of bank credit is granted in the USD. The share of JD is 8.5 percent, leaving only 6.4 percent to the NIS. Clearly then, the higher the share of spending in the USD, the lower the benefits from the USD appreciation for this 7% of the employees.
- Second, rise in prices in shekel: We pointed out earlier that depreciation of national currency leads to increase of prices of imports. For the Palestinian economy, it is a double burden. Not only the prices of direct imports from international markets will increase (about 30% of total imports), but also the prices of much of the products imported from Israel will also increase because a large share of it is mere re-export of goods originally imported to Israel from abroad (the re-export share is up to 27 % of all Israeli exports to the Palestinian areas, excluding fuel, according to the BoI study, see *Monitor* 37). Also, the rise in the prices of raw material that Israel imports translates into an increase in the prices of Israel products coming to the Palestinian areas.

The discussion so far suggests that the USD appreciation gains for households receiving their salaries in USD or JD should be weighed against two things: the share of payments these individuals make in the USD or JD; and the rise in prices of NIS-traded goods. While these household might achieve some gains from the USD appreciation, the households receiving their salaries and wages in shekel (which are the majority of the population) will inquire definite losses.

Impact on public finance: The former analysis broadly applies to the public purse as well. A relatively large proportion (though undefined) of international aid to the Palestinian Authority budget comes in the US dollar

[30] This does not apply to individuals working at companies and institutions which fixed the USD and JD exchange rates against the NIS, such as the employees of Birzeit University in the West Bank.

currency while almost all public expenditure (including staff salaries) is in the shekel (see Table 2). On the other hand, the appreciation of the dollar means that the value of foreign debt (USD 1.2 billion in 2014) will increase as measured in shekel.

Impact on competitiveness in world market: devaluating local currency is one of the main tools of export-based development strategies. The pressure by Israeli producers and exporters has been the main driver behind the attempts of BoI to devalue the shekel. Palestinian gains from this depreciation are unlikely. In 2013, around 87 percent of Palestinian exports had Israel as destination, leaving only 13 percent (or USD 115 million) to global markets. The NIS depreciation enhances the competitiveness of Palestinian goods in international markets (such as Jordan and other markets with dollar exchange rate pegs), but it does not necessarily improve the competitiveness of Palestinian goods going to the Israeli market. Taking all these facts into account, we project a slight boost in domestic production driven by an increase in exports and enhanced competitiveness of in local markets relative to competing imports. If materialized, this would improve the Palestinian trade balance which suffers from an extraordinary large deficit.

Saji Zagha has co-authored this text box

6. Prices and Purchasing Power

6.1 Consumer Prices

Quarter 4

Indices of Q4 consumer prices rose 0.01 percent over the previous quarter and 1.25 percent over the 2013 same quarter. 'Alcohol beverages and tobacco' group had the strongest influence on indices, rising by 9.34 percent from the previous quarter and by 17.72 percent compared to the previous year's corresponding quarter. Also, prices of 'textiles, apparels and footwear' group increased by 2.98 percent over the previous quarter and by 1.04 percent over the prior year's same quarter (see Table 6-1).

Table 6-1: Average CPI Change in Palestine by Commodity Group, 2013-2014

Group	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
	% Change in 2013 over 2012	% Change in Q1 2014 over Q4 2013	% Change in Q2 2014 over Q1 2014	% Change in Q3 2014 over Q2 2014	% Change in Q4 2014 over Q3 2014	% Change in 2014 over 2013
Food stuff and soft drinks	**0.80**	0.08	(3.56)	4.20	(2.16)	**0.37**
Alcohol beverages and tobacco	**12.37**	1.66	0.31	5.59	9.34	**11.80**
Textiles, apparels, and footwear	**(0.66)**	(1.51)	(0.42)	0.04	2.98	**(0.88)**
Lodging and related supplies	**3.84**	1.41	(0.29)	0.47	(0.82)	**3.31**
Furniture & home appliances	**1.71**	(1.63)	0.59	1.08	1.15	**(1.06)**
Medical care	**1.70**	6.79	0.15	1.13	0.17	**8.71**
Transportation & travel	**(0.74)**	(2.51)	(0.24)	0.33	0.07	**(2.86)**
Telecommunications	**(0.27)**	(1.94)	0.10	(0.80)	(1.41)	**(2.57)**
Recreational & cultural goods & services	**(0.55)**	(1.61)	(0.03)	0.56	0.00	**(1.75)**
Educational Services	**6.95**	(3.11)	(0.07)	(0.40)	0.81	**0.05**
Restaurant, cafe, and hotel services	**3.67**	2.81	0.41	0.20	0.19	**4.52**
Miscellaneous goods and services	(1.33)	10.84	(0.52)	0.34	0.52	8.55
General CPI	**1.72**	0.64	(1.31)	1.92	0.01	**1.73**

Source: PCBS, 2015
* Figures in brackets indicate negative values (decline in prices).

Table 6-2 outlines the movement of prices of some commodity groups in Palestine during 2014 Q4 compared to the previous quarter. Looking at some representative commodity groups in details, the prices of fresh vegetable group came down by 6.56 percent. Particularly, the prices of zucchini dropped 21.43 percent (the price of locally-produced small-sized stuffing zucchini was NIS 4.85 / 1 kg in October 2014). The prices of tomatoes fell by 4 percent (one Kg of local tomatoes would be sold for NIS 3.87 during December 2014). Similarly, the price of poultry was down 5.77 percent (the price of local fresh skinned chicken settled down to NIS 14.87 / 1 kg in October 2014). Likewise, the prices of fresh fruit were 5.14 percent lower. The price of oranges went down by 9.31 percent (NIS 3.33 for 1 kg of local navel oranges in December 2014). In contrast, prices of tuberous root products notched an increase of 11.72 percent (one kg of medium-sized potato would be sold for NIS 3.53 in November 2014). Prices of sugar rose by 1.94 percent (white Crystal sugar- Britain was sold for NIS 143.73 / 50 kg in December 2014).

Prices of car fuel dropped 3.26 percent (e.g. the price of Israeli diesel reached NIS 6.4 / 1 liter, while the price of unleaded Israeli gasoline 95 octane hiked to NIS 6.83 / 1 liter in December). During the quarter, domestic fuel prices fell by 1.06 percent. Domestic gas, in particular, dropped in price by 3.11 percent to NIS 68.21 /12 kg cylinder during December 2014.

