

# Economic Monitor

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

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# Economic Monitor Issue 51/2017

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## Q3 2017 Summary:

- **GDP:** GDP grew during Q3 by 3.1% compared with the previous quarter (at 2015 constant prices), which is attributed to growth in the West Bank by 4.1% against stagnation in the Gaza Strip. This led to an increase in per capita GDP by about 3.4% in the West Bank against its decline in the Gaza Strip by 0.6%.
- **Employment and Unemployment:** The unemployment rate in Palestine rose by 0.2 percentage point between Q2 and Q3 2017, reaching 29.2% (19% in the West Bank and 46.6% in the Gaza Strip). The percentage of private sector waged workers who earn sub-minimum wages i.e. less than NIS 1,450, was 38% (50% females and 36% males).
- **Public Finance:** In Q3 2017 public expenditures amounted to NIS 3,013 million. External funding for budget support reached NIS 329.5 million (34% of which came from Arab countries), whereas external funding to support development expenditure amounted to NIS 113 million. The government's arrears amounted to NIS 975 million.
- **Inflation and Prices:** Palestine witnessed a negative inflation (decline in prices) by 0.49% in Q3 2017 compared to the previous quarter. This reflects an increase in the purchasing power of those who receive and spend their income in shekels. The purchasing power of those who receive their salaries in dollars and dinars and spend in shekels decreased by 5.92% and 6.07% respectively. This is attributed to the decline in exchange rates against the shekel.
- **The Balance of Payments:** During Q3, the deficit in the Palestinian balance of payments reached US\$ 444 million (12% of GDP). This deficit is attributed to deficit in the trade balance (1,419 million) against a surplus in income balance (resulted mainly from compensations of Palestinian workers in Israel) by 559 million and surplus in the transfers balance by US\$ 417 million

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هيئة سوق رأس المال الفلسطينية  
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## 1. GDP<sup>1</sup>

Gross Domestic Product (GDP) is a monetary measure of the market value of all types of goods and services produced in an economy during a specific period of time. Palestinian GDP rose by 3.1% over Q3 2017 compared with the previous quarter reaching US\$ 3,502.3 million (at 2015 constant prices): 75.9% in the West Bank and 24.1% in Gaza Strip, achieving a growth rate of 4.1% in the West Bank compared with 0.2% in the Gaza Strip. Compared with the corresponding quarter (Q3 2017 and Q3 2016), GDP grew by 5% in Palestine, 6.9% in the West Bank and 0.6% in the Strip (Figure 1-1).

This rise during Q3, accompanied by an increase in the population, resulted in a rise in the per capita GDP by 2.4% compared with the previous quarter. Compared with the corresponding quarter 2016, the per capita GDP rose by 1.9% during Q3 2017 (Table 1-1).

**Table 1-1: Per capita GDP\* by Region (constant prices, base year 2015) (US\$)**

	Q3 2016	Q2 2017	Q3 2017
Palestine	731.9	728.2	745.6
-West Bank*	925.8	936.1	968.1
-Gaza Strip	453.5	435.0	432.4

(\*) 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

Gaza Strip's share of GDP decreased by 0.7 percentage point in Q3 2017 compared with Q2. Figure 1-1 depicts the expansion in the gap between the West Bank and the Gaza Strip GDP over the last decade. In Q3 2017, Gaza Strip's contribution to GDP is still as low as a quarter of the country's GDP, (24% only) (Figure 1-2). Meanwhile, the gap in per capita GDP between the West Bank and Gaza Strip increased by US\$ 35, reaching US\$ 535.7 in Q3 2017 (Figure 1-3). Nevertheless, in Q3 2017 the per capita GDP in Gaza Strip was still about 45% of the West Bank's per capita GDP (Figure 1-3).

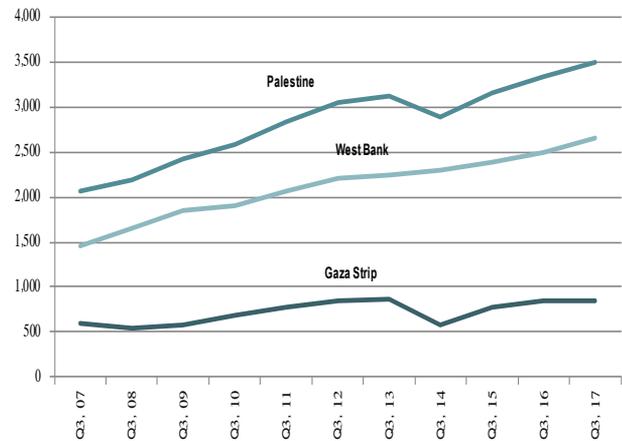
### Composition of GDP

The contribution of the productive sectors to Palestinian GDP increased by 0.6 percentage point between Q2 and Q3 2017, as a result of an increase in the share of the construction and industrial sectors. On the other hand, the share of the services sector decreased by about 0.9 percentage point, while the share of the transportation, information, and finance sectors increased against a decline in the share of public administration and security (Figure 1-4).

### Expenditure on GDP

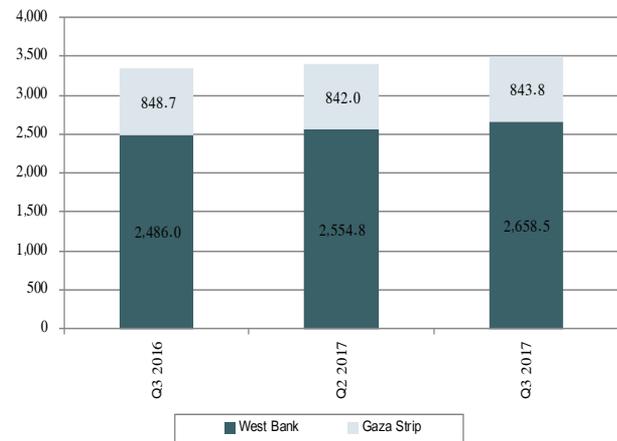
The absolute increase in GDP between Q3 2016 and Q3 2017 amounted to about US\$ 167.6 million (a growth by 5% as indicated before), which is explained by the decline in the

**Figure 1-1: Palestinian GDP\* by Corresponding Quarters (at 2015 constant prices) (US\$ million)**



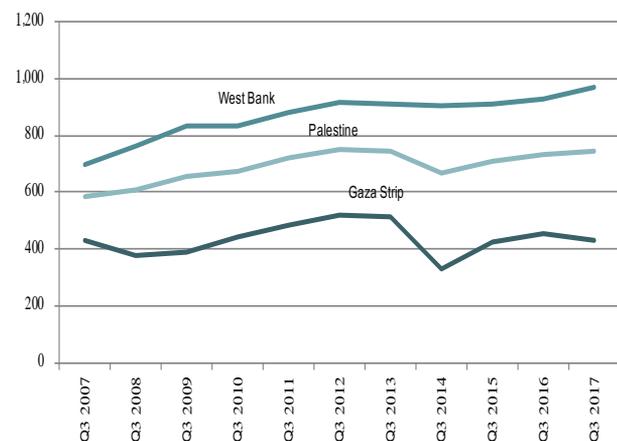
(\*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

**Figure 1-2: GDP in the West Bank\* and Gaza Strip (constant prices, base year 2015) (Million US\$)**



(\*) 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: Per capita GDP in Palestine\* by Region, and by Corresponding Quarters (constant prices, base year 2015)**

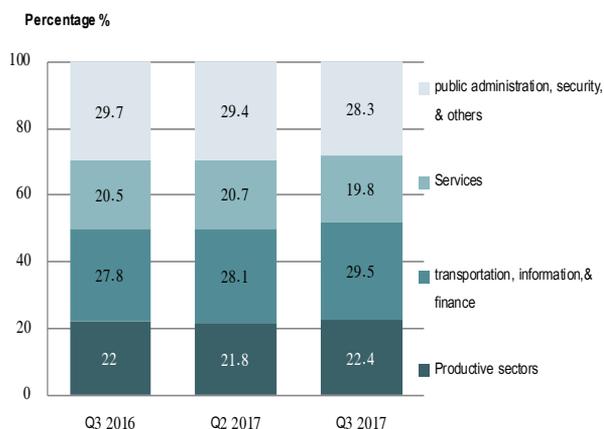


(\*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

1 Source: PCBS, 2017, Periodic Statistics on National Accounts, 2007-2017. Ramallah- Palestine.

aggregate consumption expenditure (private and public) by US\$ 17.3 million, and an increase in investments by about US\$ 146.6 million; while net exports (i.e. exports minus imports) increased by US\$ 29.9 million during the quarter (Figure 1-5 shows percentages of expenditure on GDP items).

**Figure 1-4: % Contribution of Economic Sectors to Palestinian GDP\* (constant prices, base year 2015)**



**Figure 1-5: % Expenditure on GDP in Palestine\* (constant prices, base year 2015)**



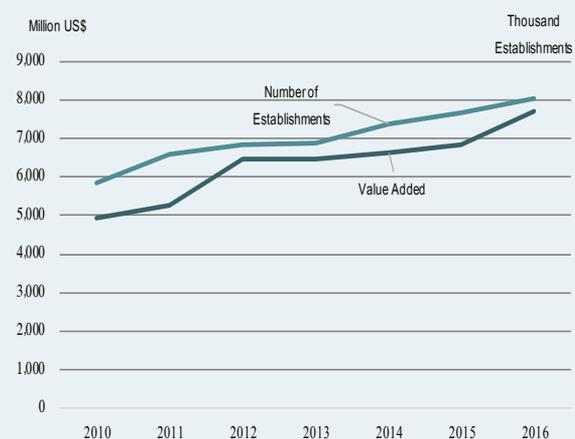
(\* Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967. The total does not equal 100%, due to 'net errors and omissions' item.

### Box 1: PCBS Economic Surveys Show a Decline in the Market Value of Nonprofit and Private Establishments

The Palestinian Central Bureau of Statistics (PCBS) issues statistical data on nonprofit and private establishments operating in the Palestinian Territory on annual basis. To obtain the data, PCBS conducts periodic surveys, and publishes the data in its "Economic Surveys Series". The data covered include the number of operating establishments, number of employed workers, their compensations, output, intermediate consumption, the value added, gross fixed capital formation, in addition to the market value of assets. The surveys cover all the economic sectors in which those establishments are active (industry, construction, internal trade, transportation and storage, communications and information, and services) excluding agriculture and the financial and insurance sectors. These indicators are now available for the last 22 years and are the basis for the national accounts that the PCBS publishes periodically

Figure -1 below shows the evolution of the number of NGOs and private sector establishments operating in the different economic sectors (excluding agriculture and the financial and insurance sectors) in Palestine between 2010 and 2016, which has reached 143 thousand in 2016, achieving a rise of 39 thousand compared with 2010 (a growth of 38%). The number of employed workers reached 465 thousand in 2016, achieving a rise of 170 thousand compared with 2010 (a growth of 58%). The figure depicts as well growth in value added (the difference between the value of output and the cost of production inputs) between 2010 and 2016, which reached US\$ 7.69 billion in 2016, achieving a rise of US\$ 2.8 billion compared with 2010 (a growth of 57%). The figure shows that the two curves, one representing the number of establishments and the other representing the added value, follow the same slow upward trend.

**Figure-1: Evolution of the Number and the Value Added of the Surveyed Establishments in the Economic Surveys Series, 2010 and 2016**



Source: PCBS, 2011-2017. Economic Surveys Series, 2010-2016-Basic Results. Ramallah- Palestine.

### Economic Surveys 2016

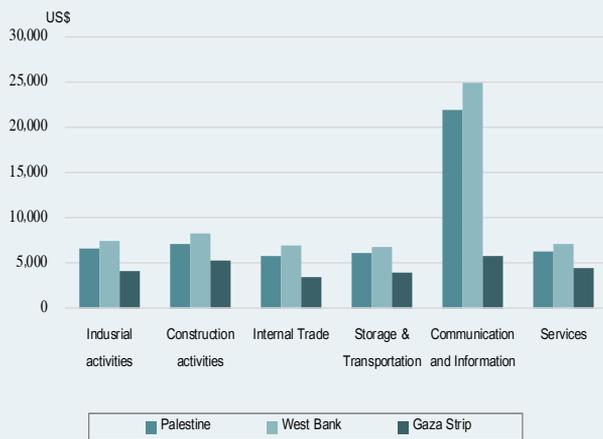
According to “Economic Surveys” of 2016, the most important economic activity (two digits in ISIC classification) in terms of the number of establishments and the number of employed workers in civic and the private sectors is “retail trade” (excluding motor vehicles and motorcycles). The number of establishments operating in this field was 67,181, constituting 47% of the total number (69% in the West Bank and 31% in Gaza Strip). The number of employed workers was 138,763, about 30% of the total number of workers (67% in the West Bank and 33% in Gaza Strip). Although it comprises half the number of the civil society and private sector establishments, the share of retail trade in terms of the number of employed workers is relatively low (30% only), as well as in terms of their compensations (16% only), value added (22%), and capital formation (7.5%). These figures indicate that the low productivity and efficiency of the surveyed establishments is the Achilles heel of the Palestinian Economy.

Figure -2 shows the compensation per waged employee by economic activity and region in 2016. It seems that the average compensation per waged employee converges across the different economic activities (ranging between US\$ 5.8 thousand and US\$ 7.1

thousand) in Palestine, excluding the information and communications sector where it rises to US\$ 22 thousand. In addition, the figure displays the divergence between the West Bank and the Gaza Strip in employees’ compensations, especially in the information and telecommunications sector, as the difference reaches around US\$ 19 thousand.

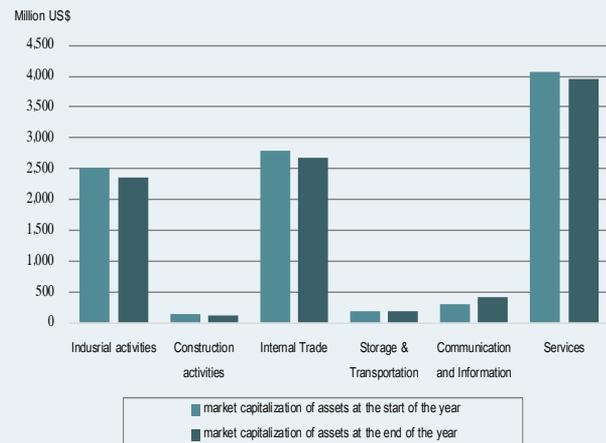
According to the Economic Surveys Series 2016, the decline in the net value of fixed assets of the civil society and private sector establishments was quite noticeable in 2016. Figure -3, on the other hand, shows that by the end of the year market capitalization of fixed assets was less than it was at the beginning of the year in all economic activities, excluding the information and telecommunications sector. This means that investments in most of the sectors were negative during the year (capital depreciation was higher than new investments). Also, the net value of assets declined by US\$ 437.2 million in the industry, construction, internal trade, transportation and storage, and the services sectors, while net assets of the information and telecommunications sector increased by US\$ 109 million. No doubt the shrinking investments will impact and explain the factors behind the decline in production and productivity in the coming years.

**Figure 2: The Compensation per Waged Employee by Economic Activity, 2016**



Source: PCBS, 2017. Economic Surveys Series, 2016- Basic Results. Ramallah- Palestine.

**Figure 3: Market Value of Assets by the End and Beginning of 2016, and by Economic Activity**



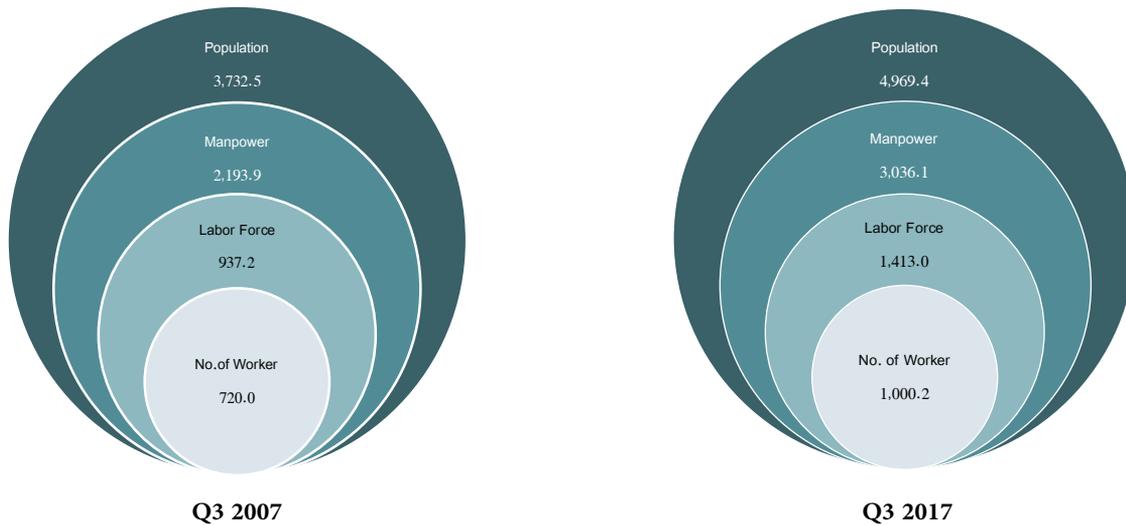
Source: PCBS, 2017. Economic Surveys Series, 2016- Basic Results. Ramallah- Palestine.

