Economic Monitor

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2018

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

Economic Monitor Issue 54/2018

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Q2 2018 in Brief:

- GDP: GDP declined during Q2 2018 by 0.8% compared with the previous quarter (at 2015 constant prices), which is attributed to a drop in the West Bank of 0.1% against a drop in the Gaza Strip by 2.8%. This led to a decline in per capita GDP by about 0.7% in the West Bank and by 0.75% in the Gaza Strip
- Employment and Unemployment: The unemployment rate in Palestine rose by two percentage points in Q2 2018 compared with previous quarter, reaching 32.4% (19.1% in the West Bank and 53.7% in the Gaza Strip). The percentage of private sector waged workers, who earn sub-minimum wages was 33% (40.7% females and 31.3% males).
- Public Finance: In Q2 2018 public expenditures amounted to NIS 3.4 billion. External funding for budget support reached NIS 482.1 million (49% came from Arab countries). The government's arrears amounted to NIS 578.6 million. The public deficit dropped by 3.3% compared with the previous quarter reaching USD 2.4 billion.
- Inflation and Prices: During Q2 2018 the inflation rate in Palestine was 0.26% compared with the previous quarter. This implies a decrease in the purchasing power of those who receive and spend their income in shekels. The purchasing power of those who receive their salaries in dollars and dinars and spend in shekels increased by 2.97% and 2.93% respectively .
- Banks: during Q2 2018 credit facilities rose by about 1% compared to Q1 of the same year, reaching around USD 8.3 billion, 16% of which were granted to the public sector. On the other hand, non-bank deposits settled at about USD 12 billion.
- PEX: The market value of shares listed on PEX reached USD 3.78 billion, a rise of 4% compared with the corresponding quarter. Al Quds index closed at 540.67 points, a level close to that recorded at the end of Q2 2017.
- Vehicles Registration: The number of new and second-hand vehicles (registered for the first time) in the West Bank reached 6,978 in Q2 2018, 79% of which were second-hand vehicles imported from international markets and Israel.
- The Balance of Payments: During Q2 2018, the deficit in the Palestinian balance of payments reached USD 373.3million . This is attributed to deficit in the trade balance (USD 1.4 billion), against a surplus in the balance of income (USD 603.7 million) and a surplus in the balance of transfers (USD 450.2 million).

Note: The fractional components of ratios in the Monitor's sections, except for GDP and Prices and Inflation and Interest Rates, were written as integer figures

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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 0.8% over Q2 2018 compared with the previous quarter reaching USD 3,351.3 million (at 2015 constant prices): 76.4% in the West Bank and 23.6% in the Gaza Strip. T The decline distributed as a 0.1% decline in the West Bank, against a 2.8% in Gaza Strip. Compared with the corresponding quarter (Q2 2017), GDP declined by 1.3% in Palestine, or a rise of 0.2% in the West Bank against a fall of 6.1% in the Gaza Strip (Figure 1-1).

This decline during Q2, accompanied by an increase in the population, resulted in a fall in per capita GDP by 1.4% compared with the previous quarter. Compared with the corresponding quarter 2017, per capita GDP declined by 3.9% in Q2 2018 (Table 1-1).

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

	Q2 2017	Q1 2018	Q2 2018
Palestine	**765.3**	**746.2**	**735.8**
-West Bank	994.3	980.9	974.1
-Gaza Strip	450.4	425.3	410.4

(*) 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

Figure 1-1 depicts the expansion in the GDP gap between the West Bank and the Gaza Strip over the last decade. Gaza Strip's share of GDP decreased by 1.2 percentage points in Q2 2018 compared with Q2 2017. In Q2 2018, Gaza Strip's contribution to GDP was around 23.6%, i.e. less than a quarter of Palestine's GDP (Figure 1-2). Meanwhile, the gap in the per capita GDP between the West Bank and Gaza Strip increased by USD 8 compared with the previous quarter and USD 20 compared with the corresponding quarter 2017, reaching USD 563.7. This means that the per capita GDP in Gaza Strip is less than 42% of the per capita GDP in the West Bank.

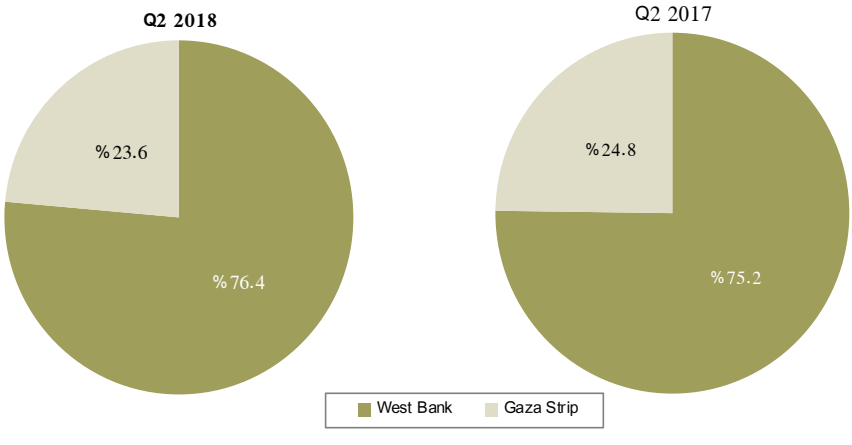
Composition of GDP

The contribution of the productive sectors to Palestinian GDP increased by 0.4 percentage point between Q2 and Q1 2018, as a result of an increase in the share of the industrial and agriculture sectors. Meanwhile, the share of the trade, transportation, information, and finance sectors increased, against a fall in the share of administration and security, and a slight decrease in the services sector (Figure 1-3).

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

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

Figure 1-2: GDP in the West Bank*and Gaza Strip (USD million, 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.

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

Expenditure on GDP

Quarter 4: The absolute decrease in GDP between Q2 2018 and Q2 2017 amounted to about USD 45.5 million (a decline of 1.3%). This is the result of the decline in final consumption expenditure (public and private) of USD 47.7 million, and in aggregate investment of USD 42 million. In addition, net exports (i.e. exports minus imports) decreased by USD 58.4 million (refer to figure 1-4 showing % expenditure on GDP).

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

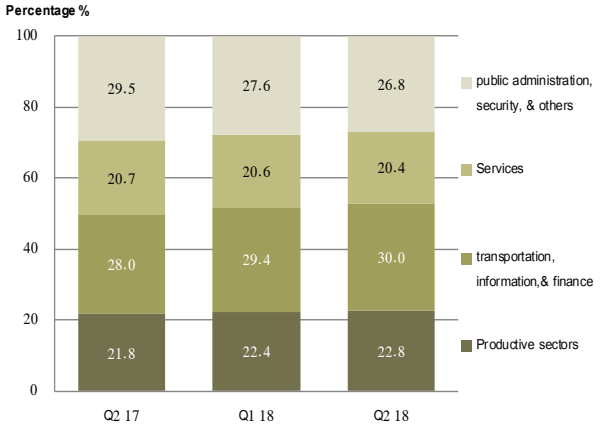
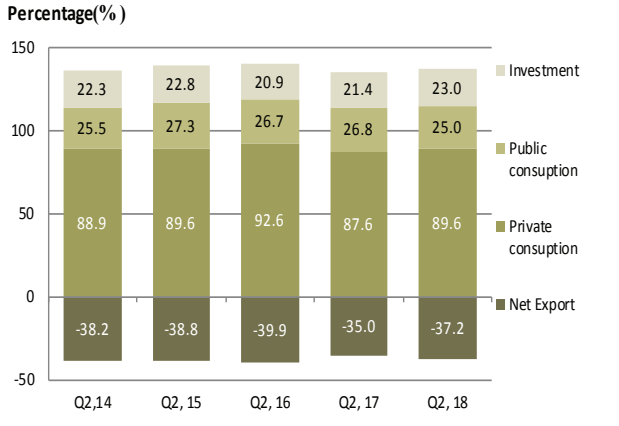


Figure 1-4: % Expenditure on GDP in Palestine* (constant prices, base year 2015)



(*) 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.

2- Labour Market[1]

According to PCBS, manpower comprises all persons aged 15 years and above. Manpower in Palestine amounted to 2,975 thousand by the end of Q2 2018. [2] The labor force (which includes all persons qualified to work and actively seeking employment) amounted to 1,364 thousand. The workforce comprises workers/labor force and the unemployed. The difference between the labor force and the actual number of workers, i.e. workforce, provides a measure of the rate of unemployment. Figure 2-1 shows the relation between these three variables and the size of population in Q2 2018.

Figure 2-1: The Total Population, Manpower and Workforce in Palestine (Q2 2018) (Thousands)

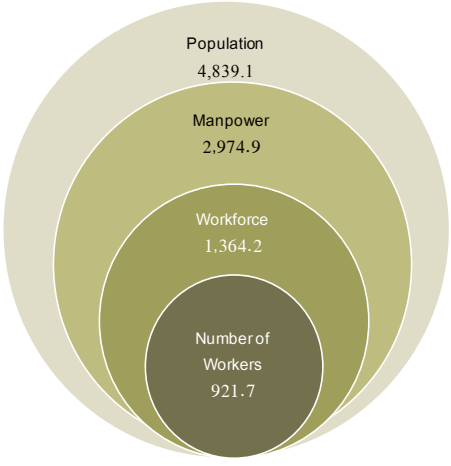


Figure (2-1) shows that the participation rate (ratio of labor force to manpower) reached 46% in Palestine. This ratio is a measure of the active working-age population aged 15 years and above in the economy. This ratio is close to the general average in the Middle East, reaching 48% in Turkey for example. However, compared with international rates, the Palestinian rate is considered low (63% in Latin America, 61% in South Korea.[3] This is mainly attributed to the low female participation rate in Palestine.

Distribution of Workers

The number of workers in Palestine decreased by 1.5% between Q1 and Q2 2018 (a decline of 8% in the Strip against 1% rise in the West Bank), reaching 921.7 thousand. By regional distribution, 60% of workers were in the West Bank, around 27% were in Gaza Strip and 14% (around 126 thousand) in Israel and its colonies. By sector, around one fifth of workers in Palestine were employed by the public sector, while this ratio rises to 36% in the Gaza Strip (Figure 2-2).

During Q2 2018, the number of workers in the services sector in Palestine was 34% (Figure 2-3), while it was 52% in the

1 Source of data for this section draws on PCBS, 2018, Labor Forces Survey, 2017, Ramallah, Palestine.
2 The labor market section in this issue of the Economic Monitor was prepared by Dr. Samia Botmeh, Lecturer at Birzeit University, assisted by MAS research assistants. As well, this section is funded by the ILO, under a project that aims to develop analysis of the Palestinian labor market and to better inform policy makers and the public about this sector and the challenges facing it.
3 World Bank database.

Gaza Strip. The number of workers in the construction and building sector was 22% in the West Bank compared with less than 4% in the Gaza Strip. The ratio of workers employed in the trade, restaurants & hotels sectors in the West Bank is close to that in the Gaza Strip, about 22% and 23% respectively

Unemployment

The number of the unemployed in Palestine stood at 442.5 thousand by the end of Q2 2018. The unemployment rate (the number of unemployed workers divided by the labor force) was 32% in Q2 2018, 3 percentage points more than the corresponding quarter of 2017 and 2 percentage points more than the previous quarter. The rise of the unemployment rate in Palestine over the corresponding quarters was driven by the steady rise of unemployment in the Gaza Strip, in spite of its decline in the West Bank (Table 2-1).

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

		Q2 2017	Q1 2018	Q2 2018
West Bank	Males	16.7	15.9	16.0
	Females	35.7	28.7	31.8
	Total	**20.3**	**18.3**	**19.1**
Gaza Strip	Males	36.4	41.1	44.5
	Females	71.5	71.5	78.3
	Total	**44.2**	**49.1**	**53.7**
Palestine	**Males**	**23.9**	**25.0**	**26.4**
	Females	**50.4**	**48.9**	**53.7**
	Total	29.2	30.2	32.4

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

1. There is a wide divergence in unemployment rates between the Gaza Strip and the West Bank, reaching more than 34 percentage points as Table 2-1 shows. This chronic divergence is ascribed to different demographic, geographical and economic conditions between the two regions. However, after 2000 the gap has widened significantly from when it was less than 7 percentage points. This is ascribed to the recurrent Israeli aggressions and economic siege on the Gaza Strip.
2. It is high among youth compared with the general average: the unemployment rate in the age group 15-24 years reached 49% (79% for females against 42% 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).
3. The unemployment rate decreases with the attainment of higher educational levels for males, contrary to females (Figure 2-5): The unemployment rate in Q2 2018 reached 29% for males who had not completed secondary education, while it was 21% for males with tertiary education. On the other hand, the unemployment rate for females with a tertiary education was 57%, against 41% for females who had not completed secondary education (see

Figure 2-2: % Distribution of Palestinian Workers by Region and Sector, Q2 2018 (%)

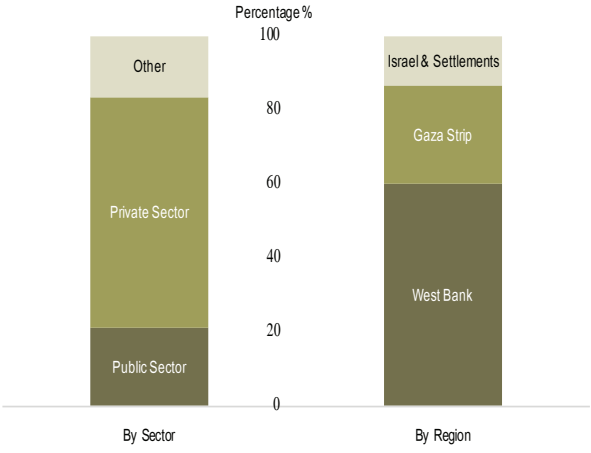


Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q2 2018 (including those working in Israel and the colonies) (%)

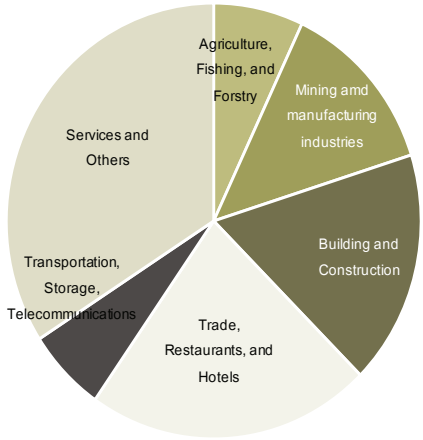


Figure 2-4: The Employed and Unemployed in Palestine by Age Group (Q2 2018) (Thousands)

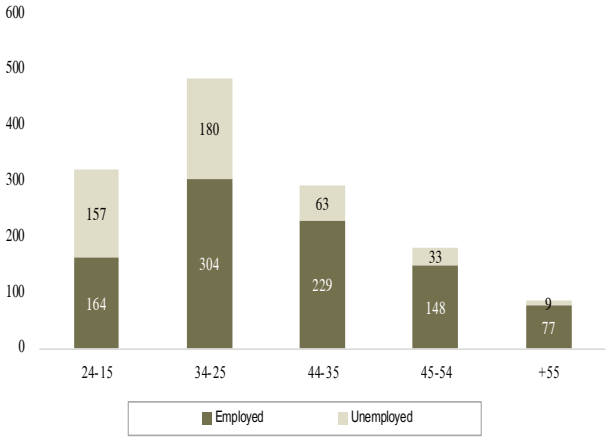


Figure 2-5). The high unemployment rate among educated females is driven by the large increase in those females' participation rate in the labor market (refer to Box 1 -QM 52 discussing and attesting this important phenomenon).

