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Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)
Palestine Capital Market Authority (PCMA)

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November 2019

Second Quarter 2019 in Brief:

- GDP: GDP grew during Q2 2019 by 2.5% compared with the corresponding quarter and declined by 2% compared with the previous quarter (at constant prices), reaching USD 3.4 billion. This is attributed to a decline in the West Bank by 1.6% and 3.5% in the Gaza Strip, reflected as a decline in per capita GDP by 2.2% in the West Bank (USD 1,025) and by 4.2% in the Gaza Strip (USD 343) over the consecutive quarters.
- Employment and Unemployment: The unemployment rate in Palestine decreased by 0.8 percentage points over the consecutive quarters Q1 and Q2 2019, reaching 26% (15.0% in the West Bank and 46.7% in the Gaza Strip). The average daily wage in Palestine reached NIS 127.4; approximately NIS 116.6 for workers in the West Bank, NIS 62.5 for workers in the Gaza Strip, and NIS 254.0 for workers in Israel and its colonies. 27% of private sector waged workers earned wages below the minimum wage (29% for females and 27% for males).
- Public Finance: Net public revenues and grants declined by 57% in Q2 2019 compared with the previous quarter, reaching NIS 1.2 billion. This was due to the decline in clearance revenues, estimated at NIS 3 billion for the period between February and June 2019. Domestic revenues also declined by 42%, while grants and foreign aid doubled during the same period. On the other hand, public revenues decreased by 12% reaching NIS 2.3 billion (cash basis). During Q2 2019, government arrears reached NIS 1.4 billion, and public debt rose by about 12% compared with the previous quarter, standing at NIS 9.4 billion.
- Banking Sector: During Q2 2019, credit facilities increased by 4.3% compared with the previous quarter, reaching USD 8.9 billion - 17% of which were granted to the public sector. Banks' profits reached USD 36.9 million during the quarter, a drop of 23% compared with the previous quarter and a drop of 13% compared with the corresponding quarter.
- PEX: By the end of Q2 2019, the market value of traded shares in the PEX was USD 3.7 billion, a drop of 1% compared with the previous quarter. Al Quds index closed at 519.8 points, a decrease of 2% compared with the previous quarter.
- Inflation and prices: During Q2 2019, the Palestinian economy witnessed a positive inflation (increase in prices) of 1.54% compared with the previous quarter. Therefore, the purchasing power for those who receive their salaries and spend them in NIS decreased by the same ratio over the consecutive quarters. Whereas, the purchasing power for those who receive their salaries and spend them in USD and JD declined by 2.94% due to inflation and a drop in the USD exchange rate against the NIS currency.
- Balance of payments: During Q2 2019, the deficit in the current account reached USD 403.1 million (10.8% of GDP), resulting from a

surplus in the
rs (USD 456.3

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]

Gross Domestic Product (GDP) is the 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 continued declining for the second quarter, by 2% in Q2 2019 compared with the previous quarter, reaching USD 3,434.7 million (at 2015 constant prices): 1.6% in the West Bank and 3.5% in the Gaza Strip (Figure 1-1). However, GDP grew by 2.5% in Q2 2019 compared with the corresponding quarter.

The GDP decline over the consecutive quarters, accompanied by an increase in the population, resulted in in a per capita GDP decrease of 2.6% (2.2% in the West Bank and 4.2% in the Gaza Strip). Over the corresponding quarters, per capita GDP almost remained at the same level (Table 1-1).

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

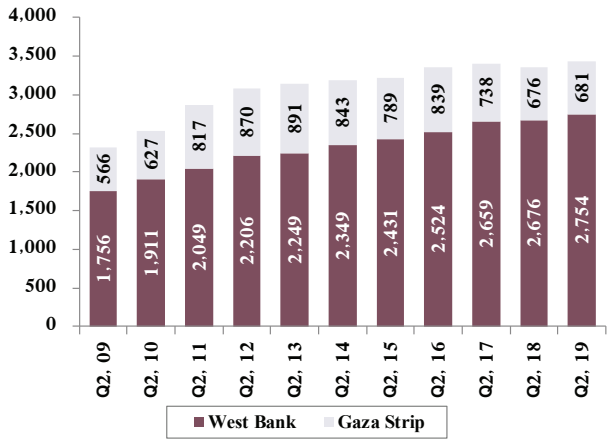
	Q2 2018	Q1 2019	Q2 2019
Palestine*	735.8	755.4	735.5
-West Bank	1,018.1	1,048.2	1,024.9
-Gaza Strip	350.8	358.2	343.2

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

The GDP Gap between the West Bank and the Gaza Strip

Figure 1-1 depicts the expansion in the Palestinian GDP gap between the West Bank and the Gaza Strip during the last decade. The Gaza Strip's share of GDP is still less than one-fifth of Palestine's GDP. Figure 1-2 shows a slight drop in the Gaza Strip's share of GDP during Q2 2019 compared with the previous quarter. This is reflected as a modest contraction in the per capita GDP gap between the West Bank and the Gaza Strip of USD 8, standing at USD 682. This means that per capita GDP in the Gaza Strip is only one third (33.5%) of per capita GDP in the West Bank.

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



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

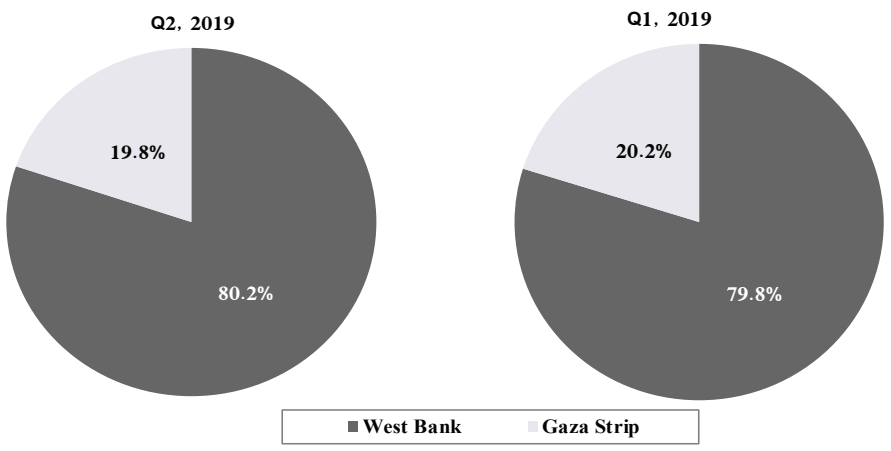
Composition of GDP

The contribution of the productive sectors to Palestinian GDP increased by 0.6 percentage point between Q1 and Q2 2019, driven by a rise in the share of the mining, manufacturing and construction sectors. Additionally, the share of the services increased by 0.4 percentage point, while the share of trade, transportation and information, and finance sectors decreased by 0.7 percentage point. Also, the share of public administration and security dropped slightly (Figure 1-3).

Expenditure on GDP

The absolute increase in the value of GDP between Q2 2018 and Q2 2019 amounted to approximately USD 83.4 million. This reflects a rise in private consumption expenditure of USD 134.3 million, in investment of USD 33.1 million and in

Figure 1-2: Per capita GDP* by Region (constant prices, base year 2015)



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

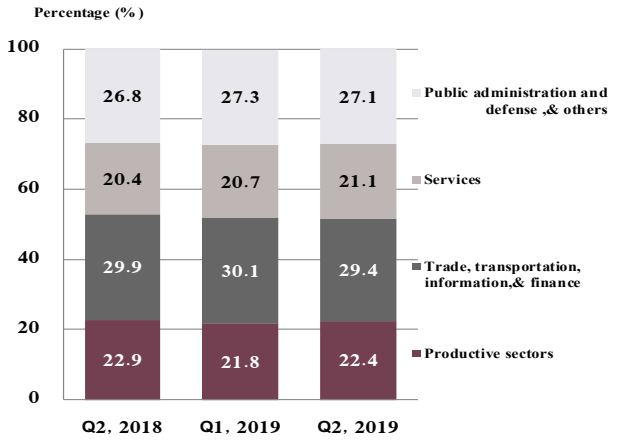
1 Source of Figures: PCBS, 2019. Periodic Statistics on National Accounts, 2000-2019. Ramallah, Palestine

Table 1-2 : Distribution of Expenditure on GDP in Palestine* between Q2 2018 and Q2 2019 (Million USD)

Final consumption	Amount	Contribution to GDP growth
Increase in Private consumption	134.3	4.0%
Increase in Investment	33.1	1.0%
Decline in Public Consumption	(25.2)	(0.7%)
Increase in Net Exports	10.4	0.3%
Increase in Net Imports (-)	(84.2)	(2.5%)
Net errors and omissions**	15.0	0.4%
GDP	83.4	2.5%

Note: Figures between brackets indicate negative value

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



exports of USD 10.4 million, while public consumption expenditure declined by USD 25.2 million. However, 55% of the increase in aggregate demand was offset by the increase in net imports (totaling USD 84.2 million), as shown in Table 1-2. In other words, the bulk of the increase in aggregate demand was accounted for by the increase in imports (refer to Monitor 52, for definition of components of national accounts).

The share of each component of GDP growth over the corresponding quarters was as follows: Private consumption expenditure, investments, and exports combined to grow GDP by 5.3%, while the decline in public consumption expenditure and increased imports combined to reduce GDP growth by 3.2%, bringing net GDP growth to 2.5%. This reflects growth over the corresponding quarters, as mentioned earlier (Table 1-2).

Box 1: Growth Prospects for MENA Countries: Digital Breakthrough Needed for Labour Productivity

The Chief Economist Office of the Middle East and North Africa Region (MNACE) of the World Bank called on leaders of the Middle East and North Africa (MENA) countries to aim for high, but attainable, goals in the digital-economy space. If these countries achieve these goals, they will not only leave behind many advanced economies in terms of coverage and quality of cellular and broadband services, they will also achieve remarkable advancements in the field of digital payments. The MENA Economic Update Report provides a solid theoretical analysis of the importance of the digital breakthrough (the so-called Digital Moonshot) in the MENA region. The report shows that reducing macroeconomic vulnerabilities in the region is inextricably linked to creating an advanced digital economy, in addition to other structural reforms. The report concludes that the link between the two is the development that an advanced digital economy can bring to aggregate labor productivity.[1]

In a different section, the report summarizes the latest growth forecasts for the MENA region during 2019-2021, stating that real GDP growth in the MENA region is expected to continue at a modest pace of 1.5% in 2019 on average, which is less than the rate of 1.6% in 2018. The expected growth is led by the high growth of developing oil importers, such as Egypt, which accounts for 8% of the MENA's GDP.

The report classifies MENA region countries into three groups: Gulf Cooperation Council (GCC) oil exporter countries (6 countries), developing MENA oil exporters (5 countries; Algeria, Iran, Iraq, Libya, and Yemen), and developing MENA oil importers (7 countries including the West Bank and the Gaza Strip)

Gulf Cooperation Council (GCC) Countries

The oil barrel price (Brent) increased by 31% in 2018 over the previous year, reaching USD 71 per barrel. However, in early 2019, prices dropped sharply to USD 53 per barrel, but improved again in early March. According to the report, the average price of oil is expected to reach USD 65 per barrel in 2019. This will be accompanied by an average growth rate of 2.1% in GCC countries in 2019, compared with a drop of 0.2% in 2017. The return of the positive growth, albeit modestly, resulted mainly from mobilization of non-oil revenues (such as the implementation of value-added taxes (VAT) in all GCC countries, expatriate levies by Saudi Arabia and the UAE, and the reduction of energy subsidies in Saudi Arabia and Oman). Additionally, expansion in construction contributed to fiscal improvement in both the UAE (preparations for Expo 2020), and Qatar (preparations for the 2022 FIFA World Cup).

Developing MENA Oil Exporters

The GDP of developing MENA oil exporters is expected to decline by 0.9% in 2019 (2.4% in per capita GDP). Countries of this group have differing growth rates. For example, while Iran is expected to contract sharply (negative growth by 3.8%), Iraq is expected to

1 World Bank (2019): Reforms and External Imbalances: The Labor-Productivity Connection in the Middle East and North Africa. https://openknowledge.worldbank.org/bitstream/handle/10986/31445/211408AR.pdf?sequence=12&isAllowed=y

Table-1: World Bank Growth Forecasts, External Balance and Budget in MENA countries

	Real per capita GDP growth %				CA balance (% of GDP)				Budget (% of GDP)			
Average in MENA countries	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
- GCC	-0.4	-0.6	2.1	1.3	-2.1	-4.0	-3.2	-3.0	-4.3	-6.3	-5.2	-5.0
- developing oil exporters	0.0	0.3	1.5	1.2	7.1	6.2	5.9	5.4	-3.1	-3.2	-2.1	-1.6
- developing oil-importers	-1.8	-2.4	1.6	0.1	-0.2	-3.3	-2.1	-1.9	-2.5	-6.0	-4.7	-4.4
* West Bank and Gaza Strip	2.2	2.6	3.1	3.4	-5.7	-5.3	-5.0	-4.7	-7.5	-6.9	-6.2	-5.9
	-2.7	-2.2	-1.6	-1.0	-12.2	-10.3	-9.1	-8.4	-5.2	-6.5	-6.5	-6.5

Figures for 2018 are expected while the rest of figures are forecasts Syria is excluded from the table because of insufficient data.

grow at 2.8% in 2019. Yemen and Libya are expected to grow steeply if a settlement to contain violence is concluded.

Developing Oil-importers

Economic growth of oil importers is partially linked to the growth of oil-rich MENA countries, which stimulates FDI and workers' remittances. This group is expected to grow by 4% in 2019, slightly higher than the growth rate achieved in 2018 (3.8%). The improved tourists inflows to Egypt and Tunisia in 2018 induced growth and minimized the balance of payments' deficit (for example, from 6.1% in 2017 to an expected deficit of 2.5% in 2019 in Egypt). The report anticipates that the Egyptian economy will be one of the top performers among this group in 2019 (a growth rate forecast at 5.5%), as a result of rising natural gas production, revitalized tourism, and higher investment spending. Given the rising revenues from VAT and income taxes that will outpace the increase in expenditures, alongside cuts to food and fuel subsidies, the budget deficit in Egypt has been narrowing from 11% of GDP in 2017 to 8.6% in 2019. On the other hand, Lebanon is expected to face economic challenges because of its growing debt burden (151% of GDP) and to run a budget deficit of 12.4% of GDP in 2019. Notably, about one-third of total spending goes to service debt. Morocco is expected to grow by 2.9%, Tunisia by 2.7%, and Djibouti by 7%.

