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

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Q1 2018 in Brief:

- GDP: GDP declined during Q1 2018 by 2.8% compared with the previous quarter (at 2015 constant prices), which is attributed to its decline in the West Bank by 3.0% and in the Gaza Strip by 2.4%. This led to a drop in per capita GDP of about 3.5% in the West Bank and of 3.0% in the Gaza Strip. However, the per capita GDP grew by 2.4% in the West Bank compared with the corresponding quarter.
- Employment and Unemployment: The unemployment rate in Palestine rose by 5.4 percentage points in Q1 2018 compared with Q4 2017, reaching 30.2% (18.3% in the West Bank and 49.1% in the Gaza Strip). The percentage of private sector waged workers, who earn sub-minimum wages, was 36% (44% females and 34% males).
- Public Finance: In Q1 2018 public expenditures amounted to NIS 3.4 billion. External funding for budget support reached NIS 157 million, one-quarter less than the previous quarter, whereas external funding to support development expenditure was NIS 120 million, one-third less than the previous quarter. The government's arrears in Q1 2018 amounted to NIS 499.5 million.
- Banks: During Q1 2018, credit facilities rose by 2% compared with the previous quarter, reaching around USD 8 billion, 17% of which were granted to the public sector. By the end of Q1 2018, banks' profits reached USD 42.3 million, 4% higher than Q1 2017.
- PEX: By the end of the Q1 2018, the market value of traded shares in PEX was USD 3.9 billion, almost the same as the previous quarter. Al Quds index closed at 565.57, a drop of 1.5% compared with the end of 2017 and a rise of 5% between the end of Q1 2017 and the end of Q1 2018.
- Vehicles: The number of new and second-hand vehicles (registered for the first time) in the West Bank reached 8,002 in Q1 2018, 2,070 vehicle less than the corresponding quarter 2017. In Q1 2018, about 83% of total were second-hand vehicles imported from international markets and Israel.
- Inflation and Prices: Palestine witnessed negative inflation (drop in prices) of 0.6% compared with the previous quarter. This implies an increase in the purchasing power of those who receive and spend their income in shekels. The purchasing power of those who receive their salaries in dollars and spend in shekels decreased by 0.85% and 6.56% compared with the previous and corresponding quarters, respectively. This is attributed to the decline in the exchange rates of the dollar against the shekel.
- The Balance of Payments: In Q1 2018, the deficit in the current balance of payments reached USD 442 million (12% of GDP). This is attributed to deficit in the trade balance of USD 1.1 billion, against a surplus in the balance of income (composed mainly of compensation of Palestinian workers in Israel) of USD 569 million and a surplus in the balance of transfers of USD 348 million.

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1. GDP[1]

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 2.8% over Q1 2018 compared with the previous quarter reaching USD 3,377.6 million (at 2015 constant prices): 76% in the West Bank and 24% in Gaza Strip. The decline in GDP distributed as 3.0% in the West Bank and 2.4% in the Gaza Strip. Compared with the corresponding quarter (Q1 2018 and Q1 2017), GDP grew by 2.0% in Palestine, as a result of a growth of 4.8% in the West Bank and a decline of 6.0% in the Strip (Figure 1-1).

This decline during Q1 2018, accompanied by an increase in the population, resulted in a decrease in the per capita GDP by 3.4% compared with the previous quarter. Compared with the corresponding quarter 2017 the per capita GDP decreased by 0.7% (Table 1-1).

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

	Q1 2017	Q4 2017	Q1 2018
Palestine	751.1	772.4	746.2
-West Bank	957.5	1,016.1	980.9
-Gaza Strip	466.7	438.5	425.3

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

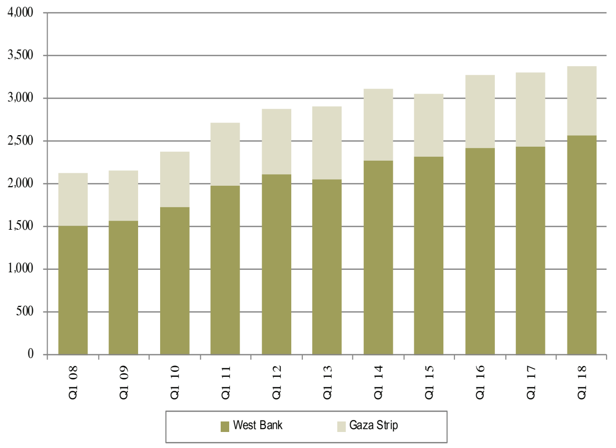
The GDP Gap between the West Bank and the Gaza Strip

The GDP gap between the West Bank and the Gaza Strip has expanded over the last decade. Gaza Strip's contribution to GDP is still less than a quarter of Palestine's GDP. Figure 1-2 shows that Gaza Strip's contribution to GDP remained almost unchanged in Q1 2018 compared with the previous quarter. However, the per capita GDP gap between the two regions decreased slightly between Q1 2018 and Q4 2017 (by USD 22), reaching USD 555.6. This implies that in Q1 2018 the per capita GDP in Gaza Strip was still less than half that in the West Bank (43% only) (Table 1-1).

Composition of GDP

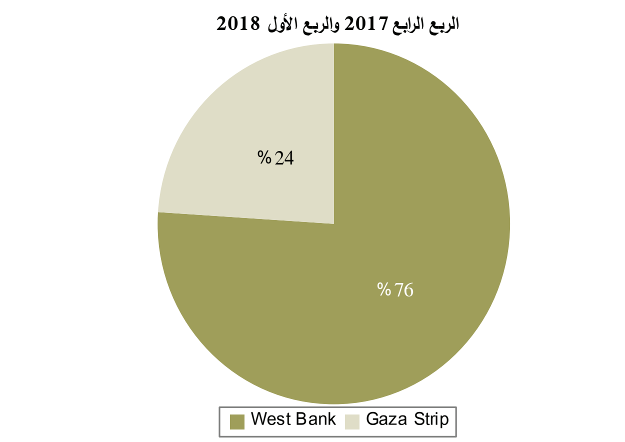
The contribution of the productive sectors to Palestinian GDP decreased by 0.4 percentage point between Q4 2017 and Q1 2018, as a result of a decline in the share of the industry and construction sector. Meanwhile, the share of the services sector increased by 0.7 percentage point, as well, the share of the transportation, information, and finance sectors increased. On the other hand, the share of public administration and security declined (Figure 1-3).

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



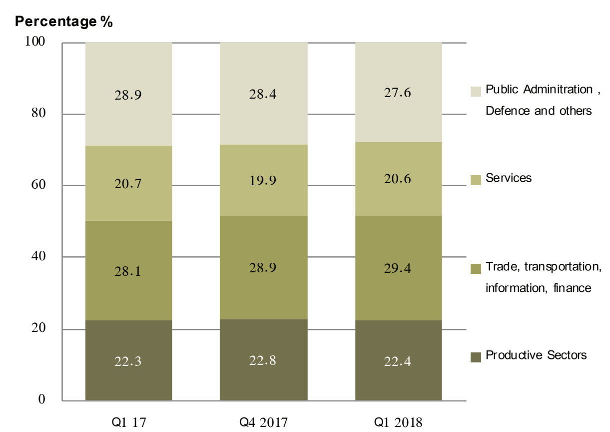
(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

Figure 1-2: GDP in the West Bank*and Gaza Strip (at 2015 constant prices) %



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

Figure 1-3: % Contribution of Economic Sectors to Palestinian GDP* (constant prices, base year 2015)

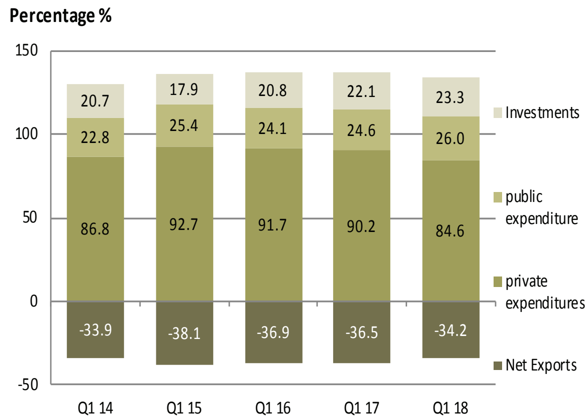


1 Source: PCBS, 2018, Periodic Statistics on National Accounts, 2008-2018. Ramallah- Palestine.

Expenditure on GDP

The increase in GDP between Q1 2017 and Q1 2018 amounted to about USD 66.8 million (a growth of 2%). This is the result of the decline in final consumption expenditure (public and private) of USD 67.6 million, and the rise in aggregate investment of USD 53.4 million. In addition, net exports (i.e. exports minus imports) rose by USD 55.0 million during Q1 (Table 1-4).

Figure 1-4: % Expenditure on GDP in Palestine* (constant prices, base year 2015)



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

Box 1: Living Standards in Palestine: 30% of Consumption goes to Food and 40% of the Population Consumes Less than a Quarter of Total Consumption

In May 2018, the Palestinian Central Bureau of Statistics (PCBS) published a report on living standards in Palestine (2017),[1] providing data on Palestinian households' expenditure, consumption, and poverty levels. The size of the surveyed sample was 3,739 households in the West Bank and the Gaza Strip, with varying household sizes as shown in Table 1.

Table-1: the Surveyed Sample in the Living Standards Survey, 2017

	West Bank	Gaza Strip	Palestine
Sample Size/ no. of households	**2,411**	**1,328**	**3,739**
Average household size	5.2	6.1	5.5

The average monthly household consumption in Palestine was JOD 964.7, while the average monthly per capita expenditure was JOD 172. By region, there is a wide disparity between the West Bank and Gaza Strip; in the latter the average monthly per capita expenditure was JOD 95 which is less than half of that in the West Bank (JOD 221). However, disparity between the two regions narrows in the consumption of food and widens in the consumption of other non-food items.[2]

Table-2 shows that total consumption is composed of cash expenditure on food and non-food items in addition to households' consumption of own-produced food and non-food items, whereas, total cash expenditure comprises cash expenditure on food and non-food items, in addition to cash transfers, taxes, and other non-consumption expenditures (such as interests on loans, fines, and zakat). The table shows that household cash expenditure in the West Bank is close to the household's total consumption (less by 0.5% only), while in Gaza Strip the gap between the two items is 4%. This is attributed to the higher ratio of own-produced to total consumption in the Strip compared to the West Bank (18% against 15%).

Table-2: Average Household consumption and expenditure in Palestine by Region, 2017 (JOD)

	West Bank	Gaza Strip	Palestine
Total Food Consumption	**339.6**	**201.3**	**290.4**
- Cash expenditure on food groups	332.8	198.5	285.1
- Own-produced food products	6.8	2.8	5.3
Total Non-Food Items Consumption	**809.8**	**377.5**	**656.2**
- Cash expenditure on non-food items	644.8	274.9	513.4
- Own-produced non-food products*	165.0	102.7	142.8
Total Consumption	1,149.3	578.8	946.7
Total Cash Expenditure	1,143.6	556.0	934.9

*Mostly an estimated rent of owned house.

The Standard of Living Indicator

Food consumption to total consumption is considered high in both the West Bank and Gaza Strip, where it reaches %30 and %35 respectively compared with less than 20% in rich countries. Based on Engel's Economic law, which holds that "the higher the level of income the lower is the share of expenditure on food to total expenditure", the PCBS categorizes the standard of living into three main categories:[3]

Better-off: where food consumption to total consumption is less than 30%. Around 42% of Palestinian households fall within this category.

Middle category: where food consumption to total consumption is between 30-44%. Around 44% of Palestinian households fall within this category.

1 PCBS, 2018. Main Findings of Living Standards in Palestine (Expenditure, Consumption and Poverty), 2017- Ramallah, Palestine.

2 PCBS uses the term "food" rather than "nutrition", as the former is a more common and broader term than the latter.

3 Note that the low ratio of expenditure on food to total expenditure does not mean that the rich spend less than the poor on food.

Worse-off: where food consumption to total consumption is between 45-100%. Around 14% of Palestinian households fall within this category.

"Income Poverty" and "Consumption Poverty"

The level of poverty is measured using two indicators, consumption and income. The wide disparity between the consumption poverty rate and income poverty rate in Palestine is attributed to the fact that consumption is not necessarily dependent on cash income, while households with same level of income might have different levels of well-being.[4] Part of consumption is covered through various types of borrowing (including post-dated cheques) which is not part of income. Table-3 presents poverty rates in Palestine by per capita income and consumption during a selection of years. Firstly, the income poverty rate was 41.1% and the consumption poverty rate was 29.2% in 2017. Secondly, between 2009 and 2017 the consumption poverty rate declined in the West Bank (from 19.4% to 13.9%), whereas in the Gaza Strip it rose significantly during the same period (from 38.3% to 53%), which translates into an overall rise in Palestine. Thirdly, during the period 2009-2017 a minor decline in the income poverty rate in the Gaza Strip (from 69% to 68%) was accompanied by a significant rise in the consumption poverty rate (from 38% to %53) during the same period. How can this almost stable incidence of income poverty accompanied by a significant increase in consumption poverty in the Gaza Strip be explained?

Without data on the development of income sources and on household expenditure on consumption in the Gaza Strip, it is not possible to find a reliable answer to this question. However, the trajectory of convergence in the level of "consumption poverty" and that of "income poverty" in the Strip implies that household level of consumption is close to their level of income, which denotes inability to spend above their disposable income. This may be attributed to different reasons, like the very low possibility of borrowing from relatives and friends, and banks' stringent measures on granting loans because of the associated high political risks in the Strip. In addition, interest rates on loans in the Strip are 0.5-1.0% higher than those in the West Bank.[5]

Table-3: Poverty Rates among Individuals by Monthly Income and Consumption (%)

		2009	2010	2011	2017
By Consumption	West Bank	19.4	18.3	17.8	13.9
	Gaza Strip	38.3	38.0	38.8	53.0
	Palestine	**26.2**	**25.7**	**25.8**	**29.2**
By Income	West Bank	40.9	36.2	35.6	24.0
	Gaza Strip	69.3	69.3	67.1	67.6
	Palestine	**51.2**	**48.6**	**47.6**	**41.1**

Note: There are no data available for the five years between 2011– 2017, as there are no Surveys published for these years.

Poverty Gap and Severity

The "Poverty Gap" is the gap between actual consumption of the poor and the poverty line: how far the consumption of the poor is from the poverty line or what is the increase needed in the poor's consumption level to reach the poverty line? "Poverty Severity", on the other hand, measures consumption inequality among the poor (the computed average of poverty gaps among the poor). These indicators are highly important, as they show the severity of poverty in society and are not a mere headcount of people below or above the poverty line. Table-4 shows the poverty gap and severity ratios in Palestine by consumption in 2011 and 2017. The poverty gap in the Gaza Strip was %16 in 2017, which means that the needed increase in the poor consumption is %16 of the poverty line value in order to get the poor out of poverty. The figures in the Table also show the absolute severity of poverty in the Gaza Strip, and compared to the West Bank.

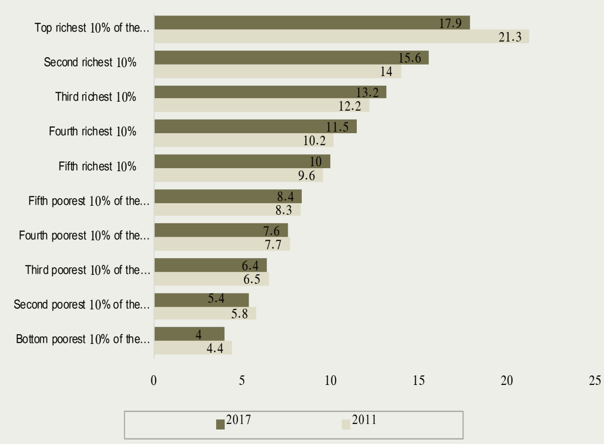
Table-4: Ratios of Poverty Gap and Severity among Individuals by Monthly Consumption, 2011 and 2017

	Poverty Gap		Poverty Severity	
	2011	2017	2011	2017
West Bank	3.9	2.8	1.4	7.9
Gaza Strip	9.3	15.7	3.2	30.8
Palestine	**6.0**	**7.9**	**2.1**	**16.9**

Distribution of Consumption in Palestine

Figure-1 shows the consumption share of each 10% of the population groups in 2011 and 2017. The distribution of consumption is a better indicator, than income distribution, of social equity. The consumption share of the richest 30% of the population fell slightly from 47.5% in 2011 to 46.7% in 2017, yet the share of the poorest 30% of the population of total consumption also decreased from 16.7% to 15.8%. The consumption share of the poorest 40% of the population is still 23.4% in Palestine, which is 1 percentage point lower than 2011.