Wages

The average daily wage for workers in Palestine amounted to NIS 124.0 in Q2 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 the colonies on the other hand, and between the average wage in the West Bank and that in the Gaza Strip (Table 2-2). As figures demonstrate, the average wage of workers in Israel and the colonies is 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). Figure 2-6 shows the difference between the two indicators and how the average wage is affected by a limited number of relatively high-income workers. Notably, the median wage in the Gaza Strip is less than half that in the West Bank (Table 2-2).

The average daily wage of workers rose by NIS 4.2 over the consecutive quarters (Q1 and Q2 2018), as a result of the rise of the average wage of workers in the West Bank (by NIS 1.5), Israel and the colonies (by NIS 5.4), and in Gaza Strip (by NIS 0.5).

Table 2-2: The Average and Median Wages of Waged Workers, Palestine, Q2 2018 (NIS)

Work Place	Average Daily Wage	Median Daily Wage
West Bank	107.9	100.0
Gaza Strip	62.6	42.3
Israel and the colonies	**247.9**	**250.0**
Total	124.0	100.0

The average monthly wage of workers reached NIS 795. By region, 13% of West Bank waged workers in the private sector are sub-minimum wage earners, compared with 79% in the Gaza Strip (Table 2-3).

Minimum Wage

During Q2 2018 the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 33%: 41% females and 31% males. The average monthly wage of those workers was NIS 795. By region, 13% of the private sector waged workers in the West Bank were sub-minimum wage earners, compared with 79% in Gaza Strip (Table 2-3).

Figure 2-5: The Number of Employed and Unemployed in Palestine by Educational Level and Gender % (Q2 2018)

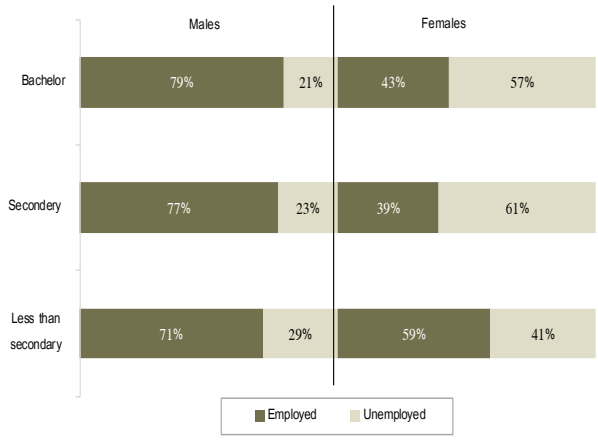
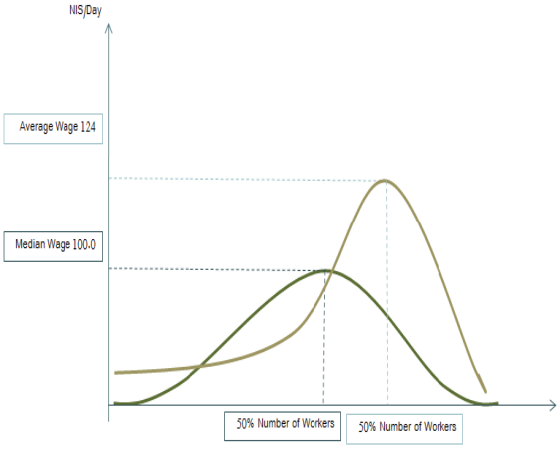


Figure: 2-6: The Difference between the Average and Median Wages



Child Labor

Child labor decreased slightly during Q2 2018 compared with the previous quarter, from 2.7% to 2.5% (of total children aged 10-17 years). By region, child labor constituted 3.3% of the employed labor force in the West Bank and 1.4% in Gaza Strip.

Table 2-3: The Number and Average Wage of Waged Workers Employed by the Private Sector and the Number and Average Wage of those who Earned Sub-minimum Wages (do not include workers in Israel and the Colonies), Q2 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	181	45	226	13	17	30	1,172	1,040	1,101
Gaza Strip	84	14	98	70	7	77	679	613	674
Palestine	265	59	324	83	24	107	761	925	795

Box 1: Educated Women in Palestine: Wasted Potential

In September 2018, the World Bank published a study titled "Enhancing Job Opportunities for Skilled Women in the Palestinian Territories". The study defines "skilled women" as postsecondary-educated females, i.e. with 12 years of schooling in addition to suitable training. The study investigates the reasons behind the significant disparity in unemployment rates between skilled females and males. Unemployment among skilled women reach 47% (61% in the Gaza Strip and 38% in the West Bank), which is more than double that for skilled males (18%). Although the ratio of skilled females to total working-age population is similar to that of skilled males (around 18%), disparity between the two is still obvious. The labor force participation rate for skilled women, as shown in the study is high (68%) especially compared to that among unskilled women. Unemployment among skilled women is significantly higher than that among unskilled women (with less than secondary-education and without training).

Why focusing on unemployment among skilled women?

Four main reasons are cited:

1. Skilled women constitute valuable human capital with the potential to spur economic growth that is ready to contribute to productivity in the short term.
2. The high unemployment rates among skilled women indicate that there is a worrisome trend where the link between education and employment opportunities becomes weaker.
3. Skilled women constitute 63% of the female labor force, i.e. the largest cohort of women who are willing to work, and investigating barriers to their work is useful for drawing policy recommendations in that regard.
4. Easing constraints on skilled women's employment could have a positive influence on other women wishing to join the labor market, especially that the overall female participation rate remains very low, even though it is high among skilled women.

The majority of skilled women in Palestine work in the public sector. Demand for skilled women has declined in recent years due to freeze of employment in the public sector. The transfer of resources from tradable to non-tradable sectors was accompanied by a decline in demand for educated workers. Competition for jobs among educated workers is high. However, men are usually viewed as more deserving of a job, not only because of the societal perception that they are breadwinners of their families, but also because skilled males are more willing and able to accept low-skill jobs. About 32% of skilled males are employed in jobs that do not match their skills (requiring less than secondary education), while the percentage for females is less than 8%.

According to the study, skilled men and women do not compete for the same jobs. In 2015, about 48% of skilled females worked as teachers against a mere 15% for skilled males. The difference in occupations between men and women is closely associated with differences in fields of study. Around 26% of graduate females in 2015 received a teaching degree, 14% received a business administration degree, while males tend to study law, architecture, and computer science.

Constraints on Skilled Women's Employment

The study identifies a large number of constraints on skilled women's employment, which can be grouped in three categories:

- Legislation and regulations: some regulations affecting women only limit their choices in occupations. For example, paid maternity leaves, which are limited to women, may be seen by employers to raise the costs incurred from employing females compared to males. There are also no legislation or criminal penalties against sexual harassment in the workplace or against implicit or explicit discrimination, or prohibition on questions related to marital status.
- Facilities: The absence of after-school child care services, nurseries and kindergarten that are high-quality, affordable and subsidized by the government, hinders women's employment. In addition, commuting to work is unsafe because of the Israeli occupation and in many times, females have to go through humiliating inspection. The study cites that only 13% of skilled women work in regions outside the areas where they live (compared with 22% of skilled men).

Social norms: there are social assumptions and stereotyping about what is appropriate for women and what is not, and what should be their priorities, i.e. responsibilities toward their families and household chores. Although females have access to financial services, often prevailing social norms perceive the male as the head of household, which explains why in 2014 only 21% of females (15 years and over) had a bank account in Palestine, compared with 27% of males. The same applies to land and wealth acquisitions.

Recommendations

The study confirmed that the main barriers to Palestinian skilled women employment are the limited number of jobs and limited availability of jobs suitable for their skills. The study links this with the prevalence of small informal private sector in the economy. This situation is unlikely to change without a change in the political situation. However, there is room for policy options for enhancing women's job opportunities, especially for skilled women.

- Supporting entrepreneurship and micro-work among skilled women, building on international successful experiences in this domain (the Malaysian experience for example) (information collecting, data input, copyediting and proofreading, and e-lancing)
- Enhancing labor market intermediation services (demand/supply) to facilitate job matching for skilled females
- Implementing active labor market programs: Rehabilitation of females' skills to match the changing needs of the labor market.
- Creating an enabling and safe environment for women's work through implementing national awareness campaigns to correct males' bias behaviors, especially in the workplace, and their prejudicial assumptions and raise awareness about the economic contribution of women's work.
- Improving public transportation, especially for females and at night (benefiting from the experiences of Egypt and Japan), and to consider the possibility of subsidizing nurseries and enhancing oversight .
- Reforming laws and legislation that limit women's choices in occupations, and reforming labor laws to maintain balanced incentives for employing females and males. In addition to introducing provisions against sexual harassment and discrimination in the workplace.

Evaluating the study

The study's conclusions and recommendations relied on an analysis of available data on the Palestinian labor market (PCBS Labor Force Survey, School-to-Work Transition Survey (SWTS, which we presented in a box in Monitor 47) and PCBS's Palestine Expenditure and Consumption Survey. The study, as well, benefited from "qualitative data" obtained from a sample of employed and unemployed skilled workers from both sexes, interviews with employers, focus groups and key stakeholders and insiders. However, these sources of information were not sufficient to provide up to date information, based on which a thorough analysis could be made to reach reliable conclusions and recommendations.

This is particularly demonstrated by the limited data on the barriers to demand for skilled female, which necessitates a documented employer-level survey.

On the other hand, the supply-side survey (sample) did not document accurately the methodology used for selecting the sample and the methodology for conducting the quantitative data analysis. This has led to depending on personal observations of one or a few individuals and generalization of these views as if it is a common phenomenon limiting the entry of skilled women into the labor market. Limited data on the demand side, and the lack of documentation on the supply-side, did not assist the research team in coming with new findings or description or recommendations.

Some of the observations that were included in the study, such as referring to laws stating that "married women can not work or leave the house without the permission of their husbands", or lacking legislations against sexual harassment, or that public transportation are infested with harassment…etc., may imply that the study sometimes fell in the stereotyping trap by making assumptions about Palestinian society, notwithstanding the study's repeated warnings about precisely that trap. Nonetheless, the study provided a comprehensive review of the available data on the participation of skilled women in the Palestinian labor market, and stressed that the only solution to unemployment in Palestine depends on a political solution and that the most disturbing issue for Palestinian women is humiliation and insults by the occupation forces at checkpoints.

3- Public Finance[1]

Public Revenues

During Q2 2018, net public revenues and grants decreased by 1.5% compared with the previous quarter, reaching around NIS 3,630.9 million. This is attributed to the decline in domestic revenues by 17%, reaching NIS 1,188.2 million (as a result of the decline of tax revenues by 34.2%). Clearance revenues, as well, declined by 6%, reaching NIS 1,960.6 million (Figure 3-1). Tax refunds reached NIS 77.8 million during Q2 2018 compared with NIS 94.8 million in the previous quarter. Foreign aid and grants doubled in Q2 2018 reaching NIS 559.9 million compared with the previous quarter (Table 3-1).

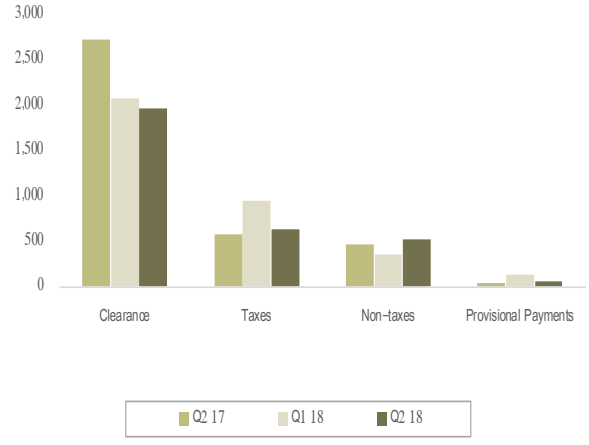
Public revenues and grants (net) were equivalent to 108% of actual public expenditures (cash basis) during Q2 2018 compared with 109% in the previous quarter. However, revenues accounted for 91% of accrued public expenditures (commitment basis) during Q2 2018 compared with 93% in the previous quarter.

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

Item	2017	2018	
	Q1	Q1	Q2
Tax refunds	283.8	157.6	482.1
Wages and salaries	94.9	140.1	236.3
Nonwage expenditures	**188.9**	**16.5**	**245.8**
Development expenditures	**118**	**119.9**	**77.8**
Provisional payments	**401.8**	**276.5**	**559.9**

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

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



Public Expenditure

Actual public expenditure remained almost at the same level as in the previous quarter, reaching NIS 3,371.4 million (slight decline of 0.3%). This is attributed to the decline in salaries and wages of 15% compared with the previous quarter, reaching about NIS 1,384.6 million against the rise of other expenditure items. However, non-wage expenditures increased by 4% reaching NIS 1,450.3 million. Net lending expenditures, as well, doubled during the quarter reaching NIS 267 million, and development expenditure increased by 32% reaching NIS 211.5 million (Table 3-2).

Actual public expenditure made 27% of GDP during the quarter and the previous quarter. In addition, the ratio of actual public expenditure to accrued expenditures (commitment basis) was 84% during the quarter, compared with 85% in the previous quarter.