Annual Comparison

In 2014, CPI was 1.73 higher than in 2013 due to increases in some major commodity groups: alcoholic beverages and tobacco by 11.8 percent; medical services by 8.71 percent; lodging and related appliances by 3.31 percent; and food & soft drinks by 0.37 percent. By contrast, prices for transport & communications declined by 2.86 percent. The remaining groups recorded scant changes with little influence on CPI. Table 6-2 shows that dairy products and eggs notched the most significant rise (11.1 percent) in prices of commodity groups.

Table 6-2: Price movement of main commodity groups in Palestine– 2014

Main commodity groups	2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
	% Change in 2013 over 2012	% Change in Q1 2014 over Q4 2013	% Change in Q2 2014 over Q1 2014	% Change in Q3 2014 over Q2 2014	% Change in Q4 2014 over Q3 2014	% Change in 2014 over 2013
Automobiles fuel	(2.71)	2.97	(1.23)	(0.44)	(3.26)	(0.34)
Domestic fuel	2.80	4.19	(0.52)	0.70	(1.06)	5.52
Fresh Vegetables	(0.96)	(5.55)	(17.58)	32.19	(6.56)	4.44
Fresh Meat	0.40	(6.58)	(0.60)	0.42	0.70	(6.28)
Sugar	(11.99)	(5.38)	(1.51)	(0.15)	1.94	(10.02)
Rice	(5.99)	0.83	7.44	1.72	(0.44)	5.97
Fresh Chicken	3.09	8.15	(7.41)	6.44	(5.77)	(1.21)
Flour	0.93	(2.32)	(1.46)	0.18	(0.98)	(5.20)
Dairy Products & eggs	0.73	11.45	(3.51)	3.86	(0.09)	11.08
Fresh Fruit	(1.25)	(0.68)	2.72	2.66	(5.14)	5.96

Source: PCBS.

* Figures in brackets indicate negative values (decline in prices).

6.2 Producer Prices and Wholesale Prices

6.2.1 Wholesale Price Index

Quarter 4

The Wholesale Price Index (the sale price to industry and commerce retailers or producers, including VAT and shipping costs) rose 0.09 percent over the previous quarter due to a 0.34 percent hike in the prices of manufactured goods despite the drop in prices of some groups:

agricultural products by 0.51 percent, fishing by 0.29 percent and mining and quarrying by 0.28 percent.

The price index of imported goods was 0.29 percent higher than in the previous quarter, while the price index of local goods was 0.05 percent lower. Compared to the same quarter a year earlier, the WPI posted an increase of 0.50 percent.

Annual Comparison
The Wholesale Price Index in 2014 was 1.48 percent higher than the figure in 2013. This rise was a result of increases in prices of some commodity groups: 3.26 percent in the prices of fishing, 1.9 percent in the prices of agricultural products (which constitute 29 percent of the wholesale price index value) and 1.41 percent in the prices of manufactured goods (which represent 70 percent of the wholesale price index value). Meanwhile, prices of mining and quarrying dropped by 6.97 percent.

During the same period, the price index of imported goods rose 2.52 percent, while the price index of local goods increased 0.84 percent.

6.2.2 Producer Price Index

Quarter 4
The Producer Price Index (prices received by domestic producers for their output after all taxes are deducted, including VAT and shipping costs) edged up 1.28 percent over the previous quarter owing to increases in the indices of some groups: 6.07 percent for fishing, 3.69 percent for agricultural products, 0.49 percent for mining and quarrying. During the same period, however, the index for manufactured products edged down 0.16 percent compared to Q3 of the year.

The Q4 price index for locally produced and consumed goods saw an increase of 1.39 percent over the previous quarter, while the price index for locally produced and exported goods was 0.18 percent higher. Compared to the same quarter a year earlier, the Producer Price Index saw an increase of 1.42 percent.

Annual Comparison
The Producer Price Index increased in 2014 by 0.78 percent over 2013 owing to a rise in the indexes of two groups: 2.27 percent for agricultural products (which represent 36 percent of the Producer Price Index value), and 1.48 percent for fishing. Meanwhile, the prices for mining & quarrying and manufactured products (which represent 61.66 percent of the Producer Price Index value) fell by 0.41 percent and 0.05 percent, respectively.

The 2014 price index for locally produced and consumed goods saw a rise of 0.98 percent over 2013, while the price index for locally produced and exported goods was 1.19 percent lower.

6.3 Construction and Road Costs Indices

6.3.1 Construction Cost Index

Quarter 4
The Construction Cost Index measures the changes that occur in the prices of construction materials and services. During Q4 2014, the West Bank Construction Cost Index for residential units saw a slight increase of 0.52 percent over the previous quarter, while that for nonresidential buildings was 0.55 percent higher. The CCI for skeleton buildings also rose 0.45 percent over Q3 of the year (see Table 6-3).

Annual Comparison
During the year, the West Bank Construction Cost Index for residential units was 0.89 percent higher than the 2013 figure, largely due to rises in the prices of some constituents of the industry: 2.24 percent for construction wages, 2.01 percent for equipment rental (plant hire) and 0.30 percent for raw materials. The West Bank Construction Cost Index for nonresidential units also saw a 0.99 percent increase over 2013, on higher prices for some goods and services: 2.24 percent for construction wages, 2.08 percent for equipment rental and 0.50 percent for raw materials. The index for skeleton buildings also increased by 0.28 percent from 2013 as a result of increases in equipment rental and construction wages by 1.91 percent and 1.31 percent, respectively. Meanwhile, prices of raw material was 0.20 percent lower than the figure in 2013 (See Table 6-3)

No data are available from Gaza on these indicators.

6.3.2 Road Construction Index

Quarter 4

The Road Cost Index detects changes in the prices of materials and services used in the construction of roads in the West Bank. This index was 0.83 percent lower than in Q3 of the year (see Table 6-3).

Annual comparison

The 2014 reading of West Bank Road Cost Index was 0.04 percent higher than in 2013– a result of increases in the prices of some industry's goods and services: 3.15 percent for equipment, maintenance and operating expenses; 1.42 percent for construction wages; and 1.4 percent for equipment rental. This occurred against a 0.63 percent fall in prices of raw material (see Table 6-3).