Figure-1: The Share of Consumption of each Population Group (%), 2011 and 2017



Salam Salah, MAS

4 Poverty Rate measures the ratio of the population whose income or consumption falls below the poverty line. Poverty line is the minimum level of income deemed adequate to secure basic needs and other needs (health care, education, transportation, personal and household care, furnishings and other household items).

5 interview with Dr. Seif Elldeen Odeh, Professor of Economics at the Islamic University in Gaza. (dated 04/07/2018)

2- Labour Market [1] [2]

Manpower in Palestine, which comprises all persons aged 15 years and above, amounted to 2,950 thousand persons by the end of Q1 2018. The labor force (which includes all persons qualified to work and actively seeking employment) amounted to 1,340 thousand. The difference between the labor force and the actual number of workers provides the measure of the rate of unemployment. Figure 2-1 shows the relation between these three variables and the size of population in Q1 2018.

Figure (2-1) shows that the labor force participation rate (the ratio of labor force to manpower) which refers to the number of people aged 15 and above who are currently in the labor market (i.e. employed and unemployed), reached around 45%. This rate is close to the general average in the Middle East region (for example in Turkey it is 48%), however it remains low compared to global levels (for example 63% in Latin America, and 61% in South Korea).[3] This is mainly explained by the female low participation rate (refer to Box 2, Economic Monitor, issue 51).

The Dependency Ratio

Figures show high dependency ratio, which measures the burden/pressure on the working-age population compared with the total population. There are two types of dependency ratios; economic and demographic. The demographic dependency ratio is measured by the total population aged 15 and less divided by manpower population (the total population aged 15 and above), which has reached 65% in Palestine in 2017. This means that every individual supporting them self also supports 6.5 dependent children. This ratio, however, is close to the average dependency ratio in the region which is 58%, according to the World Bank data.

The economic dependency ratio measures the burden on the employed of the total population. It is measured by the total population aged 15 and less and the individuals outside the labor force and the unemployed divided by the labor force, which has reached 4% in Palestine in 2017. This means that for every working individual in Palestine there are 4 non-employed individuals who need supporting, which is a significantly high ratio.

Number and Distribution of Workers

The number of workers in Palestine decreased by 3.2% between Q4 2017 and Q1 2018 reaching 935 thousand. By regional distribution, 59% of workers were in the West Bank, around 28% were in Gaza Strip and 13% (around 121 thousand) in Israel and the colonies. By sector, more than one fifth of workers in Palestine were employed by the public sector, while this ratio rises to 38% in Gaza Strip (Figure 2-2). Despite that the percentage of the public sector workers is high in Palestine, it is still higher in neighboring Arab countries, for example in Jordan it is 45% and in Egypt 26%.

1 Source of data for this section draws on PCBS, 2018, Labor Forces Survey, Ramallah, Palestine.

2 The labor market section in this issue of the Economic Monitor and Boxes 2 and 3 were prepared by Dr. Samia Botmeh, Lecturer at Birzeit University. As well, this section is funded by the ILO, under a project that aims to develop analysis of the Palestinian labor market and to better inform policy makers and the public about this sector and the challenges facing it.

3 The World Bank database.

In Q1 2018, the share of the services sector to total employment was 37% (56% in Gaza Strip), whereas the building and construction sector employed 22% of West Bank workers and less than 6% of Gaza Strip workers. The ratio of workers employed by the trade, restaurants & hotels sector in the West Bank is close to that in the Gaza Strip, around 22% and 20% respectively (Figure 2-3).

Unemployment

The number of the unemployed in Palestine stood at 405 thousand by the end of Q1 2018. The unemployment rate (the number of unemployed workers divided by the labor force) was 30.2% in Q1 2018, higher by 3 percentage points compared with the corresponding quarter 2017 and by 5.4 percentage points compared with the previous quarter (Table 2-2). This rise in the unemployment rate is driven by its rise over the corresponding quarter in Gaza Strip, where employment among both females and males rose in the Strip against a decline among females in the West Bank while remaining at the same level among males in the West Bank (Table 2-1).

Figure 2-1: The Total Population, Manpower and Labor Force, and Number of Workers in Palestine (Q1 2018) (Thousands)

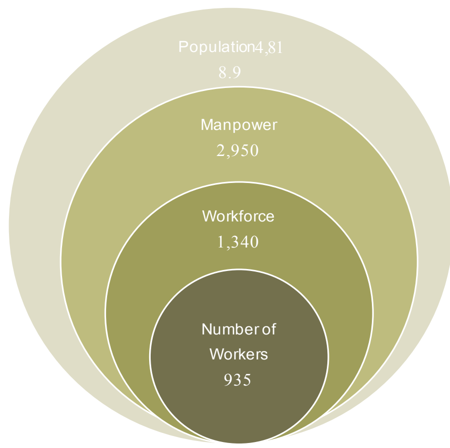


Figure 2-2: Percentage Distribution of Workers by Place of Work and by Sector, Q1 2018

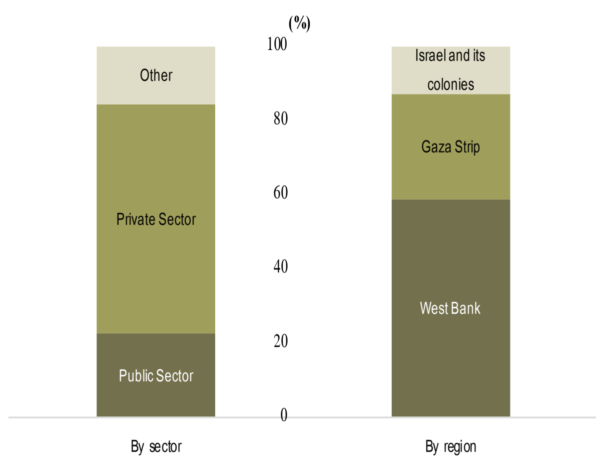


Table 2-1: Unemployment Rate among Individuals Participating in Palestine's Labor Force by Region and Gender (%)

		Q1 2017	Q4 2017	Q1 2018
West Bank	Males	15.8	11.1	15.9
	Females	30.8	24.6	28.7
	Total	**18.7**	**13.6**	**18.3**
Gaza Strip	Males	32.8	35.1	41.1
	Females	67.4	65.9	71.5
	Total	**41.2**	**43.0**	**49.1**
Palestine	**Males**	**22.0**	**19.8**	**25.0**
	Females	**47.0**	**43.6**	**48.9**
	Total	27.2	24.8	30.2

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

1) It is high among youth: the unemployment rate among the age group between 15-24 years reached 48% (72% for females against 43% 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).

2) The unemployment rate decreases with the attainment of higher educational levels for males, contrary to females (Figure 2-5). The unemployment rate in Q1 2018 reached 28% for males who had not completed secondary education, while it was 20% for males who had tertiary education. On the other hand, the unemployment rate for females with a tertiary education was 52%, against 38% for females who had not completed secondary education.

Wages

The average daily wage for workers in Palestine amounted to NIS 119.8 in Q1 2018. 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 its colonies on the other hand, and between the average wage in the West Bank and that in the Gaza Strip (Table 2-2). As the figures indicate, the average wage of workers in Israel and its colonies are more than four times the wage of workers in the Gaza Strip. The gap is even wider when considering the median wage, which is a stronger indicator than the average wage, because it marks the topmost wage level for half of all workers (the other half receiving wages above that level). Notably, the median wage in the Gaza Strip is less than half that in the West Bank (Figure 2-6). Between Q4 2017 and Q1 2018, the average daily wage of workers rose by NIS 6.2, as a result of its rise in the West Bank by NIS 4.3, by NIS 10.7 in Israel and the colonies and by NIS 0.1 in Gaza Strip.

Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q1 2018 (%)

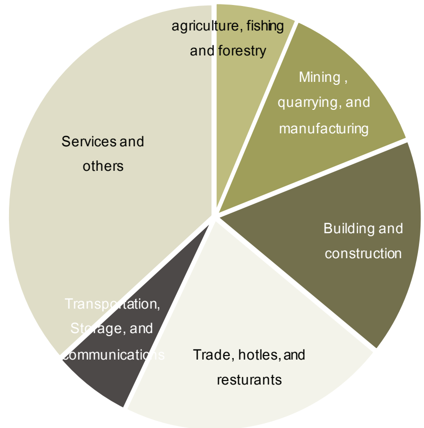


Figure 2-4: The Employed and Unemployed in Palestine by Age Group (Q1 2018) (Thousands)

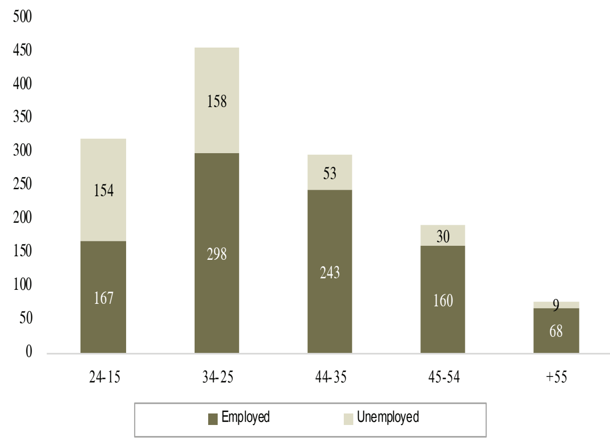


Figure 2-5: the Number of Employed and Unemployed in Palestine by Educational Level and Gender (Q1 2018)

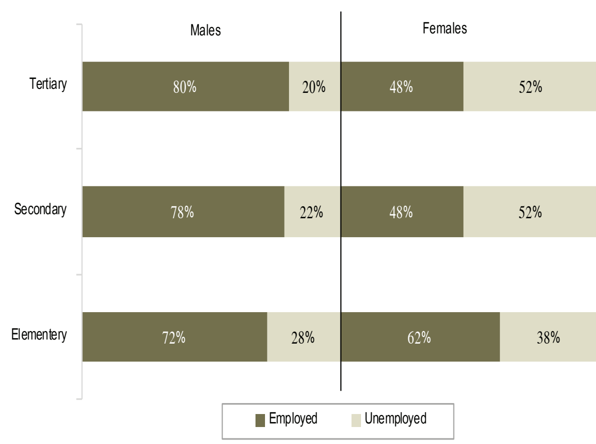


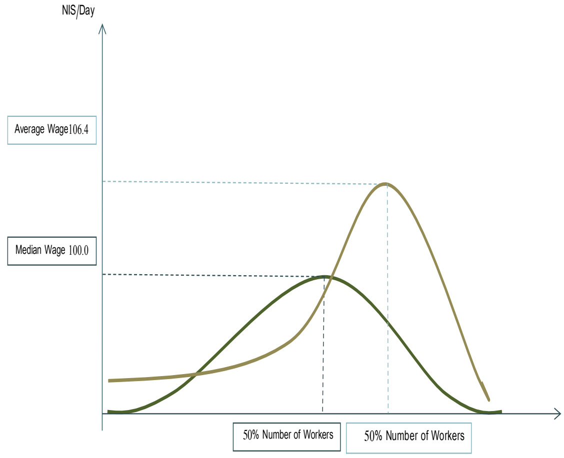
Table 2-2: The Average and Median Daily Wage (NIS) for Waged Workers in Palestine (Q1 2018)

Place of Work	Average Daily Wage	Median Daily Wage
West Bank	106.4	100.0
Gaza Strip	62.1	40.5
Israel and its colonies	**242.5**	**250.0**
Palestine	119.8	100.0

Minimum Wage

During Q1 2018 the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 36% (44% females and 34% males). The average monthly wage of those workers was NIS 808. By region, 16% of the private sector waged workers in the West Bank were sub-minimum wage earners, compared to 80% in the Gaza Strip (Table 2-3).

Figure 2-6: A Graphic Illustration of the Differences between the Average and Median Wage



Child Labor

Child labor (aged 10-17 years) decreased quarter on quarter (from 3.2% to 2.7%). By region, child labor was 3.7% in the West Bank and 1.2% in Gaza Strip during Q1 2018 (for more analysis on child labor in Palestine refer to Box 3).

Table 2-3: The Number and Average Wage of Waged Workers Employed by the Private Sector who are Sub-minimum Wage earners (do not include workers in Israel and its Colonies), Q1 2018

	Number of waged workers in the private sector (Thousand)			Number of waged workers who earn sub-minimum wages (Thousand)			Average monthly wage for sub-minimum wage earners (NIS)		
	males	females	both	males	females	both	males	females	both
West Bank	189	46	235	19	18	37	1,183	951	1,074
Gaza Strip	90	18	108	76	10	86	701	631	693
Palestine	279	64	343	95	28	123	800	838	808

Box 2: The Impact of the Employment of West Bank Workers in Israel and its Colonies on Wages and Unemployment in the West Bank

This Box addresses the impact of employment of West Bank workers in Israel and its colonies on the labor market in the West Bank, with special emphasis on unemployment and average wages. It explores whether work in Israel is correlated with the levels of unemployment and wages in Palestine and the significance of this correlation. This Box excludes Gaza Strip, since no Gazan workers were allowed to work in Israel since 2006.

Figure-1 shows employment rates of Palestinian West Bankers in Israel and the colonies to total employment. Since 2007, the rate has been increasing. The number of workers that year was 61,297, while in 2017 it reached about one fifth of the total West Bank workers, i.e. 122,500 workers. The vast majority of those workers are male (99%). Male workers in Israel and the colonies account for 20% of total male workers in the West Bank, while female workers in Israel and the colonies account for less than 1% of total female workers in the West Bank.

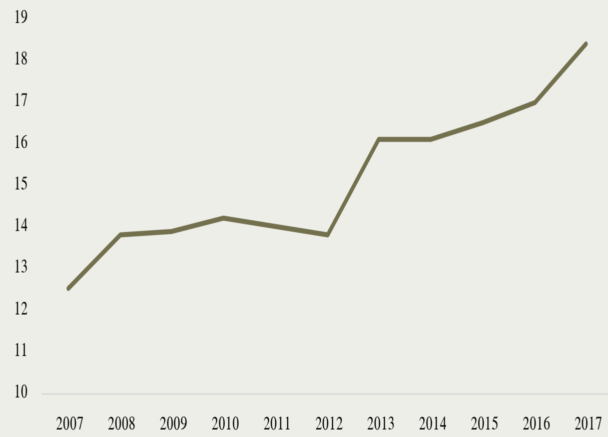
On the other hand, Figure-2 shows that most of West Bank workers working in Israel and the colonies are unskilled workers, in this context classified by educational attainment. Those with 13 years of schooling and more are classified as skilled. Workers with 12 years of schooling and less are considered unskilled. Although the vast majority of West Bank workers in Israel are unskilled workers, the ratio of skilled workers working in Israel has been on the rise in recent years, from 7% in 2010 to 15% in 2017.

Employment of Palestinians in Israel and Unemployment Levels in the West Bank

As Figure-3 shows, since 2012 the unemployment rate among both skilled and unskilled male workers in the West Bank has been on the decline. The unemployment gap of skilled and unskilled workers has shrunk as well over the past few years. Interestingly, the decline in unemployment rate was larger among unskilled workers than that among skilled workers. This could be attributed to the increasing number of Palestinians working in Israel in general over the past few years, the vast majority of whom are unskilled workers. Consequently, the increased participation of Palestinian workers in the Israeli labor market could have contributed to reducing unemployment rates. To examine the impact of the employment of Palestinian workers in Israel and the colonies on reducing unemployment rates among males in the West Bank, regression analysis of the two indicators is used.