Financial Surplus/Deficit

Developments on both the revenue and the expenditure sides during Q2 2018 led to a deficit in the total balance (before grants and aid), of NIS 300.4 million (about 2.4% of GDP). Grants and foreign aid turned the deficit into a surplus of NIS 259.5 million (on cash basis), which is about 2% of GDP, whereas the deficit in the total balance (before grants and aid on commitment basis) reached NIS 806.8 million, dropping to NIS 246.9 million after grants and aid during the same period (Figure 3-3).

Government Arrears

During Q2 2018, government arrears reached NIS 578.6 million, compared with NIS 499.5 million in the previous quarter, making about 16% of public revenues and grants. Arrears consist of NIS 126.1 million in wages and salaries, NIS 389.1 million in non-wage arrears, NIS 122.4 million in development expenditures. The government paid off NIS 50.3 million of the tax refunds arrears and NIS 8.7 million of provisional payments arrears (Table 3-2).

On the other side, total net government arrears reached NIS 12,533.4 million in Q2 2018 (equivalent to USD 3,360,2 million).

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

Item	2017	2018	
	Q2	Q1	Q2
Tax refunds	(0.4)	(82.3)	(50.3)
Wages and salaries	(118.1)	132.3	126.1
Nonwage expenditures	390.1	262.8	389.1
Development expenditures	66.2	82.4	122.4
Provisional payments	(0.9)	104.3	(8.7)
Total arrears	**336.9**	**499.5**	**578.6**

Figures between brackets indicate negative value

Public Debt

By the end of Q2 2018, public debt remained unchanged by compared with the previous quarter (increase of 0.6), reaching NIS 8,637.6 million (about 16.5% of GDP). [2] About 56% of the debt was domestic and 44% foreign. Interest paid on public debt reached NIS 81.9 million, about NIS 81.5 of which was paid on domestic debt (Table 3-3).

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

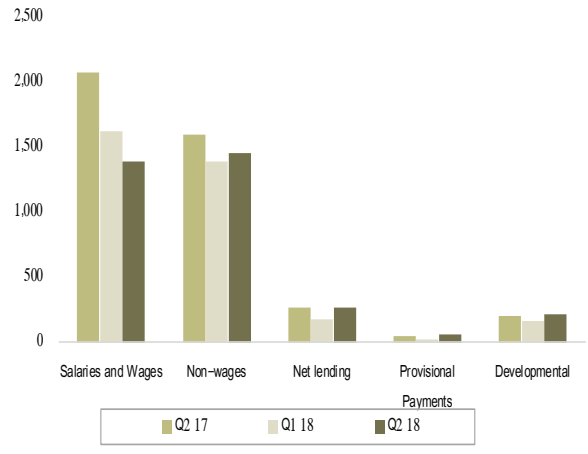


Figure 3-3: Government's Financial Balance (cash basis) as % to Nominal GDP

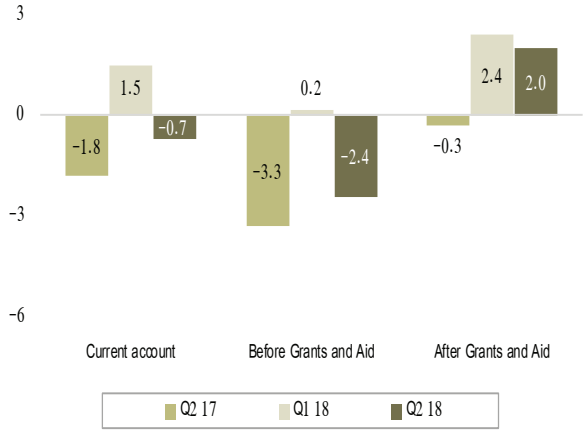


Table 3-3: Palestinian Government Public Debt (NIS million)

Item	2017		2018
	Q2	Q1	Q2
Domestic debt	5,155.1	4,913.9	4,860
Banks	5,102.8	4,863.1	4,809.2
Public institutions	52.3	50.8	50.8
External debt	3,578.3	3,674.2	3,777.7
Total public debt	8,733.5	8,588	8,637.6
Paid interest	80.3	43.1	81.9
Public debt as % to nominal GDP*	17.4%	16.6%	16.5%

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

2 It should be mentioned that by the end of Q2 2018 the government's debit denominated in dollars declined by 3.3% compared with the previous quarter, reaching USD 2,367.6 million.

Box 2: Palestine Investment Fund Net Income

Palestine Investment Fund (PIF) is the sovereign wealth fund responsible for managing savings funds of the people of Palestine. The PIF has diversified investments in various vital sectors, including real estate, manufacturing, agriculture, tourism and renewable energy, and it manages projects through investment portfolios and specialized companies.

Registered as a limited public shareholding company in 2003, the PIF initial capital consisted of all the assets of the Palestinian National Authority. The Palestinian Government, representing the main shareholder (the people of Palestine), is the sole beneficiary of the Fund's annual returns, which come from three main sources: operating income from investment activities carried out through PIF subsidiaries; profits of PIF's financial assets portfolio; as well as dividends, bonds yield, bank deposits interest and loans interest. The operating income is the major contributor to the Fund's total annual net revenues.

PIF net income and investment efficiency

Figure 1 shows that PIF after-tax profits declined sharply in 2011 from 2010, but stabilized in subsequent years with a slight upward trend, such that the net income rose from USD 33 million in 2011 to USD 39.4 million in 2017. The high profits in 2010 were non-recurring, with USD 41 million obtained from a settlement with Orascom Telecom Holding. Besides, the Palestinian government began to tax the Fund's profits only in 2010, and because it is difficult to compare after-tax earnings with tax-free earnings, years before 2010 have been excluded in the Figure below.

These aggregate figures, however, do not reflect profitability of investment in companies. Return on investment is another indicator that is often used to measure the correlation between the efficiency of the company in managing its assets and profitability. Figure 2 shows PIF return on investment during the 2011-2017 period. The return was positive throughout the period, with efficiency in managing assets ranging from 3.99% in 2011 to 4.69% in 2014. By 2017, it had reached 4.27%. Fadi al-Dweik, PIF Director General, observes that sovereign wealth funds generally achieve an average return on assets of 3-5 percent. In other words, the PIF is performing in line with its counterparts across the globe. [1]

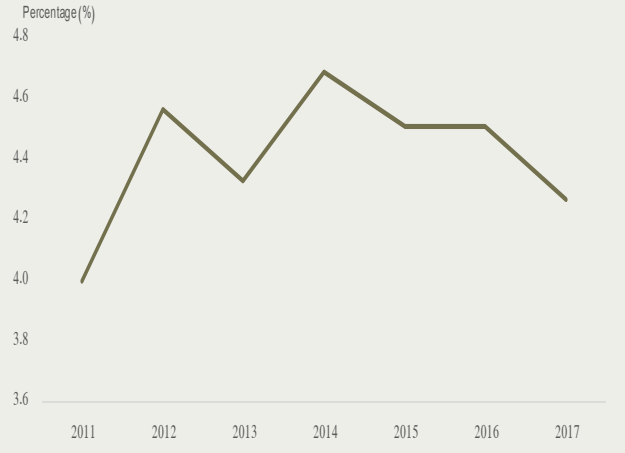
SWF Investments

Sovereign Wealth Funds investments are substantially different from private business in terms of investment nature and incentives. Evaluation criteria must therefore be different. For example, profitability and expected return are not the only factors that the SWFs consider when they take an investment decision. In addition to the risk factor and the geographical distribution of investments inside and outside Palestine, PIF takes into account the expected impact of investments in terms of socioeconomic development, supporting national products, creating jobs, maximizing exports and minimizing imports. The PIF investments, therefore, often take the form of strategic projects with long-term returns. If anything, it is not fair to measure the performance of SWFs using an annual profit index, equally important is the long-term, indirect impact of investment on the national economy at large.

Figure 1: PIF after-tax profits for 2010-2017

Source: Financial statements, PIF annual reports 2010-2017.

Figure 2: PIF return on investment 2011-2017



Source: Financial statements, PIF annual reports 2010-2017.

Dividends

The Palestinian government, on behalf of the people of Palestine, receives all dividends from the PIF in accordance with the PIF bylaws and in agreement with the Companies Law. At the end of the fiscal year, the Board of Directors presents a report to the PIF General Assembly regarding the profits to be distributed in accordance with the regulations in force. The General Assembly proceeds with considering the report in its ordinary annual meeting and recommends transferring the funds to the Ministry of Finance.

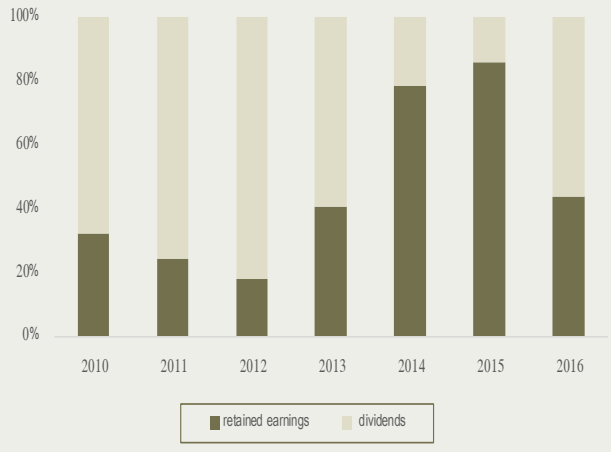
The dividend rate is based on three main factors: the value of the profits realized and the deduction of the statutory and voluntary reserves; the PIF's and its subsidiaries' future investment needs; and the shareholder's needs and priorities. Figure 3 shows the

1 Source: Interview with PIF Director General, 12/07/2018.

PIF's portfolio of dividends and retained earnings for 2010-2016. Obviously, during 2010-2013 period, the PIF tended to transfer the bulk of earnings to the shareholder instead of reinvesting them. However, the Fund took a reverse trend in 2014-2015, with retained earnings reaching 78.2% and 86% in 2014 and 2015, respectively, before falling to 43.7% in 2016, a year when the Fund transferred USD 21 million to the Ministry of Finance. This is, of course, in addition to the corporate tax paid by the Fund.

Wafa Al-Bitawi, MAS

Figure 3: PIF's portfolio of dividends and retained earnings for 2010-2016



Source: Financial Statements, PIF annual reports 2010-2016.

4. Banking Sector[1]

By the end of Q2 2018, there were 15 banks operating in Palestine licensed by the PMA; 7 domestic banks and 8 chartered banks, raising the number of branches and offices to 342; 283 in the West Bank and 59 in the Gaza Strip.[2] The main indicators of the sector show a downward trend, where net assets (liabilities) decreased by 0.7% during Q2 2018 compared with Q1, reaching USD 15.8 billion. This resulted mainly from the decline in balances at banks and PMA. Compared with the corresponding quarter 2017, assets/liabilities grew by 3.0% (Table 4-1)

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

Item*	2017	2018	
	Q2	Q1	Q2
Total assets	15,348.1	15,916.7	15,808.3
Direct credit facilities	7,528.9	8,175.4	8,260.0
Deposits at PMA & Banks	**4,170.5**	**4,093.5**	**3,960.0**
Securities portfolio for trading and investment	**1,282.5**	**1,314.0**	**1,324.0**
Cash and precious metals	**1,201.9**	**1,294.6**	**1,255.9**
Other assets	**1,164.3**	**1,039.2**	**1,008.5**
Total liabilities	**15,348.1**	**15,916.7**	**15,808.3**
Total deposits of the public (non-bank deposits)**	**11,379.5**	**12,002.3**	**11,993.1**
Equity	**1,744.5**	**1,926.8**	**1,845.8**
Deposits of PMA and Banks (bank deposits)	**1,385.4**	**1,101.2**	**1,029.8**
Other liabilities	**314.6**	**330.9**	**300.4**
Provisions and depreciation	**524.1**	**555.4**	**639.3**

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

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

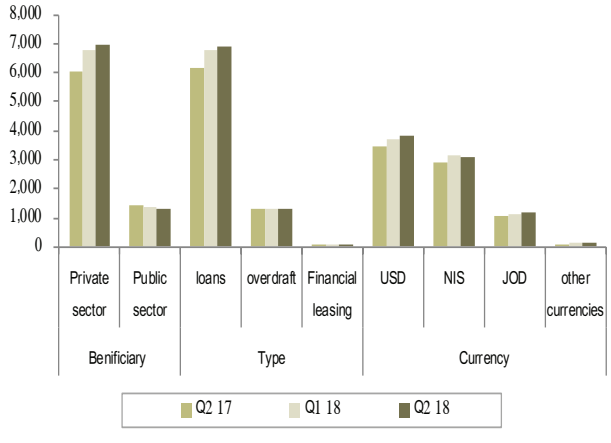
1 The source of data in this section: PMA, Aug 2018. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

2 In Aug 2018, A merger was concluded between Al Quds Bank and Jordan Kuwait Bank, thus the number of banks dropped to 14 banks

Credit Facilities

During Q2 2018, credit facilities were equivalent to 52% of total bank assets compared with 51% in the previous quarter, reaching USD 8,260.0 million (a growth of 1.0%). Total credit facilities were 69% of total public deposits during the quarter (Table 4-1). The private sector is the main beneficiary of credit facilities, as facilities granted to the private sector reached USD 6,945.5 million (around 84%) against USD 1,314.5 million granted to the public sector (16% of total facilities). By region, the West Bank's share of total credit facilities stood at 88% compared to 12% for the Gaza Strip. Around 83% of total credit facilities were loans, about 16% were overdraft accounts, and 1% were open-end leases. By currency, the US dollar continued to account for the biggest share of credit (47%) in Q2 2018 compared with 37% granted in Shekels, and 14% in Jordanian Dinars, and 2% in other currencies (Figure 4-1).

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



Credit growth resulted from the increase by 7% in the share of the services and finance sectors compared to the preceding quarter (by about USD 56.0 million), and 3% in the trade sector (by USD 48.8 million), as well as 2% growth in consumption loans (equivalent to USD 31.1 million) as Figure 4-2 shows.

Balances at PMA and Banks

By the end of Q2 2018, balances at PMA and banks declined by 3%, reaching USD 3,960.0 million, accounting for about a quarter of total assets of banks (25%). This decline is attributed to a 4% decrease in balances at PMA, and 12% in balances of banks in Palestine and 2% decrease in bank balances abroad. Compared to the corresponding quarter of 2017, the data also show a 5% decline due to a 24% decrease in bank balances in Palestine and by 11% in bank balances abroad (Figure 4-3).