Growth in per capita GDP

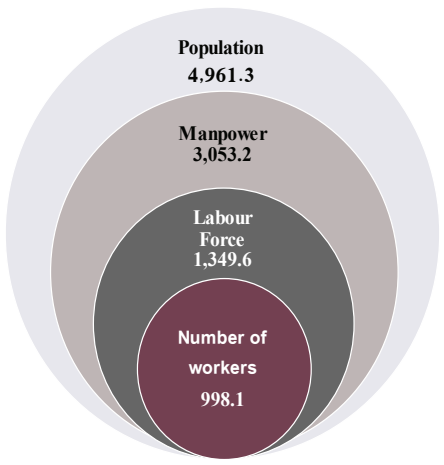
Growth in per capita GDP in MENA countries are projected to grow at a slower pace than the overall GDP growth rate, considering the sharp growth in population in most countries, including GCC countries. In fact, the MENA population growth is among the highest in the world. The average per capita income in GCC countries is expected to be 0.3% in 2019, however, it is expected to rise in the following years to 1.2 - 1.5%. In MENA oil exporters, the per capita income will grow by 2.6% in 2019, and at a higher pace (3%) in the following two years. The picture looks dim when considering the per capita income in MENA oil exporters, which is expected to contract by 2.4% in 2019 (mainly because of an expected 4.8% reduction in Iran), and will be followed by years of stagnation.

Table-1 demonstrates that the MENA region will continue to run large deficits in the balances of payments, at 4% of the region's GDP in 2019 (regardless of a 6.2% surplus in GCC countries). Additionally, the three groups of MENA countries, will suffer sharp deficits in government budgets ranging 6-7% in 2019 for developing oil exporters and importers, versus half this rate for GCC countries.

2- Labour Market[1]

According to PCBS, manpower (all persons aged 15 years and above) in Palestine amounted to 3,053 thousand persons by the end of Q2 2019. The labor force (all persons qualified to work and actively seeking employment) amounted to 1,350 thousand. The workforce comprises workers/labor force and the unemployed. The difference between the labor force and the actual number of employed (workforce) is the measure of the rate of unemployment. Figure 2-1 shows the relation between these three variables and the size of the population in Q2 2019.

Figure 2-1 The Total Population, Manpower and (Workforce in Palestine (Q2 2019) (Thousands



Second Quarter 2019

As shown in Figure (1-2), the participation rate (ratio of labor force to manpower) reached 44% during the second quarter of 2019 in Palestine. This rate is close to the general average in the Middle East, reaching 48% in Turkey for example. However, compared to many developing countries, the Palestinian rate is considered low

1 Source of Figures: PCBS Labor Forces Survey, 2019. Ramallah, Palestine.

(63% in Latin America, 61% in South Korea). This is mainly attributed to the low female participation rate in Palestine (refer to Box 2 in Monitor 51).

Distribution of Workers

The number of workers in Palestine increased by 1.2% between Q1 and Q2 2019, reaching 998 thousand. By region, 62% of workers were in the West Bank, around 25% were in the Gaza Strip, and 13% (around 131 thousand) in Israel and the colonies. By sector, the public sector employed one fifth of workers in Palestine, while this ratio rises to 37% in the Gaza Strip (Figure 2-2).

Figure (2-3) presents the sectoral distribution of Palestinians employed (including those working in Israel and the colonies) in the West Bank and the Gaza Strip during Q2 2019. The number of workers in the services sector in Palestine was 36% (29% in the West Bank and 55% in the Gaza Strip). The number of workers in the construction and the building sector was 17% (21% in the West Bank compared with less than 4% in the Gaza Strip). The share of workers employed in the trade, restaurants & hotels sectors in the West Bank is close to that in the Gaza Strip, around 23% and 21% respectively. The ratio of workers in the agricultural sector reached 6% and 4% in the West Bank and Gaza Strip, respectively. However, the percentage of workers employed in mining and manufacturing industries was 14% in the West Bank and less than 6% in the Gaza Strip.

Unemployment

The number of unemployed in Palestine stood at 352 thousand by the end of Q2 2019. The unemployment rate (the number of unemployed workers divided by the labor force) was 26.0% in Q2 2019, 1.4 percentage points less than the corresponding quarter in 2018, and 0.8 percentage points less than the previous quarter. The decrease in the unemployment rate in Palestine over the corresponding quarters was the result of a drop in unemployment in the West Bank among both females and males. However, the unemployment rate rose in the Gaza Strip among both females and males (Table 2-1).

Two enduring characteristics of unemployment in Palestine during Q2 2019 were:

1) It is high among the youth compared with the general average: The unemployment rate in the age group 15-24 years reached 40% (70% for females against 34% for males). This

Figure 2-2: % Distribution of Palestinian Workers by Region and Sector, Q2 2019 (%)

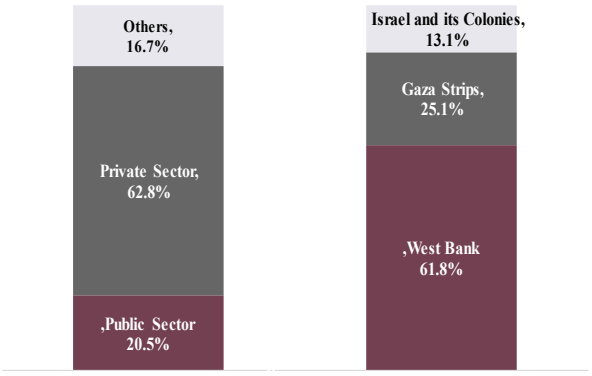
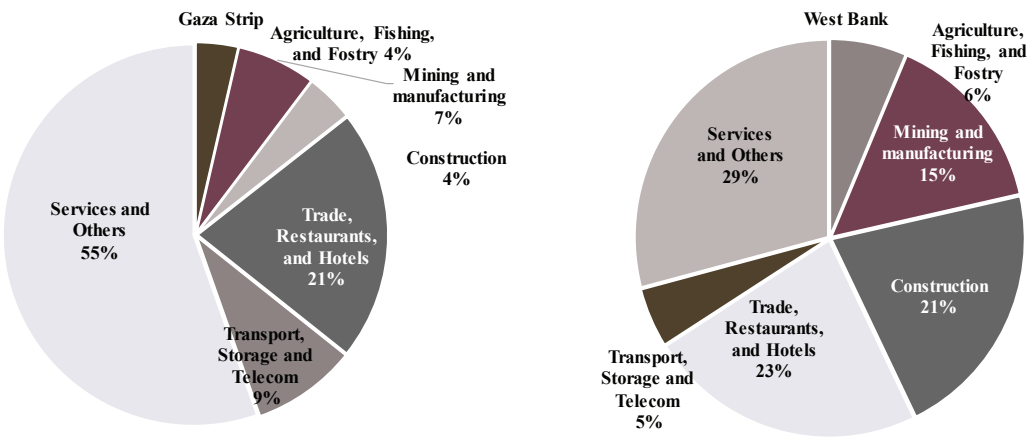


Table 2-1: Unemployment Rate among Labor Force Participants in Palestine by Region and Gender (%)

		Quarter 2 2018	Quarter 1 2019	Quarter 2 2019
West Bank	Males	15.8	14.1	12.4
	Females	30.4	25.9	26.4
	Total	18.5	16.4	15.0
Gaza Strip	Males	38.1	41.0	39.7
	Females	67.1	62.8	68.3
	Total	44.3	46.3	46.7
Palestine	Males	23.3	23.1	21.5
	Females	44.1	40.8	43.6
		27.4	26.8	26.0

Note: The figures in the table are calculated based on the revised definition of unemployment that was adopted by PCBS and ILO. The narrow new definition states that unemployment includes only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking for jobs anymore (did not seek employment during the reference period). The revised unemployment standards have resulted in a slight change in the unemployment rate in the West Bank, while the change was larger in the Gaza Strip. This is attributed to the widespread atmosphere of job search frustration (unemployment rate declined in Gaza Strip from 52.0% to 43.2% in 2018). Refer to the statistical annex of the current issue of the monitor and Monitor 56, for a comparison of the rates of participation and unemployment based on the old and new standards.

Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q2 2019 (%)



indicates that a large proportion of the unemployed are new entrants to the labor market (see Figure 2-4 and Box 1: Results of the Survey of the Youth Transition from Education to the Labor Market in Issue 47 of the Economic Monitor).

2) The unemployment rate decreases with the attainment of higher educational levels for males, in contrast to females (Figure 2-5): The unemployment rate in Q2 2019 reached 24% for males who had not completed secondary education, while it was 18% for males with tertiary education. On the other hand, the unemployment rate for females with a tertiary education was 50%, versus 20% for females who had not completed secondary education (see Figure 2-5 and Monitor 53 -Box 1).

Wages

The average daily wage of workers in Palestine amounted to NIS 127.4 in Q2 2019, a rise of NIS 2.5 over the consecutive quarters. This was the result of a rise in the average wage of workers in the West Bank (NIS 2.9), in Israel and its colonies (NIS 6.9), and in the Gaza Strip (NIS 0.7)

Yet average daily wage of workers in Palestine (127.4 NIS/day) masks the wide divergence between:

1) the average wage of workers in the West Bank and the Gaza Strip on the one hand, and that of workers in Israel and its colonies on the other hand.
2) the average wage of workers in the West Bank and that of workers in the Gaza Strip.

Table 2-2 : Average and Median Daily Wages of Waged Workers, Palestine, (Q2 2019) (NIS)

Place of Work	Average Daily Wage	Median Daily Wage
West Bank	116.6	100.0
Gaza Strip	62.5	40.0
Israel and its Colonies	254.0	250.0
Total	**127.4**	**103.8**

As figures in Table 2-2 demonstrate, the average wage of workers in Israel and its colonies is double the average wage of workers in the West Bank and four times the average wage of workers in the Gaza Strip. The average wage in the Gaza Strip is 54% of the West Bank average wage. 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). Although the average daily wage of workers in the Gaza Strip is 54% of that in the West Bank, the median wage of workers in the Gaza Strip is less than half that of workers in the West Bank.

Minimum Wage

During Q2 2019, the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 27%: 29% for females and 27% for males. This compares with 37% for females in the previous quarter. The average monthly wage of those workers earning sub-minimum wages was NIS 800. By region, 9% of the private sector waged workers in the West Bank earned sub-minimum wages, compared with 74% in the Gaza Strip (Table 2-3).

Figure 2-4: Number of Employed and Unemployed in Palestine by Age Group (Q2 2019) (Thousands)

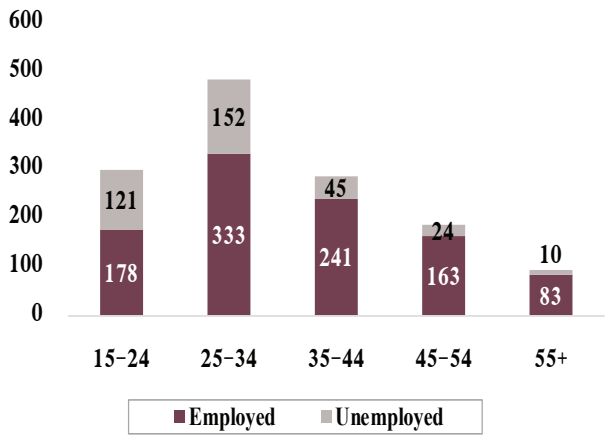
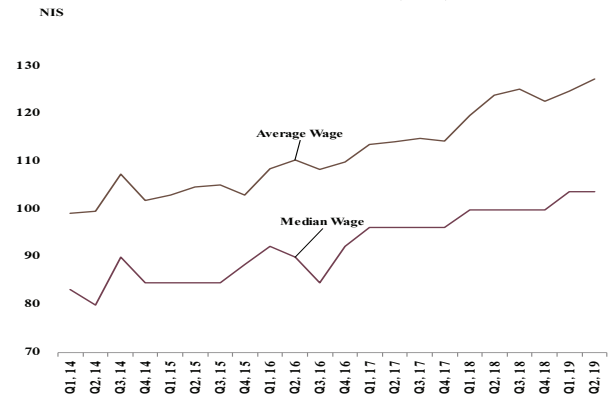


Figure 5- 2: Number of Employed and Unemployed in Palestine by Educational Attainment and Gender (Q2 2019) %

Figure 2-6: Average and Median Daily Wages of Waged Workers in Palestine (NIS)



Child Labour

During Q2 2019, child labor in Palestine (working children aged 10-17 years) decreased compared with the previous quarter (from 2.4% to 3%). By region, child labor constituted 4.5% of the employed labor force in the West Bank and 1.1% in the Gaza Strip (refer to Box 3 in issue 53 of the Economic Monitor).

Table 2-3: The Number and Average Wage of Waged Workers Employed by the Private Sector who Earned Sub-minimum Wages (does not include workers in Israel and its Colonies), Q2 2019

	Number of Waged Workers in the Private Sector (Thousand)			Average Monthly Wage for Sub-minimum Wage Earners (NIS)			Number of Waged Workers who Earned Sub-minimum Wages (Thousand)		
	Males	Females	Both	Males	Females	Both	Males	Females	Both
West Bank	223	54	277	1,100	1,000	1,100	11	13	24
Gaza Strip	92	18	110	700	600	700	73	8	81
Palestine	315	72	387	700	900	800	84	21	105

Box 2: Profits of Trade in Work Permits Go to Employers' Pockets in Israel

Box 2: Israel implements an administrative permit regime which grants permits for Palestinian workers (from the West Bank and the Gaza Strip) who wish to work in Israel. This regime works in parallel with the strict security regime that sets the quota of workers based on their characteristics (age and security clearance.[1] The administrative procedure for obtaining a permit is that the Israeli employer submits an application to the competent authorities to bring a specific number of workers from the West Bank and the Gaza Strip. Once approved, the employer should inform the authorities of the names of these workers to issue them work permits. Workers are obliged to work with the employer who filed a permit application, i.e. the employer with whom they sign a work contract.