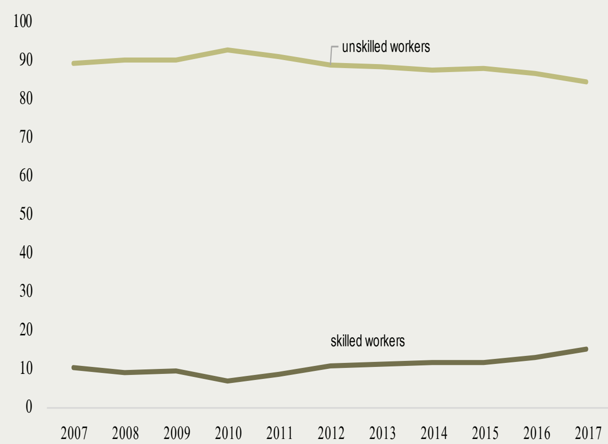
The regression analyses, which examines if there is a relation between the work of Palestinians in Israel and the colonies and the unemployment rates in the West Bank, shows that a 1% increase in the employment of Palestinians in Israel is associated with a 0.02% decline in the unemployment rate in the West Bank. This means that a 10% increase in the employment of West Bank workers in Israel equals a 0.2% decline in the unemployment rate in the West Bank. This result does not mean that there is a causal relationship between the two indicators, however, it shows that the two indicators might be moving in tandem. The conclusion drawn from this finding, is that a 60% increase in the number of West

Figure-1: Employment Rates of West Bank Workers in Israel and its Colonies, 2007– 2017 (%)



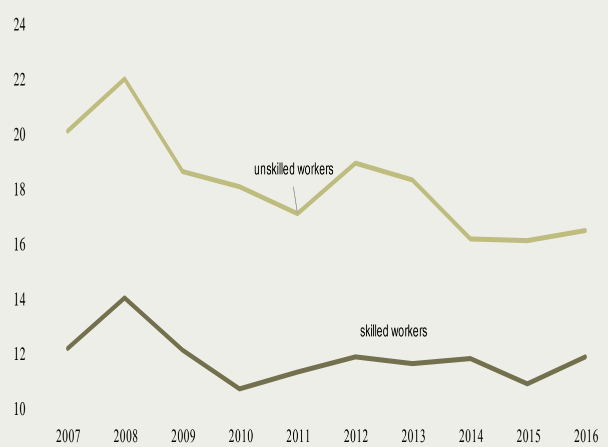
Source: PCBS, Labor Force Survey, 2007-2017.

Figure-2: Distribution of West Bank Workers Working in Israel and the Colonies by Educational Level (%)



Source: PCBS, Labor Force Survey, 2007-2017.

Figure-3: Unemployment Rates among Skilled and Unskilled Male Workers in the West Bank



Source: PCBS, Labor Force Survey Database, 2007-2017.

Bank workers in Israel over the last decade (from 70 thousand Palestinian workers in 2008 to 120 thousand in 2017), was accompanied by a 1.2 percentage point decline in the unemployment rate in the West Bank only.

The previous analysis confirms the inverse correlation between employment rates of Palestinians in Israel and the colonies and the levels of unemployment, yet it is not a strong correlation. This weak relation leads to the conclusion that reducing unemployment in the Palestinian economy requires radical policies that focus on creating job opportunities internally as much as possible, considering the sharp and sudden fluctuations in the number of workers allowed to work in Israel in the past, and Israel's use of work permits as a form of political pressure on Palestinians.

The Impact of Wage Rates of West Bank Workers in Israel on Wages in the West Bank

The relatively high wages paid in Israel have always attracted Palestinian workers to work in the Israeli labor market. As Table-1 shows, the average wage of workers in Israel and the colonies are higher than that in the West Bank by about 60%. In addition, it is noticeable that the difference between the wages of skilled and unskilled workers in the West Bank is higher than the difference between the wages of the two groups working in Israel and the colonies. Additionally, in some years the wages of unskilled workers in Israel were higher than those of skilled workers who work in Israel (like in 2013 and 2016). The reason behind this is that education is not a requirement to work in Israel, since West Bank workers are allowed to work in specific sectors that do not require, and thus do not reward, academic qualifications.

Based on the results of the analysis examining the Impact of wage rates of West Bank workers in Israel on the wages in the West Bank, a 1% increase in the wages of those workers is accompanied with a 0.08% increase in the wages of workers in the West Bank. In other words, a 10% increase in the wages of West Bank workers in Israel is accompanied with a 1% increase in the wages of workers in the West Bank, though without necessarily implying a causal relationship between the two indicators. This is a positive correlation, which means that the growth in the level of wages among Palestinian workers in Israel and the colonies is associated with wage growth for workers in the West Bank. For example, according to the regression coefficient, the actual increase in the wages of West Bank workers in Israel of 68% between 2007 and 2016 (rising from NIS 130 to NIS 218 per day), is accompanied by a rise in the wages of workers in the West Bank by around 7% during the same period. This actually reflects a relatively weak effect, although it is stronger than the effect of the employment of West Bank workers in Israel on the unemployment rates, discussed above. To illustrate this effect: less than a quarter of the increase in the wages of unskilled workers in the West Bank during the period 2007-2016, amounting to about 30%, was associated with the increase in the wages of the West Bank workers in Israel and the colonies.

The weak correlation between wages in Israel and the colonies and wages in the West Bank can be attributed partially to the relatively low percentage of West Bank workers employed in Israel and the colonies (18% in 2017). Also, the length of time Palestinian workers spend working in Israel is unstable and fluctuates depending on Israeli security conditions and continuous closures in addition to seasonal changes, which means that because of instability of work in Israel and the colonies Palestinian workers cannot depend on work in Israel alone. For this reason, the instability of work in Israel seems to significantly reduce the correlation between high wages in Israel and wage levels in the West Bank. In addition, net wage difference can be much lower than the nominal wage difference because of the high costs of transportation and commissions to brokers and long hours workers in Israel spend commuting before reaching their homes. In conclusion, internal elements/factors of the Palestinian economy, which affect labor supply and demand, appear to play a greater role in determining the wage levels in the West Bank.

Table-1: the Level of Wages in the West Bank compared with Wages for West Bank Workers in Israel and the Colonies by Education (NIS/day)

	Skilled Workers in Israel (1)	Unskilled Workers in Israel (2)	Difference (1-2)	Unskilled Workers in West Bank (3)	Skilled Workers in West Bank (4)	Difference (4-3)
2007	143	129	14	69	98	29
2008	143	138	5	74	102	28
2009	159	147	12	79	112	33
2010	167	157	10	73	114	41
2011	168	162	6	74	110	36
2012	163	171	-8	75	114	39
2013	166	177	-11	78	113	35
2014	190	188	2	82	115	33
2015	201	199	2	84	120	36
2016	215	218	-3	90	123	33

Source: PCBS, Labor Force Survey Database, 2007-2016.

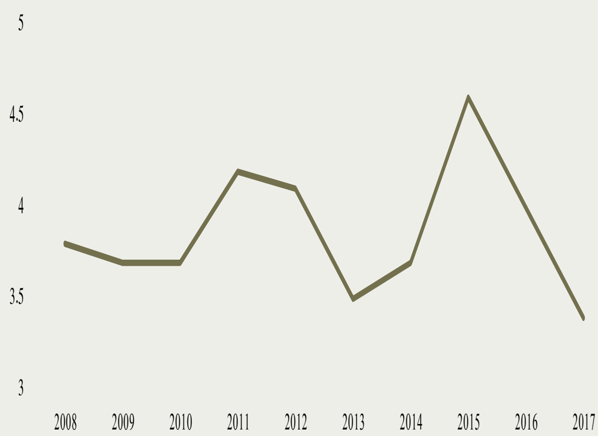
Box 3: Child Labor in Palestine

Child labor is an important socio-economic indicator in any society, whose rise implies serious societal distortions, since it deprives children from attending school and instead leads them into the labor market. According to the PCBS and UN, a child is defined as a person under the age of 18 years. In line with international conventions, the Palestinian Labor Law prohibits employing any child who is under the age of 15. However, the law provides for the employment of children aged 15-17 years subject to a number of conditions and terms, such as prohibition of hazardous child labor (e.g. working in the pharmaceutical and chemical industries, jobs that require heavy lifting, or night jobs). This Box tracks developments child labor rates through reference to various demographic indicators in the West Bank and Gaza Strip over the past few years, and highlights two factors that are correlated with child labor; poverty and school leakage.

As Figure-1 shows, the rate of child labor (i.e. the percentage of working children to the total number of children between 10 years to 18 years of age), fluctuated slightly over the last few years, around 4% on average. A closer examination of data (Figure-2) shows that the highest ratio of child labor is among males aged 15 to 17, which is the age group allowed by the Palestinian Labor Law to work. This group's employment rate increased from 11% in 2008 to 15% in 2016. Comparison between employment rate of males (aged 15-17 years) in the West Bank and the Gaza Strip with that in Jordan, for example, shows that employment rate in the former was higher, as it was 8.6% in Jordan in 2016.[1] Figure-2 demonstrates as well, that the employment rates of females in the West Bank and the Gaza Strip for both age groups (10-14 years) and (15-17 years) are relatively low compared to males and are diminishing over time.

Based on PCBS statistics, the rate of child labor is higher in the West Bank (5.5%) than in the Gaza Strip (1.9%). Regionally, child labor is higher in the northern governorates of the West Bank. In Tubas and Nablus, for example, it reaches 9.5% and 7.4% respectively. The southern governorates of the West Bank came in the second place, reaching 6.3% in Hebron governorate compared with only 1.8% in the Ramallah and Al-Bireh governorates. The vast majority of working children work in the Palestinian economy, compared with only 3.5% working in Israel and the colonies.

Figure-1: Rate of Child Labor (age group 10-17 years) in the Palestinian Labor Market, 2008 -2017



Source: PCBS, Labor Force Survey Database, 2008-2017.

Palestine's Paradox

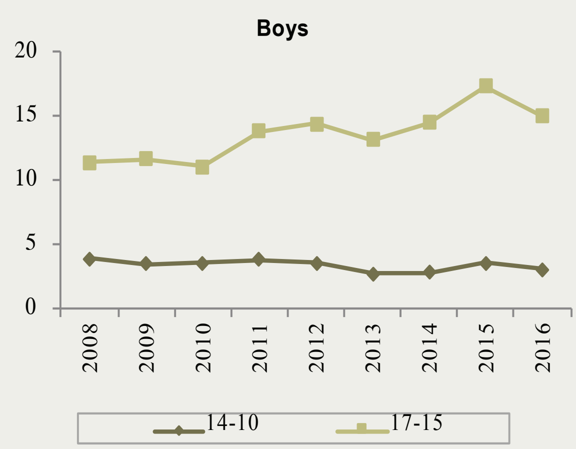
Usually child labor is associated with poverty and school leakage, as high rates of the latter might lead to higher rates of the former. However, in the Palestinian case, child labor rates in the West Bank are higher than in the Gaza Strip, despite poverty rates in the West Bank being much lower (24%) than in the Gaza Strip (68% based on income). Regarding school leakage, it was 1.5% in the Gaza Strip compared with 0.8% in the West Bank in 2016.

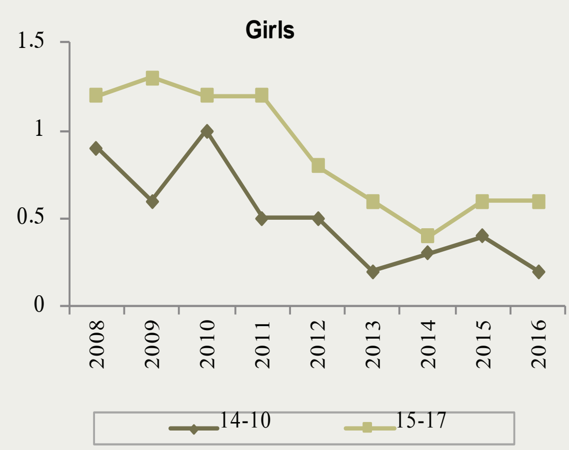
Table-1: Child Labor Rates, Poverty Rates and School Leakage Rates in the West Bank and the Gaza Strip

	West Bank	Gaza Strip
Child Labor Rates (2016)	5.5%	1.9%
Leakage Rate (2016)	0.8%	1.5%
Poverty Rates (2017)	24%	68%

Source: PCBS Statistics on employment and poverty. Leakage data is based on the Statistical Yearbook issued by the Ministry of Education.

Figure-2: Rate of Child Labor in the West Bank and the Gaza Strip for both Age Groups by Gender



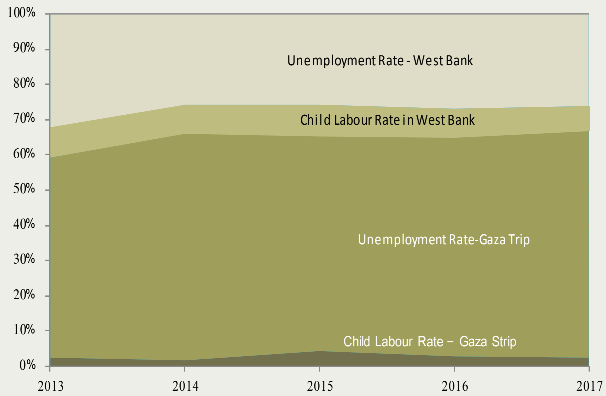


Source: PCBS, Labor Survey Database 2008 - 2016.

1 ILO and the Centre for Strategic Studies, National Child Labour Survey 2016 of Jordan, 2017.

Considering rates of poverty and school leakage, the rate of child labor should be higher in the Gaza Strip than it is in the West Bank. However, rates exhibit opposite trend. So, how can this trend be explained? This paradox is explained by a number of factors, like the availability of jobs, i.e. job opportunities available for children are inversely associated with unemployment rates among adults. The higher the unemployment rates among adults, the more intense the competition for jobs, and the less the chances for children to get a job. Figure-3 demonstrates this relationship, showing that the slight decline in unemployment among adults in the Strip in 2014 and 2015 was accompanied by a rise in the child labor rate.

Figure 3: Child Labor Rates and Unemployment Rates in the West Bank and Gaza Strip, 2013-2017



Source: PCBS, Labor Survey Database, 2013-2017.

3- Public Finance[1]

Public Revenues

During Q1 2018, net public revenues and grants decreased by 15% compared to the previous quarter, reaching around NIS 3,687.4 million.[2] This is attributed to a sharp decline in foreign aid and grants by 69%, reaching NIS 276.9 million, as well as in clearance revenues by 15%, reaching NIS 2,079.2 million. On the other hand, domestic revenues, especially tax revenues, rose by 39% during the same period, reaching NIS 1,426.1 million (Figure 3-1).

Net public revenues and grants were equivalent to 109% of actual public expenditures during the quarter compared with 130% in the previous quarter. Revenues accounted for 93% of accrued public expenditures (commitment basis) during the quarter compared with 110% in the previous quarter.