Table 6-3: Quarterly and annual changes in WB Construction and Road Costs Indices, 2013-2014

Index	2013 % Change in 2013 over 2012	2014Q1 % Change in Q1 2014 over Q4 2013	2014Q2 % Change in Q2 2014 over Q1 2014	2014Q3 % Change in Q3 2014 over Q2 2014	2014Q4 % Change in Q4 2014 over Q3 2014	2014 % Change in 2014 over 2013
Construction costs for residential buildings	(0.08)	0.32	0.35	0.29	0.52	0.89
Construction costs for nonresidential buildings	(0.23)	0.24	0.43	0.43	0.55	0.99
Construction costs for skeleton buildings	..	..	0.09	(0.19)	0.45	0.28
Road costs	2.12	0.21	0.02	(0.12)	(0.83)	0.04

Source: PCBS

Figures in brackets indicate negative values.

6.4 Prices and Purchasing Power[31]

Quarter 4

The consumer price index between the last two quarters of 2014 saw a negligible rise to level off at 110.1.The exchange rate of the USD against the NIS rose 8.93 percent to 3.81 (according to the PMA), suggesting a 8.92 improvement in the purchasing power of the USD, which also applies to the JD. Compared to the same quarter of the previous year, the consumer prices rose 1.2 percent against an 8.6 percent lift in the USD exchange rate against the NIS, which eventually improved the purchasing power of the USD and the JD by 7.4 percent (see Table 6-4).

In other words, the purchasing power for individuals paid in the USD or the JD rose during the quarter by around 8.92 percent from Q3 of the year, while compared to the same quarter of the previous year, it increased by only 7.4 percent because of inflation. The figures for the purchasing power are based on two assumptions: that individuals paid in USD or JD had their entire spending in NIS, and that the nominal value of salaries remained unchanged.

Annual Comparison

The year-over-year data reveal a 2.73 percent decline in the purchasing power of the dollar and the dinar in the 12-month period between December 31st 2013 and December 31st 2014 owing to a 1.73 percent rise in inflation rate and a 0.998 percent decline in the USD/NIS exchange rate to NIS 3.573. The exchange rate of the dollar-pegged dinar also fell by 0.928 percent to NIS 5.046.

Note: The NIS purchasing power is measured by the same inflation rate.

---

[31] Purchasing power is defined as the value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. It is directly dependent on the income of the consumer and the change in prices and currency exchange rate. The change in the purchasing power (assuming constant income) can be measured as: (rate of change in the exchange rate of the currency against the shekel) minus (the rate of inflation).

Table 6-4: Change in Purchasing Power and Exchange Rates of USD and JD against NIS

Period		Consumer Price Index	Inflation rate*	USD / NIS Average exchange rate	USD / NIS Change in exchange rate (%)	USD / NIS Change in purchasing power (%)	JD / NIS Average exchange rate	JD / NIS Change in exchange rate (%)	JD / NIS Change in purchasing power (%)
2013	Q1	**107.11**	**0.45**	**3.704**	**(3.67)**	**(4.12)**	**5.225**	**(3.68)**	**(4.12)**
	Q2	**106.69**	**(0.40)**	**3.630**	**(2.00)**	**(1.61)**	**5.120**	**(2.00)**	**(1.61)**
	Q3	**107.68**	**0.93**	**3.585**	**(1.25)**	**(2.18)**	**5.053**	**(1.31)**	**(2.24)**
	Q4	**108.76**	**1.01**	**3.526**	**(1.64)**	**(2.65)**	**4.973**	**(1.57)**	**(2.58)**
2014	Q1	**109.45**	**0.64**	**3.496**	**(0.85)**	**(1.48)**	**4.931**	**(0.85)**	**(1.49)**
	Q2	**108.02**	**(1.31)**	**3.466**	**(0.87)**	**0.43**	**4.891**	**(0.81)**	**0.49**
	Q3	**110.10**	**1.92**	**3.516**	**1.46**	**(0.46)**	**4.960**	**1.42**	**(0.50)**
	Q4	**110.12**	**0.01**	**3.810**	**8.93**	**8.92**	**5.400**	**8.87**	**8.86**
	October	109.82	(0.54)	3.729	2.74	3.28	5.259	2.67	3.21
	November	109.91	0.07	3.827	2.64	2.57	5.395	2.57	2.50
	December	110.62	0.65	3.934	2.79	2.15	5.547	2.82	2.17
Annual comparison									
2013		107.56	1.725	3.611	(4.24)	(5.97)	5.093	(4.26)	(5.98)
2014		109.42	1.733	3.577	(0.95)	(2.68)	5.046	(0.93)	(2.66)

Source: Calculations are based on data obtained from the PMA and the PCBS.
* Inflation rate represents the change in the NIS purchasing power.

Box 8: Have the Palestinian consumers felt the plunge in prices of global crude oil?

Global crude oil prices slipped between June 2014 and early 2015 by about 60 percent. This coincided with varying declines in the prices of oil derivatives across the world. In some countries, the declines were quite close to the fall in prices of crude oil. In Lebanon, for example, gasoline price dropped 44 percent when the decline in crude oil price was around 50 percent[32].

In some countries, the decline in the prices of derivatives was not in line with the fall in the prices of crude oil. In Palestine, for example, prices of diesel and gasoline fell by only 16 percent and kerosene price dropped by 13 percent between June 2014 and early 2015. This made some people wonder, and even complain, why the prices of oil in Palestine do not move in parallel with the movement in global oil prices[33]. We will try to answer this question through understanding the mechanism of setting oil prices in Palestine.

Setting oil prices in the Palestinian territories

The PA established the General Directorate of Petroleum in 1994 and entrusted it with the exclusive responsibility for managing issues related to oil and petrochemicals, including setting prices[34]. The Paris Protocol gave the Palestinian Authority (by extension, the General Directorate of Petroleum) the right to determine fuel prices, other than gasoline, which should be no more than 15 percent lower than in Israel[35]. The Palestinian territory needs of petroleum products come from one Israeli supplier (Dor Alon until 2006 and Paz to date). These products are sold to the General Directorate of Petroleum at rates close to or identical to the prices in the Israeli market[36]. Later, the Palestinian Authority recovers all taxes through the clearance regime.

