Economic Monitor

52

2017

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

Economic Monitor Issue 52/2017

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

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بنك القدس
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May 2018

2017 in Brief:

- GDP: GDP grew during 2017 by 3.1% compared with the previous year (at 2015 constant prices), which is attributed to growth in the West Bank by 4.3% against stagnation in the Gaza Strip by 0.3%. This led to an increase in per capita GDP by about 2% in the West Bank against its decline in the Gaza Strip by 4.4%.
- Employment and Unemployment: The unemployment rate in Palestine rose by half a percentage point in 2017 compared with 2016, reaching 27.4% (18.1% in the West Bank and 43.6% in the Gaza Strip). The percentage of private sector waged workers, who earn sub-minimum wages, i.e. less than NIS 1,450, was 35% (44% females and 34% males).
- Public Finance: In 2017 public expenditures amounted to NIS 14,601.4 million. External funding for budget support reached NIS 2,597.2 million, a decline of 11% compared with the previous year. The government's arrears in 2017 amounted to NIS 2,784.2 million.
- Vehicles Registration: The number of new and second-hand vehicles (registered for the first time) in the West Bank reached 35,894 in 2017, 77% of which were second-hand vehicles imported from international markets and Israel. The total number of vehicles shows a rise of 5,097 vehicles compared to the registered number during the previous year.
- Inflation and Prices: Palestine witnessed positive inflation (rise in prices) of 0.21% in 2017 compared with the previous year. This implies an increase in the purchasing power of those who receive and spend their income in shekels by 0.21%. The purchasing power of those who receive their salaries in dollars and dinars and spend in shekels decreased by 6.37% in 2017. This is attributed to the decline in the exchange rates of the dollar against the shekel by 6.16%.
- The Balance of Payments: During 2017, the deficit in the Palestinian balance of payments reached USD 1,563.7 million (11% of GDP). This is attributed to deficit in the trade balance of USD 5,374.2 million, against a surplus in the balance of income (composed mainly of compensation of Palestinian workers in Israel) of USD 1,991.9 million and a surplus in the balance of transfers of USD 1,818.6 million.

As in previous years, this fourth quarterly issue of the Economic Monitor presents economic developments in both the last Quarter of the year against the preceding quarter and the corresponding quarter of the last year, as well as annual comparisons (2016, 2017)

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Palestine Capital Market Authority

1- GDP[1]

Quarter 4: 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 declined by 0.7% over Q4 2017 compared with the previous quarter reaching USD 3,476.5 million (at 2015 constant prices): 76% in the West Bank and 24% in the Gaza Strip. The decline in GDP distributed as 0.6% in the West Bank and 1.3% in the Gaza Strip (Figure 1-1).

This decline during Q4, accompanied by an increase in the population, resulted in a decline in the per capita GDP by 1.4% compared with the previous quarter. However, compared with the corresponding quarter 2016, the per capita GDP rose by 2.3% during Q4 2017 (Table 1-1).

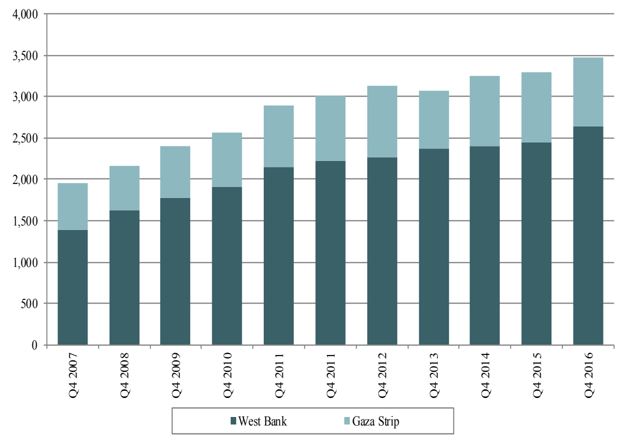
Year-on-Year Comparison: GDP grew in 2017 to USD 13.7 billion (at 2015 constant prices), a growth of 3.1% compared with the previous year. The overall growth resulted from a growth of 4.3% in the West Bank against 0.3% contraction in Gaza Strip. On the other hand, the per capita GDP rose to USD 2,923.4 in 2017, an increase of 0.02% compared with the previous year (Table 1-2).

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

	Q4 2016	Q3 2017	Q4 2017
Palestine	**718.6**	**745.6**	**734.9**
-West Bank*	902.8	968.1	956.6
-Gaza Strip	454.8	432.4	423.5

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

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



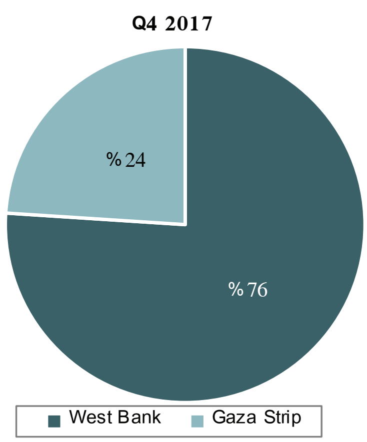
(*) Data do not include that part of Jerusalem which was annexed by Israel following the West Bank occupation in 1967.

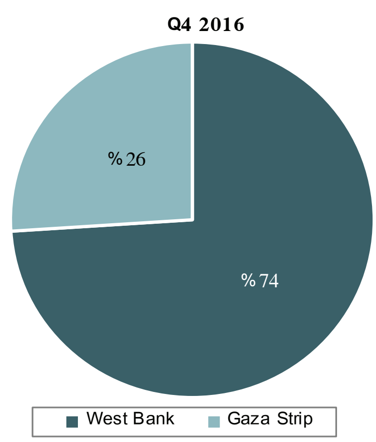
Table 1-2: Palestine's GDP * (constant prices, base year 2015)

	2016	2017	Year-on-Year Growth %
GDP* (million USD)	**13,269.7**	**13,686.4**	**3.1**
- West Bank *	9,874.1	10,302.2	4.3
- Gaza Strip	3,395.6	3,384.2	-0.3
per capita GDP *(USD)	2,922.9	2,923.4	0.02
- West Bank *	3,689.4	3,762.4	2.0
- Gaza Strip	1,822.0	1,741.6	-4.4

(*) 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 %





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

1 Source: PCBS, 2018, Periodic Statistics on National Accounts, 2007-2017. Ramallah- Palestine.

The GDP Gap between the West Bank and the Gaza Strip

Figure 1-1 depicts the expansion in the GDP gap between the West Bank and the Gaza Strip over the last decade. Gaza Strip's share of GDP decreased slightly by 0.1 percentage point in Q4 2017 compared with Q3. In Q4 2017, Gaza Strip's contribution to GDP is still only a quarter of Palestine's GDP, (24% only) (Figure 1-2). Meanwhile, the gap in per capita GDP between the West Bank and Gaza Strip reached USD 533.1 in Q4 2017, less by USD 2.6 compared with the previous quarter, and higher by USD 85 compared with the corresponding quarter (Table 1-1). Figure 1-3 depicts the widening gap between the West Bank and the Gaza Strip.

Composition of GDP

Quarter 4: The contribution of the productive sectors to Palestinian GDP increased by 0.4 percentage point between Q3 and Q4 2017, as a result of an increase in the share of the agriculture and construction sectors. Meanwhile, the share of the trade, transportation, information, and finance sectors decreased by about 0.5 percentage point (Figure 1-4).

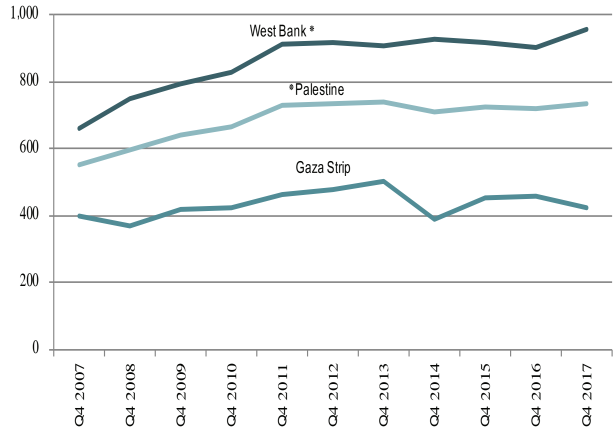
Year-on-Year Comparison: The share of the trade, transportation, finance and storage sectors rose by about 0.8 percentage point, while the share of public administration and security and the productive sectors decreased by about 0.5 and 0.2 percentage point respectively (Figure 1-4).

Expenditure on GDP

Quarter 4: The increase in GDP between Q4 2016 and Q4 2017 amounted to about USD 179.3 million (a growth of 5.4%). This is the result of the rise in final public consumption expenditure of USD 21.2 million, and in aggregate investment of USD 58.4 million; against the decline in final private consumption expenditure of USD 88.1 million and the increase in net exports (i.e. decrease in trade deficit) of USD 170 million during the quarter (Table 1-3).

Year-on-Year Comparison: In 2017, the share of public and private consumption expenditure of GDP decreased by 5 percentage points compared with 2016. This was offset by the increase in net exports and a slight increase in investments. Despite the lowered consumption rate, which is a positive development, the gap between the use and production of resources manifest the Palestinian economy's permanent deficit. The total use of resources for consumption, investment and exports amounted to USD 21,257.8 million in 2017, which exceeds total domestic production by USD 7,571.4 million, equivalent to 55.3% of GDP (Table 1-3).

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.

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

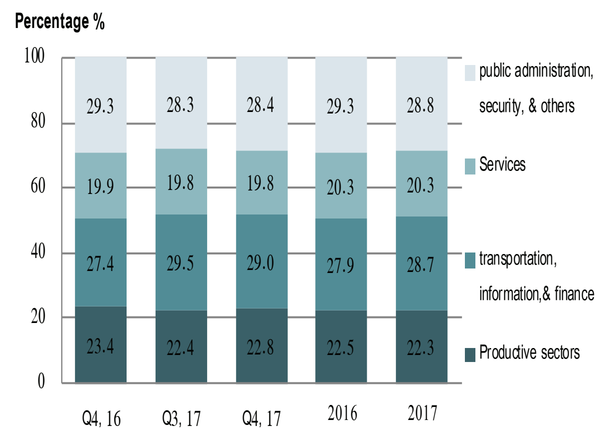


Table 1-3: Expenditure on GDP in Palestine* (Million USD, 2015 constant prices)

	Q4 2016	Q4 2017	2016	2017
Investment	756.7	815.1	2,806.9	3,088.8
Private consumption	2,963.7	2,882.6	12,189.9	11,969.2
Public consumption	949.8	971.0	3,490.8	3,521.7
Net Exports	(1,342.3)	(1,172.3)	(5,170.6)	(4,816.4)
Net errors and omissions	**(30.7)**	**(19.9)**	**(47.3)**	**(76.9)**
Total (GDP)	**3,297.2**	**3,476.5**	**13,269.7**	**13,686.4**

(*) 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.
Figures between brackets indicate negative value

Box 1: Production, Education and Unemployment: Why do they exhibit opposing trends?

This Box sheds light on two alarming phenomena in the Palestinian labor market that have been touched upon in previous issues of the Economic Monitor. The first is the proportional relationship exhibited between growth of production and the rise in the unemployment rate (instead of its decline) over the four quarters of 2017. The second is the high unemployment rate among females who have attained higher levels of education, contrary to males.

Growth and Unemployment

Table-1 shows that there was an inverse correlation (increase in production accompanied by a decrease in unemployment) between the growth of GDP and the direction of change in the unemployment rate in 8 out of the last 13 years between 2005 and 2017. On the other hand, the relationship was positive (increase in production accompanied by an increase in unemployment) in five years (namely: 2008, 2012, 2013, 2016, and 2017). In 2008, for example, GDP grew by 6.1% compared with the previous year, while the change in the rate of unemployment was in the order of 4.9%. Similarly, in 2012 GDP grew by 6.3% and unemployment increased by 2.1%. This raises the question of how this correlation between the growth of production and the rises in unemployment may be explained? Economic theories consistently emphasize that growth is positively associated with increased employment in the economy, although this is not systematically the case in Palestine, where it was accompanied by an increase in unemployment during the aforementioned five years. So, what are the possible underlying causes?

Table-1: GDP Growth and the Change in the Unemployment Rate % (2005-2017)

	GDP Growth	Change in the Unemployment Rate
2005	**10.8**	**-3.3**
2006	-3.9	0.2
2007	6.6	-2.0
2008	6.1	4.9
2009	8.7	-2.1
2010	8.1	-0.8
2011	12.4	-2.8
2012	6.3	2.1
2013	2.2	0.4
2014	-0.2	3.5
2015	3.4	-1.0
2016	4.7	1.0
2017	3.1	0.5

Source: PCBS, Labour Force Survey, National Accounts Data, different years.

Note: unemployment data includes that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967, while the GDP growth data excludes that part.

This phenomenon may be explained by two methods: First, the demographic explanation; second, an explanation based on examining a long period of time rather than rates in separate years.

Increased Participation Rate

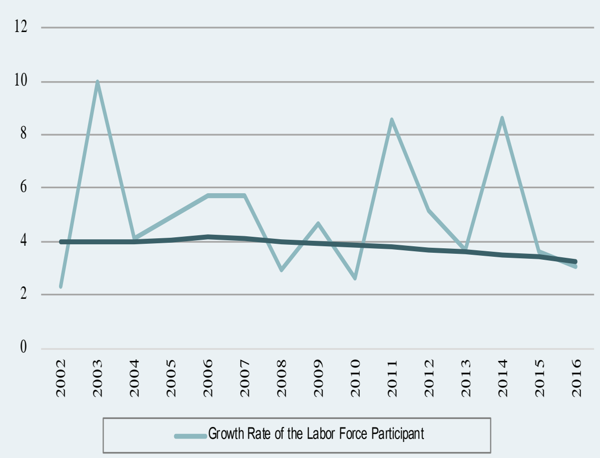
The unemployment rate is measured by the number of unemployed workers divided by the workforce, including persons working or seeking work. Therefore, if the number of work seekers increases, the unemployment rate could increase, even if the number of the unemployed remained unchanged. The "participation rate" refers to the ratio of the workforce to the working-age population.

This means that the average normal growth in productivity can be associated with a rise in the unemployment rate if this growth coincided with a sharp increase in the participation rate. Figure-1 shows the disparity between the manpower growth rate (i.e. growth of the population aged 15 years and above) and the growth rate of the labor force participants (i.e. growth in the workforce, including employed and unemployed). The difference between the steady growth rate of manpower and the higher fluctuating rate of the labor force participants is quite noticeable in most of the years.

The steady rise in the number of Palestinian labor market participants, especially in light of the growing participation of females, has resulted in higher unemployment rates in some years, i.e. the growth of production in some years was not sufficient to create additional and enough jobs for the growing workforce, as a result of the growing number of labor force participants.

During the study period, each year in which the GDP growth was less than 6.5%, a rise in the unemployment rate was recorded. This means, that the Palestinian economy's growth rate needs to be above 6.5% to generate jobs for new entrants to the labor market, even while sustaining the same level of the unemployment rate of the previous year. A growth rate below that level is associated with higher unemployment rates.

Figure-1: the Growth Rate of the Labor Force Participants Compared with Manpower Growth Rate (2002-2016) %

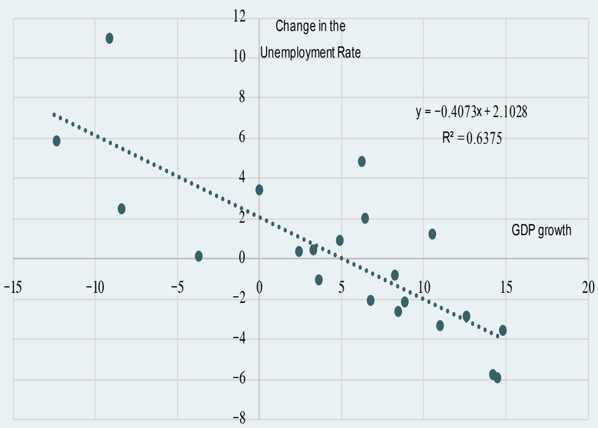


Source: PCBS, Labour Force Survey, Palestine in Figures, different years.

The Relationship between Growth and Unemployment over a Long Period of Time

Figure-2 depicts the regression relationship between production/ output growth and the change in the unemployment rate over a relatively long period of time (21 years) in Palestine. It is noticeable that most points (i.e. most years) are located in the lower right and upper left sides of the figure (where the relationship between the two variables is inverse), while there are a number of problematic points in the upper right side (where the increase in production is associated with an increase in the unemployment rate). However, regression analysis over the entire study period confirms that the relationship between the change in unemployment and GDP on the long run is inverse with some exceptions. In general, there is an inverse relationship between GDP growth and unemployment growth. The regression relationship between the two is (Y = - 0.4073X + 2.103), which means that every 1 percentage point increase in GDP is accompanied by a 0.4 percentage point drop in the unemployment rate on average in the long term. [1] This shows that acceleration in the growth rate is necessary for creating jobs and reducing unemployment in the economy, keeping in mind that different investment and development strategies can result in different correlation coefficients.

Figure -2: The Relationship between GDP Growth and the Change in the Unemployment rate, 1997-2017 (%)



Source: PCBS data, and MAS calculations.

Female Education and Unemployment

It is often cited in the literature (including the Quarterly Monitor) that the unemployment rate among Palestinian females rises with the attained level of higher educational, contrary to males. However, it would be incorrect to conclude from this that female education is not rewarding economically, since educated females fall into the trap of unemployment, which means that it is wiser for a family to focus on educating its male members.

The figures in Table-2 show that the rate of unemployment among females who attained higher educational levels rises to 41% compared with a mere 12% for females who have completed secondary education or less (including illiterate females), (average of years from 2000 to 2016). The table also shows that among males unemployment decreases with the completion of higher academic degrees.

Table- 2: Participation Rate and the Unemployment Rate among Females and Males by Educational Level (Average of Years from 2000-2016)

	Secondary Education and less		Higher than Secondary Education	
	Participation Rate	Unemployment Rate	Participation Rate	Unemployment Rate
Males	64.7	25.3	87.0	16
Females	7.5	12.0	68.0	41
Females*	7.5	12.0	40.0	0

* Assuming that all females who attained higher education levels during the period 2000-2016 joined the workforce, which amounts to 40% (59,445 persons) of the total female manpower
Source: PCBS, Labor Force Survey, different years.