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

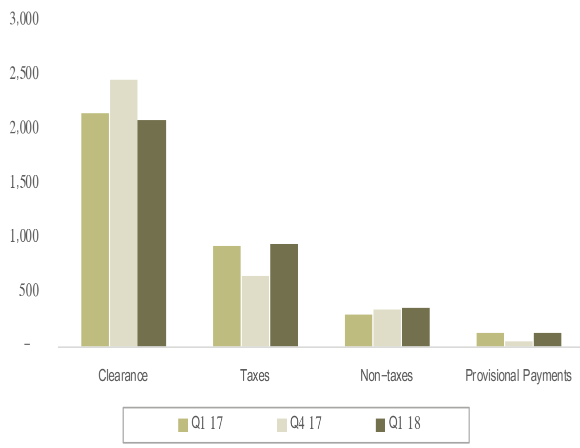
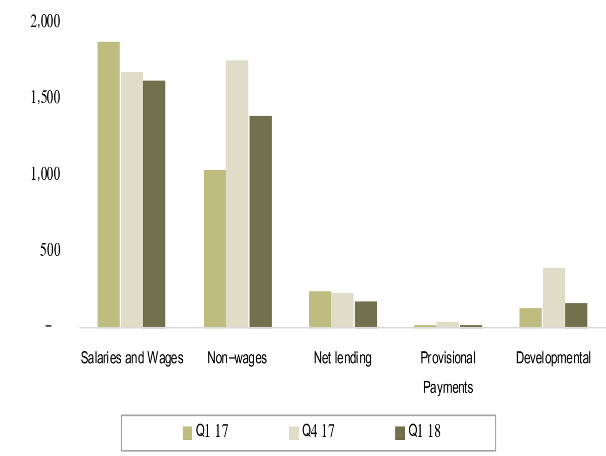


Table 3-1: Grants and Foreign Aid to the PNA (NIS Million)

Item	2017		2018
	Q1	Q4	Q3
Budget support	640	712.9	157
- Arab grants	113	205.5	140.6
- International donors	527	507.4	16.5
Development funding	217.5	178	119.9
Total	**857.5**	**890.9**	**276.9**

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



Public Expenditure

Actual public expenditure decreased by 18% during Q1 2018 compared with the previous quarter, reaching NIS 3,380.3 million. Actual expenditure on most items saw a declining

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

2 During Q1 2018, tax refunds reached NIS 95 million compared with NIS 53 million in the previous quarter.

trend during the quarter, including wages and salaries, which fell by 3%, reaching NIS 1,626 million. In addition, non-wage expenditures declined by 21% reaching NIS 1,390.8 million. Net lending expenditure decreased during the quarter by 23%, reaching NIS 177.3 million. Development expenditure decreased by 60%, reaching NIS 160.8 million (Figure 3-2).

Actual public expenditure constituted 27% of GDP during the quarter compared with 32% in the previous quarter. In addition, the ratio of actual public expenditure to accrued expenditures (commitment basis) was 85% during the quarter, compared with 83% in the previous quarter.

Government Arrears

During Q1 2018, government arrears reached NIS 499.5 million, compared with NIS 809.8 million in the previous quarter, about 13% of public revenues and grants. Arrears were composed of NIS 132.3 million in wages and salaries, NIS 262.8 million in non-wage arrears, NIS 82.4 million in development expenditures, and NIS 104.3 million in provisional payments arrears. The government paid off NIS 82.3 million of the tax refunds arrears. In addition, during the quarter the government paid off NIS 233.1 million of accumulated arrears (Table 3-2).

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

Q1	2017		2018
	Q1	Q4	Q1
Tax refunds	84.1	(23.3)	(82.3)
Wages and salaries	111.5	116.8	132.3
Nonwage expenditures	292.1	560.3	262.8
Development expenditures	59.3	155.4	82.4
Provisional payments	**115.5**	**0.6**	**104.3**
Total arrears	**662.5**	**809.8**	**499.5**

Figures between brackets indicate negative value

Financial Surplus/Deficit

Developments on both the revenue and the expenditure sides during Q1 2018, led to a surplus in the total balance (before grants and aid) of NIS 30.2 million. After grants and foreign aid, the surplus reached NIS 307.1 million (on cash basis), about 2.4% of GDP. On commitment basis, the deficit in the total balance (before grants and aid) reached NIS 602.5 million, dropping to NIS 325.6 million after grants and aid during the same period (Figure 3-3).

Public Debt

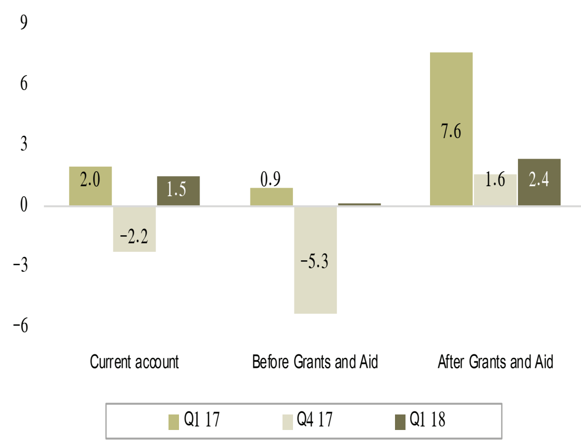
By the end of Q1 2018 public debt decreased by 3% compared with the previous quarter, reaching NIS 8,588 million (about16.6% of GDP).[3] About 57% of the debt was domestic and 43% foreign. Interest paid on debt during the quarter was NIS 43.1 million, around 98% of which was paid on domestic debt, while the remaining percentage (NIS 1.4 million) was interest paid on external public debt (Table 3-3).

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

Q1	2017		2018
	Q1	Q3	Q1
Domestic debt	5,291	5,224	4,913.9
Banks	5,238.7	5,171.7	4,863.1
Public institutions	52.3	52.3	50.8
Foreign debt	3,818.1	3,625.7	3,674.1
Total public debt	**9,109.1**	**8,849.7**	**8,588**
Paid interest	**93.7**	**57.2**	**43.1**
Public debt as % to nominal GDP*	**18.6%**	**%17.5**	**16.6%**

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

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



3 By the end of Q1 2018 the government's debt denominated in dollars rose by 3.7% compared to the previous quarter, reaching USD 2,448.8 million.

Box 4: Rejected Cheques: One Out of Nine issued Cheques

Bank cheques play the intermediation role of replacing cash, and they are the most commonly used instruments among other non-cash instruments, specifically for paying money on a specific date. However, in some cases this obligation is not met, causing a cheque to be "rejected", usually because of insufficient funds in the account holder. According to the Palestinian law, this is an intentional crime.

The phenomenon of rejected cheques, referred to by banks as non-sufficient funds (NSF), has been witnessed in many countries around the world. The magnitude of this phenomenon differs from one economy to another, as it does not exceed 1% of the total value of cheques in circulation in some economies, while it reaches up to 7% in others. During the last five years, the ratio of rejected cheques to total cheques presented for clearance was 3.5% in Jordan, while it was less than 1% in Abu Dhabi, which still shows that this ratio is on the decline in both countries.

Table-1 shows that the ratio of rejected cheques in Palestine reached between 6% - 7.7% of total cheques presented for clearance over the last five years. Both the value and the volume of rejected cheques increased in 2017, following a decline in previous years. The value of rejected cheques in Palestine reached USD 1154 million in 2017, which is USD 323 million higher compared with 2016, about 39% rise. In Gaza Strip, the value of rejected cheques amounted to USD 145 million in 2017, about 13% of total in Palestine. In terms of banking indicators, the value of rejected cheques constituted about 10% of total bank deposits, 16% of total direct credit facilities, and 27% of total current deposits. These rates are significantly high, and necessitate in-depth examination of causes behind its expansion, to explore what countermeasures are needed for controlling "NSF cheques".

Table-1: Value and Volume of Cheques Presented for Clearance and Rejected Cheques

	Cheques Presented for Clearance		Rejected Cheques		Ratio of Rejected Cheques to Total Cheques Presented for Clearance
	Volume (thousand)	Value (million USD)	Volume (thousand)	Value (million USD)	
2012	4,400.00	9,600.00	520.00	680.00	7.1
2013	4,600.00	10,600.00	490.00	660.00	6.2
2014	4,637.77	11,117.80	467.44	664.78	6.0
2015	5,096.40	11,131.40	538.05	670.31	6.0
2016	5,644.74	12,691.53	608.60	831.54	6.6
2017	6,375.86	15,072.77	735.75	1,154.19	7.7

Source: Clearance Department, PMA, unpublished data.

Counter Measures

Since 2010 the PMA has given greater attention to the rejected cheques phenomenon. It has issued a package of instructions and restrictions on the issuers of NSF cheques, and instructions for banks on dealing with rejected cheques. However, the increasing volume of rejected cheques has spurred the PMA to issue stricter instructions. The latest of these instructions was issued early 2017, under 13 articles, some of which pertain to measures banks should take in such cases. These include using the query system to inquire about customers requesting a chequebook, the Bank's compliance with special settlement/reconciliation instructions through the PMA's computerized system, and immediate notification of outstanding, lost and rejected cheques.

NISHAM

The PMA developed a computerized system for rejected cheques (NISHAM) which aims to curb this phenomenon. The system classifies customers in categories from A to D, depending on the number of rejected cheques they issued. Customer rated "A", is a reliable customer who has not issued any rejected cheques, "B" is a customer who is under probation for two years, because of issuing less than five rejected cheques... until rank "D" - blinking red- a customer who issued more than 12 rejected cheques and is not eligible to obtain a chequebook for three years. This latter rank of customers is "blacklisted". The system provides a comprehensive database on customers' dealings at banks, which is beneficial to banks in rating their customers, and combating this phenomenon.

Figures in Table-1 shows that the rejected cheques phenomenon has not diminished, despite PMA instructions and stringent measures implemented by banks. Between 2012 and 2017, the volume of cheques presented for clearance increased by 45%, while the volume of rejected cheques increased by a very similar percentage (41%) during the same period. Moreover, the increase in the value of rejected cheques (70%) was higher than the increase in the value of cheques presented for clearance (57%) during the study period.

Mala Fide Intention or Bad Judgment

There are a number of causes underpinning NSF cheques. No doubt the deteriorating economic situation and liquidity shortages play part in this situation, in addition to the poor planning by the cheques' drawers. Notably, a large portion of rejected cheques are cheques with small values issued for the benefit of tradesmen in exchange for consumption goods. Around 47% of rejected cheques in 2016 were drawn by small enterprises, and 27% were drawn by employees. Deception was rarely the reason behind the return of the cheques. Although customers classified as "B" and "C" were more than 140,000 persons in 2016, only 6,500 of these customers (around 5% only) are on the PMA's blacklist. [1]

Rejected Cheques and Post-dated cheques

Rejected cheques and post-dated cheques are closely related. In a number of countries, issuing post-dated cheques is prohibited by law, i.e. cheques that are cashed after a period of time from issuance date. The easy access to goods by issuance of post-dated cheques and the mismatch between income and the needs of the drawer, explains the default of some drawers, notwithstanding, the consumption fever and commercials encouraging higher consumption patterns, which all in all had a hand in the prevalence of this phenomenon.

1 Clearance Department, PMA, unpublished data.

In commercial transactions, post-dated cheques is one of the means used by tradesmen to handle cash flow shortages, especially small tradesmen who are unable to obtain a bank loan or are incapable of repaying its fees. On the other hand, using post-dated cheques might lead to economic crises and recession, since endorsed post-dated cheques are swapped several times by many tradesmen. Also, cheques are associated with high risks due to confusion between the solvency of the cheque drawer at the time of transaction and solvency at the maturity date.

What to do?

Such a multifaceted phenomenon necessitates joining efforts of all pertinent parties, since the prevalence of rejected cheques shakes confidence in using credit instruments in commercial transactions, which also undermines the basic function of credit money as a guaranteed means of exchange. This lack of trust could also spur tradesmen to prefer cash over credit, which will increase demand on the currency in circulation in Palestine (the shekel), a trend that will have negative ramifications that contradict with the policy trend to minimize using the shekel. No doubt this phenomenon has numerous and diverse economic and social implications. The past experience has shown that efforts so far have not been successful in curbing this phenomenon. This failure highlights the need for in-depth study of the causes behind the prevalence of rejected cheques, which needs to be addressed through a series of coordinated procedures implemented by the media, judicial, and financial bodies.

Miysef Jamil, MAS

4- The Banking Sector[1]

By the end of Q1 2018, the number of licensed bank's branches and offices operating in Palestine reached 340; 282 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 (47%). Net assets (liabilities) of licensed banks increased by 0.4% during Q1 compared with the previous quarter and by 4.6% compared with the corresponding quarter, reaching USD 15.9 billion (Table 4-1).

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

Q1	2017		2018
	Q1	Q4	Q1
Total assets	15,222.3	15,850.2	15,916.7
Direct credit facilities	7,234.2	8,026.0	8,175.4
Deposits at PMA & Banks	4,136.2	3,911.1	4,093.5
Securities portfolio for trading and investment	1,042.2	990.4	1314.0
Cash and precious metals	**1,567.2**	**1,728.2**	**1,294.6**
Other assets	**1,242.5**	**1,194.5**	**1,039.2**
Total liabilities	15,222.3	15,850.2	15,916.7
Total deposits of the public (non-bank deposits) **	11,127.5	11,982.5	12,002.3
Equity	**1,720.3**	**1,892.7**	**1,926.8**
Deposits of PMA and Banks (bank deposits)	**1,506.6**	**1,135.3**	**1101.2**
Other liabilities	**352.4**	**282.5**	**330.9**
Provisions and depreciation	**515.5**	**557.2**	**555.4**

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

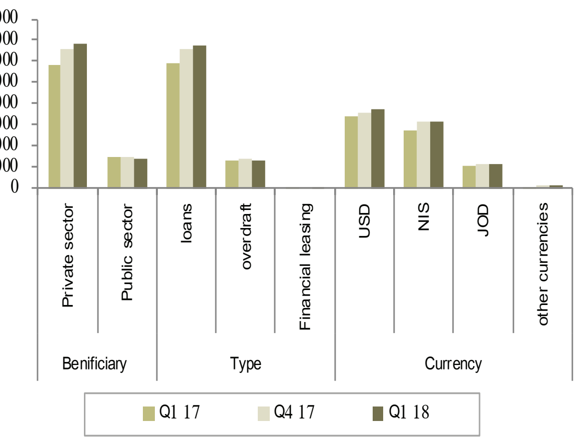
** Non-bank deposits include both the private and public sectors' deposits.

Credit Facilities

During Q1 2018, total credit facilities rose by 2% compared with the previous quarter, reaching USD 8,175.4 billion. The credit to deposit ratio stood at 68% during the quarter. The share of the private sector, which is the main beneficiary of credit facilities, rose by 4% compared with the previous quarter (standing at 83%) reaching USD 6,791.0 million. On the other hand, credit facilities granted to the public sector declined by 6% compared with the previous quarter (reaching USD 1,384.4 million), constituting 17% of total credit facilities (Figure 4-1).

The largest share of credit facilities was in the form of loans (82%), and about 16% were overdraft accounts. By region, the West Bank had the lion share of total credit facilities (88%) compared with 12% for the Gaza Strip. By currency, the US dollar continued to account for the biggest share of credit (46%), compared with 39% granted in Shekels, and 14% in Jordanian Dinars. The increase in credit facilities was driven by the increase in credit share of leading economic sectors, mainly a 6% increase in the construction sector (equivalent to USD 81.5 million) and 3% increase in the trade sector (equivalent to USD 41.0 million), as well as a 2% rise in credit for consumer goods (equivalent to USD 29.6 million) (Figure 4-2).

Figure 4-1: Total Direct Credit Facilities (USD Million)



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

Placements Abroad

During Q1 2018 foreign placements grew significantly (5%) reaching USD 3,244.0 million. This rise resulted in raising its relative importance to 20% of total banks assets compared with 19% during the same period. In addition, foreign placements ratio to total deposits rose to 25%. However, foreign placements abroad declined by 6% compared with the corresponding quarter (Figure 4-3).

Deposits

Bank deposits are exhibiting an upward trend. By the end of Q1 2018, total deposits rose by 8% compared with the corresponding quarter, amounting to USD 12,002.3 million.

This reflects an increased public confidence in the banking system, mobilization of savings, and creating financial surpluses necessary for a smooth flow of business and financial transactions within economy. 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. By currency, the US dollar continued to dominate deposits (40% of the total), followed by the Shekel (33%), then the Jordanian Dinar (24%) (Figure 4-4).

Bank Profits

By the end of Q1 2018 bank profits (net income) dropped by about 1% compared with the previous quarter, reaching USD 42.3 million. This resulted from a larger increase in expenditures compared with revenues (6% for expenditures against around 4% for revenues), whereas compared with the previous quarter, revenues increased by 4% (Table 4-2).

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

Q1	2017		2018
	Q1	Q4	Q1
Revenues	**152.5**	**168.0**	**174.7**
Net Interests	108.2	123.9	122.8
Commissions	27.4	30.5	30.5
Other operating revenues	16.9	13.6	21.4
Expenses	**111.8**	**125.2**	**132.4**
Operating expenses and tax allocations	**100.7**	**109.6**	**115.6**
Tax	**11.1**	**15.6**	**16.8**
Net income*	**40.7**	**42.7**	**42.3**

*net income = net revenues - expenses

Interest Rates

Average interest rates on US dollar loans declined to 5.7% in Q1 2018 from 5.85% in Q4 2017. On the other hand, average interest rates on Shekel loans rose to 7.1% from 6.99% and on Jordanian Dinar loans to 6.29% from 6.28% during the same period.

