Economic Monitor

49

2017

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

Economic Monitor Issue 49/2017

Editor: Nu'man Kanafani

Palestine Economic Policy Research Institute- MAS (General Coordinator: Salam Salah)
The Palestinian Central Bureau of Statistics (Coordinator: Amina Khasib)
Palestine Monetary Authority (Coordinator: Dr. Shaker Sarsour)
Palestine Capital Market Authority (Coordinator: Dr. Bashar Abu Zarour)

@ 2017 Palestine Economic Policy Research Institute (MAS)
P.O. Box 19111, Jerusalem and P.O. Box 2426, Ramallah
Telephone: +972-2-298-7053/4
Fax: +972-2-298-7055
E-mail: info@mas.ps
Website: www.mas.ps

@ 2017 Palestinian Central Bureau of Statistics (PCBS)
P.O. Box 1647, Ramallah
Telephone: +972-2-2982700
Fax: +972-2-2982710
E-mail: diwan@pcbs.gov.ps
Website: www.pcbs.gov.ps

@ 2017 Palestine Monetary Authority (PMA)
P.O. Box 452, Ramallah
Telephone: +972-2-2409920
Fax: +972-2-2409922
E-mail: info@pma.ps
Website: www.pma.ps

@ 2017 Palestine Capital Market Authority (PCMA)
P.O. Box 4041, AlBireh
Telephone: +972-2-2946946
Fax: +972-2-2946947
E-mail: info@pcma.ps
Website: www.pcma.ps

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

Arab Fund for Economic & Social Development

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August 2017

Q1 2017 Summary:

- GDP: GDP grew slightly during the quarter compared to the previous quarter (0.1% at constant prices), which is ascribed to growth in the Gaza Strip against recession in the West Bank. This led to a decline in per capita GDP by about 0.5%.

- Employment and Unemployment: The unemployment rate in Palestine rose by 0.3 percentage point, reaching 27% in Q1 2017 compared with the previous quarter (19% in the West Bank and 22% in the Gaza Strip). The percentage of the private sector workers who are sub-minimum wage earners (NIS 1,450) was 36.3% (42% females and 35% males).

- Public Finance: In Q1 2017 external funding for budget support amounted to NIS 640 million (18% of which is from Arab countries), whereas external funding to support developmental expenditure amounted to NIS 143 million. The government's arrears amounted to NIS 654 million, 43% of which were arrears to the private sector.

- Vehicles Registration: The number of new and second-hand vehicles registered for the first time in the West Bank reached 10,027 in Q1 2017, 83% of which were second-hand vehicles imported from the international markets and from Israel.

- Inflation and Prices: Inflation in Palestine increased by 1.07% in Q1 2017 compared to the previous quarter. This reflects the decline in the purchasing power of those who receive and spend their income in shekels. While the purchasing power of those who receive their salaries in dollars and dinars and spend in shekels, decreased by 3.17%.

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M A S
Palestine Economic Policy Research Institute (MAS)

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هيئة سوق رأس المال الفلسطينية
Palestine Capital Market Authority

GDP[1]

Palestinian GDP (at 2004 constant prices) rose slightly by 0.1% over Q1 2017 compared with the previous quarter reaching US$ 1,999.2 million: 75% in the West Bank and 25% in Gaza Strip, achieving a growth rate of 0.03% in the West Bank compared with 0.3% in Gaza Strip. Compared with the corresponding quarter (Q1 2017 and Q1 2016), Palestinian GDP grew by 0.7% in Palestine, 0.8% in the West Bank and 0.4% in Gaza Strip (Figure 1-1).

This slight rise during Q1, accompanied with an increase in the population, resulted in a decline in the per capita GDP by about half a percentage point compared with the previous quarter. Also the modest growth rate resulted in a per capita GDP during Q1 2017 lower by two percentage points than the corresponding quarter 2016 (Table 1-1).

Table 1-1: Per capita GDP* by Region (constant prices, base year 2004) (US$)

	Q1 2016	Q4 2016	Q1 2017
Palestine	**441.0**	**434.2**	**431.6**
-West Bank*	565.0	558.5	555.2
-Gaza Strip	264.4	258.3	257.0

(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

The GDP gap between the West Bank and the Gaza Strip

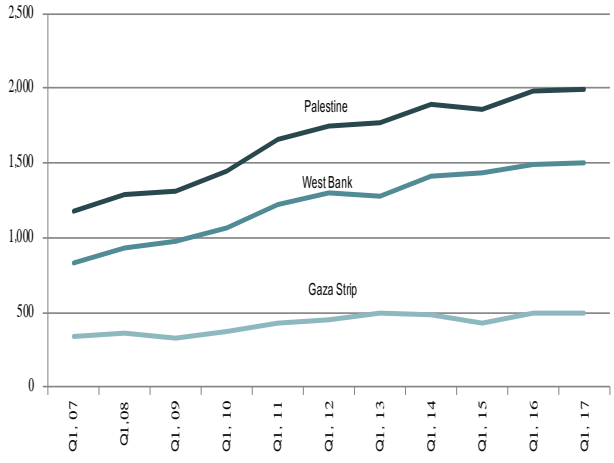
Even though Gaza Strip's share of GDP has increased by almost 0.05 percentage point between Q1 2017 and Q4 2016, its contribution to GDP declined by 0.06 percentage point over Q1 2017 compared with the corresponding quarter 2016, i.e. the Strip's contribution is still as low as a quarter of the country's GDP. Meanwhile the gap between the West Bank and Gaza Strip in terms of per capita GDP reached US$ 298 in Q1 2017 (Figure 1-3), witnessing a slight decline compared with the previous quarter (USD 2.4), and the corresponding quarter (USD 2). Nevertheless, per capita GDP in Gaza Strip is still about 46% of the West Bank's per capita GDP. (Figure 1-2)

Composition of GDP

The share of the productive sectors (agriculture, industry and construction) contribution to Palestinian GDP declined by 1.2 percentage points between Q1 2017 and Q4 2016, as a result of the declining share of the construction sector. On the other hand, the transportation, information, and finance sectors increased by 0.7 percentage point, and the share of other services sectors increased by about 0.8 percentage point, as a result of the increase in the share of wholesale, retail and vehicle repair (Figure 1-4).

1 The source of data in this section: PCBS, 2017, Periodic Statistics on National Accounts, 2007-2017. Ramallah- Palestine.

Figure 1-1: Palestinian GDP* by Quarters (constant prices, base year 2004) (US$ million)

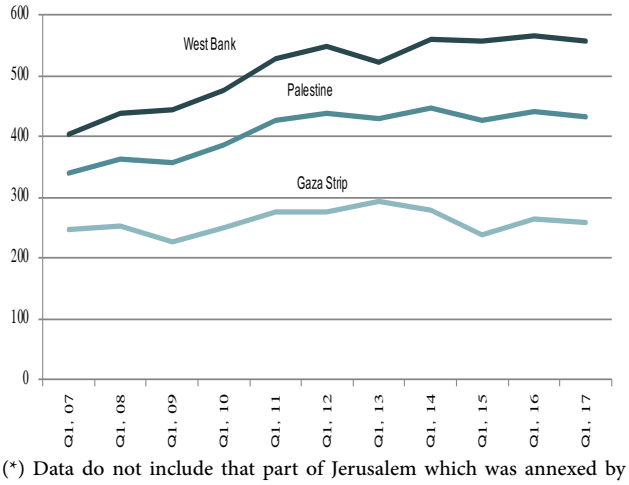


(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

Figure 1-2: % GDP in the West Bank and Gaza Strip* (constant prices, base year 2004)

(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

Figure 1-3: % GDP in Palestine* by Region, and by Corresponding Quarters (constant prices, base year 2004)



(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

Expenditure on GDP

The absolute increase in GDP between Q1 2016 and Q1 2017 amounted to about US$ 13.5 million, which is explained by the decreased aggregate consumption expenditure (private and public) by US$ 31.6 million, and increased investments by about US$ 41.4 million; while net exports (i.e. exports minus imports) increased by US$ 3.2 million during the quarter. (Figure 1-5 shows percentile expenditure on GDP items).

Figure 1-4: % Contribution of Economic Sectors to Palestinian GDP* (constant prices, base year 2004)

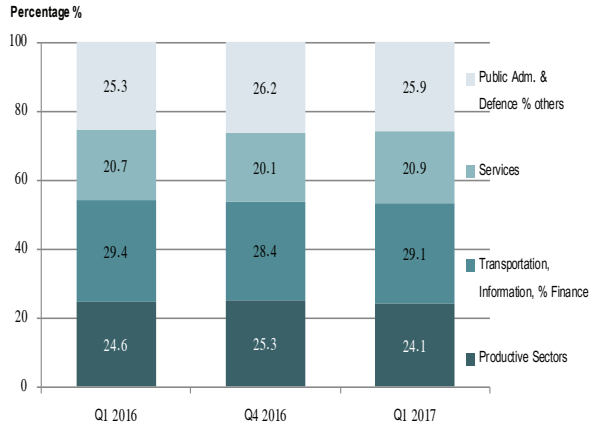
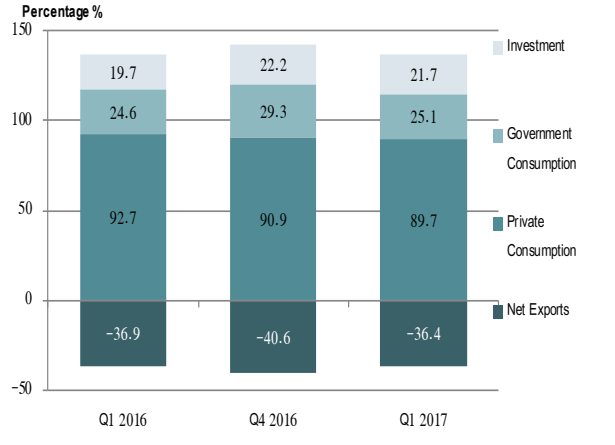


Figure 1-5: % Expenditure on GDP in Palestine* (constant prices, base year 2004) (% percent)



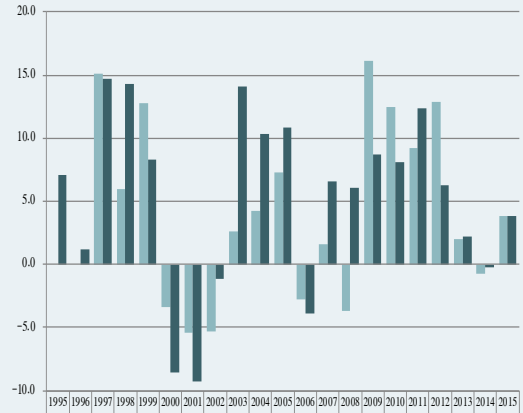
(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.
The total does not equal 100%, due to 'net errors and omissions' item.

Box 1: Long-term Growth in Palestine's Economy

A recent study conducted within the EU project for the Palestinian Ministry of National Economy by Luis Abugattas found that the compound annual growth rate in the Palestinian economy in 1995-2015 was 4.2 percent (in constant dollar prices). [1] This medium-long-term growth rate is not much different from the corresponding growth rates in the comparable neighboring Middle East and North African economies or in the Lower-Middle-Income group. The author, however, identified three worrying and peculiar determinants in the growth of the Palestinian economy:

- First, the Palestinian economy in 1995 was at a very low level, so per capita GDP, despite an average annual growth rate of 4.2 percent, is now 34 percent lower than in Jordan, a country with similar resources. In terms of PPP per capita, its level in Palestine is less than half that of countries such as Jordan, Egypt and Tunisia.
- Second, the long-term growth rate is inadequate when compared to the sharp increase in the population. The compound annual growth rate in per capita GDP was hardly 0.9 percent at constant prices in 1995-2015. This modest growth rate interrupted the creation of enough jobs for the increasing labor force.
- Third, annual growth rates during the period fluctuated substantially, sometimes showing rapid growth before descending dramatically. Figure 1 shows the GDP annual growth rates Palestine at constant dollar prices (2004) as well as constant shekel prices (1996). Obviously, there were not only sharp changes in annual rates, but also variations in growth rates when measured in shekels and dollars due to USD/NIS exchange rate instability. The NIS annual compound growth rate in the period was a little lower than that of the USD; still, the volatility in growth was higher when measured in shekels. Much economic literature has repeatedly demonstrated that economies with fluctuating growth rates are always experiencing slower long-term growth and less effective investment due to distrust and lack of sustainability.

Figure 1: Annual GDP growth rates in Palestine at constant dollar and shekel prices (1995-2015)



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Constant prices for 1996 in NIS			15.2	5.9	12.8	-3.4	-5.4	-5.3	2.6	4.2	7.3	-2.8	1.6	-3.7	16.1	12.5	9.2	12.8	2.0	-0.8	3.8
Constant prices for 2004 in US$	7.1	1.2	14.7	14.3	8.3	-8.6	-9.3	-1.2	14.1	10.3	10.8	-3.9	6.6	6.1	8.7	8.1	12.4	6.3	2.2	-0.2	3.8

Note: The Palestinian Central Bureau of Statistics (PCBS) publishes GDP figures in only dollar current and constant prices. The author converted the GDP at current dollar prices to their value in NIS using the mid-year exchange rate for each year. He then converted the shekel figures at current prices to constant prices using PCBS inflation rates and taking 1996 as a base year.

1 L. Abugattas (2017) Palestine: Macroeconomic Performance and Development Challenges and Policy. EU-TSP

2- Labor Market[1]

Manpower in Palestine, which comprises all persons aged 15 years and older, amounted to 2,989 thousand persons by the end of Q1 2017. The labor force, which includes only all persons qualified to work and seeking actively to find work, amounted to 1,369 thousand. The difference between the labor force and the actual number of workers provides a measure of the rate of unemployment. Figure 2-1 shows the relation between the three variables and the development of population.

The Participation Rate

Figures show that the percent of labor force to manpower in Palestine (which is known as the participation rate) was around 46% in recent years (about 45.8% during Q1 2017). This ratio is close to prevailing ratios in other countries in the region (42% in Jordan, for example, in 2014, according to World Bank data), but it is significantly different from those in developed countries, where it is close to 60% or higher. One of the main reasons behind this divergence is the low female participation rate and high percent of youth (children and adolescents) in Palestine compared with developed countries.

There is a wide gap between the male and female participation rates in Palestine, as the percent rises to 71.6% for males, and drops to only 19.4% for females. There is no remarkable disparity between the West Bank and Gaza Strip in this regard, as the participation rate in the West Bank was 73.3% for males compared with 17.6% for females, while in Gaza Strip it was 68.6% for males compared with 22.3% for females. Obviously, the decline in the female participation rate in Palestine is the factor driving the decline in the total participation rate.