However, the wages set by those employers might be below the wage they could get elsewhere in Israel. Most likely, this is because wages in the sectors they are employed in are less than wages in other sectors, or because of periods of stagnation compelling employers to pay low wages. For these reasons, some of these workers 'buy their freedom' from the employer with the work contract, by paying a lump sum amount to the contract owner so the worker can work for another employer. This is known as the "illegal trade in work permits".

Haggay Etkes of the Bank of Israel Research Department and Wifak Adnan of New York University-Abu Dhabi, studied the illegal trade of work permits for Palestinian workers in Israel.[2] The study surveyed approximately 1,200 Palestinian workers who had work contracts and permits to work in Israel in June 2018. According to the study, about 20,000 Palestinian workers with a permit to work in Israel purchased their work permits from the employer listed in their permits. At that time, this figure represented around 30% of Palestinian workers employed in Israel under a permit.

The price of a permit (freedom from the employer) is about NIS 2,000 per month on average (the money a worker must pay to the registered employer to allow the worker to work for another employer), even though this practice is illegal as workers are not allowed to work for employers whose names are not listed in their permits. The study found that workers who ("bought their freedom" and) worked for another employer earned on average NIS 10,100 per month compared with NIS 7,800 for workers who continued with their original employer.

This means that the largest share of profits (revenues) of the illegal trade in permits goes to employers who obtained a work permit, and that the net monthly wage of paying workers is only NIS 300 higher than the wage of non-payers (10,100-7,800-2,000 = 300).[3] As Table-1 shows, the study estimates the annual total revenues of the illegal trade of permits at about NIS 481 million, and the annual profits of employers at about NIS 122 million.

Table-1: The Work Permits Market of Palestinian Workers Employed in Israel Aged 25–59

	Construction sector	Other sectors	Total
1. Number of workers who purchased a permit	15,054	5,112	20,116
2. Average price of a monthly permit (NIS/month)	2,102	1,649	1,987
3. Employer's payments to the regulator per permit (NIS/work contract/month)	1,514	1,389	1,482
4. Monthly profit per permit (NIS/work contract/month) =(2)-(3)	588	260	505
5. Annual revenues from the permits trade (NIS million/year) = (2)*(1)*(12 months)	380	101	481
6. Annual profit from the permits trade (NIS million/year) =(4)*(1)*(12 months)	106	16	122

In December 2018, the Israeli government took a decision to replace the previous administrative work permits regime with a reformed one. The new regime will link granting work permits with economic sectors rather than with employers' quotas. The new regime, which was planned to be implemented in early 2019, aims to provide more flexibility in distributing workers from the West Bank and the Gaza Strip to the different sectors in need of workers, and to provide a mechanism for combating illegal trade in permits.

1 Refer to Box about "Terms and Conditions for Granting Work Permits in Israel" in Monitor 52.

2 Haggay E. & W. Adnan: Illegal Trade in Work Permits for Palestinian Workers in Israel: The Existing Situation and Planned Reform. https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/25-9-2019.aspx

3 These figures, although average estimates, do not seem convincing. It is unlikely that a worker would jabordize obtaining a work permit and violate the law by working for the employer he is obliged to work for, for NIS 300 a month, specially that paying workers have to work an additional half-day each month.

3- Public Finance[1]

Public Revenues

During Q2 2019, net public revenues and grants dropped by 57% compared with the previous quarter and by 66% compared with the corresponding quarter, reaching around NIS 1.2 billion.[2] This means that during the quarter, net public revenues were less than half their level compared with the previous quarter and a third of their level compared with the corresponding quarter in 2018. This decline is ascribed mainly to the ongoing clearance crisis with the Israeli side and the Palestinian refusal to receive incomplete clearance revenues (refer to Box 2 of monitor 57 for more detailed information on this topic).

Domestic revenues declined drastically by 42% and 30% compared with the previous and corresponding quarters respectively, reaching about NIS 0.8 billion. This was due to the seasonal cycle of tax collection which is usually better during the first quarter of the year compared with the rest of quarters, giving the discounts and other incentives offered to taxpayers. Tax revenues dropped by 36% and 12% during the period concerned respectively, reaching NIS 0.5 billion, while non-tax revenues fell by about 45% and 53% standing at NIS 0.2 billion (Figure 3-1).

On the other hand, foreign aid and grants to the budget continued fluctuating, increasing twice during Q2 2019 compared with the previous quarter, reaching almost NIS 0.5 billion. However, compared with the corresponding quarter in 2018, it fell by 19% (Table 3-1).

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

Item	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Budget support	157	482.1	522	679.4	598.4	368.1
Arab grants	140.1	236.3	303.7	410	396.3	94
Other Countries	16.5	245.8	218.3	269.4	202.1	274.1
Development funding	143.7	87.2	184.1	156.1	(354.4)*	93.3
Total	300.7	569.3	706.1	835.5	244.0	461.4

* during Q1 2019, a sum of NIS 448.1 million was refunded to the US consulate to close an old US grant. This reflected as a drop of NIS 354.4 million in the value of developmental projects grants. (refer to Box 6 in Monitor 56 for detailed information about the cut in the US aid to the Palestinians and the PNA's response).
Figures between brackets indicate negative value

Public revenues and grants (net) were equivalent to 54% of actual public expenditures during Q2 2019 compared with 110% in the previous quarter. However, revenues accounted for only 31% of accrued public expenditures (commitment basis) during the quarter compared with 74% in the previous quarter.

Public expenditure

By the end of Q2 2019, public expenditure declined significantly by 12% and 32% compared with the previous and corresponding quarters respectively, reaching NIS 2.3 billion. This was driven mainly by the drop in salaries and wages by 23% and 28% during the same period, reaching about NIS 1 billion. Net lending, as well, decreased due to measures taken by the government to minimize the debts on local government bodies and the electricity company to Israeli companies. Conversely, actual non-wage expenditures rose by 10% compared with the previous quarter. However, compared with the corresponding quarter it was 21% less, standing at NIS 1.2 billion. Development expenditures rose by about 4% compared with the previous quarter, yet it declined by 24% compared with the corresponding quarter, reaching NIS 159.1 million (Figure 3-2).

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

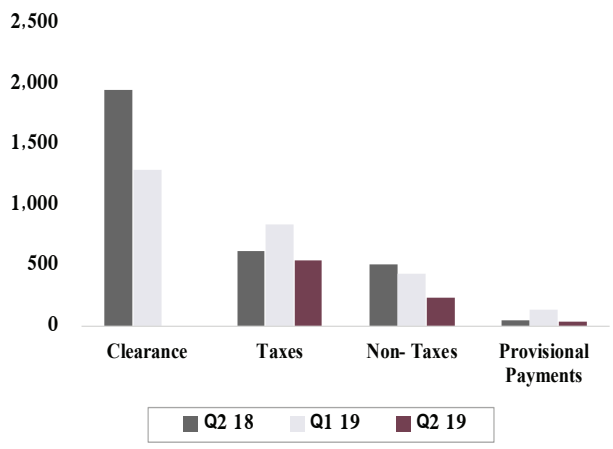
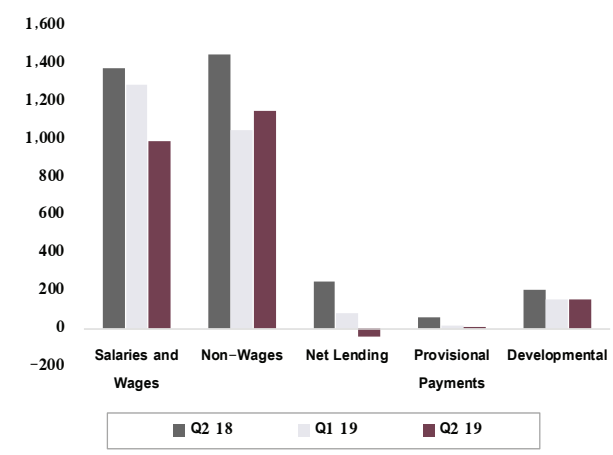


Figure 3-2: Structure of Public Expenditure (NIS million)



Government Arrears

During Q1 and Q2 2019, government arrears rose significantly compared with the previous quarters. During Q2 2019, arrears rose by 34% compared with the previous quarter, while it was triple its level in the corresponding quarter, reaching NIS 1.4 billion - equivalent to 114% of net public revenues and grants in Q2 2019. Around NIS 593.6 million of arrears were in wages and salaries, NIS 626.5 million in non-wages, NIS 130.4 million in developmental expenditures

1 Source of data: MOF, Monthly Financial Reports 2019: Financial Operations, Expenditure and Revenues, and sources of Funding (Sep, 2019).
2 During Q2 2019, government arrears reached NIS 61.9 million, compared with NIS 128.4 million in the previous quarter.

(Table 3-2). By the end of Q2 2019, total government arrears reached NIS 14.7 billion (equivalent to USD 4 billion)

Financial Surplus/Deficit

Developments on both the revenue and the expenditure sides during Q2 2019 led to a deficit in the total balance (before grants and aid) of NIS 1.5 million (11.2% of GDP). After grants and foreign aid, the deficit was reduced to around NIS 1 billion (on cash basis), about 7.8% of GDP (Table 3-3). On commitment basis, the deficit in the total balance (before grants and aid) reached NIS 1.1 billion, dropping to NIS 0.6 billion after grants and aid during the quarter.

Notably, the budget deficit on commitment basis was less than the deficit on cash basis during the quarter, which is the opposite trend in previous Palestinian budgets. This can be explained by the clearance revenues that were not received during this quarter, and that was not included within the budget's calculations on cash basis, while they are a component of the account's calculations on commitment basis.

Total public debt

During the quarter, total public debt (denominated in NIS) increased by 12% and 9% compared with the previous and corresponding quarters respectively, reaching NIS 9.4 billion (about 17.7% of nominal GDP).[3] About 60% of the debt was domestic and 40% was foreign. Paid debt service reached NIS 56 million during the quarter, NIS 46 million of which was paid on domestic debt, while the rest was paid on foreign debt (Table 3-3).

Since accumulating arrears are payable dues on the government, the ratio of the government public debt (after arrears) rose to 44% of GDP by the end of Q2 2019. This ratio is higher than the ceiling set forth in the Palestinian Public Debt Law at 40%.

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

Item	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Tax refunds	12.3	27.6	51.1	19.1	37.4	17.6
Wages and Salaries	128.6	134.3	119.9	94.1	359.9	593.6
Nonwage Expenditures	170.9	159	287.7	468.9	414.3	626.5
Development Expenditures	10.9	10.9	35.5	237.6	102.1	130.4
Provisional Payments	104.3	(8.7)	28	(15.4)	126.8	30.5
Total arrears	427	323.1	522.2	804.3	1,040.5	1,398.6

Figures between brackets indicate negative value

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

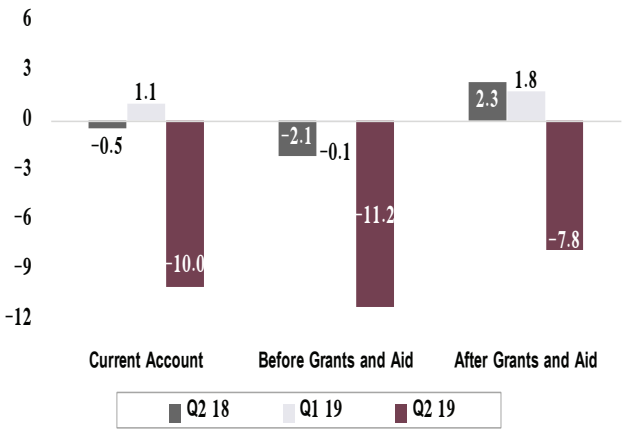


Table 3-3 : Palestinian Government Public Debt (NIS million)

Item	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Domestic debt	4,913.9	4,860.0	4,785.5	5,034	4,668.0	5,628.8
- Banks	4,863.1	4,809.2	4,734.8	4,983.3	4,617.3	5,578.2
- Public institutions	50.8	50.8	50.7	50.7	50.7	50.6
External debt	3,674.2	3,777.7	3,772.1	3,882.1	3,744.3	3,783.7
Total public debt	8,588.0	8,637.6	8,557.7	8,916.1	8,412.2	9,412.5
Paid interests	48.5	82	66.9	48.9	28.1	56.0
Public debt as % to nominal GDP	16.6%	16.5%	16.1%	16.2%	15.5%	17.7%

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

3 It should be mentioned that by the end of Q2 2019, the government's debt denominated in dollars rose by 13.9% compared with the previous quarter, and by 11.4% compared with the corresponding quarter, reaching USD 2637.1 million. Figures differ slightly when calculated in USD due to changes in exchange rate.

Box 3: The Paradox of Public Employment in Palestine: Benefits of being a Civil Servant

Civil servants serve either in the civil service or in the military and security services. The Palestinian government staff was around 156,093 in 2016, approximately 58% in the civil sector and 42% in the security sector. [1]

Figures of public employment in Palestine show a remarkable paradox: while the ratio of the public sector staff (civil and security staff) to the overall population in Palestine is significantly lower than other countries - about 3.5% in 2017 compared with 4% on average in MENA countries - the wage bill as a percentage of GDP and total budget spending in Palestine is among the highest in the world. Figure-1 shows that the wages and salaries of the public sector is around 17% of GDP, and 44% of public spending on average between 2005 and 2016.

A World Bank report, published in 2016, attributes this to two main factors.[2] Firstly, the PA security sector employee payroll reaches 8% of GDP, which is very high relative to the global average and the average in the Middle East countries. This, in turn, correlates with two factors; the security sector in Palestine is large (in terms of personnel number) compared to global average (but not compared to prevalent ratios in the region). There are almost 23 security personnel (except for police officers and prison guards) per 1,000 citizens in Palestine (1 security personnel per 43 citizens). The second factor is related to the composition of the Palestinian security sector, as officers constitute one-third of the total security force.