These figures merit careful interpretation. Indeed, the high unemployment rate among females with higher educational levels (bachelor, diploma or high diploma) is a direct result of the significant increase in those females' participation rate in the workforce. As mentioned earlier, the labor force participation rate (of secondary certificate holders, for example) is measured by dividing the number of those who hold a secondary school certificate and wish to work (i.e. the actual number of employed and unemployed) by the total number of persons who have attained this certificate aged 15 years and above. Table-2 shows the low participation rate of females who did not complete secondary education in Palestine (7.5% only). However, the participation rate rises to 68% among females who have attained secondary education. Similarly, the participation rate of males increases with higher educational levels, although significantly lower than that among females (from 64.7% to 87%).

This sharp rise in the female participation rate associated with the attainment of higher educational levels requires a parallel increase in employment to maintain a steady unemployment rate among those females, which is hard to achieve. As shown in the last row in Table- 2, assuming that the participation rate of females who have attained secondary education and above is only 40% instead of 68%, unemployment among those females will be eliminated completely.

In short, the high unemployment rate among educated females is a consequence of their high participation rate rather than the low demand for educated females in the labor market. This high participation rate is positive and very important for economic growth even if it manifests higher unemployment figures..

1 This relationship is known as the "Okun's Law", which predicts that every one percentage point increase in unemployment is associated with a 2 percentage points decrease in the USA's GDP growth.

2- Labor Market[1]

Manpower in Palestine, which comprises all persons aged 15 years and above, amounted to 3,060 thousand persons by the end of Q4 2017. [2] The labor force (which includes all persons qualified to work and actively seeking employment) amounted to 1,349 thousand. The difference between the labor force and the 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 Q4 2017 compared with these variables ten years ago.

Figure 2-1: The Total Population, Manpower and Workforce in Palestine (Q4 2007 and Q4 2017) (Thousands)

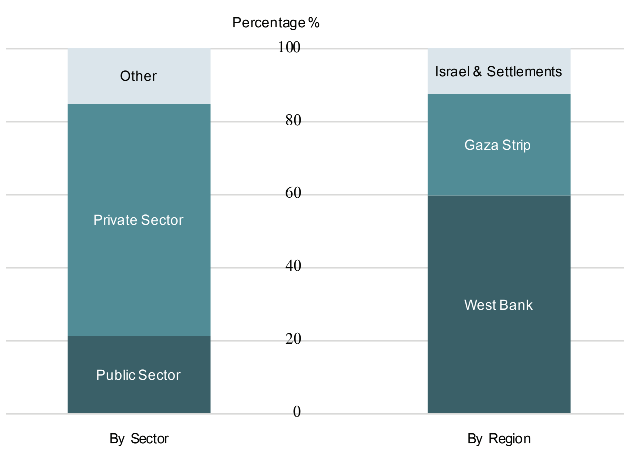
Figure (2-1) shows that the growth of the Palestinian labor force is higher than the growth of manpower. The number of the labor force participants during the period between 2011-2017 increased by 5.04% annually, while manpower increased by 3.5%. This steady increase in the labor force has implications for unemployment rates, as discussed in Box 1.

Number and Distribution of Workers [3]

Quarter 4: The number of workers in Palestine increased by 1.9% between Q3 and Q4 2017 reaching 1,019 thousand. By regional distribution, 60% of workers were in the West Bank, around 28% were in Gaza Strip and 12% (around 126 thousand) in Israel and the colonies. By sector, around one fifth of workers in Palestine were employed by the public sector, while this ratio rises to 36% in Gaza Strip (Figure 2-2).

During Q4 2017, the number of workers in the services sector in Palestine was 36% (54% in Gaza Strip). The number of workers in the construction and building sector was 22% in the West Bank compared with less than 5% in the 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, about 22% and 20% respectively (Figure 2-3).

Figure 2-2: % Distribution of Palestinian Workers by Region and Sector, Q4 2017 (%)



Year-on-Year Comparison: The number of workers in Palestine increased by 1.7% in 2017 compared with 2016 reaching 997 thousand. In 2017, around 58% of employment was reported in the West Bank, 29% in the Gaza Strip and 13% in Israel and the colonies. By sector, around one fifth of workers in Palestine were employed by the public sector, while this ratio rises to 37% in Gaza Strip.

1 The labor market section in this issue of the Economic Monitor and Box 2 were prepared by Dr. Samia Botmeh, Lecturer at Birzeit University, assisted by MAS research assistants. 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.

2 Source of data for this section draws on PCBS, 2018, Labor Forces Survey, 2017, Ramallah, Palestine. Data on the numbers of workers are based on estimates of the Census of Population, Housing and Establishments 2007, and will be updated according to the final results of the 2017 census.

3 Note: the number of workers includes Palestinian workers in Israel and abroad. The unemployment and wages data includes Palestinian workers in Israel only, excluding those working abroad. The data on the distribution of workers by occupation and place of work includes those working in Palestine only.

During 2017, the number of those working in agriculture, forestry and fishing witnessed a decline of 0.7 percentage point compared with 2016, while in the services sector it fell to 34.8% (as a result of the rise of the number of female workers to 66.2% and the decline of that for males to 29.3%). On the other hand, the number of those working in the construction and building sector rose by 1 percentage point.

Unemployment

*Quarter 4:*The number of the unemployed in Palestine stood at 330 thousand by the end of Q4 2017. The unemployment rate (the number of unemployed workers divided by the labor force) was 24.5% in Q4 2017, 1.2 percentage points less than the corresponding quarter of 2016 and 4.7 percentage points less than the previous quarter. The decline of the unemployment rate in Palestine was driven by the decline of unemployment among both females and males in the West Bank over the corresponding quarters, in spite of its rise among females and males in the Gaza Strip (Table 2-1).

Year-on-Year Comparison: In 2017, the unemployment rate rose by half a percentage point over the previous year reaching 27.4%; the Gaza Strip unemployment rate of 43.6% was significantly higher than the West Bank rate of 18.1% as it rose by 1.9 percentage points above the already high rate of the previous year. Palestine's unemployment rate is one of the highest in the world, especially among females where it reached 68.9% in the Gaza Strip. This means that only three of every ten females in the labor market in Gaza Strip have a job. International organizations have repeatedly warned of the serious economic, social and political consequences of such an unprecedented and persistent high unemployment rate (Table 2-1).

Table 2-1: Unemployment Rate among Labor Force Participants in Palestine by Region and Gender (%)

		Q4 2016	Q4 2017	2016	2017
West Bank	Males	14.2	11.2	15.5	14.9
	Females	28.5	25.0	29.8	31.8
	Total	**16.9**	**13.7**	**18.2**	**18.1**
Gaza Strip	**Males**	**33.2**	**35.0**	**34.4**	**35.8**
	Females	**64.4**	**65.9**	**65.2**	**68.9**
	Total	**40.6**	**42.7**	**41.7**	**43.6**
Palestine	**Males**	**21.0**	**19.5**	**22.2**	**22.3**
	Females	**43.9**	**43.0**	**44.7**	**47.4**
	Total	**25.7**	**24.5**	**26.9**	**27.4**

Two of the enduring characteristics of unemployment in 2017 in Palestine are that:

1. It is high among youth: the unemployment rate in the age group 15-24 years reached 43% (69% for females against 37% 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 Economic Monitor).

Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q4 2017 (%)

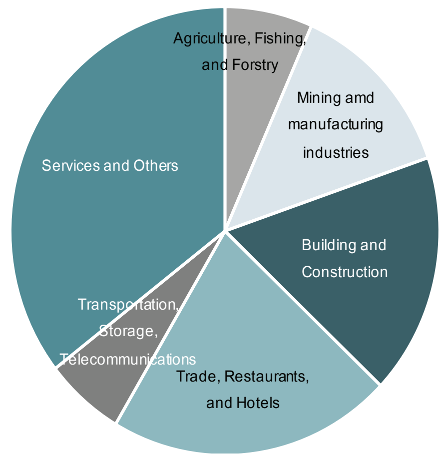


Figure 2-4: the Employed and Unemployed in Palestine by Age Group (2017) (Thousands)

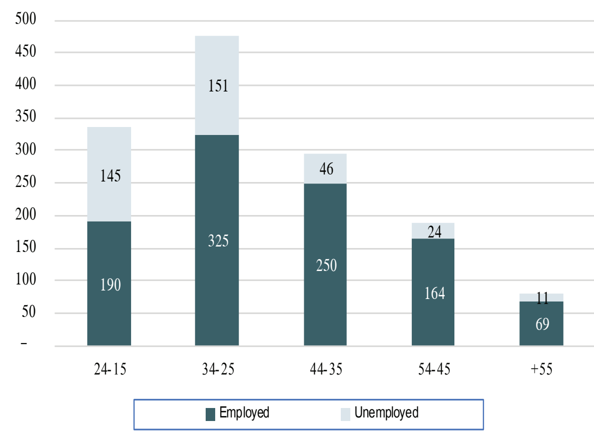
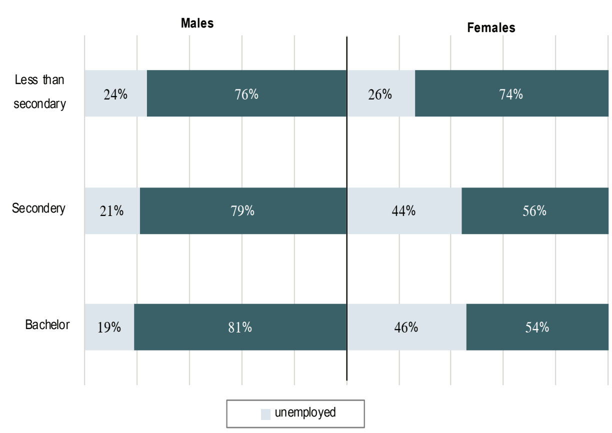


Figure 2-5: the Number of Employed and Unemployed in Palestine by Educational Level and Gender (2017) %



2. The unemployment rate decreases with the attainment of higher educational levels for males, contrary to females (Figure 2-5): The unemployment rate in 2017 reached 24% for males who had not completed secondary education, while it was 19% for males with tertiary education. On the other hand, the unemployment rate for females with a tertiary education was 54%, against 26% for females who had not completed secondary education (see Figure 2-5 and Box 1).

Wages

Quarter 4: The average daily wage for workers in Palestine amounted to NIS 114.3 in Q4 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 colonies on the other hand, and between the average wage in the West Bank and that in the Gaza Strip (Table 2-2). As figures indicate, the average wage of workers in Israel and the colonies is more than triple 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 topmost wage level for half of all workers (the other half receiving wages above that level) (Figure 2-6 shows the difference between the two indicators, and Figure 2-7 shows the evolution of the average wage and the median wage). Notably, the median wage in the Gaza Strip is less than half that in the West Bank.

The average daily wage of workers fell by NIS 0.6 in Q4 2017 compared with the previous quarter, as a result of the decline of the average wage of workers in Israel and the colonies by NIS 1.2 against its rise in the West Bank by NIS 3.2 and in Gaza Strip by NIS 5.3.

Table 2-2: the Average and Median Wages of Waged Workers, Palestine, Q4 2017 (NIS)

Place of Work	Q4 2017	
	Average Daily Wage	Median Daily Wage
West Bank	102.0	96.2
Gaza Strip	62.0	40.0
Israel and the colonies	232.1	220.0
Palestine	114.4	96.2

Year-on-Year Comparison: In 2017, the average daily wage of workers witnessed a rise of NIS 5 over the previous year; NIS 3.4 in the West Bank, NIS 8.7 in Israel & the colonies, while in Gaza Strip it declined by NIS 2.2. The daily median wage for Palestinian workers reached NIS 96.2 in 2017, a rise of NIS 6.2 compared with 2016 (Table 2-3).

The Gender Gap

Figures 2-8 and 2-9 illustrate the evolution of the gap between female and male real wages (i.e. after taking into consideration the effect of inflation) in Palestine during the period 2000-2016. Figure 2-9, unlike figure 2-8, excludes workers in Israel and the colonies (most of whom are male). The figures show

Figure: 2-6: A Graphic Illustrating the Difference between the Average and Median Wages in the West Bank (2017)

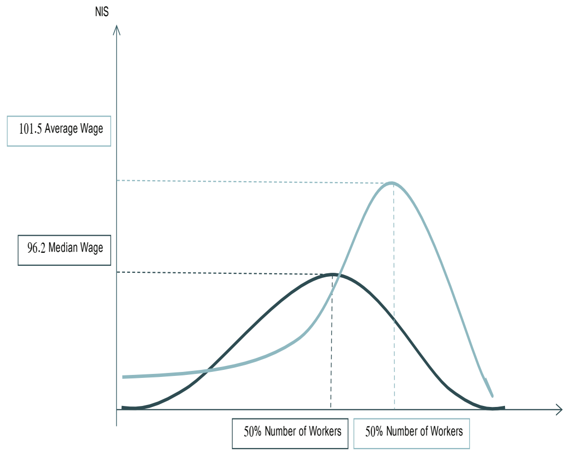


Figure 2-7: The Average and Median Wages of Waged Workers, Palestine (NIS)

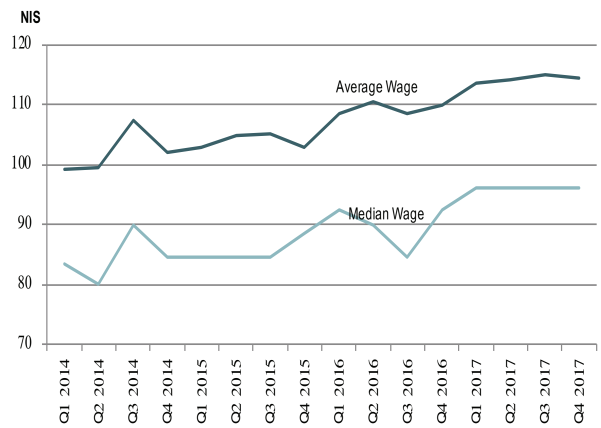


Table 2-3: the Average and Median Daily Wages of Waged Workers, Palestine, (2016-2017) (NIS)

Place of Work	2016		2017	
	Average Daily Wage	Median Daily Wages	Average Daily Wage	Median Daily Wages
West Bank	98.1	88.5	101.5	96.2
Gaza Strip	**61.6**	**45.0**	**59.4**	**40.0**
Israel & the colonies	**218.0**	**200.0**	**226.7**	**200.0**
Palestine	**109.3**	**90.0**	**114.3**	**96.2**

that a substantial portion of this wage gap (Figure 2-8) is driven by the employment of Palestinian male workers in Israel and the colonies and to the higher wages that they are paid there.

Minimum Wage

Quarter 4: During Q4 2017 the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 37%: 49% females and 35% males. The average monthly wage of those workers was NIS 833. By region, 17% of the private sector waged workers in the West Bank were sub-minimum wage earners, compared with 78% in Gaza Strip.

Year-on-Year Comparison: In 2017, the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 35%: 44% females and 34% males. The average monthly wage of those workers was NIS 838. By region, 16% of the private sector waged workers in the West Bank were sub-minimum wage earners, compared with 74% in Gaza Strip (Table 2-4).

Child Labor

Child labor (aged 10-17 years) decreased slightly during Q4 2017 compared with the previous quarter, (from 4.0% to 3.2%). By region, child labor constituted 4.5% of the employed labor force in the West Bank and 1.4% in Gaza Strip during Q4 2017.

Figure 2-9: Real Wages in Palestine by Gender (2010 constant prices), excluding Wages of Workers in Israel and the Colonies (NIS)

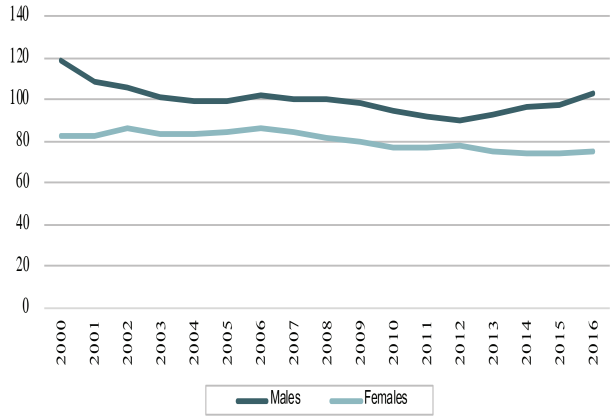


Figure 2-8: Real Wages in Palestine by Gender (2010 constant prices), including Wages of Workers in Israel and the Colonies (NIS)

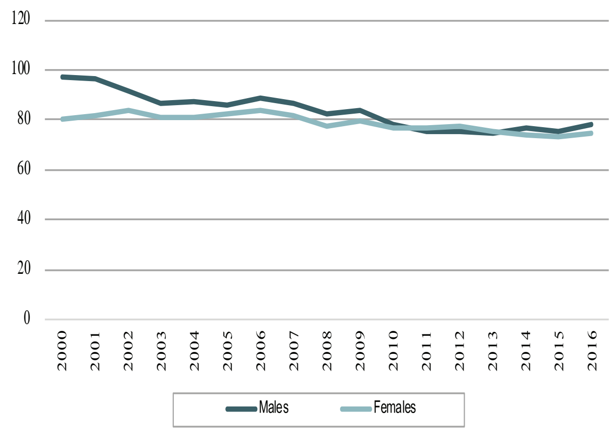


Table 2-4: The Number and Average Wage of Waged Workers Employed by the Private Sector and the Number and Average Wage of those who Earned Sub-minimum Wages (do not include workers in Israel and the Colonies), Q4 2017

	Number of waged workers in the private sector (Thousand)			Average monthly wage for sub-minimum wage earners (NIS)			Number of waged workers who earn sub-minimum wages (Thousand)		
	males	females	both	males	females	both	males	females	both
West Bank	201	47	248	1,186	950	1,079	22	18	40
Gaza Strip	105	17	122	745	618	731	81	10	90
Palestine	306	64	370	839	838	338	103	28	131

Box 2: Change to Terms and Conditions for Granting Work Permits in Israel over Time

Since 1967, the Palestinian economy has been partially dependent on employment in Israel. As Figure-1 shows, before the outbreak of the second intifada about 19% of all Palestinian workers were employed in Israel, a rate that has diminished over the last 15 years to a range as low as 8% but rising to 12% in recent years. This Box addresses the terms and conditions of employment imposed on Palestinian workers seeking to work in Israel, which are constantly changed to respond to the interests of the Israeli colonial economy. Employment of Palestinians in Israel depends on two major issues: employment quotas and permits.