Deposits

By the end of Q2 2018, total deposits (bank and non-bank deposits) declined slightly (by 0.6%) compared to the previous quarter, standing at USD 13,022.9 million. Compared with the corresponding quarter 2017, total deposits increased by 2%. About 92% of total deposits were deposits of the public (non-bank deposits) during Q2 2018.

The share of the West Bank of total private sector deposits was 91%, making 94% of total deposits against 6% the share of public sector (Figure 4-4).

Current deposits (on-demand) constituted 37% of the total deposits by the public, 29% were time deposits, and 34% were saving deposits. By currency, the US dollar continued to dominate deposits (39% of the total), followed by the Shekel (34%), and then the Jordanian Dinar (24%), and 3% for the remaining currencies.

Bank Profits

According to banks income statements, by the end of Q2 2018 banks profits (net income) decreased by 1.3% compared with the previous quarter, reaching USD 172.4 million. However, expenditures decreased as well by %1.65, reaching USD 130.3 million. Banks' net income (revenues) stood at USD 42.2 million during Q2, remaining at the same level of the previous quarter, while 11% less compared with the corresponding quarter 2017, (Table 4-2).

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

Item*	2017	2018	
	Q2	Q1	Q2
Revenues	166.7	174.7	172.4
Net Interests	113.6	122.8	125.5
Commissions	**27.9**	**30.5**	**29.9**
Other operating revenues	**25.2**	**21.4**	**17.0**
Expenses	**119.4**	**132.4**	**130.3**
Operating expenses and tax allocations	**103.3**	**115.6**	**113.3**
Tax	**16.1**	**16.8**	**17.0**
Net income*	**47.3**	**42.3**	**42.2**

*net income = net revenues - expenses

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

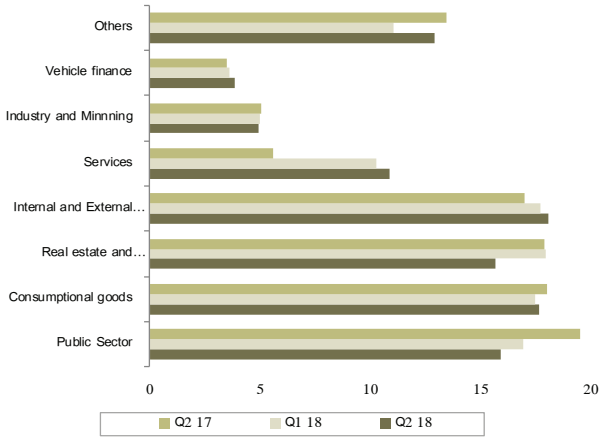


Figure 4-3: PMA and banks balances (%)

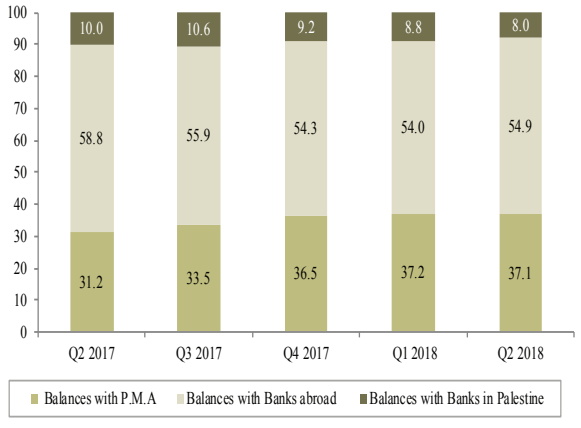
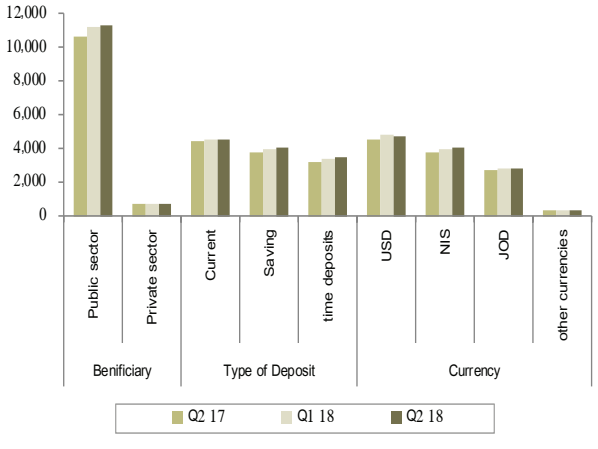


Figure 4-4: Distribution of Deposits (USD million)



Interest Rates

Analysis of interest rates on loans and deposits during Q2 2018 show that the margin between credit facilities interest rates and that of deposits improved compared with Q1 2018. The JOD interest margin declined from 4.03% to 3.68%, from 3.875 to 3.59% for the USD, and from 5.125 to 4.825 for

the NIS. This improvement reflects an enhanced performance of the financial intermediation function of the banking system. Average interest rates on deposits of the three currencies rose: 2.36% on JOD deposits, and 2.15% and 2.125 on NIS and USD deposits respectively. On the other hand, average interest rates on JOD and NIS loans dropped to 6.04% and 6.97% respectively, while average interest rates on USD increased to 5.71% during Q2 2018 (Figure 4-5).

Clearance

During Q2 2018, the value of cheques presented for clearance declined slightly (around 0.7%) compared with the previous quarter, amounting to USD 3,135.7 million. This increase was driven by an increase in the value of cheques presented for clearance in the Gaza Strip by 12% reaching around USD 250.3 million against its slight decline in the West Bank (0.2%), reaching USD 2,885.4 million. Compared with the corresponding quarter 2017, cheques declined by 14%, noting that 77% of these cheques were in NIS, followed by 17% in USD. During Q2 2018, the value of returned cheques declined by 6% compared with the previous quarter, reaching USD 270.9 million, reflecting a decline in the West Bank by 4% and by 18% in the Gaza Strip (Figure 4-6 and 4-7).

Specialized Credit Institutions (SCIs)

By the end of Q2 2018, total assets of specialized credit institutions (SCIs) dropped by 5% compared with the previous quarter, standing at USD 233.8 million. This resulted from the drop in both current deposits by 14% and loans by 5%. The credit portfolio of these companies distributed as 73% commercial loans, 11% Islamic loans, 10% deposits, and 1% cash, whereas fixed assets made 3%, and other assets 2% of total assets. SCIs offered 675 job opportunities.

The credit portfolio of SCI companies licensed by the PMA (6 companies) reached USD 215.4 million by the end of Q2 2018. Around 71% of loans were granted in the West Bank against 29% in the Gaza Strip (Table 4-3).

Table 4-3: SCIs data

Item*	2017	2018	
	Q2	Q1	Q2
Total of Loans Portfolio (USD millions)	**209.8**	**215.5**	**215.4**
- West Bank	143.3	149.8	153.1
- Gaza Strip	66.5	65.7	62.3
Active Clientele	**71,190**	**71,759**	**70,922**
No. of Offices and Branches	**84**	**81**	**81**
Employees	**647**	**664**	**675**

The real estate sector loans continued to dominate with the biggest share of loans (around the third), followed by the commercial sector (28%), then the agricultural sector (12%), the consumption sector (11%), and finally the public services sector (9%).

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

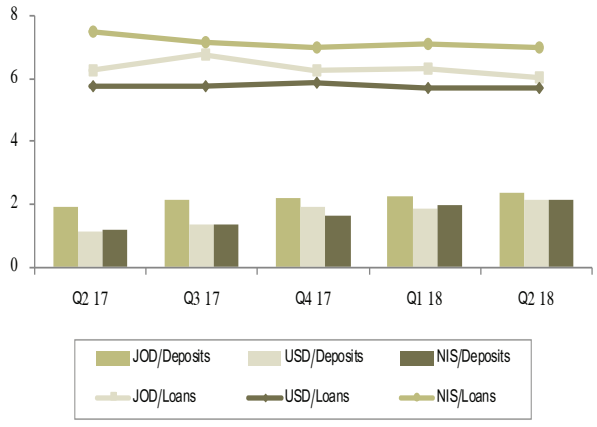


Figure 4-6: The Value of Cheques Presented for Clearance and Returned Cheques by Region (USD million)

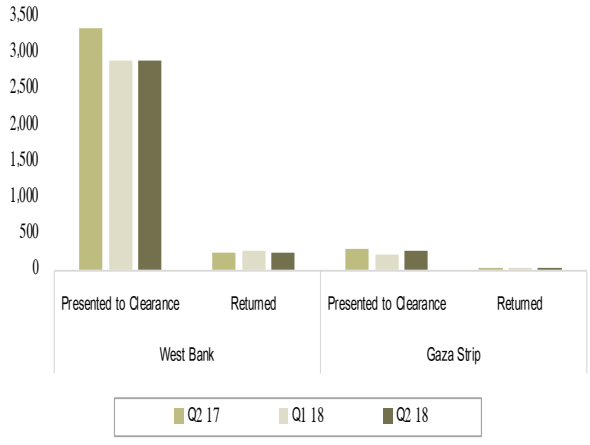
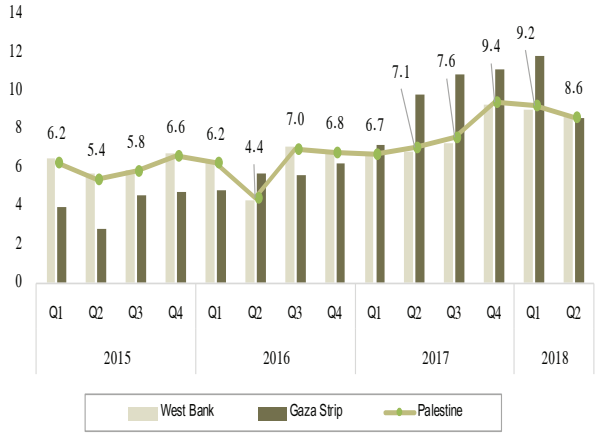


Figure 4-7: The Percentage of Cheques Presented for Clearance to Returned Cheques (%)



Box 3: Application of International Accounting Standard 9 in Palestine

In an effort to create a transparent environment that allows the practice of banking in the best possible manner that protects the rights of the customers, regulatory and supervisory authorities in different countries are keen on applying the best accounting standards to their banking sectors. This box provides a summary of the International Financial Reporting Standard (IFRS) 9 and its application to the Palestinian banking sector. [1]

IFRS 9

IFRS 9 is an International Financial Reporting Standard which addresses the accounting for financial instruments and reporting in banks. Replacing the earlier IAS 39, IFRS 9 sets out a number of accounting requirements for financial instruments and liabilities with a view to improving, standardizing and streamlining financial reporting. The new international standard, which entered into force as of the beginning of 2018, offers new criteria for classification, measurement and hedge accounting.

IFRS 9 is a response to the lessons drawn from the recent global financial crisis. One cause for that crisis was the delayed recognition of loan losses. IAS 39, or the incurred loss approach, would recognize losses only when they occurred, that is, after looking back (backward looking). IFRS 9, by comparison, is based on the expected losses from defaults prior to the crisis (forward looking). Analysts found that one of the main reasons for worsened global financial crisis was that banks did not have adequate provisions before default occurred. This is the wisdom behind maintaining provisions even for good debts as borrowers may default due to changes in the borrower financial position or in the macroeconomic conditions of an economy.

The implementation of the new standard is, however, not free of challenges and obstacles. Once implemented, the standard may impact the systems, regulations, contracts and credit policies of banks, which in turn impacts banks' financial reporting and operations. Moreover, implementing the standard requires significant modifications to the regulations and reclassification of pre-defined financial instruments (based on IAS 39) in accordance with the fair value principle. Some have criticized the standard for its unclear regulatory, legal and tax frameworks.

Implementation of Standard 9 in Palestine

The PMA has early on implemented the first component of IFRS 9 in banks that started operating in Palestine before mid-2012. The component measures financial instruments and classifies them into three main groups based on the business model in each bank. Undoubtedly, proper classification of financial instruments is integral to the application of the second component of Standard 9: the measurement of expected credit losses.

The PMA has been enthusiastic to fully implement the requirements of Standard 9 final version (released in mid-2014), which accounted for expected credit losses. The PMA's Instruction No. 02/2018 notified banks of the requirements and guidelines for the application of IFRS 9. The Instruction gave details of 1) the modifications to the process of financial reporting; 2) guidelines and illustrative examples for implementation; 3) financial instruments classification rules (including the classification of financial assets and liabilities, impairment of assets and the recognition of expected credit loss); 4) the main principles of credit risk management (which determines losses of financial instruments based on expected loss rather than incurred loss); and 5) the responsibilities of the bank's board of directors and management in terms of designing appropriate risk management procedures. The instructions made implementation mandatory as of the beginning of 2018. Later, the PMA issued Instruction No. 3, which extended implementation of Standard 9 to formal specialized lending institutions.

The implementation of Standard 9 is part of the PMA efforts to keep up with developments in international standards aimed at maintaining the stability of the financial system in general and the banking system in particular, thus warding off any future shocks in an already unstable political landscape.

Abeer Abu Zeitoun, Palestine Monetary Authority

1 See
- Salah Mohamed and Mahjoub Hamid (2017). "Analytical study of the implications of the adoption of IFRS 9 on credit and financing policies of Arab banks" (in Arabic), Journal of Economic, Administrative and Legal Sciences, Volume I, No. 9.
- Secretariat of the Board of Governors of Arab Central Banks and Monetary Authorities (2017): "International Financial Reporting Standards and their Implications for Banking Supervision: Application of Standard 9" (in Arabic), Arab Monetary Fund Publications, No. 71.
- Palestine Monetary Authority, Supervision and Inspection Department, unpublished reports

Box 4: Law on the Reduction of Cash Use in Israel

The Israeli government approved on September 17, 2013 a technical committee to examine ways of reducing cash use. The Committee produced a detailed proposal for reducing the use of cash and endorsed checks for the purchase and sale of goods and services. The aim of this policy, as stated in the introduction to the report of the Committee, is to reduce the risk of crime, money laundering and shadow economy, and increase advanced means of payment.[1]

A shadow economy is defined as that share of economic activity that does not appear in the GDP data. The term generally refers to economic activities that are not reported to the tax department. The shadow economy includes legal and illicit economic activities. Results from a World Bank study suggested that in 1999–2007, the average share of the shadow economy in Israel was about 22 percent of GDP. In 2017, Israel produced about $366 billion, which would mean the economy loses out some USD 80 billion annually.