Figure 4-2: Distribution of Total Direct Credit Facilities by Sector, Q1 2018 (%)

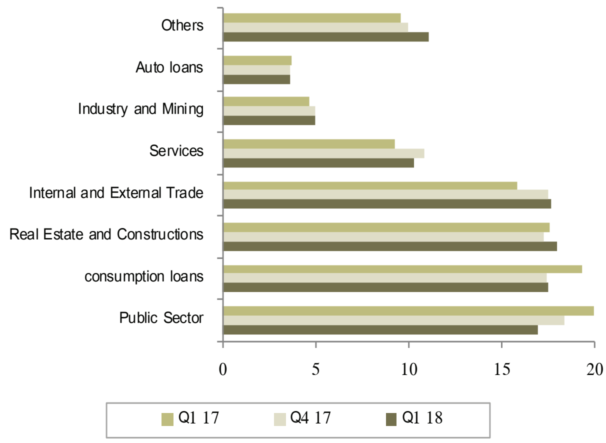


Figure 4-3: Foreign Placements Ratio to Total Deposits, %

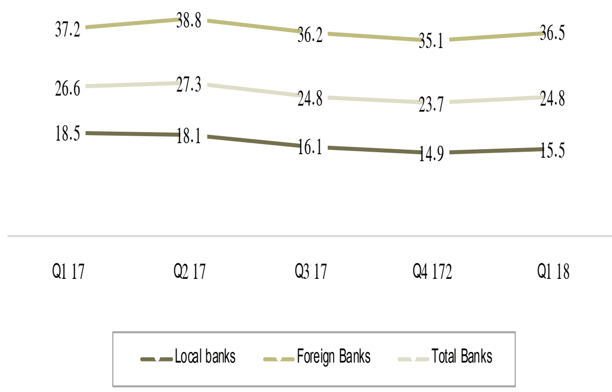
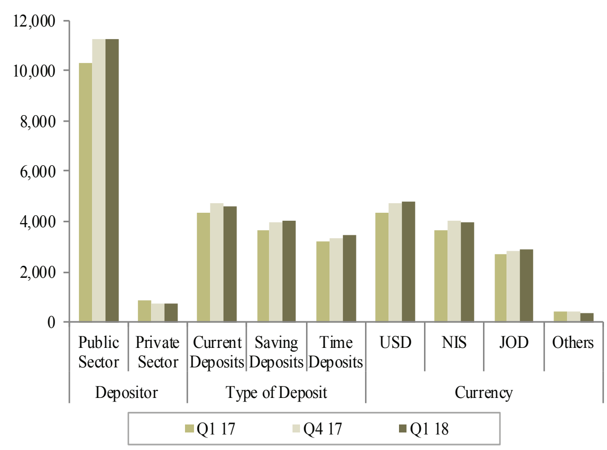


Figure 4-4: Distribution of Deposits (USD million)



Average interest on deposits rose to 2.26% for the Jordanian Dinar deposits (compared with 2.21% in the previous quarter), and to 1.98% for Shekel deposits (compared to 1.64%), during the same period. These changes led to a decline in the interest margin of deposits and loans in the three currencies by the end of Q1 2018; 3.87 percentage points for the US dollar, 4.03 percentage points for the JD Dinner, and 5.12 percentage points for the Shekel (Figure 4-5).

Clearance

The value of cheques in circulation stood at USD 3,112.7 million, a sharp decline of 14% compared with the previous quarter. Around 75% of cheques presented to clearance were in Shekels, 19% in US Dollar, and 6% in Jordanian Dinar (Figure 4-6). Similarly, the value of rejected cheques declined sharply, by 16% during Q1 compared with the previous quarter, amounting to USD 287.1 million. By region, 91% of rejected cheques during the quarter were circulated in the West Bank against 9% in the Gaza Strip. The ratio of rejected cheques to all cheques presented for clearance was 9% during Q1 2018. Figure 4-7 presents the evolution in the ratio of rejected cheques to all cheques presented for clearance in both the West bank and the Gaza Strip over the four quarters of the year during 2015 and 2018 (refer to Box 4).

Specialized Credit Institutions (SCIs)

During Q1 2018, the specialized lending sector has undergone a number of legislative and financial changes. Most importantly, the PMA issued new instructions and circulars on the regulation of the sector, self-evaluation as specified in the Governance Guide, and the updated quarterly database, which includes information about rescheduled loans and bad debts and debt cases brought to court.

Financially, total assets of specialized credit institutions (SCIs) grew by 5% during Q1 compared with Q4 2017, reaching USD 247 million. About 71% of SCIs loans were commercial loans, 12% Islamic finance loans, and 11% deposits. The value of SCIs credit portfolio (for the 6 companies licensed by the PMA) was USD 215.5 million by the end of Q1 2018. By region, 70% of loans were granted in the West Bank against 30% in the Gaza Strip. SCIs offered 664 job opportunities (Table 4-3).

Table 4-3: SCIs data

	2017		2018
	Q1	Q4	Q1
Total of Loans Portfolio (USD millions)	**210.0**	**215.0**	**215.5**
- West Bank	142.2	147.8	149.8
- Gaza Strip	67.8	67.2	65.7
Active Clientele	**70,855**	**72,209**	**71,759**
Number of offices and branches	**84**	**84**	**81**
Employees	**641**	**652**	**664**

The real estate sector continued to dominate with the biggest share of these loans (around one-third) followed by the commercial sector (27%), the consumption sector (12%), and then the agricultural, services and industrial sectors (12%, 9% and 6% respectively).

Figure 4-5: Average Interest Rates on Loans and Deposits in three Currencies, Q1 2017- Q1 2018 (%)

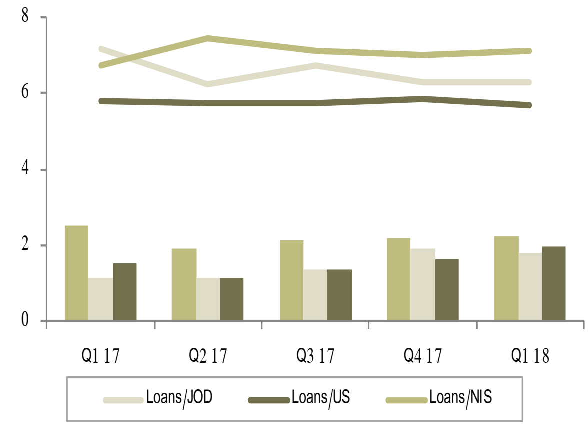


Figure 4-6: the Value of Cheques Presented to Clearance and Rejected Cheques (Million USD)

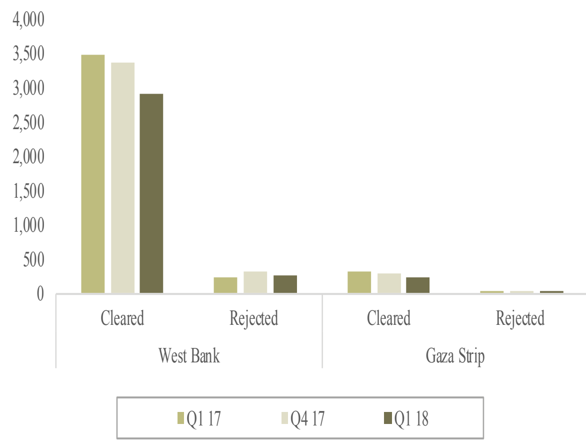
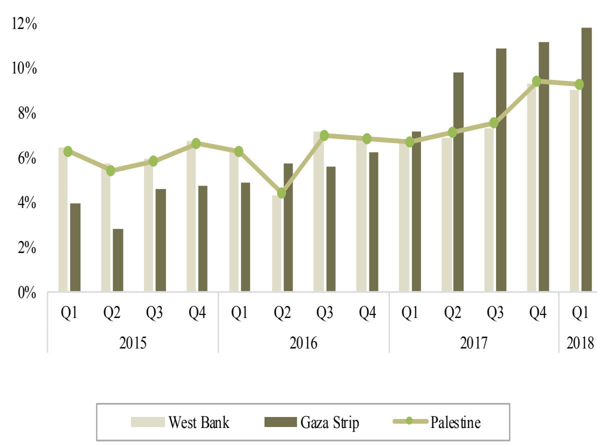


Figure 4-7: the Evolution in the Ratio of Rejected Cheques to Cheques Presented for Clearance, Q1 2-15 – Q1 2018



Box 5: Women's Banking Empowerment: 18% of Borrow are Female

The rate of women's labor force participation is the most important economic indicator for measuring the scale and effectiveness of women's involvement in the economy and society. In 2017, the participation rate in Palestine was 19% for females against 71% for males. The banking system plays a direct role in the economic empowerment of women, whether through loans or employment. In terms of employment, the number of females employed by Palestinian banks almost doubled in seven years, reaching 2,127 by the end of 2017, compared to only 1,116 in 2010. By the end of 2017, around 35% of the total number of banks' employees were women (Figure-1).

In 2017, the number of female borrowers reached 34.6 thousand, about 18% of total borrowers. Historical data of the number of borrowers show that between 2013 and 2017 the number of female borrowers rose by 27%, however, the average female number to the total number of borrowers remained almost the same, at 18% during the period 2013-2017 (Figure 2).

By the end of 2017 the total value of facilities granted to individuals in Palestine amounted to about USD 4,245.7 million, USD 553 million (or 13%) of which for female borrowers. Figures show that the value of loans granted to females increased by 85% between 2013 and 2017, not exceeding USD 299 million in 2013, yet its ratio to the total remained almost the same at 13% during the period. Figure-3 shows the evolution in the value of banks facilities by gender during the period 2013-2017.

Data confirm a significant increase in the number of female borrowers and in the value of loans granted to females. However, the relative volume and value of bank loans granted to females is still low and stable compared to males. The PMA has been working on narrowing the gender gap in access to banking services in Palestine by empowering females financially and enhancing their awareness and access to banking services. In 2017, the PMA organized a banking conference titled "Women Banking Empowerment". The theme of the conference was chosen in light of the findings of a field-study paving the way for the development of the National Strategy on Financial Inclusion in Palestine. The study showed that there is a large gap between males and females in terms of financial awareness and access.

The conference put forth a number of recommendations, most importantly: the creation of an enabling environment for women's financial and banking empowerment, the promotion of financial and banking educational campaigns, developing specialized capacity-building programs targeting women entrepreneurs and developing banking services and products tailored for women. Some progress has been made in follow-up to these recommendations, for example, some local banks have joined the Global Banking Alliance for Women, which is a leading international consortium of financial institutions and organizations working on enhancing women's banking around the globe. In addition, other banks have introduced into their working place the Women Empowerment Principles (WEPS), a joint initiative of the United Nations Global Compact and the UN Women.

Figure-1: Number of Employees in Licensed Banks by Gender

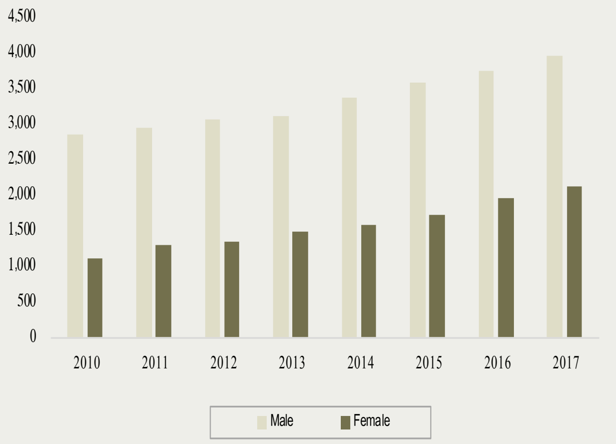


Figure-2: Number of Female Borrowers from Licensed Banks, 2013-2017

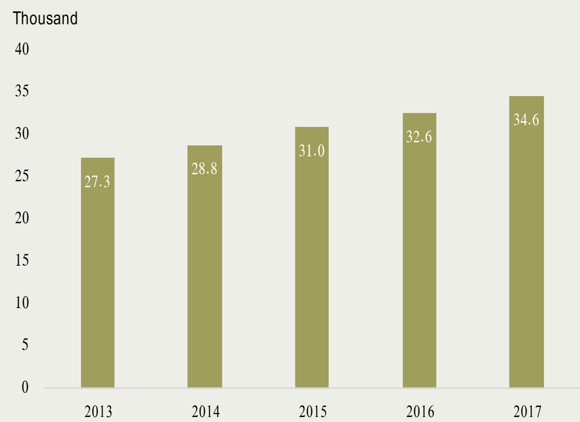
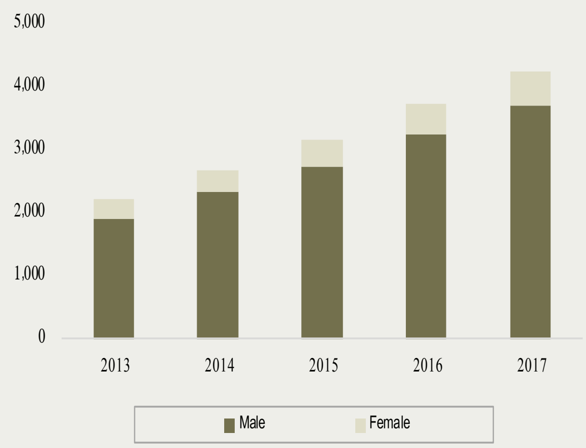


Figure 3: the Value of Bank Loans by Gender during the Period 2013-2017



Source: PMA

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

The Securities Sector

By the end of Q1 2018, the market value of traded shares in PEX was USD 3.89 billion (29% of GDP at current prices)[2], achieving a rise of 8% compared with the corresponding quarter in the previous year.

Al Quds Index closed at 565.57 points by the end of Q1 2018, a drop of 1.5% compared to the end of year 2017. Year-on-year basis, it shows an increase of 5% between Q1 2018 and Q1 2017. On the other hand, the number of PEX traders was 71,572, 5% of whom were foreigners, mostly from Jordan.

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

Q1	2017		2018
	Q1	Q4	Q1
Volume of Traded Shares (million share)	**34.53**	**79.23**	**84.31**
Value of Traded Shares (USD million)	71.99	136.83	170.33
Market Capitalization (USD million)	3,591.34	3,891.49	3,891.23
Total number of Traders	**72,285**	**71,811**	**71,572**
-Palestinians	**68,891**	**68,467**	**68,240**
-Foreigners	**3,394**	**3,344**	**3,332**

The rise in the volume of traded shares over the consecutive quarters (Q4 2017 and Q1 2018) of 6% was accompanied by a rise in the value of traded shares of 25% during the study period. In addition, the volume and value of traded shares saw an all-time high of 144% and 137% respectively compared with the corresponding quarter 2017. This significant rise is attributed to high trading volume and value of certain listed companies, in this case specifically, the Arab Palestinian Investment Company (APIC). Also, this rise was driven by the acquisition of 45% of the shares of the Palestine Islamic Bank by the National Bank and other investors during Q1 2018.

Figure 5-1 presents the distribution of market capitalization by trader type, from which one can discern that the share of corporations was 40% (amounting to USD 1,538.1 million) compared to 27% for individuals (USD 1,051.9 million).

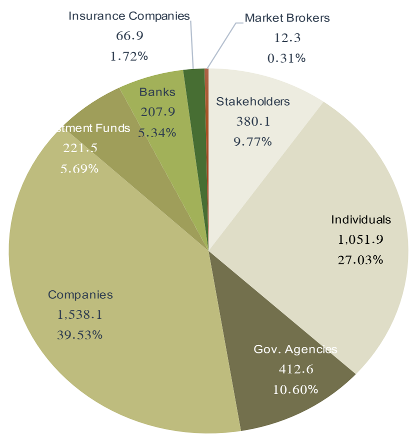
Insurance Sector

By the end of Q1 2018, the gross value of written insurance premiums reached USD 81.3 million, increasing by 37% compared with the previous quarter, and by 18% compared with the corresponding quarter 2017. This significant rise is explained by the fact that a large portion of insurance policies are renewed at the beginning of the year (the first quarter). Given its novelty, the entry of Tamkeen (a recently licensed insurance company that operates according to the Takaful insurance principles) into the Palestinian insurance sector, has yet to show its contribution to the sector's performance.