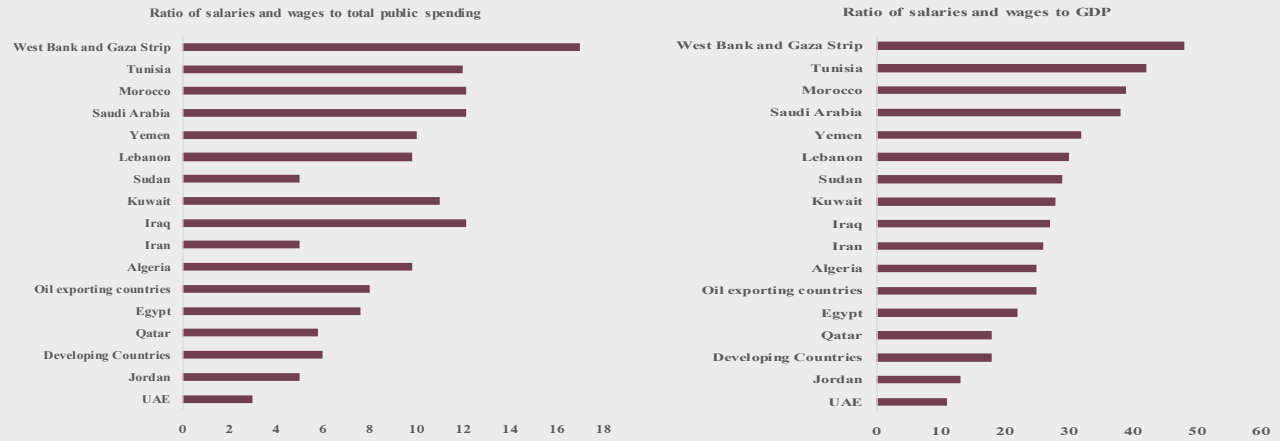
Secondly, is the role of allowances in raising civil servants' salaries and in widening the wage gap between upper-level and lower-level scales. The scale of the PA's civil service has 20 grades; the basic salary of the upper-level and the lower-level wage scale is NIS 4,020 and NIS 1,250 per month respectively, which means that the upper-level basic wage is 3.2 times the lower-level basic wage. Although this difference range between the PA salaries is consistent with the difference in more advanced countries, the actual difference, which is calculated after adding allowances, is much greater. The World Bank estimates that a typical employee's basic salary is around 61% of his/her monthly salary and that 39% of the salary are allowances. Figure-2 shows the average distribution of allowances and their ratio to the basic salary (figures are from 2013. Although they are not recent they depict an approximate general picture of salary components in Palestine).

On the other hand, there are large variations in allowances between the different grades and positions at the salary scale. For example, while the job allowance for a college lecturer is 250% of the basic salary, a legal consultant's job allowance is 150%, a specialist physician's allowance is 150%, and a nurse's allowance is only 20%. In terms of grades, the job allowance for managers in the upper-level of the scale ranges between 60-90% of the basic salary, while the job allowance for managers in category A is 50%, and 25% for second category employees (specialist posts). After adding allowances to basic salaries, the difference between the upper-level wage and the lower-level wage reaches 9 times the lower-level wage. This means that the top civil service personnel earn a salary that is 9 times higher than the salary of lower class personnel.

Civil Servants

The civil sector staff reached around 89,440 in 2017, which constitutes 1.9% of Palestine's total population, a very low ratio compared to other countries. For example, the ratio was 3.3% in Jordan, 4.0% in Saudi Arabia, and 6.5% in Egypt in 2015. [3] Figure-2 shows the distribution of civil service personnel in Palestine by category of the salary scale. As seen in the figure, 80% of these personnel are in category 2 and 3 whereas 2% are in the upper category and the special category. Females made up 43% of all civil service personnel in 2017.

Figure-1: The share of wages and salaries of the public sector to GDP and public budget spending (average for 2005-2016)



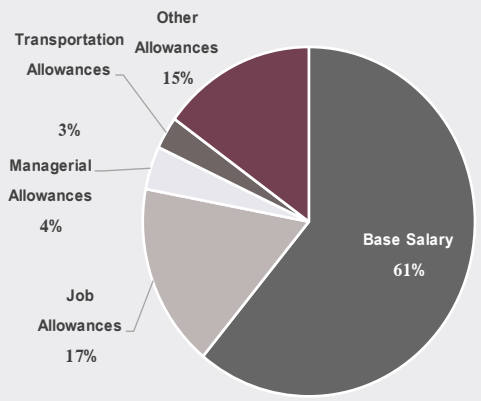
IMF (2017): Public wage bills in the Middle East and Central Asia.

1 A statement by Mr. Fareed Ghanam, Deputy Minister of Finance , at the workshop organized by the MoF in Ramallah to present the FY 2017 Public Budget with the participation of representatives from the Private Sector, civil society and non-governmental institutions2017

2 World Bank. (2016). West Bank and Gaza - Palestinian territories public expenditure review 2013- 2014. .http://documents.worldbank.org/curated/en/320891473688227759/Public-Expenditure-Review-Palestinian-territories

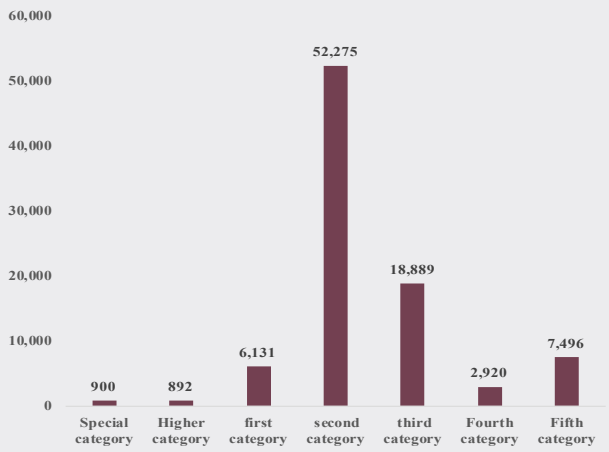
3 Source: The General Personnel Council, 2017, The National Strategic Plan for Civil Service 2017-2022.

Figure-2: Components of the PA's Public Sector Salary (%, 2013)



World Bank. (2016). West Bank and Gaza - Palestinian territories public expenditure review 2013- 2014.

Figure-3: Distribution of Civil Service Personnel in Palestine by Category of the Salary Scale

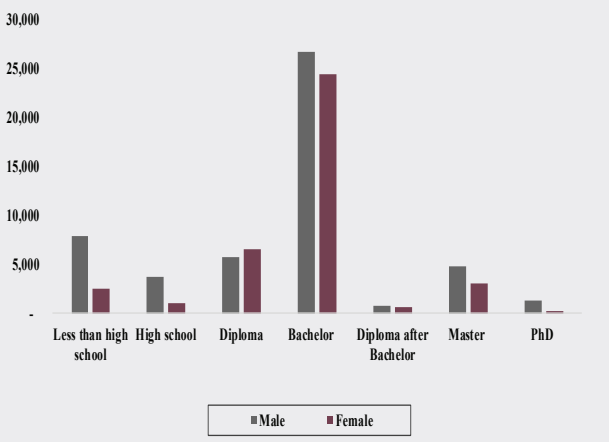


Source: General Personnel Council, (2017). Annual Report: 2016-2017, and data from the Ministry of Finance (2017)

Figure-4 presents the distribution of civil servants by scientific qualifications and gender. As it shows, most civil service personnel hold a bachelor's degree (57% of the total), around 63% of which were females versus 58% for males. Around 13% of civil service personnel hold a diploma degree. Around 76% of the personnel are within the age group 30-50. Those aged less than 30 years constitute only 7% of the total number of civil servants.[4]

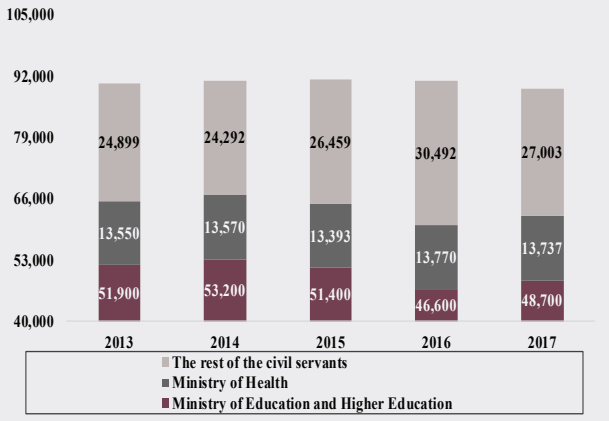
The number of civil servant personnel dropped slightly by 1% between 2013-2017, and by 2% between 2015-2017. Figure-5 presents the evolution of civil servant personnel and their distribution between 2013-2017. As the figure shows, in 2017, most of the employees were employed in the Ministry of Education and the Ministry of Health, 54% and 15% respectively. In third, comes the Ministry of Awqaf (3.4%), while the remaining are distributed among approximately 80 governmental facilities. The number of personnel in the Ministry of Education declined by 6% between 2013-2017, while the number of personnel in the Ministry of Health increased by 1.4%.

Figure-4: Distribution of Civil Servant Personnel by Scientific Qualifications and Gender



Source: General Personnel Council, (2017). Annual Report: 2016 -2017

Figure-5: Distribution of Civil Servant Personnel by Ministry



Source: General Personnel Council, 2017. Annual Report: 2016 -2017

Islam Rabee, MAS

4 General Personnel Council, (2017). Annual Report 2016 -2017.

4- The Banking Sector[1]

There are 14 banks operating in Palestine, 7 of which are domestic, operating through 360 branches and offices, 301 of which are located in the West Bank and 59 in the Gaza Strip. By the end of Q2 2019, net assets (liabilities) of the banking sector increased by 1.1% compared with the previous quarter, and by 5.9% compared with the corresponding quarter, reaching USD 16.7 billion (Table 4-1)

Table 4-1: Consolidated Balance Sheet of Licensed Banks Operating in Palestine

Item	2018			2019	
	Q2	Q3	Q4	Q1	Q2
Total Assets	**15,763.0**	**16,179.4**	**16,125.0**	**16,503.2**	**16,690.1**
Direct Credit Facilities	8,260.0	8,293.6	8,432.3	8,569.5	8,941.6
Deposits at PMA & Banks	3,937.2	3,875.2	3,763.7	3,712.9	3,534.5
Securities Portfolio and Investments	1,324.3	1,325.4	1,385.5	1,362.2	1,382.1
Cash and Precious Metals	1,255.9	1,642.6	1,582.6	1,711.4	1,620.8
Other Assets	**985.5**	**1,042.4**	**960.9**	**1,147.2**	**1,211.1**
Total Liabilities	**15,763.0**	**16,179.4**	**16,125.0**	**16,503.2**	**16,690.1**
Total Deposits of the Public (non-bank deposits)**	11,992.6	12,194.2	12,227.3	12,394.4	12,591.4
Equity	1,819.7	1,863.9	1,912.0	1,931.4	1,956.0
Deposits of PMA and Banks (bank deposits)	1006.9	1,178.0	1,033.6	1.116.8	1,041.7
Other Liabilities	293.8	263.5	269.5	361.3	363.5
Provisions and Depreciation	650.1	680.1	682.5	699.3	737.5

Items in the table are totals (including provisions).
**Non-bank deposits include the private and public sectors' deposits.

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

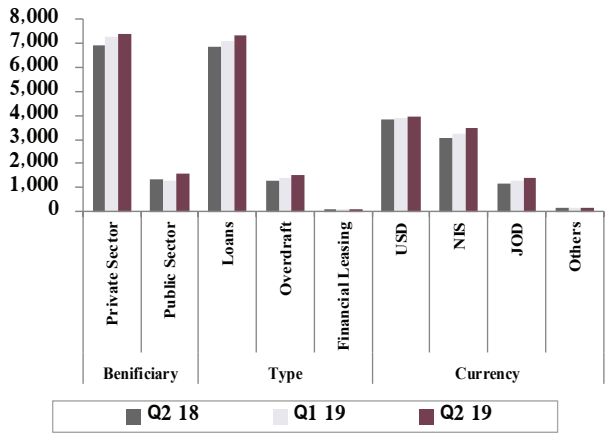
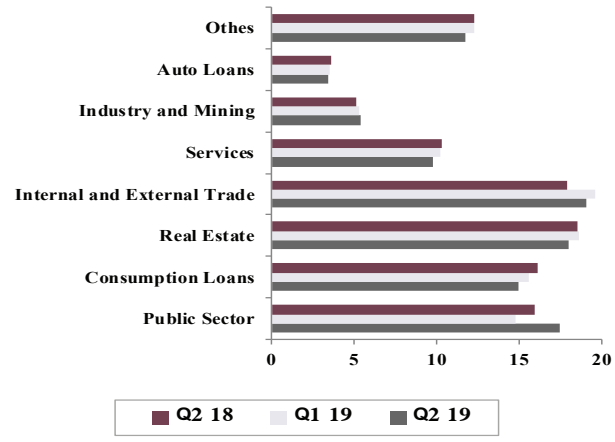


Figure 4-2: Distribution of Credit Facilities by Sector (%)



Credit Facilities

During Q2 2019, the credit portfolio made up 54% of the total banking assets, compared with 52% in the previous quarter, reaching USD 8,941.6 million. Credit facilities constituted 71% of total public deposits during the quarter. On the other hand, the private sector had the lion's share of credit facilities (83% of total) against 17% for the public sector.

By region, the West Bank had the biggest share of total credit facilities (90%) compared with 10% for Gaza Strip. By type of facility, loans were the predominant form of total credit facilities, at 82%, against approximately 17% for overdraft accounts. By currency, the US dollar continued to account for the biggest share of credit (44%) compared with 39% of loans granted in Shekels and 15% in Jordanian dinars (Figure 4-1).

The increase in credit facilities was concentrated in facilities granted to the public sector, which rose by 23% (equivalent to USD 295.7 million). This is due to the latest clearance crisis. By sector, facilities granted to the industry and mining sector increased by 7% (equivalent to USD 29.5 million), while those granted to the trade sector and for car purchases increased by 2% (USD 30.9 million and USD 6.5 million, respectively) (Figure 4-2)

Non-performing Loans

During Q2 2019, the value of non-performing loans at banks increased by USD 43.3 million compared with the previous quarter, and by USD 82.4 million compared with the corresponding quarter. The final balance of non-performing loans stood at USD 321.2 million, equivalent to 3.6% of total loans, compared with about 3% in the previous and corresponding quarters. This rise may also be attributed to the government's latest clearance crisis, which has impacted the entire economy. Also, the application since mid-2018 of the International Financial Reporting Standard (IFRS) 9 contributed to the increase of this ratio (refer to Figure 4-3 and Box 3 in Monitor 54 about this standard).