Number of Workers and their Distribution

The number of workers in Palestine decreased by 0.3% between Q4 2016 and Q1 2017 reaching 999 thousand workers. The distribution of workers in Q1 2017 was 56.3% in the West Bank, around 29.7% in Gaza Strip, and 14.0% (or about 140 thousand workers) in Israel and the settlements (which is higher than prevailing percent in the last years which was around 11%) .

In Q1 2017 more than one fifth of the employed in Palestine worked in the public sector, while this percent rises to 35.8% in Gaza Strip (Figure 2-2). By sector, during Q1 2017 about 35.5% of the employed worked in the services sector (53.4% in Gaza Strip), whereby the building and construction sector employed 21.4% of workers in the West Bank and less than 7% in Gaza Strip. About 21% of the employed work in the trade, restaurants, and hotels sector. This percent converges between the West Bank and Gaza Strip (Figure 2-3).

Unemployment

The unemployment rate is the number of unemployed people divided by the number of people in the labor force. The unemployment rate in Palestine rose to 27.0% in Q1 2017,

1 The Source of data in this section: PCBS, 2017, Labor Forces Survey, Ramallah, Palestine.

Figure 2-1: Individuals (aged 15 years and above) and Workers in Palestine (Thousand)

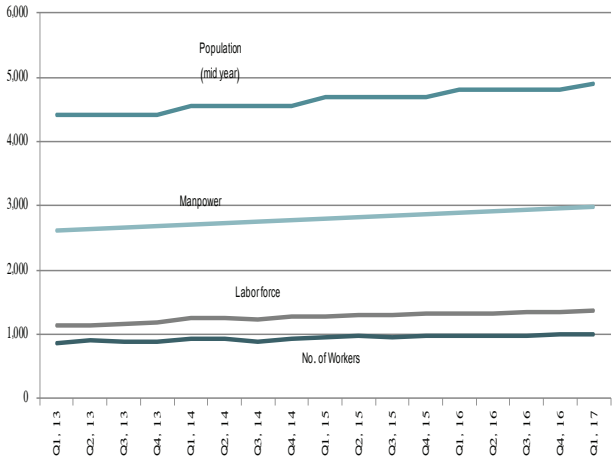


Figure 2-2: % Distribution of Palestinian Workers by Region and by Sector, Q1 2017 (%)

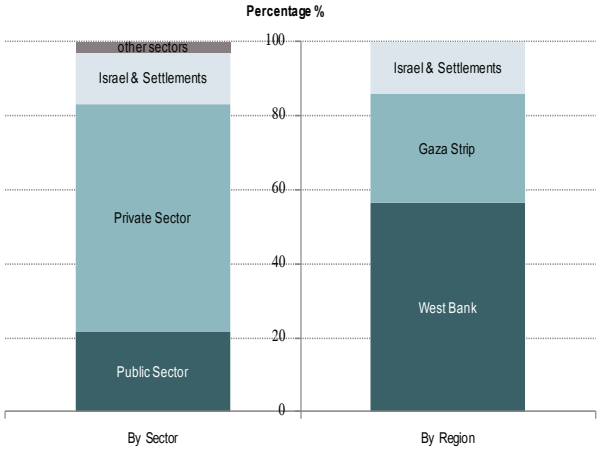
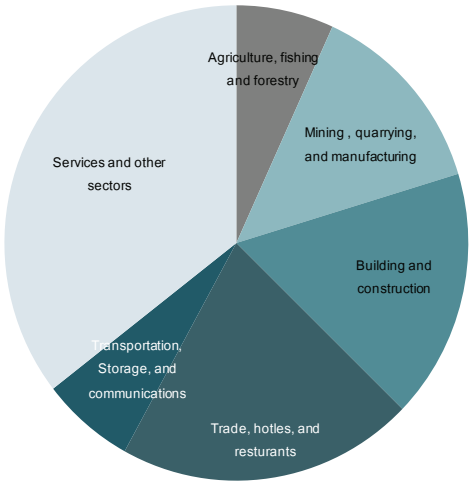


Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q1 2017 (% percentage)



higher by half a percentage point compared with the corresponding quarter 2016, and 1.3 percentage points higher than the previous quarter (Table 2-1).

Table 2-1: Unemployment Rate among Individuals Participating in Palestine's Labor Force by Region and Gender (Percentage %)

		Q1 2016	Q4, 2016	Q1 2017
West Bank	Males	15.5	14.2	15.9
	Females	28.4	28.5	31.2
	Total	**18.0**	**16.9**	**18.8**
Gaza Strip	Males	34.5	33.2	32.7
	Females	62.6	64.4	67.4
	Total	**41.2**	**40.6**	**41.1**
Palestine	males	22.3	21.0	21.9
	Females	42.8	43.9	46.6
	Total	**26.6**	**25.7**	**27.0**

Two of the most notable characteristics of unemployment in the Palestine are that:

1) It is high among the youth: the unemployment rate in the age group between 15-24 years reached 42.9% (66.7% for females against 37.5% for males). This indicates that a large proportion of the unemployed are new entrants to the labor market (Figure 2-4 and Box about school to work transition in Monitor 46).

2) The unemployment rate decreases with the completion of higher educational levels for males, contrary to females (Figure 2-5): The unemployment rate in Q1 2017 reached 24.1% for males who had not completed secondary education, while it was 18.2 % for males with a Bachelor degree. On the other hand, the unemployment rate for females with a Bachelor degree was 51.5%, while it was only 30% for females who had not completed secondary education (Figure 2-5).

Output Growth and Changes in Unemployment Rate

Figure 2-6 shows two curves; one for the GDP rate of growth for each quarter and the other for the unemployment rate for each quarter during Q1 2012-Q1 2017. The first noticeable aspect of the figure is the sharp fluctuation in the curve of the GDP growth rate. Part of this fluctuation can be explained by the seasonal/cyclical nature of GDP, as economic activity is somewhat reduced in the winter and autumn compared to other seasons. Nevertheless, the impact of political factors and restrictions imposed by the occupation on economic activity explain the sharp and periodic fluctuation of economic growth. Secondly, the figure shows that there is a relation in the behavior of the two curves, i.e. whenever there is an increase in the growth rate of output, there will be a decline in the unemployment rate by 0.28% during the study period, i.e. any decrease in the unemployment rate by 1% requires an increase in the growth rate by 3%. This simplified and approximate linkage provides a simple estimate of the acceleration needed in the growth rate and the time needed to achieve a significant reduction in the high unemployment rates, in Palestine in general, and in Gaza Strip in particular.

Figure 2-4: Employed and Unemployed in Palestine by Age Group (Q1 2017)

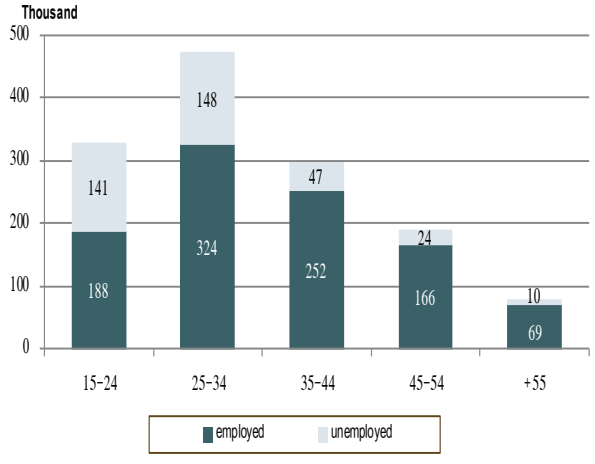


Figure 2-5: Employed and Unemployed in Palestine by Educational Level and Gender (Q 1 2017)

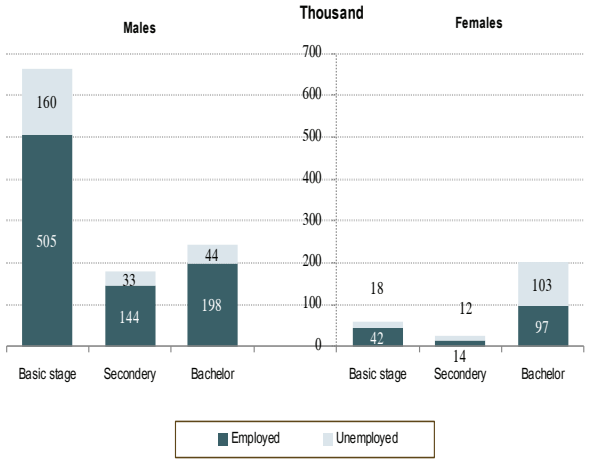
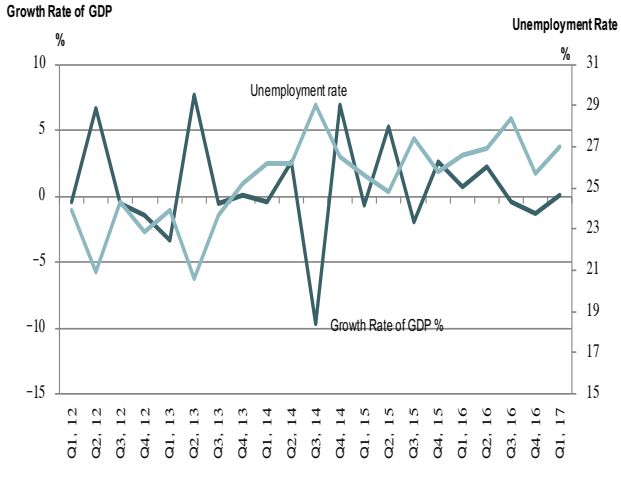


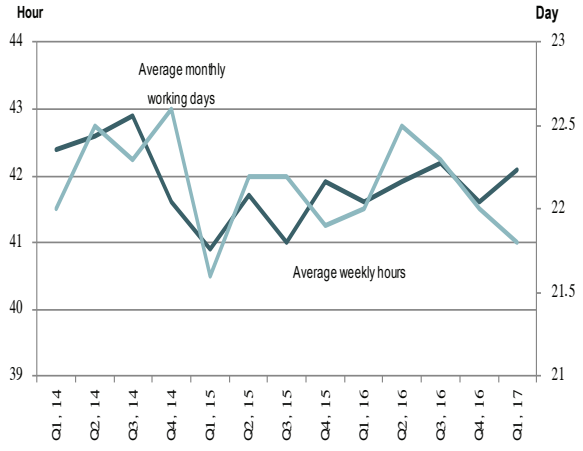
Figure 2-6: Growth Rate of GDP and Unemployment Rate in Palestine



Work Hours and Days

Figure 2-7 shows the average work hours and days for Palestinian workers. There is a convergence in the average number of the monthly work days in the West Bank and Gaza Strip, but the average number of weekly work hours in the West Bank is higher than that in the Gaza Strip by more than 11.6% during Q1 2017. This is more owing to lack of employment opportunities in Gaza Strip than to the productivity or choice of hours of work (comfort preferences) observed in developed countries, where such factors explain shorter work hours.

Figure 2-7: Average Weekly Work Hours and Monthly Work Days in Palestine



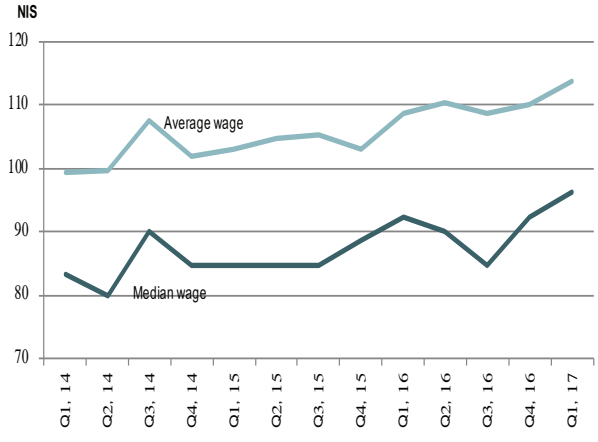
Wages

The average daily wage for workers in Palestine amounted to NIS 113.6 in Q1 2017. Yet this number does not show the divergence between the average wage for workers in Palestine on the one hand, and that for workers in Israel and the settlements on the other hand, and between the average wage in the West Bank and that in the Gaza Strip (Table 2-2). As figures indicate, the average wage of workers in Israel and the settlements is about triple the wage of workers in the Gaza Strip. The gap is even wider when considering the median wage, which is significantly higher and better than the average wage; because it reflects the wage level whereby the wages of half of all workers are above it, and the wages of half of all workers are below it (Figure 2-8 tracks the divergence between the average and median wage). Notably, the median wage in Gaza Strip is almost half the median wage in the West Bank. The average daily wage increased by NIS 3.6 between Q4 2016 and Q1 2017, as a result of an increase in the average wage of workers in the West Bank (by NIS 3.9), and its rise in Israel and the settlements (NIS 3.8), despite its decrease in Gaza Strip (NIS 5.1).

Table 2-2: The Average and Median Daily Wage (NIS) in Palestine (Q1 2017)

Place of Work	Average Daily Wage	Median Daily Wage
West Bank	101.5	92.3
Gaza Strip	58.7	40
Israel and the settlements	219.5	200
Palestine	**113.6**	**96.2**

Figure 2-8: The Average and Median Daily Wage for Wage Workers (NIS) in Palestine



Minimum Wage

During Q1 2017 the percent of wage workers employed by the private sector who were sub-minimum wage earners (less than NIS 1,430) was 36.3% (42.2% females and 35.1% males). The average monthly wage of those workers was NIS 836. By region, 16.2% of the private sector wage workers in the West Bank were paid sub-minimum wage earners, compared with 73.3% in Gaza Strip (Table 2-3).

Child Labor

Child labor (aged 10-17 years) decreased slightly during Q1 2017 compared with the previous quarter, from 3.4% to 3.3%. This decrease is attributed to an increase in the total number of children, more than to a decline in the number of working children (which remained the same). Yet the percent declined by almost one percentage point compared with the corresponding quarter. By region, child labor was 4.5% in the West Bank and 1.7% in Gaza Strip during Q1 2017.

Table 2-3: the number and average wage of wage workers employed by the private sector who are sub-minimum wage earners(do not include workers in Israel and the Settlement), Q1 2017

	Number of wage workers in the private sector (Thousand)			Number of wage workers who are sub-minimum wage earners* (Thousand)			Average monthly wage for sub-minimum wage earners (NIS)		
	males	females	both	males	females	both	males	females	both
West Bank	196	45	241	22	17	39	1,137	956	1,058
Gaza Strip	112	19	131	86	10	96	771	353	747
Palestine	308	64	372	108	27	135	845	803	836

Box 2: How Deflators Explain the Disparity Between Productivity and Wages in both Israel and Palestine

A study published by the TAUB Center for Social Policy Studies in Israel presented a new interpretation of the gaps in the Israeli economy over the past years.[1] While labor productivity per worker rose by 15 percent between 2001 and 2015, real wages in the business sector remained relatively similar from the beginning to the end of this period (See Figure 1). In general, real wage increases are tied to increases in productivity (the output per hour of labor) – as productivity goes up, so do wages. Among the reasons commonly given for the stagnation in wages is the increase in the share of profits at the expense of the share of wages due to the weak bargaining power of trade unions. The study does not accept this explanation and gives a different reason. The interpretation by the TAUB Center is of a technical nature and requires a background to understand the structure and role of deflators in national accounts.