## 2- Labor Market<sup>12</sup>

Manpower in Palestine, which comprises all persons aged 15 years and older, amounted to 3.036 million persons by the end of Q3 2017. The labor force (which includes all persons qualified to work and actively seeking employment) amounted to 1.413 million. The difference between the labor force and the

in Israel and the settlements. Regarding the regional distribution of this increase, 25,900 new workers were in the West Bank, and around 2,500 workers were in Gaza Strip (Figure 2-). By sector, around 28,400 workers were employed by the private sector, specifically in the construction and the trade

**Figure 2-1: The Total Population, Manpower and Workers in Palestine (Q3 2007 and Q3 2017) (Thousands)**



actual number of workers, i.e. workforce, provides a measure of the rate of unemployment. Figure 2-1 shows the relation between these three variables and the size of population in Q3 2017 and gives a comparison with statistics ten years ago.

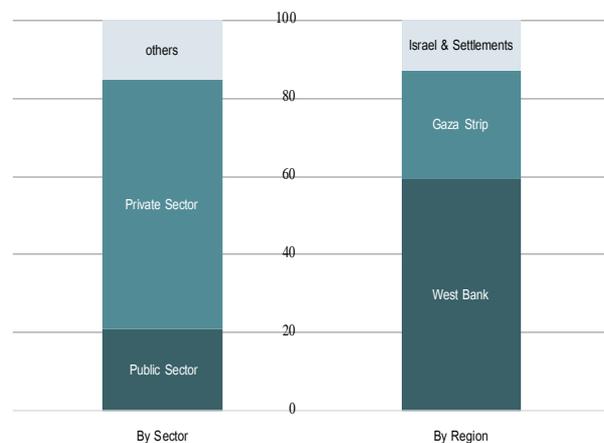
### The Participation Rate

Figures show that the ratio of labor force to manpower in Palestine reached 46.5% compared to 42.7% a decade ago. This ratio is a little less than the average in the Arab region (48.7% in 2016), but it is significantly different from the rate in developed countries, (East Asian countries 70.1%, Latin America 62.7%, European Union 57%). The low participation rate is explained by the large proportion of the population who desist from participating in economic activities. In the Palestinian case, females constitute the majority of this absent share (refer to Box 2, which discusses female participation in the Palestinian labor market and their unemployment).

### Number and Distribution of Workers

The number of workers in Palestine increased by 3% between Q2 and Q3 2017 reaching 1.0002 million, showing an increase of 28,400 in the West Bank and the Gaza Strip and of only 300

**Figure 2-2: % Distribution of Palestinian Workers by Region and Sector, Q3 2017 (%)**



and restaurants and hotels activities. Noticeably, the number of workers in the agricultural sector in the West Bank and Gaza Strip declined in Q3 2017 compared with the corresponding quarter 2016 and with the previous quarter 2017. During Q3 2017, 59% of workers were in the West Bank, 28% were in Gaza Strip, and 13% (around 129 thousand workers) in Israel and the settlements. By sector, more than one-fifth of those employed in Palestine worked in the public sector, while this ratio rises to 36% in the Gaza Strip (Figure 2-2).

1 The Source of data in this section: PCBS, 2018, Labor Forces Survey, Ramallah, Palestine. The World Bank Statistics, 2016 <https://data.worldbank.org/indicator/SL.TLE.CACT.NE.ZS?view=chart>

2 The labor market section of this issue of the monitor and Box 2 were edited by Dr. Samia Al Botmeh, Birzeit University. As well, this section is funded by the ILO, under a project that aims to develop analysis of the Palestinian labor market and to better inform policy makers and the public about this sector and the challenges facing it.

**Table 2-1: Evolution of the Labor Force and Distribution of Net increase in Palestine over the Consecutive Quarters Q2 and Q3 2017**

	Q2 2017	Q3 2017	Change
participants in the labor force	1,367.9	1,413.0	45.1
Workers	971.5	1,000.2	28.7
- West Bank (excluding Israel & the settlements)	566.6	592.5	25.9
- Gaza Strip	276.5	279.0	2.5
Israel & the settlements	128.4	128.7	0.3

About 33% of the employed worked in the services sector in Q3 2017 (52% in Gaza Strip), whereby the building and construction sector employed 23% of West Bank workers and less than 6% in Gaza Strip. The ratio of workers employed in the trade, restaurants & hotels sectors in the West Bank is close to that in the Gaza Strip, being about 23% and 22% respectively (Figure 2-3).

### Unemployment

The number of the unemployed in Palestine stood at 412.8 thousand by the end of Q3 2017. The unemployment rate (the number of unemployed workers divided by the labor force) was 29.2% in Q3 2017, higher by 0.8 of a percentage point compared to the corresponding quarter 2016 and by 0.2 of a percentage point compared to the previous quarter (Table 2-2).

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

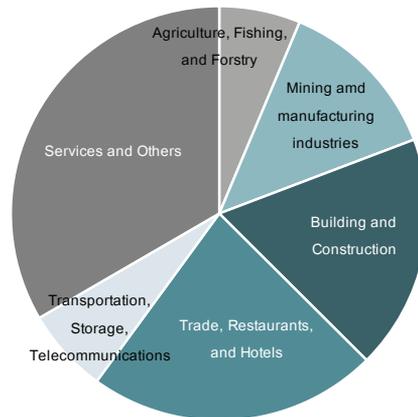
		Q3 2016	Q2 2017	Q3 2017
West Bank	Males	16.8	16.8	15.4
	Females	31.7	36.2	34.6
	<b>Total</b>	<b>19.6</b>	<b>20.5</b>	<b>19.0</b>
Gaza Strip	Males	35.4	36.2	39.3
	Females	68.6	71.5	71.0
	<b>Total</b>	<b>43.2</b>	<b>44.0</b>	<b>46.6</b>
Palestine	males	23.5	23.7	23.9
	Females	47.3	50.0	50.0
	<b>Total</b>	<b>28.4</b>	<b>29.0</b>	<b>29.2</b>

Two of the enduring characteristics of unemployment in the Palestine are that:

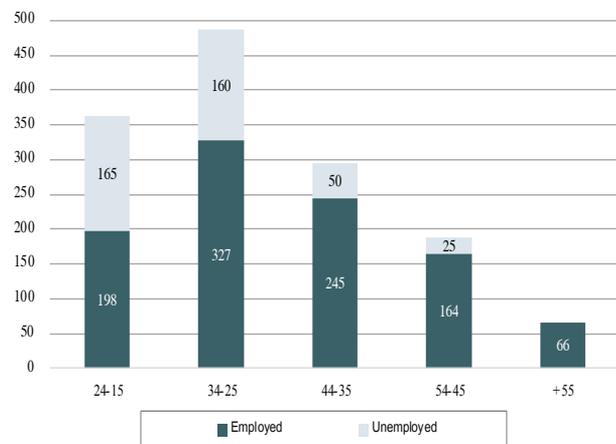
It is high among the youth: the unemployment rate in the age group between 15-24 years reached 45.5% (73.5% for females against 39% for males). This indicates that a large proportion of the unemployed are new entrants to the labor market (see Figure 2-4 and Box 1: Results of the Survey of the Youth Transition from Education to the Labor Market in Issue 46 of the this Monitor).

- The unemployment rate decreases with the attainment of higher educational levels for males, contrary to females (Figure 2-5): The unemployment rate in Q3 2017 reached 25% for males who had not completed secondary education, while it was 21% for males who had tertiary education. On the other hand, the unemployment rate for females with a tertiary education was 58%, against 24% for females who had not completed secondary education (Figure 2-5).

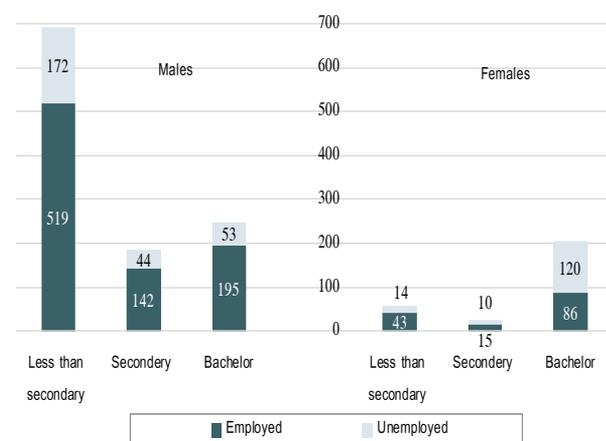
**Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q3 2017 (%)**



**Figure 2-4: the Employed and Unemployed in Palestine by Age Group (Q3 2017) (Thousands)**



**Figure 2-5: the Number of Employed and Unemployed in Palestine by Educational Level and Gender (Q3 2017) (Thousands)**



- Unemployment in the Palestinian economy is not only cyclical, it is also structural. Although the low demand on employment is associated with the weak and fluctuating production and aggregate demand, the chronic nature of employment and its concentration among the youth, demonstrate a mismatch between labor supply and demand. This results from the gaps in the skills and supply of certain types of high-demand jobs

(structural unemployment). This applies primarily to certain professions, such as electricity and industrial technology and some laboratory and medical specializations. This problem is exacerbated by the weak educational system and the opening of the Israeli labor market to absorb the relatively few professional Palestinian competencies.

### Growth in Productivity and Changes in Unemployment Rate

Figure 2-6 shows two curves; one for the GDP rate of growth (at 2015 constant prices) and the other for the unemployment rate for each quarter from Q3 2012 through Q3 2017. First, the sharp fluctuation in the curve of the GDP growth rate is quite noticeable. Part of this fluctuation can be explained by the cyclical nature of GDP, as economic activity is somewhat reduced in the winter and autumn compared to other seasons. However, the impact of political factors and restrictions imposed by the Israeli occupation authorities on economic activity are more pertinent in explaining the sharp and periodic fluctuation of economic growth.

Secondly, the figure shows that the two curves exhibit opposite trends during most of the study period, except for the last year, i.e. between Q4 2016 and Q3 2017. Before Q4 2016 the increase in the growth rate of output coupled with a decline in the unemployment rate and vice versa. A simple exercise to correlate the two variables shows that an increase in the growth rate by 1% was accompanied by a decline in the unemployment rate by 0.23% between Q2 2012 and Q3 2017. 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. This trend in the relation between GDP growth and unemployment over the last four quarters indicates an alarming phenomenon. The next issue of the Monitor will examine further the relation between these variables in the Palestinian economy.

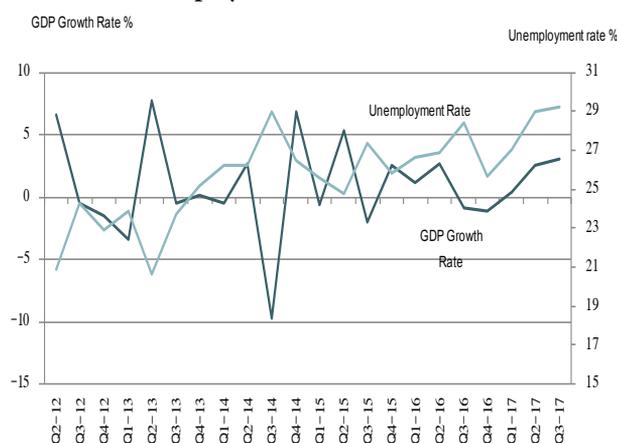
### Wages

The average daily wage for workers in Palestine amounted to NIS 115.0 in Q3 2017. Yet this figure masks the wide divergence between the average wage for workers in the West Bank and the Gaza Strip 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 2-3). As the figures indicate, the average wage of workers in Israel and the settlements is more than four times the wage of workers in the Gaza Strip. The gap is even wider when considering the median wage, which is a stronger indicator than the average wage, because it marks the top-most wage level for half of all workers (the other half receiving wages above that level). (See Figure 2-7). Notably, the median wage in the Gaza Strip is less than half that in the West Bank.

**Table 2-3: The Average and Median Daily Wage (NIS) for Waged Workers in Palestine (Q3 2017)**

Place of Work	Q3 2017	
	Average Daily Wage	Median Daily Wage
West Bank	98.8	96.2
Gaza Strip	56.7	38.5
Israel and the settlements	233.3	230.8
Palestine	115.0	96.2

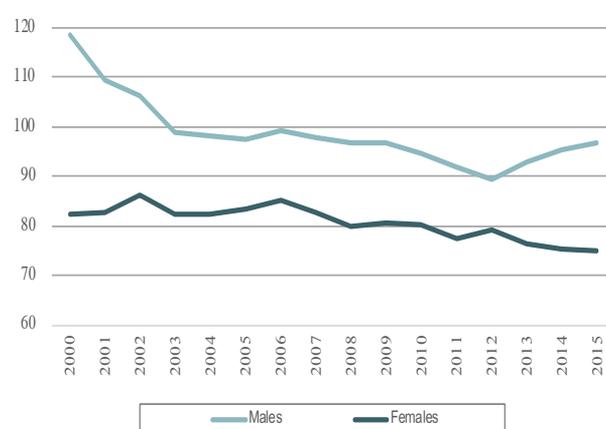
**Figure 2-6: Growth Rate of GDP and Unemployment Rate in Palestine**



**Figure 2-7: The Average and Median Daily Wage for Waged Workers (NIS) in Palestine**



**Figure 2-8: Evolution of the Average Daily Real Wages of Males and Females in Palestine, NIS (Base year 2010)**



In spite of a decrease of the average daily wage in the West Bank (NIS 4.9) and in Gaza Strip (NIS 3.2), there is an overall increase by NIS 0.8 between Q2 2017 and Q3 2017 as a result of its rise in Israel and the settlements (NIS 10.7).

### Real Wages and Gender Gap

Although the average nominal daily wage increased in Q3 2017 and over the last few years, real wages followed a different path. Since real wages take into account the effect of price inflation,

they are a better indicator of the change in the purchasing power than the nominal wage. Figures indicate that the average real daily wage in Palestine declined by 9% between 2003 and 2012. However, since that date the average witnessed an upward movement.

Following 2012, this upward trend was witnessed among males' real wages only, whereas the average daily real wage for females continued to decline as shown in Figure 2-8. This resulted in widening the gap between females and males real wages in Palestine. The wage gap is determined by individual factors, such as educational qualifications, work experiences, as well as by the nature of the sector in which the person works. In the Palestinian case, a substantial portion of the wage gap is due to the employment of Palestinian male workers in the Israeli market and to the higher wages that they are paid there. Thus, the female-male wage gap widened as a result of the increase in the percentage of the West Bank workers working in Israel, rising from 11% of total workers (during 2004-2011) to 14% (during 2012-2016).

### Minimum Wage

During Q3 2017 the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 38.2%: 50.2% females and 36.0% males. The average monthly wage of those workers was NIS 839. By region, 17.9% of the private sector waged workers in the West Bank were sub-minimum wage earners, compared to 83.0% in Gaza Strip (Table 2-4).

### Child Labor

Child labor (aged 10-17 years) increased by about one percentage point during Q3 2017 compared with the previous quarter, (from 3.1% to 4.0%) and decreased by half a percentage point compared to the corresponding quarter. By region, child labor was 6.3% in the West Bank and 2.0% in Gaza Strip during Q3 2017.