Fuel price in Israel is one of the highest in the world. A Bloomberg survey found that the country has the third highest price in the world for gasoline[37]. According to Mytravelcost, the price of gasoline in Israel is 60 percent higher than the average world price of gasoline, while the price of diesel is 80 percent higher than the

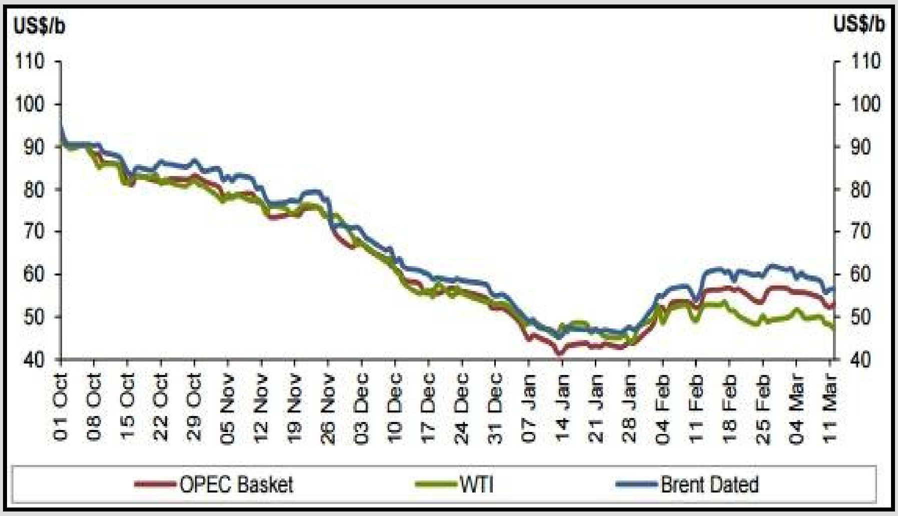
32 The Daily Star, Lebanese Gains and Losses from Lower Oil Prices, 20 Jan. 2015.
33 Alhayat Aljaddeda, February 1, 2014. http://www.alhayat-j.com/newsite/details.php?opt=2&id=253983&cid=3552
34 Ministry of Finance http://www.pmof.ps/15
35 Article 12 of the Paris Protocol establishes that "The difference in the final price of gasoline to consumers in Israel and to consumers in the Areas, will not exceed 15 percent of the official final consumer price in Israel. The Palestinian Authority has the right to determine the prices of petroleum products, other than gasoline, for consumption in the Areas."
36 For further information, see Monitor 38, Box 9: Government sells petroleum products 33 percent lower than cost.
37 http://www.globes.co.il/en/article-1000775166

average world price[38]. Fuel in Israel is subject to high taxes: Blue tax at NIS 3 per liter and vat, which stands at 18 percent of final price. These two types comprise 62.6 percent of the final price, according to Israel's Ministry of Energy[39].

In broad brushstrokes, the General Directorate of Petroleum pays high prices for its fuel imports, with a large part going to tax department. This part does not move in line with the movement of prices of crude oil in global markets.

The decline in crude oil prices and implications for prices in Israel and Palestine
Global crude oil prices slipped 60 percent between June 2014 and early 2015; i.e. from USD 110 per barrel to less than USD 50, a record low in 6 years, before they started to rebound in the second half of January 2015.

Figure 1: Crude oil prices, 2014-2015



Source: OPEC (2015), Monthly Oil Market Report, March

The price of gasoline in Israel fell between June 2014 and January 2015 by 16.7 percent, very close to the drop in the Palestinian territories. The price of gasoline in the Palestinian territories remained steady at about 97 percent of the price in Israel (see Table 1). While the price for crude diesel fell by 42 percent in the global market between October 2014 and January 2015, it only decreased by 5.5 percent in Israel and 16.5 percent in the Palestinian territories. As such, in January 2015, the price in the Palestinian territory was 88 percent of the price in Israel, down from 95 percent prior June 2014.

Table 1: Prices of diesel and gasoline in Israel and the Palestinian territories
(NIS)

	Diesel/per liter			Gasoline/per liter (unleaded 95 octane)		
	Palestine	Israel	%	Palestine	Israel	%
June 2014	6.67	NA		7.27	7.52	97%
July 2014	6.71	NA		7.37	7.62	97%
August 2014	6.64	NA		7.19	7.40	97%
Sept. 2014	6.80	NA		7.18	7.39	97%
October 2014	6.70	7.07	95%	7.24	7.32	99%
Nov. 2014	6.61	7.06	94%	6.86	7.05	97%
December 2014	6.40	7.43	86%	6.83	6.90	99%
January 2015	5.59	7.46	88%	6.10	6.27	97%

Source: Palestine prices were obtained from the Palestinian Central Bureau of Statistics; gasoline prices in Israel were obtained from the Israeli Ministry of Energy website; while the price for diesel fuel was obtained from http://www.globalpetrolprices.com/diesel_prices/

38 http://www.mytravelcost.com/Israel/gas-prices/
39 http://energy.gov.il/abouttheoffice/speakermessages/documents/fuel/3_2015.pdf

Obviously, the main reason behind the limited fall in fuel prices in the Palestinian territories is that Israel has reduced prices by only 16.6 percent. A decline equivalent or close to the fall in global crude prices is unlikely in the Palestinian territory. First, there are costs related to the oil refining process. Second, if we closely consider the figures in the Table above, we can easily notice that the Palestine-Israel gasoline price difference is barely 2 percent although the Paris Protocol allowed a difference of 15 percent, which means that the PA can still make further cuts to gasoline (and other derivatives) prices. In practice, however, it seems that the PA wanted to maximize the revenue from fuel before subsidizing oil products[40].

Arwa Abu Hashhash has co-authored this text box

7. Foreign Trade

7.1 Balance of Trade

Quarter 4

The trade balance is the difference between Palestinian exports and imports of goods and services. The value of registered[41] commodity imports during Q4 2014 totaled about USD 1.207 billion, down 0.6 percent from the previous quarter and 8.4 percent from the corresponding quarter of 2013 (see Table 7-1). The value of commodity exports reached about USD 233 million– a growth of 16 percent over the previous quarter, but a decline of 9.4 percent from the 2013 same quarter. The deficit of commodity trade balance went down to USD 974 million, a 3.9 percent decline from the previous quarter and 8.2 percent from the same quarter a year earlier.

On the other hand, the recorded service imports from Israel totaled USD 37.2 million, a 3.9 percent drop from Q3 of the year, but a 2.5 percent rise over the corresponding quarter of the previous year. Service exports to Israel totaled USD 39 million, an increase of 10.8 percent over Q3 of the same year, but a decline of 19.9 percent from Q4 2013. The difference between service imports and exports resulted in a USD 2 million surplus.