By sector, non-performing loans were distributed as follows: 28% in the trade sector (around USD 91.2 million), 21% in real estate and construction (USD 68.7 million), and 17% in consumer goods (USD 54.6 million).

1 Source of Figures: PMA, Oct 2019. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

Available data indicate that more than half of the non-performing loans granted by banks (58%) were classified as losses in Q2 2019 (outstanding for more than 361 days), while doubtful loans accounted for 18% of total loans. Non-typical loans made up 23% of all non-performing loans.

Deposits at PMA & Banks

Balances at PMA and banks continued to decline during Q2 2019, by approximately 5% compared with the previous quarter, reaching USD 3,534.5 million (less than one quarter of total bank assets (21%)). This decline can be attributed to a decline of 5% and 8% in balances at PMA and banks abroad, respectively, whereas balances at banks in Palestine grew by 11% compared with the previous quarter. Compared to the corresponding quarter 2018, the quarter witnessed a decline of 19% and 8% in balances at banks abroad and PMA balances in Palestine, respectively, whereas balances at banks in Palestine grew by 38% (Figure 4-4).

Deposits

By the end of Q2 2019, total deposits rose by 1% compared with the previous quarter, reaching USD 13, 633.2 million. Compared with the corresponding quarter 2018, total deposits increased by 5%. Public deposits (non-bank deposits) constituted around 92% of the total. The West Bank had the lion's share of total deposits (90%) against a mere 10% for the Gaza Strip. Note that the private sector deposits made up 96% of the total, compared with 4% for the public sector (Figure 4-5).

Current deposits constituted 36% of total deposits by the public during Q2 2019, while 33% were savings deposits and 31% were time deposits. By currency, the US dollar continued to dominate (39% of the total), followed first by the Shekel (35%) and then by the Jordanian Dinar (23%); other currencies made up the remaining 3%.

Bank Profits

By the end of Q2 2019, banks' profits (net income) declined sharply by 23% compared with the previous quarter, reaching USD 36.9 million. This was driven by a rise in expenditures of 8%, against a slight increase in net revenues by 2%. Additionally, net income decreased significantly by 13.4% compared with the corresponding quarter 2018 (Table 4-2).

Others include expenditures and revenues of financial securities and investments, currency exchange deals, off-budget operations, and other operational expenditures and revenues, in addition to allocations.

Average Interest Rates on Deposits and Loans

Average interest rates on deposits in the three currencies in circulation declined during Q2 2019 compared with the previous quarter, reaching 3.27%, 2.74%, and 2.38% for JOD, USD, and NIS deposits respectively. On the other hand, average interest rates on JOD and USD loans rose during the quarter, reaching 6.86% for JOD and 6.1% for USD. However, the average interest rate on NIS loans dropped to 7.03%.

Figure 4-3: Final Balance of Non-performing Loans (million USD)

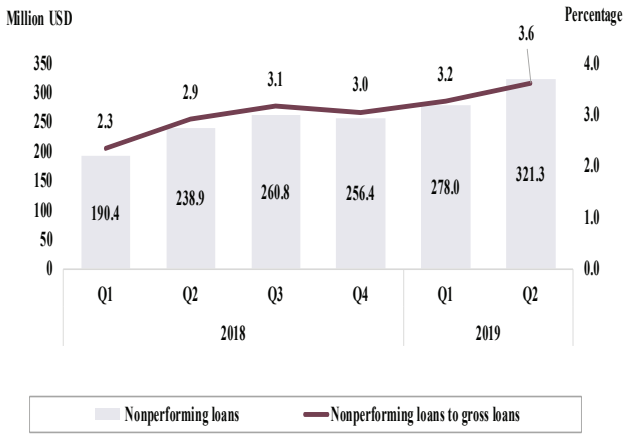


Figure 4-4: Deposits at PMA & Banks (%)

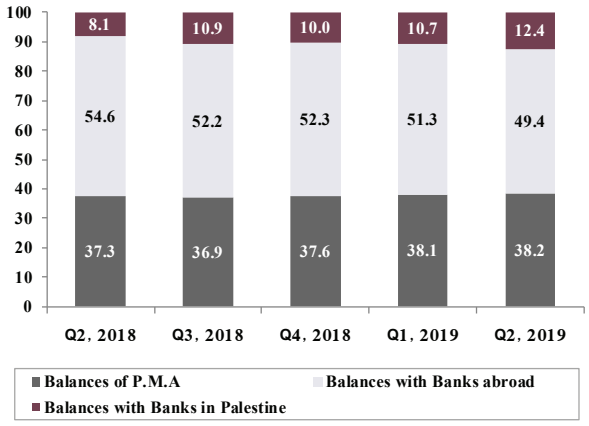
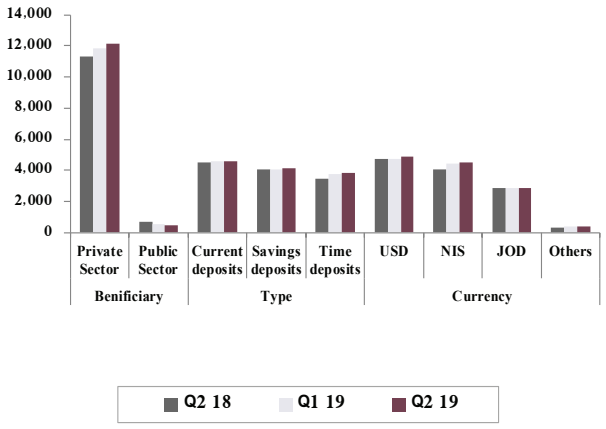


Figure 5-4: Distribution of Deposits (USD million)



These changes over the consecutive quarters affected the margins between the deposits interest rates and those of lending facilities. The margin on the JOD increased from 3.30 percentage points to 3.59 percentage points, while it increased 3.03 percentage points to 3.36 percentage points for the USD. Meanwhile, it decreased from 4.79 percentage points to 4.65 percentage points for the NIS during the same period (Figure 4-6).

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

Item	2018	2019	
	Q2	Q1	Q2
Revenues	218.6	230.9	234.6
Paid Interest	156.4	163.1	166.0
Commissions Revenues	32.4	30.6	32.3
Other Revenues	29.8	37.2	36.3
Expenditures	176.0	183.2	197.7
Paid interests	31.7	33.0	36.7
Commissions	2.8	3.0	3.0
Other Expenditures	15.5	23.9	31.5
Operational Expenditures	109.0	110.6	109.6
Taxes	17.0	12.7	19.9
Net Income	42.6	47.7	36.9

Clearance

During Q2 2019, the value of cheques presented for clearance increased slightly by 0.1% compared with the previous quarter, amounting to USD 3,076 million;93% of these clearances were in the West Bank while the rest were in the Gaza Strip (a decline of 7%). However, compared with the corresponding quarter 2018, their value dropped by 2%.

Returned Cheques

The value of returned cheques increased by 11% compared with the previous quarter, and by 18% compared with the corresponding quarter 2018 (reaching USD 319.0 million). The value of returned cheques in the West Bank rose by 11% (to USD 303.3 million), and in the Gaza Strip by 15% (USD 15.7 million). The value of returned cheques as a percentage of total cheques presented for clearance rose during Q2 2019 to 10%, compared with 9% in the previous and corresponding quarters (refer to Figure 4-7 and Box 4 in Monitor 53 "Returned Cheques: 1 out of 9 Cheques")

Specialized Credit Institutions (SCIs)

By the end of Q2 2019, the number of specialized credit institutions (SCIs) licensed by the PMA stood at 7. Total assets of SCIs declined by 0.6% compared with the previous quarter while growing compared with the corresponding quarter, standing at USD 251.8 million. This resulted from the decline in both cash and Islamic loans portfolio by 10% and 15% respectively - as well as fixed assets by 5% - during the same period. These companies' assets were distributed between commercial loans (70%), Islamic loans (7%), and deposits (11%). The remaining percentage (13%) was distributed between fixed and other assets and cash. SCIs provided 843 jobs by the end of the first half of 2019.

The credit portfolio of SCIs decreased slightly (0.4%) compared with the previous quarter, while it remained at the same level compared with the corresponding quarter 2018 (reaching USD 216.3 million). Around 77% of loans were granted in the West Bank against 23% in the Gaza Strip (Table 4-3).

Figure 4-6: Average Interest Rates on Deposits and Loans by Currency (%)

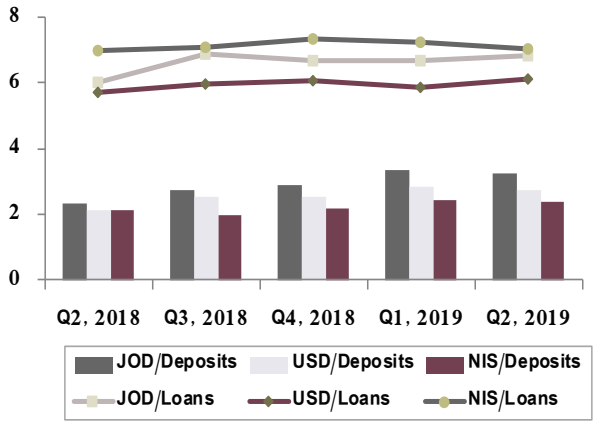


Figure 4-7: Ratio of Cheques Presented for Clearance to Returned Cheques (%)

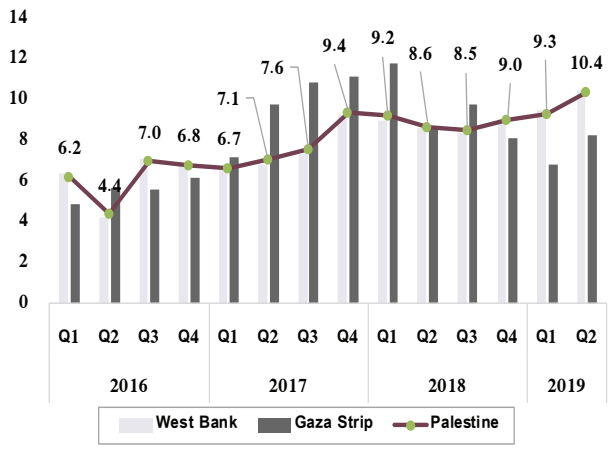


Table 4-3: SCIs data

Period	2018			2019	
	Q2	Q3	Q4	Q1	Q2
Total Loans Portfolio (USD millions)	215.4	212.5	205.7	217.2	216.3
West Bank	153.1	154.4	151.7	163.7	166.5
Gaza Strip	62.3	58.1	54.0	53.5	49.8
Active Clientele	70,922	68,942	65,458	80,314	78,186
No. of Offices and Branches	81	81	81	93	93
Employees	675	680	687	864	843

With regard to loan distribution among economic sectors , the commerce had the biggest share of loans (approximately one-third or 29%) It was followed by the real estate sector (28%); the agricultural and public services sectors (12% each).; the consumption sector (10%); the industrial sector (6%); and finally the tourism sector (4%).

Box 4: Palestine Loses 80 Million Dollars from the Rise in Remittance Commissions

The value of remittances from abroad to the Palestinian economy reached around USD 2.3 billion in 2013. In 2015, remittances increased to USD 3.4 billion (around USD 1.2 billion of which were remittances of Palestinian workers in Israel and the colonies). This figure is around 26% of Palestine's GDP, making Palestine one of the most remittance-dependent countries in the world. It is clear that remittances from abroad, whether via compensations paid to workers or assistance to family members, are becoming more valuable than foreign aid to poor countries.[1] The World Bank issues estimates of the remittance prices worldwide on a periodic basis, especially for labor-importing and labor-exporting countries. According to the latest report, in Q2 2019 remittance transfers costed on average 6.84% of the total amount sent in this period. This cost represents a drop from 8.14% in Q2 2014. The report states that the United Nations had added a new global target to its Sustainable Development Goals (SDGs) that aims to "reduce remittance costs from 6.84% to just 3%by 2030".

Figure-1 presents the average prices of remittances by method of remittance. As shown, the cheapest method is mobile phones (3.28%), while the costliest is banks (10.49%).

Figure-1: Costs of Remittance Commissions by Method of Remittance (%)

Source: World Bank (2019): Remittances Prices Worldwide.

According to the World Bank report estimates, the average total cost of sending USD 200 to Palestine is USD 24, equivalent to nearly 12% of the amount sent. This estimate was reached based on information from the two largest money transfer companies (Western Union and MoneyGram) across four countries: Saudi Arabia, United States, Britain and Jordan. The average costs of remittances in Palestine is higher than the global average by 4 percentage points. Were the cost of sending remittances to Palestine in line with the rest of the world, the Palestinian economy would have saved USD 80 million in 2015 alone.

1 World Bank (2019): Remittances Prices Worldwide. https://remittanceprices.worldbank.org/sites/default/files/rpw_report_june_2019.pdf

5- The Non-banking Financial Sector

The Securities Sector

By the end of Q2 2019, the market value of traded shares in Palestine Stock Exchange (PEX) reached USD 3.7 billion, around 25% of GDP at current prices.[1] Compared with Q1 2019, the market value of traded shares declined by 1% and by 2% compared with the corresponding quarter 2018. By the end of Q2 2019, Al Quds index closed at 519.8 points, a decrease of 2% and 4% compared with the previous and corresponding quarters respectively (Table 5-1).