**Table 2-4: The Number and Average Wage of Waged Workers Employed by the Private Sector who are Sub-minimum Wage earners (do not include workers in Israel and the Settlements)**

	Number of waged workers in the private sector (Thousand)			Number of waged workers who earn sub-minimum wages (Thousand)			Average monthly wage for sub-minimum wage earners (NIS)		
	males	females	both	males	females	both	males	females	both
West Bank	189.9	37.0	226.9	24.1	16.5	40.6	1,191	959	1,097
Gaza Strip	90.8	12.0	102.8	77.2	8.1	85.3	726	644	717
Palestine	280.7	49.0	329.7	101.3	24.6	125.9	837	855	839

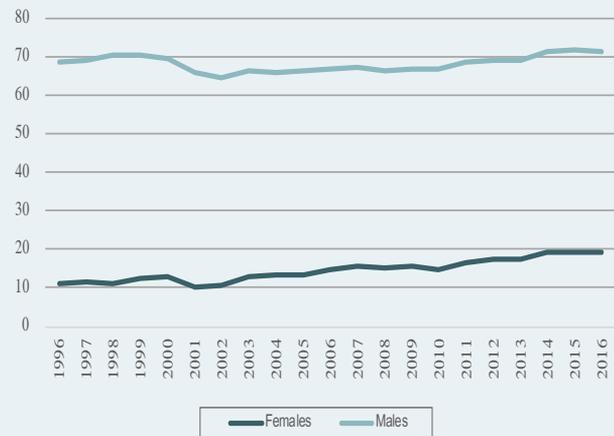
**Box 2: Female Participation in the Palestinian Labor Market: Reasons behind the Low Participation Rate and the High Unemployment Rate**

During the third quarter of 2017, the participation rate of Palestinian females in the labor market (the number of employed and unemployed females divided by the number of females aged 15-65 years) was 19.2%. Palestine's rate is one of the lowest in the world (compare to %32 in Turkey, 23% in Lebanon, 30% in Oman, and a global average in 2016 of 49%), especially if we take into consideration the high educational attainments of Palestinian females (school and tertiary education). As UNESCO data show, the school enrollment rate of Palestinian females is higher than that of Palestinian males, while their university enrollment rate is even higher than that in the neighboring Arab countries.<sup>1</sup>

Even though female participation rate in the labor market in Palestine remains low, the female-male participation gap has shrunk over the last 20 years. Females' participation in the labor market rose from 11.2% in 1995 to 19.2% in the third quarter of 2017. On the other hand, the male participation rate remained around 70% (Figure-1).

The slight increase in the female participation rate in the Palestinian labor market (8% only over the last twenty years) reflected as a rise in the rate of unemployed females rather than a rise in the rate of employment. The unemployment rate among females increased from 12.4% in 2000 to 50% in the third quarter of 2017 compared to an increase from 14.6% to 23.9% among males during the same period (see Figure- 2). Female unemployment is concentrated among educated young females, reaching around 73.5% among females aged 15-24 compared to 39% among males of the same age group.

**Figure- 1: Females and Males' Participation in the Palestinian Labor Market, 1996-2016 (percentage)**



Source: PCBS: Labour Force Survey, various rounds.

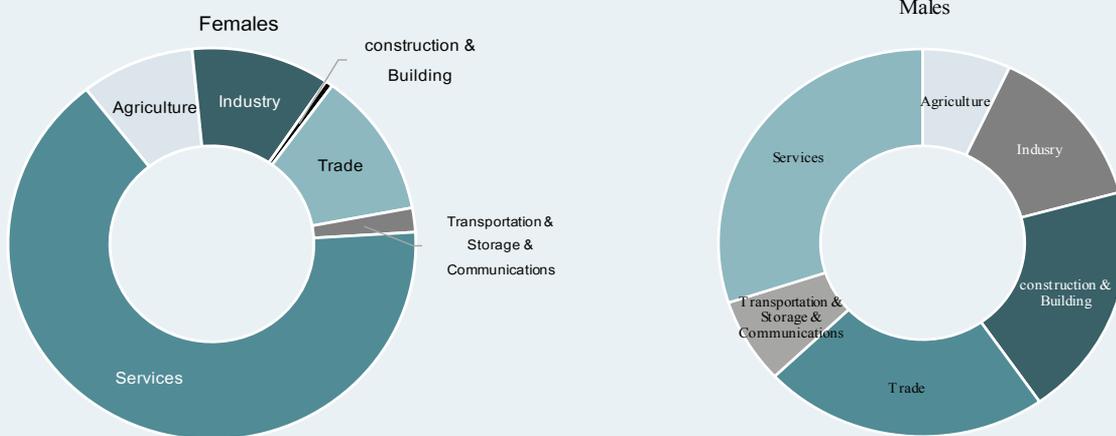
As figure- 2 shows, during 2008-2009 the female unemployment rate recorded an all-time high, exceeding the male unemployment rate for the first time, which has widened the gender gap since then. This is probably attributed to the faster increase in the female participation rate (especially among educated females) in the labor market, compared with a slower increase for males. Education induces females to participate in the labor market, but it does not guarantee that they will be employed. The next issue of the Monitor will further examine related statistics to attest to or refute this assumption, namely the direct correlation between education and unemployment among females in the Palestinian labor market.

1 UNESCO (2009) Gross Enrolment Ratios in Primary, Secondary and Tertiary Education. Available at: [Stats.uis.unesco.org/unesco/TableViewer/tableview.aspx?ReportId=3983&IF\\_language=eng](http://Stats.uis.unesco.org/unesco/TableViewer/tableview.aspx?ReportId=3983&IF_language=eng)

Hence, the question that needs to be answered is why does the increase in female participation in the Palestinian labor market result in higher unemployment rates rather than higher employment rates? In other words, why does the absorptive capacity of the Palestinian economy, weak as it is, seems even weaker when it comes to female employment compared to male employment? There are several reasons for this, two of which are addressed in this box:

First, the number of economic sectors that employ females are limited compared to those that employ males. In other words, employment opportunities available to females are concentrated in specific sectors. The wider and more balanced the distribution of employed females among the economic sectors, the higher their employment prospects are. To measure economic sectors openness to female employment, or, as referred to in literature, the level of horizontal segregation of females, we need to weigh how balanced is their distribution among the different economic sectors<sup>2</sup> (Figure-3).

**Figure 3: Distribution of Female and Male Employment by Economic Sector (Average 2000 – 2016) %**



Source: PCBS: Labour Force Survey, various rounds.

Figure-3 shows that the transportation and construction sectors remain closed to females in the Palestinian case. A mere 0.5% of females work in Israel, as working in Israel is not an open option for Palestinian females. More importantly, female employment is concentrated in the services sector (more than 75%). Again, this confirms that females suffer from horizontal segregation, i.e. job options available to females are limited. The horizontal segregation of females in the services sector has further implications that go beyond sector-wise limited employment opportunities and thus higher unemployment rate among females. It also means that females are greatly affected by economic shocks impacting one sector (the services sector, in this case).

The other factor affecting female unemployment more than male unemployment in the Palestinian labor market, is the correlation between the increase in employment and growth of the productive sectors in an economy, especially agriculture and industry. Statistics show that the contribution of the agriculture and industry sectors to female employment in Palestine has declined over the past twenty years, which indicates that the economy's ability to absorb females in the Palestinian labor market has become weaker. Today the agricultural sector employs 10% only of females, compared with 29% in 1996, whereas the industrial sector employs 12% of females compared to 16% in 1996 (Figure-4). The low employment rates in these two sectors are linked to the weakness and decline of

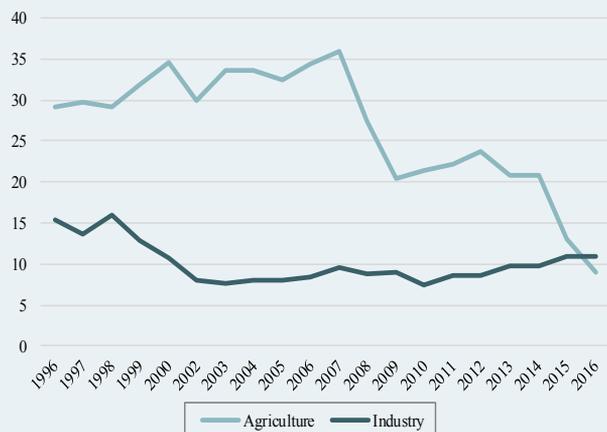
**Figure- 2: Male and Female Unemployment Rates in Palestine, 2000-2016 (%)**



Source: PCBS: Labour Force Survey, various rounds.

the productive sectors. The continuation of the current state of these sectors will further diminish employment opportunities, especially among females. This will also mean a possible rise in the female unemployment rate in the future, limiting their employment opportunities to an already limited number of sectors, i.e. they are more strongly affected by the decline in the productive sectors compared to males.

**Figure 4: The Contribution of Agriculture and Industry Sectors (tors to Female Employment in Palestine (1996 – 2016**



Source: PCBS: Labour Force Survey, various rounds.

2 Cotter, D., Hermsen, J., and Vanneman, R. (2001) 'Women's Work and Working Women: The Demand for Female Labour'. Gender and Society, 15 (3), pp. 429-452.

### 3- Public Finance<sup>1</sup>

#### Public Revenues

During Q3 2017, net public revenues and grants decreased by 27% compared to the previous quarter, reaching around NIS 3,024.1 million. This is attributed to the decline in clearance revenues by 40% compared to the previous quarter, reaching NIS 1,638.8 million. This nominal decline reflects early payment of this quarter's revenues in the previous quarter. In addition, non-tax revenues declined during the quarter by 31% compared to the previous quarter, reaching around NIS 319.5 million, whereas tax revenues rose by 9% compared with the previous quarter reaching NIS 618.7 million (Figure 3-1). Foreign aid and grants increased by 13% compared with the previous quarter, reaching NIS 442.3 million (Table 3-1), and declined by 30% compared with the corresponding quarter 2016 (Table 3-1).

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

Item	2016			2017		
	Q2	Q3	Q4	Q1	Q2	Q3
Budget support	627.1	552.7	516.6	640	283.8	329.5
- Arab grants	226.8	3.6	237.7	113	94.9	111.5
- International donors	400.3	549.1	278.9	527	188.9	218
Developmental funding	132.6	91.0	302.7	143.5	108.3	112.8
<b>Total</b>	<b>759.7</b>	<b>643.8</b>	<b>819.3</b>	<b>783.5</b>	<b>392.1</b>	<b>442.3</b>

#### Public Expenditure

Actual public expenditure (cash basis) decreased by 28% during Q3 2017 compared with the previous quarter, reaching NIS 3,013.1 million. Actual expenditure on most items saw a declining trend during the quarter, including wages and salaries, which fell by 31% compared with the previous quarter, reaching about NIS 1,422.3 million. In addition, non-wage expenditures declined by 30% reaching around NIS 1,114.7 million.

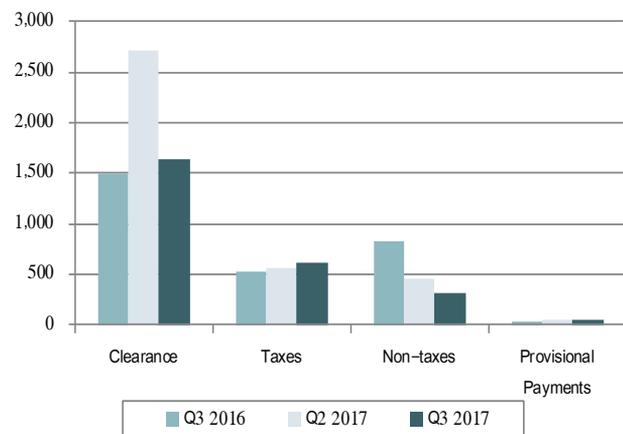
Net lending expenditure, as well, decreased during the quarter by 10%, reaching NIS 241.5 million compared with the previous quarter. Development expenditure decreased by 4.4% during the same period, reaching NIS 189.3 million (Table 3-2).

The ratio of actual public expenditure to accrued expenditures (i.e. expenditure on commitment basis) was 76% during the quarter, compared with 92% in the previous quarter. Whereas public revenues and grants covered 100% of actual public expenditure in Q3 2017 (close to what was recorded in the previous quarter), it only covered 76% of the accrued expenditures (compared with 91% in the previous quarter.)

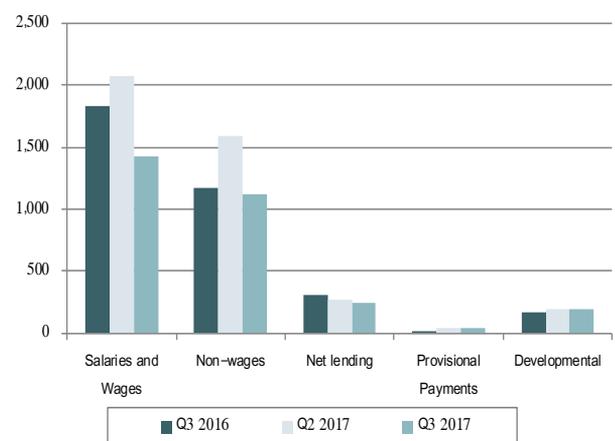
#### Government Arrears

During Q3 2017 government arrears reached NIS 974.8 million, compared with NIS 336.9 in the previous quarter. Arrears distribution was: NIS 457.9 million wages and salaries, NIS 388.4 million non-wage expenditure, and NIS 119.4 million develop-

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



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



ment expenditure. Also tax refunds stood at NIS 9.3 million, whereas the government paid off NIS 0.2 million of accumulating provisional payments. Despite the accumulated arrears during this quarter around NIS 974.8 million, the government paid off NIS 371.7 million of old outstanding arrears, which means that the net government arrears during Q3 increased by NIS 603.1 million (Table 3-2).

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

Item	2016		2017		
	Q3	Q4	Q1	Q2	Q3
Tax refunds	(8.9)	6.7	84.1	(0.4)	9.3
Wages and salaries	164.7	719.4	111.5	(118.1)	457.9
Non-wage expenditures (private sector)	418.2	627.1	286.1	390.1	388.4
Development expenditures	134.7	159.1	59.3	66.2	119.4
Provisional payments	22.8	(17.6)	115.5	(0.9)	(0.2)
<b>Total arrears</b>	<b>731.5</b>	<b>1,494.7</b>	<b>654.4*</b>	<b>336.9</b>	<b>974.8</b>

Figures between brackets indicate negative value

\* includes net lending arrears of NIS - 2.1 million

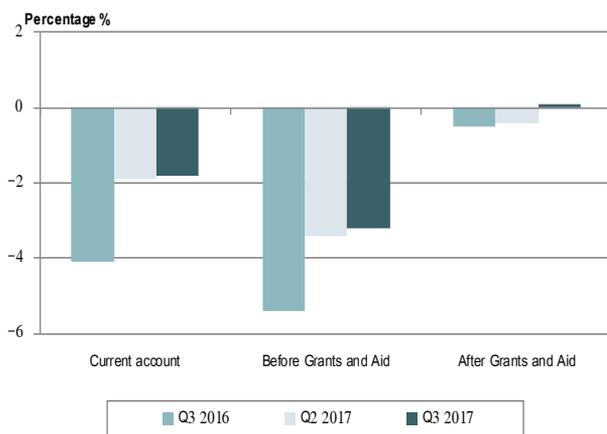
<sup>1</sup> The source of data in this section: MOF, Monthly Financial Reports 2016-2017: Financial Operations, Expenditure and Revenues, and sources of Funding.

## Financial Surplus/Deficit

Developments on both the revenue side and expenditure side during Q3 2017, led to a deficit in the total balance (before grants and aid), of NIS 431.3 million (or 3.2% of GDP).

Grants and foreign aid turned the deficit into a surplus of NIS 11 million (on cash basis). On commitment basis the deficit in the total balance before grants and aid reached NIS 904 million, while after grants and aid the deficit is reduced to NIS 461.7 million (Figure 3-3).

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



## Public Debt

By the end of Q3 2017 public debt increased by 2.5% compared with the previous quarter, and fell by 6.5% compared with the corresponding quarter, reaching NIS 8,952.3 million (about 17% of GDP).<sup>2</sup> About 59% of the debt was domestic and 41% foreign. Interest paid on debt during Q3 was NIS 46.2 million, all of which was paid on domestic debt, as there was no interest paid on external public debt during the quarter (Table 3-3).