Annual Comparison

The value of registered merchandise imports during the year totaled about USD 5.055 billion, down 2.1 percent from 2013. The registered merchandise exports, on the other hand, had a value of USD 865 million, a decline of 4 percent from 2013, which produced a deficit of USD 4.2 billion– almost the same figure reported in 2013.

In 2014, service imports from Israel saw an increase of 21.1 percent over 2013, while service exports fell 19.4 percent. This resulted in USD 15.3 million as a service trade deficit (compared to USD 50 million surplus in 2013).

Table 7-1: Imports and Exports of Registered Goods and Services, 2013-2014**

(USD millions)

Indicator	Q4/2013	2013	Q1/2014**	Q2/2014**	Q3/2014**	Q4/2014**	2014**
Commodity imports	1,317.6	5,163.9	1,246.7	1,387.9	1,213.3	1,206.6	5,054.5
Service imports*	36.3	136.3	43.6	45.4	38.7	37.2	165.0
Commodity exports	256.9	900.6	210.7	221.0	200.3	232.8	864.8
Service exports*	48.7	185.8	37.1	38.5	35.2	39.0	149.7

Source: Registered Foreign Trade, PCBS (2015)
* Exports and imports of goods and services to and from Israel only.
** Data for 2014 are shown as obtained from official sources, and might be subject to modification.
NOTE: Preliminary data for 2013 were replaced by actual data from the registered trade report, 2013.

40 For further information, see *Monitor* 38, Box 9: Government sells petroleum products 33 percent lower than cost.

41 Registered imports and exports are those recorded in the clearance accounts of trade between Palestine and Israel, as well as those recoded by customs statement for trade with overseas markets. They also involve trade in agricultural products that are registered at the Ministry of Agriculture. The actual figures for trade with Israel and overseas markets are likely to be significantly higher than the figures for registered exports and imports.

7.2 Balance of Payments

Quarter 4

According to the PCBS and the PMA, the current account deficit (the balance of trade plus income generated from trade with international markets and offshore current transfers) totaled USD 194.3 million in Q4 2014 (representing about 6.4 percent of GDP at current prices in the same period), a drop of 21.1 percent from the previous quarter. The decline in the current account deficit resulted from a trade balance deficit of USD 1,275.3 million[42] against a surplus of USD 339 million in the income balance (generated mainly from Palestinian workers abroad) and a surplus of USD 742 million in the current transfers (the majority from international aid).

The current account deficit was financed by the capital and financial account, which made available an amount of USD 186.1 million. It is necessary to note that this item (the capital and financial account) represents a debt on the national economy as long as it has a positive value.

Technically speaking, there should be a perfect balance between the current account deficit, on the one hand, and the surplus of capital and financial account, on the other. In other words, the net value of these two items must be zero. However, there is often a gap between them, usually recorded under 'errors and omissions', the value of which was USD 8.2 million in Q4 2014.

Table 7-2: Palestinian Balance of Payments, 2013–2014

(USD millions)

	2013	Q1/2014	Q2/2014	Q3/2014	Q4/2014	2014*
1. Trade balance of goods and services**	**-4,732.2**	**-1,304.7**	**-1,504.3**	**-1,398.9**	**-1,275.3**	**-5,483.2**
- Net goods	**-4,682.7**	**-1,284.6**	**-1,462.7**	**-1,362.9**	**-1,284.1**	**-5,394.3**
- Net services	**-49.5**	**-20.1**	**-41.6**	**-36.0**	**8.8**	**-88.9**
2. Income balance	**1,160.3**	**338.5**	**354.7**	**349.1**	**339.0**	**1,381.3**
- Workers' remunerations received from abroad	1,140.5	328.5	343.8	319.2	306.8	1,298.3
- Investment income received from abroad	123.3	38.9	37.4	51.5	56.3	184.1
- Income paid abroad	103.5	28.9	26.5	21.6	24.1	101.1
3. Balance of current transfers	**1,188.5**	**571.7**	**598.2**	**803.5**	**742.0**	**2,715.4**
- Net transfers to the government	735.3	186.1	205.4	392.8	328.7	1,113.0
- Net transfers to other sectors	1,127.6	497.9	507.4	524.3	527.6	2,057.2
-Transfers paid abroad	674.4	112.3	114.6	113.6	114.3	454.8
4. Balance of current account (1 +2 +3)	**-2,383.0**	**-394.5**	**-551.4**	**-246.3**	**-194.3**	**-1,386.5**
5. Net capital and financial account	**2,144.6**	**371.7**	**463.6**	**372.2**	**186.1**	**1,393.6**
- Net capital transfers	551.3	75.7	76.0	78.5	99.9	330.1
Net financial account	**1,593.3**	**296.0**	**387.6**	**293.7**	**86.2**	**1,063.5**
Net direct foreign investment	**224.0**	**50.8**	**18.6**	**48.2**	**38.5**	**156.1**
Net portfolio investment	**186.8**	**81.7**	**-110.4**	**-42.7**	**16.1**	**-55.3**
Other investments (net)	**1,203.6**	**67.6**	**441.0**	**365.8**	**75.5**	**949.9**
- Change in reserve assets (– = rising)	**-21.1**	**95.9**	**38.4**	**-77.6**	**-43.9**	**12.8**
6. Net errors and omissions	**238.8**	**22.8**	**87.8**	**-125.9**	**8.2**	**-7.1**

Source: PCBS and the PMA, 2015. Preliminary results of the Palestinian Balance of Payments, 2014.

* Data for 2014 are quarterly estimates to be adjusted later when the annual data are prepared at the end of 2015.

** Figures for exports and imports of commodities and services in the balance of payments differ from the figures in the trade balance because the latter records only exports and imports that are registered (i.e. recorded in the clearance accounts and billing), while the balance of payments records the total expectations of import and export. In addition, the trade balance records import and export of services only from Israel, while the balance of payments records services from different sources.

[42] Figures for exports and imports of commodities and services in the balance of payments differ from the figures in the trade balance because the latter records only exports and imports that are registered (i.e. recorded in the clearance accounts and billing), while the balance of payments records the total expectations of import and export. In addition, the trade balance records import and export of services only from Israel, while the balance of payments records services from different sources.