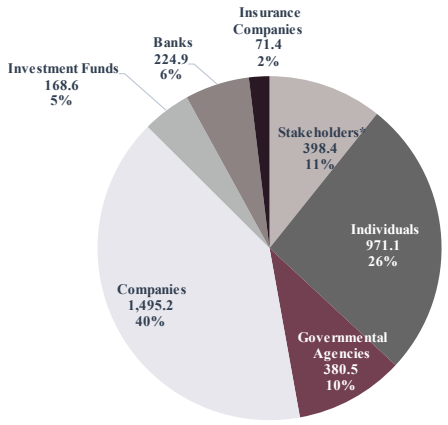
Table 5-1: A Selection of Financial Indicators on the Trading Activity in PEX

Item	Q2 2018	Q1 2019	Q2 2019
Volume of Traded Shares (million share)	35.2	59.0	27.8
Value of Traded Shares (USD million)	72.7	103.3	47.3
Market Value (million USD)	3,784.4	3,757.8	3,710.1
No. of Deals	8,763	8,698	7,653
Total Number of Traders	71,341	70,660	70,540
- Palestinian	68,022	67,355	67,170
- Foreigners	3,319	3,305	3,370

The volume and the value of traded shares decreased significantly in Q2 2019, by 53% and 54% respectively, compared with Q1 2019. This is attributed to a group of factors, chief among which is a decline in the trading activity of listed companies due to the hard conditions Palestine has been enduring since the beginning of 2019. Additionally, many of the listed companies shares, like Al Quds Bank, witnessed a drop in value. The volume and the value of traded shares decreased in Q2 2019 by 21% and 35%, respectively, compared with the corresponding quarter 2018.

Figure 5-1 shows the distribution of market capitalization by their market shares, showing that the share of corporations was 40% (USD 1,495.2 million) compared with 26% for individuals (USD 971.1 million).

Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q2 2019) (USD million)



Individuals who have a direct or indirect relation to the company because of their job position or relation.

1 The 2018 current prices of GDP are used to reflect the cumulative market value of traded shares.

Insurance Sector

By the end of Q2 2019, the insurance portfolio (gross written insurance premiums) dropped by 13% compared with the previous quarter (reaching USD 71.2 million) while it rose by 2% compared with the corresponding quarter 2018. This is attributed to fluctuations in the value of insurance written premiums over the year's quarters.

Net compensations incurred by the insurance sector increased by 7% compared with the previous and corresponding quarters. In addition, insurance sector investments dropped by 1% compared with the previous quarter (reaching USD 250 million), against a rise of 2% compared with the corresponding quarter 2018 (Table 5-2).

Table 5-2: A Selection of Financial Indicators of the Insurance Sector in Palestine

Item	Q2 2018	Q1 2019	Q2 2019
Gross written insurance premiums	70.1	81.9	71.2
Total investments of insurance companies	245.8	251.6	250.0
Net compensations incurred by the insurance sector	(41.0)	(40.7)	(43.7)
Retention ratio	85.9%	79.5%	88.3%
Claims ratio	68.0%	62.5%	69.5%

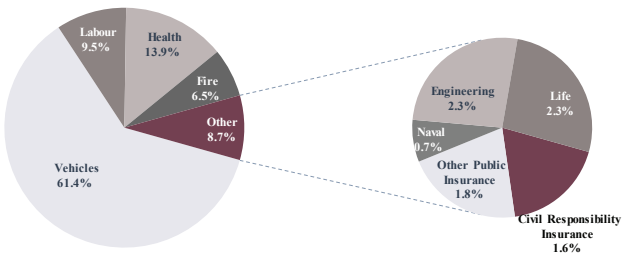
Table 5-3 presents key insurance indicators that reflect the relative importance of the insurance sector in the Palestinian national economy and in some Arab countries: the insurance penetration rate (the ratio of premium underwritten to GDP at current prices) and the insurance density (the ratio of total premium underwritten to the total population) which measures the individual's share of the total insurance portfolio. The penetration rate in Palestine was 1.9% in 2018, which is higher than that in Kuwait, Egypt, Algeria, and Saudi Arabia, yet below that in Jordan, Emirates, Lebanon, and Morocco. However, insurance density (USD 58 in Palestine in 2018) is much less than in Saudi Arabia, Emirates, Kuwait, and Jordan.

Table 5-3: The Spread of Insurance Services and Products in Arab Countries During 2015 and 2018*

Country	Penetration ratio (%)		Insurance density (US $)	
	2015	2018	2015	2018
Morocco	3.1	3.9	89	127
UAE	2.8	2.9	1,099	1,305
Lebanon	3.1	2.9	261	269
Jordan	2.0	2.1	85	91
Palestine	1.4	1.9	37	58
Saudi Arabia	1.5	1.2	308	283
Bahrain	2.3	1.8	546	520
Kuwait	0.7	1.0	207	315
Algeria	0.8	0.7	32	28
Egypt	0.7	0.6	23	16

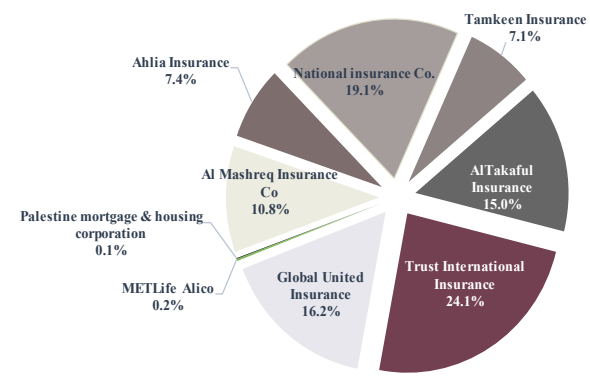
*Source: Sigma magazine published by Swiss RE institute, excluding Palestine's data which was concluded from PCMA's financial and administrative data. http://www.sigma-explorer.com

Figure 5-2: Distribution of the Insurance Portfolio Components by Insurance Sector Activities (as of the end of Q2 2019)*



* does not include Palestine Insurance Company, as the company's data for Q2 2019 was not disclosed at the time of preparing this report.

Figure 5-3: Distribution of Insurance Portfolio Components by Insurance Company (as of the end of Q2 2019)



* does not include Palestine Insurance Company, as the company's data for Q2 2019 was not disclosed at the time of preparing this report.

As figure 5-2 shows, in the insurance portfolio in Palestine there is a significant concentration in vehicle insurance, which constituted 61% of the total insurance portfolio; it is followed by the health sector at 14%. Figure 5-3also presents the market share of insurance companies, with three of the ten operating companies capturing 59% of gross written premiums in the Palestinian insurance sector by the end of Q2 2019.

Financial Leasing

During this quarter, there were nine leasing companies registered with PCMA. By the end of Q2 2019, the total volume of contracts was 506 and valued at USD 22.2 million. This represents a rise of 10% and 24% in the volume and value of contracts compared with the previous quarter, and of 18% and 32% compared with the corresponding quarter 2018. This rise is attributed to widespread marketing campaigns, and increased awareness about the financial leasing sector (Table 5-4).

Table 5-4: Total Value and Volume of Financial Leasing Contracts

Q2, 2018	18.8	382
Quarter 1, 2019	20.1	407
Quarter 2, 2019	22.2	506

As before, financial leasing contracts are highly concentrated in cities: 36% in Ramallah, 15% in Nablus, and 14% in Hebron. By the end of the quarter, the financial leasing portfolio was still concentrated in motor vehicles (81% of total contracts), which is attributed to the ease of registering ownership of vehicles at the transportation department and therefore the low risk associated with their leasing. Heavy trucks constituted 11% of the financial leasing portfolio, compared with 8% for movable assets (equipment, production lines, and others).

Box 5: Compulsory Insurance and PCMA's Role in Raising Awareness

Nowadays, insurance, whether compulsory or voluntary, has become very common to transactions in all areas of daily life and in every aspect of economic activity. It is necessary for the management of health and financially risky activities. Insurance is mainly based on providing financial protection against losses that might afflict someone from the insured group, by pooling their risk to make payments more affordable. This is done through a premium paid by each one covered by the insurance policy, such that compensation is guaranteed for any of the insured group in the case of an accident and related costs of recovery. Insurance is one of the best methods for mitigating the effects of an accident, whether it was caused by the insured (due to error or negligence) or by another party.

The state obliges citizens to buy some type of insurance products because some individuals either fail to make proper risk assessment, do not trust the insurance system, or wish to save on the costs of insurance. Compulsory insurance usually protects the affected parties that were not responsible for the accident. It also provides for economic protection or, in the case of factories or jobs lost due to fires, flooding, or earthquakes. When enforcing the law and punishing violators, the state takes the following into consideration:

- The magnitude of hazard, its type, recurrence rate, and consequences
- The level of awareness and insurance culture among citizens about dealing with hazards in case they occur and their ability to endure it.
- The state's liability toward its citizens in terms of protecting their right to compensation against physical and material damages resulting from hazards whose occurrence they are not responsible for or cannot bear their consequences.
- Economic losses that may result from rising dangers and their impact on civil society and peace.

The Palestinian legislation differentiates between compulsory and voluntary insurance by balancing the socio-economic benefits of insurance in a way that ensures social security for both the insured and insurer. This, in turn, reduces the large material burdens on the state. The types of compulsory insurance include: auto insurance against physical and bodily damages, labor liability insurance, and occupational injuries and diseases insurance (enforced by law).

The Palestinian Insurance Law No. (20) of 2005 obliges the driver of a vehicle, or anyone who has been given permission to use it, to carry a valid vehicle insurance policy to ensure third party protection against any physical or bodily or material harms. This policy provides compensation for the injured passengers of the insured vehicle, as well as any injured pedestrians, regardless of whose fault it is. According to the law, the insurance companies are deemed fully and absolutely responsible for any physical injuries. A vehicle insurance policy (unified policy) usually includes the following coverage liabilities:

Firstly, coverage of physical damages:

- Medical treatment and rehabilitation until full recovery or stable health condition is maintained.
- Indemnify the injured for all the material damages caused by the accident.
- Compensate the injured for any temporary or permanent loss of income he may suffer.
- Indemnify the injured for any non-pecuniary damages suffered.

Secondly, coverage of material damages to third party (who is not covered in the insurance policy).

Since the full and absolute responsibility for compensating the insured falls on the person using the vehicle- and given the high costs of medical treatment in Palestine as well as vehicle repair and spare parts purchases--usually the vehicle driver cannot take full responsibility in case the vehicle was not insured. Regarding labor liability insurance, the Palestinian labor law is legally binding and provides for the protection of workers' rights. Insurance companies are obliged to compensate employees and workers in case any accident takes place at a workplace. Regarding the Law by Decree on Medical and Health Protection and Safety no. (31) of 2018, the law provides for the creation of safe working environments for physicians. Additionally, it obliges medical institutions to provide suitable insurance against medical malpractices and compensate patients for any damages suffered.

Compulsory insurance is directly related to insurance awareness and culture. The Palestinian Capital Market Authority (PCMA) has adopted a package of innovative policies and methods that aims to improve insurance awareness and culture among citizens. One of these methods is Al-takaful insurance instrument (currently there are two takaful insurance companies operating in Palestine), which is attractive to a specific segment of the society that questions the religious legitimacy of the insurance system. The Authority encourages insurance companies to introduce micro-insurance products that target low-income segments. Recently, PCMA launched a second large awareness campaign, under the slogan "Insurance is Protection and Safety". These campaigns aim primarily to increase citizens' awareness about possible risks and liabilities - not to force citizens to abide by mandatory laws and regulations. That is to say, it encourages them to purchase insurance products that suit their needs and provide them with the protection and safety to help make their businesses flourish.

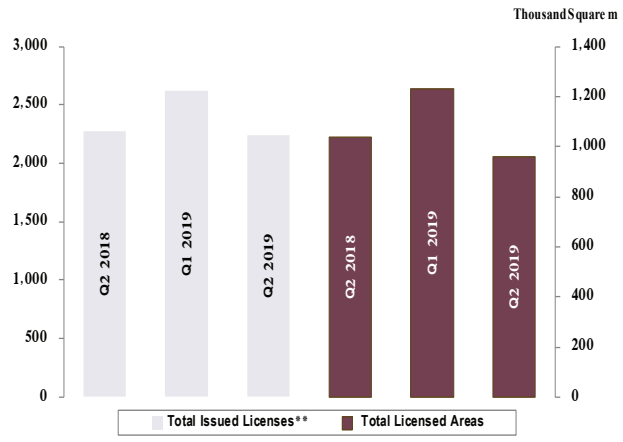
Luis Khamishta
The Palestinian Capital Market Authority

6- Investment Indicators[1]

Building Licenses

Figure 6-1 presents the changes in the number of registered building licenses and licensed areas. Around 2,241 building licenses were issued during Q2 2019, a drop of 14% from the previous quarter and 2% from the corresponding quarter 2018. Licenses of non-residential buildings constituted 8% of the total. On the other hand, licensed areas of buildings amounted to around 960.3 thousand square meters in Q2 2019, falling steeply by 22% compared with the previous quarter; and by 7% compared with the corresponding quarter 2018.

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



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

Vehicle Registration

Because of their high prices, vehicles are often purchased via bank loans. Therefore, the number of vehicles registered for the first time is considered a good indicator of the economic situation and prospects. The number of new and used cars (registered for the first time) in the West Bank in Q2 2019 increased by 6% compared with the previous quarter, while it dropped sharply by 13% compared with the corresponding quarter, standing at 6, 097 cars. This figure is higher than the previous quarter by 333 cars and lower by 881 cars compared with the corresponding quarter 2018. Second-hand vehicles made up 76% of the total, 8% of which were imported from the Israeli market (Table 6-1).

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

Month	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
Q2 2018	1,441	5,049	488	6,978
Q1 2019	1,240	3,988	536	5,764
Q2 2019	1,444	4,292	361	6,097
April	516	1,283	137	1,936
May	528	1,560	128	2,216
June	400	1,449	96	1,945

1 Source of figures: PCBS, 2019, Statistics on Building Licenses, and the MoF, 2019, Palestinian Customs and Excise Dep. Unpublished data.

Box 6: Can Tax and Custom Duty Exemptions Induce Investments?

Economic literature is full of old and new debate about the costs and advantages of specific investment incentives (such as tax and custom duty exemptions, land donations, and reduced water and electricity rates) relative to the benefits these measures bring to the state. Such benefits may take the form of larger investments, employment, and growth. The debate is more or less about effectiveness of investment promotion bodies (their administrative and operational expenses) and the incentive laws they pass, compared to the benefits they gain from sacrificing part of the state's taxes and revenues. Some of the questions raised in previous studies, are: How far did tax incentives succeed in attracting foreign investments? Are these foreign investments the result of these incentives or not? Did incentives merely augment profits and revenue leakage abroad, or did they impact employment and growth significantly through reinvestment of profits? On a different note, this discussion does not question the importance of investment for economic growth. Nor does it question the importance of measures which create a suitable environment for encouraging investment, such as the rule of law, transparency, appropriate infrastructure provision, and so on.

