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May 2019

The Year 2018 in Brief:

- GDP: GDP declined during 2018 by 2 percentage points compared with 2017 (from 3.1% to 0.9%) which is attributed to growth in the West Bank by 3.1% (compared to 4.3% in 2017), against stagnation in Gaza Strip by 7%. Taking into consideration the increase in population, per capita GDP remained static over the two years (USD 3,021): around a mere USD 4,188 in the West Bank (a rise of 0.8% compared with the previous year) and USD 1,431 in Gaza Strip (a decline of 9.5% compared with the previous year).
- Unemployment: The unemployment rate in Palestine is considerably high, reaching around 30.8% in 2018, a rise of 2.4 percentage points compared with the previous year 2017. This rise is attributed to a marked increase in Gaza Strip (from 44.4% to 52.0%) against its decline by one percentage point in the West Bank (to 17.6%). The percentage of private sector waged workers who earn around NIS 748 on average (half of the sub-minimum wage limit put into force starting 2013), is still around one third of the total number of workers.
- Public Finance: In 2018, public revenues (including clearance) rose slightly (1.1%) compared with the previous year. This is due to the increase in domestic revenues of 10% against the decline in clearance revenues of 7%. Current expenditures dropped by 6.6% to USD 4 billion. This decreased the budget deficit (current/developmental) to around USD 1,080 million, or 7.5% of the GDP, which is one percentage point less compared with 2017. Foreign aid funding (budget support) declined by 7% compared with the last year reaching USD 672.5 million, whereas the financing gap amounted to USD 400 million. The government covered this gap by accumulating additional arrears and increased lending from local banks (USD 159 million).
- Inflation and Prices: During 2018, the inflation rate in Palestine was negative (0.19%) compared with 2017. This implies an increase in the purchasing power of those who receive and spend their income in shekels of 0.19% during 2018 compared with 2017. This resulted from the rise in the exchange rate of the shekel against the dollar which reflected on the static (declining) prices of imports.
- Balance of Payments: During 2018, the deficit in the Palestinian balance of payments increased by USD 96 million up to USD 1,659 million compared with the previous year (around 12.2% of GDP). This is attributed to an increase in imports (3 percentage points of GDP to 58%) and decline in foreign transfers by 2% compared with the previous year.

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

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1. GDP[1]

Quarter 4: Gross Domestic Product (GDP) is a monetary measure of the market value of all types of goods and services produced in an economy during a specific period of time. Palestinian GDP rose by 3.1% over Q4 2018 compared with the previous quarter reaching USD 3,594.9 million (at 2015 constant prices): 3.4% in the West Bank and 2.1% in Gaza Strip. Compared with the corresponding quarter, GDP grew by 3.4% (Figure 1-1).

This rise during Q4, accompanied by an increase in the population, resulted in an increase in the per capita GDP by 2.4% compared with the previous quarter, and by 0.8% compared with the corresponding quarter 2017 (Table 1-1).

Year-on-Year Comparison

GDP grew in 2018 to USD 13.8 billion (at 2015 constant prices), a growth of 0.9% compared with 2017. The overall growth resulted from a growth of 3.1% in the West Bank against 7% contraction in Gaza Strip. On the other hand, per capita GDP in Palestine declined by 1.7% to USD 3,021.4 in 2018 (Table 1-2).

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

	Q4 2017	Q3 2018	Q4 2018
Palestine	**772.4**	**760.5**	**778.9**
-West Bank	1,055.2	1,056.5	1,085.2
-Gaza Strip	386.4	357.1	362.0

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

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

	2017	2018	Year-on-Year Growth %
GDP* (million USD)	**13,686.4**	**13,810.3**	**0.9**
- West Bank *	10,302.2	11,034.4	3.1
- Gaza Strip	3,384.2	2,766.9	-7.0
per capita GDP *(USD)	2,923.4	3,021.4	1.7-
- West Bank *	3,762.4	4,188.3	0.8
- Gaza Strip	1,741.6	1,431.4	9.5-

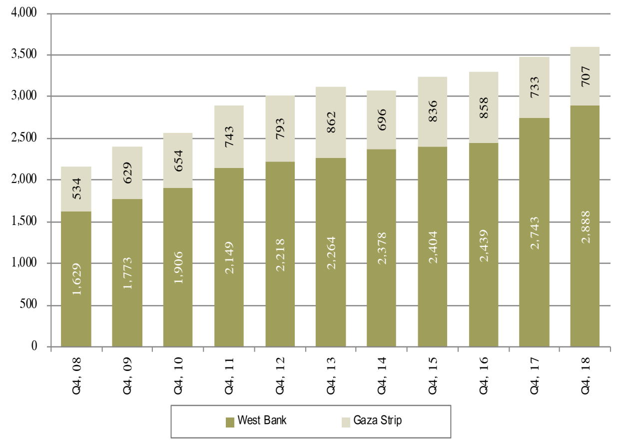
(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

The GDP Gap between the West Bank and 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 contribution to GDP is still less than one-fifth of Palestine's GDP. Meanwhile, the gap in per capita GDP between the West Bank and Gaza Strip reached USD 2,757 in 2018, higher by USD 455 compared with the previous year 2017 (Table 1-2). Currently, the per capita GDP in Gaza Strip is only one third (34%) of per capita GDP in the West Bank.

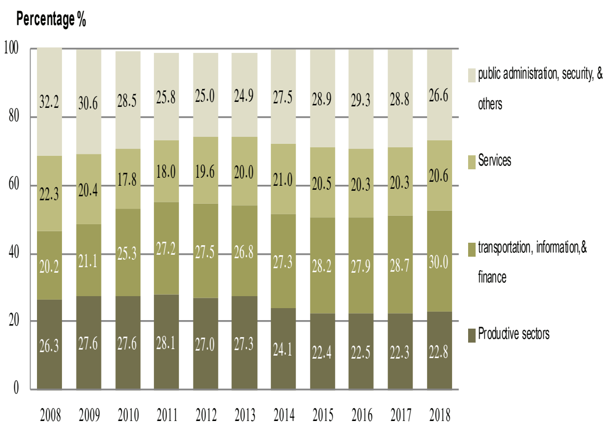
1 Source: PCBS, 2019, Periodic Statistics on National Accounts, 2007-2018. Ramallah- Palestine.

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



Composition of GDP

Quarter 4: The contribution of the productive sectors to Palestinian GDP decreased by 0.6 percentage point between Q3 and Q4 2018, as a result of a decline in the share of the manufacturing and construction sectors. Meanwhile, the share of the public administration and security sector increased by about 0.7 percentage point.

Year-on-Year Comparison

The share of the trade, transportation, information, and finance sectors rose by about 1.3 percentage points year-on-year basis, while the share of public administration decreased by about 2.2 percentage points respectively (Figure 1-4). The sectoral composition of GDP during the last decade (Figure 1-3), shows a downward trend among the share of the economy's productive sectors (agriculture, industry, and construction) from 26.3% to 22.8%. In addition, administration's share declined against a significant rise in the share of trade, transportation, and finance.

Expenditure on GDP

Quarter 4: The increase in GDP between Q4 2017 and Q4 2018 amounted to about USD 118.4 million (a growth of 3.4%). This is the result of the rise in final public consumption expenditure (net private and public expenditures) of USD 409.6 million, around 70% of which were covered from imports, which rose by USD 292.3 million (Table 1-3).

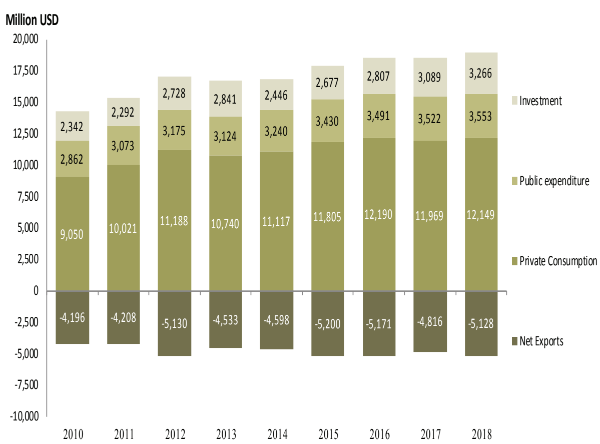
Table 1-3: Distribution of Expenditure on GDP in Palestine* between Q4 2017 and Q4 2018 (Million USD, 2015 constant prices)

Increase in Private consumption	310.7
Increase in Investment	**42.8**
Decline in Public Consumption	28.6-
Increase in Net Exports	84.7
Increase in Net Imports (-)	292.3-
Total GDP Increase	*118.4

* The total does not equal 100%, due to 'net errors and omissions' item

Year-on-Year Comparison: The increase in GDP between 2017 and 2018, amounting to USD 124 million, was constituted by an increase in public consumption expenditure and investment by USD 357.6 million. Most of this increase was covered by the surplus of imports of 311.4. This reflects the wide gap between the use and production of resources which manifests the Palestinian economy's permanent deficit: the increase in consumption is financed through increased resort to external resources. As shown in Table 1-5, the share of public and private consumption expenditure of GDP rose by 32% from 2010 to 2018. On the other hand, the surplus of imports increased by 21% compared with exports during the same period. The total use of resources for consumption, investment and exportation is equivalent to 158% of the Palestinian economy's total domestic product.

Figure 1-3: % Expenditure on GDP in Palestine* (constant prices, base year 2015)

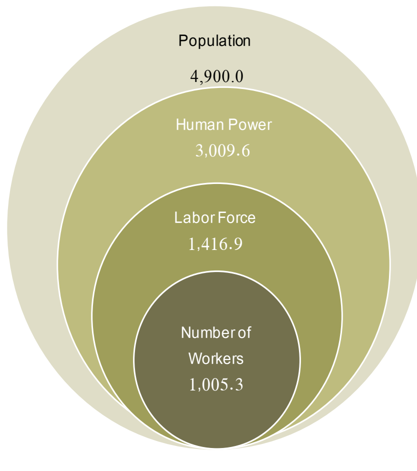


(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

2- Labour Market

Manpower in Palestine, which comprises all persons aged 15 years and above, amounted to 3,020 thousand persons by the end of Q4 2018.[1] The labor force (which includes all persons qualified to work and actively seeking employment) amounted to 1,417 thousand. The difference between the labor force and the actual number of employed, i.e. workforce, provides a measure of the rate of unemployment. Figure (2-1) shows the relation between these three variables and the size of population in Q4 2018.

Figure 2-1: The Total Population, Manpower and Workforce in Palestine (Q4 2018) (Thousands)



Q4 2018

As may be deduced from Figure (2-1), the participation rate (ratio of labor force to manpower) reached 47% in Palestine. This ratio marks the participation rate of population aged 15 and above in the labor market. This rate is close to the general average in the Middle East, reaching 48% in Turkey for example. However, compared with many developing countries, the Palestinian rate is considered low (63% in Latin America, 61% in South Korea).[2] This is mainly attributed to the low female participation rate in Palestine.

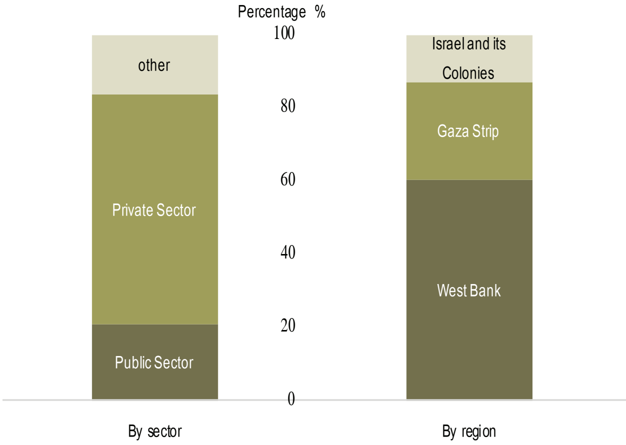
Number and Distribution of Employed[3]

Quarter 4: The number of those employed in Palestine increased by 4.6% between Q3 and Q4 2018 reaching 1,005.3 thousand. By regional distribution, 61% of those employed worked in the West Bank, around 26% in Gaza Strip and 13% (about 132 thousand) in Israel and the colonies. By sector, around one fifth of those employed in Palestine were in the public sector, while this ratio rises to 37% in Gaza Strip (Figure 2-2).

Figure (2-3) presents the sectoral distribution of Palestinians employed (including those working in Israel and the colo-

1 Source of data for this section draws on PCBS, 2019, Labor Forces Survey, Ramallah, Palestine.
2 World Bank database.
3 Note: the number of workers includes Palestinian workers in Israel and abroad. The unemployment and wages data include Palestinian workers in Israel only, excluding those working abroad. The data on the distribution of workers by occupation and place of work includes those working in Palestine only.

Table 2-2: % Distribution of Palestinian Workers by Region and Sector, Q4 2018 (%)



nies) during Q4 2018. The number of workers in the services sector in Palestine was 36% of total employed (29% in the West Bank against 56% in Gaza Strip). The number of workers in the construction and building sector was 21% in Palestine (24% in the West Bank compared with a mere 3% in Gaza Strip). The ratio of workers employed in the trade, restaurants & hotels sectors in the West Bank is close to that in Gaza Strip, around 22%, as well in the agriculture sector reaching 6%. Contrarily, the ratio in mining and manufacturing industries was more than 16% in the West Bank against less than 6% in the Strip.

Year-on-Year Comparison: Between 2017 and 2018, the workforce in Palestine increased by 0.7% reaching 956 thousand. Year-on-year basis, there was no significant change of distribution of employment by sector or region, compared with Q4 rates presented above. Remarkably, the increase in the Palestinian labor force over the two years reached around 5% compared with a growth rate in employment of only 0.7%, which is reflected in an increase in the annual unemployment rate.

Unemployment

Quarter 4: The number of unemployed in Palestine stood at 412 thousand by the end of Q4 2018. The unemployment rate (the number of unemployed workers divided by the labor force) was 29.1% in Q4 2018, 2.6 percentage points less than the previous quarter. This quarterly decline of the unemployment rate in Palestine was driven by a fall in Gaza Strip from 54.9% to 50.5% (Table 2-1).

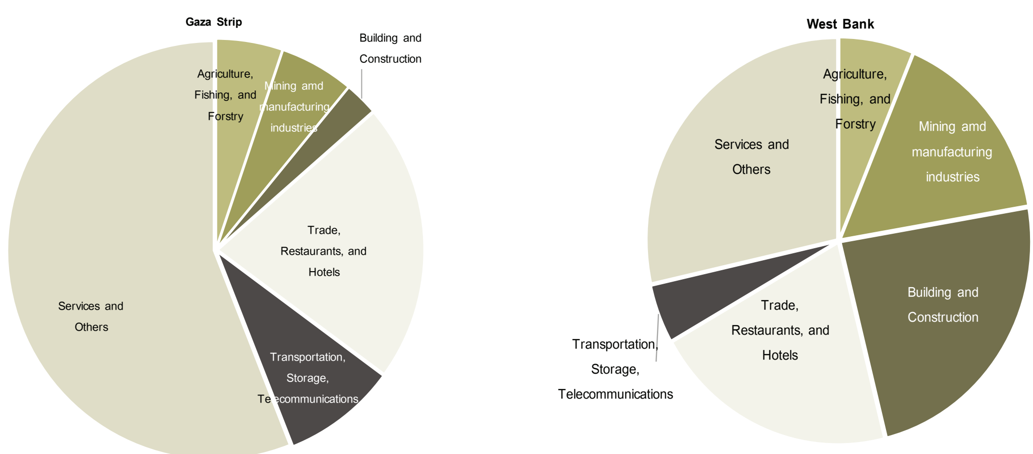
Table 2-1: Unemployment Rate among Labor Force Participants in Palestine by Region and Gender (%)

		Q4 2017	Q3 2018	Q4 2018	2017	2018
West Bank	Males	14.5	14.0	13.2	15.6	14.7
	Females	27.6	32.1	28.2	32.1	30.2
	Total	**16.9**	**17.3**	**16.1**	**18.7**	**17.6**
Gaza Strip	Males	37.7	46.3	42.5	36.6	43.5
	Females	66.7	78.0	70.6	69.1	74.5
	Total	**45.0**	**54.9**	**50.5**	**44.4**	**52.0**
Palestine	**Males**	**22.9**	**25.5**	**23.5**	**23.2**	**25.0**
	Females	**45.3**	**54.0**	**48.3**	**48.2**	**51.2**
	Total	27.7	31.7	29.1	28.4	30.8

Year-on-Year Comparison: In 2018, the unemployment rate rose by 2.4 percentage points over the previous year reaching 30.8%; Gaza Strip unemployment rate of 52.0%, up 7.6 percentage points from 2017, far exceeded the West Bank rate of 17.6%. Gaza Strip's unemployment rate is one of the highest in the world, especially among females where it reached 69.1%. This means that only three of every ten females participating in the labor market in Gaza Strip have a job (Table 2-1).