Employment Quotas by Sector

Palestinians' work in Israel is subject to quotas which are determined by the Israeli government for the construction, agriculture, industry, and services sectors. Permits given to Palestinian workers are determined by those quotas, which also mean that Palestinians' employment is restricted to these four sectors. However, this rule applies to working in Israel, and not in colonies as will be demonstrated.

These quotas are determined based on economic considerations related to the needs of Israeli employers for workers, which is estimated by the employers' institutions (in the aforementioned sectors). However, these estimates are affected by the changing political positions of the Israeli government, which sometimes increases pressure on the Palestinians, and other times, relieves the pressure. For example, since 2006 Israel stopped granting work permits to Gaza Strip workers. Table-1 presents the work permit quotas by sector in a selection of years.

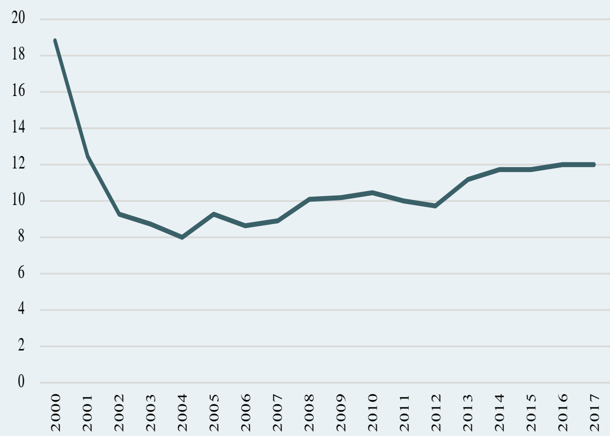
Table-1: Quotas for Palestinian Workers in Israel by Economic Sector, 2011 and 2017

Sector	Quota in 2011	Quota in 2017
Construction	19,500	58,100
Agriculture (non-seasonal)	3,000	6,250
Industry and Services	2,440	4,720
Seasonal Agriculture	8,800	10,250
The Services Sector in East Jerusalem (health, , hotels, Atarot industrial zone)	---	4,780
Total Permit Quota	33,740	84,100
Total Actual Number of Palestinian Workers in Israel	84,000	120,000

The Center for Political Economics, (2017): The Working Conditions of Palestinian Wage Earners in Israel. http://www.kavlaoved.org.il/en/alternative-model-of-employment-for-palestinian-workers/ last opened at 18/04/2018.

Despite the high demand of Israeli employers for Palestinian workers, the topmost level of the quota is usually never reached. For example, in 2011 a total of 27,765 permits were granted out of the allowed permit quota reaching 33,740. This is the result of the protracted bureaucratic process that an employer or worker must go through to obtain a work permit, as the time for using the quota ends while waiting for the Israeli authorities to take action.

Figure-1: the Ratio of the West Bank and Gaza Strip's Workers in Israel to Total Employment*, 2000-2017 (%)



Source: PCBS, The Annual Palestinian Labor Force Survey Report, different years.
* Figures include Palestinian workers in East Jerusalem.

Types of Work Permits and Conditions imposed on Palestinian Workers

Palestinian workers can apply for two types of work permits:
(1) A permit to look for a job: this type of permits is given twice every three months for five days at a time. Workers from Kufr Aqab and Al-Ram are given this permit twice a month.
(2) Work permits: This type of permits is given for up to six months. If it is given for a seasonal work/job, it is granted for three months only.

The age and marital status criteria for granting work permits are changed constantly, sometimes several times a month. These changes follow usually Israeli political decisions. According to the Coordination of Government Activities in the Territories (COGAT), the applicant should meet the following criteria:

- Aged 22 years and above (18 years for seasonal agriculture permits).
- Married.
- Holds a magnetic card, i.e. the person has no security preclusion.

These conditions were different in the past. For example, in 2014, to qualify for a permit the applicant should be aged 24 years and above, married with at least one child, and above all is not under a security preclusion. In March 2011, the minimum age was set at 35 years, which was lowered to 30 years later in October, then to 26 years in November of the same year. However, in the following month (Dec 2011) the minimum age was raised to 28. In the first half of 2007, the minimum age was high as 40 years. It is noteworthy that sometimes the Israeli authorities suspend issuing work permits for residents of specific areas for a specific time, regardless of the eligibility criteria, to deter resistance activities in those areas.

It is to be expected that the demographic characteristics of Palestinian workers in Israel conform to these criteria. As Table- 2 shows, the vast majority of workers in Israel are male. The average age of Palestinian workers who are granted work permits is higher than the age of those working without permits, yet the educational level of both is similar. It also shows that most workers with permits are married compared to those without permits. On average, a Palestinian worker without a work permit earns around 85% of the wage of a worker with a permit.

Applying for a Permit

The competent authority to which Israeli employers (who wish to employ Palestinian workers) should submit a permit request varies according to the employment sector after having informed the Labor Office in the area where the worker is to work. After getting initial approval, Israeli employers fill the forms and submit the required documents in person to the Palestinian Workers Employment Section at the Immigration and Population Department in the Ministry of Interior. If the registration is approved, employers must submit an application that provides information about those workers. After verifying the submitted information and checking conformity with requirements, applications are dispatched to the Employment Officer at the Civil Administration, who is responsible for issuing the permits.

On the Palestinian side, a worker who manages to obtain a permit to search for work in Israel should use the time that he is allowed to stay in Israel to find an Israeli employer, often with the help of relatives or acquaintances. Then, the Israeli employer submits a permit application on behalf of the Palestinian worker. When approved, permits are sent to the Israeli Liaison Offices in the West Bank, then to the Coordination Offices of the Palestinian Ministry of Labor. The permit is issued to the worker in person, yet specifying the name of the Israeli employer, as the only employer that the worker is allowed to work for.

On the 8th of March 2016, the Israeli government agreed to study introducing changes to the existing system of employing Palestinian workers in Israel, given the current system's flaws, which allow the exploitation of workers by Israeli middlemen and employers. Based on this, the Israeli authorities adopted an alternative system to be implemented by July 2017. The new mechanism introduces two major changes: First, a Palestinian worker can work for any Israeli employer, i.e. the worker is not obliged to work with only one employer whose name is specified in the permit, as in the past. Second, workers' wages and other benefits will be processed online. However, the alternative system has yet to be put into practice.

Conditions for Obtaining a Permit to Work in the Israeli Colonies in the West Bank

Conditions for obtaining a permit to work in the colonies are different from those required to work in Israel. Israeli employers in colonies usually file a permit application (on behalf of workers) directly through the Israeli Liaison Offices in the West Bank, without submitting an application through the Labor Offices and the Employment Department at the Immigration and Population Department, the Israeli Ministry of Interior. The marital status of the workers has no significance, and the minimum age is 18. In addition, permits are given to Palestinian workers through the Israeli Liaison offices directly, and not through the Coordination Offices of the Palestinian Ministry of Labor, since this could be interpreted as an implicit recognition of the existence and legitimacy of colonies. [1]

Table 2: Average Wages and Demographic Characteristics of Palestinian Workers in Israel (with or without permits)

	Permit status	Average Daily Wage (NIS)	Age (years)	Years of Schooling	Percentage of Married to Total (%)	Percentage of Male to Total (%)
2000	With permit	114.8	36.0	8.9	90.9%	99.3%
	Without permit	103.8	29.1	8.9	60.5%	98.8%
2005	With permit	120.4	36.6	9.0	87.3%	98.0%
	Without permit	109.1	30.1	9.0	65.7%	98.2%
2010	With permit	159.7	39.0	9.2	91.0%	98.2%
	Without permit	136.8	28.6	9.5	57.8%	99.4%
2013	With permit	187.3	38.2	9.6	89.9%	99.0%
	Without permit	161.3	28.8	10.1	48.2%	99.2%
2016	With permit	227.2	38.7	9.9	82.6%	99.4%
	Without permit	194.9	33.3	9.9	53.5%	97.9%

Source: Calculated using the raw data of PCBS labor force, different years.

1 The information presented in this Box is gathered from interviews with the MoL's staff, and from a large number of electronic reports published by governmental and non-governmental organizations on the internet. List of references are available upon request from MAS.

3- Public Finance [1]

Public Revenues

Quarter 4: During Q4 2017, net public revenues and grants increased by 42% compared with the previous quarter, reaching around NIS 4,316.7 million. This is attributed to the rise in clearance revenues by 50% compared with the previous quarter, reaching NIS 2,455.5 million, and the rise in domestic revenues by 3.6%, reaching NIS 1,023.4 million; tax revenues increased by 4% reaching around NIS 644.4 million, and non-tax revenues by 3.3% reaching NIS 333.4 million. Foreign aid and grants doubled compared with the previous quarter, reaching NIS 890.9 million (Table 3-1).

Net public revenues and grants were equivalent to 105% of actual public expenditures during Q4 compared with 101% in the previous quarter (cash basis). However, revenues accounted for only 81.6% of accrued public expenditures (commitment basis) during the quarter compared with 89% in the previous quarter.

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

Item	2016	2017	
	Q4	Q3	Q4
Budget support	**516.6**	**329.5**	**712.9**
- Arab grants	237.7	111.5	205.5
- International donors	278.9	218	507.4
Development funding	**302.7**	**112.8**	**178**
Total	**819.3**	**442.3**	**890.9**

Year-on-Year Comparison: During 2017, net public revenues and grants decreased by 4% compared with the previous year, reaching around NIS 15,790.9 million. This is attributed to the decline in domestic revenues by 12% (NIS 4,418.9 millon) driven by the decline in non-tax revenues by 39%, countered by a rise in tax revenues by 15% compared with the previous year (NIS 2,750.6 million). Markedly, the non-recurring revenues item (PALTEL group paid fees for the renewal of the Telecom license) explains the decline in non-tax revenues in 2017 compared with the previous year. On the other hand, clearance revenues have remained almost at the same level as in the previous year (1.1% rise), amounting to NIS 8,966.4 million, while foreign aid and grants declined by 11% compared with the previous year, standing at NIS 2,597.2 million.

Public Expenditure

Quarter 4: Actual public expenditure increased by 37% during Q4 2017 compared with the previous quarter, reaching NIS 4,113 million. Actual expenditure on most items saw an upward trend during the quarter, except for provisional payments. Salaries and wages increased by 18% compared with the previous quarter, reaching about NIS 1,681 million. In addition, non-wage expenditures increased by 58% reaching NIS 1,758.9 million. Net lending expenditures, as well, increased during the quarter by 3%, reaching NIS 230.8 million. Noticeably, development expenditure doubled compared with the previous quarter, reaching NIS 397.4 million (Table 3-2).

1 Source of data: MOF, Monthly Financial Reports 2016-2017: Financial Operations, Expenditure and Revenues, and sources of Funding.

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

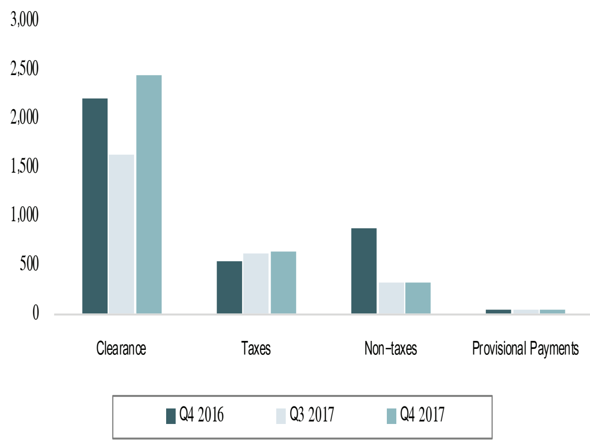
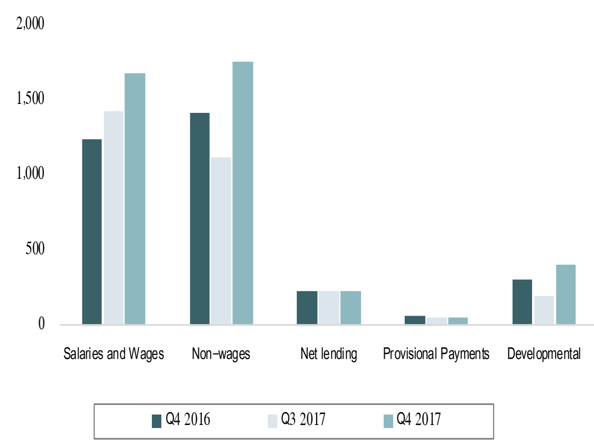


Figure 3-2: Structure of Public Expenditure (NIS million)



The ratio of actual public expenditure (cash basis) to accrued expenditures (commitment basis) was 83% during the quarter, compared with 76% in the previous quarter. On the other hand, actual public expenditure made 32% of GDP in Q4 2017 compared with 22% and 25% only in the previous and corresponding quarters respectively.

Year-on-Year Comparison: During 2017, public expenditure decreased by 1% compared with the previous year, reaching around NIS 14,601.4 million. This is driven by the decline in wages and salaries by 4% (NIS 7,063.4 million), and in net lending by 7% (NIS 959.6 million). On the other hand, non-wage expenditures increased by 1.8% reaching NIS 5,507.6 million, and development expenditures increased by 12%, reaching NIS 921.3 million in 2017.

Government Arrears

Quarter 4: During Q4 2017, government arrears reached NIS 809.8 million, compared with NIS 975 million in the previous quarter, about 19% of public revenues and grants. Arrears consist of NIS 116.8 million in wages and salaries, NIS 560.3 million in non-wage arrears, NIS 155.4 million in development expenditures, and NIS 0.6 million in provisional payments arrears. The government paid off NIS 23.3 million of the tax refunds arrears (Table 3-2).

Annual Comparison: The government total arrears reached NIS 2,784.2 million in 2017, compared with NIS 2,970.1 million in the previous year, a decline by 6.3%. On the other hand, the government paid off NIS 2,452.6 million of accumulated arrears over the last years.

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

Item	2016	2017		2016	2017
	Q4	Q3	Q4		
Tax refunds	6.7	9.3	(23.3)	(16.9)	69.7
Wages and salaries	719.4	457.9	116.8	505.3	568.1
Nonwage expenditures	627.1	388.4	560.3	1,861.3	1,631.1
Development expenditures	159.1	119.4	155.4	462.5	400.3
Provisional payments	(17.6)	(0.2)	0.6	157.9	115.0
Total arrears	1,494.7	974.8	809.8	2,970.1	2,784.2

Figures between brackets indicate negative value

Note: the total in "the year columns" does not show the total of the four quarters of the year, because some of previous year's arrears were paid.

Financial Surplus/Deficit

Quarter 4: Developments on both the revenue and the expenditure sides during Q4 2017, led to a deficit in the total balance (before grants and aid), of NIS 687.2 million (about 5.3% of GDP). Grants and foreign aid turned the deficit into a surplus of NIS 203.7 million (on cash basis), which is about 1.6% of GDP (Figure 3-3). On commitment basis the deficit in the total balance (before grants and aid) reached NIS 1,800.7 million, dropping to NIS 909.8 million after grants and aid during the same period.

Year-on-Year Comparison: During 2017, the deficit in the total balance (before grants and aid) amounted to NIS 1,407.7 million (or 2.8% of GDP). After grants and foreign aid, the deficit turned into a surplus of NIS 1,189.5 million (on cash basis), about 1.2% of GDP. On commitment basis the deficit in the total balance (before grants and aid) reached NIS 4,435.8 million, dropping to NIS 1,838.6 million after grants and aid.

Public Debt

By the end of Q4 2017 public debt decreased by 1% compared with the previous quarter, and by 7% compared with the corresponding quarter 2016, reaching NIS 8,849.7 million (about 17% of GDP).[2] About 59% of the debt was domestic and 41% foreign. Interest paid on debt during Q4 was NIS 57.2 million. Most of interest was paid on domestic debt (about NIS 55.4 million), while interest paid on external public debt was a mere NIS 1.8 million (Table 3-3).

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

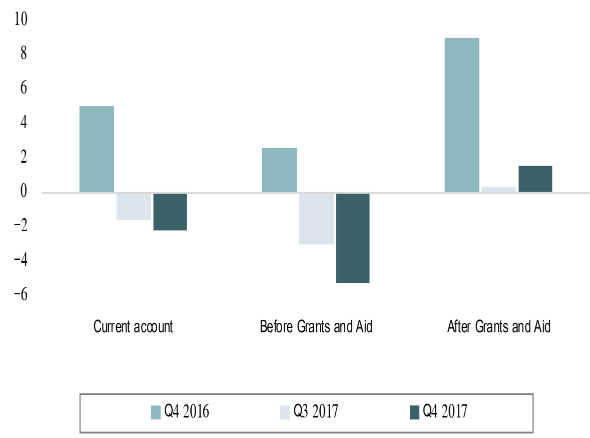


Table 3-3: Palestinian Government Public Debt (NIS million)

Item	2016	2017	
	Q4	Q3	Q4
Domestic debt	5,541.4	5,283.7	5,224
Banks	5,489.2	5,231.4	5,171.7
Public institutions	52.3	52.3	52.3
External debt	4,017.7	3,668.6	3,625.7
Total public debt	9,559.2	8,952.3	8,849.7
Paid interest	54.8	46.2	57.2
Public debt as ٪ to nominal GDP*	18.4%	16.9%	%17.1

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

2 It should be mentioned that by the end of Q4 2017 the government's debt denominated in dollars rose by 0.7% and 2.4% compared with the previous and corresponding quarterس respectively, reaching USD 2,543.1 million.

Box 3: the Performance of the FY 2017 Public Budget compared with the FY 2018 Public Budget Scenarios

The Ministry of Finance (MoF) works diligently to prepare a budget that is in line with the economic and fiscal objectives and that responds to political changes, aiming at gradually creating an independent economy capable of generating the needed revenues and reducing expenditures. Over the past years, the government has made major achievements in that area, reversing a deficit of 30% of GDP in 2006 to a surplus of 2% in 2017.[1]

FY 2017 Budget: Estimates vs. Actual

Evaluating the performance of the Public Budget depends largely on evaluating whether the overall economic and social development objectives, as stated in the budget statement, were met. However, this section will focus on drawing comparison between the actual and the estimates of the 2017 Budget items (revenues and expenditures). Note that budget estimates are on commitment basis, while actual figures are on cash basis (Table-1).

- Deviation from Budgeted Revenues

Actual revenues were NIS 436 million less than estimates (3%), as a result of the deviation of actual domestic revenues, which were 12% less than estimates. On the other hand, actual external aid was slightly higher than estimates (4%), while current expenditureand net lending were 15% less than estimates. All of which have contributed to transforming the negative financing gap into a surplus (cash basis) of NIS 1,189 million. On the other hand, actual tax refunds were also 48% less than estimates, which increase the size of the accumulated government's arrears to the private sector.