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

	2016		2017		
	Q3	Q4	Q1	Q2	Q3
<b>Domestic debt</b>	<b>5,606.4</b>	<b>5,541.4</b>	<b>5,291</b>	<b>5,155.1</b>	<b>5,283.7</b>
Banks	5,554.1	5,489.2	5,238.7	5,102.8	5,231.4
Public institutions	52.3	52.3	52.3	52.3	52.3
<b>Foreign debt</b>	<b>3,967.8</b>	<b>4,017.7</b>	<b>3,818.1</b>	<b>3,578.3</b>	<b>3,668.6</b>
<b>Total public debt</b>	<b>9,574.2</b>	<b>9,559.2</b>	<b>9,109.1</b>	<b>8,733.5</b>	<b>8,952.3</b>
Paid interest	57.3	54.8	93.0	80.3	46.2
Public debt as % to nominal GDP*	18.3%	18.5%	18.2%	17.1%	16.9%

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

<sup>2</sup> It should be mentioned that by the end of Q3 2017 the government's debt denominated in dollars rose by 1.3% compared to the previous quarter, reaching USD 2,526 million.

## Box 3: Gaza's Gas: A to Z

In this box we present a chronological review of projects, achievements and setbacks that accompanied the efforts to develop and exploit the natural gas field that was discovered in the continental shelf near the Gaza Strip.<sup>1</sup>

- In December 1999, President Yasser Arafat awarded exclusive concession to British Gas (BG) and Consolidated Contractors Company (CCC Oil & Gas) to prospect, develop, produce and sell natural gas, in a specific concession area in Palestinian territorial waters. The company has discovered a large field of natural gas at a distance of 20 nautical miles off Gaza's shore (about 37 kilometers). The field was named "Gaza Marine"

- The concession was awarded for 25 years, which starts when the Palestinian government approves a development plan for the field advanced by BG.

According to the concession, BG holds a 90% share in the gas field, and the remaining 10% goes to CCC Oil & Gas, a company based in Athens-Greece, which is owned by Palestinian businessmen.

- In 2000, the Israeli government gave the green light to BG to drill two exploratory wells in "Gaza Marine" field (Marine 1 and Marine 2) to assess the natural gas quantity and quality. The exploration showed that the gas is of good quality (98-99% pure methane) and quantity (about 1 trillion cubic feet (tcf)), which is a sufficient quantity for investment and commercial production. The company has also prepared a plan to develop the field, including the construction of a pipeline which transports the gas to the Gaza Strip at an estimated cost of US\$150 million.

- In 2002 the PNA approved a development plan for the Gaza Marine field, which means that the 25-years exploration license will expire by 2027.

- The volume of production of the Gaza Marine field is estimated at 1.5 billion cubic meters per year (about 57 billion cubic feet) over a 20-years period. This production requires a capital investment of about US\$ 1 billion. The total revenues are estimated to range between US\$ 2.4 billion and US\$ 7 billion, depending on the gas selling price (the latter estimate is optimistic, considering the current selling prices of natural gas in the region).

<sup>1</sup> Information presented in this box are based on the following references: A..Antreasyan (2013): Gas Finds in the Eastern Mediterranean: Gaza, Israel, and Other Conflicts". Journal of Palestine Studies. 42.<http://www.palestine-studies.org/jps/fulltext/162608>

- S. Henderson (2014): Natural Gas in the Palestinian Authority: The Potential of the Gaza Marine Offshore Field. German Marshall Fund (GMF), Policy Brief (March) <http://www.washingtoninstitute.org/policy-analysis/view/natural-gas-in-the-palestinian-authority-the-potential-of-the-gaza-marine-o>
- A. Melhem (2017): When will Gaza gas field start operating? Al-Monitor March 12. <http://www.al-monitor.com/pulse/originals/2017/03/palestine-gaza-gas-field-energy-power-crisis-talks.html#ixzz4xjG18O-zW>
- T. Boersma & N. Sachs (2015): Gaza Marine: Natural Gas Extraction in Tumultuous Times? Foreign Policy at Brookings No 36. Feb 2015. <https://www.brookings.edu/wp-content/uploads/2016/06/Gaza-Marine-web.pdf>
- Offshore Technology: Gaza Marine Gas Field. <http://www.offshore-technology.com/projects/gaza-marine-gas-field/>
- Office of the Quartet (OQ) : Report for the meeting of the Ad-Hoc Liaison Committee Sep. 2017. <http://www.quartetrep.org/>
- Azem Beshara, Palestine Investment Fund – Private communication.

- Palestine's consumption of natural gas is considered low (about 45 million cubic meters per year), which makes investment in the development of the field risky. To minimize risks, the company needed to secure long-term purchase contracts with third parties. The best candidate for such contracts with BG was Israel Electric Corporation (IEC). So BG proposed different offers to supply the Israeli side with Palestinian gas, including the transport of gas from Gaza to Ashkelon first, and then to the power generation plants in Gaza and Israel. The company also offered to use the gas liquefaction plant it owns in Egypt and supply both Egyptian and Palestinian gas to Israel. Nevertheless, the outbreak of the second intifada, on one hand, and the fierce opposition, both from political parties and Israeli trade interests, of the purchase of Palestinian gas, stalled negotiations between the company and Israel.
- Moreover, Israel's encroachment upon the continental shelf near the Gaza Strip, ignoring that it is under Palestinian sovereignty, made matters worse. Although the "Gaza-Jericho" Agreement granted the Palestinians the right to fishing, commercial exploitation, and recreation 20 nautical miles off the shore, in 2002 Israel reduced the space to 12 miles, then to 6 miles following Hamas's victory in the 2006 legislative elections, and then to 3 miles only following the 2008/2009 Israeli war on the Strip. As mentioned earlier, the Gaza Marine field is located 20 nautical miles off the shore.
- When Ariel Sharon disappeared from the Israeli political scene and Ehud Olmert formed the government, BG and Israel went back to the negotiations table. In May 2007, it was announced that the two parties reached a preliminary agreement under which Israel would purchase 0.05 tcf of Palestinian natural gas annually for US\$4 billion starting 2009. Under this agreement, the gas will be transported to and liquefied in Ashkelon, and then piped to power plants in Israel and Gaza Strip. However, as in previous years, the agreement was never concluded, and was completely "buried" when Hamas took over the Gaza Strip in June 2007, upon which Israel declared the Gaza Strip to be a "hostile entity".
- By the end of 2007, BG announced the termination of negotiations with Israel because of "deep differences in the points of view that are hopeless to bridge". Although it has announced closing its office in Israel, and keeping an office open in Ramallah, it retained its concession rights in the Gaza Marine field.
- Additionally, the discovery of two large gas fields in Israel's exclusive economic zone (Tamar field in 2009 and Leviathan field in 2010, with reserves estimated at 10 and 18 tcf respectively) have further reduced Israel's interest in the development and purchase of Palestinian gas. In fact, the development and exploitation of Israeli gas fields is dependent on securing long-term purchase and export contracts, which makes Palestine one of the potential clients seeking to purchase Israeli gas.
- Early in 2014, the three Israeli companies which held concession shares in the Leviathan field, announced that they had reached an agreement with the Palestine Power Generation Company (PPGC) whereby the latter would purchase 4.75 billion cubic meters of natural gas for US\$ 1.2 billion over a 20-years period. PPGC intended to feed the new power plant being built near Jenin in the West Bank. This first huge export deal to exploit the huge reserves of the Leviathan field, was abrogated by PPGC later.
- Later in 2014, the concession shares in Gaza waters were redistributed. Instead of 90% for BG and 10% for CCC, BG's stake was reduced to only 55%, while CCC's stake was raised to 27.5%, and the government (represented by the Palestine Investment Fund (PIF)) held 17.5%.
- In 2015, a Memorandum of Understanding (MoU) was signed between the Gaza Marine concession partners and PPGC. The purpose of the MOU was to start negotiations on selling gas from the Gaza Marine field to feed the future power plant that will be built near Jenin.
- In 2015, the Office of the Quartet Representative for Peace in the Middle East (OQ) started to show interest in supplying Gaza's Power Plant Station with natural gas. A new initiative named Gas for Gaza (G4G) was launched for this purpose, and the OQ was entrusted with forming a Task Force to be responsible for preparing studies and schemes for constructing a natural gas pipeline connecting Gaza Strip with Israeli gas pipelines to feed Gaza Power Plant.
- In April 2016, the Anglo-British Shell Company acquired BG, so BG's development rights in the Gaza Marine Field were transferred to Shell.
- According to the latest bulletin (September 2017) issued by the Office of Quartet -Jerusalem, in 2016 Israel approved the route of a natural gas pipeline connecting the Gaza Strip to Israeli pipelines network. Also it is mentioned that "the commercial and regulatory structures for the project and the necessary steps for their implementation have been identified" and that in the second quarter of 2017 the Israeli side commenced working on obtaining the necessary permits and licenses for the project, and that the Task Force is working to develop plans to accomplish these tasks in cooperation with the Palestinian side. The report pointed out that the party that will be responsible for the purchase of Israeli gas (pay the bill) has not yet been settled, and so there is no agreement on quantities and prices of gas. The report stated that the gas pipeline to Gaza would allow for transporting Israeli gas and Palestinian gas to the Gaza power plant, yet regrettably efforts to develop the Gaza Marine field have yet to materialize.

## 4- The Banking Sector<sup>1</sup>

The main indicators pertaining to the banking sector show a constant improvement in performance during Q3 2017. The net assets (liabilities) of licensed banks increased by 10% during the quarter compared to the corresponding quarter 2016, reaching US\$ 15.5 billion (Table 4-1).

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

Item	2016		2017		
	Q3	Q4	Q1	Q2	Q3
<b>Total assets</b>	<b>14,068.3</b>	<b>14,196.4</b>	<b>15,222.3</b>	<b>15,348.1</b>	<b>15,461.0</b>
Direct credit facilities	6,666.4	6,871.9	7,234.2	7,528.9	7,761.9
Deposits at PMA & Banks	4,055.3	4,279.0	4,136.2	4,170.5	3,863.1
Securities portfolio for trading and investment	1,051.2	1,007.1	1,042.2	1,050.4	1,057.5
Cash and precious metals	1,204.4	991.2	1,567.2	1,201.9	1,518.6
Other assets	1,091.0	1,047.2	1,242.5	1,396.4	1,259.9
<b>Total liabilities</b>	<b>14,068.3</b>	<b>14,196.4</b>	<b>15,222.3</b>	<b>15,348.1</b>	<b>15,461.0</b>
Total deposits of the public (non-bank deposits)**	10,432.6	10,604.6	11,127.5	11,379.5	11,526.8
Equity	1,624.4	1,682.4	1,720.3	1,744.5	1,804.6
Deposits of PMA and Banks (bank deposits)	1,152.0	1,139.9	1,506.6	1,385.4	1,279.6
Other liabilities	358.8	271.5	352.4	314.6	291.7
Provisions and depreciation	500.4	498.2	515.5	524.1	558.3

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

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

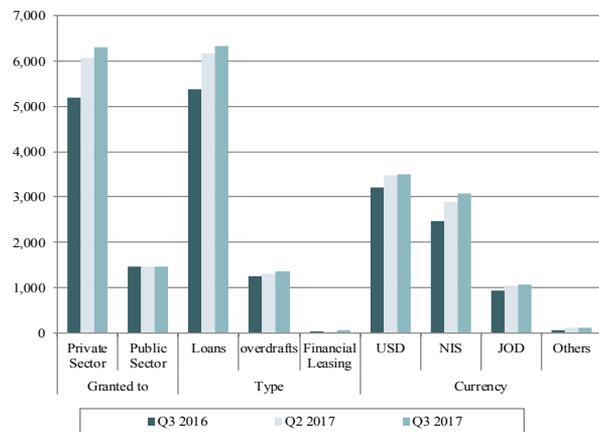
### Credit Facilities

During Q3 2017, total credit facilities rose by 3% and by 16% compared to the previous and the corresponding quarters respectively, reaching US\$ 7.8 billion, which led to an increase in credit facilities to total public deposits by one percentage point during Q3 compared with the previous quarter, reaching 67%.

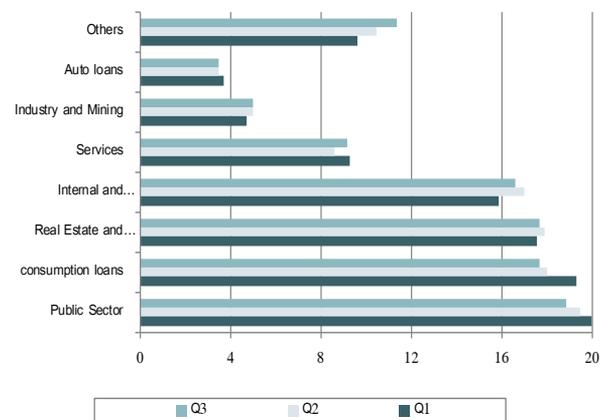
By sector, credit facilities granted to the public sector constituted 81% of the total facilities (an increase by 4% compared with the previous quarter and by 21% compared with the corresponding quarter), reaching around US\$ 6.3 billion. On the other hand, the public sector facilities were 19% of the total during the quarter. Around 82% of total credit facilities were loans, about 18% were overdraft accounts, and 0.7% were financial leasing facilities. By region, the West Bank's share of total credit facilities stood at 87% (US\$ 6.8 billion) compared to 13% the share of Gaza Strip. By currency, the US dollar continued to account for the biggest share of credit facilities (45%), compared to 39% granted in Shekels and around 14% in Jordanian Dinars (Figure 4-1).

By sector, the distribution of credit facilities was: 18% real estate and construction sector, 18% consumption loans, 17%

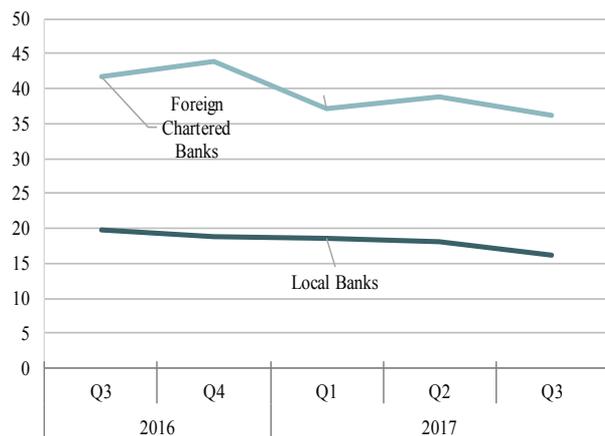
**Figure 4-1: Total Direct Credit Facilities (US\$ Million)**



**Figure 4-2: Distribution of Credit Facilities by Sector, 2017 (Percentage %)**



**Figure 4-3: Foreign Placements Ratio to Total Deposits (%)**



<sup>1</sup> The source of data in this section: PMA, Nov 2017. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

internal and external trade. The share of the public sector during the quarter was 19% of the total facilities (Figure 4-2).

### Placements Abroad

Placements abroad are funds held overseas, deposited or invested by banks and financial institutions operating in Palestine. By the end of Q3 2017 placements stood at US\$ 3.2 billion, showing a decline by 8.6% compared to the previous quarter. This decline coupled with a decrease in foreign placements ratio to total deposits (banking and non-banking) reaching 25% compared with 27% in the previous quarter.

Local bank's placements stood at US\$ 1.1 billion, (representing 16% of its total deposits), against US\$ 2 billion for foreign chartered banks (representing 36% of its total deposits). Figure 4-3 shows that the ratio of placements abroad to deposits is higher in foreign chartered banks than its ratio in local banks.

### Deposits

By the end of Q3 2017 the total number of deposit accounts in licensed banks stood at 3.2 million accounts. Public deposits rose by 1% compared to previous quarter, and by 10% compared to corresponding quarter, reaching US\$ 11.5 billion. About 93% of total deposits were private sector deposits against a mere 7% as public sector deposits. The share of the West Bank of total deposits was 90%, on-demand deposits constituted 39% of the total, 33% were saving deposits, 28% time deposits. By currency, the US dollar continued to dominate public deposits (39% of the total), followed by the Shekel (33%), and the Jordanian Dinar (24%) (Figure 4-4).

### Bank Profits

During Q3 2017 bank profits (net income) dropped by about 12% compared to the previous quarter, and increased by 24% compared to the corresponding quarter, reaching US\$ 41.4 million. This resulted from a decline in revenues against an increase in expenditures by almost 2% for both, compared to the previous quarter. Interest income constituted 75% of total banks' revenues (Table 4-2).