Unemployment in Palestine is high among youth, reaching 43% among the age group 15-24 years, compared with 19% among the age group (33-44 years), and 15% for the age group (45-55 years), as shown in Figure (2-4).[4]

Figure 2-3: % Distribution of Palestinian Employed in the West and Gaza Strip by Economic Activity, Q4 2018 (percentage %)



4 See Box 1- Issue 47 of the Economic Monitor: Results of the Survey of the Youth Transition from Education to the Labor Market.

On the other hand, the unemployment rate decreases with the attainment of higher educational levels for males, contrary to females (Figure 2-5). This is attributed to the significant increase in educated females' participation rate in the labor market compared with males.[5]

Wages

Quarter 4: The average daily wage for workers in Palestine amounted to NIS 122.7 in Q4 2018. Yet this figure masks the wide divergence between the average wage for workers in the West Bank and Gaza Strip compared to that for workers in Israel and the colonies, and between the average wage in the West Bank compared to that in Gaza Strip (Table 2-2). As figures indicate, the average wage of workers in Israel and the colonies is more than double the wage of workers in the West Bank and triple the wage of workers in Gaza Strip. Moreover, the average wage of workers in the West Bank is one and half the wage of workers in 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). Notably, the median wage in the West Bank is twofold the median wage in Gaza Strip.

Table 2-2: Average and Median Daily Wages of Waged Workers, Palestine, (Q4 2018) (NIS)

Place of Work	Average Daily Wage	Median Daily Wages
West Bank	**112.2**	**100.0**
Gaza Strip	67.0	50.0
Israel & the colonies	237.5	230.8
Palestine	122.7	100.0

Year-on-Year Comparison: In 2018, the average daily wage of workers rose by NIS 9.2 over the previous year; NIS 7.6 in the West Bank, NIS 3.7 in Gaza Strip, and NIS 16.2 in Israel & the colonies. The daily median wage for Palestinian workers increased from NIS 96.2 to NIS 100 on annual basis (Table 2-3).

Table 2-3: Average and Median Daily Wages of Waged Workers, Palestine, (2017-2018) (NIS)

Place of Work	2017		2018	
	Average Daily Wage	Median Daily Wages	Average Daily Wage	Median Daily Wages
West Bank	101.8	96.2	109.4	100.0
Gaza Strip	59.4	40.0	63.1	46.2
Israel & the colonies	226.9	200.0	243.1	250.0
Palestine	113.8	96.2	123.0	100.0

Minimum Wage

Quarter 4: During Q4 2018, the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 31%: 41% females and 28% males. The average monthly wage of those workers was NIS 748. By region, 12% of the private sector waged workers in the West Bank were sub-minimum wage earners, compared with 76% in Gaza Strip.

5 Refer to Box 1 in the Economic Monitor, issue 53: a discussion of how high unemployment rate among educated females is driven by those females' willingness to participate in the labor market (not because of their higher levels of education).

Figure 2-4: Employed and Unemployed in Palestine by Age Group (Thousands) (Q4 2018) (Thousands)

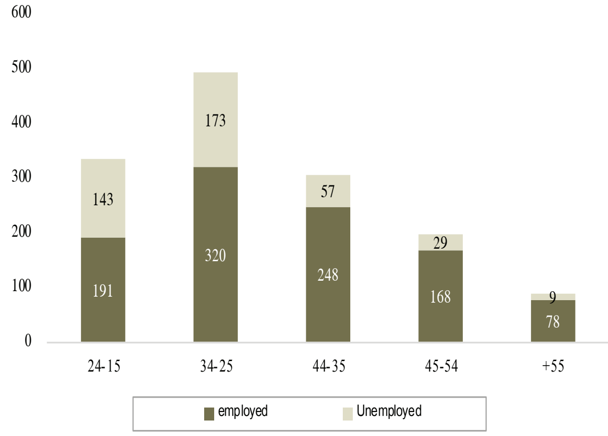


Figure 2-5: Number of Employed and Unemployed in Palestine by Educational Level and Gender (Q4 2018) %

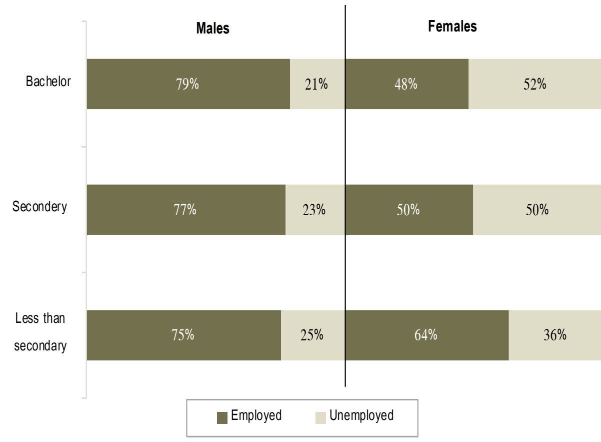


Figure: 2-6: Average and Median Wages of Waged Workers in Palestine

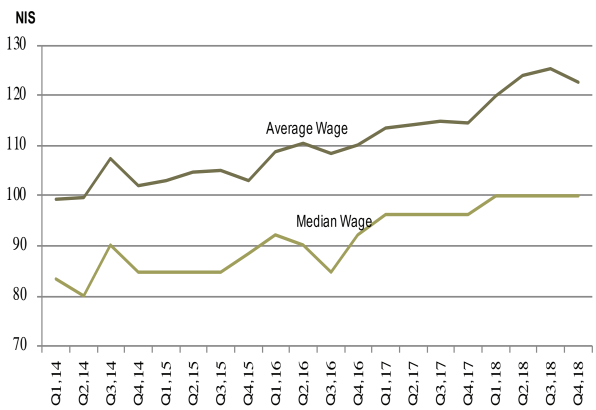


Table 2-4: The Number and Average Wage of Waged Workers Employed by the Private Sector and the Number and Average Wage of those who Earned Sub-minimum Wages (does not include workers in Israel and the Colonies), Q4 2018

	Number of waged workers in the private sector (Thousand)			Average monthly wage for sub-minimum wage earners (NIS)			Number of waged workers who earn sub-minimum wages (Thousand)		
	males	females	Both	males	females	both	males	females	Both
West Bank	203	48	251	1,145	952	1,033	13	18	31
Gaza Strip	85	18	103	656	468	634	69	9	78
Palestine	288	66	354	734	790	748	82	27	109

Year-on-Year Comparison: By the end of 2017, the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) decreased from 126 thousand to 105 thousand by the end of 2018 by 17%: 22% in the West Bank and 14% in Gaza Strip. This decline concentrated mostly among males, while females' number did not decline by more than a thousand.

Child Labor

Quarter 4: Child labor (aged 10-17 years) decreased slightly during Q4 2018 compared with the previous quarter, (from 3.3% to 3.1%). By region, child labor constituted 4.5% of the employed labor force in the West Bank and 1.6% in Gaza Strip.

Year-on-Year Comparison: Child labor (aged 10-17 years) remained constant in both regions, the West Bank and Gaza Strip, between 2017 and 2018.

Box 1: Gap between Productivity and Wages in the Palestinian Economy

This box investigates the relation between labor productivity and the increase in real wages in the Palestinian economy during the period 2004-2016. Since it is concerned with monitoring changes in productivity and wages in the Palestinian economy, data on workers in the Israeli economy and its colonies, and Jerusalem which was annexed by Israel in 1967, were not considered.

Productivity is a measure of the efficiency with which production factors (labor, human capital, and physical capital) are used in an economy to produce products and services. It is a measure of effectiveness of the use of human and physical capital worldwide. Productivity is essential for economic growth and development on the long run. According to a recent World Bank report, differential productivity growth accounts for half of the differences in GDP per capita across countries.[1] Productivity growth is driven by many interplaying factors: First, technological advancement which would increase production or improve quality of production in return for the same quantity of inputs. Second, developing the effectiveness and efficiency of output through improving the operating environment (institutional, economic, and geographic). Productivity can be a Total Factor Productivity (TFP), which measures the efficiency of utilizing all factors of production in economy, or Labor Productivity, the efficiency of utilizing the workforce, which is the focus of this Box.

Labor productivity equals GDP or gross value added per hour worked. In other words, a country's labor productivity in a specific year, equals that country's real GDP divided by the total number of labor hours that year. The higher the amount of GDP per a worked hour, the higher the level of efficiency and output capacity.[2]

Theoretically, under optimal market conditions wages should reflect the marginal productivity of labour. Growth in wages, also, should move in tandem with increased productivity. However, an unbalanced relation between wages and productivity means that profits increase at the expense of wages. Economic theory also stresses that the coupling of wages and productivity have many positive effects, such as equitable distribution of income, alleviation of poverty, as well as workers loyalty and motivation to improve their performance. Over the last decade, decoupling of wages and productivity has been an issue of concern in many countries around the globe, especially rich ones. It is directly related to the unequitable distribution of income in these countries, reaching alarming levels similar to those prevailing at the onset of the industrial revolution. Labor share of national income, has declined over the period between 1990 and 2009 in 26 of the 30 developed countries. Moreover, the average labor share of GDP has declined by 0.3% in the G20 countries annually since 1980 until 2000.[3]

The Evolution of Labor Productivity and Wages in Palestine

In the Palestinian case, as Figure-1 shows, labor productivity increased by 15.6% during the period (2004-2016), while real wages (nominal wages divided by inflation) decreased by 25% during the study period. The figure shows that the two trends diverged in 2007 until the end of the period. Although this gap is seen in other economies, its extent driven by the rise of one variable and the decline of the other, is quite prominent in the Palestinian economy compared to other countries.

1 World Bank (2018): Productivity Revisited: http://documents.worldbank.org/curated/en/578861548876206044/pdf/134222-PUB-9781464813344.pdf.

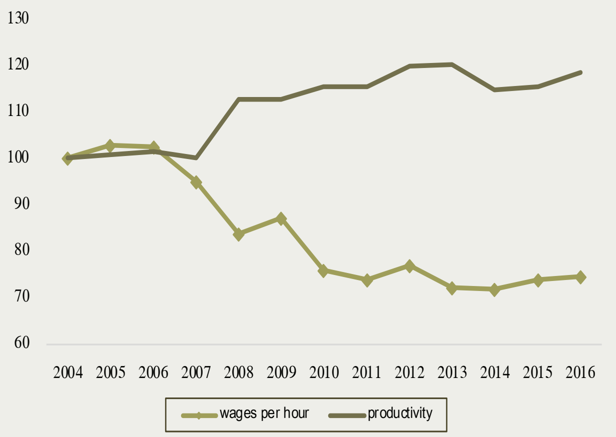
2 OECD. (2017). OECD compendium of productivity indicators 2017. Paris: OECD Publishing: https://read.oecd-ilibrary.org/economics/oecd-compendium-of-productivity-indicators-2018_pdtvy-2018-en#page11

3 OECD & ILO (2015): The Labor Share in G 20 Economies: https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf

As indicated before, wages growth decouples from, or lags behind, productivity growth in most countries. Unlike the Palestinian case, productivity growth is rarely accompanied by a decrease in real wages. In most countries, productivity and wages indices exhibit an upward trend, but at varying rates in favor of productivity. Take Denmark as an example, where labor productivity increased by 28% over the period 1995-1999 compared with a 10% increase in wages. During the same period, productivity increased by 32% in the USA compared with a 21% rise in real wages.[4]

In order to better understand this phenomenon, it is imperative to define in what economic sectors it is concentrated, as a first step on the way of conducting in-depth examination of its causes and bringing forth policy recommendations.

Figure -1: Evolution of labor productivity and real wages in the West Bank and Gaza Strip (2004 – 2016) (Standard, 2004 = 100)



Source: Monitor calculations based on PCBS data.

Productive Sectors - Agriculture and Industry

As shown in Figure-2, before 2007 the decline in wages was less than the decline in productivity in the agriculture sector. However, the relatively steep rise in productivity from 2007 to 2009 was accompanied by lower wages. Wages saw slight upward trend thereafter, yet significantly slower than the increase in productivity. Examining the entire study period, shows that labor productivity in agriculture increased by 46% between 2004 and 2016 while wages declined by 15%. Nevertheless, the decline in wages in this specific sector was lower than the overall average decline in the economy (i.e. 25%).

The industrial sector is a different case: wages fell significantly between 2008 and 2012, which was accompanied by a fluctuation and decline in productivity. Yet, following that year the decline in productivity was accompanied by a rise in wages. Taking the entire period into account shows a decline in both productivity and wages by 13% and 18% respectively. In other words, the two variables were moving in tandem in the industrial sector over the entire study period, though in a downward trajectory.

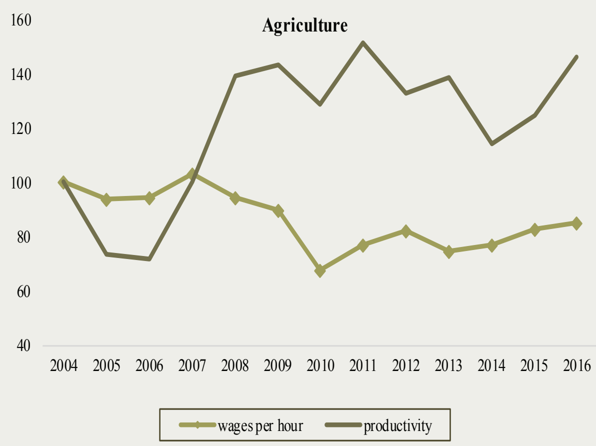
Services Sector

Regarding the services sectors, the difference between productivity and wages growth is striking. In the hotels and restaurants sector, real wages dropped sharply by 38% while productivity rose by 57%. Productivity and wages have stabilized since 2014, which means that a higher proportion of return on production in this sector is returning to capital at the expense of labor's share (Figure-3). In other service sectors, productivity and wages declined at first, then rose together, especially after 2013. During the entire period, wages decreased by 21% while productivity increased by 8%, which means that the distribution of return on production was in favor of capital as well.

Construction, Communications, Transport and Storage Sectors

Exceptionally, productivity and real wages in the construction sector moved in tandem. Between 2004 and 2009, the two indices rose, then remained stable until 2013, and declined thereafter (Figure-4). This indicates a coupling of wages and productivity in this sector, whether following an upward or downward trajectory. However, despite the convergent movement in this sector, there is still a gap between the two variables. Between 2004 and 2016 the

Figure -2: Evolution of labor productivity and real wages in agriculture and industry sectors in Palestine, 2004 - 2016 (Standard, 2004 = 100)



Source: Monitor calculations based on PCBS data.

4 Meager, N & S. Speckesser (2011) Wages, productivity and employment: A review of theory and international data. https://ec.europa.eu/social/search.jsp?advSearchKey=Wages%2C+productivity+and+employment&mode=advancedSubmit&langId=en

sector's productivity increased by 19%, whereas wages fell by 6%, i.e. the lowest level among all sectors.