Annual Comparison

Despite a 15.9 percent rise in the trade deficit, the aggregate figures for the quarters of 2014 suggested a total current account deficit of USD 1.4 billion (or 10.9 percent of GDP at 2014 current prices), a whopping 41.8 percent fall from 2013. The decline in the current account deficit resulted from a 128.5 percent (or USD 2.7 billion) rise in the current transfers surplus (generated from incoming transfers to the public, civil and private sectors).

The current account deficit was financed by the capital and financial account, which made available USD 1.4 billion (a decline of 35 percent from 2013). The difference between the current account deficit and the capital and financial account (USD 7.1 million) is recorded under the 'errors and omissions' item.

7.3 External Assets, Liabilities and Debt

Quarter 4

At the end of 2014 Q4, Palestine's foreign assets totaled USD 5.950 billion. The assets took different forms: 2.8 percent as direct investment abroad, 19.9 percent as portfolio investment, 66 percent as other investments (mainly currency and deposits) and 11.3 percent as reserve assets. At the sectoral level, foreign investment of banks accounted for the bulk of total foreign assets (approximately 74.4 percent)– see Table 7-3.

At the same time, the total external liabilities (domestic investments and assets held by foreigners*)* reached USD 4.716 billion (52 percent as foreign direct investment, 15.1 percent as foreign portfolio investment, and 32.9 percent for other foreign investments, particularly loans and deposits). At the sectoral level, external investments in the banking sector accounted for 32 percent of total external liabilities.

These figures suggest that overseas investments by Palestinians were USD 1.234 billion higher than total external liabilities. This difference, however, should be considered with caveat, as the majority of overseas investment by Palestinians takes the form of deposits by Palestinian banks abroad. In fact, foreign direct investment in Palestine in 2014 Q4 outweighed actual Palestinian investment abroad by USD 2.286 billion.

Palestine's external debt, in the meantime, totaled USD 1.557 billion end of 2014 Q4, with the government and the banking sector holding the majority of the debt (69.9 percent for the former and 25.9 percent for the latter).

Table 7-3 : Net international investment position as of end Q4 2014

(USD millions)

Item	Deposit as of end Q4 2014
Total assets	**5,950**
Direct foreign investment abroad	**167**
Foreign portfolio investment abroad	**1,183**
Other foreign investments abroad, including	**3,928**
− Currency & deposits	3,759
Reserve assets	672
Total liabilities	**4,716**
Direct foreign investment in Palestine	**2,453**
Foreign portfolio investment in Palestine	**710**
Other foreign investments in Palestine	**1,553**
Net assets	**1,234**

Source: PCBS and PMA, 2015.

Box 9: Different wars, different impacts on Israel's economy

A recent study, published in the annual report of the Bank of Israel, examined the economic costs of the Israeli recent war in the Gaza Strip and other wars Israel waged in the region of late[43]. The study drew a comparison between Gaza war and Second Lebanon War in specific, as both lasted for similarly long periods and both broke in summer (2006 and 2014).

Table 1: Israel's recent wars

War	Date	Period
Second Lebanon War	July 12–August 14, 2006	34 days
Operation Cast Lead	December 27, 2008–January 18, 2009	23 days
Operation Pillar of Defense	November 14–21, 2012	8 days
Operation Protective Edge	July 8–August 26, 2014	50 days

The study found that the recent war in the Gaza Strip decreased GDP by NIS 3.5 billion, or about 0.3 percent of annual GDP. This estimate is by far lower than previous estimates: NIS 5 billion by Karnit Flug, governor of the Bank of Israel, and NIS 7 billion by Moshe Asher, Head of Israel Tax Authority[44].

The decline in GDP following Gaza war negatively impacted domestic tourism services– particularly transport, hotels and restaurants– (NIS 2 billion) and private nondurable consumption (NIS 1.5 billion). This loss is slightly lower than the estimated loss caused by the Second Lebanon War, 0.35–0.5 percent of annual GDP.

The study found a significant difference between the implications of the two wars: The negative impact of Gaza war derives from a decline in demand, while the supply side (particularly industrial production and export) remained relatively stable. By contrast, the effect of the Lebanon war was a far departure, with implications touching the supply side, in particular.

While in Lebanon war the private service consumption increased by 0.1 percent, it fell by 1.9 percent during the recent war in Gaza. In contrast, exports of goods fell during Lebanon war, while it increased during the Gaza war (see Table 2).

Table 2: % Change in private consumption and exports (Q3 2006 and Q3 2014)

War	Change in consumption	Change in exports (other than diamonds
Second Lebanon War	0.1	6.0 -
Operation Cast Lead	0.4	9.9 -
Operation Pillar of Defense	0.4	8.5 -
Operation Protective Edge	1.9 -	2.0

The study, however, did not provide any satisfactory explanation to the impact difference. It rather gave some equivocal reasons, such as high population density in northern Israel (compared to areas around Gaza), which forced the north of Israel's population to flee to the south during the Second Lebanon War, which hedged against a decline in demand.

The study also found that the difference in the sectoral impact of the two wars coincided with different socioeconomic effects. The strong negative impact of Gaza war on the demand for services (a sector with large share of employment and low wages) had greater adverse implications on employment and middle and low social classes. The effects on the industrial production were also different. The negative impact of Lebanon war derived primarily from the adverse effects on metalic and production of goods based on non-metallic minerals. In Gaza war, by contrast, this was due to the decline in activity in the food, beverages, and tobacco industries. These differences have varying effects on employment and the social classes.

Safa Sayf has co-authored this text box.

[43] Bank of Israel (2015) :The Effect of Military Conflicts on Economic Activity. http://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/16-03-2015-MilitaryConflicts.aspx

[44] See Monitor 37, Box 1.

8. Legal and legislative environment

Because of the political split and the blockade on Gaza, the Legislative Council has not convened since 2007. As regulation always needs updated laws, the PA President had issued 122 issues executive orders (presidential decrees) between 2007 and 2014. Though at present they have the full force of laws, they must be brought before the PLC (once it convenes) for ratification or, otherwise, rejection.

Out of the 21 decrees, four were meant to regulate economic activities:

- Decree No. 4 on the amendment of the Decree No. 8 of 2011 on income tax.
- Decree No. 6 on leasing.
- Decree No. 7 on the amendment of the Investment Promotion Law.
- Decree No. 8 on the public procurement law (Decree No. 21 came to amend Decree No. 8.

Below is a summary of amendments made to the income tax law in 2014 and 2015.