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

Item	2016		2017		
	Q3	Q4	Q1	Q2	Q3
<b>Revenues</b>	131.0	145.4	152.5	166.7	163.3
Net Interests	98.0	103.1	108.2	113.6	122.7
Commissions	22.9	26.4	27.4	27.9	30.2
Other operating revenues	10.1	15.9	16.9	25.2	10.4
<b>Expenses</b>	97.6	110.2	111.8	119.4	121.9
Operating expenses and tax allocations	87.2	97.7	100.7	103.3	107.1
Tax	10.4	12.5	11.1	16.1	14.8
<b>Net income*</b>	33.4	35.2	40.7	47.3	41.4

\*net income = net revenues - expenses

### Interest Rates

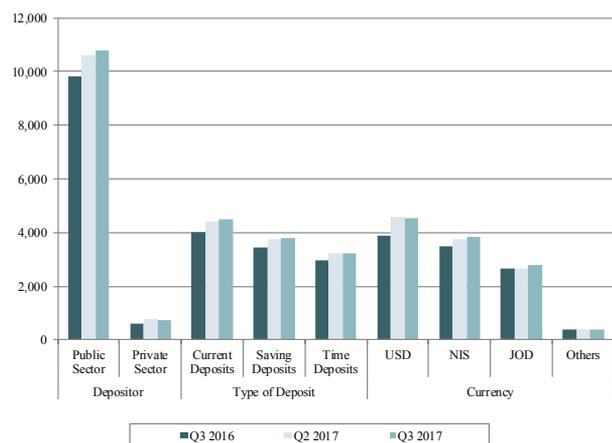
Average interest rates on Jordanian Dinar loans rose to 6.75% in Q3 2017 compared to 6.24% in Q2 2017. On the other hand, average interest rates on Shekel loans dropped from 7.48% to 7.14% and on US Dollar loans from 5.76% to 5.74% as Figure 4-5 shows.

Regarding interest on deposits, average interest on deposits in the three currencies witnessed a rise: 1.37% for the Dollar deposits (compared with 1.14% in the previous quarter), 1.36% for Shekel deposits (compared to 1.17%), and 2.12% for the Dinar deposits (compared to 1.90%). These changes led to an increase in the interest margin of deposits and loans in Dollars and Shekels of 4.37 and 5.78 percentage points respectively, against a rise in the interest margin of the Dinar by 4.63 percentage points.

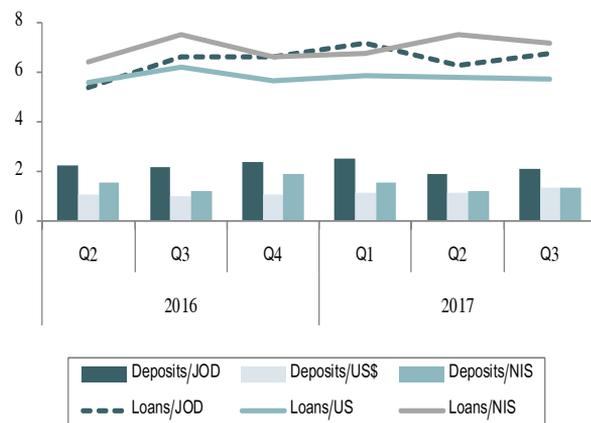
### Clearance

The value of cheques presented for clearance stood at US\$ 4 billion, an increase of 29% compared with the corresponding quarter. Around 75% of cheques were in Shekels. On the other hand, the value of returned cheques amounted to US\$ 303 million, an increase of 40% compared with the corresponding quarter. The percent of returned cheques to cheques presented for clearance were 7.6% during Q3 2017.

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



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



## Banks' Branches and ATMs

11 new bank branches were opened during Q3 2017 (most of which in the West Bank) raising the number of licensed bank branches and offices operating in Palestine to 328; 270 in the West Bank and 58 in the Gaza Strip. The majority of these offices and branches are located in Ramallah & al Bireh, Hebron, and Nablus governorates (Figure 4-6). The number of ATMs reached 631, 549 in the West Bank and 82 in the Gaza Strip, while the number of ATM cards increased by 11% reaching 113 thousand cards during Q3.

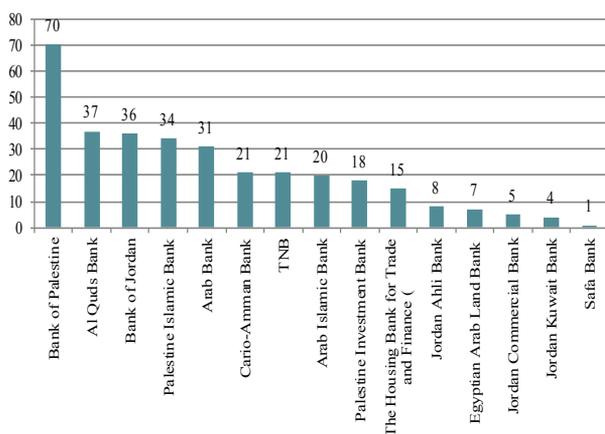
## Specialized Credit Institutions (SCIs)

By the end of Q3 2017, the number of specialized credit institutions (SCIs) licensed by the PMA was 83 (59 branches and 24 offices). The value of loans granted through SCIs was US\$ 213 million, 68% of which were granted in the West Bank. The real estate sector continued to dominate with the biggest share of these loans (29%), followed by the commercial sector (27%), then the consumption sector (12%). SCIs offered 665 job opportunities and the number of active clients during the quarter reached 72,048 (Table 4-3).

Table 4-3: SCIs data

Item	2016		2017		
	Q3	Q4	Q1	Q2	Q3
Total of Loan Portfolio (US\$ millions)	183.0	199.4	210.0	209.8	213.0
- West Bank	129.2	137.0	142.2	143.3	145.8
- Gaza Strip	53.8	62.4	67.8	66.5	67.2
Active Clientele	64,547	68,912	70,855	71,190	72,048
Employees	583	618	641	647	665

Figure 4-6: the Number of Branches and Offices by Bank Name, Q3 2017

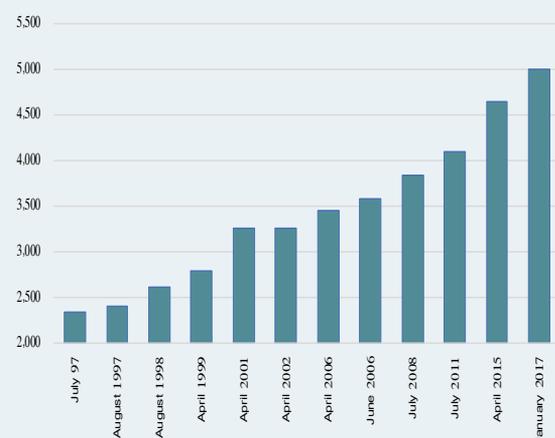


## Box 4: The Effect of Raising the Minimum Wage in Israel on the Wages of Workers in the West Bank

The minimum wage in Israel witnessed a significant rise of 113% between mid-1997 and early-2017. This upward trend accelerated following mid-2011, when the Israeli government approved a two-phase raise in the minimum wage from NIS 3,850 to NIS 4,300 per month. The latter wage remained in force until the beginning of 2015, when the Israeli government and Israel's General Organization of Workers (Histadrut), agreed to raise the minimum wage to NIS 5,000 on three-phases, the latest of which took place at the beginning of 2017. Recently in October 2017, the Histadrut sealed another deal with the government that raises the minimum wage from NIS 5,000 to NIS 5,300 effective December 2017. Figure-1 below shows the increments on the minimum wage between 1997 and 2017.

In 2015 and 2016, the increase in the minimum wage in Israel was about 3.8% and 3.6% respectively, which was higher than the inflation rate in those years, indicating real increases in the purchasing power of the minimum wage earners. Considering that a large proportion of West Bank workers working in Israel and the settlements belong to this category, an attempt is made here to assess the impact of these increments on the Palestinian workers' wages.<sup>1</sup>

Figure 1: Minimum Wage in Israel, 1997-2017 (NIS/month\*)



\*:data is based on the first day of the month.

In 2016, the number of workers working in Israel and the settlements was around 116,900, or 12% of the total Palestinian labor force. By type of work permit, those workers are classified into three groups: those who hold a work permit, those who work without a work permit, those who hold the blue identity card (Jerusalemites) or a foreign passport (see Table-1).

Between 2010 and 2016, the average wage of West Bank workers working in Israel and the settlements increased by 37%, which is higher than the increase in average wage of Israeli workers during the study period (16%). However, in 2016 the average wage of Israeli workers was NIS 9,798 per month, compared to NIS 5,670 for West Bank workers working in Israel and the settlements, which is still less than 57% of the average wage of Israeli workers.<sup>2</sup>

- 1 Since the Israeli war 2006, Gazan workers couldn't have access to the Israeli labor market. Therefore, the analysis includes West Bank workers only.
- 2 Israel Central Bureau of Statistics Website. Wages and Employment Monthly Statistics. Average Monthly Wages: [http://www.cbs.gov.il/reader/cw\\_usr\\_view\\_SHTML?ID=418](http://www.cbs.gov.il/reader/cw_usr_view_SHTML?ID=418) Ta-

**Table-1: The Number of Palestinian Workers Working in Israel and the Settlements and their Average Wages by Category (2016)**

	Number	% of Total	Average Monthly Wage (NIS)	% of Minimum Wage Earners to Total
holds a work permit	61,153	52%	6,033	14%
work without a work permit	42,132	36%	5,300	13%
hold the blue identity card (Jerusalemites) or a foreign passport	13,614	12%	5,188	5%
<b>Total</b>	<b>116,900</b>	<b>100%</b>	<b>5,670</b>	<b>32%</b>

Source: PCBS. Labor Force Survey Database, 2010-2016. Ramallah, Palestine.

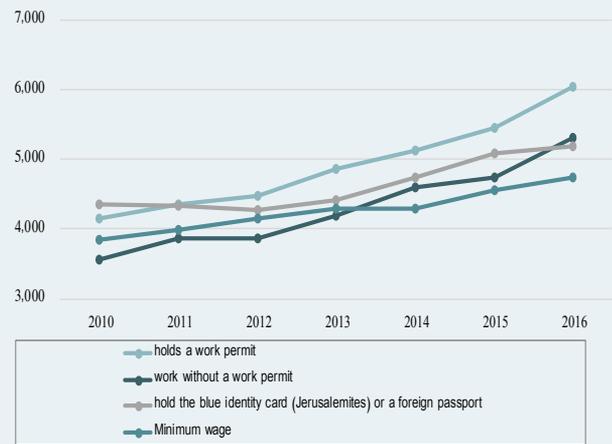
Figure-2 depicts the evolution of the average wage of West Bank workers working in Israel and the settlements during the period between 2010 and 2016. The figure shows a significant rise in the average wage of workers who hold work permits and those who work without a work permit. It also shows that following the year 2013 the average wage of West Bank workers in all categories exceeded the minimum wage limit. The increase in the average wage during the study period reached 45% for workers with work permits, and 49% for those working without permits. Meanwhile the average wages of Palestinians from Jerusalem saw a rise of 19%. Notably, in 2016 the average wage of Jerusalemites was lower than the average wage of West Bank workers working without permits.

### Sub-minimum Wage Earners

One of the most important issues that needs to be addressed is the impact of the successive increases in the minimum wage limit in Israel on the number and average wage of Palestinian sub-minimum wage earners. In 2016, about 32% of total West Bank workers who worked in Israel and the settlements were sub-minimum wage earners. This ratio is distributed among the various categories of workers: with or without permits or Jerusalemites (see Table-1 above). Although the minimum wage in Israel rose by 23% between 2010 and 2016, the average wage of workers in the West Bank who are sub-minimum wage earners increased by only 20% during the same period. The increase was 33% among Jerusalemites earning sub-minimum wage, 26% among workers working without permits, and 19% among Jerusalemites.

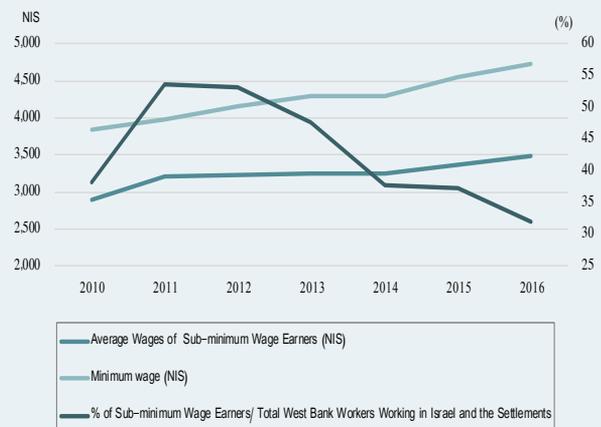
Figure -3 depicts the change in the average wages of West Bank workers who work in Israel and the settlements who earn less than the minimum wage. Although the average wages of those workers increased whenever the minimum wage level was increased, the gap widened during the study period. While the average wage of those workers was around 75% of the minimum wage in 2010, the ratio dropped to 73% in 2016. However, the percentage of West Bank workers who are sub-minimum wage earners of the total number of West Bank workers working in Israel and the settlements fell from 53.7% in 2011 to 32% in 2016, as Figure 3-shows. This means that some 37 thousand West Bank workers working in Israel and the settlements still receive less than the official minimum wage adopted in Israel.

**Figure-2: Average Wages of Palestinian Workers Working in Israel and the Settlements, 2010-2016 (NIS/month)**



Source: PCBS. Labor Force Survey Database, 2010-2016. Ramallah, Palestine.

**Figure-3: Change in the Percent and the Monthly Average Wage of West Bank Workers Working in Israel and the Settlements Who are Sub-minimum Wage Earners, 2010-2016**



Source: PCBS. Labor Force Survey Database, 2010-2016. Ramallah, Palestine.

### Double-edged Sword

The rise in the average wage of West Bank workers working in Israel and the settlements, which is attributed partially to the increase in the minimum wage level and the structural transformations in the Israeli economy, is a double-edged sword for the Palestinian economy. On one hand, it increases the value of workers remittances, which contribute to stimulating domestic demand and raising the standard of living, while on the other hand it increases the pressure on the Palestinian labor market. The widening gap between the average wage of West Bank workers working in Israel and the average monthly wage of workers in Palestine (between 2010 and 2016 the former increased by 37.5% compared to 14.3% for the latter) will push more Palestinian labor towards the Israeli labor market, whenever the opportunity arises. Also, it will augment shortages of skilled workers in Palestine, and thus increases the pressure to raise local wages, which is not consistent with the levels of productivity.

## 5- The Financial Sector (Non-banking)<sup>1</sup>

### The Securities Sector

During Q3 2017 the performance indicators of the Palestine Stock Exchange (PEX) witnessed a significant rise compared with Q2 2017 and the corresponding quarter 2016 (Table 5-1). By the end of the quarter, the market value of traded shares in PEX was US\$ 3.82 billion (28.5% of GDP),<sup>2</sup> achieving a rise of 5.2% and 15.2% compared with Q2 2017, and the corresponding quarter respectively. On the other hand, the number of PEX traders was 71,981, 5% of whom were foreigners, mostly from Jordan.

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

Item	2016		2017	
	Q3	Q2	Q3	Q2
Volume of Traded Shares (million share)	55.83	58.93	98.48	
Value of Traded Shares (US\$ million)	96.81	92.96	167.29	
Market Capitalization (US\$ million)	3,312.70	3,627.91	3,815.59	
<b>Total number of Traders</b>	<b>72,661</b>	<b>72,153</b>	<b>71,981</b>	
- Palestinians	69,225	68,758	68,603	
- Foreigners	3,436	3,395	3,378	

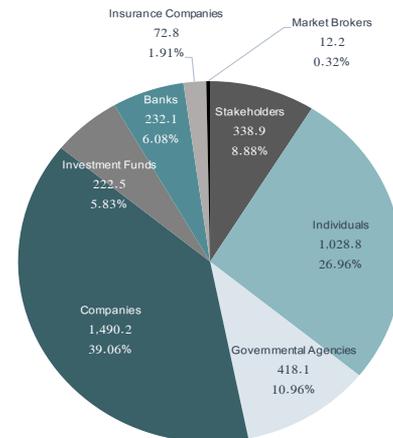
This significant rise in the value and number of traded shares over the consecutive quarters (Q2 and Q3) by 80% and 67% respectively, is attributed to a high volume of trading activity. For example, the trading volume of Arab Palestinian Investment Company - APIC rose by 250%, and the value of its shares rose by 11.3%. The same applies to the trading volume of the Palestine Investment Bank (PIB), which rose considerably compared with the previous quarter, reaching 860%. Figure 5-1 gives the distribution of market capitalization by trader type, from which one can discern that the share of corporations was 39% (amounting to US\$ 1,490.2 million) compared with 27% for individuals (US\$ 1,028.8 million).