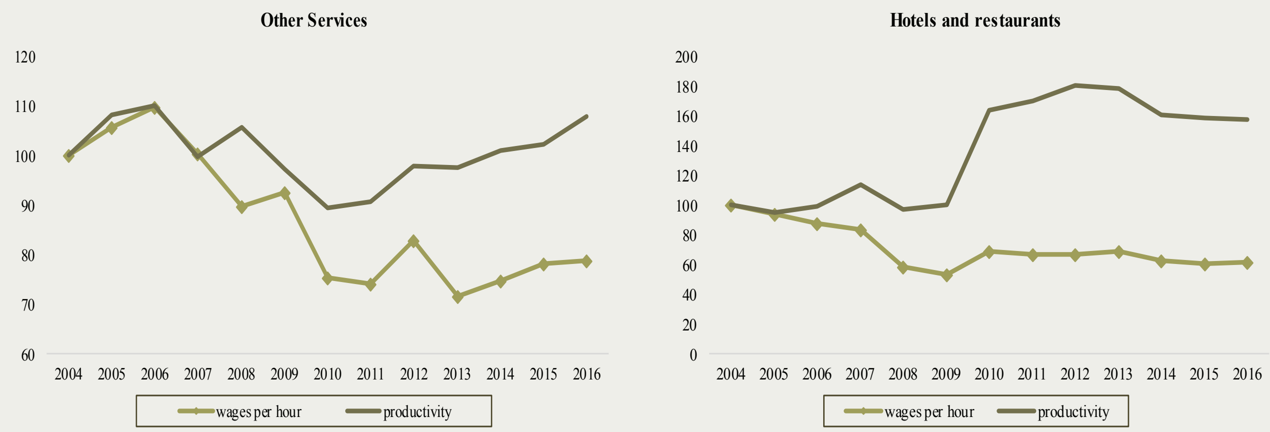
Regarding the communications, transport, and storage sector, it also exhibits a wide gap between productivity and wages growth. Productivity increased by 46%, while wages fell by 10%. However, since 2014, both variables started rising together. This means that a bigger portion of the gains of productivity growth are returning on labor during this period.

Conclusion

This Box has shown the wide gap between productivity and real wages growth in the Palestinian economy in general. It also showed the significant disparity between the two indices in the different economic sectors, especially in agriculture and the different services sectors, and to a less extent in the industry and construction sectors. This highlights the need for studying sectoral productivity and the drivers of sectoral differences. Other essential factors, like unemployment rate, should also be considered when investigating the relation between the growth of productivity and wages.

On a different level, the wide gap between productivity and wages is worrisome. The divergent relation between the two variables makes it hard to motivate workers to improve their capacities and work harder, since raising their productivity will not raise their pay. On the other hand, growth in labor productivity which does not reflect on wages means that the largest proportion of productivity gains returns to capital and not workers. This is seen in the larger share of capital in national income and in aggravation of social and political tension, as well as in its impact on aggregate demand and investment incentives and growth in the long-run.

Figure-3: Evolution of Labor Productivity and Real Wages in the Services Sector in Palestine, 2004 - 2016 (Standard, 2004 = 100)



Source: Monitor's calculations based on PCBS data.

Figure-4: Evolution of Labor Productivity and Real Wages in Construction and Communications in Palestine, 2004-2016 (Standard, 2004 = 100)

Source: Monitor's calculations based on PCBS data.

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3- Public Finance

Public Revenues

Quarter 4: During Q4 2018, net public revenues and grants decreased by 19% and by 23% compared with the previous and corresponding quarters respectively, reaching around NIS 3.3 billion.[1] This is attributed to the decline in clearance revenues by 32% compared with the previous and corresponding quarters, down to NIS 1.6 billion. This coupled with a decline in domestic tax revenues by 10% compared with the previous quarter. However, compared with the corresponding quarter, they have increased by 5%, reaching NIS 676.3 million. Non-tax revenues remained at the same level of NIS 337 million (Figure 3-1). On the other hand, foreign aid and grants increased by 18% compared with the previous quarter, while it decreased compared with the corresponding quarter 2017 by 6%, reaching NIS 835.5 million (Table 3-1).

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

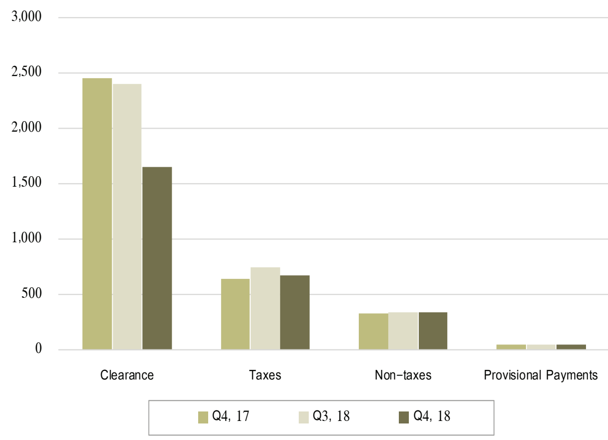
Item	2017	2018			
	Q4	Q1	Q2	Q3	Q4
Budget support	712. 8	157	482.1	522	679.4
-Arab grants	205. 4	140.1	236.3	303.7	410
-Other Countries	507.4	16.5	245.8	218.3	269.4
Development funding	178	143.7	87.2	184.1	156.1
Total	890. 8	300.7	569.3	706.1	835.5

Net public revenues and grants were equivalent to 86% of actual public expenditures during Q4 compared with 116% in the previous quarter (cash basis). However, the ratio dropped to 71.5% of accrued public expenditures during the quarter (commitment basis) compared with 103% in the previous quarter.

Year-on-Year Comparison: During 2018, net public revenues and grants decreased by 6% compared with the previous year, reaching around NIS 14.8 million. This is attributed to the decline in clearance revenues by 10%, standing at NIS 8.1 billion. Foreign aid and grants decreased as well by 7% reaching NIS 2.4 billion, while domestic revenues rose during 2018 by 9% compared with the previous year, amounting to NIS 4.8 billion. This rise in domestic revenues is ascribed to the rise in tax and non-tax revenues of 9% and 10% respectively, compared with the year, reaching NIS 3 billion and NIS 1.5 billion. Tax revenues made up 62% of total clearance revenues in 2018, against 32% for non-tax revenues. Net public revenues and grants were equivalent to 105% of actual public expenditures in 2018 compared with 97% in the previous year 2017 (cash basis). However, revenues covered about 92% of accrued public expenditures (commitment basis) during the quarter compared with 85% in the previous year.

1 By the end of Q4 2018, tax refunds reached around NIS 123.4 million compared with NIS 77.8 million in the previous quarter.

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



Public Expenditure

Quarter 4: By the end of Q4 2018, public expenditures increased by 10% compared with the previous quarter, while they decreased by 6% compared with the corresponding quarter 2017, reaching NIS 3.9 billion. This is attributed to an increase in public sector salaries and wage expenditures by 2% compared with the previous quarter, which however declined by 11% compared with the corresponding quarter, reaching NIS 1.5 billion. On the other hand, non-wage expenditures rose by about 10% compared with the previous quarter, while they dropped by about 5% compared with the corresponding quarter, standing at NIS 1.7 billion. Net lending expenditure, as well, decreased by 18% compared with the preceding quarter, and by 7% compared with the corresponding quarter, amounting to NIS 247.7 million. Development expenditure increased by 74% and 2% over the consecutive and corresponding quarters respectively, reaching NIS 403.6 million (Table 3-2).

Year-on-Year Comparison: During 2018, public expenditures decreased by 3% compared with the previous year, reaching around NIS 14.1 billion. This was driven by the decline in wages and salaries by 16% (NIS 5.9 billion). On the other hand, non-wage expenditures increased by 10% reaching NIS 6.1 million, and net lending increased by 1% reaching around NIS 1 billion, while development expenditures increased by 9%, reaching NIS 1 billion in 2018.

Government Arrears

Quarter 4: During Q4 2018, government arrears reached NIS 804.3 million, compared with NIS 522.2 million in the previous quarter, and around NIS 809.8 million in the corresponding quarter. Arrears were equivalent to about 24% of total public revenues and grants during the quarter. Arrears

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

Item	2017	2018				2017	2018
	Q4	Q1	Q2	Q3	Q4		
Tax refunds	(23.3)	12.3	27.6	51.1	19.1	69.7	110.1
Wages and salaries	116.8	128.6	134.3	119.8	94.1	568.1	476.9
Nonwage expenditures	560.3	170.9	159.0	287.7	468.9	1,631.1	1086.5
Development expenditures	155.4	10.9	10.9	35.5	237.6	400.3	294.9
Provisional payments	0.6	104.3	(8.7)	28.1	(15.4)	115.0	108.2
Total arrears	809.8	427.0	323.1	522.2	804.3	2,784.2	2,076.6

were distributed as NIS 94.1 million in wages and salaries, NIS 468.9 million in non-wages, NIS 237.6 million in development expenditures, and NIS 19.1 million in tax refunds. The government paid off NIS 15.4 million of the payments arears during the quarter (Table 3-2).

Year-on-Year Comparison: The government's total arrears reached NIS 2.1 billion in 2018, compared with NIS 2.8 million in the previous year, a drop of 25%.

Financial Surplus/Deficit

Quarter 4: Developments on both the revenue and the expenditure sides during Q4 2018 led to a deficit in the total balance (before grants and aid), of NIS 1,379 million (10% of GDP). After grants and foreign aid, the deficit turned into a surplus of NIS 543.5 million (on cash basis), about 4% of GDP. (Figure 3-3) On commitment basis, the deficit in the total balance (before grants and aid) reached NIS 1,708 million, dropping to NIS 872 million after grants and aid during the same period.

Year-on-Year Comparison: At the end of 2018, the deficit in the total balance (before grants and aid) amounted to NIS 1.7 billion (or 3.2% of GDP) compared with NIS 1.4 billion in the previous year. After grants and foreign aid, the deficit turned into a surplus of NIS 0.7 billion (on cash basis), about 1.3% of GDP, compared with NIS 1.2 billion in 2017. On commitment basis the deficit in the total balance (before grants and aid) reached NIS 3.8 billion, dropping to NIS 1.4 billion after grants and aid.

Public Debt

Quarterly and Year-on-Year: By the end of Q4 2018, public debt increased by 4% compared with the previous quarter, while it remained unchanged compared with the corresponding quarter 2017, reaching NIS 8.9 billion (around 16.2% of GDP).[2] About 56% of the debt was domestic and 44% foreign. During the quarter, paid interests stood at NIS 48.9 million, most of which were paid on domestic debt (Table 3-3).

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

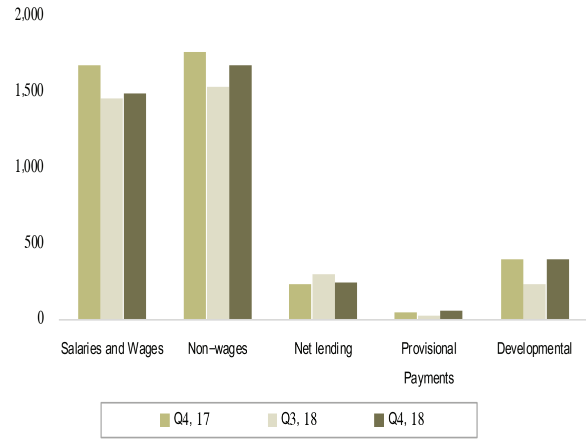
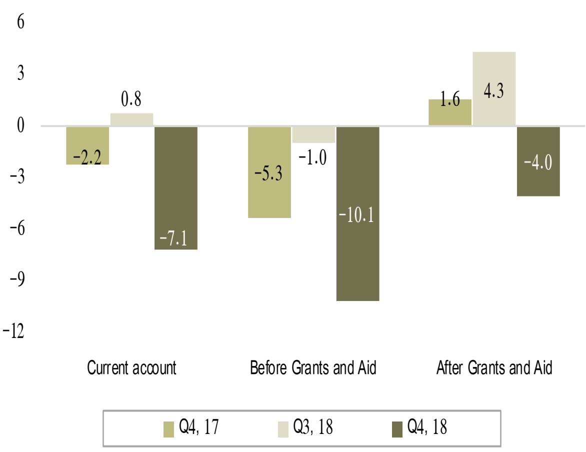


Figure 3-3: Government's Financial Balance (cash basis) as % to Nominal GDP



2 It should be mentioned that by the end of Q4 2018, the government's debit denominated in dollars rose by 0.6% compared with the previous quarter, while it declined by 6.8% compared with the end of 2017, reaching USD 2,369.6 million. Figures differ slightly when calculated in USD due to changes in exchange rate.

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

Item	2017	2018			
	Q4	Q1	Q2	Q3	Q4
Domestic debt	5,224	4,913.9	4,860	4,785.5	5,034
Banks	5,171.7	4,863.1	4,809.2	4,734.8	4,983.3
Public institutions	52.3	50.8	50.8	50.7	50.7
External debt	3,625.7	3,674.2	3,777.7	3,772.2	3,882.1
Total public debt	8,849.7	8,588.1	8,637.7	8,557.7	8,916.1
Paid interest	57.2	48.5	82	66.9	48.9
Public debt as % to nominal GDP*	%17.5	16.8%	16.2%	%16.1	%16.2

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

Box 2: FY 2018 Public Budget: Accrual Vs Actual

In general the Palestinian government faces financial pressures burdening the budget, in particular high public expenditure and uncertain revenue streams which are controlled by Israel (clearance, foreign aid and grants). During 2018, public revenues and aid declined significantly, by 6.2% compared with the previous year, following a fall in clearance revenues and external financial support. Public expenditure, on the other hand, were cut by 3.2% during the same period. By the end of 2018, actual public revenues and expenditures show an increase in the total deficit before aid (on commitment basis), reaching NIS 1.7 billion compared with NIS 1.4 billion in the previous year. Total balance after grants and aid show a surplus of NIS 0.7 billion compared with a surplus of NIS 1.2 billion in 2017, whereas the total balance before grants and aid (on commitment basis) ran a deficit of NIS 3.8 billion. External aid and grants curtailed deficit to NIS 1.4 billion.

An analysis of MoF data indicates that by the end of 2018, actual public expenditures were 78% of the target set in the year's Public Budget. The ratio varies from one item to other; 52% for developmental expenditure, 76% and 82% for salaries and wages and for non-wage expenditures respectively.

Data show, as well, that during 2018 the government was unable to fully pay all its commitments, as actual public expenditure was able to meet only 8% of the year's targeted commitments. The government was able to cover 93% only of the year's wage bill, 85% and 77% of non-wage and developmental expenditure respectively (Figure-1). All these figures are an indication of the PNA's growing financial strains and difficulties.

On the other hand, actual public revenues in 2018 covered 94% of the 2018 Budget targets. While domestic revenues exceed their targets (reaching 106% of the target), clearance revenues and aid and grants fell below the FY2018 budget targets at 88% 87% respectively (Figure-2).

These figures reveal stark differences between actual public expenditures and revenues and those targeted and accrued in the 2018 Budget. Based on the Budget, public expenditures were 78% of the targeted and 87% of accumulated expenditures, which implies accumulation of arrears and a growing deficit. On the other hand, public revenues and grants reached 91% of the budget's targeted revenues, and 101% compared with accrued revenues in 2018. In other words, actual public revenues fell below the targets of the 2018 Budget, yet it collected all accrued revenues.

Figure -1: Actual Public Expenditures Vs. Accrual Vs. Targeted in the Public Budget 2018

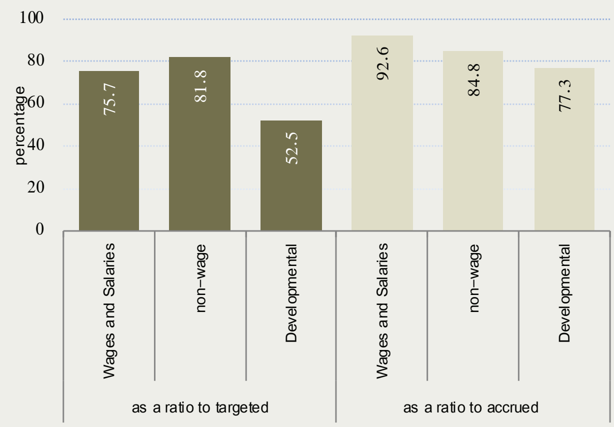
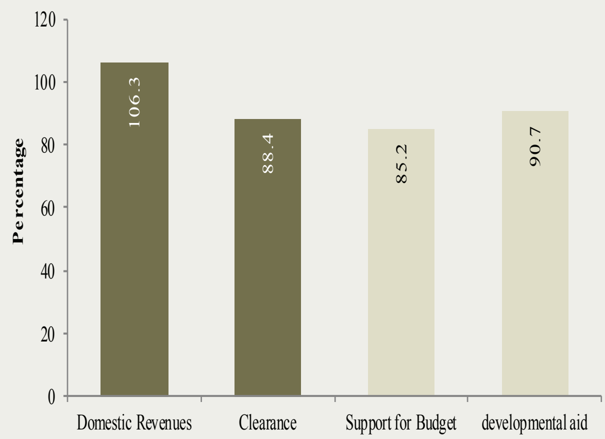


Figure-2: Public revenues and grants items 2018 vs target



Waseem Safi, PMA

4- The Banking Sector[1]

There are 14 banks operating in Palestine, 7 of which are domestic operating through 351 branches and offices, of which 292 are in the West Bank and 59 are in Gaza Strip By the end of Q4 2018, net assets (liabilities) of the banking sector decreased by 0.3% compared with Q3, against an increase of 1.8% compared with the corresponding quarter 2017, reaching USD 16.1 billion (Table 4-1)

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

Item*	2017	2018	
	Q4	Q3	Q4
Total assets	15,850.2	16,179.4	16,128.9
Direct credit facilities	8,026.0	8,293.6	8,437.9
Deposits at PMA & Banks	3,911.1	3,875.2	3,763.7
Securities portfolio for trading and investment	1,207.6	1,325.4	1,381.7
Cash and precious metals	1,728.2	1,642.6	1,582.6
Other assets	977.3	1,042.6	963.0
Total liabilities	15,850.2	16,179.4	16,128.9
Total deposits of the public (non-bank deposits)**	11,982.5	12,194.2	12,227.3
Equity	1,891.2	1,863.9	1,911.5
Deposits of PMA and Banks (bank deposits)	1,135.3	1,178.0	1,033.6
Other liabilities	282.5	263.5	271.9
Provisions and depreciation	558.6	680.1	684.5

Items in the table are totals (including provisions).