Deflators

Deflators are record figures used to convert national accounts data from current prices to constant prices. They are coefficients that measure the rate of inflation and are used to isolate the impact of price increases on data in order to reach real values. There are three types of deflators, most importantly:

- Consumer Price Index (CPI) measures the change in the level of retail prices of the average final consumption goods and services. The CPI reflects the changes to a consumer's cost of living as perceived by consumers. The Index accounts for the changes in sales and purchase taxes as well as the changes in import prices. It does not, however, measure export prices and government procurement.
- Producer Price Index (PPI) measures the average change in selling prices received by domestic producers of goods and services over time. It reflects the changes in the domestic production prices. The average price is based on the relative weight of the production sectors in the economy. Unlike the consumer price index, this deflator measures the changes in prices of goods and services sold to the government and for export, but sales taxes and fees are not included in its figures. The PPI does not account for import prices, either
- GDP: This is a broader index than the previous two. It covers the prices of all goods and services (rather than selected goods; e.g. the items in the consumption basket). The GDP goods and services vary over years in line with changes in the structure of investment, production and consumption.

Productivity growth and increase in wages

With this technical background, we can now look at the explanations by the TAUB Center study regarding the gap between real wages and productivity in Israel. The study concluded that the reason for the gap is that workers' productivity is deflated by the producer price index, while the wages are deflated by the consumer price index. While consumer prices rose faster than producer prices over the past 15 years, real wages increased at a slower pace than the increase in productivity.

1 TAUB Center. How much bang for your buck? The stagnation of real wages in Israel. http://taubcenter.org.il/how-much-bang-for-your-buck-the-stagnation-of-real-wages-in-israel/Accessed January ٢٠١٧ ,٢٤.

Figure 1: Product per worker and real wages in Israel's business sector (Record figure 1968 = 100)

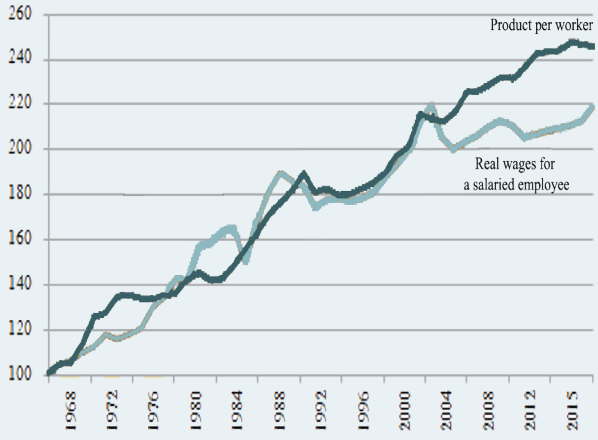


Figure 2: Contribution to the CPI by main consumer categories in Israel

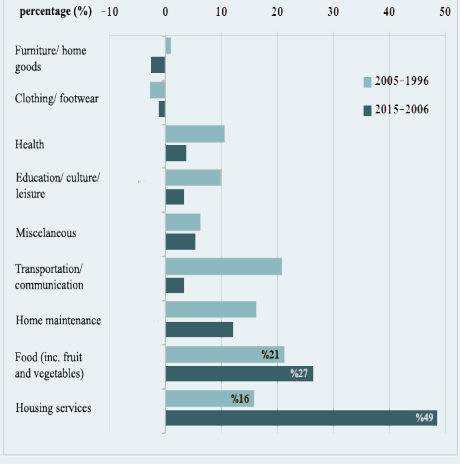
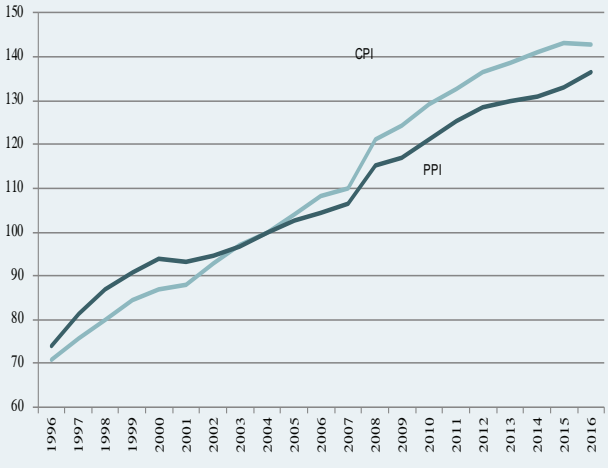


Figure 3: Consumer Price Index and Product Prices in Palestine in NIS (base year 2004 = 100)



Source: Palestinian Central Bureau of Statistics, 2017. Prices and indices, Annual Bulletin, 2016. Ramallah, Palestine.

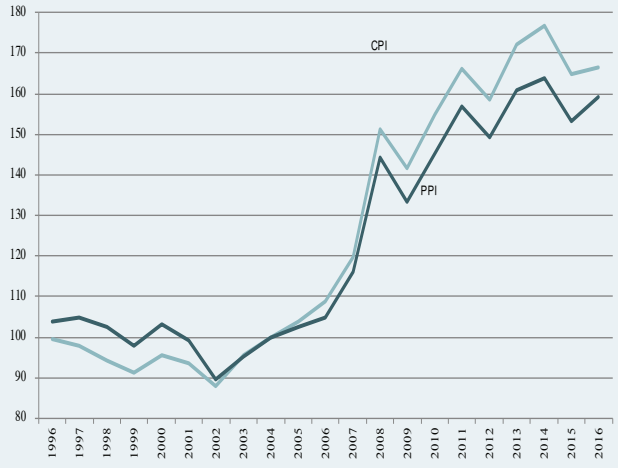
What are the factors behind the gap in the values of these two deflators? The study found that the growing gap between production and consumer prices is rooted in the appreciation of goods that are typically bought by households in higher quantities, but represent a smaller share of what is produced; namely food and housing, which have a large share in the consumer price index compared to their weight in the producer price index. For a typical Israeli household, food and housing make up 42 percent of household expenditure, while the share of food and housing in the producer price index is barely 11 percent. The rise in housing and food prices was responsible for 75 percent of the rise in Israel's consumer price index over the past decade. Put differently, the inflation in housing and food costs has weakened the relationship between productivity and real wages. The study has shown that the housing prices rose by 114 percent and rental costs by 50 percent during 2007-2016 (see Figure 2).

The study called for measures to restore the balance between the changes in the two deflators, particularly controlling the increase in house prices and rental costs, promoting competitiveness in the food sector and removing restrictions on food imports.

Deflators in the Palestinian economy

The foregoing discussion suggests two things. First, the deflators are really important in growth accounts. Second, there is interplay between different factors that affect the development of real wages in the economy and the distribution of income. The interplay is much more substantial in the Palestinian economy due to the presence of more than one traded currency and thus the need to calculate the GDP in dollars and shekels. Figures 3 and 4 show the CPI and the PPI in Palestine in NIS and USD. Direct sharp movement, up and down, is observed in dollar deflators compared with those for the shekel. The dollar deflators take into account not only the rise in prices but also the cyclical shifts in the dollar-shekel exchange rates to reach real-time changes. Figure 4 shows that the rise in the consumer price index is always higher than the rise in the producer price index in Palestine, the same tendency observed by the TAUB study, which implies that real wages in Palestine do not move in parallel with productivity because of structural and institutional bottlenecks in the economy. This should be of particular interest to future studies.

Figure 4: Consumer Price Index and Producer Prices in Palestine in USD (base year 2004 = 100)



Source: Palestinian Central Bureau of Statistics, 2017. Prices and indices, Annual Bulletin, 2016. Ramallah, Palestine. The figures are based on the shekel figures and converted into dollars using price deflators.

3- Public Finance[1]

Public Revenues

During Q1 2017, net public revenues and grants decreased by 3.8% compared to the previous quarter, reaching around NIS 4,227.3 million. This is attributed to the decline in local clearance revenues, specifically non-tax revenues. It worth mentioning, that this decline is attributed to a one-time increase in the non-tax revenues during Q4, from payment of the renewal license of the telecommunications franchise awarded to Paltel.

In addition, clearance revenues declined by 2.8% compared with the previous quarter, reaching around NIS 2,150.4 million (Figure 3-1). Foreign aid and grants decreased as well by 4.4% compared with the previous quarter, reaching NIS 783 million (Table 3-1).

Net public revenues and grants were equivalent to around 126.9% of actual public expenditure (cash basis) during Q1 2017 compared with 135.6% in the previous quarter. On the other hand, those revenues were about 108.4% of accrued public expenditure (commitment basis) compared with 92.9% during the same period.

Table 3-1: Grants and Foreign Aid to the PA (NIS million)

Item	2016				2017
	Q1	Q2	Q3	Q4	Q1
Budget support	621.2	627.1	552.7	516.6	639.6
- Arab grants	345.7	226.8	3.6	237.7	112.8
- International donors	275.5	400.3	549.1	278.9	526.8
Developmental funding	76.7	132.6	91.0	302.7	143.4
Total	**697.9**	**759.7**	**643.8**	**819.3**	**783**

Public Expenditure

Actual public expenditure increased by 2.7% during Q1 2017, compared to the previous quarter, reaching NIS 3,330.5 million. This rise is constituted by the increase in the wages and salaries bill by about 52.4%, amounting to NIS 1,882.5 million. This increase reflects the government's advance payment of October salaries and wages (Q4 2016) in September, which resulted in the decrease in this item in Q4 compared with the previous quarter.

Net lending expenditure increased by 15.4%, reaching NIS 258.5 million during this quarter. In contrast, non-wage expenditure decreased by 26.6% reaching NIS 1,038 million, and developmental expenditure decreased by 55.5% compared with the previous quarter reaching NIS 136.5 million (Table 3-2). Actual public expenditure constituted about 85.4% of accrued expenditure during this quarter, and about 26% of GDP in Q1 2017, and 25% compared with the previous quarter and 27% compared with the corresponding quarter.

1 The source of data in this section: MOF, Monthly Financial Reports 2016-2017: Financial Operations, Expenditure and Revenues, and sources of Funding.

Figure 3-1: Structure of Public Revenues (NIS million)

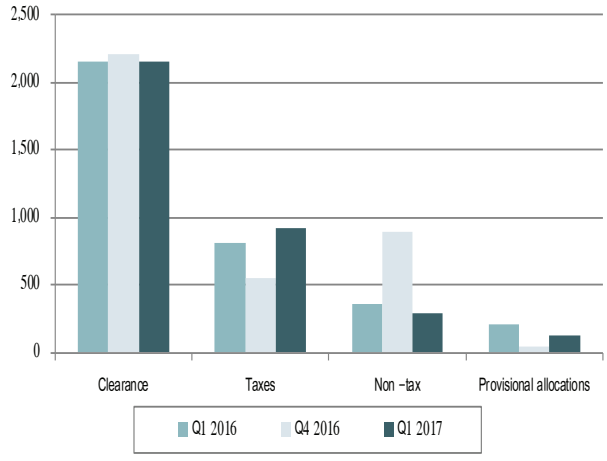


Figure 3-2: Structure of Public Expenditure (NIS million)

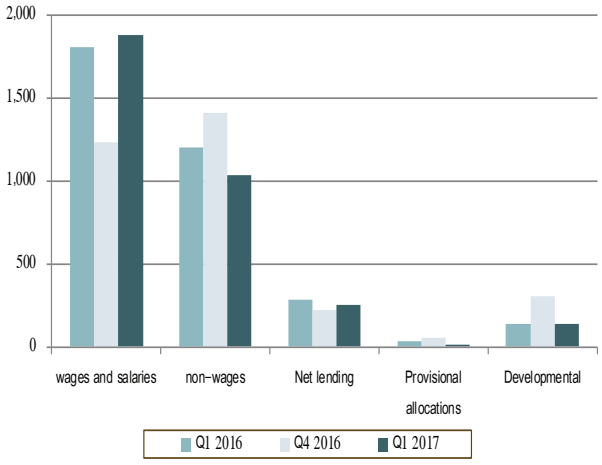
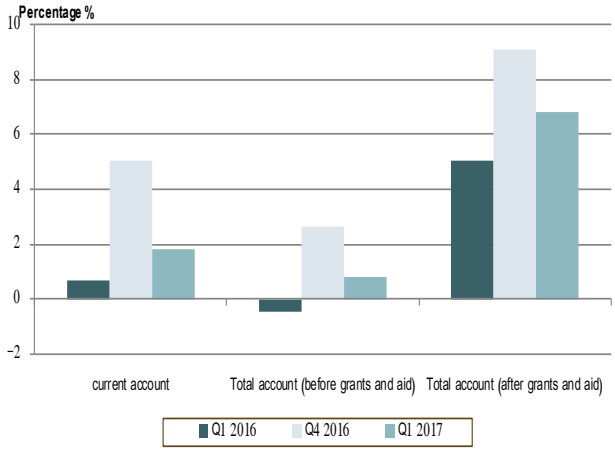


Figure 3-3: Government's Financial Account (cash basis) as % to Nominal GDP



Government Arrears

During Q1 2017 government arrears reached NIS 654.4 million, equivalent to about 15.4% of total public revenues and grants during the quarter. Table 3-2 shows the distribution of those arrears on the different items, whereby wages and salaries arrears amounted to NIS 111.5 million and private sector arrears (non-wage expenditure) amounted to NIS 286.1 million.

During Q1 2017 the government paid off NIS 498 million of accumulating arrears. Thus the total PA accumulated arrears increased during the quarter by 1.3% (i.e. a net increase of NIS 156.5 million), reaching NIS 11,999.6 million as of Q1 2017.

Financial Surplus/Deficit

Developments on both the revenue side and expenditure side during Q1 2017, have led to a surplus in the total balance (before grants and aid), of NIS 113.8 million (or 0.8% of GDP on cash basis). The total balance (after Grants and foreign aid) stood at NIS 896.8 million, about 6.8% of GDP (Figure 3-3). On commitment basis, the deficit in the total balance before aid and grants reached NIS 449.4 million, while after grants and aid the surplus in the balance stood at NIS 333.6 during the same period.