### Insurance Sector

During Q3 2017, no significant change was recorded in the insurance portfolio (gross written insurance premiums) compared to the previous quarter of the same year, while it rose by 11% compared with the corresponding quarter 2016. This is explained by the natural fluctuation of the gross written insurance premiums from one quarter to another. On the other hand, net compensations incurred by the insurance sector increased by 15% by the end of Q3 2017 compared to the corresponding quarter (Table 5-2).

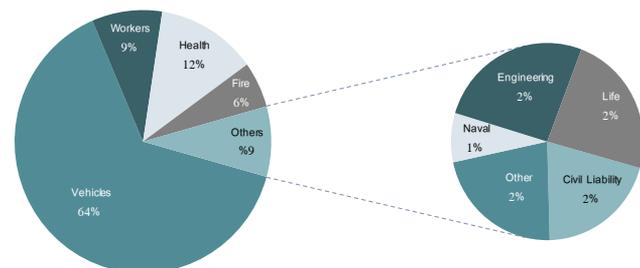
As figure 5-2 shows, there is a significant concentration in vehicle insurance in the insurance portfolio in Palestine, which constituted 64% of the total insurance portfolio by the

**Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q3 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 Q3 2017)**



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

Item	2016		2017	
	Q3	Q2	Q3	Q2
Gross written Insurance premiums	57.74	63.39	64.03	
Total investments of insurance companies	206.45	212.92	219.06	
Net compensations incurred by the insurance sector	(33.01)	(34.52)	(37.91)	
Retention ratio	90.3%	84.6%	88.7%	
Claims ratio	63.3%	64.4%	66.7%	

1 The source of figures in this section: Palestinian Capital Market Authority (PCMA), 2018 and Palestine Stock Exchange (PEX), 2018.

2 This was calculated based on GDP at 2016 constant prices, as the market value of traded shares is cumulative.

end of Q3 2017, followed by health insurance (12%). Figure 5-3, on the other hand, presents the market share of insurance companies, where two companies of the nine operating companies dominated 42% of gross written premiums in the Palestinian insurance sector.

### Financial Leasing

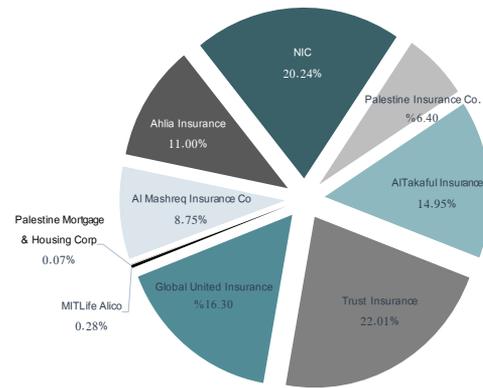
The number of leasing companies registered with PCMA was 13 companies. Contracts value decreased by 17% during Q3 2017 compared with the corresponding quarter 2016, in addition to the decline in the number of financial leasing contracts by 40% during in the same period. This is attributed to the fact that leasing companies have been more conservative in granting loans because of associated risks and the difficulty of securing sustainable funding resources to expand their operations (Table 5-3).

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

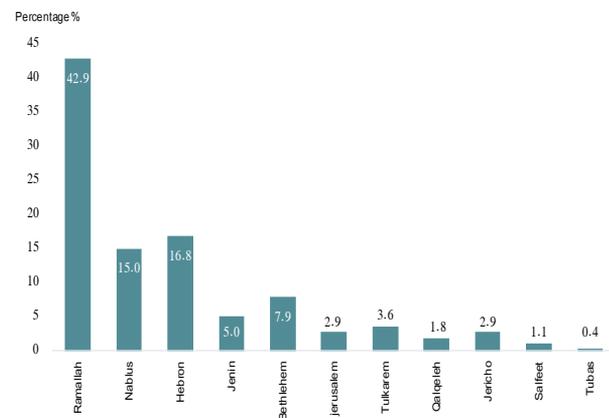
	Total Value of Financial Leasing Contracts (US\$ million)	Total Number of Financial Leasing Contracts
Q3 2016	21.1	466
Q2 2017	20.0	296
Q3 2017	17.5	280

Figure 5-4 shows that according to the address of the lessee, the financial leasing portfolio is concentrated in Ramallah (43%), followed by Hebron (17%), then by Nablus (15%). The rest of the Palestinian governorates' share is around a quarter of the total leasing portfolio (Figure 5-4). In addition, the figure shows that the financial leasing portfolio is still concentrated in motor vehicle leasing (96%), which is attributable to the ease of registering ownership of vehicles at the transportation department and therefore the low-risk associated with its leasing. This is not the case with the leasing of equipments where ownership issues are more problematic, hence the low number of contracts for equipment leasing. It is expected, however, that equipment leasing contracts will increase in the periods ahead following the enactment and putting into force of the Law on Securing Rights over Moveable Property.

**Figure 5-3: Distribution of Insurance Portfolio by Operating Company in Palestine (as of the end of Q3 2017)**



**Figure 5-4: Geographical Distribution of Financial Leasing Contracts by Number (as of the end Q3 2017) (%)**



### Box 5: Using Quantitative Measurement Tools in Corporate Governance

Corporate governance has garnered much interest in the last decade as a result of the repercussions of the global financial crisis, which erupted in 2008. Corporate governance in the narrow sense is defined as “the system by which companies are directed and controlled”, and thus, it is “a set of relations between the executive body of a company, its board, and its shareholders”. In the broad sense, Corporate governance is “a set of rules and practices that govern and oversee the company, by regulating the relations between the Board of Directors, the executive body, shareholders, and other stakeholders, as well as the company’s social and environmental responsibility”.<sup>1</sup> Hence, corporate governance is mainly concerned with the manner in which the company is directed and supervised, and with assessing the capability of its Board of Directors’ to develop policies and set goals that are consistent with the interests of the shareholders and other stakeholders.

In Palestine, a Code of Corporate Governance was prepared in 2009 by the National Committee for Corporate Governance. The Code recognizes that the Palestine Capital Market Authority (PCMA) is the responsible body for monitoring the companies’ compliance with the provisions of the Code, and that these provisions apply to public shareholding companies and financial institutions that the PCMA oversees and supervises, in a manner that does not conflict with the powers of other regulatory bodies. On the other hand, the Palestine Monetary Authority (PMA) has issued guidelines and rules of governance specifically for banks operating in Palestine.

#### Quantitative Measurement as a Tool for Corporate Governance

Given the multifaceted aspects of corporate governance, the different characteristics and nature of the sectors in which companies operate, and disparities in the size and complexity of their operations, there is a need for a quantitative measurement tool to assess their compliance with governance principles on substantive grounds. In addition, it is a useful tool in comparing the variances in corporate governance among companies, sectors and countries as well. The Quantitative Measurement of Corporate Governance tool is called the CG Scorecard.

#### The Objective of Using the Quantitative Model of Corporate Governance (QMCG)

There are many goals and advantages for using the quantitative measurement tool of corporate governance, both at the macro and corporate levels. At the macro level (market), this will increase the efficiency of financial markets (stock exchanges) and increase investors’ confidence. At the corporate level, the quantitative measurement of governance provides an important tool to manage the company and to identify the strengths and weaknesses of corporate governance practices. Furthermore, QMCG provides financial analysts and investors with the necessary information for evaluating companies and identifying investment opportunities.

#### International Experiences in Using QMCG

In the last decade the regulatory bodies responsible for supervising the securities sector in emerging and developing countries have become more aware of the importance of developing and using QMCG. The International Finance Corporation (IFC), a leading institution in promoting corporate governance at the international level, has supported such efforts. One of the most prominent international experiences in this area is the ASEAN Group model which was developed in 2011 for a selection of companies from six Asian countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The model aimed to provide a thorough examination of corporate governance in the six Asian countries.<sup>2</sup>

#### The Palestinian Case

Palestine is one of the first countries in the Middle East and North Africa region that started to develop and implement a corporate governance model. In 2013 PCMA in collaboration with IFC, developed a QMCG that responds to the Palestinian situation and is based on the Palestinian Code of Corporate Governance. The quantitative model should take into consideration mandatory and optional rules of the code.

Figure 1: Criteria for Evaluating the Governance of Palestinian Companies



1 Code of Corporate Governance in Palestine, 2009

2 Asean Corporate Governance Scorecard, Country reports and assessments, 2013-2014. Asian Development Bank, ADB, 2014.

The development of the model was carried over four phases: phase one, consultation with all partners; phase two, the formulation of the model (both phases completed in 2013); phase three, the pilot application and the release and implementation. To ensure it achieves good results and to inform all companies about the model, a two-year pilot implementation phase was used to examine the results, obtain feedback, and adjust the model to reach the final product and move on to fourth phase and actual implementation which was completed during the second half of 2017. It is expected that results will be announced during the first quarter of 2018.

The Palestinian QMCG entails two main stages: First, data collection from the listed public shareholding companies, then, reviewing and analyzing data and drawing conclusions, to define the final score on a 1 to 100 scale. The model is constructed based on answers to a set of questions drawn from mandatory and optional rules of the Palestinian Code of Corporate Governance, which are arranged into five main groups. These five groups reflect the key principles of corporate governance as shown in Figure 1.

The model gives each group a weight that reflects its relative importance based on international standards, specificity of Palestine, and PCMA's priorities of implementation. For example, the group of questions pertaining to Board responsibilities has a high relative weight (30%), followed by risk management (25%). Each question in a group has a sub-weight according to its relative importance. On the other hand, 75% of the total score was allocated to the assessment of compliance with mandatory rules of governance, and 25% to compliance with optional rules. Giving a quarter of the full score to the application of the optional rules is intended to induce companies to compete in their application in order to strengthen their position and reach advanced positions on the overall scoring scale.

This year, PCMA will publish the results of the model at the individual/micro level (i.e. for all companies listed on the Palestine Stock Exchange), at the sectoral level, and according to the size of listed companies based on equity rights. Sectoral results will be publicly available, while the micro results of each company will be restricted to the concerned company and PCMA in the early years of applying the system.

(General Directorate of Development and Research, PCMA)

## 6- Investment Indicators<sup>1</sup>

### 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 a good indicator of the economic situation and prospects. During Q3 2017, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 9,426, higher by 1,331 vehicles compared to their number in the previous quarter, and by 1,415 vehicles compared to the corresponding quarter 2016. The second-hand vehicles made 77% of the total number of vehicles, 9% of which came from Israel (Table 6-1).

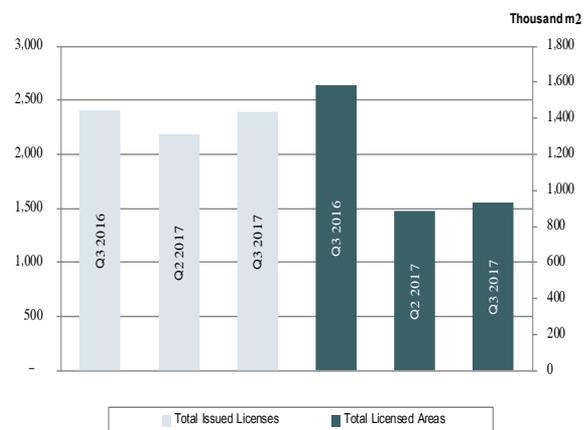
**Table 6-1: New and Second-hand Vehicles Registered for the First Time, West Bank (Q3 2017)**

	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
July	843	2,318	200	3,361
Aug	768	2,630	274	3,672
Sep	540	1,648	205	2,393
<b>Total</b>	<b>2,151</b>	<b>6,596</b>	<b>679</b>	<b>9,426</b>

### Building Licenses

Figure 6-1 shows the changes in the number of registered building licenses and licensed areas. The number of issued building licenses reached 2,392 licenses during Q3 2017, a rise of 10% compared to the previous quarter. Licenses of non-residential buildings constituted 6% of the total. On the other hand, licensed areas of buildings in Q3 2017 amounted to around 932.8 thousand square meters, which is higher by 6% compared to the previous quarter.

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



\* do not include licenses of fences

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

### Box 6: Reasons behind the Decline in Private Savings in Palestine

A recent study by the World Bank devotes an entire annex to investigate the causes of low private savings in Palestine. Savings are the most important source of funds for investment, and investment is the engine of economic growth.<sup>1</sup>

Firstly, the study points out that private savings in Palestine have been volatile and following a downward trend since 2003. In fact, savings have reached negative levels since 2009. Negative private savings means that the nongovernmental sector uses previous savings instead of accumulating new savings. International comparisons between Palestine and neighboring countries with similar income and other countries with similar economic and geopolitical conditions show significantly lower rates of Palestinian private savings.<sup>2</sup> Between 2013 and 2015, private savings ratio to GDP was 16% in Jordan and 17% in the Maldives, while it was -7.9% in Palestine in 2014. The ratio was also 17% on average in low-income MENA countries.

The study identified five reasons for this decline in private savings in Palestine:

1- Low levels of income and growth rates. Wealthier countries save a larger proportion of their income. This creates a “virtuous circle” where higher income leads to higher savings, and higher growth. In 2014, Palestine had the lowest level of income among comparator countries and was also lower than the low-income MENA countries average. Gross income growth and per capita income growth were also lower among comparator countries between 2004 and 2014 (Figures 1 and 2). On the other hand, income growth was highly volatile in Palestine as most of the growth resulted from international aid and remittances from abroad (which accounted for 20% and 14% of GDP in 2014, respectively).

#### 2- Political Instability and the Spread of Uncertainty

Some empirical studies demonstrate that economic instability and uncertainty often lead to an increase in precautionary savings, but other studies indicate that political instability and turmoil have an adverse impact on the future value of savings which induce individuals’ current consumption (less savings). On the other hand, other studies in other countries indicate that the bulk of aid and remittances from abroad often go to consumption and hence have limited impact on savings. Palestine is highly dependent on aid and remittances compared with other countries. Based on this, the study concludes that compared to other countries, instability has a higher negative impact on private savings in Palestine.

#### 3- Financial Depth and Credit Constraints

Financial depth is the penetration of the banking sector and financial instruments in an economy. The greater the depth the higher its positive impact on private savings. Also, the quantity of money

in the economy (the ratio of broad money (M2) to GDP) plays an important role in spurring savings. Finally, the availability of easy credit negatively affects savings. These three factors play a big role in reducing private savings in Palestine. On the other hand, low banking penetration and the limited financial instruments, a reduction in the ratio of M2/GDP to almost 18% in Palestine (in contrast with 60% in the comparators of Bosnia and Herzegovina and in the Maldives), as well as the expansion of credit opportunities combined have negative impacts on savings.

#### 4- Interest Rates on Deposits.

The real interest rate (i.e. the nominal interest rate minus the effect of inflation) is highly volatile in Palestine. For example, while it was -6% in 2010, it was +10.8% in 2015 (Figure -3). Over a decade (2004-2013) the real interest rate was the lowest on average among comparators (figure 4). This is due to the fact that average interest rates on deposits were the lowest in Palestine during the study period (1% compared to 10% in the Maldives). On the other hand, the average interest on credits in Palestine was similar to comparator countries (about 7% in the past five years). The low interest rate on deposits partially explains the decline in savings.