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

Credit Facilities

Quarter 4: During Q4 2018, total credit facilities rose by 1.7% compared with the previous quarter, reaching USD 8,437.9 million. This rise in credit facilities portfolio is ascribed mainly to the growing share of the public sector credit of 13.5%, reaching USD 1,315 million. On the other hand, the private sector's credit share dropped slightly (about 0.2%), standing at USD 7,122.2 million. By currency, the US dollar continued to account for the biggest share of credit (46%) compared with 37% granted in Shekels, and 15% in Jordanian Dinars (Figure 4-1).

By region, the West Bank had the lion's share of total credit facilities (about 87%). During the Q4, loans were the predominant form of total credit facilities, at 83%, against about 16% for overdraft accounts.

Data show an increase of 3% in real estate and construction sector facilities, amounting up to USD 1,606 million during Q4. Facilities granted to the trade sector and industry and mining increased as well by 1% and 2% respectively, reaching USD 1,558.6 million and USD 444.0 million respectively. Facilities granted to the tourism, hotels and restaurants sector increased by 24%, reaching USD 93.1 million.

1 The source of data in this section: PMA, Feb 2019. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database

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

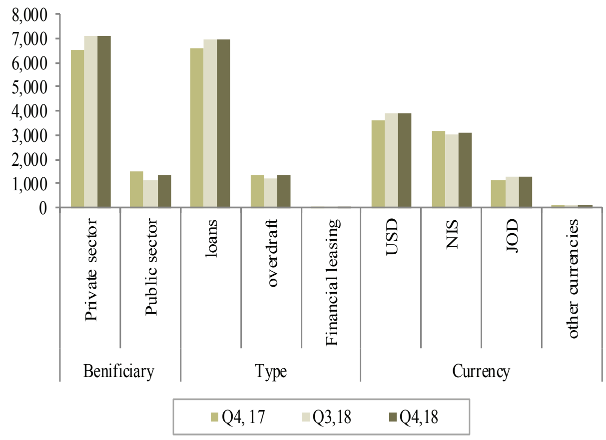
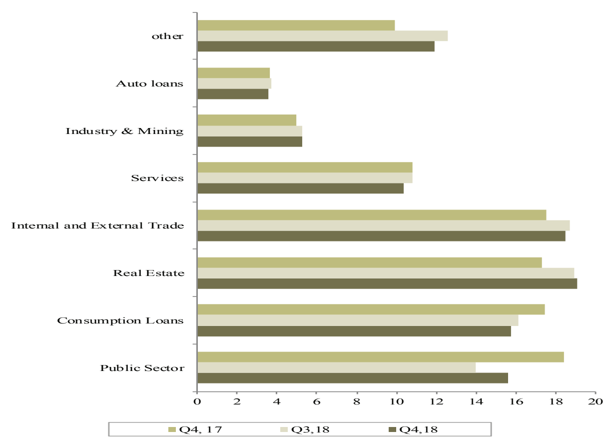


Figure 4-2: Distribution of Credit Facilities by Sector (%)



Year-on-Year Comparison: Credit facilities increased by 5% year-on-year basis, mainly because of the rise of private sector credit (9%) to USD 7,122.2 million, against the significant decline of credit to the public sector (11%). The share of loans increased by 6%, against the decline of overdraft accounts of 0.2%. By currency, facilities granted in Shekels dropped by 3%, while those granted in US dollars and Jordanian Dinars and other currencies rose by 9% and 15% respectively.

Deposits at PMA & Banks

This item consists of three sub-accounts: balances at banks abroad (52%), balances at the PMA (38%), and balances at banks in Palestine (10%). By the end of Q4 2018, balances at PMA and banks declined by 3% compared to the previous quarter and by about 4% compared to the corresponding quarter, reaching USD 3,763.8 million. This decline is attributed to a 11% decrease in balances at banks in Palestine by about 11%.

Deposits

Quarter 4: Deposits (bank and non-bank) are the most important and largest liability category, constituting 82% by the end of Q4 2018. By the end of Q4 2018, total deposits dropped by 1% compared to the previous quarter, reaching USD 13,261 million. About 92% of the total were private sector deposits. Data show that private deposits are concentrated in the West Bank (91% of the total) against a scant 9% in Gaza Strip. About 95% of total deposits were those of the private sector against only 5% as public sector deposits. By currency, 36% of total deposits were in Shekels, 38% in US dollars, and 23% in Jordanian Dinar (Figure 4-3). Current deposits (on-demand) constituted 37% of the total, 34% were saving deposits, and 29% were time deposits.

Year-on-Year Comparison: During 2018, total deposits increased slightly by 1% compared to the previous year. The distribution of deposits by sector, currency, or geographic region remained unchanged.

Bank Profits

Quarter 4: By the end of Q4 2018, bank profits (net income) grew by 5% compared with the previous quarter, reaching USD 48 million. This was driven by a decline in operating expenses by about 6% against the decline in revenues by 2% (Table 4-2).

Year-on-Year Comparison: Banks' net income stood at USD 178.2 million during 2018, a growth of 3.5% compared to the previous year, as the increase in revenues of USD 6.1 million surpassed the increase in expenditure (Table 4-2).

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

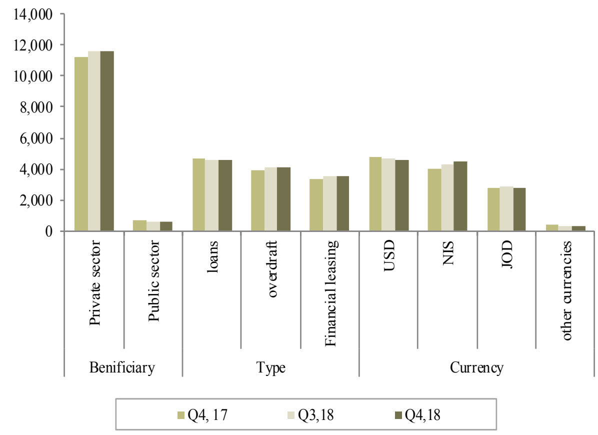
	2017		2018		
	Q4	Total	Q3	Q4	Total
Revenues	**168.0**	**650.3**	**176.3**	**172.6**	**693.7**
Net Interests	123.9	466.8	131.7	127.1	506.2
Commissions	**30.5**	**115.9**	**29.1**	**28.9**	**118.0**
Other	13.6	67.6	15.5	16.6	69.5
Expenses	**125.2**	**478.2**	**130.5**	**124.6**	**515.5**
Operating expenses and tax allocations	**109.6**	**420.4**	**120.5**	**112.7**	**459.9**
Tax	**15.6**	**57.8**	**10.0**	**11.9**	**55.6**
Net income*	**42.8**	**172.1**	**45.8**	**48.0**	**178.2**

Average Interest Rates on Deposits and Loans

During Q4 2018, average interest rates on USD and NIS loans rose by 6.1% and 7.37% compared with the previous quarter, respectively. This followed the rise in official interest rates in both the United States and Israel. Contrarily, average interest rates on JOD loans dropped during the same period to 6.7%, in conjunction with its decline in Jordan.

On the other hand, average interest rates on deposits rose in the three currencies, in conjunction with their rise in the issuing country. Average interest rates on JOD deposits was 2.9%, while for NIS deposits it rose to 2.17%, and the US dollar deposits was 2.56%. These changes over the year affected the

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

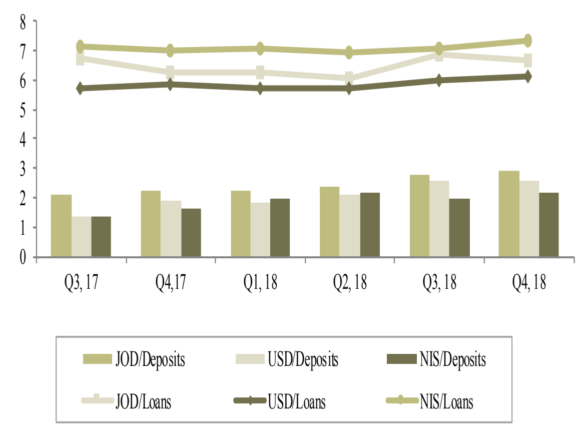


margins between the deposit interest rates and those of lending facilities, as the margin on US dollars increased from 3.43 percentage points to 3.54 percentage points, and on the Israeli Shekel from 5.13 to 5.2 percentage points. The margin on the Jordanian Dinar meanwhile declined from 4.15 to 3.8 percentage points during the same period (Figure 4.5).

On the other hand, average interest rates on deposits rose in the three currencies, in tandem with their rise in the issuing country. Average interest rate on JOD deposits was 2.9%, while for NIS deposits it rose to 2.17%, and for US dollar deposits was 2.56%.

These changes over the year affected the margins between the deposit interest rates and that of credit facilities, as the margin on the US dollar increased from 3.43 percentage points to 3.54 percentage points, and on the Israeli Shekel from 5.13 to 5.20 percentage points. The margin on the Jordanian Dinar meanwhile declined from 4.15 to 3.80 percentage points during the same period (Figure 4.5).

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



Clearance

By the end of Q4 3018, the value of cheques in circulation declined slightly (by 0.2%) compared with the previous quarter, amounting to USD 3,238.8 million. By region, 93% of cheques were circulated in the West Bank during Q4 and the rest in Gaza Strip. Compared with the corresponding quarter 2017, the value of cheques presented for clearance has markedly declined by 11%.

Returned Cheques

The value of returned cheques increased by 6% over the previous quarter, yet less by 14% compared with the corresponding quarter, amounted to USD 292.4 million. By region, 94% of returned cheques were circulated in the West Bank and the rest in Gaza Strip. In the same context, the value of returned cheques to the total value of cheques presented for clearance, rose during Q4 2018 to 9.0% compared with 8.5% in the previous quarter, and 9.4% compared with the corresponding quarter 2017 (Figure 4-5).

Specialized Credit Institutions (SCIs)

By the end of Q4 2018, the six specialized credit institutions (SCIs) offered 687 jobs. The total assets of these institutions dropped, for the third consecutive quarter, by 5% compared with the previous quarter, and by 8% compared with the corresponding quarter, reaching USD 216.6 million.

The credit portfolio of SCI companies licensed by the PMA consisted of commercial loans (75%), Islamic loans (9%), and deposits (9%). Similarly, the credit portfolio of SCI declined by 3% during Q4 compared with Q3 and by 4% compared with the corresponding quarter, reaching USD 205.7 million. Around 74% of loans were granted in the West Bank against 26% in Gaza Strip (Table 4-3).

The sectoral distribution of the portfolio followed the same historic trends, where real estate and commercial sectors' loans continued to dominate with the biggest share of loans (around third for each), followed by trade sector (28%), and the agricultural sector loans (12%).

Figure 4-5: Value of Cheques Presented for Clearance to the Value of Returned Cheques (%)

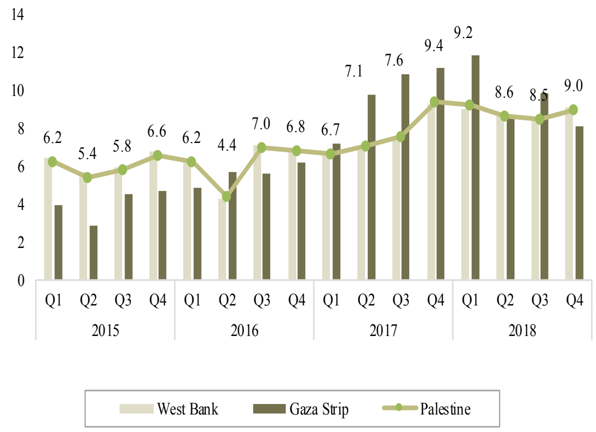


Table 4-3: SCIs data

	2017	2018			
	Q4	Q1	Q2	Q3	Q4
Total of Loans Portfolio (USD millions)	**215.0**	**215.5**	**215.4**	**212.5**	**205.7**
West Bank	147.8	149.8	153.1	154.4	151.7
Gaza Strip	**67.2**	**65.7**	**62.3**	**58.1**	**54.0**
Active Clientele	72,209	71,759	70,922	68,942	65,458
No. of Offices and Branches	**84**	**81**	**81**	**81**	**81**
Employees	**652**	**664**	**675**	**680**	**687**

Box 3: Banks' Intersectoral Links in Palestine

The banking system plays a central role in advancing the development process. The stability of the system is a crucial factor in the stability of the financial sector in particular and the economy in general, given its intersectoral linkages. Figure-1 presents the distribution of banks' assets and liabilities distributed by the five main dealers in the Palestinian economy. The figure shows the banking system's relatively strong linkages with the economic sectors, which means that any sector's crisis can have tangible effects on the banking sector, and vice versa, a crisis affecting the banking sector might impact other sectors. This, in turn, demonstrates the crucial importance of the banking sector's stability, especially that assets of the sector are higher than Palestine's GDP by about 10%. Second, the figure shows that more than half of the banks' assets are loans granted to individuals and to the government, and that about one third of assets are assets and placements abroad.

A report published by the International Monetary Fund (IMF) notes that credit to the private sector in Palestine has been increasing at an annualized rate of 20% since 2009.[1] This growth rate is many times higher than the annual GDP growth rate. Despite the recessionary climate in 2018, credit growth did not slow, and reached 25% in 2016 compared to the previous year. However, the ratio of private sector credit to GDP in Palestine (about 41%) is still lower than that in neighboring countries (75% in Jordan, 81% in Tunisia, and higher in Lebanon). It is still considered a high growth rate, considering the special conditions prevailing in Palestine, especially that credit facilities are concentrated in limited sectors and are mainly for consumption and non-productive activities.

1 IMF- West Bank and Gaza: Report to the Ad Hoc Liaison Committee, August 31, 2018 (Box 2)

Figure-1: Distribution of assets and liabilities of the banking system by Dealer Sectors (million USD, by the end of 2017)

IMF: West Bank and Gaza: Report to the Ad Hoc Laisoin Committee, September 6, 2018 (Box 2)
Note: the aggregate of assets seen in the figure amount to USD 14,509 million, which is less than the total assets of the banking sector in Palestine, which stood at USD 15,850 million by the end of 2017. The purpose of using the figure is to clarify the impact that shocks can have in any sector on the banking system and vice versa. As such, some other assets and liabilities of the banking system have been excluded.

5- The Non-banking Financial Sector[1]

Securities Sector

Quarter 4: By the end of Q4 2018, the market value of traded shares in Palestine Stock Exchange)PEX(remained at the same level of the previous quarter, yet it declined by 4% compared with the corresponding quarter 2017. By the end of Q4 2018, the volume of traded shares in PEX declined by 40% compared with the previous quarter, which coupled with the decline in the market value of traded shares by 41%. Compared with the corresponding quarter, the volume and value of traded shares declined drastically by 69% and 70% respectively (Table 5-1).