It is not an easy task to accurately estimate the value of erosion of the tax base in the different countries that implement tax incentives to encourage investments. A UNCTAD report estimates the value of erosion resultant from exemptions granted to foreign investments at 10% of tax revenues. [1]The ratio is even higher in developing countries. As a result of the eroding tax base, a lack of reinvestment of earnings, and uncertainty about whether foreign investments actually respond to exemptions, there have appeared many calls for dropping tax incentives as a tool for attracting investment. This is especially because these exemptions are part of the state's earnings needed to cover its financing liabilities for supporting sustainable development. As an alternative option for preferential advantages and exemptions, it is important to emphasize the need for establishing standards and bases which encourage investment, through creating a conducive legislative and legal environment that offers greater safeguards for investment.

Tax incentives or developing the investment environment?

There are no indications in empirical research about a causal relationship between investment promotion measures and the actual flow of investments from the inside or the outside. In 2007, the World Bank carried out an assessment of the performance of 109 investment promotion agencies worldwide. It examines whether the existence of these agencies correlated with higher investment inflows.[2] The study results show that a large number of these agencies had a minor role in attracting investments compared to other agencies; that tax incentives do not directly correlate with attracting investments in some countries; and that the legal and regulatory environment and political and economic stability are

1 UNCTAD (2015): World Investment Report,2015: https://unctad.org/en/PublicationsLibrary/wir2015_en.pdf

2 The World Bank (2007): Developing Economies and International Investor: Do Investment Promotion Agencies Bring Them Together? http://documents.worldbank.org/curated/en/524001468313754635/pdf/wps4339.pdf

the main factors affecting the inflow of investments. It has also shown that FDI contributes to accelerating and expanding economic growth in stable developing countries, as foreign investors transfer capital, technology, and technical expertise. The study has shown, as well, that the ineffective investment promotion efforts in developing countries can be attributed to low work efficiency, inefficient legal environments, the general climate, and the nature of the sector to which investments are brought.

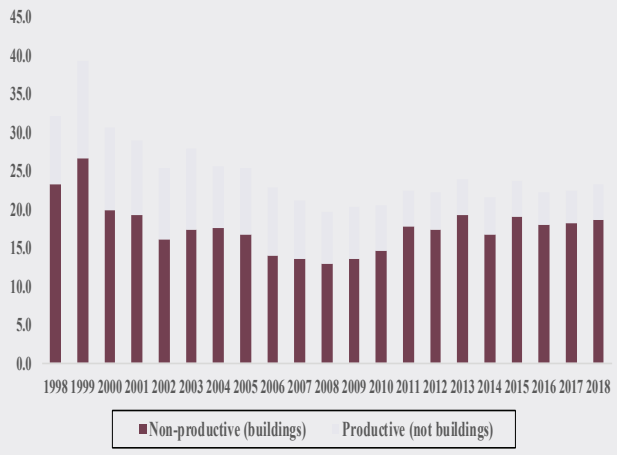
Investment Promotion Measures and Programs in Palestine

According to the Palestine Investment Promotion Agency (PIPA), by the end of 2014 the number of enterprises that benefited from investment privileges reached around 763. The total investment value of these projects was USD 562 million. During the period from 2015 to 2018, the number of projects stood at 105 with a capital worth of USD 122.8 million. This means that the total number of enterprises that benefited from investment incentives and tax privileges given by the Palestinian government from 1998 until 2018 amounted to 868, with a capital worth of USD 685 million.[3] This figure, representing less than 1% of the total value of investments during the studied period, is mediocre.

The Palestinian economy suffers from a chronic challenge in that investment growth does not move in parallel with GDP growth, while the total investment contribution to GDP ratio (Gross Fixed Capital Formation) (at current prices) has declined significantly during the last two decades. Figure-1 shows that the share of investment to GDP in Palestine has declined by 1.4% annually on average during the period 1998-2018. The share of investments to GDP reached a third of its level in 1998, however it declined to less than a quarter in 2018. The scene is even dimmer considering productive investments (i.e. total investments minus investments in construction). The share of productive investments to GDP declined during the same period by 2.4% per annum, standing at 4.5% of GDP in 2018, compared with double its level two decades ago. Additionally, productive investments to total investments dropped from 34% in the early years of the millennium to about 19% in 2018.

Based on the above general analysis, it can be inferred that investment policies implemented in Palestine, as well as the preferential incentives provided for in investment promotion laws, did not achieve their goals of mitigating the deterioration of investments - much less their promotion and expansion.

Figure-1: The Share of Investment to GDP, 1998-2018



Source: PCBS, 2019. Periodic Statistics on National Accounts, 1994-2019.

A policy paper on foreign direct investment in Palestine found that investment policies and tax incentives did not contribute significantly to attracting foreign investments to Palestine, nor had a notable impact on the value added of foreign investment. The study indicated that the value added of foreign investment in Palestine did not exceed 5%, where more than half of foreign investments are concentrated in the financial sector. The study concludes that FDI was not effective and did not contribute to productive sectors.[4] PCBS and PMA reports indicate that the growth of investments was not proportionate with the quantity and quality of incentives offered by the investment law; that investment returns are almost at the same level; and that the biggest winner benefiting from promotion incentives are capitalists whose net profits are increasing.[5]

In summary, the effectiveness of financial incentives and tax exemptions in inducing investments is not guaranteed or certain. In addition, tax exemptions' cost might outweigh the benefits and advantages of new investment to the country. Improving the investment environment and business climate in a country better attracts inward and outward investments.

Misyf Jamil and Islam Rabe', researchers at MAS.

3 Palestine Investment Promotion Agency (PIPA) data, 2019.

4 PCBS, 2016: The characteristics of Inward Foreign Direct Investment enterprises, and its participation in the key macroeconomic indicators for the year 2012 http://www.pcbs.gov.ps/Downloads/book2283.pdf

5 Palestinian Monetary Authority (PMA): The Impact of the Palestinian Financial System Development on Economic Growth in Palestine 2008-2015. Ramallah, 2017.

7- Prices and Inflation[1]

The consumer price index (CPI) measures the prices of a selection of primary goods and services that reflect the average consumption pattern of 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.

Price index

Figure 7-1 shows two curves: the first measures the average change in CPI (right axis) between Q1 2010 and Q2 2019; the second curve (left axis) measures the percentage change in the CPI each quarter compared to its previous quarter, i.e. the quarterly inflation rate.

During Q2 2019, the CPI reached 112.83 compared with 111.12 in Q1 2019. This means that the inflation rate was positive over the consecutive quarters (rise in prices) by 1.54%. This was driven by the rise in the prices of the food and soft drinks group by 2.09%, the transportation group by 0.91%, the garments, clothes, and footwear group by 0.67%, against the decline in the telecommunication group by 1.60% and the housing and related items group by 0.78%. During Q2 2019, the Palestinian CPI rose by 2.1% compared with the corresponding quarter.

Wholesale Prices and Producer Prices

The wholesale price index -WPI (sale price to retailers) declined by 1.58% between Q1 and Q2 2019, driven by the decline in wholesale prices of local goods by 2.80% and the rise in wholesale prices of imported goods by 0.20%. The producer price index- PPI (prices received by domestic producers) has also risen by 0.92% quarter on quarter. This resulted from the decline in the producer prices of locally-produced and consumed goods of 1.21%, and of 0.89% in the producer prices of locally-produced exports (Figure 7-2).

Prices and Purchasing Power

NIS Purchasing Power: The inflation rate in an 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. As mentioned earlier, the PCBS data indicate that CPI rose during Q2 2019 compared with the previous quarter by 1.54% (and by 2.05% compared with the corresponding quarter), representing a drop in the purchasing power of the same amount quarter-on-quarter (Figure 7-3).

USD Purchasing Power: During Q2 2019, the USD exchange rate against the NIS decreased by about 1.4% compared with the previous quarter. With the rise in the inflation rate, the purchasing power of individuals who receive their salaries in USD and spend it in NIS has decreased during this quarter - compared with the previous quarter - by 2.94%. Compared with the corresponding quarter 2018, the inflation rate was 2.05%, and the USD/NIS exchange rate rose by 0.53%, which means that the USD purchasing power has decreased by 1.52%. 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).

1 Source of figures: PCBS, 2019. Price Indices Surveys, 2010-2019. Calculations of the purchasing power was made in cooperation with PMA.

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

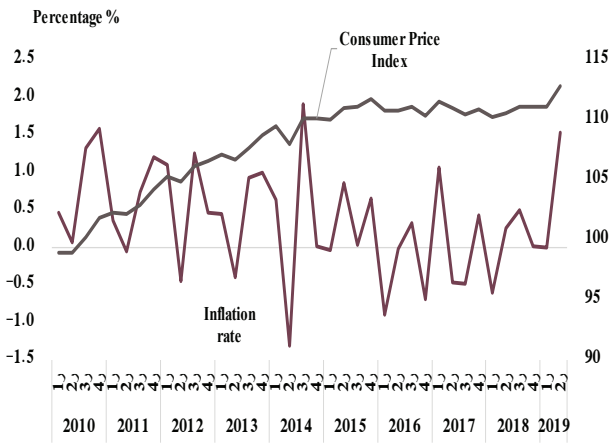


Figure 7-2: Evolution of WPI and PPI (base year 2007)(Base year 2007)

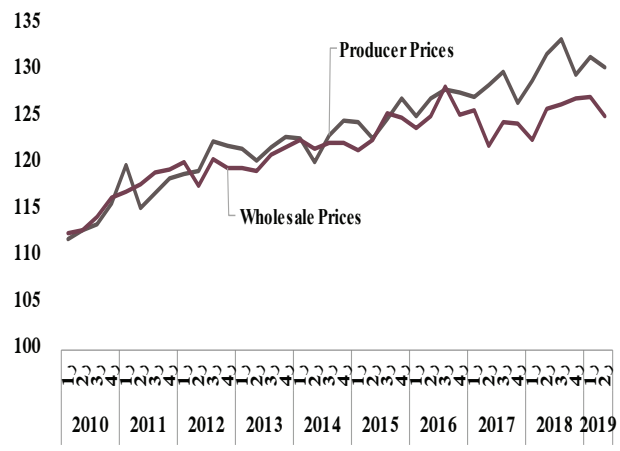
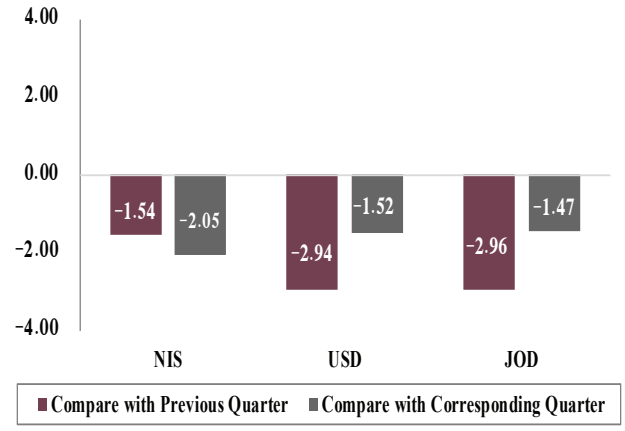


Figure 7-3: Change in Purchasing Power by Type of Currency (percentage %)



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

8- Foreign Trade[1]

Balance of Trade

The value of "registered" merchandise[2] imports during Q2 2019 was about USD 1,438.4 million (a 1% rise over the previous quarter), while compared with the corresponding quarter 2018 it rose by 2%. Meanwhile, the value of merchandise exports was USD 258.7 million, a drop of 1% and 4% compared with the previous and corresponding quarters respectively. The ratio of exports to imports reached 18% during Q2 (Figure 8-1). The difference between exports and imports (deficit) amounted to USD 1,179.7 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (USD 4.9 million) (Figures 8-2).

Balance of Payments

The current account in the balance of payments is the net aggregate in three sub-balances:

1) the balance of trade (net trade in goods and services),
2) the balance of factor income (the net international transactions associated with income on factors of production, like the remittances of Palestinian workers in Israel and overseas), and
3) the balance of current transfers (international aid to the government and private transfers).

As shown in primary results of the Palestinian balance of payments, during Q2 2019 there was a sharp rise in the current account deficit by 32% compared with the previous quarter, reaching USD 403.1 million. Compared with the corresponding quarter 2018, the deficit rose by 8%. The current account deficit resulted from a deficit in the trade balance (USD 1,490.2 million), against a surplus in the balance of income of USD 630.8 million. This was composed mainly of compensations of Palestinian workers in Israel and a surplus in the balance of transfers of USD 456.3 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 257.0 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive. Theoretically, there should be a perfect balance between the current account deficit and the surplus of the 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 8-1 Imports and Exports of "Registered" Merchandise (USD million)

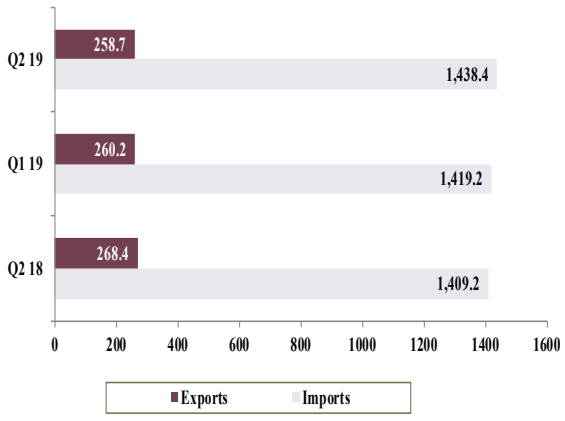


Figure 8-2: Exports and Imports of Registered Services from Israel (USD million)

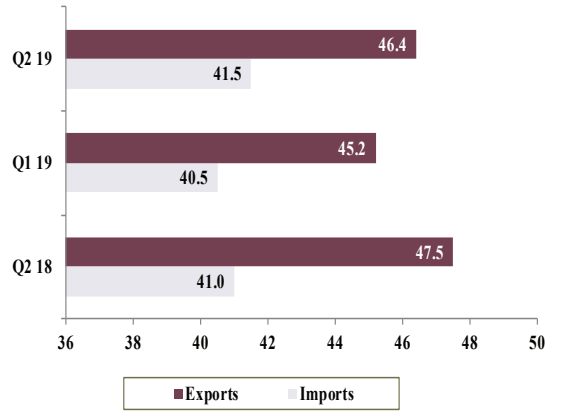


Table 8-1: Palestinian Balance of Payments * (US$ million)

	Q2 2018	Q1 2019	Q2 2019
1. Trade Balance of Goods and Services**	(1,427.2)	1,462.6)	1,490.2)
- Net goods	(1,178.9)	(8.1,207)	(2.1,230)
- Net services	(248.3)	(254.8)	(260.0)
2. Income Balance	603.7	639.8	630.8
3. Balance of Current Transfers	450.2	516.8	456.3
Balance of Current Account (1 +2 +3)	(373.3)	(306)	(403.1)
5. Net Capital and Financial Account	288.3	166.7	257.0
6. Net Errors and Omissions**	85.0	139.3	146.1

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 between brackets have negative values.