On the other hand, net compensations incurred by the insurance sector decreased by 9.2% by the end of Q1 2018 compared with the previous quarter. In addition, insurance investments decreased by 2.6% compared to the end of 2017, standing at USD 242.5 million (Table 5-2).

It can be discerned from Figure 5-2, that there is a significant concentration in vehicle insurance in the insurance portfolio in Palestine, which constituted 57% of the total insurance portfolio by the end of Q1 2018, followed by health insurance (19%). Figure 5-3, on the other hand, presents the market share of insurance companies, whereby three of the ten operating companies dominated 60% of the gross written premiums in the Palestinian insurance sector.

Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q1 2018) (USD million)



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

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

Q1	2017		2018
	Q1	Q4	Q1
Gross written Insurance premiums	**68.68**	**59.32**	**81.29**
Total investments of insurance companies	206.56	248.89	242.50
Net compensations incurred by the insurance sector	(33.91)	(42.52)	(38.60)
Retention ratio	**75.4%**	**96.8%**	**76.2%**
Claims ratio	**65.5%**	**74.1%**	**62.3%**

1 The source of figures in this section: Palestinian Capital Market Authority (PCMA), 2018.

2 This was calculated based on GDP at 2016 constant prices, as the market value of traded shares is cumulative, in addition, the final figures for the GDP 2017 are not issued yet.

Financial Leasing

The number of leasing companies licensed by the PCMA was 14. The total value of investment contracts registered at PCMA were USD 20.7 million (through 362 contracts) as of the end of Q1 2018, declining by 25% compared with the previous quarter and rising by 7% compared with the corresponding quarter. However, the volume of contracts decreased by 15% and 1.4% compared with the previous and corresponding quarters respectively (Figure 5-3). 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 which have affected their activities, as well as prevailing political conditions (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
Q1 2017	19.26	367
Q4 2017	27.65	425
Q1 2018	20.65	362

As Figure 5-4 shows, the financial leasing portfolio is concentrated in Ramallah (37%), followed by Nablus (16%), then Hebron (12%). The rest of the Palestinian governorates' share is around 40% of the total leasing contracts.

Notably, the financial leasing portfolio is still concentrated in motor vehicle leasing (82.8%) as Figure 5-5 shows, which is attributable to the ease of registering ownership of vehicles at the transportation department and therefore the low-risk associated with its leasing, whereas the low number of equipment leasing contracts is due to ownership issues. Nevertheless, it is expected that equipment leasing contracts will increase in the near future following the enactment and putting into force of the Law on Securing Rights in Moveable Assets.

Figure 5-2: Distribution of the Components of the Insurance Portfolio by the Insurance Sector activities (as of the end of Q1 2018)

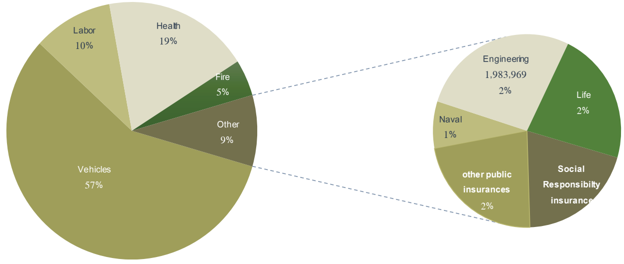


Figure 5-3: Distribution of Insurance Portfolio by Operating Company in Palestine (as of the end of Q1 2018)

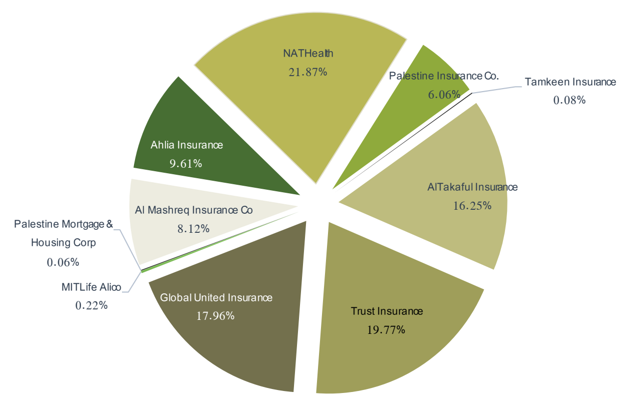


Figure 5-4: Geographical Distribution of Financial Leasing Contracts by Volume (as of the end Q1 2018) (%)

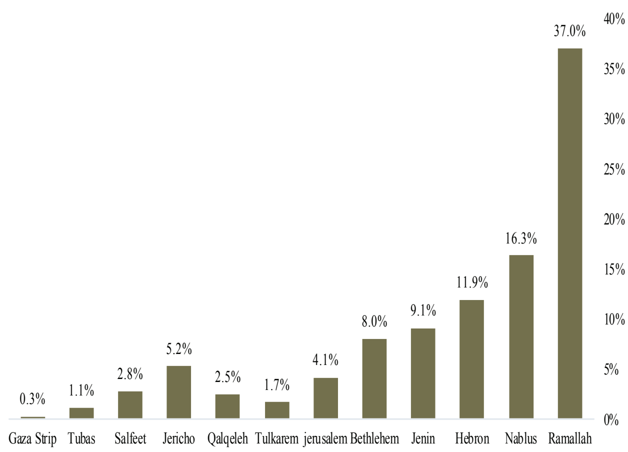
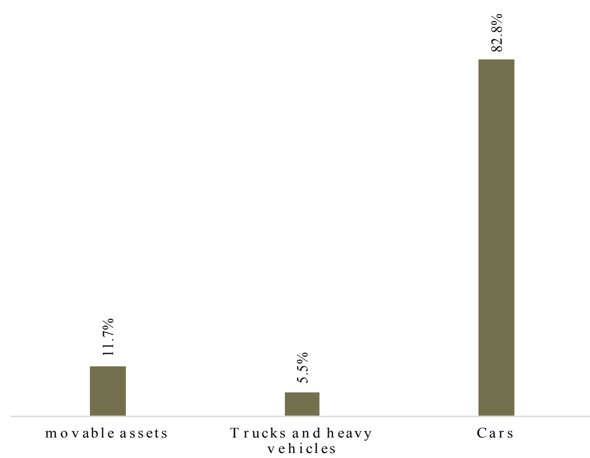


Figure 5-5: Distribution of Financial Leasing Portfolio by Type of Leased Property, as of the end of Q1 2018



Box 6: International Standards Governing the Financial Securities Sector

In February 2013, the membership application of the Palestine Capital Market Authority (PCMA) in the International Organization of Securities Committees (IOSCO) was approved. IOSCO is a globally-acknowledged body that supervises, regulates and oversees the securities markets. By this membership, Palestine became the 101st signatory to the Multilateral Memorandum of Understanding (MMOU). The MMOU compels regulatory bodies supervising the securities sector to abide by IOSCO principles, cooperate with counterpart members in regulating security markets, protecting the rights of investors and sharing information to ensure that markets are transparent, free of deception and manipulation of prices, or insider trading (trading based on insider information) or any misconduct that might jeopardize the integrity of security markets in member states.

The membership in IOSCO allows PCMA to benefit from the exchange of information with counterpart members; facilitates its pursuit of the latest international practices; and keeping pace with the latest developments on the ground, which are affected by and affect the main objectives of the Organization. Additionally, such a membership adds to the credibility of the Palestinian securities sector and serves efforts to attract foreign investments. Finally, this membership will assist the Authority in undergoing international assessments and standards, like the Mutual Assessment of the Middle East and North Africa Anti-Money Laundering and Terrorist Financing that FATF experts will be conducting in Palestine in 2020 as scheduled.

In addition, the full membership in IOSCO gave Palestine Exchange (PEX) the full membership in the World Federation of Stock Exchanges (WFE), as well as classifying PEX as a “Frontier” market in FTSE classifications.

IOSCO

The organization has settled on a number of principles that address all involved parties, leading the regulation efforts of security markets in member states to achieve three main objectives:

- Protecting investors.
- Ensuring that markets are fair, efficient and transparent.
- Reducing risks associated with financial transactions.

IOS adopted 38 principles classified in 9 categories, for a better implementation of the organization’s objectives, briefed in the following:

First: Principles relating to the Regulator, i.e. the party responsible for setting forth regulations governing the security markets: the regulator should be independent in the exercise of its functions and powers; should have adequate powers, the needed resources and the capacity to perform its functions and exercise its powers.
Second: Principles relating to Self-Regulatory Organizations (SROs): the regulator benefits from SROs that have direct supervision responsibility for their respective areas of competence. SROs should abide by standards of fairness and confidentiality when exercising powers.

Third: Principles relating to the Enforcement of Securities Regulation: The regulatory system should have effective and proper inspection, investigation and surveillance mechanisms; enforcement powers; and ensure an effective use of internal surveillance and compliance programs.

Fourth: Principles Relating to Cooperation in Regulation: in this respect the regulator should have the authority to share both public and non-public information with counterparts in domestic or foreign markets.

Fifth: Principles for Issuers of financial securities: ensure full, accurate and timely disclosure of financial results, risks and other information decisive in investors’ decisions; enhancing governance to ensure protecting and maintaining equitable rights and treatment of shareholders; and the right to assign the company’s external auditor to ensure compliance with the highest internationally accepted standards of accounting and auditing.

Sixth: Principles for Auditors, Credit Rating Agencies, and other Information Providers: Auditors should be subject to adequate levels of surveillance and independent from the issuing entity that they audit, and so should be the Credit Rating Agencies, and other information providers.

Seventh: Principles relating to Collective Investment Schemes- Investment Funds: again this group of principles stresses that the regulatory system should provide for eligibility, governance, organization standards of those who wish to market or operate a collective investment scheme, by setting forth rules governing their legal and structural aspects and protection and segregation of investors’ assets and investments.

Eighth: Principles for Security Intermediary Companies: this group of principles concentrates on the requirements of capital adequacy for security intermediary companies, and the risk management and internal surveillance system that companies should adopt to perform their functions.

Ninth: Principles Relating to Secondary Market (Trading Market): trading systems and establishing security markets should be subject to the regulator’s authorization and oversight; ongoing regulatory supervision of exchange markets and trading systems to ensure the integrity of trading through equitable treatment of the different investors.

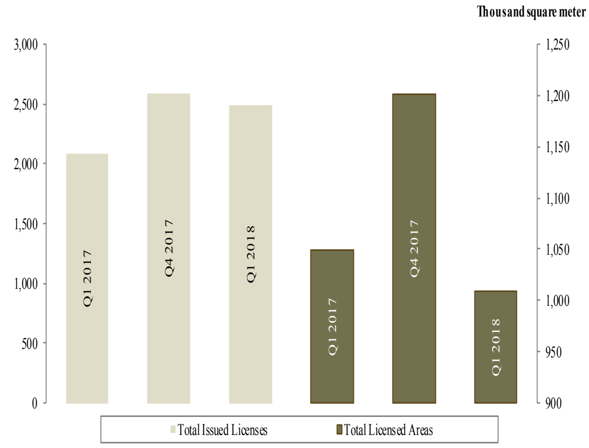
Murad Jadbeh, PCMA

6- Investment Indicators[1]

Building Licenses

Figure 6-1 shows the changes in the number of registered building licenses and licensed areas in Palestine. During Q1 2018, around 2,485 building licenses were issued, a drop of 4% compared with the previous quarter and a rise of 20% compared with the corresponding quarter. Licenses of non-residential buildings constituted 7% of the total. On the other hand, licensed areas of buildings in Q1 2018 amounted to around 1,008.6 thousand square meters, which is a decline of 16% and 4% compared with the previous and corresponding quarters, respectively.

Figure 6-1: Total Issued Building Licenses and Licensed Areas in Palestine (Q1 2018)



* do not include licenses of fences

Vehicles Registration

Vehicle prices are high and vehicles are often purchased via bank loans, thus, the number of vehicles registered for the first time is considered a good indicator of the economic situation and prospects. During Q1 2018, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 8,002, less by 344 vehicles compared to their number in the previous quarter, and by 2,070 vehicles compared to the corresponding quarter 2017. The second-hand vehicles made 83% of the total number of vehicles, 8% of which came from Israel (Table 6-1).

Table 6-1: New and Second-hand Vehicles Registered for the First Time, West Bank (Q1 2018)

	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
Jan	337	2,109	217	2,663
Feb	528	2,225	162	2,915
Mar	488	1,796	140	2,424
Total	1,353	6,130	519	8,002

Tourism

According to a report published by the United Nations World Tourism Organization (UNWTO), Palestine was number one in the top 10 list of fastest growing tourist destinations in 2017.[2] The number of tourist arrivals to Palestine increased by 58% in 2017 compared to the previous year, reaching 630 thousand tourists. Egypt came in the second place growing by 51%, reaching 8 million tourists in 2017, which is still significantly less than the number of tourist arrivals in 2010 (14 million tourist). Northern Mariana Islands (Pacific Ocean) was in the third place, followed by Iceland. Tunisia was in the fifth place (32% growth rate, and 7.5 million tourists), then Vietnam, Uruguay, Nicaragua and Mongolia (400 thousand tourists only). Finally, Israel came in the tenth place with a growth rate of 25% in tourist arrivals and 3.7 million tourists in 2017.

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

2 https://www.telegraph.co.uk/travel/news/surprising-countries-where-tourism-is-booming-in-2017/

Box 7: Actual Demand for Housing is one-third of the Latent Demand

In Feb 2018, the PCBS published the preliminary results of the Population, Housing and Establishment Census 2017. The census tracks developments on population and housing since the second census of 2007 until the end of 2017. This Box presents the housing results of the census 2017 in comparison with 2007 survey results, and aims to develop a simple methodology for estimating latent and actual demand for housing based on the results of the census.

Developments on the Number of Housing Units and their Distribution in 2017 Compared with 2007

According to the census, the number of completed buildings/housing units reached 1,041,551 in Palestine in 2017 (726 thousand in the West Bank and 403 thousand in the Gaza Strip), a rise of 48% compared with 2007; 45% in the West Bank and 55% in the Gaza Strip.[1] The recent census, unlike the previous one, surveyed buildings/housing units under construction, which stands at 88 thousand in Palestine as a whole.

Based on results, occupied buildings/housing units (i.e. used for habitation and/or work) constituted 84.7% of the total fully-constructed buildings/housing units. Table-1 shows that the number of occupied buildings/housing units rose by 4.6% annually between 2007 and 2017, against 6.3% for unoccupied buildings/housing units. The table, as well, shows divergent annual growth rates of unoccupied buildings in the West Bank compared with the Gaza Strip, 5.5% in the former compared with 8.4% in the latter. Unoccupied building/housing unit can be one of three types:

- Closed: refers to occupied building/housing unit which was closed at the time of the listing because of the absence of the household living in it. These buildings/housing units constituted 7.3% of the total number of fully-constructed buildings/housing units in Palestine in 2017.
- Vacant: refers to completely constructed building/housing unit which is not used for habitation or for work purposes although it is suitable for such purposes. These buildings/housing units constituted 6.6% of the total number of fully-constructed buildings/housing units in Palestine in 2017.
- Deserted: refers to unoccupied building/housing unit that is unsuitable for habitation. These buildings/housing units constitute 1.4% of the total number of fully-constructed buildings/housing units in Palestine in 2017.

Table-2 presents the percentage distribution of unoccupied buildings/housing units in Palestine in general, and in the West Bank and the Gaza Strip separately. The table shows that half of unoccupied housing units in the Gaza Strip were "vacant" in 2017, against 40% in the West Bank, which is an indicator of the severe constraints of limited income and stringent lending measures imposed on purchasing/renting fully-constructed houses in the Gaza Strip compared to the West Bank. The number of such housing units has increased by only 6% annually in the West Bank and by 7% in the Strip during the period 2007-2017.