Year-on-Year Comparison: By the end of Q4 2018, Al Quds index closed at 529.4 points, a decrease of 7.9% compared with the end of 2017 (around 574.8 points). By the end of 2018 the market value of traded shares in PEX was USD 3.7 billion (29% of GDP at current prices), which equals 25.8% of GDP at current prices.[2] This represents a decrease of 4% compared with the previous year (USD 3.9 billion). This decline is ascribed to the latest developments battering the Palestinian economy that pose internal and external challenges, such as cutting US aid. These changes have adversely affected securities investments, leading to a significant decline in volumes and trading values dropping to 31.8% and 24.6% respectively, during Q4 compared with the end of 2017.

1 The source of figures in this section: Palestinian Capital Market Authority (PCMA), 2019.
2 The 2017 current prices of GDP are used to reflect the accumulative market value of traded shares.

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

Item	Q4 2017	Q3 2018	Q4 2018	2017	2018
Volume of Traded Shares (million share)	**79.2**	**40.9**	**24.7**	**271.2**	**185.1**
Value of Traded Shares (USD million)	**136.8**	**69.6**	**40.9**	**469.1**	**353.5**
Market Capitalization (USD million)	**3,891.5**	**3,718.7**	**3,734.9**	**3,891.5**	**3,734.9**
Total Trades	**13,206**	**9,073**	**5,761**	**53,205**	**35,030**
Total number of Traders	**71,811**	**71,128**	**70,981**	**71,811**	**70,981**
Palestinians	68,467	67,761	67,616	68,467	67,616
Foreigners	3,344	3,367	3,365	3,344	3,365

On the other hand, the total number of market traders stood at 70,981 by the end of 2018, around 4.8% were foreigners, mostly from Jordan (Table 5-1).

Figure 5-1 shows the distribution of market capitalization by trader type. It shows that corporations' shares reached 39.9% (USD 1,489 million) against 26.8% for individuals (USD 1,001.9 million).

Financial Leasing

Quarter 4: The performance of the Financial Leasing Companies showed improvement during Q4 2018. The total investment value of registered contracts with the PCMA stood at USD 30.3 million, through 517 contracts, a rise of 35.7% in the value and of 34.6% in the volume of contracts compared with the preceding quarter, and a rise of 9.5% and 21.6% in value and volume of contracts compared with the corresponding quarter 2017 (Table 5-2).

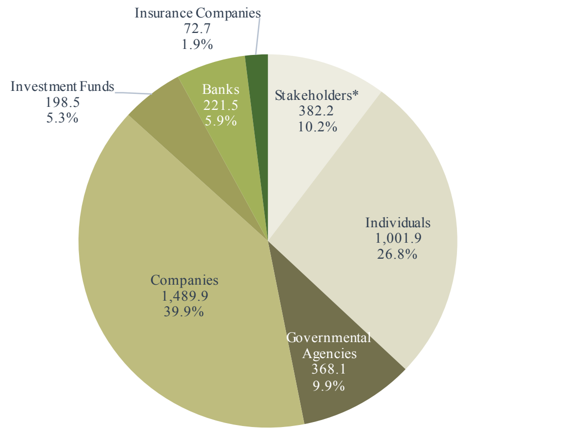
Year-on-Year Comparison: By the end of 2018, there were 13 financial leasing companies licensed by PCMA. During the year, the performance of the financial leasing sector improved and the base of leased assets expanded; the total value of contract investments registered at PCMA were USD 92.1 million through 1,645 contracts, arise of 9% and 20.2% in the value and volume of contracts respectively compared with 2017. This growth is attributed to the fact that three newly-licensed leasing companies started operating, along with the introduction of new products into the market (solar panels) and increased know-how in reaching out to new customers in governorates other than Ramallah and al-Bireh, and lastly, increased societal awareness of financial leasing services (Table 5-2).

As in previous years, financial leasing contracts concentrate in Ramallah (40%), followed by Nablus (15%), Hebron (14%), and the rest of governorates (31%). The financial leasing portfolio is still concentrated in motor vehicle leasing (78% of total contracts), compared with 88% in 2017. This is attributed to the ease of registering ownership of vehicles at the transportation department and therefore the low-risk associated with its leasing and re-possession. Heavy trucks constitute 12% compared with 8.9% in the previous year, and movable assets (equipment, production lines, and others) made up 10% compared with 3% in the previous year

Table 5-2: Total Value and Volume of Financial Leasing Contracts

	Total Value of Financial Leasing Contracts (USD million)		Total Volume of Financial Leasing Contracts	
	2017	**2018**	**2017**	**2018**
Q1	**19.3**	**20.7**	**367**	**362**
Q2	**20.0**	**18.8**	**296**	**382**
Q3	**17.5**	**22.3**	**280**	**384**
Q4	**27.6**	**30.3**	**425**	**517**
Total	84.4	92.1	1368	1645

Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q4 2018) (USD million)



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

Figure 5-2: Geographical Distribution of Financial Leasing Contracts by Number (as of the end of 2018)

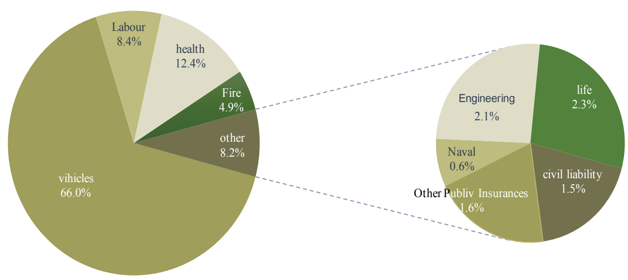
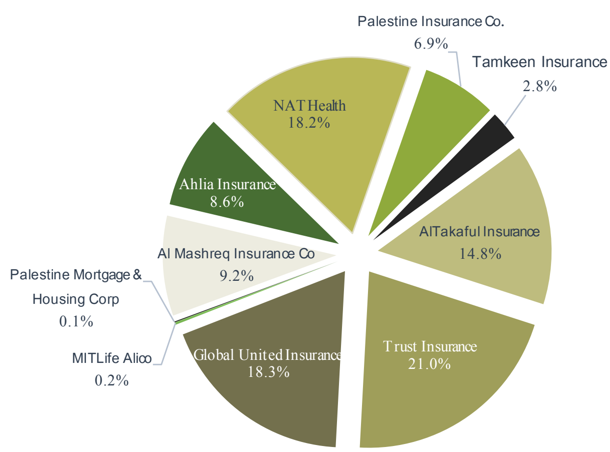


Figure 5-3: Distribution of the Insurance Portfolio Components by the Insurance Company (as of the end of 2018) %



Box 4: Financial Leasing and Supporting Small and Medium-sized Enterprises (SMEs)

Small and medium-sized enterprises (SMEs) are the backbone of the Palestinian economy. Day after day, the role these enterprises play in developing economies becomes clearer; having large shares of production, wide expansion, and generating employment opportunities. The structure of SMEs has another advantage over large companies, supporting their flexible movement in the market and protecting them against many risks. In order to grow and expand their businesses, SMEs need funding. The lack of funding is a major impediment to their operation, growth and sustainability. Securing funds through financial markets, similar to mega firms, is not an option. Therefore, they resort to self-financing either by the owner him/herself or using held profits, or through borrowing from family members and kin. Nevertheless, these measures are limited and inadequate.

Securing financing from commercial banks is challenging to SMEs more than for larger firms. Banks are conservative in granting funding and requested collateral depends on the level of expected risks. Prudential rates are even higher under the special conditions prevailing in an occupied country, like Palestine, without control over its borders or crossing points, or access to Area 'C', and the inconsistent legal system inherited from different historical eras.

Financial Leasing

The concept of financial leasing means that wealth is achieved by using assets without owning them. This happens when the lessor owns an asset with the consent of the lessee. The lessor gives the lessee the right of possessing, using, and benefiting from the asset in return for monthly payments. At the end of the lease period, the ownership of the asset is transferred to the lessee or is returned to the lessor if the tenant is not willing to purchase the asset. Financial leasing is different from other types of financial activities, as it is based on leasing moveable and non-movable assets, which are the main guarantee. Financial leasing risks are limited, since the lessor remains the owner of the asset for the entire duration of the contract, and the assets are not transferred to the lessee unless he paid all his financial obligations.

Financial leasing is one of the financial options that SMEs can opt for to develop their businesses, upgrade their assets and boost their productive power without the actual need to provide additional collateral or having a previous credit record. However, it assists the lessee/tenant in creating a positive credit history. Flexibility in payment amounts allows the lessee to balance between due leasing payments and cash flows, which best suits seasonal business and activities, such as agribusiness.

The decision to grant a financial leasing contract does not depend merely on securing collaterals or having a credit history of the customer, it also depends on the feasibility and sustainability of the project. Financial leasing companies are therefore considered partners in these projects. This could be an entry point for entrepreneurial projects. Noticeably, rates of non-performing leasing contracts are not that high, as enterprises try as much as possible not to default on payments for the asset from which they profit.
In 2018, the share of corporate leasing contracts in Palestine constituted 25% of total contracts against 75% for individuals. However, the value of corporate investments in financial leasing contracts was 55% of the total value of all leasing contracts. The type of assets in financial leasing contracts include; vehicles, heavy equipment (bulldozers, concrete mixers, bulldozer, … etc.), production lines and machinery. A simple analysis of vehicles' contracts shows that the share of leases for productive purposes was around 40% of total contracts. Therefore, the overall share of contracts for productive activities is actually higher than the 25% corporate share.

Challenges Facing the Financial Leasing Sector

Financial leasing activities are impeded by a number of challenges. The first is associated with SMEs lack of knowledge of financial leasing activities, their characteristics and nature. On the other hand, most companies that provide financial leasing services work in leasing vehicles, which have created the wrong impression that financial leasing activities are related to vehicles only. The low level of knowledge regarding financial leasing activities is associated with a lack of trust; usually individuals own an asset when paying installments as its price. Paying installments without owning the asset raises fears and suspicions. This is despite that the Financial Leasing Law states that the lessee is the "economic owner" of the asset as of the first day of the contract's currency, and therefore bears all risks related to the asset and enjoys all its benefits. An additional challenge is the incomplete legal and legislative system and procedures for the financial leasing operation. In particular, there is no legislation on mechanisms for dealing with the financial leasing activities at tax and customs departments, which is further compounded by the lack of Palestinian sovereignty over crossings.

The Palestine Capital Market Authority (PCMA) is currently considering solutions for overcoming some of these challenges and difficulties. First, it has been planning to conduct a number of awareness raising workshops at industrial and agricultural chambers of commerce about financial leasing activities, as well as explaining their advantages, modus operandi and legal rights of the tenant in lease contracts. Measures preserving ownership rights of the lessee are taken from the first effective day of the financial leasing contract. The Ministry of Transport registers the vehicle in the name of the lessee in the license, and the name of the tenant and lessor is registered in the moveable assets register. The latter was launched by the MoNE following the passing of the law on Moveable Assets Law providing for the rights of the tenants.[1]

Lina Ghbesh, PCMA

1 For further analysis on Financial Leasing advantages and challenges, a review of the law on financial leasing issued in 2014, refer to Economic Monitor, Issue 47 and 52.

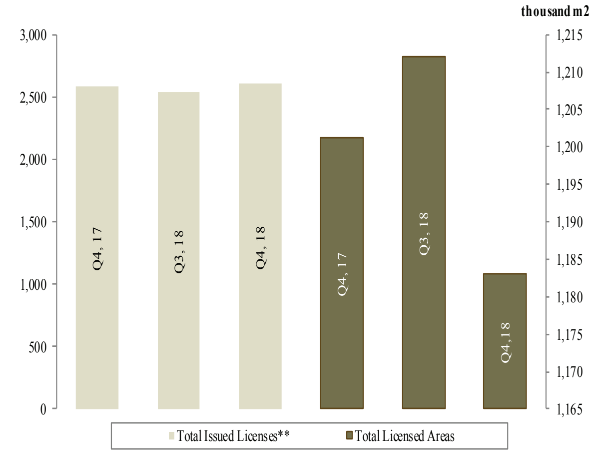
6- Investment Indicators[1]

Building Licenses

Quarter 4: Figure 6-1 shows the changes in the number of registered building licenses and licensed areas. The number of issued building licenses reached 2,602 during Q4 2018, a rise of 2.7% compared with the previous quarter. Licenses of non-residential buildings constituted 9% of the total. On the other hand, licensed areas of buildings in Q4 2018 amounted to around 1,183.0 million square meters, which is less by 2.4% compared with the previous quarter.

Year-on-Year Comparison: The number of issued building licenses reached 9,898 during 2018, a rise of 7% compared with the previous year. This was accompanied by a rise in the licensed areas of buildings, which amounted to around 4,439 thousand square meters, growing by 9% compared with the corresponding quarter 2017 (Table 6-1).The number of registered licenses does not include all building activities in the construction sector, and a relatively large part of construction activities, especially in rural areas, is not registered or licensed.

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



* do not include licenses of fences

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

	Number of Licenses*	Licensed areas (thousand square meters)
2017	9,242	4,067
2018	9,898	4,439

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 general economic situation and prospects.

Quarter 4: During Q4 2018, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 8,766, higher by 405 compared to their number in the previous quarter, and by 420 compared to the corresponding quarter 2017. The second-hand vehicles made up 80% of the total number of vehicles, 6% of which came from Israel (Table 6-2).

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

	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
Q4 2017	2,135	5,758	453	8,346
2017	8,137	25,090	2,667	35,894
Q3 2018	1,754	6,153	454	8,361
Q4 2018	1,755	6,560	451	8,766
2018	6,303	23,892	1,912	32,107

Year-on-Year Comparison: During 2018, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 32,107, which is less by 3,787 compared with the previous year 2017 (less by 11%). This resulted from a decline in the volume of new and second-hand vehicles of 23% and 5% respectively, and the decline of 28% in the volume of second-hand vehicles from Israel (Table 6-2).

1 The source of figures in this section: PCBS, 2019, Statistics on Building Licenses, and the MoF, 2019, Palestinian Customs and Excise Dep.

Box 5: Israeli Military Courts Fined Palestinians NIS 60 million in Three Years

Earlier this year, Haaretz published an investigative article about charges and fines charged or imposed on Palestinians by Israeli military courts. The article relied on two sources of information; reports sent by the president of the Military Court of Appeals to Al-Dameer -Prisoner Support and Human Rights Association, a Palestinian non-governmental organization; and available reports about the activity of Israel's military judicial system. Following is a summary of the main highlights in the article:

The value of fines imposed by Israeli military courts on Palestinians from the West Bank, from 2015 to 2017, was more than NIS 60 million (USD 16 million), as shown in Figure-1. Compared with 2011, the aggregate value of fines for the three years was not exceptionally high. As figures show, Israel filed 8,000 suits against Palestinians in 2011, collecting NIS 13 million from them.

As stated in the article, the money is deposited in the Israeli Civil Administration accounts in the West Bank and is managed by an officer who works under the supervision of the Israeli Ministry of Finance. However, no information is available about how this money is used. Haaretz's report cited several examples about the rulings of military courts and the methods used to accumulate significant amounts of fines. For example, at the end of November 2018, a military judge convicted a minor of allegedly throwing stones at a soldier, who was near his school. The minor was released after three days in jail, for a fine of NIS 3,000. In April 2017, a person from Bethlehem was convicted of allegedly passing funds to the families of two prisoners in Israeli jails. In addition to an eight-month prison sentence, the convicted person was fined NIS 12,000. As mentioned in the article, imprisoned Palestinians, regardless of the accusation, have never been released from detention or prison before paying fines previously imposed on them.

The total number of Palestinians who were prosecuted by Israeli Military Courts in 2017 was 10,454. Table-1 shows the distribution of this number by type of charge. As the table shows, more than half of the total number were charged with traffic offenses (56%). Around 20% were accused of security offenses like carrying or possessing weapons or affiliation with banned organizations. Moreover, more than two-thirds of the charges were related to disturbing peace by throwing stones.

The number of Palestinians who were charged with security offenses reached 2,072 in 2017, which is 10% higher than in 2016. Regardless of the reliability of these allegations, it appeared that 66% of those do not belong to any political faction or organization. Last year, the ratio of politically unaffiliated defendants was 72% (Figure-2).