Locker Report

On July 17, 2014, the committee produced a report, known as the Locker Report after the name of its prime initiator, and submitted it to the Israeli government, which in turn referred it to the Knesset Legislation and Law Committee for approval as a law.

The Locker Committee report included two types of procedures: setting caps for cash payments in private business transactions, both between customers and businesses, as well as between private individuals; and limiting the use of checks. The report proposed initial limitation of NIS 10,000 on transactions between businesses; this limitation is reduced to only NIS 5000 after one year from when the law goes into effect. This means that any business transaction over NIS 5,000 in Israel must be paid through the banking system. The report also proposed NIS 50,00 as a limitation on transactions between private individuals, to be lowered to NIS 15,000 in the next year. (See Table 1).

The report recommended establishing a prohibition on paying with and receiving checks on which the name of the beneficiary is not written. It also proposed a total ban of endorsed checks 3 years from the date that the prohibitions and restrictions go into effect (see Table 1).

Finally, the report recommended establishing sanctions for violating the above-mentioned limitations: and administrative fine or financial sanction imposed at a rate of 25 percent of the transaction value for the buyer and 35 percent of the transaction value for the seller, in addition to cash prohibition for offenders.

1) The law's provisions for cash will enter into force in early January 2019 and for checks in early July 2019.
2) Possibility of amendments after consultation and agreement between the Minister and the Governor of the Bank of Israel and the approval of the Knesset Legislation Committee.
3) The limitation is valid for one year only, and then declines to 15,000.
4) The maximum limit for the purchase and sale of second-hand cars is 50,000.
5) The limitation applies only to checks for businesses; for individuals, the cap is 5,000.
6) Provided that the name and identity card number of the endorsee appear on the check.

Bill freeze

Locker Committee submitted its report in July 2014, but the Chairman of the Legislation and Law Committee refused to refer the bill to the Knesset, and the bill remained on the shelf for four years because all parties in the coalition government objected to limiting the use of cash and tight control over checks. The two hardline religious parties in the government coalition were especially averse to the bill, as their constituents rarely use electronic payment methods. It is also known that Jewish ultra-Orthodox societies receive large donations which they do not wish to disclose. With such skeletons in their closets, Yisrael Beiteinu and the Likud party, whose leaders were interrogated on charges of receiving large sums of money, also opposed the bill.[2] However, under pressure from the Finance Ministry, after substantial amendments to the proposal by the Locker Committee, the bill was referred to the Knesset and finally passed in March 2018 (Law No. 2710).

The law limiting the use of cash[3]

Table 1 shows the main parameters of the limitations in the law, as well as the amendments that lawmakers proposed to the initial

Table 1: Caps on cash use and checks in Israel (in NIS)

	Locker Report		The Law	
	When the law takes effect	Future	At the start of 2019 1	In 2020 2
Payment and receipt of cash in business transactions	10,000	5,000	11,000	6,000
Payment and receipt of cash between private individuals	50,0003	15,000	50,000	15,0004
Tourist purchases Blank checks (without the name of beneficiary)	NA Prohibited	NA Prohibited	55,000 Prohibited	40,000 Prohibited5
Endorsable checks Non-endorsable checks	10,000 Open	Prohibited Less than 1 million	10,0006 Open	NA Open

1 The Committee to Examine Reducing the Use of Cash in Israel's Economy, 17 July 2014. https://www.nevo.co.il/law_word/Law14/law-2710.pdf

2 Haaretz: https://www.haaretz.com/misc/article-print-page/in-surprise-move-knesset-approves-law-to-reduce-use-of-cash-1.5906008

3 For the Hebrew text of the law, see https://www.nevo.co.il/law_word/Law14/law-2710.pdf

draft law by the Locker Committee. The amendments not only raised the cap on cash use for businesses, but also more importantly made any future changes to the restrictions conditional on the approval of some ministers and the Knesset's legislation committee. The Locker bill, on the other hand, provided that future further tightening would come quickly and automatically. In addition, in the new law, cash exchanges among family members are usually not subject to the ceiling limitations (unless they receive cash as wages). Above, some specified communities, especially Jewish ultra-Orthodox sects, have been exempted from the cap limitations. Finally, though the violation of the law is still deemed a crime of fraud that requires punishment, the financial sanction was lowered to 15% of the value of the transaction or check is less than NIS 25,000, and 30% for the transactions and checks with more than NIS 50,000.

International Comparison

The financial community envisioned that the new law would increase the treasury's tax revenue by NIS 400-500 million a year.[4] This, of course, is an insignificant figure compared to the estimated value of the Israeli shadow economy (NIS 275 billion). The reasons are many. First, there are still many methods for circumventing the law (for example, by splitting a large amount of cash into smaller payments). Second, the amendments the lawmakers made to the Locker proposal significantly reduced limitations and left room for further evasion of the law. The figures in Table 2 below reveal that the ceiling for permitted cash payments in Israel is higher than in other countries, including countries in which the shadow economy is half the size in Israel (Denmark, for example).

The Israeli law limiting the use of cash and its implication for Palestine

Article 42 of the Law on the limitation of the use of cash in Israel states that the provisions of the law shall not apply to the transactions made between Israeli citizens/ companies and non-Israelis residing in the territories of the Palestinian Authority. Though the exception is limited to three years, the law provides that the exception may be extended provided that the total extension period does not exceed three more years, and that the extension is conditional upon the approval of the Minister of Finance, the Minister of Justice, the Minister of Defense and the Governor of the Bank of Israel.

Obviously then, the law eventually will have implications for the Palestinian economy and the transactions between Israeli and Palestinian merchants, within three years from the commencement of the law. The Palestinian public and private sectors should, therefore, be prepared for changes. But the PNA can act in advance and enact a similar law. The Israeli law on limiting the use of cash has two main goals of no less significance to Palestine: increasing tax revenues and reducing the shadow economy. A no less important third dimension can be added to a possible Palestinian law: reducing the transactions of the Israeli shekel in the Palestinian territories, and thus limiting the losses and confidence from use of that currency.

Table 2: Size of shadow economies and caps on cash use in selected countries

Country	Shadow economy as % to GDP (2003-2015)	Limit on cash transactions	
(Euro)	Date of implementation		
Denmark	12.0	1,340	July 1, 2012
France	12.3	3,000 for residents/15,000 for non-residents	January 1, 2001
Greece	22.4	1,500	January 1, 2012
Belgium	16.2	3,000	January 1, 2014
Bulgaria	30.6	5,110	July 1, 2011
Spain	19.2	2,500 for residents/15,000 for non-residents	November 19, 2012
Italy	20.6	1,000	December 6, 2012
Portugal	17.6	1,000	May 14, 2012
Slovakia	18.2	5,000	January 1, 2012
Czechia	15.1	12,673	January 1, 2013
Israel	21.8 (average for 1999-2007)	3,500 for businesses/12,000 for private individuals	January 1, 2019

https://cashessentials.org/three-questions-about-cash-restrictions/
Note: Countries with no limitations on cash use include Germany, Austria, the United Kingdom, the Netherlands and Finland

4 See Footnote 14.

5- The Non-Banking Financial Sector[1]

The Securities Sector

By the end of Q2 2018, the market value of traded shares in Palestine Stock Exchange (PEX(reached USD 3.78 billion, an increase of 4% compared with the corresponding quarter 2017 (28% of GDP at constant prices).

By the end of Q2 2018, Al Quds index closed at 540.67 points, a decrease of 0.67% compared with the corresponding quarter 2017. The total number of traders in PEX amounted to 71,341, including 5% foreign traders, mostly from Jordan.

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

	2017	2018	
	Q2	Q1	Q2
Volume of Traded Shares (million share)	58.93	84.31	35.17
Value of Traded Shares (USD million)	**92.96**	**170.24**	**72.74**
Market Capitalization (USD million)	**3,627.91**	**3,891.23**	**3,784.40**
Total number of Traders	**72,153**	**71,572**	**71,341**
Palestinians	**68,758**	**68,240**	**68,022**
Foreigners	**3,395**	**3,332**	**3,319**

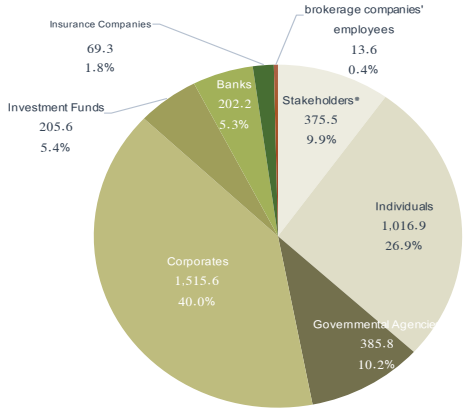
During Q2 2018, the volume of traded shares decreased by 58% compared with the end of the previous quarter, in conjunction with a decrease in the value of traded shares by 57% during the same period. Compared with the corresponding quarter, the volume and value of traded shares decreased by 40% and 22% respectively. This is attributed to a slower trading activity of financial sector shares, which has declined by 74%, as a result of the drop in the prices of some listed banks' shares, like the Palestine Islamic Bank.

The profits of listed companies during Q2 2018 reached USD 167 million after taxes (6% of equity rights), a rise of 6% over the corresponding quarter 2017 (USD 157 million). The number of listed companies who made financial disclosures were 46, 38 of which were gainers. Figure 5-1 shows the distribution of market capitalization by trader type. It shows that corporations' shares reached 40% (USD 1,515.6 million) compared with 27% for individuals (USD 1,016.9 million).

Insurance Sector

By the end of Q2 2018, the insurance portfolio (gross written insurance premiums) declined by 14% and 11% compared with the previous quarter and corresponding quarter 2017 respectively, reaching USD 70.1 million. This is attributed to the usual volatility in the gross written insurance premiums from one quarter to the other, noting that during Q1 2018 a new insurance company, named Tamkeen company that operates according to Islamic Takaful insurance principles, entered the market.

Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q2 2018) (USD million)



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

On the other hand, net compensations incurred by the insurance sector increased by 6% by the end of Q2 2018 compared with the end of the previous quarter. In addition, the insurance sector investments witnessed a slight growth of 1.4% compared with the previous quarter, while compared with the corresponding quarter 2017, a marked growth of 16% is registered (Table 5-2).

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

	2017	2018	
	Q2	Q1	Q2
Gross written Insurance premiums	63.39	81.29	70.12
Total investments of insurance companies	**212.92**	**242.50**	**245.85**
Net compensations incurred by the insurance sector	**(34.52)**	**(38.60)**	**(40.98)**
Retention ratio	**84.56%**	**76.21%**	**85.93%**
Claims ratio	**64.41%**	**62.31%**	**68.02%**

As figure 5-2 shows, there is a significant concentration in vehicle insurance in the insurance portfolio in Palestine, which constituted 61% of total insurance portfolio, followed by health insurance (14%). Figure 5-3, on the other hand, presents the market share of insurance companies, where two companies of the en operating companies dominated 42% of gross written premiums in the sector by the end of Q2 2018.

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

Figure 5-2: Distribution of the Insurance Portfolio Components by the insurance Sector Activities (as of the end of Q2 2018)

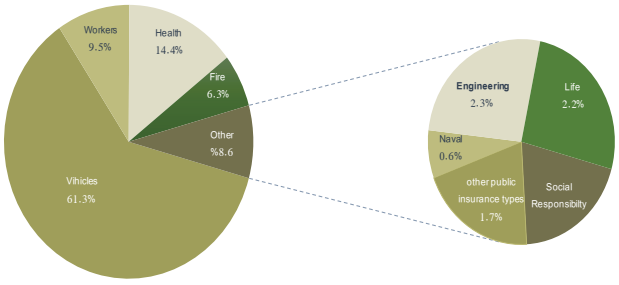
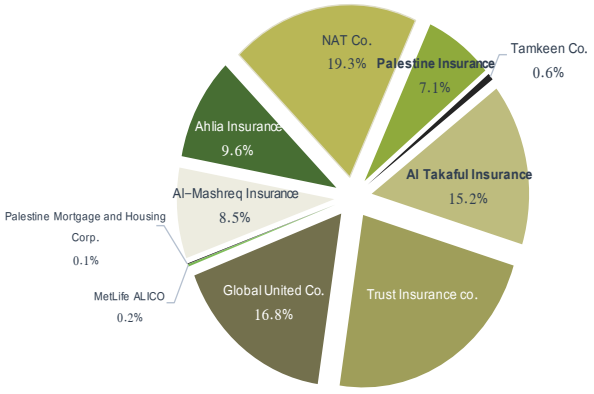


Figure 5-3: Distribution of the Insurance Portfolio Components by the Insurance Company (as of the end of Q2 2018) %



Financial Leasing

The number of leasing companies registered with PCMA was 14. The value of investment contracts stood at USD 18.8 million, through 382 contracts during Q2 2018, a decline of 9% and 6% compared with the previous and corresponding quarters respectively. 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. However, the volume of financial leasing contracts increased by 6% and 29% during Q2 2018 compared with the previous and corresponding quarters respectively (Table 5-3).

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

	2017	2018	
	Q2	Q1	Q2
Total Value of Financial Leasing Contracts (USD million)	19.99	20.65	18.81
Total Volume of Financial Leasing Contracts	**296**	**362**	**382**

As Figure 5-4 shows, financial leasing contracts are concentrated in Ramallah (38%), followed by Nablus (16%), then Hebron (12%), while 35% of contracts distribute among the rest of the Palestinian cities.

Figure 5-5 shows that the financial leasing portfolio is still concentrated in motor vehicle leasing (80% of total value of contracts), which is attributed to the ease of registering ownership of vehicles at the transportation department and therefore the low-risk associated with its leasing. Regarding the low number of contracts for equipment leasing, this is associated with ownership issues which are more problematic than vehicles. It is expected, however, that equipment leasing contracts will increase in the periods ahead following the enactment and putting into force the Law on Securing Rights in Moveable Assets.