Public Debt

During Q1 2017 public debt reached approximately NIS 9,109.1 million, about 18.2% of GDP, registering a decline by 4.7% compared to the previous quarter, and by 4.8% compared to the corresponding quarter. About 58% of the debt was domestic debt against 42% foreign debt. Debt service was NIS 93 million, about NIS 90.7 million of which was interest paid on debt (Table 3-3).

Table 3-2: the PA's Accumulated Arrears (NIS million)

Item	2016				2017
	Q1	Q2	Q3	Q4	Q1
Tax refunds	(28.0)	13.3	(8.9)	6.7	84.1
Wages and salaries	108.9	(487.7)	164.7	719.4	111.5
Nonwage expenditures (private sector)	434.1	381.9	418.2	627.1	286.1
Development expenditures	68.5	100.2	134.7	159.1	59.3
Provisional payments	163.6	(10.9)	22.8	(17.6)	115.5
Total arrears	**747.1**	**(3.2)**	**731.5**	**1,494.7**	**654.4***

Figures between brackets indicate negative value

* NIS 2.1 million were subtracted out of the total, which constitute the sum paid off out of the net lending arrears.

Table 3-3: Palestinian Government Public Debt (NIS million)

Item	2016				2017
	Q1	Q2	Q3	Q4	Q1
Domestic debt	5,490.9	5,606.6	5,606.4	5,541.4	5,291
Banks	5,438.6	5,554.4	5,554.1	5,489.2	5,238.7
Public institutions	52.3	52.3	52.3	52.3	52.3
Foreign debt	4,072.5	4,132.5	3,967.8	4,017.7	3,818.1
Total public debt	9,563.4	9,739.1	9,574.2	9,559.2	9,109.1
Paid interest	91	81.0	57.3	54.8	93.0
Public debt as % to nominal GDP*	19.3%	18.9%	18.3%	%18.5	18.2%

* Figures differ slightly when calculated in US$ due to changes in exchange rate.

Box 3: Developmental Expenditure in Palestine

Developmental expenditure is defined as the type of spending that contributes to the future production capacity of a country. This expenditure offsets the depreciation in the existing capital as a result of utilization, and it increases the value of accumulated capital to achieve higher economic growth in the future. We analyze the figures for development spending in Palestine over the past two decades. It is important first to note that economists do not have a single clear-cut definition of developmental expenditures. Some types of expenditure traditionally itemized under expenditure in government budgets (such as spending on education and health care) also contribute to the future production capacity of the economy.

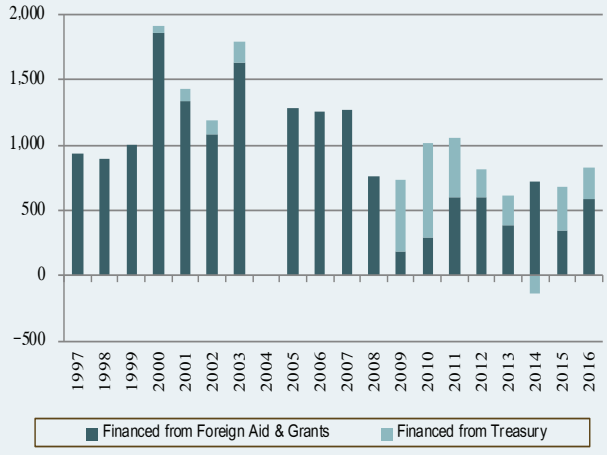
Public developmental spending in Palestine is financed either directly from international aid or from the government budget. Figure 1 shows developmental expenditure figures during the last 20 years. The share of developmental expenditure has been increasing in recent years despite the decline in the value of total annual developmental expenditure. In 2000, it reached a historic high of NIS 1.9 billion (97 percent of which came from direct international assistance). The decline in that form of spending began after 2000 and has continued since then, except for the jump in 2003, the Figure shows.

Figure 2 shows the average share of developmental expenditure in total public spending. Clearly, the share had seen a steady decline from 1997 to 2011, but has stabilized over the past five years at a relatively low level of about 5 percent.

Developmental spending priorities

In 2016, the government developmental expenditure totaled NIS 1,286.5 million (on a commitment basis) and NIS 824 million (on a cash basis). Figure 3 exhibits the actual distribution of development expenditure across sectors in 2016 by item and unit.

Figure 1: Developmental Expenditures in Palestine 1997-2016 (in NIS millions)



Source: Palestine Monetary Authority: statistics, annual data and public finance. The figures have been converted to NIS using the average exchange rate for each year.
* In 2014, the government earmarked part of the international aid (about USD 40 million) to developmental expenditures to support the current budget.
** Data for 2004 differ according to the source, so they were not included in the Figure.

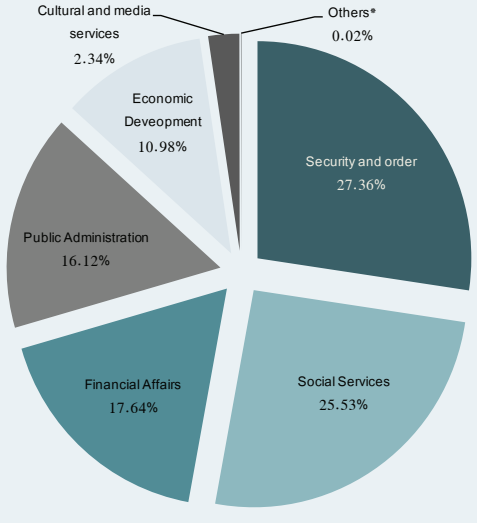
Figure 2: Developmental expenditure as % to public expenditure (1997-2016)

Source: The ratios are calculated based on data obtained from the Palestine Monetary Authority: statistics, annual data and public finance. Data for 2004 differ according to the source, so they were not included in the Figure.

Security and order projects accounted for 27 percent of development expenditure in that year. Spending on the top three development projects (rehabilitating the security services, building training camps for security services and supporting the political and security program of the PA president) drained 20 percent of developmental spending in 2016.[1] Social services (emergency assistance to the Gaza Strip, support to camps, rehabilitation of sewerage systems, orphans sponsorship and other projects) received about 25 percent of developmental spending. Around one-third of developmental budget in 2012 went to public administration and public finance (particularly the projects designed to improve the efficiency of public administration), leaving only 11 percent to economic development projects.

These figures of development spending raise many questions that still need answers, among them: What are the criteria used by the Palestinian government to define "developmental projects"? What is the developmental impact that has been generated from the modest developmental spending over the past two decades? Is there any correlation between the projects included in the developmental spending program and the national development plans?

Figure 3: Development Expenditure by Item Unit, 2016 (%)



Source: Ministry of Finance, Monthly Financial Report, December 2016.
* Others include foreign affairs, transport and communications services.

Salam Salah, MAS

1 Ministry of Finance Monthly Financial Reports, 2016.

4- The Banking Sector[1]

Number of Banks and Accounts

By the end of Q1 2017, there were 18 licensed banks operating in Palestine, through 313 branches and offices distributed all over the Palestinian governorates; 256 banks in the West Bank and 57 banks in the Gaza Strip. About 189 banks are locally owned banks and 124 banks are foreign chartered banks. By the end of Q1 2017, there were about 6,692 employees in these banks. Figure 4-1 shows the distribution of branches and offices throughout the Palestinian governorates.

Net assets (liabilities) increased by 7.2% in Q1 2017 compared to the previous quarter reaching US$ 15.2 billion, as the consolidated balance sheet for licensed banks shows (Table 4-1)

Table 4-1: Consolidated Balance Sheet for Licensed Banks Operating in Palestine (US$ millions)

Item*	2016				2017
	Q1	Q2	Q3	Q4	Q1
Total assets	**13,143.6**	**13,599.6**	**14,068.3**	**14,190.1**	**15,222.3**
Direct credit facilities	6,137.3	6,404.9	6,666.4	6,865.9	7,234.2
Deposits at PMA & Banks	3,976.6	4,117.9	4,055.3	4,270.5	4,136.2
Securities portfolio for trading and investment	900.6	943.0	1,051.2	1,206.7	1,042.2
Cash and precious metals	1,141.5	1,074.2	1,204.4	991.2	1,567.2
Other assets	987.6	1,059.6	1,091.0	855.8	1,242.5
Total liabilities	**13,143.6**	**13,599.6**	**14,068.3**	**14,190.1**	**15,222.3**
Total deposits of the public (non-bank deposits)**	10,054.7	10,202.6	10,432.6	10,595.7	11,127.5
Equity	1,483.2	1,495.2	1,624.4	1,683.6	1,720.3
Deposits of PMA and Banks (bank deposits)	909.1	1,103.9	1,152.0	1,139.9	1,506.6
Other liabilities	228.8	329.2	358.8	269.6	352.4
Provisions and depreciation	467.8	468.8	500.4	501.3	515.5

* Items of the table are totals (including provisions).

** Non-bank deposits include the private and public sectors' deposits.

Credit Facilities

By the end of Q1 2017, total direct credit facilities reached US$ 7,234.2 million, rising by 5.3% compared with previous quarter, and by 17.9% compared with the corresponding quarter 2016.

Around 81.7% of facilities were loans, and 17.7% were overdraft accounts, while the remaining small percent were financial leasing contracts. By region, the West Bank's share of total credit facilities stood at 86.8% compared with 13.2% for Gaza Strip. By currency, the US dollar continued to account for the biggest share of credit facilities (47.2%), compared to 37.6% granted in Shekels and around 14.1% in Jordanian Dinars, and 1.1% granted in other currencies (Figure 4-2).

1 The source of data in this section: PMA, May 2017. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

Table 4-1: the Number of Branches and Offices by Governorate, Q1, 2017

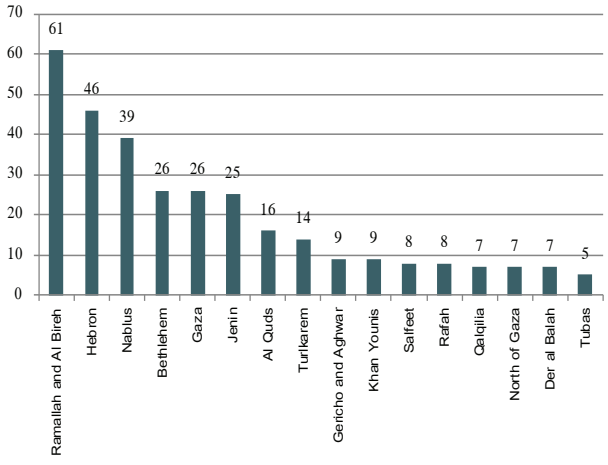


Figure 4-2: Total Direct Credit Facilities (US$ Million)

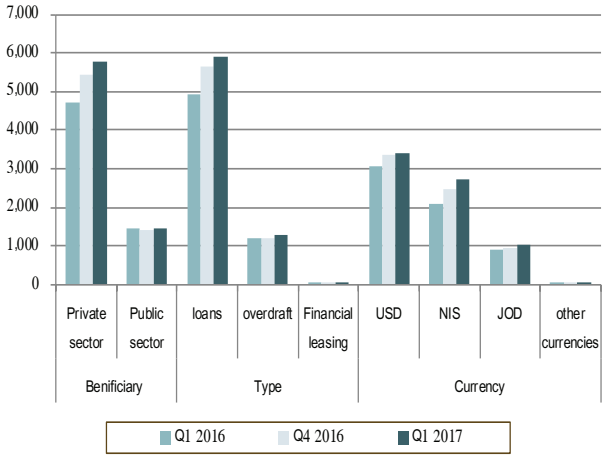
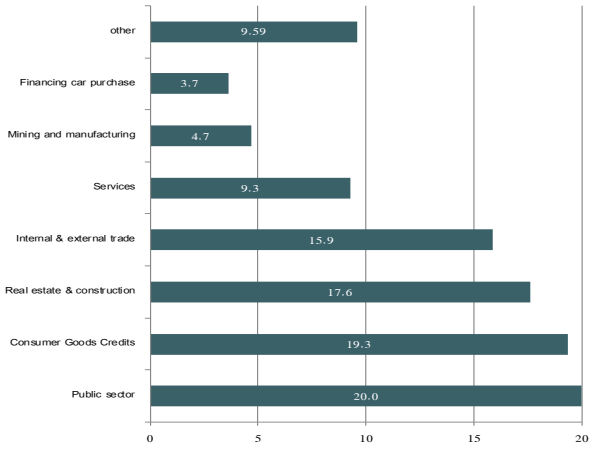


Figure 4-3: Distribution of Credit Facilities by Sector, Q1 2017 (%)



By sector, credit facilities granted to the public sector constituted 20% of the total, followed by consumption loans (19.3%), real estate and construction sector (17.6%), and internal and external trade (15.9%) (Figure 4-3).

In the same context, cash and precious metals grew at the end of Q1 2017 by 58.1% over the previous quarter reaching around US$ 1,567.2 million. This rise is attributed to two factors: first, maintenance operations at the Bank of Israel during Q1 2017 resulted in a decline in transfer of the shekel cash surplus with the PMA. Second, the noticeable decline in the value of this item during the previous quarter (Q4 2016), as a result of an extraordinary shekel cash surplus transfer during that quarter.

Deposits

By the end of Q1 2017 the value of total deposit accounts in Palestine reached US$ 3.1 million. Public deposits (non-bank deposits) were US$ 11.1 million, achieving a growth of 4.9% compared with previous quarter. About 92.5% were private sector deposits compared with a mere 7.5% as public sector deposits. By region, the West Bank share of total deposits was 90%, By type, current (on-demand) deposits accounted for 38.8% of total public deposits. Saving deposits and time deposits made up 32.6% and 28.6%, respectively. The US dollar dominated public deposits (around 39.2% of the total), followed by the Shekel (32.7%), ahead of Jordanian Dinar (24.5%) (Figure 4-4).

On the other hand, bank equity grew by 2.3% by the end of Q1 2017 compared with the previous quarter reaching around US$ 1,720.3 million. The balances with PMA and at banks rose significantly (around 32.2%) to US$ 1,506.6 million during the same period.

Profits of Banks

During Q1 2017 the net income of banks increased notably by about 15.6% compared to the previous quarter, to around US$ 40.7 million. As the increase in revenues (4.9%) surpassed the increase in expenditure (1.5%) (Table 4-2). Interest income constituted 71% of total banks revenues, the same percent as in the previous quarter.

Interest Rates

During Q1 2017, average interest rates rose on loans of the three major traded currencies in Palestine, rose slightly on Dollar and Dinar deposits, and dropped on Shekel deposits, compared with the previous quarter. These changes resulted in an increase in the interest margin between loans and deposits interest rates in the three major currencies, compared with Q4 2016, at 5.19 for the Shekel, 4.69 for US dollar, and 4.63 for Jordanian Dinar (figure 4-5).