- Deviation from Budgeted Expenditures

Actual current expenditures were 15% less than estimates, which is attributed to rationalizing expenditures, through measures like cutting the salaries and wages and other current expenditures. However, net lending was around NIS 10 million above estimates.

- Deviation from Budgeted Development Expenditures

To enhance development expenditures, one of the objectives of the FY 2017 Budget Statement, the spending ceiling was raised to NIS 1639 million. This budgetary item is partially financed by external aid (33%). Despite that development financing (external aid) was 16% higher than estimates, actual development expenditures were 44% less than budgeted. The successive public budgets show a declining trend in actual development spending over the years, which is a cause of concern that needs to be addressed.[2]

Given the Palestinian conditions, preparing the FY 2018 Budget takes place within a complex economic and political context. In addition to challenges related to the uncertainty of local and foreign revenues (since Israel controls clearance remittances), the

Table-1: Public Budget Actual compared with Estimated, 2016-2018 (Million NIS)*

Item	2016	2017			2018		
	Actual Budget	Actual budget	Estimated budget	Deviation	Baseline budget	Gaza's budget	Combined Budget
Net public revenues	13,524	13,451	13,194	-1.9	13,505	900	14,405
Total revenues	13,896	13,821	13,385	-3.2	13,691	900	14,591
- Domestic revenues	5,023	5,040	4,419	-12.3	4,533	480	5,013
- Clearance revenues	8,873	8,780	8,966	2.1	9,158	420	9,578
Tax refunds	372	370	191.6	-48.2	187		187
Total current expenditure and net lending	13,936	16,147	13,681	-15.3	16,180	1,774	17,954
- Salaries and wages	7,332	8,093	7,063	-12.7	7,878	843	8,721
- Other current expenditures	5,574	7,104	5,658	-20.4	7,402	931	8,333
- Net lending	1,029	950	959.6	1.0	900		900
Current account deficit before aid and grants	412	2,697	487	-82.0	2,675	874	3,549
- Development expenditure	824	1,639	921	-43.8	1,909	1,080	2,989
Total deficit before aid and grants	1,237	4,335	1,408	-67.5	4,584	1,954	6,538
External Aid	2,921	2,496	2,597	4.1	2,790		2,790
- Budget support	2,318	1,950	1,966		2,160		2,160
- Financing development expenditure	603	546	631.5	0.8	630		630
Financing gap (after aid and grants) + is positive value	1,684.3	3,009-	1,189.1	15.7	-1,794		-3,748
Financing gap (after rationalization measures) + is positive value					624-		1,570-

* The budgeted figures are on commitment basis while actual figures are on cash basis.
* Gaza Budget 2018: Ministry of Finance and Planning: FY 2018 Budget Law- Financial Performance 2017. Reconciliation and Financial Scenarios (19 February 2018).
FY 2018 Baseline Budget: Office of the Presidency: Law-by-Decree on the FY 2018 Public Budget (4th March 2018). The source of the rest of figures is the PMA.

1 World Bank: Economic Monitoring Report to Ad hoc Liaison Committee, march 19, 2018.

2 This issue is addressed in (Box 3: Developmental Expenditure in Palestine, Economic Monitor, issue 49). The box discusses how the share of developmental expenditure in total public spending had seen a steady decline since 2002 until today.

commitments arising from the national reconciliation added to the challenges that beset preparing the public budget.

Therefore, the FY 2018 Budget was built flexibly enough to accommodate the possibility of reconciliation. In addition to the Baseline Budget scenario, which is prepared in line with the practices of the different consecutive governments following the political division between the West Bank and Gaza Strip, a second scenario that assumes a successful national reconciliation and ending the division was added. The latter scenario included an additional column of Gaza's budgetary needs, and was presented under the "Combined Budget". [3]

Key Policies of the FY 2018 Budget

The FY 2018 Budget Statement included a package of new policies and measures:

- Achieving greater equity by introducing amendments to income tax brackets for individuals and corporations, through applying a progressive tax approach on high income earners, and reducing tax burden on low and middle-income individuals. In addition, introducing smart incentives and exemptions that would encourage corporations to launch training programs targeting fresh graduates, and encouraging financial institution to finance start-ups and small enterprises.
- Establishing a long-term lending fund for implementing renewable energy projects, in which the government and the Palestine Monetary Authority (PMA) contribute USD 10 million each, to reach a capital of USD 40 million.
- Enhancing financial sustainability through rationing and cutting unnecessary expenditures, reducing net lending by 20%, cutting medical referrals, curbing borrowing as much as possible and directing it to development projects.
- Reducing arrears through issuing "promissory notes" (a ceiling of NIS 600 million),[4] and continue supporting the Palestinian Pension Authority, through raising the allocated funds from NIS 20 million (in 2017) to NIS 25 million.

Revenues and Expenditures in the Baseline Scenario

The Baseline Budget was based on a number of key assumptions about GDP growth rate, inflation rate, and deficit in the balance of trade during 2017. The budgeted revenues are expected to increase by 2% over 2017, which is a conservative estimate compared with previous years. Also, domestic revenues are expected to increase by 3%, while tax refunds are expected to decrease by 2%.

On the other hand, current expenditures and net lending are expected to increase by 18% compared with 2017 actual figures. In addition, development expenditure is also expected to increase by 107%. The financing gap for 2018 is expected to reach NIS 1,794 million, noting that the fiscal balance (after grants and aid) ran a surplus in 2017 (on cash basis). Even though international aid is expected to increase by 7% in 2018, reaching NIS 2,790 million, it does not resolve the financing gap (see Table-1).

The Combined Budget

An additional budget column for Gaza (which incorporates the ensuing revenues and expenditures) was added to the Baseline Budget, assuming that national reconciliation progresses. The Gaza special budget would add USD 900 million to the PNA's public revenues, countered by NIS 1,744 million increase in current expenditures, and NIS 1,080 million in development expenditures. This raises the total deficit (before aid) to NIS 6.5 billion, an increase of 43% compared with the baseline budget. The financing gap, after aid and grants, increases from NIS 1.8 billion in the Baseline Budget, to NIS 3.8 billion in the Combined Budget. [5]

Measures to Reduce the Financing Gap

The financing gap, which is large in the Combined Budget as well as in the Baseline Budget, poses a challenge for the government's financial sustainability, with total deficit (before aid) expected to reach 9% of Palestine's GDP in 2017 in the former scenario, against 13% of GDP in the latter scenario. It should be taken into consideration that there is a limited potential for the government's borrowing from local banks, and that there are arrears to the private sector and the pension fund that the government has and could still accumulate.

To reduce the fiscal deficit in both scenarios, the government has proposed a new package of economic and fiscal policies (expected to generate NIS 1,170 million in the Baseline Budget). The first column to the left in Table-2 shows the proposed measures and policies and the expected revenues, which is expected to reduce the fiscal deficit in the Baseline Budget from NIS 1,794 million to NIS 624 million.

On the other hand, introducing additional measures (as shown in the last column) is expected to save an additional NIS 1,008 million, in the Combined Budget. In other words, all of the proposed measures as set forth in Table-2, which are expected to save NIS 2.2 billion, will reduce the fiscal deficit in the Combined Budget from NIS 3.8 billion to around NIS 1.6 billion.

Table-2: Proposed Policies and Measures and Expected Revenues Expected to Reduce the Financing Gap in both Scenarios

#	Policy or Measure – Baseline Budget	Expected Revenues – NIS* Million	Additional Policy or Measure –Combined Budget	Expected Revenues – NIS* Million
1	Amending income tax brackets	216	Suspending the Law on the Encouragement of Investment	288
2	Applying income tax on dividends*	108	Rationing medical referrals by 10%	72
3	Fiscal leakage to Israel	432	Additional austerity measures	108
4	Revising applied fees	180	The needed increase in international aid	540
5	Amending the Law on Tenants and Landlords and Settlement	54		
6	Savings resulting from a 20% reduction in net lending	180		
	Total	1,170		1,008

* Figures were reported in USD and were converted to NIS at an exchange rate of NIS 3.6 to the dollar).
Source: MoFP- FY 2018 Budget Law- Reconciliation and Financial Scenarios (19 Feb 2018).

3 The budget by law issued on 4 Mar 2018 included the Baseline Budget only, without any reference to the Combined Budget, which are presented in detail in the MoFP documents.

4 Promissory notes of NIS 1.2 billion were issued in 2016, and NIS 968 million of arrears were paid off . For more information about Promissory Notes refer to Monitor Issue no. 48 – May 2017.

5 According to an IMF report (9th March 2018), assuming successful national reconciliation, the annual growth rate in the Gaza Strip is expected to rise to 8% in the short term. However, the report does not expect that Gaza Strip will add to the budget revenues following the reconciliation. In general, in case reconciliation progresses, the growth rate in Palestine is expected to reach 4.3% in 2018 and 2019 compared with 2.3% in both years in case reconciliation fails. www.imf.org/en/Countries/ResRep/WBG

4- The Banking Sector [1]

Compared with the previous quarter, 9 new bank branches were opened during Q4 2017, raising the number of licensed bank branches and offices operating in Palestine to 337; 279 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. This expansion was accompanied with an increase in the total number of deposit accounts of 5.7% (around 181,530 accounts), raising the total number to 3,393,670 by the end of Q4 2017. The main indicators of the sector show a sustained improvement in performance, where net assets (liabilities) of licensed banks increased by 2.5% during the quarter compared with the previous quarter and by 11.6% compared with the corresponding quarter 2016, reaching USD 15.9 billion (Table 4-1)

Table 4-1: Consolidated Balance Sheet of Licensed Banks Operating in Palestine (USD millions)

Item*	2016	2017			
	Q4	Q1	Q2	Q3	Q4
Total assets	14,196.4	15,222.3	15,348.1	15,461.0	15,850.2
Direct credit facilities	6,871.9	7,234.2	7,528.9	7,761.9	8,026.0
Deposits at PMA & Banks	4,279.0	4,136.2	4,170.5	3,863.1	3,911.1
Securities portfolio for trading and investment	1,007.1	1,042.2	1,050.4	1,057.5	990.4
Cash and precious metals	991.2	1,567.2	1,201.9	1,518.6	1,728.2
Other assets	1,047.2	1,242.5	1,396.4	1,259.9	1,194.5
Total liabilities	14,196.4	15,222.3	15,348.1	15,461.0	15,850.2
Total deposits of the public (non-bank deposits)**	10,604.6	11,127.5	11,379.5	11,526.8	11,982.5
Equity	1,682.4	1,720.3	1,744.5	1,804.6	1,892.7
Deposits of PMA and Banks (bank deposits)	1,139.9	1,506.6	1,385.4	1,279.6	1,135.3
Other liabilities	271.5	352.4	314.6	291.7	282.5
Provisions and depreciation	498.2	515.5	524.1	558.3	557.2

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

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

Credit Facilities

During Q4 2017, total credit facilities rose by 3% compared with the previous quarter, reaching USD 8 billion. This resulted from the growing credit share of the various economic sectors, by 9% in the trade sector, and 22% in the services sector compared with Q3 2017. Nevertheless, the credit to deposit ratio decreased slightly to 67% compared with the previous quarter. Credit facilities granted to the public sector constituted 82% of total facilities (an increase by 4% compared with the previous quarter). Around 82% of total credit facilities were loans, about 17% were overdraft accounts, and the remaining percent were financial leasing credits. By region, the West Bank's share of total credit facilities stood at 88% compared to 12% for the Gaza Strip. By currency, the US dollar continued to account for the biggest share of credit (45%), compared to 40% granted in Shekels, 14% in Jordanian Dinars, and 1.6% in other currencies (Figure 4-1). Credit facilities witnessed an increase of 17% year-on-year, reaching USD 8 billion by the end of 2017 compared with USD 6.9 billion by the end of 2016 (Table 4-1).

1 The source of data in this section: PMA, Feb 2018. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

Placements Abroad

By the end of Q4 2017 placements abroad stood at USD 3,112.4 million, a decline of 2.1% compared with the previous quarter, resulting in a drop down to 19.6% of total assets.

Figure 4-1: Distribution of Total Direct Credit Facilities, 2017 (USD million)

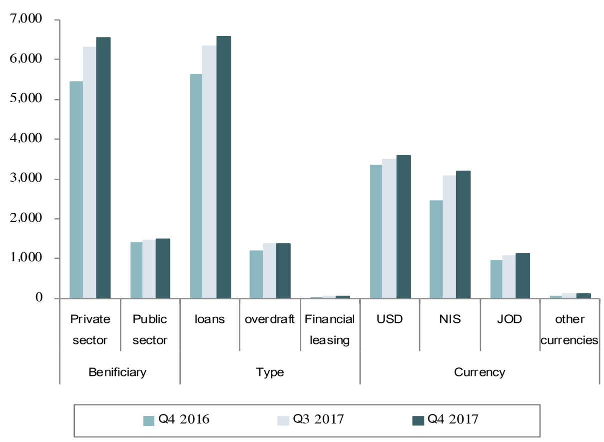
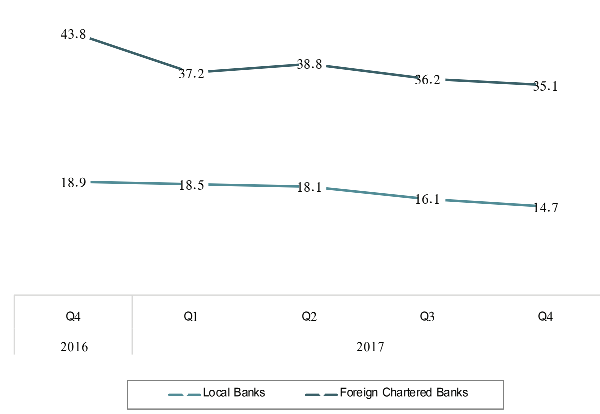


Figure 4-2: Foreign Placements Ratio to Total Deposits (%)



Placements abroad, year-on-year, declined by 13.1% compared with 2016, reaching USD 3.1 billion (Figure 4-2).

Deposits

By the end of Q4 2017, total deposits rose by 4%, amounting to USD 12 billion. As Table 4-1 shows, deposits increased by 13 % during 2017. About 94% of total deposits were private sector deposits against a mere 6% as public sector deposits.

The share of the West Bank of total deposits was 91%, against 9% the share of Gaza Strip. Current deposits (on-demand) constituted 39% of the total, 33% were saving deposits, and 28% were time deposits. By currency, the US dollar continued to dominate deposits (40% of the total), followed by the Shekel (34%), and then the Jordanian Dinar (23%) (Figure 4-3).

Bank Profits

By the end of Q4 2017, bank profits (net income) increased by 3% compared with the previous quarter, reaching USD 42.7 million. This was driven by a rise in interest and commission income, making 92% of the banks' total revenues. On the other hand, Banks' net income stood at USD 172.1 million during 2017, a rise of 16% compared with 2016, as a result of the increase in revenues that outweighed the rise in expenditures (Table 4-2).

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

	2016		2017		
	Q4	Total	Q3	Q4	Total
Revenues	145.4	558.3	163.3	167.8	650.3
Net Interests	103.1	401.0	122.7	122.3	466.8
Commissions	26.4	98.1	30.2	30.3	115.9
Other operating revenues	15.9	59.2	10.4	15.1	67.6
Expenses	110.2	409.4	121.9	125.1	478.3
Operating expenses and tax allocations	97.7	362.5	107.1	109.3	420.4
Tax	12.5	46.9	14.8	15.8	57.8
Net income*	35.2	148.9	41.4	42.7	172.0

*net income = net revenues - expenses

Interest Rates

Average interest rates on USD loans rose from 5.74% in Q3 2017 to 5.85% in Q4 2017, as a result of the US Federal Reserve decision to raise the nominal interest rate. On the other hand, average interest rates on NIS loans dropped from 7.14% to 6.99% and on JD loans from 6.75% to 6.28% during the same period.

Regarding interest on deposits, average interest on deposits in the three currencies witnessed a rise during the quarter: 1.93% on USD deposits (compared with 1.37% in the previous quarter), 1.64% on NIS deposits (compared with 1.36%), and 2.21% on JD deposits (compared with 2.12%) (Figure 4-4).

Clearance

The value of cheques in circulation declined by 10% compared with the previous quarter, amounting to USD 3,624.6 million. About 76% of cheques presented for clearance were in Shekels, while 17.5% of cheques were in Dollars (Figure 4-5). On the other hand, the value of returned cheques amounted to USD 341.5 million, an increase of 13% over the preceding quarter. By region, 91% of returned cheques during Q4 were in the West Bank (with a value of USD 311 million), showing an increase compared with the previous quarter, against 9% in Gaza Strip (Figure 4-6). During 2017, the value of cheques presented for clearance increased by 19%, amounting to USD 15.1 billion.