Figure-1: Per capita GDP (Purchasing Power Parity 2014)

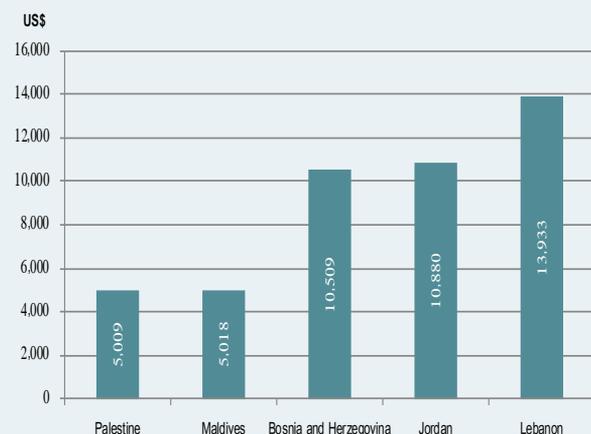
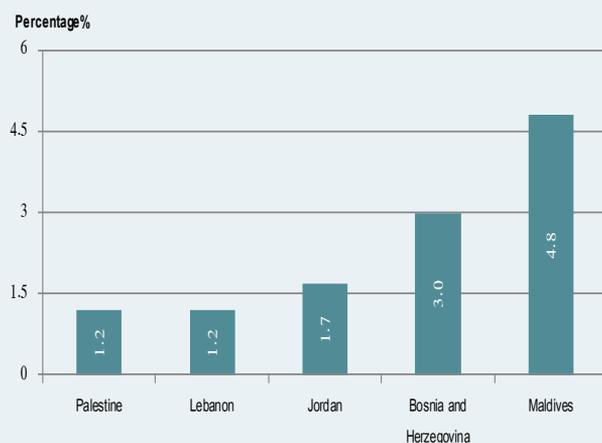


Figure-2: Average Annual Growth Rate of Per Capita Income (2004-2014) (2010 constant prices)



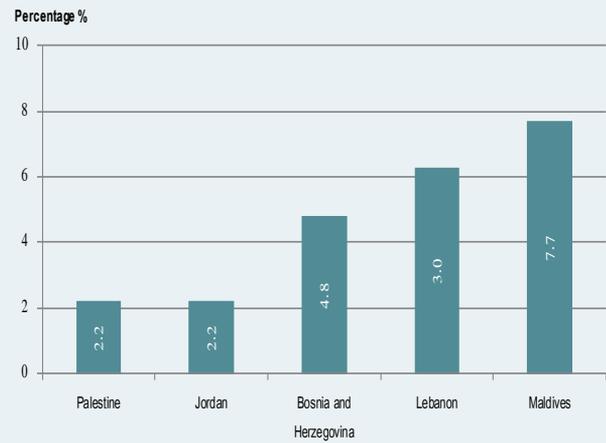
1 World Bank (2017). West Bank and Gaza Prospects for Growth and Jobs, A General Equilibrium Analysis.

2 The paper uses “Find My Friend” Tool to define which countries have similar and comparable environments to Palestine. The tool found that in addition to its neighbor Jordan, the “Maldives” and “Bosnia and Herzegovina” share similarities with Palestine, such as the geographical area, the low participation rate in the labor force, the high dependency on foreign aid and remittances.

**Figure- 3: The Real Interest Rate in Palestine**



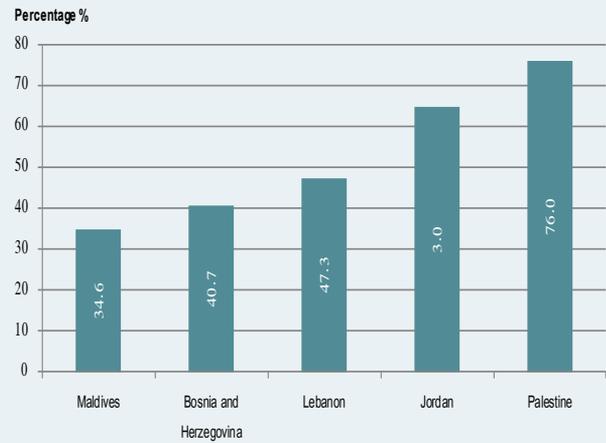
**Figure- 4: The Average Real Interest Rate (2004-2014)**



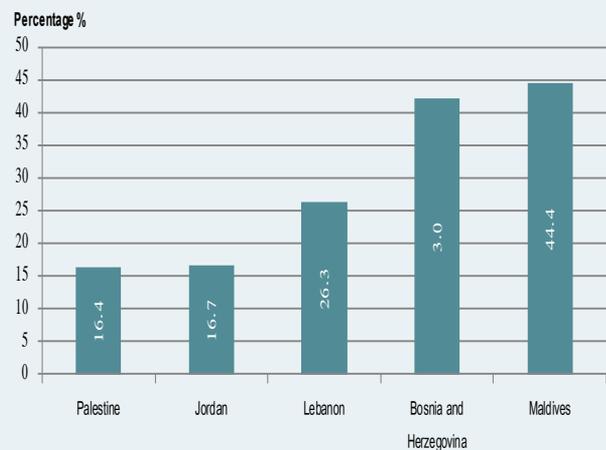
**5- The Demographic Structure of Female Participation in the Labor Force**

The higher the percentage of the working-age population to total population, the larger are the private savings. This percentage is the lowest in Palestine (and in Iraq) compared to MENA countries (56.7% compared to 68% on average in the MENA region). This is reflected in the high age dependency ratio in Palestine (the percent of the youth aged below 15 years to working-age population), as Figure- 5 shows. Nonetheless, the fertility rate is the highest in Palestine compared to the MENA countries (around 4.2 live births per woman), which also raises the age dependency ratio. Finally, the female participation rate in the labor market is low in Palestine (figure- 6). All in all, these factors contribute to explaining the reasons behind the decline in private savings.

**Figure- 5: Age Dependency Ratio**



**Figure -6: Female Labor Force Participation Rate (% of Working-age Population)**



## 7- Prices and Inflation<sup>1</sup>

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 referred to as the “consumption basket”). The average change in the CPI between the beginning and the end of a given period measures the inflation rate, which reflects the average change in the purchasing power of families and individuals income. 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 percentage change in the CPI each quarter compared to its previous quarter, i.e. the quarterly inflation rate. During Q3 2017, the CPI reached 110.46 compared to 111.00 in Q2 2017. This means that the rate of inflation was negative over the consecutive quarters (fall in prices) by 0.49%. This decline is attributed to the fall in the prices of food and soft drinks group by 0.88%, in the education group by 0.81%, and in the housing and related items group by 0.68%. In addition, Q3 2017 witnessed a negative inflation of 0.58% compared to the corresponding quarter 2016.

### Wholesale Prices and Producer Prices

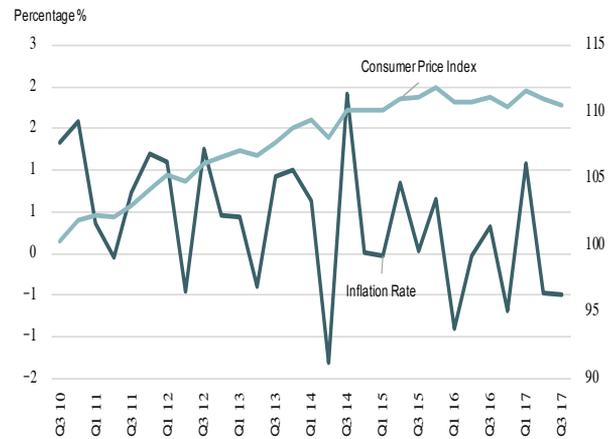
The wholesale price index -WPI (sale price to retailers) declined by 2.06% between Q2 2017 and Q3 2017, because of the rise in wholesale prices of local goods by 3.22% and the slight rise in wholesale prices of imported goods by 0.08%. By groups, the WPI of agriculture and manufacturing industries groups increased, whereas it declined for fish, shrimps, mining and quarrying. On the other hand, the producer price index- PPI (prices received by domestic producers) increased by 1.16% between the two quarters, as a result of the rise by 1.25% in producer prices of locally produced and consumed goods, and by 0.4% in the producer prices of locally-produced exported goods by (Figure 7-2).

### Prices and the Purchasing Power

The purchasing power measures the ability of people to buy goods and services using their income. It is dependent on the level of income and variance in prices, add to that the currency’s exchange rate if the currency of income is different from the currency of spending.

**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, assuming that the nominal value of income is constant, i.e. the change in the NIS purchasing power is equivalent to the inflation rate, but in the opposite direction, during the same period. PCBS data show that the CPI decreased by 0.49% during Q3 2017 compared to the previous quarter and by 0.58% compared to the corresponding quarter. This means that the NIS purchasing power has increased by the same percentage during the two periods.

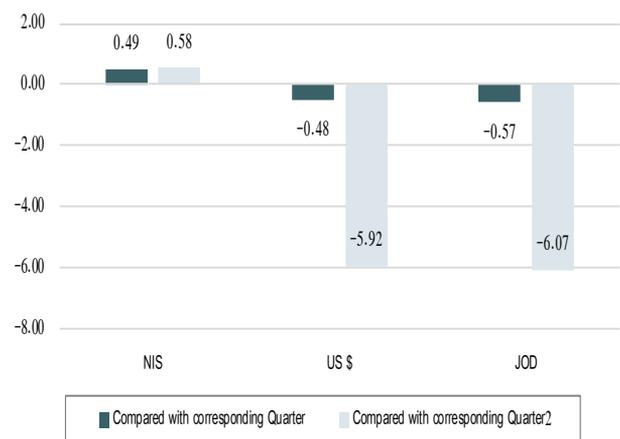
**Figure 7-1: Change in the Average CPI and the Inflation Rate (Base year 2010) (%)**



**Figure 7-2: Evolution of WPI and PPI (base year 2007)**



**Figure 7-3: the Change in Purchasing Power by Type of Currency, Q3 2017 (percentage)**



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

US\$ and JOD Purchasing Power: when the currency of income is different from the currency of spending, the change in the purchasing power of people can be approximated as the exchange rate of US\$/JOD against the NIS minus the average change in prices (rate of inflation in the currency of spending). During Q3 2017, the US\$ exchange rate against the NIS decreased by about 0.97% and 6.51% compared to the previous quarter and the corresponding quarter, respectively. The inflation rate decreased by 0.49% and 0.58% during the same period. 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 0.48% and 5.92% over the consecutive quarters and over the corresponding quarters. Considering that the JOD exchange rate is pegged to the US\$ exchange rate, the purchasing power of the JOD has seen almost the same developments as that of the US\$ (Figure 6-3).

### Box 7: The Impact of Liquidity Constraints on the Education of Arab Families' Children in Israel

Recently the Bank of Israel published a discussion paper titled "Liquidity Constraints and Human Capital: The Impact of Welfare Policy on Arab Families in Israel". The study attempts to track the impact of increasing social child allowances on school enrolment and human capital accumulation among Palestinian Arab families in Israel.<sup>1</sup>

Theoretically, insufficient accumulation of human capital is one of the channels where poverty negatively affects economic growth. The reason for such insufficient investment is attributed to the lack of liquidity among poor families, forcing those families to send their children to the labor market, although the return on education, in the long run, is higher than the current return on work.

Social compensation of extended families in Israel played an important role in the redistribution of income in society. Additional compensations were only eligible to veterans' families, for each child they have, i.e. Arab families were excluded, although 53% of Arab families in Israel were classified as poor in 2014 compared to only 19% on average of the total population in Israel.

The Israeli government in 1992 took a decision to gradually increase the allowances paid to extended Arab families by the end of 1994 to equalize them, by the year 1997, with the child allowances received by veterans' families. To benefit from this increase in allowances, families should have 4 children at least under the age of 17.

Table- 1 shows the percentile increase in the social child allowances between 1993 and 1997. As demonstrated in the table, the most significant increase is limited to families with 4 or more children (under the age of 17), and that the highest increase was limited to families with 4 children, where the value of the annual allowance for each child increased by 32% on average between 1993 and 1997 reaching an equivalent of US\$199.

Following, the paper compares the enrolment rates of two groups of Arab families; the first group encompasses those who benefited from the increase in social allowances, and the second encompasses those who did not benefit that much (families with 3 children aged between 0-17 years). Regarding the sample of children, it includes children aged 16 and 17 years only (noting that education in Israel is compulsory up to the age of 15).

**Table-1: Monthly Allowances for Non-veteran Families (Allowance for Each Child, at 1993 constant prices, US\$)**

# of Children	1993	1997	% Increase
1	65	65	0
2	65	65	0
3	82	98	8
4	82	199	32
5	82	167	24
6	82	184	28
7	82	172	25

Shay Tsur (2017): Liquidity Constraints and Human Capital: The Impact of Welfare Policy on Arab Families in Israel. Bank of Israel, Discussion Paper No. 2017.01.

In light of the detailed statistical analysis of figures drawn from labor force surveys before and after 1994, the study concludes that increasing direct social assistance contributed to alleviating the impact of liquidity constraints facing poor Arab families and improved human capital accumulation. The study has reached to a quantitative estimate that allowances paid to families with 4 children (aged between 0-17 years) have led to an increase in the school enrolment of young people (males and females aged 16-17 years) by 8% compared to families with 3 children. This increase distributed as 6% for males and 11% for females. Given that the increase in compensations paid to beneficiary families reached 4% of their total income, on average. The study concludes that an increase by 1% in the families' income led to an increase by two percentage points in the school enrolment of females.

The rise in the number of female school enrollment is attributed in part to the drop in the ratio of those employed (from 2.8% to almost zero). However, the largest portion (4/5) came from females who were neither working nor studying. The increase in allowances didn't have a tangible effect on male employment. The study provides two explanations for the variances between males and females. First, the return on education among Arabs males in Israel did not exceed 4% compared with 10% among Arab females. This difference means that education is less attractive for males than for females. The second factor, is that the average rise in the family's income (eligible families with 4 children) due to received allowances increased by 8%, ,, which is less than income generated by males' work, constituting 30% of the family's average income, compared to 20% only generated by females' work.

In conclusion, the author indicates that the study results are valid in the short run and do not contradict the Malthusian hypothesis on the long run, which suggests that social allowances associated with the number of children, can increase fertility and decrease labor incentives among affected families.

1 Shay Tsur (2017): Liquidity Constraints and Human Capital: The Impact of Welfare Policy on Arab Families in Israel. Bank of Israel, Discussion Paper No. 2017.01. <http://www.boi.org.il/en/Research/DiscussionPapers1/dp201701e.pdf>

## 8- Foreign Trade<sup>1</sup>

### Balance of Trade

The value of “registered”<sup>2</sup> merchandise imports during Q3 2017 was about US\$ 1,370.9 million, a rise of 6% compared with the previous quarter and by 11% over the corresponding quarter of the previous year. On the other hand, the value of merchandise exports was close to 19% of the value of imports, decreasing by 4% and 12% compared with the previous and the corresponding quarter respectively. The between exports and imports amounted to US\$ 1,116.9 million during Q3 2017. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (US\$ 7 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, like the remittances of Palestinian workers in Israel and overseas, and 3) the balance of current transfers (international aid to the government and private transfers).

The deficit in the Palestinian current account (deficit in the balance of payments) reached US\$ 443.7 million in Q3 2017, which is equivalent to 11.9% of GDP at current prices. The current account deficit resulted from a deficit in the trade balance (US\$ 1,419.3 million), against a surplus in the balance of income of US\$ 558.6 million (generated mainly from the income of Palestinian workers working in Israel), and the surplus in the balance of current transfers by US\$ 417.0 million (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\$ 278.6 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive.

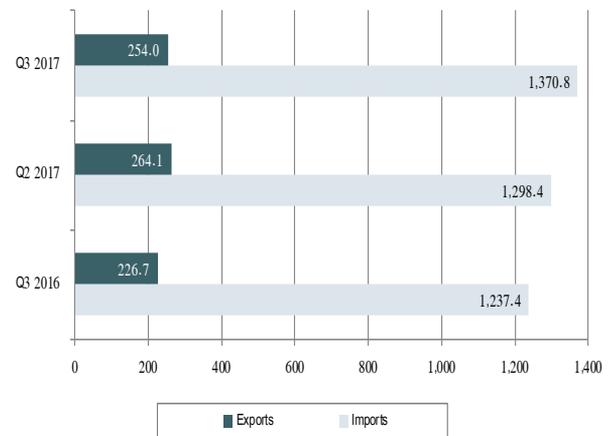
### International Investments

By the end of Q3 2017, Palestine’s foreign assets totaled US\$ 6,350 million, 6% of which represent direct foreign investments, and 18% represent portfolio investments. On the other hand, total external liabilities amounted to about US\$ 5,155 million, more 51% of which were direct investments.