Clearence

The number of cheques presented for clearance rose by 4.4% by the end of Q1 2017 (1.6 million cheques) compared to the previous quarter, and consequently their value increased to

Figure 4-4: Distribution of Public Deposits (US$ million)

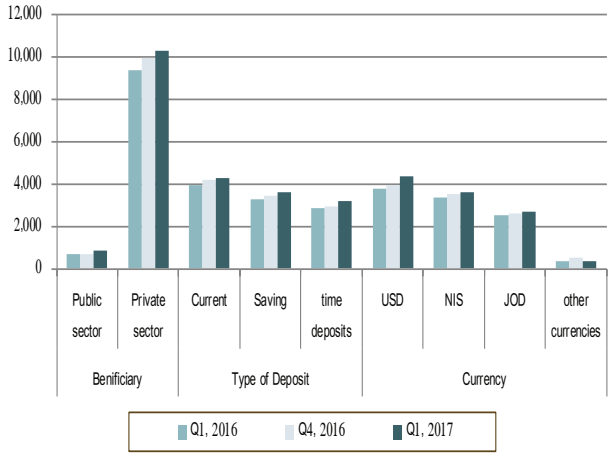


Figure 4-5: Average Interest Rates on Deposits and Loans in Palestine by Currency, Q1 2017 (%)

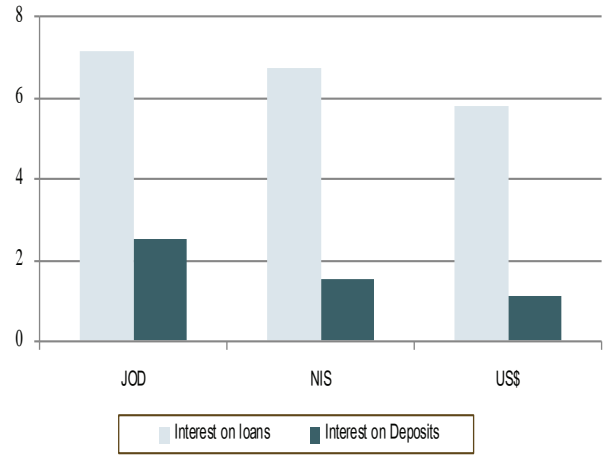


Table 4-2: Sources of Revenues and Expenditure of Licensed Banks (US$ millions)

	2016				2017
	Q1	Q2	Q3	Q4	Q1
Net revenues	**138.4**	**143.5**	**131.0**	**145.4**	**152.5**
- Interests	98.4	101.5	98.0	103.1	108.2
- Commissions	**24.2**	**24.6**	**22.9**	**26.4**	**27.4**
- Other operating revenues	15.8	17.4	10.1	15.9	16.9
Expenses	**96.1**	**105.5**	**97.6**	**110.2**	**111.8**
- Operating expenses and tax allocations	86.3	91.3	87.2	97.7	100.7
- Tax	9.8	14.2	10.4	12.5	11.1
- Net income*	42.3	38.0	33.4	35.2	40.7

US$ 3.8 billion (grew by 9%). This increase was accompanied with an increase in the number and value of returned cheques by 1.5% and 6.3% respectively, or 172,000 cheques valued at US$ 252 million.

About 74.5% of the cheques presented for clearance are in Shekel, 19.5% are in US Dollar. Regionally, 91% of cheques presented for clearance were traded in Ramallah, compared with 9% traded in Gaza Strip. About 6.6% of the West Bank's total cheques were returned cheques, compared with 6.5% of Gaza Strip's share of cheques (Figure 4-6).

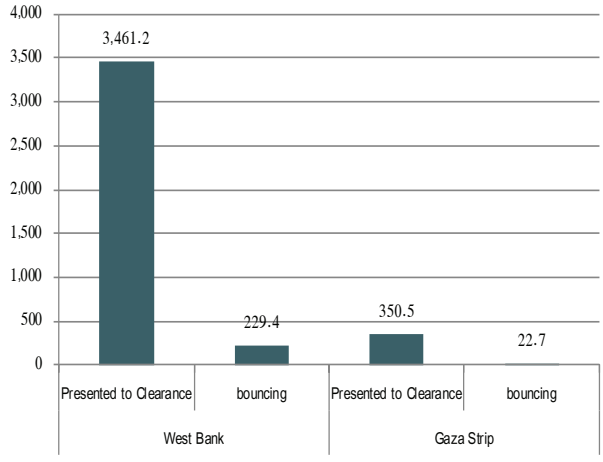
Specialized Credit Institutions (SCIs)

The number of specialized credit institutions (SCIs) by the end of Q1 2017 was 84 (14 institutions and 70 branches). The value of loans granted through SCIs was US$ 210 million, 67.7% in the West Bank, and 32.3% in the Gaza Strip. SCIs offered 641 job opportunities and the number of active clients (who pay their commitments regularly) increased by 2.8% during the quarter reaching 70,855 clients. (Table 4-3)

Table 4-3: SCIs data

	2016				2017
	Q1	Q2	Q3	Q4	Q1
Loan portfolio (US$ millions)	**149.7**	**167.1**	**183.0**	**199.4**	**210.0**
- West Bank	109.2	120.8	129.2	137.0	142.2
- Gaza Strip	40.5	46.3	53.8	62.4	67.8
Clientele	**55,598**	**59,828**	**64,547**	**68,912**	**70,855**
- West Bank	39,433	42,900	45,662	47,919	48,393
- Gaza Strip	16,165	16,928	18,885	20,993	22,462
Employees	**492**	**554**	**583**	**618**	**641**

Figure 4-6: The value of cheques presented for clearance and Returned Cheques, Q1 2017 (US$ Million)



Source: PMA, May 2017, (unpublished data).

By region, SCI loans were centralized in Nablus, Ramallah and Al Bireh, Gaza and Hebron governorates respectively, which have together received about half of the total loans portfolio. The biggest share of these loans were invested in the real estate sector (30%), followed by the commercial sector (25%), then the consumption sector (13%).

Box 4: Palestinian Deposit Insurance Corporation (PDIC): Insuring 90 Percent of Account Holders and 14 Percent of Deposits

The Palestinian Deposit Insurance Corporation was established by Decree No. 7 in 2013 to strengthen the financial safety net in the Palestinian banking system and enhance depositors' confidence in this system and protect their funds from risks. The Corporation enjoys a legal personality and has the legal and financial capacity as well as administrative independence. The Corporation invests insurance financial resources in two separate funds, one for conventional banks and the other for Islamic banks. In the event of the failure of a bank, the Corporation implements the liquidation process in such a way as to ensure the best results for all clients as well as for the Corporation itself. Depositors are then compensated for their losses in accordance with the provisions of the law.

The creation of the Corporation was in line with the global institutional development of the banking sector. Today, there are around 100 countries with deposit insurance schemes, compared with only 12 until the mid-1970s. Global efforts are meant to maintain public funds and provide a legal tool to deal with banks failures. The schemes have strengthened confidence in the banking system, enhanced national savings and promoted economic growth. In addition to the supervisory role granted to it by law (exchanging information and data of member banks on a regular basis with the Palestine Monetary Authority in accordance with specific mechanisms that ensure the Corporation obtain all necessary information to achieve its objectives), the Corporation, by force of the law, has extensive powers to carry out its duties as an insurer of deposits and liquidator of banks.

Deposits covered by the law that established the Palestinian Deposit Insurance Corporation include all types of deposits with member banks in all currencies, save for:

- Deposits of the government and its agencies, deposits of the PMA, deposits between members and other financial institutions.
- Deposits of persons related to a member bank, in accordance with the provisions of the law.
- Cash guarantees within the limits of the amount of guaranteed facilities.
- Deposits of the auditor of a member and/ or members of its Supervisory Board.
- Restricted investment deposits, as determined by the Board.
- Deposits of insurance and reinsurance companies and broker age firms.

The sources of funding for the PDIC are varied, including the bank membership fees, returns on investment, as well as loans and grants. Membership is compulsory for all licensed banks in Palestine. The member bank is required to pay the subscription fees on a quarterly basis. The subscription rate is 0.3 percent of the total value of deposits subject to the provisions of the law.

Insurance Ceiling

The PDIC provides full compensation for deposits not exceeding USD 10,000 (or their equivalent in other currencies). The Corporation pays immediate compensation to each depositor at the target bank and a ceiling of USD 10,000 in the event of liquidation of any bank, which means that deposits of more than USD 10,000 receive only partial compensation.

In 2016, the covered deposits accounted for 91.6 percent of total deposits at member banks (see Table 1). Account holders of such deposits numbered 1,531,000, with an average deposit of USD 6,343. These deposits are distributed as follows:

- The fully insured deposits (USD 10,000 or less) account for 14 percent of the total value of deposits. These fully insured funds belong to 1,386,000 depositors with an average of USD 997 for each deposit. This means that the percentage of account holders whose deposits are fully insured is 90.5 percent of the total number of depositors whose deposits are protected by the law.
- The partially insured deposits (more than USD 10,000 or their equivalent) represent 86 percent of the total value of deposits stipulated by the law. These are held by about 146000 depositors with an average deposit of USD 57,173.

Table 1: Main Indicators of Deposits and Depositors in the PDIC Member Banks, 2013-2016

Item	2013	2014	2015	2016
Total value of deposits in the banking system (in USD millions)	8,303.7	8,934.5	9,654.2	10,604.6
No. of depositors (in thousands)	**1,435**	**1,467**	**1,460**	**1,536**
Total value of deposits covered by the PDIC (in USD millions)	**7,583**	**8,120**	**8,936**	**9,713**
No. of depositors covered by the PDIC (in thousands)	**1,431**	**1,463**	**1,455**	**1,531**
Deposits covered by the PDIC as % to total deposits	**91.3**	**90.9**	**92.6**	**91.6**
Value of direct compensation (in USD millions)	**2,219**	**2,409**	**2,619**	**2,839**
Value of fully-insured deposits (in USD millions)	**1,093**	**1,198**	**1,301**	**1,382**
No. of depositors with fully-insured deposits (in thousands)	**1,319**	**1,342**	**1,324**	**1,386**
Value of partially-insured deposits (in USD millions)	**6,490**	**6,922**	**7,635**	**8,331**
No. of depositors with partially-insured deposits (in thousands)	**113**	**121**	**132**	**146**
Fully-insured deposits as % to total deposits covered by the scheme	**14.4**	**14.8**	**14.6**	**14.2**

Source: Palestinian Deposit Insurance Corporation, 2017.

Abeer Abu Zeitoun, PMA

5- The Financial Sector (Non-banking)[1]

The Securities Sector

By the end of Q1 2017, the market value of traded shares in the Palestine Stock Exchange (PEX) was US$ 3.59 billion, achieving a rise of 5.9% compared to Q4 2016, which equals 26.8% of GDP at 2016 constant prices. By the end of Q1 2017, the number of traders was 72,285, 4.7% of whom were foreigners mostly from Jordan.

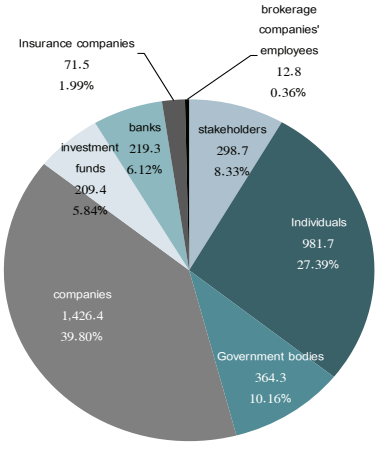
Table 5-1: Selected Financial Indicators on the Trading Activity in PEX

	2016		2017
	Q1	Q4	Q1
Volume of Traded Shares (million share)	58.73	42.37	58.73
Value of Traded Shares (US$ million)	**118.50**	**105.94**	**118.50**
Market Capitalization (US$ million)	3,213.10	3,390.12	3,213.10
Total number of Traders	72,789	72,418	72,789
-Palestinian	69,339	69,007	69,339
-Foreigners	3,450	3,411	3,450

By the end of Q1 2017, the value of traded shares decreased significantly by 32% compared with the Q4 2016, and by 39.2% compared with Q1 2016, reaching US$ 71.99 million. In addition, the volume of traded shares declined by 18.5% compared with the previous quarter. This decline in the number and volume of traded shares over the consecutive quarters is ascribed to the fact that investors adjust their investment positions to access share dividends distributed in the first quarter of the year. The decline over the corresponding quarters is ascribed to a number of huge institutional mergers and acquisitions that took place in Q1 2016, whereas none of a similar significance took place in Q1 2017.

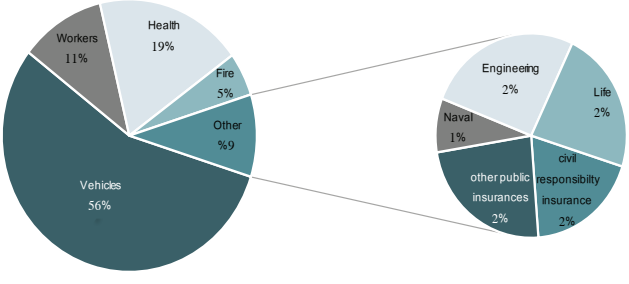
Figure 5-1 illustrates the distribution of market capitalization by trader type, as well, it shows that companies' share was 40% (amounting to US$ 1,426.4 million) compared with 27% for individuals (US$ 981.7 million).

Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q1 2017) (US$ million)



* Individuals who have direct or indirect relation with the company because of their job position or relations.

Figure 5-2: Distribution of the Components of the Insurance Portfolio by the insurance sector activities (as of the end of Q1 2017)



Insurance Sector[2]

By the end of Q1 2017, gross written insurance premiums totaled US$ 61.5 million, rising by 42% compared to previous quarter and by 26% compared with the corresponding quarter 2016. This increase over the consecutive quarters is due to renewal of a huge proportion of insurance policies at the start of the year (during Q1 2017), whereas the increase over the corresponding quarters is ascribed to the Palestinian Capital Market Authority (PCMA) order issued in 2016, obliging insurance companies to apply the minimum premium for insurance (vehicles and workers) based on the Cabinets decision of 2008. On the other hand, net compensations incurred by the insurance sector increased by 11% by the end of Q1 2017 com-

Table 5-2: Some Financial Indicators of the Insurance Sector in Palestine (US$ million)

	2016		2017
	Q1	Q4	Q1
Gross written premiums	48.8	43.3	61.5
Total investments of insurance companies	**176.5**	**192.7**	**187.4**
Net compensations incurred by the insurance sector	(25.8)	27.1	(29.9)
Retention ratio	79.9%	95%	75.1%
Claims ratio	**66.1%**	**65.7%**	**64.6%**

1 The source of the figures in this section: Palestinian Capital Market Authority (PCMA), 2017 and Palestine Stock Exchange (PEX), 2017. In addition, the data on the insurance sector do not include Al Ahllia Insurance company.