Decree No. 4 of 2014 and Decree No. 8 of 2015 on the amendment of the Decree No. 8 of 2011 on income tax

Decree No. 4 on the amendment of the Decree No. 8 of 2011 on income tax.	**Article (2): amendment of Article (7)** Paragraph 14 is repealed and Paragraph 16 of Article 7 of the original law is amended to read as follows: Capital gains arising from the sale of securities from the investment portfolio	**Article 3: amendment of Article 16 of original law** Article 16 is amended as follows: 1.Paragraph 5 is amended as follows: A 10% tax is levied on profits (whether in the form of dividends or cash) to be deducted from the source. 2.A new paragraph (bearing no. 6) shall be added to establish: A 10% tax is levied on profits arising from finance programs intended to stimulate small businesses	**Article 4: Amendment of Article 31 of original law** Repealing paragraph 8 of Article 31	**Article 5: Levying income tax** Income tax is levied on incomes generated in 2014 and later in accordance with this Decree.
Decree No. 8 of 2015 on the amendment of Income Tax Law of 2011	**Article 1: Amendment of Article 7 in the original law** Adding a paragraph that exempts staff at Palestinian universities from income tax levied on end-of-service gratuity with a maximum of two months for each year of service instead of one month	**Article 2: Amending subparagraph (a) of Paragraph 1 of Article 12 of the original law** Raising tax exemption ceiling from NIS 30,000 to 36,000 a year	**Article 3: Amendment of Paragraph 1 of Article 16 of original law** Raising the ceiling for taxable incomes with a tax burden of 5% to between NIS 1–75,000 and those with a tax burden of 10% to between NIS 75,000–150,000	**Article 4: Amendment of Paragraph 2 of Article 16 of the original law** The tax rate levied on legal entities is amended to 15% of income, except for telecom operators and companies with monopoly or franchising status, which shall be subject to a tax rate of 20%

Source: Muqtafi, 2014 http://muqtafi.birzeit.edu

Box 10: Israeli universities drop in international rankings and experts question the sustainability of high-tech industry

The Times Higher Education World University Rankings and the Shanghai University Rankings are internationally recognized institutions that assess the academic level of universities around the world. Both sources cited a significant decline in academic ranking of Israeli universities.

Times Higher Education World University Rankings list universities according to different categories: teaching and learning environment (30 percent of the final mark), the amount of research (30 percent), number of citations (30 percent) and others. Tel Aviv University, the Hebrew University of Jerusalem and Haifa Technion have always been among the best 200 universities in the world on the Times list. In 2013, however, the ranking fell significantly for all of them. Hebrew University fell from the 134th place in 2013 to 191st. Tel Aviv University ranking declined to 199 from 158 in 2013, and the Technion is no longer on the first 200 list[45].

Tel Aviv University's rating dropped primarily because of its teaching environment score, while Hebrew University suffered a drop in innovation and research volume. In 1999, Israel came first in the volume of research relative to population. In 2009, it dropped to 10th place and further to 13th in 2011[46].
In 2014-2015, Tel Aviv ranking improved to 188th spot. No any other Israeli university succeeded in making the cut.

Shanghai University Rankings list the world top 500 universities according to six criteria. The Hebrew University ranked 70th in 2014, declining from 59th position in 2013. The University of Haifa, which was on the list in 2013, did not make it into the 500 list. Weizmann Institute of Science, which came 92nd in 2013 has moved to the 101-150 category in 2014. Tel Aviv University's rank declined from 101-150 group to 151-200 group. Both the University of Ben-Gurion and Bar Ilan University retreated from 301-400 table to 401-500 table[47].

It is still too early to make definitive judgments of this decline in the academic ranking of Israeli universities. It is premature to tell whether the decline is merely a passing phenomenon or an inherent structural deterioration that is likely to continue in the future. It is true that lack of funding and governmental support might explain part of the deterioration, but perhaps one should also point out the effects of societal transformation, rise of fundamentalist tendencies and anti-liberal trends in Israel that adversely affect innovation and critical thinking[48]

A smirch in the image of the “Start-up Nation”
The term describing Israel as a miracle in high-technology has of late come under scrutiny. Israel is one the world's leading countries in high-tech start-ups. In 2011, Dan Senor went very far in his optimism when he wrote his book *Startup Nation- The Story of Israeli’s Economic Miracle*[49]. Statistics indicate that about a thousand high-tech companies are launched every year in Israel. Often, these are established on information-based innovative ideas that are commercially promising.

In an article published in December 2014, The Economist touched on some fundamental problems plaguing entrepreneurial activity in Israel[50]. The article highlighted three inherent problems. First, entrepreneurial activity is not creating enough jobs as the population grows: the share of people employed in the high-tech sector has declined from 10.7 percent of the workforce in 2006-08 to 8.9 percent in 2013. Second, startups also fail to solve another problem: the country's high prices. According to the OECD, retail prices for basic products in Israel are 20 percent higher than in other rich economies. Third, Israel’s startups rarely turn into large companies. Only one Israeli firm (Teva Pharmaceutical Industries) ranks in the world's 500 largest companies by market capital. Denmark, for instance, has a smaller population than Israel (5.6m versus 8.3m) but has 3 companies in the top 500; Sweden (9.7m) has 9; and Switzerland (8.2m) has 17.

---

45 http://www.timeshighereducation.co.uk/world-university-rankings/2013-14/wd-rankingorl
46 http://www.haaretz.com/news/national/1.550407
47 http://www.shanghairanking.com/ARWU2014.html
48 According to Muhannad Mustafa, there are new factors that have changed the essence of the Israeli academic institution: dominance of the market economy and neo-liberal thinking on education institutions structurally and academically; and the emergence of critical schools within the Israeli academic institution. (See Muhannad Mustafa: The Israel Academic Institution: Knowledge, politics and economics, 2014).
49 Dan Senor (2011): “Startup Nation- The Story of Israeli's Economic Miracle”
50 The Economist. The Scale-Up Nation. http://www.economist.com/news/business/21636111-israel-trying-turn-its-davids-goliaths-scale-up-nation

In an attempt to find explanations to the question why the Israeli high-tech sector cannot tackle these problems, the Economist found that Israel has one of the world's most concentrated corporate sectors: 24 major conglomerates control nearly a quarter of the country's 596 companies listed on Tel Aviv Stock Exchange and more than two-thirds of the total market capitalization of those firms. These conglomerates, according to the Economist, "have various vices, including high debt, poor focus and pyramid-style ownership structures that allow a handful of people at the top to control a large number of subordinate companies. Predictably, growth of their earnings per share has been dismal: 2 percent on average."