Figure 4-3: Distribution of Deposits (USD million)

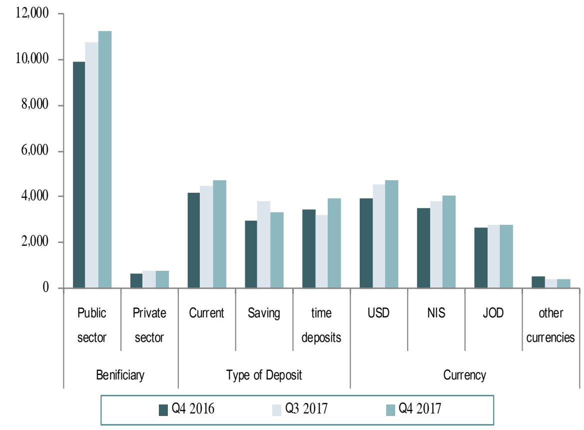


Figure 4-4: Average Interest Rates on Deposits and Loans by Currency, Q4 2016-Q4 2017 (%)

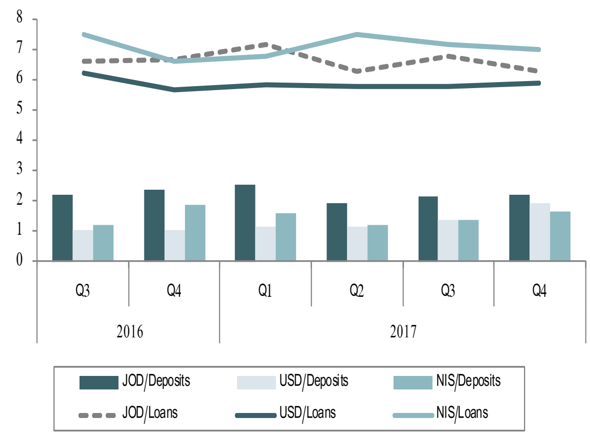
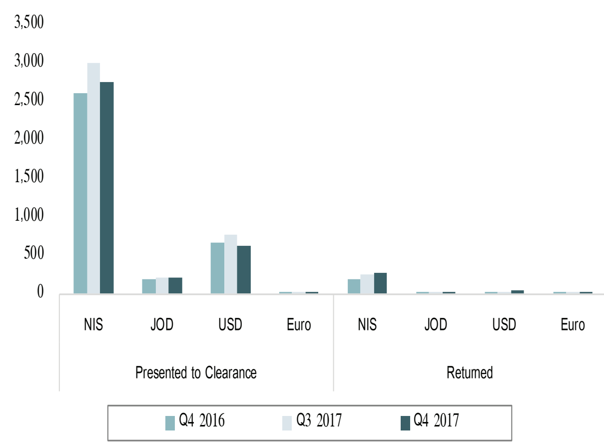


Figure 4-5: the Value of Cheques Presented for Clearance and Returned Cheques by Currency (USD million)



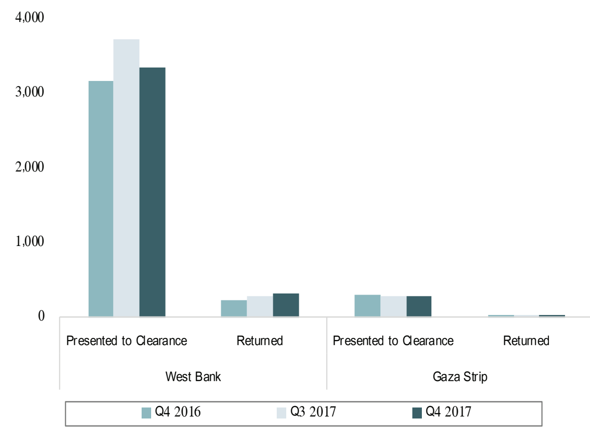
Specialized Credit Institutions (SCIs)

By the end of the quarter, the value of loans granted through specialized credit institutions (SCIs) licensed by the PMA (6 companies) was USD 215 million, a rise of 1% compared with the previous quarter. The credit portfolio of these companies increased during 2017 by 7.8%. Around 69% of loans were granted in the West Bank against 31% in the Gaza Strip. SCIs offered 652 job opportunities, while the number of active clients reached 72,209 by the end of the quarter, 161 clients over the previous quarter (Table 4-3).

Table 4-3: SCIs data

	2016	2017	
	Q4	Q3	Q4
Total of Loans Portfolio (USD millions)	199.4	213.0	215.0
- West Bank	137.0	145.8	147.8
- Gaza Strip	62.4	67.2	67.2
Active Clientele	68,912	72,048	72,209
No. of Offices and Branches	85	83	84
Employees	618	665	652

Figure 4-6: the Value of Cheques Presented for Clearance and Returned Cheques by Region (USDmillion)



The real estate sector loans continued to dominate with the biggest share of those loans (30%), followed by the commercial sector (27%), then the consumption and the agricultural sectors (12% each).

Box 4: Implications of the Potential National Reconciliation on Gaza Strip: Remittances from Abroad and the Widening Financing Gap

The World Bank's latest Report to the Ad Hoc Liaison Committee (March 2018) included estimates of remittances to Gaza and Gaza's share of the public budget's revenues and expenditures.[1] The report estimates total transfers at USDD 2.8 billion in 2014, about 97% of Gaza's GDP that year (Table-1). These estimates show that Gaza's share of the Palestinian Budget's revenues and expenditures was 33%, which is less than the ratio of Gaza Strip's population to total population of Palestine (39%). However, Table-2 shows that Gaza Strip contributed only 9% of the PNA's total revenues in 2016.

According to the Bank's report, the reconciliation will result in increasing the PNA's spending in Gaza by USD 781 million in 2018. Table-3 demonstrates the distribution of this increase on the deferent budgetary items. This increase in spending will raise the financing gap to USD 531 million, if added to the West Bank's gap (USD 440 million), the total financing gap in the Combined Budget is expected to reach USD 971 million in 2018.

Table-1: Transfers from Abroad to Gaza Strip 2013 and 2014 (USD million)

	2013	2014
- Palestinian Budget Transfers (including international budget support)	1,391	1,471
- UN organizations transfers (humanitarian aid)	250	845
- Aid to "de facto authority" (estimates of ICRA)	464	500
Total	2,105	2,816
Gaza's GDP (current prices)	3,092	2,912
Transfers ratio/GDP	68%	97%

Table-2: PNA's Revenues and Expenditures by Region, 2016 (USD million)

	Gaza Strip	West Bank	Total
Expenditure	**1,496**	**3,065**	**4,561**
- Salaries and Wages	817	1,235	2,052
- Goods and services	110	557	667
- Social transfers	235	714	949
- Net lending	190	79	269
- Social contributions	73	123	196
- Development expenditure	72	265	337
- Other	--	91	91
Revenue	**325**	**3,146**	**3,471**
- Clearance revenues	285	2,053	2,338
- Non-tax and tax revenues	40	1,093	1,133
surplus/deficit	**--1,171**	**81**	**-1,090**

Table-3: Additional Budgeted Revenues and Expenditures in Gaza Strip in Case Reconciliation Progresses, 2018 (USD million)

Total additional expenditure	**781**
- **Wages and Salaries (for 20,000 new civil servants)**	**234**
- Operational expenditures of ministries	247
- Development expenditure	300
Additional Revenues from Gaza Strip	**250**
Financing Gap	**-531**

1 World Bank: Economic Monitoring Report to the Ad Hoc Liaison Committee March 19, 2018.

5- The Non-banking Financial Sector [1]

The Securities Sector

Quarter 4: By the end of Q4 2017, the market value of traded shares in Palestine Stock Exchange)PEX(increased by 2% compared with Q3 2017 (and by 15% compared with the corresponding quarter). The volume of traded shares, on the other hand, decreased by 20% compared with the previous quarter, which was accompanied by a decline in the value of traded shares by 18%.

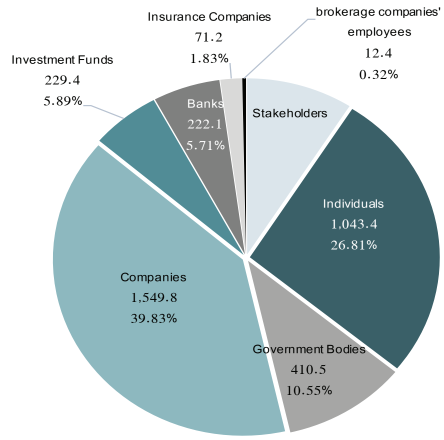
Year-on-Year Comparison: By the end of 2017, the market value of traded shares in PEX was USD 3.89 billion (29% of GDP at current prices), which is 15% higher compared with the end of 2016. This rise is attributed to the improvement in the trading activity and the share prices of a number of major trading companies, like PADICO and APIC, in addition to the big improvement in trading of banking sector shares. On the other hand, the number of PEX traders was 71,811 by the end of 2017, 5% of whom were foreigners, mostly from Jordan (Table 5-1).

Table 5-1: A Selection of Financial Indicators on the Trading Activity in PEX

	2016 Q4	2017 Q3	2017 Q4	2016	2017
Volume of Traded Shares (million share)	42.37	98.48	79.23	232.82	271.16
Value of Traded Shares (USD million)	105.94	167.29	136.83	445.15	469.07
Market Capitalization (USD million)	3,390.12	3,815.59	3,891.49	3,390.12	3,891.49
Total number of Traders	72,418	71,981	71,811	72,418	71,811
Palestinians	69,007	68,603	68,467	69,007	68,467
Foreigners	3,411	3,378	3,344	3,411	3,344

By the end of 2017, the performance of PEX indicators witnessed a significant improvement compared with the end of 2016. The volume and the value of traded shares increased by 16.5% and 5% respectively. This is attributed to a higher trading activity of listed companies, the rise in the share prices of some of those companies, and the listing of a new trading company (Sanad Construction Resources Company). On the other hand, a number of banks and insurance companies have raised their minimum paid-up capital, which is in line with the requirements of the regulatory bodies to support and enhance the capital adequacy ratio, as well as to reach the minimum capital requirements. Figure 5-1 shows the distribution of market capitalization by trader type, showing that the share of corporations was 40% compared with 27% for individuals.

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



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

Insurance Sector

By the end of 2017, the insurance portfolio (gross written insurance premiums) rose by 19% compared with the previous year, reaching USD 255.4. This increase is attributed to the sustained efforts of PCMA aiming to oblige insurance companies to enforce the minimum premium regulations for insuring vehicles. This is also seen in the sharp rise of gross written insurance premiums by 43% in Q4 compared with the corresponding quarter.

On the other hand, net compensations incurred by the insurance sector increased by 29% by the end of 2017 compared with the previous year. In addition, the insurance sector investments witnessed a significant growth of 17% by the end of 2017 compared with the previous year (Table 5-2).

As figure 5-2 shows, there is a significant concentration in vehicle insurance in the insurance portfolio in Palestine, which constituted 66% of the total insurance portfolio by the end of 2017, followed by health insurance (11%). 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 by the end of 2017.

Table 5-2: A Selection of Financial Indicators of the Insurance Sector in Palestine (USD million)

	2016 Q4	2017 Q3	2017 Q4	2016	2017
Gross written Insurance premiums	41.39	64.03	59.32	215.25	255.42
Total investments of insurance companies	212.08	219.06	248.89	212.08	248.89
Net compensations incurred by the insurance sector	(24.14)	(37.91)	(42.52)	(115.37)	(148.86)
Retention ratio	88.4%	88.7%	96.8%	82.4%	86.0%
Claims ratio	65.9%	66.7%	74.1%	65.1%	67.8%

1 The source of figures in this section: Palestinian Capital Market Authority (PCMA).

Financial Leasing

Quarter 4: The number of leasing companies registered with PCMA was 14 companies. Contracts value increased by 58% and 2% during Q4 2017 compared with the previous and corresponding quarters respectively. However, the number of financial leasing contracts increased by 52% during Q4 2017 compared with the previous quarter, and a decline of 19% compared with the corresponding quarter 2016. 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.

Year-on-Year Comparison: During 2017, there was a slight decline in the performance of the financial leasing companies. The total value of contract investments registered at PCMA were USD 84.4 million through 1,368 contracts as of the end of 2017, 13% and 32% drop in the value and volume of contracts respectively compared with 2016. This is attributed to the difficulty of securing sustainable funding resources (Table 5-3).

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

	Total Value of Financial Leasing Contracts (USD million)		Total Volume of Financial Leasing Contracts	
	2016	2017	2016	2017
Q1	17.1	19.3	374	367
Q2	32	20	637	296
Q3	21.1	17.5	466	280
Q4	27	27.6	524	425
Total	97.2	84.4	2001	1368

By region, the financial leasing contracts are concentrated in Ramallah (38%), followed by Nablus and Hebron (around 17% each) (Figure 5-4). Figure 5-5 shows that the financial leasing portfolio is still concentrated in motor vehicle leasing (88% of total contracts), which is attributed to the ease of registering ownership of vehicles at the transportation department and therefore the low-risk associated with its leasing.

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

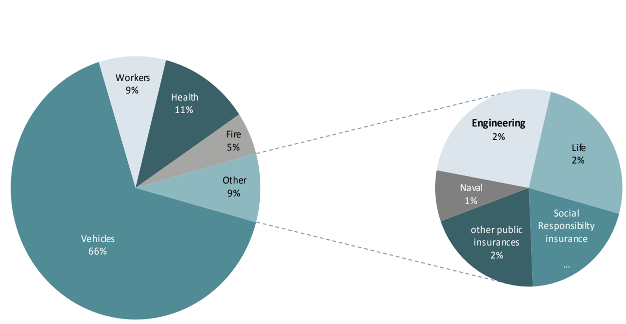


Figure 5-3: Distribution of the Insurance Portfolio Components by the Insurance Company (as of the end of 2017)

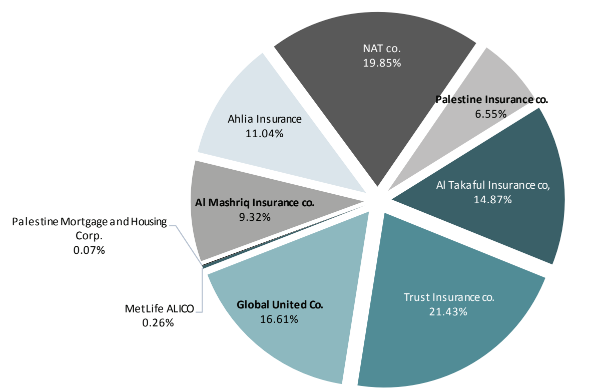
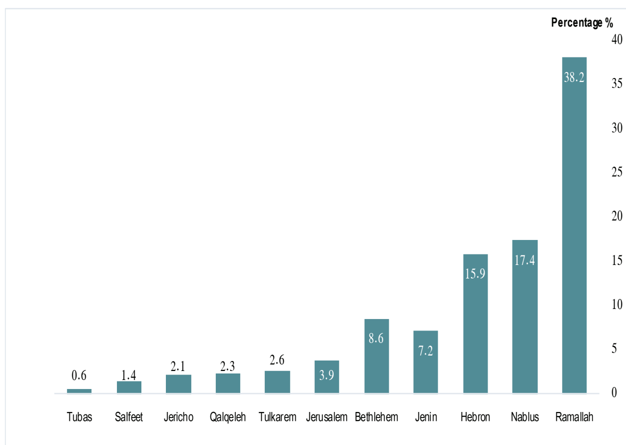


Figure 5-4: Geographical Distribution of Financial Leasing Contracts by Number (as of the end 2017) (%)



Box 5: A Review of the Financial Leasing Law

The instrument of financial leasing is founded on the concept that profit/wealth comes from the use of assets, not from their acquisition; i.e. the tenant's ability to generate income from using the asset and not from owning it. The Palestine Capital Market Authority (PCMA), as set forth in its Law No. (13) of 2004, is the authority responsible for monitoring and supervising the financial leasing sector in Palestine, among other non-banking sectors. Given the sector's contribution to economic growth through investing in capital assets, PCMA has given special attention to developing the legal and regulatory frameworks governing the sector. A draft law was prepared in cooperation with the International Finance Corporation (IFC), in line with the best international practices in the field of financial leasing, including the Model Leasing Law, developed by the International Institute for the Unification of Private Law (UNIDROIT). The Palestinian law on financial leasing is the first in the Middle East and North Africa region that conforms with the standard law in terms of form and content. The decree law was issued by President Mahmoud Abbas (Decree Law No. (6) of 2014 on Financial Leasing) on 28th June 2014.

The law defines clearly financial leasing based on internationally recognized standards that distinguish this activity from other financial instruments and regular leasing activities. The lessor is the legal owner of the asset, while the lessee obtains the right to use and benefit economically from the leased property. The law, thus, protects the lessor's financial rights and repossession of the asset expediently and using it compared with other financial instruments. The law, as well, allows the lessee to benefit from the asset while risks and rewards lie with the lessee. The law also contains other important definitions, such as sub-lease, sale and re-leasing, and subsequent lease, as activities of financial leasing subject to the provisions of the law.

The law provides for contractual freedom, which defines the rights and obligations of the lessor and the lessee in the leasing contract, and the nature of this freedom. Additionally, the law tackles ownership of the leased property, protects the rights of the lessor in the leased property, draws the lines separating the ownership rights (lessor rights) from the leasing rights (lessee rights to use the leased property).

The law specifies the events and cases in which the contract can be terminated, and the measures that should be taken to protect the rights of the parties. For example, in case of bankruptcy of the lessor, the law guarantees that no prejudice to the rights of the lessee occurs, and that the lessee can continue to use the leased property as long as he enjoys financial solvency. The law also states that the lessee can exercise the right to re-lease leased property directly from the supplier when the lease contract ends; being the actual beneficiary of this contract, despite that the supply agreement does not include the lessee's name as a party. The law also clarifies the limits of liability of the lessor in the event a third party was afflicted with any harm or damage, resultant from the lessee use of the leased property. The lessor, despite being the legal owner, will not be held liable as the leased property is the responsibility of the lessee. In case of disposition, the lessee has the right to request terminating the contract and compensation for the resulting damage.

The law provides effective procedures for expediting the repossession of a leased property, through summary judgment procedures, in which the case is not tried and a decision is taken by the judge, obligating the lessee to surrender the leased property to the lessor in a relatively short time.

Regarding the collateral securities for leasing assets and expanding their base, the law provides for establishing an efficient system for registering leased assets and obligates the relevant institutions to issue instructions about registering assets of all types. It also states that international accounting standards will be applied to the financial lease contract, and that if a need arises special instructions will be issued on computing income tax and VAT in the same way adopted for computing other instruments of financing assets. The law, as well, grants the lessor the same rights of the lessee regarding benefits and exemptions applied in accordance with the legislation in force. Finally, the law refers to the contractual rules and provisions relating to the buyer's rights, in the event any damage is inflicted upon the leased property, acceptance of the leased property, compensation and the transfer of rights and liabilities, in addition to ensuring that the lessee accepts and complies with fixing and maintaining the leased property.

Nisreen Jarar, PCMA

6- Investment Indicators[1]

Building Licenses

Quarter 4: Figure 6-1 presents the changes in the number of registered building licenses and licensed areas. The number of issued building licenses reached 2,585 licenses during Q4 2017, a rise of 8% compared with the previous quarter. Licenses of non-residential buildings constituted 8% of the total. On the other hand, licensed areas of buildings amounted to around 1,201.3 thousand square meters in Q4 2017, which is higher by 29% compared with the previous quarter.

Year-on-Year Comparison: The number of issued building licenses reached 9,242 licenses during 2017, a decline of 13% compared with the previous quarter. This was accompanied by a decline of 22% in the licensed areas of buildings, which amounted to around 4,067 thousand square meters compared with the corresponding quarter 2016 (Table 6-1). The number of registered licenses does not include all building activities in the construction sector, and a relatively large part of construction activities, especially in rural areas, is not registered or licensed.

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

	Number of Licenses*	Licensed areas (thousand square meters)
2016	10,633	5,193.9
2017	9,242	4,067.0

Vehicle Registration

Because of their high prices, vehicles are often purchased via bank loans. Therefore, the number of vehicles registered for the first time is considered a good indicator of the economic situation and prospects.