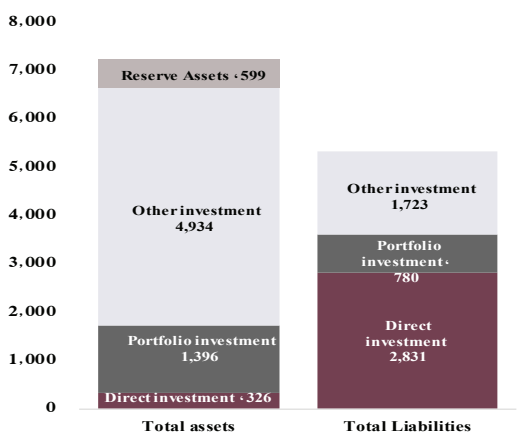
1 Source of figures: PCBS, 2019, Registered Foreign Trade Statistics, and PMA & PCBS, 2019, Palestinian Balance of Payment, Q2 2019.
2 Registered commodities trade are those registered in the clearance accounts of trade (between Palestine and Israel) and in the customs data (including direct trade with overseas markets). Add to that the agricultural goods (which are registered by the Ministry of Agriculture). The registered trade figures are significantly lower than the actual figures of the Palestinian foreign trade. The actual figures are placed in the Palestinian balance of payments.
3 Exceptional financing has been calculated within the "Net errors and omission" item. Therefore, net errors and omissions in the table do not equal the difference between the current account and the capital and financial accounts.

International Investments

By the end of Q2 2019, Palestine's foreign assets totaled USD 7,255 million, 4% of which represent direct foreign investments and 19% represent portfolio investments. On the other hand, total external liabilities amounted to about USD 5,334 million, more than 53% of which were direct investments and 15% of which were portfolio investments.

The difference between assets and liabilities means that overseas investments by Palestinians were USD 1,921 million higher than investments of non-residents. A significant portion of these assets (60%) is cash deposits (mostly by domestic Palestinian banks) in foreign banks abroad, or currency circulated in the economy, which are not considered conventional outward investments. When examining foreign direct investments in Palestine, figures show that they outweighed Palestinian investments abroad (by residents in the West Bank and Gaza Strip) by USD 2,505 million (Figure 8-3).

Figure 8-3: International Investments Balance (as of the end of Q2 2019) (Million USD)



Economic Concepts and Terms: The Cluster Approach to Development

The newly appointed 18th Palestinian government adopted economic clustering as a national economic development policy. The Prime Minister announced plans to establish three industrial zones in the Gaza Strip: a sea cluster, an agricultural cluster, and a third industrial cluster. Two industrial clusters will be established in Nablus and Hebron, a third tourism cluster in Bethlehem, and a financial and public administration cluster in Ramallah. The type and geographical locations of clusters have been identified based on the economic characteristics of each of the Palestinian governorates.

Competitive Advantages.

The idea of an "industrial district", where firms concentrating on the manufacture of certain products were geographically clustered, was formed originally by British economist Alfred Marshall in his 1890 book Principles of Economics. Today's clustering concept was developed by American economist Michael Porter, in his book The Competitive Advantage of Nations, published in 1990. Porter's main contribution was the emphasis on creating economic advantages and inducing development which would lead to growth. Clusters- or "competitive coexistence and cooperation", that arises from firms sharing local resources and producing similar products in the same geographic region- open the door for optimal development of advantages and excellence. Porter defined four factors that determine national advantage: factor conditions (abundance of raw materials, labor, etc.); demand conditions (type, level, and quality of demand for products); supporting industries and activities; and firm production and marketing strategy.[1]

What are "clusters"?

Clusters are "geographic concentrations of interconnected companies... associated institutions in a particular field that are present in a region". Firms in these geographic areas are interrelated with other firms by forward and backward linkage industries, i.e. specialized suppliers and service providers. Clusters can be naturally grown or man-made, through the creation of the conditions that enable its formation and flourishment. Clusters aim to foster economic development through encouraging cooperative competition between establishments and firms, and through providing a partnership framework between the public, private, and civil sectors.

The idea behind creating clusters lies in creating a general climate that enables and supports the capabilities of firms, as well as their competition, investment and creativity - in such a way that would unleash their competitive advantage. In other words, development is not contingent on the natural competitive characteristics, nor can national prosperity be inherited or bequeathed; rather, it is a condition that can be created by insightful policies. The idea of clustering has spread widely in recent years, following its success in southeast Asian countries and adoption by the European Commission which is working hard to establish industrial clusters across the countries of the European Union. The European Cluster Observatory, established in 2007, is a platform that provides information on cluster policies and initiatives in 32 European countries.[2]

We should be aware of the insightful observation made in the World Bank report stating that a cluster-based approach to development assumes that governments should take the lead based on a pre-planned vision that guides and induces investments and establishments indirectly (yet efficiently) in light of a chosen strategy. Nonetheless, the capacities of the public sector personnel in developing countries are most likely poor, and much below the level needed for such a leading role. This means that rehabilitation of the government personnel seems to be a prerequisite for the success of cluster strategies that assume a crucial role for the government in the development process.

1 Porter, M. (1990) The Competitive Advantage of Nations. The Free Press. NY.

2 http://www.clusterobservatory.eu/index.html

Key Economic Indicators in Palestine, 2014-2019

Indicator	2014	2015	2016	2017	2018	2018[1]				2019[1]	
						Q1	Q2	Q3	Q4	Q1	
Population (One thousand)											
oPt	**4,429.1**	4,530.4	4,632.0	4,733.4	4,915.3	4,808.8	4,838.9	4,869.3	4,900.0	**4,930.7**	**4,961.3**
West Bank	2,696.7	2,750.0	2,803.4	2,856.7	2,953.9	2,897.0	2,913.1	2,929.3	2,945.7	**2,962.1**	**2,978.5**
Gaza Strip	1,732.4	1,780.4	1,828.6	1,876.7	1,961.4	1,911.8	1,925.8	1,940.0	1,954.3	**1,968.5**	**1,982.8**
Labor market (based on the new definition adopted by PCBS)[2]											
No. of workers (thousand)	**917.0**	**928.9**	**939.6**	**948.7**	**956.3**	**935.4**	**921.7**	**960.7**	**1,005.3**	**986.4**	**998.1**
Participation rate (%)	**45.8**	**44.0**	**43.8**	**44.0**	**43.5**	**43.1**	**42.7**	**43.9**	**44.1**	**44.3**	**44.3**
Unemployment rate (%)	**26.9**	**23.0**	**23.9**	**25.7**	**26.2**	**26.5**	**27.4**	**26.9**	**24.2**	**26.8**	**26.0**
- West Bank	**17.7**	**16.6**	**17.5**	**18.4**	**17.3**	**18.1**	**18.5**	**17.0**	**15.8**	**16.4**	**15.0**
- Gaza Strip	**43.9**	**34.8**	**35.4**	**38.3**	**43.1**	**41.7**	**44.3**	**45.9**	**40.9**	**46.3**	**46.7**
National Accounts (USD millions)											
GDP	**12,715.6**	**12,673.0**	**13,425.7**	**14,498.1**	**14,615.9**	**3,689.9**	**3,559.5**	**3,659.8**	**3,706.7**	**3,703.9**	**3,739.1**
- Household expenditure	**11,840.4**	**11,805.1**	**12,337.7**	**12,844.7**	**13,110.3**	**3,182.9**	**3,258.5**	**3,316.9**	**3,352.0**	**3,408.5**	**3,451.2**
- Government expenditure	**3,478.2**	**3,429.5**	**3,530.3**	**3,809.8**	**3,828.1**	**977.5**	**904.3**	**957.7**	**988.6**	**858.0**	**893.1**
Gross capital formation	**2,415.0**	**2,677.4**	**2,827.0**	**3,305.6**	**3,536.0**	**876.7**	**837.3**	**916.1**	**905.9**	**841.6**	**881.2**
Exports	**2,172.3**	**2,338.1**	**2,381.0**	**2,692.7**	**2,903.5**	**713.0**	**714.3**	**707.0**	**769.2**	**718.6**	**716.8**
Imports (-)	**7,208.9**	**7,537.6**	**7,626.7**	**8,066.7**	**8,730.9**	**2,072.3**	**2,141.5**	**2,227.7**	**2,289.4**	**2,181.3**	**2,207.0**
GDP per capita (USD)											
at Current prices	**3,051.7**	**2,973.1**	**3,080.1**	**3,254.6**	**3,198.4**	**815.4**	**781.5**	**798.3**	**803.2**	**798.4**	**800.6**
at Constant prices (base year 2004)	**2,940.7**	**2,973.1**	**3,044.4**	**3,072.4**	**3,021.4**	**746.2**	**735.8**	**760.5**	**778.9**	**755.4**	**735.5**
Balance of Payment (USD millions)											
Trade Balance	**(5,036.7)**	**(5,199.6)**	**(5,246.2)**	**(5,374.2)**	**(5,827.5)**	**(1,359.3)**	**(1427.2)**	**(1,520.6)**	**(1,520.3)**	**(1,462.6)**	**(1,490.2)**
Income Balance	**1,482.4**	**1,712.2**	**1,896.0**	**1,992.0**	**2,393.9**	**568.9**	**603.7**	**608.8**	**612.4**	**639.8**	**630.8**
Current Transfers Balance	**1,405.3**	**1,421.4**	**1,408.6**	**1,818.6**	**1,774.4**	**348.3**	**450.2**	**467.1**	**508.8**	**516.8**	**456.3**
Current account Balance	**(2,149.0)**	**(2,066.0)**	**(1,941.6)**	**(1,563.6)**	**(1,659.2)**	**(442.1)**	**(373.3)**	**(444.7)**	**(1399.)**	**(306)**	**(403.1)**
Exchange Rates and Inflation											
USD/NIS exchange rate	**3.577**	**3.884**	**3.840**	**3.603**	**3.593**	**3.461**	**3.573**	**3.635**	**3.704**	**3.643**	**3.592**
JOD/NIS exchange rate	**5.046**	**5.483**	**5.418**	**5.083**	**5.067**	**4.881**	**5.037**	**5.127**	**5.224**	**5.139**	**5.066**
Inflation rate (%)[1]	**1.73**	**1.43**	**(0.22)**	**0.21**	**(0.19)**	**(0.60)**	**0.26**	**0.49**	**0.01**	**0.00**	**1.54**
Public Finance (cash basis USD million)											
Net domestic revenues (including clearance)	**2,784.8**	**2,890.2**	**3,551.0**	**3,656.5**	**3469.1**	**991.0**	**861.8**	**940.2**	**676.1**	**708.4**	**213.7**
Current expenditure	**3,435.0**	**3,424.3**	**3,659.3**	**3,791.4**	**3660.4**	**930.8**	**878.6**	**910.3**	**940.8**	**668.3**	**587.8**
Developmental expenditure	**164.1**	**176.7**	**216.5**	**255.3**	**277.2**	**45.6**	**59.0**	**63.9**	**108.8**	**42.2**	**44.1**
current budget deficit\surplus (before grants)	**(814.3)**	**(710.9)**	**(324.7)**	**(390.2)**	**(468.6)**	**14.6**	**(75.8)**	**(33.9)**	**(373.4)**	**(2.0)**	**(418.2)**
Total grants and aid	**1,232.0**	**799.0**	**766.9**	**719.8**	**666.5**	**87.2**	**159.1**	**194.4**	**225.9**	**69.3**	**127.8**
Total budget deficit\surplus (after grants and aid)	**417.6**	**88.1**	**442.3**	**329.5**	**197.9**	101.7	83.2	160.5	(147.6)	67.3	(290.4)
Public debt	2,216.8	2,537.2	2,483.8	2,543.2	2,369.6	2,448.8	2,367.6	2,352.3	2,369.6	2,315.2	2,637.1
The Banking Sector (USD millions)											
Banks assets/liabilities	**11,815.4**	**12,602.3**	**14,196.4**	**15,850.2**	**16,125.0**	**15,916.7**	**15,763.0**	**16,179.4**	**16,125.0**	**16,503.2**	**16,690.1**
Equity	**1,464.0**	**1,461.7**	**1,682.4**	**1,892.7**	**1,912.0**	**1,926.8**	**1,819.7**	**1,863.9**	**1,912.0**	**1,931.4**	**1,956.0**
Deposits at banks	**8,934.5**	**9,654.6**	**10,604.6**	**11,982.5**	**12,227.3**	**12,002.3**	**11,992.6**	**12,194.2**	**12,227.3**	**12,394.4**	**12,591.4**
Credit facilities	**4,895.1**	**5,824.7**	**6,871.9**	**8,026.0**	**8,432.3**	**8,175.4**	**8,260.0**	**8,293.6**	**8,432.3**	**8,569.5**	**8,941.6**

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- Figures for 2017 are preliminary and subject to further revision.
Figures between brackets indicate negative values. Figures between brackets indicate negative value
PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment include only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking anymore for jobs (did not seek an employment during the reference period). The table includes calculations of the Palestinian labor market indicators based on the old and the new definitions.
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).
The figures in the table are based on the latest update of data.