On the other hand, "closed" buildings/housing units accounted for 49% of the total unoccupied housings in the West Bank and 45% in the Strip. Over the past decade, such housing witnessed an annual growth of 10-12% in both the West Bank and the Gaza Strip. Interestingly, the growth rate of "closed" buildings/housing units in the two regions of the country was more than double the growth rate of fully-constructed buildings/housing units during the study period.

Demand for Housing Units

Demand for housing units is affected by different economic, financial, demographic and behavioral factors.

This box addresses some of these factors that explain disparity between the West Bank and the Gaza Strip in relation to indicators just discussed. First: population growth in the Gaza Strip (an annual growth rate of 3.4% on average over the past decade) was higher than that in the West Bank (2.3%). Second: the decline in the average household size in the Gaza Strip (by 1.4% annually over the past decade) was larger than that in the West Bank (1.3%). Third: the faster decrease in the average household size (i.e. the fastest increase in the household size) coupling with larger population growth means that the growth of demand for residential units is growing faster in the Strip than in the West Bank. However, income levels and access to credit facilities have pushed demand for housing to grow faster in the West Bank compared with the Gaza Strip.

Table-1: Fully-constructed Buildings/Housing Units and the Average Growth Rate, 2007 -2017

	Growth in the Number of Fully-constructed Occupied Buildings/ Housing Units%	**Occupied buildings/ housing units**		**Unoccupied buildings/ housing units**			
		Number 2017	Annual Average Growth %	Number 2017	Annual Average Growth %	Population Growth Rate %	Household growth rate %
Palestine	4.8	882,093	4.6	159,458	6.3	2.69	4.43
West Bank	**4.5**	**547,226**	**4.3**	**113,935**	**5.5**	**2.26**	**4.05**
Gaza Strip	**5.5**	**334,867**	**5.2**	**45,523**	**8.4**	**3.40**	**5.56**

Source: PCBS, the Population, Housing and Establishment Census 2017, published and unpublished data.

1 "Completed" buildings/housing units are those where construction work is finished. They include occupied (for habitation and/or work), unoccupied (closed, vacant, and deserted), excluding buildings and housing units under construction.

Table-2: % Distribution of Unoccupied Buildings/Housing Units and Average Growth Rates, 2007-2017

	% Distribution of Unoccupied Buildings						Average Annual Growth 2007-2017		
	closed		vacant		deserted		closed	vacant	Deserted
	2007	2017	2007	2017	2007	2017			
Palestine	**36.1**	**47.8**	**58.2**	**43.3**	**5.7**	**8.9**	**11.5**	**2.1**	**15.2**
West Bank	**34.1**	**48.8**	**59.5**	**40.5**	**6.4**	**10.7**	**12.2**	**5.8%**	**16.1**
Gaza Strip	**41.9**	**45.3**	**54.2**	**50.2**	**3.9**	**4.5**	**9.9**	**7.1**	**10.8**

Source: PCBS, the Population, Housing and Establishment Census 2017, published and unpublished data. "Closed" building/housing unit is occupied unit but was closed at the time of the listing because of the absence of the household living in it. "Vacant" building/housing unit is a fully-constructed building/housing unit which is not used for residential or work purposes although it is suitable for such purposes. "Deserted" housing unit is an unoccupied building/housing unit that is unsuitable for habitation.

In housing economics, there are two types of demand for housing:

- Latent demand is only the desire or need to purchase a housing unit. Therefore, it is heavily affected by demographic factors, household size and social arrangements (such as the number of those at the age of marriage).
- Actual demand is determined by the number of people willing and financially capable of buying a house, which measures the required number of housing units after taking into consideration: income, interest rates, access to credit facilities, future expectations and other external factors.

Based on the above, latent demand for housing in the Gaza Strip is growing faster than that in the West Bank, while the opposite is true concerning actual demand.

The Gap between Latent Demand and Actual Demand for Housing

Detailed econometric models are used in different countries to forecast the actual and future latent demand for housing in light of developments in various relevant variables. An alternative and simplified way of evaluating future demand is to study the desires and capabilities of the population as expressed by them. Using this methodology, it is possible to reach a rough estimate of the different types of demand for housing in Palestine over a span of 10 years (between 2017 and 2027), and to validate the previously reached conclusions about disparity between the housing market in the West Bank and that in the Gaza Strip.

The Housing Conditions Survey (2015) provides information about Palestinian households needs for housing units and their financial ability to purchase housing units in the future (over a span of ten years following the survey). Using provided data and ratios, and by applying this data on the results of the Population and Housing Census 2017, an estimation of the latent demand and actual demand of Palestinian households for housing units during the next decade may be reached.[2]

Results of the exercise showed that by the next decade actual demand for housing is expected to reach 335 thousand housing units in Palestine; 80% of which in the West Bank against 20% in the Gaza Strip. On the other hand, latent demand will reach 967 thousand units; 55% in the West Bank against 45% in the Strip. The ratio of actual to latent demand means that 35% of Palestinian households only will afford to build/purchase their desired housing unit within the next 10 years (i.e. 65% of households will not be financially able to fulfill their desires by purchasing housing units).

Table-3 shows the widening gap between latent and actual demand in the Gaza Strip compared with the West Bank, where about half of the West Bank population can fulfill their desires to own a housing unit in the next decade, against a mere 14% in the Gaza Strip. This result sheds light on the marked disparity in the growth of vacant housing units in the two regions of the country during the last decade (overall growth was about 6% in the West Bank compared with 70% in the Gaza Strip). Apparently, the increase in housing supply is driven by the increase in latent demand in Gaza Strip, while actual demand constitutes a small portion of all desires and needs. This, in turn, is due to the difficult economic conditions and the consequences of the tightened siege on the Gaza Strip.

Table-3: Estimation of Actual Demand and Additional Latent Demand for Housing in Palestine, 2017-2027

	Latent Demand	Actual Demand	Ratio of Actual to Latent Demand
Palestine	**966,631**	**334,704**	**35%**
West Bank	524,707	271,959	52%
Gaza Strip	441,924	62,744	14%

Habib Hin, MAS

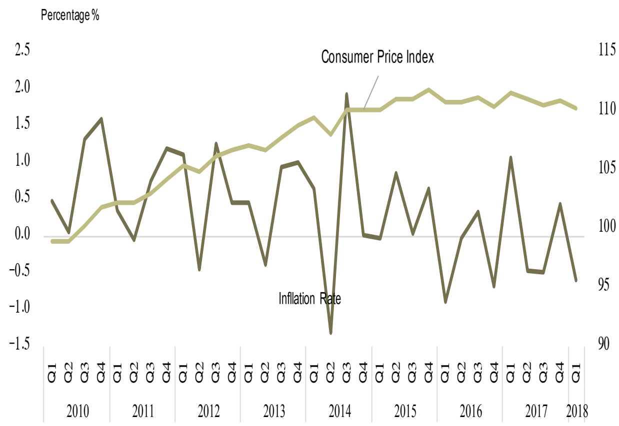
2 Assuming that the percentage distribution of households' needs for housing units and their ability to purchase those units were stable between 2015 and 2017.

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 households in an economy (this group of goods and services is referred to as the "consumption basket"). If we assume that nominal wages and salaries are fixed, an inflation rate of x% per year means that the purchasing power of households and individuals will decline by the same percentage.

Figure 7-1 shows two curves, the first measures the average change in CPI (right axis) between Q1 2010 and Q1 2018. 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 Q1 2018, the CPI reached 110.27 compared to 110.94 in Q4 2017. This means that the rate of inflation was negative over the consecutive quarters (fall in prices) by 0.60%. This decline is attributed to the fall in the prices of alcoholic beverages and tobacco group by 4.84%, and the education group by 1.00%, and the food and soft drinks by 0.94%, the garments, clothing and footwear group by 0.42%, despite an increase in the prices of the telecommunications group by 0.83% and medical service group by 0.55%. In addition, Q1 2018 witnessed a negative inflation of 1.12% compared to the corresponding quarter 2017.

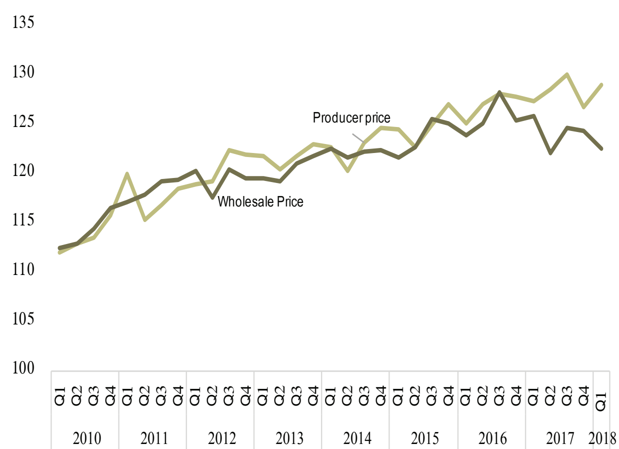
Figure 7-1: Change in the Average CPI and the Inflation Rate (Base Year 2010) (%)



Wholesale Prices and Producer Prices

The wholesale price index -WPI (sale price to retailers) declined by 0.44% between Q4 2017 and Q1 2018, driven by the decline in wholesale prices of local goods by 1.47% and wholesale prices of imported goods by 1.13%. However, the producer price index- PPI (prices received by domestic producers) has risen by 1.82% between the two quarters. This resulted from the rise in producer prices of locally-produced and consumed goods of 2.10%, against the decline in the producer prices of locally-produced exports of 0.53% (Figure 7-2).

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

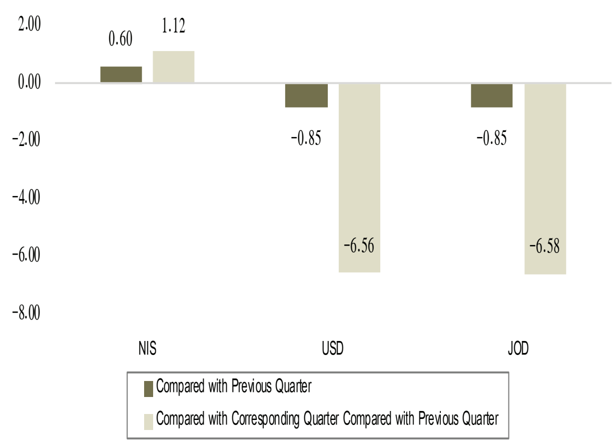


Prices and Purchasing Power [2]

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 decreased by 0.6% during Q1 2018 compared to the previous quarter. This means that the NIS purchasing power has increased by the same percentage. In addition, the NIS purchasing power increased by 1.12% compared with the corresponding quarter.

USD Purchasing Power: During Q1 2018, the USD exchange rate against the NIS decreased by about 1.45% and 7.68% compared with the previous and the corresponding quarters, respectively. During the same period, the inflation rate decreased by 0.6% and 1.12%. Based on this, 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 0.85% and 6.56%, as the US dollar declined against the shekel and the NIS purchasing power improved. 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).

Figure 7-3: the Change in Purchasing Power by Type of Currency, Q1 2018 (Percentage)



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

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 change 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 8: Arab Development Society: Back to Life after Naksa and Nakba

The Arab Development Society (ADS) is one of the first Palestinian not-for-profit productive societies that was founded in 1945 by the prominent Palestinian politician, Musa Al-Alami (1879-1984). The initiative aimed in first place to confront Judaizing Palestinian lands, a process initiated by the Zionist movement prior to the Nakba; and to improve the economic and social conditions of Palestinian farmers and strengthen their resilience. Through maintaining wide relations with Arabs, Al-Alami was able to mobilize the support of the Arab States League to issue a decision on establishing ADS and securing funds to run its activities. In 1948, ADS acquired 500 dunums of land near Jenin and another piece of land in Wadi al-Far'a in Nablus governorate, and started preparing lands to construct experimental/demonstration farms that were used for providing agricultural research and extension services. In the meantime, the society undertook a survey (targeted a sample of 350 Palestinian villages) to identify challenges confronting those villages and to assess their development needs. Tragically, with the advent of the Nakba all these efforts stopped.[1]

The aftermath of 1948 compelled ADS to shift its plans, by focusing on refugees and orphans in need of shelter, food, clothing and education. Nonetheless, the society soon resumed its core activities in the field of agriculture. The society achieved remarkable progress in little time, and was re-established on a new piece of land near Jericho city which Al Alami acquired with the help of many Arab and foreign allies. A training and agricultural extension center was established, which provided training sessions for 160 trainees per each course. Around 27 wells were drilled and 4,000 dunums of saline soil were rehabilitated and planted with different types of fruit trees and vegetables. ADS also imported a herd of Friesian cattle/cows for breeding, which was reproduced to more than 500 heads. A modern factory for the production of pasteurized milk and dairy products like yogurt, labaneh (strained yogurt), and cheese was constructed. In addition, the society raised layer chickens, which at one time reached 30,000 chickens.

Then again, the 1967 occupation, as well as the society's close location to military operations caused a notable contraction in its work and activities. A large volume of the society's livestock and poultry was lost. Lands, equipment, and machinery were destroyed. Add to which was the displacement of a large number of workers. ADS incurred large losses that it took many years to recover from.

In 1983, just a few months before his death, Al-Alami was able to reach to an agreement with the Norwegian Refugee Council and the Swedish Foundation for Child Relief, by which the two organizations managed the Jericho project until 1987. This was the beginning of the society's real reconstruction. The society also received funds from the Arab Fund for Economic and Social Development, the Islamic Development Bank, the European Economic Cooperation Council and the OPEC Fund. These funds were used for repairing the infrastructure, especially in the dairy factory, to dig a new well and to rebuild modern buildings for the Agricultural Training Center .[2]

1 The website of the Arab Development Society. Last visit dated 26/6/2018. http://arabdevsoc.org

2 Ibid.

Today, ADS owns a land of about 7,600 dunums east of Jericho. It is governed by a Board of Directors, consisting of seven members elected by the General Assembly. The Board of Directors is responsible for appointing an executive management. ADS currently runs several agricultural projects, most importantly; the dairy factory, a dairy farm (for breeding and milking cows), as well as a fish farming plant and hatchery, and refrigerators for storing dates cultivated on the land of the society, by the society itself or by farmers who are charged a small fee in return for using the land.

ADS Projects Today[3]

- Dairy Factory: the nearby Diary Farm owned by ADS provides the factory with the raw material it needs for its production. There are five production lines in the factory for pasteurized milk, yoghurt, Labneh (strained yogurt), cheese and buttermilk. Since its establishment, the factory has been regularly upgraded, yet no major expansion works have been done. However, the society is in the process of establishing a new modern factory with more advanced production technologies, in line with upgraded food safety requirements of ISO 22000. This step is expected to raise the daily production of the plant from 10 tons to 60 tons.

- Dates Farms: ADS owns 35 thousand palm trees, which supplies the market with about 20% of total Palestinian dates sold in the West Bank. Dates are stored in large refrigerators to ensure availability all year-round. Currently ADS is working in cooperation with a number of research institutes at Palestinian universities on a hybridization project of the local palm trees to produce a breed of dates known as "Madjoul" dates, for which Jericho is famous. This project is expected to double the produce of dates and thus allow for exporting.

- Fish Farm: The fish farm is set up to hatch, grow and harvest Nile Tilapia for sale in the Palestinian market. It includes ponds for growing fish. ADS sells directly to consumers.

ADS didn't abandon the core objectives and activities it was established for in the mid-1940s. It still provides agricultural extension services to farmers, in line with its objective to support agricultural production in Palestinian villages through the provision of improved breeds of livestock raised at its farm and small-scale fish, veterinary services and artificial insemination services. It has also rehabilitated the Agricultural Vocational Training Center and signed a cooperation agreement with Al-Quds University -Abu Dis to activate training and agricultural extension. Hopes are high that a Palestinian academic college considers affiliating with the Center for future agricultural research.