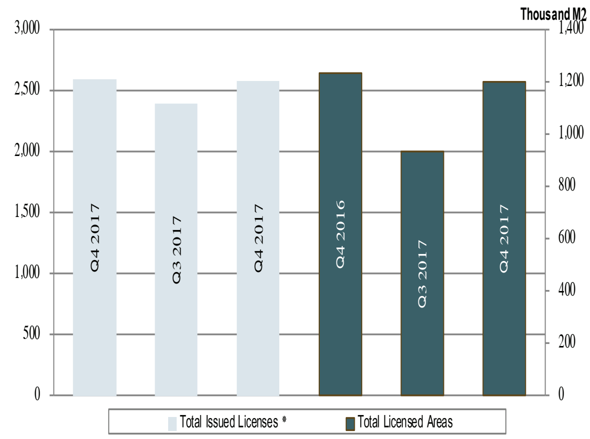
Quarter 4: During Q4 2017, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 8,346, less by 1,080 vehicles compared with the previous quarter, and higher by 200 vehicles compared with the corresponding quarter 2016. The second-hand vehicles made 74% of the total, 7% of which were imported from Israel (Table 6-2).

Table 6-2: New and Second-hand Vehicles Registered for the First Time, West Bank

	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
Q4 2016	2,376	4,923	837	8,136
2016	7,943	19,930	2,924	30,797
Q3 2017	2,151	6,596	679	9,426
Q4 2017	2,135	5,758	453	8,346
2017	8,137	25,090	2,667	35,894

1 The source of figures in this section: PCBS, 2018, Statistics on Building Licenses and the MOF, 2018, Palestinian Customs and Excise Dep.

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



* do not include licenses of fences

Year-on-Year Comparison: During 2017, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 35,894, which is higher by 17% compared with the previous year 2016 (5,097 vehicles). This resulted from an increase in the volume of new and second-hand vehicles of 2% and 26% respectively, countered by a decline of 9% in the volume of second-hand vehicles from Israel (Table 6-2)

Table 6-3 shows the marked rise in the value of vehicle imports to the West Bank of 115% during the period between 2012 and 2016. Consequently, taxes levied on imported vehicles increased significantly, by184% in that period. Taxes levied on imported vehicles constitute 21% of total taxes (and VAT) levied on imports from third parties (i.e. countries other than Israel). In 2016, taxes levied on vehicles were as follows: 4% customs, 65% purchase tax, and 32% VAT.

Table 6-3: Value of Imported Vehicles and the Levied Import Taxes (Million NIS)

	Imported Vehicles*		Taxes on Vehicle Imports	
	Value	% of total imports from countries other than Israel	Value	% of total taxes on imports from -countries other than Israel
2012	561	8%	303	13%
2014	680	8%	480	15%
2016	1,208	12%	859	21%

Source: Customs and Excise Department. Actual imports data, MoF.

* The import of new and second-hand passenger vehicles to Palestine from Israel is prohibited. However, second-hand trucks and buses can be imported from Israel, as this category of imports is exempted from taxes regardless of country of source.

Box 6: Strategies for the Development of the Electricity Generation Sector in Palestine

In June 2017, the World Bank issued a comprehensive report that analyzed the possible strategies for the development of the electricity generation sector in the Palestinian territory, in an endeavor to identify the most appropriate strategies for Palestine. [1]

The first section of the report sheds light on the current energy supply situation in the Palestinian territory. It shows that the oPT face significant energy security challenges, which are severe and obvious in Gaza Strip (where the power supply meets only half the demand), yet in the West Bank it is still an emerging issue. Palestine relies largely on Israel to import its electricity needs, as the Israeli Electric Corporation (IEC) supplies the West Bank and Gaza Strip with about 99% and 64% of their electricity consumption, respectively. The only local source for electricity generation in the oPT is Gaza Power Plant, established in 2004. The plant's generation capacity is 140 MW, yet because of its high operational costs (it is a diesel-fired plant which costs NIS 1.05-1.65 per kilowatt/hour) it is run at half of its capacity only and when diesel is available.

Electricity Distribution Problems

There are six local distribution companies, all of which suffer from the following problems:

- Electricity supplied to households is not priced at cost recovery levels throughout the oPT. There is a wide gap between costs and the set tariff, especially in Gaza Strip.
- Despite the reforms and the improved performance, distribution companies are able to collect 64% only of the electricity purchases (in Gaza Strip the percentage falls to 50% only).
- Sometimes collected revenues are used to cover other municipal expenditures, instead of paying the electricity purchases dues.

Table-1: Sales, Losses and Performance of the Palestinian Electricity Distribution Companies (2015)

	Gaza Strip Distribution Company	The West Bank's 5 Distribution Companies
Sales	**213,500**	**436,389**
- Number of clients	795	1,398
- Electricity purchases (million NIS)	518	1,509
- Sold Electricity (million NIS)	Not available	-76
Performance		
- Losses (technical and non-technical)	26%	22%
- Collection ratio	65%	89%
- Operations & Maintenance costs (as % of purchases)	8%	17%

Consequently, the electricity distribution sector runs a chronic deficit, as Table -1 shows, and the government ends up implicitly subsidizing the distribution companies, using public funds to settle bills equivalent to 1% and 4-5% of GDP in the West Bank and the Gaza Strip respectively. This implicit subsidy has given rise to what is referred to in the Palestinian Public Budget as "net lending". In 2015, Israel deducted NIS 1 billion from the PA's clearance revenues to account for unpaid electricity consumption. In Sep 2016, the accumulated debt to Israel Electricity Company had reached more than NIS 2 billion. [2]

Options for Increasing Electricity Supply

As for expanding power supply and diversifying suppliers, the World Bank report presents a number of options for Palestine, including:

- Continue and expand future power imports from Israel, which is a viable option. However, this option depends on large investments in developing the transmission network and the high voltage transmission stations. The report states that Israel has established a reputation as a reliable power supplier. If the "net lending" crisis were resolved, then it will be possible to expand power supply from Israel, especially that Palestine is considered a main client of IEC. However, the Israeli company is suffering from high levels of debt and a dim future, in light of the emergence of new competitor suppliers from the private-sector over the last years. No doubt this situation played a part in providing Palestine with other attractive trade-alternatives.

- Expanding power imports from Jordan and Egypt. This option seems possible on the medium term, despite obstacles like; the higher price of electricity imported from Jordan in case of reliance on importing natural gas, and the limited surplus available for export there. Regarding imports from Egypt, security issues in Sinai, the high risk of payment default, and low reliability of imports from Egypt limit the possibility of expanding imports despite the lower price compared with the Israeli electricity price and the availability of a surplus. The study points out that unlike Israel, which can resort to deducting from the PA's clearance revenues, Egypt and Jordan do not have collateral guarantees of payment, which may pose an obstacle to import expansion.

- Importing natural gas for domestic gas-fired power generation. Israel has already approved constructing a natural gas pipeline from Ashkelon into Gaza, to feed the Gaza Power Plant with gas, as a substitute for diesel. It has, as well, agreed to construct a 15-kilometer pipeline connecting Jenin with the Israeli national gas transportation network, to feed the 400 megawatt gas-fired plant which is being built there.[3] In addition, there are good prospects for exploiting the Gaza Marine field (estimated to contain about 1 tcf) which could substitute the Israeli gas if it was developed. [4]

1 World Bank Group: Securing Energy for Development in West Bank and Gaza. June 30, 2017 http://documents.worldbank.org/curated/en/351061505722970487/pdf/119769-WP-P157348-v1-Securing-Energy-PUBLIC-ACS.pdf

2 In September 2016, the Israeli and the Palestinian governments signed a settlement agreement that regulates electricity purchases and schedules the PA's debts to IEC (for more information about this agreement refers to EM, Issue no. 47 – Public Finance section).

3 Early in 2014, the Palestine Power Generation Company (PPGC), the owner of the Jenin power plant, reached an agreement with the Israeli side to purchase 4.75 billion cubic meters of natural gas for a 20-years period. However, the deal was never concluded.

4 For more detailed information about the Gaza Marine Field, refer to EM, Issue no. 51, Box 3: Gaza's Gas: A to Z

- Expansion in exploiting solar energy for electricity generation. The Palestinian government has set a goal to generate 130 MW of renewable energy by 2020, yet the actual generation does not exceed 18 MW currently. There is a substantial potential for expansion in this field, with a solar generation potential estimated at 630 MW in areas "A" and "B", and 3000 MW in area "C". Unlike the other Palestinian areas, Gaza Strip has a limited solar generation potential of 160 MW because of land constraints.

- Improving energy efficiency and controlling losses. This could be an important resource for increasing supply and reducing demand on electricity (which was increasing over the last decade by 3.5% Year-on-Yearly). The government is implementing an action plan that aims to save 1% of electricity consumption annually by 2020. There are more ambitious plans (aims to save 5% per year) over the next decade through replacing the currently used household electric appliances (refrigerators, ACs, and lights) with power-saving appliances. Investments to improve energy efficiency is much more cost-effective than investments to expand the generation capacity (USD0.05 per 1 kilowatt/hour compared with USD 0.10 for the latter).

Alternative Scenarios and Strategies

The report identified and sequenced the different available options into specific investment plans that are designed to meet electricity demand in Palestine. Clearly, those options vary in terms of production costs, possibility of application, and risks, all of which should be considered carefully when choosing the best alternative. Hence, the study came with three different and viable scenarios that can meet the future electricity demand in Palestine:

First Scenario: Implementing a development plan which limits dependence on energy imports from one electricity supplier to 50% of total consumption. Second Scenario: Increasing dependence on imports to the maximum limit to meet the increasing demands on electricity. Third Scenario: Increasing dependence on domestic energy generation to the maximum. The report assesses the three alternatives in light of the following criteria: the average cost of power generation, capital expenditure and investments needed for each scenario, the degree of dependency on importing electricity from Israel, the degree of dependency on importing gas, and the degree of exploiting solar energy generation.

In light of the abovementioned criteria, results show that the first of the three scenarios is the most suitable for Palestine. This scenario proposes developing a domestic gas-fired power generation, in conjunction with significant expansion of solar energy generation in areas "A" and "B" to reach a 500 MW by 2030 (which is about 4-5 times the current target).

By 2030, this scenario is expected to meet the electricity demand in Palestine from a balanced supply of the three sources: renewable energy, domestic gas-fired power generation, and imports from Israel. Table-2 summarizes the main characteristics of the most suitable scenario in the West Bank and the Gaza Strip.

Table-2: Results of Implementing the First Scenario by the 2030

	Average cost of power generation (cent/kilowatt/hour)	Investments (million USD)	Importing electricity (% of consumption)	Domestic power generation (% of consumption)	Renewable energy generation (% of consumption)
West Bank	10.16	2,133	45	37	19
Gaza Strip	12.30	1,066	47	46	6

7- Prices and Inflation[1]

The consumer price index (CPI) measures the prices of a selection of primary goods and services that reflect the average consumption pattern of families in an economy (this group of goods and services is 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 nominal wages and salaries are assumed to be fixed, an inflation rate of 10% per year means that the purchasing power of families and individuals will decline by the same percentage.

The Price Index

Quarter 4: Figure 7-1 shows two curves, the first measures the average change in CPI (right axis) between Q1 2010 and Q4 2017. 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 Q4 2017, the CPI reached 110.94 compared with 110.46 in Q3 2017. This means that the inflation rate was positive over the consecutive quarters (rise in prices) by 0.43%. This rise is attributed to the increase in the prices of alcoholic drinks and tobacco group by 3.66%, in the housing and related items group by 1.22%, and in the transportation group by 0.33%, despite the fall in the prices of the education group by 1.07%, and the garments, cloths and footwear group by 0.84%. In addition, Q4 2017 witnessed a positive inflation of 0.54% compared with the corresponding quarter 2016.

Year-on-Year comparison: During 2017 the Palestinian CPI rose by 0.21%. This rise is attributed to the rise in the prices of the housing and related items group by 3.41%, which has a relative weight of about 9% of the Palestinian consumer's basket. Among this group, the price of gas was up by 8.99%, liquid fuels by 6.36%, electricity tariff by 2.16%. In addition, the prices of the health services group rose by 1.62%. On the other hand, the prices of the food and soft drink group, which weighs 35% in the Palestinian consumer's basket, declined by 0.97%; fresh meat dropped by 11.13%, wheat 5.67%, dried vegetables 3.99%, rice 3.72%, fresh chicken 2.46%. However, prices of tubers rose by 6.07%, fresh vegetables by 5.90%, and fresh eggs by 5.73%. In addition, the prices of the education group (weighs 3% of the basket) have fell by 0.61% in 2017 compared with the previous year 2016.

The CPI figures above show that during the studied eight years (2010-2017) the inflation rate in Palestine was 10.98% while it was 43.17% during the period from 2004 to 2017.

Wholesale Prices and Producer Prices

Quarter 4: The wholesale price index -WPI (sale price to retailers) declined by 0.16% between Q3 2017 and Q4 2017, driven by the decline in wholesale prices of local goods by

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

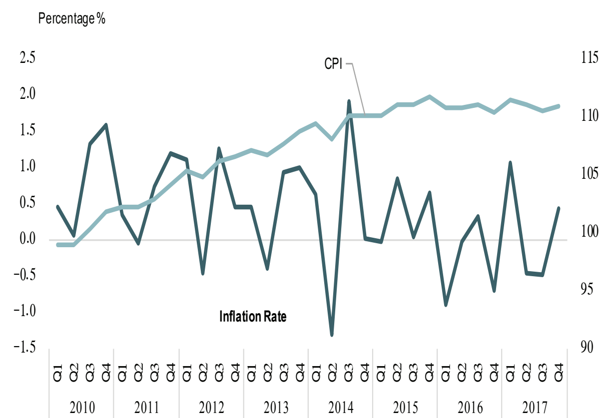
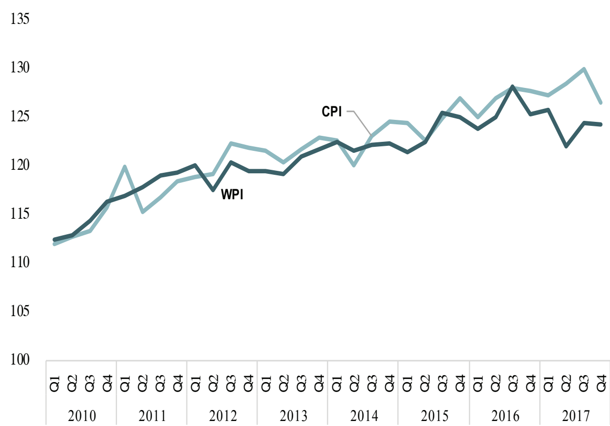


Figure 7-2: Evolution of WPI and PPI (base year 2007)



2.19% and the rise in wholesale prices of imported goods by 1.20%. The producer price index- PPI (prices received by domestic producers) has also fallen by 2.57% between the two quarters. This resulted from the decline in producer prices of locally-produced and consumed goods of 2.80%, and of 0.60% in the producer prices of locally-produced exports (Figure 7-2).

Year-on-Year Comparison: The WPI declined by 1.17% during 2017 compared with 2016. The main reason for this is a 22.80% drop in wholesale prices of the fishery group and 2.18% drop in the agriculture group. However, it rose by 2.97% for mining and quarrying. The wholesale prices of locally-produced goods, as well, decreased by 1.58% during the year, while those of imported goods increased by 0.21% compared with the previous year.

On the other hand, PPI rose by 0.88% during 2017 compared with 2016, standing at 101.15 compared with 100.27. This rise resulted from the rise in the prices of water, wastewater, sewage and waste by 7.65%, and the prices of electricity, gas, steam and air conditioning by 6.13%.

1 The source of figures in this section: PCBS, 2018, Price Indices Surveys, 2010-2017. The purchasing power was calculated in cooperation with PMA.

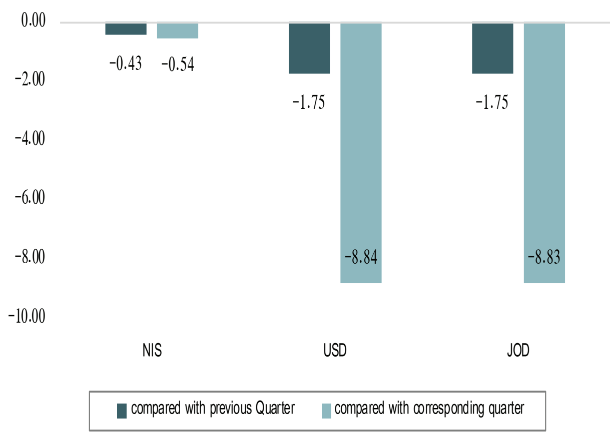
Prices and Purchasing Power [2]

NIS Purchasing Power: the rate of inflation in the economy measures the development in the purchasing power of all individuals who receive their salaries in NIS and spend all their income in that currency, i.e. the 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 increased by 0.43% during Q4 2017 compared with the previous quarter. This means that the NIS purchasing power has decreased by the same percentage. In addition, the NIS purchasing power declined by 0.54% compared with the corresponding quarter. Year-on year basis, the NIS purchasing power declined by 0.21% during 2017 compared with 2016 (Figure 7-3)

USD Purchasing Power: During Q4 2017, the USD exchange rate against the NIS decreased by about 1.32% and 8.30% compared with the previous and the corresponding quarters, respectively. During the same period, the inflation rate decreased by 0.43% and 0.54%. Therefore, the purchasing power of individuals who receive their salaries in USD and spend all their income in NIS has declined during this quarter compared to the previous quarter by about 1.75% and 8.84% compared with the corresponding quarter, as the US dollar declined against the shekel. Considering that the JOD exchange rate is pegged to that of the USD, the purchasing power of the JOD has seen almost the same developments as that of the USD (Figure 7-3).

On a year-on-year basis, the USD exchange rate against the NIS declined by about 6.37% and 8.30% compared with the previous and the corresponding quarters, respectively. This is attributed to the sharp decline in the US dollar against the shekel, as the exchange rate has decreased by 6.16% over the consecutive two years. This also was seen in JOD.

Figure 7-3: the Change in Purchasing Power by Type of Currency, Q4 2017 (percentage)



2 The purchasing power measures the ability of the individual to buy goods and services using the income he generates. It is dependent on the level of income and variance in prices, add to that the change in the average prices and the currency's exchange rate. Based on this, the change in the purchasing power (assuming income is constant) = the average change in the exchange rate of the currency against the shekel – inflation rate.