2 The insurance sector data do not include Al Ahllia Insurance company.

pared to Q4 2016. Total investments of insurance companies totaled US$ 187.4 million by the end of Q1 2017, declining by 2.9% compared with the end of 2016 (Table 5-2).

As figure 5-2 shows, there is a significant concentration of vehicle insurance in the insurance portfolio in Palestine, constituting 56% of the total insurance portfolio by the end of Q1 2017, followed by health insurance (19%). Figure 5-3 on the other hand, presents the market share of insurance companies, whereby two companies of the nine operating companies dominated 45% of gross written premiums in the Palestinian insurance sector by the end of Q1 2017.

Financial Leasing

The number of leasing companies registered with PCMA was 12. Contracts value increased by 12.9% during Q1 2017 compared with the corresponding quarter 2016, despite the decline in the number of financial leasing contracts by 1.9% in the period. This is ascribed to the fact that some of the contracts (concluded during Q1 2017) included a larger number of leased assets (Table 5-3)

Table 5-3: Total Value and Number of Financial Leasing Contracts

	Total Value of Financial Leasing Contracts (US$ million)	Total Number of Financial Leasing Contracts
Q1 2016	17.1	**374**
Q4 2016	27.0	524
Q1 2017	19.3	367

As showed in figure 5-4, Ramallah governorate held the largest share of financial leasing contracts (41.4%) as indicated in the address of the lessees, followed by Nablus (18.3%) and Hebron governorates (13.6%). This is due to the geographic concentration of financial leasing institutions as well as the level of economic activity in these governorates.

Figure 5-5, indicates that the financial leasing portfolio is concentrated in vehicle leasing (96.46%), which is ascribed to low risk factors shared by the companies, as registering vehicles at the transportation department is made easy. Yet there is a small increase in the p[illegible] and trucks leasing contracts com[illegible] arter 2016, and small de[illegible] is expected that the [illegible] following the pr[illegible] Moveable Asset[illegible] leasing compani[illegible]

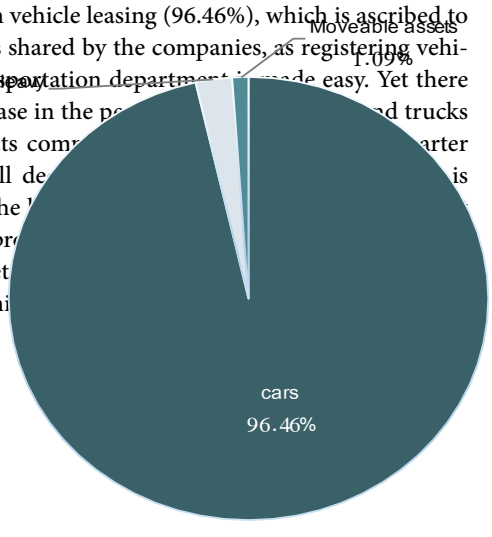


Figure 5-3: Distribution of Insurance Portfolio by Working Company in Palestine (as of the end of Q1 2017)

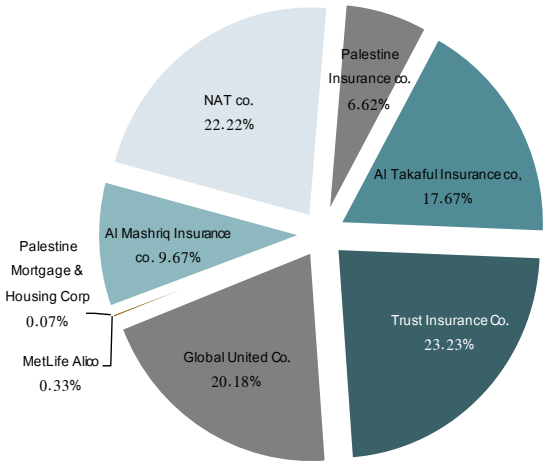


Figure 5-4: Geographic Distribution of Financial Leasing Contracts, by Number (Q1 2017) (%)

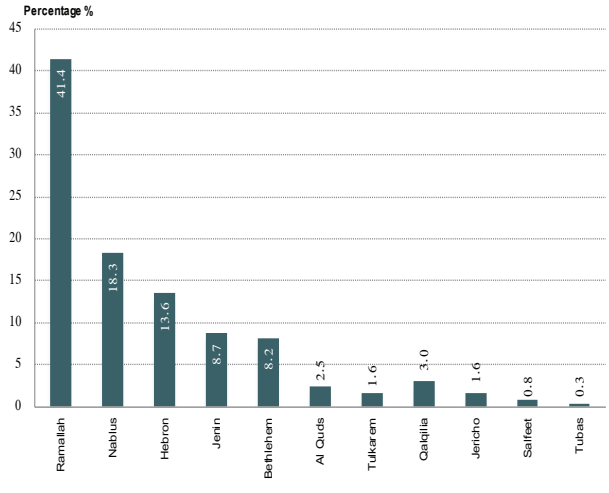


Figure 5-5: Distribution of Financial Leasing Portfolio, by Type of Leased Asset, as of Q1 2017

6- Investment Indicators[1]

Building Licenses

Figure 6-1 shows the changes in the number of registered building licenses and licensed areas, whereas the number of issued building license reached 2,081 licenses during Q1 2017, a decline by 20% compared with previous quarter of the year. Licenses of non-residential buildings constituted 8% of the total licenses. On the other hand, licensed areas of buildings in Q1 2017 amounted to around 1,048.7 thousand square meters, showing a decline by 15% compared with the previous quarter.

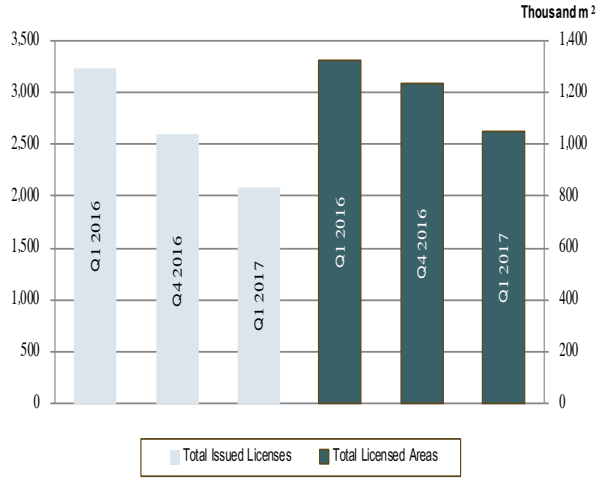
Vehicles Registration

Since vehicle prices are high and vehicles are often purchased via bank loans, the number of vehicles registered for the first time is considered as a good indicator of economic situation and expectations. During Q1 2017, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 10,027, an increase of 1,891 compared with the previous quarter, and of 2,787 compared with corresponding quarter 2016 (Table 6-1).

Table 6-1: New and Second-hand Newly Registered Vehicles, West Bank (Q1 2017)

	Vehicles from international market (new)	Vehicles from international market (used)	Vehicles from the Israeli market (used)	Total
Jan	579	3,130	355	4,064
Feb	545	2,411	379	3,335
Mar	565	1,828	235	2,628
Total	**1,689**	**7,369**	**969**	**10,027**

Figure 6-1: Total Issued Building Licenses and Licensed Areas in Palestine



1 The source of figures in this section: PCBS, 2017, Statistics on Building Licenses and the MOF, 2017, Palestinian Customs and Excise Dep.

Box 5: Economic Costs of the Palestinian-Israeli Conflict

The RAND Foundation is an American non-profit, independent research organization that "develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous." The Foundation has a special policy center for the Middle East. The Center has shown special interest in the Palestinian cause over the years and has developed numerous studies on the Israeli-Palestinian conflict and the Palestinian economy, particularly "the Arc" study which proposed linking the West Bank cities with a light rail system and establishing new housing centers along the system.

In 2015, the Rand Foundation published a study on "The Costs of the Israeli-Palestinian Conflict".[1] The four authors of the study consulted with some 200 experts before finalizing their conclusions and analyses. The study, which lasted for more than two years, estimated the net costs and benefits if the long-standing conflict between Israelis and Palestinians were to follow its current trajectory over the next ten years, relative to five other possible trajectories that the conflict could take. The authors anticipated the developments over the next ten years (through 2024) if current trends do not change as compared with five alternative futures: the two-state solution; uncoordinated unilateral withdrawal by Israel from the West Bank; coordinated withdrawal by Israel from the West Bank; nonviolent Palestinian popular resistance; and a violent uprising by the Palestinians. The study has posited a detailed analysis of the characteristics of each of these five scenarios.

Cost structure

The study provides estimates of two types of costs: economic and security-related. Economic costs can be direct or indirect. There are three elements of direct costs. For Israel they include spending on security, on settlements, and on managing the occupied territories. The indirect costs are five types: the impact of tension and uncertainty on investment and productivity; the impact of boycott; the impact on tourism; the impact on trade; and the impact on the number of permits for Palestinian labor in Israel. The study takes into account the effect of certain assumed costs on GDP in each scenario compared to the value of GDP if the current situation continues for a decade. Regarding the security-related costs, the study does not provide quantitative indicators, rather it gives qualitative indicators related to the extent to which each scenario fulfills the requirements of strategic warning and depth, buffer zone and the construction and development of the internal and external security structures of Israel and Palestine.

The study begins by studying the assumption that the continuation of the status quo for 10 years (2014-2024) will allow the GDP per capita to grow at an annual rate of only 1.6 percent and 0.6 percent in Israel and Palestine, respectively. This is equivalent to the average real growth rates during 1999-2013. These annual growth rates mean that the continuation of the current situation will result in per capita income reaching USD 43,300 in Israel and USD 3,080 in Palestine in 2024. The study also assumes that the costs associated with defense and security will remain the same in Israel and Palestine during the 10 years between 2014 and 2024.

Scenario Assumptions

The authors provide detailed assumptions for each of the five possible case scenarios:

- The two-state solution scenario: For Israel, this scenario assumes that 100,000 settlers will leave the West Bank and that the costs of their relo-

1 https://www.rand.org/content/dam/rand/pubs/research_reports/RR700/RR740-1/RAND_RR740-1.pdf
In a previous issue of the Monitor, we provided a summary of the study.

cation will be borne by the international community. The study assumes that stability and peace would lead to a 15 percent increase in investment and labor productivity (for 4 years), a 16 percent decrease in spending on settlements, a 20 percent increase in tourism, a threefold increase in trade with the Middle East and a 150 percent increase in trade with Palestine. Under this scenario, the permits for Palestinian labor in Israel would increase by 60,000 permits. Palestinians access to resource extraction and territorial water resources would be easier. Additional costs of transportation would be reduced. The authors also assume a 25 percent reduction in the costs of social services, 50 percent in banking costs and 50 percent in transactions costs. The investment opportunities would increase, and the Palestinians would benefit from control of land and their tourism sector would prosper (This scenario assumes a gradual return of 60,000 refugees to the Palestinian territories).

- Coordinated unilateral withdrawal: The scenario assumes that 60,000 settlers will be relocated, with 75 percent of funding borne by the international community. Under this scenario, Israel's tourism will expand by 5 percent and trade with Palestine by 10 percent. For Palestine, the scenario assumes a decrease in the number of work permits by 30 thousand. With regard to destroyed property, the cost of access to territorial waters, the costs of social services, the detention of prisoners, licenses, tourism and travel, they will remain unchanged. However, the Palestinians would benefit from increased freedom of movement as well as new opportunities for investing in infrastructure projects, which would respond to the need for new economic opportunities.
- Uncoordinated unilateral withdrawal: In Israel, there will be a 1 percent increase in defense expenditures. Israel will cover the entire cost of relocating 30,000 settlers. Investment and tourism will each drop by 5 percent for 4 years. In Palestine, the current status of most variables will remain as is, except for access to the land used to be inhabited by settlers. This will allow investment in infrastructure to expand by 50 percent compared to the opportunities currently available. The scenario also assumes that the number of work permits in Israel for Palestinian workers will be reduced by 30,000 from the 2014 actual figure.
- Nonviolent resistance and boycott: For the Israelis, this scenario assumes a 10 percent drop in investment (for 4 years), a 2 percent decline in GDP and a 10 percent reduction in tourism. For Palestine, work permits will decline by 30,000; social costs will increase by 25 percent; the number of prisoners will rise by 10 percent; and obstacles to trade will increase by 25 percent.
- A violent uprising: With the assumption of PA collapse, there will be a 3 percent increase in Israeli defense spending, with the health, education and social welfare costs of the Palestinians becoming the responsibility of Israel. There will also be a drop of 20 percent in investment, 50 percent decline in labor market growth (for 4 years), 25 percent decrease in tourism and 15 percent reduction of trade with Palestine. For Palestine, there will be a complete cessation of labor working in Israel. The authors assume USD1.5 billion in damage to the Palestinian capital stock, a 10 percent increase in movement costs, a 50 percent increase in the costs of social services and banking, and a 100 percent increase in the number of prisoners, as well as additional obstacles to trade.

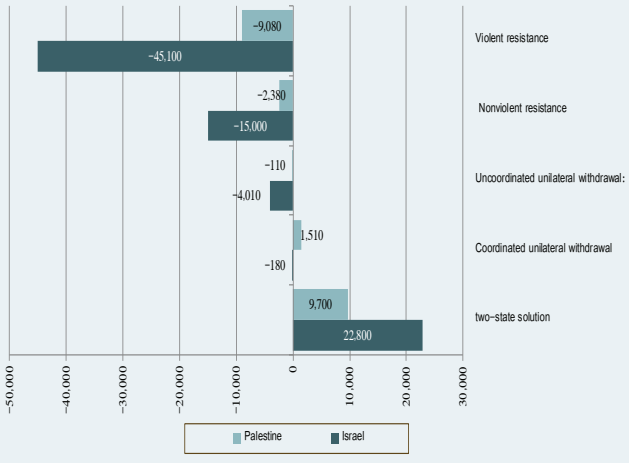
Costs of the five case-scenarios

Figure 1 summarizes the overall results of the quantitative analysis of the study as compared to the current situation. The findings suggest that if the two-state solution is implemented (broadly based on Clinton's parameters, the study says), Israel's GDP would grow by USD 22.8 billion in 2024.[2] This is equivalent to a 5 percent increase in per capita GDP. Palestine GDP would grow by USD 9.7 billion, or 36 percent. The cumulative increase over the next 10 years will be USD 123 billion for Israel, equivalent to half of Israel's GDP in 2014, and USD 50 billion for Palestine, or three times the GDP of Palestine in 2014.

2 This is based on the assumption that any direct costs are reflected by a corresponding change in GDP and that the fiscal multiplier is 0.5. For government spending, the multiplier is (1).