Another reason is privatization. Earlier, the economy was controlled by the state. In the 1990s, it started to turn into a liberal economy dominated by the private sector. Like the Russian case, privatization proved to be a bonanza for family-owned groups and some wealth-seeking newcomers.

The reason why Israel does not have large high-tech firms, according to the Economist, is that most entrepreneurs sell their firms at the earliest moment, "rather than raising their brainchildren to adulthood." Israeli startups rarely go public (listed on the Stock Exchange): "in 2002-12 only 9 percent of firms opted for initial public offering. Even those that went public "had an average size of only USD 32 million." In the United States, by comparison, the respective corresponding figures were 20 percent and USD 237 million, the Economist concluded.

Key Economic Indicators in the West Bank and the Gaza Strip for the years 2000-2014

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014[d]
Population at mid year (thousands)															
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	4,169	4,293	4,421	4,550
- 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	2,649	2,719	2,790
- 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	1,589	1,644	1,702	1,760
Labor Market															
Employment (thousands)	600	505	477	564	578	603	636	690	667	718	745	837	858	885	917
Participation Ratio (%)	41.5	38.7	38.1	40.3	40.4	40.4	41	41.7	41.2	41.6	41.1	43	43.4	43.6	45.8
Unemployment (%)	14.1	25.2	31.3	25.6	26.8	23.5	23.7	21.7	26.6	24.5	23.7	20.9	23	23.4	26.9
- West Bank	12.2	21.6	28.2	23.7	22.8	20.4	18.8	17.9	19.7	17.8	17.2	17.3	19.0	18.6	17.7
- Gaza Strip	18.9	34.0	37.9	29.1	35.3	30.3	34.8	29.7	40.6	38.6	37.8	28.7	31.0	32.6	43.9
National Accounts															
GDP (Mill. USD)	4,313.6	4,003.7	3,555.8	3,968.0	4,329.2	4,831.8	4,910.1	5,505.8	6,673.5	7,268.2	8,913.1	10,465.4	11,279.4	12,476.0	12,765.8
Private Consumption	3,713.0	3,594.6	3,217.7	3,736.3	4,270.3	4,891.7	5,111.7	5,595.3	6,575.8	6,822.8	7,976.0	9,199.0	9,693.6	10,522.5	11,599.0
Public Consumption	1,098.9	1,116.4	985.8	906.0	1,227.0	1,363.3	1,374.5	1,603.2	1,832.8	2,342.7	2,500.8	2,892.3	3,126.9	3,381.7	3,578.3
Gross Capital Formation	1,358.9	1,184.2	930.5	1,143.0	1,151.5	1,241.3	1,155.1	1,204.9	1,371.9	1,504.8	1,921.5	1,863.8	2,378.5	2,707.3	2,375.1
GDP per capita (USD)															
In Current prices	1,518.9	1,369.4	1,181.8	1,281.4	1,358.1	1,470.1	1,448.8	1,575.6	1,855.5	1,963.2	2,338.7	2,664.9	2,787.2	2,992.2	2,973.4
In Constant 2004 prices	1,526.7	1,345.0	1,143.7	1,267.0	1,358.1	1,459.4	1,360.1	1,406.0	1,449.1	1,529.8	1,606.4	1,752.5	1,807.5	1,793.3	1,734.6
Foreign Trade[b] (Mill. USD)															
Commodity Exports		339	282	318	348	378	378	562	569	631	666	1,525	1,250	1,756.1	2,018.7
Commodity Imports		1,980	1,507	1,782	2,300	2,613	2,738	3,280	3,511	4,136	4,319	6,188	6,134	6,053.0	7,071.0
Trade Balance (Goods)		(1,641)	(1,224)	(1,464)	(1,952)	(2,236)	(2,352)	(2,718)	(2,942)	(3,504)	(3,653)	(4,663)	(4,884)	(4,296.9)	(5,052.3)
Services Exports		117	103	154	192	202	179	252	357	579	831	686	649	315.7	279.3
Services Imports		603	600	475	519	451	455	634	698	931	1,143	948	1,032	751.0	710.1
Trade Balance (Services)		(486)	(497)	(320)	(327)	(249)	(275)	(382)	(342)	(352)	(312)	(262)	(353)	(435.3)	(430.8)
Current Account of BoP		(875)	(452)	(854)	(1,334)	(1,020)	(944)	(467)	530	(713)	(691)	(2,430)	(2,815)	(1,317)	(1,387)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014[d]
Exchange Rates and Inflation															
Average USD/NIS	4.086	4.208	4.742	4.550	4.477	4.482	4.454	4.110	3.587	3.929	3.739	3.578	3.85	3.611	3.577
Average JOD/NIS	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.061	5.542	5.275	5.050	5.43	5.093	5.046
Inflation Rate (%)c	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75	2.88	2.78	1.725	1.733
Public Finance on Cash Basis, mill. USD															
Net Domestic Revenues (incl. Clearance)	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1,900.4	2,176	2,240	2,320	2,787
Recurent Expenditure	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,920	2,983	2,952	3,047	3,250	3,438
Development Expendt.	469	340	252	395	0	287	281	310	-	46.8	275.1	296	211	168	164
Deficit (before Grants)	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,342)	(1,083)	(776)	(807)	(931)	(651)
Foreign Grants	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,277	978	932	1,358	1,233
Surplus/deficit (after Grants)	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(81)	(94)	(86)	259	418
Public Debt	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,736	1,883	2,213	2,483	2,376	2,422
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	9,799	11,191	11,822
Equity	242	206	187	217	315	552	597	702	857	910	1,096	1,182	1,258	1,360	1,467
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	7,484	8,304	8,935
Credit	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825	3,483	4,122	4,480	4,896

Source: Palestinian Central Bureau of Statistics, the Palestinian Monetary Authority.

All data exclude the part of Jerusalem governorate which was annexed illeagaly by Israel (with the exception of the data on unemployment and population). Figures in brackets are negative.

a. The national accounts are in current prices, taken from the revised series of GDP values issued by PCBS in 2015. (for more information on the revised series, see the text box No. 2 in the Monitor No. 38)

b. Foreign trade figures are taken from the balance of payments prepared by the Palestinian Central Bureau of Statistics in collaboration with PMA.

c. 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.

d. Data for 2014 are Preliminary and subject to revision and amendments.