Figure 5-4: Geographical Distribution of Financial Leasing Contracts by Volume (as of the end Q2 2018) (%)

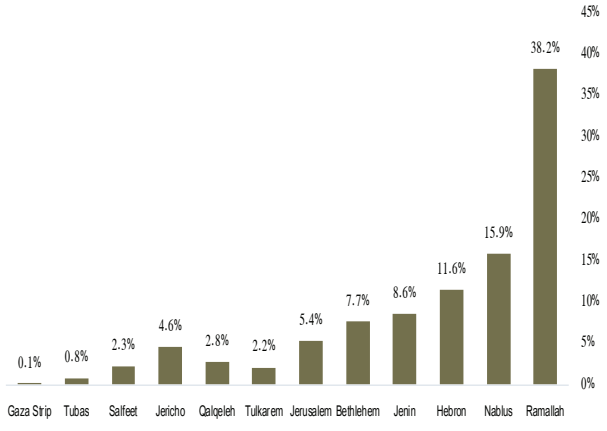
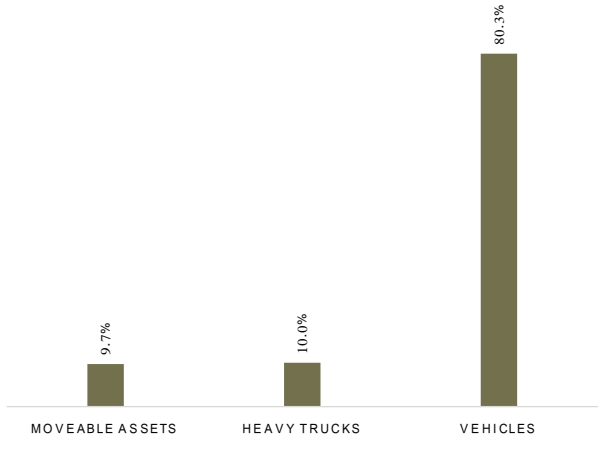


Figure 5-5: Distribution of Financial Leasing Portfolio by Type of Leased Property, as of the end of Q2 2018 (%)



Box 5: International standards governing the insurance sector

Insurance provides protection through transferring risks from the insured to the insurance company, thus allowing businesses and individuals to be hedged against potential risks. It is essential that insurance companies build confidence in their ability to stay functioning in the long term. For this, they need to hold sufficient assets to compensate policyholders against damages once payments are due. Therefore, an insurance company, more than others, needs financial disclosure and transparency to protect the rights of policyholders and covers commitments for future payments.

The economic shocks that hit the world's financial markets, and the ensuing bankruptcy of many companies, have necessitated strengthening the role of bodies regulating the insurance sector, particularly in terms of policies that protect insured individuals/businesses, improve the insurance industry, and address the effects of market retraction. These policies are meant to protect not only the consumer, but also the national economy as a whole– through providing the best means for protecting the national net wealth in the present and the future. The significant rise in the number of insolvent insurance companies– which had to restructure their debts during the 1990s– had shown that corporate governance in insurance companies is crucial.

Supervisory bodies draw regulations to guarantee the long-term sustainability of insurance companies, ensuring that there is no gap in the contractual relationship between the insurance company and the insured. Governments also develop regulations to encourage using insurance funds in priority development economic activities. Beyond regulating business at home, Palestinian supervisory bodies also make contact with foreign markets in order to develop Palestinian various regulatory systems, increase insurance coverage and benefit from modern ICT systems.

International Association of Insurance Supervisors– IAIS

Given the economic and social value from insurance, the industry has become a priority in the support & development programs by international organizations such as the World Bank and the International Monetary Fund, which joined forces and created the International Association of Insurance Supervisors (IAIS). The body has developed the best principles for supervisory and control systems for the insurance sector worldwide. The standards set by IAIS have encouraged insurance regulators worldwide to devise standards that help verify the solvency of insurance companies in their respective countries. The IAIS core principles of corporate governance cover all areas of insurance activities, including procedures for licensing before operating, managing companies (implementation of governance principles), internal audit arrangements, capital requirements (measuring adequacy of capital), integrity demonstrated in personal or corporate behavior, off-site monitoring and on-site inspections.

In 2003, the IAIS made some adjustments to the core principles of supervision and control. It added guidelines on addressing many emerging issues, such as guidance on anti-money laundering and terrorist financing, liquidation of companies, insurance fraud, development of investment methods and laws regulating insurance agents' activities, corrective measures by regulatory authorities, transparency, exchange of information and protection of the insured.

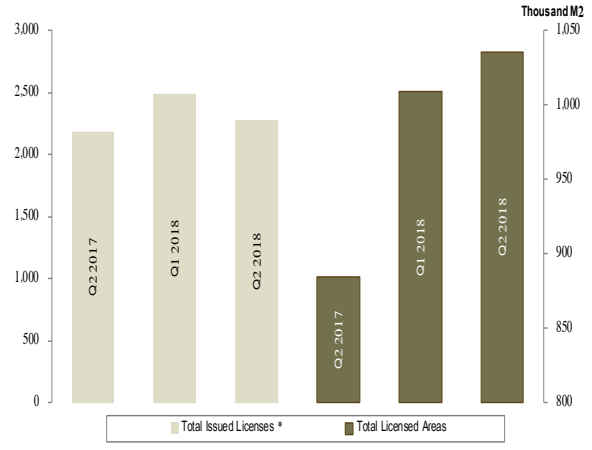
Louis Khamshta, Palestine Capital Market Authority

6- Investment Indicators[1]

Building Licenses

Figure 6-1 shows the changes in the number of registered building licenses and licensed areas. The number of issued building licenses reached 2,277 during Q2 2018, a drop of 8% compared to the previous quarter. Licenses of non-residential buildings constituted 10% of the total. On the other hand, licensed areas of buildings in Q2 2018 amounted to around 1,035.7 thousand square meters, which is higher by 3% compared to the previous quarter (Figure 6-1).

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



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

* do not include licenses of fences

Vehicles Registration

Since vehicle prices are high and vehicles are often purchased via bank loans, the number of vehicles registered for the first time is considered a good indicator of the economic situation and prospects. During Q2 2018, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 6,978, less by 1,024 compared to their number in the previous quarter, and by 1,117 compared to the corresponding quarter 2017. The second-hand vehicles were 79% of the total number of vehicles, 9% of which came from Israel (Table 6-1).

Table 6-1: New and Second-hand Vehicles Registered for the First Time, West Bank (Q2 2018)

month	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
April	694	1,589	190	2,473
May	747	1,835	165	2,747
June	5622	1,625	133	1,758
total	1,441	5,049	488	6,978

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

Box 6: Impact of road obstacles on night lighting and production in the West Bank

In March, 2018, four researchers from the World Bank's Development Research Group published a paper titled "Obstacles on the Road to Palestinian Economic Growth." The authors have devised an innovative approach to measure the impact of the obstacles across West Bank roads on localities' access to market, and the resulting impact on production and income throughout the 2005-2012 period. [1] The paper specifically allows for estimating the negative impact of Israeli impediments on income and production in individual Palestinian localities, an impulse which previous studies couldn't achieve given the lack of detailed information on the geographical distribution of GDP throughout the West Bank.

The paper quantifies the impact of the difference in travel time between West Bank localities– resulting from the Israeli occupation's deployment of road closure obstacles– on GDP in individual localities. To do this, the paper used two types of data and estimates:

- First, maps and detailed information on the network of roads that connect all localities in the West Bank, with information on the travel time under normal circumstances; as well as detailed information on the types and locations of obstacles deployed by the occupation and the impact of these obstacles on travel time between locality pairs. The study assumes that the variation in travel time measures variation in local market access.
- Second, given the absence of spatially disaggregated GDP measures in the
  West Bank before and after the deployment of obstacles, the authors measured changes in nighttime light emissions (NTL) through satellite images during the study period. Assuming a lights-to-GDP elasticity of 0.3 (each 1% increase in light means a 0.3% increase in GDP), the study linked the change in market access time and change in GDP (the more the time, the lower the GDP) as measured by the low emission of night lighting.

Measuring market access

Of course, this simplified outline of the study methodology does not delve into the difficulties the authors faced in obtaining information and linking it together systematically. Oftentimes, the authors had to advance different simplifying assumptions. For example, the 2007 census provides information on the geographical coordinates and the population of 545 localities (towns and villages) in the West Bank. The authors dropped some localities from the analysis– including those that lie to the west of the Separation Barrier and those with a 2007 population count below 1000, which reduced the number of localities to 241. On the other hand, instead of taking the change in the travel time between these localities as a measure of market access, the study considered only the change in the travel time between each locality and the governorate capital. In addition to the 11 governorates in the West Bank (Al Ram was used instead of Jerusalem as a center for the governorate), the authors used the distance between localities and the city of Tel Aviv as a measure of access to foreign markets. Despite these simplifications, the information required for such an analysis is still very detailed and intricate.

1 Weide, R., B. Rijkers, B. Blankespoor and A. Abrahams (2018): "Obstacles on the Road to Palestinian Economic Growth". Development Research Group & Development Data Group.
Policy Research Working Paper 8385. World Bank, March.
http://documents.worldbank.org/curated/en/135611522172009978/pdf/WPS8385.pdf

The geo-referenced road network data were obtained from the European Commission's Joint Research Center (JRC), which classified each road segment into one of 6 road types with corresponding estimates of the average amount of time required for a typical civilian/commercial vehicle to traverse the segment. Using a special calculation equation which considers the minimum travel time between two localities, the authors computed the time required to travel between each locality and the governorate capitals.

Detailed information on the network of obstacles (permanent/temporary, manned/unmanned checkpoints, walls, mounds, trenches, etc.), was obtained from the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA). The authors have taken into account the positioning of each obstacle, since one strategically placed checkpoint can reduce accessibility more severely than a multitude of roadblocks when alternative connections are available (suggesting that the sheer number of barriers does not accurately reflect market access restrictions). UNOCHA officials helped the study team in the estimates of the time cost of traversing each checkpoint.

Having obtained and sorted out the needed data, the authors used a composite measure for market access. The instrument allows for measuring annual variation in time needed to travel from one locality to another within the West Bank. The measure is weighted by the population count in the governorate's capitals, and it gives less weight to obstacles that are located further away and less likely to impact market access compared to obstacles in areas adjacent to governorate capitals (the distance decay function, which we will discuss later).

Nightlight Time (NTL)

Since the 1970s, satellites have been recording the intensities of night-time light emissions from the Earth's surface (the images have become clearer and more accurate since 1992). The satellites generate annual composite images that average the intensities of light recorded at cloud-free nights. Some studies have found that year-to-year changes in lights have been shown to track year-to-year GDP changes. This has made lights a proxy for GDP in many areas on the earth's surface (after taking into account the effect of the increase in the population on the intensity of light). Of course, the authors had to deal with strenuous technical problems: measuring the change of light intensity in the West Bank; drawing annual comparisons between images; eliminating the effect of light coming from settlements on lighting in Palestinian localities, etc. Figure 1 shows correlation between the intensity of light variation (in the West Bank) and the change in GDP (both in the West Bank and Gaza Strip, since the study relied on World Bank figures that took the GDP of the West Bank and the Gaza Strip as one unit for 2000-2010).

Correlation between market access and GDP growth

The authors then proceeded to measure the correlation between the variation in the accessibility index (the independent variable) and the change in intensity of light emitted (the dependent variable) in the West Bank in the 2005-2012 period. The authors applied statistical tools to isolate the impact of other factors that could distort the effect of the independent variable on the dependent variable, including the possibility of an endogenous relationship between the two

Figure 1: GDP of the West Bank & Gaza and Nighttime Lights (NTL), 2000-2010

variables (an unobserved variable could correlate both with the independent and the dependent variable) or the causal effect of the independent variable on the dependent variable.

The analysis found a clear and strong causal relationship between the two variables: a 10 percentage points increase in market access leads to a 1.9 percentage points increase in lights emissions. Assuming a light-to-GDP elasticity of 0.3, the study concluded that 10% improvement in market access increases West Bank output by 0.6% (1.9 × 0.3 = 0.57).

Foregone output

Based on this strong correlation, the authors provided estimates of West Bank's foregone output resulting from Israeli restrictions. The findings suggest that in 2005, lights per capita would have been 15.7 percentage points higher had there not been any mobility restrictions. In other words, the foregone output for 2005 was 4.7% (15.7% × 0.3). In 2012, the cost of mobility restrictions fell to about 2.6% of GDP. The easing of mobility restrictions between 2005 and 2012 seems to have catalyzed growth. These estimates are, however, sensitive to the choice of the distance decay parameter (which governs the rate at which markets located further away are being discounted). The increase in the value of the parameter from 40 to 80 significantly increases the rates of loss mentioned earlier. Using the upper and lower bounds of the parameter, the paper concluded that "over the period 2005-2012, road closure obstacles reduced GDP per capita in the West Bank between 4.1% and 6.1% on average each year by repressing market access."

7- Prices and Inflation[1]

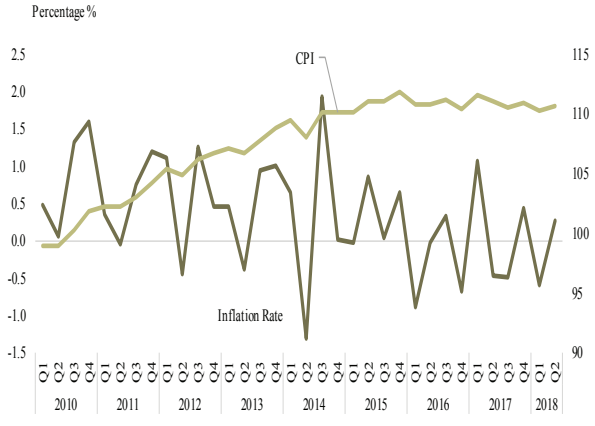
The consumer price index (CPI) measures the prices of a selection of primary goods and services that reflect the average consumption pattern of families in an economy (this group of goods and services is referred to as the "consumption basket"). The average change in the CPI between the beginning and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

The Price Index

Figure 7-1 shows two curves, the first measures the average change in CPI (right axis) between Q2 2010 and Q2 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 Q2 2018, the CPI reached 110.56 compared with 110.27 in Q1 2018, i.e. the inflation rate was positive over the consecutive quarters (rise in prices) by 0.26%. This rise is attributed to the increase in the prices of food and soft drinks group by -0.98%, in the transportation group by 0.80%, in the education services group by 0.44%, against the fall in the prices of alcoholic drinks and tobacco group by 1.70%, and the housing and related items by 0.91%. In addition, Q2 2018 witnessed a deflation of 0.40% compared with the corresponding quarter 2017.

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

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) rose by 2.73% between Q1 and Q2 2018, driven by the increase in wholesale prices of local goods by 5.21% and the rise in wholesale prices of imported goods by 0.56%. The producer price index- PPI (prices received by domestic producers) has also risen by 2.19% between the two quarters. This resulted from the rise in the producer prices of locally-produced and consumed goods of 2.36%, and of 0.68% in the producer prices of locally-produced exports (Figure 7-2).