As the Figure below also shows, the other four scenarios are associated with losses, compared to the current situation, for both Israel and Palestine, except for the coordinated withdrawal scenario, which results in a relatively small increase in Palestinian GDP (USD 1.5 billion by the tenth year). The violent resistance scenario (an intifada)– which entails the collapse of the Palestinian Authority, with Israel taking responsibility of administering the Palestinian territories– would result in a cumulative loss of USD 46 billion for Palestine and USD 250 billion for Israel over the ten-year period.

Figure 1: Change in GDP in 2024 in the five scenarios compared to the present trends (in USD millions at 2014 prices)



How important are economic incentives?

In looking at the results of the study as well as the huge efforts made and the resources used, it is quite relevant to ask about the role that economic incentives can play in pushing the parties to the conflict to reach a financially profitable settlement. Do these incentives, which the study sought to quantify, play the same role in the Palestinian-Israeli conflict as in other international crises?

At the end of the study, the authors write: "Multiple studies, including our own, clearly demonstrate that a peaceful resolution of the conflict is the best option economically for both Palestinians and Israelis, while a return to violence is very costly to both sides. Yet the conflict persists." The study asks about the factors behind the deadlock. The authors suggest what those factors might be:

- Power imbalance: Israel is the dominant player. It controls the territory militarily and economically. This imbalance is true in all of the above case scenarios.
- Israel has a smaller economic incentive to reach an accord. Income for the average Israeli would rise by a marginal rate, as compared to a large change for the average Palestinian. The dramatic difference presents itself because the Israeli economy is over 15 times larger than the Palestinian economy. Thus, absolute changes in total income have little impact on the individual in Israel.
- Security management: The authors say that Israel has learned how to manage face-to-face security with the Palestinians at a relatively low cost. Thus, "moving away from the present trends entails significant uncertainty and risk that clearly influences both parties as they consider final status accord issues." Israel's mistrust of the Palestinians and its doubts about the international community's commitment to its security seem to outweigh any potential economic benefits that could result from adopting an alternative path.

In short, the study concludes that the two-state solution is economically viable, while the other solutions involve substantial financial losses. The profit and loss considerations, however, are of little importance in nudging the Israeli side, which enjoys overwhelming economic and security dominance, towards a settlement of the conflict.

7- Prices and Inflation[1]

The consumer price index (CPI) measures the prices of a selection of primary goods and services that reflect the average consumption pattern of families in an economy (this group of goods and services is the "consumption basket"). The average change in the CPI between the beginning and the end of a certain period measures the inflation rate, which reflects the average change in the purchasing power of families and individuals. If we assume that nominal wages and salaries are fixed, an inflation rate of 10% per year means that the purchasing power of families and individuals will decline by the same percentage.

Figure 7-1 shows two curves, the first measures the average change in CPI (right axis) based on its value in the base year 2010=100. The second curve (left axis) measures the percentile change in the CPI in each quarter compared to its previous quarter, i.e. the quarterly inflation rate. During Q1 2017, the CPI was 111.52 compared with 110.34 in Q4 2016. This means that between Q4 2016 and Q1 2017 the rate of inflation was positive, by 1.07%. This rise is attributed to the rise in the prices of the housing and related items group by 2.52%, and the prices of food and beverages by 2.05%. In addition, Q1 2017 witnessed a positive inflation of 0.67% compared with the corresponding quarter 2016. Notably, inflation over the consecutive quarters was higher than that over the corresponding quarters, which is ascribed to the fact that inflation rate was negative during some quarters of 2016.

Wholesale Prices and Producer Prices

The wholesale price index -WPI (sale price to retailers) increased by 0.39% between Q4 2016 and Q1 2017, because of the rise in wholesale prices of local goods by 1.35% and decrease in imported goods by 0.96%. By commodity groups, the WPI of agriculture, mining and quarrying, increased against its decrease for fish and shrimps and manufacturing industries. On the other hand, the producer price index- PPI (prices received by domestic producers) has decreased by 3.71% between the two quarters, a result of the fall in prices of locally produced and consumed goods by 4.50%, and in prices of locally produced and exported goods by 0.95% (Figure 7-2).

The difference between big decline in PPI (3.71%) and increase in WPI can be explained by the decline in prices of locally produced goods, since its weight in the former index was 89% (the remaining weight is for imported goods), whereas the weight of locally produced goods in the latter index is 60% only (the remaining weight is for imported goods). For more information about price indexes, refer to Box 2 in this issue of the Monitor (How Deflators Explain the Disparity between Productivity and Wages in Both Israel and Palestine).

Figure 7-1: Average CPI Change and the Inflation Rate Change (Base year 2010)

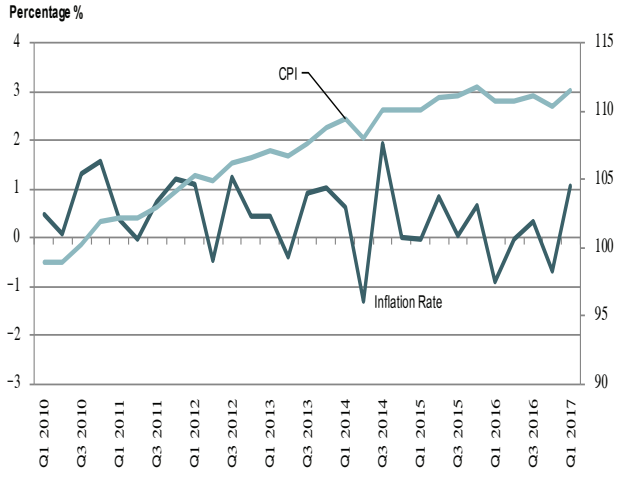


Figure 7-2: Evolution of Wholesale and Producer Price Indices (base year 2007)

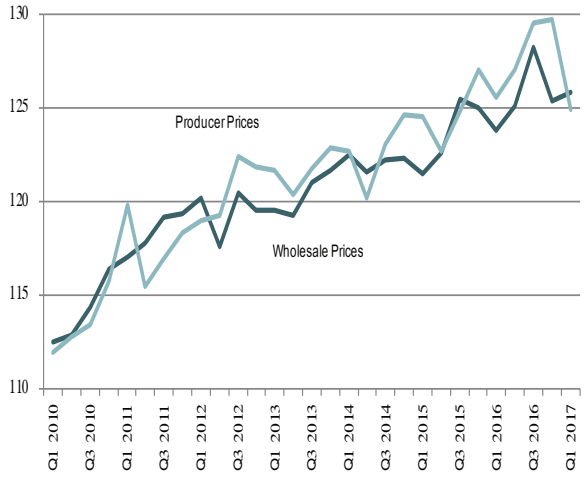
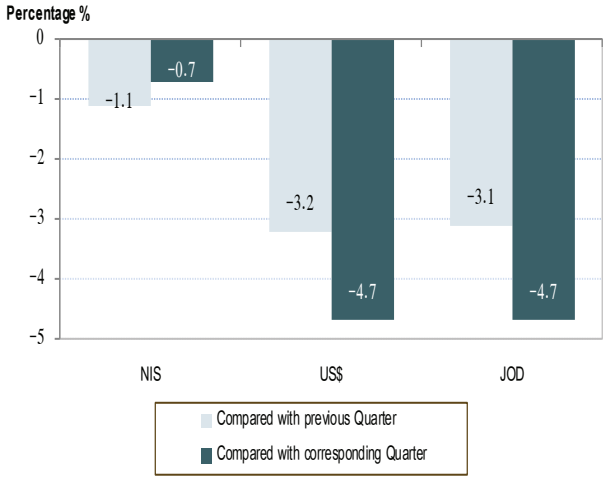


Figure 7-3: Change in Purchasing Power, Q1 2017



1 The source of figures in this section: PCBS, 2017, Price Indices Surveys, 2010-2017. The purchasing power was calculated in cooperation with PMA.

Prices and Purchasing Power [2]

NIS Purchasing Power: the rate of inflation in the economy measures the development in the purchasing power of all individuals who receive their salaries in NIS and spend all their income in that currency, i.e. the average change in consumer prices (inflation) reflects the changes in the purchasing power of those individuals during the same period of time. PCBS data show that the CPI increased by 1.07% in Q1 2017 compared with the previous quarter, and by 0.67% compared with corresponding quarter, reaching 111.52. This means that the purchasing power of individuals who receive their wages and salaries in NIS has deteriorated compared with the previous and corresponding quarters, decreasing by 1.07% and 0.67% respectively, consequent to the rise in prices.

US$ Purchasing Power: The purchasing power of individuals who receive their salaries in US$ (or JOD) and spend all their income in NIS is affected by the change in the consumer prices (inflation) and the dollar exchange rate against the shekel. During Q1 2017 the US$ exchange rate against the NIS decreased by about 2.10% compared with previous quarter, and declined by 4.07% compared with corresponding quarter. Therefore, the purchasing power of individuals who receive their salaries in US$ and spend all their income in NIS has declined during this quarter compared to the previous quarter by about 3.17% and by 4.74% compared with the corresponding quarter 2016, as result of the US$ depreciation against the NIS. Since the JOD exchange rate is pegged to the US$ exchange rate, the purchasing power of the JOD has seen almost the same developments as the US$.

2 The purchasing power is "the value of money as measured by the quantity and quality of goods and services that the per capita income can buy". It is directly dependent on the income of the consumer and the change in prices and currency exchange rate. The change in Palestinian purchasing power (assuming income is constant) = average change in the exchange rate of the Shekel- the rate of inflation.

Box 6: Palestine: Twin Deficits or an Imposed Resource Gap?

The United Nations Conference on Trade and Development (UNCTAD) published a recent study on the Palestinian economy titled "Twin deficits or an imposed resource gap?"[1] The study begins with a definition of the concept of "twin deficits." The concept can be easily understood by referring to an equation found in national accounts:

Current balance of payments deficit = deficit of savings (the difference between savings and investment). This equation can be rewritten as follows:

Exports + net income of factors of production and transfers from abroad - imports = savings - investment

As savings in the economy consist of private and government savings, and the government budget deficit is a negative saving, the previous equation leads to the concept of "twin deficits": There is a direct correlation between the government budget deficit and the current balance of payments deficit. In other words, the increase in the budget deficit (under certain assumptions) is accompanied by an increase in the external deficit, and vice versa. Economies that have both a fiscal deficit and a current account deficit are often referred to as having "twin deficits."

Based on this correlation, some studies suggest that there is a causal relationship between the budget deficit and the deficit in the current balance. Thus, eliminating the external deficit (i.e. when imports outweigh exports, net income flows and foreign transfers) requires reducing the budget deficit by cutting public expenditure and improving tax collection.

The new UNCTAD study rejects the explanation of the existence of a causal relationship between the budget deficit and the external deficit in the Palestinian economy. After examining the figures, the authors found that at no time in 1968–2014 did the trade deficit respond to changes in the budget deficit. Thus, the recommendations to reduce the budget deficit, as a tool to reduce the current account deficit, are unwise, the authors say. Reducing the budget deficit, under the current trends, will lead to increased unemployment instead of reducing the external deficit.

Rather than reasoning in terms of one deficit causing the other, the UNCTAD study states that the two deficits have been cultivated, to become permanent features of the Palestinian economy, by the economic structure imposed by the occupying power. The two deficits are symptoms of the resource gap the economy is experiencing. This resource gap figures in a chronic deficit in three interrelated disequilibria: trade balance deficit (the level of imports is greater than the level of exports), domestic savings deficit (investment is higher than savings) and government budget deficit. The averages of these three deficits in 2010–2014, expressed as a percentage of GDP, were as follows: trade deficit, 40 percent; savings deficit, 33 percent; and fiscal deficit, 8 per cent.

1 UNCTAD (2017): The Occupied Palestinian Territory: Twin Deficits or an Imposed Resource Gap?

The study suggests that the resource gap in the Palestinian economy is due to the expansion of consumption and aggregate demand which substantially exceeded the domestic production capacity. The expansion in aggregate demand was in turn due to allowing the Palestinians to work in the Israeli labor market, in parallel with the imposition of strict restrictions on the growth of local agricultural and industrial production. The analysis concludes that addressing the resource gap requires different interventions:

- Rehabilitation of local production capacity and the creation of conditions for its expansion in order to reduce the difference between the total income of Palestinians and the income generated from local production (i.e., reducing labor income and remittances from abroad).
- Narrowing the difference between the total number of the Palestinian labor force and the number of workers employed in the domestic economy, which is equal to the number of unemployed plus the number of those employed abroad.

Achieving these two objectives together is important because reducing the income gap (external income as a percentage of GDP) is not always correlated with narrowing the difference in the number of workers (local economy workers versus total labor).

8- Foreign Trade[1]

Balance of Trade

The value of registered merchandise imports[2] during Q1 2017 was about US$ 1,263 million, a decline by 5.3% compared with the previous quarter and an increase of 9.6% over the corresponding quarter of the previous year. On the other hand, the value of merchandise exports did not exceed 20% of the value of imports, decreasing by 3.1% compared with the previous quarter and increasing by 17.7% compared with the corresponding quarter of the previous year. The difference between exports and imports means that the deficit in the merchandise balance of trade (registered merchandise) amounted to US$ 1,017.7 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel to US$ 7.9 million (Figures 8-1 and 8-2).

Balance of Payments

The current account in the balance of payments is the net aggregate in three sub-balances: 1) the balance of trade (net trade in goods and services), 2) the balance of income (the net international transactions associated with income on factors of production, i.e. labour and capital), and 3) the balance of current transfers (international aid to the government and private transfers).

The deficit in the Palestinian current account (the balance of payments) reached US$ 302.8 million in Q1 2017, which is equivalent to 8.8% of GDP at current prices. The current account deficit resulted from a deficit in the trade balance of US$ 1,245.5 million, against a surplus in the balance of income of US$ 470.3 million (generated mainly from the income of Palestinian workers in Israel), and the surplus in the balance of current transfers by US$ 472.4 million (about one quarter of which generated from international aid to the government) (Table 8-1).

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of US$ 176.8 million. This item (the capital and financial account) represents a debt on the national economy, as long as it has a positive value.

1 The source of data in this section: PCBS, 2017, Registered Foreign Trade Statistics, and PMA & PCBS, 2017, Palestinian Balance of Payment, Q1 2017.

2 Registered imports and exports are those registered in the clearance accounts of trade between Palestine and Israel and in the customs data (including direct trade with overseas markets). Add to that the agricultural goods (which are registered by the Ministry of Agriculture). The registered trade figures are significantly lower than the actual figures of the Palestinian foreign trade. The actual figures are placed in the Palestinian balance of payments.