Box 7: Poverty in Israel and Jerusalem

The Statistical Yearbook of Jerusalem presents statistical data on poverty levels in Israel as a whole, and in Jerusalem in particular.[3] It provides information about the distribution of poverty among the different population groups. While the Yearbook ignores the illegal occupation of East Jerusalem and includes East Jerusalem residents with those Israelis living in the colonies and in West Jerusalem, it is still useful to examine these figures. To that end, this Box sheds light on the living conditions of Palestinians in East Jerusalem after half a century of being annexed to the Israeli economy.

The relative poverty rate in Israel, measures the share of a standard person whose income is below the threshold of 50% of average disposable income, while disposable income is the person's income plus net transfers and government assistance less taxes. The "standard" person is a scale of weighted person used to measure living standards. For example, a household consisting of two persons equals two standard persons, but a household of three equals 2.65 standard persons, and that of four equals 3.20 standard persons, and so on until reaching a household of 9 persons, which equals 5.6 standard persons.

In light of the above definition, the relative poverty line in Israel was NIS 2,461.25 per person in 2014, which means that the poverty line for a household of 9 persons equals NIS 13,783 per month (= the poverty line of a standard person x 5.6).

Table-1 demonstrates the highly concentrated poverty among Palestinians in Israel at large, and in Occupied Jerusalem in particular. About 48% of Palestinian Arab households in Israel are poor compared with only 13.4% of Jewish house holds. In Jerusalem, the percentage rises to 79% among Palestinian households compared with 21.4% among Jewish households. According to OECD' latest report, the relative poverty rate in Israel is one of the highest among the Organization's 35 member states. The report also highlights the wide gap between Jews and Arabs in Israel as evident in different indicators: labor market participation, wages, education, school attainment, infrastructure adequacy and the possession of vocational skills and training. In conclusion, as a consequence for the continuous overlooking of those gaps and the lack of community and social cohesion, the relative standard of living in Israel is expected to decline further, and the gap between the Israeli average GDP and that of the OECD will widen from -16% in 2016 to -28% by 2060. [4]

The table also shows that poverty in Jerusalem is higher than the overall average in Israel. The poverty rate among children in Jerusalem (60.6%) is double that among children in Israel as a whole. Figures show as well, that poverty is more severe among Palestinians than among Jews. The gap between the average income of a poor household and the poverty line is 44% among Palestinian poor households in Jerusalem compared with 35.2% among Jewish households in Jerusalem. The last row in the table shows that the average disposable income of Arabs in Israel is about 50% of the average disposable income in Israel at large, while it drops to only 31% for Palestinians in Jerusalem.

Table-1: Poverty Indicators in Jerusalem and Israel (2014) %

	Israel			East and West Jerusalem		
	Jews	Arabs	Total	Jews	Palestinians	Total
*percentage of the poor (% of population groups)						
-Households	14.8	48.1	18.8	21.4	79.1	37.1
-Persons	13.4	50.6	22.0	28.4	81.8	48.6
-Children	21.7	60.7	31.0	41.2	86.6	60.6
* The gap between the average income and the poverty line %	31.7	37.9	34.6	35.2	44.1	40.9
* disposable income as a % of average income in Israel	107.6	50.4	100.0	97.6	30.8	79.5

1 Published by the Israel Institute for Jerusalem Affairs.

2 OECD: Economic Survey of Israel, 2018. http://www.oecd.org/economy/economic-survey-israel.htm

8- Foreign Trade [1]

Balance of Trade

Quarter 4: The value of "registered"[2] merchandise imports during Q4 2017 was about USD 1,370.9 million (the same value registered in the previous quarter), while compared with the corresponding quarter of the previous year it rose by 3%. Meanwhile, the value of merchandise exports was close to 20% of the value of imports, increasing by 8% and 9% compared with the previous and the corresponding quarters respectively. The difference between exports and imports (deficit) amounted to USD 1,096.1 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (USD 7.6 million) (Figures 8-1 and 8-2).

Year-on-Year Comparison: During 2017, the value of "registered"[3] merchandise imports was about USD 5,303.1 million, a rise of 5% compared with the previous year. On the other hand, the value of merchandise exports was USD 1,038.2 million, a rise of 12% compared with the previous year 2016. Consequently, the deficit in the trade balance stood at USD 4,264.9 million, which has dropped slightly because of the surplus in the balance of service imports from Israel (USD 33.2 million) (Figures 8-3 and 8-4).

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).

Quarter 4: The deficit in the Palestinian current account (deficit in the balance of payments) reached USD 303.6 million in Q4 2017, about 8% of GDP at current prices. The current account deficit resulted from a deficit in the trade balance (USD 1,386.6 million), against a surplus in the balance of income of USD 544.3 million (generated mainly from the income of Palestinian workers working in Israel), and a surplus in the balance of current transfers by USD 538.7 million (Table 8-1).

Figure 8-1: Imports and Exports of "Registered" Merchandise (USD million)

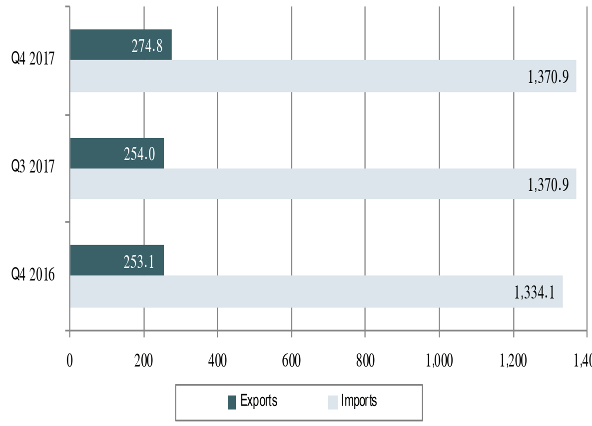


Figure 8-2: Exports and Imports of Registered Services from Israel (USD million)

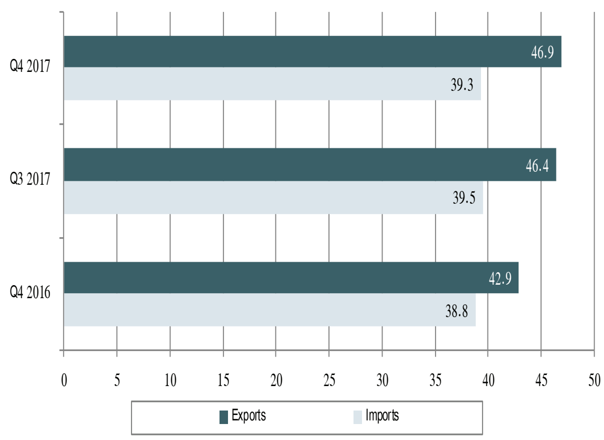
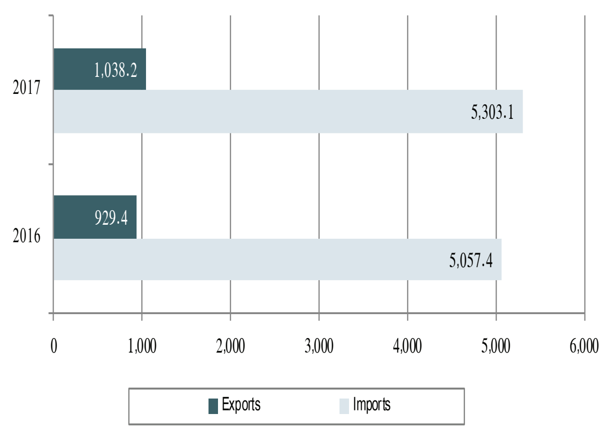


Figure 8-3: Imports and Exports of "Registered" Merchandise, 2016 and 2017 (USD million)



1 The source of data in this section: PCBS, 2018, Registered Foreign Trade Statistics, and PMA & PCBS, 2018, Palestinian Balance of Payment, Q4 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.

3 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.

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 313.4 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive.

Year-on-Year Comparison: The deficit in the Palestinian current account reached USD 1,563.7 million in 2017, a drop of 20% compared with the previous year. This resulted from a rise in the current transfers (29%) over the previous year. The deficit in the trade balance rose by 2% while that of the income balance increased by 5% (Table 8-1). The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 1,395.2 million. Theoretically, there should be a perfect balance between the current account deficit and the surplus of capital and financial account, i.e. the net value of the two should be zero. However, there is often a difference between the two accounts, usually recorded under "errors and omissions", because of insufficient data and smuggling activities (Table 8-1). Noticeably, the value of this item has declined over the last two consecutive years. [4]

International Investments

By the end of Q4 2017, Palestine's foreign assets totaled USD 6,455 million, 7% of which represent direct foreign investments, and 16% represent portfolio investments. On the other hand, total external liabilities amounted to about USD 5,082 million, more than 53% of which were direct investments.

The difference between assets and liabilities means that the overseas investments by Palestinians were USD 1,373 million higher than investments of non-residents. A significant portion of these assets (65.2%) is cash deposits (mostly by local Palestinian banks abroad), which are not considered conventional outward investments. When examining foreign direct investments in Palestine, figures show that it outweighed Palestinian investments abroad (by residents in the West Bank and Gaza Strip) by USD 2,281 million (Figure 8-5).

Figure 8-4: Exports and Imports of Registered Services from Israel, 2016 and 2017 (USD million)

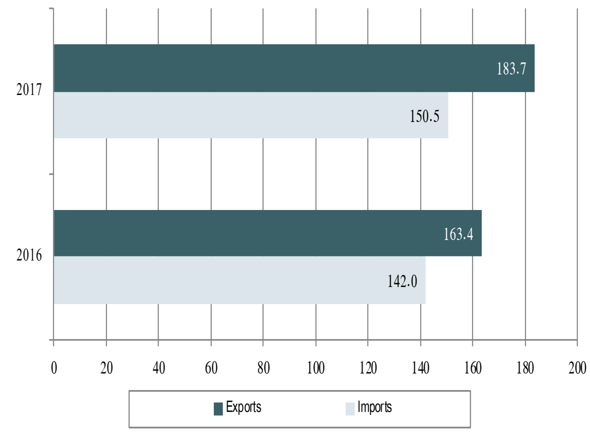


Figure 8-5: International Investments Balance (as of the end of Q4 2017) (Million USD)

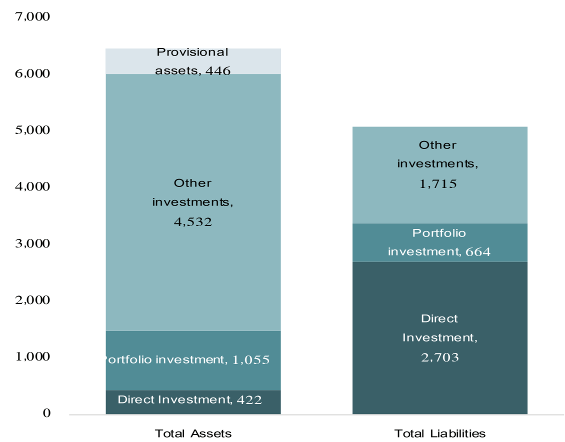


Table 8-1: Palestinian Balance of Payments *(Million USD)

	2016 Q4	2017 Q4	2016	2016
Trade balance of goods and services**	(1,386.3)	(1,386.6)	(5,246.2)	(5,374.2)
- Net goods	(1,143.9)	(1,145.9)	(4,327.4)	(4,439.1)
- Net services	(242.4)	(240.7)	(918.8)	(935.1)
2. Income balance	491.3	544.3	1,896.0	1,991.9
3. Balance of current transfers	365.4	538.7	1,408.6	1,818.6
4. Balance of current account (1 +2 +3)	(529.6)	(303.6)	(1,941.6)	(1,563.7)
5. Net capital and financial account	468.7	313.4	1,701.5	1,395.2
6. Net errors and omissions**	60.9	(9.8)	237.6	168.5

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

** Exceptional financing has been calculated within the "Net errors and omission" item.

4 The "net errors and omissions" item does not equal the difference between the current account and the financial and capital account, because PCBS included "exceptional financing" when calculating this item.

Box 8: Gaza Strip's Crossing Points

The Palestinian people in Gaza Strip have been under an economic siege since 2007, because of the restrictions imposed by Israel and Egyptian authorities. This Box addresses the Strip's crossing points and their operations status over the last years. Entry to and from the Gaza Strip is possible through six crossing points used for different purposes; movement of people, goods, and fuel. [1]Table-1 shows the three main crossings that are operating intermittently and their locations: Rafah, Beit Hanoun (Erez), and Karm Abu Salem (Kerem Shalom) Crossing. The other three crossings were closed permanently in 2011.

Rafah Crossing

Rafah crossing, located on the Palestinian- Egyptian borders, is basically a passage for persons to and from the Gaza Strip. Egypt, however, imposes many restrictions on the movement of people through the crossing. Figure-2 shows the opening and closing days of the crossing point during the period between 2006 and February 2018. As the figure shows, throughout 2017 the crossing point opened only 36 days during the whole year, making it the second year in terms of the highest number of closure days (2015 was the first, as the crossing opened 32 days only). The crossing, as well, was closed for the whole month of January 2018.

Shutting down Rafah crossing for such long periods of time over the last years has largely influenced the movement of passengers to and from Egypt. According to Figure-3, during the 44 days the crossing was opened in 2016 around 43 thousand passengers crossed the crossing in both directions, which constitutes only 10% of the total number of passengers who used the crossing point in 2012.

Beit Hanoun (Erez) Crossing

This crossing is considered second in terms of importance to Gazans movement. The crossing is used for the passage of Palestinian patients who suffer from a medical condition (humanitarian cases), foreign missions, the press, and others heading from or to Israel. Figure-4, shows the number of passengers who have crossed from Gaza Strip to Israel through the crossing, which numbered 82,809 persons during 2017 (OCHA only records the number of departing passengers). The number recorded in 2017 is less than that recorded in the previous years of 2016 and 2015. In addition, during the first two months of 2018, the number of passengers was 14,496 persons, which is less than that in the corresponding months in the last three years.

Figure-1: Gaza Strip Crossing Points

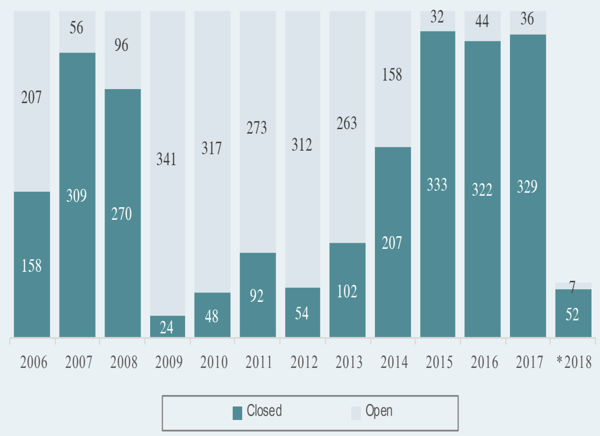
Table-1: Names of Gaza Strip's Crossings, Locations, Importance, and Administrator

Name of the Crossing point	Location	Maintained by	Uses/Purposes	Status
Beit Hanoun (Erez)	at the northern end of the Gaza Strip, on the border with Israel	Israel	humanitarian cases, diplomats, the press, foreign missions, workers and Gazan merchants who needs to enter Israel (holds permits), as well as newspapers and publications	Operates sporadically
Karm Abu Salem (Kerem Shalom)	On the za-Egypt-Israel borders	Israel in coordination with Egypt	used by trucks carrying goods (occasionally used as an alternative to Rafah Crossing)**	Partial operations
Rafah	South of Gaza, on the Palestinian- Egyptian borders	Palestinian/ in coordination with Egypt/ European monitoring	Movement of people and goods to and from Gaza	Operates sporadically
Al Mintar (Karni)	to the east of Gaza	Israel	Movement of goods - to and from Gaza Strip	Closed 2007/2011*
Al "Awwda" (Sufa)	to the east of Rafah city	Israel	Movement of goods- to Gaza Strip	Closed 2011
Al Shaja'iya (Nahal Oz)	in Al Shaja'iya neighborhood east of Gaza city	Israel	Transporting Gaza's share of imported fuel into Gaza Strip	Closed 2011**

Source: Aljazeera website
http://www.aljazeera.net/encyclopedia/citiesandregions/2017/2/14/%D9%85%D8%B9%D8%A7%D8%A8%D8%B1-%D9%82%D8%B7%D8%A7%D8%B9-%D8%BA%D8%B2%D8%A9
*In 2007 the Israeli authorities shut down the Mintar (Karni) crossing permanently, leaving a lane for trucks transporting large quantities of bulk materials (such as gravel, sand, stones… etc.). In 2011, it was shut down completely.
** After shutting down al Shuja'iya crossing, fuel was transported into Gaza through Karm Abu Salem and Rafah Crossings.

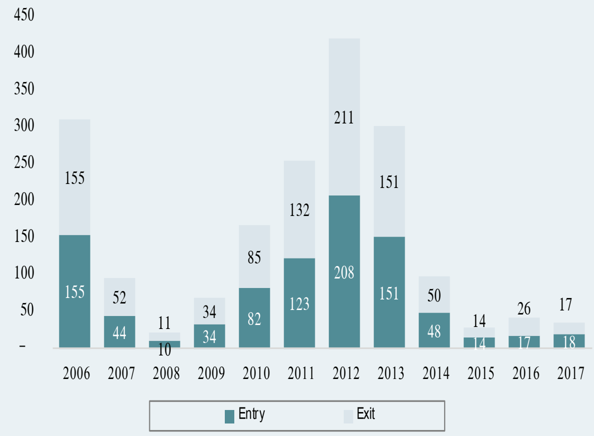
1 There is a seventh crossing point, named "Al Qarara" located between Khan Yunis and Deir Al Balah Governorates, used as an Israeli military base.

Figure-2: Number of Closed and Opened Days at Rafah Crossing



*2018: up to the end of Feb 2018.
Source: OCHA Webpage https://www.ochaopt.org/page/gaza-crossings-movement-people-and-goods#

Figure-3: Movement of Persons to and from the Gaza Strip through Rafah Crossing (thousand)



Source: OCHA Webpage https://www.ochaopt.org/page/gaza-crossings-movement-people-and-goods#

By profession/nature, 36% of passengers in 2017 were businessmen/merchants, 30% were patients (holders of permits for medical reasons), 13% were persons with special needs, 12% were staff of international organizations or holders of Israeli I.D. card, and the remaining 9% distributed on praying pilgrims and visitors of prisoners and security-check interviewees.