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. The rise in the CPI of 0.26% during Q2 2018 compared with the previous quarter, means that the NIS purchasing power decreased by the same percentage. In addition, the NIS purchasing power increased by 0.4% compared with the corresponding quarter.

USD Purchasing Power: During Q2 2018, the USD exchange rate against the NIS increased by about 3.23% compared with the previous quarter and decreased by 0.58% compared with the corresponding quarter. During the same period, the inflation rate increased by 0.26% compared to the previous quarter, and decreased by 0.40% compared with the corresponding quarter. Therefore, the purchasing power of individuals who receive their salaries in USD and spend all their income in NIS has increased during this quarter compared to the previous quarter by about 2.97% and declined by 0.18% compared with the corresponding quarter. 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).

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

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

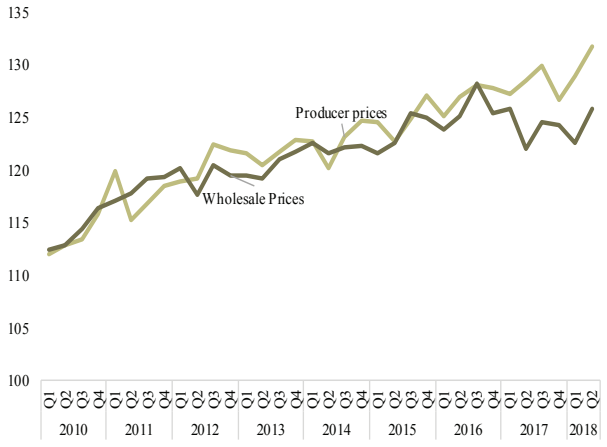
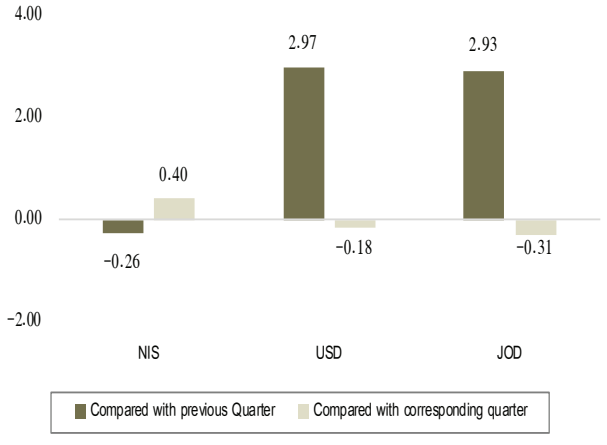


Figure 7-3: The Change in Purchasing Power by Type of Currency, Q2 2018 (percentage %)



Box 7: Survey of Socioeconomic Conditions of Palestinians in Israel

For decades, Israel's official statistics have produced confused, unclear data about the country's Palestinian Arab minority population (who had not been displaced during the Nakba). At first, the Israeli Central Bureau of Statistics (CBS) published statistical series about this minority, which the CBS used different terms to refer to depending on Israel's attitudes toward its Palestinian citizens: "the Arab Community", "Muslims, Christians, Druze and Circassians", "Non-Jews" (with the latter being used today). Surveys of the Palestinian population were necessary for the purposes of Israel's national security, let alone the claim that Israel is a liberal state that "respects the rights of minorities". However, with the change in the state's policies toward the Palestinians in Israel, official statistics coverage has become less comprehensive, making it all the more difficult to identify, through official sources, Arabs living conditions independently of the data for all the population of the state.

This might have motivated the Galilee Society to publish a periodical statistical book on the "Palestinians in Israel: socio-economic survey". The first of which appeared in 2007. In 2017, the society released the fifth issue, which includes chapters and detailed tables covering a wide range of topics: demographics, health status, environmental conditions, culture and education, labor market, housing crisis, participation in elections, social capital and social solidarity. [1]

The survey is based on a sample of 1,890 Palestinian households in the northern region (31 localities: 930 households), Haifa (11 localities: 330 households), the southern region (13 localities: 390 households), the center (8 localities: 240 households) and mixed cities (6 localitis:180 households). Below, we will compare the 2017 figures with data from the 2010 issue in order to identify some socioeconomic variations between 2010 and 2017.

Demographics

- In 2017, the Palestinian population in Israel was 1.421 million, compared with 1.230 million in 2010, an annual growth rate of 2.2%. By religion, 83.6% are Muslims, 8.3% Christians and 8.1% Druze. The proportion of the Muslim population saw some significant change– in 2010, it was only 82.5%.
- The age structure of is the Palestinian population in Israel is similar

1 The Galilee Society - The Arab National Society for Health Research and Services, Shafa Amr.

to that in the West Bank and Gaza. A large proportion of the population (45.5% in 2017 compared with 46.9% in 2010) is under 19 years old, and 23% is 15-24 years old. While the median age of Muslims is 21 years, those for Christians and Druze are 30 and 29 years, respectively.

- The Arab population is concentrated in four separate regions, but particularly they are found in Haifa and Northern region (18% and 51%, respectively). Approximately 14% live in the Triangle Area in the center of the country, and an increasing segment (17% in 2017 compared to 15% 2010) in the south (Naqab).
- One of the positive demographic indicators is the decline in the rate of underaged female marriage (under 18 years old) from 15% of the total number of married women in 2010 to 10.9% in 2017. So did the rate of marriages of females aged 18-25 decline (from 75% in 2010 to 65% in 2017). The rate for marriage among first or second degree relatives also declined from 39.5% in 2010 to 30.5% in 2017.
- The size of the Arab household in Israel is still relatively large (5.15 members on average). In 2017, households with 1-3 members constituted 20% of all households (compared to 36% in 2010), while 4-6 members households made up 56.7% in 2017 (compared to 51% in 2010). Against the tendency, the proportion of households consisting of 7 individuals and more rose to 22% in 2017 from only 13% in 2010.

Housing conditions

- Still attached to their rural culture, 53% of the Arab population live in separate homes (compared with 67% in 2010), while 42% dwell in residential apartments (compared to 27% in 2010). If anything, this signals a housing crisis and eroded space for building within Arab villages. The vast majority of dwellings are owned by dwellers, while leased houses are barely 5%.
- The worsening housing crisis is well evidenced by statistics. The 2017 survey showed that by the next 10 years, 60% of Arab households would need 1-4 new housing units, compared to only 56% in the 2010 survey.
- Around 10% and 13% of the Arab population live in the Haifa and Triangle Area, respectively, in mixed residential buildings with Jews. The percentage is almost zero in the northern and southern towns, which are purely Arab residential areas.
- The 2017 rates of Arab homes connectivity to water, electricity and public sewerage networks were 95%, 91% and 86%, respectively. However, these rates are particularly low for Arab households in the Naqab: 71%, 56% and 56%, respectively. These figures signal a slight improvement within the Naqab Arab community (respectively 57%, 54% and 55% in 2010).

Labor and Manpower

- Despite the discrimination and gaps in job opportunities compared with the Jews, Palestinians in Israel have maintained a reasonable labor force participation rate. The rate increased from 46.9% in 2010 to 49.9% in 2017– on a rise in male participation from 65% to 67% and in female participation from 28.3% to 32.9%.
- The unemployment rate among Palestinians in Israel is lower than the rates reported in the peak of the crisis back in the early years of the century, such that it fell from 7% in 2010 to 3.7% in 2017. The female unemployment rate, however, remains well higher than that for males (6.6% and 2.2%, respectively). But the percentage of female full-time workers increased from 52% in 2010 to 67% in 2017.
- Despite the improvement in the participation rate, in 2017 only 19% of Arab workers were rated in the top two categories on the occupational scale (academic, professional and skilled workers), compared to 25% in 2010. In contrast, there were small increases in the vendors and service providers category (to 18.3% in 2017), the category of workers in trades and professions (to 42% in 2017), and lower-status or non-professional jobs (to 13% in 2017). On the other hand, only 40% of Israeli Palestinians had jobs in their field in 2017, compared to 60% in 2010. The decline demonstrates the distorted trajectory of the Israeli market, which– owing to state-fueled discrimination policies– cannot integrate a large segment of the country's population.
- In 2007, 36% of Arab labor was concentrated in productive sectors (agriculture, industry and construction), 22% worked in trade, tourism and transport, and 25% worked in public administration, education and health (compared to 30% in 2010). The vast majority of workers (83%) are wage earners. Of particular importance is the rise in the rate of male and female employers in relation to total labor from 6% in 2010 to 10% in 2017.
- For decades, most of Palestinians in Israel have undertaken daily long-distance commuting between home and workplace. In 2017, approximately 51% of employed Palestinians travelled to workplaces that are more than 10 km away from their homes; among that group, 40% (of the total employed) travelled between 10-49 km (compared to 34% in 2010), and around 12% travelled more than 50 km away. These percentages are higher among males than females, as only 38% of females work in places that are more than 10 km away from home.

Living standard

- The Arab local economy in Israel is the main source of income for 51% of Arab households. Activities include agriculture, family-run projects, wages from institutions within Arab localities, as well as wages from the Arab private sector across the country. The rise from 44% in 2010 to 51% in local generation of income reflects a marked growth in the Arab local economy.
- On the other hand, 22% of the Palestinian households rely on the Jewish private sector as the main source of income, while 27% of the households depend on state social subsidies (especially old age, disability, retirement and accident insurance benefits). The figure for the latter segment was 33% in 2010. The decline in social subsidies was offset by more participation in the labor force, especially within the Arab villages.
- The average monthly income of the Palestinian household in Israel was NIS 10,773 in 2017, while the average income of workers within the Arab local economy is higher than the general average (NIS 14,900 for household projects and activities involving provision of public services such as health and education). The average wage for Palestinians employed by the Jewish private sector was NIS 11,700 in 2017, while the average income of families dependent on social benefits was of NIS 4,600 for old age, NIS 8,000 for disability and NIS 8,500 for retirement.
- In terms of level and structure of household consumption, food and drink accounted for the largest share of final consumption (26%). The second consumption item is transport (17%), by far ahead of electricity, gas, heating and water (9%), clothing and footwear (6%), education (6%), health and medical services (4%), smoking (5%), and consumer loans (6%).

Raja Khalidi, MAS

8- Foreign Trade[1]

Balance of Trade

The value of "registered"[2] merchandise imports during Q2 2018 was around USD 1,410 million, an increase of 3% compared with the previous quarter, and 9% increase compared with the corresponding quarter. Meanwhile, the value of merchandise exports was close to 20% of the value of imports, decreasing by 2% compared with the previous quarter, and increase of 2% compared with the corresponding quarter. The difference between exports and imports (deficit) amounted to USD 1,140.8 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (USD 6.5 million) (Figures 8-1 and 8-2).

Balance of Payments

The current account of the balance of payments is the net aggregate of 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).

Results of the Palestinian balance of payments showed that current account continued to run a deficit during Q2 2018 reached USD 373.3 million, a decline of 16% compared with the previous quarter. This deficit resulted from a deficit in the trade balance (USD 1,178.9 million), in addition to deficit in the balance of services reaching USD 248.3 million, against a surplus in the balance of income of USD 603.7 million (generated mainly from the income of Palestinian workers working in Israel), and a surplus in the balance of current transfers of USD 450.2 million (Table 8-1).

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

	2017	2018	
	Q2	Q1	Q2
Trade balance of goods and services**	(1,296.5)	(1,359.3)	(1,427.2)
- Net goods	(1,071.6)	(1,123.6)	(1,178.9)
- Net services	(224.9)	(235.7)	(248.3)
2. Income balance	418.7	568.9	603.7
3. Balance of current transfers	386.7	348.3	450.2
4. Balance of current account (1 +2 +3)	(491.1)	(442.1)	(373.3)
5. Net capital and financial account	595.7	612.3	288.3
6. Net errors and omissions**	(104.6)	(170.2)	85.0

* 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.

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

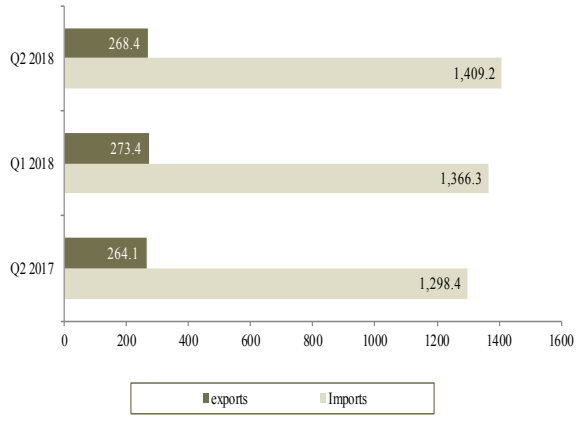


Figure 8-2: Exports and Imports of Registered Services from Israel (USD million)

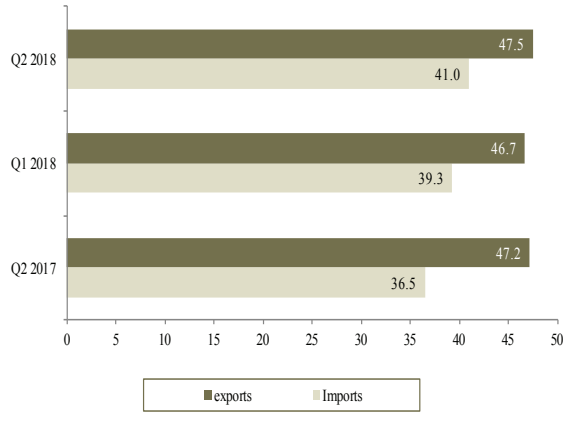
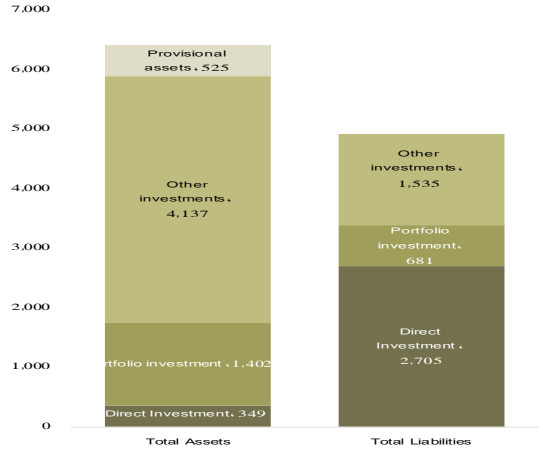


Figure 8-3: International Investments Balance (as of the end of Q2 2018) (Million USD)



1 The source of data in this section: PCBS, 2018, Registered Foreign Trade Statistics, and PMA & PCBS, 2018, Palestinian Balance of Payment, Q2 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.