Table 8-1: Palestinian Balance of Payments *
(US$ million)

	2016		2017
	Q1	Q4	Q1
1. Trade balance of goods and services	(1,174.3)	(1,359.1)	(1,245.5)
- Net goods	(972.0)	(1,126.6)	(1034.3)
- Net services	(202.3)	(232.5)	(211.2)
2. Income balance	364.4	408.6	470.3
3. Balance of current transfers	532.4	585.4	472.4
4. Balance of current account (1 +2 +3)	(277.5)	(365.1)	(302.8)
5. Net capital and financial account	202.9	354.5	176.8
6. Net errors and omissions**	72.0	10.6	126.0

* Data do not include that part of Jerusalem governorate, which was annexed by Israel following the occupation of the West Bank in 1967.

** exceptional funding has been calculated within the "Net errors and omission" item.

International Investments

At the end of Q1 2017, Palestine's foreign assets totaled around US$ 6,547 million, 6.7% of which represent direct foreign investment, and 16.7% represent portfolio investments. On the other hand, total external liabilities amounted to about US$ 5,132 million, more than half of which were direct investments. The difference between assets and liabilities means that the overseas investments by Palestinians were US$ 1,415 million higher than the investments of non-residents. A significant portion of these assets (64%) is deposits by Palestinian banks abroad, which are not considered conventional investments. When examining foreign direct investment in Palestine, figures show that it outweighed actual Palestinian investment abroad (by residents in the West Bank and Gaza Strip) by US$ 2,137 million (Figure 8-3).

Figure 8-1: Imports and Exports of Registered Merchandise (US$ million)

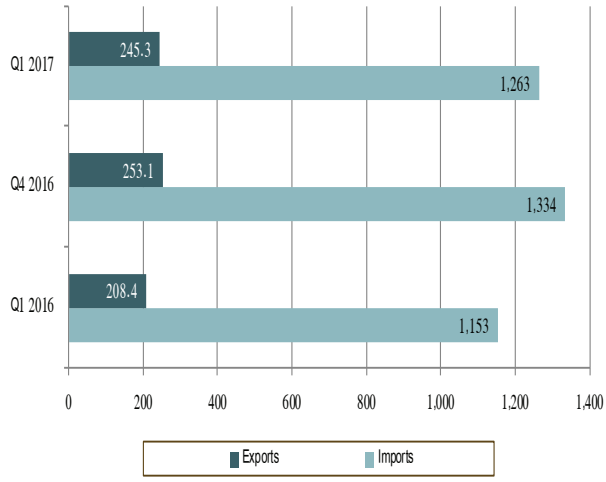


Figure 8-2: Exports and Imports of Registered Services from Israel (US$ million)

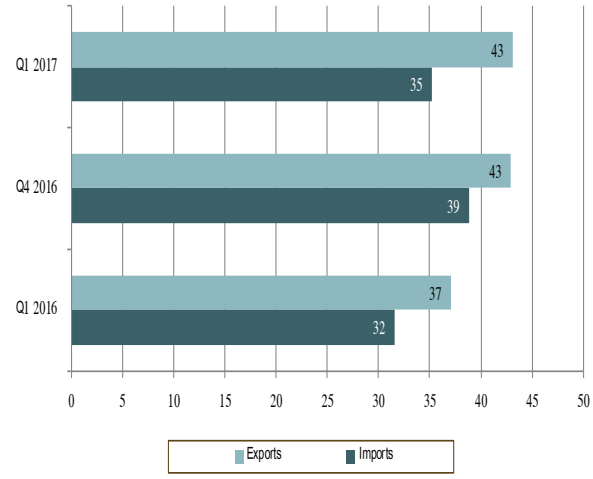
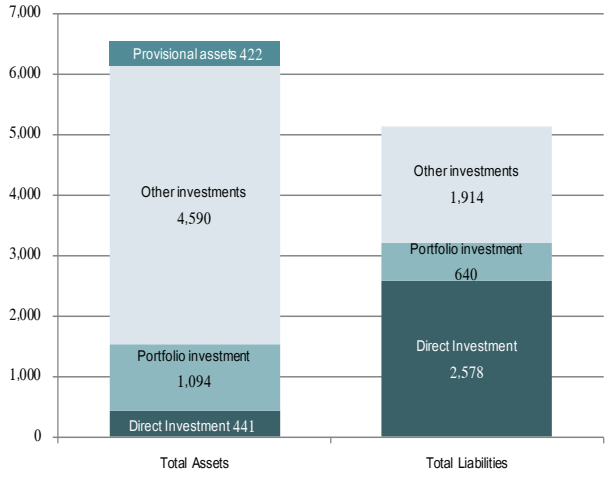


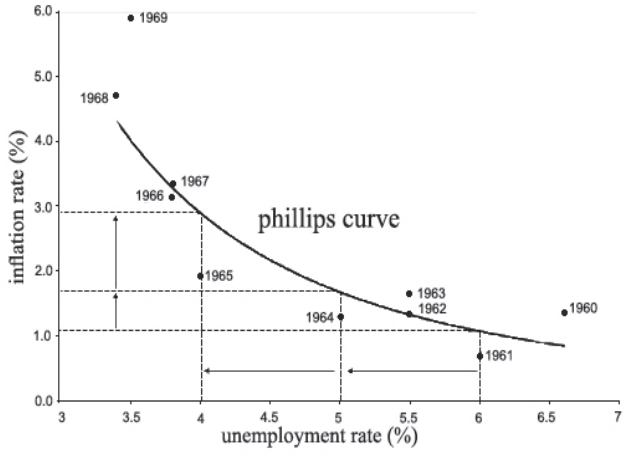
Figure 8-3: International Investments Balance (Q1 2017) (Million US$)



Economic Concepts and Definitions:
Phillips Curve and the Inverse Relationship between Inflation and Unemployment

In 1958, New Zealand economist William Phillips found, following an analysis of Britain's wage and unemployment rates in 1861-1957, a stable inverse relationship between rates of unemployment and the corresponding wages. Stated simply, decreased unemployment in an economy will correlate with higher wages, and vice versa. Such an inverse relationship was then reported in different countries and at different time intervals. The correlation has been generalized into a relationship between unemployment rates sand price inflation rates. The curve that depicts this inverse correlation has been called the Phillips Curve (See Figure 1, which shows the correlation between the two variables in the US economy during the 1960s). It was not long before modeling Phillips's relationship into a theory which argues that decision makers in any country can choose the mix of unemployment and inflation that suits their economies. Thus, the increased employment in an economy can be achieved at the cost of accepting a certain level of price hike. Phillips's relationship came to support the view of the British economist John Maynard Keynes that inflation is generated by a cost-push rather than a demand-pull. In other words, low unemployment drives workers to demand higher wages, which leads to higher inflation because price inflation is fueled by higher production costs and, in particular, wages. Reducing the role of demand-pull in creating inflation is essential to ensure the effectiveness of demand-stimulating policies, which is a keystone of the Keynesian theory.

Figure 1: Phillips Curve, 1961-1969 (in US dollars)



Source: Hoover, Kevin D. Phillips Curve. The concise encyclopedia of economics. http://www.econlib.org/library/Enc/PhillipsCurve.html

However, the inverse relationship between inflation and unemployment, which seemed true until the late 1960s and was most used in the boom years in the wake of the Second World War, collapsed in the 1970s, first theoretically and then practically. Theoretically, the curve came under a concerted attack from a group of economists headed by the American economist Milton Friedman, who had predicted its collapse, saying the Curve is only money illusion, a short-term phenomenon at best. Practically, the economies of America and Western Europe in the 1970s saw what came to be known as stagflation, whereby high inflation coexisted alongside high unemployment. This was a declaration of the death of the Phillips Curve, an important instrument of economic policy that served Western economies for a long time. There is now agreement among economists that the unemployment rate is independent of the long-term inflation rate, while the effect of unemployment on inflation in the short term is still debatable.

Applications of Phillips Curve in Palestine

Two Palestinian researchers have recently conducted a study about the applicability of the Phillips Curve in the Palestinian economy.[1] The authors based their study on quarterly data for the unemployment and inflation rates in the Palestinian economy during the period 1996-2015. In applying the Granger Causality analysis, they found that the Phillips proposition, that the shifts in unemployment engender changes in inflation, does not apply in the Palestinian economy during the period studied, and that the causal relationship was reversed in Palestine, starting with changes in the inflation rate before moving to the unemployment rate.

According to the authors, the reason behind this reverse causation is that inflation in the Palestinian economy is often generated by the rise in import prices. Since about 85 percent of these imports come from Israel, prices (and hence the rate of inflation) in Palestine are closely linked to the prices in Israel. Consequently, the authors conclude that the rate of inflation in Palestine is an exogenous variable that is not influenced by internal economic policies and variables, including the unemployment rate; rather it does affect these policies and variables.

Having arrived at this conclusion, the authors applied the ARDL model to find that the Phillips relationship is limited to the short term and that the relationship between inflation and unemployment does not exist in the Palestinian economy in the long term.

1 Ismael, Mohanad and Sadeq, Tareq (2016). Does Phillips Exist in Palestine? An Empirical Evidence. Ramallah: University of Birzeit. https://mpra.ub.uni-muenchen.de/70245/1/MPRA_paper_70245.pdf

Key Economic Indicators in Palestine, 2012-2017

Indicator	2012	2013	2014	2015	2016	2016				2017 [2]
						Q1	Q2	Q3	Q4	Q1
Population (One thousand)										
oPt	4,293.3	4,420.5	4,550.4	4,682.5	4,867.4	4,766.2	4,799.8	4,833.5	4,816.5	4,901.2
West Bank	4,649.0	2,719.1	2,790.3	2,862.5	2,962.9	2,908.0	2,926.3	2,944.5	2,935.4	2,981.2
Gaza Strip	1,644.3	1,701.4	1,760.1	1,820.0	1,904.5	1,858.2	1,873.5	1,888.9	1,881.1	1,920.0
Labor Market										
No. of workers (thousand)	858.0	885.0	917.0	963.0	980.5	974.0	975.0	970.9	1,002.0	999.1
Participation rate (%)	43.3	43.6	45.8	45.8	45.8	45.8	45.7	46.1	45.5	45.8
Unemployment rate (%)	23.0	23.4	23.4	26.9	26.9	25.8	26.6	28.4	25.7	27.0
- West Bank	19.0	18.6	17.7	17.3	18.2	18.0	18.3	19.6	16.9	18.8
- Gaza Strip	31.0	32.6	43.9	41.0	41.7	41.2	41.7	43.2	40.6	41.1
National Accounts (USD millions)										
GDP (USD millions)	11,476.0	12,476.0	12,715.6	12,677.4	13,397.1	3,301.9	3,381.1	3,439.4	3,327.2	3,455.3
- Household expenditure	10.158.5	11,062.6	11,840.4	11,795.7	12,353.3	2,987.2	3,134.9	3,170.7	2,961.5	3,083.9
- Government expenditure	3,126.9	3,381.7	3,478.2	3,374.9	3,530.2	768.8	891.3	879.3	964.4	858.0
- Gross capital formation	2,378.5	2,707.3	2,415.0	2,689.5	2,837.7	686.0	718.4	677.8	760.3	758.9
Exports	1,871.1	2,071.8	2,172.3	2,322.7	2,432.4	538.1	627.2	600.1	658.8	639.0
Imports (-)	6,299.9	6,804.0	7,208.9	7,501.4	7,602.7	1,708.9	1,972.0	1,888.5	2,017.8	1,884.5
GDP per capita (USD)										
at Current prices	2,787.2	2,992.2	2,960.1	2,865.8	2,943.5	733.3	745.5	753.0	723.3	745.9
at Constant prices (base year 2004)	1,807.5	1,793.3	1,737.4	1,745.9	1,765.9	444.3	448.7	442.9	434.2	431.6
Balance of Payment (USD millions)										
Trade Balance	(4,428.7)	(4,732.2)	(5,036.7)	(5,199.5)	(5,170.5)	(1,170.9)	(1,345.0)	(1,288.5)	(1,359.1)	(1,245.5)
Income Balance	857.4	1,160.3	1,482.4	1,712.3	1,578.6	364.4	404.3	401.3	408.6	470.3
Current Transfers Balance	1,750.5	1,188.0	1,405.3	1,421.5	2,243.9	528.7	549.2	572.8	585.4	472.4
Current account Balance	(1,820.8)	(2,383.4)	(2,149.0)	(2,065.7)	(1,348.0)	(277.8)	(391.5)	(314.4)	(365.1)	(302.8)
Exchange rates and inflation										
USD/NIS exchange rate	3.90	3.60	3.60	3.90	3.840	3.90	3.80	3.81	3.829	3.749
JOD/NIS exchange rate	5.40	5.10	5.10	5.50	5.418	5.50	5.40	5.37	5.401	5.292
Inflation rate (%)[1]	2.78	1.72	1.73	1.43	(0.22)	(0.90)	(0.03)	0.32	(0.69)	1.07
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	2,240.1	2,319.9	2,791.2	2,891.4	3,552.0	884.3	993.3	733.0	936.4	913.7
Current expenditure	3,047.1	3,250.7	3,445.9	3,424.9	3,661.6	855.8	1,146.0	879.4	768.2	849.9
Developmental expenditure	211.0	168.4	160.9	176.4	216.5	37.1	54.1	45.0	80.2	36.5
current budget deficit\sur-plus (before grants)	(1018.0)	(1,099.2)	(815.6)	(709.9)	(326.2)	(8.7)	(206.8)	(191.4)	88.0	27.4
Total grants and aid	932.1	1,358.0	1,230.4	796.8	766.3	178.7	202.1	168.5	214.3	208.6
Total budget deficit\surplus (after grants and aid)	(85.9)	258.7	414.8	86.9	440.1	170.1	(4.8)	(22.9)	302.3	236.0
Public debt	2,482.5	2,376.2	2,216.8	2,537.2	2,483.8	2,527.0	2,530.2	2,553.8	2,483.8	2,514.9
The Banking Sector (USD millions)										
Banks assets/liabilities	9,799.0	11,191.0	11,822.0	12,602.3	14,190.1	13,143.6	13,631.0	14,068.3	14,190.1	15,222.3
Equity	1,258.0	1,360.0	1,464.0	1,461.7	1,683.6	1,483.2	1,497.0	1,624.4	1,683.6	1,720.3
Deposits at banks	7,484.0	8,304.0	8,935.0	9,654.6	10,595.7	10,054.7	10,203.0	10,432.6	10,595.7	11,127.5
Credit facilities	4,122.0	4,480.0	4,895.0	5,824.7	6,865.9	6,137.3	6,405.0	6,666.4	6,865.9	7,234.2

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).

1. The inflation rate estimation is based on year-over-year comparisons of the average indices of consumer prices in the target year (in each quarter) with the previous year (quarter).

2. Figures for 2017 are preliminary and subject to further revision.

Figures between brackets indicate negative values.

The figures in the table are based on the latest update of data.