Figure-1: The Value of Fines Imposed by Israeli Military Courts on West Bankers (Million NIS)

Figure- 2: Politically-affiliated and unaffiliated Palestinians who were charged with security offenses by number

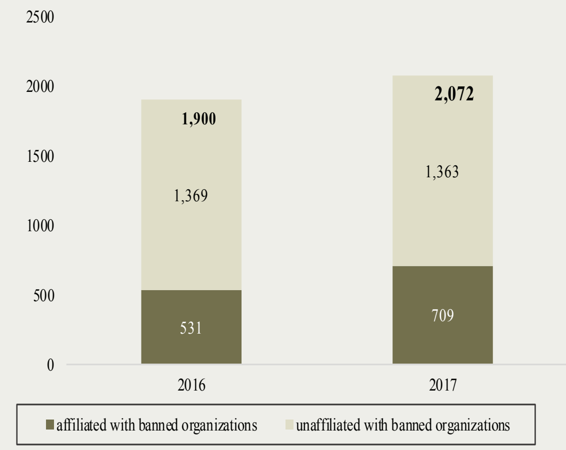


Table-1: Total Number of Palestinians who were Charged by the Israeli Military Courts by Type of Charge, 2017

Type of Charge	Number of Prosecuted
Traffic offenses	5,857
Security Offenses	2,072
Thereof:	
-murder	10
- attempted murder	69
Disturbing peace	1,020
Unauthorized entry to Israel and Jerusalem	1,064
Criminal offenses	432
Total	10,445

7- Prices and Inflation[1]

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

The Price Index

Figure 7-1 shows two curves, the first measures the average change in CPI (right axis) between Q1 2010 and Q4 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.

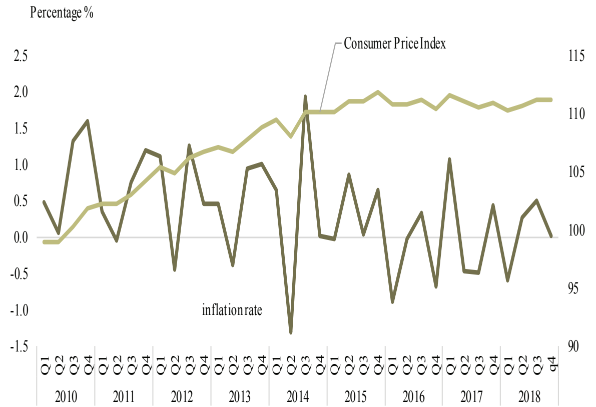
Quarter 4: During Q4 2018, the CPI reached 111.12 compared with 1101.10 in Q3 2018. This means that the inflation rate was positive over the consecutive quarters (rise in prices) by 0.01%. This rise is attributed to the increase in the prices of alcoholic drinks and tobacco group by 4.92%, in education group by 1.69%, despite the fall in the prices of garments, cloths and footwear group by 7.16%.

Year-on-Year comparison: During 2018, the Palestinian CPI declined by 0.19% compared with the previous year. This decline is attributed to the drawback of prices of 1.34% in Gaza Strip against a rise of 1.04% in Jerusalem J1, and by 0.41% in the West Bank.

This CPI decline in Palestine is attributed to the decline of the prices of a specific group against the rise of the prices of another group. For example, the prices of garments, cloths and footwear group fell by 4.25%, alcohol and tobacco by 1.29%, and education group by 1.07%. On the other hand, the prices of the food and soft drink group, which weighs 35% in the Palestinian consumer's basket, declined by 0.7% driven by the decline in the prices of fresh vegetables, tubers and fresh poultry by 4.71%, 4.04% and 3.4% respectively, against a rise in prices of dried vegetables, eggs and fruits by 9.08%, 6.4%, 2.93% respectively. Prices of the transport group, which has a relative weight of about 14% of the Palestinian consumer's basket, increased by 1.06% driven by the hike in liquid fuels prices (for car uses) by 5.35%.

The prices of the housing and related items group (a weight of 9%) rose as well, by 0.83%, resulting from the rise in the prices of gas and liquid fuels used for heating houses by 5.60% and 4.78%

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

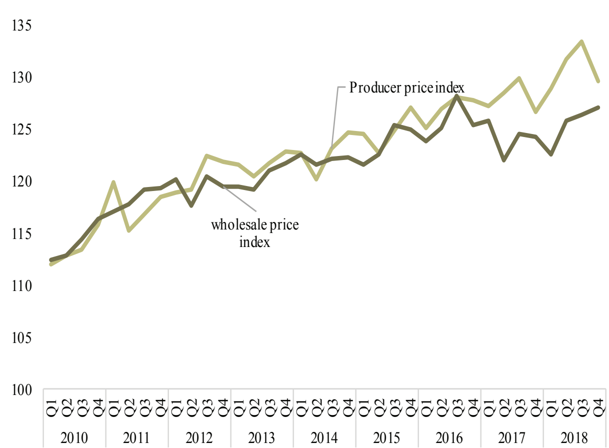


Wholesale Prices and Producer Prices

Quarter 4: The wholesale price index -WPI (sale price to retailers) declined by 0.49% between Q3 2018 and Q4 2018, driven by the rise in wholesale prices of local goods by 2.24% against the decline in wholesale prices of imported goods by 0.54%. The producer price index- PPI (prices received by domestic producers) has also fallen by 2.87% over the consecutive quarters. This resulted from the decline in producer prices of locally-produced and consumed goods of 3.24%, and the rise of 0.39% in producer prices of locally-produced exports (Figure 7-2).

Year-on-Year Comparison: The WPI grew by 1.05% during 2018 compared with 2017. Wholesale prices of local-produced goods and of imported goods rose during the year by 1.39% and 0.20% compared with the previous year respectively. On the other hand, PPI rose by 2.22% during 2018 compared with 2017. This rise resulted from the rise in prices of locally consumed goods by 2.51%, while producer prices of locally-produced and exported goods declined by 0.34% compared with the previous year.

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



1 The source of figures in this section: PCBS, 2019, Price Indices Surveys, 2010-2018. The purchasing power was calculated in cooperation with PMA.

Prices and Purchasing Power[2]

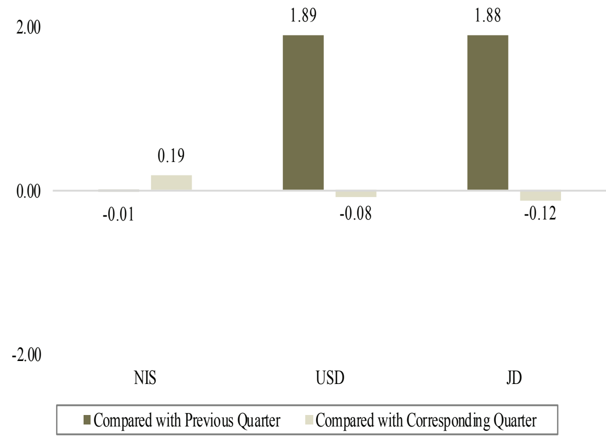
NIS Purchasing Power: the rate of inflation in the economy measures the development in the purchasing power of all individuals who receive their salaries in NIS and spend all their income in that currency, i.e. the change in the NIS purchasing power is equivalent to the inflation rate, but in the opposite direction, during the same period. PCBS data show that the CPI increased by 0.01% during Q4 2018 compared with the previous quarter. This means that NIS purchasing power has decreased by the same percentage (Figure 7-3).

Year-on year basis, the inflation rate declined by 0.19% in 2018 compared with 2017, i.e. the NIS purchasing power has increased by the same amount.

USD Purchasing Power: During Q4 2018, the USD exchange rate against the NIS increased by about 1.90% compared with the previous quarter. As such, the purchasing power of individuals who receive their salaries in USD and spend all their income in NIS has risen during this quarter compared to the previous quarter by about 1.89%. 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 7-3: Change in Purchasing Power by Type of Currency (percentage)



Source: Figures were calculated based on PMA and PCBS data.

On a year-on-year basis, the USD exchange rate against the NIS declined by about 0.27% compared with the previous quarter. In other words, the purchasing power of individuals who receive their salaries in USD and spend all their income in NIS has declined during this quarter by about 0.08% during the same period. This also was seen in JOD which is pegged with the US dollar exchange rate (Figure 7-3).

Box 6: Cessation of US Aid to Palestinians

Plan and target

Following the Palestinian leadership's firm position on the Trump administration's decision of moving the US Embassy to Jerusalem, refusing to meet American envoys, or joining consultation meetings ahead of the unveiling of the "Deal of the Century (DoC)", tensions between the two countries escalated. In response to the Palestinian boycott of negotiations, the US administration cut off multilateral and bilateral assistance to Palestinians, putting the Palestinian Liberation Organization (PLO) under political pressure. Trump repeatedly and relentlessly declared "why should the US give aid to Palestinians, while they refuse to talk and waive off peace negotiations?"

In fact, American justifications for the provision of aid, which mask their political agenda, has always been known. For instance, a report published by the Congressional Research Service states that the successive American administrations have provided aid for Palestinians (especially following the political divide between the West Bank and Gaza Strip in 2007) to support three major US policy priorities:[1]

- Combating or preventing "terrorism" against Israel from militant organizations.
- Creating stability and prosperity in the West Bank that inclines Palestinians toward peaceful coexistence with Israel and prepares them for self-governance.
- Meeting humanitarian needs and preventing further destabilization, particularly in Gaza Strip.

Cutting off Aid

To accelerate the cessation of US aid to Palestinians, several steps were taken:

- In Sep 2018, USAID redirected USD 200 million of the bilateral direct economic assistance that was originally intended for the West Bank and Gaza to other priority areas around the world. In the same month, an additional USD 25 million, assigned to aid around six East Jerusalem hospitals, were reprogramed for other purposes.
- USD 10 million were cut for supporting the Conflict Management and Mitigation program (CMM) (an Israeli-Palestinian program).
- The total reprogramed bilateral direct assistance is estimated at USD 231.5 million.[2]
- Furthermore, the US Department of State announced in August 2018, the complete end of US contributions to UNRWA. In 2018, US funding to UNRWA had dropped to USD 60 million, compared with around USD 360 million annually in 2016 and 2017.
- The only exception from the US Administration's decision was the US security assistance for PNA security forces, including training and non-lethal military materials. However lately, the PNA refused receiving US funds intended for security purposes. [3]

1 U.S. Foreign Aid to the Palestinians. Congressional Research Service. November 9, 2011
https://www.everycrsreport.com/files/20111109_RS22967_961f3c-419c247b4e3f0533877467a57dcc7fc3d3.pdf

2 U.S. Foreign Aid to the Palestinians. Congressional Research Service. December 12, 2018 https://fas.org/sgp/crs/mideast/RS22967.pdf

3 Wafa News, accessed 31-01-2019, citing "Position assessment- Stopping US

Bilateral Assistance to Palestine: New US Terms

It seems that the future of US aid to Palestinians was preordained, even before Trump's decision of cutting aid to Palestine. This is evident from two American acts passed by the Congress in March and Sep 2018 consecutively; the "Taylor Force Act (TFA)" and the "Anti-Terrorism Clarification Act (ATCA)":

- Taylor Force Act: US support assistance that directly benefits the PNA (except for East Jerusalem hospitals, wastewater projects, and children's vaccination) will not be made available for the West Bank and Gaza Strip unless the American administration ensures that the PNA and the PLO are taking steps to end acts of violence against US and Israeli citizens; ensure compensations are paid to "victims" of these acts; revoked any law or decree authorizing compensation for imprisoned individuals prosecuted for terrorist acts; are publicly condemning and investigating such acts; and cooperating in bringing defendants to justice.[4]
- Anti-Terrorism Clarification Act: tis law stipulates that the consent of the party (referring to the PNA) that benefits from US assistance – including bilateral assistance, entails a consensual legal liability as well, that allows American courts to exercise personal jurisdiction over a foreign defendant (in the oPalestinian territories) accused of an act of international terrorism.[5]

Clearly, the two acts, especially the ATCA, would add to the PNA financial liabilities, in the event that any US court ruling of compensation was issued. Most probably this is the reason behind the PNA's latest refusal to receive any US assistance, as the size of funds are meager relatively to the risks associated with receiving this aid.

The Size and Structure of US Aid to Palestinians

Figure-1 presents the size of US aid to the Palestinians between 2001 and 2017, and its type, whether bilateral assistance to the West Bank and Gaza Strip or contribution to UNRWA's budget.

During the study period, total US assistance reached USD 9.5 billion, around USD 3.9 billion (40%) were for UNRWA, USD 5.5 billion were bilateral assistance to the West Bank and Gaza Strip. As seen in the figure, aid to UNRWA was steadily growing, while that for the West Bank and Gaza Strip was sharply fluctuating: sharply rising from 2007 to 2009, to drop sharply in 2012.

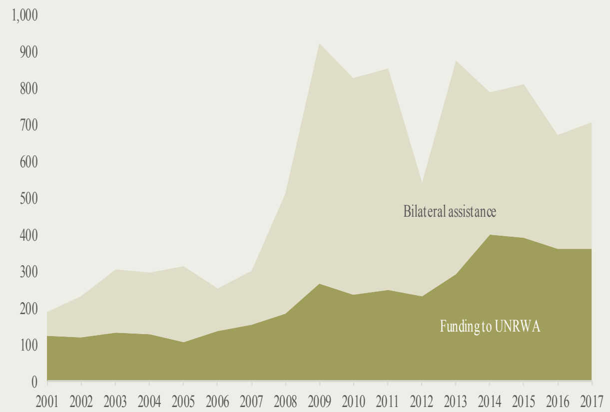
On the other hand, Figure- 2 presents the sectoral allocation of bilateral US aid. During the period from 2001 to 2017, aid (USD 3.9 billion) were channeled through 5 main sectors; the share of governance was 52%, 26% humanitarian sector, 26% healthcare programs, 12% economic development, infrastructure, and agriculture.

Table-1 and 2 below clarify the structure of bilateral US aid to West Bank and Gaza Strip, which presents the sectoral distribution of bilateral aid between 2015 and 2017, by implementing party and sector.

- Implementing party: Table-1 shows that the main implementing party of bilateral aid programs (2015-2017) was the Palestinian government, dominating 20-24% of total aid; meaning that one-fourth of US aid was allocated or spent by or on the Palestinian government, followed by the share of the US Department of State which averaged 17% over the three-year period, while the share of food assistance (through World Food Program-WFP) was 7% of total bilateral US aid in 2017.

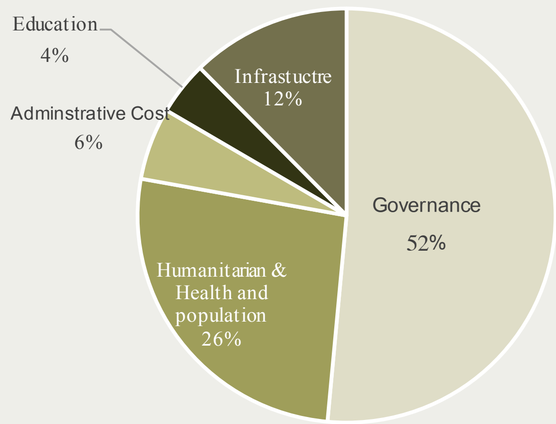
Allocation by Sector: Table-1 shows that one-third of bilateral US aid to West Bank and Gaza Strip was channeled through the Infrastructure and Social Welfare Services. Notably, aid to water and sanitation projects was high (averaged 13% during the period) compared to aid allocation for Education and economic development.

Figure 1: Total US aid to Palestinians (actual), 2001-2017(Million USD)



Source: USAID Database (different years).
https://explorer.usaid.gov/cd/PSE?fiscal_year=2017&implementing_agency_id=1&measure=Disbursements
* Aid to UNRWA was excluded from aid to West Bank and Gaza Strip, which were included in the lower part of the figure.

Figure- 2 presents the sectoral allocation of bilateral US aid to West Bank and Gaza Strip (actual), (average 2001-2017)



Source: USAID Database
https://explorer.usaid.gov/cd/PSE?fiscal_year=2017&implementing_agency_id=1&measure=Disbursements
* Aid to West Bank and Gaza Strip do not include aid to UNRWA.

aid to the Palestinian Authority and looking for an" alternative leadership" Massarat, Ramallah 2019.