Wafa Bitawi, MAS

3 Interview with deputy manager of ADS (Mrs. Nabla' Hamdan), on 25/6/2018.

8- Foreign Trade[1]

Balance of Trade

The value of "registered" merchandise imports during Q1 2018 was about USD 1,366.3 million, a slight drop of 0.3% compared with the previous quarter, and a rise of 8% compared with the corresponding quarter.[2] Meanwhile, the value of merchandise exports was close to 20% of the value of imports, decreasing slightly by 0.5% compared with the previous quarter, while rising by 12% compared with the corresponding quarter. The difference between exports and imports (deficit) amounted to USD 1,092.9 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (USD 7.4 million) (Figures 8-1 and 8-2).

Balance of Payments

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

The Palestinian current account (the balance of payments) continued to run a deficit in Q1 2018, reaching USD 442.1 million, a rise of 46% compared with the previous quarter. This deficit resulted from a deficit in the trade balance (USD 1,123.6 million), against a deficit in the balance of services of USD 235.7 million. Meanwhile a surplus in the income account of USD 568.9 million was registered (generated mainly from the income of Palestinian workers working in Israel), as well as a surplus in the balance of current transfers of USD 348.3 million (Table 8-1).

The deficit in the balance of payments was financed by a surplus in the capital and financial account, which covered an amount of USD 612.3 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive. 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. Noticeably, the value of this item has declined over the last two consecutive years. [3]

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

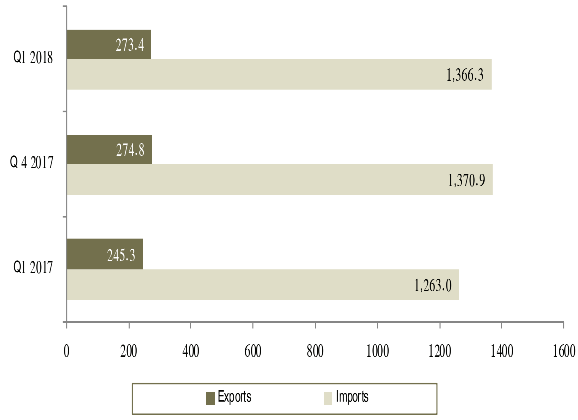


Figure 8-2: Exports and Imports of Registered Services from Israel (USD million)

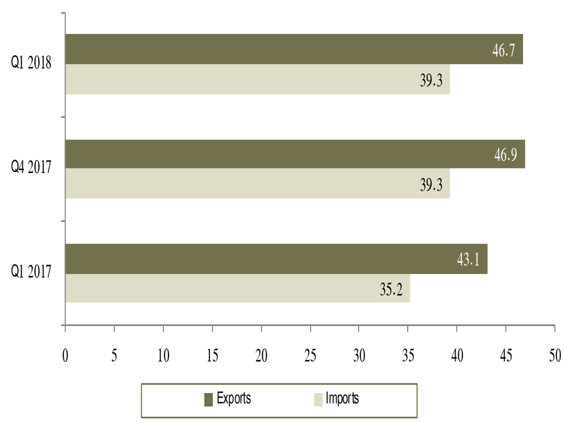


Table 8-1: Palestinian Balance of Payments *(USD Million)

Q1	2017		2018
	Q1	Q4	Q1
Trade balance of goods and services**	(1,271.8)	(1,386.6)	(1,359.3)
- Net goods	(1,050.2)	(1,145.9)	(1,123.6)
- Net services	(221.6)	(240.7)	(235.7)
2. Income balance	470.3	544.3	568.9
3. Balance of current transfers	476.2	538.7	348.3
4. Balance of current account (1 +2 +3)	(325.3)	(303.6)	(442.1)
5. Net capital and financial account	207.5	313.4	612.3
6. Net errors and omissions**	117.8	(9.8)	(170.2)

* 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.

1 The source of data in this section: PCBS, 2018, Registered Foreign Trade Statistics, and PMA & PCBS, 2018, Palestinian Balance of Payment, Q1 2018.

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.

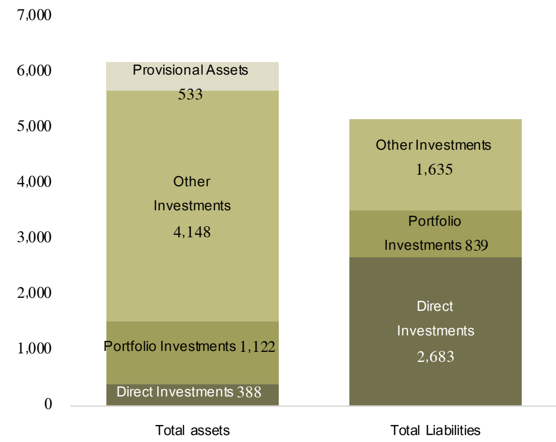
3 The "net errors and omissions" item does not equal the difference between the current account and the financial and capital account, because PCBS included "exceptional financing" when calculating this item.

International Investments

By the end of Q1 2018, Palestine's foreign assets totaled USD 6,211 million, 6% of which represent direct foreign investments, and 18% represent portfolio investments. On the other hand, total liabilities amounted to about USD 5,157 million, more than 52% of which were direct investments.

The difference between assets and liabilities means that the overseas investments by Palestinians were USD 1,054 million higher than investments of non-residents. A significant portion of these assets (62%) is in the form of cash deposits (mostly by domestic 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 2,295 million (Figure 8-5).

Figure 8-5: International Investments Balance (as of the end of Q1 2018) (Million USD)



Economic Concepts and Definitions:

Import Substitution Strategy (ISS) [1]

In the 1950s and 1960s, many developing countries, especially Latin American countries, adopted and applied an Import Substitution Strategy (ISS) as an effective tool of an industrial policy. ISS calls for the government's extensive intervention to support and nurture the production of domestic goods (mostly consumer goods) to replace goods it used to import from the world. This means substituting imports with locally produced goods through applying a strict tariff policy on imported goods, and promoting local production through incentive policies, like controlling the exchange rates of currencies, allowing high pricing of domestic products, and supporting industries through governmental subsidies.

Advocates of ISS argue based on three main theoretical justifications:

- "Infant Industries" justification, which was the idea of the German economist Friedrich List back in 1841. The idea states that emerging infant industries in their early stages are not strong enough to compete with imported products, which necessitate protecting those industries until they are strong enough, mature and efficient to compete with international products. In other words, some promising industries need support and protection at their early stages, which also means that this support is temporary and not permanent.
- At the time ISS was introduced, international prices of raw materials declined compared with the prices of manufactured products. As a result, an unequal exchange between developing countries and developed countries coupled with the fact that the former countries were main exporters of raw materials and importers of manufactured products, which caused the loss and depletion of their resources. Developing countries should be free from unfair trade practices and to develop their domestic industries as quickly as possible to stop chronic depletion.
- Developing countries run large deficits in their international trade balances because of large imports of consumer goods, a pattern encouraged by the Western culture. Reducing imports through imposing high tariff barriers is one of the most important means to reduce deficit and stop leakage of foreign currency through using it to import consumer goods instead of capital goods which could boost the capacity of domestic production.

Export Promotion or Import Reduction?

The industrial policy of Export Promotion Strategy (EPS) is the opposing approach of ISS. While the latter focuses on the local market as an engine for manufacturing, the former focuses on the importance of the international market and free/open trade relations. While ISS focuses on reducing imports to control trade deficit, EPS focuses on reducing deficit by export promotion. ISS is considered Inward-oriented while EPS is an Outward-oriented strategy. An additional important difference between the two strategists is that ISS depends on the extensive intervention of the government in economic policies, while EPS depends on free-market mechanisms and limited role of the government.

Pros of ISS include the following:

- The large imports of certain goods and products indicate that there is high demand for these products and a market ready to absorb these goods. Therefore, when the decision to invest in these imports is made, a market was guaranteed, which minimizes investment and production risks.

1 List developed this idea to justify the trade protectionist policy applied by Germany end of 19th century to get up to pace with the industrial revolution started by Britain, which was the same protectionist policy applied by the USA following its independence from Britain. Economist Chang, at the University of Cambridge, contends that most developed countries had applied trade protectionist policy against imports in early stages of economic development (Ha-Joon Chang (2002): Kicking Away the Ladder- Development Strategy in Historical Perspective).

• Raising tariff barriers is a relatively easy and effective way to reduce the deficit in the balance of trade, compared to the strenuous efforts exerted in the production of exportable products, and in negotiating developed countries to open their markets to the products of developing countries.

On the other hand, ISS is associated with three types of risks and drawbacks, which is evident in experiences of the many countries that have adopted this strategy:

• Domestic industries usually seek constant protection and support against foreign competition, transforming it from a temporary measure to a permanent need and demand. This would cause a long-lasting depletion of public resources, and companies acceptance of a "Captive market", that offers expensive products yet of poor-quality. Moreover, administrative and political corruption often prevails in such environments, where companies' use lobbying to influence the government's decisions, maintain subsidies and high tariff barriers, instead of focusing on developing production, quality improvement, and introducing new technologies.

• The small-scale of the domestic market, external competition and isolation from the international market and from exposure to modern technologies and innovative approaches of management combined can deleteriously impact the effectiveness of industrial companies leading to their failure to keep pace with development and modernization.

• Substituting light consumer imports with locally-manufactured goods is relatively easy, as the bad quality of such products can be tolerated. However, this is not the case when substituting advanced industrial imports and capital goods, as compromising the quality and efficiency of this type of imports is not possible.

The application of ISS in the four Southeast Asian countries (Namely: Hong Kong, Taiwan, Singapore and South Korea) has raised questions on the practicality of this strategy. Regardless of the rapid industrialization achieved in these countries, driven by export-led and open markets, most of these countries suffered from resources depletion and production shortages, as well as the accumulation of deficit in their balances of trade. [2]

However, the experience of those "Four Asian Tigers" can be regarded as a creative mixture of both inward and outward industrial policies. Alongside ISS, the export promotion strategy that was applied in those countries relied on the heavy intervention of the government in maintaining infrastructure, labor force training, and the introduction of different incentives and facilitations for the private sector to achieve export-oriented objectives.

2 According to World Bank studies, the average annual GDP growth rates during the period 1963-1998 in the developing countries of Asia, Africa and Latin America were higher in outward-oriented economies than it was in inward-oriented economies. Refer to:
The World Bank: World Development Report 1987 and 1999/2000

Key Economic Indicators in Palestine, 2013-2018

Indicator	2013	2014	2015	2016	2016 Q4	2017	2017[2] Q1	Q2	Q3	Q4	2018
Population (One thousand)											
oPt	4,420.5	4,550.4	4,682.5	4,867.4	4,816.5	4,781.0	4,901.2	4,935.2	4,969.4	5,003.7	4,818.9
West Bank	2,719.1	2,790.3	2,862.5	2,962.9	2,935.4	2,881.7	2,981.2	2,999.6	3,018.1	3,036.6	2,902.4
Gaza Strip	1,701.4	1,760.1	1,820.0	1,904.5	1,881.1	1,899.3	1,920.0	1,935.6	1,951.3	1,967.1	1,916.6
Labor Market											
No. of workers (thousand)	885.0	917.0	963.0	980.5	1,002.0	948.7	999.1	971.5	1,000.0	1,019.0	935.4
Participation rate (%)	43.6	45.8	45.8	45.8	45.5	45.3	45.8	45.4	46.5	44.1	45.4
Unemployment rate (%)	23.4	23.4	26.9	26.9	25.7	27.7	27.0	29.0	29.2	24.5	30.2
- West Bank	18.6	17.7	17.3	18.2	16.9	17.9	18.8	20.5	19.0	13.7	18.3
- Gaza Strip	32.6	43.9	41.0	41.7	40.6	43.9	41.1	44.0	46.6	42.7	49.1
National Accounts (USD millions)											
GDP	12,476.0	12,715.6	12,677.4	13,397.1	3,327.2	14,498.1	3,455.3	3,651.7	3,728.3	3,728.8	3,689.9
- Household expenditure	11,062.6	11,840.4	11,795.7	12,353.3	2,961.5	12,844.7	3,083.9	3,151.5	3,386.6	3,173.8	3,182.9
- Government expenditure	3,381.7	3,478.2	3,374.9	3,530.2	964.4	3,809.8	858.0	990.3	892.7	1,068.6	977.5
Gross capital formation	2,707.3	2,415.0	2,689.5	2,837.7	760.3	3,305.6	758.9	778.8	879.6	894.9	876.7
Exports	2,071.8	2,172.3	2,322.7	2,432.4	658.8	2,692.7	639.0	692.8	671.3	717.9	713
Imports (-)	6,804.0	7,208.9	7,501.4	7,602.7	2,017.8	8,066.7	1,884.5	1,961.7	2,090.5	2,104.5	2,072.3
GDP per capita (USD)											
at Current prices	2,992.2	2,960.1	2,865.8	2,943.5	723.3	3,254.6	745.9	782.8	793.7	788.3	815.4
at Constant prices (base year 2004)	1,793.3	1,737.4	1,745.9	1,765.9	434.2	3,072.4	431.6	440.2	745.6	734.9	746.2
Balance of Payment (USD millions)											
Trade Balance	(4,732.2)	(5,036.7)	(5,199.5)	(5,170.5)	(1,359.1)	(5,374.2)	(1,245.5)	(1,268.9)	1,419.3))	(1,386.6)	(1359.3)
Income Balance	1,160.3	1,482.4	1,712.3	1,578.6	408.6	1,991.9	470.3	418.7	558.6	544.3	568.9
Current Transfers Balance	1,188.0	1,405.3	1,421.5	2,243.9	585.4	1,818.6	472.4	382.8	417.0	538.7	348.3
Current account Balance	(2,383.4)	(2,149.0)	(2,065.7)	(1,348.0)	(365.1)	(1,563.7)	(302.8)	(467.4)	(443.7)	(303.6)	(442.1)
Exchange Rates and Inflation											
USD/NIS exchange rate	3.60	3.60	3.90	3.840	3.829	3.603	3.749	3.594	3.559	3.512	3.461
JOD/NIS exchange rate	5.10	5.10	5.50	5.418	5.401	5.083	5.292	5.073	5.019	4.953	4.881
Inflation rate (%)[1]	1.72	1.73	1.43	(0.22)	(0.69)	0.21	1.07	(0.47)	(0.49)	0.43	(0.60)
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	3,651.3	913.7	1,040.0	721.1	976.9	988.6
Current expenditure	3,250.7	3,445.9	3,424.9	3,661.6	768.2	3,794.8	849.9	1,113.8	787.5	1,059.7	933.2
Developmental expenditure	168.4	160.9	176.4	216.5	80.2	257.9	36.5	55.0	53.0	113.4	46.6
current budget deficit\surplus (before grants)	(1,099.2)	(815.6)	(709.9)	(326.2)	88.0	(401.4)	27.4	(128.9)	(119.4)	(196.2)	8.8
Total grants and aid	1,358.0	1,230.4	796.8	766.3	214.3	720.4	208.6	109.0	124.3	254.2	80.3
Total budget deficit\surplus (after grants and aid)	258.7	414.8	86.9	440.1	302.3	319.0	236.0	(19.9)	4.9	58.0	89
Public debt	2,376.2	2,216.8	2,537.2	2,483.8	2,483.8	2,523.2	2,514.9	2,492.7	2,526.0	2,523.2	2,448.8
The Banking Sector (USD millions)											
Banks assets/liabilities	11,191.0	11,822.0	12,602.3	14,190.1	14,190.1	15,850.2	15,222.3	15,348.1	15,461.0	15,850.2	15,916.7
Equity	1,360.0	1,464.0	1,461.7	1,683.6	1,683.6	1,892.7	1,720.3	1,744.5	1,804.6	1,892.7	1,926.8
Deposits at banks	8,304.0	8,935.0	9,654.6	10,595.7	10,595.7	11,982.5	11,127.5	11,379.5	11,526.8	11,982.5	12,002.3
Credit facilities	4,480.0	4,895.0	5,824.7	6,865.9	6,865.9	8,026.0	7,234.2	7,528.9	7,761.9	8,026.0	8,175.4

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 2018 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.
Note 1: Data on population and the numbers of workers for years before 2017 are based on the Census of Population, Housing and Establishments 2007 and will be updated to reflect the final results of the 2017 census.
Note 2: data for 2017 and the Q1 2018 were updated based on the final results of the Census of Population, Housing and Establishments 2017.