Flow of Goods

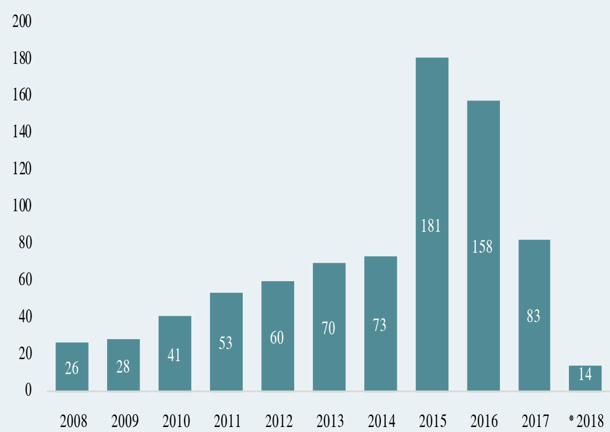
After shutting down al Al Muntar and Al Awda Crossings, goods were transported into the Gaza Strip through Rafah Crossing only, while goods were entered in both directions through Karm Abu Salem (from and to the Strip), including the goods from or to the West Bank. As a result of the destruction of Gaza Strip caused by the latest Israeli aggression on the facilities, infrastructure and buildings of the Strip, the nature of imported commodities to the Strip have changed dramatically, which is seen in large volume of the construction materials needed for reconstruction of the Strip.

Figure-5 depicts the volume and type of commodities (in truckloads) that entered Gaza Strip through the Karm Abu Salem crossing in 2017. The total number of those trucks was 118,510, which is less than the number of trucks in 2016, but more than double the number recorded in 2014.

More than 60% of the volume of commodities (in truckloads) entering the Gaza Strip in 2017 was construction materials, while 20% were food products (Figure-5). It is known that Israel imposes restrictions on types and volumes of imported and exported commodities entering or exiting the Gaza Strip. It also prohibits entering many types of commodities and equipment under security pretexts, known as "the dual use" commodities. It has been documented elsewhere that between 2007 and mid-2010, Israel allowed the entry of food products into the Gaza Strip, according to guidelines on minimum calculated calorie intake needed to avoid alarming hunger and malnutrition. [2]

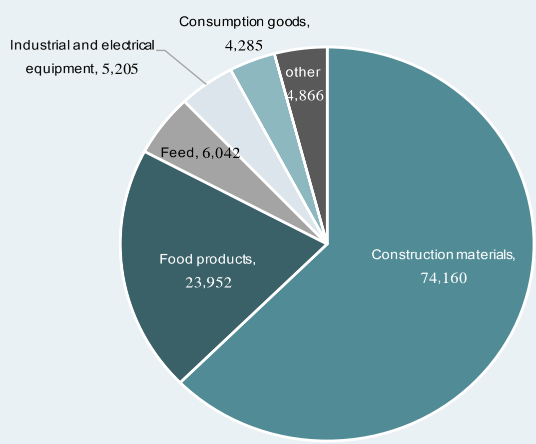
Salam Salah, MAS

Figure-4: the Number of Departing Passengers through Beit Hanoun Crossing (Thousand)



*2018: up to the end of Feb 2018.
Source: OCHA Webpage https://www.ochaopt.org/page/gaza-crossings-movement-people-and-goods#

Figure-5: Number of Trucks Entering Gaza Strip by Commodity Type, 2017



Source:OCHA website, https://www.ochaopt.org/page/gaza-crossings-movement-people-and-goods#

2 GISHA, 2012. "Food Consumption in the Gaza Strip - Red Lines" http://www.gisha.org/UserFiles/File/publications/redlines/redlines-position-paper-eng.pdf

Economic Definitions and Concepts:

The System of National Accounts (SNA)

Following the severe worldwide economic crisis of 1929-1932, known as "the Great Depression", Franklin Roosevelt, then US President, needed an indicator to measure the success or failure of the New Deal's economic policy that he initiated to bring the Depression to an end. For this purpose, an approximate indicator of economic activity was developed, which only included the value of industrial production in the United States, as well as stock market prices. This was the beginning of what became later to be known as "the National Accounts".

A few years later, the Russian-American economist Simon Kuznets (a winner of the Nobel Memorial Prize of 1970) developed the theoretical concept and methodology for formulating a number of quantitative indicators for calculating the size and performance of the US economy, and standardized a concept close to today's GDP. Then, Richard Stone, a British economist, developed a thorough system and methodology for the same purpose and applied it to the British economy. Stone's methodology was adopted by the United Nations in 1947 which evolved later into the current "System of National Accounts (SNA)".

SNA is the internationally agreed standard system of national accounts, measuring the economic weight of different countries, their economic activity, growth of production, international trade, and factor transfers. The SNA is supervised and maintained by the Inter-secretariat Working Group on National Accounts (ISWGNA) affiliated with the UN, which works constantly on developing and updating the system's content, and upgrading its methodology.

National Accounts

GDP is a monetary measure of the market value of all final goods and services produced in a period of time (a year) in a specific geographic area (country). GDP can be estimated using three approaches, all of which give the same value:

- The Production Approach: the gross value added of a country's economic activities during one year.
- The Income Approach: the sum of income generated by the production of all economic goods and services in a country during one year.
- The Expenditure Approach: the sum of all expenditure on goods and services and investments in a country during one year.

Table-1 shows the composition of national accounts, through presenting the income and the expenditure sides. The GDP- expenditure side in the Table (left column) shows that it consists of total consumption expenditure (private and public), as well as investment expenditure and net exports (i.e. exports minus imports). It represents total spending on domestic goods and services in the economy, which is also equivalent to total income generated by production of all economic goods and services in a country during one year (the first row of the right column). Based on this, the value of GDP and domestic income is the same. However, GDP is based on "production", while "domestic income' is based on "income".

Table-1 the Composition and Components of National Accounts

Expenditure	Income
Private consumption + Government/public consumption + Investment (Gross Capital Formation) + Exports - Import	Workers Compensations (wages and salaries) + gross operating surplus (profits and dividends of stocks and shares)
=GDP (market price)	=GDI (market prices)
-Indirect net taxes (taxes- transfers)	-Indirect net taxes (taxes- aid)
=GDP (factor price)	=GDI (factor price)
-+ net foreign factor income	-+ net foreign factor income
=GNP (factor price)	=GNI (factor price)
-Consumption of fixed capital (CFC)	- Consumption of fixed capital (CFC)
= Net National Product (NNP) (factor price)	=Net National Income (NNI) (factor price)

- From "Market Price" to "Factor Price"

GDP at market prices includes net indirect taxes (indirect taxes minus subsidies on products), while GDP at factor-cost prices equals GDP at market prices minus net indirect taxes.

- From "Domestic" to "National"

As mentioned earlier, GDP measures the levels of production and income produced within a country's geographic area, regardless of the nationality of persons or corporations who contributed to GDP. This means that GDP is a location-based indicator. On the other hand, GNP (in revised SNA referred to as Gross National Income – GNI) measures the levels of production of all citizens or corporations from a particular country, regardless if they work inside or outside their country. This means that GNP is ownership-based indicator. For example, the income of the Cairo Amman Bank operating in Palestine is included in GDP, but not in GNP.

The income of West Bank workers in Israel is not a component of Palestinian GDP but is a key component of GNP. Thus, the difference between GDP and GNP belongs to "Net Foreign Factor Income (NFFI)", i.e. the aggregate income that a country's citizens earn abroad minus the aggregate income that foreign citizens earn in that country. NFFI could have a negative or a positive value, which is positive and large in the case of Palestine; however, it is negative and large in the Gulf Oil States.

- From "Gross" to "Net"

The difference between the Net and the Gross Domestic Product or Income is the value of "Consumption of Fixed Capital (CFC)/economic depreciation", i.e. the gradual decrease in the value of capital stock (machinery, equipment, infrastructure, buildings, roads, and bridges… etc.) as a result of its use over a year. This equals gross investments needed to maintain gross capital formation in a country at the beginning and end of the year at the same level.

The Circular Nature of National Accounts

GDP is a measure of a flow not of or accumulated stock, like capital stock which measures the total amount of capital accumulating over several years. Figure-1 shows the circular flow of income, and demonstrates how GDP as measured by production, income, or expenditure is the same. The reason for this congruence is that the value of what is produced and imported is equal to the value of what is purchased locally and exported.

In the closed circuit depicted in Figure-1, showing output on one side and consumption and investment on the other, income leaks through three channels: Net Taxes (T), which equals taxes collected by the government minus transfers; Savings (S), which are amounts withdrawn from income and not spent; and Imports payments (Z), which is the part of income that is spent to buy imports from outside the country.

Leakages through the three channels mean that actual domestic expenditure is not enough to absorb domestic production. Fortunately, there are three channels of injection as well: Government Spending (G), through redistributing taxes; Investment (I) re-injecting savings; and Exports (X). To close the circuit T+S+Z should equal G+ I+X or (I – S) + (G – T) = Z – X. In other words, balancing the accounts requires that domestic deficit (in savings and public budget) is financed by an equal surplus in the balance of payments (loans and foreign aid).

GDP, GNI, and the Palestinian National Disposable Income (NDI)

As discussed in a previous issue of the Monitor (issue 48), GDP has several drawbacks as a measure of economic and social progress and welfare of a specific country. It is an approximate indicator of the value of resources available in an economy that can be used in principle to realize the welfare state.

In the case of Palestine, GDP is not even an approximate indicator of available those resources as it does not take into consideration the high positive value of "the Net Foreign Factor Income (NFFI)", which reached USD 1,217 million in 2015. As Table-2 shows, adding NFFI to GNI raises Palestinian GNI by 13.5% compared with GDP. It is noteworthy that Palestinian labor force abroad (mainly in Israel) contributed 97% of NFFI, while the rest is contributed by Net Property Income from abroad. This explains the lion share of the West Bank of NFFI, against Gaza Strip's marginal share that year.

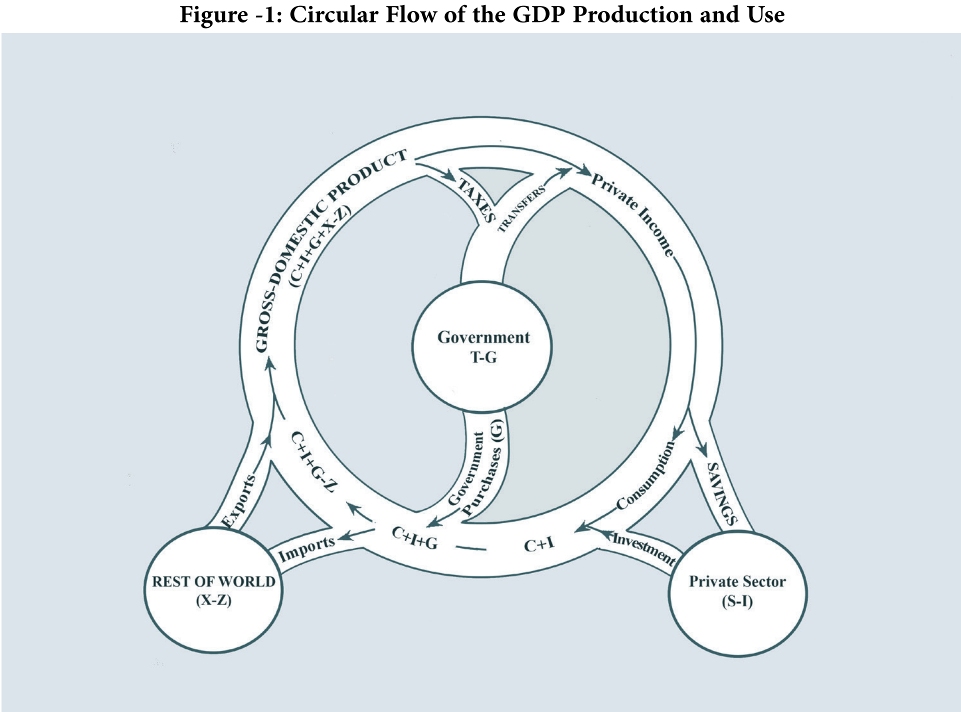
Table-2: GDP, GNI, and GNDI (USD million, 2015)

	West Bank	Gaza Strip	Palestine
GDP (market price)	9,539	3,134	12,673
Per capita GDP (USD)	3,606	1,686	2,814
NFFI	1,696	16	1,712
GNI	11,235	3,150	14,385
Net Unrequited Transfers	835	586	1,421
GNDI	12,071	3,735	15,806
Per capita GNDI (USD)	4,564	2,010	3,510

PCBS: National Accounts Statistics, 1994-2015.

The preceding discussion demonstrates that GNI, compared with GDP, can be a better indicator of the resources available during a given year in the Palestinian case. However, GNI also does not show the complete picture, as it does not take into consideration "Net Unrequited Transfers" from abroad, which include aid and gifts sent by citizens residing abroad to their families and friends in the home country, as well as assistance and donations from abroad to local private and public institutions. Net Unrequited Transfers to Palestine amounted to USD 1,421 million in 2015. Adding these transfers to GNI gives the Gross national Disposable Income (GNDI), which is a more comprehensive indicator of resources available in the economy, than the other indicators considered. The value of the Palestinian GNDI is 25% above the value of GDP, both at the level of the gross and the per capita income.

Figure -1: Circular Flow of the GDP Production and Use



Key Economic Indicators in Palestine, 2013-2017

Indicator	2013	2014	2015	2016	2016 Q4	2017 [2] Q1	Q2	Q3	Q4
Population (One thousand)									
oPt	4,420.5	4,550.4	4,682.5	4,867.4	4,816.5	4,901.2	4,935.2	4,969.4	5,003.7
West Bank	2,719.1	2,790.3	2,862.5	2,962.9	2,935.4	2,981.2	2,999.6	3,018.1	3,036.6
Gaza Strip	1,701.4	1,760.1	1,820.0	1,904.5	1,881.1	1,920.0	1,935.6	1,951.3	1,967.1
Labor Market									
No. of workers (thousand)	885.0	917.0	963.0	980.5	1,002.0	999.1	971.5	1,000.0	1,019.0
Participation rate (%)	43.6	45.8	45.8	45.8	45.5	45.8	45.4	46.5	44.1
Unemployment rate (%)	23.4	23.4	26.9	26.9	25.7	27.0	29.0	29.2	24.5
- West Bank	18.6	17.7	17.3	18.2	16.9	18.8	20.5	19.0	13.7
- Gaza Strip	32.6	43.9	41.0	41.7	40.6	41.1	44.0	46.6	42.7
National Accounts (USD millions)									
GDP	12,476.0	12,715.6	12,677.4	13,397.1	3,327.2	3,455.3	3,651.7	3,728.3	3,728.8
- Household expenditure	11,062.6	11,840.4	11,795.7	12,353.3	2,961.5	3,083.9	3,151.5	3,386.6	3,173.8
- Government expenditure	3,381.7	3,478.2	3,374.9	3,530.2	964.4	858.0	990.3	892.7	1,068.6
Gross capital formation	2,707.3	2,415.0	2,689.5	2,837.7	760.3	758.9	778.8	879.6	894.9
Exports	2,071.8	2,172.3	2,322.7	2,432.4	658.8	639.0	692.8	671.3	717.9
Imports (-)	6,804.0	7,208.9	7,501.4	7,602.7	2,017.8	1,884.5	1,961.7	2,090.5	2,104.5
GDP per capita (USD)									
at Current prices	2,992.2	2,960.1	2,865.8	2,943.5	723.3	745.9	782.8	793.7	788.3
at Constant prices (base year 2004)	1,793.3	1,737.4	1,745.9	1,765.9	434.2	431.6	440.2	745.6	734.9
Balance of Payment (USD millions)									
Trade Balance	(4,732.2)	(5,036.7)	(5,199.5)	(5,170.5)	(1,359.1)	(1,245.5)	(1,268.9)	1,419.3))	(1,386.6)
Income Balance	1,160.3	1,482.4	1,712.3	1,578.6	408.6	470.3	418.7	558.6	544.3
Current Transfers Balance	1,188.0	1,405.3	1,421.5	2,243.9	585.4	472.4	382.8	417.0	538.7
Current account Balance	(2,383.4)	(2,149.0)	(2,065.7)	(1,348.0)	(365.1)	(302.8)	(467.4)	(443.7)	(303.6)
Exchange Rates and Inflation									
USD/NIS exchange rate	3.60	3.60	3.90	3.840	3.829	3.749	3.594	3.559	3.512
JOD/NIS exchange rate	5.10	5.10	5.50	5.418	5.401	5.292	5.073	5.019	4.953
Inflation rate (%)[1]	1.72	1.73	1.43	(0.22)	(0.69)	1.07	(0.47)	(0.49)	0.43
Public Finance (cash basis USD million)									
Net domestic revenues (including clearance)	2,319.9	2,791.2	2,891.4	3,552.0	936.4	913.7	1,040.0	721.1	976.9
Current expenditure	3,250.7	3,445.9	3,424.9	3,661.6	768.2	849.9	1,113.8	787.5	1,059.7
Developmental expenditure	168.4	160.9	176.4	216.5	80.2	36.5	55.0	53.0	113.4
current budget deficit\surplus (before grants)	(1,099.2)	(815.6)	(709.9)	(326.2)	88.0	27.4	(128.9)	(119.4)	(196.2)
Total grants and aid	1,358.0	1,230.4	796.8	766.3	214.3	208.6	109.0	124.3	254.2
Total budget deficit\surplus (after grants and aid)	258.7	414.8	86.9	440.1	302.3	236.0	(19.9)	4.9	58.0
Public debt	2,376.2	2,216.8	2,537.2	2,483.8	2,483.8	2,514.9	2,492.7	2,526.0	2,523.2
The Banking Sector (USD millions)									
Banks assets/liabilities	11,191.0	11,822.0	12,602.3	14,190.1	14,190.1	15,222.3	15,348.1	15,461.0	15,850.2
Equity	1,360.0	1,464.0	1,461.7	1,683.6	1,683.6	1,720.3	1,744.5	1,804.6	1,892.7
Deposits at banks	8,304.0	8,935.0	9,654.6	10,595.7	10,595.7	11,127.5	11,379.5	11,526.8	11,982.5
Credit facilities	4,480.0	4,895.0	5,824.7	6,865.9	6,865.9	7,234.2	7,528.9	7,761.9	8,026.0

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 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.

Data on population and the numbers of workers are based on estimates for the 2007 Census of Population, Housing and Establishments and will be updated to reflect the final results of the 2017 census.