4 https://www.congress.gov/bill/115th-congress/house-bill/1164

5 https://www.congress.gov/bill/115th-congress/house-bill/5954/text

Table-1: Direct US aid to the West Bank and Gaza Strip*, By top five implementing parties, (actual spending) (% of total)

	2015	2016	2017
Palestinian government	16.0	10.6	23.5
US Department of State	23.8	24.0	20.3
World Food Program	6.7	3.8	7.0
USAID	4.5	4.8	6.4
Black & Veatch (American engineering company)	5.2	6.4	3.5
Others	43.8	50.4	39.3
Total (USD million)	419.8	312.2	344.6

Source: USAID Database, different years.
https://explorer.usaid.gov/cd/PSE?fiscal_year=2017&implementing_agency_id=1&measure=Disbursements
* Aid to West Bank and Gaza Strip do not include aid to UNRWA.

A former USAID Director has warned that the cutoff of US assistance will not have the needed impact on the PNA leadership to change its position, as the bulk of these funds are directed to programs independent of politics.[6] However, this situation drove 34 US Senators to send a letter to Trump opposing his policy, saying that this will undermine those who seek a peaceful resolution and strengthen the hands of "extremists". They also expressed their concerns over the impact of stopping assistance, which will cut food assistance for 140,000 persons, healthcare for 3,800 children, clean water for nearly 71,000 persons and the treatment of breast cancer for at least 16,000 women. The suspension of US support for UNRWA will adversely affect the education of 525,000 children in 700 schools and the provision of food assistance to one million refugees in Gaza Strip.[7]

Table-2: Direct US aid to the West Bank and Gaza Strip, By major sector*, (% of total)

	2015	2016	2017
Infrastructure and Social Welfare Services	34.3	37.2	30.2
Government and civil society	17.2	10.9	24.1
- Emergency	7.4	6.4	12.5
- Water and sanitation	13.6	18.3	8.7
Conflict resolution, peace-building and security	1.8	3.0	4.9
Operational and administrative costs, travel, transportation and storage	15.2	15.3	11.1
Business services	2.4	3.0	2.9
Primary Education	1.9	1.6	1.4
Primary health care	6.1	4.3	4.3
Total	419.8	312.2	344.6

Source: USAID Database, different years.
https://explorer.usaid.gov/cd/PSE?fiscal_year=2017&implementing_agency_id=1&measure=Disbursements
* Aid to West Bank and Gaza Strip do not include aid to UNRWA.
Possible Repercussions

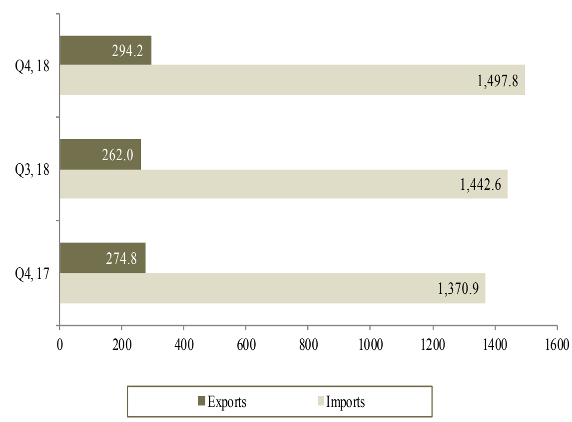
6 U.S. Foreign Aid to the Palestinians.Congressional Research Service. December 12, 2018 https://fas.org/sgp/crs/mideast/RS22967.pdf
7 Ibid.

8- Foreign Trade[1]

Balance of Trade

Quarter 4: The value of "registered" merchandise imports during Q4 2018 was about USD 1,497.8 million, a rise of 4% compared with the previous quarter, and by 9% compared with the corresponding quarter of the previous year.[2] Meanwhile, the value of merchandise exports reached USD 294.2 million, an increase of 12% and 7% compared with the previous and corresponding quarters respectively. During the quarter, the value of exports was around 20% the value of imports. The difference between exports and imports (deficit) amounted to USD 1,203.6 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (USD 7.6 million) (Figures 8-1 and 8-2).

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



Year-on-Year Comparison: During 2018, the value of "registered" merchandise imports was about USD 5,716 million, a rise of 8% compared with 2017. On the other hand, the value of merchandise exports was USD 1,097.9 million, a rise of 6% compared with the previous year. Consequently, the deficit in the trade balance stood at USD 4,618.1 million, which has dropped slightly because of the surplus in the balance of service imports from Israel (USD 26.7 million) (Figures 8-3 and 8-4).

Balance of Payments

The current account in the balance of payments is the net aggregate in three sub-balances: 1) the balance of trade (net trade in goods and services), 2) the balance of income (net international transactions associated with income on factors of production, like remittances of Palestinian workers in Isra-

1 The source of data in this section: PCBS, 2018, Registered Foreign Trade Statistics, and PMA & PCBS, 2019, Palestinian Balance of Payment, Q4 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 agricultural goods (which are registered by the Ministry of Agriculture). Rregistered trade figures are significantly lower than actual figures of Palestinian foreign trade. Actual figures are placed in the Palestinian balance of payments, mentioned later in this section.

el and overseas), and 3) the balance of current transfers (international aid to the government and private transfers).

Quarter 4: The deficit in the Palestinian current account (deficit in the balance of payments) reached USD in Q4 2018, by 10% compared with the preceding quarter, yet it increased sharply by 31% compared with the corresponding quarter 2017. The deficit of around USD 399 million, resulted from a deficit in the trade balance (USD 1,256 million), against a deficit in the balance of services (USD 264 million), and a surplus in the balance of income of USD 612 million (generated mainly from the income of Palestinian workers working in Israel), and a surplus in the current transfers of USD 509 million (Table 8-1).

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 328 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive (Table 8-1).

Year-on-Year Comparison: The deficit in the Palestinian current account reached USD 1,659.2 million in 2018, a rise of 6% compared with the previous year. This resulted from a decline in current transfers (2%) over the previous year, and the rise in the balance of trade deficit (8%), while that of the income balance increased markedly by 20% (Table 8-1).

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 1,802.7 million. Theoretically, there should be a perfect balance between the current account deficit and the surplus of capital and financial account, i.e. the net value of the two should be zero. However, there is often a difference between the two accounts, usually recorded under "errors and omissions", because of insufficient data and smuggling activities.[3]

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

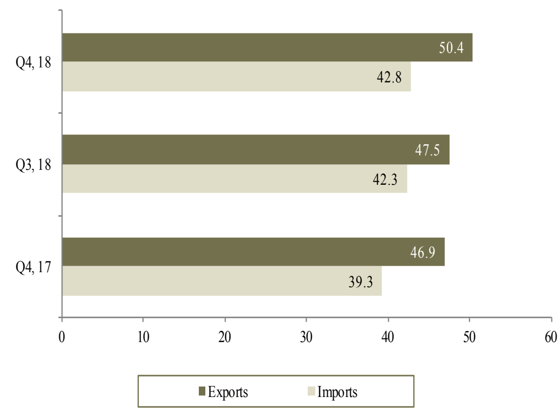


Figure 8-3: Imports and Exports of "Registered" Merchandise, 2017 and 2018 (USD million)

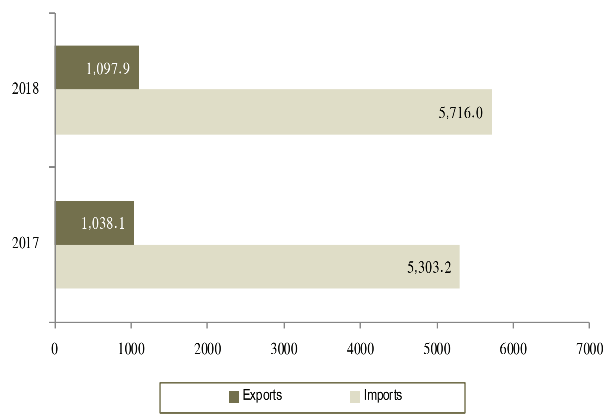


Table 8-1: Palestinian Balance of Payments * (Million USD)

	2017	2018		2017	2018***
Trade balance of goods and services**	Q4	Q3	Q4		
- Net goods	(1,386.6)	(1,520.6)	(1,520.3)	(5,374.2)	(5,827.5)
- Net services	(1,146.5)	(1,254.9)	(1,256.2)	(4,441.6)	(4,814.1)
2. Income balance	(240.1)	(265.7)	(264.1)	(932.6)	(1,013.4)
3. Balance of current transfers	544.4	608.9	612.4	1,992.0	2,393.9
4. Balance of current account (1 +2 +3)	538.7	467.1	508.8	1,818.6	1,774.4
5. Net capital and financial account	(303.5)	(444.6)	(399.1)	(1,563.6)	(1,659.2)
6. Net errors and omissions**	313.3	574.0	328.1	1,395.1	1,802.7
	(9.8)	(129.4)	71	168.5	(143.5)

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

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

*** Figures are based on preliminary data on 2018 quarters.

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

International Investments

By the end of Q4 2018, Palestine's foreign assets totaled USD 6,597 million, 5% of which represent direct foreign investments, and 22% represent portfolio investments. On the other hand, total external liabilities amounted to about USD 4,938 million, more than 55% of which were direct investments.

The difference between assets and liabilities means that overseas investments by Palestinians were USD 1,659 million higher than investments of non-residents. A significant portion of these assets (59%) is cash deposits (mostly by domestic Palestinian banks abroad), which are not considered conventional outward investments. When examining foreign direct investments in Palestine, figures show that it outweighed Palestinian investments abroad (by residents in the West Bank and Gaza Strip) by USD 2,374 million (Figure 8-5).

Figure 8-4: Exports and Imports of Registered Services from Israel, 2017 and 2018 (USD million)

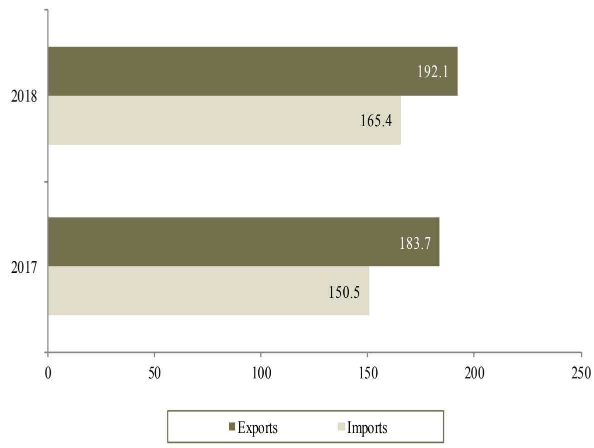
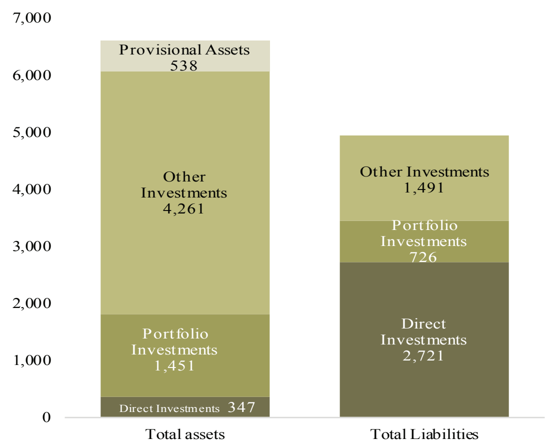


Figure 8-5: International Investments Balance (as of the end of Q4 2018) (Million USD)



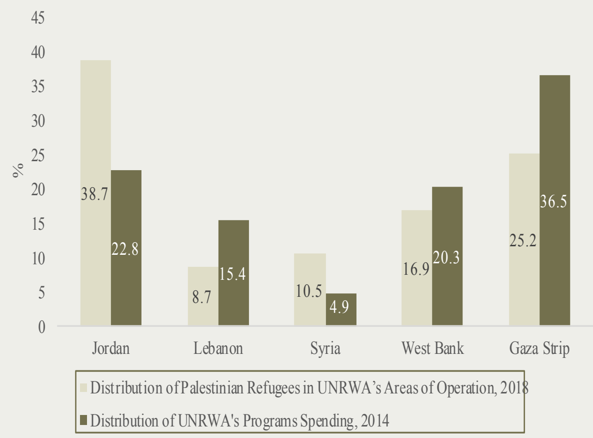
Box 7: UNRWA Services and Funders: what has Changed?

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established in the aftermath of the Nakba by the United Nations General Assembly in 1949. The agency began its operations mid-1950 with the aim of providing assistance and relief to Palestinian refugees in five regions: the West Bank, Gaza Strip, Lebanon, Syria and Jordan, until a just and durable solution is found for this cause. The agency's services include: relief, education, healthcare, social services, infrastructure services and camp improvement, as well as lending and microfinance.

Distribution of Palestinian Refugees in UNRWA's Areas of Operation

At the beginning of 2018, around 4.5 million Palestinian refugees were registered with UNRWA and received its services. [1] This number increased by more than 40% since 2000. As Figure-1 shows, 39% of registered refugees live in Jordan and 25% in Gaza Strip. Between 2000 and 2018, the percentage of refugees living in Jordan decreased by 3 percentage points, against its rise in Gaza Strip by the same percentage during the same period. On the other hand, Jordan hosts the highest percentage of registered refugees, however, the largest portion of UNRWA's regular programs' budget is spent in Gaza Strip (33%), followed by Jordan (21%), then the West Bank (19%), as actual spending figures of 2014 show.

Figure-1: Distribution of Palestinian Refugees in UNRWA's Areas of Operation (2018) and Distribution of Programs Spending (2014)



- UNRWA's website, "UNRWA in Figures" reports for 2000, 2010, 2018 https://www.unrwa.org/ar/resources
- UNRWA's website, "UNRWA's program budget 2016-2017.

UNRWA Services for Palestinian Refugees and Budget Distribution

UNRWA's mandate of services to Palestinian refugees has evolved since its start until this day. In the early 1950s, the majority of UNRWA budget (about 69%) was earmarked for its relief operations, mainly for assisting some 750,000 Palestinian refugees. With time, the agency's focus was shifted to services other than relief, and began working in the area of health services and the improvement of camps infrastructure. This was reflected in the spending structure of the main programs budget of the agency; about 58% of UNRWA's budget (around USD 760 million) were allocated to education in 2017, and about 15% to healthcare services, whereas the share of relief and social services fell to 6% in the same year. In addition, part of UNRWA's budget is allocated to support infrastructure (water and

1 UNRWA defines Palestinian refugees as "persons whose regular place of residence was Palestine during the period June 1946 to May 1948, and who lost both home and means of livelihood as a result of the 1948 conflict"

sanitation networks), the rehabilitation of educational, health, and some housing facilities in 58 camps within its areas of operation.

The UNRWA's micro-credit program/department has granted 476,000 loans to refugees with an accumulated value of USD 531 million. Table-1 shows the main services of UNRWA by figures during the period 2000-2018. As seen in the figure, there was a significant increase in the number of UNRWA workers between 2000 and 2010, however this number returned to decline sharply between 2010 and 2018, which indicates a scale down in UNRWA's operations and downsizing or at least not expanding its refugees' employment during the last years.

Table-1: UNRWA's Main Services by Figures, 2000, 2010, 2018

Year	2000	2010	2018
Registered refugees	3,806,055	4,766,670	5,442,947
Number of schools	639	691	711
Pupil enrollment	477,216	482,920	526,646
Primary healthcare utilities	122	137	143
Staff/ refugee employment	22,561	30,614	31,822
Pledges to Programs Budget (USD Million	-	551.8	802.7
Pledges to Emergency Budget (USD Million)	-	288.9	453.5

Source: UNRWA's website, "UNRWA in Figures" reports for 2000, 2010, 2018 https://www.unrwa.org/ar/resources

The Regular Programs Budget vs. the Emergency Appeal

In addition to its program budget, UNRWA provides urgent relief services to refugees in conflict areas through emergency appeal funding. As an example, assistance to refugees during and following the second Intifada, recurring attacks on Gaza Strip, and the Syrian civil war. These emergency programs need budgetary allocations other than those available under regular program budgets. In 2018, UNRWA received USD 453.5 million in emergency budget which is 35% of 2018 pledged funds. During the same year, UNRWA's budget was distributed to regular programs (43%), emergency interventions in the West Bank (25%), and emergency interventions in Syria (30%), and the rehabilitation of Gaza Strip (2%).