The current account deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 288.3 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive.

International Investments

By the end of Q2 2018, Palestine's foreign assets totaled USD 6,413 million, 5% of which represent direct foreign investments, and 21.9% was constituted by portfolio investments. On the other hand, total external liabilities amounted to about USD 4,921 million, more than 55% of which were direct investments. The difference between assets and liabilities means that the overseas investments by Palestinians were USD 1,492 million higher than investments of non-residents. A significant portion of these assets (69%) is cash deposits (mostly by local Palestinian banks abroad), which are not considered conventional outward investments. When examining inward foreign direct investment to Palestine, figures show that it outweighed Palestinian investments abroad (by residents in the West Bank and Gaza Strip) by USD 2,356 million (Figure 8-3).

Economic Concepts and Definitions:

Corporate Social Responsibility - CSR [1]

The World Business Council for Sustainable Development defines corporate social responsibility as "continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large." The European Commission defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

Observers can trace for centuries evidence of the business community's concern for financing and supporting social, artistic and charitable activities. However, those concerns were largely an expression of the moral responsibility of the wealthy individuals. The modern concept of corporate social responsibility emerged only in the last five decades. The increasing leverage of non-governmental organizations and their frequent demands that transnational corporations abide by the environmental and humanitarian conditions of host countries (even if the laws in those countries do not require them to do so), have played a major role in pushing those corporations to adhere to the standards of exemplary social behavior.

Criticism

Social responsibility, therefore, refers to corporate responsibility and commitment to act with rectitude, adopt policies and decisions and bear the costs of actions that are desirable and consistent with the goals and values of the society. But some economists, led by Milton Friedman, object to companies having responsibilities towards society. "Only people have responsibilities. A corporation is an artificial person and, in this sense, may have artificial responsibilities, but business as a whole cannot be said to have responsibilities," Friedman wrote in The New York Times Magazine (September 13, 1970). Friedman argues that the sole responsibility of businesses is increasing profits, and that social and environmental responsibility is contrary to the primary purpose of businesses: maximizing profits. But such criticism is no longer valid now, as the social contribution by a company is independent of economic and legal requirements that businesses should meet. The assumption for CRS is that companies do benefit from free various resources and services provided by the society, such as the physical infrastructure, workforce capacity building, social and political stability, etc. On the other hand, the corporate social contributions often lend companied reputation and boost customers trust, which also translates into increased sales and profits.

Ambiguity of the term

Now five decades after the concept CSR was first introduced, the term is still not so adequately defined such that it can acquire national or international enforcement power. The concept is still controversial. While some hold that companies should allocate specific funds out of their total profits to finance community projects with a positive developmental impact (which is known as political corporate social responsibility), others argue that social responsibility programs are exclusively aimed at improving the reputation of the business for the purpose of increasing profits (which is known as operational effectiveness CSR). In the latter case, corporate promotional spending also has positive social impacts, albeit very limited.

The European model vs. the America model

The concept of social responsibility has evolved in two different contexts: Western Europe and the United States. Different circumstances and economic philosophies have led to different interpretations of what corporations can be responsible for and able to provide. In the US, the focus is on the moral and charitable commitment of companies to providing basic social contributions for the unemployed and the poor. The provision of these services is the responsibility of the state in Western European welfare systems, so the scope of social responsibility of European companies is different from the scope of their American counterparts. Over the last decade, European governments have taken the lead in encouraging corporate social responsibility. For this, they have designed public policies to encourage companies to behave in a sus-

1 The text is based on a CSR study to be released by MAS toward the end of 2018.

tainably responsible manner. In the United States, such policies are still very limited and immature. In Europe, companies are more willing to work with the government to meet goals related to the environment and working conditions, and they are accustomed to working in a climate of strict legal framework.

CSR at the international level

With the rise of globalization and trade liberalization in the late 20th century, the concept of social responsibility has become increasingly popular among companies and businessmen across the globe. In 1999, the United Nations proposed the UN Global Compact to "encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation." This global pact is the world's largest CSR initiative which mainstreams voluntary ten principles related to human rights, labor rights, ensuring non-discrimination against women, preventing child labor, protecting the environment and fighting corruption. The number of companies committed to the principles of the initiative is 9,819 from 164 different countries around the world. These companies have produced more than 56,500 reports on their activities and achievements in implementing the ten principles of the initiative.

The Chinese and Indian models: State Leadership and Mandatory Laws

In the past decade, Chinese companies suffered from scandals regarding supply of rotten food, dilapidated buildings, over-exploitation of workers and industrial pollution. The scandals pushed the Chinese government to take the lead in shaping and motivating corporate commitment to social responsibility. This was an easy job because many companies, forming the backbone of the Chinese economy, are state-run. This particular aspect makes the Chinese corporate social responsibility different from the voluntary model found in Western countries. The government in China has made social responsibility mandatory and developed tools to measure corporate compliance.

India incorporated the principles of social responsibility in the corporate law in 2013, thus becoming the first country to mandate CSR. The law compels companies with annual net revenue exceeding USD 1 million to allocate at least 2% of that revenue to support education, combat hunger and poverty, promote gender equality, protect the natural environment and national heritage, and contribute toward government funding of rural development. Indian corporate spending on social responsibility increased from about £335 million in 2013 to £2.63 billion after the law's enactment. However, investigative press reports suggest that many companies have found a way or another to shirk their legal obligations.

CSR in Palestine: A shared effort or individual initiatives?

Most Palestinian companies listed on the financial market have social responsibility plans. Some companies have defined specific areas for their intervention, while others have established a system that allows civil community organizations to apply for social support. The 2017 report on the social role of banks shows that banks CSR contributions are channeled specifically to education, health and relief.

Table 1: Banks CSR contributions to education, health and relief 2017

Sector	Amount (in USD)	Number of institutional partnerships
Education	1,589,829	208
Health	1,235,189	43
Relief	1,160,836	42

Association of Banks in Palestine: The social role of banks, 2017

In 2015, the Palestine Monetary Authority and the Association of Banks convened the "First Social Responsibility Conference", which sought to promote the concept of CSR and inter-sectoral partnerships. One recommendations of the conference called for setting up a joint CSR fund that receives donations from banks and, in turn, implements social responsibility programs through a special managerial body. However, the idea of the fund was shunned by Palestinian companies, which prefer to implement their social programs in direct partnerships with beneficiary institutions (such as orphan sponsorship, solar power projects in partnership with universities, offering scholarships, supporting festivals, which receive non-partnership support from different companies at a time).

Fund proponents argue that the pooling of social responsibility allocations and channeling them towards national priority projects would maximize the benefits from CSR and relax pressure on the government by providing services to a wider segment of vulnerable groups that the government can't reach given its limited financial resources. Opponents, on the other hand, maintain that such pooling would prevent individual companies from earning social visibility (reputation) or exercising their social responsibility in a way that promotes their business, reasonably given the large variation between individual companies' contributions.

Looking at CSR programs in Palestine, one can be aware of business' focus on providing contributions that best serve to build the company's reputation in the first place. This means that executives tend to prioritize social activities that give them an opportunity to fundamentally strengthen their businesses and pursue more benefits. For effective CSR, thus, some policies should be in place to make sure the private sector's CSR initiatives realize two goals at once: helping people in need, and building corporate reputation. One solution is creating a reliable, reputable social body which sets priorities, projects and areas that require contributions from the private sector. Businesses would then have the discretion to support any of the projects specified by that social body.

Key Economic Indicators in Palestine, 2013-2018

Indicator	2013	2014	2015	2016	2017				2018[2]	
						Q2	Q3	Q4	Q1	Q2
Population (One thousand)										
oPt	**4,327.7**	**4,429.1**	**4,530.4**	**4,632.0**	**4,733.4**	**4,720.7**	**4,644.7**	**4,670.0**	**4,808.9**	**4,839.1**
West Bank	**2,643.4**	**2,696.7**	**2,750.0**	**2,803.4**	**2,856.7**	**2,850.0**	**2,810.1**	**2,823.4**	**2,897.0**	**2,913.1**
Gaza Strip	**1,684.3**	**1,732.4**	**1,780.4**	**1,828.6**	**1,876.7**	**1,870.7**	**1,834.6**	**1,846.6**	**1,911.9**	**1,926.0**
Labor Market										
No. of workers (thousand)	885.0	917.0	963.0	980.5	948.7	924.9	949.8	966.4	935.4	921.7
Participation rate (%)	43.6	45.8	45.8	45.8	45.3	45.2	46.3	43.9	45.4	45.9
Unemployment rate (%)	23.4	26.9	25.9	26.9	27.7	29.2	29.6	24.8	30.2	32.4
- West Bank	18.6	17.7	17.3	18.2	17.9	20.3	18.9	13.6	18.3	19.1
- Gaza Strip	32.6	43.9	41.0	41.7	43.9	44.2	46.9	43.0	49.1	53.7
National Accounts (USD millions)										
GDP	12,476.0	12,715.6	12,673.0	13,425.7	14,498.1	3,653.7	3,728.3	3,728.8	3,689.9	3,559.5
- Household expenditure	11,062.6	11,840.4	11,805.1	12,337.7	12,844.7	3,201.2	3,386.6	3,173.8	3,182.9	3,258.5
- Government expenditure	3,381.7	3,478.2	3,429.5	3,530.3	3,809.8	990.4	892.7	1,068.6	977.5	904.3
Gross capital formation	2,707.3	2,415.0	2,677.4	2,827.0	3,305.6	776.0	879.6	894.9	876.7	837.3
Exports	2,071.8	2,172.3	2,338.1	2,381.0	2,692.7	678.2	671.3	717.9	713	714.3
Imports (-)	6,804.0	7,208.9	7,537.6	7,626.7	8,066.7	1,974.6	2,090.5	2,104.5	2,072.3	2,141.5
GDP per capita (USD)										
at Current prices	3,064.8	3,051.7	2,973.1	3,080.1	3,254.6	823.3	834.2	828.6	815.4	781.5
at Constant prices (base year 2004)	3,015.5	2,940.7	2,973.1	3,044.4	3,072.4	765.3	783.6	772.4	746.2	735.8
Balance of Payment (USD millions)										
Trade Balance	(4,732.2)	(5,036.7)	(5,199.6)	(5,246.2)	(5,374.2)	(1,296.5)	(1,419.3)	(1,386.6)	(1,359.3)	(1427.2)
Income Balance	1,160.3	1,482.4	1,712.2	1,896.0	1,991.9	418.7	558.6	544.3	568.9	603.7
Current Transfers Balance	1,188.5	1,405.3	1,421.4	1,408.6	1,818.6	386.7	417.0	538.7	348.3	450.2
Current account Balance	(2,383.4)	(2,149.0)	(2,066.0)	(1,941.6)	(1,563.7)	(491.1)	(443.7)	(303.6)	(442.1)	(373.3)
Exchange Rates and Inflation										
USD/NIS exchange rate	**3.611**	**3.577**	**3.884**	**3.840**	**3.603**	**3.594**	**3.559**	**3.512**	**3.461**	**3.573**
JOD/NIS exchange rate	**5.093**	**5.046**	**5.483**	**5.418**	**5.083**	**5.073**	**5.019**	**4.953**	**4.881**	**5.037**
Inflation rate (%)[1]	**1.72**	**1.73**	**1.43**	**(0.22)**	**0.21**	**(0.47)**	**(0.49)**	**0.43**	**(0.60)**	**0.26**
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	**2,319.9**	**2,791.2**	**2,891.4**	**3,552.0**	**3,651.3**	**1,040.0**	**722.3**	**976.9**	**988.6**	**861.3**
Current expenditure	**3,250.7**	**3,445.9**	**3,424.9**	**3,661.6**	**3,794.8**	**1107.0**	**782.6**	**1,059.7**	**933.2**	**886.1**
Developmental expenditure	**168.4**	**160.9**	**176.4**	**216.5**	**257.9**	**55.0**	**53.0**	**113.4**	**46.6**	**59.4**
current budget deficit\surplus (before grants)	**(1,099.2)**	**(815.6)**	**(709.9)**	**(326.2)**	**(401.4)**	**(122.1)**	**(113.3)**	**(196.2)**	**8.8**	**-84.2**
Total grants and aid	**1,358.0**	**1,230.4**	**796.8**	**766.3**	**720.4**	**111.6**	**125.9**	**254.2**	**80.3**	**156.4**
Total budget deficit\surplus (after grants and aid)	**258.7**	**414.8**	**86.9**	**440.1**	**319.0**	(10.5)	12.5	58.0	89	72.2
Public debt	2,376.2	2,216.8	2,537.2	2,483.8	2,523.2	2,492.7	2,526.0	2,523.2	2,448.8	2367.6
The Banking Sector (USD millions)										
Banks assets/liabilities	**11,190.7**	**11,815.4**	**12,602.3**	**14,196.4**	**15,850.2**	**15,348.1**	**15,461.0**	**15,850.2**	**15,916.7**	**15,808.3**
Equity	**1,360.0**	**1,464.0**	**1,461.7**	**1,682.4**	**1,892.7**	**1,744.5**	**1,804.6**	**1,892.7**	**1,926.8**	**1,845.8**
Deposits at banks	**8,303.7**	**8,934.5**	**9,654.6**	**10,604.6**	**11,982.5**	**11,379.5**	**11,526.8**	**11,982.5**	**12,002.3**	**11,993.1**
Credit facilities	4,480.1	4,895.1	5,824.7	6,871.9	8,026.0	7,528.9	7,761.9	8,026.0	8,175.4	8,260.0

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).
1. The inflation rate estimation is based on year-over-year comparisons of the average CPI in the target year (each quarter) with its average in previous year (quarter).
2.Figures for 2018 are preliminary and subject to further revision.
Figures between brackets indicate negative values.
Note1: Data on population for 2013-2017 are based on estimates in the Population, Housing and Establishments Census 2017.
Note 2: Figures for mid-2017 were updated based on final results of the Population, Housing and Establishments Census 2017.
Noe 3: the numbers of workers for the years before 2017 are based on estimates for the 2007 Census of Population, Housing and Establishments and will be updated to reflect the final results of the 2017 census.