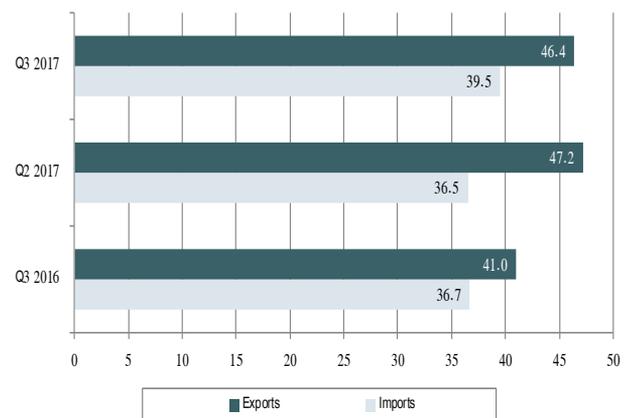
1 The source of data in this section: PCBS, 2017, Registered Foreign Trade Statistics, and PMA & PCBS, 2017, Palestinian Balance of Payment, Q2 2017.

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, mentioned later in this section.

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



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



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

	2016		2017	
	Q3	Q1	Q2	Q3
<b>Trade balance of goods and services**</b>	(1,310.2)	(1,245.5)	(1,268.9)	(1,419.3)
- Net goods	(1,080.6)	(1,034.3)	(1,055.9)	(1,171.4)
- Net services	(229.6)	(211.2)	(213.0)	(247.9)
<b>2. Income balance</b>	<b>479.6</b>	<b>470.3</b>	<b>418.7</b>	<b>558.6</b>
<b>3. Balance of current transfers</b>	<b>359.1</b>	<b>472.4</b>	<b>382.8</b>	<b>417.0</b>
<b>4. Balance of current account (1 +2 +3)</b>	<b>(471.5)</b>	<b>(302.8)</b>	<b>(467.4)</b>	<b>(443.7)</b>
<b>5. Net capital and financial account</b>	<b>466.9</b>	<b>176.8</b>	<b>564.1</b>	<b>278.6</b>
<b>6. Net errors and omissions**</b>	<b>4.6</b>	<b>126.0</b>	<b>(96.7)</b>	<b>165.1</b>

\* 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.

The difference between assets and liabilities means that the overseas investments by Palestinians were US\$ 1,195 million higher than the investments of non-residents. A significant portion of these assets (62.5%) is cash deposits by local Palestinian banks abroad, which are not considered conventional investments. When examining foreign direct investments in Palestine, figures show that it outweighed actual Palestinian investments abroad (by residents in the West Bank and Gaza Strip) by US\$ 2,238 million (Figure 8-3).

**Economic Concepts and Definitions: Value-Added Tax (VAT)**

France was the first country in the world to apply the value-added tax. This was in 1954, although a German economist, von Siemens, was the first to come with the idea and developed its theoretical framework in 1918. The value-added tax was accepted widely in a relatively short time. Today more than 130 countries around the world (the United States is not among them) apply VAT. The value-added tax is a type of “sales taxes”, yet there are two differences between VAT and the traditional sales taxes: first, it is imposed on the added value of goods and services, second, it is collected gradually at each stage of production, not as a lump sum upon selling a commodity or service to the final consumer.

**Pros of VAT**

Compared to other types of taxes, VAT is a practical method of taxation, making with attributes that make it more attractive and acceptable in rich and poor countries alike. Most importantly:

- It is very effective compared to other taxes, in terms of the ratio of its costs to total revenues it raises. This is why it is referred to as a “Money Machine”;
- It is simple to administer and does not need a lot of prior information. Amending its rates (mostly raising) does not require complex legislation or adjustment in the structure and mechanism of the application
- It contains a self-monitoring mechanism, since it is in the interest of each client in the production and marketing chain that others comply with paying VAT (see below).
- Its direct impact is on consumption, not on savings and production. It does not have adverse effects on exports since exports are exempted from taxes; however, it is collected on imports.
- Finally, it is flexible. A unified rate can be applied on the added value of all goods and services in the economy (as in the case of Palestine and Denmark for example), or differ-

ent rates can be applied on different goods and activities (Germany and Sweden apply low rates on food products, newspapers and books, while vegetables and fruits, air or ocean freights, and housing rents are all VAT free in Israel).

On the other hand, opponents of VAT contend that its biggest drawback is that it is a “regressive” tax; placing more burdens on the poor than the rich, as both pay the same rate without any consideration of the deferent level of incomes. Also, the poor spend higher proportion of their income on consumption compared with the rich.

**Calculation and Payment of VAT**

Suppose that a piece of furniture goes through four stages in the production and distribution process, and that a unified VAT of 10% is applied. The first line in Table-1 represents the stage of wood sawing in the forest and assumes that the added value of raw materials and labor at this stage is €50. The owner of the forest will sell the wood to the furniture factory for €55 (€50 is the added value of chipped wood and €5 is the 10% tax on the added value). The owner keeps the value-added amount and pays €5 to the taxes authority. Suppose that the furniture factory added a value of €70 to the wood, i.e. the total value added of the piece of furniture is now €120, which is the pre-tax price. The sale price (after tax) is €132 (after adding €12 or 10% of the total value added). When the furniture factory sells the piece of furniture to the wholesaler, it keeps €5 (the tax paid to the forest owner) and pays the remaining amount of the tax (€7) to the taxes authority. The cycle continues in same way at each stage of production and distribution no matter

**Figure 8-3: International Investments Balance (Q3 2017) (Million US\$)**



**Table -1: A Simulation Sample of Calculating and Paying VAT over the Production and Marketing Stages**

	Purchase price (including tax)	Purchase price (excluding tax)	The added value at the production stage = value of labor and added materials	Selling price before tax = total value added	Total VAT = 10% of total value added	Selling Price after tax	Tax paid to Taxes Authority
Forest owner (woods)	0	0	50	50	5	55	5
Furniture Factory	55	50	70	120	12	132	12-5=7
Wholesaler	132	120	30	150	15	165	15-12=3
Retailer	165	150	50	200	20	220	20-15=5
<b>Total (consumer)</b>	<b>220</b>						<b>20</b>

how many stages they entail. First, note that the value added at each stage equals the difference between what the factory or the trader receives when selling an item and what is paid upon purchase of this item (net of taxes in both cases). Second, the total amount collected by the tax authority at different stages is €20, which equals 10% of the total final added value of the piece of furniture. The table also shows that the total value of the tax is paid by the final consumer of the good or the service.

Two clarifications need to be made at this point: First, if the value of VAT applied on the inputs that the trader bought was higher than the value of the tax he received when he sold the item, (i.e. if the value added was negative, or the trader has sold the item at a loss or has not been able to sell the item), the law gives the trader the right to recover the difference between the tax paid at the time of purchase, and the tax received at the time of selling. These amounts that the tax authority should return to taxpayers are called "tax refunds". Second, VAT on import is collected once, and not gradually, as in the case of domestic production.

Table-2 below summarizes VAT- related basic information in a selection of countries. It shows that the share of VAT revenues to total taxes revenues is high in most countries, rich and poor. For example, total tax revenues in Jordan constitute 16.5% of GDP, where more than 60% of these revenues come from VAT. The same applies to a country like New Zealand.

Generally speaking, the size of VAT revenues depends on four factors:

- The rate of VAT, which varies widely from one country to another, ranging between 5% and 25% among the countries listed in Table-2.
- The VAT base, i.e. the consumption's share of GDP, ranging between 59% in Algeria to 106% in Jordan.
- C-efficiency ratio or Collection-efficiency ratio= the ratio of consumption on which VAT is actually collected, allowing for exemptions, evasion and avoidance, which is the same as the share of the VAT in consumption divided by the standard VAT rate. Note that this ratio is very low in Nigeria compared to Canada.

- Exemption ceiling: Countries exempt businesses if their working capital is less than the limit that mandates tax account maintenance. This ceiling varies widely among countries, as shown in Table 2. The ceiling is about € 10,000 per year in most of Europe's countries.

The Paris Protocol on Economic Relations, signed in 1994 between the PLO and the Israeli government, specified that Palestinians have the right to set a VAT rate, provided that it is not more than two percentage points below the Israeli rate, and that it will be a unified rate for all types of goods and services. The Palestinian Authority maintained a 2 points difference until early October 2015, when Israel reduced the tax rate from 18% to 17% and the kept its rate at 16%. In 2016 the net VAT revenues in Palestine amounted to NIS 3,493 million, around a quarter of which was collected directly, and the remaining three quarters were clearance revenues (which Israel collects on behalf of the PA). Table-3 presents tax revenues and their ratio to a number of basic variables. Interestingly, the VAT share to total tax revenues reached 30% in 2016 compared with 34% a decade ago. This is attributed to the improvement in the imposition and collection of income taxes on one hand, and to the decrease in VAT revenues following the administrative separation between the West Bank and Gaza Strip in June 2007 (VAT revenues to GDP= 7% in 2009).

**Table -3: VAT Revenues in Palestine, 2016 (Million NIS)**

(Net revenues of VAT (commitment basis	3,493
Direct Collection	925
(Indirect collection (clearance	2,686
*Tax refunds	- 118
- Ratio of VAT revenues to total public revenues	26%
- Ratio of VAT revenues to total Tax revenues	30%
- Ratio of VAT revenues to total current Expenditure	21%
- Ratio of VAT revenues to Current GDP	7%

Source: MoF, Monthly Financial Reports 2016: Revenues by Source (on Commitment Basis)

\* tax refunds include VAT refunds and Purchase Tax refunds.

**Table -2: Comparisons between VAT Rates, VAT Revenues, and all Taxes' Revenues, and C-efficiency in a Selection of Countries (Average 2010-2015)**

	Consumption (% of GDP)	VAT rate %	Exemption ceiling (US\$)	Taxes Revenues	VAT Revenues (% of GDP)	C-efficiency Ratio (collection efficiency Ratio)
Nigeria	82.8	5	---	7.3	0.1	0.02
Norway	62.8	25	8,192	30.8	7.8	0.50
Indonesia	67.6	10	65,966	11.9	3.7	0.55
Canada	76.8	5	26,951	25.6	3.9	01.0
Algeria	59.1	17	1,420	31.8	3.5	0.35
Lebanon	103.2	10	33,167	14.0	4.6	0.45
Jordan	106.2	16	14,104	16.5	10.4	0.61
Singapore	46.8	7	652,204	13.9	2.5	0.77
Japan	81.3	5	84,094	---	2.8	0.69
New Zealand	75.5	15	28,478	28.3	9.7	0.86
Average	76.2	11.5		20.0	4.9	0.58

IMF (2016): <https://www.imf.org/external/np/pp/eng/2016/102616.pdf>

## Key Economic Indicators in Palestine, 2012-2017

Indicator	2012	2013	2014	2015	2016	2016		2017 <sup>2</sup>		
						Q3	Q4	Q1	Q2	Q3
<b>Population (One thousand)</b>										
oPt	4,293.3	4,420.5	4,550.4	4,682.5	4,867.4	4,833.5	4,816.5	4,901.2	4,935.2	4,969.4
West Bank	4,649.0	2,719.1	2,790.3	2,862.5	2,962.9	2,944.5	2,935.4	2,981.2	2,999.6	3,018.1
Gaza Strip	1,644.3	1,701.4	1,760.1	1,820.0	1,904.5	1,888.9	1,881.1	1,920.0	1,935.6	1,951.3
<b>Labor Market</b>										
No. of workers (thousand)	858.0	885.0	917.0	963.0	980.5	970.9	1,002.0	999.1	971.5	1,000.0
Participation rate (%)	43.3	43.6	45.8	45.8	45.8	46.1	45.5	45.8	45.4	46.5
Unemployment rate (%)	23.0	23.4	23.4	26.9	26.9	28.4	25.7	27.0	29.0	29.2
- West Bank	19.0	18.6	17.7	17.3	18.2	19.6	16.9	18.8	20.5	19.0
- Gaza Strip	31.0	32.6	43.9	41.0	41.7	43.2	40.6	41.1	44.0	46.6
<b>National Accounts (USD millions)</b>										
GDP	11,476.0	12,476.0	12,715.6	12,677.4	13,397.1	3,439.4	3,327.2	3,455.3	3,651.7	3,728.3
- Household expenditure	10,158.5	11,062.6	11,840.4	11,795.7	12,353.3	3,170.7	2,961.5	3,083.9	3,151.5	3,386.6
- Government expenditure	3,126.9	3,381.7	3,478.2	3,374.9	3,530.2	879.3	964.4	858.0	990.3	892.7
Gross capital formation	2,378.5	2,707.3	2,415.0	2,689.5	2,837.7	677.8	760.3	758.9	778.8	879.6
Exports	1,871.1	2,071.8	2,172.3	2,322.7	2,432.4	600.1	658.8	639.0	692.8	671.3
Imports (-)	6,299.9	6,804.0	7,208.9	7,501.4	7,602.7	1,888.5	2,017.8	1,884.5	1,961.7	2,090.5
<b>GDP per capita (USD)</b>										
at Current prices	2,787.2	2,992.2	2,960.1	2,865.8	2,943.5	753.0	723.3	745.9	782.8	793.7
at Constant prices (base year 2004)	1,807.5	1,793.3	1,737.4	1,745.9	1,765.9	442.9	434.2	431.6	440.2	745.6
<b>Balance of Payment (USD millions)</b>										
Trade Balance	(4,428.7)	(4,732.2)	(5,036.7)	(5,199.5)	(5,170.5)	(1,345.0)	(1,359.1)	(1,245.5)	(1,268.9)	(1,419.3)
Income Balance	857.4	1,160.3	1,482.4	1,712.3	1,578.6	404.3	408.6	470.3	418.7	558.6
Current Transfers Balance	1,750.5	1,188.0	1,405.3	1,421.5	2,243.9	549.2	585.4	472.4	382.8	417.0
Current account Balance	(1,820.8)	(2,383.4)	(2,149.0)	(2,065.7)	(1,348.0)	(391.5)	(365.1)	(302.8)	(467.4)	(443.7)
<b>Exchange Rates and Inflation</b>										
USD/NIS exchange rate	3.90	3.60	3.60	3.90	3.840	3.80	3.829	3.749	3.594	3.559
JOD/NIS exchange rate	5.40	5.10	5.10	5.50	5.418	5.40	5.401	5.292	5.073	5.019
Inflation rate (%) <sup>1</sup>	2.78	1.72	1.73	1.43	(0.22)	(0.03)	(0.69)	1.07	(0.47)	(0.49)
<b>Public Finance (cash basis USD million)</b>										
Net domestic revenues (including clearance)	2,240.1	2,319.9	2,791.2	2,891.4	3,552.0	993.3	936.4	913.7	1,040.0	721.1
Current expenditure	3,047.1	3,250.7	3,445.9	3,424.9	3,661.6	1,146.0	768.2	849.9	1,113.8	787.5
Developmental expenditure	211.0	168.4	160.9	176.4	216.5	54.1	80.2	36.5	55.0	53.0
current budget deficit/surplus (before grants)	(1018.0)	(1,099.2)	(815.6)	(709.9)	(326.2)	(206.8)	88.0	27.4	(128.9)	(119.4)
Total grants and aid	932.1	1,358.0	1,230.4	796.8	766.3	202.1	214.3	208.6	109.0	124.3
Total budget deficit/surplus (after grants and aid)	(85.9)	258.7	414.8	86.9	440.1	(4.8)	302.3	236.0	(19.9)	4.9
Public debt	2,482.5	2,376.2	2,216.8	2,537.2	2,483.8	2,530.2	2,483.8	2,514.9	2,492.7	2,526.0
<b>The Banking Sector (USD millions)</b>										
Banks assets/liabilities	9,799.0	11,191.0	11,822.0	12,602.3	14,190.1	13,631.0	14,190.1	15,222.3	15,348.1	15,461.0
Equity	1,258.0	1,360.0	1,464.0	1,461.7	1,683.6	1,497.0	1,683.6	1,720.3	1,744.5	1,804.6
Deposits at banks	7,484.0	8,304.0	8,935.0	9,654.6	10,595.7	10,203.0	10,595.7	11,127.5	11,379.5	11,526.8
Credit facilities	4,122.0	4,480.0	4,895.0	5,824.7	6,865.9	6,405.0	6,865.9	7,234.2	7,528.9	7,761.9

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 CPI in the target year (each quarter) with the its average in 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.