Financing UNRWA's Operations

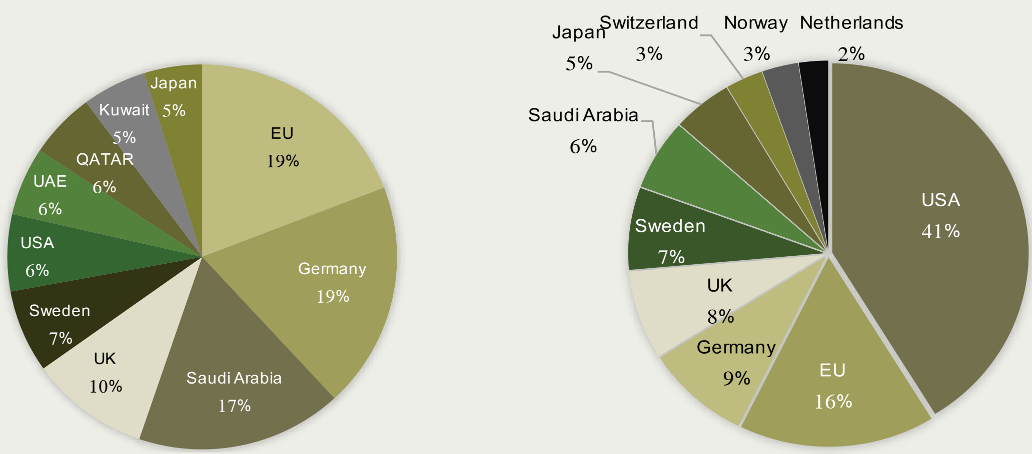
Since its inception until today, UNRWA's operations and services to Palestinian refugees have continuously and increasingly depended on voluntary contributions and donations. Main contributions came from several sources like different regional governments, United Nations sister agencies, non-governmental organizations (NGOs), private sector companies and individuals from all over the world. Since the beginning of UNRWA's work, the USA or the European Union alternately, were ranked in first place in terms of the value of support provided to the agency. US support constituted more than a quarter of total support in most years until Sep 2018, when the American Administration announced cutting all funding for UNRWA (See Box 6). Between 2017 and 2018, USA's support decreased from USD 359.3 to around USD 60 million, then was completely cut at the beginning of 2019.[2]

Figure-3 presents the percentage distribution of pledged funding by the top ten donors to UNRWA in 2017 and 2018. The figure shows a significant decline in US funding of UNRWA from 41% in 2017 (first rank among donors) to a scant 6% in 2018.[3]

To adapt to this shortfall in funds, UNRWA had two options:

- Increasing funds from other top donors: as seen in Figure -3, the decline in US funding has been accompanied by a marked increase in other donor countries funding, namely: Germany (increased by 132% over the two years, reaching USD 177.3 million), Saudi Arabia (increased by 200% reaching USD 159.9 million), European Union (increased by 25% over the two years), United Kingdom (increased by 38.4%). Additionally, a number of Gulf countries have joined the top ten donors list, like Qatar, Kuwait and the UAE.
- Following austerity measures and cutting expenditures in 2018, which have resulted in saving USD 92 million, the agency is putting plans to save an additional USD 60 million, which equals the US cut funds in 2018.

Figure-2: % Pledges of Top Ten Donors to UNRWA, 2017 and 2018



Source: UNRWA website, Pledges to UNRWA programs (In kind and cash), and overall donor ranking in 2017 and 2018.
https://www.unrwa.org/how-you-can-help/government-partners/funding-trends/donor-charts

Wafa Bitawi, MAS

2 U.S. Foreign Aid to the Palestinians. Congressional Research Service. December 12, 2018: https://fas.org/sgp/crs/mideast/RS22967.pdf

3 Former United States Ambassador to the United Nations Nikki Haley claimed that UNRWA overcounts the number of Palestinian refugees receiving its services and that the United States recognizes only 10% of the number of Palestinian refugees (around 500,000) and that the US administration would reconsider partnering with the agency if the agency changes the official number of registered refugees to an accurate account.

Economic Concepts and Definitions: Public Goods

There are four types of goods and services that economists classify based on two criteria: Excludability and Rivalry. Excludability refers to goods and services to which it is possible to prevent access by people who don't pay for them. As for "Rivalrous" goods, they are goods or services whose consumption by one consumer prevents their consumption by others. The former criterion distinguishes between goods and services which are restricted to people who pay (a price) for these goods and those which are available to all people for free and cannot be restricted. Whereas the latter criterion distinguishes between those goods or services when consumed by one consumer become unavailable to others, and those goods that can be consumed simultaneously by everyone without losing their benefits and from which no one is excluded.

Figure-1 presents the four types of goods and services that may be classified according to these two criteria.

Figure 1: The Classification of goods and services according to "Excludable" and "Rivalrous" criteria

	Excludable	Non-Excludable
Rivalrous	1 Regular private goods and services	2 "Tragedy of the commons" Goods
Non-Rivalrous	3 Club (restricted access) Goods	4 Public Goods

Four types of Goods and Services

The first cell in Figure -1 includes both excludable goods and services that no one can consume without paying for their consumption, and rivalrous goods and services which become unavailable to others if someone consumes them. Private economic enterprises usually manufacture and market this type of goods and services which is common and regular.

The second cell of the figure includes non-excludable goods and services that can't be restricted for those who pay for them which are also classified as rivalrous. Therefore, if they're used by someone, they become unavailable to others like common pastures, forests and sea fish. This latter type of goods and services is called the "tragedy of the commons", given that their free and unrestricted consumption would lead to their depletion and preventing others from accessing them. A contemporary example of this type of "goods" is fresh air whose abuse (pollution) by some people leads to depriving others from enjoying fresh air. Obviously, the free market (the private sector) doesn't invest in such goods or services.

The third cell of the figure, includes "Club Goods", such as encrypted television broadcasts or movies in cinemas. These services are restricted to those who pay for them only, yet their consumption does not affect their value or availability to others. Finally, the fourth cell includes non-excludable and non-rivalrous goods and services which are called "Public Goods", such as; unencrypted television broadcasts, national defense services and earthquake and flood protection measures. Accessing these public goods or services cannot be restricted to those who pay for them and their consumption is non-rivalrous, i.e. if they are used by an individual, they are still available to others.

Public Goods reflect "Market Failure"

Based on this definition of goods, public goods, which are non-excludable and non-rivalrous simultaneously, are the counter side of regular private goods. Since this type of goods does not correspond to profit and private interests of investment and production, the free market and private sector wouldn't be interested in producing this type of goods as it is impossible to control who can access them and their value do not decrease by their use. According to economists, the free market failure to produce these goods is called "Market Failure", i.e. the free market will not be able to supply these goods in spite of the market's demand. Therefore, the government is responsible for supplying and financing the production of these goods and services in order to be available to everyone.

The production of ideas and innovations

Modern growth theory has redrawn attention to the non-rivalrous goods phenomenon. Endogenous growth theory focused on the production and development of new ideas and innovations. Research and Development (R&D) centers develop new ideas consciously, which, just like regular goods, need investments, "workers" and markets. However, ideas are non-rivalrous goods; once known everyone can use them without any decrease in their value or benefits. Since the efficiency of patent restrictions are limited, new ideas are non-excludable as well. As a result, free market forces would fail to produce sufficient and optimal quantity of new ideas and innovations leading to the need for intervention in the market's forces to ensure the continuity of ideas production and economic growth.

Public Goods and Technology

Recently, technological developments have contributed to reducing the number of public and "common tragedy" goods; some excludable goods and services became non-excludable because of using modern monitoring equipment. For example, today, it is attainable to monitor vehicles entering cities' borders, and it became possible to hold those, who are responsible for congestion and polluting the air, responsible. Consequently, a large number of services became non-excludable. Highways for example, are not necessarily public goods. Also, it can be said that fresh air is not a public good anymore, if it is possible to punish or raise charges or tax persons who caused pollution, i.e. force pollutants to pay the costs (the price) of fresh air that they buy then pollute, or to pay for re-purifying polluted air.

Market Failure: Private vs. Social Benefits

It is important to emphasize that the responsibilities of governments are not limited to supplying public goods that markets fail to produce because of non-excludability and non-rivalry.

Market failure takes various forms, all of which necessitate external intervention to enhance the free market forces; for example, free market forces fail to produce optimal quantities of some socially needed goods and services, leading to the intervention of the government to fill this gap. This happens when private benefits from producing certain goods or services are less than the benefits gained by the society from these services. In these cases, and given that the market production is associated with private benefits, the quantity of production is less than the society's optimal need.

For example, in the field of education, when someone invests in self-education, he/she aims to achieve his own private benefit. However, the educated individual has also a positive impact on society as a whole. This means that the community also benefits from educating its members. However, the free market produces "educational" services/goods depending on the narrow-perspective of private benefits, so it doesn't produce a sufficient number of educated individuals. The same applies to training workers; since factories may not take full advantage of educating and training their workers (as workers may leave the work to another workplace), they don't invest sufficiently in training their workers. The private benefit of the company/factory from training its workers is less than social benefits. Another example is healthcare services. Whenever the market fails to produce optimal quantities of a social good or service, the intervention of the government becomes urgent to ensure the optimal level of producing this good or service in the society.

Market Failure: Natural Monopoly

Some economic activities have very high establishment costs and are economies of scale as well, meaning that as the quantity of production increases, the cost of a unit of production decreases. Such characteristics give one company (or few companies) the opportunity to monopolize the entire market and prevent other companies from competing with it. This, as well, is another form of "market failure", which requires the intervention of the government, either to shoulder the responsibility of providing these services instead of the private monopolist or to put in place legislation for regulating the market and restricting companies monopolizing powers. Water and electricity distribution networks, sewage systems, metro and rail lines, and gas and oil transportation pipelines are examples of activities that have the characteristics of natural monopoly.

Correction Note

In Monitor 54, Box on "Dividends of Palestine Investment Fund", the calculation of dividends was based on data available in annual reports. However, the final decision to distribute dividends is usually taken in PIF's General Assembly, convened in the following year. Accordingly, the actual retention ratios of PIF's dividends are 32%, 0%, and 6% for the years 2014, 2015, and 2016 respectively. In addition, in 2018 PIF transferred to the MoF USD 28 million, and not USD 21 million.

Key Economic Indicators in Palestine, 2014-2018

Indicator	2014	2015	2016	2017	2018	2017 Q4	2018[2] Q1	Q2	Q3	Q4
Population (One thousand)										
oPt	4,429.1	4,530.4	4,632.0	4,733.4	4,915.3	4,778.6	4,808.8	4,838.9	4,869.3	4,900.0
West Bank	2,696.7	2,750.0	2,803.4	2,856.7	2,953.9	2,880.9	2,897.0	2,913.1	2,929.3	2,945.7
Gaza Strip	1,732.4	1,780.4	1,828.6	1,876.7	1,961.4	1,897.7	1,911.8	1,925.8	1,940.0	1,954.3
Labor Market										
No. of workers (thousand)	917.0	963.0	980.5	948.7	955,8	966.4	935.4	921.7	960.7	1,005.3
Participation rate (%)	45.8	45.8	45.8	45.3	46.3	43.9	45.4	45.9	46.9	47.1
Unemployment rate (%)	26.9	25.9	26.9	28.4	30.8	27.7	30.2	32.4	31.7	29.1
- West Bank	17.7	17.3	18.2	18.7	17.6	16.9	18.3	19.1	17.3	16.1
- Gaza Strip	43.9	41.0	41.7	44.4	52.0	45.0	49.1	53.7	54.9	50.5
National Accounts (USD millions)										
GDP	12,715.6	12,673.0	13,425.7	14,498.1	14,615.9	3,728.8	3,689.9	3,559.5	3,659.8	3,706.7
- Household expenditure	11,840.4	11,805.1	12,337.7	12,844.7	13,110.3	3,173.8	3,182.9	3,258.5	3,316.9	3,352.0
- Government expenditure	3,478.2	3,429.5	3,530.3	3,809.8	3,828.1	1,068.6	977.5	904.3	957.7	988.6
Gross capital formation	2,415.0	2,677.4	2,827.0	3,305.6	3,536.0	894.9	876.7	837.3	916.1	905.9
Exports	2,172.3	2,338.1	2,381.0	2,692.7	2,903.5	717.9	713.0	714.3	707.0	769.2
Imports (-)	7,208.9	7,537.6	7,626.7	8,066.7	8,730.9	2,104.5	2,072.3	2,141.5	2,227.7	2,289.4
GDP per capita (USD)										
at Current prices	3,051.7	2,973.1	3,080.1	3,254.6	3,198.4	828.6	815.4	781.5	798.3	803.2
at Constant prices (base year 2004)	2,940.7	2,973.1	3,044.4	3,072.4	3,021.4	772.4	746.2	735.8	760.5	778.9
Balance of Payment (USD millions)										
Trade Balance	(5,036.7)	(5,199.6)	(5,246.2)	(5,374.2)	(5,827.5)	(1,386.6)	(1,359.3)	(1427.2)	(1,520.6)	(1,520.3)
Income Balance	1,482.4	1,712.2	1,896.0	1,992.0	2,393.9	544.3	568.9	603.7	608.8	612.4
Current Transfers Balance	1,405.3	1,421.4	1,408.6	1,818.6	1,774.4	538.7	348.3	450.2	467.1	508.8
Current account Balance	(2,149.0)	(2,066.0)	(1,941.6)	(1,563.6)	(1,659.2)	(303.6)	(442.1)	(373.3)	(444.7)	(399.1)
Exchange Rates and Inflation										
USD/NIS exchange rate	3.577	3.884	3.840	3.603	3.593	3.512	3.461	3.573	3.635	3.704
JOD/NIS exchange rate	5.046	5.483	5.418	5.083	5.067	4.953	4.881	5.037	5.127	5.224
Inflation rate (%)[1]	1.73	1.43	(0.22)	0.21	(0.19)	0.43	(0.60)	0.26	0.49	0.01
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	2,784.8	2,890.2	3,551.0	3,656.5	3,460.2	976.9	991.0	862.3	938.6	677.7
Current expenditure	3,435.0	3,424.3	3,659.3	3,791.4	3,662.7	1,059.7	930.8	879.3	910.5	941.8
Developmental expenditure	164.1	176.7	216.5	255.3	279.7	113.4	45.6	59.0	63.8	109.3
current budget deficit\surplus (before grants)	(814.3)	(710.9)	(324.7)	(390.2)	(482.3)	(196.2)	14.6	(76.0)	(35.7)	(373.4)
Total grants and aid	1232.0	799.0	766.9	719.8	672.5	254.2	87.2	159.8	194.2	226.2
Total budget deficit\surplus (after grants and aid)	417.6	88.1	442.3	329.5	190.2	58.0	101.7	83.8	158.4	(147.2)
Public debt	2,216.8	2,537.2	2,483.8	2,543.2	2,369.6	2,543.2	2,448.8	2,367.6	2,352.3	2,369.6
The Banking Sector (USD millions)										
Banks assets/liabilities	11,815.4	12,602.3	14,196.4	15,850.2	16,128.9	15,850.2	15,916.7	15,763.0	16,179.4	16,128.9
Equity	1,464.0	1,461.7	1,682.4	1,892.7	1,911.5	1,892.7	1,926.8	1,819.7	1,863.9	1,911.5
Deposits at banks	8,934.5	9,654.6	10,604.6	11,982.5	12,227.3	11,982.5	12,002.3	11,992.6	12,194.2	12,227.3
Credit facilities	4,895.1	5,824.7	6,871.9	8,026.0	8,437.9	8,026.0	8,175.4	8,260.0	8,293.6	8,437.9

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).
1. The inflation rate estimation is based on year-over-year comparisons of the average CPI in the target year (each quarter) with its average in previous year (quarter).
2. Figures for 2018 are preliminary and subject to further revision.
Figures between brackets indicate negative values.
The figures in the table are based on the latest update of data.
Note 1: Data on population and the numbers of workers for years before 2017 are based on the Census of Population, Housing and Establishments 2007 and will be updated to reflect the final results of the 2017 census.
Note 2: data for 2017 and the Q1 2018 were updated based on the final results of the Census of Population, Housing and Establishments 2017.